The Crown Estate Integrated Annual Report and Accounts 2016/17

The Crown Estate from every perspective

The Crown Estate Integrated Annual Report and Accounts 2016/17

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

Ordered by the House of Commons to be printed 26 June 2017

HC 64

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at
The Crown Estate
1 St James's Market
London
SW1Y 4AH

Print ISBN 9781472145114
Web ISBN 9781474145121

ID P002880159 06/17

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

The Crown Estate from every perspective

The Crown Estate is a specialist real estate business with an actively managed portfolio of high-quality assets in great locations.

By combining scale and expertise in our chosen sectors with a customer-focussed approach we deliver strong returns for the nation's finances.

We create brilliant places through conscious commercialism. This means we take a long-term view and consider what we do from every perspective.

Our portfolio covers central London, retail across the country and offshore wind; we also have a substantial rural and coastal portfolio, and manage the seabed around England, Wales and Northern Ireland.

Front cover:

St James's Market, London

You can read more about our £450 million landmark scheme, developed in partnership with Oxford Properties, on pages 4-5.

The Crown Estate Integrated Annual Report and Accounts 2016/17

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

Ordered by the House of Commons to be printed 26 June 2017

HC 64

About this integrated report

In our fifth integrated annual report we have continued to develop upon the International Integrated Reporting Council (IIRC) Framework to tell a coherent, concise story about how we deliver value beyond the financial. An integrated report is aligned with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. In the opinion of the Audit Committee, our 2016/17 Integrated Annual Report is in alignment with the IIRC Framework. In last year's report we indicated the importance of developing our Total Contribution methodology to provide us with information and insight on the effect of our actions and ability to understand the broader value we create. We released our second Total Contribution report earlier this year, and metrics taken from that work are integrated within the 'perspectives on' double-page features.

A

PwC has provided limited assurance against ISAE 3000 and ISAE 3410 standards for selected key data in 2016/17. Where you see this symbol A in this report it indicates data has been subject to assurance. For the limited assurance opinion and our reporting criteria, see www.thecrownestate.co.uk/pwc-statement.

Highlights

To The Queen's Most Excellent Majesty

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

To read more about our integrated reporting ambitions for the future including our total contribution report visit:
thecrownestate.co.uk/our-business/integrated-reporting

Net revenue profit

£328.8m +8.1%

2016/17	**328.8**
2015/16	304.1
2014/15	285.1
2013/14	267.1
2012/13	252.6

Revenue by portfolio 2016/17 £m

Central London	207.2
Regional Retail	118.6
Rural & Coastal (inc. Windsor)	49.1
EMI	60.7
Scotland	18.0
Total	**453.6***

Capital value

£13.1bn +2%

2016/17	**13.1**
2015/16	12.9
2014/15	11.5
2013/14	9.9
2012/13	8.6

Total return

15.3% p.a.

Outperformed our MSCI bespoke benchmark (see glossary) of 12.5%, on an annualised three-year rolling basis.

The Scotland portfolio has been treated as a discontinued operation. For further details please see page 37.

All figures are prepared on a proportionally consolidated basis.

* Excluding service charge income £27.1m.

People

84%

Employee survey 'Great place to work' score

Networks

79%

Customer satisfaction score

Natural resources

7%Ⓐ

Improvement year-on-year in carbon emissions intensity

People

22%Ⓐ

Improvement year-on-year in overall health and safety incident severity score

Overview

Performance

Governance

Financials

• Indicates that this section is part of the Strategic report.

Our purpose is to create brilliant places through conscious commercialism...

To help us achieve our purpose, we consider the material issues that are central to our business…

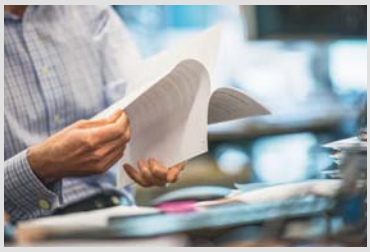
Read about the issues that matter to us on page 9

...then address them through our business model…

Read about how we manage the capitals we rely on to succeed on pages 10-11

...which informs our corporate strategy.

Read more on page 12



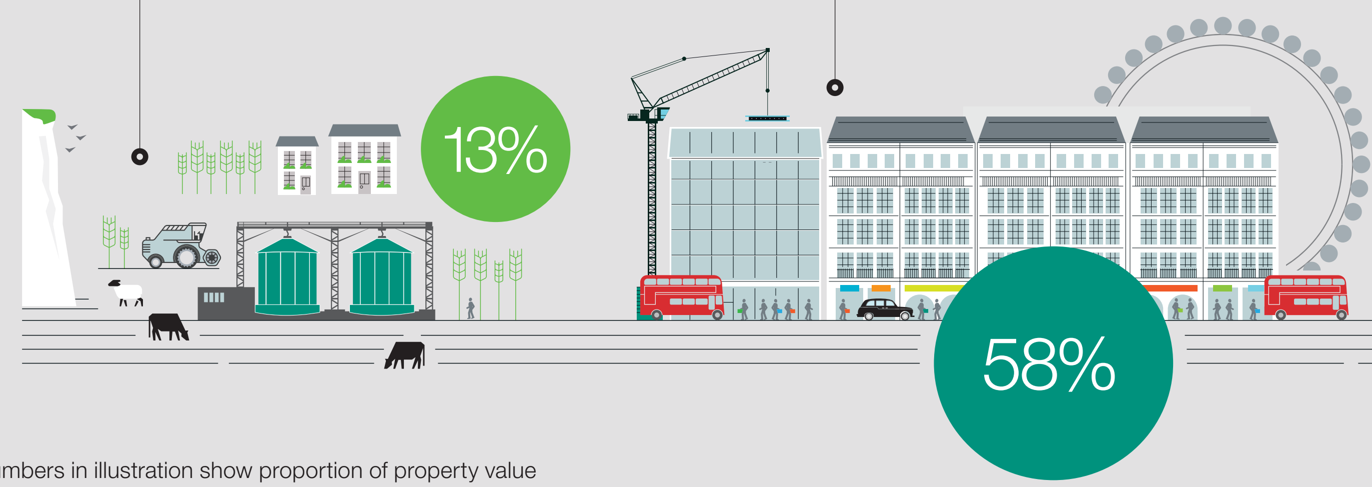
Across our £12.4 billion property portfolio we focus on where we have scale and expertise: Central London, Regional Retail, and Offshore Wind. We also have a substantial Rural and Coastal portfolio, and manage the seabed around England, Wales and Northern Ireland.

Rural & Coastal

Our Rural portfolio extends to 95,100 hectares of agricultural land and property. We also manage the Windsor Estate and just under half of the foreshore around England, Wales and Northern Ireland.

Central London

Within our Central London portfolio we hold almost the entire freehold to Regent Street and nearly 50% to the buildings in St James's.



Numbers in illustration show proportion of property value (on a proportionally consolidated basis)

We measure our progress against our KPIs…

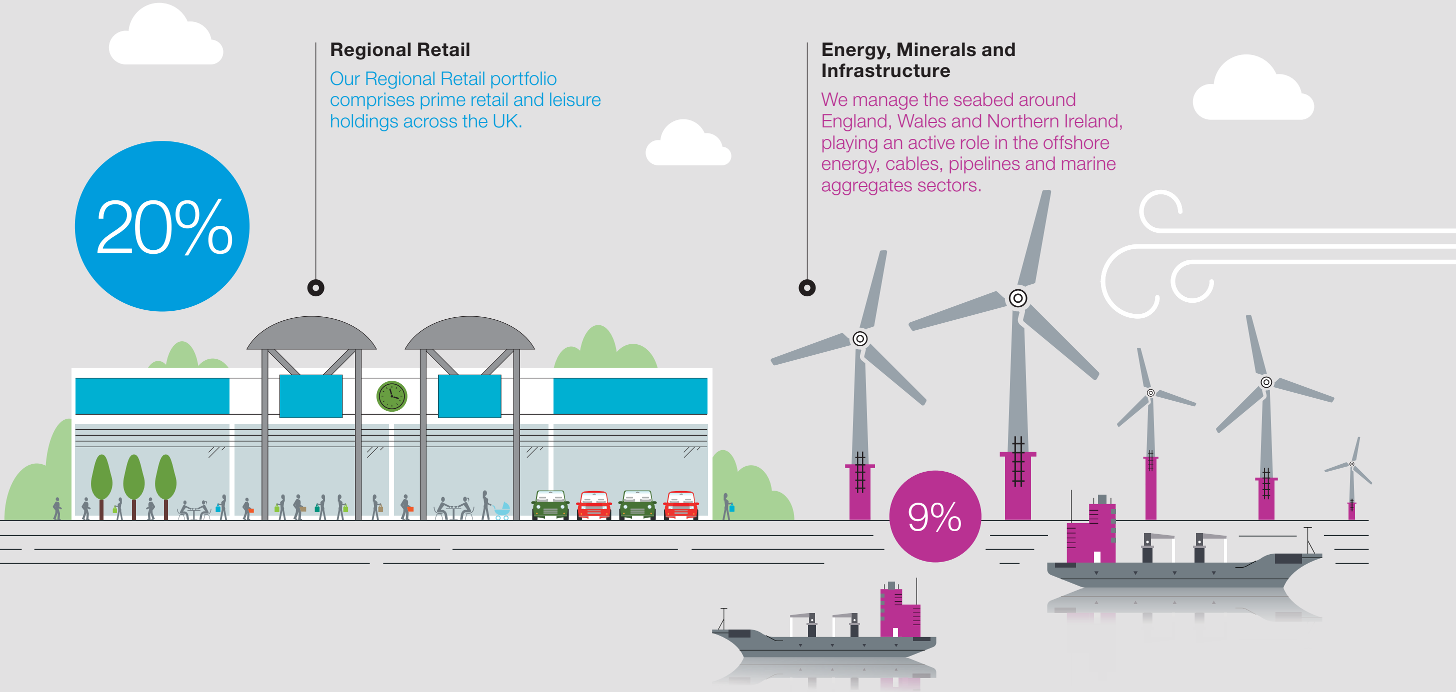
Read more about how we have performed against our corporate strategy this year, on page 13

...which is delivered through a well-organised business…

Read more on page 63

...underpinned by strong governance and leadership.

Read about our Board's year on page 56



Regional Retail

Our Regional Retail portfolio comprises prime retail and leisure holdings across the UK.

Energy, Minerals and Infrastructure

We manage the seabed around England, Wales and Northern Ireland, playing an active role in the offshore energy, cables, pipelines and marine aggregates sectors.

Perspectives on St James's Market

Our landmark scheme, delivered in partnership with Oxford Properties, has created a new district in the West End. Set around a public square and pavilion, with a range of flagship stores and restaurants, it has created a world-class destination for visitors and businesses. International asset manager The Carlyle Group and global motorsport brand Formula 1 are relocating their HQs here.

The retail and leisure mix reflects our wider strategy for St James's. We are using our expertise and scale to blend heritage with contemporary style, re-establishing this area for the long term. This year, we welcomed Nordic Aquavit, Salt Yard Group's Veneta, Duck & Waffle Local and the UK's first Danish bakery – Ole & Steen. All this alongside bespoke retail concepts from Jigsaw, Paul & Shark, Assos and Smeg. Urban Tea Rooms and West African restaurant Ikoyi will open this year as well.

"For our flagship store in London we wanted to be part of something special so it was important to us to find somewhere central but which also had a sense of community. We were made to feel very welcome right from the start and we liked the idea of being a part of something new, along with many other exciting businesses."

Jesper Friis
CEO of Ole & Steen

"I think St James's Market is a game changer for the area. It's an iconic piece of architecture that fits in amongst listed buildings."

John Walker
Director of Planning
Westminster City Council

Total area

261,000 sq ft

Gross development value

£450m

"The St James's Market scheme has transformed this iconic but previously neglected area. We've introduced world-class architecture, fantastic shops, culture and restaurants. From fashionable Nordic to fiery West African cuisine. From apparel from the creators of Lycra cycling shorts to the first lifestyle concept store from Smeg – and the first London fashion store from Paul & Shark. Our customers share our vision for the area and St James's Market now offers something very special."

Sarah Parish
Asset Manager
Central London portfolio

History

1680

The redevelopment of St James's Market reinstates a heritage of retail and commerce on the site that dates back to 1680.

Chief Executive's review
Alison Nimmo

Creating value in a fast-changing world

Many years of disciplined market positioning have helped make our business resilient; we consider ourselves to be well placed to deliver consistently against our long-term strategy."

We have delivered another strong set of results against a backdrop of economic, political and market uncertainty, contributing £328.8 million to Treasury this year. Over the last ten years we have contributed £2.6 billion. We achieved a total return of 8.1% compared to our annual MSCI bespoke benchmark return of 5.8%. On a three-year rolling basis our total return is 15.3% versus the benchmark of 12.5%. The capital value of our portfolio has increased by 2% to £13.1 billion.

This is our ninth consecutive year of outperformance compared to our benchmark. This has been driven by the continued expansion of our offshore wind business, lease re-gears in Central London and sales. You can read more about our activities and what's driven our results in the Markets and Portfolio Review (pages 16-25).

This is also The Crown Estate's sixty-first Annual Report and for me, a real reminder of the long-term nature of the business that I have the privilege to lead. It's fair to say that the past 12 months have brought many significant changes in our economic and political landscape. Nevertheless, many years of disciplined market positioning have helped make our business resilient; and we consider ourselves to be well placed to deliver consistently against our long-term strategy.

Whilst last year we had been expecting a softening in the market, the EU referendum result and the subsequent triggering of Article 50 have further impacted occupational markets, in particular for central London offices. However, the capital markets in London have remained resilient, with strong international investor appetite for the best real estate in the best locations. With nearly 60% of our portfolio by value located in the West End, London's attractiveness as a global capital remains central to our future success. You can read more about how we address this and other material issues on page 9.

This fast-changing environment underlines the value of our high-quality portfolio with a focus on prime real estate in markets where we have expertise and scale. Looking back on the market cycle our major development programme and sales of non-core assets have been well timed. Whilst occupier markets have become more challenging, we are continuing to see demand for our new office space, with

240,000 sq ft let this year in London. Demand from international retailers for central London flagship stores remains high and our Regional Retail portfolio has also proved resilient with very low void rates.

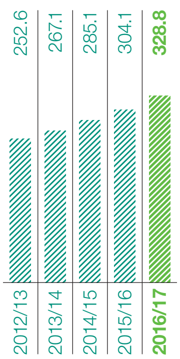
Business with purpose
At a time of uncertainty and low public trust in business and institutions, it is ever more essential that we hold true to our values-led approach and long-term perspective. Our purpose – creating brilliant places through conscious commercialism – sits right at the heart of everything we do. The commercial rationale for this is simple: many of the successful brands we want to attract to our space and the best global partners we work with share our belief in doing business in the right way to deliver long-term sustainable outperformance. The communities in which we operate expect us to make a positive difference. And our constitution requires us to do business in a way which is responsible, building a reputation for excellence and ensuring that we build an even stronger business for future generations.

The awards we have won this year are a strong endorsement and encouragement for the way in which we pursue excellence over the long-term.

Changing the face of London
Our recently completed St James's Market development is a great example of our purpose. Visit and you'll find a brilliant place – a vibrant mix of international brands and restaurants next to world-class office space, set round a fabulous new square and framed by stunning architecture. The buildings have been built to last, they are amongst the most sustainable in London, using high-quality natural materials, including wood from Windsor Great Park. We completed this £450 million development with our joint venture partner Oxford Properties earlier this year. It has been designed with our customer in mind and is already three-quarters let, with a first class line up of occupiers, including new HQs for The Carlyle Group and Formula 1 (see pages 4-5).

Once again Regent Street has performed well for us, continuing to adapt to the needs of a competitive and fast-paced retail sector, and cementing its reputation as a world-class destination. According to the New West End Company, we saw record numbers of visitors across the West End this year, while we welcomed

Net revenue profit £m



10 years

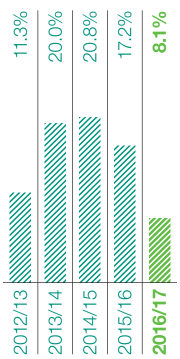
£2.6bn

returned to Treasury over the last decade

Total Return

8.1%

outperforming our annual MSCI bespoke benchmark of 5.8% in 2016/17

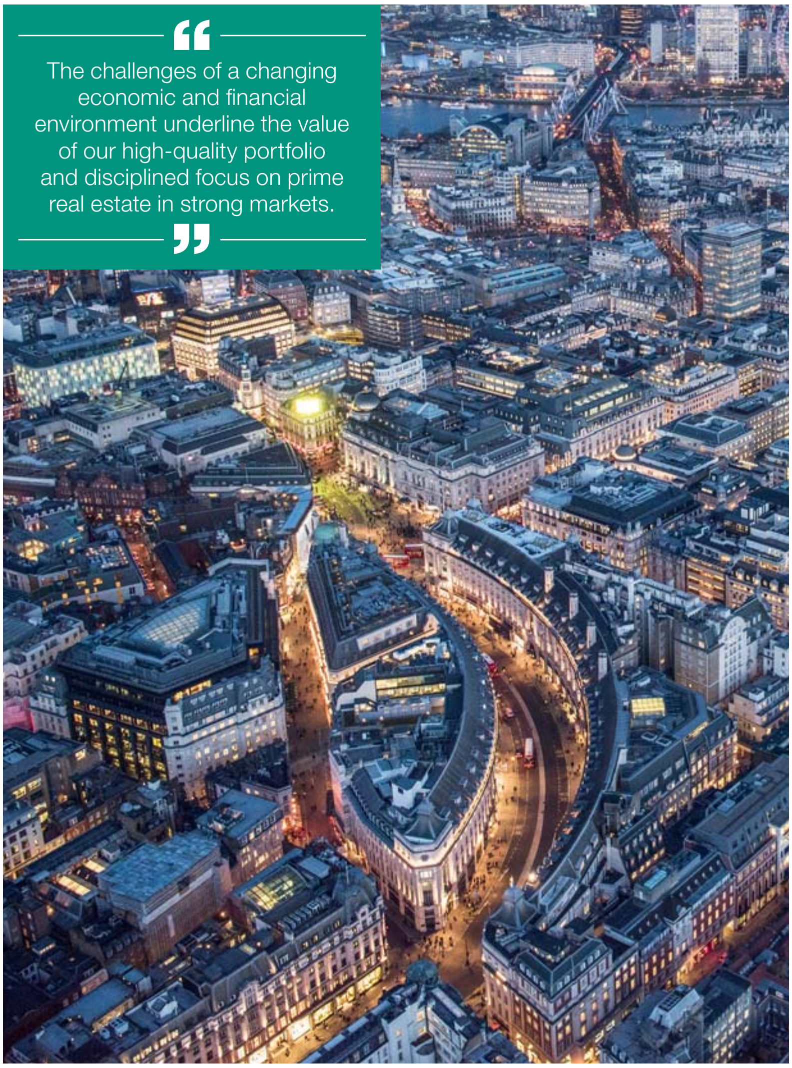


Development

347,000 sq ft

Total space delivered in 2016/17

> "The challenges of a changing economic and financial environment underline the value of our high-quality portfolio and disciplined focus on prime real estate in strong markets."



the arrival of exciting new brands such as lululemon, Tory Burch and Kate Spade New York. We continued to help our customers innovate, providing the flexible space they need to deliver modern retail experiences. For example, in lululemon's store you can also enjoy yoga, fitness classes, a great café and concierge services (see pages 14-15).

The Christmas lights were absolutely magical this year, not least because we carried the elegant 'Spirit of Christmas' theme across much of our Central London portfolio. The lights were a real celebration of the best of British, by James Glancy Design, and manufactured and installed by a world-class British team.

As the largest landowner in the core West End we are focussed on the important role we play, with our partners, ensuring its ongoing success in curating a vibrant and evolving mix of space – retail, office, restaurants and new homes – and investing in high-quality public realm. This year, we have continued investing in a small number of strategic acquisitions and developments in the West End, and are busy preparing the ground for the next wave of projects to capitalise on the arrival of Crossrail's Elizabeth Line in 2018.

Developing our retail offer across the country
We have been focussing this year on creating one of the best Regional Retail portfolios in the UK through a combination of refurbishment, expansion and new development. We have let over 240,000 sq ft this year to popular brands such as Next and Primark, and welcomed 100 million shoppers.

We have over one million sq ft of retail development under construction this year (see pages 34-35). Our two landmark projects – at Rushden Lakes and Westgate – are due for completion this year. Rushden Lakes in Northamptonshire will deliver a £140 million, next generation shopping park offering an unrivalled retail and leisure destination in beautiful natural surroundings.

Chief Executive's review
continued

Westgate, our joint venture with Land Securities in Oxford, will transform the retail offer in this historic city with 100 new stores, 25 restaurants and cafés, anchored by a new John Lewis store.

Increasing influence of offshore wind
It has been another year of strong performance from our Energy, Minerals and Infrastructure portfolio. Offshore Wind is making a meaningful contribution both to the UK's energy mix and to our total return performance. To date, 30 operational wind farms currently meet more than 5% of the UK's electricity demand, with a consented development pipeline that is on course to double capacity to 10% by 2020.

The Board visited the Rampion wind farm with our development partners E.ON to see progress on the construction of the first project off the south coast. This 116 turbine wind farm is due for completion later this year, with a capacity of 400MW – enough energy to power half the homes in Sussex. You can read more about the industry and how costs have come down on pages 26-27.

Clear priorities in rural land
We have continued to reshape our Rural business, creating a portfolio of higher quality, better performing assets. This year we have sold £209 million of land and buildings with major sales at Gopsall and Dunster, providing us with capital to recycle into the wider business. At Windsor, the team have delivered both a positive financial performance alongside maintaining excellence in stewardship of this beautiful Royal Park (see pages 48-49).

Nurturing a high-performance culture
Sir Stuart Hampson retired at the end of July last year, effecting a smooth handover to our new chairman Robin Budenberg. Robin brings exceptional experience from the UK financial sector as well as fresh strategic insight to the business.

Last year's executive restructure is now fully implemented and working well, with a streamlined leadership team, and clearer lines of oversight and accountability. As part of the restructure we welcomed Kate Bowyer as our new Chief Financial Officer (CFO) and as a Board Commissioner.

The other major structural change in the business (as from 1 April 2017) has been the devolution of the management of our Scotland portfolio to Scottish Ministers – in line with the provisions of the Scotland Act 2016. This has been a complex undertaking and our special thanks go to the team in Scotland for delivering both a seamless transfer and a record financial performance.

There is no doubt that we have built a very talented and passionate team in The Crown Estate, but we also recognise there is more to do. We continue to focus on great leadership and driving a high-performance culture centred on our expertise, values and teamwork. Our third annual employee survey – 'One Voice' – points to another year of progress towards being one of the UK's top performing businesses. We are committed to building on these results with our move to a new HQ in our St James's Market development. This will bring everyone together on one floor in a truly modern, agile and productive environment.

Energy generated

5.1GW

Fully operational offshore wind capacity

Customer experience

79%

Customer satisfaction score

Award highlights

Investment

IPE Real Estate Global Awards 2017, 'Direct Strategy'

MSCI/IPF UK Property Investment Awards, '10 Year Relative Return Award' for the St James's portfolio

Central London

British Council for Offices, 'President's Award' for outstanding contribution to the property industry

RICS Awards 'Commercial Award' for St James's Market

London Planning Awards 2016/17, 'Best Project Five years On' for Quadrant 3

Reporting

Better Society Awards 2017, 'Transparent Reporting of the Year'

> We continue to focus on great leadership and driving a high-performance culture centred on our expertise, values and teamwork."

Looking ahead
We are closely watching the long-term trends that matter to us – from the impact of technology, demographics and changing consumer aspirations – and thinking strategically about how our business will adapt over the next ten years and beyond. Our customer survey work is just one way in which we are systematically listening to our customers and partners; challenging ourselves to deliver greater levels of service, satisfaction and loyalty (see page 31).

We have also set ourselves challenging aspirations to 2030 to future-proof our business and ensure that we build super-efficiency, climate change adaptation, and health and wellbeing into our long-term planning.

The one thing we can predict over the next 12 months is further uncertainty. While not complacent, we believe we have carefully positioned the business to weather this period and to keep momentum, albeit it in a lower growth, lower return environment.

Looking through the immediate market challenges we remain focussed on the progressive and active management of our portfolio, guided by our clear corporate strategy (see pages 12-13). We remain confident in the underlying strength of our business, and are working hard to shape the next phases of our investment programme so that we are ready when market conditions are right. We will continue to deliver long-term sustainable performance, considering what we do from every perspective, as part of our commitment to our purpose – creating brilliant places through conscious commercialism.

Alison Nimmo
Chief Executive, The Crown Estate
12 June 2017

The issues that are material to our success

Each year we consider the material issues which have the potential to significantly influence our business, from technological change to the availability of talent and skills.

Some of those issues have had particular emphasis during the past 12 months given the pace of political and economic change, both internationally and in the UK. This has affected business decisions and, in turn, impacted our markets. More of which can be read about in 'Our Markets' on pages 17-18.

However, we are confident that our markets and assets are well located and resilient with the potential to offer strong long-term growth prospects.

Following the outcome of the referendum on our membership of the European Union, London's place in the world has been subject to much discussion. While it is too early to assess the longer-term impacts of Brexit, we have no doubt it will remain a global centre. The high visitor numbers this year speak volumes for London's appeal as a place to visit, shop, eat and work. According to the New West End Company, the full opening of Crossrail in 2020 will see an additional 60 million people visit the West End each year, boosting retail sales by more than 25%. We are excited by these growth prospects and are taking an active role in addressing some of the capital's biggest challenges to remaining competitive. For example, taking practical steps to ensure congestion is reduced, air quality is improved and visitors safely enjoy exceptional surroundings.

We are delighted that our customers continue to show high levels of loyalty as evidenced through our surveys (see our KPIs on pages 12-13). However, this is a fast-moving world with rapid technological change and shifting customer aspirations. Our occupiers increasingly want their space to add more value, whether that's providing shoppers with an exciting environment or enhancing the wellbeing of employees. We are working in partnership with our customers to ensure the space we provide helps them succeed.

Meanwhile, public trust in business and institutions remains low. As well as prioritising collaboration and engagement in how we do business, we continue to develop our Total Contribution approach to better understand and communicate the wider impacts of our activities, both positive and negative. This includes how our decisions affect our capitals, which are the factors the business draws upon to deliver its commercial performance, such as our financial and physical resources, our know-how and our networks (see our business model on pages 10-11). This helps us to build trust and strengthen our relationships as well as improve decision-making. You can read more on Total Contribution here: www.thecrownestate.co.uk/our-business/total-contribution/.

This approach also includes our people, and how we attract and retain the best talent, further details of which are set out on pages 29-30.

As we continue to look at how we future-proof the business, including managing natural resources responsibly and mitigating and adapting to the impacts of climate change, we have launched our ambitious 2030 aspirations. These are set out on page 28.

Our material issues are informed by our knowledge of our business environment and play a key role in business planning. Each year we update and set out the issues that are most material to us through discussions with business partners and specialist advisors, including a formal workshop. For more detail on our scoring criteria and methodology, please visit: www.thecrownestate.co.uk/our-business/material-issues/.

Reputation and trust
Maintain the trust of stakeholders so we can operate successfully and demonstrate our core values of commercialism, integrity and stewardship

Government policy, constitutional change and political uncertainty
Demonstrate resilience to uncertainty related to Brexit, as well as adaptability to changes in Government policy and regulations that can influence our markets

Strategic counterparty alignment
Create and maintain strategic partnerships – and attract investors who share our values – so we can access capital to reinvest in our business

Impact of technology on the business
Anticipate and address the impact of technological change on our business

Availability of skills and talent
Ensure that we and our supply chain partners can attract and retain employees with the right skills, experience and values

Health of the economy
Achieve sustainable, profitable long-term growth so we can meet our targets and build resilience in our business

London's place in the world
Play a central role in helping the capital develop its opportunities and address key challenges, ensuring it remains a thriving world city and an attractive and safe place to live and work

Customer aspirations
Understand our customers' aspirations – and their customers' expectations – through our buildings, providing excellent customer service and maintaining our position as a landlord of choice

Climate change
Address the risks and opportunities generated by changes in global climate and weather patterns, particularly in regard to property and energy policy

Natural resources
Manage carefully the natural resources we rely upon, from construction materials to seabed aggregates and the soil on our farms

We create value over the long term through our resilient business model

Our principal focus is on achieving our income and total return targets in a sustainable manner, for the long term. We achieve this through specialising in those areas where we have scale and expertise to outperform the market.

Our approach

At the heart of our approach is our purpose: creating brilliant places through conscious commercialism. It's about taking a long-term view, seeing the bigger picture, identifying opportunities for growth, and creating environments that are relevant, attractive and profitable.

What sets us apart

- Our expertise and critical mass enables us to achieve competitive advantage and outperformance
- We believe in placemaking; creating environments where people can thrive
- Our best-in-class asset managers work closely with our customers
- Our approach to regeneration is based on enhancing spaces sensitively, carefully and for the long term

What we do

We actively manage our portfolios through four principal activities.

Investment management

We buy and sell assets in line with our investment strategy, with a focus on our chosen sectors where we can outperform the market through our expertise and critical mass.

Development management

We plan, construct, develop and refurbish to create successful places where our customers and communities can thrive.

Asset management

We actively manage our assets, working closely with our customers to help achieve their business objectives while, at the same time, increasing the value of our portfolio.

Property management

We enhance our investment, development and asset management activities with effective property management to ensure we address the needs of our customers, partners and communities.

Reinvestment into the business

We access capital to invest in our portfolios via strategic partnerships and the sale of non-core or ex-growth assets.

What we rely on

We draw upon six capitals in the management of our business model.

The value we create

Beyond meeting our income and total return targets we also consider the wider value we deliver against each capital.

What we rely on		The value we create	
Financial resources Financial capability to run our business	→	£328.8m	8.1% Year-on-year increase in net revenue profit
Physical resources Property, plant and equipment we own and use	→	5.5% Year-on-year increase in total property value	
Natural resources The natural resources that we manage and use	→	100% Operational waste diverted from landfill	
Our people The skills and experience of our employees	→	94% Employees 'Proud to work for The Crown Estate'	
Our know-how Our collective expertise and processes	→	18 hours Average training per employee p.a.	
Our networks Our relationships with stakeholders; including customers, partners and communities	→	£2bn Funds managed on behalf of our strategic joint venture partners	

Our contribution to Treasury

Our annual net revenue profit is paid to Treasury.

£2.6bn
Generated for Treasury in last ten years.

Our clear corporate strategy drives the business

This is focussed on the following four objectives:

Strategic objective	What are we trying to achieve?
Actively manage our assets to drive sustainable outperformance against our commercial targets	**We have two key commercial targets, agreed with Treasury, which underpin our strategy:** To increase our net revenue profit at an agreed rate, measured on a three-year rolling basis. To outperform our MSCI total return bespoke benchmark on a three-year rolling basis.
Nurture a high-performance culture and reputation as a great place to work	**Through nurturing a high-performance culture we are seeking to create an environment in which the best people want to join, stay and thrive.** Our 'One Voice' survey annually tracks sentiment amongst employees and enables us to identify both strong performance as well as areas where we can improve. Our principal target is outperformance of the UK national benchmark for employee engagement.
Build ever stronger relationships through high levels of customer and partner satisfaction, loyalty and recommendation	**Customer experience is at the heart of our approach as we look to become a landlord and partner of choice and drive excellence in how we do business.** Central to this strategic objective has been the implementation of regular customer engagement surveys from which we can develop portfolio action plans, enhance our understanding of customer needs, and anticipate future trends.
Be a leading responsible and resilient business which thinks long term	**We seek to create value beyond financial return through acting responsibly and sustainably in everything we do.** Our evolving Total Contribution methodology helps us understand our wider impact against each of the capitals, such as natural resources. In order to support our business resilience we seek to implement robust systems that drive efficient and effective operations, including health and safety governance and crisis preparedness.

Key

- **A** Achieved
- **O** On track
- **M** More work to do

Other metrics

These are our key performance indicators used to measure overall performance of the organisation. We also use a number of other metrics to monitor performance across our business, which are highlighted throughout the report.

How did we perform this year?

2016/17 Target

5% annual increase in net revenue profit on a three-year rolling basis

A 7.2% p.a.

Three-year rolling growth in net revenue profit on annualised basis

Growth in annualised net revenue profit on a three-year rolling basis

2016/17	**7.2%**
2015/16	6.4%
2014/15	5.9%

Outperform our bespoke total return benchmark on an annualised three-year rolling basis

A 15.3% p.a.

Compared to our bespoke total return benchmark of 12.5%

Relative outperformance on three-year rolling annualised basis (percentage points)

2016/17	**2.5**
2015/16	2.7
2014/15	2.2

2016/17 Target

Outperformance of UK national benchmark (79%*)

*Willis Towers Watson

O 84%

Employee survey 'Great place to work' score

Annual employee engagement survey (2015/16 83%)

2016/17 Target

Outperformance of Institute of Customer Service benchmark (77.8%)

O 79%

Customer satisfaction score

Survey of 700 customers as part of our customer satisfaction programme

2016/17 Target

Improve carbon emissions intensity by 40% against 2012/13 baseline for property under direct control by 2022

O 7%Ⓐ

Improvement in carbon emissions intensity on 2015/16

10% incident severity score improvement on 2015/16

A 22%

Overall incident severity score improvement on 2015/16

Priorities for 2017/18

- Continue to meet our revenue target
- Outperformance of our bespoke total return benchmark
- Progress key asset management initiatives
- Deliver key developments in our Regional Retail portfolio and progress the development pipeline in Central London

- Continued outperformance of UK national benchmark
- Relocation of HQ to modern single-floor accommodation enabling greater collaboration and productivity
- Focus on learning and developing talent

- Continued outperformance of Institute of Customer Service benchmark
- Delivery of customer service action plans within each portfolio
- External launch of our customer promises
- Work with our managing agents to improve performance

- Continued improvement in carbon emissions intensity against 2012/13 benchmark for properties under our direct control
- 10% year-on-year improvement in incident severity score based on two-year average (moving to a three-year rolling average from 2018/19)

Perspectives on
Regent Street

This has been another major year for Regent Street, underlining its position as a global destination for retailers and shoppers. We've welcomed new brands, like lululemon, Polo Ralph Lauren, Tory Burch and Innovation by SpaceNK; worked closely with a number of existing customers to move into bigger stores, such as Michael Kors; and used our expertise to help brands deliver a unique experience for shoppers, including yoga studios and cafés. In a fast-changing and competitive retail landscape, we have to work in partnership with customers to understand their needs and provide flexible space that helps them succeed and Regent Street flourish.

"This year we opened an amazing flagship store on Regent Street, London, in what is seen as the world's No.1 shopping destination and the place to be as a forward-thinking international retailer. This has allowed us to expand our collective to further enhance our London guest experience."

Stephen Spencer
Director Real Estate Store Development EMEA
lululemon athletica

"I think Regent Street really lives up to its reputation as the world's best shopping street. I come back again and again for the variety of top brands here and what they each offer in-store, as well as the food options along Heddon Street."

Giles Robinson
Shopper

"It's been another exciting year on Regent Street as we've worked with some of the best global brands to create world-class stores and a unique experience for shoppers. From a wave of new openings and in-store services, to traffic-free days and enhancing the public space, we want to create a brilliant place that cements our position as the leading European flagship destination and rivalling shopping locations around the world."

Katerina Mercury
Asset Manager
Central London portfolio

Total contribution

London faces major challenges around congestion and air quality, which is why we run initiatives like our delivery consolidation scheme.

By using electric vehicles to combine deliveries for over 50 separate retailers, we estimate that it has reduced 85% of journeys by those participating, and reduced emissions by up to 20 tonnes of CO_2e each year. Using our Total Contribution methodology, we estimate the total social cost savings related to pollutants alone are £81,000 p.a.

Markets and portfolio review

The investment strategy

Our investment strategy is focussed on sectors where we have scale and critical mass, and where we can apply our expertise to add value through investment, development and asset management to deliver sustainable long-term returns.

Principally focussed on our assets in the West End, prime Regional Retail and offshore wind, we seek to create brilliant places that remain attractive and relevant to our customers. From creating vibrant retail destinations to facilitating the development of offshore wind.

This approach also extends across our business, whether we are working in partnership with tenant farmers on our substantial Rural portfolio or with customers in the marine aggregates industry as manager of the seabed around England, Wales and Northern Ireland.

As we are unable to take on debt it is imperative that we recycle capital within the business efficiently. This is achieved through attracting third party investment into our strategic assets, and disposals of non-core or ex-growth assets.

Durability and resilience
Durability and resilience are fundamental tenets of our strategy; and we have been working for a number of years to position our portfolio so that it is best placed to deliver sustainable, long-term performance through a period of challenging economic conditions.

The restructure of our business has, for the first time, brought all of our real estate portfolios under a single reporting line, allowing us to benefit from synergies and refine our specialisms across each of our sectors. We believe that combining expertise with scale and critical mass is the principal route to delivering consistent long-term returns and our headline activity from this year is reflective of this approach.

For the ninth consecutive year we outperformed our bespoke total return benchmark, delivering total returns of 8.1% against 5.8%, with outperformance coming from the continued expansion of our energy business, lease re-gears in Central London and sales. On a three-year rolling basis our total return is 15.3% against a benchmark of 12.5%.

Active traders
We remained active in our capital markets, with overall trading activity totalling £859 million. Disposal proceeds amounted to £507 million, which included the extension of our partnership with Oxford Properties to further align our interests in St James's. This year, we also made a small number of strategic acquisitions to strengthen our position in our chosen markets, including two long leasehold interests in Central London for over £231 million.

Development across our portfolio
Elsewhere in London, we marked the peak of one of the most significant phases of development in our history with the completion of our landmark scheme at St James's Market. Over the last 15 years we have delivered in excess of 1.3 million sq ft of mixed use space in to the West End.

Our development focus has shifted to the Regional Retail portfolio this year as we completed a very profitable scheme at Silverlink Point near Newcastle. Over the course of the next 12 months we look forward to delivering over one million sq ft when Westgate in Oxford and phase one of our Rushden Lakes development both open for business.

