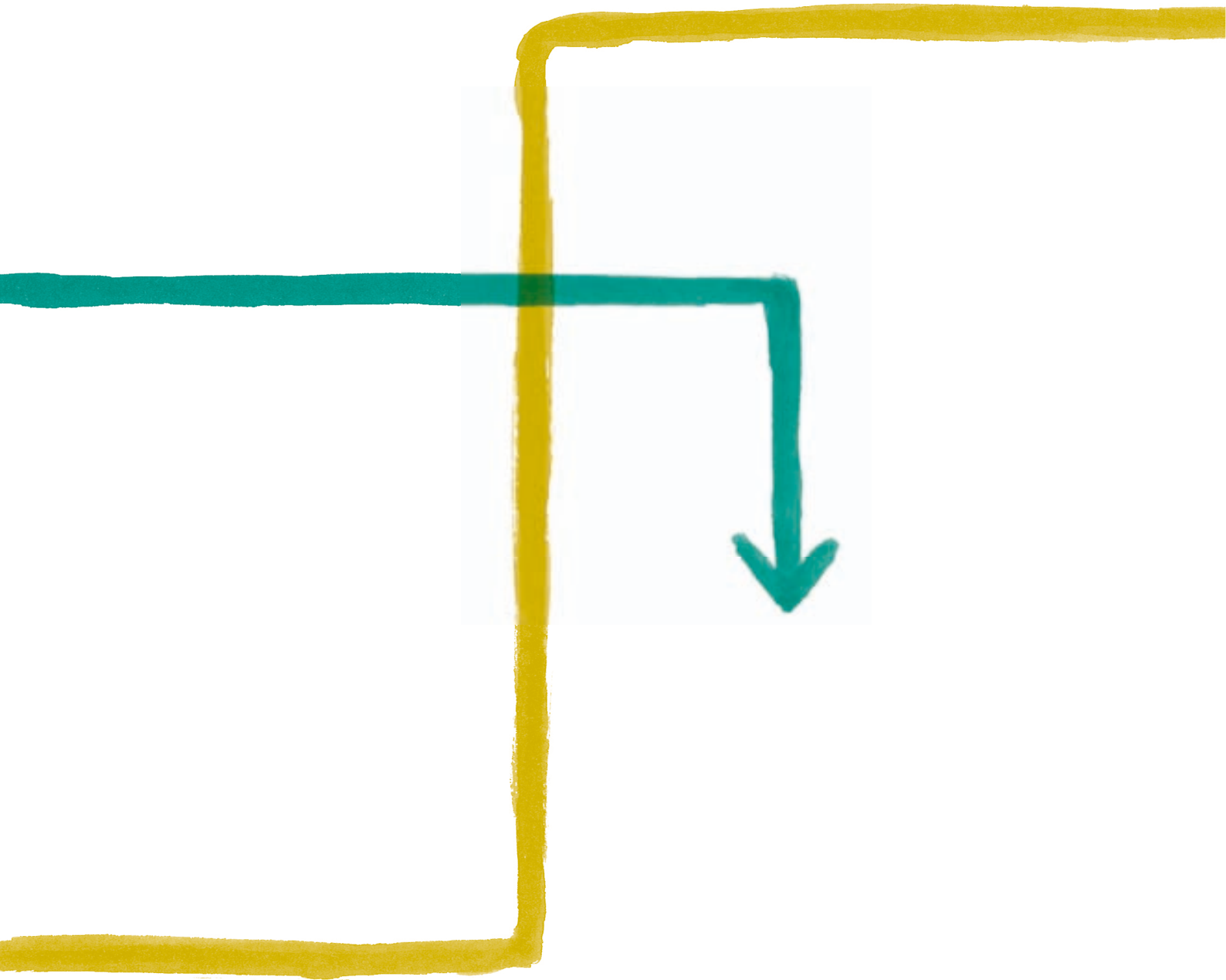




SUSTAINABILITY
SHAPES
OUR FUTURE

Annual Report 2010



The Crown Estate Annual Report 2010

**Presented to Parliament pursuant to sections 2(1) and 2(5)
of the Crown Estate Act, 1961.**

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14 July 2010**

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Sustainability lies at the heart of The Crown Estate. Although Parliament decrees that we operate as a commercial organisation, we combine the commercial imperative with an equally firm commitment to integrity and stewardship.

Our commitment to stewardship reflects our ability to take the long-term view, pursuing good environmental practice. In addition to our principal financial duty we manage the assets in our care for the sustainable, long-term benefit of our tenants and other customers; their businesses; the communities they represent; and for the environment.



Available online
www.thecrownestate.co.uk/annual_report



Other publications available
Scotland Report 2010
Wales Financial Highlights 2010
Northern Ireland Financial Highlights 2010

THE FABRIC OF BRITAIN

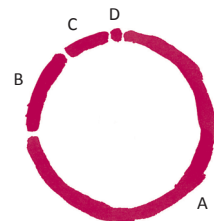
Understanding The Crown Estate

Who we are and what we do:

- The Crown Estate is the organisation, established by Parliament, to manage the hereditary estates of the Crown on behalf of the nation
- The Crown Estate manages a diverse property portfolio which includes office, retail and industrial premises; housing; farmland, forestry and minerals; parkland; and over half the foreshore and almost all the seabed around the UK
- the responsibilities of The Crown Estate are to maintain and enhance the value of the estate and its income over the long term and to do this having regard to good management
- the profit earned by The Crown Estate is paid to the Treasury for the benefit of the nation
- the responsibilities of the Board members of The Crown Estate are therefore similar to the responsibilities of trustees of a trust fund
- over the last ten years, the capital value of The Crown Estate has increased by £2.6 billion and The Crown Estate has paid a total of £1.9 billion to the Treasury
- we work constructively with the grain of government at every level
- in summary, The Crown Estate is a successful business organisation guided by our core values – commercialism, integrity, stewardship

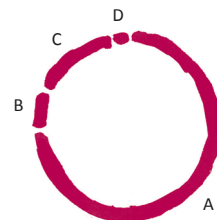
Revenue by estate 2010
£million (excluding service charges)

A	Urban estate – 221.4
B	Marine estate – 46.6
C	Rural estate – 25.1
D	Windsor estate – 6.6



Property valuation including indirect investments
£million


A	Urban estate – 4,639
B	Marine estate – 444
C	Rural estate – 972
D	Windsor estate – 177





Urban estate


The urban estate consists principally of major commercial holdings concentrated in London’s West End and major towns and cities around the country, as well as a number of residential ownerships around London.

 See pages 10–15



Marine estate


The marine estate includes around half 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 (excluding hydrocarbons) of the UK continental shelf.

 See pages 16–21



Rural estate


The rural estate is one of the largest in the UK with almost 146,000 hectares (360,000 acres) of agricultural land, forests, minerals and residential and commercial property in England, Scotland and Wales (excluding the Windsor estate).

 See pages 22–27



Windsor estate

The Windsor estate covers around 6,300 hectares (15,600 acres) and includes Windsor Great Park, Home Park, The Royal Landscape, forestry, residential properties and some commercial properties including Berkshire and Swinley Forest golf clubs and Ascot Racecourse.

 See pages 28–31



PROGRESS IN CHALLENGING TIMES

Chairman's statement

As we anticipated, 2009/10 was an extremely challenging year. It has been a period when we have drawn on all the expertise and experience of our people to record a set of results which stand up well in the context of the economic downturn. We have returned £210.7 million to the Treasury, in the form of our net income surplus (profit) – a significant sum, albeit a decrease of £15.8 million on the previous year. Capital values rose by £625 million during the year.

Since taking up my post as chairman, I've been enormously impressed by the skills and spirit evidenced throughout The Crown Estate. The three core values of commercialism, integrity and stewardship aren't just a brass plate on the door of our offices; they provide a constant guide to our approach to all aspects of our business. The test of an organisation's values always comes when markets are under stress, and not only have we remained true to our aims, but we've also taken full advantage of our ability and willingness to adopt a long-term view when other businesses are forced to focus on short-term profitability and delivery targets.

All four estates have recorded pleasing financial results. On the urban estate, the team faces an undeniably tricky market, but we've seen opportunity in these weak conditions and have been able to secure both sale and purchase deals which will enhance our assets over the long term. It's also been a good time to be building, and we're seeing good progress with The Quadrant scheme in central London which is heading towards completion at a time when we expect more favourable letting conditions.

The rural estate continues to benefit from a greater national interest in food security, and we've again worked closely with tenants and businesses to enable them to pursue opportunities to increase their profitability and to improve their communities. We value the initiative of our tenants, and we recognise the part we can play in supporting them as a proactive and forward-thinking landlord.

Net income surplus (profit) £million	
2010	210.7
2009	226.5
2008	213.4
2007	200.1
2006	190.8

Income from indirect investments £million	
2010	9.2
2009	10.2
2008	10.1
2007	0.9
2006	–

Capital value £million	
2010	6,640
2009	6,015
2008	7,334
2007	7,091
2006	5,937

Property valuation (directly held) £million	
2010	5,989
2009	5,513
2008	6,584
2007	6,572
2006	5,685

Revenue (excluding service charge income) £million	
2010	299.7
2009	285.8
2008	266.8
2007	262.2
2006	252.3

Value of indirect investments £million	
2010	243
2009	213
2008	242
2007	42
2006	–

On the Windsor estate, our team takes justified pride in the pleasure given to the huge numbers of visitors who visit the Great Park and the gardens of the Royal Landscape. There's been a keen sense of cost control through the year, usefully supplemented by an increase in revenue as a result of the Park being selected as the location for two major feature films.


The marine estate saw a tremendous level of activity as we enabled developers to realise the potential of our coastal resources to generate renewable energy from wind, wave and tide. The Government has set its targets for achieving energy security and reducing carbon emissions, and The Crown Estate will play a full and active part in bringing these ambitious plans to fruition.

Undoubtedly an area like renewables requires a long-term view, and we can see a time when the income from our engagement in this area will bring a significant benefit in the sums we're able to transfer to the Treasury. In the meantime, however, we're recognising the distinctive part we can play in making these huge schemes happen by applying the experience gained in the first rounds of offshore wind farms in order to help bring the more ambitious Round 3 to completion and to facilitate developments in the nascent technologies of wave and tidal power.

In my first six months I've been impressed by the way in which the Board's eight members take responsibility across this range of disparate activities – commercial property

development and trading, rural land-holdings, coastal activities such as marinas, aggregates extraction, aquaculture, licensing of cables and pipes, and to an increasing extent the major wind, wave and tidal generation schemes referred to above. Looking ahead to the potential future significance for The Crown Estate of offshore renewable energy operations, the Board will clearly need expertise in this sector. We have ambitions to increase the size of the Board to 10 members in time, but this would require legislation. In the short term therefore we shall be looking to replace the two Board members who are due to stand down after two terms at the end of the year with appointments bringing specific expertise in renewable energy development, but in order not to lose the balance of experience at the Board table, I'm delighted that Martin Moore and Dinah Nichols have agreed to continue to work with The Crown Estate as advisers to the Board.

Finally, I would like to place on record my sincere thanks to Sir Ian Grant, my predecessor, who through the seven years of his Chairmanship laid firm foundations for strong, open and transparent working at The Crown Estate and who assembled the accomplished management team with which it is now my pleasure to work.



Sir Stuart Hampson
Chairman

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SUSTAINABILITY SHAPES OUR FUTURE

Chief executive's overview

Against a backdrop of a marketplace that has continued to struggle through the worst recession that most of us have experienced, we have delivered a good set of financial results. A strong and diversified portfolio, actively managed by talented professionals, has again been our competitive advantage.

We are first and foremost a commercial organisation which exists, under Act of Parliament, to manage a range of urban, rural and marine assets on behalf of the nation. In 2009/10, our revenue excluding service charges rose by 4.9% to £299.7 million. While the underlying performance of the portfolio continues to be strong, the net income surplus (profit) which we return to the Treasury declined by 7% to £210.7 million, primarily as a result of the impact of the exceptionally low level of interest rates we earn on our capital reserves. This is explained in more detail in the Financial Review on page 32.

The total value of our directly-held property portfolio rose by a healthy 8.6% to £6.0 billion. Our total capital value at the end of the year was £6.6 billion, representing a rise of some

10.4% over the previous year. During the year, we worked with the Investment Property Databank (IPD) to develop a bespoke benchmark against which we can more accurately measure our performance. For 2009/10, our total return was 17.1%, outperforming the benchmark which showed a return of 16.4%.

Our values

But while our core objective is to be profitable, we combine that commercial imperative with an equally firm commitment to our values of integrity and stewardship. We aim to follow the highest standards of corporate governance; to be a good and responsible landowner and landlord; and to be good people to do business with.

We manage the assets in our care for the sustainable, long-term benefit of our tenants and other customers; their businesses; the communities they represent; and the environment.

The leading role we play in facilitating the development of renewable energy projects is just one example of how our long-term



perspective benefits individuals, communities and localities, not only on the marine estate but on many of our rural and urban holdings too.

Indeed, sustainability is key to our organisation. It is embedded throughout The Crown Estate and informs the actions we undertake. Our new sustainability strategy was rolled out internally during 2009/10, and will be launched externally in the coming year, as explained in the Sustainability section of this report on page 40.

The estates

The year saw the urban estate achieve a distinct upturn in performance. Revenue, excluding service charges, from directly-held property and income from indirect investments rose by 8.1% to £230.6 million. The value of the portfolio including indirect investments increased by 9.6% to £4.6 billion.

The value of the marine estate rose by 8.4% to £443.7 million, while revenue decreased by 6.2% to £46.6 million, largely as the result of a fall in demand for dredged aggregates – currently the largest single source of income on this part of The Crown Estate – from the construction industry, reflecting conditions in the wider economy.

The value of our rural estate holdings increased by 5.7% to £971.7 million, but with farming affected by the economic downturn, revenue from the rural estate reduced by 6.0% to £25.1 million. However, the estate outperformed the UK farm sector in general, which experienced a decline in total income of 6.2% during the year.

On the Windsor estate, our team reduced the net operating deficit by 20% to £1.6 million, with capital value increasing by 6.7% to £176.6 million.

Enabling renewable energy projects

We have taken significant strides towards enabling developers to realise the huge potential of the energy-rich waters around the UK, culminating this year in the announcement of the successful bidders for each of the nine Round 3 wind energy zones around the UK coastline. The work in which we are currently engaged, together with our partners from the Government and the devolved administrations, is important not only to the developers and The Crown Estate, but to the UK as a whole.

Currently planned offshore wind farms could provide enough energy to meet 25% of the electricity consumption forecast for the UK in 2020. This is in addition to power produced in

years to come by wave and tidal technology, where we have also played a significant role this year.

Looking ahead

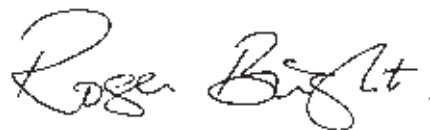
We welcomed the conclusion of the House of Commons Treasury Sub-Committee's Report on our activities that The Crown Estate "runs a very successful business operation". In line with our long-standing statutory duty and responsibilities as steward of some of the country's keynote holdings, we will continue to play our part in issues of major importance, including urban development, offshore energy generation and sustainability in the rural economy.

We are taking action on the report's recommendations addressed to us, and will report on this more fully during the coming year. We will also report later in the year on the outcome of the further consultation exercise regarding the proposed sale of the Cumberland Market, Millbank, Victoria Park and Lee Green housing estates, to which the Sub-Committee referred in its report.

2010 is the 250th anniversary of The Crown Estate. I believe that the most appropriate way for us to mark the occasion is by continuing to do the things that we have done so successfully in the past: taking the long-term view in managing some of the most important assets in the country, in accordance with our core values of commercialism, integrity and stewardship. Although the year ahead is likely to be another challenging period as the economy takes time to pull itself out of the recession, we will again vigorously pursue the 'Going for Gold' targets outlined overleaf.

I wish to thank our people, whose expertise and commitment are absolutely essential to our long-term objectives, and also to pay tribute to Sir Ian Grant, who retired as chairman at the end of 2009. Sir Ian worked tirelessly and to great effect on behalf of The Crown Estate for 13 years, and I thank him for the outstanding contribution he made to our organisation.

I extend a warm welcome to Sir Stuart Hampson and Gareth Baird who have joined the team as chairman and Scottish commissioner respectively, and I look forward to working alongside them, as we continue to lay the foundations for a sustainable future.



Roger Bright CB
Chief executive

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HOW DID WE DO?

Progress on our 'Going for Gold' targets



We use a balanced scorecard approach to monitor progress against our priority corporate objectives. These are represented by nine high-level, rolling five-year 'Going for Gold' targets.

Contribute to the Treasury a net income surplus of £250 million

On target – Our investment strategy of actively managing a diversified portfolio continues to succeed. In 2009/10 we returned £210.7 million to the Treasury.

Consistently outperform the IPD Total Return Index

Achieved – In the past we have consistently outperformed the IPD quarterly index. However, as mentioned in last year's Annual Report, we have been developing, with IPD, a bespoke weighted Crown Estate benchmark to more accurately reflect our performance against a similar portfolio of properties. Going forward it is our intention to outperform this benchmark on a rolling three-year basis and we made a good start in 2009/10 returning 17.1% against the benchmark of 16.4%.

Achieve 'gold' in the Business in the Community (BiTC) Corporate Responsibility Index

On target – Corporate responsibility, or sustainability, is at the heart of The Crown Estate. Our sustainability strategy was introduced internally during 2009/10 and will be launched externally in the coming 12 months. Last year we achieved a bronze rating, and are on course to achieve silver this year.

Enter The Sunday Times' list of good employers

On target – We entered The Sunday Times list of good employers achieving a 'one to watch' status. Our aim is to enter the top 100 this year. We value our people and recognise the vital contribution they make to our organisation. During 2009/10, among other achievements we approved informal working options and made progress with retaining the Investors In People accreditation.

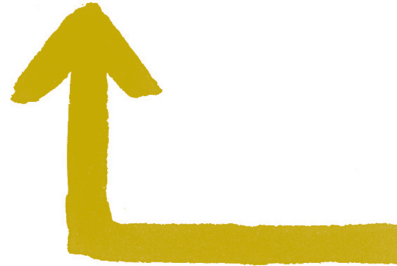
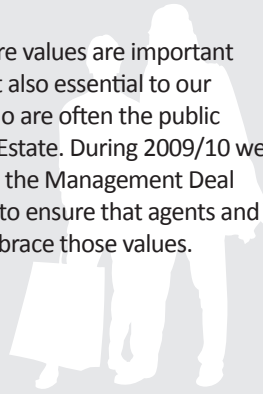
Win five more nationally recognised awards

Achieved – During the year we won a number of awards including Building Public Trust awards for last year’s Annual Report and Accounts and Sustainability Report, a Green Award for our Glenlivet estate in the Highland and Islands Tourism Awards and the Mayor of London’s Award for Planning Excellence for our Regent Street Vision.



Ensure Crown Estate employees and representatives actively embrace our core values

On target – Our core values are important to employees – but also essential to our representatives who are often the public face of The Crown Estate. During 2009/10 we began to introduce the Management Deal on the rural estate to ensure that agents and other suppliers embrace those values.



Establish a strong and respected customer brand, supported by excellent service from us and our service partners

On target – Key achievements include the transfer of rent accounting from headquarters to our managing agents to ensure that local tenant issues are managed by people on the ground. The ‘Business Deal’ – promoting principles to enhance the landlord/tenant partnership – has been implemented across the rural estate and a programme of customer research to assess our performance has been initiated.



Ensure we are regarded by our stakeholders as indispensable

On target – We work hard to be recognised and respected as proactive, committed partners for all our stakeholders. For example, in 2009/10 we played a vital role in enabling the continued development of renewable energy projects across the UK.



Establish partnerships with other property owners through a flexible approach to investment and disinvestment

Achieved – As part of implementing our investment strategy the urban team established joint ventures with Land Securities on two major retail schemes in Exeter and Oxford, both of which offer exciting asset management/development opportunities and we look forward to working with our partners and key stakeholders to deliver these.



BUILDING MOMENTUM

Urban estate

Property valuation including indirect investments £million	
2010	4,639
2009	4,231
2008	5,381
2007	5,394
2006	4,556

Revenue (excluding service charge income) £million	
2010	221.4
2009	203.1
2008	196.4
2007	195.7
2006	188.6

Income from indirect investments £million	
2010	9.2
2009	10.2
2008	10.1
2007	0.9
2006	-

The urban estate includes shops, offices, retail and business parks, industrial estates and residential properties. We made outstanding progress during the year, as we continued to concentrate on our areas of competitive advantage and also maintained momentum on key projects.

Our urban portfolio is diverse and extensive. We are increasingly recognised by our peers and partners as an innovative and long-term investor operating at the highest levels of the industry. The portfolio accounts for more than 74% of The Crown Estate's entire property value, including indirectly held property, and over 76% of its gross income surplus.

For the year to 31 March 2010, revenue derived from the urban estate, including indirect investment, increased by 8.1% to £230.6 million, despite tough market conditions. This performance was ahead of target and our total return performance was very positive. Property valuations including indirect investments rose by 9.6% to £4.6 billion, recovering some of the reduction experienced during the previous year.

The year began with a great deal of uncertainty in the capital markets. Transaction activity across all sectors was at very low levels, with pricing well below historic averages, and all occupational markets were experiencing rental decline. However, our long-term perspective and absence of investment legacy issues allowed us to take a more active position in the market than many other investors. Consequently, during the early months of the year, we concentrated our efforts on taking advantage of what we perceived to be a mispricing of prime UK commercial real estate. This resulted in the acquisition of some rarely-traded dominant retail assets. At the same time,

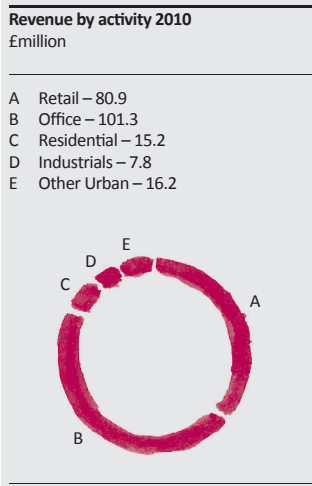
we believed that the market was over-paying for longer-dated income, and we accordingly made a number of disposals.

Over the course of the summer of 2009, signs of recovery began to appear, driven by a range of factors. These included the historically low pricing of prime UK real estate, the decline in the value of sterling making the UK more attractive to foreign investors and the Government's expansionist monetary policy. By late autumn, the investment market recovery was gathering pace. Our response, in the last quarter of the year, was to reduce our activity and concentrate on selective sales, reflecting our concern that prime UK real estate pricing was once more becoming increasingly unsustainable.

We have been developing, with IPD, a bespoke weighted Crown Estate benchmark to more accurately reflect our performance against a similar portfolio of properties. Going forward it is our intention to outperform this benchmark on a rolling three-year basis and we made a good start in 2009/10 returning 17.1% against the benchmark of 16.4%.

Active asset management

In a difficult and sometimes volatile market, our trading activity was high by historic standards and we completed some £674 million worth of capital transactions as we continued to rebalance the portfolio in line with our strategy. We sold a number of non-core properties, including the Coutts building on The Strand in London, and diversified the portfolio through strategic purchases, principally of major retail schemes. These actions have again reduced our exposure to central London urban commercial property, from 75.7% to 71.4%, in addition to significantly increasing the quality of the portfolio.



In London, we concentrated on our areas of competitive advantage, with investment and asset management focused on Regent Street and St James’s.

At a time when many competitors ceased or substantially reduced their development activity, our business model has allowed us to maintain confidence and continue to push ahead with our major schemes. The Quadrant 3, the former Regent Palace Hotel which we are transforming into a 270,000 sq ft office, retail, restaurant and residential development, remains both on schedule and on budget. Alongside this, The Alrov Group commenced The Quadrant 1 project, the former Café Royal. This project will deliver a new 150 room five-star hotel with spa, restaurants and retail accommodation. Quadrant 3 is due for completion in the first quarter of 2012 and Quadrant 1 in the second quarter of 2012. The Quadrant projects are part of a £750 million investment programme to redevelop Regent Street.

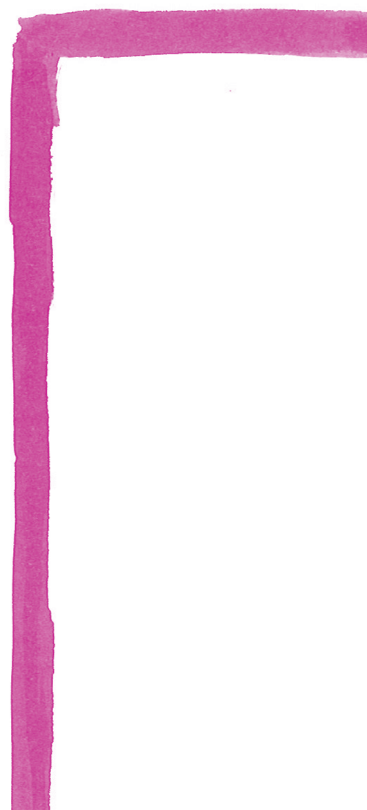
As we set out in last year’s Annual Report, St James’s has been identified as an area that would benefit from proactive asset management similar to that dedicated to Regent Street. During the year, we made substantial progress in realising this ambition by obtaining planning consent for our initial St James’s scheme. Known as St James’s

Gateway, the proposal is for an 85,000 sq ft mixed-use redevelopment scheme at the eastern end of Jermyn Street and Piccadilly. As part of this development the distinctive retail character of Jermyn Street will be preserved, with long-established Jermyn Street retailers such as Trumpers and Herbie Frogg returning to the development once it is completed.

Together, Regent Street and St James’s, with over 8 million sq ft in freehold ownership, are complementary holdings that form the twin, long-term focus of our central London strategy.

As part of the diversification strategy to reduce our London weighting, the year saw us invest in two more major shopping centres. In Exeter, we acquired a 50% stake in Princesshay Shopping Centre from Land Securities Group PLC for close to £100 million. The 530,000 sq ft open city centre retail scheme was completed in September 2007 and incorporates major retail outlets as well as restaurants.

After the financial year ended, we completed the purchase of the 320,000 sq ft Westgate shopping centre in Oxford for around £56 million at a net initial yield of around 6.75%. This acquisition attracted extremely positive media coverage from both the industry press, which recognised the importance and value of the deal, and local media in Oxford which welcomed our involvement in the city.



