THE CROWN ESTATE

Investing in tomorrow...

Annual Report and Accounts 2012

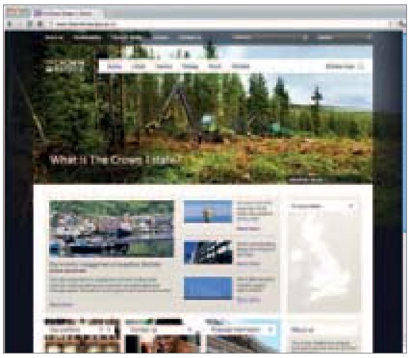
To The Queen's Most Excellent Majesty
May it please Your Majesty, The Crown Estate Commissioners take leave to submit this their fifty-sixth Report and Accounts, in obedience to sections 2(1) and 2(5) of the Crown Estate Act, 1961.

What's inside

Online

Online annual and sustainability report
www.thecrownestate.co.uk/annual-report/

Corporate website
www.thecrownestate.co.uk

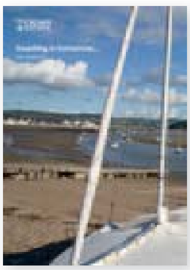


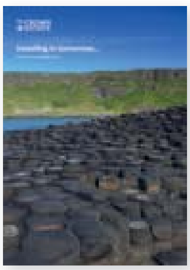
Regional publications

Scotland
Report 2012

Wales
Financial highlights 2012

Northern Ireland
Financial highlights 2012





...working hard today

We are privileged to own and manage some of the highest quality assets in the UK. And in today's tough economic climate it is about having the expertise and the right culture running through our organisation to effectively manage our diverse property portfolio. We have been working incredibly hard across all our estates to ensure we succeed today, but continue investing to make sure we succeed tomorrow.

We strive to deliver a solid performance in a tough environment.

£240.2m
Net income surplus (profit)

£314.2m
Revenue (excluding service charge income)

16.8%
The Crown Estate total return
Target – 9.5% (IPD bespoke)

£7.6bn
Property valuation (including share of joint venture properties and other property investments)

12.2%
Capital growth
Target – 4.5%

£8.1bn
Capital value

See all our **Key performance indicators** on page 14

What we've been doing during the year...

Left

Quadrant 3 completed ahead of schedule

We are delighted with the early completion of Quadrant 3, our most significant redevelopment yet. Four months ahead of schedule and under budget, the mixed-use building has already attracted a list of high profile retail, restaurant and office tenants, including a company co-founded by former US Vice President, Al Gore. The £300 million, 270,000 sq ft building is just off the southern end of Regent Street, adjacent to Piccadilly Circus.

See **Urban estate** on page 20

Right

Continued investment in Regent Street

2012 marks the halfway point of The Crown Estate's 20-year £1 billion investment programme. In 10 years, we have completed the redevelopment of some of London's most iconic buildings, created two food quarters and delivered nearly £20 million in public realm improvements.

The Regent Street Partnership with Norges Bank Investment Management (NBIM) has helped to secure the long-term sustainability of our investment programme, which will continue to deliver significant improvements to one of the most iconic destinations in London.

See **Urban estate** on page 20

Right

New rural lease types introduced

In autumn 2011, we introduced a new type of lease known as the Farm Business Tenancy (variable) agreement, creating a direct link between rental and commodity prices. This approach has been widely applauded by tenants, their representative bodies and the industry alike.

See **Rural estate** on page 36

Below

Key events draw visitors

Windsor Great Park once again proved popular with its annual calendar of events, including estate tours, special open days and unique sculpture displays. The Savill Garden has since seen a 10 per cent increase in visitor numbers against last year.

See **Windsor estate** on page 42

Above

UK wave and tidal sites total 36

We are delighted to announce three further agreements for lease for wave and tidal energy projects, taking the total number under development around the UK to 36. Interest in wave and tidal energy is now evident across the whole of the UK, with the Northern Ireland tidal leasing round continuing to run in parallel with developments in Scotland, Wales and England.

See **Marine estate** on page 28

A snapshot of our business

The Crown Estate is a commercial property business. We act at all times with integrity and are committed to careful stewardship of the assets we have been trusted to manage. In the last year we concluded £1 billion of property transactions and completed one of the most ambitious redevelopment schemes in the heart of London. We manage one of the nation's largest rural estates, and are also investing over £100 million alongside some of the world's largest energy companies to help drive the UK's emerging offshore renewable energy industry.

Urban estate

See **page 20**

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

Marine estate

See **page 28**

Our role is to manage and enhance the value of our marine assets. This includes issuing licenses or leases for renewable energy generation, aquaculture, cables and pipelines. We are also responsible for marinas, moorings, and have an interest in many ports and harbours. We own almost the entire seabed out to the 12 nautical mile territorial limit around the UK.

Rural estate

See **page 36**

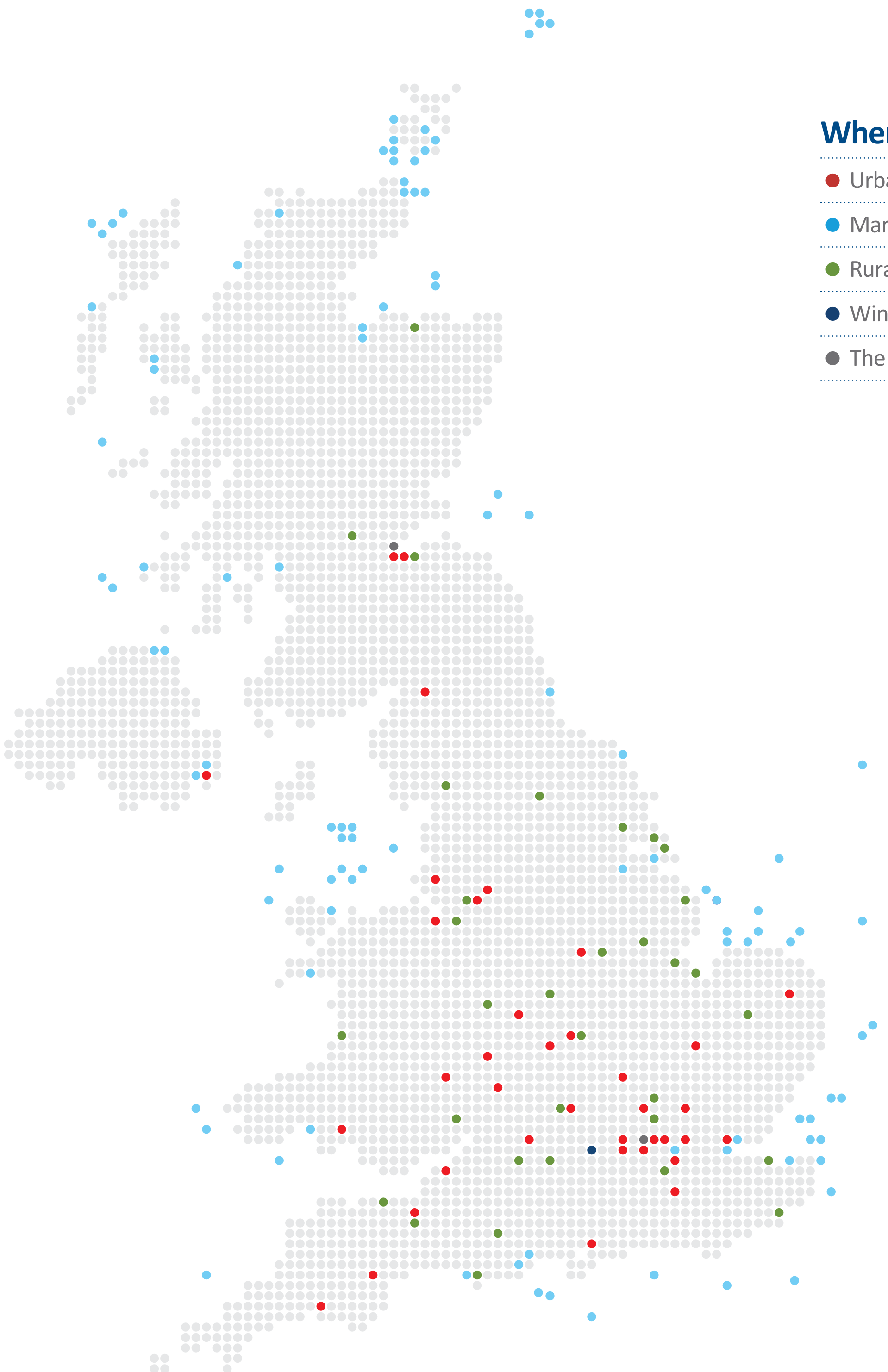
The rural estate is one of the largest in the UK with almost 144,000 hectares (356,000 acres) of agricultural land and forests, together with minerals and residential and commercial property in England, Scotland and Wales.

Windsor estate

See **page 42**

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

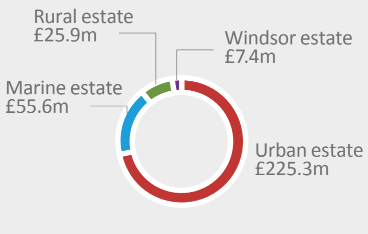
Indicative map of larger scale asset activities



Where we operate

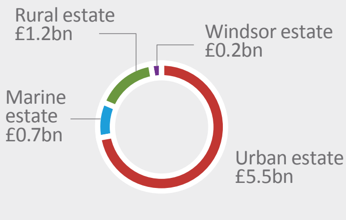
- Urban estate
- Marine estate
- Rural estate
- Windsor estate
- The Crown Estate offices

Revenue
2012

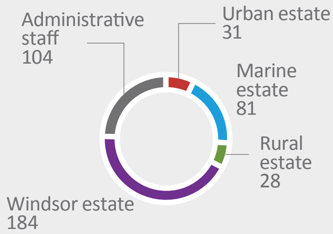


Valuation
2012

(Including share of joint venture property and other property investments)



Average number of employees
2012



Chairman's statement

The UK economy has presented a tough climate for advancing profits over the last year. However, these conditions have underlined both the significance of the record contribution of £240.2 million which The Crown Estate has been able to make to the nation's finances and also the role we play in energy and food security, and in enhancing the public value of the assets we hold.

The statutory duties of The Crown Estate direct us towards a long-term perspective in managing our assets, but creating long-term wealth depends on constant active engagement in the market and working with our tenants to secure that growth. Investing in tomorrow does indeed demand hard work today and I'm proud of, and have been regularly impressed by, the entrepreneurship and imagination shown by The Crown Estate team.

Success in a complex business like The Crown Estate is measured in a number of ways. Firstly, by pushing ahead our profits by 4 per cent, which shows that we're homing in on our goal of £250 million by 2014. Secondly, by the scale of development activity and its impact on the public realm. The completion of Quadrant 3 ahead of time, within budget and 60 per cent already let, at the time of writing, is a credit to the development team; we're now embarking on a similarly ambitious £400 million redevelopment of St James's Market. These two ambitious projects illustrate the part we play in transforming the attractiveness of the historic heart of our capital city, not just for those who live and work here, but also for the millions of tourists who visit every year; indeed, active management is the hallmark of our commercial property holdings throughout the country. Thirdly, by the way we've encouraged our tenant farmers to respond to the demands of food security, including the trialling of innovative leases linked to grain prices. Fourthly, by the recognition within government and in the renewable energy industry of the leading role we play in de-risking the massive investment needed to secure the country's energy supplies. And finally, by the collection of a good number of awards through the year; although winning awards is not an objective of our actions, it's pleasing to win the recognition of peers and commentators in a highly commercial and competitive marketplace.

So, it's been a year showing progress on all fronts and well-flagged intentions to carry this record forward. We hold our assets for the benefit of the nation, but in no sense does 'holding' imply passive ownership, and I congratulate all members of the executive team on their achievements across all our estates over the last year.

I commented last year that The Crown Estate had caught more of the limelight than was necessarily expected, and this public attention has continued over the last 12 months. In our day-to-day operations we constantly interact with government, local authorities and communities at all levels, and our apolitical constitution is essential to this. Nevertheless, wider political considerations buzz about our heads, and we have played our part in appearing before parliamentary committees on four occasions. We value the fact that ministers have indicated their support for retaining The Crown Estate as a UK-wide organisation. As a body with responsibilities in Scotland, Wales and Northern Ireland as well as England, we are able to apply the full resources of The Crown Estate in support of all areas of the UK. We are always ready to recognise opportunities for improvement, and we continue to focus on how we can engage most usefully with the devolved administrations and with local communities.

