imagine...

The Crown Estate Annual Report and Accounts 2012–13

THE CROWN ESTATE

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

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Investing in tomorrow...

The Crown Estate is committed to its long-term vision. We are responsible for maintaining and enhancing the value of our estate – and its income – in a way that is sustainable for the future. So whilst we operate as a commercial organisation, we are equally committed to acting with integrity and stewardship, and investing strategically for the long term.

...sustainable growth, year after year after year

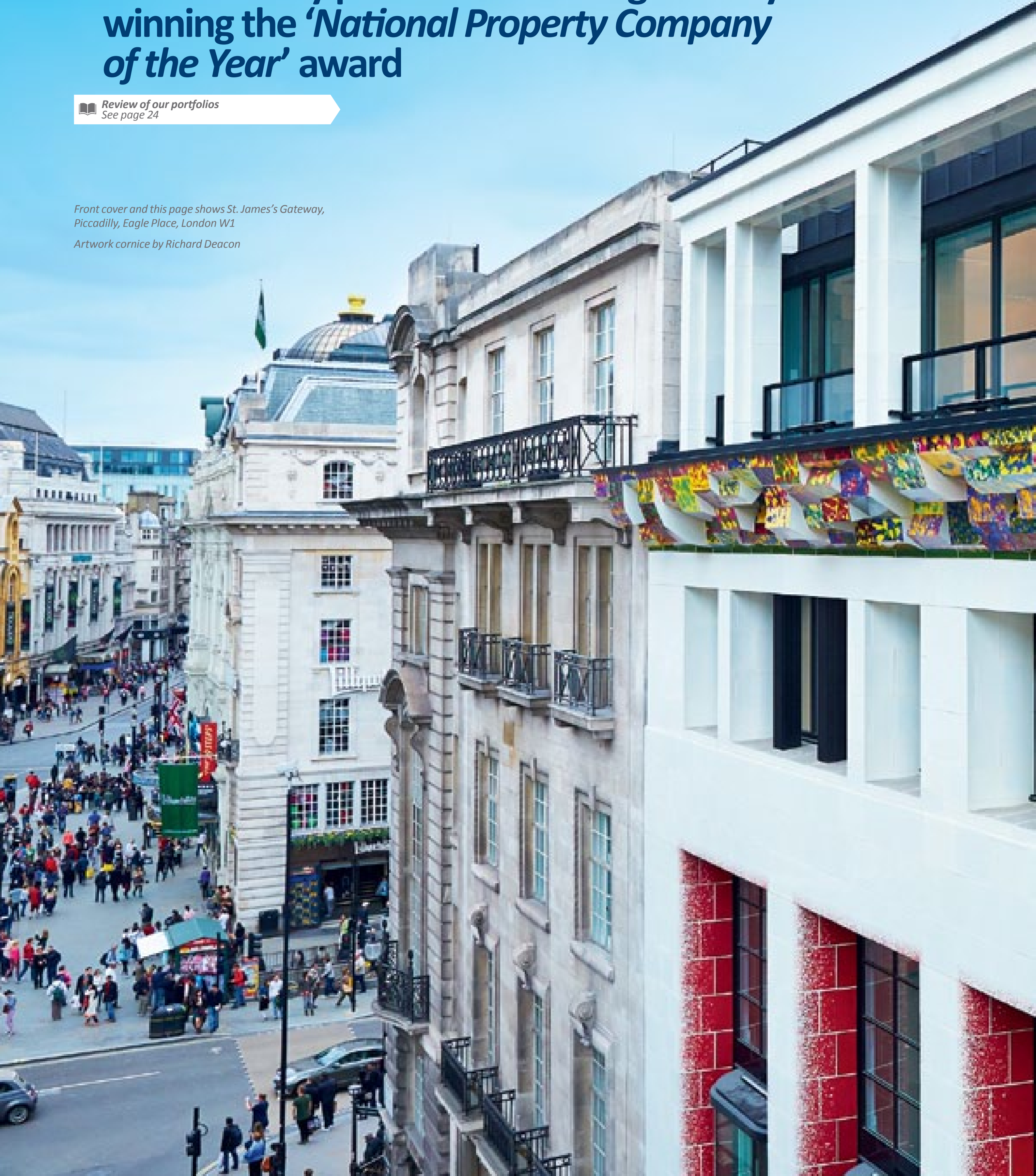
Finance director's review
See page 58

...a team of expert people, driven by core values

How we create value
See page 8

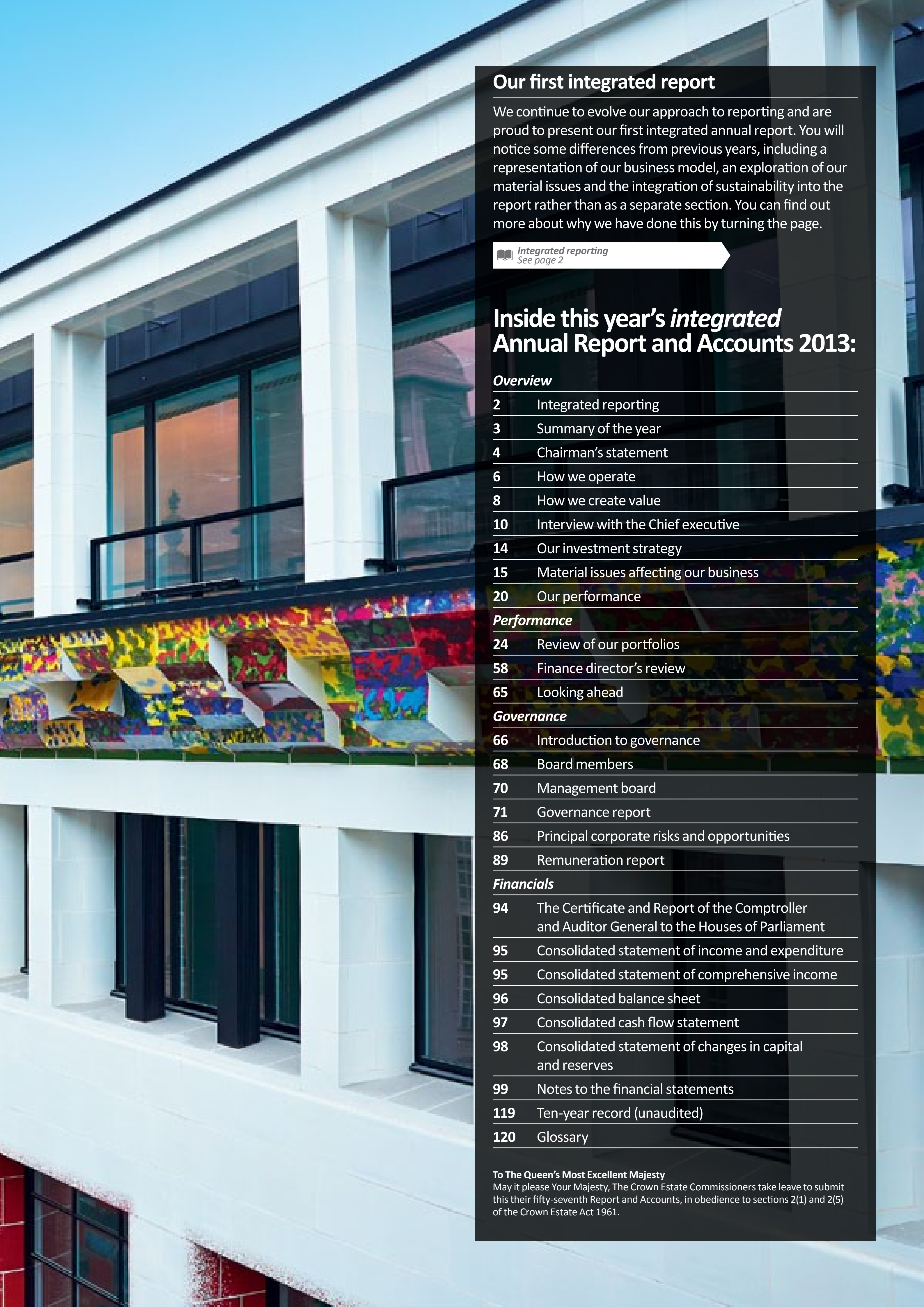
...extraordinary performance recognised by winning the *'National Property Company of the Year'* award

Review of our portfolios
See page 24



Front cover and this page shows St. James's Gateway, Piccadilly, Eagle Place, London W1

Artwork cornice by Richard Deacon



Our first integrated report

We continue to evolve our approach to reporting and are proud to present our first integrated annual report. You will notice some differences from previous years, including a representation of our business model, an exploration of our material issues and the integration of sustainability into the report rather than as a separate section. You can find out more about why we have done this by turning the page.

Integrated reporting
See page 2

Inside this year's *integrated* Annual Report and Accounts 2013:

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

Integrated reporting

Why integrated reporting?

An integrated report is a concise communication about how an organisation creates value in the short, medium and long term. Sustainability is core to everything we do and a driving factor behind our strategy and long-term commercial success; integrated reporting is an ideal way of expressing this.

Who else is doing this?

We are playing an important role in defining the future of integrated reporting by participating in the International Integrated Reporting Council's (IIRC) pilot programme. Through this, we are sharing our experiences with other leading companies and supporting the development of an international framework for better reporting.

What next?

Integrated reporting is evolving and this, our first integrated annual report, is an important step in the journey. In future reports, we intend to:

- Incorporate measurement of the broader value we deliver to the UK – what we call Total Contribution.
- Explore the connections and inter-dependencies between the resources and relationships* that sustain our business and to which we contribute.
- Demonstrate how we are embedding integrated thinking into our business.

Find out more

International Integrated Reporting Council:
www.theiirc.org

The Crown Estate's Total Contribution:
www.thecrownestate.co.uk/about-us/total-contribution

* The IIRC refers to these as 'capitals' in its Draft Framework.

Summary of the year

We are privileged to own and manage some of the most diverse assets in the UK. Despite today's tough economic climate, we've had yet another strong year – an achievement which wouldn't have happened without the passion and expertise of our team. We are committed to maintaining and enhancing the value of our estate – and its income – in a way that is sustainable for the future. Here's a snapshot of what we've achieved...

£252.6 million

↑ 5.2%

Net revenue surplus (profit) up 5.2 per cent compared to £240.2 million in 2012

11.3%

The Crown Estate total return. Outperforming our target of 9.9 per cent (IPD bespoke)

£8.1 billion

↑ 7.2%

Property value up 7.2 per cent compared to £7.6 billion in 2012

(including share of joint venture properties and other property investments)

£8.6 billion

↑ 7.0%

Capital value up 7.0 per cent compared to £8.1 billion in 2012

Achieved

Business in the Community (BITC) Platinum Big Tick

+19%

+19%

Improvement in carbon emission intensity (directly managed properties)

0.65%

of net revenue surplus invested in stewardship projects

Key performance indicators
See page 20

Chairman's statement

This year marks another excellent performance by The Crown Estate against a tough economic backdrop. Once again, we've outperformed the market, growing the underlying value of our assets and delivering a record net revenue surplus of over £250 million.

The Crown Estate is proud to have contributed £252.6 million to the nation's finances in a time of austerity, despite an extremely challenging economic climate. We're a total returns business, and this revenue performance has been achieved alongside an impressive growth in the underlying value of our assets by 7.2 per cent to £8.1 billion – an historic high.

Our performance in recent years has been measured against our 'Going for Gold' targets, which have served us well. The achievement of our £250 million landmark – a year early – now means that we can confidently look further to the future and set out an ambitious new plan for the ongoing development of the business for the next decade.

The diversity of our business and the quality of our assets give us a great advantage, but it's the way in which we actively work those assets, taking a long-term view, that is the distinctive hallmark of The Crown Estate. Over the years we've also continued to build our core expertise and to assemble a team who work hard to deliver results, with a clear sense of purpose and pride in a job well done. Our values – commercialism, integrity and stewardship – sit at the heart of our business and add value to everything we do. This year we were particularly proud to win the Estates Gazette's '2012 Property Company of the Year' award. The judges summed up their decision by saying "there is something magical about The Crown Estate". We welcome the recognition, but application and initiative, rather than wizardry, underpin the many notable achievements of the year, some of which are highlighted in this report, and I thank the team for their tireless efforts and give them full credit.

We are proud to exceed our targets despite a challenging economic climate.

£252.6m

Record net surplus

The past 12 months have indeed been challenging, but 2012 has also been a year of special celebration for London and the UK. The Queen's Diamond Jubilee and the London 2012 Olympic and Paralympic Games brought the whole country together in a glorious summer of celebration. It also served to underpin international interest and continued confidence in London as a global capital. We take great pride in how we continue to invest and improve the public face of our capital city, and to do this working in partnership with the best – ranging from our international partners to long-standing local stakeholders. Outside of London it has also been a busy year. We've continued to develop our wider regional portfolios – Urban, Rural and Coastal – and have achieved many important new milestones in our growing offshore renewable business, again, working with great partners.

It's not just hard work that underpins our continued strong results. The Crown Estate is an enthusiastic innovator, pushing boundaries and striving for excellence. In January 2012, we welcomed Alison Nimmo CBE as our new CEO, and I'm pleased to say that it's been a seamless transition, with momentum maintained at the same time as fresh thinking is brought into the business. Our Annual Report this year reflects some of our new approach, adopting the principles of integrated reporting and reflecting how we are embedding sustainability throughout the business in a way that will drive long-term added value for both us and our customers. It also reflects a focus on our total business ethos – one team with a common sense of purpose.

We have an excellent working relationship with the Treasury and work with the grain of government, both national and devolved, without ever compromising the independence that is a key element of the Crown Estate Act 1961. Following criticisms raised by the Scottish Affairs Committee, we've now resolved all the specific points of contention and are working on the longer-term aim of transferring more responsibility to local communities – with promising initial pilots of Local Management Agreements on North Uist and Skye. At the same, time we apply the full strength of The Crown Estate as a UK-wide organisation to advance the ambitious plans for wind, tidal and wave power around the Scottish coastline.

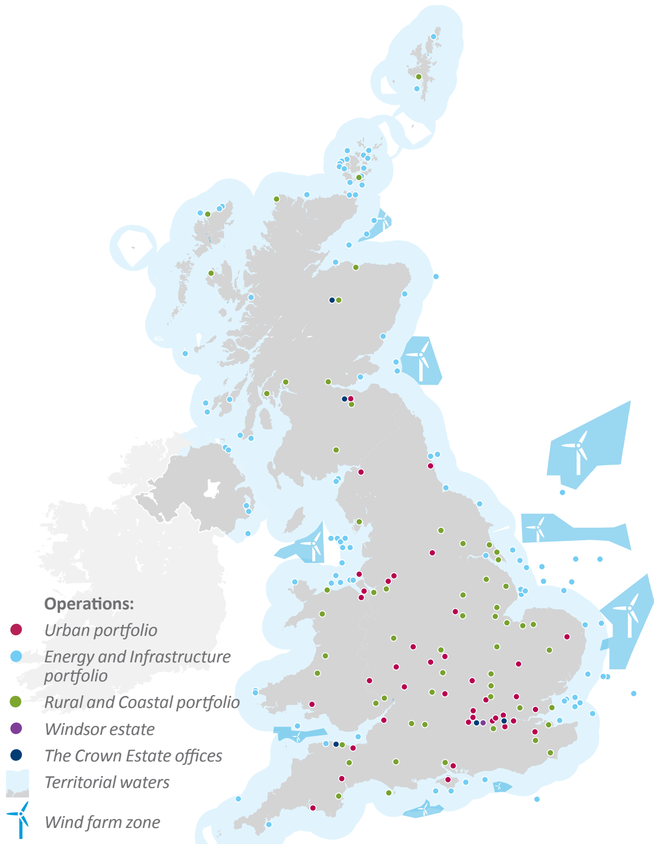
One of my key responsibilities as chairman is to ensure good governance, and we've again maintained the high standards expected of us. Integrity and trust are behaviours more important than ever in today's business world. Our Board members bring a critical balance and wealth of skills and experience to our organisation, and this complements the skills of our executive team. Later this year, Dinah Nichols CB will be stepping down from her role as Board counsellor, following a decade of service as a Board member and then counsellor. On behalf of the Board, I would like to thank her for the expertise, commitment and sound judgement she has brought to the Board. We will all miss her as both a colleague and as a friend.

As we plan for the year ahead, we expect, and indeed are preparing for, another challenging period. However, our prime asset base, strong balance sheet, development pipeline and our skilled people mean that we are well-positioned to continue to grow the business and deliver results.

Sir Stuart Hampson
Chairman

How we operate

The Crown Estate is a diverse business governed by an Act of Parliament. We are responsible for maintaining and enhancing the value of our estate, with a particular focus on management for the long term. Across our four portfolios, and in line with our core values, we deliver commercial return with integrity and are committed to the careful stewardship of the assets we have been trusted to manage.



This map is for illustrative purposes only.

Energy and Infrastructure portfolio

Our activities in this area are diverse, ranging from the issue of licences or leases for renewable energy generation, carbon capture and storage, wave and tidal, mineral aggregates and cables and pipelines. We own almost the entire seabed out to the 12 nautical mile territorial limit around the UK.

Review of our portfolios
See page 35

Rural and Coastal portfolio

The Rural and Coastal portfolio is one of the largest and most diverse portfolios managed nationwide. The rural estate comprises almost 140,000 hectares (345,000 acres), including agricultural land and forests, together with minerals, aquaculture and residential and commercial property in England, Scotland and Wales. Our coastal assets include the management of marinas and moorings, and we have an interest in many ports and harbours.

Review of our portfolios
See page 47

Urban portfolio

The Urban portfolio consists principally of our core holdings in London's West End and prime retail schemes in major towns and cities around the country.

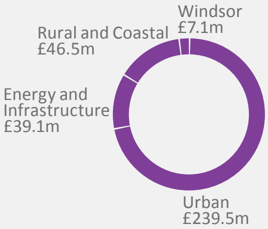
Review of our portfolios
See page 24

Windsor estate

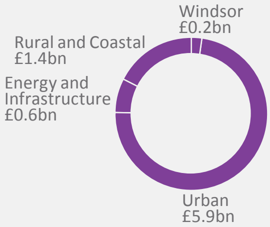
The Windsor estate covers around 6,400 hectares (15,800 acres) and includes Windsor Great Park, Home Park, The Royal Landscape, forestry, residential properties and some commercial properties including Berkshire and Swinley Forest golf clubs and Ascot Racecourse.

Review of our portfolios
See page 54

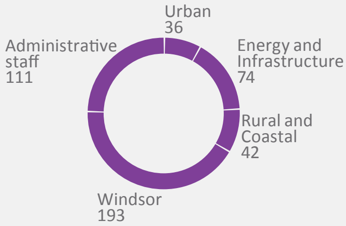
Revenue
2013



Valuation
2013 (including share of joint venture property and other property investments)



Average number of employees
2013



How we create value

We are commercially driven, but take a long-term and sustainable view of total return. Our net surplus (profit) goes to the Treasury and we also make a positive economic, social and environmental contribution in the areas where we do business.

Our assets

Our assets range across commercial and residential real estate, agricultural land, parkland and forestry, and include over half of the foreshore and most of the seabed around the UK.

One business, one team, one common sense of purpose

Asset transactions

We buy, develop and sell property with a view to optimising the value of the estate. We raise capital principally by selling property, as we are unable to borrow, the proceeds from which are reinvested in the estate.

Proactive management

We enhance the value of our portfolio through our core activities of asset, investment, development and property management. We employ a team of specialists with a depth of expertise and knowledge of their markets, which provides us with a source of competitive advantage – a benefit which is passed on to our customers.

Strategic partnerships

Our strategic partnerships provide working capital for the business to continue reinvestment across our portfolios' core areas, where we benefit from competitive advantage and critical mass.

Long-term portfolio optimisation

We look beyond short-term market volatility and concentrate instead on our medium- to long-term objectives with a focus on sustainability, customer focus and stakeholder engagement.

Interview with the Chief executive

After 18 months in the post of Chief executive, Alison Nimmo gives her views on the organisation and its performance, and looks ahead to her vision for 2022.

It has been a great year. How has the business continued its strong performance despite the tough economic climate?

The team has pulled together and worked very hard to deliver an exceptional set of results. This has not been easy in such a challenging business environment. The prolonged downturn and the poor weather have meant it's been a tough year for many of our tenants, and we have seen a number of household names disappear from the high street. In addition, the changing policy context in a number of our core business areas, not least in energy, has caused some short-term uncertainty for us and our partners.

Nevertheless, the wide diversity of our business, coupled with our strength in prime retail markets and London's West End, has underpinned our strong performance. This year we have refocused much of our energy into working our existing assets, customer service and smart, active asset management. This has paid real dividends with arrears at less than 4 per cent of rental income and a steady growth in income and underlying asset values. Given the strength of London's prime property market, driven in particular by overseas buyers, we have taken the opportunity to dispose of a number of significant non-core assets on very favourable terms, allowing us to bank profits and bolster our balance sheet.

Our regional portfolio has proved relatively resilient in the downturn, delivering over £95 million of income this year, and we have been able to further grow our presence in this market. In addition, our Rural and Coastal portfolio has once again proved highly defensive, delivering consistent capital and rental returns.

What are the highlights of the year?

Regent Street continues to go from strength to strength as an iconic global retail success story and, increasingly, as a great office location. It has also been enormously rewarding to see our ambitious plans for St. James's really start taking shape with the completion of our Gateway project, Trafalgar House and the securing of planning permission for our landmark St. James's Market scheme. We were also pleased to acquire Princes House, Piccadilly – a rare freehold purchase and a key to strengthening our holdings in St. James's.

Review of our portfolios
See page 24

The team has pulled together and worked very hard to deliver an exceptional set of results. The wide diversity of our business, coupled with our strength in prime retail markets and London's West End, has underpinned our strong performance.

Interview with the Chief executive continued

5 GW

On one day in March, wind power in the UK generated over 5 GW of electricity for a 24 hour period; enough to power the equivalent of four out of every 10 British homes.

It's been a time of significant achievement for our Energy and Infrastructure portfolio in a year where energy security and decarbonisation have been in the headlines. On one of our coldest March days since records began, wind power in the UK generated over 5 GW of electricity for a 24 hour period; enough to power the equivalent of four out of every 10 British homes.

It has been a busy year for Windsor, where our team welcomed almost three million visitors and played a front-line role in the celebrations for the Queen's Diamond Jubilee.

But our total contribution, the value we add to UK plc, goes well beyond just the 'bottom line'. We have calculated that each of our Crown Estate employees directly contribute around £709,000 to the UK economy; we support approximately 94,000 jobs across our wide-ranging activities (equivalent to the population of Hartlepool) and around 23,000 students and other visitors are involved in educational events supported by us – that's a very significant contribution in addition to our financial returns to the Treasury.

And this year, we have won more awards than ever – a real testament to the quality of our people as well as the projects they have delivered. Two were particularly special for the business – the Scottish Green Energy Award for sustainable development and the Business in the Community (BITC) Platinum Big Tick.

We all work together as one business, one team, and with a common sense of purpose.

Looking ahead, what next?
What's the strategy for the business for the next 10 years?

The past year has provided a great opportunity to bring the whole Crown Estate team together, to take stock of what has been achieved and to plan for the future. We have taken a long, hard look at key areas such as: our business model and changing business environment; what makes us distinctive, different and successful; our people and culture; and how we operate. As part of this engagement process we have drawn a 'Big Picture' showing how we all work together as one business, one team, and with a common sense of purpose. The exercise served to reinforce our absolute commitment to our values – commercialism, integrity and stewardship – and through this we have developed a long-term plan which builds on the best of our successful model. This year marks a transition from 'going for gold' to our new 10 year plan – Vision 2022.

Vision 2022 is underpinned by three strategic objectives to:

- drive sustainable growth across the business;
- be a responsible business; and
- put our people and customers at the heart of our business.

There will be a stronger emphasis on growing our core markets, working with a small number of strategic partnerships and embedding sustainability within the DNA of the business.

This year's Annual Report is the first step in embracing the principles of integrated reporting. This method of reporting is acknowledged by most industry analysts as an idea whose time has come. In essence, this means being very clear about how our business is focused on 'optimising' performance and sustaining it over the long term. It chimes perfectly with our values, our assets and our ambitions.

The organisation feels a great sense of responsibility for the strategic assets it manages and the role it has been given.

By bringing together our strategic aims with our operational performance, we hope that it will help us to improve the way we make decisions and thereby build a stronger and even more sustainable business. Adopting the concept of integrated reporting also means that instead of having a separate sustainability section this year, we are weaving all aspects of sustainability into the fabric of this Annual Report.

You have been here for over a year – how has it been?

The Crown Estate is a very special organisation: relatively small at 450 employees, but with a huge reach and influence. The organisation feels a great sense of responsibility for the strategic assets it manages and the role it has been given, balancing commercialism and stewardship. The Board and the executive team take on this challenging role with great commitment and passion, and this formula delivers consistently strong results. My first year has been a busy one – it's a diverse and complex business to master – but hugely challenging, enjoyable and absolutely fascinating. And I am very proud of what the team has achieved this year, not least delivering a contribution of over £250 million to the nation's finances during a time of austerity.

What is the main focus for the year ahead?

To ensure delivery, success and excellence in everything that we do...

We are a total returns business and we need to be smart in delivering another exceptional performance against what looks set to be another tough year.

We intend to focus on quality lettings and smart asset management and we aim to deliver the largest development programme in our history. We need to work hard to deliver for our tenants, customers and investment partners and we also need to manage our capital position to underpin Vision 2022 and grow the business. As an organisation, we will be keeping a vigilant eye on our costs and will be modernising our governance and actively managing our risk exposure. In striving to be the best in the business, our ambition is to nurture, retain and attract the best possible talent so they are fully engaged and aligned with our aims and objectives. Most importantly, we need to continue to develop The Crown Estate brand so it is widely recognised as the hallmark of excellence.

We hope that the economy will start to turn the corner this year, but recovery will undoubtedly be a long and bumpy road. Nevertheless, we look to the year ahead with confidence and anticipation. There is much to do but we are in great shape to achieve our targets, building from a position of financial, market and organisational strength. I'm looking forward to it immensely.

Alison Nimmo CBE
Chief executive

Our investment strategy

The principal purpose of our investment strategy is to take a high-level view of our portfolio and consider its overall strategic direction. The Crown Estate continues to be a very resilient business and has outperformed its targets despite the economic downturn. We continue to look beyond short-term market volatility and concentrate on our medium to long-term view.

Our partnership investments have this year provided working capital for the business to continue reinvestment across our portfolios' core areas, where we benefit from competitive advantage and critical mass.

The three principal themes underlying the approach to our strategy are:

1: *Rebalance the portfolio to focus on our key sectors*

These are: central London, prime regional retail, offshore renewable energy and strategic land opportunities on our Rural and Coastal portfolio.

2: *Provide adequate working capital for reinvestment in the business*

This includes major redevelopment programmes in Regent Street and St. James's totalling £1.5 billion and over £100 million of investment in the nascent offshore energy industry.

3: *Continue to develop our business model towards a modern asset management style*

After a period of considerable change, our portfolios are well balanced, being both comparatively low risk whilst still containing substantial asset management opportunities.

Material issues affecting our business

Our adoption of integrated reporting has required us to assess all the business issues that are material to the success of The Crown Estate. Sustainability forms a key element of each of those. Integrated reporting has taken those sustainability issues into the body of our annual report, where previously we reported it separately. Sustainability is where it should be – at the core of what we do and a driving factor in our growing business.

Optimisation of our portfolio and its expert management is characterised by a variety of objectives, which may broadly be defined as those relating to commercial delivery, our people, our governance and our success in embedding sustainability into business delivery.

Our approach

Working with specialist advisers, we designed a structured process for identifying and prioritising the material issues which could potentially impact our ability to deliver on our core objectives. What is material is defined as an issue that would impact our Board and committee decisions. Each issue was scored on a scale of 1–5 across three areas, namely:

- its economic impact on the business;
- the degree to which our primary stakeholders are concerned with it; and
- the extent to which it is likely to grow in significance and impact in the future.

The scoring identified 14 material issues which underpin our business. We articulated why each issue is important to our success and whether it is an operating essential, enabler or differentiator to our future business.

Identifying the most material issues enables us to focus our management time and attention where it really matters and thereby drive business growth which at its core is sustainable in the short, medium and long term.

Vivienne King
Director of corporate affairs and general counsel, legal

Sustainability is where it should be – at the core of what we do and a driving factor in our growing business.