STREETS AHEAD

Urban estate continued



← **On schedule for Quadrant 3**
With the recession continuing to impact the property sector, many property organisations have ceased activity altogether. We have pushed ahead with major schemes, including Quadrant 3, an office, retail, restaurant and residential development which is on schedule for completion in 2012. The Quadrant project includes the most significant improvement to the quality of London's public realm seen in the West End over the last 30 years, after Trafalgar Square.

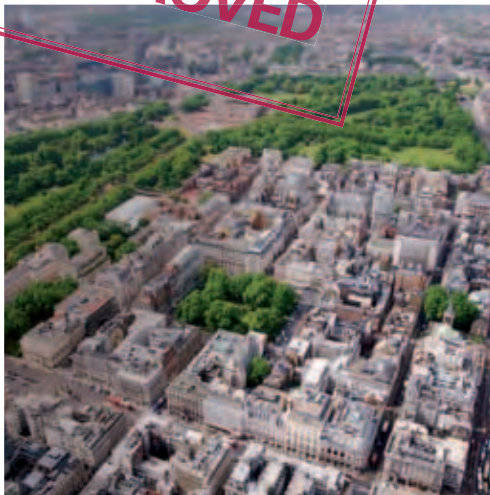
↓ **Earning plaudits**
Among many major accolades we were honoured to receive during the year, our strategic vision for Regent Street won The Mayor of London's Award for Planning Excellence at the London Planning Awards. "I congratulate The Crown Estate for the Regent Street Vision, which combines the best of modern architecture whilst making the most of London's built heritage," commented the Mayor of London, Boris Johnson.



→ **West End gets the 'X' factor**
For the first time, shoppers can now cross Oxford Circus diagonally, thanks to an innovative scheme part-funded by The Crown Estate in partnership with Westminster City Council, Transport for London and The New West End Company. Modelled on Tokyo's famous Shibuya intersection, it is giving the 200 million shoppers and workers who visit annually around 70% more freedom to move around.



PLANNING CONSENT:
APPROVED



↑ **Delivering the strategy for St James's**
2009/10 saw planning consent obtained for our first major St James's scheme. St James's Gateway is a 150,000 sq ft mixed-use redevelopment project at the eastern end of Jermyn Street. The project will deliver comprehensive public realm improvements together with a striking new frontage along Piccadilly.

↓ **Successful shopping trips**
We continued to build our retail presence outside London during the year, in line with our diversification strategy. In Exeter, we acquired a 50% stake in Princesshay Shopping Centre and, shortly after the financial year ended, completed the purchase of the Westgate shopping centre in Oxford.



Urban estate continued

Building on our relationship at Princesshay, we have also established a 50:50 joint venture partnership with Land Securities Group PLC on this shopping centre.

Industry accolades

Our efforts during 2009/10 led to us receiving a number of important awards:

- the Mayor of London's Award for Planning Excellence for our Regent Street Vision
- Estates Gazette's National Property Company of the Year (Retail & Leisure)
- Royal Institution of Chartered Surveyors London Sustainability Award
- Royal Institute of British Architects Sustainability Award
- Westminster Society Biennial Award for Architecture

Consulting with our housing tenants

As part of our ongoing practice of regularly reviewing the portfolio, we brought forward a proposal to sell the approximately 1,300 houses and flats which comprise our Housing Business Group (HBG) and are spread across four estates in Camden, Hackney, Lewisham and Westminster.

These estates form a small part of our overall business and we believe that they could be better and more efficiently run by an organisation dedicated to owning and managing this type of housing. We accordingly entered into a formal consultation with our residents from January to March 2010. As part of this process, we received a very high level of response, not only from residents but also from key stakeholders. At the end of the year this matter was still ongoing. We will report any further developments in next year's Annual Report.





Supporting communities

Together with the high level of investment activity, the year was also characterised by a number of examples of the urban team working positively alongside stakeholders to bring demonstrable benefits to the communities in which we work.

For example, in July 2009 we appointed a workplace co-ordinator to source permanent West End jobs for out-of-work Westminster residents. By the end of the financial year, 11 people were in work as a result of this Regent Street initiative.

As part of our ongoing commitment to public realm, we supported the Oxford Circus diagonal crossing scheme, which was opened by Mayor Boris Johnson. This transformation of the West End's busiest area was funded by The Crown Estate and Transport for London and implemented by Westminster City Council. In addition, Heddon Street, the Regent Street Food Quarter, was pedestrianised, as was Regent's Place. A new initiative was trialled by The Crown Estate to encourage retailers to consolidate their deliveries in order to reduce traffic in Regent Street.

Other community-based initiatives around Regent Street included themed events such as the Christmas Lights, Taste of Spain Festival and Best of British Festival, each of which brought a sense of fun and style to London's premier shopping street. We continued to encourage pedestrian movement by the publication of Walking Maps and the facilitation of wayfinding initiatives implemented by Transport for London.

Looking to the long term

Following the very strong progress we made in pursuit of our strategic goals during the year, we are hoping that 2010/11 brings a period of stability in the economy and real estate capital markets, combined with a gradual improvement in our principal occupier markets. Consistent with our overall strategic approach during the current year we intend to focus on:

- a continued reduction in our central London weighting
- the exploration of ways to introduce third-party capital to Regent Street and selected individual projects within St James's
- the effective asset management of all assets, in particular the new acquisitions
- the successful delivery of our major development projects
- ensuring that the urban portfolio plays a significant role in The Crown Estate's overall sustainability strategy
- further investment in public realm, including a focus on initiating improvements to Piccadilly

Furthermore, we will continue to seize the benefits inherent in our long-term outlook. We will take advantage of any changes in market pricing and, if appropriate, take a counter-cyclical view, looking beyond short-term gains to realise long-term objectives.

ENABLING A SEA-CHANGE

Marine estate



The marine estate includes around half of the foreshore of the UK and almost all of the seabed out to the 12 nautical-mile territorial limit. It also includes the rights to explore and utilise the natural resource of the UK continental shelf. Progress in the renewable energy sector again dominated the year, as we took significant strides towards enabling developers to realise the huge potential of the energy-rich coastal waters around the UK.

During 2009/10, revenue for the marine estate fell by 6.2% to £46.6 million, largely as the result of a fall in demand for dredged aggregates from the construction industry, reflecting conditions in the wider economy. Total property value increased to £443.7 million, up 8.4% on the previous year.

The marine aggregates side of the estate experienced a marked decline, down by 13.8% to £17.5 million as the recession caused the construction industry to falter. The coastal estate, which includes marinas, ports, harbours and other coastal activity, contributed £13.6 million to our turnover, an increase of 6.2%. The aquaculture business revenue fell by 43.9% to £2.3 million, the figure for the previous year having been influenced by a one-off benefit created by a change in accounting processes. Income from cables and pipelines contributed £10.6 million, down slightly on last year.

Revenue delivered by the renewables sector rose sharply by 44.4% to £2.6 million. From a low base, this part of our business is experiencing exponential growth and we expect it to provide a significant source of total income in the next 10 years. As renewables become increasingly important, so the estate is investing in people

with the talent and experience to support a range of exciting, embryonic technology projects. In 2009/10, our headcount grew from 41 to 55 – a dramatic increase from just a few years ago when the entire marine estate workforce numbered no more than a dozen.

Supporting the renewables sector

As custodians of a nationally important natural resource, we have a key role to play in enabling developers to realise the potential of offshore wind, wave and tide to meet the increasing demand for electricity. Success in developing renewables will improve the UK’s energy security as well as the nation’s measures to mitigate CO₂ output. Importantly, it will also create jobs and investment across the UK and contribute to the development of a significant UK-based industry with great export potential.

Our role as enablers is to deliver a series of major initiatives, managing complex negotiations and partnerships while the industry builds capability and invests in some of the largest infrastructure projects in the world.

The key highlight of 2009/10 was the Round 3 offshore wind programme which culminated towards the end of the financial year in the announcement of the successful bidders for each of the nine wind zones around the UK coastline. Coming on top of Rounds 1 and 2 and a Scottish Territorial Waters round, all of which are still in development, Round 3 aims to deliver a quarter of the UK’s total electricity needs by

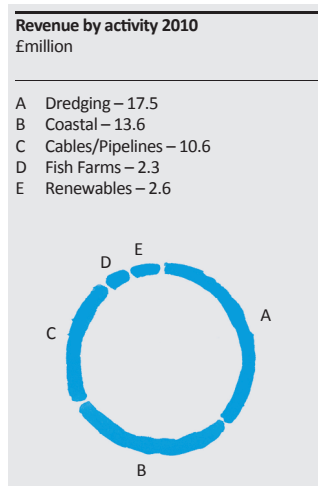
2020. All parties have now signed agreements with the estate to take the proposals through the planning and consent phase, and The Crown Estate has committed to invest in excess of £100 million in Round 3 to remove as many of the risks as possible which could get in the way of development.

In March 2010, we passed another milestone with the announcement of the successful bidders for the world’s first commercial wave and tidal leasing round, for 10 sites in Scotland’s Pentland Firth and Orkney waters. The 1.2GW of installed capacity proposed by the developers for 2020 is more than four times the peak output of Dounreay power station and will provide enough electricity to meet the needs of 750,000 homes. This programme will enable a step change to take place in the industry in terms of its technical and commercial viability. Central to the success of the programme was the close involvement of Highlands and Islands Enterprise, Highland Council, Orkney Islands Council and the Scottish Government. For 2010, our aim is to build on this partnership through a memorandum of understanding that includes all the local authorities in the Highlands and Islands of Scotland.

We can derive considerable satisfaction from the way in which we have worked alongside our partners to support these technologies and enable the market to perform in a way that makes the UK a global centre of excellence for renewables. A measure of our involvement

Property valuation £million	
2010	444
2009	409
2008	370
2007	337
2006	297

Revenue (excluding service charge income) £million	
2010	46.6
2009	49.7
2008	41.9
2007	38.3
2006	36.9



THE WINDS OF CHANGE

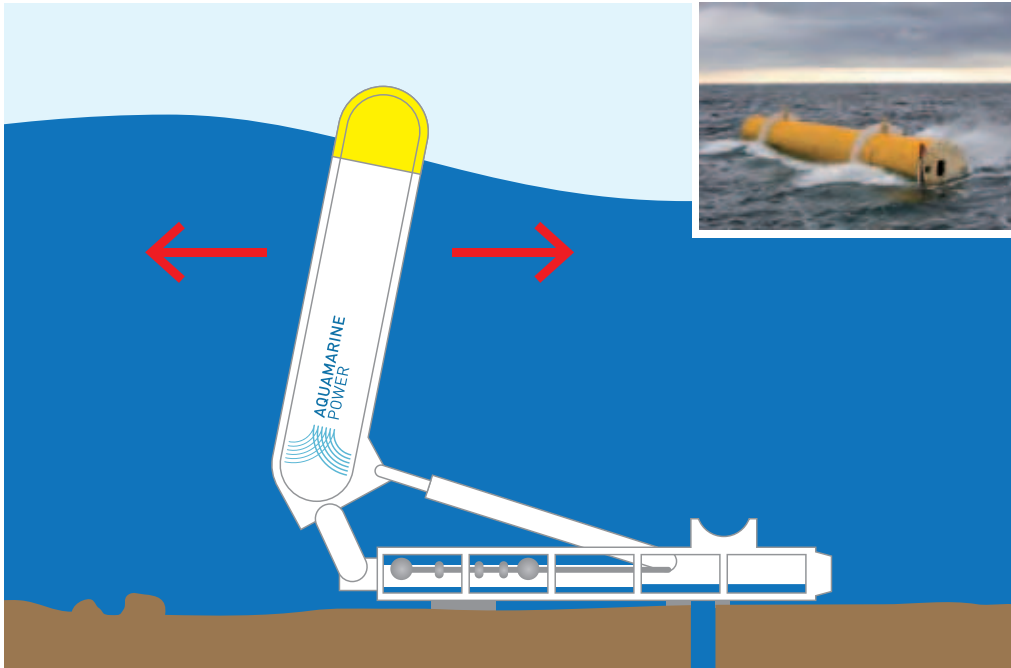
Marine estate continued



↑ Harnessing the wind
A key highlight of the year for the marine estate was the announcement of the successful bidders for its Round 3 offshore wind leasing round. This part of our extensive plans for renewables aims to deliver a quarter of the UK's total electricity needs by 2020.

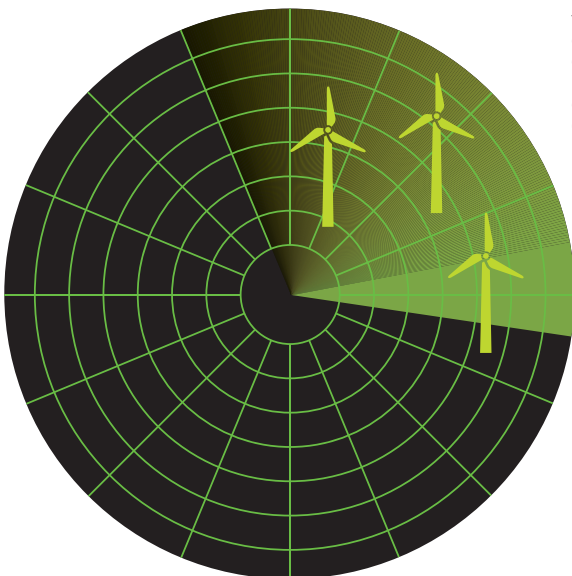


← Pincer movement assists shellfish producers
Two key changes to leases are providing Scottish shellfish producers with greater long-term confidence as well as reduced outgoings. From January 2010, rents have been reduced by an average of 15% while the standard lease term has been extended from 15 to 25 years.



← **The next wave for renewables**
We have announced the successful bidders for the world's first commercial wave and tidal leasing round, for 10 sites in Scotland's Pentland Firth and Orkney waters. The 1.2GW of installed capacity proposed by the developers for 2020 is four times the peak output of Downreay's power station. The Crown Estate will be investing around £4 million to enable the important early stage development of this programme.

↓ **Safety is always on our radar**
We are investing £17 million in a new radar installation to address the concerns of the Ministry of Defence that wind turbines could cause radar interference in The Wash. We aim to recover our investment through an enhanced leasing arrangement.



↓ **Making the connection**
We continue to play an important role in enabling the renewables industry, bringing together diverse organisations through 12 offshore wind supply chain events in the early months of 2010. The events, which were attended by over 3,000 businesses from across the supply chain, were heavily over-subscribed.



Marine estate continued

as facilitators can be gauged through the success of the 12 offshore wind supply chain events we held with our partners from the UK Government and devolved administrations, from January to March at locations around the UK. Over 3,000 businesses attended these events, which we created to bring together interested parties from across the supply chain.

Infrastructure remains a core issue for the supply chain and during 2009/10 we worked with Ofgem and the wider energy industry to clarify the requirements for an effective transmission network to carry power from the wind farms to where it is needed. We expect this to move forwards in the coming 12 months, in time for the first Round 3 wind farms becoming operational from 2014.

During the year we also committed £17 million to purchase a new radar installation to address the concerns of the Ministry of Defence that wind turbines could cause radar interference in The Wash. Our involvement helped supply chain continuity and confirmed the momentum from Round 2 to Round 3. We aim to recover our investment in this radar project through an enhanced leasing arrangement with successfully consented and built wind farm projects in The Wash.

Closely allied to our role in the renewables sector, we have continued to support demonstration projects for Carbon Capture and Storage (CCS). By the end of the 2010/11 financial year, we will have a better idea of which projects are likely to proceed and will aim to support them with a lease as they progress. As was the case with wind farms a few years ago and is true of wave and tidal facilities today, CCS is a new technology that requires far-sighted decision-making and long-term facilitation on our part. Again, a key to success will be the further development of close working relationships with the UK Department of Energy and Climate Change and the Scottish Government.

As the UK's oil and gas reserves dwindle, the resources at our disposal take on increasing importance. The work in which we are currently engaged is important not only to the developers and The Crown Estate, but to the whole UK.

Building on long-established strengths

We own and manage the mineral rights to the seabed across an area extending to the edge of the UK continental shelf. Consents are issued for non-exclusive sampling and licences for commercial aggregate extraction as well as leases for major pipeline and cable projects. Although revenue from aggregates reduced during the year from around £20.3 million to £17.5 million, due to a fall in construction activity, it continues to be a very important business.

Aquaculture is also a long-established business on the marine estate, particularly in Scotland where it provides valuable jobs and income to local communities. Activity increased during the year, partly as a result of Scottish salmon farmers seizing the opportunities provided by supply problems within the industry in Chile, a major international competitor.

The annual Crown Estate Marine Aquaculture Awards continued to encourage innovation and best practice across the industry. The scheme ensures that the industry receives the recognition it deserves for its excellent standards of husbandry, welfare and environmental sustainability. Among the winners, Shetland-based Blueshell Mussels scored a hat-trick, winning Best Shellfish Farm, Best Marine Aquaculture Company and the Innovation award.

For the 11th consecutive year, the Marine Stewardship Programme promoted good stewardship of the marine estate. During 2009/10 we invested £835,000 in a range of projects through two funds: the Marine Communities Fund and the Marine Research Fund.



↑ Brewin Dolphin Scottish Series, a sailing event organised by the Tarbert Enterprise Company and sponsored for the second year by The Crown Estate.

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Developing the coastal estate

Following two years of acquisitions that saw three important marinas join the portfolio, 2009/10 was a year of consolidation on the coastal estate. Ports, harbours and marinas make a significant contribution to the UK economy. In 2008, we published a report that measured this contribution at almost £50 billion annually, together with 890,000 jobs.

During the year we enhanced the coastal estate through a number of projects including works at Tarbert, which complemented those carried out in 2008/09, and at Wick, where the Princess Royal opened a new £576,000 marina development funded in part by The Crown Estate. We also supported developments at Ullapool through the funding of eight new visitor moorings which will improve the harbour's share of the leisure market.

A sustainable future

Sustainability is inextricably linked to our role as guardians of the marine estate. During 2009/10 we continued to support a range of innovative initiatives designed to protect and enhance the natural resources for which we are responsible.

We have continued to invest in the marine spatial planning system (MaRS) which we developed to ensure the fair and sustainable use of the marine environment. Drawing on complex indexing to guide decision-making where there is a competing requirement for resource, MaRS was instrumental in helping identify the most suitable locations for the Round 3 wind farm developments. The system is now rolled-out across the marine estate and is attracting interest from other organisations, including the Norwegian, Dutch and US governments. A challenge for the coming year will be to explore ways in which we can give third parties access to MaRS and to help develop its functionality.

With the impact of wind, wave and tidal renewable technologies, the character of the marine estate has been transformed in recent years. Further change can be anticipated as these programmes come to fruition, complemented by carbon transportation and storage activities.

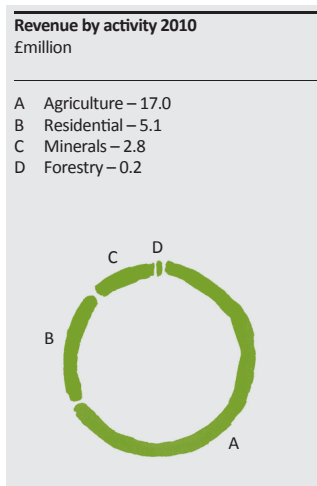
SOWING THE SEEDS OF PARTNERSHIP

Rural estate



Property valuation £million	
2010	972
2009	920
2008	903
2007	714
2006	673

Revenue (excluding service charge income) £million	
2010	25.1
2009	26.7
2008	22.5
2007	22.3
2006	21.6



The rural estate comprises 146,000 hectares (360,000 acres) of agricultural land and forests as well as residential and commercial property. The estate achieved a pleasing performance during 2009/10, not only in terms of capital growth and revenue but also in the work achieved to build and maintain proactive partnerships with tenants.

The past 12 months have seen a good performance from the rural estate, as the hard work from our team delivered positive results despite the recession. Capital value rose by 5.7% to £971.7 million, largely due to the resilient market for agricultural land. Revenue was £25.1 million, down by 6% on the previous year.

To put these figures into context, according to the Department for Environment, Food and Rural Affairs (DEFRA) the total income from farming in the UK is estimated to have fallen by 6.2% in real terms during 2009. Within the industry, specialist pig and poultry farmers enjoyed an extremely positive year while dairy and arable farmers tended to be adversely affected. The poor weather played an important role in the fortunes of many, with our farming tenants in Scotland and Yorkshire particularly hard hit by heavy snow and floods respectively.

Land values remained strong, with tight supply holding average values firm. Projections for the short to medium term suggest annual growth of around 6%, according to Savills. During 2009/10, construction output fell dramatically, with a knock-on effect on the demand for minerals.

In the strong land market, sales naturally dominated purchases during the year. The ongoing restructuring of the estate resulted in the completion of strategic disposals valued at £19.0 million, including the sale of a site to Aldi at Neats Court in Kent and of Bronydd Mawr in Powys. We made a number of modest acquisitions, in most cases adding small parcels of land to facilitate our longer term plans and those of our tenants.

Modernising the landlord/tenant relationship

Looking beyond the figures, the most demonstrable impact of the work we carry out across the rural estate lies in its positive influence on tenants and their local communities.

2009/10 was a year in which many of our customer focus initiatives made good progress. We completed the implementation of the Business Deal, which provides a framework for the way in which the estate, as landlord, can work more proactively with tenants to mutual benefit. Developed in conjunction with tenants, the Business Deal sets out a series of key principles for landlord and tenants: for example, placing the onus on the estate to ‘provide capital for viable co-investment projects’ and to ‘facilitate the promotion and marketing of high quality products and services.’ We have already found that the Business Deal has helped tenants to seize new business opportunities, an important factor at a time when there is pressure on returns.

Where the Business Deal aims to enhance the landlord/tenant relationship, the Management Deal was introduced during the year to achieve similar benefits for our relationships with managing agents and other suppliers. These organisations and their employees are in many cases the public face of The Crown Estate. The Management Deal aims to ensure the consistent application of our values and guiding principles throughout the estate.

We work hard to make sure that our initiatives are aligned with the best interests of our tenants, learning from past experiences and striving to improve wherever possible. To this end, we evaluated a new approach to customer research during 2009/10. This involves structured telephone conversations with tenants selected at random, to gauge our performance on an ongoing basis.

Crucially, the research is not outsourced but carried out by members of the team who know our business and understand the business of our tenants. Early indications suggest a very good level of customer satisfaction, but we know we have work to do in certain areas if we are to achieve the high standards to which we aspire.

We strive to work alongside all those who are affected by our activities, not just our tenants, and have implemented detailed stakeholder engagement plans on several estates. A programme at Dunster in Somerset included the initial stage of an 'Enquiry by Design' to gather the views of local residents and stakeholders regarding the estate's future growth. At Tabley in Cheshire, following discussions with the Parish Council, we held a two-day public consultation event, including proposals for possible residential development and leisure facilities. Further detailed consultations were initiated at Taunton in Somerset and Bingham in Nottinghamshire.



REAPING THE REWARDS OF PARTNERSHIP

Rural estate continued



A thoroughly modern relationship

There is no place for the outdated landlord/tenant model in a modern, forward-thinking organisation like ours. During the year we implemented the Business Deal, which provides a framework for the way in which we work more proactively with tenants to mutual benefit.



A comeback for the Black Poplar

In decline for the last 200 years, the Black Poplar is making a comeback on our Dunster estate where it will enhance the species and habitats on the rural estates in line with our commitment to the conservation of biodiversity. At the last count, only around 2,500 of the trees remained in Britain. Cuttings have been taken from one of our black poplars and will be planted at locations where the trees can mature.





← **Giving nature a helping hand**
 National Nest Box Week launched a series of long-term conservation initiatives across the rural estate. On the Dunster estate in Somerset there are now well over 50 nest boxes. These will provide nesting sites for a range of birds such as barn owls and kestrels.

→ **Engaging with tenants**
 We continue to engage with tenants at every opportunity, for example through public consultation on estates such as Tabley. During 2009/10 we also launched a new customer research initiative, with our employees using telephone conversations to gauge tenants' views on our performance. Although findings show a high level of customer satisfaction, they also indicate that there is room for improvement – something that our new Management Deal aims to address.



← **Setting down roots**
 We work hard in the fight against climate change while also enhancing the fabric of the rural landscape for the enjoyment of future generations. During National Tree Week in December, we were proud to join in the Tree O'Clock project, a BBC initiative to plant thousands of trees. Across the estate, our teams and volunteers from local communities planted 3,800 trees.



Rural estate continued

Investing to support our customers

For the year to 31 March 2010, we invested over £9.2 million in new works and improvements on the estate. In Scotland alone, the task of restoring and repairing property damaged by the harsh winter conditions will require over £1 million, a substantial sum in the context of the annual revenue of the Scottish rural estate.

Our investment is frequently made alongside that of our tenants' businesses, where we can add value or help them bring a project to fruition, whether that is diversifying into food processing or developing new commercial facilities.

As we reported last year, the Supply Chain project has advanced well, with key tenants meeting with Waitrose and Dovecote Park, the supermarket's dedicated processor, to agree terms for a pilot beef supply chain. As Waitrose has committed to supplying 100% British beef, this project represents an opportunity to create mutual benefit, with our tenants adding value to their businesses through achieving fair and consistent prices. We are consulting with lead tenants regarding opportunities to expand the project into other market sectors, through their leadership.

We introduced the Residential Quality Standard during the year, formally assessing our residential properties and identifying ways in which we can raise standards of comfort and environmental performance for our tenants. The objective is to gain a more informed perspective on tenants' needs so that we can target future investment where it will deliver most benefits.

The Renewable Energy Strategy, under which we are co-investing in appropriate schemes, is also currently being implemented across the estate. Although it is unusual for landowners to work so closely with tenants, we believe this is essential to both help businesses to 'future-proof' energy costs and to reduce the impacts of climate change. Schemes are categorised as 'commercial', 'midi' and 'micro' generation. To date, over 20 commercial and midi schemes have been identified together with many more micro generation schemes which, if successful, will generate in excess of 500MW of renewable energy.

The recent introduction of the Government's new 'Feed in Tariffs' will make micro generation more attractive, and we will report on this in more detail in next year's Annual Report.