The year saw a major change at the top of The Crown Estate, with the appointment of Alison Nimmo CBE as our chief executive. It's already clear that, alongside some refreshing new insights, she is sustaining the distinctive values of the business and the momentum behind our strategy.

It is also a tribute to the excellent work of Roger Bright CB, who retired at the end of 2011 after ten years as chief executive, that the hand-over was achieved so effectively and harmoniously. I'm pleased to record here my appreciation of the outstanding contribution he made over that period in transforming The Crown Estate into one of the UK's most successful property businesses and a major force in delivering renewable energy.

The achievements of The Crown Estate depend primarily on the quality of our executive team, but the Board provides invaluable advice and support. Ian Marcus was appointed as a non-executive member in January 2012, and we are fortunate to have secured such extensive experience in the banking and property sectors. He replaced Jenefer Greenwood, who has served her full term of eight years on the Board, and I'm delighted that we shall continue to draw on her expertise as a Board Counsellor. Martin Moore relinquishes this latter role, and completes a hugely valued nine-year association with The Crown Estate.

Good governance is important to us and also implicit in our desire to build trust and be transparent in all that we do. We set high standards for ourselves, and it was undeniably pleasing to win the Investor Relations Society's award for the best unlisted Annual Report in 2011.

Looking ahead, we will continue to face challenges in what is likely to remain a tough economic environment for some time to come. However, I am confident that our track record shows that we have the skills within this business to make the most of the assets under our stewardship. We remain committed to delivering outstanding results for The Crown Estate and, therefore, for the nation.

Sir Stuart Hampson
Chairman and First Commissioner

We welcomed a new Chief executive to The Crown Estate on 1 January. Here, Alison Nimmo CBE gives her initial views on the organisation, its performance over the year and her expectations for the future.

What are your first impressions of The Crown Estate?

What has struck me most is the sheer variety and range of places where The Crown Estate operates, the breadth of things we do and the strategic significance of many of the assets we hold.

This is a unique organisation which is responsible for managing a diverse portfolio of assets throughout the UK. Although we are probably best known for urban and rural real estate activities and the extensive holdings around our coastline, in reality our assets range across all classes. We manage a diverse portfolio, ranging from prime central London retail and office space to large residential, agricultural and regional retail holdings, as well as historic landscapes such as the Windsor estate.

Whilst The Crown Estate has become increasingly professionalised and commercial, at its core it remains a genuinely values-driven business, steeped in tradition. I see an organisation shaped by the commitment and passion of its people – be they our estate workers at Windsor and Glenlivet; our world-class renewable energy team; or our teams leading the transformation of Regent Street and St James's.

A remarkably modest organisation, I feel that The Crown Estate is one of the best kept secrets in the UK. The team has a proven track record of delivery, a strong balance sheet, and it consistently outperforms its peer group – both public and private. Now that's something to be proud of.

Are you happy with this year's performance?

Absolutely. The Crown Estate has delivered consistent returns and outperformed many of its peer group over the past 10 years. This year is no exception. Once again we have posted a great performance, particularly gratifying in such challenging market conditions. As you can see from the following pages, all four estates have made a significant contribution to this achievement.

Overall, The Crown Estate has achieved another record year in profits, which rose by 4 per cent to £240.2 million, all of which is returned to the Treasury. Capital value is at an all-time high at £8.1 billion up 11 per cent on 2010/11. Looking at our performance against our peers, we outperformed the bespoke benchmark developed in conjunction with the Investment Property Databank (IPD), with a total return of 16.8 per cent, compared to the benchmark which returned 9.5 per cent.

The business has changed a lot in recent years. What are the key challenges and will you look to change things much?

I've inherited a business in good shape. Over the past 10 years my predecessor, Roger Bright CB, has led the impressive transformation of The Crown Estate into a more modern and dynamic business. I want to build on this to create an even more innovative and high performing business. The current economic and real estate market backdrop creates a challenging environment for us, our peers and of course our partners. We will be taking a sensible approach to risk, managing new investments carefully and keeping a close eye on tenant arrears and default in the coming year.

Nevertheless, with challenge comes opportunity and the diversity of our holdings, our ability to take a long-term view and the expertise of our team will continue to be our key competitive strengths. We'll use our strong balance sheet and prime position in the marketplace to seek out opportunities for investment, development and partnership, in particular in our core holdings in prime heartlands of central London and in our offshore business.

Interview continued overleaf

As ever, The Crown Estate needs to be light on its feet in responding to a business environment and a political and policy context that are fast changing. Devolution and localism have been in the headlines for much of this year. The current overhaul of the town planning system with the Localism Act and the new National Planning Policy Framework (NPPF) presents our urban and rural businesses with new challenges. Food and energy diversity and security are becoming ever more important political priorities for the country and as always we're mindful of the important role we play in helping to deliver. For example, just five years ago our offshore renewable energy business delivered less than 1 per cent of our turnover. This year it has increased to 3 per cent, with significant potential for future growth. We've built a world-class energy and infrastructure team, now totalling 85, with expertise in many fields including the development of business areas such as tidal and wave energy, as well as carbon capture and storage (CCS).

The challenge is to continue to grow the core business in a sustainable way, whilst balancing our exposure and risk. Our ground breaking strategic partnerships with Norges Bank Investment Management (NBIM) and Healthcare of Ontario Pension Plan (HOOPP) are an incredibly important step forward in enabling us to unlock capital for reinvestment in our future development pipeline. These partnerships are working well and we hope to build on this successful model, with the right partners who share our values.

And through our current Business Improvement Programme we're taking a hard look at how we continue to drive profitability by managing our costs tightly and operating as a leaner, more efficient and focused business.

What do you think were the greatest achievements of the year?

First and foremost our financial returns – both capital and revenue – are impressive by any measure beating the revenue targets set by the Treasury.

But our business is about a lot more than just hitting the bottom line.

We were very proud to be awarded Platinum status in the Business in the Community's 10th Corporate Responsibility Index, surpassing our own target of Gold status. This achievement gives us important external recognition for our strong commitment to an integrated approach to sustainability, community, environment and climate change across our core business practices.

In terms of real estate, as reported by the chairman, the completion of our Quadrant 3 development ahead of time and budget was a real highlight. Our headline letting to Al Gore's Generation Investment Management speaks volumes about the sustainability credentials of the development. It took bravery and foresight to agree development of the Quadrant in 2008 just three weeks after the collapse of Lehman Brothers, but this complex project has been handled with real skill and its impressive delivery showcases the expertise we have in The Crown Estate.

Below Aerial view of St. James's where work has begun on our landmark £100 million Gateway development.

Our landmark partnership with NBIM, managers of the Norwegian Government Pension Fund Global, in our Regent Street portfolio has meant developing different ways of working, accounting and reporting into the joint venture. This has all been executed smoothly as has our partnership with HOOPP on our St James's Gateway development.

As active asset managers, we've continued to evolve the portfolios of both the urban and rural estates, making astute purchases to improve the portfolio and our development pipeline. These include the proposals for St James's Market, the acquisition of retail parks at Swansea and Maidstone, the planned expansion of the Westgate Centre, Oxford, and the funding of a new retail park at Milton Keynes. We've also made a series of timely disposals of non-core assets.

In terms of our rural assets, we've completed a number of sales and major re-lets, rolling out our new farm business tenancy (variable) agreement – or FBT(v). We've also enjoyed notable successes with major planning permissions, and at Taunton the council has resolved to grant consent for the building of 580 homes for a new community, following extensive consultation with local residents and authorities.

On the Marine estate, the installed capacity of offshore wind farms is close to doubling year on year and now accounts for around 1.5 per cent of UK electricity production. Further new offshore wind farm sites are coming on stream this year, including the London Array project which alone could provide the power for the equivalent of one in four homes in Greater London. Encouraging progress continues to be made on Round 3 where, for example, developers have signed up for 23.6 GW of grid connections. In addition, the team has successfully launched the Northern Ireland wind and tidal energy leasing rounds, which have the potential to deliver up to 800 MW of capacity.

The development of wave and tidal energy elsewhere has also taken great steps forward in the last 12 months. The UK now has 36 sites under development or in operation around the UK – more than any other country in the world.

At Windsor Great Park we recorded a significant increase in income as the estate attracted more visitors than ever before, with over 3 million in the past 12 months.

What will be the key focus for the year ahead?

2012 is a special year. We'll be proudly playing our part in making a success of the Queen's Diamond Jubilee and the London 2012 Olympic and Paralympic Games. This is a great moment for us to showcase Regent Street and St James's and welcome the world to the heart of London. At Windsor we have completed the restoration of Cow Pond – a beautiful new addition to the Estate's magnificent gardens – as one of our Diamond Jubilee projects. There will of course be challenges carrying on our business and keeping our major pipeline of development projects on programme during what will be a very busy summer, but we are confident that we have robust plans in place.

Looking ahead, my first priority is to put in place a new strategic vision to 2022. We have already started this work, taking inspiration from other ground breaking businesses. A core priority is to embed sustainability at the heart of the business, leveraging relationships across our business areas – for example, from our renewable energy business into our central London portfolio – in order to drive competitive advantage.

In terms of efficiency, the first major output from our Business Improvement Programme is the merger and reshaping of the rural and coastal businesses and this will be delivered on a phased basis.

The key priorities of our investment strategy focus on:

- Rebalancing the portfolio to focus on our key sectors (central London, regional retail and offshore renewable energy).
- Providing adequate working capital for the business to reinvest in the portfolio.
- Continuing to develop our business model towards a modern asset management style.

We remain committed to delivering across the UK. Working through our Edinburgh office we will continue to support the Scottish Government in its ambitions for growing offshore energy and supporting its local communities.

And to sum up?

It's an absolute privilege to be leading The Crown Estate at such an exciting time in its history. I was attracted to an organisation with a super-prime asset base, a UK-wide reach and a commitment to achieving that rare balance between delivering the commercial returns required today and a focus on stewardship and investing in a strong legacy for tomorrow. We want to build on our current strengths to demonstrate how sustainable growth and a responsible approach to business creates a powerful new business model for the long term.

Alison Nimmo CBE
Chief executive

Our vision is to be the UK's most respected property business in the light of our sustainable approach to managing a diverse portfolio of assets on behalf of the nation. We conduct our business with three core values in mind: commercialism, integrity and stewardship. These are integral to the work we do and form part of the very fabric of our business.

Commercialism

We are committed to a commercial approach to asset management that delivers significant financial benefit to the nation through the Treasury.

Commercialism in action

As part of our vision for Regent Street, we have already completed 10 major redevelopments and refurbishments. Since completion of the Quadrant 3 development, work has commenced on Block W4, our next major mixed-use scheme.
We also own nearly 50 per cent of the buildings in St James's, which is the focus of a £500 million investment plan comprising some 4 million sq ft of retail, office and residential space with a value of over £1 billion.

Above An aerial view of Regent Street, part of our core central London holdings.

Left Bespoke tailors make up the quintessential character of St James's.

Integrity

Acting with integrity in all our dealings, we work closely alongside tenants, communities, businesses, governments, and local authorities, as we strive to deliver our vision of being the UK's most respected property business.

Integrity in action

RenewableUK and The Crown Estate Renewable Energy Health and Safety Award

The Crown Estate has a long-term interest in the successful development and operation of offshore wind farms. We believe that success will depend on the development and sharing of safe practices across the industry so we have decided to actively encourage such behaviour by sponsoring this health and safety award for 'the sharing and learning of best practice'.

Left The Renewable Energy Health and Safety Award is a gömböc – a homogenous, self-righting object designed with precision engineering.

Below Safeguarding the Marine Environment – a workshop with Lumens Christi School, Derry.

Above Members of Dunster community following the planting of their community orchard.

Stewardship

Stewardship is deeply engrained in our culture; because of our history and because of our heritage, we act at all times as good stewards of the properties we manage. We strive for the best standards of management: in our parkland and gardens; in our farmland and our forestry; in the marine environment; and in our buildings and streetscapes.

Stewardship in action

Community comes together for Dunster's new orchard

As part of our 250th anniversary celebrations, The Crown Estate funded the planting of a new community orchard in Dunster. The local management committee is planning a number of orchard events, including family picnics and traditional celebrations such as the ancient 'Wassailing' – a blessing of the trees.

Overview Performance Sustainability Governance Financials

Commercialism

Key performance indicators

Net income surplus

Why we measure this
The Crown Estate is responsible for maintaining and enhancing the value of the estate and its income in the long term, and to enact this with due diligence and careful management.

The net revenue surplus (profit) earned by The Crown Estate is paid to the Treasury for the benefit of the nation.

We measure this to demonstrate sustainable income growth.