Principal corporate risks and opportunities
See page 86

Key performance indicators
See page 20

Material issues affecting our business continued

	Sustained and profitable growth	Optimisation of the portfolio for long-term total return
Why is it important?	Operating essential · Differentiator · Enabler	Operating essential · Differentiator · Enabler
What is it about?	Our ability to continue to grow our revenue surplus (profit), increasing our contribution to the Treasury	• Outperforming our peer group at our total return level • Maintaining the UK's position in attracting investment in the low carbon economy
What are we doing about it?	Implementing our Investment strategy and tactical decision-making whilst keeping costs under control ***Our investment strategy*** *See page 14*	Implementing our Investment strategy and tactical decision-making ***Our investment strategy*** *See page 14*
How do we measure performance?	• Net income surplus (profit) year-on-year growth (KPI)	• Total return compared to IPD bespoke benchmark (KPI) • Capital growth compared to IPD benchmark (KPI)

	Attraction, nurturing and retention of best talent	Attraction of suitable commercial partners and investors
Why is it important?	Operating essential · Differentiator · Enabler	Operating essential · Differentiator · Enabler
What is it about?	Ensuring that we attract and retain the best available talent to drive strong business performance and our ability to reward at market levels	• Strategic partnerships with those who share our values to provide working capital that enables us to continue to reinvest • Attracting investors in UK's low carbon opportunities
What are we doing about it?	Designing a clear vision and people strategy for the business	High quality people, high quality reporting and maintaining key relationships internationally
How do we measure performance?	• Employee turnover • Training hours per employee • Employee salary ratios by gender • Employee surveys ***Finance director's review*** *See page 62*	• Reputation • Ability to attract and maintain partnerships ***Review of our portfolios*** *See page 24*

	Health and safety	Maintaining effective stewardship
Why is it important?	Operating essential Differentiator Enabler	Operating essential Differentiator Enabler
What is it about?	Creating a positive culture towards health and safety that enables the business to operate in a safe and sustainable manner	Responsible long-term management and enhancement of the assets we look after on behalf of the nation
What are we doing about it?	Growing and improving our safety, health and wellbeing programme	Reviewing existing stewardship activity and developing a new framework for a more comprehensive approach across our entire business
How do we measure performance?	• Working hours without a reportable incident (KPI) • Accident frequency, severity and incident rates *Finance director's review* *See page 63*	• Percentage of net revenue surplus (profit) invested in stewardship projects (KPI) • Percentage of Sites of Special Scientific Interest (SSSIs) in 'favourable' and 'recovering' condition *Review of our portfolios* *See page 24*

	Reputation	Successful placemaking and creating amenity value
Why is it important?	Operating essential Differentiator Enabler	Operating essential Differentiator Enabler
What is it about?	External recognition of the leadership we demonstrate through how we conduct our business	Creating successful places where people want to be
What are we doing about it?	Delivering our strategy, focusing on creating value across our portfolio	Continuing to embed this into all projects and over time developing principles for successful placemaking
How do we measure performance?	External, independent recognition as a leader in: • Managing strategic Urban, Rural and Coastal property assets • Enabling the development of offshore low carbon energy projects • Being the partner of choice *Review of our portfolios* *See page 24*	• Number of projects achieving BREEAM 'excellent' rating • Visitor numbers • Public realm projects undertaken • Awards for excellence *Review of our portfolios* *See page 24*

Material issues affecting our business continued

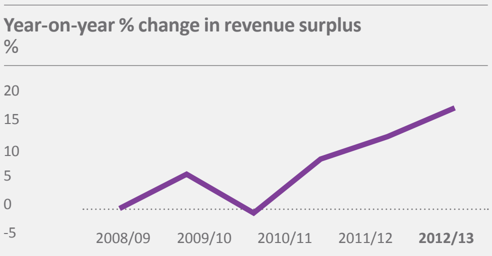
	Effect of climate change	Availability of natural resources
Why is it important?	Operating essential · Differentiator · Enabler	Operating essential · Differentiator · Enabler
What is it about?	Climate change presents physical, financial and regulatory risk and opportunity to our business and society as a whole	Limited natural resources to supply increasing demand – impacting cost and stretching supply chains
What are we doing about it?	Focusing on mitigation, adaptation and enabling the development of low carbon energy	Managing the resources we are responsible for sustainably and exploring the true value of the natural resources we depend upon and potential alternatives
How do we measure performance?	• Greenhouse gas emissions intensity indexed trend (KPI) • GW of renewable energy capacity installed (KPI) • Absolute emissions *Finance director's review* *See page 64*	• Operational and development waste diverted from landfill • Absolute water consumption *Web link* *www.thecrownestate.co.uk/sustainability*

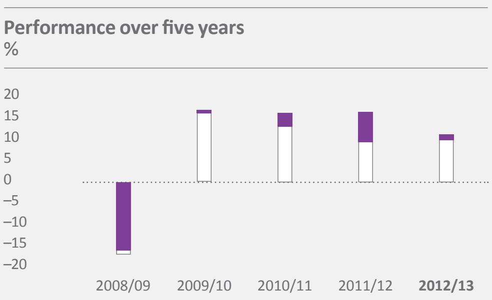
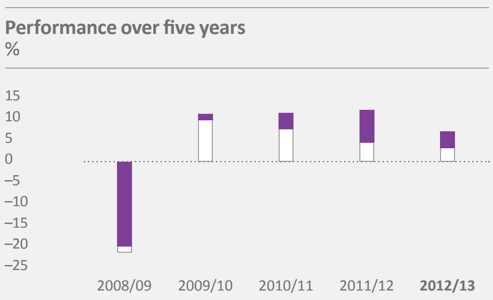
	Customer focus	Organisational and management structure
Why is it important?	Operating essential · Differentiator · Enabler	Operating essential · Differentiator · Enabler
What is it about?	Our ability to provide appropriate service to our customers and tenants in order to satisfy their needs	It is essential that we have the right organisational structure and processes in place to drive our business forward
What are we doing about it?	Delivering value to customers as part of our core proposition through a customer focus group	Ensuring robust governance through our processes and procedures
How do we measure performance?	• Vacancy rates on the Urban portfolio (KPI) • Successfully compete to attract investment in offshore low carbon projects *Review of our portfolios* *See page 24*	*Governance report* *See page 71*

	Health of UK economy	Government policy
Why is it important?	Operating essential / Differentiator / Enabler	Operating essential / Differentiator / Enabler
What is it about?	Our performance is influenced by the UK's economy – as economic conditions improve so do the opportunities for us	Anticipating and being responsive to changes to government policy that impact on our business
What are we doing about it?	Understanding, measuring and improving our Total Contribution to UK plc	Participating in reviews where we have relevant expertise, flexing our business operations and helping shape policy where appropriate as a trusted adviser
How do we measure performance?	• Direct employment • Direct total contribution to the Treasury *Finance director's review* *See page 60* • UK's energy portfolio expanded to reduce energy imports *Review of our portfolios* *See page 35* • Our Total Contribution *Web link* *www.thecrownestate.co.uk/about-us/total-contribution*	• Regular review of policy impacts on our business operations • Active participation in key policy reviews, openly communicated through corporate channels *Web link* *www.thecrownestate.co.uk/about-us*

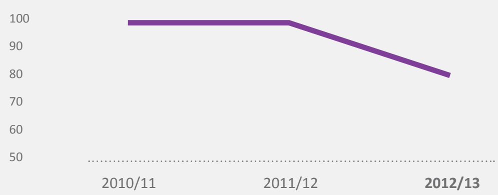
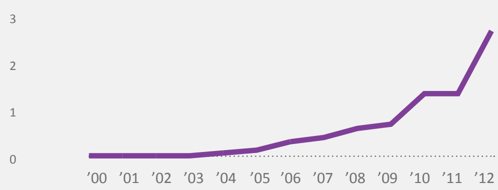
Our performance

We have achieved another year of strong results, putting our business in a better position for the future.

	Sustained and profitable growth	Health and safety
Measure	Net income surplus (profit) year-on-year growth	Working hours without a reportable incident
Our performance	**£252.6 million** net revenue surplus (profit)	**3** reportable incidents in the year
Data		**383,670** working hours without a reportable incident
Our targets	To deliver a year-on-year increase in net revenue surplus (profit)	400,000 working hours without a work-related incident

	Optimisation of the portfolio for long-term total return	
Measure	Total return compared to IPD bespoke benchmark	Capital growth compared to IPD benchmark
Our performance	**11.3%** Total return compared to IPD bespoke benchmark of 9.9%	**7.1%** Capital growth compared to IPD benchmark of 5.3%
Data The Crown Estate IPD Benchmark		
Our targets	To outperform our IPD benchmark	To outperform the IPD capital growth index

	Maintaining effective stewardship	Customer focus
Measure	Percentage of net revenue surplus (profit) invested in stewardship projects	Vacancy rates on our Urban portfolio
Our performance	**0.65%** of net revenue surplus (profit) invested in stewardship projects (cash and time invested)	**5%** properties vacant on the Urban portfolio
Data	We are reviewing our stewardship activity – the data currently includes projects relating to our Marine Stewardship and Research Funds; community investment policy; minerals stewardship programme and enabling actions for offshore renewables	Void properties as a percentage of the rent roll at 31 March, excluding those not being marketed such as development properties
Our targets	1 per cent of our net revenue surplus invested in stewardship projects (by 2022)	Vacancy rate not to exceed 5 per cent on the Urban portfolio

	Effect of climate change	
Measure	Greenhouse gas emissions intensity indexed trend	GW of renewable energy capacity installed
Our performance	**19%** improvement in emissions intensity	**1.3 GW** new renewable energy capacity installed this year
Data	Carbon emissions intensity of managed buildings  Trend based on measurement of $kgCO_2e/m^2$. Results weighted based upon relative impact of asset type.	Total GW of renewable energy capacity installed  Majority of this capacity is offshore wind.
Our targets	Improve carbon emissions intensity by a further 50 per cent from a 2011/12 baseline for property under our direct control (2022)	Facilitate the installation of 5–8 GW of renewable energy generation capacity on our portfolio (by 2015)

Why these indicators?

In this our first integrated annual report we have included social and environmental indicators alongside our financial and economic ones, communicating triple bottom line performance and presenting a more holistic view of the value we return to the nation.

The indicators reported here measure performance against six of our material issues. Over the next year we will set ambitious objectives against some of our other material issues and identify appropriate performance targets for measuring our success.

Want more?

These are our key performance indicators, but there are other ways we measure performance which can be found throughout this report and on our website.

Find out more
www.thecrownestate.co.uk

imagine...

...creating destinations of choice

Our £500 million investment vision for St. James's is starting to take shape. Our landmark St. James's Gateway scheme is on schedule for completion in June 2013. Beyond that we move ahead with our largest ever project – St. James's Market – transforming the area whilst delivering a new destination for London.

Review of our portfolios
See page 24

Review of our portfolios

Whilst each of our four portfolios holds distinct assets and has clearly defined strengths, they share a deep-seated commitment to the core Crown Estate values of commercialism, integrity and stewardship – and they are supported by teams of talented people who strive to deliver sustainable growth, year after year after year.

As part of the move towards integrated reporting, this year we have introduced common subheadings to our reports: overview of the year; investment management; asset management; development management; property management; customer relationships and sustainability; and looking ahead.

Urban portfolio

Our Urban portfolio predominately comprises office, retail, leisure and residential holdings within our core sectors of the West End of London, where we manage all of Regent Street and around half of St. James's, and prime retail property across the UK. Our strategy is to take advantage of a dominant position to deliver investment returns which are superior to the market.

Overview of the year

Our Urban team has demonstrated real flair, expertise and knowledge and it was rewarding to see their talents once again honoured by the property industry during 2012/13. In addition to The Crown Estate being named National Property Company of the Year in the Estates Gazette Awards, Quadrant 3 continued to win awards including Best Historic Building Management at the London Planning Awards, Mixed-use Architecture (London) and Best Mixed-use Development (UK) at the UK International Property Awards, as well as a commendation in the Civic Trust Awards and several other accolades.

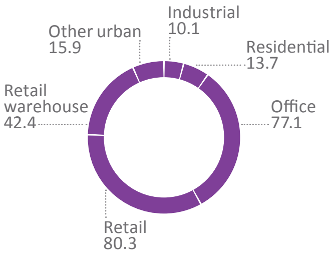
Despite the challenging economic environment, this has been another excellent year for both revenue and total return. Prime property continues to outperform relative to poorer quality assets and this is the case both in London and the regions where good assets remain popular with investors.

As we anticipated in last year's Annual Report, we have traded less in the capital markets and focused instead on asset management and development, reaping the rewards of decisions made in previous years. Good progress was made on St. James's Gateway, which is due for completion around the middle of 2013. Block W4 (153–167 Regent Street) has also made good progress and we commenced the development of the adjacent Block W5 (south) as the financial year closed. In addition, we were also active outside London, most notably launching MK1, a new fashion park in Milton Keynes for which we provided development finance.

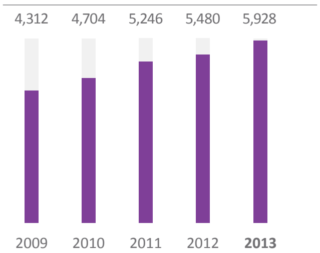
Our letting successes both at The Quadrant and in Milton Keynes reinforced our view that, despite the lack of material economic growth, the best schemes will attract high quality occupiers and that the medium to long-term dynamics for our core sectors remain positive. In the meantime, demand in our occupier markets has for the most part remained relatively subdued although supply has been equally restrained, leaving markets in tentative equilibrium. The exceptions have been West End retail and central London residential where international demand has kept markets particularly buoyant.

Urban portfolio

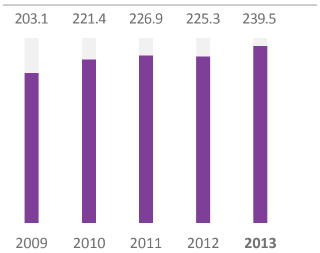
Revenue by activity
£ million



Property valuation
(Including share of joint venture property and other property investments)
£ million



Revenue
(Excluding service charge income)
£ million



Regent Street plays host to 'Circus Circus' – a one day event organised by the Mayor of London, transforming central London into a pedestrianised paradise full of acrobatic surprises.

The 2012 London Olympic and Paralympic Games provided one of the highlights of the year for our core West End portfolio.

Building on the success of our partnerships with Norges Bank Investment Management (NBIM) on Regent Street and with Healthcare of Ontario Pension Plan (HOOPP) on the St. James's Gateway scheme, we confirmed plans to explore the potential for a landmark strategic partnership to take forward our £320 million St. James's Market development scheme, the biggest ever development in the history of The Crown Estate. A partnership on St. James's Market, which received a resolution to grant planning consent in January 2013, would build on our plans to put joint ventures at the heart of our business model in order to meet our requirement for working capital.

During the year, revenue rose by 6.3 per cent to £239.5 million, whilst valuations, including indirect investment, increased by 8.3 per cent to £5.9 billion. Net investment in the portfolio, including our share of indirect investments, amounted to £79 million, which included £73 million of development expenditure. Looking at our performance against our peers, we delivered a total return of 10.6 per cent, outperforming the IPD Annual March Universe benchmark by 6.5 per cent.

Away from business issues, the London Olympic and Paralympic Games provided one of the highlights of the year. Thousands of spectators cheered the torch relay as it made its way along Regent Street beneath 206 flags of competing nations, giving this iconic shopping destination a spectacular and truly international flavour.

Investment management

Our capital activity continued at lower volumes than in the recent past and was tightly-focused on our core areas, where we targeted the acquisition of assets that would improve the quality of our portfolios.

Consequently, the year saw the freehold purchase of Princes House in St. James's for £87 million, which represented the only significant gap in our holdings on the northern side of Jermyn Street/southern side of Piccadilly. Home to BAFTA, Princes House also includes 33,000 sq ft of office space and a retail arcade of 16 units.

imagine...

...the world coming together

2012 was a year of great joy across Britain and we were proud to play our part. Regent Street was at the heart of the London Olympic and Paralympic celebrations whilst our Windsor estate supported several events in celebration of the Queen's Diamond Jubilee.

Review of our portfolios
See page 24

Review of our portfolios continued

Blocks W4 and W5 South on Regent Street were part of the same planning application and the development of the blocks together provides significant synergies.

The growing importance of leisure within our regional portfolio was underlined by the acquisition of The Gate in Newcastle for £60 million. The only covered leisure scheme in the city, The Gate comprises 18 units and is anchored by an Empire cinema, with other occupiers including Nandos, Pizza Hut and J D Wetherspoons. Leisure is increasingly important to the success of major retail schemes and we plan to reinforce the position of our MK1 fashion park by funding a leisure extension, including a cinema and restaurants, in the coming months.

Selling assets which are either non-core or that we believe can no longer deliver good growth is another priority for our Urban team. During the year we sold industrial holdings in Wimbledon, Swindon and Oxford in line with our business plan, as well as a residential block at Paddington. We also took advantage of opportunistic pricing to dispose of the Les Ambassadeurs casino on Park Lane. Finally, just as the year ended, we exchanged contracts to sell our freehold interest of the Intercontinental Hotel, which further boosted our total return for the year.

Asset management

Dynamic asset management is the hallmark of the Urban portfolio. We concentrate on our core areas of the West End, where we own extensive prime assets on Regent Street and in St. James's, and on a regional portfolio that stretches from Wales and the West Country to the north-east of England and Scotland, and is focused on prime retail and leisure.

Although the regional portfolio does include significant shopping centre interests, its principal exposure is to the retail park sector. We currently own or part-own 14 retail parks comprising 3 million sq ft with a value of £952 million, making us the seventh largest direct owner of such assets nationwide. For us, the attraction of this sector lies in an undersupply of high quality schemes, which we believe will support rental growth and robust demand from occupiers for the best locations and units. Supported by around £56 million of funding from our organisation, the MK1 fashion-led retail park opened fully let in December 2012 and is home to high-profile retailers including H&M, Marks & Spencer and Primark.

A view of Block W5, due for completion in 2015. With its neighbouring building W4, W5 South is part of a comprehensive £200 million scheme that will deliver two new buildings and a total of 270,000 sq ft of world-class retail and office accommodation.

We currently own 14 retail parks, with a value of £952 million, making us the seventh largest direct owner nationwide.

Elsewhere within the portfolio, we have delivered an A3 extension to our retail park in Nottingham; completed transactions of over 125,000 sq ft on the Cambridge Business Park at record rents, welcomed a major new tenant to the Morfa retail park in Swansea and re-geared the lease for the John Lewis distribution centre in Milton Keynes. In Altrincham, we have secured consent for a 100,000 sq ft mezzanine to improve trading conditions for our customers, and we are looking to extend and improve our shopping centres in Exeter and Oxford in partnership with Land Securities.

A key aspect of our asset management strategy is to invest in refurbishments as well as new builds. Within the West End we completed a major project at Trafalgar House on Waterloo Place, with the ground floor and basement already let to restaurant operator Villandry. A few doors along, on Regent Street, a similarly significant refurbishment is also due to commence at British Columbia House, with office space as well as new retail and restaurant outlets due for completion in June 2014.

Development management

Scheduled for completion in mid-2013, our £100 million St. James's Gateway development has welcomed its first tenants, with Haymarket Financial (HayFin) taking 10,000 sq ft of offices. In addition, we expect to be announcing major new retail occupiers in the very near future, reinforcing the exciting improvements we are making to this important and distinctive part of London. St. James's Gateway also comprises 16 flats, five of which will be sold on long leases with the remaining units retained as part of our rental portfolio.

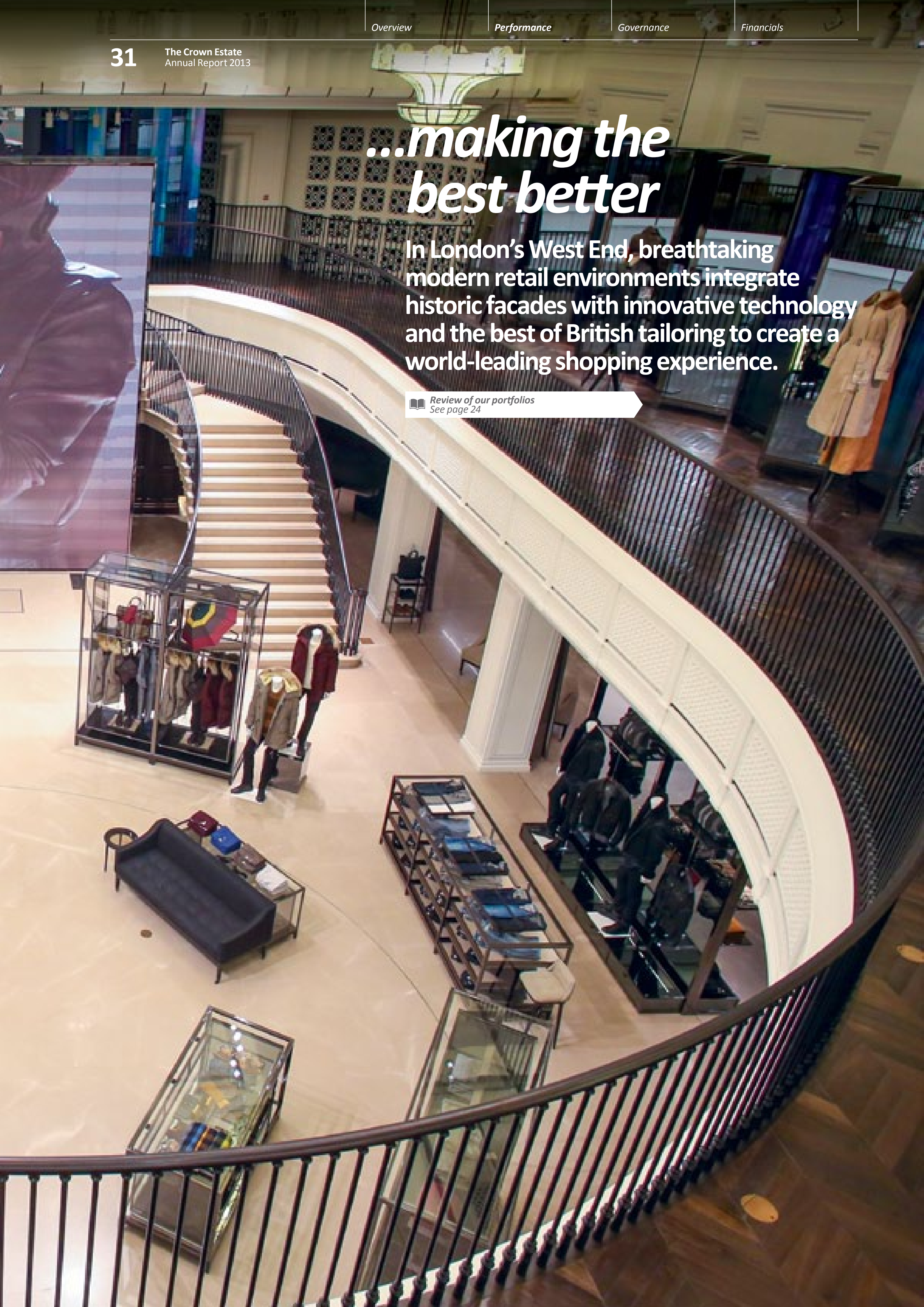
We continue our strategy of placemaking, with the Regent Street, St. James's and Haymarket public realm works all obtaining approval and due to start in autumn 2013. Our plans for the next phase for the area continue to proceed at a pace. St. James's Market, which comprises 14–20 Regent Street and 52–56 Haymarket, will provide 340,000 sq ft of mixed-use accommodation and bring together world-class 21st century architecture with preserved historic facades. It will revitalise half an acre of public realm and create a unique home for business, shopping and dining. Sustainability will be a key differentiator for St. James's Market, with buildings being resource efficient, both in construction and operation, and resilient to future climate change.

This approach is something that is now central to all our developments, not only within London but also in the regions. In Milton Keynes, for example, MK1 is the first development of its kind to achieve a BREEAM 'Excellent' rating, due to the large number of sustainability measures incorporated in the build, including rain water harvesting, solar thermal hot water heating and the use of recycled materials during construction.

To support all of these activities, we have built on our existing guidance and established Sustainability Development Principles to ensure all our developments are designed and constructed in the most environmentally, socially and economically sustainable way.

imagine...

Burberry, 121 Regent Street, London W1



...making the best better

In London's West End, breathtaking modern retail environments integrate historic facades with innovative technology and the best of British tailoring to create a world-leading shopping experience.

Review of our portfolios
See page 24

Review of our portfolios continued

In February 2013, the Urban team hosted a sustainability conference and awards ceremony, inviting all key managing agents and advisers to hear from inspirational speakers and panellists.

On Regent Street, our ongoing redevelopment programme continues with our latest project, Block W4, due to complete in early 2014, having already announced its first lettings to J Crew, the American retailer, which will be taking its first shop in the UK, and Watches of Switzerland.

We were pleased to make a number of significant planning gains on our regional portfolio during the year. In addition to the consent granted at Altrincham, we are also now able to broaden the use or create additional space at assets in Maidstone, Nottingham, Portsmouth and Aintree.

Property management

Our vacancy rates remained below the market average throughout the year, despite some high-profile tenant failures, and this bears testament to the high quality of our portfolios and our team. For example, although we lost Comet from five directly-owned retail units in late 2012, most of those units are already either re-let or under offer. Equally, the West End is not immune to occupier failure and we experienced one major default from a Regent Street office tenant during the year. However, our ongoing success in replacing tenants, often at better rents, reinforces our belief in the long-term dynamics of our core sectors. Our strategy of improving the profile of our tenants within St. James's has continued to gather momentum, with Cicchetti and JM Weston being excellent examples of the new tenant profile.

Although short-term economic challenges will continue to hold back occupational markets, we believe our portfolios are well positioned to remain cushioned from the worst of these problems and to benefit from improved economic performance as that begins to materialise. To make sure that we are able to seize opportunities as and when they arise, we continue to analyse the long-term sustainability of our buildings. For our central London properties, we carry out a comprehensive pre-acquisition sustainability review on all potential purchases to evaluate the risks and costs associated with factors such as Energy Performance Certificate (EPC) ratings and carbon emissions. On the regional portfolio, a sustainability review will, for example, also embrace flood risk as well as SSSI, nature, transport and heritage issues.

In addition, we have extensive business plans in place for each asset in the portfolio. From 2013, these will include a detailed breakdown of the costs and potential payback of activities such as annual carbon savings and reduced utility costs.

Following on from our successes in Regent Street and St. James's, we are well advanced with a comprehensive rebranding of our wholly-owned retail parks across the UK. We have made a long-term strategic commitment to this sector and intend to bring the same distinctive and high standards of management to our retail parks as we do elsewhere. Whilst the rebranding will bring immediate cosmetic benefits to the parks, its real purpose is as a statement of intent: we want to be seen as setting the highest standards for sustainable management in the sector.

imagine...

...a self-sufficient future

Sustainability is a key differentiator for all our developments. The MK1 fashion park in Milton Keynes is the first development of its kind to achieve a BREEAM 'Excellent' rating, due to the large number of sustainability measures incorporated in the build.

Review of our portfolios
See page 24

Review of our portfolios continued

Dynamic asset management is the hallmark of the Urban portfolio.

£3m

Through our Workplace Co-ordinator scheme, we have brokered over 320 permanent employment contracts with an estimated total economic value to individuals and the nation of £3 million.

Customer relationships and sustainability

We work hard to build and maintain good relationships with all stakeholders, including local authorities and customers who are at the very centre of what we do. We strive to take their needs into account at all times and are proud of our reputation for flexibility, support and a proactive approach to problem solving.

On the regional portfolio, we have strengthened relationships with our tenants and enjoyed a very successful launch of our branding and strategy at the British Council of Shopping Centres conference, which was attended by over 30 retailers. We have made significant progress with the roll-out of our new retail park branding and also continued to strengthen the portfolio through further considered acquisitions.

As a major landlord and developer, we have clear responsibilities towards the communities where we operate. The developments on Regent Street, in St. James's and across the UK at our retail parks provide excellent environments for local people and visitors, including extensive public realm, just as they provide unrivalled retail space, offices and housing for our customers.

In 2012/13 we again supported a number of locally-based organisations and activities. In Westminster, for example, we further developed the Workplace Co-ordinator scheme, which has now brokered over 320 permanent employment contracts since 2010. We estimate that the total economic value accrued to these 320 individuals is £1.5 million. The reduction in benefit payments and increase in tax and National Insurance gains creates cost savings of £1.5 million, which means that the total economic value of the programme to the individuals and nation is therefore estimated to be £3 million.

During the year we developed plans to integrate sustainability into everything we do. We now have a process to identify sustainability risks, including EPC ratings and the costs associated with upgrading buildings, before we conclude a purchase. Post-acquisition, we consider sustainability a part of good asset management. To reduce our carbon emission in our existing assets we have developed sustainability asset plans for all our directly managed buildings. The plans that are now in place outline the interventions that will apply to each building, the carbon saved and the payback periods. During the year, Regent Street Direct engaged with occupiers of over 74 buildings on issues such as energy reduction, water efficiency and waste recycling. Over the coming year we will continue to implement our sustainability plans and will report back on the progress we have made against a range of key performance indicators.

Looking ahead

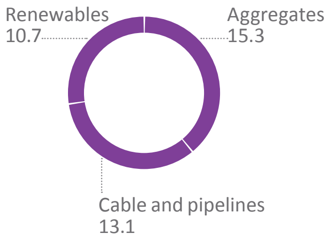
Looking to the future, we remain committed to our core sectors of the West End and prime retail, where we now have critical mass, and through Vision 2022 we aim to further build The Crown Estate brand as the leading asset manager in each of these fields.

Since the year end we have announced that we have established a joint venture with Canadian real estate investors, Oxford Properties, to partner us on the redevelopment of our St. James's Market scheme.

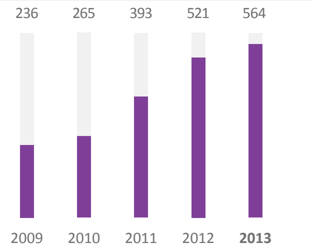
In the capital markets, activity is likely to continue to be at a lower rate than that experienced in the years before 2012 and therefore our immediate focus is to recycle cash through the business with some selective sales, continue to make funds available for our development pipeline and re-deploy surplus cash to the West End and regional portfolios.

Energy and Infrastructure portfolio

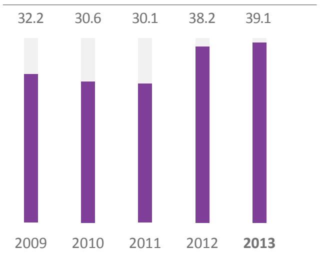
Revenue by activity
£ million



Property valuation
£ million



Revenue
(Excluding service charge income)
£ million



Energy and Infrastructure portfolio

As managers of the seabed out to the 12 nautical mile limit, we play a major role in facilitating development of the offshore renewable energy industries as well as the minerals, aggregates and cables and pipeline sectors. On the continental shelf, we manage the rights to renewable energy, the storage of carbon dioxide and natural gas, and marine minerals, cables and pipelines.

Overview of the year

Our expertise has continued to be fundamental in helping combat the effects of climate change, increase energy security and support the Government in its commitment to achieving ambitious targets for green energy – including the opportunity for jobs and investment. Innovation is the defining characteristic of the portfolio and we were particularly proud to win the Scottish Renewables award for Sustainable Development during the year, in recognition of our unique work in offshore wind, and wave and tidal sector.

The year saw our Energy and Infrastructure interests consolidated into a defined portfolio. With the coastal assets transferred to the newly-formed Rural and Coastal portfolio this has helped us focus on successfully managing and delivering all the strategic objectives of the newly formed Energy and Infrastructure portfolio. The target is to deliver sustained growth across the portfolio, whilst reducing costs.

In the renewable energy sector, 2012/13 has been an exciting and hugely significant year, with a wide range of innovative projects coming into operation and many more in the pipeline. These achievements are more notable still when viewed against the backdrop of evolving policy and support frameworks, ongoing deliberations surrounding the draft Energy Bill and the challenges of the economic conditions.