Sustaining our standards into the future

The project to build 10 new environmentally-friendly homes at Burnhill Green, eight miles from Wolverhampton, is now largely complete. Situated on our Patshull estate, the homes are built to Level 4 of the Code for Sustainable Homes, the national standard for the sustainable design and construction of new homes, and aim to reduce carbon emissions by approximately 25%. They incorporate the latest energy-saving technology, including rainwater harvesting, ground source heat pumps and underfloor heating.

In order to clarify future design standards for new build on The Crown Estate, we held a successful development workshop at the Upton development in Northampton. Facilitated by the Prince's Foundation for the Built Environment, the outcome is a design guide which sets out the key principles to be applied on all our developments. It will be published during the summer of 2010.

Launched in the previous year, our estate-wide Biodiversity Action Plans identify the key biodiversity challenges across the estate, with species and habitats targeted to improve performance. As 2010 is the International Year of Biodiversity, we will be using the opportunity to highlight the work we do, engaging with DEFRA and Natural England to highlight best practice.

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↓ Stakeholder event at Burnhill Green.



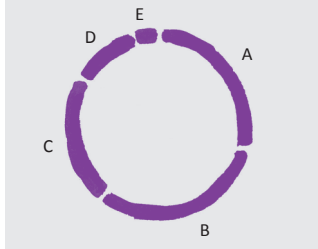
RAISING THE STANDARD

Windsor estate

Property valuation £million	
2010	177
2009	166
2008	173
2007	170
2006	159

Revenue (excluding service charge income) £million	
2010	6.6
2009	6.3
2008	5.8
2007	5.5
2006	4.9

Revenue by activity 2010 £million	
A Residential	1.9
B Savill Garden and Building	2.1
C Commercial property	1.5
D Forestry	0.8
E Agricultural	0.3



The Windsor estate covers 6,300 hectares (15,600 acres) of the Surrey and Berkshire countryside. It includes the Great Park, farms, Ascot Racecourse, forests, golf courses and residential and commercial properties. Within the Great Park is the Royal Landscape, including the renowned Savill and Valley Gardens. The estate enjoyed 12 months of steady progress, bolstered by an increase in revenue which reduced the deficit to a level below that of recent years.

In the year 2009/10, revenue on the Windsor estate was £6.6 million, up by 4.8% on the previous year. Capital value was £176.6 million, up by 6.7% which more than compensated for the slight dip we experienced in 2008/09 as the recession first made its mark. The cost of maintaining the Windsor estate was £8.2 million which was offset by income from commercial and residential property of £5.5 million, and £1.1 million from agriculture and forestry. The net operating deficit is some 20% lower than that recorded in the previous year.

Visitor numbers to the Gardens were healthy and we enjoyed a successful trading year in our restaurants and other facilities, despite the recession.

The Great Park lies at the heart of the Windsor estate. One of our primary roles is to maintain this beautiful resource for the public to use and enjoy. In the past year we welcomed 2.5 million visitors to the Park where they take part in a great range of recreational activities, from fishing and horse riding to walking, cycling and simply being in the fresh air. With its varied landscape, the Park abounds in wildlife and the greater part of it has Site of Special Scientific Interest (SSSI) status.

Beyond the Great Park, the responsibilities of the estate include a number of adjacent commercial and residential properties which continue to be attractive propositions for tenants. Occupancy levels were relatively high during the year, reflecting the highly desirable area in which the estate is located. However, the adverse economic climate did result in slightly longer void periods, in line with those experienced elsewhere on The Crown Estate, particularly for larger properties which can be difficult to re-let when they fall empty.

A starring role

One of the highlights of the year was the selection of the estate as the location for two major feature films.

We welcomed the cast and crew of 'Robin Hood' for a total of some three months, during which time they filmed in our forest and also at the Virginia Water lake which represented the Thames, complete with large sailing vessel. Starring Russell Crowe and directed by Ridley Scott, 'Robin Hood' was released in May 2010. The estate's extensive forestry areas were also the setting for scenes in 'Harry Potter and the Half-Blood Prince', with filming taking place over a period of six weeks.

Although we are accustomed to a stream of single-day shoots for minor features or commercials, shoots of this length are unusual. Together, they added a significant sum to the year's revenue and again demonstrated the value and international importance of the unique landscape at Windsor.



Focus on sustainability

A new waste handling system introduced during the year has reduced the amount of waste we send to landfill by around 85%. Working with a local firm, we now have two large compactor skips, one for organic waste and one for non-organic. The organic waste, primarily litter and food, is taken to a facility close to Heathrow Airport where a furnace converts it into electricity. The project began at The Savill Building and it is working so effectively that we are looking to introduce more skips within the Park.

As reported in last year’s Annual Report, we are establishing an environmentally-friendly sewage treatment system that uses natural bacteria and a network of lagoons. Planning consent was granted as this publication went to print.

The eco-house pilot project, which aims to identify energy-saving technologies that could be incorporated in properties on the estate, continued through the year. While the initial results were not as encouraging as anticipated, we are now working alongside the eco-house tenant to evolve our approach. After careful consideration, we have decided not to progress the building of our own heat and power plant but this will be reviewed again as the technology improves.

Improving the estate

We carried out a number of projects during the year to improve and enhance the fabric of the estate.

The new Rose Garden at The Savill Garden was completed at a cost of £220,000 and features a modern design which focuses on the contemporary use of roses. It was opened in June 2010 by Her Majesty The Queen and will be an important addition to the Garden.

The Royal Chapel now features a new roof and restored stonework, following a £350,000 renovation project to which we contributed £100,000. The work was carried out through the autumn and, despite delays caused by the presence of bats, the Chapel was opened in time for the annual carol service.

We have a clear duty to ensure the safety of the public while, at the same time, protecting our natural resources. To this end, we developed a tree management capability which is now being used to assess the safety of roadside trees. Not only are we inspecting a vast number of trees at Windsor, but our expertise is also being shared with the rural estate.

Working with the community

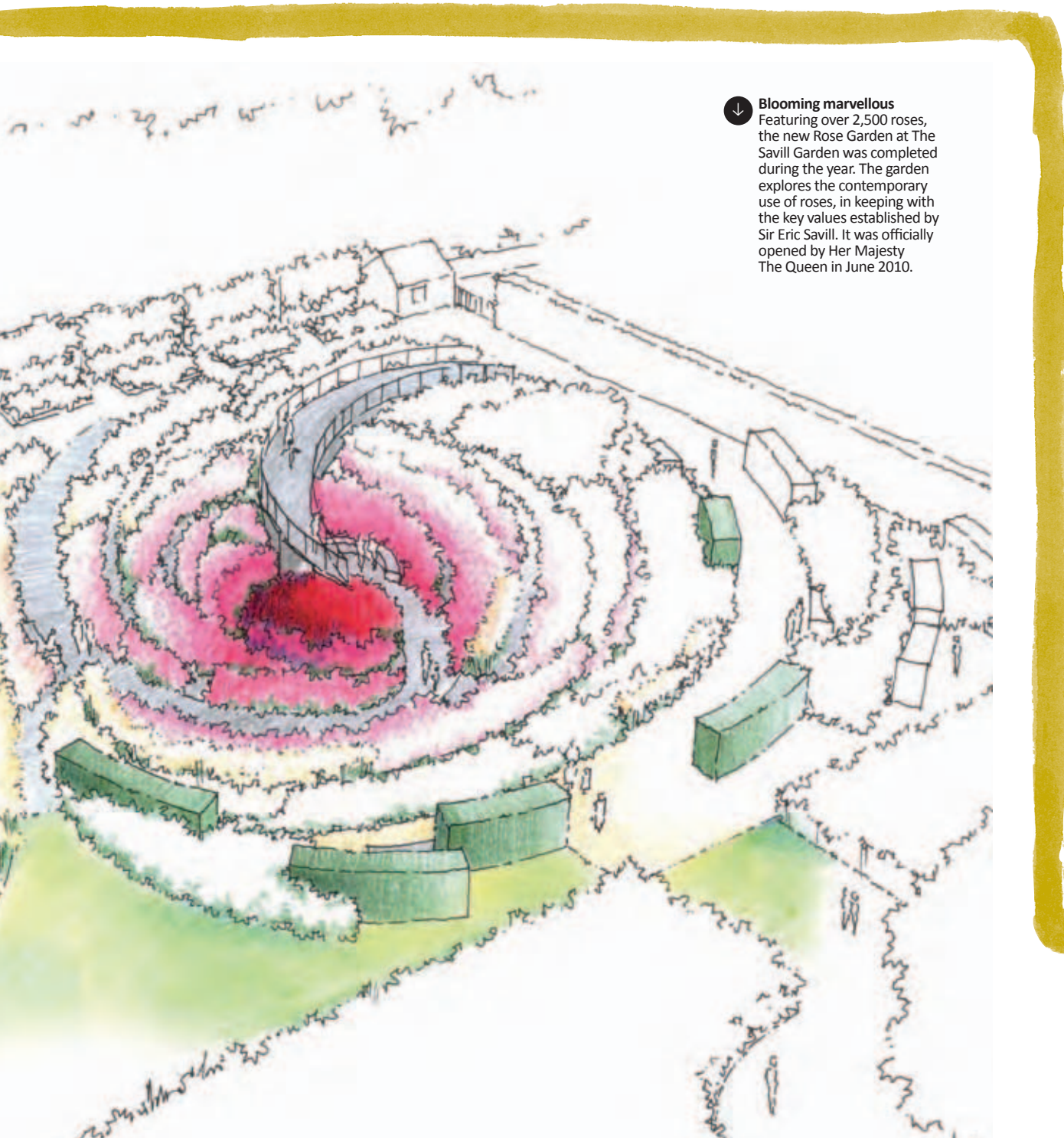
The year again saw our involvement in a number of community-based initiatives, including the annual Easter Egg hunt, free admission for the public to The Savill Garden throughout December and the opening of a new hall at The Royal School, Windsor, for which we provided the land and some funding.

We are keen to share both our Park and our knowledge of the countryside, and were therefore pleased to provide a ‘forest school’ where young children from local schools can learn outside in the natural environment.



CONSERVING OUR HERITAGE

Windsor estate continued



↓ **Blooming marvellous**
Featuring over 2,500 roses, the new Rose Garden at The Savill Garden was completed during the year. The garden explores the contemporary use of roses, in keeping with the key values established by Sir Eric Savill. It was officially opened by Her Majesty The Queen in June 2010.



↑ Restoring former glories
 Following the restoration of the Leptis Magna Ruins in 2008/09, we continued with our programme to improve facilities and restore important heritage features around the Park. In addition to work on the area around the Totem Pole, we also repaired the Five-Arch and the Obelisk Bridges, which date back to the early 19th Century.

→ Reducing waste by 85%
 The introduction of two compactor skips, one for organic waste and one for non-organic, has reduced the amount of waste we send to landfill by around 85% and cut the number of journeys made by waste collection vehicles by 97%. The organic waste is taken off-site to generate electricity. We are now investigating the practicalities of providing more skips on the Park, including at the school.



↓ The outdoor classroom
 During the year we provided a 'forest school' where local schoolchildren can learn outside in the natural environment. The programme ran in the autumn and spring terms, with activities reflecting the changing seasons and wildlife diversity which thrives in our woodland.



↑ Riding through the glen
 The Park is frequently chosen as a key location for films and we recently welcomed the cast and crew of 'Robin Hood', starring Russell Crowe. The team filmed in our forest and at the Virginia Water lake. The Park was also the setting for scenes in 'Harry Potter and the Half-Blood Prince'.



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GENERATING WEALTH

Financial review

Since the Crown Estate Act in 1961, we have been proud of our record of increasing the income surplus (profit), year-on-year. Even though our property portfolio again delivered an excellent performance during 2009/10, the net income surplus has fallen for the first time, due to the low interest rates which prevailed throughout the year.

The property portfolio achieved good growth in revenue and capital value during the year, despite difficult and uncertain market conditions throughout the economy in general and the property market in particular. Investment activity and asset management initiatives across the whole estate have been a key element in this significant achievement. Notwithstanding the growth in value, however, exceptional conditions in the wider economy have meant that our income surplus has shown a fall against the previous year for the first time. The purpose of this review is to examine some of the elements that contributed to this year's results and highlight areas receiving special consideration going forward.

As a long-term landowner we have always sought to achieve year-on-year sustainable growth, a target which is underpinned by our investment strategy. While our net income surplus for 2009/10 of £210.7 million, compared with the figure for 2008/09 of £226.5 million, might suggest that this is not being achieved, the actual property performance in 2009/10 shows that we remain on track to meet this objective with an increase in both turnover and gross contribution. The single most significant reason for our not maintaining net income surplus growth in 2009/10 was the low interest rate environment that prevailed during the year 2009/10.

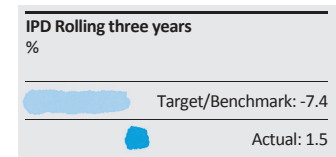
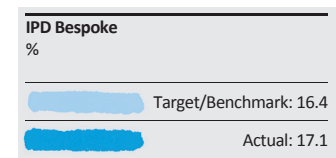
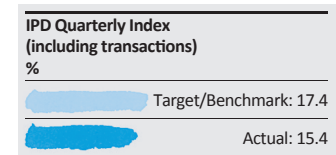
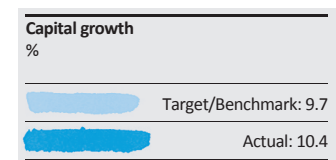
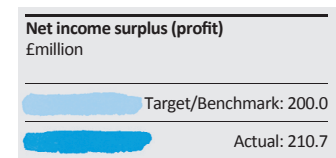
As an organisation which is unable to borrow, we hold capital reserves to fund our investment and development activity. The unprecedented low level of interest rates led to income from interest on our cash reserves fall year-on-year by £16.3 million (72.5%).

Notwithstanding the decrease this year, the past 10 years have seen the net income surplus grow by 42.7%, and we have delivered a total of £1.9 billion over this period to the Treasury. With the recovery in capital values this year and therefore an increase in value of the property portfolio, over the last decade we have achieved capital growth of 65.8% and an average total return of 11% per annum which has outperformed the Investment Property Databank (IPD) index.

Key Performance Indicators (KPIs)

Our corporate ambitions and Key Performance Indicators (KPIs) are expressed in our five-year rolling 'Going for Gold' targets which are highlighted earlier in this Annual Report. The 'Going for Gold' targets are a distillation of the corporate objectives contained in our balanced scorecard which reflects the full range of our diverse business and the drivers for success. The targets form a rolling five-year programme, so that we have a continually updated summary of our ambitions. By monitoring progress towards the balanced scorecard objectives we are effectively monitoring progress towards the longer term 'Going for Gold' targets.

Our performance this year has been as follows:





↑ John Lelliott,
Finance director

We are driven by our commercial imperatives, to achieve a revenue contribution to the Treasury of £250 million and consistently outperform the IPD total return index.

Our progress is measured by three financial KPIs: income performance, which is measured against targets agreed with the Treasury; total return, which we compare with the IPD All Property Index and our peers; and capital growth, which is also measured against the IPD All Property Index and our peers.

Last year we worked with IPD All Property Index to develop a bespoke, weighted benchmark which reflects the unusual diversity of The Crown Estate and incorporates benchmarks for each of our portfolios. The aim is to measure our asset management performance in relation to our existing properties together with the quality of our strategic investment decisions, taking 2008 as a base year. In addition, due to the low level of correlation between our urban, rural and marine portfolios we intend in the future to focus on our rolling three-year performance against the IPD All Property Index.

Our success in exceeding our net income surplus target has been achieved for a number of reasons, principally strategic investment trading activity on the urban commercial estate.

Although these achievements have provided signs for some cautious optimism across the portfolio, we will be monitoring performance very closely during 2010/11.

The Crown Estate Act 1961

The provisions of the Crown Estate Act 1961 have an impact on the way in which we report our financial results. The Act places certain obligations and restrictions on the way we do business. In particular, we are unable to borrow in order to finance investment, and we have special accounting arrangements that are specifically aimed at maintaining a balance between income and capital, similar to a trust. The Crown Estate Act 1961 requires that our income account is kept separate from our capital account with no element held for capital investment other than for very specific minor exceptions. This means that any capital investment can only be generated from capital activity or from permitted appropriations from income.

In order to maintain the distinction between income and capital and at the same time comply with International Financial Reporting Standards (IFRS), our Statement of income and expenditure is presented in a three-column format to show the contribution to the surplus from the income account and capital account separately.

Cash flow

The inability to borrow inevitably creates constraints and challenges to the way in which we operate but, at the same time, presents us with opportunities. Cash management and particularly the availability of capital funds is key to the implementation of our investment strategy, which in turn influences both our capital and income financial performance. Ensuring that we have a strong liquidity position is therefore vital to meeting not only our strategic aims but also to maintaining the integrity of the estate. Over the past five years



Financial review continued



we have held substantial capital funds. Not only has this allowed us to make investments and disposals in line with our strategy, it has also enabled us to fund development opportunities that have arisen across the whole of the estate. This healthy cash position is particularly important in the next few years, given our development at The Quadrant in Regent Street and our commitment to facilitate Round 3 wind farms.

Holding significant cash reserves has undoubtedly proved beneficial in terms of our ability to tap into the investment market. However, as a consequence of holding such large reserves, current low interest rates have had a negative impact on our overall income performance. This has been exacerbated by the constraints placed upon us by the Crown Estate Act 1961, as to how we can invest our cash reserves.

We began 2009/10 with a cash reserve of £390.1 million, specifically to enable us to benefit from investment opportunities in the early part of the year. This was because prime real estate was trading at historically high yields. Taking advantage of our healthy cash reserve we undertook significant investment activity during the year totalling £813.4 million, principally on the urban commercial estate. This included acquisitions of £216.4 million, principally the purchase of a 50% stake in Princesshay Shopping Centre in Exeter for close to £100 million. Disposals totalling £419 million were made, as liquidity returned to the market, including the Coutts Building and our Harley Street holdings in London and Princes Exchange in Edinburgh. Overall, our capital activity led to a net inflow of funds of £22.3 million compared with a net outflow of £186.2 million in 2008/09. This enabled us to consolidate and improve our cash position, with a cash reserve of £462.9 million at the end of year.

Property valuation

The total value of the estate, including indirect holdings, increased by 8.8% to £6,231 million the year ending 2009/10. This growth has been driven by our urban commercial properties

where values have been recovering since June 2009, reflecting the emerging evidence of recovery in the wider economy. The remaining parts of the portfolio, made up of rural, marine and residential, have been less volatile, displaying steady growth over the year.

The urban commercial portfolio has performed broadly in line with the market, rising in value as the fall in property yields has more than outweighed any fall in rental values. Overall, the equivalent yield on these properties moved in from 6.6% to 5.7% and capital values grew by 14.0%, recovering much of the 27.8% fall of the previous year. This compares with the IPD Quarterly Index where equivalent yields moved in from 8.9% to 7.5% and capital values increased by 9.9%. Similar to the wider market, the strongest growth has come from our retail parks, where we have been net investors over the last two years, and from our high exposure to West End offices and retail. Development values are also starting to recover, vindicating our decision to commence speculative development of The Quadrant in 2008. Overall, the value of the commercial portfolio has risen by 13% to just over £4 billion. The value of our residential holdings increased by 3.6% to £321 million but capital growth was stronger at 9% as net sales of £16 million were generated. The rural portfolio had another steady year with values rising by 5.7% to £972 million, continuing its defensive qualities in times of economic uncertainty. The marine portfolio has risen by 8.4% to £444 million, primarily due to the growing wind farm income stream which more than offset the decrease in aggregate values which followed the drop in demand from the construction industry.

Transactional activity increased compared to the previous year, as we sought to take advantage of volatility in the market, with both purchases and sales being accretive to performance. Purchases were characterised by larger lot sizes. Exeter, Harlow and Newcastle are now valued at £242 million which is 17.5% above the net purchase price. Similarly, outright sales within the urban portfolio totalled £313 million, which was 16% above last year's valuation.

Transparency of disclosure and the pursuit of best practice are a priority for us. We continually seek to improve both the benchmarking of our performance and the independence of our portfolio valuations. This year we have separated the valuation of the Windsor estate from the management function within Smiths Gore. For the second year Vail Williams undertook a check valuation of the marine estate. They looked at a 14% sample of valuations of our coastal interests, totalling £23 million, and validated them to within 3.7%.

Net assets

The capital value of The Crown Estate at 31 March 2010 was £6.6 billion, an increase of 10.4% over its value of £6 billion at 31 March 2009. The increase in value is attributable to higher property valuations and profits on asset disposals of £55.8 million. Profit on sales of property show an increase compared with the previous year's figure of £17 million, reflecting a greater degree of activity, which was well-timed in the market.

Indirect investments

Our interest in indirect investments remains at four: The Gibraltar Limited Partnership; investments in two co-ownership agreements with interests in Crown Point Shopping Park, Leeds and Princes Street, London; and a 4.9% investment in the Lend Lease Retail Partnership. The value of these investments has risen from £213.2 million to £242.7 million since 31 March 2009.

Risk factors and risk management

Risk management

The Crown Estate's approach to risk management policy builds on central Government requirements and best practice, including HM Treasury's Management of Risk – Principles and Concepts (Orange Book), and forms a central element of our corporate governance arrangements. Furthermore, risk management is embedded in our management processes, with all managers responsible for ensuring that risks are managed in all functions, projects and contracts under their management, with allocated risk owners.

Risks that threaten the achievement of The Crown Estate's corporate and departmental objectives are identified and assessed by management: on an ongoing basis (as part of daily business activities); quarterly (by way of formal risk registers and senior management normalisation reviews); and annually (as part of the business planning process). Key risks reported by management are considered and discussed by the cross-departmental risk committee and management board and reported to the audit committee. The management board also performs an annual risk assessment to identify and assess strategic risks facing the organisation. This is illustrated by Figure 1 overleaf.

Principal risks and uncertainties

The principal corporate risks faced by The Crown Estate are shown at Figure 2 overleaf they are largely property related and typical of a real estate organisation. These are not the only risks associated with The Crown Estate. The risks fall into five main categories:

- property investment performance
- development and projects
- the operational framework
- stakeholder perception and
- sustainability

The impact of these risks are on the organisation's structure, revenues, operating surplus, net assets, liquidity and resources.

Charitable donations

We provided donations totalling £100 in the year ended 31 March 2010 (£10,425 in the year ended 31 March 2009), as permitted by the Crown Estate Act 1961, section 4(2).