Target
Achieve a revenue contribution to the Treasury of £250 million by 2014.*

How we performed
This year we have returned a record year in profits, which rose by 4 per cent to £240.2 million, all of which is paid to the Treasury. During the past 10 years we have delivered over £2 billion to The Treasury.

£240.2m

Net income surplus
(profit)

Net income surplus (profit) £ million
2014 Target – £250 million
2012 – £240.2 million
2011 – £230.9 million

Total return

Why we measure this
We compare our total return performance against the main industry benchmark to provide assurance that we are delivering consistently strong returns when compared to our peer group. It also more closely measures us against enhancing value and income.

Target
Consistently outperform our IPD (Investment Property Databank) bespoke benchmark.*

How we performed
This year our total return was 16.8 per cent outperforming the industry wide benchmark by 10.4 percentage points and our bespoke benchmark by 7.3 percentage points.

16.8%

The Crown Estate total return
Target – 9.5% (IPD bespoke)

IPD bespoke %
Actual – 16.8
IPD bespoke – 9.5
IPD Annual March Index – 6.4

IPD rolling three years %
Actual – 16.7
IPD bespoke – 12.9
IPD Annual March Index – 11.7

Capital growth

Why we measure this
We seek to consistently enhance the capital value of the estate.

Target
Consistently outperform the IPD (Investment Property Databank) capital growth index.*

How we performed
This year our capital growth was 12.2 per cent outperforming the industry wide benchmark by 11.5 percentage points.

12.2%

Capital growth
Target – 4.5%

Capital growth %
Actual – 12.2
IPD bespoke – 4.5
IPD Annual March Index – 0.7

Other performance indicators

Net income surplus

How we performed

Our net income surplus (profit) rose by 4 per cent to £240.2 million – up £9.3 million compared to 2011.

Net income surplus
(profit) £ million

2012 – £240.2
2011 – £230.9
2010 – £210.7
2009 – £226.5
2008 – £213.4

Revenue (excluding service charge income)

How we performed

Revenue increased by 2.4 per cent to £314.2 million – up £7.4 million compared to 2011.

Revenue (excluding service charge income) £ million

2012 – £314.2
2011 – £306.8
2010 – £299.7
2009 – £285.8
2008 – £266.8

Gross surplus

How we performed

Our gross surplus increased by 3.1 per cent to £272.4 million – up £8.1 million compared to 2011.

Gross surplus
£ million

2012 – £272.4
2011 – £264.3
2010 – £246.8
2009 – £243.2
2008 – £191.7

Capital value

How we performed

Our capital value increased by 11.1 per cent to £8,055 million – up £802 million compared to 2011.

Capital value
£ million

2012 – £8,055
2011 – £7,253
2010 – £6,640
2009 – £6,015
2008 – £7,334

Property valuation

How we performed

Our property value increased by 7.4 per cent to £7,589 million – up £521 million compared to 2011.

Property valuation (including share of property of joint ventures and other property investments) £ million

2012 – £7,589
2011 – £7,068
2010 – £6,296
2009 – £5,806
2008 – £6,925

Integrity and stewardship

Key performance indicators

Target: *Win more nationally recognised awards**

Deal of the Year – NBIM

In April 2011, The Crown Estate and Norges Bank Investment Management (NBIM) triumphed at the prestigious Property Week Awards, winning 'Deal of the Year' for The Crown Estate's sale of a 25 per cent stake in Regent Street to NBIM, which manages the Norwegian Government Pension Fund Global.

Sustainability Award

Our Quadrant 3 development scooped top prize for sustainability initiative of the year at the Estates Gazette National awards, December 2011.

Investor Relations Society

We were delighted to be announced as winner at the Investor Relations Society Best Practice award for best annual report by an unlisted entity.

Target: *Enter The Sunday Times' list of good employers**

Effective management

To help us achieve our goal of entering *The Sunday Times* list of good employers, we have continued to invest in the delivery of a management and leadership programme, with 99 per cent of managers participating in a three-day leadership programme during the course of 2011/12.

Target: *Achieve 'Gold' in the Business in the Community (BiTC) Corporate Responsibility Index**

Target exceeded

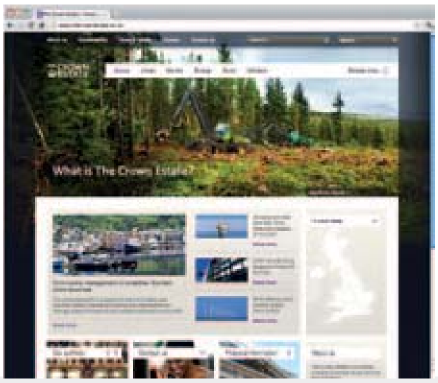
We achieved Platinum status in the BITC Corporate Responsibility Index – the UK's leading voluntary benchmark of Corporate Responsibility, focusing on corporate integration of sustainability, community, environment, climate change, marketplace and workplace issues.

Other performance indicators

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

New corporate website launched

Our extensive new website launched in November 2011. Clearer navigation has greatly improved access to information which is a key vehicle in promoting ourselves to partners, investors, tenants and the general public.



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

Investment Partnerships

In July 2011 The Regent Street Partnership announced the purchase of two Regent Street properties: 4 Conduit Street and 1 Maddox Street, for £28 million. This was followed by the purchase of the head lease of Jaeger House on Regent Street in January 2012.

Target: *Ensure Crown Estate employees and representatives actively embrace our core values**

Volunteering

Our popular volunteering scheme grants employees up to two days per year to volunteer for work which helps develop leadership and team building skills, whilst contributing to a good cause.

Target: *Ensure we are regarded by our stakeholders as indispensable**

Annual events calendar

We maintain a busy and active calendar of stakeholder engagement events which in 2011/12 included a series of breakfast talks and the launch of the Piccadilly Two-Way scheme with the Mayor of London, Boris Johnson.

Our investment strategy

The principal purpose of our investment strategy is to take a high level view of our portfolio and consider its overall strategic direction. The Crown Estate continues to be a very resilient business and has outperformed its targets despite the economic downturn. We continue to look beyond short-term market volatility and concentrate on our medium- to long-term view. Our partnership investments have this year provided working capital for the business to continue reinvestment across our portfolio's core areas, where we benefit from competitive advantage and critical mass.

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

Rebalance the portfolio to focus on our key sectors

These are: central London, prime regional retail, offshore renewable energy and strategic land opportunities on our rural estate.

Provide adequate working capital for the business to reinvest in the portfolio

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

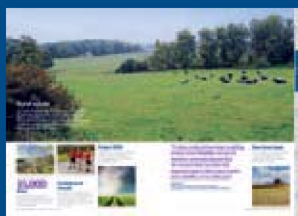
Continue to develop our business model towards a modern asset management style

After a period of considerable change the portfolio is well balanced being both comparatively low risk whilst still containing substantial asset management opportunities.

We have a vision about what we want to achieve in the long term. But today we continue to work hard, delivering a strong performance in a tough environment. Our strategic investments and active asset management initiatives deliver successful and sustainable improvements across our portfolio, demonstrating a firm commitment to our long-term business objectives.

Urban estate on page 20

Marine estate on page 28



Rural estate on page 36

Windsor estate on page 42

Urban estate

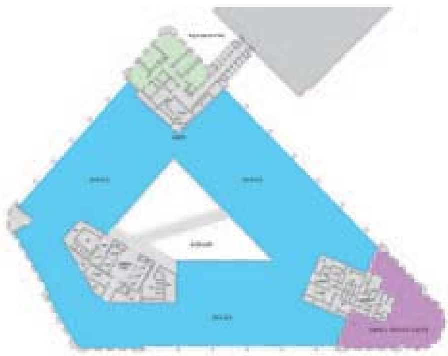
The latest scheme in our £1 billion Regent Street investment programme, Quadrant 3 was completed during the year – on budget and ahead of schedule. The mixed-use project includes prime Grade A office space together with 70,000 sq ft of flagship retail and restaurant space, as well as new homes and a large new pedestrian area.

£1bn
Regeneration programme

Quadrant 3 is a key part of our £1 billion, 20-year investment strategy to transform this historic part of London for the benefit of those who live and work here as well as visitors.

Sustainable design

Quadrant 3 incorporates decentralised energy production and energy efficiency measures to reduce carbon emissions, together with the largest and most efficient fuel cell in Europe.



60%
Let

The scheme was already 60 per cent let at year end and will soon generate valuable revenue for the portfolio.

"We are very pleased to be able to continue our partnership with The Crown Estate, whose emphasis on sustainability is fully aligned with our own values and investment philosophy."

Al Gore
Chairman of Generation Investment Management
(and former Vice President of the United States)

Restoring iconic interiors

Our work on Quadrant 3 included the restoration of two of London's most iconic restaurants, which involved detailed research into the original 1930s designs and the help of expert craftsmen and craftswomen.

The urban estate is the largest portfolio by value managed by our organisation. It is focused on major mixed-use holdings in London's West End and prime retail schemes outside the capital.

This was a year in which we continued to successfully embed opportunities for growth into the portfolio, which in the past has reaped significant rewards.

During 2011/12, the urban estate continued to benefit from a strategy that looks beyond short-term market volatility to concentrate on a medium- to long-term view. Our prime portfolio and active asset management are the cornerstones of a business which has proven to be more resilient than many of its competitors during recent periods of volatility.

Revenue, showed a modest reduction in the year of 0.7 per cent to £225.3 million, which reflects the successful re-investment of funds received from our partnership with Norges Bank Investment Management (NBIM) on Regent Street, which will contribute fully in 2012/13. Valuations, including share of property held in joint ventures, increased by 4.4 per cent to £5.5 billion with an additional £539 million under management. Following £261.5 million of purchases and investment management initiatives, £101.2 million of development expenditure and £607.6 million of sales, net disinvestment in the portfolio amounted to £244.9 million.

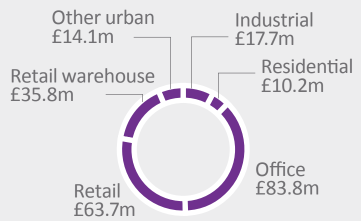
Over the year we delivered a total return of 12.5 per cent, outperforming the IPD Annual March Universe benchmark return by 6.4 per cent. This builds on our rolling three-year relative outperformance of 3.7 per cent per annum and reflects the quality of our portfolio and the strength of the asset management where our void rate and arrears were just 2.7 per cent (excluding Quadrant 3) and 0.4 per cent of rental value at the year end. Our achievements have again been recognised and we were proud to be named 'Best Core Investor' in the Investment Pensions Europe Awards, for our significant transaction activity and focused strategy.

A resilient marketplace

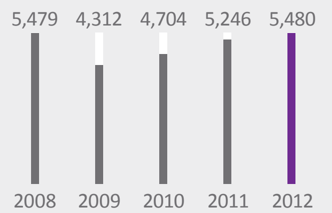
Given the uncertain economic backdrop, the UK commercial property market remains challenging. The lack of consumer and business confidence continues to produce historically weak activity in the occupier markets which in many property segments has resulted in static or falling capital and rental values. In the capital markets, transactional levels remain relatively low, with a limited amount of property coming to the market, as investors target prime stock supported by strong lease and covenant fundamentals.

Nevertheless, the UK's reputation as a safe haven for global capital continues to support international investment, particularly in London. Here the occupational market is characterised by a shortage of new supply and vacancy rates are at their lowest since 2008. We are in a strong position through the delivery of Quadrant 3 in 2011, at 270,000 sq ft of commercial space, our largest project to date. In terms of the large office floor plates, supply is very limited, which is

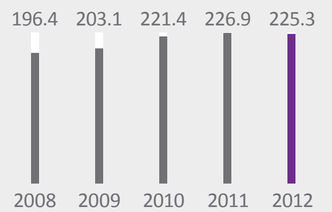
Revenue by activity
2012



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



Revenue
£ million



Above Morfa retail park, Swansea. We invested nearly £200 million in retail parks during the year, taking the value of our regional portfolio to over £1 billion for the first time.

Below Part of our £500 million investment programme for St James's, the £100 million Gateway project is on target for completion in May 2013.

evidenced by our letting over 60 per cent of Quadrant 3 within two months of completion. Similarly, central London retail has performed well, supported by tourism, with international brands competing to gain representation on the prime retail pitches. This is evidenced by the likes of Burberry choosing to open their largest store in the world on Regent Street, together with the arrival of Hollister and also the world's largest Superdry outlet.

Outside London, the trend for leading retailers to consolidate into prime centres remains strong. Our investment strategy focuses on these centres and this has proven to be beneficial as vacant space is quickly taken up by retailers eager to capitalise on the advantages offered by regionally dominant schemes.