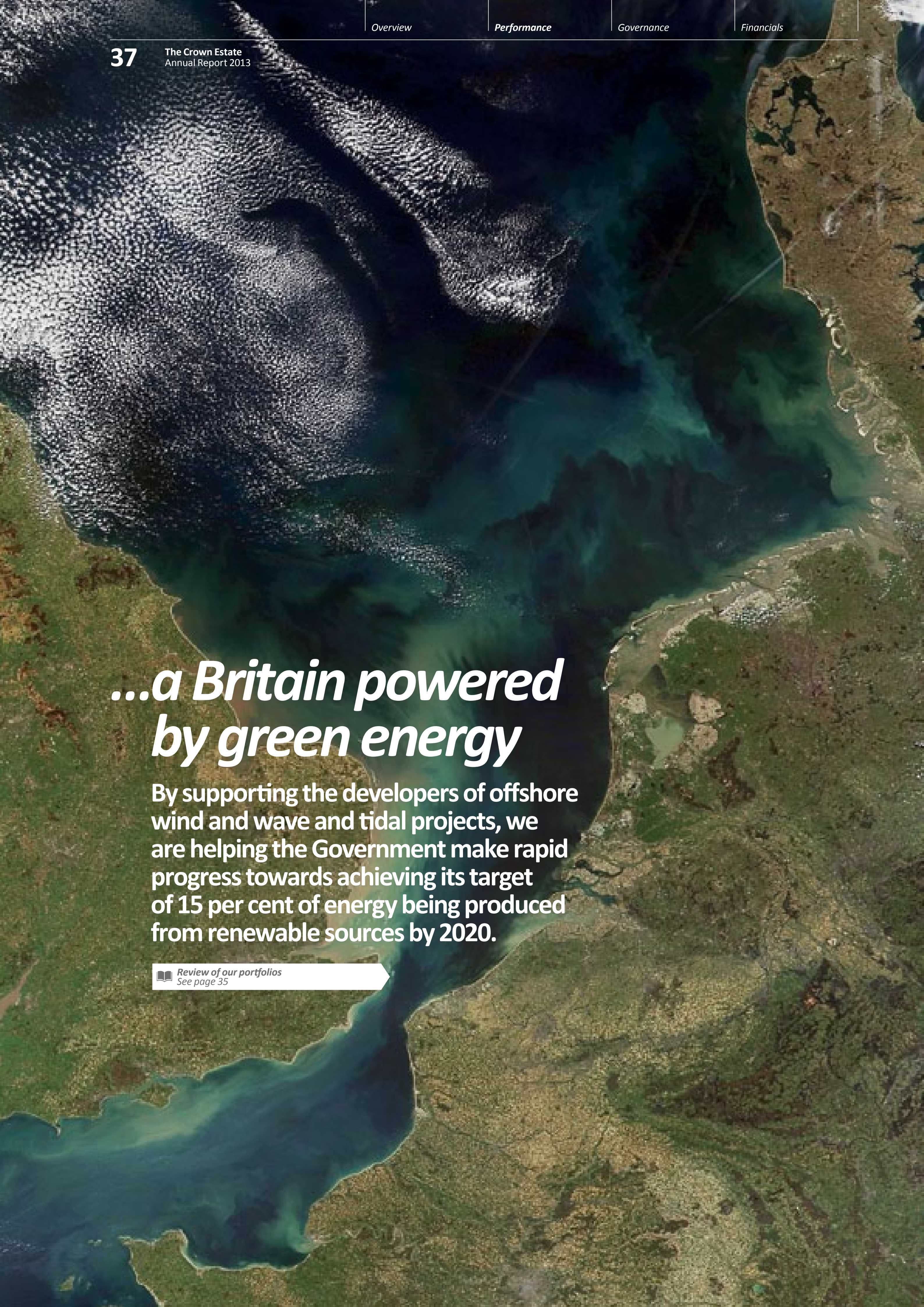
With the best offshore wind resources in Europe, the UK has been the global leader in offshore wind energy for five years and has more than a decade of experience delivering increasingly large projects. There are already over 1,000 turbines under construction or operational, as well as 32 offshore or onshore substations, 40 export cables and 18 offshore masts. Offshore wind has the potential to deliver against government aspirations and industry capabilities, and as one of the sector's market makers, we have a key role to play.

The Government has targeted 15 per cent of energy to be produced from renewable sources by 2020 and rapid progress is being made towards that objective through the deployment of offshore wind farms. During the year, some 300 wind turbines were erected offshore and a further 1 GW of wind power came on-stream, taking the total to 3.3 GW, with a strong development pipeline to 2020 and beyond. With a single GW equating to the amount of electricity required to power 820,000 homes, the importance of these developments in terms of energy security, resilience and meeting Government targets for renewables is significant.

By the end of the year, offshore wind supplied about 2.4 per cent of all electricity used in the country and this is continuing to grow.

The emerging wave and tidal industry has also experienced another strong year. Further developments in technology and the supply chain have been complemented by increasing Government support, notably through several major grant offers for projects. This sector has also seen increased interest from overseas, underlining our conviction that the UK retains its lead in what is potentially a global market. The industry's next major milestone is multiple generator projects, or arrays.

imagine...



…a Britain powered by green energy

By supporting the developers of offshore wind and wave and tidal projects, we are helping the Government make rapid progress towards achieving its target of 15 per cent of energy being produced from renewable sources by 2020.

Review of our portfolios
See page 35

Review of our portfolios continued

Many of the nation's everyday activities – from downloading music to email, phone calls and browsing the internet – rely on the communications infrastructure provided by submarine cables.

In January 2013, we announced our interest in investing up to £20 million in two arrays, a move that was positively received by both the industry and the Government.

Transmission is a major challenge and we continue to work alongside partners such as National Grid to devise solutions that will connect generating stations with consumers. This is a key issue that requires urgent action in order to ensure that offshore renewable energy can deliver its potential.

This has been a breakthrough year for the UK's Carbon Capture and Storage (CCS) sector. In the past 12 months, we have entered into our first ever agreements for lease for carbon storage projects – one with Shell and the other with National Grid, both in the North Sea.

The cables and pipelines sector is more established and currently accounts for approximately one-third of our Energy and Infrastructure portfolio revenue. During 2012/13, for example, our income from cables and pipelines amounted to more than £13 million. Many of the nation's everyday activities – from downloading music to email, phone calls and browsing the internet – rely on the communications infrastructure provided by submarine cables. Our role is to support industry and help maintain the UK's position as a key landing point for submarine telecommunications.

In our marine minerals business, we continued to experience declining activity as the downturn in construction subdued demand for sand and gravel. Due to technical issues, we also saw a reduction in income from mining for potash and polyhalite, key components in agricultural fertiliser which plays an important role in boosting food production worldwide. However, a significant investment programme is underway by our tenant to replace mining machinery at Boulby mine, and we expect revenue to recover as production increases. We also have an agreement in place relating to the development of a major new mine to extract polyhalite off the coast of North Yorkshire.

The growth of the offshore wind energy industry cannot happen without the parallel growth of a highly skilled labour force. Consequently, we've developed a skills strategy which aims to promote the sector's overall attractiveness, including professional skills training and programmes to up-skill or re-train existing skilled workers.

↑2.4%

Total revenue rose to £39.1 million

↑8.2%

Property value rose to £564 million

The year to 31 March 2013 saw total revenue from the Energy and Infrastructure portfolio rise to £39.1 million, an increase of 2.4 per cent. Property value increased by 8.2 per cent to £564 million.

Investment management

Offshore wind, wave and tidal and CCS are all new and developing markets requiring focused attention, time and investment to reach their full potential. The Government has a declared ambition to secure investment in energy and infrastructure, and although we do not currently invest directly in primary assets, we do invest time, resources and capital to help make things happen, particularly through our leasing activities and our work with Government and the devolved administrations.

Proud of our global reputation as supportive and knowledgeable partners for many of the world's most innovative and high-profile energy companies, we have committed over £100 million to facilitate offshore wind projects, thereby furthering the UK's reputation as the most beneficial environment for the highly competitive global marine energy sector. We also fund and otherwise support a huge range of initiatives, from undertaking important surveys of the mammal and bird populations to financing a study into the carbon footprint of seaweed when used as a biofuel. The outputs from all this work are made freely available to existing and potential developers and, where possible, to the general public.

Recognising that a successful offshore wind sector requires the parallel growth of a skilled labour force and competitive supply chain, during the year we developed a strategy to promote the offshore sector to potential employees. We identified areas for action, including professional skills training, skills transfer programmes and schemes to up-skill or re-train workers from other sectors. Furthermore, we provided direct and in-kind support to a range of programmes and projects during 2012, including: EU Skills, a Talent Bank initiative; the Renewable UK training network; bursaries to the Marine Technology Education Consortium; and U-Explore, a provider of information and guidance to schools.

In the wave and tidal sector, we have invested an initial £80,000 in a new research study that will explore how projects in the Pentland Firth and Orkney waters can proceed in harmony with local fishing activities, ensuring that local communities benefit from both industries. This study is in partnership with the Scottish Government's Marine Scotland and Orkney Sustainable Fisheries Ltd.

In the marine minerals sector, we have commissioned the British Geological Survey to carry out a research project to assess the mineral resources of the UK continental shelf and produce the output as a series of mineral resource maps. Knowledge of mineral resources is essential for effective and sustainable planning decisions and these maps will provide a comprehensive, relevant and accessible information base. The maps will allow all stakeholders, including planners, industry and members of the public, to visualise the distribution of offshore minerals to a common standard and at a common scale, an important requirement of an integrated offshore planning system. The maps will also facilitate the conservation or safeguarding of non-renewable mineral resources for future generations, in accordance with the principles of sustainable development.

The Government's multi-million pound Broadband Delivery UK scheme aims to bring superfast broadband to isolated regions and is expected to provide outstanding and potentially transformational business opportunities to remote communities. Superfast broadband places heavy demands on the communications infrastructure and will require a number of new cables.

In January 2013 we launched a new study that will explore how the Pentland Firth and Orkney waters wave and tidal projects can proceed in harmony with local fishing activities, ensuring that local communities benefit from both industries.

imagine...

...the skills to drive world-class innovation

Our award-winning marine asset planning tool (MaRS) ensures that we have a thorough understanding of the marine environment around our shores, enabling us to effectively manage our resource and our output.

Review of our portfolios
See page 35

Review of our portfolios continued

We will license BT to install and operate submarine cables to the Highlands and Islands of Scotland and the Isles of Scilly. The Highlands and Islands project alone will require some 400 kilometres of subsea cables for 19 crossings to remote islands. This is the largest subsea engineering project ever undertaken by BT, with the highest number of seabed crossings. We are pleased to be working with BT, Highlands and Islands Enterprise and the Scottish Government, in order to play our part in the delivery of this critical project.

Asset management

We have a clear responsibility to help shape the future of the offshore energy industry at a strategic level. Throughout the year we continued to work closely with stakeholders including developers, a wide range of government bodies, both national and devolved, local authorities and communities as well as organisations such as Natural England, the Countryside Council for Wales, Marine Management Organisation (MMO) and Marine Scotland. Our role is to enable dialogue and partnership and help align this diverse group of stakeholders as they work to harness the potential of wind, wave and tidal power, natural gas, CCS, marine minerals and cables and pipelines through some of the largest infrastructure projects in the world. Together, we are working to provide opportunities for jobs and inward investment rights across the UK.

We facilitate the development of renewable energy programmes by granting leases which allow companies to build wind farms, or arrays, and through our leasing rounds we have a strong pipeline of renewables projects going out to 2020 and beyond. These projects are all subject to the appropriate approvals by the statutory authorities.

400km

The Highlands and Islands project alone will require some 400km of subsea cables for 19 crossings to remote islands. This is the largest subsea engineering project ever undertaken by BT.

Since 2000, through our offshore wind programme we have managed six commercial leasing rounds, which have increased in scale and complexity as the industry has developed. Leases for projects and programmes are active in waters around England, Wales, Scotland and Northern Ireland. In December 2012 the last of 175 turbines were installed in the London Array, the world's largest offshore wind farm.

We have also managed two commercial wave and tidal leasing rounds, and have entered into agreements for lease for projects with a potential capacity of up to 1,600 MW in the Pentland Firth and Orkney waters. In Northern Ireland, we announced the award of development rights for two tidal stream projects each of up to 100 MW, off the coast of County Antrim.

A core function of The Crown Estate is to provide licences to companies wishing to dredge aggregates, such as sand and gravel, or to lay any type of subsea cables or pipelines. In early 2012 we commenced a marine aggregate tender round, which resulted in a number of Exploration and Option agreements being offered.

Under the 2008 Energy Act, we hold the rights for carbon dioxide storage within the Gas Importation and Storage Zone (GISZ), which extends out to the continental shelf, and during the year we announced the first two agreements for lease. Both of these projects have been selected by the Government for potentially detailed engineering studies as part of the UK's programme of CCS commercialisation. The Government's aim is to commence carbon dioxide storage in the seabed by 2017, and CCS can play a critical role in ensuring that the UK meets its target of reduced carbon emissions over the next two decades. We are collaborating with industry over the next phase of providing storage sites to developers.

> **The UK is an underwater cable hub for all the financial institutions in Europe**
> The Financial Times, May 2013

The growth of new industries, particularly offshore wind energy, means that our portfolio is becoming larger and more complex. We are taking an active role to ensure that the requirements of existing operations, such as cables and pipelines, are understood and factored into development plans. For example, in 2012 we facilitated dialogue between the cable and offshore wind sectors to build knowledge of the challenges of locating turbines close to submarine cables. Both sectors responded positively and worked together to produce guidelines which are already being replicated internationally.

Onshore, we support the development of wind farms on assets managed by the Rural and Coastal portfolio. In addition, we licence potash mining on land beneath the UK foreshore.

Property management

All activities in the marine environment require careful management in order for them to coexist. Our award-winning marine asset planning tool (MaRS) ensures that we have a thorough understanding of the environment around our shores as well as the value of the Energy and Infrastructure portfolio, and enables us to effectively manage the often competing interests of different activities. This helps us to work closely with the statutory planning authorities and the consenting bodies in Scotland, Wales, Northern Ireland and England.

During the year we published an authoritative collaborative study to demonstrate that significant reductions in the cost of offshore wind energy can be achieved in order to hit Government cost targets and deliver up to 18 GW of offshore wind capacity by 2020. Over 100 companies and organisations took part in this Pathways Study, which identified how a combination of improvements in technology, growth of the supply chain and reductions in the cost of finance could achieve the desired results. The study showed that the cost of offshore wind energy could fall to below £100 per megawatt hour, in line with Government ambitions. We also published a review of the offshore wind market that concluded the Government's target for 2020 was achievable.

We engaged with the Government to provide expert advice on aspects of Electricity Market Reform to help frame the forthcoming Electricity Act. Our developers and the industry itself depend on the appropriate policy framework and legislative instruments being in place and we will continue to work hard to make sure this is the case.

Customer relationships and sustainability

Skilled, knowledgeable and committed partners for the world's energy sector developers, we have a track record of building close and effective relationships with customers across the UK.

The health and safety of our customers and their people are paramount and during the year we worked closely with them to promote safe and successful programme delivery. For example, we organised three Safe by Design workshops which examined various issues within the industry. In addition, we have identified the need for enhanced training of managers and supervisors in the offshore industry, and expect to launch The Crown Estate endorsed Managing Safely for Offshore Renewables (Institute of Safety and Health (IOSH) approved) programme this summer.

imagine…

...experiencing nature at its best

At Glenlivet, we are developing two new trails to deliver 20 kilometres of new cycle space to help establish the Cairngorms as one of the world's top mountain biking destinations, whilst also bringing valuable revenue and jobs into the area.

Review of our portfolios
See page 47

Image courtesy of Cycletherapy

Review of our portfolios continued

In May 2012 we published a study on how to reduce the cost of offshore wind energy and make it competitive with other forms of low carbon energy. This seminal piece of work demonstrates our ability to take a strategic view and sit comfortably in the space between industry and government.

The Energy and Infrastructure portfolio is well-positioned to make a real contribution to the UK's generating capacity and energy security, whilst driving growth in our business.

We continue to promote and support initiatives such as the Marine Aggregates Heritage Protocol, which is considered to be an example of industry best practice in the location and reporting of archaeological artefacts. We also support the introduction of Biodiversity Action Plans. Committed to understanding and minimising the effects of marine aggregate dredging, we have recently published the 14th annual 'area dredged' report, regularly devote funding to research projects, such as the Palaeo Yare programme and collaborate closely with associated organisations.

The concept of sustainability is fundamental to everything we do on the Energy and Infrastructure portfolio. From carbon storage to renewable energy, our business is concerned about the sustainability of our commercial prerogatives. Through our role of managing the UK's seabed, we endeavour to ensure that the activities that we license have given proper consideration to their economic, environmental and social sustainability. For example, we have recently commenced a study with industry to investigate how to measure the sustainability of submarine telecommunications cables.

Looking ahead

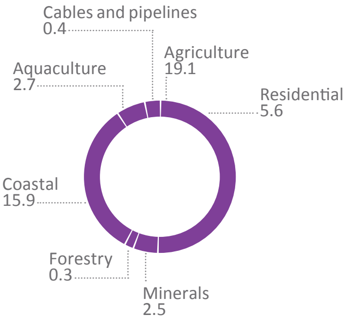
In line with Vision 2022, the Energy and Infrastructure portfolio has developed a new strategy to build momentum and drive sustainable business growth. Whilst continuing to maintain focus on the mature businesses which delivers the majority of our revenues – cables and pipelines and marine minerals. We also are well-positioned to grow substantially in other areas during the coming years and make a real contribution to the UK's generating capacity and energy security, whilst driving growth in our business.

Our offshore wind portfolio will focus on near-team projects, investing in enabling actions and de-risk activities, building sustainability into the decision-making process. In the longer term, our Carbon Capture and Storage (CCS) and wave and tidal programmes are set to follow suit and commercial deployment will take off by the end of this decade and continue into the 2020s.

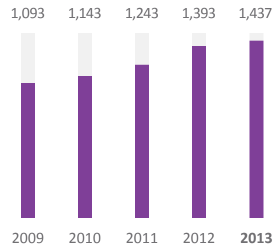
We are considering investment in a number of wave or tidal arrays to accelerate the growth of this emerging sector. The main challenges of the coming year are centred on energy policy and the financing of new Energy and Infrastructure projects. We await further details of the Electricity Market Reform throughout 2013, and are working closely on this with government. We will continue to promote opportunities for cost reduction and technology development across our energy programmes.

Rural and Coastal portfolio

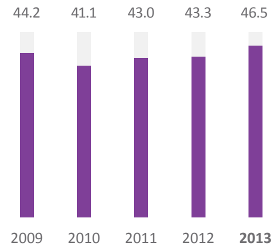
Revenue by activity
£ million



Property valuation
£ million



Revenue
(Excluding service charge income)
£ million



Rural and Coastal portfolio

This unique and highly diverse portfolio is probably the largest holding of land in the UK, at some 140,000 hectares (approximately 345,000 acres). It includes agricultural land, forestry, mineral workings, residential and commercial property, ports, harbours, marinas, moorings, around 50 per cent of the UK foreshore and a thriving aquaculture sector.

Overview of the year

The Rural and Coastal portfolios were merged during 2012, recognising the many similarities and synergies that existed despite the diverse nature of the assets involved. The merger has led to the creation of four regional portfolios, each headed up by a newly appointed portfolio manager under a new director. The portfolio managers work closely with our outsourced managing agents who deal directly with our tenants and customers on both routine tenancy matters and seeking out opportunities for joint ventures.

It has been a testing year for many of our tenants and customers, with the dreadful spring, summer and winter weather producing challenges across the portfolio. Crops faltered and income from tourism was squeezed. In the most part, our tenants have coped admirably with the challenges thrown at them, and whilst high agricultural commodity prices helped to cushion the reduced yields, production costs have continued to rise. Our dairy and livestock tenants also experienced difficulties, but towards the end of the year prices for both milk and red meat improved, in the latter case not least due to the 'Horsegate' scandal. The consumer's reaction bodes well for our livestock producers, who uphold the best traditions of husbandry and welcome an increased focus on food that is sourced locally and farmed responsibly.

Investment management

The portfolio is actively managed, with business plans for each portfolio reviewed annually. Performance is measured against established benchmarks, with disposals and acquisitions considered against prevailing market conditions, particularly where special circumstances exist to optimise value for non-core assets. We also seek opportunities to rationalise assets by working closely with our rural tenants over amalgamations, re-lettings and retirements.

The residential element of the portfolio has also been reviewed against evolving environmental requirements, identifying properties where it makes sense to invest in appropriate improvements and others where disposal would be a more prudent choice in order to support our sustainable investment criteria.

Over the course of the last financial year, sales activity has yielded some £112 million with principal sales including the Savernake Estate in Wiltshire, a consented supermarket site on the Isle of Sheppey and farms at Applegirth and Stapleford Abbots. There has also been a steady flow of house and cottage sales across the portfolio. These sales have put us in a good position to consider strategic acquisitions in the near future.

Asset management

Our assets range from important tracts of agricultural land to residential property, highland estates, marinas, mineral resources, forests, foreshore and seabed, harbours and coastal waters. Our role is to take a long-term view, cherishing and actively managing these assets in order to generate a positive total contribution that takes into account social and environmental factors as well as financial ones.

Review of our portfolios continued

The portfolio delivered another strong performance during the year, with a total return of 13.3 per cent.

Despite the economic gloom, the portfolio delivered another strong performance during the year with a total return of 13.3 per cent. Revenue rose by 7.4 per cent to £46.5 million and portfolio valuation by 3.2 per cent to £1.44 billion. Rural land values continue to increase steadily across the nation, reflecting the international appeal of this asset sector.

We embarked on a major review of our assets in 2012/13, with a focus on those assets we felt to have potential for change of use. As a result, we have produced a strategic land portfolio which identifies sites with short, medium and long-term potential for value-added change of use, ranging from relatively small-scale projects, such as barn conversions, to land suitable for major developments. During the year, we received planning consent for 630 residential units at Nerrols Farm on our Taunton estate, 155 residential units at Elsenham in Essex and a supermarket site on the edge of Thetford in Norfolk.

As the flow of receipts from the sale of strategic land with planning consent increases over time, we will replenish our pipeline, not by focusing on the acquisition of large historic estates, but by looking to buy land that is wholly or principally a change of use opportunity. Not only will this approach lead to improved financial returns, it will also help deliver the places and amenities demanded by UK society, particularly for additional homes and employment opportunities.

Development management

On our Sunk Island estate in Yorkshire, close to the Humber estuary, we have worked with developers and the local authority to support an important development that will bring valuable jobs to the community. The project is not on our land, but the terms of the planning consent include the requirement for the developer to provide mitigation land as a substitute. Working with Forum for the Future we have developed an integrated land management tool which we are piloting at Sunk Island. The tool establishes a framework to follow and asks relevant questions when making complex decisions such as those associated with this project. Given the greater economic and social benefits that the development will bring to the area, we have agreed to supply the mitigation land by taking 134 hectares (332 acres) out of farming.

In autumn 2012 our Marine Stewardship Fund helped the Beach Clean series, organised by Surfers Against Sewage. It involved 500 community volunteers who collected over one tonne of marine litter from beaches in England, Wales, Northern Ireland and Scotland.

Partnership is always important to us and we worked with a local community to help fund the Fine Foundation Chesil Beach Centre, which opened in time for the Olympic Games. As a rural land owner with farming interests throughout the UK, we have strong links with our agricultural heritage and we have been very pleased to play a part in commemorating the contribution made by the Women's Land Army during the two world wars by providing a site for a permanent memorial on our Fochabers estate in Scotland.

£500k

At Glenlivet, we have begun work on the £500,000 development of two new mountain bike trails that will bring tourists and revenue to the area.

At Glenlivet, we have begun work on the £500,000 development of two new mountain bike trails that will bring tourists and revenue to the area. The project will help establish the Cairngorms as one of the world's top mountain biking destinations, with our feasibility study estimating that when fully operational, this will facilitate a contribution of £336,000 to the local economy and enable the equivalent of 6.4 full-time jobs. On the same estate, in partnership with one of our tenants, we have planted a 24 hectare (60 acre) 'Diamond Wood' as part of the Woodland Trust Scotland Jubilee Woods project which planted six million trees to celebrate the Queen's reign.

Property management

Our agents continue to review rents across our Rural and Coastal assets in order to further boost our revenue stream. In some areas, there have been economic challenges and although we are a commercial organisation tasked to achieve best value, we have been sympathetic where customers have been genuinely struggling. We have helped where possible by looking proactively at issues such as rent levels, repayment schedules and cash flow timing.

We continue to seize opportunities to install renewable energy technology across the portfolio with a 100 KW photovoltaic (PV) scheme nearing completion at Burnham marina. This project will lift our total installed PV capacity to 918 KW at a total cost of around £1.7 million, more than half of which was invested in the last 12 months.

The weather created considerable hurdles for us to overcome in the south west, following the floods caused by the torrential rain in the summer. In some cases, residential properties were flooded-out twice and our managing agents have had to work very closely with our tenants in order to deal with the legacy.

Routine maintenance continues across the whole of the rural element of the portfolio.

Customer relationships and sustainability

Our customers include businesses of all sizes, local communities and other bodies impacted by our activities. We aim to work proactively with all, striving to help them realise their business objectives whilst also maintaining the highest standards of sustainability. Aquaculture is a major employer and one of Scotland's most important exporters. We continue to encourage best practice through The Crown Estate Scottish Marine Aquaculture Awards and are increasing investment in aquaculture research and development.

The Marine Stewardship Fund is widely valued throughout the UK for supporting community initiatives, helping to encourage good environmental practices and promoting the long-term sustainable management of our marine assets. There are currently five priority areas for funding, namely access, awareness, biodiversity, environment and management.

Review of our portfolios continued

We strive to maintain the highest standards of sustainability.

The development of an understanding of good estate management is fundamental to the way we manage the seabed and the foreshore around the UK. Projects that helped to support this aim during 2012/13 included the development of a coastal zone management plan for Torbay, the sponsorship of a Welsh maritime heritage conference, an archaeological investigation of areas of foreshore along the Thames by The Museum of London, Scotland's coastal heritage at risk project run by the SCAPE Trust, the marine aggregate industry's protocol for reporting of finds of archaeological interest and a forum to help develop marine energy in Pembrokeshire. In line with the objectives of our community investment policy, we also provided funds for a wide range of projects which will help to improve access to the marine environment, for example, installing new facilities at Newport Parrog, Pwllheli National Sailing Academy, Craignish Boat Club and Lochgoilhead Jetty Trust.

At Milford Haven, we experienced a breakthrough in our drive to provide local people with secure, licensed moorings. Previously, moorings had been largely unregulated but many boat owners have now signed up to our scheme. This will create a platform for our increased involvement in areas such as stewardship.

We continue to lead and support the Forests for the Future project – a web-based educational resource pack which will be further developed during 2013 to encourage educational use of our estates and raise awareness of the role of trees and forests in dealing with climate change. Forests for the Future aims to promote outdoor learning and a greater understanding of the benefits of woodlands. It is our ambition, working in partnership with other agencies, that at least 15 per cent of all primary schools are using the resource pack by 2015. With unprecedented focus on the provenance of food and the environment, this scheme is an ideal opportunity to take young people into the countryside and show them how agriculture and forestry adds to life in the UK. In 2012/13, we welcomed around 6,800 visitors to our land for educational purposes and aim to increase this number further.

Many of our assets include Sites of Special Scientific Interest (SSSIs) and we are pleased to report that the vast majority are in favourable or recovering condition, ahead of Government targets.

Forests for the Future initiative in action – an educational resource focused on helping primary teachers engage their students on issues like the importance of trees and forests and the role they play in tackling climate change.

To celebrate the Queen's Diamond Jubilee planting project at Glenlivet, we held tree planting events for local children, clubs and groups throughout the Jubilee week. Working with 100 local children and adults, another 450 trees were planted.

Many of our SSSI sites are in a favourable or recovering condition, ahead of Government targets.

Looking ahead

Vision 2022 provides a strong focus for the portfolio over the next decade as we seek to build on the strong performances recorded in recent years.

Food production, countryside preservation, habitat creation, leisure and commerce will continue to be key items on the agenda for the portfolio, as will water management. We have mapped all of our land against water stress and following the extensive floods of last winter, which affected our tenants so badly, we are looking at approaches to sustainable drainage whilst contributing to the National Adaptation Plan developed by DEFRA.

Working with our tenants and customers to roll out renewable energy technologies, where appropriate, will continue to be part of our investment plan. Opportunities will present themselves, both for acquisition and disposal of assets, in line with the business plan reviews, particularly given the strong sustained level of interest in agricultural land as an investment class.

Forestry is an area that we believe can drive good performance and we have developed long-term plans to manage disease and fire risks, whilst continuing to deliver multiple public benefits including recreation, education and biodiversity from our woodland management. We have maintained our Forestry Stewardship Council certification and continue to manage timber stocks commercially and sustainably. We are also pursuing options for delivering benefits for people, nature and the green economy in line with best practice and Government policy. This includes exploring opportunities to develop biomass schemes for local district heating solutions, which can provide power from wood and reduce carbon emissions at the same time.

imagine...

...delighting millions of people

Every year, millions of visitors enjoy the sheer beauty and tranquillity of our Windsor estate. The 6,400 hectares include formal gardens, woodland rides and the famous Long Walk as well as a stunning visitor centre that is a major attraction in its own right.

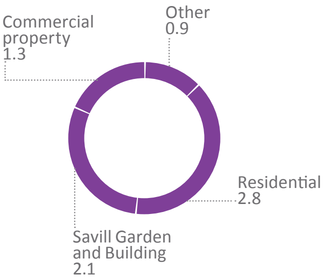
Review of our portfolios
See page 54

Image by Doug Harding courtesy of the Ministry of Defence

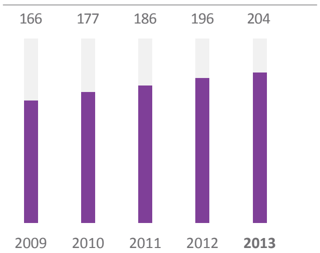
Review of our portfolios continued

Windsor estate

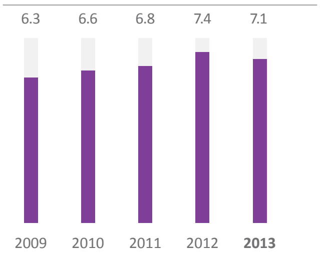
Revenue by activity
£ million



Property valuation
£ million



Revenue
(Excluding service charge income)
£ million



Windsor estate

The Windsor estate covers approximately 6,400 hectares (15,800 acres) and includes Windsor Great Park, the Home Park of Windsor Castle, extensive forests, residential and commercial properties, golf courses, a racecourse and let farms. The majority of the Great Park, and much of the forestry, is designated as a Site of Special Scientific Interest (SSSI), with other key areas being Special Protection Areas (SPAs) or a Special Area of Conservation (SAC).