Financial review continued

Figure 1: Risk management reporting and responsibilities framework

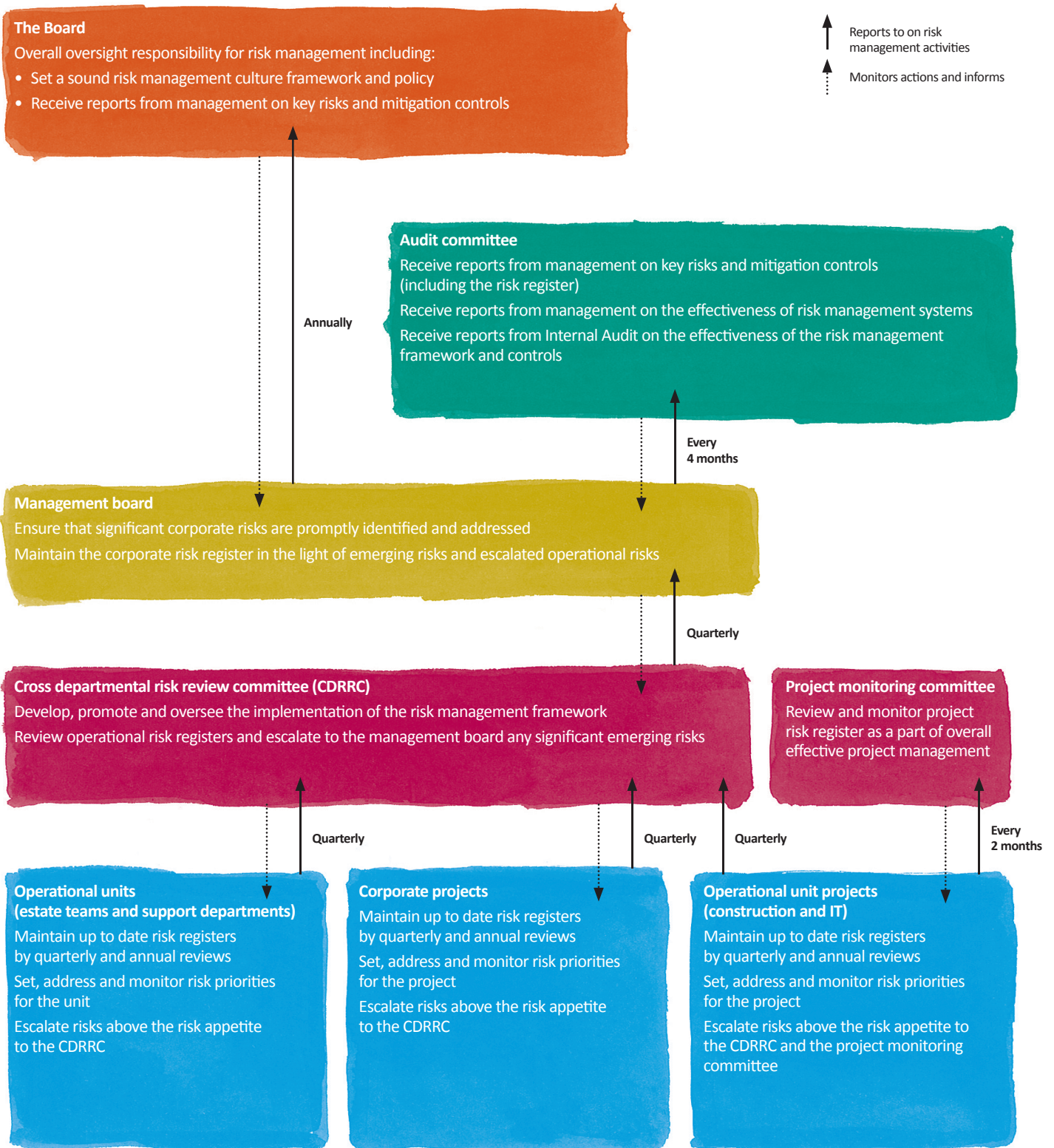


Figure 2: Principal corporate risks

Risk	Impact	Principal mitigations	Residual risk rating
<p>Property Investment Performance</p> <p>External: Macroeconomic and a weak property market may result in risks of reduced property valuations for the urban, rural and marine estates.</p> <p>Internal: Inability to detect changing demand and selection of unsuitable or poor performing assets to be acquired/disposed of within The Crown Estate portfolio result in poor rental returns and sub-standard asset growth.</p> <p>Tenant: Poor tenant selection results in weaker tenant default occurring, resulting in incurring additional costs with a reduction in rental revenues.</p> <p>Funding restrictions: Limited availability/timing of access to funding, under the Crown Estate Act, restricts investment activity and ability to optimise investment portfolios.</p>	<p>Decline in both rental revenues and property values.</p> <p>Tenant default, and rising level of both arrears and voids.</p> <p>Sub-optimal assets/properties are acquired, where returns (revenue and property value) are minimised.</p>	<p>Investment strategy and linked business planning monitoring processes.</p> <p>Rigid investment (acquisitions and disposals) appraisal process.</p> <p>Economic and market monitoring.</p> <p>Portfolio diversification and performance monitoring.</p> <p>Joint Venture (JV) schemes and JV contractual management arrangements.</p> <p>Continuous tenant and arrears monitoring.</p> <p>Void management reporting and monitoring at detailed demise levels.</p> <p>Formal review of investment strategy and linked business planning monitoring processes in place.</p>	<p>Medium risk</p> 
<p>Developments and projects</p> <p>Development return: Failure of developments and construction projects to deliver expected benefits due to cost overruns, construction cost inflation and poor project/construction cost expectations.</p> <p>Supplier/contractor: Supplier/third-party capability issues result in delayed projects and increased costs.</p> <p>Development site selection: The selection of poor property assets to develop results in sub-standard return on capital.</p>	<p>Cost overruns and programme delays or failure impacting reputation and financial loss.</p> <p>Adverse reputational risk and increased costs.</p> <p>Sub-standard quality of property developed</p>	<p>Development cost exposure reporting and tracking.</p> <p>Project management processes and use of specialists.</p> <p>Development void letting management monitoring.</p> <p>Close management of lettings on development projects.</p> <p>Monitoring of supplier/third-party cost and performance.</p> <p>Robust development business case and evaluation process.</p>	<p>Low risk</p> 
<p>Operational framework</p> <p>Business model and controls: Failure to remain competitive in the way we operate, (i.e. how we manage our own business and costs, suppliers and key partners) result in increased internal costs, poor asset performance, dissatisfied tenants/managing agents.</p> <p>Key talent and succession: Inability to attract, motivate and retain key human resource talent, results in an overall under-performance in all areas of the business.</p>	<p>Financial loss.</p> <p>Increased internal costs incurred.</p> <p>Tenant dissatisfaction, resulting in higher number of lettings failures.</p> <p>Loss of key talent impacts adversely on future success.</p>	<p>Ongoing review of our business model and cost base.</p> <p>Monitoring of supplier performance and tenant satisfaction levels.</p> <p>Review of remuneration structure and reward strategy.</p>	<p>Low risk</p> 
<p>Stakeholder perception</p> <p>Non-assessment, evaluation and poor expectations management of key stakeholders and/or non-compliance with regulation.</p>	<p>Adverse impact on reputation or potential criminal/civil proceedings resulting in financial loss.</p> <p>Adverse publicity from tenants and other key stakeholders results in reputational damage.</p>	<p>Stakeholder relationship management strategy.</p> <p>Contingency Committee Planning Group.</p> <p>Community engagement and investment programmes.</p> <p>Customer focus programmes.</p> <p>Health & Safety policy for the corporate office and property portfolio.</p> <p>Legal and regulatory compliance model.</p>	<p>Low risk</p> 
<p>Sustainability</p> <p>Sustainability Compliance Failure: Inability to manage the increased compliance requirements for climate change and environmental regulation for the marine portfolio, and/or failure to keep abreast of best sustainability practice may result in compliance failures in these highly regulated domains.</p>	<p>Compliance failure, resulting in negative publicity and a financial penalty to be incurred.</p>	<p>Approved internal sustainability strategy in place, incorporated across The Crown Estate businesses.</p> <p>Sustainability continually considered in investment and development strategy.</p> <p>Monitoring of new legislation.</p>	<p>Low risk</p> 

Financial review continued

Supplier payment performance

The Crown Estate payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of a service where a fee is recoverable from a third party, or according to contract where a shorter payment period is agreed. During the year ended 31 March 2010, we paid 66% of invoices from suppliers within this period. The figures include invoices under dispute and amounts recoverable from third parties. On average, invoices from suppliers are paid within 39 days of receipt. We observe the principles of the 'Better Payment Practice Code'.

Our employees

In times of political and financial turbulence, there is one key asset that sets us apart, and that is our people. Our staff are highly skilled, professional and experienced. They embrace our core values of commercialism, integrity and stewardship in everything they do. And when put to the test, as they undoubtedly have been during this past year, they have more than risen to the challenge.

Employee engagement is a growing strategy for driving performance and building competitive advantage for companies with a commitment to sustainability. We aim to be 'great people to do business with' in every sense: from a clear understanding of what it means to be customer focused to a shared sense of responsibility for the environment in which we operate.

To support our engagement efforts, we believe that open, timely and two-way communication is key. All our staff can learn about, and contribute to, our strategy through formal and informal channels. These include regular 'Team Talk' meetings to encourage discussion, debate and action on key issues across the business, 'Open Forum' meetings where the chief executive and his senior team can share information about our direction and achievements, an electronic newsletter to share the 'stories behind the stories' and a relaunched intranet. Employees also receive copies of the Corporate Plan, Annual Report and Sustainability Report and have access to a number of feedback routes through which they can raise questions or concerns.

This year for the first time, we took part in the Best Companies survey to support our goal of being in The Sunday Times Top 100 companies to work for and to underline the importance

we place on creating a rewarding and fulfilling workplace. We achieved a 'One to Watch' status, reflecting the commitment and pride that our employees have working for us. We continue to enjoy accreditation as an 'Investor in People'.

Pay and Pensions

The final phases of our revised reward strategy for all estate-based employees were completed this year. During 2010/11 we will roll-out the final elements of this strategy to all our employees based at The Savill Building visitor centre. These flexible and competitive reward policies and practices allow us to attract, retain and motivate employees and help to develop a high performance culture that supports the achievement of our business goals. This is particularly important to us for two major reasons: firstly, our reward policies need to be flexible and competitive so that we retain the best employees through both good and bad times; secondly, given our considerable investment in the renewable energy sector, we need to offer remuneration packages that are competitive in this global market. Only by attracting the best qualified and experienced individuals will we be able to successfully facilitate the development of the renewable energy sector.

A key element of our reward strategy was the introduction of new pension, sickness and redundancy arrangements to bring them more into line with the private sector. While this has enabled us to be more flexible in our remuneration arrangements, it has also meant that we have reduced and restricted not only the contribution which we annually make to employees' pensions, but also future liabilities associated with these benefits.

As outlined in the Notes to the Financial Statements, we operate two pension schemes: the Civil Service Pension Scheme; and The Crown Estate Pension Scheme. Each scheme comprises a number of sub-sections, which offer different pension benefits. Both these schemes operate sections that are now closed to new members, which provide retirement and related benefits to all eligible employees based on individual final emoluments. Entry to The Crown Estate Pension Scheme sections which offer pension and related benefits on individual final emoluments was closed to new employees at the end of



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2007. In March 2009 we closed entry to the existing defined benefit sections provided by the Civil Service Pension Scheme.

New pension sections were introduced to The Crown Estate Pension Scheme in March 2009. The new section includes a hybrid scheme which provides the option of retirement benefits to all eligible employees based on final emoluments capped at £25,000 of earnings, but also includes the option of additional retirement benefits provided through a defined contribution arrangement or an arrangement that is based solely on defined contribution benefits.

As at 31 March 2010, a total of 38 employees were members of The Crown Estate hybrid pension scheme and a further 34 elected to receive a cash pension allowance, representing 17% of the total workforce at the year end.

Wellbeing

We value the contribution that employees make to our success and work with all our staff to encourage a healthy lifestyle. This has benefits all round – for the health and wellbeing of our employees and for minimal absences and improved contributions to The Crown Estate.

We offer beneficial rates for health insurance, dental and optical care and provide flu vaccinations and free confidential advice and counselling services. We continue to monitor sickness absence closely and support and educate our employees with the aim of reducing days lost through sickness.

We are an equal opportunity employer and are committed to ensuring that no employee or applicant is treated less favourably on the grounds of race, religion, ethnic origin, disability or sexual orientation. We are fortunate to have a diverse and talented workforce who enjoy the challenging and unique environment offered by The Crown Estate. As a consequence, our staff turnover remained stable at 9.5% in 2009/10 compared with 9.2% in 2008/09.

Awards for accounts

Our 2009 Annual Report and Accounts received two awards this year in the Building Public Trust Awards sponsored by PricewaterhouseCoopers. The awards recognise excellence in corporate reporting.

Firstly, we won the public sector category: Recognition in the Public Sector for Excellence in Reporting. The judges' report said that it was a piece of, "highly effective communication supported by clear signposting using headings, colour schemes and graphics. The tone is

open and candid, commenting not just on achievements but also challenges and issues. Key messages are emphasised through a highlights section and lively case studies."

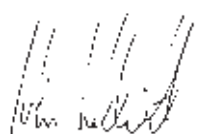
Secondly our 2009 Sustainability Report won the public sector category: Recognition for 'Excellence in Reporting' in the Public Sector.

The judges praised the report, commenting: "Very clear use and monitoring of key performance indicators, with reporting of The Crown Estate's sustainability strategy and impacts linked clearly to its divisions and operational functions. Solid environmental reporting presented in an accessible and visually striking way."

Looking ahead

During the year we have taken advantage of market conditions to reposition the portfolio in line with our investment strategy. Significant investments have been made in a high quality shopping centre, a retail park and a high yielding office investment, each of which has secure income streams and asset management opportunities. We have also made a number of disposals of properties that are not core to our strategy. We expect this trend to continue through 2010/11, targeting the purchase of dominant shopping centres, open A1 retail parks and investment into our core estates.

Following the rebound during 2009/10 we now expect values to stabilise. There are however downside risks relating to sovereign debt and bond yields, which could present improved buying opportunities during 2010/11. Closer to home we expect a fairly sluggish recovery from the recession as the Government seeks to address the public sector deficit through both tax increases and cuts to public services. Strongest performance is expected to come from prime office space in central London where rental growth is now emerging due to a shortage of new stock. This in turn increases confidence in our development pipeline. Otherwise, rental values are expected to remain fairly stable. Next year will also see increased investment into the marine portfolio which will be centred around renewable and low carbon energy projects. This could take the form of either direct investment in offshore energy, the wave and tidal programme or through investment in supplying infrastructure.



John Lelliott
Finance director

Total average number of employees during the year	
General administration	190
Operating activities	207
Total	397

Total days lost	
General administration	1,225.0
Operating activities	2,007.5
Total	3,232.5

Average percentage working days lost	
General administration	2.4
Operating activities	3.7
Total	3.1

Percentage lost to long term	
General administration	58.3
Operating activities	69.4
Total	65.2

SHAPING OUR FUTURE

Sustainability

Achievements

90%
of targets achieved

8%
reduction in emissions from urban buildings under our control against a target of 3%

2GW
extension announced for Rounds 1 and 2 offshore development, in addition to the massive Round 3 and the first offshore wave and tidal leasing round

108
properties covered by our environmental management system, which achieved ISO 14001 certification. Our occupational health and safety management system was also certified to OSHAS 18001, a full year ahead of schedule

85%
of waste at Windsor estate diverted from landfill, far exceeding our target of 40%

New
community investment strategy developed

16%
of employees participating in volunteering, exceeding our target

Challenges

- Increasing our influence – securing desired performance in those parts of the business where we do not have control, but can only use our influence, such as properties held on very long leases
- Improving our carbon footprint and reduction opportunities, particularly with older buildings
- Reducing water consumption
- Developing ways to measure the benefits of our community investment strategy
- Continuing to build open and transparent relationships by enhancing the way we engage and work with stakeholders

Introduction

As director of The Crown Estate with responsibility for sustainability, I am delighted to introduce this account of our progress.

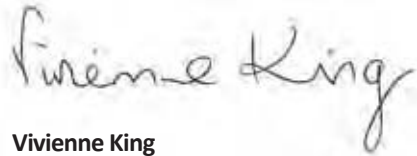
This has been a significant year at The Crown Estate, with the introduction of our new strategy for delivering on sustainability and the appointment of David McKnight, our first dedicated head of sustainability.

Our strategy is being delivered through four groups of employees, from all parts of our business, who have volunteered to champion our drive for the status of innovator. The champions are tackling issues outside their normal course of business and making decisions which will apply across the business as a whole. With the decisions coming from Crown Estate employees, we are truly embedding sustainability into our business.

As well as the excitement of developing new initiatives, this year has also seen us applying a fresh rigour to the collection and consolidation of data from our enormously diverse portfolio in order to ensure transparency in reporting our carbon, waste and water footprints, community investment and employee activities.

We have engaged independent third-party assurance for a selection of our 2009/10 carbon data and have used the Global Reporting Initiative (GRI) guidance in our reporting approach, in line with emerging best practice. The following pages summarise our progress. Further detail is available on our website.

By definition, sustainability involves perpetual evolution. Its application presents exciting challenges for any organisation and can bring significant rewards. In pursuing our goal of innovator status in delivering sustainability through our business, we are striving not only to address the challenges we face now with agility, but seeking to ensure we can continue to do so in the future.



Vivienne King
Director
(with responsibility for sustainability)



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Our strategy

Sustainability is not new to The Crown Estate – it is integral to our long-established values of commercialism, integrity and stewardship. But in recognition of its importance to our business, we implemented a new sustainability strategy in 2009.

The standard we have set ourselves is to be an innovator. We recognise that we cannot be an innovator in everything we do, but we must be in the key sustainability issues for our business.

We have a well-established governance structure for sustainability that clearly defines roles and responsibilities and helps us implement our strategy. The board sustainability committee, chaired by our chief executive, has overall responsibility for our strategy and performance. The four sustainability pillars have dedicated employee ‘champions groups’, each led by a management board director. Their remit is to embed sustainability and develop the way forward. Each group’s progress is reported quarterly to the sustainability committee.

Engagement and materiality

We engage with stakeholders across our business on a regular basis, to understand the issues that are important to them and help us manage those issues effectively. We aim to be responsive and to share knowledge inside and outside the organisation.

We undertake a formal process to determine the most material issues for our business – taking account of business goals and the perspectives of our stakeholders. This is used to guide where we need to be an innovator. The material issues, together with the stakeholder engagement activities we conduct throughout the year, are then reflected in our reporting. Key topics are discussed in this report, with additional detail provided on our website.

How we operate

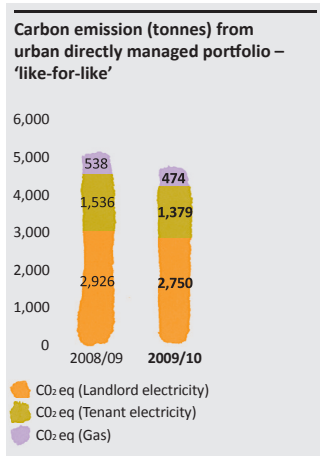
Where we directly manage property, through managing agents, we take clear and decisive action to implement our sustainability strategy. Our approach is to communicate our sustainability aspirations clearly, identify common goals and collaborate effectively with our customers. We offer our expertise and seek to embrace innovation and best practice.

The challenge remains to influence activities in those parts of the portfolio where we have limited control – for example over those properties held on long leases.



Sustainability continued

Tackling climate change and energy security



Climate change presents physical, financial and regulatory risks and opportunities to our business, and to society as a whole, now and over the long term.

The built environment contributes about 45% of the UK's carbon dioxide emissions through heating, cooling and power. The property sector therefore has an important role to play in reducing the UK's carbon footprint and regulations are being implemented to underpin this role.

The risks from a changing climate vary across the country but include incremental changes such as increased average temperatures and rainfall along with more severe and frequent extreme weather events. All of these could affect our diverse estate.

Energy security remains a concern for the UK, despite natural gas prices that are currently relatively low. We believe that renewable energy has an important role in improving the country's energy security and carbon footprint.

Our approach

We are working hard to tackle the risks posed by climate change and enable the huge potential of renewable energy to be realised. Our approach can be summarised as:

Mitigation	Reducing our carbon footprint
Adaptation	Understanding and adapting to changes in climate
Energy security	Enabling the development of renewable energy

Reducing our carbon footprint

We are taking action to reduce our carbon footprint. Our new target is to reduce the carbon emissions from activities we control by 34% by 2020, from a 2007/08 baseline. In 2009/10 we achieved a reduction of 8%, exceeding our target of 3% from 2008/09. Because our portfolio changes over time as properties are bought and sold, to date we have measured progress towards targets on a 'like-for-like' basis using directly comparable properties. We are developing an improved way to measure progress against targets, for example using emissions per square metre.

Key tools in reducing our footprint are our environmental performance index (EPI) quarterly monitoring process and the urban sustainability guidelines for developments. These tools are discussed further in the 'Driving environmental value' section.

A large proportion of the UK's current building stock is expected to remain in use in 2050, when the UK has committed to reduce carbon emissions by 80%. Many properties in our portfolio are older historic buildings. Improving the footprint of existing buildings and our understanding of embodied carbon are therefore key parts of the strategic carbon management plan we are developing.

Adapting to a changing climate

A changing climate brings opportunities and risks, so we are working to understand the potential consequences and ways to adapt our business. The location and physical characteristics of our property assets will affect how well-suited they are to a changing climate and the changing requirements of our customers.

We have already undertaken risk assessments on key parts of our marine and rural estates. In addition, we are formalising the way we consider the issue of adaptation in our approach to strategic investment planning and decision-making.

Energy security

We believe that renewable energy will play a key part in meeting the UK's energy demand and help to tackle climate change by reducing reliance on fossil fuels. As the custodian of an important natural resource, we have a central role to play in enabling developers to realise the potential of offshore wind, wave and tidal energy.

Through our onshore renewable energy strategy, we are also working to increase the installation of renewables on other parts of our estate – from anaerobic digestion plants to solar photovoltaics. On our urban estate we are an early adopter of technology such as the fuel cell installed as part of The Quadrant development on Regent Street.

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Carbon footprint performance

	2007/08	2008/09	2009/10
Urban buildings under our control (CO ₂ eq tonnes)	7,806 ¹	8,753	16,374 ²
Number of urban buildings reported	32	39	78
Rest of portfolio under our control (CO ₂ eq tonnes)	N/R	545	1,246
Fleet and car hire (petrol and diesel) (CO ₂ eq tonnes)	285	236	278
Business travel (CO ₂ eq tonnes)	24 ³	52 ⁴	107 ⁵
Total	8,115	9,586	18,005
Energy saved due to improvements (GJ)	N/R	3,994	2,509

Data notes:

N/R = not recorded

1 2007/08 and 2008/09 data has been restated due to reported errors in historical data.

2 We have 108 directly managed properties within the urban portfolio for which we procure energy. 72% of these properties (78 out of 108) have been included in the analysis. The other 30 buildings have been excluded even though in many cases we have a large proportion of the data for each building. These buildings could not be included in the absolute total for a number of reasons including faulty meters, the identification of additional meters within historic buildings, data errors, and restricted access to meters due to refurbishments

The absolute carbon emissions associated with energy use in the 78 buildings totalled 16,374 tonnes. It is this data only upon which PricewaterhouseCoopers LLP has provided limited assurance.

3 Marine only, excluding taxis.

4 Marine only, including taxis.

5 Entire business, excluding rail travel.



→ **Enabling offshore renewables**
 We announced the successful bidders for Round 3 of our offshore wind programme, and those for the world's first commercial wave and tidal programme. To put the scale of the opportunities into context, Round 3 could provide 25% of the UK's electricity by 2020. Progress on the installation of offshore generation capacity is shown on our website.

As part of our enabling role, we undertook one of the largest aerial bird surveys in the world, held a series of 12 regional supply chain events, developed a protocol for incidental archaeological discoveries, and appointed a fisheries liaison officer to improve the alignment of our work with the fishing industry.



← **Carbon Reduction Commitment Energy Efficiency Scheme**
 We are taking early action under the scheme, including a significant increase in the number of automatic meters installed voluntarily, which will help determine our position in the public CRC league table during the introductory phase. However, our overriding aim is for successful long-term carbon management informed by the accurate energy data which automatic meters provide.

Next steps

- Develop a strategic carbon management plan
- Complete studies on the carbon emissions associated with aggregate ships operating on the marine estate
- Continue the assessment of risks associated with a changing climate
- Develop a UK-wide wave and tidal power strategy and a renewable energy strategy for the urban estate
- Continue our programme of offshore wind supply chain events

Sustainability continued

Driving environmental value

Our unique portfolio of holdings in the rural, urban and marine environments brings highly-specific environmental responsibilities and challenges. We believe that the efficient and responsible use of resources drives value for our own business and our customers – not only by managing costs effectively but by creating opportunities.

Our approach

We meet our responsibilities and drive value by:

Promoting better estates	Applying a systematic approach for continuous improvement
Cutting water use	Using resources efficiently and responsibly to drive value
Reducing waste and pollution	
Managing biodiversity	Acting in accordance with our biodiversity action plans

Our approach is founded on applying environmental management systems to the activities we control. Through our environmental performance index (EPI), we monitor performance quarterly on waste, water and biodiversity. Beyond the areas we control directly, we work with business partners, customers and wider stakeholders to better understand environmental issues and ways we can work together to manage them.

Better estates

In 2009/10, both our urban property management and head office functions gained certification to the ISO 14001 environmental management systems standard. This includes how we work with managing agents to manage the 108 properties under our direct control.

For new developments and major refurbishments, we draw on our urban sustainability guidelines for developments. These require design teams to create Sustainability Implementation Plans (SIPs) to guide and record decisions on energy use, materials and waste, water, biodiversity, people and occupancy. Targets are set and tracked for each development. SIPs are being developed for all our current developments.

Water

Water is a finite resource and its management is an important issue globally. The majority of water consumption in properties under our control occurs on our urban and Windsor estates. We have been working for a number of years to use water more efficiently, including the installation of rainwater harvesting. As water use increased in 2009/10, we are analysing consumption and developing water management plans.

Waste

Our aspiration is to send no non-hazardous waste to landfill. Waste targets for developments and major refurbishments are set in our urban sustainability guidelines for developments. This year we are including construction and demolition waste data in our report for the first time.

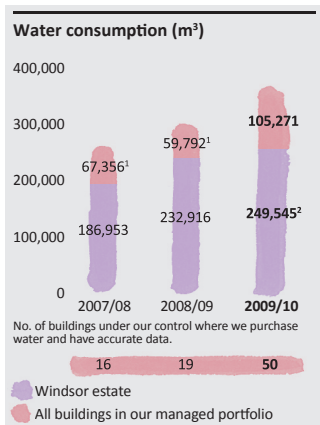
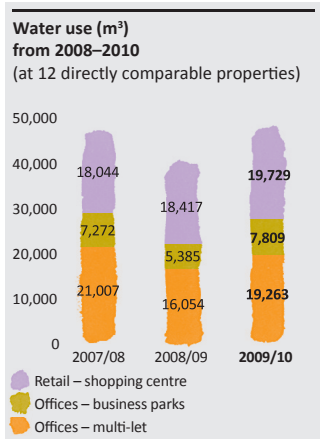
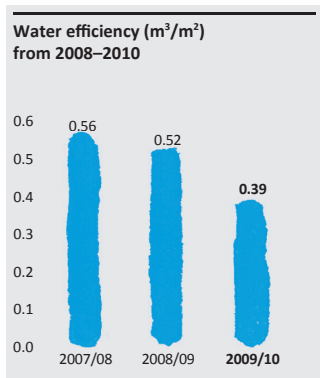
In 2009/10 we expanded our waste collection and recycling service to a further 21 buildings in our urban portfolio, bringing the total number of buildings where we have provided waste services to 36. Our aim is to increase this, as we believe that through economies of scale we can reduce waste and increase recycling more effectively than tenants operating individually. This year, 80% of waste under our control was diverted from landfill. At Windsor, the implementation of a new waste management strategy resulted in around 85% of waste being diverted from landfill.

Biodiversity

Last year we developed Biodiversity Action Plans for each of our estates, which we have been working to implement. We have continued to maintain at least 95% of Sites of Special Scientific Interest (SSSIs) in recovering or favourable condition.

In partnership with Natural England, we are funding a study on the impact of recreational boat anchoring on seagrass and associated marine life in Studland Bay, Dorset. The seagrass meadows are the habitat of the spiny and short-snouted seahorses, now a protected species under the Wildlife and Countryside Act 1981.

Other biodiversity initiatives range from a 'green roof' on our proposed 'W4/W5' redevelopment on Regent Street, to ensuring 100% of the woodland on our estate is Forest Stewardship Council certified.



1 Data has been restated for previous years due to data corrections and availability of additional data.

2 In addition to Windsor 2009/10 data includes data from HBG and the Gleilvet estate.

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Operational and construction waste

	2007/08	2008/09	2009/10
Operational waste generated from buildings under our control (tonnes)	N/R	2,779	5,385 ¹
Total number of buildings		15	36 ¹
Operational waste diverted from landfill (tonnes)	N/R	1,778	4,290
Percentage diverted from landfill		64%	79.7%
Construction waste generated (tonnes)	N/R	N/R	76,854
Construction waste diverted from landfill (tonnes)	N/R	N/R	29,419
Percentage of construction waste diverted from landfill	N/R	N/R	38.3%
Avoided landfill costs (£) (excluding construction waste)	N/R	40,611	197,079

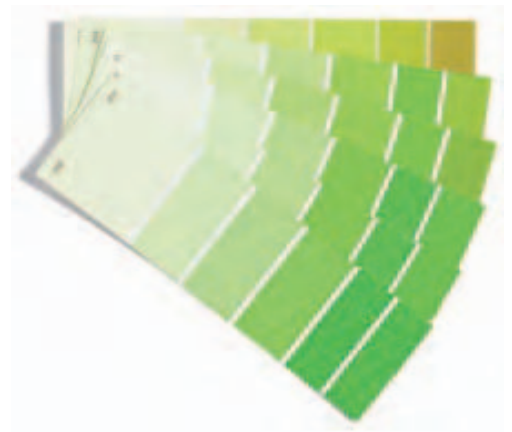
Waste data notes:

1 This is for all buildings where we provide waste services and Windsor.



Assessment tools

We are working to ensure we use our influence as effectively as possible in addressing sustainability issues. For example, we are developing assessment tools to help guide decision-making regarding business and sustainability issues.