Residential properties played a greater role in the portfolio during the year. An increase in activity among buyers from the Middle East, Europe and Asia has significantly driven up prime central London capital values. On the rental side we anticipate considerable interest in the accommodation we are currently creating as part of our mixed-use developments.

Investing for the future

In the West End our transformation of Regent Street continues. A huge amount of progress has been made over the last 10 years, transforming it into an iconic retail destination and location of choice for many international retailers for their London flagship stores. There is however a considerable amount still to be done, particularly to bring much of the office space into the 21st century. Our investment in the street therefore continues.

Similarly, in St James's, we have taken the decision to take a more proactive stance with the announcement of a £500 million investment programme. The area has suffered from a lack of investment and presents many opportunities to leverage off our extensive ownership and to build upon

the area's traditional characteristics. In 2011 we published a framework of strategies which will guide our approach to St James's, covering matters such as public realm, architecture and conservation. These represent a clear expression of our ambitions.

Accordingly, in both St James's and Regent Street, we have ambitious plans for further high quality mixed-use schemes and we are currently on site with two major projects delivering over 200,000 sq ft of commercial space in 2013. Among future projects taking shape is St James's Market. This is a significant scheme that includes blocks on Regent Street and Haymarket with associated residential provision in Russell Court, Cleveland Row and St James's Street. World-class 21st century architecture and preserved historic façades, together with a transformational public realm scheme, will deliver a new destination for London, creating around 245,000 sq ft of commercial accommodation and 57,000 sq ft of residential space. Public consultation is currently under way and we expect to submit a planning application during 2012.

St James's Market is the lead scheme in our St James's investment programme. Additionally, in the short term we will be refurbishing 50,000 sq ft of space which will benefit from public realm improvements at Waterloo Place and in the medium term we are working up another 100,000 sq ft of development opportunities in the core areas of St James's.

We are also exploiting opportunities in our regional portfolio. For example in Oxford, with our partners Land Securities, we are close to signing an agreement with a leading anchor store retailer for a transformational project which will help facilitate the redevelopment of the Westgate Centre and improve supply in what is a tightly constrained market. There

Above We jointly funded the Piccadilly Two-Way scheme, which has improved the public realm and eased traffic congestion.

Top Work has commenced on Block W4 on Regent Street, which will provide around 95,000 sq ft of offices on six levels, together with extensive retail space.

is a notable shortage of high quality retail space in the city centre, a situation that a refurbished, extended and re-launched Westgate is ideally positioned to exploit. In Exeter, also alongside Land Securities, we are co-funding the development of a new department store for the John Lewis Partnership adjacent to our Princesshay shopping centre and have carried out a feasibility study into an extension of the shopping centre itself. Meanwhile, in Milton Keynes we are funding the development of the MK1 shopping park, where five of the seven units are already pre-let to Primark, M&S, River Island, H&M and Arcadia.

Reaping the rewards of hard work

In London we saw our hard work since 2008 come to fruition with the completion of the Quadrant 3 mixed-use development within budget and four months ahead of schedule. The latest scheme in our £1 billion Regent Street investment programme, in a challenging occupational market, Quadrant 3 has seen strong demand and was 60 per cent let at the year end. It is the new home for a wide range of quality, high profile retail, restaurant and office tenants including Generation Investment Management, the independent investment firm dedicated to sustainable investing led by former US Vice President Al Gore. It has won a number of national awards for excellence and is a great showcase of the quality The Crown Estate delivers.

Sustainability lies at the heart of the scheme, which incorporates decentralised energy production and energy efficiency measures to reduce carbon emissions. Two combined cooling, heating and power units, photovoltaic cells and thermal stores provide 22 per cent of the energy and heat for the entire building. One of these units is the largest and most efficient fuel cell in Europe, estimated to reduce CO_2 by 40 per cent.

As Al Gore commented: "We are very pleased to be able to continue our partnership with The Crown Estate, whose emphasis on sustainability is fully aligned with our own values and investment philosophy."

Partnerships are increasingly important to our business model, and our relationship with Norges Bank Investment Management (NBIM) gathered significant momentum during the year. Together, we continued our investment in Regent Street with the purchase of three strategic buildings for a total of £78 million and the commencement of our first joint development, Block W4, at 153–167 Regent Street. The completed building will provide 95,000 sq ft of offices and 35,000 sq ft of retail by spring 2014.

We also continued to make good progress with the St James's Gateway, our first major scheme on St James's, in partnership with Healthcare of Ontario Pension Plan (HOOPP). This £100 million mixed-use project is on target for completion in May 2013 and will provide 57,000 sq ft of offices, 21,000 sq ft retail and 18,800 sq ft residential.

Also, as part of our wider investment in St James's, we acquired the headlease of Trafalgar House at 11/12 Waterloo Place for £20 million. A £5 million refurbishment is now under way with completion anticipated in October 2012 and an agreement for lease has already been concluded with Villandry, the restaurant operator, to take occupation of the ground floor and basement.

Beyond London, active asset management was behind the evolution of our regional retail portfolio which is now valued at over £1 billion for the first time and encompasses interests in 14 prime retail parks and five shopping centres. Many of these were purchased during the downturn at competitive prices, positioning us very well for the future. The strategy remains unchanged: to make selective investments in high quality, dominant retail parks and shopping centres.

Above The world-famous Apple store, built behind the listed façade of Regent House.

During the year we invested close to £200 million in acquiring Morfa shopping park in Swansea, South Aylesford retail park in Maidstone, and the new MK1 shopping park in Milton Keynes, which is in the early stages of its development.

Sense of place, sense of responsibility

As landlords and developers, we are committed to building a sustainable business and playing our part for the benefit of the wider community. This commitment finds expression in many ways, from relieving traffic congestion and improving the public realm to helping local residents into employment and encouraging energy efficiency.

The last financial year saw activity undertaken on a number of important community initiatives. For example, in Westminster, our workplace co-ordinator helped place 118 unemployed local people in work, beating the initiative's target by almost 300 per cent. We also continued our support for charity and not-for profit-organisations whose activities directly benefit the West End by providing them with rent-free office space.

We believe strongly that developments should have 'a sense of place' and strive to improve the public realm in a way that is relevant to the location itself and the needs of local communities. To this end, we worked alongside Westminster City Council and Transport for London on a ground breaking £14 million transformation of Piccadilly and its surrounding areas. This scheme, which was officially opened by the Mayor of London, Boris Johnson, on 3 November 2011, means that two-way traffic has returned to Piccadilly for the first time since the early 1960s.

We also designed and funded improvements to pedestrian areas in Glasshouse Street, Air Street and Sherwood Street and helped with design and approvals for the improvement of lower Regent Street, Haymarket and Waterloo Place. As part of the St James's public realm improvements, we are working on the initial design for Waterloo Place and hope to obtain all the necessary approvals so that work can commence in 2013.

As part of our sustainability targets, we seek to achieve BREEAM Excellent ratings on our developments and we incorporate sustainable criteria into our investment decision-making process. It is therefore gratifying that the Quadrant 3 development has achieved a BREEAM Excellent rating and we are targeting a similar outcome for the MK1 retail park.

Above Our development plans for St James's aim to preserve and protect the rich historic character of the area.

Left The Quadrant 3 development, which features a rich mixture of retained neo-classical façade and contemporary architecture.

Below Aintree retail park, Liverpool – a major mixed-use development situated next to the famous racecourse which hosts the Grand National.

Developing the portfolio

The headline transactions that have defined our progress in recent years have reached a natural pause. Although we will continue to trade at the margins, as opportunities become evident, we expect to see transaction levels ease back as we focus on tactical asset management and refining our short- to medium-term sector weightings. We will be focusing on adding value to what is now a high quality portfolio and that will be led by our development activity.

The outlook for the marketplace in general is heavily dependent upon the strength of the global economy, most particularly the Eurozone and the US recovery. However, amidst these concerns, many economies around the world continue to grow strongly and the UK's position as a leading service industry provider, global finance centre and safe haven, will continue to make UK markets – and in particular London – attractive to international visitors and investors. Consequently, we are confident that this global presence will continue to drive the market forwards.

The supply and demand dynamics in our prime West End and regional retail holdings all appear encouraging. Over the next year we expect capital markets to soften but at the prime end, where we are active, any weakening will be slight if at all. Our assumption is that the UK economy will gain momentum over the next year or so. In the short term, returns will be income driven but we are well positioned to benefit when confidence improves.

Marine estate

The marine estate is at the forefront of developing a new secure energy industry, bringing global energy companies into the country, and providing jobs and inward investment across the UK.

Offshore wind moving to delivery

The installed capacity of offshore wind farms is close to doubling and year-on-year now provides around 1.5 per cent of UK electricity production.

"We lead the world in offshore wind: the UK already generates more power from offshore wind than the rest of Europe combined. We also have an exceptionally strong pipeline of projects going out to 2020 and beyond."

Charles Hendry
Minister of State for Energy, Department of Energy and Climate Change

Working with government and industry

Through the offshore wind developer's forum, we are focusing on removing barriers to development in conjunction with the Government, 17 offshore wind developers and devolved administrations.

Marine minerals and infrastructure

Marine Minerals remain an important business through our interests in marine aggregates (sand and gravel), potash, polyhalite and rock salt. This year the majority of sand and gravel dredged from the seabed was used in construction, with minor volumes used for coastal defences and reclamations. The Cables and Pipelines sector continues to make a significant contribution to our revenue.

Round 3 coming to life

In October piling began for the installation of the first met mast in our Round 3 offshore wind programme. Using less steel than previous designs, it is hoped that it will help reduce the cost of offshore wind by 10 per cent. This demonstrates how cutting edge technology is at the heart of developing the UK's offshore renewables capability.

The marine estate includes around half of the foreshore of the UK and almost the entire seabed out to the 12 nautical mile territorial limit. It also comprises the rights to explore and utilise certain natural resources of the UK continental shelf to 200 nautical miles.

Our role is to commercially and sustainably manage these assets of national importance for the benefit of the nation. We take this responsibility seriously, engaging with partners, statutory authorities, local people and other bodies on a regular basis in order to facilitate the development of a world-class offshore energy capability that is already bringing significant new inward investment, businesses and jobs to the UK.

Across all sectors, we seek to work with the grain of Government policy, entering into formal relationships that will ultimately benefit businesses and communities. We have Memoranda of Understanding in place with the Welsh and Northern Ireland Assemblies as well as with the Marine Management Organisation, with whom we share common interests, and with the Department of Energy and Climate Change (DECC). We are also in discussions with the Scottish Government on an energy protocol.

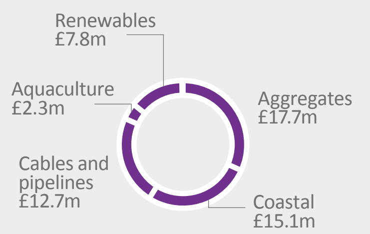
In addition to existing important revenue-generating activities including our coastal assets, minerals, cables and pipelines and aquaculture, we continue to find new opportunities including the rapidly increasing offshore renewable energy activity. Good progress has also been made in the development of natural gas storage, carbon capture and storage and new transmission assets.

In pursuing our objectives, over the last year the marine estate delivered a good performance, with all business sectors making valuable and improved contributions. Overall revenue rose by 17.3 per cent to £55.6 million and property value by 23.6 per cent to £725.6 million, leading to a total return of 27.9 per cent.

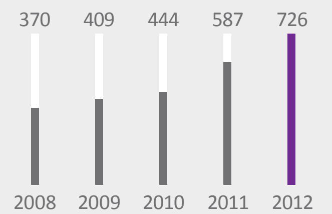
Looking across our estate by activity, the following is an overview of the diversity of the estate and the contributions from the various sectors:

- Activity in the UK construction industry revived this year and this generated an upswing in demand for dredged aggregates, particularly in London and south east England. Revenue in the sector increased by 14.2 per cent to £17.7 million. Income from cables and pipelines also rose, by 10.4 per cent to £12.7 million, as a result of settling long outstanding rent reviews.
- Primarily based in Scottish waters, the aquaculture sector continued to play an important role in rural and coastal communities and we remain closely involved in assisting the industry to identify further opportunities for development. An independent review of finfish farm rents was successfully concluded, providing certainty on rents for the next five years.