Increasing influence of offshore wind
We are active managers of the seabed, supporting the offshore wind sector through de-risking consenting and attracting international investment. This continues to reap rewards, alongside more traditional markets such as marine aggregates and cables and pipelines which provide a steady income.

Confidence in our sectors
As we look to the future, we can expect uncertainty precipitated by the EU referendum and the wider geopolitical landscape to have an effect on investors and occupiers, which will undoubtedly impact pricing, rents and leasing volumes. Consequently, returns from real estate are likely to soften over the next few years but we believe that we are well placed overall; we remain optimistic about the medium-term dynamics of our chosen sectors and confident that our strategy will continue to deliver consistent and sustainable returns.

Paul Clark
Chief Investment Officer

Our markets

In this section we look at the principal issues that influence the occupational and investment markets that we operate in. For The Crown Estate, these factors are diverse and might typically range from the impact of government energy policy on our Offshore Wind portfolio to the transformative effect of technology on the retail sector. This year, however, has been dominated by significant political uncertainty both at home and abroad. As investors and occupiers adjust to this shifting landscape, our focus is on positioning our business to deliver consistent and sustainable outperformance for the long term.

Investment

Despite the uncertainty that has characterised the last 12 months, our principal capital markets have remained remarkably resilient. Aided by a low risk-free rate, quantitative easing and a competitive currency devaluation, yields steadied in the autumn following the outcome of the EU referendum. London, in particular, saw continued strong global investor demand for high-quality real estate. Alongside that, however, trading volumes are down and there has been a re-pricing of risk which is producing a more marked distinction between prime assets with secure income streams and the rest of the market.

Overall we expect real estate returns over the next couple of years to be subdued. In anticipation of a slowdown in our principal markets we have, over the course of a number of years, been positioning the business for more testing market conditions. Our major development schemes in Central London are complete and largely let and we have been consistent sellers of non-core, ex-growth assets for the last few years. Furthermore, having concentrated our activities in the West End and prime retail schemes throughout the UK we remain confident in the medium-term market dynamics of these sectors.

Central London

Our office portfolio has experienced strong growth for a number of years, but both the occupier and investment markets slowed during the first half of 2016 and this was not wholly attributable to the EU vote. Growing affordability concerns, stretched further by regulatory change such as the business rates revaluation, have increased overall occupancy costs for our occupiers within the core West End. In addition, global headwinds from a wide variety of political and economic sources were forcing investors to re-evaluate pricing within the capital.

Following the referendum, we saw a devaluation of sterling which for many global investors rebased pricing, sparking a resurgence in transactional activity which is acting to keep yields at record lows. However, there is a growing disparity between pricing levels and underlying occupier fundamentals. Leasing decisions are being delayed where possible and forecasts for future rental growth, in the West End in particular, are much more muted.

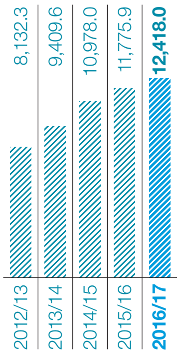
London continues to be a leading destination for global retailers and over 40 international brands opened their first stores here during 2016. We see this continuing across our portfolio as we continue to invest in public realm and support the need for flexible spaces in a market that is rapidly advancing through technological change. The draw for international visitors also continues to grow and was supported by the increased spending power afforded by the fall in the pound. London is now the cheapest luxury shopping destination for many international visitors, particularly those from North America and China, who have seen up to a 20% reduction in high-end luxury goods. Space on the best streets remains constrained and vacancy rates low; as such, rental value growth will remain positive but is likely to be at lower levels than the last few years.

Within the residential sector, the slowdown in London has been the result of strong price appreciation in recent years alongside a number of tax changes that have disproportionately affected higher-value assets. Low trading volumes likely imply further price adjustments are required to compensate for heightened uncertainty, weaker economic conditions and the potentially restrained banking environment. As a result, the general consensus remains a marginal softening of London residential values over the next few years; but a dramatic decline will be averted as weaker fundamentals and macro factors are countered by low supply and cheap credit.

Total property value

£12.4bn

(+5.5%)



Partners' Funds

£2bn

Managed on behalf of our strategic joint venture partners

Total return

8.1%

Outperformance this year against our MSCI bespoke benchmark of 5.8%

New lettings

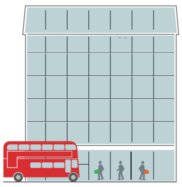
£43.8m

in Central London and Regional Retail this year

Development

347,000 sq ft

delivered through development activity this year



Markets and portfolio review
continued

Regional Retail
The retail market outside Central London continues to prove challenging, with an increasing disparity between prime and secondary centres. This polarisation has sharpened further over the last year due to the shifts in the retail landscape that continue to influence every aspect of the consumer experience. Technological change will continue to disrupt the industry in the year ahead, with the retailers leading this change capable of offering the best multi-channel experience. Aligning ourselves with forward-thinking occupiers will enable us to provide the best overall proposition to shoppers and ultimately help drive footfall to our schemes.

Visitor numbers are driven by underlying consumer confidence, which is beginning to wane in the face of a more challenging economic outlook, and we expect rising inflation will act to dampen consumer spending within the fashion and leisure sector. Retailers are now faced with a consumer who is spending a greater proportion of their disposable income on alternative experiences to pure shopping. Recognising this shift, we support an experiential retail and leisure offer that provides a more comprehensive customer experience across our portfolio.

Amidst the backdrop of a challenging economic landscape, retailers are also feeling the squeeze from increasing cost pressures. Margins for those who rely on imports are being impacted by the devaluation of sterling, with few retailers benefiting from this shift. The introduction of the National Living Wage and Apprenticeship Levy will also act to increase labour costs for many retailers. In addition, the business rates revaluation will impact differently across various sectors and regions of the country. The strongest retailers will thrive, which is why creating attractive destinations coupled with a vibrant occupier mix is more important than ever.

As a result, prospects for growth in the overall market remain subdued for the year ahead. Retail destinations that are best able to deliver outperformance will be those that can offer the most compelling reasons for consumers to visit. Whether this be local convenience or the experiential offer seen at our prime retail parks and shopping centres, there needs to be something extra to draw footfall, drive occupier demand and in turn support future rental growth. With a limited development pipeline for both retail parks and shopping centres, competitive tension for space in the best schemes will continue to drive rental growth.

Agriculture
2016 was the first time in over a decade that land values fell throughout the UK and that trend has continued in to this year. Values fell by 3% on average, as concerns around affordability and commodity prices were exacerbated by political and economic uncertainty. Also, in a continuation of a trend from previous years, the amount of land publicly marketed remained below 200,000 acres and the profile of buyers was largely static, with farmers remaining the predominant purchaser even in light of more challenging economic conditions.

Energy policy
Government policy continues to be central to the development of virtually all new electricity generation over the medium to longer-term, with private sector investment largely contingent on the basis of contracts awarded by the Government for low carbon generation, such as offshore wind.

The Cost Reduction Monitoring Framework, published in early 2017, showed that offshore wind costs have reduced by 32% over the last three years. This puts the sector on-course to be cost-competitive with other forms of low carbon generation.

A key development over the last 12 months was the Government agreeing to the 5th Carbon Budget, which established the trajectory for reduced carbon emissions for the period 2028-2032 necessary to keep the UK on track toward its statutory 2050 target. This is an important milestone as it reiterated the UK's long-term decarbonisation aims and provided an overarching framework for more specific policies to emerge.

One of these was the announcement of the second round of auctions for Contracts for Difference for low carbon generation. This £290 million competition opened in early April 2017 to a range of emerging technologies, including offshore wind, with contracts awarded for a 15-year term on the basis of lowest price.

"The strongest retailers will thrive, which is why creating attractive destinations coupled with a vibrant occupier mix is more important than ever."

"Offshore wind costs have reduced by 32% over the last three years. This puts the sector on-course to be cost-competitive with other forms of low carbon generation."

Portfolio review

We are committed to finding better ways to enhance the performance of our assets in a way that makes them fit for the future and helps our customers succeed. Whether we're creating world-class shopping destinations in London's West End; enhancing the role of retail and leisure in local communities; or unlocking the value of the UK seabed, we are driven by a determination to increase returns in the right way through leveraging our knowledge, relationships and scale within our chosen sectors.

1. Investment management
2. Development management
3. Asset management

Our business model describes our approach to managing, investing in and developing the assets we own by bringing together the capitals we rely on, including our physical resources and our know-how. Our property management initiatives are covered throughout the review of our activities.

1. Investment management

Investment management encompasses all of our capital market activities which includes both purchases and sales of land and buildings. All of our investment activities are geared towards delivering our commercial targets, and we continue to manage the balance between achieving our income growth target against our total return obligations.

This year, our total capital activity has exceeded £1.2 billion. This includes £353 million of purchases, including headlease acquisitions, and disposals amounted to £507 million at some 8.7% above book values.

We have continued to sell strongly, disposing of non-core and ex-growth assets in to markets that we consider, in the main, to be fully priced. Unlike last year, however, we have also made a small number of significant, strategic purchases focussed on headlease acquisitions and site assembly that complement our existing holdings in Central London.

Our approach to investment management was recognised at the IPE Real Estate Global Awards 2017, where we won Best Direct Strategy. Our St James's portfolio also won the 10 Year Relative Return Award at the 2017 UK Property Investment Awards, outperforming 193 other funds over the period.

Total capital activity

£1.2bn

sales, purchases and capital expenditure within the year

Sales

£507m

At 8.7% above book value

Strengthening our position in Central London

In Central London, we invested £160 million acquiring headlease interests at 10 Piccadilly and 12 Charles II Street from Standard Life and a further £67 million at 117 Jermyn Street from DTZ Investment Management. These acquisitions are strategic, long-term decisions that strengthen our ownership and control on Piccadilly and Regent Street St James's.

Over the course of the year we also made a small number of acquisitions relating to site assembly, including buildings on side streets such as Maddox Street and Princes Street that provide us with greater control of key, strategic interests as we look to bring forward the next phase of our development pipeline.

Disposals within Central London amounted to £279 million and included two particularly significant transactions. First, we extended our successful partnership with Oxford Properties, aligning our interest in a number of buildings to the south of St James's Market for a total receipt of £72.3 million. Elsewhere, we completed the sale of 1 Carlton House Terrace and the last unit at our residential development at Cleveland Row and Russell Court. The scheme has been hugely successful, delivering total capital receipts of £106 million.

We negotiated lease re-gears at 2-4 Cockspur Street, with the Canadian High Commission at Canada House and with the London Business School (LBS) in Regent's Park. At LBS, we completed a joint sale of a headlease interest with the Royal College of Obstetricians and Gynaecologists which will allow for an expansion of the school campus as well as providing funds for them to relocate to more suitable premises in the future. These transactions allowed us to unlock value; extracting capital and creating long-term, durable and resilient income streams.

Enhancing our Regional Retail portfolio

We have not made significant capital market transactions on our Regional Retail portfolio this year, focusing instead on completing asset management plans and progressing our development pipeline, which includes providing funding for three subsequent phases of development at Rushden Lakes in Northamptonshire. The development will provide an additional 230,000 sq ft, significantly bolstering the restaurant and leisure offer and providing

additional space to meet demand from retailers.

We also acquired a long leasehold interest in Attwood House in Birmingham for £5.6 million which was complementary to an existing interest and allowed us to create marriage value.

Refining our Rural portfolio

The strategy for our Rural business is to create a core portfolio characterised by larger lot sizes and more modern tenancies, that gives us the best chance of delivering sustainable outperformance in the long term. The Rural portfolio has also been an important source of capital in the recent past and that has remained the case this year, where we disposed of 23,000 acres for £209 million. Typically, assets identified for sale would be ex-growth or exposed to sectors or locations where the opportunity for significant asset management is limited.

Significant sales this year included the majority of the Gopsall estate for £32 million and the Dunster estate for £47 million. Both were sold significantly in excess of their book values. Additionally, for the last three years we have been committed to reducing our exposure to rural residential property, from more than £150 million in 2014 to less than £40 million at the start of 2017.

We also retain a strong commitment to our strategic land portfolio, where we acquire, own and actively promote land for residential development. We have looked to be acquisitive for a number of years and in 2016/17 we made purchases totalling £14 million, including a medium-term development opportunity in Hemel Hempstead, and 50% of a 266 acre site in Harwell, south of Oxford in a joint venture with Gallagher UK Ltd.

Disposal proceeds from our strategic land portfolio amounted to £14 million. Significant sales included a 34 acre site in Marlborough for 175 homes and a hotel to Redrow for £10.3 million, and the first phase of a 37% interest in a 100 acre development site in Northampton for £3 million.

Rural sales

£209m

of rural land and property sold this year

Planning applications

1,400

applications submitted for 1,400 homes this year

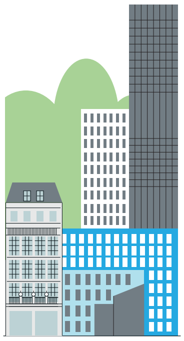
2. Development management

Development management includes activities related to the planning, construction and refurbishment of our assets.

Delivering landmark schemes in Central London

We concluded one of the most significant phases of West End development in our history with the practical completion of our landmark scheme at St James's Market. The £450 million mixed-use scheme was delivered in partnership with Oxford Properties and amounts to some 261,000 sq ft, creating one of London's most exciting new business addresses and providing homes for global companies as well as world-class shopping and dining experiences. Acknowledging the success of the scheme, it was awarded Commercial Project of the Year at the RICS Awards.

At the beginning of the year we also achieved practical completion of 1 New Burlington Place, a 116,000 sq ft mixed-use scheme off Regent Street.



WHAT WE HAVE DONE

Central London

1.3m sq ft

in last 15 years

Regional Retail

400,000+ sq ft

in last five years

IN NEXT 12 MONTHS…

Central London

52,700 sq ft

Regional Retail

1m+ sq ft

Elsewhere in London, we achieved planning permission for a 45,500 sq ft residential scheme at Morley House to the north of Oxford Circus. We also achieved planning permission and began construction for a 45,700 sq ft mixed-use scheme at Duke's Court in St James's which is supported by a 7,000 sq ft residential donor site at 33 Bury Street. Planning consent was also awarded for the redevelopment of 12,000 sq ft of retail space at the Quadrant Arcade at the bottom of Regent Street.

In addition, we have spent time this year thinking about the next phase of our development pipeline, where we have identified at least the same amount of potential as has been delivered during the last decade. As well as traditional feasibility and viability assessments, we are also reflecting upon what type of space our customers will need in the future. In July this year, The Crown Estate joined forces with the Architects' Journal, launching a competition where entrants were asked to consider the workplace of the future. For us, this means embracing innovative architectural design and a better understanding of our customers' needs.

Of course, delivering great buildings is only a part of the challenge. We are aiming to create brilliant places, and in London this means making the West End the most attractive place to live, work and visit. We work alongside Westminster City Council, the GLA and local community groups and businesses to tackle issues such as congestion, air quality and logistics to create a healthier, more welcoming environment and drive footfall for our retailers.

Finally, our BREEAM 'Outstanding' refurbishment at 7 Air Street has won a number of awards this year, including 'Sustainable Achievement' at the 2016 Property Awards, 'Sustainable Building of the Year' at the 2016 Edie Awards, 'Refurbishment Project of the Year' at the 2016 Building Awards, 'Commercial Building Energy Project of the Year' at the Energy Awards 2016 and the 'Built Environment Award' at the 2016 Better Society Awards.

Developing our retail offer across the country

We have just completed our first major development on our Regional Retail portfolio and have a number of significant schemes underway.

In August we completed an extension to the Silverlink Shopping Park in Newcastle. Silverlink Point is a 56,000 sq ft extension that takes the overall size of the scheme to more than 270,000 sq ft. The scheme has been enormously successful; it was fully let upon opening, anchored by Next Home, and has delivered a profit on cost in excess of 75%.

Elsewhere, in the heart of Oxford city centre we are working in partnership with Land Securities to deliver the transformative Westgate Shopping Centre, an 840,000 sq ft retail and leisure scheme which is due to complete later this year. The scheme is 80% pre-let or in solicitors hands and will be anchored by a 140,000 sq ft John Lewis department store. Other retailers include Russell & Bromley, Gant, Cath Kidston and boutique cinema operator, Curzon.

We provided development funding for the ground-breaking Rushden Lakes shopping and leisure park in Northamptonshire. Phase one is 240,000 sq ft of high-quality retail and restaurants in outstanding natural surroundings and is on track to open in summer 2017. In February this year, East Northamptonshire Council approved a resolution to grant planning consent for three subsequent phases which will create an additional 230,000 sq ft, including a cinema, 11 restaurants and additional retail and leisure space. Work on phases two and three is due to start later this year and pre-lets have already been secured on the cinema and a number of the restaurant units.

In Exeter, we achieved a planning consent for an extension to the Princesshay Shopping Centre which could deliver a 185,000 sq ft, leisure-led scheme that includes a cinema anchor, 11 restaurant units and additional retail space.

Bringing housing consents to the market

In addition to the planning consent for 175 homes and a hotel in Marlborough outlined earlier, we have submitted planning applications for over 1,400 units, including sites at Luton East, Kingkerswell in Devon and Hemel Hempstead.

3. Asset management

We strive to be best-in-class asset managers. We work alongside our customers to help them succeed and to drive outperformance on our portfolio. Asset management activities range from occupier selection to relationship management; new lettings or rent reviews; to undertaking small scale refurbishments; or improving the public realm around our assets.

Central London

In Central London we have completed a total of 401,000 sq ft of new lettings this year for a total rent of £34.4 million p.a., which is 8.6% above the Estimated Rental Value (ERV).

Strong retailer demand on Regent Street

Despite uncertain market conditions, the appetite of retailers and restaurateurs for space on our Central London portfolio remains undiminished. Regent Street is a world-class shopping and leisure destination, and, in the heart of the West End, its attractiveness continues to endure.

Crucial to the continued success of our retail strategy is working alongside existing customers to ensure that we are providing what they need to run a successful business. This year, Coach and Michael Kors both took bigger units, increasing their presence on the street. The Coach store now also

Photo Story
Placemaking

1

2


3

1. Polo Ralph Lauren opened on Regent Street this year.
2. The paper aviary display at the new pavilion at St James's Market.
3. Our traffic-free 'Summer Streets' on Regent Street.
4. The 'Spirit of Christmas' illuminated our Central London portfolio.


4

houses Stuart Weitzman, the luxury footwear designer, and relocating Michael Kors has allowed them to house all of their brands under one roof in the UK for the first time. Working in partnership with our customers is not only crucial to meeting their needs, it also ensures that we continue to provide a diverse and aspirational offer to shoppers.

This flexible approach to asset management has also created opportunities to introduce new brands onto the Street. Following the surrender of a lease by Hugo Boss in 2015, we were able to relocate Gant to another store this year within the portfolio and in their place we welcomed lululemon, the Canadian lifestyle brand. They opened their flagship store in January which also features a yoga studio and café in partnership with Neat Nutrition. This opening is reflective of an emerging trend whereby retailers are increasingly looking to incorporate experiential elements into their stores.

Elsewhere on our portfolio, Polo Ralph Lauren opened at 1 New Burlington Place and their store features a flexible retail area and a food and drink offer, Ralph's Cafe and Bar, following similar successful launches in the US and Paris. We have also reached an agreement with Tommy Hilfiger to extend their lease, refurbishing their flagship store to incorporate a range of cutting-edge digital features designed to improve the overall customer experience and a café on the first floor.

Other retailers included the world-first Innovation by SpaceNK concept, which opened in November and American lifestyle brand Tory Burch.

A new destination in St James's

At our St James's Market development we have delivered 50,000 sq ft of premium lifestyle retail and restaurants around a new public square. Jigsaw, ASSOS, Aspinal of London, Paul & Shark and SMEG have all launched flagship retail units alongside a range of best-in-class dining options. From New York, we welcomed the internationally acclaimed, Michelin-starred Nordic restaurant Aquavit, in addition to Anzu from Japanese restaurant group Tonkotsu, and Ole & Steen opened their first bakery outside of Denmark. Salt Yard Group continue their expansion across London by opening Veneta, an all-day dining restaurant inspired by Venetian cuisine. In May, renowned restaurant Duck & Waffle welcomed their first sibling restaurant outside of the city; Duck & Waffle Local will be the first 'fast casual' restaurant centred around duck. Urban Tea Rooms and the West African Ikoyi will also open this year.

Enhancing the West End experience

Complementing our asset management activities are a range of initiatives that are aimed at improving the overall customer experience. Our delivery consolidation scheme combines the deliveries for over 50 retailers on Regent Street into one single warehouse and uses electric vehicles. We estimate that each year this removes 85% of the journeys to participating stores and the equivalent CO_2e emissions of 5,000 journeys around the M25.

Over the summer, in partnership with Transport for London our Summer Streets initiative returned for its fourth year. On every Sunday in July Regent Street went traffic-free, and customers were able to enjoy a range of games, pop ups, live music and food and drink offers from the Street's restaurants and bars.

Elsewhere, we are creating more permanent space for pedestrians, and have worked with Westminster City Council this year to widen pavements on Regent Street and Regent Street St James's.

Strong office demand for high-quality developments

The quality of our developments continues to attract demand for office space, and this year we have concluded nearly 240,000 sq ft of office lettings at 9.7% above ERV. At St James's Market, we delivered 210,000 sq ft of office space and, including the retail elements, the scheme is now 74% let. New occupiers include the global alternative asset manager The Carlyle Group, who have taken 60,000 sq ft and Formula 1, the worldwide motorsport company has taken 21,000 sq ft. Both firms will be relocating their global HQs to St James's Market later this year.

We also completed a comprehensive redevelopment of 25-26 Bury Street and 30 St James's Street, creating over 10,000 sq ft of premium offices and 13,500 sq ft of prime residential accommodation. On Regent Street, our development at 1 New Burlington Place is now almost fully let, with lettings this year including venture capital firm Accel, Hikma Pharmaceuticals, Gemfields and Soros Fund Management, the investment management firm founded by George Soros.

In August we also completed on the final letting at 7 Air Street where Touchstone Innovations, a UK technology investor, took nearly 9,000 sq ft on a ten year lease.

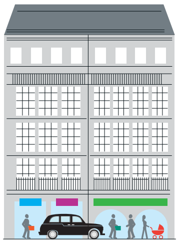
In recognition of our long-term approach and commitment to our strategy, this year we were honoured to receive the British Council of Offices President's Award for Outstanding Contribution to the Property Industry.

Thinking differently to create brilliant retail destinations

Our Regional Retail portfolio extends to 15 retail parks, three shopping centres and one leisure destination across the UK. Our asset management strategy centres around placemaking. We work hard, alongside our occupiers, to create attractive shopping and leisure destinations that contribute positively to local communities; meeting the needs of our customers and are resilient for the future.

At Fosse Park in Leicester, held in partnership with Gingko Tree Investment Management, we have spent time this year focusing on the physical transformation of the scheme. We have refreshed and updated façades and invested in public realm improvements, including landscaping works and installation of WiFi across the park as part of our continued effort to improve the overall customer experience. We aspire to deliver one of the best retail and leisure destinations in the UK, and since acquiring the park in 2014 it now attracts over ten million visitors per year. This year footfall was up 9% on 2015/16. At Banbury Gateway Shopping Park in Oxfordshire and Princesshay Shopping Centre in Exeter we have unveiled public art installations by renowned sculptor Michael Disley and artist Amy Shelton. The objective of both initiatives was to create a sense of personality and identity into the schemes and provide an enjoyable focal point for customers. At Banbury we have also introduced solar powered benches to charge mobile phones, and free WiFi, while at Exeter we have produced over

Asset management and leasing activity



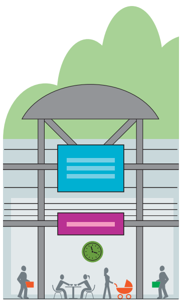
Central London

£34.4m

of new lettings at 8.6% above ERV

£31.5m

of lease renewals and rent reviews at 30% above previous passing rent



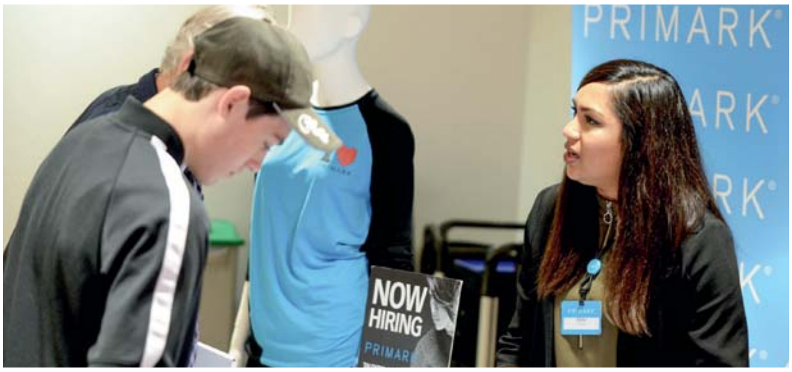
Regional Retail

624,000 sq ft

of rent reviews at 3.3% above ERV

1.88%

void rate on the portfolio at the end of the year



1. Our recruitment programme is working with local people and businesses to co-ordinate job opportunities.

2. The Princesshay Honey Flow light box is a specially commissioned public artwork which showcases local plants around Exeter.

120lbs of honey from bee hives housed on a rooftop garden as part of Princesshay's City Bee Project.

All of these initiatives are designed to strengthen the ties between local communities and our schemes and improve the overall offer to our customers.

Enhancing the Regional Retail mix

We also welcomed five new retailers to Fosse Park this year, including Primark as an anchor tenant. Across these lettings we secured the highest rent ever achieved on a retail park in the UK on a psf basis. In addition, Boots and WH Smith renewed their leases and improved the average unexpired lease term on the scheme from three to seven years.

In Newcastle, we also welcomed Next Home and Garden as the anchor retailer to our Silverlink Point development at Silverlink Shopping Park, representing a stellar addition to the scheme alongside Wren Kitchens, Hobbycraft and Sofology. Other notable lettings included New Look Menswear at Princesshay Shopping Centre in Exeter and Smiggle, the stationery retailer at CrownGate Shopping Park in Worcester.

Across the whole portfolio we completed rent reviews on 624,000 sq ft at 3.3% above ERV and renewed or granted new leases on over 330,000 sq ft. Our void rate also remains remarkably low at just below 1.9%.

> We work hard, alongside our occupiers, to create genuinely attractive shopping and leisure destinations that contribute positively to local communities."

A world-class offshore wind sector

As manager of the seabed around England, Wales and Northern Ireland we play an active role in the UK's world-leading offshore wind sector. We grant rights to our customers and foster an environment that encourages them to invest and develop offshore.

This year, for the first time ever, offshore wind power generated more electricity for the UK than coal over the course of an entire month. In addition, wind power now regularly meets over 5% of the UK's total electricity demand. Total installed fully operational capacity now amounts to 5.1GW, with a further 5.3GW under construction or having reached Final Investment Decision.

This includes the 2.6GW of leases we have signed this year with operators such as Dong Energy, Scottish Power and EDF.

The Hornsea 1 offshore wind farm, which we signed a lease for in March, is a 1.2GW scheme that once fully operational will provide enough electricity for over one million homes and reinforces Dong Energy's position as one of The Crown Estate's biggest customers.

Across our infrastructure portfolio, we also signed option agreements with National Grid to enable the development of the 1GW Nemo Link and the 1GW IFA2 interconnectors, which will connect the UK with the Belgian and French electricity markets.

Expanding our 'Recruit' programme

We launched Recruit London in 2009 to help unemployed Londoners find employment within the West End. The 'Recruit' programme is a free recruitment and training service for both jobseekers and business. Following its success in London where we helped more than 1,500 people in to work, we have now established programmes at four locations across the country, including at Princesshay in Exeter, Fosse Park in Leicester, CrownGate in Worcester and Rushden Lakes in Northamptonshire. We work in collaboration with local councils, colleges and job centres.

Working in partnership with our customers offshore

We know that it is vitally important that we clearly articulate our role offshore and that our customers understand how we can add value. We have been doing this for a number of years, through investing in the development of Round 3 to initiatives like SPARTA (System performance, Availability and Reliability Trend Analysis), which helps industry benchmark data to boost performance. The time we have spent investing in relationships with our customers has proven to be fruitful; this year we ran a business-wide customer satisfaction survey and 84% of our customers rate their overall satisfaction as good or excellent, which represents a 15% increase on the previous year.

In offshore wind, we think long term

We provide 50-year leases for offshore wind projects. This year, we have started a programme of work to understand the operating life of offshore wind infrastructure, and we are encouraging our customers to do the same.

We think that asset integrity, as we have termed it, is both important to the UK's long-term energy future but also the security of the income streams that both we and our customers rely upon.

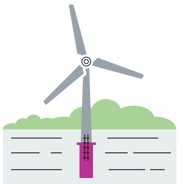
New deals for our mineral operators

As part of our management of the seabed, we award commercial licences for marine aggregates dredging, which accounts for around 20% of construction materials in England and Wales. This year we launched a tender round, inviting mineral operators to bid for rights which will allow them to replace expiring licences and bid for new agreements to increase their market share. We run a tender round every two years and this year has been the most competitive exercise undertaken in a decade.

Offshore wind

5.1GW

Fully operational offshore wind capacity



Equivalent homes powered by offshore wind

4.1m

Equivalent homes powered by offshore wind

Working alongside our rural customers

Across our Rural portfolio, we focus our asset management efforts on working alongside our customers to understand and align our business interests. We benefit from moving our farm tenants on to more commercial terms, and recognise that the best way to do this is by helping ensure that our tenants have sustainable and profitable businesses.

Elsewhere we have deployed capital into research and training programmes, focusing on issues that create value for both us and our customers, such as soil management. We understand that the health and quality of our soils is critical to the long-term, sustainable performance of our Rural portfolio and we have delivered workshops with our tenants and introduced new lease terms to help ensure best practice in soil husbandry.

On our Coastal portfolio, we manage just under half of the coastline around England, Wales and Northern Ireland. This amounts to nearly 5,000 separate dealings. This year we have granted agreements to facilitate development at Hinkley Point, Cowes and Dover.

This year, at Windsor we have welcomed a record number of guests. Over five million people have visited us this year and that underpins our second consecutive year of profitable operation, where we delivered net revenues of £0.7 million. We have also refurbished the Savill building (see below) to create an outstanding visitor destination with catering from Benugo (see pages 48-49).

Perspectives on
Offshore wind

The UK's world-leading offshore wind sector continues to mature, with over 5GW of fully installed capacity now meeting around 5% of the UK's electricity demand.

In March this year we signed a lease for the Hornsea One offshore wind farm. When fully operational, this 1.2GW scheme will be the world's largest offshore wind farm, providing electricity for over one million homes.

We're also confident in the near term development pipeline, which will double the operational fleet by 2020. This will enhance our commercial position, and provide a substantial contribution to the Government's renewable energy targets.

Crucial to its long-term success, costs have also continued to come down. Over the last three years, they have reduced by a third, putting the sector on-course to be cost competitive with conventional energy sources and other low carbon technologies.

"The past 12 months have been significant for the offshore wind industry. This positivity has brought in new investors to the sector, attracted by significant investment volumes against an acceptable risk profile."

Nick Gardiner
Head of Offshore Wind, Green Investment Bank

"The UK's offshore wind sector is now at a size where it is making a meaningful contribution to the energy mix. With our expertise in managing the seabed, we're continuing to work closely with our customers to overcome common challenges and bring down costs, securing an important revenue stream for us and the UK's position as a world-leading market."

Will Apps, Head of Energy Development
The Crown Estate

Fully operational capacity

5.1GW

Electricity generated in 2016 sufficient to:

Keeping the UK national rail network on the move for four years

Power all the homes in Greater London, Manchester, Liverpool and Birmingham for a year

Total Contribution

£149m

Over the last three years offshore wind has offset around 6.4 million tonnes of greenhouse gas emissions p.a. An approximate benefit of £149 million p.a. (in terms of avoided social cost) is calculated using Treasury's estimate (equal to £23.32/tonne).

Operations review

Our focus remains on our people and our customers, two groups that are at the heart of how we deliver brilliant places through conscious commercialism. It is only through attracting and retaining the best talent, understanding our customer, and building strong relationships that we can continue to deliver a strong performance.

Nurturing a high-performing culture

With a staff of 444 (of which 168 are based at the Windsor Estate), we are a small team compared to the scale of our assets and we draw on our talented, professional and experienced people to turn our strategy into results.

Our restructure has put in place a more streamlined and efficient model, this year we've focussed on how to really embed this by developing 24 of the senior leaders in the business, through our new 'Connected Leaders' programme, which aims to build a more agile and customer-driven business. We will roll this approach out more widely within the business this year, with a greater focus on learning and development for all employees. We're further strengthening the connections across our business through our move to one single floor at St James's Market. This modern, digitally enabled office space will encourage greater collaboration and enhance productivity.

Customer experience

We've continued to develop our understanding of our customers and consumers to gain a more sophisticated insight. We've developed five customer promises that have been rolled out internally and to our managing agents. We track our performance against these with action plans to address any gaps. We have conducted nearly 700 surveys across our business, revealing a high customer satisfaction rating of 79%, but we can go much further. We want to be a company that builds deep and long relationships with our customers – delivering high-quality space in world-class locations in an informed, responsive and flexible way. More follows on page 31.

Future-proofing our business

We draw on, and invest in, the six capitals (see pages 10-11), to deliver our success over the long term, and these appear in other parts of this report. The capitals we focus on in this section are our people, know-how, networks and natural resources. We measure our net impact on the capitals through the Total Contribution methodology we've developed, and are testing it through peer-review with other companies. This year, we have also pushed ourselves to future-proof our business and set new ambitious sustainability aspirations that look out to 2030, including careful use of our natural resources and adapting to climate change. We are also exploring how to adopt the principles of the circular economy and became the first real estate business to join the Ellen MacArthur Foundation.

Crucially, at a time when trust in business and institutions is at an all-time low, we need to be able to demonstrate and communicate the broader value of our activities. Whether that is through the quality of the space we create, like the trailblazing Rushden Lakes, or how we work alongside local communities, such as through partnerships with The Wildlife Trusts.

As we go into the next year, I'm confident that a continued focus on our people and customers will mean we're well positioned to meet challenges and opportunities as they arise, creating brilliant places that will continue to deliver our outperformance.

Judith Everett
Chief Operating Officer

Our aspirations

This year we went through an exercise of setting ourselves sustainability aspirations through to 2030:

Climate-proof business
To be climate resilient by 2030, with portfolio decarbonisation and effective climate change adaptation in place.

Healthy places and habitats
By 2030 to be creating healthy places where our customers, employees, communities and natural habitats can thrive.

Super-efficiency
By 2030 we will have closed the waste loop using circular economy principles.

1. Our people and know-how

We aim to nurture a high-performing culture, recognising that the individual skills, competencies and experience of our people create value and deliver our business objectives.

Our purpose and values play a key role in our performance, particularly in the way they encourage innovation, creativity and growth. We look to our people to embody our values of commercialism, integrity and stewardship to create brilliant places through conscious commercialism.

In return, we offer a commitment to creating a workplace environment that enables our people to flourish and rewards high performance. It is shaped around the principles below.

Learning and development

We know that our collective expertise is essential to our success as a business, as covered in our Markets and Portfolio Review pages 16-25.

We recruit for talent, but also seek to develop our employees during their time with us. We have identified a number of areas to improve; this year a key focus has been on developing our senior leaders through the 'Connected Leaders' programme which will be extending further into the business. We will also introduce a more consistent approach to establishing development needs and the relevant actions.

Other areas which we have focussed on over the year include: succession planning, inclusion and diversity and coaching.

Reward

We offer competitive reward packages, aligned to performance and benchmarked against comparable organisations in the relevant sectors.

Our range of employee benefits include private medical insurance, enhanced maternity and paternity leave, sick pay and season ticket travel loans, in addition to other voluntary benefits that support employee wellbeing.

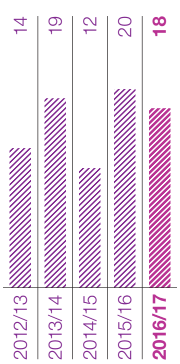
We are proud to be the first UK-wide property company accredited as a Living Wage employer by the Living Wage Foundation. This commitment ensures that everyone working for The Crown Estate, regardless of whether they are employees or contractors, will receive a minimum hourly wage of £9.75 in London and £8.45 outside London, significantly above the new National Living Wage of £7.50 per hour.

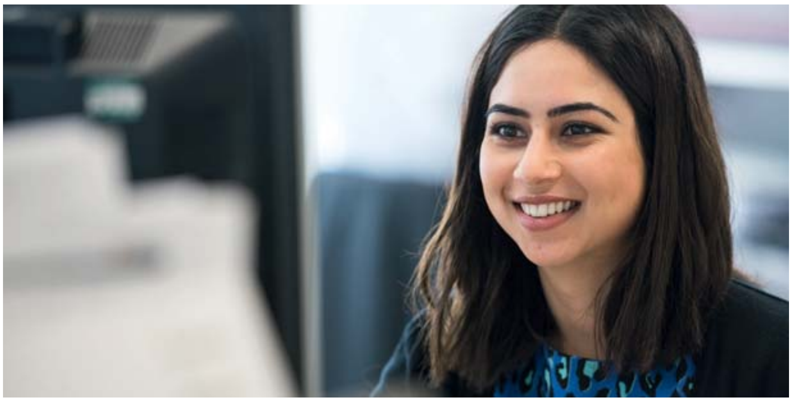
Annual staff survey

84%

of staff rate The Crown Estate as a 'Great Place to Work'

Average hours of training (p.a. per employee)





Culture and behaviours

The results of our annual staff survey demonstrate the pride our employees feel about working for The Crown Estate. This year, 84% of employees rated us a 'Great Place to Work' compared to the UK National benchmark of 79%.

We also use the feedback from the survey to inform action plans for improvement during the year.

Recognising the importance of the way we work with each other and external stakeholders, we include an objective for all employees within our performance management approach that requires consistent demonstration of The Crown Estate behaviours.