Overview of the year

This has been a momentous year for the Windsor estate. Not only did we make excellent progress with a number of important initiatives to ensure that the estate remains one of the UK's best-loved attractions, but we also helped to host the Queen's Diamond Jubilee celebrations as well as provide support facilities for the Olympic and Paralympic Games.

Unfortunately, we cannot influence the weather. As Windsor is essentially an outdoor attraction, the poor English summer meant that visitor numbers failed to match the record of more than three million established during 2011/12. Total visits fell by around 10 per cent to just below 2.7 million, and this had a knock-on effect on revenue generated by facilities such as the Savill Building. However, we continued to tightly manage costs and as a result the net deficit remained broadly stable at £1.7 million.

As part of our statutory duties, we are responsible for maintaining the estate for the public to enjoy. People of all ages, from all walks of life, love Windsor for the opportunities it provides for relaxation, gentle exercise or the chance to substitute the hectic pace of modern life with some simple peace and quiet.

During 2012/13, our revenue was again principally driven by commercial and residential property, where we experienced low voids and good rents, with key contributions also coming from the Savill Garden and Building. Forestry enjoyed an excellent year as the price of timber rose, and the farms on the estate also continued to provide us with a valuable revenue stream. Income from activities such as filming were lower than in previous years, although the estate was selected as a film location for 47 Ronin, featuring Keanu Reeves, as well as a number of BBC programmes.

The summer of 2012 will long be remembered as a glorious sporting occasion. At Windsor, a major and unforgettable highlight of the year was playing our part in the huge success of the Olympic and Paralympic Games. Our involvement began with The Queen and the Duke of Edinburgh joining the huge crowds which cheered the Olympic Torch as it arrived at Windsor Castle, and extended to providing park and ride facilities for 2,500 cars so that thousands of spectators could enjoy the rowing events at nearby Eton Dorney Lake.

The year culminated in a series of wonderful events to mark the Queen's Diamond Jubilee. We were immensely proud to be involved in several exciting events, with the estate honoured to host The Pageant of the Horse, which was held in the Home Park over a period of five days and featured a military muster of over 3,000 troops with a fly-past of more than 70 aircraft. Furthermore, we supported a 21-gun salute in the Great Park, lit a Jubilee beacon as part of the national beacon chain and took part in the celebrations surrounding the Duke of Edinburgh's 60th year as Ranger of the Park.

The Swinley brick pit site has been colonised by an impressive number of species of dragonfly, including the small red damselfly. This old industrial site has been restored to heathland and now houses a good assemblage of key species of dragonfly in good numbers, probably one of the best sites in the UK.

The summer of 2012 will long be remembered as a glorious sporting occasion.

Investment management

Unlike the other portfolios of The Crown Estate, at Windsor most of our investment is related to managing the landscape of the Great Park and maintaining the estate for the enjoyment of local people and other visitors. Over the year we have invested in refurbishments, repairs and new projects such as the pavilion at Virginia Water. In addition, we completed the building of one new house during the year and this has added to our residential stock.

Our major investment is in time, resources and expertise. We have unique skills and experience on the estate, ranging from an understanding of how to create a popular visitor centre to forestry management and property refurbishment expertise. For example, the Royal Horticultural Society's Main Rhododendron Show and Competition, held in spring 2013, saw sprays and trusses from the gardens of The Royal Landscape sweep the board. Of the 10 classes entered, our team took seven firsts, including the hotly contested Roza Stevenson Cup for the best spray in the show, as well as the McLaren Cup for the best single truss.

The professionalism and talent of our people are hugely important to the success of the estate. We continue to invest in their expertise and well being, and are pleased to report a reduction of 78 per cent in manual handling accidents following a targeted training programme. During the year we also took on five building trades apprentices, bringing the total number of students and trainees on the estate into double figures.

Asset management

Our principal asset is the iconic landscape and wonderful vistas of the estate, from the stunning azaleas which flower each spring in the Valley Gardens to Roman ruins, woodland rides, forests, lakes and the world famous Long Walk which leads to Windsor Castle. All of these are maintained by our skilled and knowledgeable team and provided for the public to enjoy.

The estate also includes some 600 residential properties, farms, a small number of commercial properties, including a petrol station and a pub, Ascot Racecourse, several golf courses and a polo club.

Almost 60 per cent of the people who work on the estate live in our own village, which includes a social club, sports facilities, a school, post office and stores. Many of these people are second and third generation estate workers who have grown up here and spent much of their working lives maintaining and enhancing the estate for all to enjoy. Stability and long-term stewardship are important aspects of life at Windsor. Of course, a key challenge for our team is to maintain a sensitive balance between stewardship and commercial interests. Our long-term focus is to manage the Park and its environment for future generations. We seek to run an efficient business, focusing on optimising revenue and providing value for money. For example, refreshment sales have increased ten-fold in recent years by providing increased choice and enhanced products in tune with our customers' needs and expectations. There is a similar success story around car parking, where better facilities have also led to increased income.

In Swinley Forest, we have completed a mountain bike trail to improve access for the community. The forest has become increasingly popular with an estimated 170,000 mountain bikers visiting each year. However, the absence of formal routes meant that this activity was giving rise to an increase in accidents and having a detrimental impact on an environment which has been designated a Special Protection Area (SPA) by Natural England. The new network of 24.2 kilometres will protect the SPA and introduce colour-coded routes, from family-friendly to extreme, in line with the International Mountain Bike Association's standards.

Review of our portfolios continued

2.7m

We welcomed 2.7 million visitors to Windsor Great Park in 2012.

The Windsor Estate continues to be an exemplar for renewable energy and energy self-sufficiency.

We expect to open the new visitor pavilion at Virginia Water during 2013. This is a part of the park that has not previously been well-served with facilities: again, we are improving the visitor experience whilst generating extra revenue. The pavilion incorporates a range of sustainability initiatives including rainwater harvesting for the toilets, high specification insulation and energy efficiency throughout, as well as a wood burner that uses fuel from the estate.

Development management

We began work to upgrade an important avenue of limes during the year. The trees, which lead from Cumberland Lodge towards the recently rejuvenated Cow Pond, were planted some 220 years ago but are now past their best. Although we are always mindful of our debt to history at Windsor, we can also be brave and forward-thinking and the decision was taken to fell the trees and replant a section of the avenue with new limes. The avenue has been re-named Ranger's Avenue, after the Ranger of the Park, the Duke of Edinburgh.

Property management

The year has seen a continuation of our long-term plans to introduce more sustainable energy solutions to properties on the estate, to help counteract the impact of climate change, water scarcity and rising fuel prices. For example, air source heating and extra insulation are both standard improvements that we routinely incorporate in our regular round of refurbishments. We have also installed a number of photovoltaic units on a trial basis and, if successful, these will be rolled out across the estate.

Customer relationships and sustainability

Our stakeholders include tenants, local authorities, the local community, parish councils, Natural England and the Forestry Commission as well as close to three million visitors, and we are pleased to have ongoing and good relationships with all.

Stewardship is integral to everything we do at Windsor and we understand that the work we carry out today will have a lasting impact. Throughout 2012/13 we worked with Natural England on our SSSIs, to protect and enhance this wonderful asset for future generations. The target for The Crown Estate as a whole is to have 50 per cent of SSSIs in favourable condition and 95 per cent in favourable or recovering condition by 2020. With figures of 65 per cent and 100 per cent respectively, we are pleased to have already exceeded that goal.

We are keen to share the Windsor experience with as many people as possible and in 2012 we again welcomed around 1,700 children from local schools to our biannual Open Day where they were able to discover the workings of a large rural estate through hands-on activities and demonstrations from estate staff. Our Forest School project is another way in which local schoolchildren can gain an understanding of the unique environment on their doorstep. During 2012/13, around 700 children enjoyed lessons in the outdoor classroom of the Great Park, through some 50 Forest Schools.

Looking ahead

The Crown Estate's Vision 2022 strategy is a major driver for activities and focus in the coming years. A key challenge for us is how we can sustainably manage the estate even more effectively and continue to drive down the deficit.

We have a four-pronged strategy which looks to seek efficiencies, grow income, provide a fantastic visitor offer, and to continue to develop the team at Windsor. The projects outlined in this report are targeted to help us achieve these ambitions; more visitors spending just a few pence more on each visit will generate welcome financial momentum.

imagine...

...employees who define the future

We are nothing without our people: around 450 talented individuals work together as one team with a common sense of purpose to reinforce our absolute commitment to our customers and to our core values – commercialism, integrity and stewardship.

Finance director's review
See page 62

Finance director's review

John Lelliott
Finance director

The past year has seen another excellent performance from The Crown Estate, despite prevailing economic conditions. Sustainable growth, year after year, is now not only an aspiration for the future but a demonstrable achievement that underlines the values, skills and strategies that led to us being named Estates Gazette's 'National Property Company of the Year' for 2012.

We have delivered on our goal of returning £250 million to the nation – and we have done so a year ahead of schedule – which is testament to the hard work, passion and dedication of the team at The Crown Estate. This achievement was the cornerstone of our Going for Gold targets. We are now looking to the future, and setting ourselves stretching goals for the next decade.

We have delivered a strong financial performance this year; our net revenue surplus (profit) of £252.6 million for the year ended 31 March 2013 represents an increase of £12.4 million, or 5.2 per cent on last year's profit of £240.2 million.

This represents another strong year, when measured against our principal commercial aims, which are to deliver a year-on-year increase in net revenue surplus, and to achieve a total return that outperforms our bespoke three-year rolling IPD benchmark. To put it into context, during the past 10 years we have seen our net revenue surplus grow by 43 per cent and delivered a total of over £2.1 billion to the Treasury for the benefit of the nation. Alongside revenue, we have seen an increase in the value of the property portfolio in the last decade and generated capital growth of 105.6 per cent and an annualised total return of 11.96 per cent.

We continue to concentrate on core areas where we have critical mass and a high level of expertise. In particular, this year we've focused on asset management with a lower level of trading in the capital markets than 2011/12. We have also benefited from our investment in our regional retail portfolio and the continued progress of our development pipeline in central London and in renewable energy.

We see these core areas as providing future income growth in a steady and sustainable fashion, but at the same time, optimising our long-term total returns from the portfolio.

Last year, I mentioned that we had embarked upon a business improvement programme to examine our cost base and explore opportunities to create more value and improve efficiency generally throughout the business. I am pleased to report that we have made significant progress and delivered tangible benefits from this exercise, which also complements and will feed into our Vision 2022 aims and objectives.

During the year we restructured parts of the business, separating the offshore renewable energy, minerals and cables and pipeline activities from the marine portfolio to create a separate offshore Energy and Infrastructure portfolio. This was done to reflect the growing importance of these activities to our business, both in terms of revenue generation and capital growth. Alongside this, we merged the remaining marine portfolio with rural to create a single Rural and Coastal portfolio. This merger provided us with the opportunity to strengthen our asset management capability, optimise expertise through business synergies and drive cost efficiencies. We are also in the process of restructuring our central communications team to form a new corporate affairs function, and have recruited a new corporate affairs director. We intend to embed individuals within portfolios to greater serve our business requirements. This process will complete in financial year 2013/14.

Integrated reporting

This, our first integrated annual report, helps us to explain our business in a concise way and starts to explain the inter-connectivity of the resources and relationships upon which our business depends. Explaining our business model and what the material issues for our business are is new to this report and provides greater insight into how we create value and the risks and opportunities we face. Our review of portfolios highlights the common drivers for the business as a whole and by integrating sustainability throughout the report we can clearly show how this is core to delivering stronger performance and making better and more informed decisions.

The movement towards integrated reporting has gathered significant international momentum over the past couple of years and we are proud to be associated with this through our active participation in the International Integrated Reporting Council's (IIRC) pilot programme, where we can share experiences and improve the way we report on our business.

This is the first year of a three-year plan to integrate our reporting and whilst we have made considerable progress, we have high ambitions for the future. In particular, we intend to communicate how our success is derived from the resources that sustain us (the IIRC refers to these as 'capitals'). We also hope to be able to use integrated reporting to demonstrate how our approach to sustainability creates genuine commercial benefits. It illustrates how integrated thinking is embedded into our business processes and practices and informs our decisions, creating long-term value for and from The Crown Estate.

Finance director's review continued

Total contribution

A key principle of integrated reporting is measuring the value we create. We contribute so much more to the UK beyond our profits that go to the Treasury, and to measure this we have developed a new innovative approach which we call Total Contribution. Through this approach we value the economic, social and environmental contribution that our business delivers and explore not only our direct activities but also the indirect contribution of our supply chain and the contribution delivered from our portfolio by others (enabled).

We published our first Total Contribution report 'Our Contribution' in May 2013. Colin De Luc, a partner at the sustainable investment company, Generation Investment Management LLP, and a member of the expert panel that was invited to discuss the report at the launch, said:

"I am delighted to see The Crown Estate making these first steps to measure their total contribution. As investors increasingly look to invest in businesses that are going to be relevant to future generations and successful over the long term, The Crown Estate is leading the way in both their transparent and open learning approach."

Our methodology produced some interesting results, showing that in 2011/12 we supported around 94,000 jobs in the UK, contributing around £5.2 billion to the UK economy, through direct, indirect and enabled means. Most thought-provoking though was not the size of the contributions, but where they originated from and what can be done to improve them. The majority of the contribution is clearly derived from activity by others on our portfolio rather than our own activity. This highlights the responsibility and influence of our role as an active asset manager and how important it is to have strong customer relations.

During 2012/13 our direct total contribution to the Treasury was £290.4 million. Although mainly made up of our net surplus (profit), it also includes taxes paid by employees (Income Tax and National Insurance) and taxes paid by The Crown Estate (employer National Insurance, VAT, stamp duty land tax and other taxes such as climate change levy).

In alignment with our three-year plan for developing integrated reporting, we will be embedding Total Contribution measurements into our reporting process. Over this next year we will be looking to collaborate with others who are exploring value measurement to improve the quality of our data and modelling and we will also be aiming to achieve external assurance on the approach that we have developed. Total Contribution is the next step towards integrating sustainability into the heart of The Crown Estate's business model.

Find out more
www.thecrownestate.co.uk/about-us/total-contribution

Net assets

The capital value of The Crown Estate at 31 March 2013 was £8.6 billion, an increase of 7 per cent over its value of £8.1 billion at 31 March 2012. The increase in value is principally attributable to higher property valuations and higher cash reserves.

Cash flow

At the start of the year, our cash reserve was £557.0 million. During the year, our capital activity totalled £694 million. This included acquisitions with a total value of £178.2 million; principally the purchases of Princes House in St. James's and The Gate in Newcastle. Capital expenditure including investment in indirect investments totalling £164.3 million was made which included £104.7 million on development projects, particularly on the urban central London estates, as well as a significant commitment to renewable energy. Disposals realising £351.9 million were made during the year. Overall, our total capital activity led to a net inflow of funds of £6.2 million compared with a net inflow of £211.7 million in 2011/12.

Assets under management

Over the last few years, we have seen a substantial increase in the amount of property that we manage on behalf of third parties. Assets under management were valued at £8.3 billion at 31 March 2013, of which directly-owned property comprised £7.8 billion. Regent Street, which we manage on behalf of Norges Bank Investment Management (NBIM), is the largest contributor to assets managed on behalf of third parties.

Property valuation

The total property value of the estate, inclusive of share of joint venture and other property investments, increased to £8.1 billion at 31 March 2013, an increase of 7.2 per cent compared with the figure at 31 March 2012. In addition, assets under management have increased by 13.3 per cent to £610 million. The key highlights include:

- The Urban portfolio is now valued at £5.9 billion and is 9 per cent ahead of its pre-recession peak.
- The Rural and Coastal portfolio grew by 3.2 per cent to £1.4 billion but, after net capital receipts of £100 million, underlying capital growth was 10.4 per cent.
- The Energy and Infrastructure portfolio has grown by 8.2 per cent to £564 million.
- The Windsor portfolio has grown by 4 per cent to £204 million.

The urban commercial portfolio has performed broadly in line with the market with our core West End properties outperforming the remainder of the portfolio. Across the West End we have seen capital growth of 7 per cent driven by rental value growth of 4.1 per cent with a slight compression of yields over the year. Outside of London, the market has been more difficult but the prime nature of our stock has seen values only fall by 1.8 per cent against a benchmark of 4.6 per cent.

Transactional activity was relatively limited this year. The most significant purchase was Princes House (£87 million) adding to our ownership on Piccadilly and Jermyn Street, which was complemented by the addition of 106 Jermyn Street (£6 million). Elsewhere in London was a site assembly purchase at 22 Regent Street (£18 million), incorporated into the St. James's Market development, and a lease purchase to facilitate a planned residential development at Quadrant 4, adjacent to AirW1. Outside of London we added The Gate in Newcastle (£60 million) and funded the new MK1 Shopping Park in Milton Keynes. We continued to invest in the portfolio through development, principally at 157–167 Regent Street (Block W4) and Piccadilly Gateway, but also in smaller schemes across the portfolio, including: the refurbishment at Albany House, Regent Street; the new John Lewis store in Princesshay, Exeter; refurbishments at Cambridge Business Park; and preparatory work for Block W5, the next scheme on Regent Street.

Disposals over the year were typically low yielding properties and included: Les Ambassadeurs casino at 5 Hamilton Place; the Merchant Square residential block in Paddington; and 3–8a Whitehall Place. We also sold three industrial estates in Wimbledon, Oxford and Swindon. In total, these sales were 36 per cent in excess of the March 2012 valuation. The end of year valuation also reflects the terms agreed for the sale of the Intercontinental Hotel on Park Lane. Total expenditure on the Urban portfolio was £303 million inclusive of £178 million of purchases and £73 million of development. Receipts totalled £224 million resulting in net investment of £79 million. While the value of the portfolio increased by 8.2 per cent to nearly £5.9 billion, the underlying capital growth was 6.4 per cent.

The combined Rural and Coastal portfolio has increased in value by 3.2 per cent to over £1.4 billion. However, after taking account of net receipts of £100 million, the underlying capital growth was 10.4 per cent. The principal sale was the estate at Savernake, although we also continued to dispose of a number of non-core residential cottages. There were no significant additions to the portfolio.

The fundamental driver of values across the portfolio was the increase in value of prime agricultural land with vacant possession. The market continues to be characterised by a shortage of supply and strong demand fuelled by commodity prices and the attraction of land as a safe investment. However, high rental tender prices have not fed through strongly to rent reviews and the poor weather affected profitability. On a regional basis, growth continues to be stronger on commercial arable farms in East Anglia and the East Midlands. Growth was weaker on the estates with smaller livestock farms and a higher residential weighting.

The coastal element of the portfolio has remained flat with capital values virtually unchanged at £207 million. On the leisure side we have seen some turnover rents coming under pressure but performance from the commercial ports has been more robust and revenue has remained strong.

The Energy and Infrastructure portfolio has grown in value by 8.2 per cent to £564 million. Net investment across the portfolio totalled £25 million. The majority of this was invested in the facilitation of the offshore wind industry, but we are supporting a number of other projects across the portfolio including the wave and tidal programme, and Carbon Capture and Storage. The principal growth area was offshore wind, largely due to more short-term certainty over expected income. Last year there were 19 projects generating power with 2.65 GW of installed energy and a further 1.54 GW under construction. This year there are 22 projects generating with installed energy increasing to 3.6 GW with 1.0 GW under construction. Values therefore grew where demonstrable progress has been made but were stable for the longer-term Round 3 programme where progress was offset by increased uncertainty. Elsewhere, the offshore aggregates industry has come under pressure due to the weakness of the construction sector. This saw extraction rates fall significantly with a consequential impact on the valuation which decreased nearly 12 per cent to £117 million.

The principal valuers remain DTZ on our core West End holdings, Jones Lang LaSalle on our regional and residential properties and Savills on the rural portfolio.

For a full schedule of properties please visit
www.thecrownestate.co.uk/media/206857/schedule_of_properties_rights_and_interests.pdf

Finance director's review continued

Regulatory framework

The Crown Estate Act 1961 places certain obligations and restrictions on the way we do business and report our financial results. These include:

- An inability to borrow in order to finance investment.
- Special accounting arrangements, similar to a trust, that aim to maintain a balance between income and capital.
- A requirement 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.

The final point 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. This shows the contribution to the surplus from the income account and capital account separately.

Sovereign Grant

In October 2011, the Sovereign Grant Act was passed by Parliament. It provides for the Sovereign Grant for a given year to be equal to 15 per cent of The Crown Estate's net revenue surplus (profit) in the financial year two years prior. The money to support this grant is provided by the Treasury. This year's net revenue surplus will form the basis for 2014/15.

The Sovereign Grant does not affect the way in which the managerial or operational functions of The Crown Estate are performed. We continue to return our entire annual net revenue surplus to the Treasury.

Charitable donations

We provided donations totalling £1,750 in the year ended 31 March 2013 (£1,000 in the year ended 31 March 2012), as permitted by the Crown Estate Act 1961, section 4(2).

Supplier payment performance

The Crown Estate's payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of service where a fee is recoverable from a third party, or according to contract where a shorter payment period is agreed. During the year ended 31 March 2013, we paid 72 per cent 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 34 days of receipt. We observe the principles of the 'Better Payment Practice Code'.

Our employees

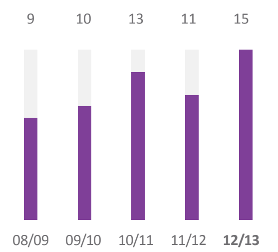
Our talented, professional and experienced people are critical to the delivery of sustainable business performance and we are focused on providing the right environment and leadership so that we continue to be regarded as a successful and well run organisation.

We have invested in the leadership and management capability in the business and have been recognised as an Investors in People (IIP) employer since 2002. We are currently undergoing our 4th assessment against the standard, and while the final outcome will not been known until late 2013, we are especially pleased that so far we have achieved the IIP bronze standard in two areas of the organisation (Energy and Infrastructure and Windsor). This encouraging result partly reflects the impact of the investment we have made in leadership and management development over the two years, which has seen all people managers attending a three day leadership and management programme.

Leadership and good management is important to us, as we consider these to be the driving force for stimulating innovation and creativity within the business; maintaining our strong focus on being good people to do business with; and ensuring that our established core values of commercialism, integrity and stewardship continue to permeate every area of our business.

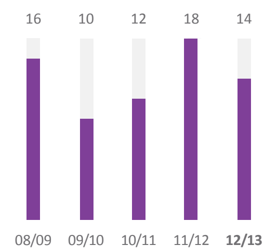
Our staff turnover increased to 15 per cent in 2012/13 due to the restructuring of some of our business as we prepare for the next 10 years. Overall average number of employees increased by 15 to 456 in the year ended 31 March 2013.

Employee turnover
%



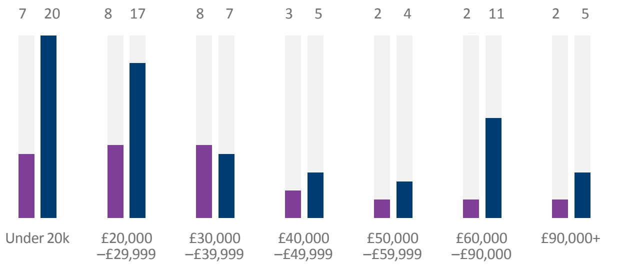
Turnover rate (based on the number of employees on the 31 March 2013)

Average hours of training per year per employee



Reward

Employee salary ratios by gender 2012/13 (68% male, 32% female)
■ percentage of total employees (female)
■ percentage of total employees (male)



We aim to offer competitive reward packages, which are set at around market median for the majority of roles, and a range of benefits similar to those offered in the private sector. A key element of our reward strategy includes the pension, sickness and redundancy arrangement, which has been updated to reflect private sector equivalents. 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 make annually 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 Principal 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 2007. In March 2009 we closed entry to the existing defined benefit sections provided by the Principal 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 £27,720 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.

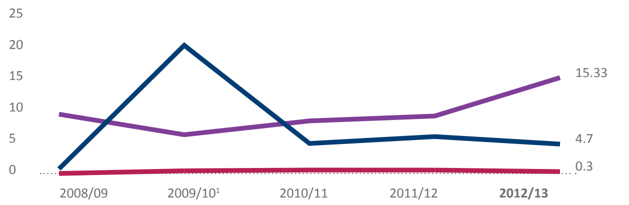
As at 31 March 2013, a total of 118 employees were members of The Crown Estate hybrid pension scheme and a further 49 elected to receive a cash pension allowance.

Health and safety

The Crown Estate is committed to embedding a proactive approach to health and safety cross all areas of its business.

Over the last 12 months we have met our objective to achieve accreditation for our integrated safety, health and environmental management system, (OHSAS 18001: 2007 and ISO 14001: 2004) for all of our directly managed rural properties. We have established a new telephone reporting line that makes it quicker and easier for employees to report incidents, and we have focused on improving investigations of all cases, including near misses and unsafe conditions, so that emerging trends can be identified, lessons learnt and preventative actions applied. This has meant that we have seen an increase in the number of incidents that we capture but the number of cases of serious reportable incidents has not increased.

Health and safety incidents
■ Accident frequency rate (AFR) ■ Accident severity rate (ASR)
■ Accident incident rate (AIR)



AFR = Number of RIDDOR reported injuries per 100,000 employee hours worked.
ASR = Number of employee lost days per 100,000 hours worked.
AIR = Total number of incidents per 100 employees.
In 2009/10 the ASR rate was high due to a smaller workforce and accidents resulting in more days off, including one resulting in 104 days off.

Within the last year we also introduced a new monthly management dashboard that provides clear and concise information on incident numbers and trends, not just for our own direct cases, but for those of contractors and people visiting our Estate. Within our Energy and Infrastructure portfolio we continued to jointly sponsor the Renewable Energy Health and Safety Award to promote the sharing of best practice in health and safety across the sector with RenewableUK (RUK).

Looking forward, we are developing a programme of behavioural-based safety initiatives to support our management system and further embed a positive culture of health and safety and wellbeing. The focus of the programme is to promote the value of people's safety and the protection of people's health and wellbeing. This will be achieved by further enhancing our engagement with internal and external stakeholders and ensuring communication is clear and concise.

Finance director's review continued

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.

Last year, we ran a series of healthy workplace promotions which included a 'count your numbers' programme for our employees at the Windsor estate, where employees were tested for cholesterol, blood pressure and resting pulse rate. We also ran a healthy eating campaign, a programme of lunchtime walks, ergonomic awareness and organised stress awareness sessions in London and Edinburgh.

Equal opportunities

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 also members of the Employers' Forum on disability.

Climate change

Climate change presents physical, financial and regulatory risk and opportunity to our business. It is a material issue for The Crown Estate. Our approach is focused on:

- Mitigation – making our operations more efficient
- Adaptation – understanding and adapting to the changes in climate
- Enabling the development of low carbon energy

The last year has seen an increase in our absolute emissions as our portfolio under our direct control grew. However, carbon emissions intensity which takes account of growth improved by a further 19 per cent (see Our performance page 21). This follows a 47 per cent improvement between 2007/08 and 2011/12 and puts us in a good position to achieve our commitment to double the efficiency of our buildings by 2022. The portfolio sections of this report highlight some of the important activities that we are currently undertaking to further address climate change.

Our performance

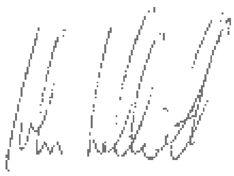
GHG Absolute Emissions Data: 1 April 2012 – 31 March 2013	2012/13 Emissions (tCO_2e)
Scope 1: Direct emissions from car fleet and the heating of buildings	5,715
Scope 2: Emissions from electricity usage	22,684
Gross Scope 1 and 2 emissions	**28,399**
Purchased green tariff	21,004
Net Scope 1 and 2 emissions (Gross minus purchased green tariff electricity)	**7,395**

Footnote: We have also measured indirect Scope 3 emissions from energy used exclusively by our tenants where we were able to obtain it (1,575 tCO_2e); and business travel and car hire (224 tCO_2e). In future years we will be working to gain a more comprehensive understanding of the emissions from our tenants.

PricewaterhouseCoopers LLP has provided limited assurance on our Scope 1, 2 and 3 emissions. For the full limited assurance report see www.thecrownestate.co.uk/pwcassurance

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) to calculate our emissions. We have reported all emission sources that are under our operational control apart from de minimis sources such as fugitive emissions from air conditioning units.

In our first Total Contribution report on value measurement, we identified that over our entire Estate more emissions were avoided than were produced and there was a net positive balance of 4 million tCO_2e. This was achieved through the generation of renewable energy and the absorption of CO_2 by trees (sequestration). We are clear that the majority of this net positive result is created by others on our estate and not directly by us, but as we further develop our approach and gain external assurance for this we will include this area of influence in our reports and demonstrate our Total Contribution.



John Lelliott
Finance director

Looking ahead

At an all property level, the market remained subdued over the course of 2012/13 with capital values falling by 2.8 per cent, but with significant variations between the property segments ranging from 8.5 per cent growth for West End retail down to –9.8 per cent for the rest of UK offices. Total returns were therefore largely driven by income return with West End offices and retail the main segments experiencing rental value growth.

This was against a continuing backdrop of a sluggish recovery from the recession, low bond yields and falling disposable incomes. To a large extent we expect more of the same in 2013/14 with relatively low bond yields continuing to support prime property values and a wide spread to secondary property where occupier demand remains weak. As the economy recovers we would expect bond yields to start rising and the risk premium for property to narrow. The strongest growth in rental values is likely to be in those sectors with restricted supply including fashion-led retail parks, leisure parks, dominant shopping centres and all of the West End segments.

We are closely monitoring the West End development pipeline but the lack of a strong supply response to the current shortage of Grade A space in the core West End, combined with economic recovery, suggests that this segment will continue to outperform. This in turn provides confidence for our development pipeline with two major schemes due to be delivered by the end of this financial year and the start on site for the St. James's Market scheme scheduled for autumn 2013. Outside of London we see strength in the retail sector starting to emerge and expect clothing and footwear sales to accelerate over the next few years as disposable incomes increase and the unemployment rate eases.