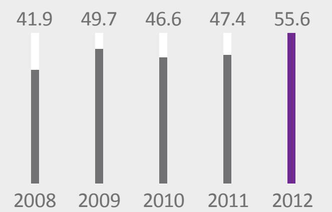
Revenue by activity
2012



Property valuation
£ million



Revenue
£ million



- Across the coastal estate, which includes over 17,000 licensed moorings, marinas, port land and facilities as well as private jetties and pontoons performance was steady. Despite the economic downturn, a number of major projects across the portfolio were progressed during the year and the estate recorded a good financial performance, with revenue improving by £0.8 million, an increase of some 5.6 per cent on the previous year.
- The renewable sector of our business continued to take great strides forward. There are now 4.2 GW of offshore wind operational or under construction, a further 0.9 GW consented and an additional 4 GW in the consenting system. During 2011/12 we saw revenue lifting to £7.8 million from £3.5 million in 2010/11.

Enabling the renewable energy sector

Our work to facilitate the development of renewable energy programmes continues to gather pace.
The Government indicates that up to 18 GW of offshore wind could be built by 2020, with further build out potential beyond that date. This will help meet Government objectives for carbon reduction and also reach its target of delivering 15 per cent of energy from renewables in the UK by 2020.

We believe that the contribution from offshore wind can be greater still and we are targeting a total of 25 GW to be operational or under construction through our current programme by 2022, with significant further capacity in the years thereafter. Over time, we plan to shift our focus from the leasing of sites to the delivery of generating capacity. This will not only reduce CO_2

Above Cowes Corinthian, Isle of Wight, is a new marina funded by The Crown Estate. It has increased the number of berths available and provides easier and safer access for disabled sailors.

Below Aquaculture is a major employer around our coastline and in Scotland alone supports over 6,000 jobs. We encourage best practice and innovation through our Scottish Marine Crown Estate Aquaculture Awards.

Above The coastal estate includes over 17,000 licensed moorings, marinas, port land and facilities and private jetties and pontoons.

emissions but also increase the nation's energy security of supply and create much needed jobs in the manufacturing sector. The required capital investment from our private partners is very significant – it could be up to £100 billion. We are working to create an optimum investment climate to encourage the development of these opportunities. Our current programme consists of a number of leasing rounds, including Rounds 1, 2, 3, Scottish Territorial Waters and a Northern Ireland offshore wind and tidal leasing round.

Round 1, which will total 1.2 GW of installed capacity, is now close to completion and we expect the final project in this round, currently under construction, to achieve first power generation later this year. On Round 2, we have seen continuing construction activity with the commencement of offshore works on the Gwynt y Mor project off the coast of north Wales. Almost 1.2 GW is already in production from Round 2 projects with more expected to come on stream in the near future. The combined phase 1 and 2 site at Walney is currently the largest fully operational wind farm in the world at 67 MW, but this will be succeeded in 2012/13 by the 630 MW capacity London Array project.

This year has seen intense activity throughout all nine Round 3 development zones. Our development partners continue to work very hard to move the Round 3 projects forwards to the point where they can make consent applications, and we are playing our part alongside them. For the third year running the programme has met its challenging targets. We anticipate the first consent applications to be submitted during the summer of 2012.

Looking at the longer term development pipeline, projects where agreements for lease (i.e. options) have already been signed are set to provide some 23 GW. In order to enable the development of this capacity, we fund initiatives and otherwise support development teams as they strive to realise the potential of renewables. We have already committed to an investment of £100 million into Round 3 to support the nine zones achieving consent. We have funded programmes that range from monitoring bird and mammal movements to bringing key players in the supply chain together at our own events. We add value by applying a UK-wide perspective when strategic issues arise. An important tool that we use for this is our marine asset planning tool, (MaRS) which is an award winning spatial planning tool that gives us comprehensive understanding of the UK marine environment, the economic value of our marine estate and the often competing interests of marine users.

Offshore wind in Scotland

In addition to the Scottish projects under the Round 3 programme, the Scottish Territorial Waters offshore wind programme is pivotal to the Scottish Government's renewable energy targets of achieving 100 per cent of the country's energy from renewables by 2020 and capable of making a major contribution to sustainable economic growth in Scotland. Agreements for lease are now in place for 10 offshore wind energy sites in Scottish Waters. The projects are located at Argyll Array and Islay on the west coast, and in the outer Forth and Tay. This pipeline amounts to almost 10 GW of installed capacity.

Offshore renewable energy in Northern Ireland

In partnership with the Northern Ireland Executive, which has a target for 40 per cent of electricity from renewable sources by 2020, we launched the Northern Ireland offshore wind and tidal leasing rounds in December 2011. These competitions could lead to 600 MW of offshore wind capacity being developed off the south east coast of County Down and, in due course, up to 200 MW of tidal stream energy projects in the Rathlin Island and Torr Head strategic area. The Rounds are currently in progress and we are planning to award development rights in autumn 2012.

Making waves and moving with the tide

In parallel with our activities in offshore wind, we continued to increase our activity in supporting wave and tidal energy over the year. We've expanded our dedicated team in response to further increases in market interest and Government support. This was demonstrated by four major industrial equipment manufacturers investing in generation technology companies, and by both DECC and the Scottish Government announcing new financial policy measures.

We leased 16 new wave and tidal stream projects during the year. Taking into account the existing schemes in the Pentland Firth and elsewhere, there are now over 30 wave and tidal stream sites under development or in operation around the UK – more than any other country. We also made it easier for small firms to obtain development rights by reducing the level of financial guarantees we require, working closely with the industry to step up our support for project development. We published a report on how the Pentland Firth projects could be built, which was welcomed by local stakeholders, and advanced a range of other work to accelerate and de-risk the development process.

Making the connections

Offshore Energy is of limited value unless we can efficiently connect it to the consumers and we believe that a co-ordinated onshore/offshore transmission network is vital in order to realise the delivery of the offshore wind programme. It will reduce planning delays, contributing to the reduction of costs and reducing supply chain constraints. In the last 12 months we have worked with National Grid and stakeholders to understand better and promote the benefits of a co-ordinated grid solution. This work has helped inform the industry regulator, Ofgem who are now undertaking a formal consultation on addressing the barriers to a co-ordinated grid.

Overall our dealings with the cables and pipelines sectors continue to make a significant contribution to the income generated by the estate. In addition to improvements in the administration of this area of our business, we have focused increased attention on the operational requirements of existing submarine cables and the ways in which they interact with offshore wind farm developments. Through working with Subsea Cables UK, industry, Government and stakeholders, we have made significant progress in producing industry guidelines which we expect to publish in summer 2012. As demand from both cable companies and offshore developers increases, we are continually working to ensure we strike the right balance between providing opportunity for future development and the interests of our existing tenants.

Supporting coastal communities, encouraging businesses

During the year, the marine estate team continued to work hard to provide capital investment as well as expertise to support the communities and businesses based around our coastal assets.

In Conwy, north Wales, for example, we co-invested with Quay Marinas to fund the state-of-the-art 'Little Orme' dredging vessel to serve the needs of Conwy and Deganwy marinas. These marinas contribute some £6 million to the local economy and support around 100 jobs. In Hampshire we funded a habitat replenishment research project for the Lymington River, which was commissioned as part of a wider strategy by the Harbour Commissioners to safeguard the local harbour and continue to bring social and economic benefits to the community.

Aquaculture is a major employer around our coastline and in Scotland alone supports over 6,000 jobs. We encourage good practice and innovation through our Scottish Marine Crown Estate Aquaculture Awards, and have also announced an increase in our annual investment in aquaculture research and development from 2013.

Our marine stewardship fund is widely valued for supporting community initiatives, helping encourage good environmental practice and promoting the long-term sustainable management of the marine estate. We evolved our approach in 2011/12, to ensure that projects not only help meet the business objectives of the estate but are also developed in partnership with our stakeholders and tenants. Examples include helping The Green Blue programme run by British Marine Federation and the Royal Yachting Association employ a sustainability officer, as well as providing safe access to the marine environment through improvements and repairs to community facilities

Above We leased 16 new wave and tidal stream projects, in addition to existing schemes in the Pentland Firth and elsewhere. There are now over 30 wave and tidal stream sites under development or in operation around the UK – more than any other country.

Left The state-of-the-art 'Little Orme' dredging vessel will serve the needs of Conwy and Deganwy marinas. These marinas contribute some £6 million to the local economy and support around 100 jobs.

such as slipways and pontoons. We also support a wide range of environmental activities, including the Fishing For Litter scheme that has seen 100 tonnes of marine litter removed by fishing vessels in Scotland during the year, and Surfers Against Sewage which collected close to half a tonne of marine litter from Woolacombe and Saunton beaches in October.

Working our resources

Marine minerals remains an important business through our interests in marine aggregates (sand and gravel), potash, polyhalite and rock salt. The introduction of a new licensing system during 2011 has been challenging for the industry, with the potential to threaten supply volumes. However, we have worked alongside the British Marine Aggregate Producers Association (BMAPA), our industry partners, the Marine Management Organisation (MMO) their advisers to minimise any disruption related to the implementation of the new regulations. This year, the majority of sand and gravel dredged from the seabed was used in construction, including that of the Olympic Park, with smaller volumes used for coastal defences and reclamations. A major project being carried out by the British Geological Survey to identify offshore sand and gravel resources has continued throughout the year. This has fed valuable information into the marine planning process relating to waters off the east coast of England.

Mining of potash and polyhalite (fertilisers) as well as salt continued at Boulby. Exploration activities, consisting of the drilling of test boreholes, marked the first phase in the possible development of a new potash and polyhalite mine situated between Scarborough and Whitby.

Developing future opportunities

We continue to track and develop new areas of activity across the estate. One area which is currently of particular interest is the geological storage of CO_2 beneath the UK continental shelf. This is an activity which has the potential to be of strategic value to the UK by providing the opportunity to decarbonise power generation and we are actively working with all stakeholders to realise its potential. During the year the Government decided to redesign its commercialisation programme for carbon capture and storage (CCS) and has created a mix of subsidies and interventions to facilitate a new industry by the early 2020s. The Crown Estate will play an integral role in this programme through its management of offshore storage leasing and participation in activities for bringing storage sites to market.

Operationally and looking to next year, we are planning organisational changes during 2012, with the marine estate being restructured. Our coastal estate and aquaculture interests have merged with the rural estate as of 1 April. An important outcome of this restructuring is the establishment of a new portfolio within The Crown Estate which is entirely focused on driving forward our energy and infrastructure business.

Rural estate

The estate has made significant progress on a number of important development projects which will help deliver against the UK's housing need. At Taunton, the council has resolved to grant consent for the building of 580 homes, following extensive consultation with local residents and authorities.

15,000
Trees

Our plans for the development at Taunton include 15,000 trees as well as extensive new public open space and children's play spaces.

Funding local schools

At Taunton, we are helping to fund the expansion of existing local schools and improvements to local bus services, pedestrian crossing facilities and local roads.

Project 2020

Project 2020 is our long-term initiative which embraces the challenges of increasing global food production in sustainable ways.

"To date, landlords have been unwilling to show much flexibility and we are therefore extremely pleased that The Crown Estate has taken this important step to find a way in which price volatility can be addressed."

George Dunn
Chief executive of the Tenant Farmers Association commenting on our new Farm Business Tenancy (variable) lease

New lease types

Our Farm Business Tenancy (variable) is a new lease type which helps mitigate the impact of marketplace volatility for our tenants.

The Crown Estate is one of the country's largest rural landowners, managing 144,000 hectares (356,000 acres) of agricultural land and forests, together with minerals, residential and commercial property.

We combine a commercial approach with our values of integrity and stewardship to ensure long-term sustainable performance, whilst taking opportunities to co-invest with our tenants and stakeholders, to deliver mutual benefits.

Active asset management has again led to a good performance from the rural estate, where we delivered an impressive total return of 19.5 per cent. Overall, revenue rose by 0.8 per cent to £25.9 million and the portfolio valuation by 13.3 per cent to £1.2 billion in a market that was broadly positive, despite the challenges in the wider economy. Land values increased throughout the year, particularly in the east, and although growth in the residential sector was flat, demand for high quality rentals remained very strong.

We rebalance our holdings as market conditions dictate, taking advantage of opportunities for sales and purchases as appropriate. The past year saw a higher level of transactions than in 2010/11, including sales of farm and development land, as well as some residential property. Opportunities for purchase were limited due to scarcity and high values.

In the agricultural marketplace, arable farmers enjoyed a year of relative stability as demand for food rose across the world, whilst those involved in the livestock sector, especially red meat production, experienced solid growth. The intensive livestock sector was less buoyant, with the higher cereal prices that benefit arable farmers causing a rise in feed costs alongside other inputs.

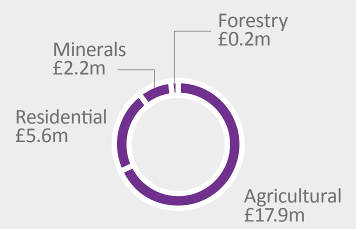
Agriculture is a global industry that is facing global challenges, with particular regard to food productivity and price volatility. We work closely with our farming tenants to help them achieve their business objectives in the face of these demanding issues.