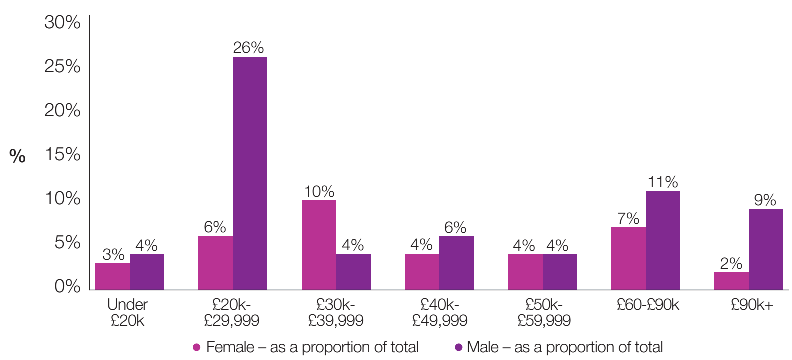
Inclusion and diversity

We are committed to promoting greater diversity and inclusion across our business. We know this is fundamental to helping us attract talent, encouraging a better representation of ideas, and supporting a healthier workplace environment that enhances the productivity of our people.

This includes offering a range of family-friendly policies, including emergency care support, and undertaking awareness-raising around unconscious bias.

Building on our commitments through the Equal Pay Act, we are now signed up to Gender Pay Reporting and will be publishing our results online later this year.

Employee salary ratios by gender 2016/17 (64% Male, 36% Female)Ⓐ



We continue to work collaboratively with industry groups and other organisations to share best practice regarding inclusion and diversity.

This includes:

- A commitment to the RICS Inclusive Employer Standard
- Hosting mentoring and career events to promote opportunities for individuals from less privileged backgrounds. For example, the Taylor Bennett Foundation, Reading Real Estate 'Pathways to Property' and the 'Into University' programme
- Supporting LGBT+ networking events, including participation in the Stonewall Leadership and Role Models development programmes, and the Stonewall Workplace Conference
- Support for organisations including Real Estate Balance and The Mentoring Foundation to promote development and progression of senior women in the sector
- Working with other companies in the real estate sector to develop recruitment standards to promote diversity

36% of our total employees are female. Within this, 38% of our Board, 75% of our Executive Committee and 25% of our senior managers are female.

Health and safety

We believe that the management of health and safety is an integral part of our business activities. We are committed to providing a high standard for our employees and those who enjoy the use of our assets.

We demonstrate this through a combination of exceeding targets, including incident performance, and by targeting behavioural changes to drive continuous improvement.

The overall performance for all of our portfolios has been very good, and PwC has provided assurance over selected indicators. We are accredited to OHSAS 18001 and this further demonstrates our commitment to maintain and continually improve standards.

Given the unique range of risks we manage, it is difficult to identify an industry rate on which to base our improvement target. As a result, we have developed an incident severity score and the results are collated quarterly and annually. The target for 2016/17 was to achieve an overall incident severity score of less than 171.9Ⓐ. Our final score was 134Ⓐ, which is 22%Ⓐ better than the set target.

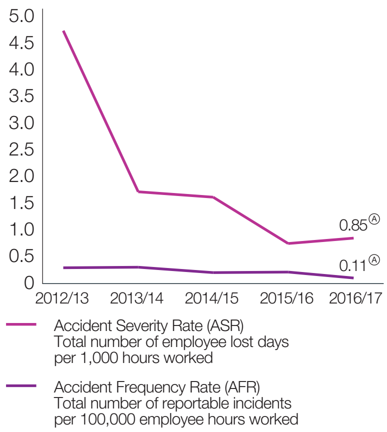
Our accident frequency rate (AFR) was 0.11Ⓐ. The number of serious incidents that were reportable under RIDDOR was seven during 2016/17.

This year, we have continued to emphasise the importance of culture and behaviours across the business and our supply chain. This includes a bespoke behavioural safety programme at Windsor Great Park and specialist forums with our consultants, contractors and managing agents. We are also a Client Partner of the Considerate Constructors Scheme which aims to promote best practice and raise standards across our construction sites.

Employees are surveyed annually and we continue to see an improving trend in relation to health and safety behaviour, culture and attitudes.

> "By listening and building strong relationships, we enhance customer service and earn goodwill and trust."

Health and safety incidents



Wellbeing

We want to facilitate our employees to lead a healthy life to increase their wellbeing. We believe that, in turn, this helps them to contribute sustained levels of high performance in their job, enhancing our success. This offer includes health and wellbeing information events, such as 'Mind Apples' workshops; access to health screenings; and medical consultations. Our health insurance cover, which is also available to purchase for family members, enables employees to access a 24/7 medical helpline for advice and support, and discounted online health and wellbeing offers.

We have also introduced a mobile app to help our employees focus on mindfulness, nutrition, relaxation and fitness, and monitor their personal wellbeing goals.

Each of these initiatives is having a positive impact on sickness levels and performance. Our overall sickness level for 2015/16 was 2.3%, including a short-term sickness rate of 0.7%.

Volunteering

This year, volunteering numbers rose again as 217 people volunteered for a total of 1,554 hours, a 128% increase on 2015/16 hours, largely driven by the Windsor 'Great Estate Tidy'. We have actively promoted volunteering and intend to offer more 'employer-supported' opportunities with strong connections to what we do as a business.

Customer experience

This year we have refocussed this strategic objective with a much sharper emphasis on improving customer engagement and loyalty.

We have a dedicated Head of Customer Experience, who has set out our business-wide strategy, including annual surveys enabling us to benchmark our performance. We have achieved a customer satisfaction rating of 79%, ahead of the Institute of Customer Service (77.8%) and in the top quartile for the real estate sector.

There has been a significant cultural shift internally, with each portfolio developing a customer service action plan, with an improved approach to handling complaints.

We still have more to do to ensure the highest levels of customer experience, including closer alignment with our managing agents. This has already begun through sharing our approach to customer experience and increasing their dedicated resource. Next year, we will launch our customer service promises externally and roll out additional training for our people.

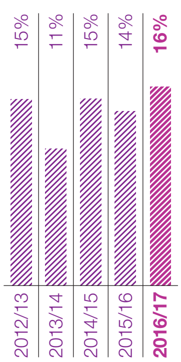
Employee turnover
Availability of skills and talent is something we consider carefully. It is important to have healthy turnover to bring in fresh talent and highlight training requirements of existing employees.

We monitor employee turnover year-on-year as it can be an indicator of trends and issues within the business. However, too high a turnover can lead to a loss of continuity, experience and expertise, and can be an indicator of management issues which need to be addressed.

2. Our networks

The relationships we have with our customers, partners, government and the communities in which we operate are central to creating brilliant places. We have a large and diverse group that makes up our networks; and it is by listening and building strong relationships that we enhance customer service and earn goodwill and trust.

Employee turnover



(% of total employees)

Stakeholder engagement
It is important that we have strong relationships with key politicians at a national, devolved and local level, and that they understand what we do and our commitment to doing business in a way that reflects our values. Due to the breadth and geographic spread of our portfolio, we engage with a great number of political stakeholders across the UK. These include some 160 constituency MPs who represent the seats where we hold and manage assets, as well as MPs with policy interests in our sectors. In our Central London portfolio, we have also seen a change in leadership at both the GLA and Westminster City Council which has driven further engagement to build new relationships.

Photo Story

Networks

1. We work with organisations like Surfers Against Sewage to hold beach cleans around the country.
2. A green roof at 7 Air Street, Central London. This forms part of our Wild West End project with Grosvenor Britain & Ireland, The Portman Estate, Howard de Walden and Shaftesbury to introduce more green space and biodiversity between Regent's Park and St James's Park. www.wildwestend.london
3. In the marine aggregate industry we are supporting leadership development.

"This year, we have held a number of events to complement our consumer-focussed activity across our Regional Retail portfolio to engage local people and partners."

We put a premium on community consultation throughout our asset management and development activity, enabling local residents to inform and help shape our proposals as they progress through the planning process. For example, at Hemel East we have established a regular community forum as part of the consultation process for a strategic land scheme.

We also look at how we can demonstrate the value of our activities more broadly in the communities where we operate, for example through Recruit London and Recruit Regional (which you can read about on page 24).

This year, we have held a number of events to complement our consumer-focussed activity across our Regional Retail portfolio and engage local people and partners. These have included: working with a local school near Banbury Gateway Shopping Park to create a new public art attraction; holding a launch event for Silverlink Point, North Tyneside; hosting jobs fairs in Fosse Park, Leicester; and unveiling a new landscaped walkway with local flora and fauna to reconnect CrownGate Shopping Centre with Worcester's historic centre.

We are also continuing to build up a better understanding of stakeholder views on our role and our work. Our second detailed survey of more than 100 of these stakeholders across national, devolved and local government, revealed a favourability score of 64%. This was weighted to reflect the different proportional values of our portfolios for the first time, and will inform our decision-making, material issues and future engagement.

Crisis and reputation management

Over the last year we have overhauled our crisis and incident management framework to reflect our new structure and best practice.

It provides processes and plans to guide the strategic and operational response as well as reputation management.

We continue to socialise the framework across the business, recognising that training and testing our people is an integral part of ensuring an effective response.

We are also working closely with our managing agents to ensure greater alignment. In London in

Absolute carbon emission

	Emission source	Location-based method					Market-based method[1]	
		2012/13	2013/14	2014/15	2015/16	2016/17	2015/16	2016/17
		tCO_2e	tCO_2e	tCO_2e	tCO_2e	tCO_2e	tCO_2	tCO_2
Scope 1	Direct emissions from fleet and heating of buildings	5,789	6,169	6,443	5,868	5,906Ⓐ	n/a	n/a
Scope 2	Emissions from generated electricity usage	20,054	21,201	13,548	11,221	12,621Ⓐ	7,342	7,159Ⓐ
Gross Scope 1 and 2		**25,843**	**27,370**	**19,991**	**17,089**	**18,527**	**7,342**	**7,159**
Scope 3	Indirect emissions from business travel	361	387	311	265	208	n/a	n/a
	Indirect emissions from energy used exclusively by our tenants	1,511	1,568	14,499	15,840	13,109	2,773	3,842
	Indirect emissions from electricity and transmission distribution losses	1,584	1,813	1,185	927	1,142	n/a	n/a
	Total Scope 3	3,456	3,768	15,995	17,032	14,459Ⓐ	n/a	n/a
Gross Scope 1, 2 and 3		**29,299**	**31,138**	**35,986**	**34,121**	**32,986**Ⓐ	**10,115**	**11,001**
Emissions intensity (indexed kg CO_2e)		**100**	**98**	**94**	**89**	**82**Ⓐ		

1 a) Revised GHG Protocol Scope 2 Guidance requires that we quantify and report Scope 2 emissions from purchased electricity consumption for our own use using two different methodologies: the location-based method and the market-based method. Reporting in this way demonstrates that we are making efforts to reduce our climate impact through the purchase of electricity generated from renewable sources.
b) Emissions are reported in tCO_2 rather than tCO_2e due to the availability of emission factors.

2 We have used the GHG Protocol Corporate Accounting and Reporting Standard to calculate our emissions. This includes reporting all sources of emissions that are under our operational control. For more detail on the breakdown of emissions, please see online.

particular, we are strengthening our relationships with organisations who work across the West End on shared security priorities. For example, the New West End Company, Heart of London and the Metropolitan Police, as well as other landowners through the West End Security Group.

Stewardship Programme
Through the Stewardship Programme we work with others to deliver practical projects that generate value in our chosen markets. These projects can benefit people, organisations and the environment in the communities where we work as well as our business and our employees.

Over the past year we have invested over £1 million in projects, including: talent and skills development programmes for the marine aggregates sector; working with other landowners in central London to deliver over a hectare of new green space between Regent's Park and St James's Park through Wild West End; and introduced a new 'Marine Antiquities Scheme' app to help people record archaeological discoveries on the seabed.

You can read more on our website at https://www.thecrownestate.co.uk/our-business/stewardship-programme/

3. Our natural resources

Managing natural resources in a considered way and for the long term is integral to how we ensure business resilience. For this reason we identify natural resources as being one of our material issues as well as a capital.

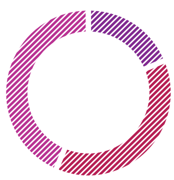
Climate resilience
Climate change is a material issue as it presents physical, financial and regulatory risk and opportunity to our business. To address this we have mitigation, adaptation and low carbon economy programmes in place.

In line with a science-based methodology, we are actively pursuing a reduction in carbon emissions in both our managed portfolio and in our development programme. Measures range from retrofitting existing buildings to a delivery consolidation scheme and innovative major refurbishments and developments. We are working to become RE100 (purchasers of 100% renewable energy) which will help reduce our absolute carbon emissions. More information is available in the table above.

100%
Operational waste diverted from landfill

7%Ⓐ
Carbon emissions intensity reduction

Carbon emissions: absolute emissions (tCO_2e)



- Total Scope 1 emissions (CO_2e tonnes) 5,906Ⓐ
- Total Scope 2 emissions (CO_2e tonnes) 12,621Ⓐ
- Total Scope 3 emissions (CO_2e tonnes) 14,459Ⓐ

Working in partnership
We have been working with The Wildlife Trusts across our portfolio to understand how we can enhance the ecological value of the land we manage. We are developing guidelines for our managing agents to include certain species in planting on our Regional Retail portfolio and through the Wild West End partnership in Central London.

Soil is an important natural resource to our Rural portfolio. With the help of Business in the Community (BITC), we brought together representation from our whole value chain (consumer, farmer, land owner, water company, DEFRA, Environment Agency, retailer) to understand how we can help our customers farm more sustainably and improve soil quality.

We have joined the Ellen McArthur Foundation to understand how we can utilise circular economy principles to take waste out of our business completely and help meet our 2030 sustainability aspirations. We are already diverting 100% of operational waste away from landfill.

Perspectives on **the Regional Retail portfolio**

Over the last few years, we've been reshaping our Regional Retail portfolio around the best schemes in great locations. We're investing in our existing portfolio, such as Fosse Park in Leicester, to improve the shopping experience and retail offer as well as creating new destinations. In August last year we opened Silverlink Point, a 56,000 sq ft extension to the Silverlink Shopping Park in North Tyneside. Fully let upon opening, it has delivered a developer's profit in excess of 75%. It also marks the start of a more significant programme of development; in 2017/18 we will deliver over one million sq ft of retail and leisure space as we complete the Westgate Shopping Centre in Oxford and Phase 1 of Rushden Lakes, a shopping and leisure park in Northamptonshire.

"This exciting new development has helped to bring further investment and jobs to the area. We've also been able to deliver some fantastic benefits for the local community as part of this project and in partnership with The Crown Estate."
Norma Redfearn
North Tyneside Mayor

Total contribution

We've been expanding our Recruit Regional employment and training programme to additional schemes this year. We have now placed a total of 101 people into employment; and when considered alongside the 1,492 placements made since 2009 in London, our Recruit programmes have generated over £40 million through savings on welfare and tax credits and increased tax and national insurance contributions.

Development

56,000 sq ft

Developer's profit

75%

Westgate

We're working in partnership with Land Securities to deliver Westgate shopping centre in Oxford, which will transform the retail offer in this historic city. Providing 840,000 sq ft of high-quality retail and leisure with unique views of the world-famous spires, it will be anchored by John Lewis and is due to complete in late 2017.

Rushden Lakes

Phase 1 of Rushden Lakes is due to complete in the summer of 2017 and will deliver nearly 240,000 sq ft of retail and leisure space. By offering a high quality retail mix with many brands that have never traded out-of-town before, such as Phase 8 and Jigsaw, as well as leisure activities like canoeing, this scheme will be a game-changer for UK retail parks. Subject to planning consent, we are also committed to funding three subsequent phases of development on the scheme.

"The successful delivery of Silverlink Point is a great example of how we can create brilliant places for our retail customers and their consumers, deliver financial outperformance against our benchmark and future-proof one of our key strategic retail assets against an evolving retail landscape."

Mike Bell
Asset Manager
Regional Retail portfolio

Financial highlights:

Net revenue profit growth

8.1%

(2015/16 6.7%)

Record return to Treasury

£328.8m

(2015/16 £304.1 million)

Resilience demonstrated by revaluation surplus

£262.1m

(2015/16 £1,111.4 million)

Deepening our partnerships: managing funds on behalf of our strategic joint venture partners

£2,045.5m

(2015/16 £1,870.1 million)

Financial review

Financial outperformance enabled by focus and scale

The Crown Estate has delivered a seventh consecutive year of revenue growth, returning a net revenue profit of £328.8 million to the Treasury, over 8% higher than in 2015/16.

Growth has been driven by a range of factors, including headlease acquisitions in Central London, underlying rental growth on our Central London retail portfolio and the letting of new space on recently completed developments.

These results reflect a clear and disciplined focus on the sectors where we have scale and expertise, and underline the importance of our active approach to asset management to drive revenue growth.

In addition, we have continued to focus on the efficiency of our operations, enhancing our gross surplus margin to 82.6% from 81.8%.

Capital stability drives sustainable growth

Our unique funding structure, with no debt, makes us resilient and allows us to invest throughout market cycles. We generate capital for investment through disposals and a small number of established and well-aligned joint ventures.

This year, despite challenging economic and market conditions and a 1% increase in Stamp Duty Land Tax (SDLT), our revaluation surplus was £262.1 million (2015/16 £1,111.4 million), which in addition to lease premia and profits on disposal of £231.5 million (2015/16 £248.7 million) has driven the total value of our balance sheet to £13,134.5 million (2015/16 £12,879.6 million).

At the end of the year, through partners' investment and share of capital growth, funds managed on behalf of our strategic joint venture partners had grown to £2,045.5 million (2015/16 £1,870.1 million) and cash stood at £825.6 million (2015/16 £907.3 million).

Our investment property valuation at year end takes into account the transfer of management duties in Scotland to the Scottish Government from 1 April 2017.

Managing risk by taking a long-term view

We manage risk by developing a robust understanding of the factors that affect us. Our integrated approach ensures that risk management is fully embedded into our business. This year, our Board undertook an in-depth evaluation of our risk appetite and we substantially enhanced our governance through the constitution of a refreshed Risk Group.

You can read more about this and our viability statement on pages 41-43.

Kate Bowyer
Chief Financial Officer

Presentation of information

Under our accounting policies, and in accordance with IFRS, joint venture profits are accounted for under IFRS 11 Joint Arrangements. This requires that the revenue and capital profits and the net investment in joint ventures are shown as single line items in the Consolidated revenue account, Consolidated capital account and the Consolidated balance sheet respectively. Management review the business primarily on a proportionally consolidated basis.

The figures and commentary presented in this section are consistent with our management approach, as we believe this provides a more meaningful analysis of the Group's performance. The supplementary disclosures on pages 117 and 118 reconcile the accounts between the two bases.

Scotland portfolio

On 23 March 2016 the Scotland Act made legal provision for the devolution of the management of The Crown Estate in Scotland to the Scottish Government. The final terms of the transfer were subject to an agreement between Treasury and Scottish Government. The transfer terms were agreed as part of a Statutory Transfer Scheme which was passed by Parliament on 23 March 2017 and took effect after midnight on 31 March 2017. From this point on the management of the Scottish assets passed to the Crown Estate Scotland (Interim Management), a body corporate, controlled by the Scottish Government.

The transfer of management of the Scotland portfolio has been regarded as a discontinued operation under IFRS 5. The Scotland portfolio investment properties were independently valued at 31 March 2017 at a fair value of £275.7 million. The investment properties together with other assets with a book value of £13.7 million were transferred to the new entity for £nil consideration and, along with transfer costs, an overall impairment of £291.8 million has been recognised in the Consolidated capital account.

For the purposes of this commentary the results of the Scottish portfolio have been excluded unless specifically stated.

Financial resources

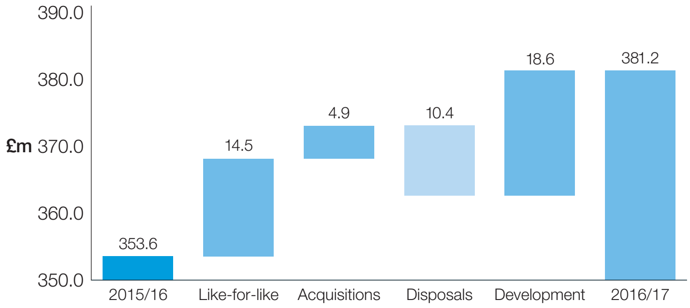
Consolidated revenue account

	2016/17			2015/16
	Group as presented £m	Share of joint ventures £m	Proportionally consolidated £m	Proportionally consolidated £m
Revenue	428.6	34.0	462.6	432.3
Direct costs	(77.6)	(3.8)	(81.4)	(78.7)
Gross surplus	351.0	30.2	381.2	353.6
Gross surplus margin			82.6%	81.8%
Indirect costs – administrative costs	(26.1)	–	(26.1)	(22.3)
Operating surplus	324.9	30.2	355.1	331.3
Share of profit from joint ventures	28.6	(28.6)	–	–
Net investment revenue, and other income	2.3	(1.6)	0.7	1.1
Treasury agreements and statutory transfers	(39.1)	–	(39.1)	(37.4)
Net consolidated revenue account profit from continuing operations	316.7	–	316.7	295.0
Net revenue account profit from discontinued operations	12.1	–	12.1	9.1
Net consolidated revenue account profit	328.8	–	328.8	304.1

Net revenue profit, the amount distributable to the consolidated fund, increased 8.1% to £328.8 million from £304.1 million in 2015/16. On a continuing basis, the net revenue profit increased 7.4% to £316.7 million from £295.0 million.

Revenue, which includes share of joint venture income and service charge income, increased 7% to £462.6 million. The sources of increased revenue and gross surplus performance are illustrated by the chart below.

Gross surplus bridge



Gross surplus

Overall our gross surplus increased 8.1% from £353.6 million to £381.2 million. Like-for-like gross surplus increased £14.5 million due to favourable outcomes on rent reviews and renewals, particularly in the Central London and Regional Retail portfolios. With the letting of completed developments such as 1 New Burlington Place and 7 Air Street, and funding interest received on the development at Rushden Lakes in our Regional Retail portfolio, new developments added £18.6 million to the gross surplus.

Disposals in the Rural & Coastal portfolio together with the impact of prior year sales in the Regional Retail portfolio reduced the gross surplus by £10.4 million.

Overall our gross surplus margin has improved to 82.6% compared with 81.8% in 2015/16 with efficiencies of increased scale impacting costs such as managing agents' fees.

Indirect costs – administrative expenses

As a result of the increasing size of our operations administrative costs grew £3.8 million to £26.1 million over the year. Additional running costs were incurred as a result of the changing nature of our business. We enhanced our training spend as we focused on developing the leadership skills of our management group and one-off costs were incurred as part of relocating to our new headquarters.

Balance sheet

	2016/17			2015/16
	Group as presented £m	Share of joint ventures £m	Total proportionally consolidated £m	Total proportionally consolidated £m
Investment properties	12,689.2	1,058.7	13,747.9	13,187.7
Investment in jointly controlled entities	990.9	(990.9)	–	
Cash and cash equivalents	825.6	–	825.6	907.3
Other assets and liabilities	(1,371.2)	(67.8)	(1,439.0)	(1,215.4)
Net assets	13,134.5	–	13,134.5	12,879.6

Net assets have increased by 2% from £12,879.6 million to £13,134.5 million. Overall surpluses of £496.9 million from the revaluation of investment properties, lease premia and capital sales were the main contributors to the increase.

This was partly offset by the impairment adjustment arising from the transfer of the Scotland portfolio to Scottish Government of £291.8 million.

Financial review
continued

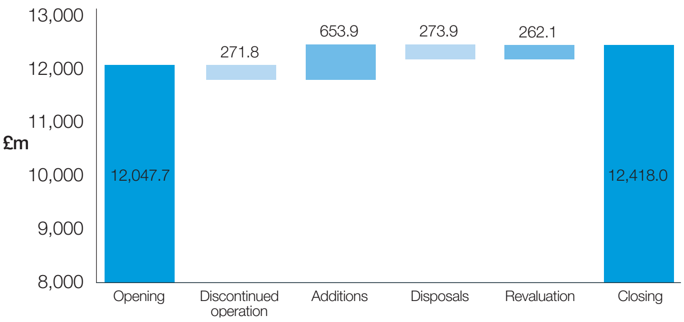
The principal components of our balance sheet are investment properties and cash which are considered in more detail below. Other assets and liabilities comprise mainly trade and other receivables and deferred income in respect of rents received in advance.

Investment properties

	Proportionally consolidated	
	31 March 2017 £m	31 March 2016 £m
Investment properties at fair value	**13,747.9**	13,187.7
Less: deferred income from lease premia received	**(1,571.5)**	(1,380.5)
Less: headlease liabilities	**(2.4)**	(2.4)
Add: lease incentives	**21.0**	10.9
Investment properties at valuation	**12,195.0**	11,815.7
Owner occupied properties at valuation	**135.7**	146.4
Other property investments at valuation	**87.3**	85.6
Total property at valuation	**12,418.0**	12,047.7

The table above reconciles the fair value of properties as shown in the balance sheet to the open market valuation on a proportionally consolidated basis which is discussed in the valuation section below. An outline of the principal valuation methodologies and assumptions is given in note 20 to the financial statements.

Investment property valuation bridge



On a proportionally consolidated basis total valuation of property increased to £12,418.0 million, additions and capital expenditure in the year totalled £653.9 million. Disposals account for £273.9 million of the movement at book value and the revaluation surplus on a continuing basis increased the value by £262.1 million.

Valuation by portfolio

	Market value		Surplus/(deficit)	
	31 March 2017 £m	31 March 2016 £m	**Year end 31 March 2017 £m**	Year end 31 March 2017 %
Central London	**7,218.7**	6,860.1	**74.8**	1.1
Regional Retail	**2,470.4**	2,243.7	**(27.9)**	(1.2)
Energy, Minerals & Infrastructure	**1,124.4**	950.8	**186.6**	19.6
Rural & Coastal	**1,323.7**	1,450.7	**24.4**	1.7
Windsor	**280.8**	270.6	**4.2**	1.6
Total Investment property – continuing operations	**12,418.0**	11,775.9	**262.1**	2.2
Profit on disposal and lease premia received			**231.5**	
Overall surplus – continuing operations			**493.6**	
Discontinued operations	**–**	271.8	**3.3**	
	12,418.0	12,047.7	**496.9**	4.1

The table above illustrates the sources of the investment property capital growth amounting to £496.9 million or 4.1%.

The Central London portfolio increased in value by £358.6 million to £7,218.7 million principally from revaluations gains. Capital growth across the portfolio was driven largely by estimated rental value growth, particularly retail, as the equivalent yield remained at 3.9%. We invested £265 million in the portfolio, principally to buy in strategic headlease interests, but this was matched by £279 million of capital receipts, predominantly lease premia from the sale of long residential leases.

The Regional Retail portfolio increased in value from £2,243.7 million to £2,470.4 million. Development expenditure has been focussed on retail as we invested £147 million in the development of Westgate and Silverlink Point in addition to the funding of Rushden Lakes. The Portfolio Review provides further detail of our development activity. Despite positive rental growth the underlying capital value of the portfolio reduced by 1.2%, which is largely attributable to the change in the SDLT regime.

The strongest valuation performance came from offshore wind with the value of the Energy, Minerals and Infrastructure portfolio increasing 18% to £1,124.4 million. The growth was driven by the achievement of development milestones by our customers. Offshore wind has 10.4GW of capacity now operational or under construction.

The Rural & Coastal portfolio was a key source of capital with gross sales totalling £209 million. Despite generally softening agricultural values, the quality of our portfolio has proved resilient and this activity delivered profits on disposal of £27.5 million.

Within our strategic joint ventures we now manage £2,045.5 million of our partners' funds."

Joint ventures

Within joint ventures we now manage £2,045.5 million (31 March 2016 £1,870.1 million) on behalf of our strategic joint venture partners. This increase is due to the extension of our successful partnership with Oxford Properties at St James's Market as well as revaluation gains.

The Crown Estate's share of net assets in joint ventures increased 20.8% from £820.4 million to £990.9 million. Included within the proportionally consolidated gross surplus discussed above, the share of income from joint ventures has increased from £21.7 million to £28.6 million.

Cash flow

	2016/17 £m	2015/16 £m
Net cash inflow generated from operating activities	**367.2**	348.1
Net cash (outflow)/inflow from investing activities	**(130.2)**	303.3
	237.0	651.4
Net cash (outflow)/inflow from discontinued operations	**(0.4)**	0.4
Payment to the Consolidated Fund less Parliamentary Supply Finance	**(318.3)**	(297.0)
Net cash (outflow)/inflow in the year	**(81.7)**	354.8
Opening cash at 1 April	**907.3**	552.5
Closing cash at 31 March	**825.6**	907.3

Overall our cash balances declined from £907.3 million to £825.6 million over the year due to the payment of the net revenue profit to Treasury (Consolidated Fund). Overall net outflow from investing activities amounted to £130.2 million; £563.0 million invested in our property and £524.7 million raised by disposals. A further £84.1 million was invested in joint ventures and £7.8 million in plant and equipment.

Financial review
continued

Other disclosures

Modern Slavery Act
Following the enactment of the Modern Slavery Act 2015, we have a legal obligation to outline how we prevent slavery and human trafficking occurring within our business or the organisations we do business with. We take this obligation extremely seriously and have put in place processes to ensure we can demonstrate to our stakeholders that slavery and human trafficking do not occur within our workplace and supply chain. For further details on how we are complying with the Modern Slavery Act, please visit our website: www.thecrownestate.co.uk/modern-slavery-act.

We adhere to all applicable laws in the UK, including those relating to human rights and employment. For our supply chain, which stretches beyond the UK, we are committed through our contractors and business partners to operate in accordance with the Universal Declaration of Human Rights, the International Labour Organization Core Conventions, and the Guiding Principles on Business and Human Rights endorsed by the United Nations Human Rights Council. We are not aware of any breaches during the year.

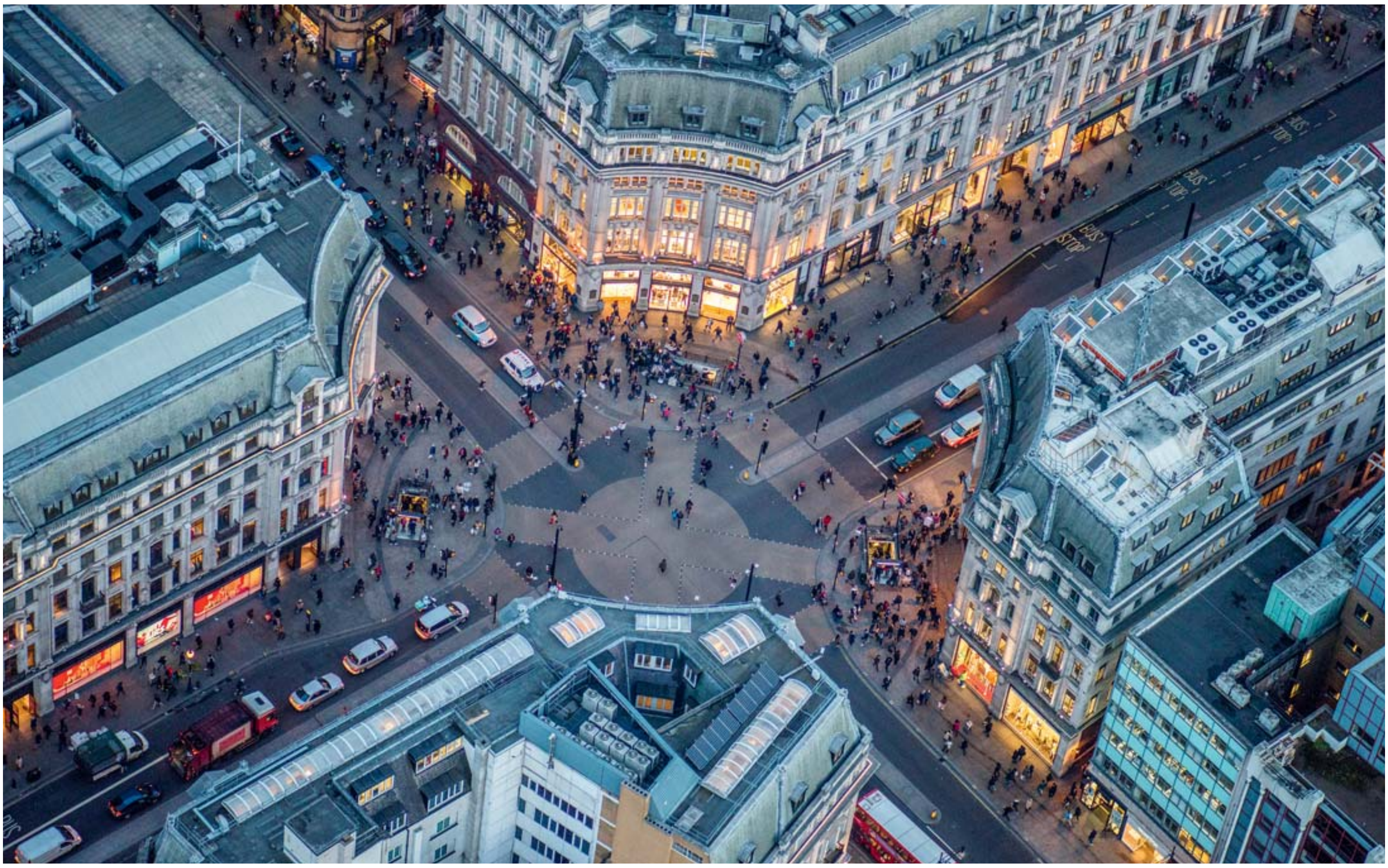
Supplier payments
We aim to pay our suppliers within 30 days of receipt of a correctly documented invoice, or on completion of a service where a fee is recoverable from a third party, or in a shorter period according to contract. Over the past financial year we paid 73% of suppliers within the target period (2015/16 77%). This includes disputed invoices and amounts recoverable from third parties. On average, suppliers are paid within 32 days of receipt of an invoice. We observe the principles of the Better Payment Practice Code.

Charitable donations
Under the terms of the Crown Estate Act 1961 we are restricted in our ability to make charitable donations. As permitted by section 4(2) of the Act we made donations during the year of £5,540 (2015/16 £5,600).

Taxation position of The Crown Estate
100% of the net revenue profit generated in the year is paid to Treasury. The Crown Estate is not subject to corporation tax or capital gains tax.

The Crown Estate is subject to SDLT and VAT and aims to be transparent in its dealings with HMRC. The Crown Estate does not enter into any form of tax mitigation which could credibly be seen to be an unethical practice.

UK General Election
The UK held a General Election on 8 June and the Queen's Speech is not due to be held until 21 June. We do not consider the General Election to constitute an adjusting event for the 2016/17 financial statements and are not aware of any significant policies or proposed legislation that would, if enacted, impact upon the going concern status of The Crown Estate.



Viability Statement

In accordance with the 2014 revision of the UK Corporate Governance Code, the Board confirm that they have a reasonable expectation that The Crown Estate will continue in operation and meet its liabilities as they fall over the five years to 31 March 2022.

The Board's assessment of viability was carried out in the context that Parliamentary legislation, in the form of the Crown Estate Act 1961, underpins our existence, and it is reasonable to assume that this will continue to do so indefinitely. Set against this, the Board focussed closely on the demands on our cash reserves over the chosen period, given The Crown Estate is prohibited from borrowing.

The Board's judgement was based on a process which included assessment of our principal risks, risk appetite, corporate strategy, and the strength of our balance sheet and our financial forecasts. The Board were supported by the Audit Committee's review of underlying information which included input from our Risk Group.

The five-year period was considered to be the most appropriate timeframe by weighing up the following indicators:

- Our Investment Strategy considers the market, our targets and overall strategy for deriving long-term sustainable value from our assets, over five years and beyond.
- Five years is a reasonable estimate of the lifecycle of our major development schemes from planning approval to letting.
- Our capital forecasting cycle is based on a five-year rolling assessment of capital requirements.

The latest rolling assessment of capital requirements includes contracted and planned expenditure on major developments, as well as assumptions arising from our Investment Strategy.

Our principal risks are summarised in greater detail on pages 44-47. Stress testing was performed on our resilience to the impact of those principal risks that were considered by the Board to affect most directly the viability assessment. In particular, the risks relating to adverse economic climate, delivery of our investment objectives and delivery of our major developments. This testing involved flexing a number of assumptions in the capital requirement forecasts to a significant degree through the development of severe but plausible scenarios. This enabled the assessment of the impact of the relevant risks in isolation, and in realistic combinations, on our net revenue profit and our balance sheet position, particularly our cash reserves. The results of this testing supports the view that the business is viable over the period of review.

Our approach to managing risk is an integral part of how we devise and deliver our strategy

with effective risk management, identification and review being core constituents of our business activity.

Risk: Continuous Improvement
While the effectiveness of our risk management approach had already received high assurance (following an independent review in 2015/16); we delivered three key improvements this year.

Risk Appetite

The Board undertook a detailed review of our risk appetite in October 2016, as a precursor to our corporate strategic planning away-day, supported by our defined material issues (see page 9). In recognition of the complexity of The Crown Estate's operating environment, the Board examined risk appetite by adopting six key risk themes, which flow across our business: Economy & Market, Assets; Stakeholder & Reputational; People; Support & Systems; and Legal, Regulatory & Constitutional. This allowed a strong link to be drawn between risk appetite and detailed strategic planning; as appetite through the risk themes could be overlaid neatly on our corporate strategy and strategic objectives. Risk appetite for each theme is shown in the diagram below. Overall, the Board agreed that our risk appetite is to take measured risk to drive outperformance, where we have confidence in our delivery by virtue of our critical mass and expertise in our core markets.

Our risk appetite in relation to our market and our assets is moderate, and below that of our peer group. We do not take significant risk by investing large amounts of capital in≈risky or volatile asset classes and, similarly, we are conscious of the market and our exposure to Central London, but choose to manage this by investing in prime assets through our exposure to a range of sub-sectors and covenants. Operationally, we have little appetite for taking risk that impacts our reputation and stakeholder relationships, or which challenges compliance with our obligations and responsibilities.

> "The Board undertook a detailed review of our risk appetite in October 2016."