In the Rural and Coastal portfolio good progress is being made on our strategic land activities. Further to the introduction of the National Planning Policy Framework we are seeing more planning consents coming through and we will be bringing a number of sites to the market over the forthcoming year. At the same time, housebuilders' balance sheets have been strengthening with growing demand for consented sites in higher value regional centres.

Performance in the agricultural markets is likely to be diverse. Following last year's adverse weather conditions, farming income fell.

We are guarded that a second such year could see more farms coming onto the market due to debt issues. Otherwise the outlook is broadly similar, with strong demand for commercial arable farms and the best dairy farms. Weaker growth will come from the smaller livestock farms and those estates with a high residential component, particularly where housing needs to be upgraded to be compliant with the Energy Act 2011.

Within the Energy and Infrastructure business, wind farms will continue to be the main driver of growth over the next few years. Installed capacity within Rounds 1 and 2 has the potential to exceed 10 GW and values will continue to increase as the number of schemes generating or under construction increases. There is uncertainty within the industry at the moment as we move from the Renewable Obligation Certificates to Contracts for Difference (CfD), but we would expect sentiment to improve once the CfD strike price is set. The highest income generator in this part of the business is offshore aggregates. This sector has suffered during the recession with extraction levels nearly 25 per cent down on pre-recession levels, but this is expected to be recouped through to 2020.

Risks remain across the portfolio. At an economic level sovereign debt risks and imbalances in the Eurozone remain, although any easing of that risk might see a reversal of the recent international capital flows into London. Occupier demand for offices in the West End is muted and hence there is a degree of risk attached to our development pipeline, albeit competing new supply in the core West End is also limited. In the rural sector the review of the Common Agricultural Policy has potential to create some uncertainty over farming incomes, while investment decisions in the energy sector will continue to be delayed until there is more certainty over prices for non fossil electricity.

Even so, our integrated approach to business and the development of strategic partnerships puts us in a strong position. By focusing on the material issues that underpin and drive our business, and by creating space and amenity that people want and enjoy, we will continue to deliver sustained and profitable growth. We are building from a position of strength, with a strong balance sheet and a team that is driven by innovation and success. Looking ahead to the next decade, we are embarking upon our largest and most ambitious development programme to date, and despite a period of further economic uncertainty, we are well placed to continue delivering consistently and for the long term.

Introduction to governance

Strong corporate governance is essential to the way in which The Crown Estate operates and pursues its business objectives. The Crown Estate is in a unique position as both a public body independent from Government and a statutory corporation operating on a commercial basis. There is no single set of standards governing The Crown Estate's corporate governance; instead we seek to apply the standards which are most appropriate to the various elements of the business in our pursuit of applying best practice.

I am, as are the Board of Commissioners (the Board), wholly committed to business integrity, high ethical values and professionalism across all Crown Estate activities – in accordance with the organisation's core values of commercialism, integrity and stewardship.

As an essential part of this commitment, I recognise the importance of high standards of governance and have ensured that we have in place a corporate framework document setting out the basis on which The Crown Estate operates and the formal structure for decision-making.

The UK Corporate Governance 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 Code, its Board nevertheless supports the principles and provisions set out in the Code; and in so far as the Code provisions are applicable to the circumstances of the organisation, The Crown Estate complies with the Code where appropriate. Many areas of our governance, however, are governed by The Crown Estate Act 1961, the Treasury guidance or other government guidance.

Our corporate governance monitoring group meets quarterly to review developments in corporate governance relevant to The Crown Estate, to ensure that we keep abreast of and adopt best practice, as appropriate.

During the year we strengthened our corporate governance framework through the review of our risk management process and internal controls, and extended the whistle-blowing hotline to external parties. The Energy and Infrastructure portfolio established a new governance policy manual, setting out governance controls specific to that business – including enhanced conflicts of interest policies.

To ensure we continue to operate at the highest levels of corporate governance, the priorities and focus for 2013/14 and beyond will include a review of our governance arrangements – as part of our Vision 2022. To ensure these arrangements remain fit for purpose, both now and in the future, Board attention will be given to review of governance arrangements, comparing our arrangements to best practice in other organisations and industries, as well as latest thought leadership in corporate governance.

The following section of the report provides information on The Crown Estate, including the statutory position of the Board, the composition of the Board, delegated authorities, Board effectiveness and information on Board committees.

Sir Stuart Hampson
Chairman

Board members

Sir Stuart Hampson
Chairman and First Commissioner

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

Key strengths
- Leadership
- Strategic overview
- Government relations

Experience
Sir Stuart was educated at St John's College Oxford. He spent 12 years as a civil servant before joining the John Lewis Partnership where he was Chairman for 14 years. He was a founding member of the Oxford Retail Group on planning law and of London First, the private/public sector partnership aimed at maintaining London's standing as a world-class capital.

External appointments
Sir Stuart chaired the Business in the Community 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 2005/2006.
He was knighted in 1998 for services to retailing.

Aged 66.

Alison Nimmo CBE, FRICS, MRTPI
Chief executive and Second Commissioner

Appointment
Alison took up the post of chief executive of The Crown Estate on 1 January 2012.

Key strengths
- Leadership
- Corporate overview
- Government relations
- Property

Experience
Alison spent five years with the Olympic Delivery Authority (ODA) where, as Director of Design and Regeneration, she was responsible for delivering the overall design and early delivery of many of the venues for the London 2012 games. Alison specialises in urban regeneration and was awarded a CBE in 2004. Her previous roles have included Chief executive of Sheffield One and Project Director of Manchester Millennium Ltd.

External appointments
Alison is Non-executive director at Berkeley Group and a visiting professor for Sheffield Hallam University.

Aged 48.

Dr Tony White MBE
Non-executive Board member

Appointment
Appointed to the Board on 1 January 2011.

Key strengths
- Low carbon energy and investment

Experience
Tony has worked in the utility and finance sectors since leaving Oxford University with a Doctorate in Physics in 1977. His professional interests include the valuation of generating assets in liberalised power markets, the evolution of energy markets in a carbon constrained world and the development of network regulation. He left Climate Change Capital, a bank he and four others established in 2003, but continues to provide advice through his company BW Energy Limited.

External appointments
He is a non-executive director of the Green Energy Options. He is a member of the British Government's Nuclear Liabilities Financing Assurance Board and its High Level Strategy Group for the Built Environment. He was awarded an MBE in 2004 for services to UK energy policy.

Aged 60.

David Fursdon FRICS, FAAV
Non-executive Board member

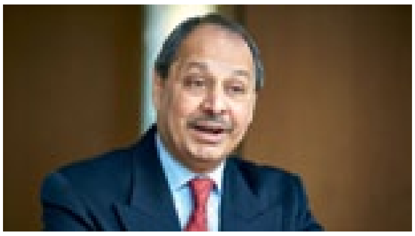
Appointment
Appointed to the Board in January 2008.

Key strengths
- Rural land/business
- Public bodies

Experience
David is a qualified rural chartered surveyor and agricultural valuer. He was educated at St John's College Oxford and at the RAC Cirencester. He owns and manages an 800 acre family estate in Devon. He was formerly President of the Country Land & Business Association (CLA).

External appointments
David is an English Heritage Commissioner, Chairman of SW Chamber of Rural Enterprise, Chairman of the SW Board for the 2012 Games and SWRDA Board member. He is also the chairman of Governors for Blundell's School, Parish Chairman, Deputy Lieutenant for Devon and a former member of the Government's Affordable Housing Commission. Previously he has been a civil servant, a teacher and an equity partner of a firm of Auctioneers and Chartered Surveyors.

Aged 60.



Dipesh Shah OBE, MSc, FRSA
Non-executive Board member

Appointment
Appointed to the Board on 1 January 2011.

Key strengths
- Marine
- Energy including renewables and infrastructure

Experience
Dipesh has an extensive background in business, including renewable energy, utilities and infrastructure. Since 2009 he has been a non-executive member of The Crown Estate's offshore energy supervisory committee. Recent appointments include: Chief executive of the UK Atomic Energy Authority, Chairman of Viridian Group Plc and of HgCapital Renewable Power Partners LLP, and a Non-executive Director of Lloyds of London and Babcock International Group Plc.

External appointments
He currently holds a number of non-executive appointments with Thames Water, JKX Oil & Gas Plc and the 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite Fund). He is a Trustee of the British Youth Opera and a Governor of Merchant Taylor's School.

Aged 59.

Gareth Baird DL, FRAgS
Non-executive Board member and Scottish Commissioner

Appointment
Appointed to the Board on 1 October 2009.

Key strengths
- Scotland
- Farming
- Enterprise

Experience
Gareth is a third generation tenant farmer involved in arable and beef production near Kelso in the Borders and is a leading figure in Scotland's agricultural and food and drink sectors.

External appointments
He is Chairman of Scott Country Potato Growers Ltd, Vice Chairman of Grainco Ltd, and a Director of Scotland Food and Drink and of the Royal Highland and Agricultural Society of Scotland. He has been involved with farming co-operatives for many years, and it was this commitment to co-operation that led to his chairmanship of the Scottish Agricultural Organisation Society (SAOS) for two separate three-year terms.
He also chairs the South of Scotland regional advisory board of Scottish Enterprise. He is a fellow of the Royal Agricultural Society and Deputy Lord Lieutenant for Roxburgh, Ettrick and Lauderdale.

Aged 55.

Ian Marcus MA, FRICS
Non-executive Board member

Appointment
Appointed to the Board in January 2012.

Key strengths
• Real estate investment banking

Experience
Ian is currently non-executive Chairman of Evans Property Group, a position he took up in May 2012. He was previously Chairman of European Real Estate Investment Banking at Credit Suisse where he was responsible for leading the bank's property related activities across its asset management, private banking and investment banking businesses.

External appointments
He is also Chairman of the Bank of England Commercial Property Forum and Chairman of The Prince's Regeneration Trust. Ian's previous roles have included the Presidency of the British Property Federation and Chairmanship of the Investment Property Forum. He is a member of the Real Estate Advisory Board of the Department of Land Economy at the University of Cambridge, an Eminent Fellow of the RICS and a Member of the Chartered Surveyors Company.

Aged 54.

Chris Bartram MA, FRICS
Non-executive Board member

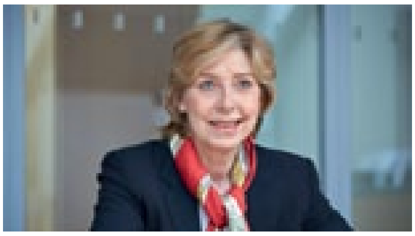
Appointment
Appointed to the Board on 1 January 2007.

Key strengths
• Urban asset management and investment

Experience
Chris 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. He was previously Managing Partner of Jones Lang Wootton.

External appointments
He is a non-executive Director at Land Securities Group plc and is Chairman of Estate Management Development Fund at Cambridge University. He is also a Wilkins Fellow of Downing College, Cambridge. Past appointments include: President of the British Property Federation and Chairman of the Bank of England Property Forum.

Aged 63.



Jenefer Greenwood BSc, FRICS
Board counsellor
Non-executive Board member February 2004 – December 2011

Appointment
Appointed to the Board on 19 February 2004.

Key strengths
• Urban asset management
• Retail strategy

Experience
Jenefer joined Grosvenor in May 2003 as Retail Strategist to give advice on retail positioning across the portfolio. She was then appointed Director – Sales & Lettings for Great Britain and Ireland across all retail, commercial and residential estates. She retired in 2012. She previously worked for CB Hillier Parker for 25 years, where she was Head of Retail.

External appointments
In May 2012, Jenefer was appointed as non-executive Director of Assura Group, where she is also Chair for the Remuneration Committee, Jenefer is also Chairman of the Advisory Board of the National Skills Academy for Retail. She is a past President of the British Council Shopping Centres (BCSC) and member of the ICSC European Advisory Board. She is also a Governor of Westonbirt School.

Aged 55.

Dinah Nichols CB
Board counsellor
Non-executive Board member January 2003 – December 2010

Appointment
Appointed to the Board in January 2003.

Key strengths
• Sustainability

Experience
Dinah read history at Bedford College, University of London. She is a non-executive Director of Pennon Group plc (the parent company of South West Water and Viridor Waste) and of Shires Smaller Companies Investment Trust.

External appointments
In 2005 she became Chair of the National Forest Company, a project to regenerate a large area of central England through multi-purpose forestry and major landscape change. 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 The Land Trust and Keep Britain Tidy and a member of CPRE's Policy Committee.

Aged 69.

Management board

From left *Rob Hastings, Vivienne King, John Lelliott, Ken Jones, Alison Nimmo and Paul Clark*

Alison Nimmo CBE, FRICS, MRTPI
Chief executive

Alison took up the post of Chief executive of The Crown Estate on 1 January 2012. Prior to this, she spent five years with the Olympic Delivery Authority (ODA) as Director of Design and Regeneration. (See page 68 for full biography.)

Aged 48.

John Lelliott FCCA
Finance director

John joined The Crown Estate in 1985 and became Finance director in 2001. He has responsibility for finance, information services and internal audit.

John is a trustee of Asthma UK and a member of the ACCA global forum on sustainability.

Aged 60.

Rob Hastings BSc, MBA
Director of Energy and Infrastructure portfolio

Rob joined The Crown Estate in 2006 as the Director of the Marine Estate.

Rob qualified as an aeronautical engineer in 1985 and after a short spell in the aerospace industry completed an MBA at Manchester Business School. He spent the next 15 years in the energy sector in a range of enterprises from small to very large, all at executive director level, including roles as business development director, general manager, managing director and chairman.

His penultimate role was as a director and chairman of Shell Wind Energy Limited. He has also served as a director of the British Wind Energy Association (now RenewableUK), as a member of the UK Government's Renewable Advisory Board and Offshore Wind Developers Forum chaired by the Minister of Energy and served on the Office of Science and Technology Private Sector Research Group.

Aged 50.

Paul Clark BA (Hons), MPhil, MRICS
Director of investment and asset management

Paul joined The Crown Estate in 2007 and has overall responsibility for investment strategy.

Previously he was responsible for the Church Commissioners' £1.7 billion property investment portfolio. Significant recent initiatives have included setting up major retail joint ventures with Land Securities in Exeter and Oxford, commencing the organisation's first development in St. James's in partnership with HOOPP, the 18,600 m^2 (200,000 ft^2) Quadrant development off Regent Street and the partnership with Norges on Regent Street.

Aged 50.

Vivienne King BSoc Sci
Director of corporate affairs and general counsel, legal

Vivienne is a qualified solicitor who joined The Crown Estate in 1994 from Magic Circle law firm, Herbert Smith.

Vivienne has been the Legal Director and Company Secretary of The Crown Estate since 2007. She has responsibility for the entire legal service across the portfolio and for delivery of the business to the most robust standards of corporate governance and health and safety. As a member of the Management board, she is responsible for the successful operation of the business at its most senior executive level and she is also the director who has overall accountability for driving sustainability.

A member of the City of London Solicitors Company and chief Legal Office Network, Vivienne was awarded 'Hot100' lawyer status in 2008 by The Lawyer magazine.

Aged 52.

Ken Jones BSc (Hons), FRICS, FAAV
Director of Rural and Coastal portfolio

Ken joined The Crown Estate in November 2012. He has executive responsibility for the strategic development and management of agricultural, coastal, mineral and forestry estates, including rural residential and commercial interests.

Ken came to us after 31 years with Savills. Based in Lincoln, he headed up portfolio valuation and agricultural investment with clients including The Crown Estate, the Church and the Duchy of Lancaster. In 2007, he took on responsibility for International farmland investment.

Aged 60.

Governance report

Statutory position of The Crown Estate and 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 envisaged the role of The Crown Estate Commissioners as analogous to that of trustees of a trust fund. The Crown Estate Act 1961 requires the Commissioners to manage 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, and profits met its expenses. However, since 1760, the annual surplus, after deducting management costs, has been surrendered by the Sovereign to Parliament. In return, the Sovereign received the civil list, now payment is received under the Sovereign Grant Act 2011.

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 perform all acts of the Crown's right of ownership, subject only to any restrictions in the Act. They must comply with directions, about the discharge of their functions under the Act, given to them by the Chancellor of the Exchequer and the Secretary of State for Scotland.

The Commissioners submit an annual forecast of their activities to the Treasury in the form of 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 only invest in land and may hold gilts and cash. Investment in equities or outside the United Kingdom is not permitted and The Crown Estate cannot borrow.

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.

Board members
Composition of the Board of Commissioners

At 31 March 2013 the Board of Commissioners comprised eight members: a chairman (who is non-executive), chief executive and six non-executive Board members. The composition of the Board is defined by the Crown Estate Act 1961.

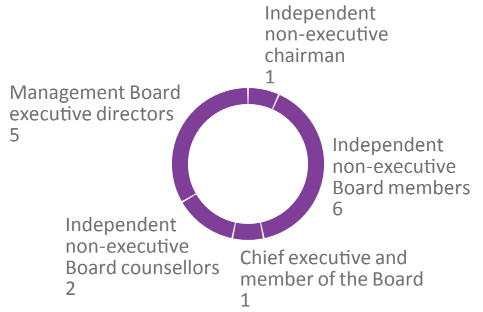
The Board is of the view that collectively Board Commissioners, who are alternatively called Board members, have the appropriate balance of skills, experience and qualities to discharge the Board's duties and responsibilities effectively, and that as currently constituted the Board has strong independent and diverse characteristics. 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.

Duties

The main duties of the Board are to:

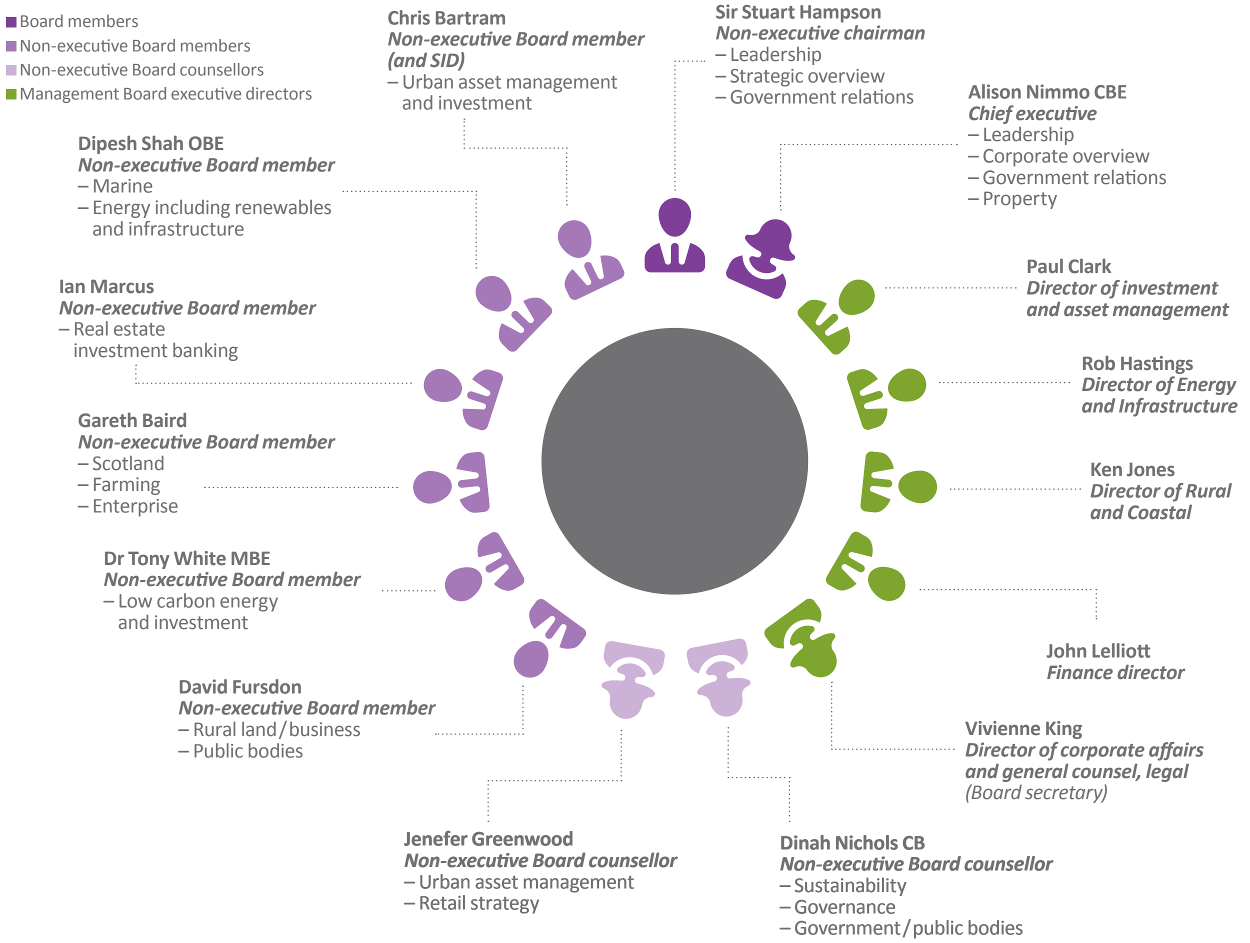
- agree objectives, policies and strategies, and monitor the performance of executive management;
- agree and set the overall strategic direction of the business for implementation through the executive management board;
- keep under review the general progress and long-term development of the organisation 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 an adequate system of controls (financial and otherwise) is in place; and
- ensure adequate succession and remuneration arrangements are in place.

Balance of non-executives and management board executive directors at main Board meetings



Governance report continued

The Boardroom table



Delegated authorities

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

- approving the annual report and accounts;
- approving the annual budget and strategic plan;
- agreeing capital expenditure or disposals over £50 million for urban transactions and over £10 million for rural, coastal and energy related transactions;
- 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 management board and energy committee are summarised later in this report. Other issues are delegated to executive committees which include the management board (including investment and strategy matters) and stock selection committee.

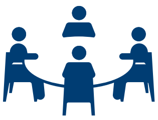
The chairman, Sir Stuart Hampson, is responsible for chairing the Board and overseeing the official business of The Crown Estate. His duties include managing the business of the Board, ensuring its effective operation, keeping under review the general progress and long-term development of The Crown Estate, 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 Board members.

The chief executive, Alison Nimmo, is responsible for directing and promoting the profitable operation and enhancement of The Crown Estate. Her 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.

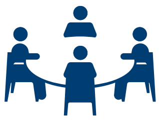
Structure of Boards and Committees

- Board committees
- Executive committees operating within the specific authority delegated by the Board

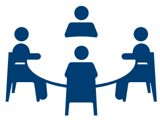
Main Board
Powers and responsibilities set out in the Crown Estate Act 1961. The Board agrees the objectives, broad policy and overall strategic direction. Matters reserved to the Board are set out in terms of reference, including urban transactions over £50 million.



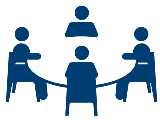
Audit committee
Responsible for:
- external and internal auditing
- financial reporting
- internal financial controls
- risk management
- compliance with laws and regulations.



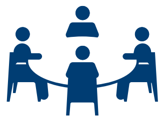
Sustainability committee
Responsible for approving sustainability strategy and for driving its implementation.



Scottish management board
Responsible for decisions relating to or affecting The Crown Estate's business or reputation in Scotland.



Remuneration committee
Responsible for reward systems and packages for senior management.



Energy committee
Has delegated authority to approve Energy and Infrastructure transactions up to £10 million.

Stock selection committee
Has delegated authority to approve property transactions up to £50 million for Urban and up to £10 million for Rural and Coastal dealings.

Management board
Has delegated authority to implement strategic direction as set by the main Board on strategy, financial and operational matters and ensuring delivery of business objectives.

Governance report continued

The non-executive members of the Board

The non-executive members are Chris Bartram, David Fursdon, Gareth Baird, Dipesh Shah, Tony White and Ian Marcus. The Board annually reviews the independence of each of its non-executive members to ensure that they bring an objective viewpoint and that no lack of independence is implied. 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 annually considers the commitments of the non-executives in order to be satisfied that each of the non-executive members commits sufficient time to the fulfilment of his or her duties as a Crown Estate Commissioner.

Chris Bartram is the nominated senior independent Board member. The senior independent Board member role is defined in our Boards and committees terms of reference. The role includes appraising the performance of the chairman, representing the Board on selection panels and acting as an intermediary for other Board members.

As the longest serving Board member and as chairman of the Audit committee, Chris has extensive experience of The Crown Estate and enjoys the respect of the chairman and other Board members in carrying out his role as senior Board member. His experience, the quality of his advice, his considered and well-measured approach, together with his mindfulness of taking the collective view, makes for a highly professional discharge of his senior independent Board member duties.

Each of the non-executive Board members has a formal letter of appointment from Her Majesty the Queen and terms of engagement from The Crown Estate, recording current best practice.

The role of Board secretary is held by Vivienne King, director of corporate affairs and general counsel. In addition to other executive duties, the Board secretary's responsibilities include supporting and advising the chairman, ensuring all Board procedures are followed and ensuring good information flow to Board members. The secretariat service to the Board is administered by David Purkis. 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 and Board diversity

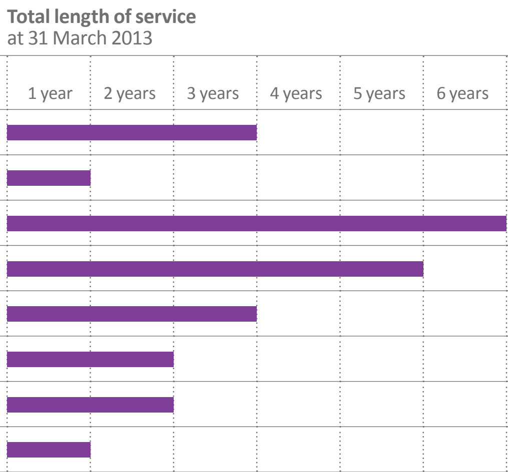
Crown Estate Commissioners are appointed in accordance with the Office of the Commissioner for Public Appointments (OCPA) Code of practice. One of the key principles of this Code is selection based on merit, after fair and open competition, and with the aim of achieving a balance of relevant skills and backgrounds on the Board, with minimal conflicts of interest with their outside activities. Maintaining an appropriate balance, including a diverse range of skills, experience, knowledge and background is of paramount importance. Gender and ethnic diversity is a significant element of this. Executive Search Consultants appointed to support selection panels are required to identify a pool of suitable candidates for consideration which includes a good balance of female candidates and candidates drawn from an ethnically diverse background, wherever possible.

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 the Treasury and an OCPA registered independent assessor. The selection process additionally includes the involvement of the Economic Secretary Treasury Minister who is involved at each stage of the appointment process, following changes to OCPA in 2011. The 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.

The Crown Estate complies with the standards as set out in the UK Corporate Governance Code, insofar as they apply to its business model. Board appointments are made by Royal Warrant for a term of four years, with the possibility of extension for a second term of four years. The maximum consecutive term which a Board member may serve on the Board is eight years.

Time served by Board members at 31 March 2013



	Date of most recent appointment	Date of expiry
Sir Stuart Hampson (chairman)	1 January 2010	31 December 2013
Alison Nimmo (chief executive)	1 January 2012	31 December 2015
Chris Bartram (SID as from 1 January 2012)	1 January 2011	31 December 2014
David Fursdon	1 January 2012	31 December 2015
Gareth Baird	1 October 2009	30 September 2013
Dipesh Shah	1 January 2011	31 December 2014
Tony White	1 January 2011	31 December 2014
Ian Marcus	1 January 2012	31 December 2015

Non-executive Board counsellors

Dinah Nichols and Jenefer Greenwood continued to work with the Board as Board counsellors following the expiry of their terms as Board members at the end of 2010 and 2011 respectively. This helped to retain the balance of skills, expertise and qualities at the Board table.

The Crown Estate's terms of reference for the Board allow for the appointment of up to two Board counsellors at the invitation of the chairman in consultation with the Board. They may either be drawn from retiring Board members or from external third parties, when selection would be a matter for the Board as a whole to agree on.

The role of Board counsellor is to provide exemplary knowledge, experience and competence to supplement the knowledge of the Board and inform decision-making. Board counsellors attend Board meetings in a non-voting capacity as co-optees to the Board. They are additionally available to serve on Board committees (other than audit committee) at the invitation of the chairman.

Time served as Board counsellors as at 31 March 2013

Appointment	Date of most recent appointment	Date of expiry	Length of service as Board counsellor
Jenefer Greenwood[1]	1 January 2012	31 December 2012	1 year
Dinah Nichols[2]	1 January 2012	31 December 2012	2 years

1 Jenefer Greenwood's appointment as Board counsellor commenced on 1 January 2012; she was previously a Board member.

2 Dinah Nichol's appointment as Board counsellor commenced on 1 January 2011; she was previously a Board member.

Succession planning

Board members' appointments and re-appointments are staggered to allow the managed transition of the Board's business.

Board activity

Board meetings

The Board held eight scheduled meetings and one special meeting during the year ending 31 March 2013. As well as meetings in London, the Board also met in Windsor and Edinburgh. In addition, there were three scheduled meetings of the audit committee, five meetings of the sustainability committee, four meetings of the remuneration committee, four of the Scottish management board and four of the energy committee. In addition to Board meetings, each year the Board convenes for a special strategy setting meeting which takes place over two days, at which strategy, external factors and the broad direction of the business is discussed in depth. This year's meeting was held in Edinburgh.

Governance report continued

Timeline: Key business at main Board meetings throughout the year

May 2012
(Windsor)

- Review of Windsor business
- Review year-end results
- Health and safety annual report
- Approve updated terms of reference for boards and committees
- Note governance statements for the Annual Report and the updated Register of Interests
- *Windsor estate site visit and buffet lunch with staff*

June
(London)

- Agree broad terms for undersea CO_2 storage facility
- Note and endorse Offshore Wind Cost Reduction Report
- Review Annual Reports on:
  - risk
  - urban
  - rural
  - coastal
  - portfolio performance

July
(London)

- Review Q1 financial report
- Approve acquiring Princes House, Piccadilly
- Review Annual Reports on:
  - Audit committee
  - Sustainability committee
  - Remuneration committee
  - Corporate Governance Group

September
(Edinburgh)

- Approve principle of development and funding for St. James's Market
- Review of Communications and external affairs function
- Real estate development update
- *Board away day, (Edinburgh)*
- *Review investment strategy*
- *Review financial strategy*
- *Review 'Vision 2022' 10-year strategy*
- *Board appraisal outcomes*

November
(London)

- Review Q2 financial report
- Review Energy and Infrastructure report
- Approve launch of potential investment in first wave and tidal array project
- Review of strategic land portfolio
- Approve revised terms of reference for the Remuneration committee

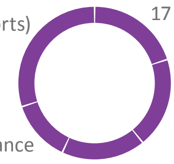
Information flow

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.