Our mineral estate achieved impressive revenue performance despite the unfavourable economic climate in the construction sector. Contributing to a 7.5 per cent increase in revenue were operations in Cumbria (supply of aggregate for construction of turbine bases for an offshore wind farm); the extension of coal operations on the Whitehill estate, Edinburgh; and strong sand and gravel output from the Fourways quarry at Delamere, in Cheshire.

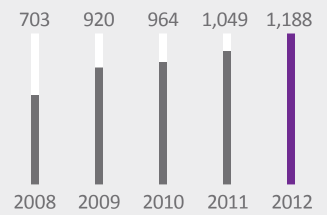
Investing to meet the industry's key challenges

The prospect of changes to the Common Agricultural Policy within two years is beginning to influence behaviour – with speculation focused on budgetary resources; environmental measures and payment ceilings for large businesses.

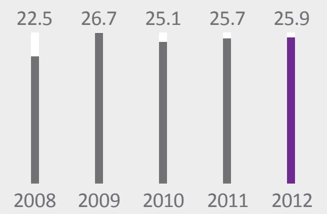
Revenue by activity
2012



Property valuation
£ million



Revenue
£ million



The Foresight Report on The Future of Food and Farming highlighted the need for a more structured approach to tackling food production. The volatility of input and output prices, together with climate change, are now regarded as significant threats to rural businesses. The report focused on the need for 'sustainable intensification' and our response has been to redouble our efforts to engage with our major tenants on how to intensify production in a sustainable manner.

Project 2020 is a long-term initiative which aims to improve food production whilst also enhancing the financial performance of our tenants' businesses. As part of Project 2020, we are working with our tenants to develop 'Viewpoint', an online platform facilitating the exchange and transfer of knowledge on a local, national and global basis. The objective is not only to maximise outputs from farming on The Crown Estate, but also to minimise the impact on the environment and to achieve sustainable intensification. Viewpoint was successfully trialled with 25 farm tenants towards the end of 2011 and has now been rolled-out to a further 100 in spring 2012.

In autumn 2011, we introduced a new type of lease to mitigate the effects of market price volatility. Known as the Farm Business Tenancy (variable) agreement – or FBT(v) – the lease creates a direct link between rental and commodity prices. It has been tested on our Gopsall, Billingborough and Romney Marsh estates. Prospective tenants were invited to bid in a conventional manner, but also encouraged to submit offers comprising a base rent plus a variable element linked to market prices. This approach has been widely applauded by tenants, their representative bodies and the industry alike. During 2012/13 we will build on the success of FBT(v) and will offer it on an increasing number of tenancies.

Project 2020 and the FBT(v) are the latest in a long line of initiatives designed to strengthen the partnership between The Crown Estate and our tenants. For example, our Business Deal, which was introduced following consultation throughout the estate, provides a framework through which we can work more proactively with tenants to our mutual benefit. Similarly, the Management Deal ensures that our values and guiding principles are consistently applied by our Managing Agents and other suppliers.

Developing projects, adding value

An increasingly important element of rural asset management is adding value by identifying potential development opportunities and bringing them to the market. This can deliver strong returns when land is sold and provide new homes, employment and community benefits. The recent

Above "Viewpoint" is an online platform that brings our tenant farmers together, helping them share ideas in order to enhance the financial performance of their businesses.

changes to the planning system, notably the Localism Act and National Planning Policy Framework, will complement The Crown Estate's commitment to working with local communities to deliver high quality developments throughout the country.

The year saw significant progress on a number of important development projects, chief among these being Nerrols Farm at Taunton, where we have secured consent for 580 homes following extensive consultation with stakeholders. The development will also incorporate thousands of new trees, a primary school, new shops and employment opportunities with over 40 per cent of the total site area to be green open space.

At Bingham in Nottinghamshire we have submitted a planning application for 1,000 homes, 15 hectares (38 acres) of employment sites and associated community benefits, including a school and a community centre. The application was submitted following widespread consultation with local residents and authorities, who helped to refine our plans to meet local needs.

In collaboration with an adjoining landowner, we have also submitted a planning application for up to 5,000 new homes, a proportion of which will be on our land at Croxton, Thetford.

Sustainability at the heart of the business

Sustainability is embedded in our organisation and is central to our everyday work. It guides our core decision making in the rural portfolio, from the design principles for new developments, articulated through our 'Good Design Matters' initiative,

Above Through our biodiversity action plan, we support many projects on our holdings – from helping to preserve the habitat of the Heath Fritillary butterfly to controlling the spread of invasive Rhododendrons.

Top At Dunster we worked alongside tenants to renovate a farmhouse that is now a five star holiday home for up to 15 people.

through to protecting habitats, promoting biodiversity and playing our part in encouraging tenants to exploit opportunities for renewable energy projects.

Working in partnership with our tenants we have commissioned nine solar photovoltaic schemes, investing £1.3 million to date. A highlight of the year was the completion of a 161 kWp 'energy roof' on a Portland stone factory in Dorset. We worked alongside our tenants, Albion Stone, as well as the installers, Solarcentury, to cover a 100 metre roof with 700 solar panels. These generate enough electricity to meet over 20 per cent of the factory's requirement, whilst reducing carbon emissions by 70 tonnes per annum. There are more renewable projects in the pipeline across a range of technologies, including; further solar PV schemes on farm buildings, several small wind projects, and hydro schemes in England, Scotland and Wales. We also have option agreements with developers for onshore wind farm sites in Wales and Lincolnshire. These continue to progress, in consultation with local stakeholders and planning authorities.

We continually evaluate new technologies and invest where we see opportunities to introduce long-term projects that will drive benefits for our tenants and reduce environmental impact.

Energy efficiency is at the heart of our refurbishment programme for residential properties and we have adopted measures to track and evaluate performance on renovation projects. We introduced new accounting codes in 2011/12 to monitor building costs associated with 'green' initiatives and identify our increasing investment in raising standards.

With regard to our own premises, we are expanding our scheme to introduce smart meters and we were pleased to have achieved the ISO 14001 certification at Applegirth and Glenlivet during the year.

The active management of our forestry and woodland assets continues to deliver multiple economic and environmental benefits for our tenants and for local communities. We have completed a consultation on the establishment of a new Forest Park on our Dunster estate on the edge of Exmoor and maintained our forest certification, demonstrating our continued commitment to sustainable management.

Working with customers and communities

We work hard to encourage and enable customers to exploit opportunities, build businesses and diversify. During the year we completed new Investment Finance Agreements (IFAs) with tenants, alongside earlier agreements to invest in new buildings and improvements to existing facilities.

We have invested in an ongoing programme of health and safety works dealing with historic mine workings in Wales. The largest of these projects was at Cwmystwyth, Ceredigion, where a number of ruined monument structures at the former Copa Hill mine were successfully made safe, in close liaison with the statutory conservation bodies.

At Glenlivet, we provided funds to support the Tomintoul Regeneration Project and are investing in the development of a new mountain bike trail. This £500,000 scheme will see the creation of a new Visitor Centre and two new trails which will act as a catalyst for tourism and bring much-needed income into the area. We anticipate completion early in 2013.

We strive to be proactive and creative in the ways in which we work with tenants. For example, we have completed an imaginative renovation project which is already generating income for new tenants on our Dunster estate. Broadwood Farmhouse is a 200-year-old traditional Somerset farmhouse that required renovation. With our help and the foresight of our tenants, the farmhouse has been transformed into a five-star holiday home for up to 15 people. The first holidaymakers arrived in 2011 with feedback and reviews consistently excellent.

Our estates play a visible and valuable role in the community and we continue to develop projects that bring benefit to local people as well as to tenants. Our community volunteer programme at Dunster is helping to preserve the habitat of the Heath Fritillary butterfly, whilst we continue to support education initiatives such as National Tree Week, Farms for City Children, Taste the Harvest and Forests for the Future.

The coming year will see us continue to work with our tenants to drive greater value for their businesses, led by initiatives such as Project 2020 and the new farm tenancy lease format. From a marketplace perspective, drought conditions in the east of England at the start of the financial year may provide significant challenges, so we will be doing all we can to improve water management, with a particular focus on long-term storage facilities.

From April 2012, the rural estate and the marine coastal business were merged to form a new, integrated rural and coastal estate. This will enable us to reshape business processes, promote efficiencies and take advantage of synergies across the portfolio.

Windsor estate

We welcomed an estimated 3 million visitors to the Windsor estate during 2011/12 – a record number. Whilst many came to enjoy the beauty of Windsor Great Park, some 600,000 visited the Savill building.

1,700
Children

2012 will see our biannual Open Day, which involves around 1,700 children from local schools and allows us to showcase the many things we do to protect and enhance the estate.

"The Windsor estate is a wonderful and unique resource. One of our primary responsibilities is maintaining and enhancing it for the public to enjoy, so it is hugely rewarding to see such a positive uplift in visitor numbers to the estate."

Philip Everett
Deputy Ranger, Windsor estate

Imaginative conversion

We have converted a stable block into five residential units at Sunninghill Park, with four units successfully let by the end of the financial year.

Improving environmental performance

New LED lighting at the Savill Building has led to a significant reduction in our carbon footprint and has also reduced the fuel bill for the building by around one third.

+8% uplift

Our car parks saw an 8 per cent increase in usage, reflecting the growing popularity of the estate.

Covering 6,300 hectares (15,600 acres) of countryside on the Surrey and Berkshire borders, the Windsor estate is the home of the Great Park, farms, Ascot Racecourse, forests, golf courses and residential and commercial properties. It also comprises The Royal Landscape, which includes the Savill and Valley Gardens.

Stability and consolidation have been the hallmarks of 2011/12, as we maintained the character of the Royal Park and forests, whilst also working hard on plans to deliver a number of exciting events scheduled for the coming year.

Although operating costs have continued to rise, particularly those associated with construction and fuel, the skills and experience of our team at Windsor ensured that the net deficit fell by £0.2 million, a reduction of 13.3 per cent. Revenue for the year was up by 8.8 per cent to £7.4 million, with capital value also increasing, by 5.4 per cent to £195.9 million.

The Windsor estate is a wonderful resource and as part of our statutory duties we have the responsibility of maintaining it for the public to enjoy. During 2011/12, the net cost of doing so amounted to £8.7 million, a rise of some 4.8 per cent on the previous year.

Away from the natural beauty of the Park and forests, the Windsor portfolio also includes commercial and residential rental activities which provide 58 per cent of the overall income to the estate. The commercial portfolio includes a mixture of rented property, ranging from sub-station sites and telephone masts, through to hotels and golf courses. The income from the portfolio is now running at £4.3 million – 5 per cent more than in 2010/11. The residential portfolio now comprises the letting of 149 properties with the current annual income being £2.5 million. The estate benefits from an ideal location in attractive surroundings close to London, and therefore premium rents are readily achievable. During the last 12 months, conversion of an old stable block in Sunninghill Park was completed providing five new residential units for letting, which will generate in excess of £100,000 per annum.

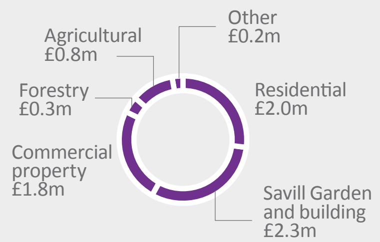
A year of achievement

On the positive side we saw a healthy increase in income generated by an estimated 3 million visitors, the greatest number of visitors we have ever welcomed to the estate.

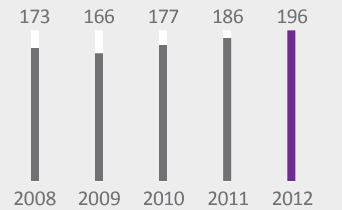
The iconic Savill Building, which has become increasingly popular since it first opened its doors in 2006, led the way with a record 600,000 visitors. The Savill Garden also played its part, attracting over 120,000 people, a 10 per cent increase on the previous year.

Our audience base is diverse, with both domestic and international visitors coming to Windsor to enjoy some peace and simple enjoyment in the gardens, or to explore the open spaces which make up one of the most beautiful landscapes in the UK.

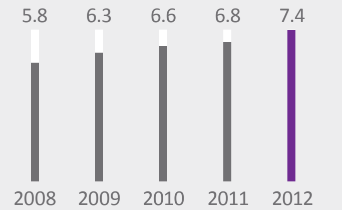
Revenue by activity
2012



Property valuation
£ million



Revenue
£ million



The natural attractions of the estate were again complemented during the year by a large number of events and initiatives designed to appeal to a wide range of visitors. These included estate tours, an Easter egg hunt, free entry to the Savill Garden on Mother's Day, a giant owl sculpture made from recycled material hanging from the ceiling of the Savill Building, and many more.