'Your number's up'

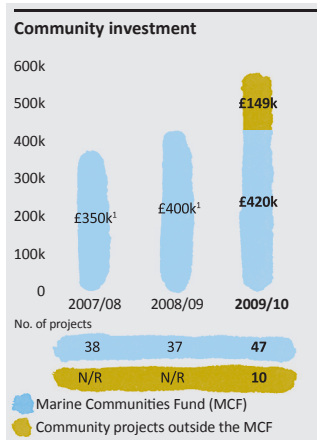
Now operational for two years, the 'microvac' food composting scheme at our Swallow Street, London recycling centre currently serves four offices and 10 restaurants, including our cafe. We have expanded our tenant engagement programme through a competition which enables recycling rates to be monitored, with feedback provided to individual tenants. In 2009/10 the scheme diverted 90% of the restaurant food waste from landfill, up from 73% last year.

Next steps

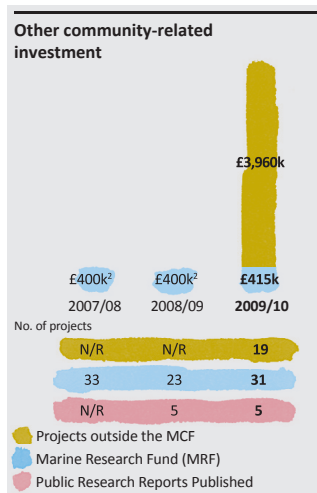
- Achieve certification to ISO 14001 for our functions at our Bell's Brae office and depots at Fochabers and Tabley
- Review our urban sustainability guide for developments to ensure the types of commercial property we now own are adequately covered
- Develop a sustainability standard for development and refurbishment of direct let residential property
- Maintain our focus on reducing our water and waste footprints
- Complete the development of the sustainability assessment tools to guide decision-making

Sustainability continued

Sustaining communities



¹ Data previously reported as part of Marine Stewardship Fund.



² Data previously reported as part of Marine Stewardship Fund.

Our activities have a direct influence on the prosperity and livelihoods of many communities, supporting employment and helping develop future economic activity, such as residential and commercial property and the UK renewable energy industry. In addition to the benefits delivered to communities from our core activities, we support specific funds, local groups and projects designed to enhance the wellbeing of communities.

We believe that working for mutual benefit in this way is essential for the long-term success of our business, not only by supporting communities in need but also by helping us retain tenants and increase the value of our portfolio.

Our approach

Our approach is to work constructively in partnership with communities in and around our core holdings by:

Enhancing community wellbeing	Promoting positive community relations and community investment
Investing in great new buildings and public spaces	Delivering high-quality developments that enhance communities
Empowering our tenants	Improving their communities and businesses
Promoting London as a great global city	Supporting festivals and events

Community investment

This year our ‘sustaining communities’ champions group developed a new community investment strategy. It is now being implemented across our business. The strategy enhances how we invest in communities. At its core are three focus areas, identified as relevant to our business strategy and where we believe we can make a difference to local communities. Our ‘Triple E’ focus areas are:

- estate access and experience – to enhance visiting, living and working on our estate
- education – supporting appropriate educational initiatives
- enterprise development – helping create lasting jobs

The community investment strategy prioritises our investment activity on the communities on, or near, the core holdings that make up a significant part of our estate over the long term.

We work with communities in various and innovative ways: we support social enterprise, reach long-term strategic agreements and provide a Marine Communities Fund. In addition to grants, we provide in-kind donations (for example use of our facilities) and our employees give their time. We aim to work in partnership to benefit from the skills and funds of other organisations in delivering community projects.

Community investment activities in 2009/10 included:

- supporting the CoastHebrides Coastal Care project which involves a number of coastal community groups, primarily committees which oversee grazing practices on crofts. The project aims to implement schemes to counteract the effects of wind blown sand dune erosion, including the erection of sand blow fencing and planting of marram grass. The methods used have proved effective and serve as models for other areas.
- with support from Exmoor National Park Authority, developing a 400m all-terrain ‘tall trees’ trail at Dunster. The trail takes visitors past the tallest tree and tallest magnolia in England. Surrounding trees, originally planted in what was an 1870s arboretum, include giant Douglas Fir and other interesting species.
- holding a poetry competition for children of Soho Parish School in London. The school also placed a ‘time capsule’ into the basement area of our Quadrant 3 redevelopment on Regent Street, which will be unearthed in 50 years.

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TITLE DEED PICCADILLY	
RENT—Site only	£22
” With 1 House	120
” ” 2 Houses	360
” ” 3 Houses	850
” ” 4 Houses	1025
” ” HOTEL	1200
If a player owns ALL the Sites of any Colour Group, the rent is Doubled on Unimproved Sites in that group	
COST of Houses, £150 each	
” ” Hotels, £150 plus 4 houses	
MORTGAGE Value of Site, £140	

← **New buildings and public space**
 We are participating in the design and funding agreement of the two-way scheme which will result in the reconstruction of Piccadilly Circus in 2011. Just north of Piccadilly Circus, we also pedestrianised Heddon Street and Regent Place.

↓ **Empowering our tenants**
 We are working with offshore wind farm developers to help ensure that people in local communities benefit from the offshore wind programme. Its aims include the development of skills to help create a competitive local workforce that can support the developers and provide local economic benefits.



↑ **Promoting London as a global city**
 In 2009/10 we supported more than 10 events in Regent Street and St James's. The events are popular with visitors and our customers, and provide an opportunity to promote Regent Street and St James's as shopping and business destinations.

- Next steps**
- Develop and roll-out an internal guide for the application of our new community investment strategy
 - Review the methods we use to understand community needs, to enhance the way we identify projects that are relevant to our business
 - Implement the St James's public realm strategy
 - Launch the Regent Street business community website, which will inform our office occupiers and encourage activity between them to support traffic consolidation initiatives
 - Develop the next phase in our programme to empower tenants

Sustainability continued

Working together

The diversity of our activities means that we need to work together with a tremendous range of internal, local, regional and national stakeholders, balancing different and occasionally conflicting interests. We recognise that we have a responsibility to act as an organisation that can be trusted today and over the long term.

Our approach

Our 'working together' champions group strives to ensure that we build open, transparent and mutually beneficial relationships with employees, customers, suppliers, and wider stakeholders. The key advantage to a single team being able to look across all our practices, with all stakeholder groups, is that it helps ensure a distinctive and coherent approach to engagement.

We work together with:

Employees	Creating a fulfilling work environment
Customers	Providing quality service, choice and flexibility
Suppliers	Building relationships which create value for us and for the wider market
Wider stakeholders	Ensuring we are good people to do business with

Employees

We value the people who work for us. We want to create a working environment in which they feel pride and fulfilment in their work. We are accredited against the Investors in People standard and are developing a code of business ethics in order to articulate how our values, responsibilities and obligations are to be delivered by employees and representatives. Our occupational health and safety management system successfully achieved certification against the OHSAS 18001 standard in 2009/10.

Customers

We work hard to ensure excellent customer service is integral to the way we do business. Following the completion of customer focus pilots, our customer champions group has put together simple standards that articulate what excellent customer service looks like.

The standards can be summed up in three words: helpful, efficient and fair. We are launching these standards through training workshops involving every employee.

Suppliers

We work with our suppliers and agents to integrate sustainability considerations into procurement decisions.

Much of our purchasing falls within the urban estate and is carried out by managing agents. The urban sustainability guide is central to our approach. We hold regular forums with our agents to share information and inform them of our sustainability aspirations in the supply chain. We assess their procurement performance within the EPI and regularly review our sustainable procurement requirements.

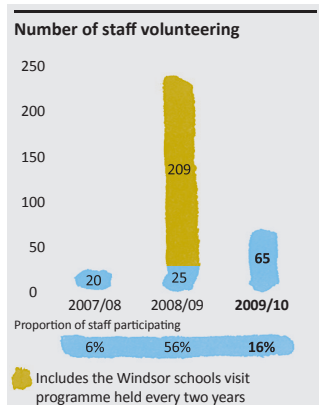
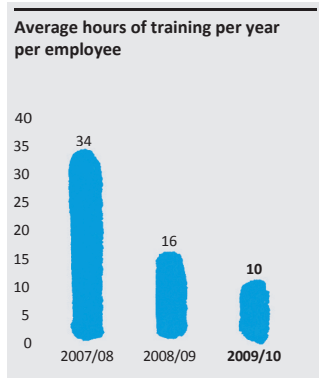
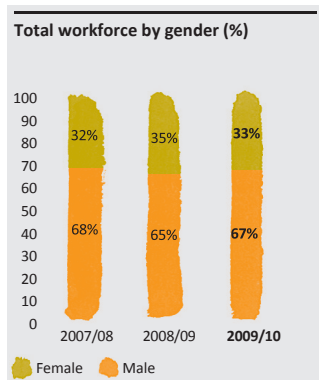
Wider stakeholders

Stakeholder engagement has been conducted across all our businesses in 2009/10.

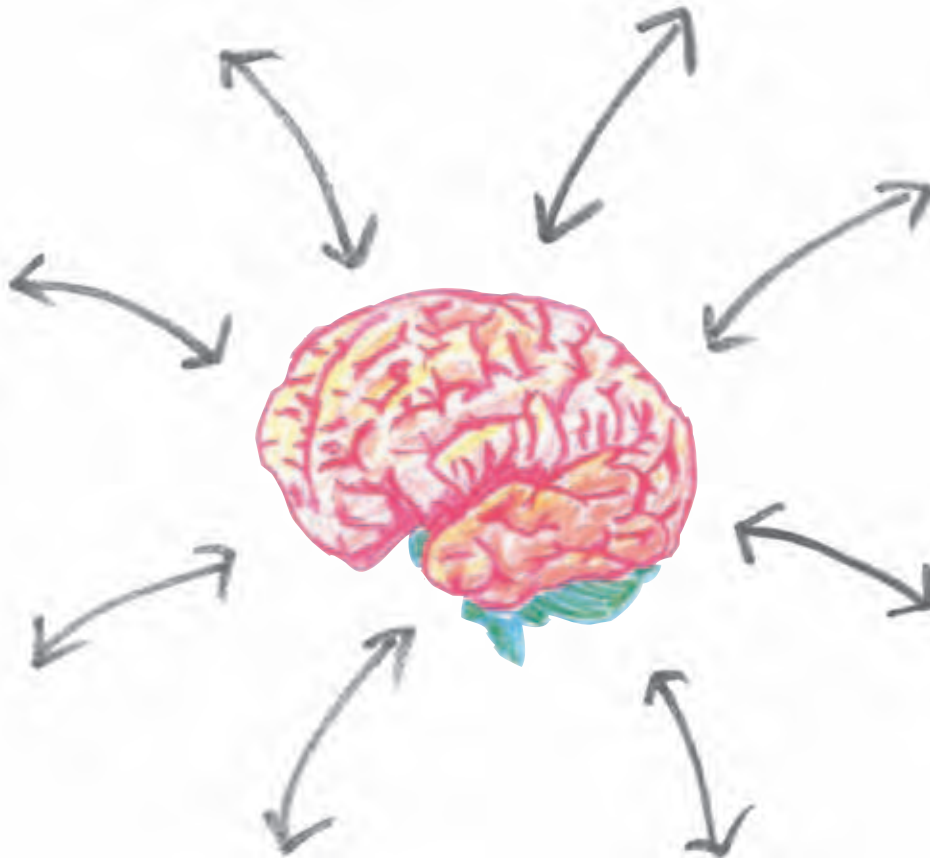
Examples include:

- working to agree a memorandum of understanding with seven local authorities in the Highlands and Islands area, and with Highlands and Islands Enterprise, to develop a closer partnership in devising and delivering our coastal assets strategy in the area
- discussions with representatives from local authorities, community councils and the Cairngorms National Park Authority on a community engagement strategy at Glenlivet
- discussing opportunities to develop tourism marketing initiatives as part of the Dunster Project in west Somerset, involving the community in plans to develop the village, castle and estate

Engagement is an 'art' and there are always opportunities for improvement. We have therefore committed to review the way we engage and work with stakeholders to identify ways in which we can encourage open and transparent relationships.



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↓ 'Volunteering'
 We are pleased to have exceeded our target of 15% of employees participating in volunteering last year, and are ramping up our efforts further. As part of this, we are holding a volunteering event in September to bring together our employees and charities.

↑ Flagship education programme
 We are currently developing an education programme which will focus on developing and sharing employee skills, together with two-way knowledge transfer with education institutions, business and local communities. The programme will feature volunteering, secondments and internships. Three key projects are scheduled to be implemented in 2010/11, as part of this initiative.

↑ Employee satisfaction
 We sought entry to the Sunday Times' 100 Best Companies to Work for in 2009/10 and at the first attempt gained a 'one to watch' status. The results from the survey have been analysed and we are taking action on the top two areas of employee concern.



Next steps

- Develop a code of business ethics by bringing together and refreshing all existing individual policies and filling any gaps
- All employees to complete 'Customer Standards in Action' training
- Review and update our sustainable procurement requirements
- Review the way we engage and work with stakeholders to identify how we can encourage open and transparent relationships
- Develop an introductory programme to help key business partners and new employees improve their understanding of our business

Sustainability continued

Our targets

In addition to the next steps itemised at the end of each of the major sections of this report, we have identified a number of key targets for the years ahead.

Tackling climate change and energy security

Reduce carbon emissions from property under our direct control by 34% from our 2007/08 baseline	2020
Evaluate the benefits of implementing Display Energy Certificates across our non-domestic property portfolio voluntarily, and take appropriate action	31 March 2011
Develop a mechanism to quantitatively evaluate risks from the potential effects of climate change on investment decisions	31 March 2011
Facilitate the installation of 8GW of renewable energy generation capacity on our estate, including offshore wind, wave and tidal	2015
Deliver at least 500MW/H of renewable energy across our rural estate through the implementation of a range of renewable technologies	2015

Driving environmental value

Achieve BREEAM 'Excellent' rating on at least 75% of all new build and major redevelopment projects	Ongoing
Divert 90% of non-hazardous waste from landfill from our own offices, the Windsor estate and our directly managed portfolio (where we provide waste services)	31 March 2011
Reuse or recycle 80% of non-hazardous waste from demolition, excavation, refurbishment strip-out and construction	2015
Total waste generated on all development projects over £100,000 will be no greater than 15m ³ per 100m ² of floor area, and a minimum of 15% recycled materials (by value) to be used in projects over £300,000 in value	2012
Reduce water consumption to 6m ³ per employee (full time equivalents) in our own offices	2017

Sustaining communities

Apply our new community investment strategy to 80% (by value) of our community activities (the remaining 20% is to allow for the transition of activities)	31 March 2012
Assess the impacts of at least four projects, one per estate, carried out under our community investment strategy	31 March 2011
Support and deliver 10 community events across The Crown Estate in liaison with third parties	31 March 2011
Contribute to the development of three public realm initiatives together with two further initiatives to promote public spaces	31 March 2011
No fewer than 20 extra out-of-work Westminster residents to be placed in full time occupation by the workplace coordinator	31 March 2011

Working together

Achieve 500 hours of employee volunteering, involving at least 15% of employees	31 March 2011
Achieve a 'one star' rating in the Sunday Times 100 Best Companies 2010 survey, by addressing the top two areas of employee concern	31 March 2011
Achieve a 5% reduction in lost time incidents compared with 2009/10 levels	31 March 2011
Management board directors to deliver 90% of the monthly safety briefings to their departments	31 March 2011
As part of our education programme, pilot at least three projects focusing on employee skills and two-way knowledge transfer with education institutions, business and special interest and community groups, using mechanisms such as volunteering, secondments and internships	31 March 2011

Assurance

Independent Assurance Report to the Commissioners of The Crown Estate on the statement of selected absolute carbon emissions

We have been engaged by the Commissioners of The Crown Estate to perform an independent assurance engagement in respect of selected absolute carbon emissions (hereafter 'Selected Carbon Information') contained in The Crown Estate's Annual Report for the year ended 31 March 2010.

Scope and subject matter

The Selected Carbon Information for the year ended 31 March 2010 subject to limited assurance consists of the statement of absolute carbon emissions associated with energy use in directly managed properties within the urban portfolio which The Crown Estate procured energy for, on page 43.

We read the other information included in the The Crown Estate Annual Report and consider whether it is consistent with the knowledge gained from our procedures. We consider the implications for our report if we become aware of apparent material misstatements or inconsistencies. Our responsibilities do not extend to any other information.

Respective responsibilities of the Commissioners and PricewaterhouseCoopers LLP

The Commissioners are responsible for the content of the Annual Report and the preparation of the Selected Carbon Information in accordance with the criteria set out in The Crown Estate's Reporting Guidance (see www.thecrownestate.co.uk/sustainability)

Our responsibility is to form a conclusion, based on limited assurance procedures, on whether anything has come to our attention that causes us to believe that the Selected Carbon Information has not been fairly stated in all material respects in accordance with The Crown Estate's Reporting Guidance.

We are in compliance with the applicable independence and competency requirements of the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics. Our team comprised assurance practitioners and relevant subject matter experts.

This report, including the conclusion, has been prepared for the Commissioners of The Crown Estate as a body, to assist the Commissioners in reporting The Crown Estate's corporate sustainability performance and activities. We permit the disclosure of this report within the Annual Report for the year ended 31 March 2010, to enable the Commissioners to demonstrate they have discharged their governance responsibilities by commissioning an independent assurance report in connection with the Selected Carbon Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commissioners as a body and The Crown Estate for our work or this report save where terms are expressly agreed and with our prior consent in writing.

Assurance work performed

We conducted this limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board ('ISAE 3000').

Our limited assurance procedures included:

- Evaluating the design and implementation of the key processes and controls for managing and reporting the Selected Carbon Information.
- Making enquiries of management.
- Validating key management controls.
- Limited testing, on a selective basis, of the preparation and collation of the Selected Carbon Information prepared by The Crown Estate and of third-party documentation that supports the data stated within the Selected Carbon Information.

A limited assurance engagement is less in scope than a reasonable assurance engagement under ISAE 3000. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement.

Limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the Selected Carbon Information in the context of The Crown Estate's Reporting Guidance at www.thecrownestate.co.uk/sustainability

In particular, the conversion of energy used to carbon emissions is based upon, inter alia, information and factors derived by independent third parties as explained in The Crown Estate's Reporting Guidance. Our assurance work has not included examination of the derivation of those factors and other third-party information.

Conclusion

Based on the results of our procedures, nothing has come to our attention that causes us to believe that, for the year ended 31 March 2010, the Selected Carbon Information has not been fairly stated in all material respects in accordance with The Crown Estate's Reporting Guidance.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers LLP
Chartered Accountants
London

28 June 2010



LEADING BY EXAMPLE

The Board

↓ **From left**
Dinah Nichols, Chris Bartram,
David Fursdon, Martin Moore,
Roger Bright (chief executive),
Sir Stuart Hampson (chairman),
Gareth Baird and
Jenefer Greenwood



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Sir Stuart Hampson

Chairman, First Commissioner

Sir Stuart took up the post of Chairman of The Crown Estate on 1 January 2010.

Sir Stuart was educated at St John's College Oxford. He spent twelve years as a civil servant before joining the John Lewis Partnership, where he worked for 25 years, 14 of them as Chairman. He was a founding member of the Oxford Retail Group on planning in town centres and of London First, the private/public sector partnership aimed at maintaining London's standing as a world class capital. At Business in the Community, Sir Stuart chaired the team tackling economic renewal in deprived communities, and he is one of the Prince of Wales's Ambassadors in this area. Sir Stuart was President of the Royal Agricultural Society of England in 2005/06. He was knighted in 1998 for services to retailing. Aged 63.

Roger Bright CB, MA(Cantab)

Chief executive and Second Commissioner

Roger Bright graduated from Cambridge in 1973 and joined the Department of the Environment, where he went on to hold a series of senior positions, including Principal Private Secretary and Press Secretary to the Secretary of State. He left the Civil Service and became Deputy Chief Executive Officer of the Housing Corporation in 1991 and then held senior posts at the Personal Investment Authority, including Chief Executive, and subsequently Head of the Investment Business (Personal Investment Authority firms) Department at the Financial Services Authority.

Roger Bright joined The Crown Estate in June 1999 as Director of Finance and Administration and was appointed to the Board in April 2000. In June 2001 he was appointed Chief Executive of The Crown Estate, taking up the post on 1 September 2001. In addition, he is a member of the Governing Council of City University; and a non-executive director of London First and of Heritage of London Trust. Aged 58.

Gareth Baird

Non-executive Board member and Scottish Commissioner

Appointed to the Board in October 2009.

Gareth Baird is a third generation tenant farmer involved in arable and beef production near Kelso in the Borders. He is chairman of Scott Country Potato Growers Ltd, vice chairman of Grainco Ltd, and director of Scotland Food and Drink and of the Royal Highland and Agricultural Society of Scotland. He is a former chairman of the Scottish Agricultural Organisation Society; this tenure included two separate three-year terms. He also chairs the South of Scotland regional advisory board of Scottish Enterprise, and is a fellow of the Royal Agricultural Societies and Deputy Lord Lieutenant for Roxburgh, Ettrick and Lauderdale. Aged 51.

Martin Moore MRICS

Non-executive Board member

Appointed to the Board in April 2002.

Martin Moore is Managing Director of PRUPIM (Prudential Property Investment Managers) and director of M&G Ltd, the UK and European investment management arm of Prudential plc. He is a Board member and past President of the British Property Federation and chairs their sustainability committee. He also chairs the sustainability group of the Property Industry Alliance. He is a past Chairman of the Investment Property Forum and Westminster Property Owners Association, was a member of the CABE Design Review Committee and has worked on various property related panels for both the Association of British Insurers and the Royal Institution of Chartered Surveyors. Aged 52.

Dinah Nichols CB

Non-executive Board member

Appointed to the Board in January 2003.

Dinah Nichols is a non-executive director of Pennon Group plc (a water and waste company) and of Shires Smaller Companies Investment Trust. In 2005 she became Chair of the National Forest Company. Until 2002 she was Director-General Environment in DEFRA, where her responsibilities covered policy for sustainable development, climate change, air and water quality, waste, chemicals and the environmental aspects of farming. In her previous posts in the Civil Service she dealt with housing, construction, property, regeneration and transport. She is also a Trustee of Keep Britain Tidy and the Land Trust, and a member of CPRE's Policy Committee. Aged 66.

Jenefer Greenwood BSC, FRICS

Non-executive Board member

Appointed to the Board in February 2004.

Jenefer Greenwood is currently Grosvenor Estate's Retail Strategist, a position she took up in May 2003. She was previously with CB Hillier Parker for 25 years, where she was ultimately Executive Director and Head of Retail. Within Grosvenor she has particular responsibility for retail segmentation and positioning and a wider marketing and leasing role.

Jenefer is Chairman of the Advisory Board of the National Skills Academy for Retail. She is a past President of the British Council of Shopping Centres (BCSC) and a member of the ICSC European Advisory Board. She is also a Governor of Westonbirt School. Aged 52.

Chris Bartram MA, FRICS

Non-executive Board member

Appointed to the Board on 1 January 2007.

Chris Bartram is currently Chairman of Orchard Street Investment Management and was Managing Director of Haslemere NV which was floated on the Amsterdam Stock Exchange in 1999. Current non-executive appointments include: Non-executive director Land Securities Group PLC, Chairman of Estate Management Development Fund at Cambridge University and Fellow, Downing College, Cambridge. Past 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. Aged 60.

David Fursdon FRICS, FAAV

Non-executive Board member

Appointed to the Board in January 2008.

David Fursdon is a qualified rural chartered surveyor and agricultural valuer. He owns and manages an 800-acre family estate in Devon. He is also a Commissioner of English Heritage and serves on the Board of the SWRDA and acts as non-executive director and Trustee on some other estates. He was formerly President of the Country Land & Business Association (CLA). He is currently the chairman of Governors for Blundell's School, Parish Chairman, Deputy Lieutenant for Devon and former High Sheriff of the County. He chairs the SW Chamber of Rural Enterprise and serves on the Duchy of Cornwall Rural Committee. He was formerly on the Government's Affordable Rural Housing Commission. Aged 57.

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.

This report provides information on The Crown Estate, including the statutory position of 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 on Corporated Governance (the Combined Code). Adherence to best practice in corporate governance is kept under regular review.

The Crown Estate is in a unique position as both a public body sitting outside Government, and a statutory corporation operating on a commercial basis. There is no single set of standards governing The Crown Estate's corporate governance; it seeks to apply a range of appropriate standards to the various elements of the business in pursuit of applying best practice.

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 Combined Code and, inasmuch as they are applicable to the circumstances of The Crown Estate, seeks to comply with the code where this is appropriate. Many areas of our governance, however, are governed by the Crown Estate Act 1961, HM Treasury guidance or other government guidance where relevant/appropriate.

In addition to ongoing monitoring of governance requirements by the legal and finance teams, a review was undertaken to consider whether there were any additional standards we should adopt; this did not identify any major areas where improvement was required to the governance operated by The Crown Estate.

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

The Crown Estate Act 1961 (the Act) 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 Crown Estate Act 1961 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 Treasury 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 Board 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, para. 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 2010 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 page 53.

Duties

The main duties of the Board are to:

- agree objectives, policies and strategies, and monitor the performance of executive management;
- agree and set the overall strategic direction of the business for implementation through the management board;
- keep under review the general progress and long-term development of the organisation in light of the political, economic and social environments in which it operates;
- control and monitor the financial state and performance of The Crown Estate;
- approve major expenditure and transactions including acquisitions, disposals and investment in joint ventures;
- ensure that The Crown Estate pursues sound and proper policies in relation to risk management, health and safety and corporate governance;
- ensure a system of controls (financial and otherwise) is in place; and
- ensure 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
- 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 duties of the audit committee, sustainability committee, remuneration committee, Scottish committee, Quadrant board committee, and offshore energy supervisory 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.