A Board awareness programme was initiated in January 2013 including themed lunches, briefings with staff, site visits and other events.

Number of papers



Board members have made portfolio visits to Rural and Coastal estates in England, Scotland and Wales; visits to the London portfolio, including the Quadrant and St. James's Gateway development. The Board away day in September was held in Edinburgh, where the opportunity was taken to visit Fort Kinnaird Retail Park and the rural estate at Whitehill which supports a variety of activities.

December
(London)
Special meeting

- Approve acquiring leasehold interest in Coliseum Shopping Park, Cheshire Oaks

January
(London)

- Review Q3 financial report
- Approve development and funding for St. James's Market
- Endorse progress on 'Vision 2022' 10-year strategy
- Approve revisions to risk management
- Approve sale of Savernake Estate
- Review leisure as an investment
- Overview of residential property holdings
- *Presentation by development management team over buffet lunch*

February
(London)

- Update on Scotland and the Independence Referendum
- Presentation on Round 3 offshore wind programme
- Review health and safety report

March 2013
(London)

- Approve indicative budget and corporate plan for 2013/14
- Approve sale of freehold of Intercontinental Hotel
- Real estate development update
- Endorse policy on board diversity
- Note position on bovine TB re: rural estates
- *Presentation by Energy and Infrastructure team over buffet lunch*

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 performance evaluation

This is a two-part process. During the last financial year, the chairman carried out an annual appraisal with each of the non-executive Board members and the chief executive. These appraisals were conducted under an evaluation system which ensured opportunity for assurance and challenge. The appraisal output included both perspectives of the Board member (from the point of view of his/her position and from the Board), and the chairman's assessment points.

The second part of the appraisal process involves Board members reviewing the performance of the chairman and the relationship between themselves, the chairman and the chief executive.

The two parts of the Board performance appraisal process were then followed up at the Board away day in September with discussion about issues raised. All areas identified for improvement have been actioned; see the progress schedule on the next page.

Governance report continued

Progress on 2012 Board evaluation recommendations

Action	Progress
Provide Board with a mid-year review on risk.	Mid-year reviews now scheduled for 2013. Revised risk management strategy endorsed at January 2013 main Board.
Provide more Board briefings to help keep the Board well-informed of day-to-day operational business.	A Board awareness programme has been initiated for 2013 to provide: • Deeper knowledge beyond Board members' own specialisms. • Opportunities to meet a cross-section of staff connected to projects. • An understanding of key issues, opportunities and risks facing the business. • Presentations from external experts, e.g. economic forecasts.
Give the Board greater opportunities to interface with staff.	
Main Board to receive brief output reports of Board committee meetings.	The chief executive now produces a brief report for each main Board meeting, highlighting the key issues arising from Board committees held since the previous meeting. This is in addition to the chairmen of the audit and remuneration committees reporting the outputs of those committee meetings.
Earlier dispatch of Board and committee papers to Board members and to the executive.	Meeting secretaries dispatch papers one week prior to Board committee meetings.
Individual bespoke training requests.	Training held / completed.

Decision-making and Board culture

When considering proposals, the chairman ensures that every Board member and Board counsellor is given the opportunity to comment. Following discussion by the Board, decisions are reached by consensus.

The 2012 Board evaluation process highlighted the collegiate character of the Board and the mutual respect which is shown around the boardroom table. The Board recognises its duty to challenge both amongst themselves and the executive team. The executive team acknowledge that constructive challenge by the Board is an essential element of the Board's role in delivering strong governance.

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. Induction programmes for Board members are designed to:

- build an understanding of the nature of The Crown Estate, its business and the markets in which it operates.
- build a link with employees.
- build an understanding of The Crown Estate's main relationships and stakeholders.
- build an understanding of the role of a non-executive Board member, counsellor, director.
- build an understanding of the decision-making framework within which the Board operates.

The induction programme includes the provision of necessary background information, briefing by key management personnel and implementing training where appropriate. And typically includes meetings with:

- the chief executive about the overview of The Crown Estate, the management team and the challenges for the business.
- the director of corporate affairs and general counsel about the Crown Estate Act 1961, corporate governance, health and safety and sustainability.
- the director of finance on the organisation's finances and accounting arrangements.
- the portfolio directors and others about their respective portfolios and investment strategy.
- the Board secretariat about Board meeting processes and procedures and annual processes including Board appraisals and declaration of interests.
- the head of human resources about HR strategy.
- other senior managers as appropriate.

Estate visits and other events are organised throughout the year to enable Board members to deepen their knowledge of The Crown Estate.

Upon appointment, all new members are offered an externally facilitated two day non-executive director course.

Board committees

The Board has established a number of 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 five Board committees (audit committee, sustainability committee, remuneration committee, energy committee and the Scottish management board) is given below. The terms of reference of these committees are available on our website.

In addition to these five Board committees, two other executive committees operate with specific authority delegated by the Board; the management board and stock selection committee.

Audit committee

The audit committee assists the Board in fulfilling its oversight responsibilities for 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;
- review internal controls 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 (including the Bribery Act), 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, suppliers, tenants 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 individuals 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.

Individuals should report concerns where in matters relating to The Crown Estate or its representatives (e.g. suppliers, tenants, agents or employees), they believe that they have been 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.

Individuals are encouraged to raise matters through a dedicated whistleblowing hotline and email where they have concerns related to fraud, bribery or other similar matters. All concerns are taken seriously and investigated promptly by the audit and risk team.

Governance report continued

Members of the audit committee

The current members are:

Chris Bartram
Committee chairman

David Fursdon, Dr Tony White, Ian Marcus
Non-executive Board members

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 director of corporate affairs and general counsel. The head of internal audit and risk 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 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 (one meeting included a valuation review) and considered all matters within the committee's terms of reference, as set out above. Additionally, the committee also considered insurance, litigation and annual valuation in 2012/13.

Remuneration committee

The committee's membership, terms of reference and activity is described in the remuneration report.

Sustainability committee

The committee's core purpose is to see sustainability integrated into the business strategy and operations.

Duties

The main duties of the sustainability committee are to:

- embed sustainability into business planning and decision making.
- empower individual employees to innovate and deliver a sustainable business.
- approve all sustainability-related targets and monitor progress against them.
- provide representation from amongst members and the head of sustainability for The Crown Estate at external events relating to sustainability.

Members of the sustainability committee

The current members are:

Alison Nimmo
Committee chairman

Dr Tony White
Board member

Dinah Nichols
Board counsellor

Ken Jones, Paul Clark, Rob Hastings, Vivienne King, John Lelliott
Management board executive directors

Mark Gough
Head of sustainability

The secretary to the sustainability committee is Jane Baptist, a member of the sustainability team. The head of communications, head of human resources, operations manager (Windsor) and the urban sustainability manager also attend the meetings.

Meetings are held quarterly. The committee reports to the main Board.

Report of the committee's activities

During the year, the committee met five times, including two additional extraordinary meetings when the business further developed its aim to be an innovator in sustainability. The committee considered all matters within its terms of reference, in particular:

- a review of examples of leadership in sustainability.
- approach to integration of sustainability into the new Vision 2022 and business strategy.
- setting targets and monitoring performance.

- approving mechanisms for integrating sustainability in development and asset management.
- education and increasing social mobility into land management.
- development of Total Contribution and integrated reporting.

The work of the committee is reflected throughout this report, in line with integrated reporting, and on the website.

Energy committee

Duties

The energy committee's duties are:

- To consider investment and disinvestment proposals and to review them against the Corporate Investment Strategy and the Energy and Infrastructure Business Strategy or the Rural and Coastal Portfolio Strategy for Renewable Energy, as appropriate, and any other Crown Estate renewable energy strategy from time to time, as appropriate.
- To evaluate and progress specific investment proposals.
- To consider and endorse proposals over £10 million before they are submitted to the main Board.
- To ensure that the responsibilities which have been delegated by the main Board are being executed as required.
- To monitor capital projects against approved plans.
- To ensure that decisions being taken by the main Board of The Crown Estate in relation to energy matters are being conducted in a manner which ensures that due process is applied in the performance of the statutory duties of The Crown Estate Commissioners 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 wind (onshore or offshore);
  - 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);
  - Energy from renewable sources onshore;
  - Such further activity involving energy as arises on The Crown Estate portfolio.

Members of the energy committee

The current members of the committee are:

Alison Nimmo
Committee chairman

David Fursdon, Dipesh Shah, Tony White
Board members

Paul Clark, Rob Hastings, John Lelliott, Vivienne King
Management board executive directors

The secretary to the committee is Josh Willison.

Meetings are held at such frequency as may be appropriate for the purposes of consideration of energy matters. The following executives from the marine estate ordinarily attend meetings: the head of strategy and policy; the head of minerals and infrastructure; the head of offshore wind and the head of new energy and technology. The head of corporate operations also attends the meetings.

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 and, in particular, investment decisions within the Energy and Infrastructure portfolio, as well as discussing the business strategy for that portfolio.

Scottish management board

Duties

The Scottish management board is responsible for operating within the strategic and policy parameters established for the Management board insofar as its business relates to or affects The Crown Estate's business or reputation in Scotland, in order to ensure that Scottish interests are thoroughly considered. The main duties of this board are:

- implementing the strategic direction as set by the Board
- taking ownership of the following activity: financial; operational; people; customer and stakeholder relations; governance and sustainability insofar as they relate to Scotland
- setting, owning, monitoring and driving forward the corporate agenda
- adding value to the business through greater strategic oversight, enhanced accountability and coherent purpose.

Governance report continued

Members of the Scottish management board

The current members are:

Gareth Baird
Committee chairman

Alison Nimmo
Chief executive

Vivienne King, Rob Hastings, John Lelliott, Ken Jones, Paul Clark
Management board executive directors

Alan Laidlaw, Ronnie Quinn, Alasdair Rankin
Members of the Scottish Leadership Team (SLT)

The secretary to the Scottish management board is David Purkis, Secretariat

Meetings are usually held four times a year, or as frequently as required.

Report of the committee's activities

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

- business planning for its Scottish business and monitoring financial performance from Scotland;
- exploring business opportunities in Scotland;
- introducing a systematic approach to engagement with stakeholders and the media, and the instigation and promotion of local management agreements;
- confirming new organisational structure, including integration of Rural and Coastal teams and changes in managing agents;
- preparing responses to the Scottish Affairs Committee;
- assessing the potential outcomes of the Independence Referendum.

Attendance at Board and committee meetings

	Main Board	Board away day	Audit committee	Sustainability committee	Remuneration committee	Scottish management board	Energy committee
Total number of meetings	**9**	**1**	**3**	**5**	**4**	**4**	**4**
Sir Stuart Hampson	8	1	n/a	n/a	n/a	n/a	n/a
Alison Nimmo	9	1	3	4	4	3	4
Chris Bartram	9	1	3	n/a	n/a	n/a	n/a
David Fursdon	7	1	3	n/a	3	n/a	4
Gareth Baird[1]	8	1	n/a	n/a	1	4	n/a
Dipesh Shah	8	0	n/a	n/a	n/a	n/a	4
Tony White	8	1	2	5	n/a	n/a	4
Ian Marcus[2]	9	1	3	n/a	2	n/a	n/a
Jenefer Greenwood[3]	9	1	n/a	n/a	4	n/a	n/a
Dinah Nichols[3]	9	1	n/a	4	n/a	n/a	n/a

n/a = not applicable

1 Stood down from the Remuneration committee in December 2012.

2 Joined Remuneration committee in January 2013.

3 Board counsellor.

Management board

Members

The current members of the management board are:

Alison Nimmo
Chief executive and Chairman

Paul Clark
Director of investment strategy and asset management

Roy Evans
Head of corporate operations (from 1 November 2012) and as interim director of Rural and Coastal (April to October 2012)

Rob Hastings
Director of Energy and Infrastructure portfolio

Ken Jones
Director of Rural and Coastal portfolio (from November 2012)

Vivienne King
Director of corporate affairs and general counsel, legal

John Lelliott
Finance director

The secretary to the management board is David Purkis, Secretariat. Meetings are held on a monthly basis.

The management board operates within the delegated financial limits available to the chief executive. 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 direction of The Crown Estate, with particular focus on Vision 2022;
- 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 management board met 14 times. Attendance by individual members of the management board was as follows:

	Number of meetings
Alison Nimmo	14
Paul Clark	14
Roy Evans (interim director of Rural and Coastal – from April to October 2012)	6
Rob Hastings	13
Ken Jones (from 1 November 2012)	7
Vivienne King	12
John Lelliott	13
Total	**14**

Other executive committees

The stock selection committee considers, amongst other things, specific investment and disinvestment proposals, reviewing them against strategy. The committee has delegated authority to approve up to £50 million for Urban and £10 million for Rural and Coastal transactions.

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

Risk management statement

The Crown Estate's approach to risk management builds on commercial best practice and central Government requirements, including the UK Corporate Governance Code and HM Treasury's Management of Risk – Principles and Concepts (Orange Book). These form a central element of our corporate governance arrangements.

The Crown Estate has no risk appetite for any risk that leads to a diminution of the role of The Crown Estate as the best and legitimate custodian of the nation's assets. We will pursue our objectives of commercialism, stewardship and integrity in the management of the estates through the taking of managed risks in pursuit of these objectives.

The corporate (and estate) risk appetite are codified with our risk impact criteria and these are cascaded to the operational units. At the corporate level the limits of the risk appetite can be stated as:

- Financial (revenue) – Failure to meet the financial targets over two years
- Financial (total return) – Failure to outperform the IPD targets over two years
- Reputation – Failure to maintain credibility with key stakeholders

Governance report continued

- Compliance (criminal) – Failure to comply with legislation leading to criminal conviction
- Compliance (civil/regulatory) – Failure to comply with legislation/regulation (e.g. Health and safety, environmental) leading to penalties.

Responsibilities for risk and controls

The Board is responsible for determining the nature and extent of the significant risk it is willing to take in achieving its strategic objectives. It does this through the maintenance of sound risk management and internal control systems.

The Board continuously reviews the effectiveness of the organisation's risk management and control systems (financial, operational and compliance) through a system of formal reporting structures (described earlier in the governance statement) and through meetings and reports to the Board from around the organisation. The Board has delegated some of the responsibility for review of risk and controls to the audit committee. The audit committee meets three times a year to receive assurance on risk and controls from management, internal and external audit and other independent parties.

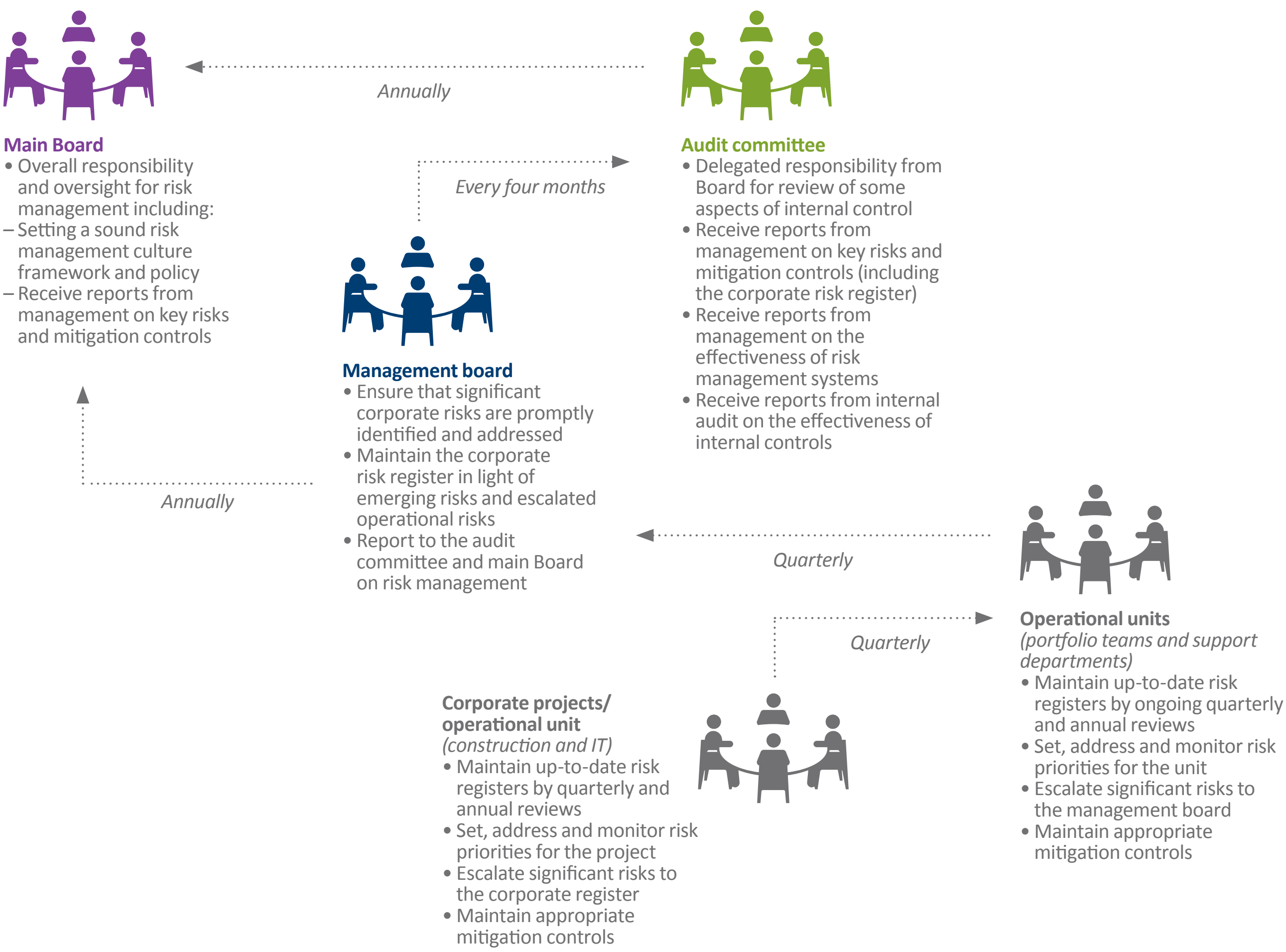
Risk management is embedded within our management processes, with managers being accountable for risk management within their operational areas. Ongoing processes for identifying, evaluating and managing risks that threaten the achievement of corporate, departmental and project objectives are in place and operational throughout the year to mitigate risks continuously.

Risk registers are maintained at estate team and support department level and key risks reviewed regularly, typically quarterly. Key and emerging risks are escalated to senior management and the management board. The management board review the corporate risk register regularly and the corporate risk register is provided to the audit committee three times a year.

The risk management process has been under review in 2012/13 as part of ensuring its continued effectiveness. As a result a risk committee will be established in 2013/14.

The 'risk reporting and responsibilities' diagram below sets out the process in operation during 2012/13:

Risk reporting and responsibilities



Executive management is accountable to the Board for establishing and monitoring the system of internal controls and for providing assurance to the Board that it has done so. All employees have responsibility for internal controls as part of their accountability for achieving their objectives.

Examples of types of controls in place throughout the year are:

- Cultural and ethical behaviour – staff integrity, staff handbook (including The Code of Ethics), shared corporate values and beliefs
- Policies and procedures – in place at all level of the organisation (e.g. risk management guidelines etc.)
- Financial targets and objectives – balanced scorecard, personal scorecards, budget monitoring, investment appraisals etc.
- Structural – business planning, reporting lines, delegated authority limits, approval lines, roles and responsibilities etc.

The Board take assurance on the effectiveness of internal controls through:

- controls designed in systems and processes;
- management review and committee structures;
- reports from internal and external auditors and other external independent sources.

This assurance process is supported by a process of certified internal control statements issued by directors on their areas of operation to the chief executive. The Board in turn takes assurance from an internal control statement issued annually by the chief executive.

For the year 2012–13 there were no material failures in internal control nor any ministerial direction on any issues.

The Crown Estate has in place various robust and specific arrangements to ensure information security, which are in line with Cabinet Office guidance and ISO 27001. The business maintained ISO 27001 certification throughout the year. Other controls in place include arrangements for:

- Governance, risk management and compliance;
- Protective marking and asset control;
- Data protection;
- Personnel security;
- Information technology;
- Physical security;
- Counter-terrorism; and
- Business security.

Governance report continued

Principal corporate risks and opportunities

The principal corporate risks and opportunities faced by The Crown Estate are shown in the table below. They are largely related to our portfolio of assets and are typical of a real estate organisation. These are not the only risks associated with The Crown Estate.

Material issues affecting our business (see page 15).

- Sustained and profitable growth
- Optimisation of the portfolio for long-term total return
- Attraction, nurturing and retention of best talent
- Attraction of suitable commercial partners and investors
- Health and safety
- Maintaining effective stewardship
- Reputation
- Successful placemaking and creating amenity value
- Effect of climate change
- Availability of natural resources
- Customer focus
- Organisational and management structure
- Health of UK economy
- Government policy

Principal corporate risks and opportunities

Material issues	Risk/opportunity	Impact	Principal mitigations	Residual risk ratings
	1 – Investment performance risks			
Sustained and profitable growth; Optimisation of the portfolio for long-term total return; Attraction of suitable commercial partners and investors; Health of UK economy	(a) Opportunities or threats presented by the global economic uncertainty are not capitalised on or mitigated against, resulting in capital or revenue returns not being optimised. (b) Underperformance compared to industry due to limitations under the Crown Estate Act 1961 (limited availability/timing of access to funds), restricting investment activity and preventing opportunity/ability to optimise portfolios. (c) Ineffective investment strategy or poor execution of investment strategy (i.e. through sub-optimal decision-making) impacts on ability to meet revenue targets or has adverse impact on portfolio valuation. (d) Inability to attract and retain commercial partners and investors, should there be seen to be a decline in the attractiveness of our core portfolio (due to health of UK economy), restricting our ability to obtain sufficient working capital funding to reinvest in the estate.	Revenue targets are not achieved or consistent decline in capital growth compared to the market.	Board oversight and approval of investment strategy with formal review of implementation and performance monitoring. Economic and market analysis/ monitoring. Formal investment committees with responsibility for scrutiny over proposed investment decisions (subject to delegated authorities) and investment appraisal process. Quarterly investment management board and consideration of external market/real estate views. Focused asset management with appropriate due diligence. Portfolio diversification and monitoring. Exploration of joint venture investments and operational joint venture working group.	Medium risk

Material issues	Risk/opportunity	Impact	Principal mitigations	Residual risk ratings
	2 – Development/programme risks (a) Delays in completion of a major development or a number of developments (land-based or offshore) results in adverse impact on revenue and/or capital growth due to development letting exposure, overruns and/or supplier/sub-contractor failure. (b) Inability to secure timely planning permission for key developments due to impact of the Localism Bill and planning department resource constraints. (c) Delay in meeting objectives of our offshore wind programme as a result of inability of our partners to secure capital funding high cost of technology/ developing supply chain.	Development programme delays impacting reputation, resulting in financial loss or reduction in future revenue stream.	Development and Project Management Governance Framework. Regular development monitoring through project control groups. Third party due diligence and continuous monitoring of partner financial health. Robust evaluation of development business cases. Liaison with key stakeholders. Offshore wind programme board representation and strategic workstreams in place.	Medium risk
	3 – People risks (a) Inability to reward, retain or recruit right staff with necessary industry experience to drive strong business performance, resulting in under-performance across key areas of the business. (b) Key staff are lost without adequate succession planning and this impacts our ability to meet our corporate objectives.	Loss of key talent or inability to attract staff with the right experience impacts adversely on future success.	Strong recruitment processes. Succession planning framework in place. Effective learning and development plan in place across organisation. Remuneration committee support and liaison with the Treasury.	Medium risk
	4 – Health and safety risks (a) A significant health and safety incident on our estate results in serious harm to a member of staff, supplier, tenant or other stakeholder.	Loss of reputation, penalties/fines and/ or legal action against the organisation or members of staff.	Development and roll-out of management systems accredited to OHSAS 18001. Comprehensive regular reporting to the Board. Health and safety training and programme of compliance reviews. Incident reporting hotline and promotion of health and safety culture.	Medium risk
	5 – Stakeholder risks (a) Failure to assess and evaluate the expectations of customers, tenants and wider stakeholders adversely affects our reputation. (b) Missed opportunity to be recognised for positive contributions made (e.g. successful placemaking and creating sustainable developments) resulting in value not being maximised.	Adverse publicity from tenants and other key stakeholders results in reputational damage. Estate value not maximised/ recognised by external stakeholders.	Customer focus programme. Market research. Processes in place both within the organisation, and those that act on our behalf (e.g. managing agents) to resolve customer concerns. Achievement of sustainability targets and objectives. Total contribution measurement and reporting.	Low risk

Governance report continued

Material issues	Risk/opportunity	Impact	Principal mitigations	Residual risk ratings
	6 – Sustainability risks (a) Failure to comply with current and anticipated social and environmental legislation resulting in fines and/or other sanctions and/or loss of reputation. (b) Loss of value from our portfolio because of lack of strategic planning in decisions and management of portfolios, not taking account of social and environmental factors including climate change. Similarly, opportunity to use/extract resources available on our estate (land-based and offshore) not effectively utilised. (d) Current organisational and management structure does not evolve with business and is not sustainable to drive business over longer term.	Compliance failure resulting in negative publicity and possible fines or penalties. Failure to grow business in the long term, resulting in decline in overall portfolio valuation and revenue.	Approved sustainable business strategy in place. Monitoring of new legislation and requirements. Sustainability considered in all decisions. Sustainability workstream focus group and sustainability committee oversight. Developments/refurbishments built to a high sustainability standard (e.g. BREEAM) to meet or exceed EPC standards. Offshore wind programme with defined objectives. Ongoing review of governance arrangements.	Low risk
	7 – Policy risks Failure to anticipate and be responsive to changes to government policy that could impact our underlying business and ability to deliver primary objectives.	Failure to meet our targets and corporate objectives.	Regular liaison with the Treasury. Ongoing review of upcoming legislative/policy changes on our business. Strong working relationships with stakeholders across Government. Active participation in key policy reviews openly communicated through corporate channels.	Low risk

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. Her responsibilities as accounting officer, including her responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in 'Managing Public Money'.

The governance report, together with the material issues we have identified, set out the principal issues and opportunities facing our business and the processes we have in place to manage these.

In making my statement as accounting officer, in line with 'Managing Public Money', it is my judgement that the Board has handled these issues successfully and that they have been supported by an appropriate governance framework.

There will inevitably be challenges in the years ahead, but I am confident that The Crown Estate has effective governance mechanisms in place to steer a course through these. I envisage that some of the priorities going forward that the Board will need to consider will include:

- any potential changes in economic climate or interest rates that impact on the property market;
- ability to attract and retain commercial partners and investors and the impact of any change in the relative attractiveness of our core portfolio; and
- consequence of renewable energy policy and its impact on the market.

***Alison Nimmo* CBE**
Chief executive
7 June 2013

Remuneration report

Governance and role

This report has been prepared in accordance with the requirements set out in The UK Corporate Governance Code (September 2012) and the Government Financial Reporting Manual.

Members of the remuneration committee

The remuneration committee is chaired by Jenefer Greenwood. The other members of the committee are non-executive Board members David Fursdon, Gareth Baird, who stood down from the committee on 31 December 2012, and Ian Marcus who joined the committee on 1 January 2013.

Responsibilities and terms of reference

The remuneration committee is appointed by and reports to the main Board. A minimum of two meetings are held annually and in 2012/13 the committee met on four occasions. The primary purpose of the remuneration committee is to set remuneration policy for The Crown Estate. The full scope of its responsibilities, which were reviewed in 2012, include:

- Determine and agree with the Board the remuneration framework for The Crown Estate.
- Set the over-arching objectives and parameters of remuneration policy for The Crown Estate, having regard to the remuneration trends across the business, and to review the ongoing appropriateness and relevance of the remuneration policy to ensure that it is sufficient to attract and retain the calibre of people necessary for the future performance of the business.
- Obtain reliable, up-to-date information about remuneration in other relevant comparable companies.
- Determine the total individual remuneration package of each director (executive), including allowances, bonuses, any long-term incentive payments and pension benefits to ensure that directors (executive) of The Crown Estate are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of The Crown Estate.
- Approve the design of, and agree the targets for any performance-related pay schemes operated by The Crown Estate and approve the total annual payments made under such schemes.
- Determine the policy for, and scope of, pension arrangements for The Crown Estate, in consultation with the audit committee.
- Ensure that contractual terms on termination, and any payments made, are fair to the individual and The Crown Estate, and comply with such Treasury guidance as may be in place, to ensure that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- Approve and oversee any major changes in employee benefits structures.

Advisers

The Crown Estate's head of human resources provided information and advice to the committee throughout the year, and specialist advice was provided to the head of human resources by John Lee – Managing Partner FIT Remuneration Consultants LLP, and Innecto People Consulting Ltd. The Crown Estate participated in five pay surveys in 2012/13 and also made use of various published surveys to help determine appropriate remuneration levels. The chief executive, finance director and head of human resources were invited to attend meetings of the committee but none were involved in any decision relating to his or her own remuneration.

Secretariat is provided by the head of human resources.

The chairman of the committee provides an oral report to the main Board after each committee meeting, and the committee submits an annual report to the main Board reporting on its activities during the year.

Remuneration report continued

Activities and highlights

During the course of the year, the remuneration committee considered a number of matters, including:

- An audit of current arrangements supporting governance against the revised requirements of the UK Corporate Governance Code 2010 and 2012; and approved an action to address areas requiring attention by June 2013.
- Introduction of new terms of reference for the remuneration committee.
- The introduction of a committee effectiveness appraisal process and an annual strategy session.
- The conclusions of an independent report of executive director remuneration benchmarking.
- Salary increases for executive directors and senior managers with earning potential in excess of £100,000, together with overall levels of salary increases across the business/organisation effective in July 2012.
- Achievement against personal scorecard targets under the annual bonus scheme for executive directors and allocation of bonus.
- Achievement against the performance conditions for the award of long-term cash incentive plans.
- Proposals to refresh reward arrangements for the business.
- Policy on the disclosure of non-executive earnings for executive directors.