Our car parks were correspondingly busy, with an 8 per cent increase in usage reflecting the ever increasing popularity of the estate. Although our retail outlets saw sales fall largely as a result of consumers cutting back on expenditure, net catering turnover across the estate, including the Savill restaurant, rose to £1.88 million, an increase of 11 per cent. Membership and car park pass numbers also rose, by 10 per cent, driving an increase in revenue from this source by 17 per cent.

The history and beauty of the parkland and gardens of The Royal Landscape is popular for film locations, as is the Great Park, where 4,500 acres are home to wildlife, deer lawns, ancient woods and famous landmarks such as The Long Walk. Location filming is an important area of revenue generation for the estate; in the past we have been pleased to welcome production teams working on such films as 'Robin Hood' and 'Harry Potter and the Half-Blood Prince' and in 2011/12, two further movies were filmed on the estate.

Making progress with key projects

We completed the innovative conversion of a stable block into five residential units at Sunninghill Park just before Christmas 2011. Four units were successfully let by the end of the financial year.

Although Virginia Water lake and its surrounding Georgian landscape of woodland, glades and forest rides is hugely popular, it currently lacks visitor facilities beyond car parking and rudimentary catering. We have now received planning permission for a small visitor pavilion incorporating toilets, a refreshment outlet and staff facilities. Work is expected to start shortly, with completion later in 2012.

Below 2012 is a momentous year for the estate. Following a restoration programme and opening of Cow Pond by Her Majesty The Queen in April, we will be hosting a number of events relating to the Diamond Jubilee and the Olympic and Paralympic Games.

Above The estate is home to several ancient oak trees which are over one thousand years old. We have an ongoing conservation programme for these trees and their gene banks.

We are proud of the proactive working relationships we enjoy with all tenants on the estate and continue to help and encourage them in many different ways. The year saw a new chief executive at Guards Polo Club as well as a new secretary at the Berkshire golf club, and we look forward to working with them both.

Natural England is also a key partner on the estate. We are fortunate to host the greatest concentration of Sites of Special Scientific Interest (SSSIs) in this part of the UK, and work closely with Natural England to maintain and improve these special habitats.

A sustainable future

The ongoing programme to upgrade our residential and commercial properties continues to make progress, with the introduction of renewable energy technology a key target. During the year we installed a further nine air source heat pumps in properties, including the new units at Sunninghill Park, bringing the total number of such pumps on the estate to around 20.

As anticipated in last year's Annual Report, the new LED lighting at the Savill Building has led to a significant reduction in our carbon footprint and has also reduced the fuel bill for the building by around one third. Our innovative waste handling scheme has again been extended and now includes the York Club, our staff social venue. In all, we have now reduced the amount of waste sent to landfill by around 95 per cent.

Working together with the rural estate, we have continued to evaluate the feasibility of piloting biomass heating systems at Windsor and are hoping to roll-out a biomass programme with wood sourced from the estate. There are two plans currently under consideration: one to heat the Savill Building and a further 20 properties; and another to heat 80 properties together with our office complex and yard facilities.

Preparing for a momentous year

During the last 12 months our team has invested considerable time and resource in preparing for a busy and exciting 2012. The estate will play an important part in both the Diamond Jubilee celebrations and in the London 2012 Olympic and Paralympic Games.

In April, The Queen officially opened Cow Pond, part of The Royal Landscape, following three years of hard work transforming this overgrown area and restoring the lake back to its former glory. As part of this extensive

Above The Savill Garden, with its iconic visitor centre, has become an ever-popular destination.

Below We have received permission to build a visitor pavilion at Virginia Water lake, including toilets and a refreshment outlet. Completion is expected in 2012.

redevelopment, we restored the formal walk around the lake shores, which had not been open to the public for half a century. We also built an ornate bridge and a stunning arbour to honour Her Majesty The Queen's 60 year reign. The following month, The Queen was again on the estate, this time to review 3,000 troops at the Pageant of the Horse, which took place in the Home Park near Windsor Castle. On 4 June, we lit a beacon on the estate as part of the national beacon chain to mark the Jubilee. The celebrations continued with a 21-gun salute in the Great Park and a staff family street party. 2012 is also an important year for the Duke of Edinburgh, who celebrates his 60th year as Ranger of the Park.

From late July and into August we will be playing an import role in local arrangements for the Olympic and Paralympic Games. Rowing events are being held at nearby Eton Dorney Lake and we are providing park and ride facilities for 2,500 cars. In addition, we have signed an agreement with The Camping and Caravanning Club to operate a campsite on The Great Park. This will provide spectators with a unique opportunity to stay in the park in reasonably priced accommodation. The campsite will provide 286 pitches, together with on-site catering, and we hope that campers will take the time to explore the estate during their days with us.

In addition, 2012 will see our biannual Open Day. Already fully booked, the day involves around 1,700 children from local schools enjoying a day on the estate. We provide displays of activities ranging from hedge laying and composting to earth moving and how to design a garden. Animals from farms on the estate also put in an appearance, alongside the ferrets and dogs of our gamekeepers. As always, the Open Day will be hard work and time-consuming but hugely enjoyable and worthwhile in terms of sharing our unique landscape and showcasing the many things we do to protect and enhance it.

Financial review

Introduction

The Crown Estate has once more delivered a strong performance in a tough economic climate. It is our duty to deliver sustainable long-term growth, both in terms of the capital value of the estate and in terms of revenue. We achieve this through combining our forward-thinking strategies and established assets, and by being active traders, investors and developers.

We have a mandate under the Crown Estate Act of 1961 to deliver a return on our assets, with any profit made returned to the Treasury for the benefit of the nation.

The challenging economic environment has required close management of voids and bad debts, but a resilient business model, combined with the strength of our assets and the diversity in our portfolio, has ensured continued success.

One of our primary challenges has been the reinvestment of funds received from the Norges Bank Investment Management (NBIM) deal on Regent Street, as has the management of cash funds to achieve best return given investment restrictions. Our capital investment strategy has therefore been a central focus for us during the year, and our development pipeline is now very exciting.

We also recognise the need to ensure value for money and drive efficiencies across the business, hence the introduction of our business improvement plan. This has ensured cost savings and maximised value across the portfolio.

John Lelliott
Finance director

We have delivered a strong financial performance, achieving a net income surplus (profit) of £240.2 million for the year ended 31 March 2012. This represents an increase of £9.3 million (4 per cent) on last year's profit of £230.9 million.

Our property portfolio once again delivered an excellent performance outperforming our bespoke Investment Property Databank (IPD) benchmark by 7.3 percentage points.

Our objectives and the strategies through which we aim to achieve them and the ways in which we measure our progress are highlighted earlier in this annual report, in the section 'How we have performed'.

During the past 10 years, we have seen the net income surplus grow by 40 per cent and delivered a total of over £2 billion to the Treasury for the benefit of the nation. Rising capital values have driven a corresponding increase in the value of the property portfolio in the last decade, generating capital growth of 93 per cent and an annualised total return of 11.4 per cent.

We started the year with a significant injection of capital funds arising from the Regent Street transaction with NBIM which resulted in us maintaining a high level of capital funds during the year. With relatively limited buying opportunities this presented us with challenges to increase our revenue performance, not least because we needed to replace in the region of £20 million of income because of the Regent Street transaction. As a result of prudent and strategic purchases, together with active asset management initiatives across the whole portfolio, we were able to deliver a noteworthy increase in our net income surplus for the year to 31 March 2012. Key contributors to this were:

- Continued investment in our retail portfolio and key acquisitions in Regent Street
- Increased income from wind farms and mineral extraction
- Increased bank deposit interest through active treasury management, despite a low interest rate environment
- A continued focus on improving efficiency and reducing costs

Delivering a continued upward trend in our operating surplus through sustainable income streams across the estates over the medium to long term remains one of our core objectives. We believe that this will be achieved through our capital investment strategy, particularly our development programme on the urban and marine portfolios together with investment and asset management activity.

The year ended 31 March 2012 saw the first full year of operation for our partnership with NBIM on Regent Street. Within the financial statements we have regarded the arrangement as an investment in a jointly controlled asset. Thus the financial statements include The Crown Estate's share of income, expenditure, assets and liabilities of the properties within the arrangement.

During 2011/12 we launched a business improvement programme to examine our cost base and explore opportunities to create more value and improve

We have delivered a strong financial performance, achieving a net income surplus (profit) of £240.2 million for the year ended 31 March 2012. This represents an increase of £9.3 million (4 per cent) on last year's profit of £230.9 million.

efficiency generally throughout the business. The programme has five principal objectives: a structure responsive to changing conditions; add value through asset management; optimise property performance through our partners; optimise expertise to drive value and cost effectiveness through business synergies; and ensure support functions are of an appropriate size and skill base providing good customer focus and value for money. The impact of this programme is beginning to take shape as we have managed to reduce underlying costs this year. However we expect the full impact to be felt in 2012/13 and 2013/14 as, during this year, we have laid the foundations for significant changes to the structure of the business through which we will continue to drive performance, savings and efficiencies.

Net assets

The capital value of The Crown Estate at 31 March 2012 was £8.1 billion, an increase of 11 per cent over its value of £7.3 billion at 31 March 2011. The increase in value is principally attributable to higher property valuations and higher cash reserves.

Cash flow

At the start of the year our cash reserve was £279.2 million. On 1 April 2011 we received £452 million on the completion of the arrangement with NBIM on Regent Street. During the year our capital activity totalled £1 billion. This included acquisitions with a total value of £166.2 million; principally the purchases of Morfa Retail Park and South Aylesford Retail Park. Capital expenditure totalling £243.7 million was made which included £138.5 million on development projects, particularly on the urban central London estates, as well as a significant commitment to renewable energy. Disposals realising £639.7 million were made during the year. Overall, our capital activity led to a net inflow of funds of £211.7 million compared with a net outflow of £192.2 million in 2010/11.

Assets under management

Over the last few years we have seen a substantial increase in the amount of property that we manage on behalf of third parties. Assets under management were valued at £7.7 billion at 31 March 2012 of which directly owned property comprised £7.2 billion. Regent Street, which we manage on behalf of NBIM is the largest contributor to assets managed on behalf of third parties.

The property portfolio

The total property value of the estate, inclusive of share of joint venture and other property investments, increased by 7.4 per cent to £7.6 billion for the year ending 31 March 2012. In addition we also now have £539 million of assets under management. The key highlights include:

- At £7.6 billion, this is the highest value the property portfolio has been at a financial year end
- The urban portfolio is now valued at £5.5 billion and is back above pre-recession levels
- The rural portfolio has grown by 13 per cent to £1.2 billion
- The marine portfolio has grown by 24 per cent to £726 million
- The Windsor estate has grown by 5.4% to £196 million

The urban portfolio has performed broadly in line with the market with our core West End properties outperforming the remainder of the portfolio. Across the West End we have seen capital growth of 10 per cent driven primarily by growth in rental values with a slight compression of yields over the year. Outside of London the market has been much more challenging with secondary assets falling in value. However, due to the prime nature of our stock, our values are largely unchanged on a year ago.

Transactional activity was dominated by the creation of the Regent Street Partnership with NBIM on 1 April 2012 which released £452 million. This provided further liquidity to focus the commercial portfolio on the West End and dominant retail holdings outside of London. In conjunction with NBIM we have invested over £100 million in Regent Street including the purchase of two headleases and one freehold and started the development of 153–167 Regent Street. In St James's we bought in Trafalgar House and continued our development of St James's Gateway. Several non-core disposals were made in London,

Our highly skilled, professional and experienced staff play a vital role in enabling us to deliver excellent financial results, in what has been a difficult year for the property sector and the economy as a whole.

including Fleet Place House, 40 Holborn Viaduct and Dyott House on Oxford Street. At a total of £101 million the proceeds raised were 24% higher than last year's book value. Outside London we purchased two more retail parks in Swansea and Maidstone and are currently forward funding the Stadium MK retail park in Milton Keynes which is due to open during 2012. The total cost for these three investments was £188 million. Over the year, purchases and investment management initiatives of commercial property totalled £261 million, development expenditure amounted to £101 million and sales of freeholds and long leaseholds raised £608 million.

The rental value growth in the West End over the last few years has been driven more by a shortage of Grade A space rather than strong occupier demand. This shortage has justified our foresight in 2008 to start developing the Quadrant which we completed in November 2011 and is now 60 per cent let. Over the year its value has increased by £152 million after £49 million of development expenditure.