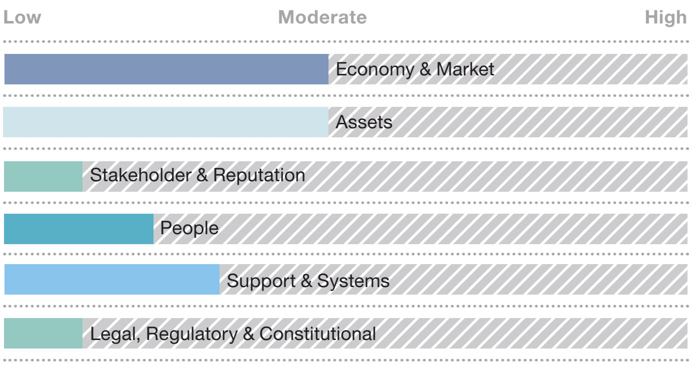
Risk Governance

As part of our wider governance improvement programme, risk governance was substantially enhanced this year, through the reconstitution of our Risk Committee; to create a Risk Group populated by the key senior leaders below the executive committee, operating under refined terms of reference and with an improved hierarchy of escalation, verification and feedback. We also adopted a new Risk Management Framework and wove risk management into our new Governance Framework.

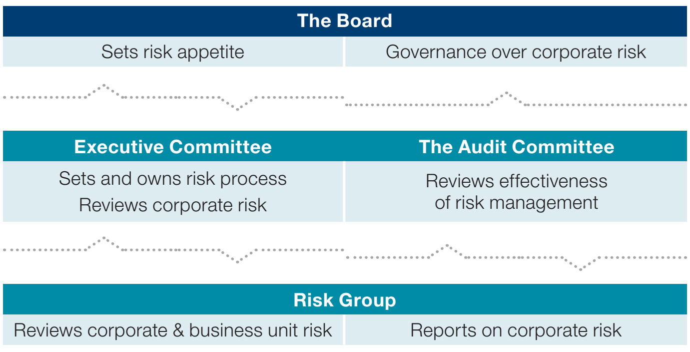
Risk Assurance

We formalised our approach to assurance by developing an assurance map; which sets out the assurance in place over the management of our key business risks. This has enabled the Audit Committee to obtain comfort over adequacy of assurance coverage in a highly visual and connected format.

Summary Risk Appetite



Risk management framework

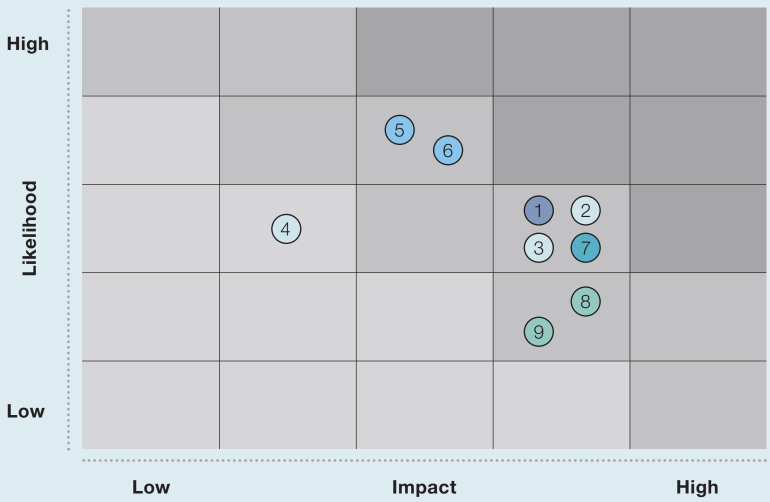


Risk: Key Activity in 2016/17
Ownership of The Crown Estate Risk Management Framework (see diagram on opposite page) and associated governance is ultimately the responsibility of the Board. However, our approach means it is embedded throughout all levels of the business. Whilst the Board sets and reviews the risk appetite, it is supported by the Risk Group and Executive Committee through a system of formal reporting structures (the Audit Committee continuously reviews the effectiveness of our risk management and control systems). The framework enables the Board to perform a robust assessment of the principal risks and opportunities, facing the business, and obtain comfort on the effectiveness of the underlying processes.

The Risk Group plays an important role in the identification, management and escalation of risks and opportunities. The Risk Group met four times this year, chaired by the Chief Financial Officer, and received regular risk reports from the business. Significant topics for the Risk Group included the EU referendum result, the devolution of our management role in Scotland to Scottish Government and information and cyber security. Detailed discussion on these topics and wider review of our corporate risks enabled the Risk Group to perform its key role in reporting on≈risk to the Executive Committee, and ultimately the Board. This in turn allowed the effective monitoring and oversight of our risk management against our risk appetite and the delivery of our strategy.

Our Principal Risks & Opportunities

The principal risks and opportunities we face in managing The Crown Estate and delivering our objectives are set out in the heat map and 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. The risks are grouped by risk theme rather than order of importance.



Our Top Risks & Opportunities

Economy and market
1 Investment performance risk and uncertainty

Assets
2 London's attractiveness/competitiveness
3 Inability to deliver against our development pipeline
4 Adverse effect of climate change

Support systems
5 Ability to manage a major incident (i.e. breaches of physical security or information security (including cyber security))
6 Information Systems Risks

People
7 People Risk

Stakeholder, legal and regulation
8 Health and Safety
9 Government policy

Turn the page for more on
Risks and opportunities

Note: the heat map highlights net risk, after taking account of principal mitigations.

Our risks and opportunities
continued

Our principal risks & opportunities

Our KPIs (see pages 12 and 13)

1 Revenue profit growth
2 Total return
3 Employee survey 'Great place to work' score
4 Customer satisfaction score
5 Carbon emissions
6 Health and safety overall incident severity score improvement

Risk and opportunity	Material issues	Principal mitigations
Economy & Market 1 2		
1 – Investment performance risk Our investment performance and ultimately our Investment Strategy are key to driving total return and a strong income stream to Treasury. As a result we face risks arising from: (a) A significant economic downturn that impacts our tenants, and results in voids and defaults that have the potential to threaten achievement of our objectives. (b) Ineffective investment strategy or constraints to delivery (i.e. through sub-optimal decision-making, limited availability/timing of access to funds, lack of sustainability or over exposure to developments) results in a failure to deliver against our performance targets. (c) Inability to retain commercial partners and investors, should there be a decline in key relationships or damage to our credibility in managing joint ventures.	Reputation and trust Health of the economy London's place in the world Strategic counterparty alignment Customer aspirations	Board oversight and approval of investment strategy, with formal review of implementation and performance monitoring. Financial modelling and forecasting along with regular economic and market analysis, including covenant checks on our major tenants. Formal Investment Committee in place, with responsibility for scrutiny over proposed investment decisions (subject to delegated authorities). Exploration of joint venture investments and oversight of existing joint ventures through Joint Venture Oversight Group.
Assets 1 2		
2 – London's attractiveness/competitiveness There is a risk that London becomes less attractive and safe as a result of the physical environment (transport, congestion and pollution), and becomes less compelling for our customers and tenants. Given significant elements of our portfolio and revenue stream are linked to the ongoing success of Central London, in the medium to long term this could have an impact on achievement of our objectives and those of our strategic partners.	London's place in the world Customer aspirations Health of the economy	Long-term development programme in place to improve in Central London portfolio. Close working and liaison with Westminster City Council as part of our regular programme of investment in Central London. Successful place-making and public realm improvements.
3 – Inability to deliver against our development pipeline It is essential that our developments are completed to time, cost and quality to maximise the returns and retain the interests of our investors. Development performance includes development overruns, development letting exposure, price inflation and/or supplier/sub-contractor failure. Changes in the market have a knock on effect on our risk exposure.	Reputation and trust Health of the economy Strategic counterparty alignment Government policy Availability of skills and talent	Robust evaluation and appraisal of major development business cases. Development and Project Management Governance Framework. Soft cap on development exposure. Regular development monitoring through Project Control Groups for our major developments. Third party due diligence and continuous monitoring of developer financial health. Risk planning through main developer contracts and joint delivery with our partners.
4 – Adverse effect of climate change Our portfolio could be adversely affected by climate change. There is a risk we could fail to adapt our portfolio to the threat from climate change. Conversely, by acting effectively now to manage climate change we have an opportunity to build resilience, identify efficiency and to capitalise on the change.	Government policy Climate change Natural resources	Integrated approach to sustainability underpinned by Executive 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.

Activity in 2016/17 and Outlook	Change in impact	Change in likelihood
The state of the economy and uncertainty surrounding negotiations on the UK's withdrawal from the EU has been a key focus for management this year. We anticipate this will continue to be the case for the short to medium term and have considered how Brexit, economic volatility and uncertainty could impact our core markets and achievement against our benchmarks.	↔	↔
We continue to invest in Central London through a clearly defined vision and strategy. The 2017 Board review of the Central London strategy looked at short-term priorities as well as the longer-term opportunities (e.g. those presented by Crossrail) and how we can help maintain London's attractiveness to both our customers and our tenants. We continue to take an active role, through close working with our stakeholders and through practical steps to reduce congestion and improve air quality.	↔	↑
We have successfully completed a number of schemes in our development pipeline, including St James's Market in 2016/17. Development work at Rushden Lakes and Westgate are to be completed this year. Our ongoing regeneration programme across Central London will continue to build on our experience of successfully delivering quality sustainable developments in our core markets that meet the needs of our customers and investors. We will continue to focus on robust evaluation of development opportunities and careful management of letting exposure.	↔	↑
Our integrated approach ensures we address the risk to our assets through the sustainable acquisition and developments. More widely, we continue to address the risks and opportunities generated by climate change including for property and energy supply.	↔	↔

Our risks and opportunities
continued

Our principal risks & opportunities (continued)

Our KPIs (see pages 12 and 13)

1 Revenue profit growth
2 Total return
3 Employee survey 'Great place to work' score
4 Customer satisfaction score
5 Carbon emissions
6 Health and safety overall incident severity score improvement

Risk and opportunity	Material issues	Principal mitigations
Support & Systems 1 2 3		
5 – Ability to manage a major incident (i.e. breaches of physical security or information security (including cyber security)) The Crown Estate's Central London portfolio is concentrated within Regent Street, St James's and Kensington; and could be at risk from a major security incident. Information security breaches could result in fines and penalties as damage to our reputation. Additionally, the corporate IT systems at the core of our operations, although secure, could be exposed to criminal cyber-attacks.	Reputation and trust Impact of technology on the business	Crisis Management Framework and preparedness testing. Information Security Monitoring Committee is in place with responsibility for liaising with appropriate authorities. The corporate IT infrastructure and systems are protected by a Comprehensive Information Security Framework accredited under IS0 27001, including firewall threat and detection monitoring systems. Appropriate insurance arrangements in place.
6 – Information Systems Risks Our Information Systems (IS) play a key role in how we manage our business. There is a risk that investment we make in our IS capability does not deliver the level of management information we require to manage our diverse portfolio of assets and meet our objectives in the future.	Impact of technology on the business	Investment in our IS capability. Executive level oversight in creation and implementation of our IS strategy. Recruitment and retention of the right skills and capability.
People 3		
7 – People Risk Our staff are one of our key assets. There is a risk we are unable to reward, retain or recruit key talent or respond to significant changes in remuneration across key sectors, particularly when compared to our listed peer group, and during periods of market buoyancy.	Availability of skills and talent Reputation and trust	Remuneration Committee oversight and appointment of advisory reward consultants. Remuneration benchmarking and industry comparison. Strong recruitment processes together with formal succession planning arrangements.
Stakeholder & Reputation, Legal, Regulatory & Constitutional 4 6		
8 – Health and Safety We own a diverse range of properties (forests, parks, farms, shoreline, rivers and seabed, retail parks offices, residences etc.) and our aim is to ensure that these are safely worked, developed and enjoyed by staff, tenants, contractors and members of the public. There is a risk that a significant health and safety incident occurs resulting in serious harm to members of staff, suppliers, tenants or other persons, leading to fines or penalties and damage to our reputation.	Reputation and trust	Development and roll-out of management systems accredited to OHSAS 18001. Comprehensive regular reporting to the Executive Committee and Board. Health and safety training, programme of compliance reviews, Incident Reporting Hotline, and promotion of health and safety culture.
9 – Government policy The Crown Estate is an independent commercial business, created by Act of Parliament. Government policy can have an impact on areas of activity such as our offshore wind leasing programme, Board appointments, and our process.	Government policy	Regular liaison with Treasury. Ongoing review of upcoming legislative/policy changes on our business. Strong working relationships with stakeholders across Government.

Activity in 2016/17 and Outlook	Change in impact	Change in likelihood
We have refreshed and rigorously tested our Crisis Management and Business Continuity arrangements in 2016/17, including working with our outsourced service partners. Planning for the move into a new HQs in 2017, along with relocation of our data centres, has included consideration of continuity risks for our business, albeit we anticipate any potential risk to be short-term.	↔	↔
We have completed the first phase of a business technology change programme. This is a key programme that will deliver enhancements to our information systems capability. Improvements have been made through the strengthening of our systems, resilience and governance over programme/change management. Systems capability will be enhanced through delivery of a systems roadmap.	↓	↑
Activity during 2016/17 has included focus on succession planning and the launch of our leadership development programme. We have also revamped our induction programme and aligned this with our values. Our new governance structure has also supported management oversight in this area, resulting in improved employee survey results.	↔	↔
Our health & safety strategy continues to focus on building and maintaining an effective health & safety culture. Thorough reporting has been in place throughout the year, supported by our governance structures. A number of initiatives have been underway during the year, including focus on employee health and wellbeing.	↔	↔
We have worked closely with Treasury and also monitor wider Government policy, constitutional change and political uncertainty, particularly within the context of Brexit. Whilst important, our approach has been to look beyond the current dynamics and focus on delivering long-term sustainable growth. During the year, effective processes have been in place to support the devaluation of Scottish assets, with regular meetings held throughout with Scottish Government and Treasury.	↔	↔

Perspectives on **Windsor and our Rural portfolio**

The Windsor estate is visited by around five million people every year, placing it among the UK's top visitor attractions. Earlier this year we launched the newly refurbished Savill Building with a new restaurant curated by Benugo and set within striking architecture. Elsewhere in our Rural business we continued to reshape our portfolio, focussing on high-quality, larger and more modern tenancies. We also acquire and promote land through the planning process, working closely with local communities, before selling to developers.

"Opening The Savill Kitchen in the Award Winning Savill Building was a great opportunity to occupy this fantastic newly refurbished space. Working in partnership with the Windsor team we are now delivering an incredible new catering experience, which enhances any visit."

Ben Warner
Founder of Benugo

Total contribution

Results of our Ecosystem Services Assessment[1] of the Rural portfolio (including Windsor) show external benefits of at least £15.2m. These include agricultural production, recreation, amenity, carbon sequestration and air purification services.

External benefits

£15.2m

"By working closely with local authorities and communities we are delivering a strong pipeline of consented land to the market, facilitating many new homes and jobs."

Steve Melligan
Strategic Land Portfolio Manager

Sales and purchases

This year we have made a number of disposals where we have completed our asset management plans. We have also acquired two sites as we seek to augment our strategic land portfolio.

Rural sales

£209m

Above book value

13.2%

I have found that governance at The Crown Estate mirrors our wider approach; focussing on the long term, whilst adhering firmly to a values-based approach and honouring our duties to all our stakeholders."

Robin Budenberg
Chairman

Strong governance sits at the heart of our approach

I am pleased to be writing my first governance report, for you; our stakeholders, customers and partners.

It is a real honour to be the Chairman and First Commissioner of The Crown Estate. Our unique heritage means that we manage an extraordinary portfolio of assets and the team has worked successfully over recent years to ensure that it is best placed to deliver sustainable, long-term performance. We must not only achieve financial goals, but we must also ensure long-term sustainability, by carrying out our business in the right way – which we call conscious commercialism.

Board priorities

The Board needs to ensure that The Crown Estate continues to create value for future generations in a sustainable manner. In order to do this, it needs to monitor the performance of management and the effectiveness of strategy.

Under Alison Nimmo's leadership, our business has been radically restructured over recent years. Our executive has been reshaped from first principles, to drive performance, agility, accountability and transparency. As a Board, we have been able to support the executive through that change and our forthcoming office move will be another important milestone in creating a high performance culture capable of maximising the performance of our business.

With that culture in place, we have now adopted a strategy cycle (see 'Our annual strategy cycle' opposite) which allows the Board to assess the different elements of strategy through the year. A review of our material issues and business model is followed by the formulation of a corporate strategy, which is incorporated into a business plan and budget, which are then monitored against KPIs.

In addition, we have this year had presentations from our portfolio directors, on their ten year vision for their respective portfolios. These presentations will evolve each year to form the long-term backdrop to the annual corporate strategy ensuring that all decisions are made in the context of long-term priorities.

Our governance
In my short tenure, it has become apparent that delivering good governance is a central pillar of our business approach. The economic, political and market uncertainty that we have witnessed this year is a stark reminder of why resilience and a solid strategic platform are essential for a successful business. Our governance assists in delivering that resilience and facilitates our strategic approach, whilst also ensuring that we are transparent in our dealings.

The Crown Estate's principal governance compliance requirements can be broadly split between the Crown Estate Act 1961, the 2011 Code of Good Practice and voluntary application of the 2016 UK Corporate Governance Code to our business (where consistent with the Crown Estate Act 1961). You will see in the bar on the right hand side that we have adopted the central themes of the UK Corporate Governance Code to guide you through our approach to governance.

Succession
Before we turn our focus to detailed Board and Committee matters, I would like to take a moment to recognise those who have retired from the Board this year.

My predecessor, Sir Stuart Hampson, made a huge contribution to The Crown Estate over his six and a half years as Chairman and his experience and wisdom were appreciated by all within the business. We also wished a fond farewell to former Board Members Tony White and David Fursdon. All of us offer our sincere thanks for the experience, strategic guidance and diverse challenge that Sir Stuart, Tony and David brought to their respective roles, through a period of unparalleled commercial success for The Crown Estate.

I am delighted to welcome Kate Bowyer to the Board as an Executive Board Member and our Chief Financial Officer. Kate's strong financial background, real estate experience and commercial acumen are a great addition to the diverse skills and experience on our Board.

The future
The history of The Crown Estate is measured in centuries, although these days it is a thoroughly modern and progressive business. But it is very appropriate that the business takes a considered, responsible and long-term approach; with a clear commitment to its values and strong governance.

In light of the structural change highlighted above, we shall continue to embed our new governance structures to facilitate the delivery of improved performance in the long term. The coming year presents many challenges for all companies and we are confident that our resilience and commitment to best practice will ensure that we are as well placed as we can be to seize opportunities and deliver long-term outperformance by staying true to our principles.

Robin Budenberg
Chairman

"Our executive has been reshaped from first principles, to drive performance, agility, accountability and transparency."

Our annual strategy cycle

March-April
Approval and Implementation

May-August
Material Issues/ Strategic Planning

September-October
Validation and Approval

November-February
Business Planning and Budgeting

Alignment with the UK Corporate Governance Code

The Crown Estate is not required to comply with the UK Corporate Governance Code, but we supplement our statutory requirements by seeking to align with the Code where consistent with our constitution.

The themes of this governance report:

Leadership
Our Board rigorously challenge strategy, performance, responsibility and accountability to ensure we consistently make the best decisions for The Crown Estate.
Page 52

Effectiveness
We evaluate the diversity and balance of experience, skills, knowledge and independence of our Board.
Page 58

Accountability
Our decisions are discussed within the context of the risks involved.
Page 69

Stakeholder relations
Strong and transparent relationships with our stakeholders are crucial to achieving our aims.
Page 60

Remuneration
See our full remuneration report.
Page 72

A governance structure that informs and delivers our strategy

Our Board has established balanced and risk-weighted delegations, empowering its committees to deliver critical business oversight.

Board Committees

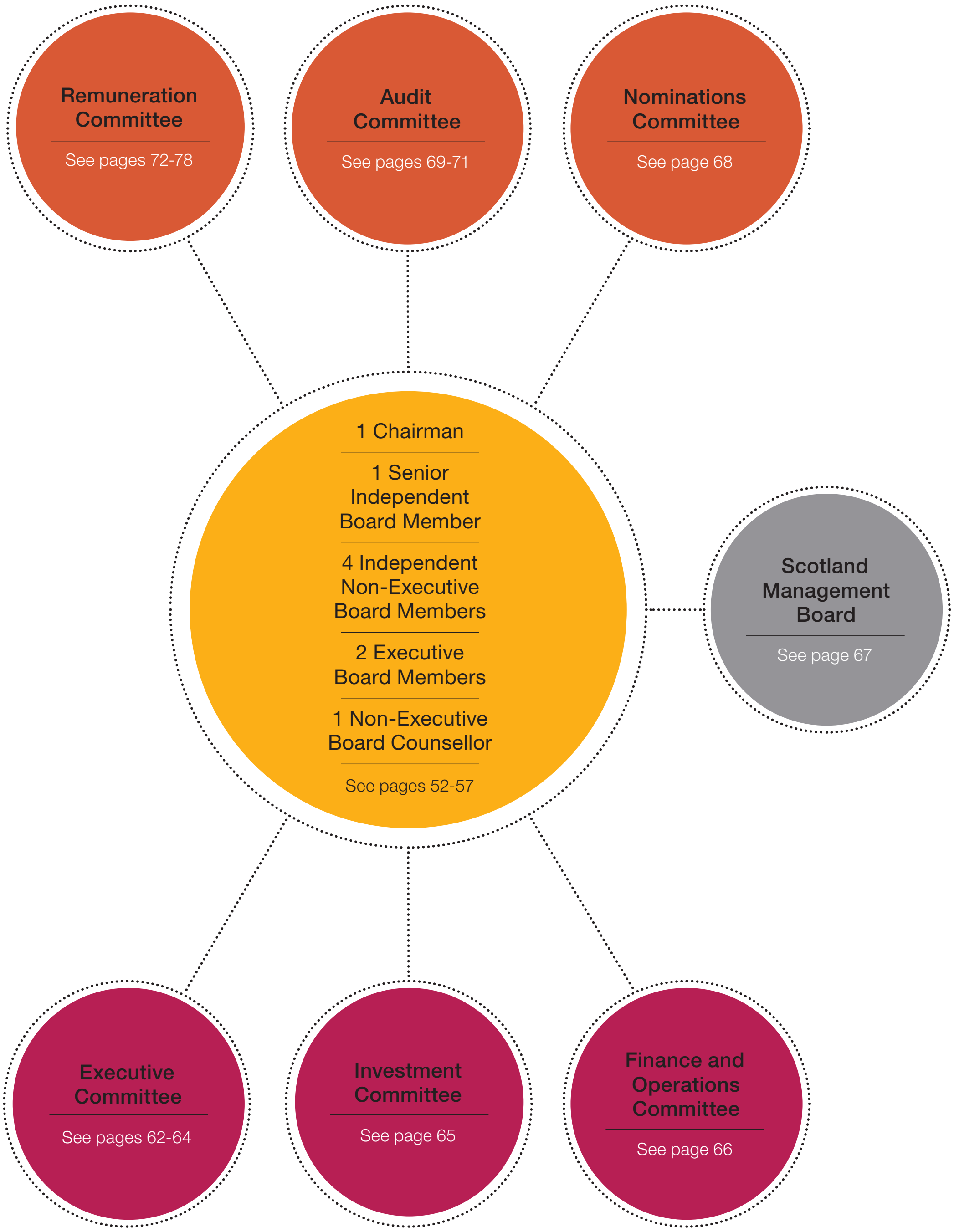
Delivering focus and challenge to our remuneration, senior succession planning and recruitment; and examining and challenging our processes, risk management and assurance.

The Board

Setting strategy, answering our most significant corporate questions and ensuring The Crown Estate is run to the very highest standards.

Executive Committees

Implementing the strategies set by the Board, making decisions with fully integrated checks and balances, and driving our performance.



The role of the Board

The role of our Board is clearly defined within the Crown Estate Act 1961 and recorded through a formal terms of reference and our governance framework. This includes the following principal duties:

- setting the strategic direction of The Crown Estate; ensuring its delivery through approving the strategies and holding management to account;
- setting the risk appetite of The Crown Estate and overseeing the proper delivery of risk management;
- ensuring that The Crown Estate has effective policies in place, in particular for corporate governance and health and safety;
- approving significant or exceptional transactions;
- ensuring the delivery of a proper controls and assurance environment; and
- supporting the culture and values of The Crown Estate.

Administration of the Board is the responsibility of the Company Secretary, Rob Booth, who operates the key procedures and policies of the Board, maintains our corporate records and the terms of reference for our Board and committees.

Delegation

The Board has set clearly defined delegations to all of its committees, through recorded terms of reference which are regularly reviewed to ensure that they are current and continue to meet best practice. The key delegated duties for each committee are confirmed in the individual committee reports in this Annual Report.

The independence of the Board

It is an essential part of our approach to governance that the Board is able to demonstrate a suitable level of independence. To support this, we review annually the independence of each of our Non-Executive Board Members against the criteria for independence as set out in section B.1.1 of the UK Corporate Governance Code. This ensures that they bring an objective viewpoint and that no lack of independence is implied. None of the Non-Executive Board Members has (to his or her knowledge) any conflict of interest which has not been disclosed to the Board, nor any connection through employment, business or personal relationships that might lead to an erosion of independence.

Board roles

Chairman

The Chairman is responsible for chairing the Board and overseeing the official business of The Crown Estate; ensuring its effective operation and keeping under review the general progress and long-term development of The Crown Estate.

Senior Independent Board Member

In addition to the role of Non-Executive Board Member, the Senior Independent Board Member role includes evaluating the performance of the Chairman, representing the Board in Board Member recruitment, acting as a check and balance to the Chairman, and acting as an intermediary for other Board Members.

Independent Non-Executive Board Members

The role of the Independent Non-Executive Board Members is to bring exemplary skills and experience to the Board. This ensures an adequate balance of skills is available to The Crown Estate in order to fulfil our strategic objectives in compliance with our constitution.

Executive Board Members

The Chief Executive Officer and Chief Financial Officer are the Executive Board Members and they discharge the role of Board Member alongside their executive duties.

Non-Executive Board Counsellor

The role of the Non-Executive Board Counsellor is to assist the Board by supplementing the collective skills, expertise and knowledge of the Board Members, to inform Board decision-making.

General Counsel and Company Secretary

The General Counsel and Company Secretary acts as legal and compliance advisor to all Board Members, supports the Chairman in the implementation of Board evaluation and supports the Senior Independent Board Member in the Chairman's evaluation.

*All Board appointments are documented in a formal appointment document, which supplements the Royal Warrant awarded to Board Members by Her Majesty the Queen. The appointment includes the detailed duties of a Board Member and provides an indemnity for personal civil liability arising from the discharge of those duties, provided that the Board Member has acted honestly, reasonably and in good faith.

Our Board

A balanced, skilled and experienced Board

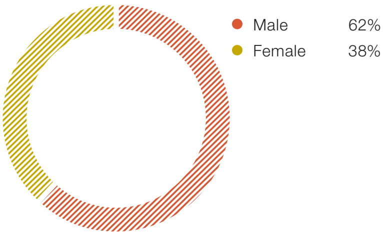
We are committed to ensuring that our Board delivers a diverse* mix of backgrounds, commercial experience and approach, to enable challenge and bring breadth to our strategic thinking.

Key

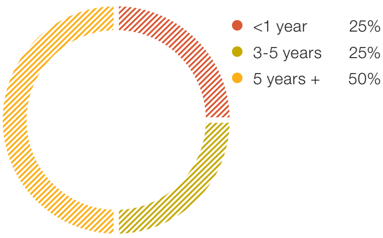
- A Audit Committee member
- R Remuneration Committee member
- N Nominations Committee member
- A Audit Committee Chair
- R Remuneration Committee Chair
- N Nominations Committee Chair

Board diversity*
Maintaining an appropriate balance, including a diverse range of skills, experience, knowledge and background on the Board is of paramount importance. Gender and ethnic diversity are a significant element of this.

Gender



Tenure



* Diversity and tenure is calculated by reference to Board Members only, as at 31 March 2017.

N

Robin Budenberg CBE
Chairman, Independent Non-Executive Board Member and First Commissioner

Skills and experience
Robin has advised companies on strategy and governance throughout his career. He is a qualified Chartered Accountant and holds a Bachelor of Law from the University of Exeter. He was awarded a CBE in 2015 for his services to the taxpayer and the economy. Robin is currently London Chairman of Centerview Partners and a Non-Executive Director for The Charity Bank Ltd and the Big Society Trust. He is the former Chairman and Chief Executive of UK Financial Investments Ltd (UKFI).

Strengths
- Finance
- Leadership
- Strategic overview
- Governance

Appointment
1 August 2016

Tenure
8 months

Alison Nimmo CBE
Chief Executive, Executive Board Member and Second Commissioner

Skills and 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. Her previous roles have included Chief Executive of Sheffield One and Project Director of Manchester Millennium Ltd. She was awarded a CBE in 2004.

Strengths
- Leadership
- Corporate overview
- Government relations
- Urban regeneration/property

Appointment
1 January 2012 and reappointed on 1 January 2016

Tenure
5 years

A R

James Darkins
Independent Non-Executive Board Member

Skills and experience
James has an extensive track record of success in the global real estate investment management industry. From 2001 he led the expansion of Henderson's real estate business in Europe and Asia Pacific. In 2014 TH Real Estate was formed as a joint venture between Henderson and TIAA-CREF, becoming the world's fourth largest real estate investment manager with combined assets of £59 billion. He retired as Chief Executive of TH Real Estate in 2015.

Strengths
- Strategic leadership
- Real estate investment management

Appointment
1 January 2016

Tenure
1 year

A N

Paula Hay-Plumb
Independent Non-Executive Board Member

Skills and experience
Paula is an experienced director in both the public and private sectors. She spent nine years on the Board of national regeneration agency, English Partnerships, and in 1997/98 chaired the Government's Coalfields Taskforce. A Chartered Accountant, Paula's other roles have included Corporate Finance and Group Reporting Director at Marks and Spencer Plc and Non-Executive Director at Skipton Building Society, The Forensic Science Service and The National Audit Office. Paula is a Non-Executive Board Member of Hyde Housing Association and Aberforth Smaller Companies Trust plc.

Strengths
- Finance
- Governance and audit
- Regeneration

Appointment
1 January 2015

Tenure
2 years

Ian Marcus

R A N

Independent Non-Executive Board Member and Senior Independent Board Member

Skills and experience
Ian was previously Chairman of European Real Estate Investment Banking at Credit Suisse where he was responsible for coordinating the bank's property related activities across its asset management, private banking and investment banking businesses.

Strengths
- Real estate investment banking

Appointment
1 January 2012 and reappointed 1 January 2016 (appointed as SIBM on 31 January 2015)

Tenure
5 years

Gareth Baird

Independent Non-Executive Board Member

Skills and 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.

Strengths
- Scottish affairs
- Farming
- Enterprise

Appointment
1 October 2009 and reappointed on 1 October 2013. (retired as Scottish Commissioner on 31 March 2017)

Tenure
7 years

Kate Bowyer

Chief Financial Officer and Executive Board Member

Skills and experience
Kate joined from FTSE 100 intu Properties plc where she had been Director of Finance. She had previously managed intu's investor relations after joining in 2000 as Group Financial Controller. Kate qualified as a Chartered Accountant with Coopers & Lybrand (now PricewaterhouseCoopers) in 1995, working in their Canadian and corporate finance practices.

Strengths
- Real estate finance

Appointment
1 January 2017 (appointed as CFO on 3 October 2016)

Tenure
3 months

Dipesh Shah OBE

R

Independent Non-Executive Board Member

Skills and experience
Dipesh has an extensive background in business, including renewable energy, utilities and infrastructure. Previous appointments include: Chief Executive of the UK Atomic Energy Authority, Chief Executive of several businesses in BP Group plc, Chairman of Viridian Group plc, HgCapital Renewable Power Partners LLP and of the European Photovoltaics Industry Association, and a Non-Executive Director of Lloyd's of London and Babcock International Group plc. He is Chairman of Genesis Housing Association.

Strengths
- Energy and infrastructure, including renewables

Appointment
1 January 2011 and reappointed on 1 January 2015

Tenure
6 years

Peter Madden OBE

R

Board Counsellor

Skills and experience
Peter is a Non-Executive director of the Future Cities Catapult, a global centre of excellence on urban innovation that brings together cities, businesses and universities to develop solutions to the future needs of our cities. Previously, he was Chief Executive of Forum for the Future, a non-profit organisation working globally with cities, governments and leading businesses to promote sustainable development.

Strengths
- Sustainability
- Digital and new technology
- Urban innovation

Appointment
1 January 2014

Tenure
3 years

Terms of appointment

Board Members of The Crown Estate are appointed as a 'Commissioner' under Royal Warrant for a period of four years. A Board appointment may be renewed for one further period of four years, with a maximum term of service of eight years (together with a maximum period of two years as a Board Counsellor). The Crown Estate Act 1961 specifies that there may be no more than eight Commissioners, one of whom will be First Commissioner, and act as Chair.

Board Counsellor appointments are not to the statutory position of Commissioner; and are therefore made under a contractual appointment, normally for a period of one or two years.

Our Board's year

Our Board has had a busy year and the key activities undertaken are highlighted below.

Investment, assets and funding

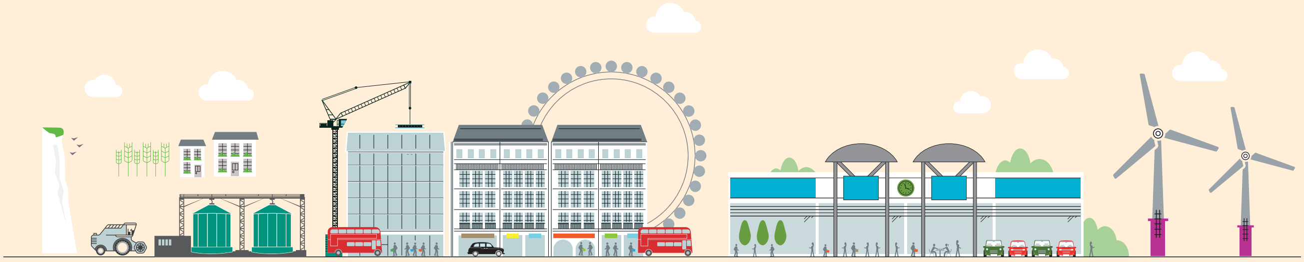
- Approved the purchase of the headlease of 117 Jermyn Street.
- Approved the purchase of headleases of 12 Charles II Street and 10 Piccadilly.
- Approved the development of Duke's Court.
- Approved of the sale of Rural portfolio assets at Gopsall and Dunster.

Governance and stakeholder management

- Approved a new assurance framework and methodology for the approval of the Annual Report and Accounts.
- Approved the methodology for establishing The Crown Estate's viability and approved the Viability Statement.
- Approved The Crown Estate's register of interests.
- Evaluated the Board's effectiveness.
- Approved The Crown Estate's Annual Report for 2015/16 as being fair, balanced and understandable.

Strategy and vision

- Undertook the Board strategy session.
- Approved the 2017/18 and five year strategy for The Crown Estate.
- Approved the Corporate Plan for The Crown Estate.
- Reviewed the long-term strategic vision for the Central London portfolio and the Energy, Minerals and Infrastructure portfolio.



Risk management and internal control

- Reviewed and redefined The Crown Estate's risk appetite.
- Considered and approved strategic risk and The Crown Estate's material issues.
- Reviewed regular reports on assurance from the Audit Committee.
- Reviewed reports on risk and uncertainty arising from the result of the EU Referendum.

People, culture and values

- Reviewed The Crown Estate's approach to delivering customer focus.
- Reviewed the results of The Crown Estate's staff survey 'One Voice'.
- Approved the new framing of The Crown Estate's purpose.
- Reviewed The Crown Estate's health and safety activity and performance.
- Reviewed regular reports on sustainability and approved The Crown Estate's sustainability aspirations for 2030.

Financial performance

- Reviewed capital forecasts at every Board meeting.
- Reviewed quarterly financial results.
- Reviewed regular performance updates.
- Approved the revenue target for 2017/18.

How we keep the Board informed

Our Board's knowledge of our activities is a key constituent of our approach, with our Board being provided with information through:

- Board visits (see case study below);
- external inputs such as the economic analysis provided to our Board by CEBR;
- regular internal reports, performance and financial information; and
- direct access to the executive, senior management and subject matter experts within The Crown Estate.

Board visit to Windsor Great Park

In May 2016 our Board visited Windsor Great Park, to review the progress being made in managing this unique asset. Following a briefing on asset management and financial performance from Paul Sedgwick (Deputy Ranger of Windsor Great Park), the Board toured the park and were provided with an insight into a number of current activities. This included:

- a guided tour of The Crown Estate's biomass heating system;
- visits to a number of recently refurbished residential and commercial properties, being prepared for letting on the open market; and
- visiting a movie set on location in the park.

Board visits such as this and the Board visit to the development of the Westgate Centre in Oxford are a key part of ensuring that our Board get first-hand experience of the work being undertaken by The Crown Estate.

Attendance at the Board during the 2016/17 Financial Year

Board member	Board	Strategy session
Robin Budenberg[1]	4/4	1/1
Alison Nimmo	6/6	1/1
Ian Marcus	6/6	1/1
Paula Hay-Plumb	6/6	1/1
Gareth Baird	6/6	1/1
James Darkins	6/6	1/1
Dipesh Shah	6/6	1/1
Kate Bowyer[2]	2/2	1/1
Peter Madden[3]	6/6	1/1
David Fursdon[4]	4/4	1/1
Tony White[5]	4/4	1/1
Sir Stuart Hampson[6]	2/2	0/0

1 Appointed to the Board on 1 August 2016.
2 Appointed to the Board on 1 January 2017.
3 Board Counsellor.
4 Retired as a Board Counsellor on 31 December 2016.
5 Retired from the Board on 31 December 2016.
6 Retired from the Board on 31 July 2016.

Board activity and administration

The Board had six scheduled meetings during the year, spread evenly across the calendar. In addition, the Board undertook a special strategy session over two days in October, in Oxford, where the strategy for the 2017/18 financial year was set, together with a discussion on risk and material issues.

Board meetings are scheduled for three hours, and are augmented by time spent '*in camera*' for Board Members and also for Independent Non-Executive Board Members only (both with and without the Chairman). Special topic sessions are also undertaken and this year such sessions included our work on customer focus and the long-term strategy for our Central London portfolio and Energy, Minerals and Infrastructure portfolio.