Remuneration policy and benchmarking

The Crown Estate's remuneration policy seeks to provide sustainable levels of remuneration to attract, retain and motivate high quality personnel, recognising that while it operates in highly competitive markets for talent, as a public corporation, it also has a responsibility to promote sustainable remuneration policies. Accordingly, for the majority of employees, it aims to pay salaries at around market median and bonus awards determined by reference to the performance of the business and individual contribution. The remuneration committee has adopted a progressive but conservative performance-related pay policy to ensure that an appropriate proportion of executive director remuneration is delivered through performance-related pay, with incentives to outperform targets, which include external benchmarking.

Remuneration packages for executive directors are benchmarked by the committee using research prepared by the head of human resources. The research is carried out by benchmarking roles against one of three proprietary pay surveys, which benchmark against a large group of real estate, energy sector comparators, and commercial sector comparators with a similar capital value to The Crown Estate.

The committee also has oversight for the pay and policy across the business, with particular focus on the remuneration of senior employees (with the potential to earn £100,000 or more), whose pay is also the subject of benchmarking research prepared by the head of human resources.

Components of director's remuneration

Director's remuneration comprises:

- fixed pay, including base pay, flexible benefits allowance together with pension allowance or contribution to a pension scheme.
- variable pay, comprising:
  - annual bonus
  - accumulating long-term cash incentive plan arrangements (for selected directors)
  - annual leave converted into cash.

Principles and policy on annual bonuses

The annual bonus arrangement for management board executive directors is based on the achievement of key business targets, with a maximum possible award of 50 per cent of basic salary in 2012/13. The maximum award is subject to receipt of an outstanding performance rating and is conditional on The Crown Estate's performance meeting or exceeding predetermined performance targets. These targets being outperformance of the annual net income surplus target and outperformance of the IPD bespoke benchmark.

Long-term cash incentive plans

Paul Clark and Rob Hastings are also entitled to receive a discretionary non-pensionable long-term incentive award (LTIP). The amount of LTIP awarded under the three-year plan is dependent on the delivery of specific targets relating to their areas of responsibility within the business, which are different to those set in relation to the annual bonus arrangements.

Paul Clark participates in a three-year LTIP arrangement which commenced in April 2011. This provides an award of up to 20 per cent of base pay at 1 April each year. Payment of any award made under the arrangement is paid out at the end of the three-year term. No payment is made if he leaves the employment of The Crown Estate. Rob Hastings participates in a three-year LTIP arrangement which commenced in April 2011. In 2012/13 this provides an award of up to 70 per cent of base pay at 1 April 2011, but which is subject to significant discounting if he leaves The Crown Estate before the end of the arrangement in March 2014. All awards and targets are subject to the approval of the remuneration committee.

Non-executive Board appointments held by the chief executive and management board executive directors

Alison Nimmo and Paul Clark each hold one paid non-executive Board appointment in addition to their Crown Estate appointment. They are permitted to retain earnings from their appointment as any time commitments are met from personal time and are manageable alongside their executive responsibilities. In accordance with our policy on non-executive earnings, which requires disclosure for appointments in publicly listed companies, Alison Nimmo earned £55,000 to 31 March 2013, as a non-executive Board member of Berkeley Group Holdings plc, in addition to her remuneration earned as chief executive.

Table of earnings

Remuneration and pension entitlements of the Board were as follows:

Board member	**2012/13 Total remuneration excluding bonus £**	2011/12 Total remuneration excluding bonus £	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2013 £	Cash equivalent transfer value as at 31 March 2013 £	Cash equivalent transfer value as at 31 March 2012 £	Real increase in cash equivalent transfer value £
Sir Stuart Hampson (chairman)	**50,000**	50,000	–	–	–	–	–
Alison Nimmo (chief executive)	**204,000**	52,815[1]	349	433	7,253	1,308	4,559
Gareth Baird	**25,828**	21,523	–	–	–	–	–
Chris Bartram	**19,371**	19,371	–	–	–	–	–
David Fursdon	**19,371**	19,371	–	–	–	–	–
Dipesh Shah	**19,371**	24,214	–	–	–	–	–
Dr Tony White	**19,371**	19,371	–	–	–	–	–
Ian Marcus	**19,371**	4,843	–	–	–	–	–

[1] Appointed 1 January 2012.

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. Alison Nimmo, the chief executive, is also appointed on a four-year contract with a notice period of six months.

Alison Nimmo, the chief executive, is entitled to receive a non-pensionable annual bonus up to a maximum of 40 per cent of her salary, which is geared to specific targets and is approved by the Treasury.

The maximum bonus receivable in respect of 2012/13 is £81,600. The chief executive's first performance assessment for the payment of bonus will consider performance for the 15-month period to 31 March 2013, which acknowledges her appointment in January 2012. For the 15-month period, the chief executive will be eligible to an additional maximum award of £20,400 for performance in 2012/13.

Board counsellors

Board counsellors are non-voting members of the Board and are appointed for a period of one year. The salaries of the Board counsellors were as follows:

Board counsellors	**2012/13 Total remuneration £**	2011/12 Total remuneration £
Dinah Nichols	**19,371**	19,371
Jenefer Greenwood	**19,371**	4,843
Martin Moore	–	14,528

Remuneration report continued

Management board executive directors

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

Board member		**2012/13 Total remuneration £'000**	2011/12 Total remuneration £'000	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2013 £	Cash equivalent transfer value as at 31 March 2013 £	Cash equivalent transfer value as at 31 March 2012 £	Real increase in cash equivalent transfer value £
Paul Clark	Salary	**205–210**[1]	190–195	1,963	9,315	232,165	169,052	61,052
	Bonus	**90–95**	60–65					
	LTIP	**35–40**	30–35					
Rob Hastings	Salary	**160–165**	150–155	2,792	16,400	242,000	191,321	42,572
	Bonus	**65–70**	50–55					
	LTIP	**85–90**	55–60					
Vivienne King	Salary	**145–150**	130–135	3,100	27,377	771,436	622,253	147,140
	Bonus	**55–60**	55–60					
John Lelliott	Salary	**165–170**[1]	155–160	–	63,347	2,349,274	2,258,704	90,570
	Bonus	**60–65**	60–65					
Ken Jones (from 1 November 2012)	Salary	**60–65**	–	143	143	3,859	–	3,282
	Bonus	**30–35**	–					
Band of highest paid director's total remuneration (£'000)		**305–310**	660–665					
Median total remuneration of all employees £		**32,032**	31,147					
Ratio		**9.60**	21.22					

1 Includes annual leave converted into cash.

The bonus and LTIP element of remuneration shown above represents the amount accrued in respect of the financial year which are payable in subsequent years. 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 six months.

Pensions

The Crown Estate operates two pension schemes: the Principal Civil Service Pension Scheme (PCSPS) and The Crown Estate Pension Scheme (CEPS). Each scheme comprises a number of sections, which offer different pension benefits. The sections of the PCSPS which provide defined benefits are the Classic and Premium sections, which provide retirement and related benefits to all eligible employees based on individual final emoluments, which are subject to an upper salary limit of £141,000. The NUVOS section provides defined benefit retirement and related benefits to all eligible employees based on a career average emoluments scheme. Since March 2009, no new employees have been admitted to the PCSPS, and are offered access to the CEPS Quartz or Topaz schemes, or, alternatively, an 8 per cent cash allowance. The table on the following page provides an overview of benefits.

Overview of pension scheme benefits

	Employees up to October 2009					Employees from November 2009	
Pension scheme	PCSPS Classic	PCSPS Classic Plus	PCSPS Premium	PCSPS NUVOS	CEPS OPAL	CEPS Quartz scheme	CEPS Topaz scheme
	Defined benefit	Defined benefit	Defined benefit	Career average	Defined benefit	Hybrid defined Benefit and defined contribution	Defined contribution
Benefit	1/80th	1/80th	1/60th	1/60th	1/80th	1/80th for each year	n/a
Scheme retirement age	60	60	60	65	60	65	65
Scheme earnings cap from 1 April 2013	£141,000	£141,000	£141,000	£141,000	£141,000	£28,440 DB section	n/a
Employee contribution from 1 April 2013	Between 1.5% for salaries of £15k and 6.25% for salaries of £60k	Between 1.5% for salaries of £15k and 6.25% for salaries of £60k	Between 3.5% for salaries of £15k and 8.25% for salaries of £60k	Between 3.5% for salaries of £15k and 8.25% for salaries of £60k	1.5%	5% for DB section	Optional
Life cover	2x pensionable salary	2x pensionable salary	3x pensionable salary	3x pensionable salary	4x base pay	4x base pay	4x base pay
Ill-health benefit	✓	✓	✓	✓	✓	✗	✗
Redundancy (attaching benefits)	✓	✓	✓	✓	✓	✗	✗

1 Employees not in pension scheme are offered 8 per cent cash allowance.

2 Directors in PCSPS schemes receive top-up life assurance benefits to provide 4x base pay.

As at 31 March 2013, a total of 125 employees were members of the open sections of CEPS and a further 51 have elected to receive a cash pension allowance. The Crown Estate Board members, with the exception of Alison Nimmo, chief executive, are non-executive appointments and are not members of either CEPS or the PCSPS. Pension benefits were provided to Alison Nimmo, chief executive, and members of the management board through the PCSPS or CEPS. Alison Nimmo, chief executive is a member of the CEPS Quartz section, Rob Hastings is a member of the PCSPS Premium section. The remaining members of the management board are members of the CEPS Opal section, with the exception of John Lelliott, who has elected to receive an 8 per cent cash allowance in lieu of membership of a pension scheme.

Pension payment increase is in line with the retail price index for CEPS and the consumer price index for the PCSPS.

On death, pensions are payable to the surviving spouse at a rate of half of the member's pension. On death in service, a lump sum benefit of four times pensionable pay is payable to CEPS members. This benefit has also been extended to Rob Hastings. The PCSPS and CEPS (Opal Section) 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 for members of these schemes. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Alison Nimmo CBE
Chief executive
7 June 2013

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

I certify that I have audited the financial statements of The Crown Estate for the year ended 31 March 2013 under the Crown Estate Act 1961. The financial statements comprise the Consolidated Statement of Income and Expenditure, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated 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, certify and report on the financial statements in accordance with the Crown Estate Act 1961. I conducted my audit in accordance with 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 read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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 2013 and of its surplus; 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 Annual Report 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 Governance Statement 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
12 June 2013

Consolidated statement of income and expenditure

For the year ended 31 March 2013

	Note	Year ended 31 March 2013 Income account £m	Capital account £m	Total £m	Year ended 31 March 2012 Income account £m	Capital account £m	Total £m
Revenue	5	356.4	19.9	376.3	340.7	9.2	349.9
Costs	6	(95.7)	–	(95.7)	(89.0)	–	(89.0)
Operating surplus		260.7	19.9	280.6	251.7	9.2	260.9
Recovery of capital expenditure under the Crown Estate Act 1961	12	(25.5)	25.5	–	(25.4)	25.4	–
Net revaluation gains on investment property (including profits on disposal)	13	–	517.6	517.6	–	762.5	762.5
Share of profit/(loss) from jointly controlled entities	20	11.5	(11.9)	(0.4)	7.6	(5.2)	2.4
Share of profit from other property investments	21	1.4	1.7	3.1	1.7	0.4	2.1
Parliamentary Supply finance	15	2.3	–	2.3	2.3	–	2.3
Statutory transfers	16	(8.2)	8.2	–	(9.3)	9.3	–
Net operating profit before financing		242.2	561.0	803.2	228.6	801.6	1,030.2
Investment revenue	8	10.4	–	10.4	11.6	–	11.6
Net surplus		252.6	561.0	813.6	240.2	801.6	1,041.8

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

All results are derived from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 March 2013

	Note	Year ended 31 March 2013 Income account £m	Capital account £m	Total £m	Year ended 31 March 2012 Income account £m	Capital account £m	Total £m
Net surplus for the year		252.6	561.0	813.6	240.2	801.6	1,041.8
Unrealised (deficit)/surplus on owner occupied properties	13	–	(4.1)	(4.1)	–	1.1	1.1
Actuarial profit/(loss) on retirement benefits	11c	2.7	–	2.7	(1.0)	–	(1.0)
Other comprehensive income		2.7	(4.1)	(1.4)	(1.0)	1.1	0.1
Total comprehensive income		255.3	556.9	812.2	239.2	802.7	1,041.9

Consolidated balance sheet

As at 31 March 2013

	Note	31 March 2013 £m	31 March 2012 £m
Assets			
Non-current assets			
Investment properties	18	**8,474.5**	8,014.6
Property plant and equipment:			
Owner occupied property	18	**100.2**	103.8
Other property, plant and equipment	19	**7.6**	7.7
Investment in jointly controlled entities	20	**275.3**	266.9
Other property investments	21	**35.7**	34.0
Other investments	22	**5.4**	5.3
Receivables due after one year	23	**29.3**	23.7
Total non-current assets		**8,928.0**	8,456.0
Current assets			
Non-current investment property assets held for sale	18	**105.5**	22.5
Inventories	24	**0.2**	0.2
Trade and other receivables	25	**24.9**	51.5
Cash and cash equivalents	30	**585.5**	557.0
Total current assets		**716.1**	631.2
Pension asset	11a	**6.8**	2.8
Total assets		**9,650.9**	9,090.0
Liabilities			
Current liabilities			
Trade and other payables	26	**115.1**	120.8
Provisions	27	**0.4**	0.5
Total current liabilities		**115.5**	121.3
Non-current liabilities	26	**920.5**	914.2
Total liabilities		**1,036.0**	1,035.5
Net assets		**8,614.9**	8,054.5
Capital and reserves			
Revenue reserve available for distribution to The Consolidated Fund		**0.1**	0.6
Reserves relating to the capital account		**8,594.1**	8,033.1
Total reserves arising from the Statement of income and expenditure		**8,594.2**	8,033.7
Revaluation reserve		**13.9**	18.0
Pension reserve		**6.8**	2.8
Total capital and reserves		**8,614.9**	8,054.5

The balance sheet of the group is identical to the holding company balance sheet.

Alison Nimmo CBE
Second Commissioner and Accounting Officer

7 June 2013

Consolidated cash flow statement

For the year ended 31 March 2013

	Note	31 March 2013 £m	31 March 2012 £m
Cash generated from operating activities	29	**260.6**	277.2
Interest received		**10.1**	11.4
Distributions from investment in jointly controlled entities		**9.4**	13.9
Distributions received from other property investments		**1.4**	1.7
Net cash inflow from operating activities		**281.5**	304.2
Cash flows from investing activities			
Purchase of property		**(178.2)**	(166.2)
Capital expenditure on properties		**(146.1)**	(243.7)
Proceeds from disposal of investment properties		**351.9**	639.7
Net investment in jointly controlled entities		**(18.2)**	(13.4)
Investment in other property investments		**–**	(0.5)
Purchase of plant and equipment and other investments		**(2.8)**	(2.9)
Sale of plant and equipment		**0.1**	–
Loan repayment		**0.5**	–
Other cash flows from investing activities		**(1.0)**	(1.3)
Net cash inflow from investing activities		**6.2**	211.7
Cash flows from financing activities			
Parliamentary Supply 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		**290.0**	518.2
Consolidated Fund payment		**(261.5)**	(240.4)
Increase in cash in the year after Consolidated Fund payment		**28.5**	277.8
Cash and cash equivalents at start of year		**557.0**	279.2
Cash and cash equivalents at end of year	30	**585.5**	557.0

Consolidated statement of changes in capital and reserves

For the year ended 31 March 2013

	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 2012	0.6	8,033.1	8,033.7	18.0	2.8	8,054.5
Net surplus for the year	252.6	561.0	813.6	–	–	813.6
Revaluation deficit of owner occupied properties	–	–	–	(4.1)	–	(4.1)
Actuarial profit on retirement benefits	–	–	–	–	2.7	2.7
Total comprehensive income for the year ended 31 March 2013	252.6	561.0	813.6	(4.1)	2.7	812.2
Pension reserve adjustment	(1.3)	–	(1.3)	–	1.3	–
Payments to the Consolidated Fund	(251.8)	–	(251.8)	–	–	(251.8)
As at 31 March 2013	**0.1**	**8,594.1**	**8,594.2**	**13.9**	**6.8**	**8,614.9**
As at 1 April 2011	2.1	7,231.5	7,233.6	16.9	2.3	7,252.8
Net surplus for the year	240.2	801.6	1,041.8	–	–	1,041.8
Revaluation surplus of owner occupied properties	–	–	–	1.1	–	1.1
Actuarial loss on retirement benefits	–	–	–	–	(1.0)	(1.0)
Total comprehensive income for the year ended 31 March 2012	240.2	801.6	1,041.8	1.1	(1.0)	1,041.9
Pension reserve adjustment	(1.5)	–	(1.5)	–	1.5	–
Payments to the Consolidated Fund	(240.2)	–	(240.2)	–	–	(240.2)
As at 31 March 2012	**0.6**	**8,033.1**	**8,033.7**	**18.0**	**2.8**	**8,054.5**

The statement of changes in capital and reserves of the group is identical to that of the holding company.

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.

Impact of the Crown Estate Act 1961 on the financial statements

The Crown Estate is a body corporate regulated by Statute and domiciled in the UK. 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 capital account and one half to income account.

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.

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 leases 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.

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 per cent of the previous year's gross revenue as disclosed in the income account, excluding service charges, and after taking account of depreciation of plant and equipment.

1b. Changes in accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards and interpretations in force at the reporting date. The policies adopted are consistent with those of the previous year.

The following standards and interpretations relevant to The Crown Estate have been issued but are not yet effective. The Crown Estate anticipate that the adoption of these standards and interpretations is unlikely to have a material impact on the financial statements in the period of application.

IAS 1 – Financial statement presentation – presentation of items of other comprehensive income – effective for annual periods beginning on or after 1 July 2012

The following amendments and standards are effective for annual periods beginning on or after 1 January 2013:

IFRS 10 – Consolidated financial statements

IFRS 11 – Joint arrangements

IFRS 12 – Disclosure of interests in other entities

IFRS 13 – Fair value measurement

IAS 19 – Employee benefits (revised)

2. Significant accounting policies

2a. Basis of consolidation

The consolidated financial statements for the year ended 31 March 2013 incorporate the financial statements of The Crown Estate and all of its subsidiary undertakings. Subsidiary undertakings are those entities controlled by The Crown Estate. Control exists when The Crown Estate has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences and until the date control ceases. The financial statements of the group are identical to those of The Crown Estate.

2b. Properties

Properties are valued by independent external valuers 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.

Notes to the financial statements continued

2. Significant accounting policies continued

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 the market value of the partially-built development.

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, Round 2, Round 3 and Scottish Territorial Waters 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.

Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties consist of costs of a capital nature, including certain directly attributable internal staff costs. At the balance sheet date investment properties are revalued to fair 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
Any surplus or deficit arising on the revaluation of properties occupied by The Crown Estate 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 shown in the balance sheet within current assets.

2c. 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
Leasehold properties are 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.

2d. 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 nature of vehicle

Plant and equipment: 4–10 years

Pontoons: 25 years

Computer equipment and software: 4 years

Office equipment: 4 years

Useful lives and estimated residual values are reviewed annually.

2e. Jointly controlled entities
Jointly controlled entities (joint ventures) are those entities in which The Crown Estate has joint control over the financial and operating policies. Jointly controlled entities are accounted for under the equity method. The balance sheet incorporates The Crown Estate's share of the net assets of jointly controlled entities. The Statement of income and expenditure incorporates the share of the jointly controlled entity's profit after tax including The Crown Estate's share of revaluation of investment properties.

2f. 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. The Crown Estate accounts for its share of the jointly controlled assets, its share of any liabilities jointly incurred with other venturers and its share of income and expenditure arising from these assets.

2g. 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 2011. They are valued by recognised experts every three years on a rolling basis.

2h. 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.

2. Significant accounting policies continued

Royalties
Royalty income is received in return for the extraction of minerals, including aggregates, from the land and seabed.

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

2i. 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.

2j. 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).

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. 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. The Remuneration Report contains further details of the operation of the scheme.

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 provision for impairment of receivables 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 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, Rural and Coastal, Energy and Infrastructure, 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. From 1 April 2012 the rural portfolio was amalgamated with the coastal portfolio which had previously reported as part of the marine portfolio. The remaining business within the previously named marine estate was re-named energy and infrastructure estate. Comparative figures have been re-stated to reflect the re-organised structure.

		Year ended 31 March 2013						Year ended 31 March 2012 (restated)					
	Note	Urban £m	Rural and coastal £m	Energy and infra-structure £m	Windsor £m	Crown HQ £m	Total £m	Urban £m	Rural and coastal £m	Energy and infra-structure £m	Windsor £m	Crown HQ £m	Total £m
Statement of income and expenditure reflected in the income account:													
Rent and royalties	5	**231.1**	**46.0**	**39.1**	**4.4**	–	**320.6**	215.7	43.0	38.1	4.3	–	301.1
Revenue premium income	5	**3.4**	–	–	–	–	**3.4**	–	–	–	–	–	–
Sales of produce	5	–	**0.2**	–	**0.5**	–	**0.7**	–	0.2	–	0.5	–	0.7
Other income	5	**5.0**	**0.3**	–	**2.2**	–	**7.5**	9.6	0.1	0.1	2.6	–	12.4
Revenue recognised in the Income account (excluding service charge income)		**239.5**	**46.5**	**39.1**	**7.1**	–	**332.2**	225.3	43.3	38.2	7.4	–	314.2
Service charge income	5	**24.2**	–	–	–	–	**24.2**	26.5	–	–	–	–	26.5
Service charge expense	6	**(32.4)**	–	–	–	–	**(32.4)**	(33.1)	–	–	–	–	(33.1)
Net service charge expense		**(8.2)**	–	–	–	–	**(8.2)**	(6.6)	–	–	–	–	(6.6)
Direct costs:													
Management fees and costs	6	**(7.7)**	**(6.5)**	**(1.5)**	**(5.5)**	–	**(21.2)**	(7.1)	(6.0)	(1.2)	(5.3)	–	(19.6)
Repairs and maintenance	6	**(1.7)**	**(1.5)**	–	**(1.0)**	–	**(4.2)**	(1.6)	(2.6)	–	(0.8)	–	(5.0)
Other direct expenditure	6	**(10.7)**	**(1.8)**	**(0.6)**	**(2.3)**	–	**(15.4)**	(6.8)	(0.8)	(0.4)	(2.6)	–	(10.6)
Total direct costs		**(20.1)**	**(9.8)**	**(2.1)**	**(8.8)**	–	**(40.8)**	(15.5)	(9.4)	(1.6)	(8.7)	–	(35.2)
Gross surplus		**211.2**	**36.7**	**37.0**	**(1.7)**	–	**283.2**	203.2	33.9	36.6	(1.3)	–	272.4
Indirect costs:													
Administrative expenses	9	**(0.4)**	**(1.2)**	**(1.0)**	–	**(17.2)**	**(19.8)**	(0.3)	(1.4)	(0.8)	–	(15.9)	(18.4)
Depreciation of tangible fixed assets	19	**(0.6)**	**(0.1)**	–	**(0.4)**	**(1.7)**	**(2.8)**	(0.2)	–	(0.1)	(0.4)	(1.6)	(2.3)
Profit on sale of plant and equipment		–	–	–	**0.1**	–	**0.1**	–	–	–	–	–	–
Total indirect costs		**(1.0)**	**(1.3)**	**(1.0)**	**(0.3)**	**(18.9)**	**(22.5)**	(0.5)	(1.4)	(0.9)	(0.4)	(17.5)	(20.7)

4. Segmental analysis continued

	Note	Year ended 31 March 2013 Urban £m	Rural and coastal £m	Energy and infra-structure £m	Windsor £m	Crown HQ £m	Total £m	Year ended 31 March 2012 (restated) Urban £m	Rural and coastal £m	Energy and infra-structure £m	Windsor £m	Crown HQ £m	Total £m
Operating surplus reflected in the Income account		**210.2**	**35.4**	**36.0**	**(2.0)**	**(18.9)**	**260.7**	202.7	32.5	35.7	(1.7)	(17.5)	251.7
Income from sale of leases reflected in the capital account	5	**19.9**	**–**	**–**	**–**	**–**	**19.9**	9.2	–	–	–	–	9.2
Net valuation profit including profits on disposal	13	**343.4**	**144.0**	**17.3**	**12.9**	**–**	**517.6**	462.1	191.8	101.3	7.3	–	762.5
Share of (loss)/profit in jointly controlled entities	20	**(0.4)**	**–**	**–**	**–**	**–**	**(0.4)**	2.4	–	–	–	–	2.4
Share of profit in other property investments	21	**3.1**	**–**	**–**	**–**	**–**	**3.1**	2.1	–	–	–	–	2.1
Parliamentary Supply finance	15	**–**	**–**	**–**	**–**	**2.3**	**2.3**	–	–	–	–	2.3	2.3
Investment revenue	8	**–**	**–**	**–**	**–**	**10.4**	**10.4**	–	–	–	–	11.6	11.6
Total net surplus reflected in the Statement of income and expenditure		**576.2**	**179.4**	**53.3**	**10.9**	**(6.2)**	**813.6**	678.5	224.3	137.0	5.6	(3.6)	1,041.8
Balance Sheet													
Non-current assets:													
Investment properties	18	**6,337.3**	**1,429.7**	**563.8**	**143.7**	**–**	**8,474.5**	5,969.8	1,392.7	520.9	131.2	–	8,014.6
Owner occupied property	18	**40.0**	**0.1**	**–**	**60.1**	**–**	**100.2**	38.9	0.2	–	64.7	–	103.8
Other property, plant and equipment	19	**0.4**	**0.6**	**0.1**	**1.2**	**5.3**	**7.6**	0.5	0.1	0.6	0.9	5.6	7.7
Investment in jointly controlled entities	20	**275.3**	**–**	**–**	**–**	**–**	**275.3**	266.9	–	–	–	–	266.9
Other property investments	21	**35.7**	**–**	**–**	**–**	**–**	**35.7**	34.0	–	–	–	–	34.0
Other investments	22	**–**	**–**	**–**	**–**	**5.4**	**5.4**	–	–	–	–	5.3	5.3
Receivables due after one year	23	**29.2**	**0.1**	**–**	**–**	**–**	**29.3**	23.6	0.1	–	–	–	23.7
Total non-current assets		**6,717.9**	**1,430.5**	**563.9**	**205.0**	**10.7**	**8,928.0**	6,333.7	1,393.1	521.5	196.8	10.9	8,456.0
Unallocated current assets							**722.9**						634.0
Unallocated liabilities							**(1,036.0)**						(1,035.5)
Net assets							**8,614.9**						8,054.5
Capital expenditure	18	**282.1**	**13.0**	**25.6**	**3.6**	**–**	**324.3**	362.7	16.2	26.8	4.2	–	409.9

Notes to the financial statements continued

5. Revenue

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Income account		
Rent and royalties	**320.6**	301.1
Revenue premium income	**3.4**	–
Sales of produce	**0.7**	0.7
Other income	**7.5**	12.4
	332.2	314.2
Service charge income	**24.2**	26.5
	356.4	340.7
Capital account		
Income from sale of leases (note 2b)	**19.9**	9.2

6. Costs

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Service charge expense	**32.4**	33.1
Management fees and costs	**21.2**	19.6
Repairs and maintenance	**4.2**	5.0
Other direct expenditure	**15.4**	10.6
Administrative expenses	**19.8**	18.4
Depreciation of tangible fixed assets	**2.8**	2.3
Profit on sale of plant and equipment	**(0.1)**	–
	95.7	89.0

7. Property costs

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Service charge income	**(24.2)**	(26.5)
Service charge expense	**32.4**	33.1
Net service charge expense	**8.2**	6.6
Direct costs (note 4)	**40.8**	35.2
	49.0	41.8

8. Investment revenue

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Bank interest income	**10.1**	11.4
IAS 19 retirement benefits – net financing surplus	**0.3**	0.2
	10.4	11.6

9. Administrative expenses

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Salaries, national insurance and pension costs	**8.8**	7.5
Reorganisation and early retirement costs	**1.2**	1.2
Commissioners' remuneration	**0.5**	0.6
Management and administration expenses	**9.2**	9.0
Auditors' remuneration	**0.1**	0.1
	19.8	18.4

Auditors' remuneration includes fees for non-audit services of £8,000 (year ended 31 March 2012: £9,975).

10. 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 2013 £m	Year ended 31 March 2012 £m
Wages and salaries	**21.0**	19.0
Reorganisation and early retirement costs	**1.2**	1.2
National insurance costs	**2.0**	1.9
Current service cost – defined benefit scheme	**0.8**	0.8
Pension contributions – other pension schemes	**2.0**	1.7
Total staff costs	**27.0**	24.6
Less capitalised staff costs	**(11.5)**	(9.8)
Staff costs reflected in the Income account	**15.5**	14.8
Included in:		
Administrative expenses	**10.5**	9.3
Direct costs	**5.0**	5.5
Capitalised within investment properties	**11.5**	9.8
	27.0	24.6

Notes to the financial statements continued

10. Staff costs continued

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

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m restated
Commissioners	**8**	8
General administration	**241**	227
Operating activities	**207**	206
	456	441

The prior year figure has been restated. Previously the figure was shown as permanent and full-time equivalent employees.

11. 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 £27,720 p.a. with money purchase provision above that level). This disclosure covers the defined benefit sections only.

At 31 March 2011, the value of the scheme's assets was £29.1 million and the actuarial value of the technical provisions exceeded these assets by £1.7 million (5.7 per cent). 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 cent per annum and the post-retirement investment yield would exceed pension increases by 1 per cent per annum. The Trustees and The Crown Estate have agreed a recovery plan to eliminate the deficit. Consequently, an additional amount of £100,000 per month is being paid to the Scheme by The Crown Estate until 31 July 2013. Furthermore, the regular employer contribution rate has decreased to 31.4 per cent from 32.5 per cent of pensionable earnings per annum.

A full actuarial valuation was carried out as at 31 March 2011 and updated to 31 March 2013 by a qualified independent actuary.