The chairman of the main Board, Sir Stuart Hampson (as from 1 January 2010) 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.

The 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 sustainability targets and objectives, being responsible for public relations and acting as the Treasury's appointed Accounting Officer for The Crown Estate.

The non-executive members

The non-executive members are Hugh Duberly (appointment expired 30 September 2009), Jenefer Greenwood, Martin Moore, Dinah Nichols, Christopher Bartram, David Fursdon and Gareth Baird (appointed 1 October 2009). 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 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.

Martin Moore is the nominated senior independent director on the Board.

Each of the non-executive Board members has a formal letter of appointment, recording current best practice in this area.

The role of Board secretary is held by Vivienne King, legal director. 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. The head of human resources, Valerie Burns, acts as secretary to the selection panel for new Board appointments, and facilitates 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

Crown Estate Commissioners, who are alternatively known as Board members, are appointed in accordance with the Office of the Commissioner for Public Appointments (OCA) Code of Practice. One of the key principles of this Code of Practice is selection based on merit, after fair and open competition, and with the aim of achieving a balance of relevant skills and backgrounds on the Board, with minimal conflicts of interest with their outside activities.

Board members are nominated for appointment following interview by a selection panel which comprises: the chairman (who chairs the selection panel), the chief executive, a Board member, a representative of HM Treasury and an OCA registered independent assessor. HM Treasury is responsible for recommending The Crown Estate appointments to the Prime Minister and Her Majesty the Queen.

Similar arrangements apply to the appointment to the role of chairman and chief executive.

Appointments are made by Royal Warrant for a term of four years with the possibility of extension for a further four-year term. Under new rules the maximum term which a non-executive Board member, in any capacity, can serve on the Board is 10 years.

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Time served by Board members at 31 March 2010

Appointment	Date of most recent appointment	Date of expiry	Total length of service at 31 March 2010
Sir Stuart Hampson ¹ (chairman)	1 January 2010	31 December 2013	3 months
Roger Bright (chief executive)	1 September 2009	30 August 2013	9 years
Martin Moore (senior independent director)	22 April 2006	31 December 2010	8 years
Dinah Nichols	16 January 2007	31 December 2010	7 years
Jenefer Greenwood	1 January 2008	31 December 2011	6 years
Christopher Bartram	1 January 2007	31 December 2010	3 years
David Fursdon	1 January 2008	31 December 2011	2 years
Gareth Baird ²	1 October 2009	30 September 2013	6 months
Sir Ian Grant ³	1 October 2006	31 December 2009	13 years ⁴
Hugh Duberly ⁵	1 January 2006	30 September 2009	8 years

¹ Sir Stuart Hampson's appointment commenced on 1 January 2010.

² Gareth Baird's appointment commenced on 1 October 2009.

³ Sir Ian Grant's appointment expired on 31 December 2009.

⁴ Sir Ian Grant – non-executive Board member from 1996 to 2002; then Chairman 2002 to 2009

⁵ Hugh Duberly's appointment expired on 30 September 2009.

Succession planning

Board members' appointments and re-appointments are staggered to allow the managed transition of the Board's business. Non-executive Board members are normally only re-appointed for one further term, but this can be extended up to a maximum of 10 years.

Board meetings

The Board held eight scheduled meetings and two special meetings of the main Board during the year ending 31 March 2010. As well as meetings in London the Board also met in Windsor. In addition, there were three scheduled meetings and one special meeting of the audit committee, four meetings of the sustainability committee, four meetings of the remuneration committee, two of the Scottish committee, four meetings of The Quadrant committee and eight of the offshore energy supervisory committee.

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 North Wales.

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 research information and presentations.

Board papers encompass regular reports from the chief executive, finance director 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 checklist 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 head of human resources. 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 duties of the six Board committees (audit, sustainability, remuneration, Scottish, Quadrant and offshore energy supervisory) is given below. The terms of reference of these committees are available on request.

In addition to these six Board committees, three other executive committees, The management board, stock selection committee and communications group operate with specific authority delegated by the Board.

Audit committee

Members

The current members are:

Martin Moore (committee chairman)

Christopher Bartram, non-executive Board member

David Fursdon, non-executive Board member

The secretary to the audit committee is Sally Sugden.

The chairman of the Board believes that the financial knowledge and experience of the audit committee meet the needs of the business. The audit committee is authorised by the Board to obtain outside or independent professional advice and such advisers may attend meetings 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 finance director and the legal director. The head of internal audit and the financial controller are also in attendance. The external audit partner (National Audit Office audit director) is invited to attend scheduled meetings. The committee submits an annual report to the main Board, reporting on its activities during the year.

The audit committee assists the Board in fulfilling its oversight responsibilities over: financial reporting and audit process; system of internal control and management of risks; and The Crown Estate's process for monitoring compliance with legislation and regulation.

Duties

The main duties of the audit committee are to:

- review the annual financial statements, with particular attention to accounting policies, areas of judgement, audit adjustments and level of unadjusted errors
- consider the external audit appointment, the audit fee and the nature and scope of the external audit
- review reports from the external auditor
- review the risk management process
- set internal control policies and receive regular reports on the effectiveness of internal control
- review annually the scope, authority and resources of internal audit
- review reports on compliance with laws, regulations, tax and litigation matters.

The audit committee is authorised by the Board to investigate any activity within its terms of reference and to seek any information that it requires from any employee, consultant or contractor and call for documentary evidence of any transaction.

'Whistleblowing'

A 'whistleblowing' policy is in place within the organisation.

This policy is regularly reviewed and updated as and when required to bring it in line with best practice. The Crown Estate is committed to the highest standards of quality, probity, openness and accountability. As part of that commitment, it encourages employees or others with serious concerns about any aspect of The Crown Estate's work to take appropriate action by coming forward and expressing those concerns. In many cases, concerns or complaints will be dealt with through normal procedures. However, in some cases, it is recognised that employees will need to come forward on a confidential basis. It is made clear that they can do so without fear of reprisal or victimisation and the Public Interest Disclosure Act 1998 provides adequate protection for those who voice genuine and legitimate concerns.

If any employee believes that they are required to act in a way which:

- is illegal, improper or unethical
- means a criminal offence has been committed or is likely to be committed
- may involve possible maladministration, fraud or misuse of public funds
- is a failure to comply with legal obligations
- may be a danger to health and safety
- is likely to cause damage to the environment
- is a breach of a code of conduct
- is an attempt to cover up any of these.

Governance report continued

They should either raise the matter through their management line or else approach in confidence the Head of Internal Audit. Employees should also draw attention to instances where they believe there is evidence of any of the above elsewhere in the organisation, although they have not themselves been involved.

The Comptroller and Auditor General

Under the provisions of the Crown Estate Act 1961 the Comptroller and Auditor General is the statutory auditor of The Crown Estate. The National Audit Office (NAO) undertakes the audit on his behalf. The appropriate NAO director is invited to attend meetings of the audit committee and has complete access to all financial and other information.

Report of the committee's activities

During the year, the committee met three times for routine business and considered all matters within the committee's terms of reference, as set out above. Additionally, the committee also considered the pension scheme and litigation in 2009/10 and held one special meeting to discuss the annual accounts and met separately out of committee to consider the annual valuation.

Remuneration committee

The committee's membership, terms of reference and activity is described in the remuneration committee report on pages 65 to 66.

Sustainability committee

Members

The current members are:

Roger Bright (committee chairman)

Dinah Nichols, non-executive Board member.

The secretary to the sustainability committee is Jane Baptist, a member of the sustainability team.

Meetings are held at least quarterly. The members of the management board ordinarily attend meetings. The committee reports to the main Board particularly in relation to relevant policy statements or decisions and the achievements against objectives and targets.

The committee's main purpose is to ensure that there is an established framework in place for delivery of the sustainability strategy and the achievement of "innovator" status, and that the organisation's reputation as a responsible landowner continues to be enhanced.

Duties

The main duties of the sustainability committee are to:

- formulate policy and strategy in relation to sustainability for approval by the Board
- ensure implementation of sustainability policies
- oversee production of the annual sustainability report
- provide representation for The Crown Estate at external events relating to sustainability.

Report of the committee's activities

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

- new sustainability strategy – development of four champions network groups and progress made within them over the year
- appointment of head of sustainability
- setting objectives and targets
- monitoring performance against targets
- performance indicators
- benchmarking
- ISO 14001 and OHSAS 18001
- Carbon Reduction Commitment Energy Efficiency Scheme.

The work of the committee is reflected in the sustainability section of the annual report and accounts.

Scottish committee

The current members are:

- Gareth Baird (committee chairman, as from 1 January 2010)
- Roger Bright, chief executive.

The secretary to the Scottish committee is Alex Adrian, a member of the Edinburgh office.

Meetings are usually held at least three times a year. The following executives ordinarily attend meetings: director of the marine estate, director of the rural estate, director of investment and asset management, head of new business development (rural) and head of marine business development (Scotland).

Duties

The main duties of the Scottish committee are to:

- operate within the strategic and policy parameters established by the Board and other specialist committees, including in particular the sustainability 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 divestment 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 of 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 twice and considered all matters within the committee's terms of reference, in particular:

- monitoring financial performance
- stewardship
- investment/divestment
- communication.

Quadrant committee

Members

The current members are:

Roger Bright (committee chairman)
 Christopher Bartram, non-executive Board member
 Jenefer Greenwood, non-executive Board member
 Martin Moore, non-executive Board member

The secretary to The Quadrant committee is Philomena Sullivan.

During 2009/10 the committee met four times. For 2010/11 it is anticipated that meetings will be arranged as required. The following executives ordinarily attend meetings: director of investment and asset management, legal director, finance director and head of Regent Street portfolio.

Duties

The main duties of The Quadrant committee are to:

- review and comment at strategic level progress on The Quadrant project
- review the approach to, and effectiveness of, risk analysis and mitigation
- approve expenditure arising between full Board meetings provided such expenditure does not exceed £19 million
- approve satisfaction of any pre-conditions to an earlier decision of the full Board, in relation to specific issues in respect of which The Board has previously given express delegated authority to the committee.

Report of the committee's activities

This committee will exist until wound up by the main Board. Minutes of the meetings are reported to subsequent main Board meetings.

Offshore energy supervisory committee

Members

The current members of the committee are:

Roger Bright (committee chairman)
 David Fursdon, non-executive Board member
 Robert Hastings, director of marine
 John Lelliott, finance director
 Vivienne King, legal director.

The following non-executive Board advisers have been appointed to the committee to bring knowledge, experience and expertise to the benefit of the chairman and board of The Crown Estate in relation to the specialist areas of energy and carbon management:

Chris Geoghegan, non-executive Board adviser
 Dipesh Shah, non-executive Board adviser
 John Burnham, non-executive Board adviser
 Matts Lundgren, non-executive Board adviser.

The secretary to the committee is Felicity Swift. Meetings are held at such frequency as may be appropriate for the purposes of consideration of offshore energy matters. The following executives ordinarily attend meetings: The head of external affairs, the head of development and asset management and the head of energy and technology.

Duties

The main duties of the offshore energy supervisory committee are:

- to ensure the responsibilities which have been mandated or delegated to the executive of The Crown Estate by the main Board are being executed
- to ensure that the decisions being taken by the main Board of The Crown Estate in relation to offshore energy matters are being conducted in a manner which ensures that due process is applied in the performance of the statutory duties of The Board in delivering the business objectives of The Crown Estate. This is to apply to both development and asset management of the following typical areas of business for The Crown Estate:
 - energy from offshore wind
 - energy from ocean waves
 - energy from tidal streams, barrages and lagoons
 - storage of carbon dioxide in seabed geological formations
 - natural gas storage in seabed geological formations
 - the transmission of electricity using sub-sea cables, either through networks or point to point
 - the transmission of carbon dioxide using subsea pipelines, either through networks or point to point
 - such further activity involving offshore energy as arises on The Crown Estate marine portfolio.

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Report of the committee's activities

During the year the committee met eight times and considered a range of matters within the committee's terms of reference. In particular offshore wind energy programmes, related enabling actions and carbon dioxide storage.

Attendance at Board and committee meetings

Attendance by individual members at Board, audit, sustainability, remuneration, Scottish, Quadrant and offshore energy supervisory committee meetings, which they were eligible to attend, was as follows:

	Main Board	Board Awayday Strategy	Audit Committee	Sustainability Committee	Remuneration Committee	Scottish Committee	Quadrant Committee	Offshore Energy Supervisory Committee
Total number of meetings 2009/10	10	1	4	4	4	2	4	8
Ian Grant ¹	7	1	n/a	n/a	n/a	2	n/a	n/a
Roger Bright	10	1	3	4	4	2	3	8
Christopher Bartram	9	1	4	n/a	n/a	n/a	4	n/a
Hugh Duberly ²	4	1	n/a	n/a	2	n/a	n/a	n/a
David Fursdon	10	1	3	n/a	4	n/a	n/a	6
Jenefer Greenwood	10	1	n/a	n/a	4	n/a	4	n/a
Martin Moore	10	–	4	n/a	n/a	n/a	4	n/a
Dinah Nichols	10	1	n/a	4	n/a	n/a	n/a	n/a
Gareth Baird ³	5	1	n/a	n/a	2	n/a	n/a	n/a
Stuart Hampson ⁴	4	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a = not applicable.

1 Sir Ian Grant's appointment expired on 31 December 2009.

2 Hugh Duberly's appointment expired on 30 September 2009.

3 Gareth Baird's appointment commenced on 1 October 2009.

4 Sir Stuart Hampson's appointment commenced on 1 January 2010.

In addition Board members have taken part in formal visits to estates at Glenlivet, Ewerby, Ashby St Ledgers, Louth, Yorkshire Estate, King's Lynn, Devizes and Stapleford Abbots.

A number of visits were made to parts of London as well as attendance at a number of ad-hoc seminars and events.

Management board

Members

The current members of the management board are:

Roger Bright	chief executive and chairman
Christopher Bouchier	director of the rural estate
Paul Clark	director of investment strategy and asset management
Robert Hastings	director of the marine estate
Vivienne King	legal director
John Lelliott	finance director

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The secretaries to the management board are David Purkis and Philomena Sullivan. Meetings are usually held on a fortnightly basis.

The management board operates within the delegated financial limits available to the chief executive (decisions within the delegated authority of the investment and asset management director, other directors or heads of portfolio/department will not be taken by the management board unless the requirements or sensitivities are such as to justify referral to the management board). The management board is responsible for the delivery of business objectives and targets within the overall strategies and control framework agreed annually by the Board.

Duties

The main duties of the management board are to:

- implement the strategic directions of The Crown Estate
- set and ensure the achievement of corporate objectives, including financial and operational performance
- keep under review The Crown Estate's investment strategy in the light of economic market conditions
- monitor investment performance against bespoke benchmarks and financial performance against revenue targets
- ensure that business risks are properly identified and managed
- ensure health and safety issues are monitored and reported effectively
- exercise oversight and control over The Crown Estate's financial, human and other resources
- promote sustainability and customer focus throughout the business.

Report of management board's activities

During the year, the board met nineteen times. Attendance by individual members of the Board was as follows:

Total number of meetings	Roger Bright	Christopher Bouchier	Paul Clark	Robert Hastings	Vivienne King	John Lelliott
19	19	17	14	15	17	18

Other executive committees

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 public relations policy and reviews and recommends an annual strategy and programme of public relations 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.

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 page 67. No fees have been incurred in respect of non-audit services. The audit fee for work performed in the year of account was £140,000.

Statement on disclosure of relevant audit information to The Crown Estate's auditors

So far as the Accounting Officer is aware there is no relevant audit information of which the The Crown Estate'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 Crown Estate's auditor is aware of this information.

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Health and safety

Building on the review conducted by the health and safety manager during 2008/09 The Crown Estate has made significant progress in updating and improving its health and safety systems of control.

The focus of the past 12 months has been the development and implementation of an integrated safety, health and management system that has gained accreditation externally verified standards ISO 14001:2004 and OHSAS 18001:2007 for head office functions.

The monitoring of accident and incident reporting has continued, through the central reporting process, with regular statistical reviews of the collated data undertaken as part of the assessment of safety performance across all operations.

It is intended over the coming year to further develop The Crown Estate's health and safety controls by expanding the ISO 14001:2004 and OHSAS 18001:2007 accreditation process to other areas of the business on a rolling programme.

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

The Board is 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 statements of accounts in the form and on the basis determined by the Treasury. The financial statements 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:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a 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 'Managing Public Money'.

Statement on internal control

Scope of responsibility

The Board has overall responsibility for the system of internal controls, including risk management and corporate governance and direction over appropriate strategic, financial, operational and compliance issues. The Board has delegated to executive management the implementation of the system of internal controls. It has also delegated to the audit committee the review of the effectiveness of the system of internal controls, on behalf of the Board.

As accounting officer, the chief executive is responsible for maintaining a sound system of internal control that supports the achievement of The Crown Estate's aims and objectives as set out in the Crown Estate Act 1961, and for reviewing its effectiveness.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of The Crown Estate's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in The Crown Estate for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Executive management is accountable to the Board for establishing and monitoring the system of internal control and for providing assurance to the Board that it has done so. All employees have responsibility for internal control as part of their accountability for achieving their objectives. All staff are encouraged to become familiar with these requirements during their induction process and through on-the-job training and awareness. They collectively have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal controls. This includes an understanding of The Crown Estate, its objectives, the industries and markets in which it operates, and the risks it faces. The Crown Estate seeks to draw out and disseminate good practice on the handling of risk through the rest of the organisation. Key elements of The Crown Estate's system of internal controls include:

- strategic objectives and corporate planning
- risk management
- management structure, reporting lines and accountability
- board committees such as the offshore energy supervisory committee
- investment appraisal including oversight by stock selection committee
- budgeting and financial planning, monitoring and control

- delegated financial approval limits
- policies and procedures
- information and communication
- regulatory compliance
- competent people
- code of conduct
- independent assurance.

The risk and control framework

Risk management is well established within The Crown Estate for all departments, key processes and projects. The vision of risk management is to move from 'established' to 'fully embedded' and to raise the awareness of risk at all levels of the organisation in such a way that all significant business decisions are risk informed. Key elements of The Crown Estate's risk management processes include:

- clear strategic and business objectives
- executive management considering the significant risks that threaten the achievement of The Crown Estate's corporate objectives on an ongoing basis and, as part of the annual corporate planning process, risks identified by line management on a quarterly basis
- executive management being designated 'risk owners' for strategic risks and for risks that relate to those functions, projects and processes that they directly manage
- cross departmental risk committee reviewing the risks reported by line management, having regard, in particular, to any significant weaknesses in internal control that have been identified by line management, on a quarterly basis
- line management identifying and assessing, managing, monitoring and reporting on the key risks and the effectiveness of the related system of internal control in managing the significant risks, on an ongoing basis, as part of their business activities
- assurance from specialist functions and committees that legal, regulatory, health and safety, ethical and environmental risks are appropriately identified and managed
- established risk management policy and guidelines designed to provide support to management in their risk assessment responsibilities and consistency of results across all departments; and to define clear accountabilities, processes and reporting formats
- risk profiling methodology to determine the threats to the achievement of business objectives in terms of likelihood and impact at both inherent and residual level, after taking account of mitigating and controlling actions
- risk appetites and tolerances are assessed and managed by management, reflecting experience and past history of effective risk management

- a hierarchy of risk registers (for departments, projects and business processes) used as the basis for quarterly review of risk management at risk committee, project monitoring committee and management board level
- risk reporting, incorporating the corporate risk register, departmental and project risk registers, and internal control statements
- director internal control statements on the effectiveness of internal control
- risk management framework, policy and processes which are consistent with best practice including Government guidelines
- Internal audit facilitating the implementation of a robust risk management framework whereby management identifies, evaluates, manages, monitors and reports key risks.

The Crown Estate has in place various robust and specific arrangements to ensure information security, which are in line with Cabinet Office guidance, including an information security policy with related policies that apply to all staff. This suite of policies has been developed during the year to accommodate the requirements of the Security Policy Framework (SPF) and requirements. Furthermore, The Crown Estate is developing a formal information security management system to secure compliance with the ISO 27001 standard for information security. The Crown Estate now also has a register of its information management system assets and also an information assets owner's log, which identifies responsible officers and enables The Crown Estate to help them manage their responsibilities in respect of these systems and data properly, particularly in respect of confidential and personal data. Other arrangements include:

- governance, risk management and compliance
- protective marking and asset control
- personnel security
- information technology
- physical security
- counter-terrorism
- business continuity.

Governance report continued

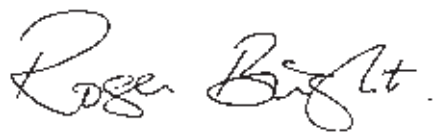
Review of effectiveness of internal controls

As accounting officer, the chief executive has responsibility for reviewing the effectiveness of the system of internal controls. This review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The accounting officer is advised on the implications of the result of the review of the effectiveness of the system of internal control by the Board, the audit committee and cross-departmental risk committee (as set-out below), and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Further details on the sources of assurance over the effectiveness of internal control are set out below:

- audit committee (communicates the results of its oversight and monitoring role to the Board, which enables it to build up a cumulative assessment of the state of internal controls and the effectiveness with which risk is being managed)
- executive management (responsible for establishing, maintaining and monitoring the system of internal controls, and for considering changes since the last annual assessment in the nature and extent of significant risks, and the ability to respond to changes in its organisation's business and in the external environment)
- cross-departmental risk committee
- National Audit Office (by way of comments contained in their management letter)
- internal audit (provides the audit committee with independent and objective assurance on the effectiveness of the system of internal controls, including risk management and corporate governance)
- external consultants and other providers of assurance.

During the financial year, there has been a continued improvement in financial control following the implementation of a new finance system in the previous financial year. No significant internal control weaknesses have been highlighted in the year which merit disclosure. Where less significant weaknesses have been identified, a plan has been put in place to ensure continuous improvement and adequate controls are put in place.



Roger Bright CB
Chief executive

23 June 2010

Remuneration report

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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 Board.

The current members of the remuneration committee are:

Jenefer Greenwood (committee chairman)
Gareth Baird, non-executive Board member
David Fursdon, non-executive Board member

The meetings are held twice annually. The following executives ordinarily attend: the chief executive and finance director, who 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. The committee submits an annual report to the main Board reporting on its activities during the year.

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 on three occasions and considered all matters within the committee's terms of reference.

Remuneration and pension entitlements of the Board were as follows:

Board member	2009/10 Total remuneration excluding bonus £	2008/09 Total remuneration excluding bonus £	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2010 £	Cash equivalent transfer value as at 31 March 2010 £	Cash equivalent transfer value as at 31 March 2009 £	Real increase in cash equivalent transfer value £
Sir Stuart Hampson (Chairman) (appointed 1 January 2010)	12,500	–	–	–	–	–	–
Sir Ian Grant (Chairman) (appointment expired 31 December 2009)	37,517	49,284	–	–	–	–	–
Roger Bright (Chief Executive)	203,891	200,878	11,101	61,022	1,517,516	1,306,222	209,440
Gareth Baird (appointed 1 October 2009)	9,686	–	–	–	–	–	–
Christopher Bartram	19,371	19,085	–	–	–	–	–
Hugh Duberly (appointment expired 30 September 2009)	11,300	19,085	–	–	–	–	–
Jenefer Greenwood	19,371	19,085	–	–	–	–	–
Martin Moore	19,371	19,085	–	–	–	–	–
Dinah Nichols	19,371	19,085	–	–	–	–	–
David Fursdon	19,371	19,085	–	–	–	–	–

The above 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 2013.

Roger Bright, the chief executive, is entitled to receive a non-pensionable annual bonus up to a maximum of 40% of his salary which is geared to specific targets and is approved by the Treasury. At the year end the amount payable had yet to be determined. The maximum bonus receivable in respect of 2009/10 is £81,556. In 2008/09 he received a bonus of £78,342.

Duties:

The main duties of the remuneration committee are:

- 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
- ensuring that senior management remuneration is sufficient to attract and retain the skills and experience necessary to take the business forward
- expressing its view in relation to total compensation for the chief executive
- scrutinising, and holding The Crown Estate responsible for, any procedures where appropriate remuneration for senior managers is formulated and agreed
- signing-off proposed reward strategies for senior managers
- satisfying itself that sufficient and appropriate performance management arrangements are in place
- considering all performance-related proposals in respect of individuals as put forward by the chief executive; and ensuring that decisions are equitable and taken with due diligence.

Remuneration report continued

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

Board member	2009/10 Total remuneration £'000	2008/09 Total remuneration £'000	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2010 £	Cash equivalent transfer value as at 31 March 2010 £	Cash equivalent transfer value as at 31 March 2009 £	Real increase in cash equivalent transfer value £
Christopher Bouchier	165–170	140–145	4,197	45,787	1,022,676	663,574	357,129
Paul Clark	225–230	190–195	1,681	3,742	68,858	24,439	42,565
Robert Hastings	195–200	145–150	2,576	8,573	119,469	79,091	36,052
Vivienne King	160–165	140–145	2,588	19,425	398,029	236,948	159,289
John Lelliott	165–170	130–135	3,604	59,750	1,668,583	1,274,662	392,129

The above 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 between three and six months. The contracts of Roger Bright, the chief executive, John Lelliott and Christopher Bouchier provide for a six month notice period, the contracts of Paul Clark, Robert Hastings and Vivienne King provide for a three month notice period. All appointments made after 2005 provide for a three month notice period. 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 eligible to receive individual levels of non-pensionable discretionary bonus up to a maximum of 30% of their salary which is performance related. The amount of non-pensionable bonus that can be awarded is dependent upon both individual performance and The Crown Estate performance which is measured against pre-determined targets. All non-pensionable bonuses to members of the management board are scrutinised and approved by the remuneration committee. Members of the management board, excluding the chief executive, also receive a non-pensionable flexible benefit of 5.3% of base pay. This benefit is also paid to all office-based employees.

Pensions

The Crown Estate operates two pension schemes: the Civil Service Pension Scheme and The Crown Estate Pension Scheme. Each scheme comprises a number of sections, which offer different pension benefits.