All Board and committee meetings are pre-scheduled on a rolling calendar year's notice and information relating to each individual meeting is provided at least one week ahead of the meeting itself to allow proper consideration.

Induction and training

In addition to the normal business of the Board, this year we have inducted two new Board Members (the Chairman and the Chief Financial Officer). Board induction at The Crown Estate includes meetings and background material and is coordinated by the Company Secretary and Head of Human Resources. Induction is designed to build a broad understanding of our business, including; strategy, financial and accounting arrangements, governance, risk and our material issues.

In addition to the formal induction, Board Members are encouraged to meet a broad spectrum of the staff at The Crown Estate, to ensure a holistic view of our business is achieved as early in a Board Member's tenure as possible.

Following the induction period the Board are offered regular opportunities for learning and development, covering both skills-based training and sector specific training.

Ensuring the best standards of governance

Our Board aims for continuous improvement in its performance and uses formal evaluation to highlight areas of focus.

Our Board evaluation process

Each year the Board conducts a formal evaluation of its effectiveness (which is externally facilitated in every third year). The process for the year, outlined below included completion of appraisal questionnaires.

15 July
Appraisal questionnaires completed by all Board Members*

July/August
Responses followed up by one-to-one meetings between Board Members, Counsellors and the Chairman

23 August
Chairman produced evaluation summary

November
Company Secretary produced Board evaluation paper

6 December
Full discussion of evaluation and findings at special Board session

Summer 2017
Independent external Board evaluation to be carried out

Questions	Score (and comparative)
Board focus **Q: Do you consider that matters reserved for the Board are appropriate and that Board business strikes the right balance between strategy/policy issues and operational/management matters? Does the Board devote enough quality time to reviewing the implementation of strategy?**	2016/17: ○ 2015/16: ●
Board composition **Q: In your opinion, do you consider that the composition of the Board is appropriate, with the right mix of diversity, knowledge and skills, given the nature of the business? And is the right size to ensure its optimum effectiveness?**	2016/17: ● 2015/16: ○
Risk management **Q: How would you rate the Board's contribution to effective risk management?**	2016/17: ● 2015/16: ○
Collaboration **Q: Do you feel the Chief Executive and the executive team work well together?**	2016/17: ○ 2015/16: ○
Conflicts of interest **Q: Is there an adequate process in place for Board Members/Counsellors to disclose, understand and manage potential conflicts of interest?**	2016/17: ○ 2015/16: ○

* The annual evaluation process for appraisal of the Chairman's performance was not undertaken this year, in light of the change of Chairman in August 2016.

Scoring mechanism

Levels of approval are calculated from scores from the questionnaires of all Board Members and Board Counsellors.

Not approved – <60% Approved – 60-80% Strongly approved – 80-100%

Findings	Actions	Progress made in 2016/17
• The Board considered that good progress had been made in this area. • The Board considered there remained potential for more strategic focus at points through the year. • The Board felt that there was potential to improve the description of The Crown Estate's purpose for staff and stakeholders. • The Board noted a desire to get closer to the culture of The Crown Estate.	• Seek further opportunities to discuss strategy in the Board calendar. • Executive to formulate a re-description of The Crown Estate's purpose for presentation to the Board. • Embed reporting and review of culture in the Board calendar.	• Portfolio-specific strategy sessions for each portfolio added to the Board calendar, together with a half-year strategy session. • Crown Estate purpose re-described and presented to the Board. • Specific culture focussed items added to the Board calendar. • All remaining 2015/16 actions delivered.
• The Board felt that ongoing focus should be applied to the matter of Board diversity. • The Board noted the potential for the use of informal Board sessions, with or without the executive/Chairman. • The Board noted that diverse external input could augment existing Board diversity.	• Continue to embed diversity as a requirement of Board recruitment. • Review the Board calendar to include more informal Board sessions. • Seek opportunities to provide external input for Board consideration.	• Diversity remains a core requirement of The Crown Estate's recruitment and Board recruitment under the Governance Code for Public Appointments. • Non-Executive Board member only (with and without the Chairman) and informal sessions with the executive have been added to the Board calendar. • A series of external speakers have been added to the Board calendar. • All remaining 2015/16 actions delivered.
• The Crown Estate's risk appetite was adequately described but the Board identified room for improvement. • Whilst the Board had confidence in internal assurance, it did not have clear visibility on total assurance. • The Board felt that more regular risk reporting would be of assistance. • The Board queried the adequacy of the current Audit Committee schedule.	• Examine and redefine The Crown Estate's risk appetite. • Describe The Crown Estate's internal assurance through a formal assurance framework. • Explore opportunities for more regular Board strategic risk discussions. • Consider the benefit of an additional risk-focussed Audit Committee meeting.	• Risk appetite examination and redefinition achieved at Board strategy session in October 2016. • Assurance framework produced and approved by the Audit Committee in March 2016. • Six monthly strategic risk sessions implemented. • A fourth Audit Committee meeting has been added to the Board calendar. • All remaining 2015/16 actions delivered.
• The Board noted significant progress on collaboration within the executive, and between the Board and the executive following the structural and governance changes implemented on 1 April 2016.	• Continue to focus on embedding the new executive structure and conduct a review of implementation at the end of the financial year.	• Implementation review undertaken and minor amendments proposed to the terms of reference arising from lessons learned. • All remaining 2015/16 actions delivered.
• The Board noted continued strong delivery in relation to conflict of interest.	• Continue to run regular conflict exercises for the Board and senior management.	• Full Crown Estate conflict exercise (including Board and senior management) performed in March 2017.

An open and transparent relationship with our constitutional stakeholders

The Crown Estate has a unique constitution, managing assets on behalf of the Crown, under a statutory mandate overseen by the Treasury. An open and transparent relationship with our constitutional stakeholders is an important part of our governance.

The Crown Estate's constitution
The Crown Estate Act 1961 adopted the recommendations of the Report of the Committee on Crown Lands 1955 (known as the 'Eve Report' after its author, Sir Malcolm Trustram Eve), which envisaged the role of the Crown Estate Commissioners as analogous to that of trustees of a trust. It established the Crown Estate Commissioners as a corporate body operating with an independent commercial mandate in the management of The Crown Estate. As such, the Crown Estate Commissioners is a statutory corporation and not a company for the purposes of the Companies Act 2006. The formal name of the organisation is the Crown Estate Commissioners, but it operates under the trading name 'The Crown Estate' and any references to the 'Commissioners' in this report are to the individual Executive Board Members and Independent Non-Executive Board Members.

The primary statutory duty of the Board is to maintain the Crown Estate as an estate in land and to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management. The Crown Estate has the authority to perform all acts of the Crown's right of ownership, subject only to any restrictions in the Crown Estate Act 1961.

The key restrictions are:

- The Crown Estate may only invest in interests in land within the UK, and may hold gilts and cash. Investment in equities, or land outside of the UK is not permitted;
- The Crown Estate must comply with written directions about the discharge of its functions under the Crown Estate Act 1961, if given to it by the Chancellor of the Exchequer or the Secretary of State for Scotland; and
- The Crown Estate cannot borrow.

The revenue profit of The Crown Estate is paid into the UK Consolidated Fund each year, where it is added to the funds arising from general taxation.

The Treasury
The Treasury is charged by the UK Parliament with oversight of The Crown Estate and acts as The Crown Estate's sponsoring department. That oversight encompasses those funds which are provided by Parliament (Resource Finance) to The Crown Estate under Paragraph 5 of The First Schedule to the Crown Estate Act 1961, as a contribution towards the cost of Board Members' salaries and the expenses of their office.

"The Crown Estate keeps the Treasury informed of its strategy and Corporate Plan for each year."

The arrangements for management as between the Treasury and The Crown Estate are recorded in a framework document, which can be found on The Crown Estate's website (https://www.thecrownestate.co.uk/media/5375/hm-treasury-and-the-crown-estate.pdf).

Engagement
The Crown Estate meets regularly with the Treasury Officer of Accounts team at the Treasury to discuss the delivery of The Crown Estate's mandate and also engages with the Minister responsible for The Crown Estate. In addition, The Crown Estate keeps the Treasury informed of its strategy and Corporate Plan for each year.

The Sovereign
The assets managed by The Crown Estate are not the property of the Government, nor are they part of the Sovereign's private estate. The assets form part of the hereditary possessions of the Sovereign in right of the Crown; in other words lands owned by the Crown corporately.

Since the first settlement for Crown Lands in 1760, the Sovereign has had no role in managing The Crown Estate, having surrendered the assets to the management of Parliament. However, The Crown Estate manages on behalf of the Crown, and the Sovereign is an important stakeholder as regards good constitutional management and the standards maintained by The Crown Estate in the undertaking of its business. Indeed, as provided for in The Crown Estate Act 1961, this Annual Report is addressed to Her Majesty the Queen, as referenced on page 1.

Engagement
Engagement with the Sovereign is limited, with the Chief Executive Officer and Chairman meeting with Her Majesty the Queen once each year to report on the performance of The Crown Estate and its ongoing good management.

The Accounting Officer

Our Chief Executive is the Accounting Officer for The Crown Estate; and the statement of the Crown Estate Commissioners' and Accounting Officer's responsibilities is set out below:

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 is required to prepare a statement 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 revenue profit and capital profit, state of affairs at the financial year end and of its income and expenditure and cash flows for the financial year in question.

In preparing the accounts the Board is 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; and
- prepare the financial statements on a going concern basis.

The Treasury has appointed the Chief Executive (the 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'. With regard to this Annual Report, the Accounting Officer takes personal responsibility for the Annual Report itself and for the judgements required for determining that it is fair, balanced and understandable.

This Annual Report, together with the material issues we have identified, set out the principal issues and opportunities facing the business and the processes in place to manage these.

There have been no personal data related incidents in 2016/17 which are required to be reported.

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.

So far as I am aware, I confirm that there is no relevant audit information of which the auditors are unaware. I have also taken all steps necessary in order to make myself aware of all relevant information and have established that the auditor is aware of that information.

I am confident that The Crown Estate will continue to operate as a viable, successful and well-governed business going forward. There will be inevitable challenges that all businesses will face in the medium term. I believe the governance arrangements we have in place are robust and sufficient to manage those challenges. However, I envisage that some of the priorities going forward that the Board will need to consider will include:

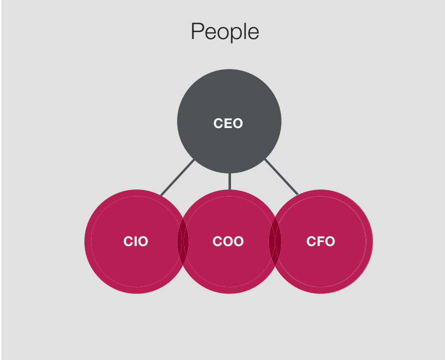
- the impact of technology and disruptive industries on our business and the threat posed by cyber-attacks;
- macroeconomic forces and the attractiveness of the sectors within which The Crown Estate operates and London's position as a global capital; and
- our relationships with our stakeholders, customers and our strategic partners.

Alison Nimmo
Chief Executive
12 June 2017

A reshaped executive enabled to act quickly and strategically

Alignment and integration of the Executive Committee

The new structure
On 1 April 2016 The Crown Estate formally stepped into a new executive structure, with supporting governance and functional reallocation across a new, leaner executive. The guiding principle of the restructure was to enable agile decision-making, integrating our structure and governance to align with and facilitate the delivery of our strategy. This has been achieved through the use of consistent lines of responsibility across our people, governance structure and strategy, as shown to the right.



1 Alison Nimmo CBE
Chief Executive

In the new structure
Alison continues as Chief Executive, chairing each of the new executive committees and has responsibility for the formulation and implementation of the Corporate Strategy on behalf of the Board.

For Alison's biography, please see page 54.

3 Kate Bowyer
Chief Financial Officer

In the new structure
As Chief Financial Officer, Kate has responsibility for the formulation and implementation of the Finance and Systems Strategy on behalf of the Board. Kate's responsibilities include The Crown Estate's finance function and business technology.

For Kate's biography, please see page 55.

2 Paul Clark
Chief Investment Officer

In the new structure
As Chief Investment Officer, Paul has responsibility for the formulation and implementation of the Investment Strategy, on behalf of the Board. Paul's responsibilities include management of the portfolios, development and investment.

Paul joined The Crown Estate in 2007 and until the end of 2015 had overall responsibility for investment strategy as well as leading The Crown Estate's Urban portfolio. Prior to joining The Crown Estate, Paul was responsible for the Church Commissioners' £1.7 billion property investment portfolio. Beyond his Chief Investment Officer role at The Crown Estate, Paul is also a Non-Executive Director of the Hermes Property Unit Trust and Ronson Capital Partners.

4 Judith Everett
Chief Operating Officer

In the new structure
As Chief Operating Officer, Judith has responsibility for the formulation and implementation of the Operations Strategy on behalf of the Board. Judith's responsibilities include human resources, health and safety, corporate affairs, brand and marketing and sustainability and stewardship.

Judith joined The Crown Estate in 2013 and until the end of 2015 led on corporate affairs for The Crown Estate. Judith has experience of business development, marketing and external affairs at an international level across a variety of sectors, having worked with Royal Dutch Shell, Scottish Enterprise and Threadneedle Investments. She joined from AstraZeneca, where she was on the global Corporate Affairs leadership team, covering strategy, brand and sustainability.

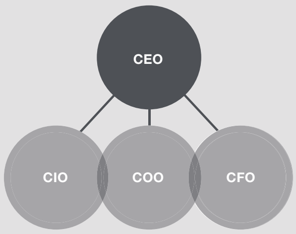
5 Rob Booth
General Counsel and Company Secretary

In the new structure
As General Counsel and Company Secretary, Rob acts as an independent adviser and stakeholder to decision-making by the executive committees, but not as a member. Rob's responsibilities include legal, secretariat and knowledge management.

Rob is a qualified solicitor, who joined The Crown Estate in 2012 from City law firm Herbert Smith Freehills LLP, where he specialised in commercial property and infrastructure projects. Until the end of 2015, Rob was the head of the legal team at The Crown Estate.

The Executive Committee report

Chair and member structure



Our Executive Committee enables agile decision-making at the very heart of our strategic approach."

Kate Bowyer
Chief Financial Officer

Attendance by members of the Executive Committee during 2016/17

Alison Nimmo (Chair)	12/12
Paul Clark	12/12
Judith Everett	12/12
Kate Bowyer[1]	6/6
John Lelliott[2]	6/6

1 Appointed as Chief Financial Officer on 3 October 2016.
2 Retired from the role of Interim Chief Financial Officer on 2 October 2016.

See page 52 to see how the Executive Committee fits in to our Governance structure

Overview
Meeting 12 times this year, our Executive Committee delivers the strategic direction and vision of our business. It brings together all aspects of what we do and analyses material issues and risk, to generate the Corporate Strategy and ensures that business plans are aligned to our strategic objectives. It also reports on the delivery of the Corporate Strategy to the Board.

This year
2016/17 was a busy year for the Executive Committee, as we embedded our new executive structure and strategic planning cycle.

The Executive Committee considered all matters within its terms of reference including:

- the strategy of The Crown Estate for 2017/18;
- the business plans and Corporate Plan for 2017/18;
- strategic risk and material issues;
- The Crown Estate financial and non-financial performance;
- health and safety and sustainability; and
- people, culture, governance and major corporate projects.

The key duties of the Executive Committee are:

- To develop for onward transmission the Corporate Strategy, Investment Strategy, Operations Strategy and Finance and Systems Strategy for review and approval by the Board on an annual basis.
- To receive and review reports from the business on performance on a quarterly basis to ensure that delivery of the Corporate Strategy is on target; and in turn report on that delivery to the Board.
- To receive and review reports from the Risk Group and to consider strategic risk and material issues, reporting to the Board and Audit Committee.

Strategy
The Executive Committee is the home of the Corporate Strategy. The CIO, CFO and COO report to the Committee against their delivery of the Investment Strategy, Finance and Systems Strategy and Operations Strategy in support of the Corporate Strategy.

Engaging our Directors

As part of our executive restructure, new director roles were established to lead each of our portfolios: Central London: James Cooksey, Regional Retail: Hannah Milne, Rural and Coastal: Ken Jones, Energy, Minerals and Infrastructure: Huub den Rooijen.

As key roles within The Crown Estate, the director of each portfolio attends the Executive Committee four times each year to act as stakeholders to the following key strategic discussions:

March:
Endorsement of The Crown Estate's Corporate Plan for recommendation to the Board.

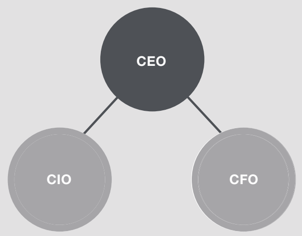
May:
Lessons learned from the previous strategy cycle, and preparation of the annual report.

October:
Endorsement of The Crown Estate's strategy for recommendation to the Board.

January:
Review of the individual budgets and business plans.

The Investment Committee report

Chair and member structure



Our Investment Committee provides the transactional oversight that is essential during a period of market uncertainty."

Paul Clark
Chief Investment Officer

Attendance by members of the Investment Committee during 2016/17

Alison Nimmo (Chair)	10/10
Paul Clark	10/10
Kate Bowyer[1]	6/6
John Lelliott[2]	4/4

1 Appointed as Chief Financial Officer on 3 October 2016.
2 Retired from the role of Interim Chief Financial Officer on 2 October 2016.

See page 52 to see how the Executive Committee fits in to our Governance structure

Overview

Meeting ten times this year, our Investment Committee regulates the investment, development and asset management functions of The Crown Estate's commercial activity. It ensures delivery of the Investment Strategy; which is a core part of the Corporate Strategy.

This year

2016/17 has witnessed transactional activity on all fronts, with a significant volume of decision-making on investment and development, and in connection with our strategic joint venture partners across the portfolios. We have also taken input from a number of external sources to ensure that our view of the markets within which we operate remains as broad as possible.

The Investment Committee considered all matters within its terms of reference, including:

- approving major sales, purchases and developments;
- reports on joint venture management and compliance;
- updates on ongoing development activity; and
- reviews of strategic investment.

The key duties of the Investment Committee are:

- To decide upon investments, joint ventures and capital expenditure within its delegated authority.
- To consider investments, joint ventures and capital expenditure beyond its delegated authority for recommendation to the Board.
- To receive and review reports on the status of developments and strategic joint ventures.
- To identify and measure the key drivers to performance.

Strategy

The Investment Committee is the home of the Investment Strategy. The director of each portfolio, together with the Head of Development and the Investment Strategy Manager report to the Committee against their delivery of individual business plans in support of the Investment Strategy.

Financial delegated authorities

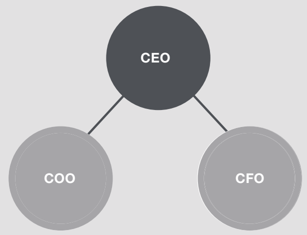
The Board takes a risk-weighted approach to delegation, and has delegated the following principal financial approvals* to the Investment Committee:

Central London and Regional Retail portfolios: Capital transactions	to a maximum of £50m
Rural and Coastal and Energy, Minerals and Infrastructure portfolios: Capital transactions	to a maximum of £20m
Extensions of existing strategic joint ventures	to a maximum of £20m (Crown Estate interest)
New non-strategic joint ventures	to a maximum of £20m (Crown Estate interest)

*In each case unless a transaction is deemed 'exceptional' for matters other than financial.

The Finance and Operations Committee report

Chair and member structure



Our Finance and Operations Committee is tuning the corporate engine of The Crown Estate to support and drive our performance."

Judith Everett
Chief Operating Officer

Attendance by members of the Finance and Operations Committee during 2016/17

Alison Nimmo (Chair)	4/4
Judith Everett	4/4
Kate Bowyer[1]	2/2
John Lelliott[2]	2/2

1 Appointed as Chief Financial Officer on 3 October 2016.
2 Retired from the role of Interim Chief Financial Officer on 2 October 2016.

See page 52 to see how the Executive Committee fits in to our Governance structure

Overview

Meeting four times this year, our Finance and Operations Committee performs the following principal functions:

- it ensures The Crown Estate is functionally supported through the delivery of the Operations Strategy and the Finance and Systems Strategy;
- it ensures the production of accurate and meaningful reports and management information to all levels of the business; and
- it ensures we have sound processes for business planning and budgeting, while also challenging how we operate and procure, to ensure efficient business delivery.

This year

2016/17 has delivered significant progress in relation to the efficiency and consistency of delivery by the functions reporting to the Committee. This has been delivered through the enablement of best practice sharing and robust challenge to existing processes and procedures.

The Finance and Operations Committee considered all matters within its terms of reference, including:

- reports on health and safety operations;
- reports on human resources operations;
- reports on procurement and spending efficiency;
- reports on crisis management; and
- reports on systems and business technology.

The key duties of the Finance & Operations Committee are:

- To review reports from across the operations functions.
- To review key financial management information.
- To monitor compliance in areas such as health and safety, procurement and budgets.
- To consider IT projects with a capital spend of up to £5 million.

Strategy

The Finance and Operations Committee is the home of the Finance & Systems Strategy and the Operations Strategy. The head of each operations department, the Group Financial Controller and Head of Business Technology (IT) report to the committee against their delivery of individual business plans in support of the strategies.

Management information

One of the key activities for the Finance and Operations Committee this year has been to push forward the quality of our management information reporting and the efficiency with which it can be generated by our systems. Management information delivered to our Board and its committees is a fundamental component of ensuring that the best possible decisions are made, with a full appreciation of the context within which they are taken.

One of the core principles that drove our executive restructure was the need to increase the consistency and quality of information travelling around our business and the insight it delivers; and the Finance and Operations Committee has taken great strides this year in improving this aspect of our business.

The Scotland Management Board report

The final year of operation of the Scotland Management Board has been tinged with sadness, but has also been a year of great achievement."

Gareth Baird
Chair of the Scotland Management Board

Attendance by members of the Scotland Management Board

Gareth Baird (Chair)	4/4
Alison Nimmo	4/4
Kate Bowyer[1]	2/2
Ronnie Quinn	4/4
John Lelliott[2]	2/2

1 Appointed as Chief Financial Officer on 3 October 2016.
2 Retired from the role of Interim Chief Financial Officer on 2 October 2016.

See page 52 to see how the Executive Committee fits in to our Governance structure

Overview

Meeting four times this year, the Scotland Management Board has performed two principal functions, through:

- ensuring the seamless transfer of the management role of The Crown Estate in Scotland to Scottish Government; and
- ensuring, during the transition process to transfer, that the highest standards of management were delivered with no impact on performance.

The Crown Estate's activities in Scotland were delivered through its Scotland portfolio, a separate business unit of The Crown Estate, operating with its own governance and responsible for all matters relating to Scotland.

This year

Through the year the Scotland Management Board has considered all of the matters within its terms of reference, overseeing the Scotland portfolio and working closely with the Scotland Committee (an executive committee charged with the day-to-day management of the Scotland portfolio and chaired by the General Manager of the Scotland portfolio, Ronnie Quinn). In particular, the Scotland Management Board considered significant transactions proposed by the Scotland portfolio, received regular updates on stakeholder activity and received regular reports from the General Manager of the Scotland portfolio on performance, management and operational matters.

The key duties of the Scotland Management Board were:

- To implement the strategic direction of the Board as that relates to The Crown Estate's Scottish operations.
- To provide oversight of financial, operational, people, customer and stakeholder relations, sustainability and health and safety aspects of The Crown Estate's Scottish operations.
- To add value to the business through strategic oversight.

Strategy

Delivering a seamless transfer of The Crown Estate's management role in Scotland to Scottish Government was a key aspect of The Crown Estate's strategy for this year. The Scotland Management Board was a key constituent part of delivering that seamless transfer.

Transfer of duties:

On 31 March 2017, the Scotland Management Board was disbanded, simultaneously with devolution occurring. Any future activity of The Crown Estate which relates to Scotland will be undertaken by the Board or the appropriate Board committee.

Devolution

The Scotland Act 2016 made provision for the devolution of The Crown Estate's management role and rights and liabilities in Scotland; providing the Treasury with the power to effect that transfer by statutory instrument. The Treasury exercised that devolutionary power, by way of The Crown Estate Transfer Scheme 2017. On 1 April 2017, the scheme transferred The Crown Estate's management role in Scotland to Crown Estate Scotland (Interim Management), a statutory body created by Scottish Government.

While they operate entirely independently of each other, The Crown Estate and Crown Estate Scotland (Interim Management) have entered into a memorandum of understanding to facilitate appropriate collaboration and interaction. A copy of the memorandum of understanding can be found on The Crown Estate's website: https://www.thecrownestate.co.uk/our-business/crown-estate-scotland/

The Nominations Committee report

> People sit at the heart of our strategic approach. The long-term view taken to succession and recruitment of our Board Members and most senior executives, is essential to our ongoing success."

Robin Budenberg
Chair of the Nominations Committee

Attendance by members of the Nominations Committee during 2016/17

Robin Budenberg[1] (Chair)	1/1
Paula Hay-Plumb	2/2
Ian Marcus	2/2
Sir Stuart Hampson[2]	1/1

1 Appointed to the Board on 1 August 2016.
2 Retired from the role of Chairman (and the Board) on 31 July 2016.

*The Nominations Committee is supported by our Head of Human Resources, who also acts as secretary for Nomination Committee meetings.

See page 52 to see how the Executive Committee fits in to our Governance structure

Overview

Meeting twice this year, the Nominations Committee forms an important part of our overall governance structure, ensuring the timely recruitment of the best candidates to satisfy our succession requirements, both at Board level and within our Executive Committee.

This year

This year the Nominations Committee considered all matters within its terms of reference*, including:

- the membership of the Board and all Board Committees;
- future Board recruitment and reappointments;
- the leadership of the Executive Committee and embedding the structural changes implemented; and
- Board and Executive Committee succession planning.

In particular, the Committee considered the appointments of Robin Budenberg (Chairman) and Kate Bowyer (Chief Financial Officer) to the Board and, for Kate Bowyer, to the Executive Committee. In addition the Committee examined the short-to-medium term skills and expertise mix, recognising that a number of Board Members are approaching the end of their tenure on the Board and that the lead time for new appointments is significant.

Our succession planning for both the Board and the Executive Committee is matrix based; identifying the skills and experience needed across our business.

For the Board, succession planning has focussed on our breadth of skills with particular reference to agriculture and the retail sector. For the Executive Committee, succession discussions have established strong links into our training and development programme.

The key duties of the Nominations Committee are:

- To identify the skills, experience and diversity required for progressive Board succession.
- To instigate the process of Board appointments and to oversee the selection process for Board Members and Board Counsellors.
- To support senior executive succession planning by examining the skills, experience and diversity required within the executive.
- To oversee the recruitment process for the most senior executives at The Crown Estate.

Strategy

Strategic planning at The Crown Estate is driven by the diverse talent, skills and experience of our Board and Executive Committee, whose collaborative but challenging approach also gives rigour to our decisions. The Nominations Committee plays a key role in ensuring that we are able to deliver that approach in the longer term.

Non-Executive Board appointments

The appointment process for Independent Non-Executive Board Members follows the Government's Governance Code for Public Appointments (December 2016), which came into force on 1 January 2017, as administered by the Office of the Commissioner of Public Appointments. Among the key principles of the code are that selection must be based on merit, after fair and open competition, with the aim of achieving a balance of relevant skills and backgrounds on the Board, with minimal conflicts of interest. Appointments are undertaken by a panel including representatives from the Treasury, The Crown Estate and an independent member. In the case of the Chairman, this also includes a representative of the Office of the Commissioner of Public Appointments. Recommendations for appointment are made by the Treasury to the Prime Minister and Her Majesty the Queen.

The Audit Committee report

"The Audit Committee has had another busy year, supporting the Board in ensuring our control environment is both robust and effective."

Paula Hay-Plumb
Chair of the Audit Committee

Attendance by members of the Audit Committee during 2016/17

Paula Hay-Plumb (Chair)	3/3
Ian Marcus	3/3
James Darkins	3/3
Tony White[1]	2/2

1 Retired from the Committee (and the Board) on 31 December 2016.

See page 52 to see how the Executive Committee fits in to our Governance structure

Overview

Meeting three times this year, the Audit Committee plays a crucial role in examining and challenging our processes, financial reporting and approach to risk.

Membership and attendees

Paula Hay-Plumb has served just over two full years on the Audit Committee as Chair, and has held senior finance positions in both the public and private sectors. She is a Chartered Accountant and has been chairing audit committees for over 18 years.

Ian Marcus has served on the Committee for five years and brings strong commercial experience from the real estate and investment banking sectors.

James Darkins has served just over one full year on the Committee and brings significant investment management experience from across the property sector. Further credentials of the members are set out on pages 54-55.

Tony White retired from the Audit Committee and Board on 31 December 2016 after five years of valuable contribution. Tony's last Audit Committee was November 2016.

The members of the Committee have good levels of experience and knowledge from across a number of relevant sectors, and particularly within the real estate sector, to enable the Committee to adequately perform the role set out for it by the Board. In particular, the financial knowledge and commercial experience of the Committee enable it to meet the needs of the business, and demonstrate alignment with the UK Corporate Governance Code.

The Audit Committee invites the CEO, CIO, CFO, General Counsel and Company Secretary, Head of Internal Audit, and Group Financial Controller to attend all meetings.

The appropriate National Audit Office (NAO) representatives (external audit) are also invited to attend all meetings of the Committee and have complete access to all financial and other information.

The key duties of the Audit Committee are:

- To support the Board in fulfilling its oversight responsibilities on financial reporting, systems of internal control, management of risks, and processes for monitoring compliance with legislation and regulation.
- To provide oversight of activity performed by internal audit and external audit, including assurance over the valuation process.
- To review the integrity of the Annual Report and Accounts prior to submission to the Board.
- To review the effectiveness of the risk management framework.

Key areas of Audit Committee activity

The Audit Committee has performed its principal duties during the year in line with its remit. The allocation of time across the key areas of Audit Committee activity has been set out below:

Audit Committee time allocation

- Governance and risk management **25%**
- Property valuation and performance **9%**
- Internal audit **25%**
- External audit **13%**
- Financial reporting and related matters **22%**
- Other (e.g. litigation) **6%**

Audit Committee report
continued

The Committee also meets with the NAO without management present, and the Chair of the Audit Committee meets with the Head of Internal Audit on a regular basis. The Chair of the Committee provides an verbal update to the Board after each meeting, and an annual report demonstrating discharge of its activities during the year.

The Committee reviewed its cycle of activity for 2017/18, and as a result will meet four times in 2017/18. An additional Audit Committee has been scheduled for July 2017, and will enable additional focus on risk management.

Activities and highlights
During the year, the Committee reviewed and obtained assurance from a number of sources, to enable it to perform its duties in relation to governance, risk management and internal control, as delegated by the Board. The key inputs were:

- **Management updates on accounting matters, disclosures and judgements in relation to the financial statements.** The Committee received regular reports from the CFO outlining the proposed approach and processes in relation to treatment of material events and to ensure alignment with the UK Corporate Governance Code. This included providing the Committee with assurance on key processes underlying the viability statement, going concern basis of accounting, and assessment of the Annual Report and Accounts for fair, balanced and understandable.
- **Management's new Assurance Framework.** This provided a high-level view of the different sources and levels of assurance that exist across the business over effective management of key risks. The Committee view the new framework, which is dynamic in nature, as a positive addition to the existing assurance architecture as it provides a good degree of comfort over management of key business areas as well as highlighting gaps in assurance where corrective action can be taken.
- **Management's disclosure of the results of the year-end valuations, with particular regard to the underlying processes.** This included the basis for valuation across different elements of the portfolio, and processes to preserve independence and manage conflicts in relation to the valuers. The Committee was also able to place reliance on internal audit's independent review of the valuation process performed during the year. This utilised specialist input from the co-source internal audit partner, and provided a high degree of assurance over effectiveness of the process.
- **Management reports on the processes to identify, manage and report key risks.** The Committee received regular updates on risk management outlining the principal business risks escalated by the Risk Group. Management's progress in addressing the actions identified following the independent assessment of risk management processes, performed in 2015/16, was also reviewed. This included review of processes supporting the development and capture of risk appetite.
- **Management assurances on internal control.** This was undertaken throughout the year, primarily through the results of internal audit activity undertaken in 2016/17 and by the review of management progress in strengthening and enhancing internal controls. The Committee works closely with the Head of Internal Audit who has unfettered access to the business. It endorsed the Internal Audit Charter which sets out internal audit's roles and responsibilities, including its independence.

Fraud and whistleblowing
The Committee also assessed processes to detect and report fraud. It reviewed the Fraud & Whistleblowing policy and was satisfied that robust processes were in place. The Committee also reviewed processes to ensure transparent and proper treatment of gifts and hospitality.

The Committee takes its role of oversight in the prevention and detection of fraud very seriously. Suspected frauds can be reported through a dedicated whistleblowing hotline or to a whistleblowing email inbox overseen by the Head of Internal Audit. This is available to customers, suppliers and members of the public as well as staff.

If suspected fraud involves a member of staff at director level or above, it can be reported to the Chair of the Audit Committee.

External auditor performance
Whilst the NAO's role as external auditor is mandated by the Crown Estate Act 1961, external auditor performance was discussed by the Committee. Following each external audit, a meeting has been held between senior management and the NAO to consider issues that arose from the audit, together with initial plans for the forthcoming audit. In addition, the Chair of the Audit Committee meets the NAO Engagement Director separately to review performance.

Following the 2016 audit, the meeting considered improvements to be incorporated in the 2017 audit. It is intended to conduct a more formal process following the completion of the 2017 audit including a review of the NAO's Transparency Report.

June 2016

- Review of conclusions from independent risk management effectiveness review.
- Note and approve the risk management update.
- Review of internal audit programme and results.
- Review of Head of Internal Audit annual opinion 2015/16.
- Review of management assurances on internal control.
- Review of matters of substance to support the 2015/16 Annual Report and Accounts.
- Review of governance and assurance to support annual valuation.
- Review of external audit completion report (including management letter) on the 2015/16 financial statement audit.
- Approval of the 2015/16 Annual Report and Accounts.

November 2016

- Review of CFO report (update on accounting and internal control).
- Note and approve the risk management update.
- Review of Internal Audit programme and results (including assurance over the valuation).
- Review of Crisis Management and Business Continuity arrangements.
- Note external audit's planning report on the 2016/17 financial statement audit and approve re-appointment of external auditor.
- Review of Retrospective Investment Appraisal results and lessons learned.
- Review of governance update from Joint Venture Oversight Group.
- Review of litigation update.

March 2017

- Review of CFO report (update on accounting and internal control).
- Review of new Assurance Framework.
- Note and approve the risk management update.
- Review of internal audit programme and results.
- Endorse the internal audit programme for 2017/18.
- Note and approve the updated Internal Audit Charter.
- Review external audit's progress report on the 2016/17 financial statement audit.
- Review and discuss processes to prevent and detect fraud.

Note: The 2016/17 Annual Report and Accounts was approved at the June 2017 Audit Committee.

Accounting policies and areas of judgement

The Audit Committee reviewed the Annual Report and Accounts, with particular attention to accounting policies and areas of judgement. Three significant financial matters were debated by the Committee. These related to:

- Valuation of The Crown Estate investment properties given its materiality to the balance sheet. The Committee debated the valuation process, methodology and assumptions. Based on the level of oversight and independent scrutiny over the valuation, the Committee was satisfied that the valuation was professionally conducted resulting in an effective valuation.
- Accounting for joint interests, given the increased proportion of the portfolio which is jointly held. The Crown Estate holds interests in investment properties through a variety of structures which are accounted for in accordance with IFRS, generally at fair value underpinned by the valuation process above. The Committee debated this and was satisfied with the accounting methodologies.
- Accounting for discontinued operations arising from the devolution of The Crown Estate's management role in Scotland to Crown Estate Scotland (Interim Management). The Committee reviewed the accounting treatment over the transfer and alignment with the terms of The Crown Estate Transfer Scheme 2017. This included review of clarification and advice obtained. The Committee was satisfied with the process to ensure effective disclosure of the transfer.

Fair, balanced and understandable

The Committee considered whether the 2016/17 Annual Report and Accounts was fair, balanced and understandable and whether it provided the necessary information for stakeholders to assess The Crown Estate's performance, business model and strategy. The Committee was satisfied that, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable.

After taking external advice, the Committee was also satisfied that the 2016/17 Annual Report and Accounts is in alignment with the IIRC Framework.

Remuneration report

"The Remuneration Committee supports the delivery of our strategic objectives, and our commitment to be a high-performing business."

Ian Marcus
Chair of the Remuneration Committee

Overview

Meeting five times this year, the Remuneration Committee has responsibility for delivering a remuneration policy which supports the delivery of our long-term strategic objectives, our commitment to being a high performance business and which also enables The Crown Estate to attract and retain the talented, professional and experienced people that it needs. The Committee is committed to ensuring the right balance between rewarding short-term financial success and recognising delivery of long-term growth, whilst staying true to The Crown Estate's core values of commercialism, integrity and stewardship. A significant development in the Remuneration Committee's role was the approval by the Treasury in 2015 of the Remuneration Committee's recommendation on a new executive reward strategy. That strategy was implemented in April 2016 and is evidenced in more detail in this Remuneration Committee report.

Membership

The Remuneration Committee is chaired by Ian Marcus, who has acted as chair of the Committee for the last three years. On 1 January 2017, Peter Madden joined the Remuneration Committee. Peter, a Board Counsellor since 2014, joins Dipesh Shah and James Darkins as the members of the Committee, with both James and Dipesh being members throughout the year. The Committee also offers its thanks and recognition for the significant and valuable contribution made by David Fursdon, who retired from the Committee on 31 December 2016.

See page 52 to see how the Executive Committee fits in to our Governance structure

Governance and role

This report is prepared in accordance with the requirements set out in the UK Corporate Governance Code and the Government Financial Reporting Manual.

Remuneration Committee attendance

In addition to the Committee members, The Chief Executive, the Head of Human Resources and the Head of Reward (in her delegated role as secretary to the Committee) also attend meetings and other Board Members (for example the Chairman of The Crown Estate or the Chief Financial Officer) may attend on the invitation of the Committee as required. However, none is involved in any decision relating to his or her own remuneration. The advisers to the Remuneration Committee are invited to attend as required.