11a. Balance sheet and notes
Amounts to be recognised in the balance sheet

	31 March 2013 £m	31 March 2012 £m
Present value of funded obligations	**(32.9)**	(31.1)
Fair value of scheme assets	**39.7**	33.9
Net asset recognised in the balance sheet	**6.8**	2.8

	31 March 2013 £m	31 March 2012 £m
Changes in the present value of the defined benefit obligation		
Present value of defined benefit obligation at beginning of year	**31.1**	26.9
Current service cost	**0.8**	0.6
Interest cost	**1.5**	1.5
Members' contributions	**0.1**	–
Actuarial loss on plan liabilities	**0.6**	3.1
Benefits paid	**(1.2)**	(1.0)
Present value of defined benefit obligation at end of year	**32.9**	31.1
Analysis of the defined benefit obligation		
Present value of the unfunded defined benefit obligation	**–**	–
Present value of the funded defined benefit obligation	**32.9**	31.1

11. IAS 19 retirement benefits continued

	31 March 2013 £m	31 March 2012 £m
Changes in the fair value of plan assets		
Fair value of plan assets at start of year	33.9	29.2
Expected return on plan assets	1.8	1.7
Actuarial gain on plan assets	3.3	2.1
Contributions by The Crown Estate	1.8	1.9
Contributions by Members	0.1	–
Benefits paid	(1.2)	(1.0)
Fair value of assets at end of year	39.7	33.9

	31 March 2013 £m	31 March 2012 £m
Analysis of return on plan assets		
Expected return on plan assets	1.8	1.7
Actuarial gain on plan assets	3.3	2.1
Actual return on scheme assets	5.1	3.8

11b. Amounts to be recognised in the Consolidated statement of income and expenditure

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Interest on obligation	1.5	1.5
Expected return on plan assets	(1.8)	(1.7)
Net financing surplus – note 8	(0.3)	(0.2)
Current service cost	0.8	0.6
Total expense	0.5	0.4

11c. Total amount recognised in the Consolidated statement of comprehensive income

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Actuarial gain on plan assets	3.3	2.1
Actuarial loss on defined benefit obligation	(0.6)	(3.1)
Actuarial profit/(loss) recognised in the Statement of comprehensive income	2.7	(1.0)

11d. Cumulative amount recognised in the Consolidated statement of comprehensive income

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Cumulative actuarial losses since adoption of IAS 19	(1.1)	(3.8)

Notes to the financial statements continued

11. IAS 19 retirement benefits continued

11e. Major categories of plan assets

	Long-term rate of expected return in 2013	Percentage of total assets 31 March 2013	Long-term rate of expected return in 2012	Percentage of total assets 31 March 2012
Equities	**7.25%**	**51.60%**	7.75%	38.60%
Government bonds	**3.00%**	**48.00%**	3.50%	60.80%
Other	**0.50%**	**0.40%**	0.50%	0.60%
Total	**5.18%**	**100.00%**	5.12%	100.00%

The overall expected return on assets has been derived by considering the long-term expected rate of return for each asset class and taking the average of these rates weighted by the proportion invested in each asset class at the year end.

The amount of Crown Estate related investments included in the fair value of the plan assets was £nil (31 March 2012: £nil).

11f. Principal actuarial assumptions at the balance sheet date

	2013	2012
Discount rate	**4.40%**	4.75%
RPI price inflation	**3.30%**	3.50%
Rate of increase in salaries	**3.30%**	3.50%
Pension increases	**3.30%**	3.50%
Post-retirement mortality (life expectancy):	**S1NxA light YoB CMI 2010 with 1.25% p.a. trend rate**	PXA00long cohort with 1% minimum improvement

11g. Experience gains and losses

	31 March 2013 £m	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m
Liabilities at year end	**32.9**	31.1	26.9	27.1	18.9
Assets at year end	**39.7**	33.9	29.2	26.8	19.8
Surplus/(deficit) at year end	**6.8**	2.8	2.3	(0.3)	0.9
Asset gain/(loss):					
Amount (£m)	**3.3**	2.1	0.8	3.6	(3.8)
Percentage of scheme assets	**8.4%**	6.2%	2.8%	13.2%	–19.1%
Liability gain/(loss):					
Experience gain/(loss) (£m)	**(0.3)**	(0.6)	(0.2)	0.1	0.3
Percentage of scheme liabilities	**–1.0%**	–1.9%	–0.7%	0.2%	1.8%

For 2012/13 employer contributions were £1.8 million (£1.9 million in 2011/12). The Crown Estate's estimate of contributions to be paid to the Scheme in 2013/14 is £1.2 million.

For 2012/13 employer contributions to The Principal Civil Service Pension Scheme (PCSPS) were £1.1 million (£1.9 million in 2011/12).

For 2012/13, employers' contributions were payable to the PCSPS at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. For 2013/14 the employer contribution will be between 16.7 per cent and 24.3 per cent of pensionable pay. Employer contributions are to be reviewed every four years following a full scheme valuation by the Scheme Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the Scheme.

12. Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1a	**25.5**	25.4
Total recovered from the capital account	**25.5**	25.4
Depreciation of fixed assets charged as costs in the income account	**2.8**	2.3
Total recovered under the Treasury agreement	**28.3**	27.7

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

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Reflected in the Consolidated statement of income and expenditure:		
Surplus on revaluation of investment properties	**426.4**	683.4
Adjustment for gross up for deferred rent movement	**6.5**	55.4
Gain on disposal of investment properties	**84.7**	23.7
Net revaluation gains on investment property	**517.6**	762.5
Share of revaluation loss in jointly controlled entities	**(11.9)**	(5.2)
Share of revaluation gains in other property investments	**1.7**	0.4
Total reflected in the capital account	**507.4**	757.7
Total reflected in the Consolidated statement of income and expenditure	**507.4**	757.7
Reflected in the Consolidated statement of comprehensive income:		
(Deficit)/surplus on revaluation of owner occupied property	**(4.1)**	1.1
Total reflected in the Statement of comprehensive income	**(4.1)**	1.1
Total	**503.3**	758.8

14. Financial instruments

The Crown Estate may not be held other than in land, gilts or cash. Investment in equities or outside the UK is not permitted.

The cash holdings not needed for operational purposes are maintained in deposit accounts with major UK clearing banks for a maximum period of 12 months, thereby minimising liquidity risks. These deposits are held on a fixed and 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.

The financial assets held by The Crown Estate are cash equivalents and trade and other receivables (note 25). 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 the impairment of 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 26), and the fair value of these liabilities equals their carrying value.

Notes to the financial statements continued

15. Parliamentary Supply 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 Parliamentary Supply finance account for the current year is shown on the face of the income account and the detail is reported separately to Parliament as a Parliamentary Supply finance account.

16. 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 2013 £m	Year ended 31 March 2012 £m
Moieties:		
Mineral dealings	**8.2**	9.3

17. Consolidated Fund payment

In accordance with section one of the Civil List Act 1952, the income surplus is due to the Consolidated Fund. As The Crown Estate is not permitted by statute to borrow, the payment to the Consolidated Fund in respect of the net surplus for the year is agreed with the Treasury taking into account The Crown Estate's short-term financing requirements. £250.8 million was paid to the Treasury prior to the year end and a further £1.0 million is included within payables and was paid to the Treasury in May 2013.

18. Properties

	Investment properties Freehold £m	Investment properties Leasehold £m	Total investment properties £m	Owner occupied properties £m	Total properties £m
Net book value at 1 April 2012	**7,744.3**	**270.3**	**8,014.6**	**103.8**	**8,118.4**
Less: deferred income from lease premiums received	**(919.1)**	**–**	**(919.1)**	**–**	**(919.1)**
Less: head lease liabilities	**–**	**(1.9)**	**(1.9)**	**–**	**(1.9)**
At valuation 1 April 2012	**6,825.2**	**268.4**	**7,093.6**	**103.8**	**7,197.4**
Additions	**178.1**	**0.1**	**178.2**	**–**	**178.2**
Capital expenditure	**139.5**	**6.1**	**145.6**	**0.5**	**146.1**
Disposals	**(297.3)**	**–**	**(297.3)**	**–**	**(297.3)**
Revaluation	**425.7**	**0.7**	**426.4**	**(4.1)**	**422.3**
At valuation 31 March 2013	**7,271.2**	**275.3**	**7,546.5**	**100.2**	**7,646.7**
Deferred income from lease premiums received	**925.6**	**–**	**925.6**	**–**	**925.6**
Head lease liabilities	**–**	**2.4**	**2.4**	**–**	**2.4**
Net book value at 31 March 2013	**8,196.8**	**277.7**	**8,474.5**	**100.2**	**8,574.7**
Net book value at 1 April 2011	7,211.0	238.7	7,449.7	102.6	7,552.3
Less: deferred income from lease premiums received	(863.7)	–	(863.7)	–	(863.7)
Less: head lease liabilities	–	(2.8)	(2.8)	–	(2.8)
At valuation 1 April 2011	6,347.3	235.9	6,583.2	102.6	6,685.8
Additions	82.0	84.2	166.2	–	166.2
Capital expenditure	238.6	5.0	243.6	0.1	243.7
Disposals	(526.1)	(56.7)	(582.8)	–	(582.8)
Revaluation	683.4	–	683.4	1.1	684.5
At valuation 31 March 2012	6,825.2	268.4	7,093.6	103.8	7,197.4
Deferred income from lease premiums received	919.1	–	919.1	–	919.1
Head lease liabilities	–	1.9	1.9	–	1.9
Net book value at 31 March 2012	7,744.3	270.3	8,014.6	103.8	8,118.4

18. Properties continued

The following table reconciles the net book value of investment properties to the market value. The components of the reconciliation are included within their relevant balance sheet headings.

	£m
Net book value at 31 March 2013	**8,574.7**
Less: head lease liabilities	**(2.4)**
Less: deferred income from lease premiums received	**(925.6)**
Add: assets held for sale	**105.5**
Market value at 31 March 2013 – wholly-owned	**7,752.2**
Share of joint ventures	**344.4**
Share of other property investments	**35.7**
Wholly-owned and share of joint ventures and other property investments	**8,132.3**

	£m
Net book value at 31 March 2012	8,118.4
Less: head lease liabilities	(1.9)
Less: deferred income from lease premiums received	(919.1)
Add: assets held for sale	22.5
Market value at 31 March 2012 – wholly-owned	7,219.9
Share of joint ventures	335.4
Share of other property investments	34.0
Wholly-owned and share of joint ventures and other property investments	7,589.3

The historic cost of the properties at 31 March 2013 was £3,067.7 million (31 March 2012: £2,745.1 million).

Investment properties identified by the Board as held for sale of £105.5 million at 31 March 2013 (31 March 2012: £22.5 million) are included within disposals and are re-classified as current assets in the balance sheet.

On 1 April 2011, a 150 year lease was granted to Norges Bank Investment Management (NBIM) in return for a 25 per cent interest in properties located in and around Regent Street in London. The £452 million received on the grant of the lease is included within total disposals of £582.8 million in the year to 31 March 2012. The properties within the arrangement have been regarded as a jointly controlled asset for accounting purposes and as such The Crown Estate's interest of 75 per cent in the properties is included within the valuation figure at 31 March 2013.

The Crown Estate's share of jointly controlled assets was valued at £1,798.1 million at 31 March 2013 (£1,638.8 million at 31 March 2012) out of the total property value of £8,574.7 million.

The property portfolio was valued on 31 March 2013 by independent 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 (RICS). Offshore windfarms were valued on 31 March 2013 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, Round 2, Round 3 and Scottish Territorial Waters 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 2012.

Notes to the financial statements continued

19. Plant and equipment

	Plant and machinery £m	Office equipment £m	Motor vehicles £m	Total £m
Cost at 1 April 2012	**3.0**	**19.9**	**1.8**	**24.7**
Additions	**1.1**	**1.4**	**0.2**	**2.7**
Disposals	**–**	**(3.9)**	**(0.3)**	**(4.2)**
Cost at 31 March 2013	**4.1**	**17.4**	**1.7**	**23.2**
Depreciation at 1 April 2012	**1.7**	**13.8**	**1.5**	**17.0**
Charge	**0.9**	**1.8**	**0.1**	**2.8**
Disposals	**–**	**(3.9)**	**(0.3)**	**(4.2)**
Total depreciation at 31 March 2013	**2.6**	**11.7**	**1.3**	**15.6**
Net book value at 1 April 2012	**1.3**	**6.1**	**0.3**	**7.7**
Net book value at 31 March 2013	**1.5**	**5.7**	**0.4**	**7.6**
Cost at 1 April 2011	1.9	18.3	1.8	22.0
Additions	1.2	1.6	0.1	2.9
Disposals	(0.1)	–	(0.1)	(0.2)
Cost at 31 March 2012	3.0	19.9	1.8	24.7
Depreciation at 1 April 2011	1.4	12.1	1.4	14.9
Charge	0.4	1.7	0.2	2.3
Disposals	(0.1)	–	(0.1)	(0.2)
Total depreciation at 31 March 2012	1.7	13.8	1.5	17.0
Net book value at 1 April 2011	0.5	6.2	0.4	7.1
Net book value at 31 March 2012	1.3	6.1	0.3	7.7

20. Investment in jointly controlled entities

The Crown Estate's investment in jointly controlled entities is described below:

Name of jointly controlled entity	Percentage owned	Formation date	Partner	Property interest
The Gibraltar Limited Partnership	50%	April 2007	Hercules Unit Trust	Fort Kinnaird Shopping Park, Edinburgh Gallagher Retail Park, Cheltenham Shires Retail Park, Leamington Spa
Co-ownership agreement	50%	June 2008	Morley Fund Management	Crown Point Shopping Park, Leeds
Co-ownership agreement	50%	December 2008	CGNU Life Assurance	Property in Princes Street, London
Westgate Oxford Alliance Limited Partnership	50%	May 2010	Land Securities Group PLC	Westgate Centre, Oxford
Maple Investment Limited Partnership	50%	November 2010	The Healthcare of Ontario Pension Plan	St. James's Gateway development, London

All joint ventures operate in the UK.

20. Investment in jointly controlled entities continued

The Crown Estate's share of assets and liabilities and revenues and expenses of the jointly controlled entities were:

	Gibraltar LP £m	Crown Point £m	Princes Street £m	Westgate LP £m	Maple LP £m	Total £m
Share of assets and liabilities as at 31 March 2013						
Non-current assets	**195.0**	**60.0**	**5.6**	**30.0**	**53.8**	**344.4**
Current assets	**7.0**	**1.8**	**0.3**	**0.8**	**2.0**	**11.9**
Gross assets	**202.0**	**61.8**	**5.9**	**30.8**	**55.8**	**356.3**
Current liabilities	**(1.3)**	**(1.1)**	**(0.1)**	**(1.0)**	**(2.5)**	**(6.0)**
Long-term bank loan	**(75.0)**	**–**	**–**	**–**	**–**	**(75.0)**
Share of net assets	**125.7**	**60.7**	**5.8**	**29.8**	**53.3**	**275.3**
Share of revenues and expenses for the year ended 31 March 2013						
Income	**10.4**	**3.7**	**0.2**	**2.4**	**0.6**	**17.3**
Expenses	**(4.1)**	**(0.3)**	**(0.1)**	**(1.2)**	**(0.1)**	**(5.8)**
Share of profit on ordinary activities reflected in the income account	**6.3**	**3.4**	**0.1**	**1.2**	**0.5**	**11.5**
Share of profit/(loss) on revaluation of investment reflected in the capital account	**(12.7)**	**(1.1)**	**0.1**	**(1.5)**	**3.3**	**(11.9)**
Total share of income reflected in the Consolidated statement of income and expenditure	**(6.4)**	**2.3**	**0.2**	**(0.3)**	**3.8**	**(0.4)**
Share of assets and liabilities as at 31 March 2012						
Non-current assets	205.9	61.0	5.5	30.1	32.9	335.4
Current assets	35.0	1.4	0.3	1.2	1.2	39.1
Gross assets	240.9	62.4	5.8	31.3	34.1	374.5
Current liabilities	(3.7)	(1.1)	(0.1)	(1.1)	(1.6)	(7.6)
Short-term bank loan	(100.0)	–	–	–	–	(100.0)
Share of net assets	137.2	61.3	5.7	30.2	32.5	266.9
Share of revenues and expenses for the year ended 31 March 2012						
Income	10.6	3.4	0.2	2.4	0.6	17.2
Expenses	(7.9)	(0.3)	(0.1)	(1.2)	(0.1)	(9.6)
Share of profit on ordinary activities reflected in the income account	2.7	3.1	0.1	1.2	0.5	7.6
Share of profit/(loss) on revaluation of investment reflected in the capital account	(11.6)	(0.9)	0.5	0.3	6.5	(5.2)
Total share of income reflected in the Consolidated statement of income and expenditure	(8.9)	2.2	0.6	1.5	7.0	2.4

Notes to the financial statements continued

20. Investment in jointly controlled entities continued

Summary of movement in investment in jointly controlled entities

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
At start of year	266.9	265.0
Net equity additions	18.2	13.4
Deficit on revaluation of investment properties	(11.9)	(5.2)
Distributions received	(9.4)	(13.9)
Share of profit	11.5	7.6
At end of year	275.3	266.9

In respect of The Gibraltar Partnership, the partnership entered into a new five year £150 million facility with Deutsche Pfandbriefbank AG as facility agent on 19 April 2012. The loan facility has a loan to value covenant of 40 per cent. The General Partner is of the view that the expected movement in the value of properties will result in no breach in this covenant for the foreseeable future.

Swap agreement for £108 million under the facility for the period from 19 April 2012 until 29 March 2017 were entered into at a rate of 1.37 per cent. The margin on the facility is 2.5 per cent.

21. Other property investments

In September 2006, The Crown Estate acquired a 4.9 per cent 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 2013 £m	31 March 2012 £m
Net income received	1.4	1.7
Share of revaluation of investment	1.7	0.4
Reflected in the Consolidated statement of income and expenditure	3.1	2.1
Share of net assets reflected in the Consolidated balance sheet	35.7	34.0

22. Other investments

	31 March 2013 £m	31 March 2012 £m
Antiques and paintings	5.4	5.3

23. Receivables due after one year

	31 March 2013 £m	31 March 2012 £m
Mortgages and loans	0.1	0.1
Other financial assets	2.2	1.8
Other receivables	27.0	21.8
	29.3	23.7

24. Inventories

	31 March 2013 £m	31 March 2012 £m
Inventories for resale	**–**	0.1
Stores	**0.2**	0.1
	0.2	0.2

25. Trade and other receivables

	31 March 2013 £m	31 March 2012 £m
Trade receivables	**12.1**	39.5
Other financial assets	**0.1**	0.1
Other receivables	**7.9**	6.4
Prepayments	**0.2**	–
Accrued income	**4.6**	5.5
	24.9	51.5

Trade and other receivables are shown after deducting the provision for impairment of receivables of £11.3 million (31 March 2012 £8.5 million). 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 2013 £m	31 March 2012 £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	**10.0**	37.3
1–2 months	**0.5**	0.2
More than 2 months	**0.4**	2.0
	10.9	39.5
Provision for impairment of receivables		
Other expenditure includes the movement on the provision for impairment of receivables as follows:		
Provision at the beginning of the year	**8.5**	10.9
Income written off during the year	**(2.0)**	(2.0)
Increase/(decrease) in the provision for the year	**4.8**	(0.4)
Provision at the end of the year	**11.3**	8.5

Notes to the financial statements continued

26. Payables

	31 March 2013 £m	31 March 2012 £m
Amounts falling due within one year:		
Trade payables	**5.4**	4.1
Rents received in advance	**54.5**	52.0
Taxes and social security	**5.9**	13.3
Other payables	**10.4**	12.2
Consolidated Fund	**1.0**	10.8
Accruals and deferred income	**28.3**	18.9
Deferred income on receipt of lease premiums	**9.3**	9.2
Obligations under finance leases	**0.3**	0.3
	115.1	120.8
Amounts falling due after more than one year:		
Rents received in advance	**–**	0.8
Deferred income on receipt of lease premiums	**916.1**	909.9
Obligations under finance leases	**4.4**	3.5
	920.5	914.2

27. Provisions

	£m
At 1 April 2012	**0.5**
Provision released	**(0.1)**
At 31 March 2013	**0.4**
At 1 April 2011	–
Re-organisation provision	**0.5**
At 31 March 2012	**0.5**

The provision is expected to result in an outflow of funds within one year.

28. Leasing

Operating leases with tenants

The Crown Estate leases out all of its investment properties under operating leases for average lease terms of 43 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	31 March 2013 £m	31 March 2012 £m
Less than one year	**242.1**	245.9
Between two and five years	**790.0**	783.4
More than five years	**3,843.8**	3,512.8
	4,875.9	4,542.1

Contingent rents receivable were £29.5 million at 31 March 2013 (£28.1 million at 31 March 2012).

28. Leasing continued

Obligations under finance leases

Finance lease liabilities are payable as follows:

	31 March 2013			31 March 2012		
	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**	0.3	–	0.3
Between two and five years	**1.1**	**(0.2)**	**0.9**	1.1	(0.2)	0.9
More than five years	**50.8**	**(47.3)**	**3.5**	51.0	(48.4)	2.6
	52.2	**(47.5)**	**4.7**	52.4	(48.6)	3.8

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

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Operating surplus – income account	**260.7**	251.7
Profit on disposal of plant and equipment	**(0.1)**	–
Depreciation	**2.8**	2.3
(Increase)/decrease in receivables	**(6.2)**	4.2
Increase in payables	**3.5**	18.5
(Decrease)/increase in provisions	**(0.1)**	0.5
Net cash inflow from operating activities	**260.6**	277.2

30. Analysis of change in cash and cash equivalents

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Balance at start of year	**557.0**	279.2
Net cash inflow	**28.5**	277.8
Balance at end of year	**585.5**	557.0

31. Subsidiary undertakings

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

The companies concerned, all of which are registered in England, are as follows (held 100 per cent by The Crown Estate Commissioners unless stated):

- Urbanlease Property Management Company Limited
- Purple Holdco Limited (previously Maple Holdco Limited)
- Purple Investment Management LLP (previously Maple Investment Management LLP)
- Gibraltar Management Limited

Notes to the financial statements continued

32. Capital commitments

At 31 March 2013, The Crown Estate had committed to make capital expenditure of £568.7 million (£325.1 million at 31 March 2012) and had authorised additional expenditure of £95.2 million (£194.6 million at 31 March 2012).

33. Contingent liabilities

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

34. Related party transactions

Balances and transactions between The Crown Estate and its subsidiaries, which are related parties of The Crown Estate, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between The Crown Estate and other related parties are disclosed below:

Smiths Gore – where Philip Everett, the Deputy Ranger at Windsor Great Park is a salaried partner, David Fursdon, non-executive director, is a non-executive consultant and Robin Clarke, Rural and Coastal Portfolio Manager – East, was a partner until 30 September 2012.

During the year Smiths Gore were paid £2.9 million (£2.3 million in the year ended 31 March 2012). Neither Philip Everett, David Fursdon nor Robin Clarke had any involvement in determining either the appointment or remuneration of Smiths Gore in this capacity.

Orchard Street Investment Management LLP – where Chris Bartram, non-executive director, is the chairman.

In 2012, Orchard Street Investment Management LLP took an assignment of a Crown Estate lease from the existing tenant at No. 16 New Burlington Place at an annual rent of £254,000. There were no outstanding debts at 31 March 2013 (31 March: 2012 £nil) on this tenancy.

Savills – where Ken Jones, the Director of Rural and Coastal Estates was a director until 31 October 2012.

During the year Savills were paid £288,994 (£251,955 in the year ended 31 March 2012) for property management and valuation services relating to the whole portfolio. Ken Jones was not involved in the negotiations of any contracts with Savills.

Apart from the above, none of the Board members, members of key management staff or other related parties have undertaken any material transactions with The Crown Estate.

35. Third party deposits

At 31 March 2013 The Crown Estate held £20.7 million (£19.8 million at 31 March 2012) on deposit on behalf of third parties.

36. Issue of accounts

On 5 June 2013 the financial statements were approved by the audit committee on behalf of the Board prior to certification by the Comptroller and Auditor General on 12 June 2013. On this date the financial statements are deemed to be authorised for issue. Post balance sheet events were considered up to this date.

Ten-year record (unaudited)

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

Income account	2004 £m	2005 £m	2006 £m	2007 £m	2008 Restated £m	2009 £m	2010 £m	2011 £m	2012 £m	**2013 £m**
Revenue (excluding service charge income)	237.8	245.4	252.3	262.1	231.9	285.8	299.7	306.8	314.2	**332.2**
Direct operating costs (including net service charge expense)	(30.2)	(31.9)	(31.6)	(38.7)	(40.2)	(42.6)	(52.9)	(42.5)	(41.8)	**(49.0)**
Gross surplus	207.6	213.5	220.7	223.4	191.7	243.2	246.8	264.3	272.4	**283.2**
Administrative expenses	(11.0)	(11.7)	(12.3)	(13.3)	(15.5)	(17.0)	(18.5)	(17.1)	(18.4)	**(19.8)**
Indirect operating expenses	(0.9)	(2.0)	(1.0)	(0.8)	(0.7)	–	–	–	–	**–**
Net revenue surplus	**176.9**	**184.8**	**190.8**	**200.1**	**213.4**	**226.5**	**210.7**	**230.9**	**240.2**	**252.6**
Consolidated Fund payment	173.0	185.7	188.0	200.0	211.0	230.0	210.0	231.0	240.2	**251.8**
Balance sheet										
Investment and owner occupied properties	4,408.9	4,812.0	5,685.4	6,572.5	7,245.6	6,073.2	6,696.4	7,552.3	8,118.4	**8,574.7**
Non-current investment property assets held for sale	–	–	–	–	12.0	221.9	135.1	17.5	22.5	**105.5**
Investment in jointly controlled entities	–	–	–	–	203.3	185.7	212.7	265.0	266.9	**275.3**
Other property investments	–	–	–	42.1	38.6	27.5	30.0	33.1	34.0	**35.7**
Other plant, property and equipment	2.2	3.2	4.6	5.6	4.9	8.5	8.3	7.1	7.7	**7.6**
Other investments	4.1	5.0	5.0	4.9	4.9	4.9	4.9	5.3	5.3	**5.4**
Receivables due after one year	–	0.1	0.1	13.8	3.2	11.4	13.3	21.4	23.7	**29.3**
Current assets (excluding assets held for sale)	214.1	306.7	287.1	494.6	590.1	421.9	480.6	311.0	608.7	**610.6**
Pension asset	–	–	–	–	0.9	0.9	–	2.3	2.8	**6.8**
Current liabilities	(36.1)	(36.6)	(45.6)	(42.0)	(103.1)	(164.9)	(104.6)	(102.3)	(121.3)	**(115.5)**
Non-current liabilities	–	–	–	–	(666.7)	(776.2)	(837.1)	(859.9)	(914.2)	**(920.5)**
Capital and reserves	**4,593.2**	**5,090.4**	**5,936.6**	**7,091.5**	**7,333.7**	**6,014.8**	**6,639.6**	**7,252.8**	**8,054.5**	**8,614.9**

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.

Glossary

Bespoke benchmark
An IPD benchmark based upon the Quarterly Index but weighted to reflect our ownership as at 31 March 2008.

Book value
The amount at which assets and liabilities are reported in the financial statements.

Capital employed
The capital value of an asset at the beginning of a period plus net capital invested over the period.

Capital value
The net assets of The Crown Estate held as capital for Her Majesty and Her Successors.

Carbon Intensity
The amount of carbon dioxide produced per square metre of floor space.

Consolidated Fund
The UK Government's general bank account held at the Bank of England. Taxation and other monies paid to the Treasury are paid into this fund.

Development pipeline
Development projects under construction or planned, listed according to the date of completion.

Direct expenditure
Expenditure incurred that relates directly to the operation of the properties from which revenue is received.

Equivalent yield
The constant capitalisation rate applied to all cash flows, that is, the internal rate of return from an investment property reflecting reversions to current market rent.

ERV
The estimated market rental value of lettable space.

Finance lease
A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

Head lease
A leasehold interest held directly from the freeholder and subject to one or more underleases in the whole, or part of the property.

IFRS
International Financial Reporting Standards

Indirect investments
Investment in property through jointly controlled entities and other property investments.

Initial yield
The initial net income at the date of purchase expressed as a percentage of the gross purchase price including the costs of purchase.

Integrated Annual Report
A concise communication about how an organisation creates value in the short, medium and long term.

IPD
Investment Property Databank

Lease incentive
Any incentive offered to occupiers to enter into a lease. This includes an initial rent-free period or a cash contribution to fit-out.

Lease premium
The price paid for the purchase of a leasehold interest.

Market rent
The estimated amount for which a lettable unit should lease for.

Market value
The estimated amount for which a property should exchange for on the date of valuation, between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties has each acted knowledgeably, prudently and without compulsion.

Material Issues
An issue that would impact our business and committee decisions.

Net income surplus
Profit payable to the Treasury. Also referred to as Net Revenue surplus.

Open A1 planning consent
A planning consent which permits occupation within the A1 Shops use class under the Town and Country Planning (use classes) Order 1987 without any restriction as opposed to an A1 use restricted to bulky goods, such as furniture or white goods.

Operating lease
Any lease that is not a finance lease.

Over rented
A property which is let at a rent which is greater than the current open market rent.

Parliamentary Supply finance
Monies provided by Parliament in respect of Board members' salaries and the expense of their Office.

Pre-let
An agreement for a letting to take effect at a future date, often upon completion of a development that is proposed or under construction at the time of the agreement.

Public realm
Publicly owned streets, pathways and rights of way.

Rack rented
A rent representing the full letting value of a property.

Red Book
Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

Total contribution
How we value the economic, social and environmental contribution that our business delivers to the UK.

Total return
Capital growth plus the net income as a percentage of capital employed.

Vacancy rate
The rental value of voids (excluding those held for development) as a percentage of the total rental value of the portfolio.

Void
Unoccupied and unlet space.

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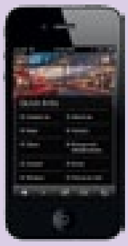
www.thecrownestate.co.uk



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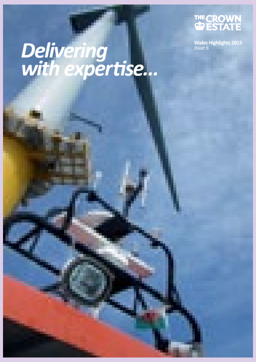
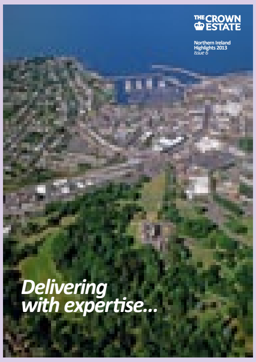


Wales Financial Highlights 2013



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