The sections of the Civil Service Pension Scheme which provide defined benefit are the Classic and Premium sections which provide retirement and related benefits to all eligible employees based on individual final emoluments. The NUVOS section provides defined benefit retirement and related benefits to all eligible employees based on a career average emoluments scheme. The Partnership section provides defined contribution benefits to all eligible employees. Since March 2009 no new employees have been admitted to the Civil Service Pension Scheme.

The sections of The Crown Estate Pension Scheme which provide defined benefits are the Opal and Quartz sections. The Opal section, which is closed to new employees, provides retirement and related benefits to all eligible employees based on individual final emoluments.

The Quartz section provides retirement benefits to all eligible employees based on final emoluments capped at £25,000 of earnings but includes the option of additional retirement benefits provided through a defined contribution arrangement. The Topaz section provides defined contribution benefits to all eligible employees.

The Quartz and Topaz sections of The Crown Estate Pension Scheme were introduced in March 2009 as part the implementation of The Crown Estate's new reward strategy. This strategy sought to introduce

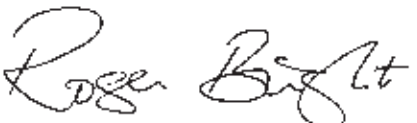
market related salary and benefits, while also taking steps to reduce the contribution which The Crown Estate annually makes to employees' pensions and to limit The Crown Estate's future pension liability. This objective was achieved by repackaging the various elements of the reward package, including the provision of less expensive pension arrangements.

As at 31 March 2010, a total of 38 employees were members of the open sections of The Crown Estate Pension Scheme and a further 34 have elected to receive a cash pension allowance.

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 Civil Service Pension Scheme.

Pension benefits are provided to Roger Bright, chief executive and members of the management board through the Civil Service Pension Scheme or The Crown Estate Pension Scheme. Roger Bright is a member of the Civil Service Pension Classic section, and Robert Hastings is a member of the Civil Service Pension Premium section. The remaining members of the Management Board are members of The Crown Estate Pension Scheme Opal section. Roger Bright's bonus is non-pensionable. The Trustees of The Crown Estate Pension Scheme Opal section have adopted a more up to date mortality table this year. This, together with economic factors arising from the assumption relating to lower equity returns and a fall in gilt yields, have given rise to the change in the real increase in the cash equivalent transfer values for members of that Scheme.

The Civil Service Pension Scheme (Classic and Premium Sections) and The Crown Estate Pension Scheme (Opal Section) 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 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 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 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

23 June 2010

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

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I certify that I have audited the financial statements of The Crown Estate for the year ended 31 March 2010 under The Crown Estate Act 1961. These comprise the Statement of income and expenditure, the Statement of comprehensive income, the Balance sheet, the Cash flow statement, the Statement of changes in capital and reserves 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

As explained more fully in the Statement of The Crown Estate Commissioners' and Accounting Officer's responsibilities, the Board and Chief Executive as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to The Crown Estate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by The Crown Estate; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, in accordance with the Crown Estate Act 1961 and directions issued thereunder by HM Treasury, of the state of The Crown Estate's affairs as at 31 March 2010 and of its surplus, changes in capital and reserves and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Crown Estate Act 1961 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Crown Estate Act 1961; and
- the information given in the "Performance" and "Governance" sections of the Annual Report as identified in the contents page for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on internal control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

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

29 June 2010

Statement of income and expenditure

For the year ended 31 March 2010

	Note	Year ended 31 March 2010			Year ended 31 March 2009		
		Income account £m	Capital account £m	Total £m	Income account £m	Capital account £m	Total £m
Revenue	4	321.3	19.3	340.6	304.1	7.6	311.7
Costs	4	(95.8)	–	(95.8)	(80.4)	–	(80.4)
Operating surplus		225.5	19.3	244.8	223.7	7.6	231.3
Recovery of capital expenditure under The Crown Estate Act 1961	9	(22.9)	22.9	–	(21.3)	21.3	–
Net revaluation gains/(losses) on investment property (including profits on disposal)	10	–	542.8	542.8	–	(1,194.7)	(1,194.7)
Share of profit/(loss) from joint ventures	17	7.7	28.7	36.4	8.7	(122.8)	(114.1)
Share of profit/(loss) from other property investments	18	1.5	2.5	4.0	1.5	(11.2)	(9.7)
Parliamentary Resource finance	12	2.3	–	2.3	2.3	–	2.3
Statutory transfers	13	(9.6)	9.6	–	(10.9)	10.9	–
Net operating profit/(loss) before financing		204.5	625.8	830.3	204.0	(1,288.9)	(1,084.9)
Investment revenue	5	6.2	–	6.2	22.5	–	22.5
Net surplus/(deficit)		210.7	625.8	836.5	226.5	(1,288.9)	(1,062.4)
Consolidated Fund payment	14	(210.0)	–	(210.0)	(230.0)	–	(230.0)
Surplus/(deficit) after Consolidated Fund payment		0.7	625.8	626.5	(3.5)	(1,288.9)	(1,292.4)

The total column represents the Income Statement of The Crown Estate.

All results are derived from continuing operations.

Statement of comprehensive income

For the year ended 31 March 2010

	Note	Year ended 31 March 2010			Year ended 31 March 2009		
		Income account £m	Capital account £m	Total £m	Income account £m	Capital account £m	Total £m
Net surplus/(deficit) for the year		210.7	625.8	836.5	226.5	(1,288.9)	(1,062.4)
Unrealised surplus/(deficit) of owner occupied properties	10	–	2.1	2.1	–	(25.3)	(25.3)
Actuarial loss on retirement benefits	8c	(3.8)	–	(3.8)	(1.1)	–	(1.1)
Other comprehensive income		(3.8)	2.1	(1.7)	(1.1)	(25.3)	(26.4)
Total comprehensive income for the year		206.9	627.9	834.8	225.4	(1,314.2)	(1,088.8)

Balance sheet

As at 31 March 2010

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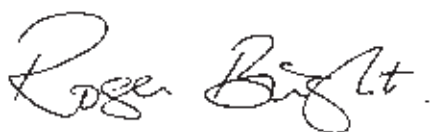
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	Notes	31 March 2010 £m	31 March 2009 £m
Assets			
Non-current assets			
Investment properties	15	6,550.4	5,965.3
Investment properties being redeveloped	15	57.0	21.4
Property plant and equipment:			
Owner occupied property	15	89.0	86.5
Other property, plant and equipment	16	8.3	8.5
Investment in joint ventures	17	212.7	185.7
Other property investments	18	30.0	27.5
Other investments	19	4.9	4.9
Receivables due after one year	20	13.3	11.4
Total non-current assets		6,965.6	6,311.2
Current assets			
Non-current investment property assets held for sale	15	135.1	221.9
Inventories	21	0.2	0.2
Trade and other receivables	22	17.5	31.6
Cash and cash equivalents		462.9	390.1
Total current assets		615.7	643.8
Pension asset	8a	–	0.9
Total assets		7,581.3	6,955.9
Liabilities			
Current liabilities			
Trade and other payables	23	104.3	164.9
Pension fund provision	8a	0.3	–
Total current liabilities		104.6	164.9
Non-current liabilities	23	837.1	776.2
Total liabilities		941.7	941.1
Net assets		6,639.6	6,014.8
Capital and reserves			
Income reserve available for distribution to the Consolidated Fund		3.4	5.4
Reserves relating to the Capital account		6,634.3	6,008.5
Total reserves arising from the Statement of income and expenditure		6,637.7	6,013.9
Revaluation reserve		2.1	–
Pension reserve		(0.2)	0.9
Total capital and reserves		6,639.6	6,014.8



Roger Bright CB
Second Commissioner and Accounting Officer

23 June 2010

Cash flow statement

For the year ended 31 March 2010

	Note	31 March 2010 £m	31 March 2009 £m
Cash generated from operating activities	25	239.8	249.8
Interest received		6.6	23.3
Distributions from investment in joint ventures		8.3	8.0
Distributions received from other property investments		1.5	1.5
Net cash inflow from operating activities		256.2	282.6
Cash flows from investing activities			
Purchase of property		(216.4)	(192.5)
Capital expenditure on properties		(178.0)	(114.3)
Proceeds from disposal of investment properties		419.0	231.5
Net divestment/(investment) in joint ventures		2.9	(104.8)
Purchase of plant and equipment		(2.7)	(4.0)
Sale of plant and equipment and antiques		0.1	–
Loan repayment/(advance)		0.1	(0.9)
Other cash flows from investing activities		(2.7)	(1.2)
Net cash inflow/(outflow) from investing activities		22.3	(186.2)
Cash flows from financing activities			
Parliamentary Resource finance		2.3	2.3
Net cash inflow from financing activities		2.3	2.3
Net increase in cash and cash equivalents before Consolidated Fund payment		280.8	98.7
Consolidated Fund payment		(208.0)	(227.0)
Increase/(decrease) in cash and cash equivalents in the year after Consolidated Fund payment		72.8	(128.3)
Cash and cash equivalents at start of year		390.1	518.4
Cash and cash equivalents at end of year	26	462.9	390.1

Statement of changes in capital and reserves

For the year ended 31 March 2010

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	Income account £m	Capital account £m	Total reserves arising from income £m	Revaluation reserve £m	Pension reserve £m	Total capital and reserves £m
As at 1 April 2008	10.1	7,297.4	7,307.5	25.3	0.8	7,333.6
Net surplus/(deficit) for the year	226.5	(1,288.9)	(1,062.4)	–	–	(1,062.4)
Revaluation deficit of owner occupied properties	–	–	–	(25.3)	–	(25.3)
Actuarial loss on retirement benefits	–	–	–	–	(1.1)	(1.1)
Total comprehensive income for the year ended 31 March 2009	226.5	(1,288.9)	(1,062.4)	(25.3)	(1.1)	(1,088.8)
Pension reserve adjustment	(1.2)	–	(1.2)	–	1.2	–
Payments to the Consolidated Fund	(230.0)	–	(230.0)	–	–	(230.0)
As at 31 March 2009	5.4	6,008.5	6,013.9	–	0.9	6,014.8
As at 1 April 2009	5.4	6,008.5	6,013.9	–	0.9	6,014.8
Net surplus for the year	210.7	625.8	836.5	–	–	836.5
Revaluation surplus of owner occupied properties	–	–	–	2.1	–	2.1
Actuarial loss on retirement benefits	–	–	–	–	(3.8)	(3.8)
Total comprehensive income for the year ended 31 March 2010	210.7	625.8	836.5	2.1	(3.8)	834.8
Pension reserve adjustment	(2.7)	–	(2.7)	–	2.7	–
Payments to the Consolidated Fund	(210.0)	–	(210.0)	–	–	(210.0)
As at 31 March 2010	3.4	6,634.3	6,637.7	2.1	(0.2)	6,639.6

Notes to the financial statements

1. Notes to the financial statements

1a. Basis of preparation

These financial statements have been prepared on a going concern and an accruals basis under the historic cost convention, modified to include investment properties, owner occupied properties and other investments at fair value. They are prepared in accordance with section 2(5) of The Crown Estate Act 1961 and with the directions made thereunder by the Treasury.

The directions from the Treasury require that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and therefore in compliance with Article 4 of the EU IAS Regulation, except where these conflict with The Crown Estate Act 1961.

IFRS cannot be complied with in one respect due to The Crown Estate Act 1961. Where a lease premium is received in respect of an operating lease of less than 30 years The Crown Estate Act 1961 requires that the income is taken direct to the income account in the Statement of income and expenditure. This conflicts with the treatment required by SIC 15 – Operating Lease incentives, which requires such income to be spread over the lease term. However the impact is not regarded as material. This treatment is consistent with prior years.

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force at the reporting date. The financial statements are prepared on a consistent basis with the prior year financial statements except that The Crown Estate has adopted IAS 1 (revised) 'Presentation of Financial Statements'. The Crown Estate has not adopted any standards or interpretations in advance of the required implementation dates.

IAS 1 (revised) requires the presentation of a Statement of changes in capital and reserves as a primary statement, separate from the Statement of income and expenditure and Statement of comprehensive income. As a result, a Statement of changes in capital and reserves has been included as a primary statement, showing changes in each component of capital and reserves for each year presented.

At the date of approval of these financial statements, the following standards and guidelines have been implemented for the financial year beginning 1 April 2009 but have not had a material impact on The Crown Estate:

IAS 16 – Property, plant and equipment (2008 improvement)

IAS 40 – (amended) Investment Property

Set out below are those new standards and interpretations issued by the IASB and IFRIC with an effective date after the date of these financial statements which may have a material effect on the financial statements in future periods.

IAS 17 – Leases (amendment) issued April 2009. This amendment is effective for financial periods beginning on or after 1 January 2010.

This amendment deletes much of the existing wording in the standard to the effect that leases of land (where title does not pass) were operating leases. The amendment requires that in determining whether the lease of land (either separately or in combination with other property) is an operating or a finance lease, the same criteria are applied as for any other asset. This may have the impact in the future that more leases of land will be treated as finance leases rather than operating leases.

To meet the requirements of The Crown Estate Act 1961, and the directions made by the Treasury, the movements in the Statement of income and expenditure and in the Statement of comprehensive income are analysed between income and capital accounts. The capital account includes profits or losses arising on the sale of investment properties, the realisation of revaluation gains, the income arising on the grant of operating leases over land in exchange for a premium and the transfers between the capital and income account as required by Statutory provisions and Treasury Agreements as detailed in notes 1b and 1c.

The prior year figures have been represented with the figures rounded to £0.1 million. Previously the accounts were presented in £'000.

1b. The Crown Estate Act 1961 – Statutory provisions

The Crown Estate is a body corporate regulated by Statute and domiciled in The United Kingdom. The provisions of The Crown Estate Act 1961 specify certain distinctions between capital and income 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 income to be distinguished in the accounts and for provision to be made for recovering capital expenditure from income where appropriate and the accounts are prepared on that basis. The section then specifies that:

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

1c. Treasury agreements

The Crown Estate Act 1961 allows adjustments between income and capital specifically for the purposes of recouping capital expenditure out of income. As The Crown Estate is prohibited from borrowing, Treasury Agreements provide The Crown Estate with a reliable and predictable source of capital. By agreement with the Treasury, the mechanism by which the income account is charged is calculated as an amount equivalent to 9% of the previous year's gross revenue as disclosed in the Income Account, excluding service charges.

2. Significant accounting policies

2a. Properties

Properties are stated at fair value. They are valued by independent external valuers on an open market basis at the balance sheet date. The valuations have been carried out in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties and those held for development are held at fair value. They are valued on the basis of open market value. When The Crown Estate begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such. Such properties 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 an entry has occurred, or where an interest is expected to provide either a revenue cash flow or capital receipt within the foreseeable future. Offshore windfarms have been valued using a Special Assumption (as defined in the Red Book) that all sites where an option has been granted or a site allocated by The Crown Estate within Round 1 and Round 2 of the windfarm tender process are included even if the option is yet to be exercised and an Agreement for Lease is yet to be signed. Mineral bearing land, including marine dredged aggregates, is valued on the basis of market value.

Any surplus or deficit arising on revaluing investment properties is recognised in the Statement of income and expenditure in the capital account column.

Owner occupied properties

Properties occupied by The Crown Estate are stated at fair value. Any surplus or deficit arising is taken to revaluation reserve unless any loss in the period exceeds any cumulative gains previously recognised in the revaluation reserve. In this case the amount by which the loss in the period exceeds the net cumulative gain previously recognised is taken to the Statement of income and expenditure. These properties include dwellings occupied by The Crown Estate employees and pensioners at the Windsor estate.

Disposals

Disposals are recognised at the date of legal completion. Profits and losses arising on disposal are recognised through the Statement of income and expenditure in the capital account column. The profit or loss on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus additions in the period and costs of sale. Properties are transferred between categories at the estimated market value on the date of transfer.

Non-current property assets held for sale

Properties held with the intention of disposal at the balance sheet date are held at fair value. They are shown in the balance sheet as current property assets.

Impairment

As properties are carried at fair value there is no separate impairment review.

2b. Leases

The Crown Estate as lessor – operating leases

Leases granted to tenants where substantially all the risks and rewards of ownership are retained by The Crown Estate as lessor are classified as operating leases. Where a premium is received in exchange for the grant of a long leasehold interest, the premium is taken to deferred income and released to revenue in the capital account column over the life of the lease.

Under the requirements of The Crown Estate Act 1961 lease premiums received on the grant of a lease with a lease term of 30 years or less is taken to the Statement of income and expenditure in the year that it is granted. Such receipts are reflected in revenue in the income account column.

The Crown Estate as lessee – finance leases

Where an investment property is held under a head lease it is initially recognised as an asset as the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the head leaseholder is included in the balance sheet as a finance lease obligation.

Notes to the financial statements continued

2c. Other property, plant and equipment

These assets are stated at cost less accumulated depreciation and are depreciated on a straight line basis over their estimated useful lives as follows:

Vehicles: 4–10 years depending on the nature of the vehicle

Plant and equipment: 4–10 years

Computer equipment and software: 4 years

Office equipment: 4 years

2d. Jointly controlled entities

Jointly controlled entities are those entities in which The Crown Estate has significant influence, and joint-control over the financial and operating policies. Joint ventures are accounted for under the equity method. The Balance sheet incorporates The Crown Estate's share of the net assets of joint ventures. The Statement of income and expenditure incorporates the share of the joint venture's profit after tax including The Crown Estate's share of revaluation of investment properties.

2e. Jointly controlled assets

Jointly controlled assets are those assets which involve joint control and ownership by The Crown Estate and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity. The Crown Estate accounts for its share of the jointly controlled assets, its share of any liabilities jointly incurred with other ventures and its share of income and expenditure arising from these assets.

2f. Other investments – antiques and paintings

Antiques and paintings are shown at fair value. Any surplus or deficit arising from changes in fair value are recognised directly in the revaluation reserve. The last valuation was carried out during the year ended 31 March 2008. They are valued by recognised experts every three years on a rolling basis.

2g. Inventories

Inventories 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. Inventories are carried at The Crown Estate's valuation as the amounts are minimal.

2h. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2i. Revenue

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

Rental income

Rental income is recognised on a straight line basis over the term of the lease. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Where a rent free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of the lease commencement to the earliest termination date.

Other income

Other income categories comprise income from the sale of produce, service charge income, miscellaneous fees and sundry income.

2j. Taxation

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

2k. Pensions – Defined Benefit Plans

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 (PCSPS)

The PCSPS is an unfunded multi-employer defined benefit scheme. The Crown Estate is unable to identify its share of the underlying assets and liabilities and as such has accounted for the scheme as a defined contribution scheme. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2009/10, employers' contributions were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. For 2010/11 the employer contribution will be between 16.7% and 24.3% of pensionable pay. 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 has a defined benefit section (closed to new entrants with effect from 1 January 2008), a defined contribution section and a hybrid section (defined benefit for salaries up to £25,000 p.a. with money purchase above that level). The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. In accordance with IAS 19 the current service cost of the scheme is charged to the income account. The current service cost is The Crown Estate's share of the cost of the accruing benefits over the year on the IAS 19 assumptions. The contributions are agreed by The Crown Estate and the Trustees on the basis of triennial valuations using the projected unit method. At 30 September 2008, the value of the scheme's assets was £20.9 million and the actuarial value of the technical provisions exceeded these assets by 32%. 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 1.0% 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 with a further lump sum of £1.5 million contributed by The Crown Estate in the year ended 31 March 2010. Furthermore, the regular employer contribution rate has increased to 32.5% of pensionable earnings per annum.

Actuarial gains and losses are recognised in the Pension reserve. Following the implementation of IFRIC 14, pension scheme surpluses are only recognised to the extent that The Crown Estate has an unconditional right to utilise the surplus.

3. Significant judgements, key assumptions and estimates

3a. Trade receivables

The basis of arriving at the bad and doubtful debts provision is as follows:

For both rental and non-rental debts the managing agents responsible for the dealing are instructed to review each debt and what part of the debt should be provided for. Management centrally also review the exposure to different market sectors and make further provision where there is objective evidence of impairment.

3b. Unsettled rent reviews

Where the rent review date has passed, and the revised annual rent has not been agreed, rent is accrued from the date of the rent review based upon the estimation of the revised annual rent. The estimate is derived from knowledge of market rents for comparable properties.

3c. Operating leases

The Commissioners have exercised judgement in identifying that in all material respects, where The Crown Estate is the lessor such leases are operating leases. In exercising this judgement consideration has been given to the nature and economic life of the buildings which are all held within investment properties, and whether the risks and rewards of ownership remain with The Crown Estate. In instances where a premium has been received on the grant of a long lease the same considerations have been applied. In instances where a long lease has been granted in exchange for a premium and the building is 'substantial' in nature, the useful economic life of the building is judged to be greater than the lease length regardless of the lease term.

3d. Risk management

The Crown Estate actively monitors and mitigates risks. A detailed description on this process is included within 'The risk and control framework' section of the Governance report.

3e. Property valuations

Investment properties, investment properties being redeveloped and owner occupied properties are shown at market value in accordance with valuations carried out by independent valuers. Valuations are based on a number of key assumptions including an estimate of future rental income.

Notes to the financial statements continued

4. Segmental analysis

Business segmental analysis

All The Crown Estate operations are in the UK and are currently organised into five operating divisions.

The divisions are: urban estate, marine estate, rural estate, Windsor estate and The Crown Estate headquarters.

These divisions are the basis on which The Crown Estate monitors its operations and upon which decisions are made by the Board.

Note	Year ended 31 March 2010						Year ended 31 March 2009					
	Urban £m	Rural £m	Marine £m	Windsor £m	Crown HQ £m	Total £m	Urban £m	Rural £m	Marine £m	Windsor £m	Crown HQ £m	Total £m
Reflected in the Statement of income and expenditure:												
Rent and royalties	220.1	24.7	46.5	3.9	–	295.2	199.3	26.2	49.6	3.9	–	279.0
Sale of produce	–	0.2	–	0.2	–	0.4	–	0.4	–	0.3	–	0.7
Service charge income	21.6	–	–	–	–	21.6	18.3	–	–	–	–	18.3
Other income	1.3	0.2	0.1	2.5	–	4.1	3.8	0.1	0.1	2.1	–	6.1
Revenue recognised in the income account	243.0	25.1	46.6	6.6	–	321.3	221.4	26.7	49.7	6.3	–	304.1
Direct costs:												
Management fees and costs	(30.9)	(3.9)	(2.2)	(5.1)	–	(42.1)	(26.6)	(3.9)	(2.0)	(5.3)	–	(37.8)
Repairs and maintenance	(3.2)	(2.7)	(0.2)	(0.7)	–	(6.8)	(2.2)	(2.0)	(0.1)	(0.8)	–	(5.1)
Other expenditure	(20.9)	(1.0)	(1.3)	(2.4)	–	(25.6)	(12.9)	(1.1)	(1.8)	(2.2)	–	(18.0)
Total direct costs	(55.0)	(7.6)	(3.7)	(8.2)	–	(74.5)	(41.7)	(7.0)	(3.9)	(8.3)	–	(60.9)
Gross surplus	188.0	17.5	42.9	(1.6)	–	246.8	179.7	19.7	45.8	(2.0)	–	243.2
Indirect costs:												
Administrative expenses	6	(0.5)	(0.7)	(0.9)	–	(16.4)	(18.5)	(0.6)	(1.0)	(1.9)	–	(13.5)
Depreciation of tangible fixed assets	16	(0.3)	–	–	(0.3)	(2.2)	(2.8)	–	–	–	(0.3)	(2.2)
Total indirect costs	(0.8)	(0.7)	(0.9)	(0.3)	(18.6)	(21.3)	(0.6)	(1.0)	(1.9)	(0.3)	(15.7)	(19.5)
Total costs	(55.8)	(8.3)	(4.6)	(8.5)	(18.6)	(95.8)	(42.3)	(8.0)	(5.8)	(8.6)	(15.7)	(80.4)
Operating surplus reflected in the income account												
	187.2	16.8	42.0	(1.9)	(18.6)	225.5	179.1	18.7	43.9	(2.3)	(15.7)	223.7
Income from sale of leases reflected in the capital account	19.3	–	–	–	–	19.3	7.6	–	–	–	–	7.6
Net valuation profit/(loss) including profits on disposal	10	464.3	50.2	19.2	9.1	542.8	(1,223.6)	21.0	18.5	(10.6)	–	(1,194.7)
Share of profit/(loss) from joint ventures	17	36.4	–	–	–	36.4	(114.1)	–	–	–	–	(114.1)
Share of profit/(loss) from other property investments	18	4.0	–	–	–	4.0	(9.7)	–	–	–	–	(9.7)
Parliamentary Resource finance	12	–	–	–	2.3	2.3	–	–	–	–	2.3	2.3
Investment revenue	5	0.2	0.1	0.1	–	5.8	6.2	0.6	–	0.1	–	21.8
Total net surplus/(deficit) reflected in the Statement of income and expenditure	711.4	67.1	61.3	7.2	(10.5)	836.5	(1,160.1)	39.7	62.5	(12.9)	8.4	(1,062.4)

4. Segmental analysis continued

	Note	As at 31 March 2010						As at 31 March 2009					
		Urban £m	Rural £m	Marine £m	Windsor £m	Crown HQ £m	Total £m	Urban £m	Rural £m	Marine £m	Windsor £m	Crown HQ £m	Total £m
Balance sheet													
Non-current assets:													
Investment properties	15	5,028.4	964.0	443.7	114.3	–	6,550.4	4,532.0	919.9	409.4	104.0	–	5,965.3
Investment properties being redeveloped	15	57.0	–	–	–	–	57.0	21.4	–	–	–	–	21.4
Owner occupied property	15	26.5	0.2	–	62.3	–	89.0	24.7	0.2	–	61.6	–	86.5
Plant and equipment	16	0.6	–	0.2	0.8	6.7	8.3	0.6	–	0.1	0.7	7.1	8.5
Investment in joint ventures	17	212.7	–	–	–	–	212.7	185.7	–	–	–	–	185.7
Other property investments	18	30.0	–	–	–	–	30.0	27.5	–	–	–	–	27.5
Other investments	19	–	–	–	–	4.9	4.9	–	–	–	–	4.9	4.9
Receivables due after one year	20	13.2	0.1	–	–	–	13.3	11.3	0.1	–	–	–	11.4
Total non-current assets		5,368.4	964.3	443.9	177.4	11.6	6,965.6	4,803.2	920.2	409.5	166.3	12.0	6,311.2
Unallocated current assets							615.7						644.7
Unallocated liabilities							(941.7)						(941.1)
Net assets							6,639.6						6,014.8
Additions and capital expenditure on investment properties													
		358.3	18.8	15.5	1.8	–	394.4	265.0	16.1	21.4	4.2	–	306.7

5. Investment revenue

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Bank and other interest income	6.3	22.6
IAS 19 retirement benefits – net financing cost (note 8b)	(0.1)	(0.1)
	6.2	22.5

6. Administrative expenses

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Salaries, national insurance and pension costs	8.0	7.5
Reorganisation and early retirement costs	1.4	–
Commissioners' remuneration	0.5	0.5
Management and administration expenses	8.4	8.8
Auditor's remuneration	0.2	0.2
	18.5	17.0

Notes to the financial statements continued

7. Staff costs

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:

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Wages and salaries	16.4	14.4
Reorganisation and early retirement costs	1.4	–
National insurance costs	1.5	1.2
Current service cost – defined benefit scheme (note 8b)	0.4	0.4
Past service costs – defined benefit scheme (note 8b)	–	0.2
Pension contributions – other pension schemes	2.1	1.7
Total staff costs	21.8	17.9
Less capitalised staff costs	(6.6)	(4.3)
Staff costs reflected in the income account	15.2	13.6

The average number of permanent full-time equivalent employees during the year was made up as follows:

	Year ended 31 March 2010		Year ended 31 March 2009	
	Parliamentary resource account	Crown Estate income account	Parliamentary resource account	Crown Estate income account
Commissioners	8	–	8	–
General administration	29	161	30	146
Operating activities	–	207	–	207
	37	368	38	353

8. IAS 19 retirement benefits

The Crown Estate's policy is to recognise actuarial gains and losses immediately in each full year.