Attendance by members of the Remuneration Committee during 2016/17

Ian Marcus (Chair)	5/5
James Darkins	5/5
Dipesh Shah	5/5
Peter Madden[1]	1/2
David Fursdon[2]	3/3

1 Board Counsellor – appointed to the Committee on 1 January 2017.
2 Retired from the Committee on 31 December 2016.

Responsibilities and terms of reference

The Remuneration Committee is appointed by, and reports to, the Board. A minimum of two meetings are held annually and in 2016/17 the Committee met on five occasions. The primary purpose of the Remuneration Committee is to set and ensure implementation of remuneration policy for The Crown Estate. The full scope of its responsibilities includes:

- determine and agree with the Board the remuneration framework for The Crown Estate;
- set the overarching objectives and parameters of remuneration policy for The Crown Estate, having regard to the remuneration trends across the relevant market, 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 organisations;
- determine the total individual remuneration package of the executives, including salary, allowances, bonuses, any long-term incentive payments and pension benefits. This is to ensure that the executive and other members of senior management 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. The Chief Executive's remuneration package is set by the Remuneration Committee, on the recommendation of the Chairman of the Board, in the context of the Treasury Business Case guidelines as approved by Treasury Ministers in March 2015;
- 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;
- 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; and
- approve and oversee any major changes in employee benefits structures.

Advisers

The Crown Estate's Head of Human Resources and Head of Reward provided information and advice to the Committee throughout the year. Further market intelligence was provided by external recruitment consultancies, senior individuals from relevant comparator organisations and Willis Towers Watson, the principal adviser to the Remuneration Committee.

They have been the Remuneration Committee's appointed principal advisers since 2014. During 2016, Willis Towers Watson, in a consultant capacity to The Crown Estate, provided the Committee with a broad range of strategic advice relative to reward and benefit matters across The Crown Estate. There is a planned review of their appointment in 2017.

The Chair of the Committee provides an verbal report to the Board after each Committee meeting, and the Committee submits an annual report to the Board reporting on its activities during the year.

Activities and highlights

During the course of the year, the Remuneration Committee considered a number of matters.

- Review of progress against people and culture targets under the Corporate Plan.
- Ongoing review of remuneration policy to ensure it remains fit-for-purpose, including a fundamental review of remuneration design and structure for the senior team.
- Salary increases for the executive and senior managers with top compensation potential in excess of £140,000, together with overall levels of salary increases across the business effective in July 2016.
- Achievement against personal scorecard targets for the executive and the allocation of bonus.
- Achievement against the performance conditions for the award of transition award incentive cash plans (four employees currently have these awards).
- Detailed review of the Gender Pay Gap reporting requirements.
- An overview of The Crown Estate Pension Scheme governance and investment, including an annual meeting with the Chair of The Crown Estate Pension Scheme Trustee Board.
- Review of draft Gender Pay Gap analysis to support reporting under the statutory framework in 2017/18.

Remuneration report
continued

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 whilst we are a public corporation, we compete for talent in a highly commercial environment. Accordingly, for the majority of employees, we aim 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 and balanced performance-related pay policy to ensure that an appropriate proportion of the executive remuneration is delivered through performance-related pay, with incentives to outperform targets, which include external benchmarking.

Remuneration packages for the executive are benchmarked by the Committee using research prepared by the Head of Reward in conjunction with our external advisers. The research is carried out by benchmarking roles against one or more proprietary pay surveys, which assess a large group of real estate, energy sector and other private sector comparators. We also benchmark to other comparator organisations such as those with similar government relationships or rural portfolios.

The Committee also has oversight for the pay and reward policy across the business, with particular focus on the remuneration of senior employees (with the potential to earn £140,000 or more), whose pay is also the subject of benchmarking research prepared by Human Resources.

The general policy is to compensate leavers within contractual terms for loss of office and/or early termination.

Components of the executive's remuneration
Executive remuneration is made up of the following components:

- fixed pay, comprising base pay, flexible benefits allowance (including annual leave converted into cash), pension allowance or contribution to a pension scheme, private healthcare membership or a cash-equivalent payment; and
- variable pay, comprising annual bonus, long-term cash incentive plan arrangements and transition award incentive payments (for selected executives).

Principles and policy on annual bonuses
The annual bonus arrangement for the executive is based on the achievement of key business targets supporting our KPIs, with a maximum possible award of 60% or 70% of basic salary in 2016/17 (80% maximum for the Chief Executive). The maximum award is subject to receipt of an outstanding individual performance rating and is conditional on The Crown Estate meeting or exceeding predetermined performance targets. These targets are to increase our net revenue profit on a three-year rolling basis as agreed with Treasury, and to outperform a bespoke total return benchmark also on a three-year rolling basis.

Executive cash incentive plans
Paul Clark and John Lelliott are entitled to receive a one-year discretionary non-pensionable cash incentive award. This has been put in place as a transitional arrangement, commencing in April 2016, with any payment due on 31 July 2017. The award provided Paul Clark with an opportunity of up to 25% of base pay in the 2016/17 review period. John Lelliott was also provided with an opportunity of up to 40% of base pay, subject to specific performance criteria regarding transition arrangements and a smooth handover of duties to Kate Bowyer in 2016/17.

Alison Nimmo, Paul Clark and Judith Everett have been invited to participate in the new 2016/17 Long-Term Incentive Plan from April 2016. This discretionary non-pensionable cash plan has a three-year performance period and any payment in July 2019 will be subject to performance against specific criteria over that period. The opportunity for Alison Nimmo and Paul Clark is up to 40% of base pay, and Judith Everett up to 25% of base pay. Six other senior managers have also been invited to participate in the plan in 2016/17.

All awards and targets are subject to the approval of the Remuneration Committee.

Executive departure payments
No departure payments were made this year.

External non-executive board appointments held by the executive
The Board of The Crown Estate encourage and support non-executive appointments and see these as part of the executive's development. The executive also hold directorships of charities, which is encouraged by The Crown Estate.

Alison Nimmo holds one paid non-executive board appointment in addition to her Crown Estate appointment. Paul Clark holds two paid non-executive board appointments in addition to his Crown Estate appointment. They are permitted to retain earnings from their appointments and the Board is satisfied that these are manageable alongside their executive responsibilities and do not generate any conflict of interest.

In accordance with our policy on non-executive earnings, which requires disclosure for appointments in publicly listed companies, Alison Nimmo earned £62,000 to 31 March 2017, as a non-executive director of The Berkeley Group Holdings plc. Paul Clark is a non-executive director of Ronson Capital Partners and Hermes Property Unit Trust.

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 (DB) are the Classic, Classic Plus 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 £154,200. 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 or the CEPS Opal scheme, and are instead offered access to the CEPS Quartz or Topaz schemes.

The table below provides an overview of benefits. Some employees who historically opted out of pension membership are offered an 8% cash allowance, however, this is not open to new employees or anyone opting out of pension membership in future.

As at 31 March 2017, a total of 223 employees were members of the open sections of CEPS and a further 28 receive a cash pension allowance. The Crown Estate Board Members, with the exception of Alison Nimmo and Kate Bowyer, are Non-Executive appointments and are not members of either CEPS or the PCSPS. Pension benefits were provided to Kate Bowyer and other members of the executive through CEPS. Alison Nimmo receives a cash alternative to pension membership of 12% as she has left pension scheme membership due to pension protection arrangements.

Pension payments increase 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. The PCSPS and CEPS (Opal Section) provide a service enhancement in calculating the spouse's pension. The enhancement depends on length of service and cannot exceed ten 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.

Details of executive membership of pension schemes is shown under section entitled 'Pension Benefits' on page 77 of this Annual Report.

Overview of pension scheme benefits

Pension scheme	PCSPS Classic/ Classic Plus	PCSPS Premium	PCSPS NUVOS	PCSPS ALPHA	CEPS Opal	CEPS Quartz scheme	CEPS Topaz scheme
	Defined benefit	Defined benefit	Career average	Career average	Defined benefit	Hybrid DB/DC	Defined contribution
Benefit	1/80th	1/60th	1/60th	2.3% p.a.	1/80th	1/80th DB	n/a
Scheme retirement age	60	60	65	Later of SPA or 65	60	65	65
Scheme earnings cap from 1 April 2015	£154,200	£154,200	£154,200	£154,200	£154,200	£30,875 DB section	n/a
Employee contribution from 1 April 2017	Between 4.6% and 8.05% depending on salary	Between 4.6% and 8.05% depending on salary	Between 4.6% and 8.05% depending on salary	Between 4.6% and 8.05% depending on salary	1.5%	5% for DB section Optional for DC section	Optional
Life cover	2x pensionable salary	3x pensionable salary	3x pensionable salary	Higher of 2x final pay/ 5x pension	4x base pay	4x base pay	4x base pay
Ill-health benefit	Yes	Yes	Yes	Yes	Yes	No	No
Redundancy (attaching benefits)	Yes	Yes	Yes	Yes	Yes	No	No
Employees	51	10	4	74	14	90	119

Remuneration report
continued

The following sections of the Remuneration Report are covered by the Comptroller and Auditor General's opinion.

Remuneration and pension benefits of the Board

Board Members

Single total figure for remuneration.

	Salary (£)		Bonus payments (£)		Other payments (£)		Pension benefits (to the nearest £1,000)[8]		Benefits in kind (to the nearest £100)		Total (to the nearest £1,000)	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Robin Budenberg (Chairman from 1 August 2016)[4]	**33,333**	–	**–**	–	**–**	–	**–**	–	**–**	–	**33,000**	–
Alison Nimmo (Chief Executive)[1,2]	**323,128**	290,000	**244,588**	250,192	**37,904**	–	**–**	34,000	**700**	400	**606,000**	575,000
Kate Bowyer (Chief Financial Officer) (appointed to the Executive Committee on 3 October 2016 and appointed to the Board on 1 January 2017)[3]	**105,249**	–	**55,550**	–	**–**	–	**7,000**	–	**300**	–	**168,000**	–
Gareth Baird[7]	**25,828**	25,828	**–**	–	**–**	–	**–**	–	**–**	–	**26,000**	26,000
James Darkins (appointed 1 January 2016)	**20,000**	4,843	**–**	–	**–**	–	**–**	–	**–**	–	**20,000**	5,000
Paula Hay-Plumb[6]	**25,000**	19,371	**–**	–	**–**	–	**–**	–	**–**	–	**25,000**	19,000
Ian Marcus[6]	**25,000**	19,371	**–**	–	**–**	–	**–**	–	**–**	–	**25,000**	19,000
Dipesh Shah	**20,000**	19,371	**–**	–	**–**	–	**–**	–	**–**	–	**20,000**	19,000
Sir Stuart Hampson (Chairman until 31 July 2016)[4,5]	**16,667**	50,000	**–**	–	**–**	–	**–**	–	**–**	–	**17,000**	50,000
Tony White (appointment expired 31 December 2016)[4]	**15,000**	19,371	**–**	–	**–**	–	**–**	–	**–**	–	**15,000**	19,000

1 The bonus award for Alison Nimmo has been approved by the Remuneration Committee. Any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2016/17 the deferral is £81,963 (2015/16 £93,822). The deferred element of the bonus is payable in July following the financial year that the award was approved.
2 The other payments for Alison Nimmo comprise an allowance in lieu of pension contributions. She ceased active membership of The Crown Estate pension scheme on 1 April 2016.
3 Kate Bowyer was appointed to the Board on 1 January 2017. From 3 October 2016 she was also a member of the Executive Committee and her remuneration figures for the period from 3 October 2016 to 31 March 2017 are shown in the table above. Her annual equivalent salary for 2016/17 was £212,787 p.a.
4 The full year equivalent total remuneration for 2016/17 for Robin Budenberg and Sir Stuart Hampson was £50,000 and for Tony White was £20,000. The full year equivalent for James Darkins for 2015/16 was £19,371.
5 Sir Stuart Hampson received £4,167 in addition to the amount shown in the table above in respect of a four-week transition period after 31 July 2016.
6 Chairs of committee receive an additional £5,000 p.a. to reflect their greater level of responsibility.
7 Gareth Baird received an additional £5,828 p.a. compared with Independent Non-Executive Board members to reflect his greater level of responsibility as Scottish Commissioner. 2016/17 is the final year of his service.
8 In the case of the defined benefit sections of the scheme the value of pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum, less contributions made by the individual. In the case of the defined contribution sections the figure represents the pension contribution made by The Crown Estate.

Pension benefits

	Accrued pension at normal retirement date as at 31 March 2017 £'000	Real increase in pension at normal retirement date £'000	Cash equivalent transfer value at 31 March 2017 £'000	Cash equivalent transfer value at 31 March 2016 £'000	Real increase in cash equivalent transfer value £'000
Alison Nimmo	–	–	–	–	–
Kate Bowyer	n/a	n/a	n/a	n/a	n/a

Alison Nimmo ceased active membership of The Crown Estate pension scheme (Quartz section) on 1 April 2016 and subsequently transferred her benefits out of the scheme on 13 July 2016.

Kate Bowyer is a member of The Crown Estate pension scheme (Topaz section), which is a defined contribution scheme. Employer contributions are disclosed in the single figure remuneration table above.

The Chairman and Independent Non-Executive Board Members are initially appointed for a term of four years with the prospect of renewal for a maximum of one further term of four years. Alison Nimmo, the Chief Executive Officer is also appointed on a four year contract with a notice period of 12 months. Kate Bowyer, is appointed as a Commissioner for a period of four years and as the Chief Financial Officer of The Crown Estate on a permanent contract with a notice period of six months.

Board Counsellors

Board Counsellors are non-voting members of the Board and are appointed for a period of one year.

	Salary	
Single total figure for remuneration	**2016/17**	2015/16
Peter Madden	**20,000**	19,371
David Fursdon (appointed 1 January 2016, appointment expired 31 December 2016)[1]	**15,000**	4,843

1 The full year equivalent remuneration for David Fursdon was £20,000 for 2016/17 and £19,371 for 2015/16.

The salary figures above for Board Counsellors are the equivalent to the single figure for remuneration.

Executive Committee

Following a structural review, our senior executive structure was reconstituted as an Executive Committee with effect from 1 April 2016. The Management Board which was the previous senior executive structure ceased to operate with effect from 31 March 2016.

	Salary		Bonus payments		Transition award		Other payments		Pension benefits[4] (to the nearest £1,000)		Benefits in kind (to the nearest £100)		Total	
	2016/17 £'000	2015/16 £'000	**2016/17 £'000**	2015/16 £'000	**2016/17 £'000**	2015/16 £'000	**2016/17 £'000**	2015/16 £'000	**2016/17 £**	2015/16 £	**2016/17 £**	2015/16 £	**2016/17 £'000**	2015/16 £'000
Paul Clark[1]	**250–255**	225-230	**155-160**	130-135	**60-65**	65-70	**–**	–	**44,000**	45,000	**700**	200	**510-515**	470-475
Judith Everett[2]	**190-195**	165-170	**95-100**	85-90	**–**	–	**–**	–	**27,000**	21,000	**700**	400	**315-320**	250-255
John Lelliott (retired 31 March 2017)[3]	**180-185**	170-175	**75-80**	75-80	**50-55**	–	**25-30**	20-25	**n/a**	n/a	**–**	–	**335-340**	270-275

1 The bonus award for Paul Clark has been approved by the Remuneration Committee. From April 2015, any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2016/17 the deferral is £36,225 (2015/16 £18,400). The deferred element of the bonus is payable in July following the subsequent financial year that the award was approved.
2 The bonus award for Judith Everett has been approved by the Remuneration Committee. Any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2016/17 the deferral is £5,513 (2015/16 £nil).
3 The other payments for John Lelliott comprise an allowance in lieu of pension contributions. While John Lelliott retired from the role of Interim Chief Financial Officer on 2 October 2016, he remained an employee of The Crown Estate until 31 March 2017.
4 In the case of the defined benefit sections of the scheme the value of pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum, less contributions made by the individual. In the case of the defined contribution sections the figure represents the pension contribution made by The Crown Estate.

Paul Clark and Judith Everett as members of the Executive Committee are appointed on permanent contracts which provide for a notice period of six months.

Pension benefits

Executive Committee member	Accrued pension at normal retirement date as at 31 March 2017 £'000	Real increase in pension at normal retirement date £'000	Cash equivalent transfer value at 31 March 2017 £'000	Cash equivalent transfer value at 31 March 2016 £'000	Real increase in cash equivalent transfer value £'000
Paul Clark	15-20	0-2.5	661	477	73
Judith Everett	n/a	n/a	n/a	n/a	n/a
John Lelliott	n/a	n/a	n/a	n/a	n/a

Paul Clark is a member of the CEPS Opal section and Judith Everett is a member of the CEPS Topaz section. John Lelliott has been in receipt of a CEPS pension since December 2010 so has elected to receive an allowance in lieu of a pension scheme contribution. This allowance was equivalent to 14.5% of base pay and is included within the other amounts figure stated in the table above.

Pay multiples

	2016/17	2015/16
Band of highest paid executive's total remuneration (as defined below) £'000	**565-570**	555-560
Median total remuneration of all employees £	**41,401**	38,185
Ratio	**13.71**	14.60

Total remuneration includes salary, bonus and LTIP payments. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Compensation for loss of office
The table below shows exit packages as a result of the restructuring of the business, particularly of the Business Technology department (2015/16: Energy, Minerals and Infrastructure business).

Exit package cost band

	2016/17 Number	2015/16 Number
£10,001–£25,000	**5**	2
£25,001–£50,000	**5**	4
£50,001–£100,000	**–**	6
Total number of exit packages	**10**	12
Total cost	**£0.2m**	**£0.6m**

Staff report

	2016/17 £m	2015/16 £m	2016/17 Number	2015/16 Number
Commissioners	**1.0**	0.7	**9**	9
Staff with permanent employment contracts	**29.5**	29.1	**403**	413
As shown in note 9 of the financial statements (excluding early retirement costs) – continuing operations	**30.5**	29.8	**412**	422
Staff employed in discontinued operation	**2.2**	2.0	**32**	35
Total staff	**32.7**	31.8	**444**	457
Other staff engaged on the objectives of The Crown Estate	**0.8**	0.7	**15**	29
Total staff	**33.5**	**32.5**	**459**	**486**

There were no off-payroll payments made during the year.

This Remuneration Report has been approved by the Board and is signed by the Chair of the Remuneration Committee on behalf of the Board.

Ian Marcus
Chair of the Remuneration Committee
12 June 2017

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of The Crown Estate's and The Crown Estate Group's affairs as at 31 March 2017 and of The Crown Estate's and The Crown Estate Group's net revenue profit and capital profit for the year then ended;
- have been properly prepared in accordance with the Crown Estate Act 1961 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I have audited the financial statements of The Crown Estate and the Crown Estate Group for the year ended 31 March 2017 under the Crown Estate Act 1961. The financial statements comprise The Crown Estate's and The Crown Estate group's:

- consolidated statements of comprehensive income (group only)
- balance sheet;
- statement of cash flows;
- 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.

The regularity framework that has been applied is the Crown Estate Act 1961.

Overview of my audit approach

Matters significant to my audit

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year.

I have also set out how my audit addressed these specific areas in order to support the opinion on the financial statements as a whole and any comments I make on the results of my procedures should be read in this context.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the risk of material misstatement owing to fraud arising from revenue recognition, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on page 71.

Risk	My response
Investment property valuations The most significant transactions and balances within The Crown Estate's financial statements relates to Investment property assets and their valuations. Management engaged professional valuers to provide valuations of investment property assets as at 31 March 2017. The valuations are formed from the application of methodologies that use a number of assumptions and judgements, which, if inappropriate or incorrect, could result in material misstatement within the accounts.	In line with auditing standards I performed detailed procedures to ensure I was able to gain assurance from the work conducted by third party valuers engaged by The Crown Estate. In assessing whether their work provides a sound basis for valuation I considered their overall competence, capability and objectivity (as management's experts), as well as the scope of their work and its relevance to the accounts and my opinion. In particular, I considered the valuation methodology they applied, the completeness and validity of the data inputs to those valuations, and, using independent valuation experts within my audit team, the appropriateness of the key assumptions on which the valuations were based. I have challenged management on the reasons for significant movements in individual property valuations at year-end confirming these reasons to underlying documentation. I found The Crown Estate controls over the valuation process to be operating adequately and that asset valuations have been prepared using appropriate methodology and assumptions. I have no matters to raise.
Joint arrangements (joint ventures and joint operations) The Crown Estate are involved in a number of joint ventures and joint operations. The share of the investment properties held within these investment vehicles are subjected to valuations by independent third party valuers and are subject to the same risk specified above ('Investment property valuations'). The proportion of The Crown Estate's investments in joint arrangements has increased significantly over recent years as they continue to seek partners for joint projects. There has been one material new arrangement completed in 2016-17 (St James Market phase II – set-up of a joint venture entities). There is a risk of material irregular transactions or misstatement within the financial statements where new, or a change in existing, arrangements: • did not comply with the Crown Estate Act 1961 (which restricts The Crown Estates ability to borrow, invest overseas or invest in assets other than real estate); and • were not accounted for in accordance with IAS 28 (Investments in Associates) and IFRS 11 (Joint Arrangements) to reflect the substance of the arrangements.	I have: • in light of The Crown Estate's plans earlier in 2016-17 to progress new arrangements, confirmed that, aside from St James Market phase II, no other new joint arrangements (ventures or operations) have actually commenced during the period; • reviewed the St James Market phase 2, and existing joint arrangements, to confirm that current joint venture agreements and activities have been accounted for in accordance with IAS 28, and IFRS 11, and that they comply with The Crown Estate Act 1961; • confirmed the share of assets, revenue and expenditure between The Crown Estate's joint operation partners to underlying records (for example, joint arrangement contractual agreements, leases and valuation reports); • confirmed The Crown Estate's share in its joint ventures' assets, revenues and expenses to the joint ventures' financial records and supporting valuation reports; and • directly performed procedures to ensure I was able to gain assurance from the work conducted by the third party independent valuers that were engaged to perform valuations of property held by joint venture entities. I have no matters to raise.

The certificate and Report of the Comptroller and Auditor General to the Houses of Parliament
continued

Risk	My response
Scottish Devolution – Transfer of Scottish Assets and Business Following the passing of the Scotland Act 2016, the Scottish assets and liabilities held by The Crown Estate were transferred to the Scottish government on 1 April 2017. The Scottish property, rights and interests, and liabilities designated for transfer are specified in Statutory Instrument 2017 No. 524 (The Crown Estate Transfer Scheme 2017). Although the designated Scottish assets and liabilities are recorded in The Crown Estate's Statement of Financial Position as at 31 March 2017, under IFRS, these assets and liabilities have been fully impaired to reflect the economic value of these assets to The Crown Estate. In preparation for the transfer, Scottish transactions and balances have been recorded on a separate section of the Crown Estate ledger since April 2016. Property has been managed using new systems under the Scottish Crown Estate Office (since transferred to the Scottish government), which has fed into the Crown Estate ledger from January 2017. There is a risk of material misstatement if Scottish transactions and balances have not been completely identified from The Crown Estate's underlying records and accurately transferred to new systems within the accounting period.	I have: • reviewed the controls and procedures used to manage the transfer, including those over the identification of all Scottish assets, liabilities, income and expenditure; • confirmed the controls over the initial transfer of data to Scottish systems and the extract of Scottish income and expenditure from these systems to be included in The Crown Estate accounts in the last quarter of the financial year; • confirmed the accounting for Scottish assets and liabilities designated for transfer on 1 April 2017; • confirmed that Scottish income, expenditure, assets and liabilities have been completely and accurately identified and disclosed in accounting for the transfer; and • confirmed the fair value (which is different to the residual value to The Crown Estate) of designated Scottish assets and liabilities as at 31 March 17, including investment properties which The Crown Estate has stated as being £275.7 million (see note 38 to the financial statements). I have no matters to raise.

In addition to these risks, I also assessed whether there was any evidence of fraud due to management override of The Crown Estate's control environment, as required by International Standards on Auditing. My work in this area did not identify any areas of concern.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for The Crown Estate's financial statements at £131.0 million and for The Crown Estate group at £131.1 million, which is approximately 1% of net assets. I chose this benchmark as I consider it to be the principal consideration for users in assessing the financial performance of The Crown Estate.

I have determined that for financial statement components connected with the revenue account and the consolidated revenue account within the consolidated statement of comprehensive income, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given the net revenue account profit is distributable to the Consolidated Fund. I have, therefore, determined that the level to be applied to these components is £32.7 million and for The Crown Estate group is £32.8 million, being approximately 10% of net revenue profit.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Board and senior manager's remuneration as reported in the Remuneration Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £0.2 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Scope of my audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group and parent entity's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Accounting Officer; and
- the overall presentation of the financial statements.

In addition I read all the information and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate and report.

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

Group audit approach

Total assets for the group are £14,875.2 million of which £14,877.5 million are attributable to the parent, The Crown Estate.

My group audit approach focussed on those balances assessed as being of the greatest significance to the group financial statements and their users. In establishing an overall approach I considered the size and risk characteristics of the component entities' financial information and determined the type of work that needed to be performed on each.

The parent is individually significant by virtue of its size and I have audited its full financial information. The remaining consolidating (subsidiary) entities have been subjected to audit work for the purpose of confirming that there is no risk of material misstatement within these entities to the group financial statements.

In addition, I have completed specific audit procedures on the material transactions and balances within The Crown Estate's joint ventures' financial information to confirm its share of joint venture net assets and profit as included under the equity method in the group accounts.

Other matters on which I report

In my opinion:

- the parts of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Crown Estate Act 1961; and
- the information given in the sections "Overview". "Performance" and "Governance" of 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

Adequacy of accounting records and explanations received

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 returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns;
- I have not received all of the information and explanations I require for my audit; or
- the Governance section of the annual report does not reflect compliance with HM Treasury's guidance.

Consistency of information in the annual report

Under the International Standards on Auditing (UK and Ireland), I am required to report to you if, in my opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially inconsistent with our knowledge of The Crown Estate acquired in the course of performing our audit; or
- otherwise misleading.

In particular, I am required to consider whether:

- I have identified any inconsistencies between our knowledge acquired during the audit and the Board's and Chief Executive's statement that they consider that the annual report is considered fair, balanced and understandable; and
- the annual report appropriately discloses those matters that I communicated to the Audit Committee which I consider should have been disclosed.

I confirm that I have not identified any such inconsistencies or misleading statements.

The Board's and Chief Executive's assessment of principal risks and future prospects

Under International Standards on Auditing (UK & Ireland), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the Board's and Chief Executive's disclosures in the annual report and financial statements:

- confirming that they have carried out a robust assessment of principal risks facing The Crown Estate, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least 12 months from the date of approval of the financial statements; and
- explaining how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that The Crown Estate will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

I have nothing material to add, or to draw attention to, on these matters

Responsibilities of the Crown Estate Commissioners and the Accounting Officer

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 preparation of The Crown Estate's and The Crown Estate group's financial statements to give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion 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.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
16 June 2017

Consolidated statements of comprehensive income

Consolidated revenue account

	Note	Year ended 31 March 2017 £m	Restated Year ended 31 March 2016 £m
Revenue	5	**428.6**	404.1
Costs	6	**(103.7)**	(96.8)
Operating surplus		**324.9**	307.3
Investment revenue	10	**3.2**	4.5
Share of revenue profit from joint ventures	22	**28.6**	21.7
Share of revenue profit from other property investments	23	**2.2**	2.1
Net operating profit before depreciation, Treasury agreements and Statutory transfers		**358.9**	335.6
Depreciation of tangible fixed assets	4	**(3.1)**	(3.2)
Net operating profit before Treasury agreements and Statutory transfers		**355.8**	332.4
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	4	**(31.1)**	(29.0)
Statutory transfers	4	**(10.3)**	(10.7)
Parliamentary Supply finance	4	**2.3**	2.3
Net consolidated revenue account profit from continuing operations		**316.7**	295.0
Net revenue account profit from discontinued operations	38	**12.1**	9.1
Net consolidated revenue account profit – distributable to the Consolidated Fund		**328.8**	304.1
Consolidated statement of comprehensive income of the revenue account			
Net revenue account profit – distributable to the Consolidated Fund		**328.8**	304.1
Items that will not be reclassified subsequently to the revenue account profit:			
Re-measurement gain on retirement benefits	11c	**2.6**	1.1
Total consolidated comprehensive revenue account profit		**331.4**	305.2

Consolidated capital account

	Note	Year ended 31 March 2017 £m	Restated Year ended 31 March 2016 £m
Revenue	5	**16.0**	13.3
Charge from revenue for salary costs	9	**(11.4)**	(13.4)
Net revaluation gains in investment property (including profits on disposal)	13	**496.1**	1,274.5
Impairment of discontinued operations	38	**(291.8)**	–
Share of profit on disposal of property in joint ventures	13	**–**	0.7
Share of revaluation gains in joint ventures	13	**8.3**	82.0
Share of revaluation gains in other property investments	13	**1.6**	6.6
Capital profit before Treasury agreements and Statutory transfers		**218.8**	1,363.7
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	4	**31.1**	29.0
Statutory transfers	4	**10.3**	10.7
Net consolidated capital account profit from continuing operations		**260.2**	1,403.4
Net capital account profit from discontinued operations	38	**3.9**	18.2
Net consolidated capital account profit		**264.1**	1,421.6
Consolidated statement of comprehensive income of the capital account			
Net capital account profit		**264.1**	1,421.6
Items that will not be reclassified subsequently to capital account profit:			
Deficit on revaluation of owner occupied properties	13	**(12.4)**	(3.6)
Surplus on revaluation of antiques	24	**0.5**	–
Share of joint venture fair value movements on interest rate swaps treated as cash flow hedges	22	**0.1**	(1.2)
Total consolidated comprehensive capital account profit		**252.3**	1,416.8

Balance sheets
As at 31 March 2017

	Note	**Group 31 March 2017 £m**	Group 31 March 2016 £m	**Parent 31 March 2017 £m**	Parent 31 March 2016 £m
Assets					
Non-current assets					
Investment properties	18	**12,689.2**	12,302.4	**12,557.8**	12,302.4
Property plant and equipment:					
Owner occupied property	19	**135.7**	146.4	**135.7**	146.4
Other property, plant and equipment	21	**16.0**	11.8	**16.0**	11.8
Investment in joint ventures	22	**990.9**	820.4	**990.9**	820.4
Other property investments	23	**87.3**	85.6	**40.4**	41.6
Other investments	24	**10.8**	10.4	**10.8**	10.4
Receivables due after one year	25	**58.0**	64.0	**58.0**	64.0
Total non-current assets		**13,987.9**	13,441.0	**13,809.6**	13,397.0
Current assets					
Inventories		**0.2**	0.1	**0.2**	0.1
Trade and other receivables	26	**53.1**	51.0	**235.2**	91.1
Cash and cash equivalents	31	**825.6**	907.3	**824.1**	906.8
Total current assets		**878.9**	958.4	**1,059.5**	998.0
Pension asset	11a	**8.4**	6.0	**8.4**	6.0
Total assets		**14,875.2**	14,405.4	**14,877.5**	14,401.0
Liabilities					
Current liabilities					
Payables – amounts falling due within one year	27	**179.7**	153.2	**177.5**	152.2
Provisions	28	**0.4**	1.5	**0.4**	1.5
Total current liabilities		**180.1**	154.7	**177.9**	153.7
Payables – amounts falling due after more than one year	27	**1,560.6**	1,371.1	**1,560.6**	1,371.1
Total liabilities		**1,740.7**	1,525.8	**1,738.5**	1,524.8
Net assets		**13,134.5**	12,879.6	**13,139.0**	12,876.2
Capital and reserves					
Revenue reserve available for distribution to the Consolidated Fund		**1.1**	0.9	**1.1**	0.9
Pension reserve		**8.4**	6.0	**8.4**	6.0
Capital reserve		**13,077.9**	12,813.7	**13,082.4**	12,810.3
Revaluation reserve		**47.1**	59.0	**47.1**	59.0
Total capital and reserves		**13,134.5**	12,879.6	**13,139.0**	12,876.2

A total comprehensive revenue account profit of £331.4 million and a total comprehensive capital account profit of £260.2 million are recorded in the financial statements of the Parent for the year ended 31 March 2017 (2015/16: total comprehensive revenue account profit of £305.2 million and total comprehensive capital account profit of £1,413.4 million).

No income statement or statement of comprehensive income is presented for the Parent.

Alison Nimmo
Second Commissioner and Accounting Officer
12 June 2017

Statements of cash flows
For the year ended 31 March 2017

	Note	Group Year ended 31 March 2017 £m	Group Year ended 31 March 2016 £m	Parent Year ended 31 March 2017 £m	Parent Year ended 31 March 2016 £m
Cash generated from operating activities	30	**338.4**	321.0	**196.1**	321.3
Interest received		**3.0**	4.5	**3.0**	4.5
Distributions from investment in joint ventures		**23.6**	20.5	**23.6**	20.5
Distributions received from other property investments		**2.2**	2.1	**1.4**	1.4
Net cash inflow from operating activities		**367.2**	348.1	**224.1**	347.7
Cash flows from investing activities					
Acquisition of investment properties		**(115.9)**	(42.4)	**(46.9)**	(42.4)
Capital expenditure on investment properties		**(447.1)**	(188.2)	**(374.0)**	(188.2)
Proceeds from disposal of investment properties		**506.6**	607.6	**506.6**	607.6
Other capital receipts		**18.1**	20.5	**18.1**	20.5
Net investment in joint ventures		**(84.1)**	(90.9)	**(84.1)**	(90.9)
Proceeds from disposal of plant and equipment		**0.2**	0.2	**0.2**	0.2
Purchase of plant and equipment and other investments		**(8.0)**	(3.5)	**(8.0)**	(3.5)
Net cash (outflow)/inflow from investing activities		**(130.2)**	303.3	**11.9**	303.3
Cash flows from financing activities					
Parliamentary Supply finance		**2.3**	2.3	**2.3**	2.3
Net cash inflow from financing activities		**2.3**	2.3	**2.3**	2.3
Cash flows from continuing operations		**239.3**	653.7	**283.3**	653.3
Cash flows from discontinued operations	38	**(0.4)**	0.4	**(0.4)**	0.4
Net increase in cash and cash equivalents before Consolidated Fund payment		**238.9**	654.1	**237.9**	653.7
Consolidated Fund payment		**(320.6)**	(299.3)	**(320.6)**	(299.3)
(Decrease)/increase in cash in the year after Consolidated Fund payment		**(81.7)**	354.8	**(82.7)**	354.4
Cash and cash equivalents at start of the period		**907.3**	552.5	**906.8**	552.4
Cash and cash equivalents at end of the period	31	**825.6**	907.3	**824.1**	906.8

Statements of changes in capital and reserves For the year ended March 2017

Group	Revenue account		Capital account		Total
	Revenue reserves available for distribution to the Consolidated Fund £m	Pension reserve £m	Capital reserve £m	Revaluation reserve £m	£m
As at 1 April 2016	0.9	6.0	12,813.7	59.0	12,879.6
Net consolidated profit for the period	328.8	–	264.1	–	592.9
Other consolidated comprehensive income:					
Revaluation deficit of owner occupied properties	–	–	–	(12.4)	(12.4)
Surplus on revaluation of antiques	–	–	–	0.5	0.5
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	–	–	0.1	–	0.1
Re-measurement gain on retirement benefits	–	2.6	–	–	2.6
Total consolidated comprehensive profit for the year ended 31 March 2017	328.8	2.6	264.2	(11.9)	583.7
Pension reserve adjustment	0.2	(0.2)	–	–	–
Payments to the Consolidated Fund – paid in year	(309.0)	–	–	–	(309.0)
Payments to the Consolidated Fund – payable	(19.8)	–	–	–	(19.8)
As at 31 March 2017	1.1	8.4	13,077.9	47.1	13,134.5
As at 1 April 2015	0.5	5.3	11,393.3	62.6	11,461.7
Net consolidated profit for the period	304.1	–	1,421.6	–	1,725.7
Other consolidated comprehensive income:					
Revaluation deficit of owner occupied properties	–	–	–	(3.6)	(3.6)
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	–	–	(1.2)	–	(1.2)
Re-measurement gain on retirement benefits	–	1.1	–	–	1.1
Total consolidated comprehensive profit for the year ended 31 March 2016	304.1	1.1	1,420.4	(3.6)	1,722.0
Pension reserve adjustment	0.4	(0.4)	–	–	–
Payments to the Consolidated Fund – paid in year	(292.5)	–	–	–	(292.5)
Payments to the Consolidated Fund – payable	(11.6)	–	–	–	(11.6)
As at 31 March 2016	0.9	6.0	12,813.7	59.0	12,879.6

Statements of changes in capital and reserves For the year ended March 2017
continued

Parent	Revenue account: Revenue reserves available for distribution to the Consolidated Fund £m	Revenue account: Pension reserve £m	Capital account: Capital reserve £m	Capital account: Revaluation reserve £m	Total £m
As at 1 April 2016	0.9	6.0	12,810.3	59.0	12,876.2
Net profit for the period	328.8	–	272.0	–	600.8
Other comprehensive income:					
Revaluation deficit of owner occupied properties	–	–	–	(12.4)	(12.4)
Surplus on revaluation of antiques	–	–	–	0.5	0.5
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	–	–	0.1	–	0.1
Re-measurement gain on retirement benefits	–	2.6	–	–	2.6
Total comprehensive profit for the year ended 31 March 2017	328.8	2.6	272.1	(11.9)	591.6
Pension reserve adjustment	0.2	(0.2)	–	–	–
Payments to the Consolidated Fund – paid in year	(309.0)	–	–	–	(309.0)
Payments to the Consolidated Fund – payable	(19.8)	–	–	–	(19.8)
As at 31 March 2017	1.1	8.4	13,082.4	47.1	13,139.0

As at 1 April 2015	0.5	5.3	11,393.3	62.6	11,461.7
Net profit for the period	304.1	–	1,418.2	–	1,722.3
Other comprehensive income:					
Revaluation deficit of owner occupied properties	–	–	–	(3.6)	(3.6)
Share of joint venture's fair value movements on interest-rate swaps treated as cash flow hedges	–	–	(1.2)	–	(1.2)
Re-measurement gain on retirement benefits	–	1.1	–	–	1.1
Total comprehensive profit for the year ended 31 March 2016	304.1	1.1	1,417.0	(3.6)	1,718.6
Pension reserve adjustment	0.4	(0.4)	–	–	–
Payments to the Consolidated Fund – paid in year	(292.5)	–	–	–	(292.5)
Payments to the Consolidated Fund – payable	(11.6)	–	–	–	(11.6)
As at 31 March 2016	0.9	6.0	12,810.3	59.0	12,876.2

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

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

To meet the requirements of the Crown Estate Act 1961, and the directions made by the Treasury, the movements in comprehensive income are analysed between revenue 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, the charge from revenue for salary costs, and the transfers between the capital and revenue account as required by Statutory provisions and Treasury agreements.

Treasury agreements

The Crown Estate Act 1961 allows adjustments between revenue and capital specifically for the purposes of recouping capital expenditure out of revenue. 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 revenue account is charged is calculated as an amount equivalent to 9% of the previous year's gross revenue as disclosed in note 5, excluding service charges, and after taking into account depreciation of plant and equipment.

Changes in accounting policies

The financial statements are prepared in accordance with IFRS and Interpretations in force at the reporting date. No new standards have been adopted during the year.

At the date of authorisation of these financial statements, the following standards and interpretations were issued but not yet effective and are not yet adopted by the EU and so are not available for early adoption. The Crown Estate anticipates that the adoption of these standards is unlikely to have a material impact on the financial statements in the period of application:

- IFRS 15 Revenue from contracts with customers – effective for the financial year ending 31 March 2018
- IFRS 16 Leases – effective for the financial year ending 31 March 2020

2. Significant accounting policies

2a. Basis of consolidation

The consolidated financial statements for the year ended 31 March 2017 incorporate the financial statements of The Crown Estate and all of its subsidiary undertakings. Subsidiary undertakings are those entities controlled by The Crown Estate. The Crown Estate controls an entity when it is exposed, or has rights to variable returns from the entity and has an ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences and until the date control ceases.

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.

Fair value measurement of investment property

IFRS 13 requires the use of valuation techniques for which sufficient data are available, maximising the use of observable inputs and minimising the use of unobservable inputs. The degree of detail of the disclosure depends on the observability of the inputs used.

For this purpose, IFRS 13 establishes a fair value hierarchy that classifies the inputs into three levels:

- Level 1: unadjusted quoted prices in active markets
- Level 2: observable inputs other than quoted prices included within level 1
- Level 3: unobservable and observable inputs where significant adjustments have been applied.

Notes forming part of the group and parent consolidated financial statements
continued

2. Significant accounting policies continued

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 in the course of construction are held at fair value. They are valued on the basis of open market value. When The Crown Estate begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such.

Energy 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.

Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties consist of costs of a capital nature. 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 consolidated capital account.

Investment properties under development
Investment properties under development comprise properties subject to a major programme of re-development or development. They are categorised as such from the start of the programme until practical completion.

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 consolidated capital account. 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 consolidated capital account. 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.

Discontinued operations
Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is disposed of or is classified as held for sale. The discontinued operations are shown separately in the consolidated statements of comprehensive income and the statements of cash flows, and the related comparative figures have been restated.

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 consolidated capital account over the life of the lease.

Under the requirements of the Crown Estate Act 1961, a lease premium received on the grant of a lease with a lease term of 30 years or less is taken to revenue in the consolidated revenue account in the year that it is granted.

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 the nature of the vehicle

Plant and equipment: 4–10 years

Pontoons: 25 years

Computer equipment and software: 4 years

Office equipment: 4 years

Leasehold improvements for owner occupied property:
Length of the lease

Useful lives and estimated residual values are reviewed annually.

2e. Joint arrangements – Joint ventures
A joint venture is a joint arrangement whereby The Crown Estate has joint control and has rights to its share of the net assets of the arrangement. Joint ventures are accounted for under the equity method. The balance sheet incorporates The Crown Estate's share of the net assets of the joint venture. The consolidated revenue account incorporates the share of the joint venture's profit after tax and the consolidated capital account incorporates The Crown Estate's share of revaluation of investment properties.

2f. Joint arrangements – Jointly controlled assets
Joint control is a joint arrangement whereby contractually there is an agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. 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 property investments
Other property investments are shown at fair value which is equivalent to the share of net asset value.

2h. 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. A valuation was carried out during the year ended 31 March 2017. They are valued by recognised experts every 3 years.

2. Significant accounting policies continued

2i. Revenue
Revenue is recorded net of VAT and represents the total value of:

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

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 lease premiums received on the grant of a lease with a lease term of 30 years or less, the sale of produce, miscellaneous fees and sundry income.

2j. Taxation
The Crown Estate is not subject to corporation, income or capital gains tax. The consolidated revenue profit is paid to the Consolidated Fund on an annual basis and will be used for the benefit of the taxpayer.

2k. Pensions – Defined Benefit Plans
Two pension schemes operate within The Crown Estate providing retirement and related benefits to all eligible employees. 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 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

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 revenue 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.

Re-measurement 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 section of the strategic report.

3e. Property valuations
Investment properties and owner occupied properties are shown at fair 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 forming part of the group and parent consolidated financial statements
continued

4. Segmental analysis

Business segmental analysis

The Crown Estate operations are all in the UK and are currently organised into seven operating divisions. These divisions are the basis on which The Crown Estate monitors its operations and upon which decisions are made by the Board. As from 1 April 2016, the divisions are: Central London, Regional Retail, Rural and Coastal, Windsor, Energy Minerals and Infrastructure, Scotland portfolio and The Crown Estate headquarters (Crown HQ). With effect from 1 April 2016, the Urban division was split between Central London and Regional Retail, and in preparation for the devolution of the management of the Scottish assets to Scottish Government, a separate operating division was formed (the Scotland portfolio). Prior year figures have been re-stated from that previously reported to reflect the new operating divisions. As of 1 April 2017, the management of the Scotland portfolio was passed to Scottish Government and as such the Scotland portfolio division has been reflected as a discontinued operation (see note 38).

		Year ended 31 March 2017								
Consolidated Revenue account	Note	Central London £m	Regional Retail £m	Rural & Coastal £m	Windsor £m	Energy Minerals and Infrastructure £m	Crown HQ £m	Total continuing operations £m	Discontinued operation – Scotland portfolio £m (see note 38)	Total £m
Rent and royalties	5	193.1	88.9	37.9	6.2	60.7	–	386.8	17.8	404.6
Revenue premium income	5	–	–	0.1	–	–	–	0.1	–	0.1
Other income	5	4.1	5.7	0.6	4.3	–	–	14.7	0.2	14.9
Revenue (excluding service charge income)		197.2	94.6	38.6	10.5	60.7	–	401.6	18.0	419.6
Service charge income	5	21.0	6.0	–	–	–	–	27.0	0.1	27.1
Service charge expense	6	(30.7)	(6.5)	–	–	–	–	(37.2)	(0.2)	(37.4)
Net service charge expense		(9.7)	(0.5)	–	–	–	–	(10.2)	(0.1)	(10.3)
Direct costs:										
Management fees and costs	6	(6.2)	(1.7)	(5.0)	(5.7)	(3.0)	–	(21.6)	(2.4)	(24.0)
Repairs and maintenance	6	(2.1)	(0.3)	(0.8)	(1.3)	–	–	(4.5)	(0.3)	(4.8)
Other direct expenditure	6	(4.9)	(6.0)	(0.5)	(2.6)	(0.3)	–	(14.3)	–	(14.3)
Total direct costs		(13.2)	(8.0)	(6.3)	(9.6)	(3.3)	–	(40.4)	(2.7)	(43.1)
Gross surplus		174.3	86.1	32.3	0.9	57.4	–	351.0	15.2	366.2
Indirect costs:										
Administrative expenses	8	(0.2)	–	0.1	(0.2)	(0.1)	(25.7)	(26.1)	(1.6)	(27.7)
Total indirect costs		(0.2)	–	0.1	(0.2)	(0.1)	(25.7)	(26.1)	(1.6)	(27.7)
Operating surplus/(deficit)		174.1	86.1	32.4	0.7	57.3	(25.7)	324.9	13.6	338.5
Investment revenue	10	0.1	–	–	–	–	3.1	3.2	–	3.2
Share of revenue profit from joint ventures	22	8.0	20.6	–	–	–	–	28.6	–	28.6
Share of revenue profit from other property investments	23	0.8	1.4	–	–	–	–	2.2	–	2.2
Net operating profit/(loss) before depreciation, Treasury agreements and Statutory transfers		183.0	108.1	32.4	0.7	57.3	(22.6)	358.9	13.6	372.5
Depreciation of tangible fixed assets	21	–	–	–	–	–	(3.1)	(3.1)	(0.2)	(3.3)
Net operating profit/(loss) before Treasury agreements and Statutory transfers		183.0	108.1	32.4	0.7	57.3	(25.7)	355.8	13.4	369.2
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	(31.1)	(31.1)	(1.1)	(32.2)
Statutory transfers	15	–	–	–	–	–	(10.3)	(10.3)	(0.2)	(10.5)
Parliamentary Supply finance	16	–	–	–	–	–	2.3	2.3	–	2.3
Net consolidated revenue account profit – distributable to the Consolidated Fund		183.0	108.1	32.4	0.7	57.3	(64.8)	316.7	12.1	328.8

4. Segmental analysis continued

Consolidated Capital account		Central London £m	Regional Retail £m	Rural & Coastal £m	Windsor £m	Energy Minerals and Infrastructure £m	Crown HQ £m	Total continuing operations £m	Discontinued operation – Scotland portfolio £m (see note 38)	Total £m
Amortisation of income from grant of lease premia	5	14.9	1.0	–	0.1	–	–	16.0	–	16.0
Charge from revenue account for salary costs	9	(4.9)	(2.5)	(1.1)	–	(2.9)	–	(11.4)	(0.7)	(12.1)
Net revaluation gains on investment property (including profits on disposal)	13	270.3	(22.1)	52.2	(0.1)	195.8	–	496.1	3.3	499.4
Impairment of discontinued operations	38	–	–	–	–	–	(291.8)	(291.8)	–	(291.8)
Share of revaluation gains in joint ventures	22	4.0	4.3	–	–	–	–	8.3	–	8.3
Share of revaluation gains in other property investments	23	2.9	(1.3)	–	–	–	–	1.6	–	1.6
Capital profit before Treasury agreements and Statutory Transfers		287.2	(20.6)	51.1	–	192.9	(291.8)	218.8	2.6	221.4
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	31.1	31.1	1.1	32.2
Statutory transfers	15	–	–	–	–	–	10.3	10.3	0.2	10.5
Net consolidated capital account profit		287.2	(20.6)	51.1	–	192.9	(250.4)	260.2	3.9	264.1

As at 31 March 2017

Balance sheet	Note	Central London £m	Regional Retail £m	Rural & Coastal £m	Windsor £m	Energy Minerals and Infrastructure £m	Crown HQ £m	Total continuing operations £m	Discontinued operation – Scotland portfolio £m (see note 38)	Total £m
Non-current assets:										
Investment properties	18	8,228.0	1,821.0	1,323.8	191.9	1,124.5	–	12,689.2	–	12,689.2
Owner occupied property	19	47.0	–	–	88.7	–	–	135.7	–	135.7
Other property, plant and equipment	21	3.3	2.1	0.2	0.9	–	9.5	16.0	–	16.0
Investment in joint ventures	22	409.5	581.4	–	–	–	–	990.9	–	990.9
Other property investments	23	47.0	40.3	–	–	–	–	87.3	–	87.3
Other investments	24	–	–	–	–	–	10.8	10.8	–	10.8
Receivables due after one year	25	30.8	27.2	–	–	–	–	58.0	–	58.0
Total non-current assets		8,765.6	2,472.0	1,324.0	281.5	1,124.5	20.3	13,987.9	–	13,987.9
Unallocated current assets										887.3
Unallocated liabilities										(1,740.7)
Net assets										13,134.5
Acquisitions and capital expenditure	18 & 19	349.3	165.0	30.0	5.8	1.5	–	551.6	2.2	553.8

4. Segmental analysis continued

Year ended 31 March 2016

Consolidated Revenue account	Note	Central London £m	Regional Retail £m	Rural & Coastal £m	Windsor £m	Energy Minerals and Infrastructure £m	Crown HQ £m	Total continuing operations £m	Discontinued operation – Scotland portfolio £m (see note 38)	Total £m
Rent and royalties	5	176.4	90.3	39.0	5.5	55.1	–	366.3	13.8	380.1
Revenue premium income	5	4.0	0.1	–	–	–	–	4.1	–	4.1
Other income	5	2.7	3.3	0.6	4.1	–	–	10.7	0.2	10.9
Revenue (excluding service charge income)		183.1	93.7	39.6	9.6	55.1	–	381.1	14.0	395.1
Service charge income	5	16.5	6.5	–	–	–	–	23.0	0.1	23.1
Service charge expense	6	(25.7)	(6.8)	–	–	–	–	(32.5)	(0.2)	(32.7)
Net service charge expense		(9.2)	(0.3)	–	–	–	–	(9.5)	(0.1)	(9.6)
Direct costs:										
Management fees and costs	6	(7.3)	(2.3)	(5.3)	(5.6)	(1.6)	–	(22.1)	(1.7)	(23.8)
Repairs and maintenance	6	(1.7)	(1.4)	(0.4)	(1.1)	–	–	(4.6)	(0.3)	(4.9)
Other direct expenditure	6	(7.6)	(3.7)	(1.3)	(2.4)	(0.3)	–	(15.3)	(0.6)	(15.9)
Total direct costs		(16.6)	(7.4)	(7.0)	(9.1)	(1.9)	–	(42.0)	(2.6)	(44.6)
Gross surplus		157.3	86.0	32.6	0.5	53.2	–	329.6	11.3	340.9
Indirect costs:										
Administrative expenses	8	(0.5)	(0.1)	(0.1)	(0.2)	(0.3)	(21.1)	(22.3)	(0.7)	(23.0)
Total indirect costs		(0.5)	(0.1)	(0.1)	(0.2)	(0.3)	(21.1)	(22.3)	(0.7)	(23.0)
Operating surplus/(deficit)		156.8	85.9	32.5	0.3	52.9	(21.1)	307.3	10.6	317.9
Investment revenue	10	0.1	–	0.1	–	–	4.3	4.5	–	4.5
Share of revenue profit from joint ventures	22	3.6	18.1	–	–	–	–	21.7	–	21.7
Share of revenue profit from other property investments	23	0.7	1.4	–	–	–	–	2.1	–	2.1
Net operating profit/(loss) before depreciation, Treasury agreements and Statutory transfers		161.2	105.4	32.6	0.3	52.9	(16.8)	335.6	10.6	346.2
Depreciation of tangible fixed assets	21	–	–	–	–	–	(3.2)	(3.2)	(0.1)	(3.3)
Net operating profit/(loss) before Treasury agreements and Statutory transfers		161.2	105.4	32.6	0.3	52.9	(20.0)	332.4	10.5	342.9
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	(29.0)	(29.0)	(1.3)	(30.3)
Statutory transfers	15	–	–	–	–	–	(10.7)	(10.7)	(0.1)	(10.8)
Parliamentary Supply finance	16	–	–	–	–	–	2.3	2.3	–	2.3
Net consolidated revenue account profit – distributable to the Consolidated Fund		161.2	105.4	32.6	0.3	52.9	(57.4)	295.0	9.1	304.1

4. Segmental analysis continued

Consolidated Capital account	Note	Central London £m	Regional Retail £m	Rural & Coastal £m	Windsor £m	Energy Minerals and Infrastructure £m	Crown HQ £m	Total continuing operations £m	Discontinued operation – Scotland portfolio £m (see note 38)	Total £m
Amortisation of income from grant of lease premia	5	12.8	0.4	0.1	–	–	–	13.3	–	13.3
Charge from revenue account for salary costs	9	(4.8)	(2.4)	(1.2)	–	(5.0)	–	(13.4)	(1.0)	(14.4)
Net revaluation gains on investment property (including profits on disposal)	13	940.8	69.0	67.8	12.5	184.4	–	1,274.5	17.8	1,292.3
Share of profit/(loss) on disposal of property in joint ventures	22	–	0.7	–	–	–	–	0.7	–	0.7
Share of revaluation gains in joint ventures	22	63.0	19.0	–	–	–	–	82.0	–	82.0
Share of revaluation gains in other property investments	23	5.1	1.5	–	–	–	–	6.6	–	6.6
Capital profit before Treasury agreements and Statutory Transfers		1,016.9	88.2	66.7	12.5	179.4	–	1,363.7	16.8	1,380.5
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	29.0	29.0	1.3	30.3
Statutory transfers	15	–	–	–	–	–	10.7	10.7	0.1	10.8
Net consolidated capital account profit		1,016.9	88.2	66.7	12.5	179.4	39.7	1,403.4	18.2	1,421.6

As at 31 March 2016

Balance sheet	Note	Central London £m	Regional Retail £m	Rural & Coastal £m	Windsor £m	Energy Minerals and Infrastructure £m	Crown HQ £m	Total continuing operations £m	Discontinued operation – Scotland portfolio £m	Total £m
Non-current assets:										
Investment properties	18	7,748.0	1,693.0	1,450.7	188.1	950.8	–	12,030.6	271.8	12,302.4
Owner occupied property	19	64.0	–	–	82.4	–	–	146.4	–	146.4
Other property, plant and equipment	21	3.4	2.1	0.2	1.0	–	4.5	11.2	0.6	11.8
Investment in joint ventures	22	318.0	502.4	–	–	–	–	820.4	–	820.4
Other property investments	23	44.0	41.6	–	–	–	–	85.6	–	85.6
Other investments	24	–	–	–	–	–	10.4	10.4	–	10.4
Receivables due after one year	25	38.4	17.0	0.8	–	–	–	56.2	7.8	64.0
Total non-current assets		8,215.8	2,256.1	1,451.7	271.5	950.8	14.9	13,160.8	280.2	13,441.0
Unallocated current assets										964.4
Unallocated liabilities										(1,525.8)
Net assets										12,879.6
Acquisitions and capital expenditure	18 & 19	129.5	59.8	17.7	8.4	3.7	–	219.1	2.3	221.4

Notes forming part of the group and parent consolidated financial statements
continued

5. Revenue

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Revenue account		
Rent and royalties	**386.8**	366.3
Revenue premium income	**0.1**	4.1
Other income	**14.7**	10.7
	401.6	381.1
Service charge income	**27.0**	23.0
Revenue reflected in the consolidated revenue account	**428.6**	404.1
Capital account revenue		
Revenue – amortisation of income from grant of lease premia	**16.0**	13.3

6. Costs

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Service charge expense	**37.2**	32.5
Management fees and costs	**21.6**	22.1
Repairs and maintenance	**4.5**	4.6
Other direct expenditure	**14.3**	15.3
Administrative expenses (see note 8)	**26.1**	22.3
Costs reflected in the revenue account from continuing operations	**103.7**	96.8

7. Property costs

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Service charge income	**(27.0)**	(23.0)
Service charge expense	**37.2**	32.5
Net service charge expense	**10.2**	9.5
Direct costs	**40.4**	42.0
Total property costs	**50.6**	51.5

8. Administrative expenses

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Salaries, national insurance and pension costs	**12.1**	10.6
Reorganisation and early retirement costs	**0.5**	0.5
Management and administration expenses	**13.4**	11.1
Auditors' remuneration	**0.1**	0.1
Total administrative costs	**26.1**	22.3

9. Staff costs

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

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Wages and salaries	**24.5**	23.9
Reorganisation and early retirement costs	**0.9**	1.1
National insurance costs	**3.0**	2.6
Current service cost – defined benefit scheme	**1.3**	1.1
Pension contributions – other pension schemes	**1.7**	2.2
Total staff costs	**31.4**	30.9
Less staff costs charged to capital account	**(11.4)**	(13.4)
Staff costs reflected in the revenue account	**20.0**	17.5
Included in:		
Administrative expenses	**12.6**	11.1
Direct costs	**7.4**	6.4
Charged to the capital account	**11.4**	13.4
	31.4	30.9

	Number	Number
The average number of employees during the year	**412**	422

10. Investment revenue

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Bank interest income	**3.0**	4.3
IAS 19 retirement benefits – net financing surplus (note 11b)	**0.2**	0.2
	3.2	4.5

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, The Opal Section, (closed to new entrants with effect from 1 January 2008) a defined contribution section and a hybrid section, The Quartz Section, (defined benefit for salaries up to £32,025 p.a. (Quartz Core) with money purchase provision above that level). This disclosure covers the defined benefit sections only.

A full actuarial valuation was carried out as at 31 March 2014 and updated to 31 March 2017 by a qualified independent actuary.

At 31 March 2014, the value of the scheme's assets was £41.0 million and these exceeded the actuarial value of the technical provisions by £3.1 million (7.5%). The actuarial assumptions used for the statutory funding valuation of the accrued benefits as at 31 March 2014 are that the pre-retirement investment yield would in the long term exceed earnings increases by 2% per annum and the post-retirement investment yield would be in line with pension increases. The actuarial assumptions used to determine the future service contribution rates use investment yields that are 1% per annum and 0.5% per annum higher respectively than the pre-retirement and post-retirement investment yields adopted for the statutory funding valuation. The regular employer contribution rates remain at 31.4% of pensionable earnings per annum for the Opal Section and 15.7% of capped pensionable earnings per annum for the Quartz Core Section.

11. IAS 19 retirement benefits continued

11a Balance sheet and notes

Group and Parent Amounts recognised in the consolidated balance sheet	31 March 2017 £m	31 March 2016 £m
Present value of funded obligations	(46.1)	(40.3)
Fair value of scheme assets	54.5	46.3
Net asset recognised in the consolidated balance sheet	8.4	6.0

Changes in the present value of the defined benefit obligation	31 March 2017 £m	31 March 2016 £m
Present value of defined benefit obligation at beginning of year	40.3	41.6
Current service cost	1.3	1.3
Interest cost	1.3	1.3
Members' contributions	0.2	0.1
Actuarial loss/(profit) on plan liabilities	6.6	(2.9)
Benefits paid	(3.6)	(1.1)
Present value of defined benefit obligation at end of year	46.1	40.3
Analysis of the defined benefit obligation		
Present value of the unfunded defined benefit obligation	–	–
Present value of the funded defined benefit obligation	46.1	40.3

Changes in the fair value of plan assets	31 March 2017 £m	31 March 2016 £m
Fair value of plan assets at start of year	46.3	46.9
Interest income	1.5	1.5
Actuarial gain/(loss) on plan assets	9.2	(1.8)
Contributions by The Crown Estate	0.9	0.7
Members' contributions	0.2	0.1
Benefits paid	(3.6)	(1.1)
Fair value of assets at end of year	54.5	46.3

Analysis of return on plan assets	31 March 2017 £m	31 March 2016 £m
Interest income	1.6	1.5
Actuarial gain/(loss) on plan assets	9.2	(1.8)
Actual return on scheme assets	10.8	(0.3)

11b Amounts to be recognised in the consolidated revenue account

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Net financing surplus (note 10)	(0.2)	(0.2)
Current service cost	1.3	1.3
Total pension expense	1.1	1.1

11. IAS 19 retirement benefits continued

11c Total amount recognised in the consolidated statement of comprehensive income of the revenue account

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Actuarial gain/(loss) on plan assets	**9.2**	(1.8)
Actuarial (loss)/gain on defined benefit obligation	**(6.6)**	2.9
Actuarial profit recognised in the consolidated statement of comprehensive income of the revenue account	**2.6**	1.1
Actuarial profit/(loss) on defined benefit obligation:		
Gain due to experience	**0.3**	0.6
Gain due to demographic assumptions	**0.6**	–
(Loss)/profit due to financial assumptions	**(7.5)**	2.3
Total actuarial profit/(loss) on defined benefit obligation	**(6.6)**	2.9

11d Cumulative amount recognised in the consolidated statement of comprehensive income of the revenue account

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Cumulative actuarial profits/(losses) since adoption of IAS19	**0.6**	(2.0)

11e Major categories of plan assets

	31 March 2017 £m	Percentage of total assets 31 March 2017 %	31 March 2016 £m	Percentage of total assets 31 March 2016 %
Equities	**27.5**	**50.4%**	22.6	48.8%
Government bonds	**22.1**	**40.6%**	19.4	41.9%
Other	**4.9**	**9.0%**	4.3	9.3%
Total	**54.5**	**100.0%**	46.3	100.0%

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: 2016 £nil).

11f Principal actuarial assumptions at the balance sheet date

	2017	2016
Discount rate	**2.60%**	3.60%
RPI price inflation	**3.20%**	3.20%
CPI price inflation	**2.10%**	n/a
Rate of increase in salaries	**2.60%**	3.20%
Pension increases	**3.20%**	3.20%
Post retirement mortality (life expectancy):	**S1NxA light YoB table adjusted for CMI 2015 with 1.5%pa trend rate**	S1NxA light YoB table adjusted for CMI 2013 with 1.5%pa trend rate

Notes forming part of the group and parent consolidated financial statements
continued

11. IAS 19 retirement benefits continued

11g Experience gains and losses

	31 March 2017 £m	31 March 2016 £m	31 March 2015 £m	31 March 2014 £m	31 March 2013 £m
Liabilities at year end	**46.1**	40.3	41.6	36.0	32.9
Assets at year end	**54.5**	46.3	46.9	41.0	39.7
Surplus at year end	**8.4**	6.0	5.3	5.0	6.8
Asset (loss)/gain:					
Amount (£m)	**9.2**	(1.8)	4.3	(0.6)	3.3
Percentage of scheme assets	**16.9%**	(3.9)%	9.2%	(1.5)%	8.3%
Liability gain/(loss):					
Experience gain/(loss) (£m)	**0.3**	0.6	1.7	(0.3)	(0.3)
Percentage of scheme liabilities	**0.7%**	1.5%	4.1%	(0.8)%	(0.9)%

For 2016/17, employer contributions to The Crown Estate pension scheme (including money purchase sections) were £1.6 million (2015/16: £1.5 million).

For 2016/17, employer contributions to The Principal Civil Service Pension Scheme (PCSPS) were £1.5 million (2015/16: £1.5 million).

For 2016/17, employers' contributions were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands. For 2017/18 the employer contribution will be between 20.0% and 24.5% 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 2017 £m	Year ended 31 March 2016 £m
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1a		
Total recovered from the capital account	**31.1**	29.0
Depreciation of fixed assets charged as costs in the income account	**3.1**	3.2
Total recovered under the Treasury agreement	**34.2**	32.2

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

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Reflected in the consolidated capital account:		
Surplus on revaluation of investment properties (note 18)	**264.6**	1,026.4
Adjustment for gross up for deferred rent movement	**191.0**	191.8
Gain on disposal of investment properties	**40.5**	56.3
Net revaluation gains in investment property (including profits on disposal)	**496.1**	1,274.5
Share of profit on disposal of property in joint ventures	**–**	0.7
Share of revaluation gains in joint ventures (note 22)	**8.3**	82.0
Share of revaluation gains in other property investments (note 23)	**1.6**	6.6
Total reflected in the consolidated capital account	**506.0**	1,363.8
Reflected in the statement of comprehensive income of the capital account:		
Deficit on revaluation of owner occupied property (note 19)	**(12.4)**	(3.6)
Total	**493.6**	1,360.2

14. Financial instruments

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

The cash holdings not needed for operational purposes are maintained in accounts with major United Kingdom clearing banks on an 'on-call basis', thereby minimising liquidity risks. These deposits are held on a floating interest basis. There is no currency risk as The Crown Estate only holds funds in sterling and there are no significant transactions in currencies other than sterling. The Crown Estate monitors the rates offered by the banks and transfers deposits as appropriate to maximise returns.

The financial assets held by The Crown Estate are cash equivalents and trade and other receivables (note 26). The Crown Estate's credit risk is primarily attributable to its trade receivables. The amount shown in the balance sheet is net of provision for trade receivables. An allowance for impairment is made where there is evidence that the debt may not be received under the original terms of the receivable concerned. The balance for trade receivables is relatively low in relation to the value of the balance sheet and therefore the credit risk attributable to receivables is considered to be low.

The financial liabilities held by The Crown Estate are trade and other payables (note 27), and the fair value of these liabilities equals their carrying value.

15. 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 2017 £m	Year ended 31 March 2016 £m
Moieties:		
Mineral dealings	**10.3**	10.7

16. Parliamentary Supply finance

The Crown Estate Act 1961 provides that monies are provided by Parliament in respect of Commissioners '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.

17. Consolidated Fund payment

In accordance with section 1 of the Civil List Act 1952, the net revenue account profit 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. £309.0 million was paid to the Treasury prior to the year end and a further £19.8 million is included within payables. The total payment in respect of 2016/17 will therefore be £328.8 million (2015/16: £304.1 million).

Notes forming part of the group and parent consolidated financial statements
continued

18. Investment properties

Group	As at 31 March 2017					As at 31 March 2016				
	Total Investment properties £m	Properties Under development £m	Total £m	Discontinued operations Scotland portfolio £m	Total including discontinued operations Scotland portfolio £m	Total Investment properties £m	Properties Under development £m	Total £m	Discontinued operations Scotland portfolio £m	Total including discontinued operations Scotland portfolio £m
Opening fair value	11,877.0	153.6	12,030.6	271.8	12,302.4	10,680.2	287.0	10,967.2	261.6	11,228.8
Less: deferred income from lease premiums received	(1,380.5)	–	(1,380.5)	–	(1,380.5)	(1,188.7)	–	(1,188.7)	–	(1,188.7)
Less: Head lease liabilities	(2.4)	–	(2.4)	–	(2.4)	(2.4)	–	(2.4)	–	(2.4)
At opening valuation	10,494.1	153.6	10,647.7	271.8	10,919.5	9,489.1	287.0	9,776.1	261.6	10,037.7
Acquisitions	47.9	68.0	115.9	0.5	116.4	42.4	–	42.4	–	42.4
Capital expenditure	318.2	115.8	434.0	1.7	435.7	106.8	67.6	174.4	2.3	176.7
Capital receipts	(18.1)	–	(18.1)	–	(18.1)	(20.5)	–	(20.5)	–	(20.5)
Transfers to other categories	131.8	(131.8)	–	–	–	179.6	(179.6)	–	–	–
Disposals	(328.8)	–	(328.8)	(1.6)	(330.4)	(351.1)	–	(351.1)	(4.9)	(356.0)
Revaluation	294.6	(30.0)	264.6	3.3	267.9	1,047.8	(21.4)	1,026.4	12.8	1,039.2
Impairment of discontinued operation	–	–	–	(275.7)	(275.7)	–	–	–	–	–
At closing valuation (before lease incentives)	10,939.7	175.6	11,115.3	–	11,115.3	10,494.1	153.6	10,647.7	271.8	10,919.5
Deferred income from lease premiums received	1,571.5	–	1,571.5	–	1,571.5	1,380.5	–	1,380.5	–	1,380.5
Head lease liabilities	2.4	–	2.4	–	2.4	2.4	–	2.4	–	2.4
Closing fair value	12,513.6	175.6	12,689.2	–	12,689.2	11,877.0	153.6	12,030.6	271.8	12,302.4
Reconciliation to valuation										
At closing valuation (before lease incentives)	10,939.7	175.6	11,115.3	–	11,115.3	10,494.1	153.6	10,647.7	271.8	10,919.5
Add lease incentives	16.8	–	16.8	–	16.8	7.1	–	7.1	–	7.1
At valuation	10,956.5	175.6	11,132.1	–	11,132.1	10,501.2	153.6	10,654.8	271.8	10,926.6

18. Investment properties continued

Group Continuing Operations						As at 31 March 2017	As at 31 March 2016
Portfolio	Central London £m	Regional Retail £m	Rural & Coastal £m	Windsor £m	Energy Minerals and Infrastructure £m	Total £m	Total £m
Opening fair value	7,755.0	1,685.9	1,450.7	188.1	950.9	12,030.6	10,967.2
Less: deferred income from lease premiums received	(1,325.3)	(55.2)	–	–	–	(1,380.5)	(1,188.7)
Less: Head lease liabilities	–	(2.4)	–	–	–	(2.4)	(2.4)
At opening valuation	6,429.7	1,628.3	1,450.7	188.1	950.9	10,647.7	9,776.1
Acquisitions	34.1	68.6	13.2	–	–	115.9	42.4
Capital expenditure	315.2	96.4	16.8	4.1	1.5	434.0	174.4
Capital receipts	(0.2)	(2.4)	(1.0)	–	(14.5)	(18.1)	(20.5)
Disposals	(144.3)	(4.3)	(180.3)	0.1	–	(328.8)	(351.1)
Revaluation	84.9	(30.9)	24.4	(0.4)	186.6	264.6	1,026.4
Impairment of discontinued operation	–	–	–	–	–	–	–
At closing valuation (before lease incentives)	6,719.4	1,755.7	1,323.8	191.9	1,124.5	11,115.3	10,647.7
Deferred income from lease premiums received	1,508.6	62.9	–	–	–	1,571.5	1,380.5
Head lease liabilities	–	2.4	–	–	–	2.4	2.4
Closing fair value	8,228.0	1,821.0	1,323.8	191.9	1,124.5	12,689.2	12,030.6
Reconciliation to valuation							
At closing valuation (before lease incentives)	6,719.4	1,755.7	1,323.8	191.9	1,124.5	11,115.3	10,647.7
Add lease incentives	–	16.8	–	–	–	16.8	7.1
At valuation	6,719.4	1,772.5	1,323.8	191.9	1,124.5	11,132.1	10,654.8

Notes forming part of the group and parent consolidated financial statements
continued

18. Investment properties continued

Parent	As at 31 March 2017 Total investment properties £m	As at 31 March 2016 Total Investment properties £m
Opening fair value	**12,302.4**	11,228.8
Less: deferred income from lease premiums received	**(1,380.5)**	(1,188.7)
Less: Head lease liabilities	**(2.4)**	(2.4)
At opening valuation	**10,919.5**	10,037.7
Acquisitions	**47.4**	42.4
Capital expenditure	**362.6**	176.7
Capital receipts	**(18.1)**	(20.5)
Disposals	**(330.4)**	(356.0)
Revaluation	**278.6**	1,039.2
Impairment of discontinued operations	**(275.7)**	–
At closing valuation (before lease incentives)	**10,983.9**	10,919.5
Deferred income from lease premiums received	**1,571.5**	1,380.5
Head lease liabilities	**2.4**	2.4
Closing fair value	**12,557.8**	12,302.4
Reconciliation to valuation		
At closing valuation (before lease incentives)	**10,983.9**	10,919.5
Add lease incentives	**16.8**	7.1
At valuation	**11,000.7**	10,926.6

All investment properties are classified as Level 3 within the value hierarchy as defined within IFRS 13. Level 3 inputs used in valuing the properties are those which are unobservable and observable inputs where significant adjustments have been applied to determine specific property valuations, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

All properties classified as investment properties under development are within the Central London and Regional Retail portfolios.

The historic cost of investment properties for continued operations of the group at 31 March 2017 was £3,250.0 million (31 March 2016: £2,962.6 million). The historic cost of investment properties for the parent at 31 March 2017 was £3,089.1 million (31 March 2016: £2,962.6 million).

The value of freehold investment properties for the continued operations of the group at 31 March 2017 was £10,999.4 million (31 March 2016: £10,662.2 million). The value of long leasehold properties for continued operations of the group at 31 March 2017 was £132.7 million (31 March 2016: £264.4 million). The value of freehold investment properties for the parent was £10,868.0 million (31 March 2016: £10,662.2 million). The value of long leasehold investment properties for the parent was £132.7 million (31 March 2016: £264.4 million).

Investment properties identified by the Board as held for sale of £nil at 31 March 2017 (31 March 2016: £nil) 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% interest in properties located in and around Regent Street in London. In September 2013, a further lease was granted to NBIM in return for a 25% interest in the Quadrant 3 building. 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% in the properties is included within the valuation figure at 31 March 2017. The Crown Estate's (group and parent) share of jointly controlled assets from continued operations was valued at £4,112.5 million at 31 March 2017 (31 March 2016: £3,845.3 million) out of the total investment property value of £11,132.1 million (31 March 2016: £10,926.6 million).

The property portfolio was valued on 31 March 2017 by independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation methods used are in accordance with RICS and those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13. More information about the fair value measurement is set out in note 20.

Valuers' fees are charged on a variety of bases including percentage of the valuation and fixed amounts.

19. Owner occupied property

Group and Parent	Central London £m	Windsor £m	As at 31 March 2017 Total £m	As at 31 March 2016 Total £m
Opening fair value	64.0	82.4	146.4	147.7
Capital expenditure	–	1.7	1.7	2.3
Revaluation	(17.0)	4.6	(12.4)	(3.6)
Closing fair value	47.0	88.7	135.7	146.4

All owner occupied properties are classified as Level 3 within the value hierarchy as defined within IFRS 13. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, ie as prices, or indirectly, ie derived from prices).

The historic cost of owner occupied properties at 31 March 2017 was £88.5 million (31 March 2016: £92.2 million).

The property portfolio was valued on 31 March 2017 by independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation methods used are in accordance with those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13.

Information about the fair value measurement of owner occupied properties is set out in note 20.

20. Fair value measurement of properties

For all investment property that is measured at fair value, the current use of the property is considered the highest and best.

Valuation process

The entire portfolio is valued on an annual basis by independent and qualified valuers on a fair value basis in accordance with IFRS 13, the RICS Valuation – Professional Standards (The Red Book) January 2016 and VPGA 1 guidance therein regarding valuation for inclusion in financial statements.

The Central London and Regional Retail portfolios are fully valued on a quarterly basis and a tonal exercise is also undertaken at the half year on the Rural and Central London (residential) properties.

The Crown Estate and its managing agents provide data to the valuers, including current lease and tenant data along with asset specific business plans.

The valuers use this and other inputs including market transactions for similar properties to produce valuations. These valuations and the assumptions they have made are then discussed and reviewed with the asset management team and Directors.

The annual valuation is presented to and the process is endorsed by the Audit Committee. A review is also presented to the Board annually.

Fair value hierarchy

The following table shows an analysis of the fair values of investment property recognised in the consolidated balance sheet. All are considered as level 3 in the fair value hierarchy.