The Crown Estate operates a scheme in the UK with a defined benefit section (closed to new entrants with effect from 1 January 2008), a defined contribution section and a hybrid section (defined benefit for salaries up to £25,000 p.a. with money purchase provision above that level). This disclosure covers the defined benefit sections only.

A full actuarial valuation was carried out as at 30 September 2008 and updated to 31 March 2010 by a qualified independent actuary.

a Balance sheet and notes

	31 March 2010 £m	31 March 2009 £m
Reconciliation of the present value of the defined benefit obligation		
Present value of defined benefit obligation at beginning of year	18.9	20.3
Current service cost	0.4	0.4
Interest cost	1.2	1.3
Members' contributions	–	–
Actuarial loss/(gain) on plan liabilities	7.4	(2.6)
Benefits paid	(0.8)	(0.7)
Past service costs	–	0.2
Present value of defined benefit obligation at end of year	27.1	18.9
Analysis of the defined benefit obligation		
Present value of the unfunded defined benefit obligation	–	–
Present value of the funded defined benefit obligation	27.1	18.9

8. IAS 19 retirement benefits continued

	31 March 2010 £m	31 March 2009 £m
Reconciliation of fair value of plan assets		
Fair value of plan assets at start of year	19.8	21.2
Expected return on plan assets	1.1	1.2
Actuarial gain/(loss) on plan assets	3.6	(3.8)
Contributions by The Crown Estate	3.1	1.9
Contributions by Members	–	–
Benefits paid	(0.8)	(0.7)
Fair value of assets at end of year	26.8	19.8
Amounts to be recognised in the balance sheet		
Present value of funded obligation	27.1	18.9
Fair value of scheme assets	(26.8)	(19.8)
Net liability/(asset) in the balance sheet	0.3	(0.9)

b Amounts to be recognised in the Statement of income and expenditure

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Interest on obligation	1.2	1.3
Expected return on plan assets	(1.1)	(1.2)
Net financing cost – note 5	0.1	0.1
Current service cost	0.4	0.4
Past service cost	–	0.2
Total expense	0.5	0.7

c Total amount recognised in the Statement of comprehensive income

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Actuarial loss recognised in the Statement of comprehensive income	(3.8)	(1.1)

d Cumulative amount recognised in other comprehensive income

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Cumulative loss recognised in other comprehensive income	(4.0)	(0.2)

Notes to the financial statements continued

8. IAS 19 retirement benefits continued

e Scheme assets

	Planned 2011	£m	% 2010	£m	% 2009	£m	% 2008
Equities	40%	11.5	43%	6.5	33%	8.6	41%
Index-linked-gilts	60%	15.4	57%	13.3	67%	12.6	59%
Other		–		–		–	
Total market value of assets		26.9	100%	19.8	100%	21.2	100%
Expected rate of return on scheme assets		5.8%		5.5%		6.1%	

The overall expected return on assets is calculated as the weighted average of expected returns on each individual asset class. The expected return on equities is the sum of inflation, the dividend yield, economic growth and investment expenses. The return on gilts is the current market yield on long-term gilts. The expected return on other assets is the current interest rate set by the Bank of England. The expected return is based on the planned asset mix shown above.

The amount of Crown Estate related investments included in the fair value of the plan assets was £nil (31 March 2009 – £nil).

	31 March 2010 £m	31 March 2009 £m
Actual return on scheme assets	4.7	(2.5)

Principal actuarial assumptions at the balance sheet date

	2010	2009	2008
Discount rate	5.50%	6.50%	
Expected return on scheme assets at the end of the year	5.80%	5.50%	6.10%
Rate of increase in salaries	4.75%	3.75%	
Price inflation	3.75%	2.75%	
Pension increases	3.75%	2.75%	
Mortality	PNXA00LC	PNXA00MC	
Underpin	with 1% underpin	with 1% underpin	
Projection	Birth year	Birth year	

The assumed life expectations on retirement at age 60 are:

	31 March 2010	31 March 2009
Retiring today:		
Male	88.8	87.1
Female	91.4	89.7
Retiring in 20 years:		
Male	91.0	89.3
Female	93.5	91.7

Sensitivity analysis of the principal assumptions used to measure scheme liabilities:

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 1%	Increase/decrease by 19%
Rate of inflation	Increase/decrease by 1%	Increase/decrease by 15%
Rate of salary growth	Increase/decrease by 1%	Increase/decrease by 2%
Rate of mortality	Increase by 1 year	Increase by 3%

8. IAS 19 retirement benefits continued

f History of experience gains and losses

	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	31 March 2006 £m
Present value of defined benefit obligation	27.1	18.9	20.3	22.6	21.8
Fair value of assets	26.8	19.8	21.1	19.1	16.0
(Deficit)/surplus	(0.3)	0.9	0.8	(3.5)	(5.8)
Experience gain/(loss) on scheme liabilities:					
Amount (£'000)	63	342	(275)	61	263
Percentage of the present value of the scheme liabilities	0%	2%	-1%	0%	1%
Difference between the expected and actual return on scheme assets					
Amount (£'000)	3,556	(3,783)	(64)	(207)	1,711
Percentage of scheme assets	13%	-19%	0%	-1%	11%

For 2009/10 employer contributions were £3.1 million (£1.9 million in 2008/09). The Crown Estate's estimate of contributions to be paid to the Scheme in 2010/11 is £1.8 million. The employer's best estimate of contributions to the scheme by employees next year is £50,000.

For 2009/10 employer contributions to the Principal Civil Service Pension Scheme (PCSPS) were £1.4 million (£1.4 million in 2008/09).

9. Recovery of capital expenditure under The Crown Estate Act 1961 and by Treasury agreement

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1c		
Total recovered from the capital account	22.9	21.3
Depreciation of fixed assets charged as costs in the income account	2.8	2.5
Total recovered under the Treasury agreement	25.7	23.8

10. Net revaluation gains in property and investments (including profit/(loss) on disposal)

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Reflected in the Statement of income and expenditure:		
Revaluation of investment properties	428.1	(1,319.2)
Revaluation of owner occupied properties	-	(1.8)
Adjustment for gross up for deferred rent movement	58.9	109.3
Gain on disposal of investment properties	55.8	17.0
Net revaluation gains/(losses) on investment property	542.8	(1,194.7)
Share of revaluation gains/(losses) in joint ventures	28.7	(122.8)
Share of revaluation gains/(losses) in other property investments	2.5	(11.2)
Total reflected in the capital account	574.0	(1,328.7)
Total reflected in the Statement of income and expenditure	574.0	(1,328.7)
Reflected in the Statement of comprehensive income:		
Revaluation of owner occupied property	2.1	(25.3)
Total reflected in the Statement of comprehensive income	2.1	(25.3)
	576.1	(1,354.0)

Notes to the financial statements continued

11. Financial instruments

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 held on a floating interest basis. There is no currency risk as The Crown Estate only holds 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.

The financial assets held by The Crown Estate are cash equivalents and trade and other receivables (note 22). The Crown Estate's credit risk is primarily attributable to its trade receivables. The amount shown in the Balance sheet is net of provision for trade receivables. An allowance for impairment is made where there is evidence that the debt may not be received under the original terms of the receivable concerned. The balance for trade receivables is relatively low in relation to the value of the Balance sheet and therefore the credit risk attributable to receivables is considered to be low.

The financial liabilities held by The Crown Estate are trade and other payables (note 23), and the fair value of these liabilities equals their carrying value.

12. 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 income account and the detail is reported separately to Parliament as a Resource account.

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Parliamentary Resource finance	2.3	2.3

13. Statutory transfers

Under the provisions of The Crown Estate Act 1961 the following amounts are carried to the capital account from the income account.

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Moieties:		
Mineral dealings	9.6	10.9

14. Consolidated Fund payment

In accordance with section 1 of the Civil List Act 1952, the net surplus from the income account 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. £198 million was paid to the Treasury prior to the year end and a further £12 million is included within payables and was paid to the Treasury in May 2010.

15. Properties

	Investment properties Freehold £m	Investment properties Leasehold £m	Total investment properties £m	Investment properties being redeveloped £m	Owner occupied property £m	Total properties £m
At 1 April 2008	7,016.2	88.7	7,104.9	27.8	112.9	7,245.6
Less: deferred income from lease premiums received	(672.7)	–	(672.7)	–	–	(672.7)
Less: head lease liabilities	–	(0.6)	(0.6)	–	–	(0.6)
At valuation 1 April 2008	6,343.5	88.1	6,431.6	27.8	112.9	6,572.3
Additions	192.5	–	192.5	–	–	192.5
Capital expenditure	87.0	1.4	88.4	25.1	0.7	114.2
Transfers	(69.9)	27.2	(42.7)	42.7	–	–
Disposals	(242.1)	–	(242.1)	–	–	(242.1)
Revaluation	(1,208.9)	(36.1)	(1,245.0)	(74.2)	(27.1)	(1,346.3)
At valuation 31 March 2009	5,102.1	80.6	5,182.7	21.4	86.5	5,290.6
Deferred income from lease premiums received	782.0	–	782.0	–	–	782.0
Head lease liabilities	–	0.6	0.6	–	–	0.6
At 31 March 2009	5,884.1	81.2	5,965.3	21.4	86.5	6,073.2
At 1 April 2009	5,884.1	81.2	5,965.3	21.4	86.5	6,073.2
Less: deferred income from lease premiums received	(782.0)	–	(782.0)	–	–	(782.0)
Less: head lease liabilities	–	(0.6)	(0.6)	–	–	(0.6)
At valuation 1 April 2009	5,102.1	80.6	5,182.7	21.4	86.5	5,290.6
Additions	77.4	139.0	216.4	–	–	216.4
Capital expenditure	135.9	2.2	138.1	39.5	0.4	178.0
Transfers	37.0	(24.5)	12.5	(12.5)	–	–
Disposals	(261.6)	–	(261.6)	–	–	(261.6)
Revaluation	382.3	37.2	419.5	8.6	2.1	430.2
At valuation 31 March 2010	5,473.1	234.5	5,707.6	57.0	89.0	5,853.6
Deferred income from lease premiums received	840.9	–	840.9	–	–	840.9
Head lease liabilities	–	1.9	1.9	–	–	1.9
At 31 March 2010	6,314.0	236.4	6,550.4	57.0	89.0	6,696.4

The historic cost of the properties was £2,307.7 million (2009 – £1,833.7 million).

Investment properties identified by the Board as held for sale of £135.1 million (2009 – £221.9 million) at the year end are included within disposals and are re-classified as current assets in the Balance sheet.

The property portfolio was valued on 31 March 2010 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation standards published by The Royal Institution of Chartered Surveyors. Offshore windfarms were valued on 31 March 2010 on the basis of market value, in accordance with RICS Valuation Standards. In this valuation a Special Assumption (as defined in the Red Book) has been made that all sites where an option has been granted or a site allocated by The Crown Estate within Round 1 and Round 2 of the windfarm tender process are included even if the option is yet to be exercised and an Agreement for Lease is yet to be signed. This valuation assumption is consistent with that adopted at 31 March 2009.

Notes to the financial statements continued

16. Plant and equipment

	Plant and machinery £m	Office equipment £m	Motor vehicles £m	Total £m
Cost at 1 April 2008	1.3	9.8	1.6	12.7
Additions	0.2	5.8	0.1	6.1
Disposals	–	–	(0.1)	(0.1)
Cost at 31 March 2009	1.5	15.6	1.6	18.7
Depreciation at 1 April 2008	0.9	5.8	1.2	7.9
Charge	0.1	2.2	0.2	2.5
Disposals	(0.1)	–	(0.1)	(0.2)
Depreciation at 31 March 2009	0.9	8.0	1.3	10.2
Net book value at 1 April 2008	0.4	4.0	0.4	4.8
Net book value at 31 March 2009	0.6	7.6	0.3	8.5
Cost at 1 April 2009	1.5	15.6	1.6	18.7
Additions	0.4	2.1	0.2	2.7
Disposals	(0.2)	–	(0.1)	(0.3)
Cost at 31 March 2010	1.7	17.7	1.7	21.1
Depreciation at 1 April 2009	0.9	8.0	1.3	10.2
Charge	0.4	2.3	0.1	2.8
Disposals	(0.1)	–	(0.1)	(0.2)
Depreciation at 31 March 2010	1.2	10.3	1.3	12.8
Net book value at 31 March 2010	0.5	7.4	0.4	8.3

17. Investment in joint ventures

In April 2007 The Crown Estate formed a joint venture partnership with Hercules Unit Trust. The partnership, known as The Gibraltar Limited Partnership, operates in the United Kingdom. The Crown Estate has a 50% interest in the partnership. Its principal activity is property investment through its investment in Fort Kinnaird Shopping Park in Edinburgh, Gallagher Retail Park in Cheltenham and the Shires Retail Park in Leamington Spa.

In June 2008 The Crown Estate formed a co-ownership agreement with Morley Fund Management for an interest in property at Crown Point Shopping Park, Leeds. The Crown Estate has a 50% interest in the property.

In December 2008 The Crown Estate formed a co-ownership agreement with CGNU Life Assurance for an interest in property at Princes Street, London. The Crown Estate has a 66.67% interest in the property.

The Crown Estate's share of assets and liabilities and revenues and expenses of the joint ventures were:

	Gibraltar LP £m	Crown Point £m	Princes Street £m	Total £m
Share of assets and liabilities as at 31 March 2009:				
Non-current assets	213.8	48.0	4.2	266.0
Current assets	24.7	1.3	0.1	26.1
Gross assets	238.5	49.3	4.3	292.1
Current liabilities	(5.1)	(1.2)	(0.1)	(6.4)
Long-term bank loan	(100.0)	–	–	(100.0)
Share of net assets	133.4	48.1	4.2	185.7
Share of revenues and expenses for the year ended 31 March 2009:				
Income	12.7	2.5	0.1	15.3
Expenses	(6.5)	(0.1)	–	(6.6)
Share of profit on ordinary activities reflected in the income account	6.2	2.4	0.1	8.7
Share of loss on revaluation of investment reflected in the capital account	(91.6)	(23.4)	(7.8)	(122.8)
Total share of income reflected in the Statement of income and expenditure	(85.4)	(21.0)	(7.7)	(114.1)
Share of assets and liabilities as at 31 March 2010:				
Non-current assets	214.6	58.5	4.5	277.6
Current assets	37.7	1.6	0.3	39.6
Gross assets	252.3	60.1	4.8	317.2
Current liabilities	(3.2)	(1.2)	(0.1)	(4.5)
Long-term bank loan	(100.0)	–	–	(100.0)
Share of net assets	149.1	58.9	4.7	212.7
Share of revenues and expenses for the year ended 31 March 2010:				
Income	11.4	3.4	0.3	15.1
Expenses	(6.9)	(0.4)	(0.1)	(7.4)
Share of profit on ordinary activities reflected in the income account	4.5	3.0	0.2	7.7
Share of profit on revaluation of investment reflected in the capital account	18.2	10.2	0.3	28.7
Total share of income reflected in the Statement of income and expenditure	22.7	13.2	0.5	36.4

Notes to the financial statements continued

17. Investment in joint ventures continued

Summary of movement in investment in joint ventures

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
At start of period	185.7	203.3
Net equity (divestment)/additions	(2.9)	104.8
Surplus/(deficit) on revaluation of investment properties	28.7	(122.8)
Distributions receivable	(6.5)	(8.3)
Share of profit	7.7	8.7
At end of period	212.7	185.7

In respect of The Gibraltar Limited Partnership, the partnership is dependent for its working capital requirements on cash generated from operations and a £200 million credit facility. The partnership is required to comply with a number of covenants in relation to its credit facility, the principal of which is that the amount of the loan drawn must not exceed 35% of the value of the partnership properties. As at 31 March 2010 the partnership has placed £55 million (31 March 2009 – £35 million) of cash loaned from the limited partners in a blocked account in order to maintain compliance with this covenant. The General Partner is of the view that the properties will not decrease in value over the next 12 months and therefore that this covenant will not be breached. In the event of a covenant breach, the General Partner considers, at such a low loan to value ratio covenant, it would be possible to negotiate an increased covenant albeit with a higher margin on the loan.

18. Other property investments

In September 2006, The Crown Estate acquired a 4.9% share of Lend Lease Retail Partnership, an English Limited Partnership. The Partnership provides an equity interest in both Bluewater Shopping Centre, Kent and Touchwood Court Shopping Centre, Solihull.

	31 March 2010 £m	31 March 2009 £m
Net income received	1.5	1.5
Share of revaluation of investment	2.5	(11.2)
Reflected in the Statement of income and expenditure	4.0	(9.7)
Share of net assets reflected in the Balance sheet	30.0	27.5

19. Other investments

	31 March 2010 £m	31 March 2009 £m
Antiques and paintings	4.9	4.9

20. Receivables due after one year

	31 March 2010 £m	31 March 2009 £m
Mortgages and loans	1.0	1.6
Other financial assets	1.8	–
Other receivables	10.5	9.8
	13.3	11.4

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21. Inventories

	31 March 2010 £m	31 March 2009 £m
Inventories for resale	0.1	0.1
Stores	0.1	0.1
	0.2	0.2

22. Trade and other receivables

	31 March 2010 £m	31 March 2009 £m
Trade receivables	10.1	10.0
Other financial assets	0.1	0.0
Other receivables	5.7	12.5
Prepayments	0.1	2.2
Accrued income	1.5	6.9
	17.5	31.6

Trade and other receivables are shown after deducting the provision for bad and doubtful debts of £22.7 million (£19.5 million as at 31 March 2009). The increase in the trade receivable impairment reflects the application of The Crown Estate's provisioning policy in respect of bad and doubtful receivables.

The Board considers that the carrying amount of the trade and other receivables approximates to their fair value.

	31 March 2010 £m	31 March 2009 £m
Trade and other receivables outside their payment terms not yet provided are:		
Within credit terms	–	–
Past due date but not impaired:		
0–1 month	10.3	12.4
1–2 months	1.0	1.1
More than 2 months	1.7	1.3
	13.0	14.8
Bad and doubtful receivables provision		
Other expenditure includes the movement on the provision for bad and doubtful receivables as follows:		
Provision at the beginning of the year	19.5	6.1
Income written off during the year	(1.3)	(0.4)
Increase in the provision for the year	4.5	13.8
Provision at the end of the year	22.7	19.5

Notes to the financial statements continued

23. Payables

	31 March 2010 £m	31 March 2009 £m
Amounts falling due within one year:		
Trade payables	1.4	0.4
Rents received in advance	46.1	50.9
Taxes and social security	6.7	7.7
Other payables	6.0	69.0
Consolidated Fund	12.0	10.0
Accruals and deferred income	23.7	19.3
Deferred income on receipt of lease premiums	8.1	7.6
Obligations under finance leases	0.3	–
	104.3	164.9
Amounts falling due after more than one year:		
Rents received in advance	0.8	1.3
Deferred income on receipt of lease premiums	832.8	774.4
Obligations under finance leases	3.5	0.5
	837.1	776.2

24. Leasing

Operating leases with tenants

The Crown Estate leases out all of its investment properties under operating leases for average lease terms of 36 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases, are as follows:

	31 March 2010 £m	31 March 2009 £m
Less than one year	209.6	192.8
Between two and five years	661.8	646.4
More than five years	3,417.7	3,097.6
	4,289.1	3,936.8

Contingent rents receivable were £20.0 million at 31 March 2010 (£17.4 million at 31 March 2009). The figure for 31 March 2009 is restated to correctly reflect the actual contingent rents for that year. Previously this figure represented the projected contingent rents.

Obligations under finance leases

Finance lease liabilities are payable as follows:

	31 March 2010			31 March 2009		
	Minimum lease payments £m	Future finance charges £m	Present value of lease obligations £m	Minimum lease payments £m	Future finance charges £m	Present value of lease obligations £m
Less than one year	0.3	–	0.3	–	–	–
Between two and five years	1.1	(0.2)	0.9	0.1	–	0.1
More than five years	51.7	(49.1)	2.6	3.2	(2.8)	0.4
	53.1	(49.3)	3.8	3.3	(2.8)	0.5

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25. Reconciliation of operating surplus to net cash inflow from operating activities

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Operating surplus – income account	225.5	223.7
Depreciation	2.8	2.5
Decrease in receivables	11.9	29.9
Decrease in payables	(0.4)	(6.3)
Net cash inflow from operating activities	239.8	249.8

26. Analysis of change in cash equivalents

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Balance at start of period	390.1	518.4
Net cash inflow/(outflow)	72.8	(128.3)
Balance at end of period	462.9	390.1

27. Subsidiary undertakings

Several Crown Estate properties are managed by management companies under the control of, or in joint venture with, The Crown Estate Commissioners.

These subsidiary undertakings are not material by value or 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 (held 100% by The Crown Estate Commissioners):

- Fitzgeorge and Fitzjames Management Company Limited
- RM Site Management Limited
- Urbanlease Property Management Company Limited
- Bessborough Gardens Estate Management Company Limited
- Gibraltar Management Limited
- TCE December GP (Holdco) Limited

28. Capital commitments

At 31 March 2010 The Crown Estate had committed to make capital expenditure of £448 million (£500 million at 31 March 2009) and had authorised additional expenditure of £20.0 million (£63.7 million at 31 March 2009).

29. Contingent liabilities

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

30. 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 where he is a salaried partner and David Fursdon, non-executive director who is a non-executive consultant of Smiths Gore. Smiths Gore are amongst The Crown Estate's managing agents and as such receive fees for their services. Neither Philip Everett nor David Fursdon had any 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 £1,856,696 (£1,860,542 in the year ended 31 March 2009), for services they provided across the whole of The Crown Estate.

31. Third party deposits

At 31 March 2010 The Crown Estate held £16.0 million (£18.7 million at 31 March 2009) on deposit on behalf of third parties.

32. Post balance sheet events

On 15 June 2010 the financial statements were approved by the audit committee on behalf of the Board prior to certification by the Comptroller and Auditor General on 29 June 2010. On this date the financial statements are deemed to be authorised for issue. Post balance sheet events were considered up to this date and none were identified.

Ten-year record (unaudited)

Based on the Financial Statements for the years ended 31 March:

Income account	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 Restated £m	2009 £m	2010 £m
Revenue	204.9	223.5	230.0	237.8	245.4	252.3	262.1	251.6	304.1	321.3
Direct operating costs	(26.7)	(30.1)	(27.3)	(30.2)	(31.9)	(31.6)	(38.7)	(59.9)	(60.9)	(74.5)
Gross surplus	178.2	193.4	202.7	207.6	213.5	220.7	223.4	191.7	243.2	246.8
Administrative expenses	(10.7)	(10.7)	(11.3)	(11.0)	(11.7)	(12.3)	(13.3)	(15.5)	(17.0)	(18.5)
Indirect operating expenses	–	–	–	(0.9)	(2.0)	(1.0)	(0.8)	(0.7)	–	–
Net revenue surplus	147.7	163.3	171.1	176.9	184.8	190.8	200.1	213.4	226.5	210.7
Consolidated Fund payment	147.8	163.5	170.8	173.0	185.7	188.0	200.0	211.0	230.0	210.0
Balance sheet										
Investment and owner occupied properties	3,870.9	4,032.7	4,067.4	4,408.9	4,812.0	5,685.4	6,572.5	7,245.6	6,073.2	6,696.4
Non-current investment property assets held for sale	–	–	–	–	–	–	–	12.0	221.9	135.1
Investment in joint ventures	–	–	–	–	–	–	–	203.3	185.7	212.7
Other property investments	–	–	–	–	–	–	42.1	38.6	27.5	30.0
Other plant, property and equipment	2.4	2.1	2.1	2.2	3.2	4.6	5.6	4.9	8.5	8.3
Other investments	4.0	4.0	4.0	4.1	5.0	5.0	4.9	4.9	4.9	4.9
Receivables due after one year	–	–	–	–	0.1	0.1	13.8	3.2	11.4	13.3
Current assets	146.6	167.0	185.4	214.1	306.7	287.1	494.6	590.1	421.9	480.6
Pension asset	–	–	–	–	–	–	–	0.9	0.9	–
Current liabilities	(20.2)	(26.0)	(39.8)	(36.1)	(36.6)	(45.6)	(42.0)	(103.1)	(164.9)	(104.6)
Non current liabilities	–	–	–	–	–	–	–	(666.7)	(776.2)	(837.1)
Capital and reserves	4,003.7	4,179.8	4,219.1	4,593.2	5,090.4	5,936.6	7,091.5	7,333.7	6,014.8	6,639.6

The 2008 figures are restated to reflect the adoption of IFRS. The figures shown in prior year columns are as previously reported under UK GAAP.

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