20. Fair value measurement of properties continued

Valuation techniques used to derive level 3 fair values:

Class of property	**Fair value 31 March 2017 £m**	Fair value 31 March 2016 £m	Predominant valuation technique	Key unobservable inputs	Range	Principal valuer
Central London portfolio:						
Retail	**2,343.7**	2,288.7	Investment	ERV	£60–£855 psf ITZA	C&W
				Yield	2.95%–5%	
Offices	**3,105.8**	3,334.3	Investment	ERV	£25–£132.50 psf	C&W
				Yield	3.25%–6.0%	
Residential	**931.5**	667.2	Comparable	£ psf	£826–£4,246 psf	JLL
Owner occupied	**47.0**	64.0	Investment	ERV	£92.90	
				Yield	4.25%	
Other Central London	**338.4**	140.0	Investment	Yield	4.0%–12.69%	JLL/C&W/ Savills
	6,766.4	6,494.2				
Regional Retail portfolio:						
Retail	**69.0**	67.9	Investment	ERV	£44–£225 ITZA	JLL
				Yield	4.5%–8.6%	
Retail & Leisure Parks	**1,354.4**	1,218.1	Investment	ERV	£12–£125 psf	JLL
				Yield	4.2%–6.2%	
Offices	**151.0**	150.0	Investment	ERV	£27–£30.50	JLL
				Yield	5.5%	
Other Regional	**198.1**	199.1	Comparable/ Investment	Yield	5%–10%	JLL/C&W/ Savills
				ERV	£4.25–£8.00	JLL
				Proportion of vacant possession value	70%–95%	Savills
	1,772.5	1,635.1				
Rural and Coastal portfolio:						
Agricultural	**1,106.8**	1,244.8	Comparable/ Investment	Proportion of vacant possession value	50%–100%	Savills/ Strutt & Parker
				Yield	1%–3%	
			Comparable	Land value	£4,700– £8,000	Forest Valuations
				Timber value	£2,700–£13,700	
Coastal	**201.9**	190.6	Investment	Yield	5%–15%	Various
Minerals	**15.1**	15.3	Investment	Yield	5%–25%	Wardell Armstrong
	1,323.8	1,450.7				
Windsor portfolio:						
Owner occupied	**88.7**	82.4	Comparable	Proportion of vacant possession value	65%–95%	Savills
Other	**191.9**	188.1	Comparable/ Investment	Proportion of vacant possession value	65%–95%	
				Yield	1%–15%	Savills
	280.6	270.5				

20. Fair value measurement of properties continued

Class of property	Fair value 31 March 2017 £m	Fair value 31 March 2016 £m	Predominant valuation technique	Key unobservable inputs	Range	Principal valuer
Energy, Minerals and Infrastructure portfolio:						
Aggregates	**171.9**	168.1	Investment	Yield	7%–15%	Wardell Armstrong
				Annual extraction	c. 20 million tonnes	
Renewables	**854.8**	686.0	Investment/ DCF	Yield	5%–20%	JLL/ Powis Hughes
				Discount rate	8%–25%	
Cables & pipelines	**97.8**	96.6	Investment	Yield	6%–10%	Powis Hughes
	1,124.5	950.7				
Total all portfolios at valuation	**11,267.8**	10,801.2				

The fair values for the Central London portfolio by property type at 31 March 2016 have been restated to reflect more accurately the nature of use of multi let properties.Previously assets were categorised into property type by principal use.

Value of investment properties including share of joint venture investment properties and other property investments

Continuing operations	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Investment properties (note 18)	**11,132.1**	10,654.8
Owner occupied properties (note 19)	**135.7**	146.4
	11,267.8	10,801.2
Share of investment properties of joint ventures at valuation (note 22)	**1,062.9**	889.1
Other property investments (note 23)	**87.3**	85.6
Total value of investment properties including share of property of joint ventures and other property investments	**12,418.0**	11,775.9

Notes forming part of the group and parent consolidated financial statements
continued

20. Fair value measurement of properties continued

The fair value of investment property is determined using the following valuation methods:

Investment Method
This involves estimating the rental value of each lettable unit within the property, making an assessment of void periods and other costs of letting and then capitalising at an appropriate rate.

Hope value has been included where there is future reversionary potential, e.g. conversion of offices back to their original use as residential.

Discounted cash flow (DCF)
This involves the projection of cash flows to which an appropriate market-derived discount rate is applied to establish the present value of the income stream.

Comparable method
An indication of value arrived at by comparing information of the subject asset with similar assets for which valuation data is available.

Specific valuation considerations have been applied to the following classes of property:

Windfarms
Each Round 1 and Round 2 windfarm has been valued individually using an 'all risk' yield applied to the minimum and budgeted rents, or the actual output, subject to an end allowance where appropriate.

As a cross check, a discounted cash flow of projected revenue streams has been undertaken with appropriate discount rates for differing levels of status in the development programme.

Round 3 has been valued on a portfolio basis.

Strategic land
Hope value for strategic land is incorporated into the Rural portfolio, discounted to reflect the stage reached in the planning process.

Properties being re-developed
The Residual Method has been adopted which involves calculating the potential value when the property has been completed (using the Investment Method) and then deducting the cost to complete the construction, achieve lettings and appropriate allowances for profit to compensate for the risk of carrying out the development.

Rural and residential properties
These are generally valued using the Comparable Method and cross checked with the Investment Method.

Owner occupied commercial property
This has been valued using the Investment Method assuming an appropriate period to let the property at a market rent.

Owner occupied residential property at Windsor
This has been valued using the Comparable Method with an appropriate discount to the vacant possession value.

Sensitivity analysis
The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy of the investment property are:

- Estimating the rental value of each lettable unit with evidence derived from other recent lettings in the property itself or similar properties nearby, making adjustments for size, specification, location and letting incentives.
- Estimating the length of time taken and the cost to let vacant space and the likelihood of lease renewals.
- Deciding the appropriate capitalisation rate to be applied derived from transactions of comparable properties.
- Choosing the appropriate discount rate to vacant possession value for differing lengths and types of tenure on rural and residential tenancies.
- For property under development the assessment of the value created on completion and the allowance for construction and letting costs to achieve that.
- Inclusion of hope value for a higher value use (e.g. strategic land and properties with potential for residential conversion) dependent upon the likelihood, time and cost of achieving that use.
- Allowance for the level of volatility on turnover related valuations e.g. offshore windfarms, aggregates, minerals and aquaculture.
- Assessment of functional lifespan of offshore assets e.g. cables and pipelines.
- Assessing the appropriate discount rate for offshore windfarms from site exclusivity through to a generating windfarm.

Significant increases/(decreases) in the ERV would result in a higher/(lower) fair value measurement.

Significant increases/(decreases) in the long term vacancy rate (or yield) would result in a lower/(higher) fair value measurement.

21. Plant and equipment

Group and Parent	Plant and machinery £m	Office equipment £m	Leasehold Improvements £m	Motor vehicles £m	Total £m
Cost at 1 April 2016	4.8	25.7	–	1.2	31.7
Additions	0.2	3.2	4.9	0.1	8.4
Disposals	(1.3)	–	–	(0.2)	(1.5)
Impairment of discontinued operations	(0.9)	(0.7)	–	(0.2)	(1.8)
Cost at 31 March 2017	2.8	28.2	4.9	0.9	36.8
Depreciation at 1 April 2016	3.6	15.6	–	0.7	19.9
Charge	0.4	2.8	–	0.1	3.3
Disposals	(1.3)	–	–	(0.1)	(1.4)
Impairment of discontinued operations	(0.5)	(0.3)	–	(0.2)	(1.0)
Total depreciation at 31 March 2017	2.2	18.1	–	0.5	20.8
Net book value at 1 April 2016	1.2	10.1	–	0.5	11.8
Net book value at 31 March 2017	0.6	10.1	4.9	0.4	16.0

	£m	£m	£m	£m	£m
Cost at 1 April 2015	5.6	25.4	–	1.6	32.6
Additions	0.1	3.1	–	0.3	3.5
Disposals	(0.9)	(2.8)	–	(0.7)	(4.4)
Cost at 31 March 2016	4.8	25.7	–	1.2	31.7
Depreciation at 1 April 2015	4.0	15.5	–	1.3	20.8
Charge	0.4	2.9	–	–	3.3
Disposals	(0.8)	(2.8)	–	(0.6)	(4.2)
Total depreciation at 31 March 2016	3.6	15.6	–	0.7	19.9
Net book value at 1 April 2015	1.6	9.9	–	0.3	11.8
Net book value at 31 March 2016	1.2	10.1	–	0.5	11.8

22. Investment in joint ventures

The Crown Estate's investment in joint ventures is described below:

Group and Parent 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
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, London
Wexford Retail Limited Partnership	50%	August 2014	Gingko Tree Investment Limited	Fosse Shopping Park, Leicester
Fosse Park West Limited Partnership	50%	August 2015	Gingko Tree Investment Limited	Castle Acres, Fosse Park, Leicester
The St James's Partnership Group:				
St James's Market Haymarket Limited Partnership	50%	September 2013	Oxford Properties	2 St James's Market, London
St James's Market Regent Street Limited Partnership	50%	September 2013	Oxford Properties	1 St James's Market, London
St James's Market Development Limited	50%	September 2013	Oxford Properties	
SJM Four (South Block) LP	50%	May 2015	Oxford Properties	4 St James's Market, London
St James's Market Development (No. 2) Limited	50%	May 2015	Oxford Properties	

Notes forming part of the group and parent consolidated financial statements
continued

22. Investment in joint ventures continued

All joint ventures operate in the United Kingdom.

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

Group and Parent	Gibraltar LP £m	Crown Point £m	Maple LP £m	St James's Market Partnership Group £m	St James's Market Partnership Group 2 £m	Wexford Retail Limited Partnership £m	Other[1] £m	Total[2] £m
Share of assets and liabilities as at 31 March 2017								
Non-current assets	198.6	65.8	119.7	208.5	70.0	178.2	217.9	1,058.7
Current assets	7.1	2.0	5.2	2.5	1.0	7.0	7.8	32.6
Gross assets	205.7	67.8	124.9	211.0	71.0	185.2	225.7	1,091.3
Current liabilities	(2.3)	(1.5)	(2.5)	(1.1)	(1.1)	(2.5)	(8.8)	(19.8)
Long-term liabilities	–	–	–	–	–	–	(9.2)	(9.2)
Long-term bank loan	(71.4)	–	–	–	–	–	–	(71.4)
Share of net assets	132.0	66.3	122.4	209.9	69.9	182.7	207.7	990.9
Share of revenues and expenses for the year ended 31 March 2017								
Income	9.9	3.7	4.3	2.1	3.4	9.1	1.5	34.0
Expenses	(2.2)	(0.2)	(0.6)	(0.6)	(0.6)	(0.8)	(0.4)	(5.4)
Total share of revenues and expenses reflected in the consolidated revenue account	7.7	3.5	3.7	1.5	2.8	8.3	1.1	28.6
Share of profit on revaluation of investment reflected in the consolidated capital account	(2.4)	(0.6)	(2.3)	10.0	(3.7)	1.5	5.8	8.3
Total share of revenues and expenses reflected in the consolidated capital account	(2.4)	(0.6)	(2.3)	10.0	(3.7)	1.5	5.8	8.3
Share of joint venture's fair value movements on interest-rate swaps treated as cash flow hedges reflected in the consolidated capital account	0.1	–	–	–	–	–	–	0.1
Total share of revenues and expenses reflected in the comprehensive capital account	(2.3)	(0.6)	(2.3)	10.0	(3.7)	1.5	5.8	8.4

1 Other: Westgate Oxford Alliance Limited Partnership, Princes Street (Co-ownership agreement) and Fosse Park West Limited Partnership.

2 Capital contributions £4.2 million (2015/16: £3.8 million).

22. Investment in joint ventures continued

Group and Parent	Gibraltar LP £m	Crown Point £m	Maple LP £m	St James's Market Partnership Group £m	St James's Market Partnership Group 2 £m	Wexford Retail Limited Partnership £m	Other[1] £m	Total[2] £m
Share of assets and liabilities as at 31 March 2016								
Non-current assets	198.6	66.3	121.9	192.8	–	174.2	131.5	885.3
Current assets	6.6	2.3	5.3	0.3	–	3.4	5.6	23.5
Gross assets	205.2	68.6	127.2	193.1	–	177.6	137.1	908.8
Current liabilities	(1.3)	(1.6)	(2.2)	(7.3)	–	(1.8)	(2.9)	(17.1)
Long-term bank loan	(71.3)	–	–	–	–	–	–	(71.3)
Share of net assets	**132.6**	**67.0**	**125.0**	**185.8**	**–**	**175.8**	**134.2**	**820.4**
Share of revenues and expenses for the year ended 31 March 2016								
Income	9.8	3.6	4.0	0.5	–	8.4	1.9	28.2
Expenses	(3.0)	(0.2)	(0.7)	(0.4)	–	(0.8)	(1.4)	(6.5)
Total share of revenues and expenses reflected in the consolidated revenue account	**6.8**	**3.4**	**3.3**	**0.1**	**–**	**7.6**	**0.5**	**21.7**
Share of profit on disposal of property reflected in the consolidated capital account	0.7	–	–	–	–	–	–	0.7
Share of profit on revaluation of investment reflected in the consolidated capital account	4.1	(0.7)	14.8	48.2	–	(2.1)	17.7	82.0
Total share of revenues and expenses reflected in the consolidated capital account	**4.8**	**(0.7)**	**14.8**	**48.2**	**–**	**(2.1)**	**17.7**	**82.7**
Share of joint venture's fair value movements on interest-rate swaps treated as cash flow hedges reflected in the consolidated capital account	(1.2)	–	–	–	–	–	–	(1.2)
Total share of revenues and expenses reflected in the comprehensive capital account	**3.6**	**(0.7)**	**14.8**	**48.2**	**–**	**(2.1)**	**17.7**	**81.5**

Notes forming part of the group and parent consolidated financial statements
continued

22. Investment in joint ventures continued

Group and Parent Summary of movement in investment in joint ventures	**Year ended 31 March 2017 £m**	Year ended 31 March 2016 £m
At start of period	**820.4**	646.8
Net equity additions	**157.1**	90.9
Share of profit on sale of property	**–**	0.7
Surplus on revaluation of investment properties	**8.3**	82.0
Share of joint venture's fair value movements on interest-rate swaps treated as cash flow hedges	**0.1**	(1.2)
Distributions received	**(23.6)**	(20.5)
Share of revenue profit	**28.6**	21.7
At end of period	**990.9**	820.4

In March 2012, The Gibraltar Limited Partnership entered into a five-year £150 million facility agreement with Deutsche Pfandbriefbank AG and Helaba Landesbank Hessen-Thüringen Girozentrale. Interest rate swap agreements were entered into for £108 million under the facility until 29 March 2017 at 1.37%.

In 2014, following the sale of an asset, £22 million was repaid and £16 million of swaps terminated. In July 2015, the term of the loan was extended to 20 June 2019 (with the Partnership having the option to extend for a further 12 months if the termination date of the Partnership is extended). In addition, the margin on the loan was reduced from 2.5% to 1.3%, and the facility was increased from £128 million to £140 million. £70 million of further interest rate swaps were entered into for the period March 2017 to June 2020 at 2.07%.

The swaps were valued on 31 March 2017 with the combined fair value deficit of the swaps being £3.6 million of which The Crown Estate's share was £1.8 million. The fair value adjustment of the interest rate swap reflect the net present value of the difference in the projected cash flows at the relevant contracted rates and the valuation rates for the periods from 31 March 2016 to their contracted expiry dates. The valuation rates used for the fixed rate debt and the interest rate swap have been derived from the midpoint of the interest rate yield curve prevailing on 31 March 2017 for the period from that date to the contracted expiry dates.

The investment property included within the net current assets of jointly controlled entities included above have been valued in accordance with the requirements of IFRS 13 and are classified as Level 3 within the value hierarchy.

23. Other property investments

Other property investments comprise a 4.9% share of Lend Lease Retail Partnership, an English Limited Partnership, and a 6.4% interest in The Pollen Estate. Lend Lease Partnership provides an equity interest in both Bluewater Shopping Centre, Kent and Touchwood Court Shopping Centre, Solihull.

The Pollen Estate owns freehold property in an area of Mayfair to the west of Regent Street in London and is held by a subsidiary of The Crown Estate.

The investments are held at the group's share of fair value which is equivalent to share of net asset value. The property investments are classified as Level 3 within the value hierarchy as defined within IFRS13.

	Group 31 March 2017 £m	Group 31 March 2016 £m	**Parent 31 March 2017 £m**	Parent 31 March 2016 £m
Share of revenue profit	**2.2**	2.1	**1.4**	1.4
Share of revaluation gain/(deficit) of investment reflected in the consolidated capital account	**1.6**	6.6	**(1.3)**	1.5
Total	**3.8**	8.7	**0.1**	2.9
Share of net assets reflected in the balance sheet	**87.3**	85.6	**40.4**	41.6

24. Other investments

Other investments comprise antiques and paintings	**Group 31 March 2017 £m**	Group 31 March 2016 £m	**Parent 31 March 2017 £m**	Parent 31 March 2016 £m
Opening balance	**10.4**	10.4	**10.4**	10.4
Disposals	**(0.1)**	–	**(0.1)**	–
Revaluation gain	**0.5**	–	**0.5**	–
Closing balance	**10.8**	10.4	**10.8**	10.4

25. Receivables due after one year

	Group 31 March 2017 £m	Group 31 March 2016 £m	**Parent 31 March 2017 £m**	Parent 31 March 2016 £m
Other financial assets	**1.8**	1.8	**1.8**	1.8
Other receivables	**56.2**	62.2	**56.2**	62.2
	58.0	64.0	**58.0**	64.0

26. Trade and other receivables

	Group 31 March 2017 £m	Group 31 March 2016 £m	**Parent 31 March 2017 £m**	Parent 31 March 2016 £m
Trade receivables	**29.2**	17.6	**26.0**	16.7
Other financial assets	**0.1**	0.1	**0.1**	0.1
Amounts owed by subsidiary undertakings	**–**	–	**182.8**	41.3
Other receivables	**11.0**	21.6	**13.5**	21.6
Prepayments	**1.2**	0.2	**1.2**	0.2
Accrued income	**11.6**	11.5	**11.6**	11.2
	53.1	51.0	**235.2**	91.1

Trade and other receivables are shown after deducting the provision for bad and doubtful debts of £7.4 million (31 March 2016: £6.5 million restated). 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.

27. Payables

	Group 31 March 2017 £m	Group 31 March 2016 £m	**Parent 31 March 2017 £m**	Parent 31 March 2016 £m
Amounts falling due within one year:				
Trade payables	**3.5**	5.0	**2.6**	4.5
Rents received in advance	**74.2**	61.4	**74.2**	61.4
Taxes and social security	**20.2**	12.8	**20.2**	12.8
Other payables	**17.1**	18.0	**16.9**	17.8
Consolidated Fund	**19.8**	11.6	**19.8**	11.6
Accruals and deferred income	**29.3**	30.3	**28.2**	30.0
Deferred income on receipt of lease premiums	**15.3**	13.8	**15.3**	13.8
Obligations under finance leases	**0.3**	0.3	**0.3**	0.3
	179.7	153.2	**177.5**	152.2
Amounts falling due after more than one year:				
Deferred income on receipt of lease premiums	**1,556.2**	1,366.7	**1,556.2**	1,366.7
Obligations under finance leases	**4.4**	4.4	**4.4**	4.4
	1,560.6	1,371.1	**1,560.6**	1,371.1

28. Provisions

	Group £m	Parent £m
At 1 April 2016	**1.5**	1.5
Provision released	**(1.5)**	(1.5)
Reorganisation provision	**0.4**	0.4
At 31 March 2017	**0.4**	0.4

	£m	£m
At 1 April 2015	0.8	0.8
Provision released	(0.2)	(0.2)
Reorganisation provision	0.9	0.9
At 31 March 2016	1.5	1.5

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

29. Leasing

Operating leases with tenants

The Crown Estate leases out all of its investment properties under operating leases for average lease terms of 46 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	Group 31 March 2017 £m	Group 31 March 2016 £m
Less than one year	**303.3**	288.6
Between two and five years	**955.1**	964.3
More than five years	**4,416.7**	4,436.5
	5,675.1	5,689.4

Contingent rents receivable were £45.5 million at 31 March 2017 (£39.8 million at 31 March 2016).

Obligations under finance leases

Finance lease liabilities are payable as follows:

	Group 31 March 2017 £m			Group 31 March 2016 £m		
	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	**50.2**	**(46.7)**	**3.5**	50.2	(46.7)	3.5
	51.6	**(46.9)**	**4.7**	51.6	(46.9)	4.7

The amount recognised as an expense in the year in respect of contingent rentals is £0.3 million (31 March 2016: £0.3 million).

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

	Group Year ended 31 March 2017 £m	Group Year ended 31 March 2016 £m	**Parent Year ended 31 March 2017 £m**	Parent Year ended 31 March 2016 £m
Operating surplus – consolidated revenue account	**324.8**	317.9	**324.8**	317.4
Increase in employee benefits	**0.2**	0.4	**0.2**	0.4
Increase in receivables	**(6.4)**	(9.3)	**(147.5)**	(8.1)
Increase in payables	**20.9**	11.3	**19.7**	10.9
(Increase)/decrease in provisions	**(1.1)**	0.7	**(1.1)**	0.7
Net cash generated from operating activities	**338.4**	321.0	**196.1**	321.3

31. Analysis of change in cash and cash equivalents

	Group Year ended 31 March 2017 £m	Group Year ended 31 March 2016 £m	**Parent Year ended 31 March 2017 £m**	Parent Year ended 31 March 2016 £m
Balance at start of year	**907.3**	552.5	**906.8**	552.4
Net cash (outflow)/inflow	**(81.7)**	354.8	**(82.7)**	354.4
Balance at end of year	**825.6**	907.3	**824.1**	906.8

32. Subsidiary undertakings

The financial statements include the financial statements of the group and subsidiaries.

Shown below are the group's subsidiaries and other significant holdings, together with the interest owned by the group and registered office.

Purple Holdco Limited (100% interest)
Purple Investment Management LLP (100% interest)
Maple Investment GP Limited (50% interest)
Maple Investment, LP (50% interest)
Maple Nominee Limited (50% interest)
Wexford Retail GP Limited (50% interest)
Wexford Retail LP (50% interest)
Wexford Retail Nominee Limited (50% interest)
Fosse Park West GP Limited (50% interest)
Fosse Park West LP (50% interest)
Purple Investment GP Limited (100% interest)
TCE Purple Investment, LP (100% interest)
Anther GP Limited (100% interest)
Anther Partners LP (100% interest)
Shoemaker GP Limited (100% interest)
Shoemaker LP (100% interest)
Shoemaker Nominee Limited (100% interest)
St James's Market Haymarket GP Limited (50% interest)
St James's Market Haymarket LP (50% interest)
St James's Market Regent Street GP Limited (50% interest)
St James's Market Regent Street LP (50% interest)
SJM Four (South Block) GP Limited (50% interest)
SJM Four (South Block) LP (50% interest)
St James's Market Development Limited (50% interest)
St James's Market Development (No. 2) Limited (50% interest)
Urban lease Property Management Limited (100% interest)
The registered office of the above companies is 1 St James's Market London SW1Y 4AH

Notes forming part of the group and parent consolidated financial statements
continued

32. Subsidiary undertakings continued

Gibraltar General Partner Limited (50% interest). Registered office – York House, 45 Seymour Street, London W1H 7LX
The Gibraltar Limited Partnership (50% interest). Registered office – York House, 45 Seymour Street, London W1H 7LX
Gibraltar Nominees Limited (50% interest). Registered office – York House, 45 Seymour Street, London W1H 7LX
Westgate Oxford Alliance GP Limited (50% interest). Registered office – 100 Victoria Street, London, SW1E 5JL
Westgate Oxford Alliance Limited Partnership (50% interest). Registered office – 100 Victoria Street, London, SW1E 5JL
Westgate Oxford Alliance Nominee No.1 Limited (50% interest). Registered office – 100 Victoria Street, London, SW1E 5JL
Westgate Oxford Alliance Nominee No.2 Limited (50% interest). Registered office – 100 Victoria Street, London, SW1E 5JL

33. Capital commitments

At 31 March 2017, The Crown Estate had committed to make capital expenditure of £334.7 million (31 March 2016: £495.3 million) and had authorised additional expenditure of £242.2 million (31 March 2016: £155.8 million).

34. Contingent liabilities

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

35. 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 with joint ventures are given in note 22. During the year, The Crown Estate recognised management fees receivable from joint ventures of £3.0 million (2015/16: £3.1 million).

Details of Director's remuneration are given in the Remuneration Report.

Details of transactions between The Crown Estate and other related parties in the normal course of business are disclosed below:

Robin Budenberg, Chairman, is London Chairman of Centreview Partners UK LLP a sub tenant of The Crown Estate.

The National Trust, where David Fursdon, Board Counsellor, is a Trustee. The Crown Estate has multiple dealings with The National Trust.

Tony White, non-executive board member, is non-executive director of Low Carbon Contracts Company (LCCC). The LCCC implement policy and instructions which include a standard form of Contract for Difference (CfD). Given the role The Crown Estate plays in relation to CfDs, both onshore and offshore, and in line with best practice corporate governance, The Crown Estate supplies Tony White with relevant information regarding CfD projects where The Crown Estate plays a key role, either as landlord or as a substantial investor (over 49% total investment value).

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.

David Shaw, an employee of The Crown Estate is Chairman of The Pollen Estate. The Crown Estate owns a 6.4% interest in The Pollen Estate Trust.

Significant balances outstanding between the Parent and its subsidiaries are shown within notes 25 and 28.

36. Third party deposits

At 31 March 2017, The Crown Estate held £28.5 million (31 March 2016: £25.8million) on deposit on behalf of third parties.

37. Issue of accounts

On 8 June 2017, the financial statements were approved by the Board prior to certification by the Comptroller and Auditor General on 16 June 2017. On this date the financial statements are deemed to be authorised for issue. Post balance sheet events were considered up to this date.

38. Discontinued operations

In November 2015, the Smith Commission recommended that the management of the assets of The Crown Estate in Scotland should be devolved to Scottish Government.

On 23 March 2016, the Scotland Act made legal provision for the devolution of Crown Estate management in Scotland to the Scottish Government. The final terms of the transfer was subject to an agreement between HM Treasury and Scottish Government. The transfer terms were agreed as part of a Statutory Transfer Scheme which was passed by Parliament on 23 March 2017 and took effect after midnight on 31 March 2017. From this point on the management of the Scottish assets passed to The Crown Estate Scotland (Interim Management), a body corporate, controlled by Scottish Government.

The transfer of management of the Scotland portfolio has been regarded as a discontinued operation under IFRS 5. The Scotland portfolio investment properties were independently valued at 31 March 2017 at a fair value of £275.7 million. The investment properties together with other assets with a book value of £13.7 million were transferred to the new entity for £nil consideration and, along with transfer costs, an overall impairment of £291.8 million has been recognised in the Consolidated capital account.

Revenue account – discontinued operations

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Revenue	18.1	14.1
Costs	(4.5)	(3.5)
Operating surplus	13.6	10.6
Investment revenue	–	–
Net operating profit before depreciation, Treasury agreements and Statutory transfers	13.6	10.6
Depreciation of tangible fixed assets	(0.2)	(0.1)
Net operating profit before Treasury agreements and Statutory transfers	13.4	10.5
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	(1.1)	(1.3)
Statutory transfers	(0.2)	(0.1)
Net revenue account profit from discontinued operations	12.1	9.1

Capital account – discontinued operations

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Charge from revenue for salary costs	(0.7)	(1.0)
Net revaluation gains in investment property (including profits on disposal)	3.3	17.8
Capital profit before Treasury agreements and Statutory transfers	2.6	16.8
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	1.1	1.3
Statutory transfers	0.2	0.1
Net capital account profit from discontinued operations	3.9	18.2

38. Discontinued operations continued

Additional notes – discontinued operations

Staff costs	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Wages and salaries	1.8	1.6
National insurance costs	0.2	0.2
Pension contributions	0.2	0.2
Total staff costs	2.2	2.0
Less staff costs charged to the capital account	(0.7)	(1.0)
Staff costs reflected in the revenue account	1.5	1.0
Average number of employees during the year	32	35

Discontinued operations – statement of cash flows

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Net cash outflow from operations	(1.5)	0.5
Net cash inflow from investing operations	1.1	(0.1)
Net (decrease)/increase in cash during the year	(0.4)	0.4
Cash at start of the year	0.4	–
Cash at end of the year	–	0.4

Supplementary disclosures

Unaudited

Summary consolidated income statements on a proportionally consolidated basis

The table below is unaudited and does not form part of the consolidated primary statements or notes thereto. It presents the results of the continuing operations of the Group, with its share of the results of jointly controlled interests on a line-by-line, i.e. proportional basis. The revenue and capital profit are the same as presented in the Consolidated Revenue and Capital accounts.

	Year ended 31 March 2017			Year ended 31 March 2016		
Consolidated revenue account	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Revenue	428.6	34.0	462.6	404.1	28.2	432.3
Direct costs (including service charge costs)	(77.6)	(3.8)	(81.4)	(74.5)	(4.2)	(78.7)
Gross surplus	351.0	30.2	381.2	329.6	24.0	353.6
Indirect costs	(26.1)	–	(26.1)	(22.3)	–	(22.3)
Operating surplus	324.9	30.2	355.1	307.3	24.0	331.3
Net investment revenue	3.2	(1.6)	1.6	4.5	(2.3)	2.2
Share of revenue profit from joint ventures	28.6	(28.6)	–	21.7	(21.7)	–
Share of revenue profit from other property investments	2.2	–	2.2	2.1	–	2.1
Depreciation of tangible fixed assets	(3.1)	–	(3.1)	(3.2)	–	(3.2)
Net consolidated operating profit before Treasury agreements and Statutory transfers	355.8	–	355.8	332.4	–	332.4
Treasury agreements	(31.1)	–	(31.1)	(29.0)	–	(29.0)
Statutory transfers	(10.3)	–	(10.3)	(10.7)	–	(10.7)
Parliamentary Supply finance	2.3	–	2.3	2.3	–	2.3
Net consolidated revenue account profit from continuing operations	316.7	–	316.7	295.0	–	295.0
Net consolidated revenue account profit from discontinued operations	12.1	–	12.1	9.1	–	9.1
Net consolidated revenue account profit – distributable to the Consolidated Fund	328.8	–	328.8	304.1	–	304.1

	Year ended 31 March 2017			Year ended 31 March 2016		
Consolidated capital account	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Revenue	16.0	–	16.0	13.3	–	13.3
Charge from revenue for salary costs	(11.4)	–	(11.4)	(13.4)	–	(13.4)
Revaluation gains including profit on disposal	496.1	8.3	504.4	1,274.5	82.7	1,357.2
Share of revaluation gains and profit on disposal in joint ventures	8.3	(8.3)	–	82.7	(82.7)	–
Share of revaluation gain in other property investments	1.6	–	1.6	6.6	–	6.6
Impairment of discontinued operation	(291.8)	–	(291.8)	–	–	–
Consolidated capital account profit before Treasury agreements and statutory transfers	218.8	–	218.8	1,363.7	–	1,363.7
Treasury agreements	31.1	–	31.1	29.0	–	29.0
Statutory transfers	10.3	–	10.3	10.7	–	10.7
Consolidated capital account profit from continuing operations	260.2	–	260.2	1,403.4	–	1,403.4
Net capital account profit from discontinued operations	3.9	–	3.9	18.2	–	18.2
Net consolidated capital account profit	264.1	–	264.1	1,421.6	–	1,421.6

Notes forming part of the group and parent consolidated financial statements
continued

Supplementary disclosures continued

Summary balance sheet on a proportionally consolidated basis

The tables below are unaudited and do not form part of the consolidated primary statements or notes thereto. They present the composition of the net assets of the Group, with its share of the net assets of jointly controlled interests on a line-by-line, i.e. proportional basis.

	31 March 2017			31 March 2016		
Balance sheet	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Investment properties	12,689.2	1,058.7	13,747.9	12,302.4	885.3	13,187.7
Owner occupied properties	135.7	–	135.7	146.4		146.4
Other property investments	87.3	–	87.3	85.6		85.6
Total properties	12,912.2	1,058.7	13,970.9	12,534.4	885.3	13,419.7
Investment in jointly controlled entities	990.9	(990.9)	–	820.4	(820.4)	–
Other non-current assets	84.8	–	84.8	86.2		86.2
Current assets (including pension asset)	887.3	32.6	919.9	964.4	23.5	987.9
Current liabilities	(180.1)	(19.8)	(199.9)	(154.7)	(17.1)	(171.8)
Payables – amounts falling due after more than one year	(1,560.6)	(80.6)	(1,641.2)	(1,371.1)	(71.3)	(1,442.4)
Net assets	13,134.5	–	13,134.5	12,879.6	–	12,879.6

	31 March 2017			31 March 2016		
Properties	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Investment properties at fair value	12,689.2	1,058.7	13,747.9	12,302.4	885.3	13,187.7
Deferred income from lease premiums received	(1,571.5)	–	(1,571.5)	(1,380.5)		(1,380.5)
Head lease liabilities	(2.4)	–	(2.4)	(2.4)		(2.4)
Lease incentives	16.8	4.2	21.0	7.1	3.8	10.9
Investment properties at valuation	11,132.1	1,062.9	12,195.0	10,926.6	889.1	11,815.7
Owner occupied properties	135.7	–	135.7	146.4	–	146.4
Joint venture properties	1,062.9	(1,062.9)	–	889.1	(889.1)	–
Other property investments	87.3	–	87.3	85.6	–	85.6
Total properties at valuation	12,418.0	–	12,418.0	12,047.7	–	12,047.7

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

Income account	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**
Revenue (excluding service charge income)	231.9	285.8	299.7	306.8	314.2	332.2	350.8	373.1	395.1	**419.6**
Direct operating costs (including net service charge expense)	(40.2)	(42.6)	(52.9)	(42.5)	(41.8)	(49.0)	(45.9)	(51.1)	(54.2)	**(53.4)**
Gross surplus	191.7	243.2	246.8	264.3	272.4	283.2	304.9	322.0	340.9	**366.2**
Administrative expenses	(15.5)	(17.0)	(18.5)	(17.1)	(18.4)	(19.8)	(20.0)	(20.9)	(23.0)	**(27.7)**
Indirect operating expenses	(0.7)	–	–	–	–	–	–	–	–	**–**
Net revenue account profit	**213.4**	**226.5**	**210.7**	**230.9**	**240.2**	**252.6**	**267.1**	**285.1**	**304.1**	**328.8**
Consolidated Fund payment	211.0	230.0	210.0	231.0	240.2	251.8	266.2	285.1	304.1	**328.8**

Balance sheet	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**
Investment, development and owner occupied properties	7,245.6	6,073.2	6,696.4	7,552.3	8,118.4	8,574.7	9,858.7	11,376.5	12,448.8	**12,824.9**
Non-current investment property assets held for sale	12.0	221.9	135.1	17.5	22.5	105.5	56.5	–	–	**–**
Investment in joint ventures	203.3	185.7	212.7	265.0	266.9	275.3	396.3	646.8	820.4	**990.9**
Other property investments	38.6	27.5	30.0	33.1	34.0	35.7	35.8	79.0	85.6	**87.3**
Other plant, property and equipment	4.9	8.5	8.3	7.1	7.7	7.6	6.5	11.8	11.8	**16.0**
Other investments	4.9	4.9	4.9	5.3	5.3	5.4	10.2	10.4	10.4	**10.8**
Receivables due after one year	3.2	11.4	13.3	21.4	23.7	29.3	39.8	57.4	64.0	**58.0**
Current assets (excluding assets held for sale)	590.1	421.9	480.6	311.0	608.7	610.6	571.3	591.7	958.4	**878.9**
Pension asset	0.9	0.9	–	2.3	2.8	6.8	5.0	5.3	6.0	**8.4**
Current liabilities	(103.1)	(164.9)	(104.6)	(102.3)	(121.3)	(115.5)	(110.9)	(136.1)	(154.7)	**(180.1)**
Non-current liabilities	(666.7)	(776.2)	(837.1)	(859.9)	(914.2)	(920.5)	(992.5)	(1,181.1)	(1,371.1)	**(1,560.6)**
Capital and reserves	**7,333.7**	**6,014.8**	**6,639.6**	**7,252.8**	**8,054.5**	**8,614.9**	**9,876.7**	**11,461.7**	**12,879.6**	**13,134.5**

In 2017, the Scottish portfolio was classified as a discontinued operation. Income account figures for this year represent continuing operations only, and the balance sheet includes the impact of the impairment of the discontinued operation. Prior year figures have not been restated.

Glossary

Bespoke benchmark
An MSCI benchmark based upon the Annual Index weighted to reflect our ownership as at 31 March 2008. This excludes the Scotland portfolio assets and our ownership of certain non-commercial assets including the Windsor Estate.

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.

Developer's profit
Net development value minus total development cost. When expressed as a percentage, the developer's profit is divided by the total development cost.

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 joint ventures 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.

ITZA
'In terms of Zone A'.
A method for measuring retail space on a like-for-like basis.

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

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

MSCI
MSCI real estate benchmark which produces independent benchmark of property returns, formerly IPD.

Net revenue profit
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 ERV.

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.

Proportionally Consolidated
The results and share of joint venture assets and liabilities are presented on a line by line basis rather than as a single figure in the consolidated statements of Comprehensive Income and Balance sheets.

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.

Reportable incidents
Any incidents that are reportable to the Health and Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) 2013.

Revaluation Surplus
An increase in the fair value of a property over its book value.

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 property capital employed.

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

Void
Unoccupied and unlet space.

Stay informed:

Online

Corporate website:
www.thecrownestate.co.uk

Social media & updates

Follow us on Twitter:
@TheCrownEstate

London
The Crown Estate
1 St James's Market
London
SW1Y 4AH
T 020 7851 5000

Windsor
The Crown Estate
The Great Park
Windsor, Berkshire
SL4 2HT
T 01753 860 222

thecrownestate.co.uk
@TheCrownEstate

ISBN 978-1-4741-4511-4
9 781474 145114