Prime residential property in London has performed particularly well on the back of international investment and we have seen our portfolio in Regent's Park and Kensington increase by 21 per cent to £444 million. These assets also generated £40 million from leasehold sales.

The value of our rural portfolio has increased to £1.2 billion rising by 13 per cent with net capital receipts of £43 million. The principle sales were of standing investments in Savernake and Stapleford Abbots and land sold with planning permission for residential development in Hemel Hempstead and Bingham. Tactical acquisitions were made of 63 acres at Elsenham in Essex adjacent to the M11 and 357 acres on the edge of Lichfield. The fundamental driver of values across the portfolio is the increase in value of agricultural land with vacant possession. This has been supported by an increase in rental values with the improved economic outlook for UK agriculture generating strong open market agricultural lettings. The market continues to be characterised by a shortage of supply and strong demand from farmers fuelled by commodity prices and the attraction of land as a safe investment. On a regional basis, growth was particularly strong on commercial arable farms in East Anglia and the East Midlands. Growth was weaker on the estates with a higher residential element.

Marine has increased by 24 per cent to £726 million driven by an increase in the value of offshore wind farms and a change in our approach to the valuation of marine aggregates. The increase in the wind farm valuation is largely due to more certainty over expected income. Last year there were 37 approved schemes of which 16 were generating and five were under construction. This year there are 41 schemes of which 19 are generating and four are under construction. 2.65 GW have now been installed with 1.54 GW under construction.

The valuation is also reflective of market demand for well-secured investment income and an increase in demand for infrastructure and 'green energy' investments.

The aggregates valuation is determined by the current proven reserves within a region and the market demand for marine construction aggregate. However the Marine Licensing Act was passed in the last year which now provides increased security of tenure to operators. The consequential increased security of income has lifted that valuation from £52 million to £106 million.

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

Regulatory framework

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

- An inability to borrow in order to finance investment
- Special accounting arrangements, similar to a trust, that aim to maintain a balance between income and capital
- A requirement that our income account is kept separate from our capital account, with no element held for capital investment other than for very specific minor exceptions

The final point means that any capital investment can only be generated from capital activity or from permitted appropriations from income.

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

During 2011/12 legislation was passed and a fund launched, both of which referenced The Crown Estate. These were as follows:

Sovereign Grant – In October 2011 the Sovereign Grant Act was passed by Parliament. It provides for the Sovereign Grant for a given year to be equal to 15 per cent of The Crown Estate's net revenue surplus (profit) in the financial year two years prior. The money to support this grant is provided by the Exchequer. This year's net revenue surplus will form the basis for the first year in 2013/14.

Coastal Communities Fund – In July 2011 the Government announced the launch of The Coastal Communities Fund to support the economic development of coastal communities. The level of funding is linked to The Crown Estate's gross marine income. The money to support this Fund is provided by the Exchequer and not The Crown Estate.

Neither the Sovereign Grant nor Coastal Communities Fund affect the way in which the managerial or operational functions of The Crown Estate are performed. We continue to give our entire annual net revenue surplus to the Treasury. They both simply provide a mechanism that will be used by the Treasury to determine the amount of Government funding for the Monarch and the Coastal Communities Fund.

Charitable donations

We provided one donation totalling £1,000 in the year ended 31 March 2012 (£17,000 in the year ended 31 March 2011), as permitted by the Crown Estate Act 1961, section 4(2).

Supplier payment performance

The Crown Estate payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of service where a fee is recoverable from a third party, or according to contract where a shorter payment period is agreed. During the year ended 31 March 2012, we paid 69 per cent of invoices from suppliers within this period. The figures include invoices under dispute and amounts recoverable from third parties. On average, invoices from suppliers are paid within 40 days of receipt. We observe the principles of the 'Better Payment Practice Code'.

Our employees

Our highly skilled, professional and experienced staff play a vital role in enabling us to deliver excellent financial results, in what has been a difficult year for the property sector and the economy as a whole. The Crown Estate continues to be viewed as an attractive employer that recruits and retains highly skilled professionals.

Our staffing body is part of the very fibre of what we do, as they ensure that the core values of commercialism, integrity and stewardship permeate every area of our business. This is enhanced by a strong customer focus which is integral to our continuing commitment to being great people to do business with across the breadth and diversity of our portfolios.

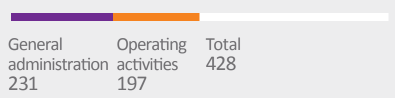
In 2010, we took part in the Best Companies survey to support our goal of being in *The Sunday Times'* Top 100 companies to work for, and to underline the importance we place on creating a rewarding and fulfilling workplace. We achieved a 'one to watch' status, reflecting the commitment and pride that our employees have working for us. In response to the survey results, we have continued to invest in the delivery of a management and leadership programme, with 99 per cent of managers participating in a three day leadership programme during the course of 2011/12. The majority of participants reported positive benefits from attending the programme and many have reported that they have made conscious step changes to the way in which they manage and lead people. We will be entering again in 2012 and hope to improve on our 'one to watch' status.

Our staff turnover remained stable at 12 per cent in 2011/12 compared with 10 per cent in 2010/11.

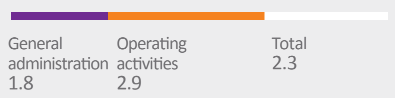
Pay and pensions

Our reward arrangements come under regular review. In the main we continue to offer competitive packages in the current economic climate. The final phases of our revised reward strategy were completed last year, introducing 'MyChoices' as a flexible benefits reward platform. These flexible and competitive reward policies and practices allow us to attract, retain and motivate employees and help to develop a high performance culture that supports the achievement of our business goals. This is particularly important to us for two major reasons: firstly, our reward policies need to be flexible and competitive so that we retain the best employees through both good and bad times; secondly, given our considerable investment in the renewable energy sector, we need to offer remuneration packages that are competitive in this global market.

Total average number of employees during the year

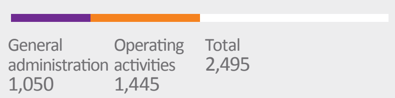


Average percentage working days lost



Long-term days lost as a percentage of total days lost

Total days lost



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

As outlined in the notes to the financial statements, we operate two pension schemes: the Civil Service Pension Scheme and The Crown Estate Pension Scheme. Each scheme comprises a number of sub-sections, which offer different pension benefits. Both these schemes operate sections that are now closed to new members, which provide retirement and related benefits to all eligible employees based on individual final emoluments. Entry to The Crown Estate Pension Scheme sections which offer pension and related benefits on individual final emoluments was closed to new employees at the end of 2007. In March 2009 we closed entry to the existing defined benefit sections provided by the Civil Service Pension Scheme.

New pension sections were introduced to The Crown Estate Pension Scheme in March 2009. The new section includes a hybrid scheme which provides the option of retirement benefits to all eligible employees based on final emoluments capped at £26,400 of earnings, but also includes the option of additional retirement benefits provided through a defined contribution arrangement or an arrangement that is based solely on defined contribution benefits.

As at 31 March 2012, a total of 119 employees were members of The Crown Estate hybrid pension scheme and a further 47 elected to receive a cash pension allowance.

Wellbeing

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

Overall, despite uncertain market conditions, we are confident that through our investment strategy, and in particular our development pipeline, we have laid the foundations for long-term sustainable income growth.

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

We are an equal opportunity employer and are committed to ensuring that no employee or applicant is treated less favourably on the grounds of race, religion, ethnic origin, disability or sexual orientation. We are fortunate to have a diverse and talented workforce who enjoy the challenging and unique environment offered by The Crown Estate.

We are also members of the Employers' Forum for disability and recently hosted an event at The Crown Estate, which included an introduction by Alison Nimmo.

Looking ahead

At an all property level, the market was flat over the course of 2011/12 with capital growth of –0.15 per cent but with significant variations between the property segments ranging from 7.1 per cent for West End offices down to –5.0 per cent for in-town shopping centres. Total returns were therefore largely driven by income return, the different levels of occupier demand in the different segments and strong asset management. This was against a backdrop of a sluggish recovery from the recession, low bond yields, high inflation and falling disposable incomes.

To a large extent we expect more of the same in 2012/13 with relatively low bond yields continuing to support prime property values. Inflation is now starting to fall back, although oil and commodity prices at persistently high levels could keep inflation above target for longer than expected. With a protracted recovery we do not really expect growth to gain any significant pace until 2013 at which point disposable income should again be positive.

We are monitoring closely the West End development pipeline but the lack of a strong supply response to the current shortage of Grade A space in the core West End, combined with economic recovery, suggests that this segment will continue to outperform. This in turn provides confidence for our development pipeline with two major schemes due to be delivered by the end of 2013. Outside of London we see strength in the retail sector starting to emerge around 2014 as the economy returns to trend levels of growth and consumption.

Within the rural portfolio we took the opportunity during the recession to work up planning applications for major schemes, principally in Taunton, Bingham and Thetford. Although the market for strategic land remains subdued in the current economic climate, it should gradually improve as recessionary pressures recede, confidence returns to the market and developers seek to replenish their landbanks. However, the market for smaller, uncomplicated development sites remains robust and we expect to deliver a number of these to the market over the next year.

Within the agricultural markets we expect rental growth to feed through into income on the back of improving confidence and profit margins. For the time being growth is likely to continue to come from commercial farms in the east. Amenity land underpinned by residential values is unlikely to start performing until demand picks up in the wider economy.

Within Marine, offshore wind farms will be the main driver of growth (both capital and revenue) over the next few years. Installed capacity within Rounds 1 and 2 has the potential to exceed 10 GW and values will continue to increase as the number of schemes increases. At the same time yields will fall as tenants commit to capital expenditure, secure planning permissions and income streams become more certain. In time, as the industry matures, it is likely to become more attractive to investors and a more liquid sector. The industry still however faces a number of hurdles including grid connectivity, driving down unit costs, developing the supply chain and attracting development funding.

Overall, despite uncertain market conditions, we are confident that through our investment strategy, and in particular our development pipeline, we have laid the foundations for long-term sustainable income growth.

John Lelliott
Finance director

Sustainability

Sustainability is integrated throughout the report but in this section we focus on our strategy and achievements.

Director's introduction

Three years ago, we developed our sustainability strategy, embarking upon a vision to become a sustainability 'innovator'. This was a challenging ambition, but year-on-year we have taken meaningful strides towards its achievement.

This last year we have rolled out a community investment policy which focuses our efforts to help communities and local organisations make improvements, whilst also delivering commercial value to our business. We exceeded our Going for Gold target, achieving platinum in the Business in the Community Corporate Responsibility Index, and we were placed in the top 16 per cent of participants in the Carbon Reduction Commitment (CRC) league table. Leading by example, we completed the construction of Quadrant 3, a flagship scheme that embodies sustainable development, not only creating a large new public space in the West End of London, but housing a combined cooling, heat and power (CCHP) unit with Europe's most energy efficient fuel cell. We have also signed up 13 GW of offshore renewable energy capacity; significantly enhancing energy security for the UK.

We now have a solid baseline, but sustainability is a journey rather than a destination and our achievements to date, coupled with the further impetus created by the appointments this year of Alison Nimmo (our chief executive), Mark Gough (head of sustainability) and Claudine Blamey (in a newly created urban sustainability manager post), present the opportunity to redefine our vision, creating an integrated business approach.

We will need to continue to build strong value-based partnerships in order to remain resilient in an uncertain future of environmental and social change. Our broad reach across a highly diverse portfolio positions us as a catalyst and will see us deliver on our ambition to be 'innovators' for sustainable business.

Vivienne King
Director with responsibility for sustainability

For more information and to see the full report, visit:
www.thecrownestate.co.uk/annual-report/

Key achievements

- **13 GW** renewable energy capacity signed up
- **2 million man hours** without a reportable health and safety incident at Quadrant 3
- **98%** SSSIs in favourable or recovering condition
- **93%** waste diverted from landfill
- **Platinum** achieved in BITC Corporate Responsibility Index
- **629 hours** volunteering achieved
- **118 unemployed** London residents placed in full-time employment
- **Sustainability Initiative of the Year** awarded by Estates Gazette for Quadrant 3 development
- **Top 16%** in CRC league table
- **Certified** emissions reductions through CEMARS
- **New** Ethical Supply Chain Policy
- **Launched** Code of Business Ethics
- **International Safety Award** for our approach to corporately reducing and managing safety risks
- **Education Big Tick 2012** and Asda Environmental Leadership Big Tick Re-accreditation 2012

Key challenges

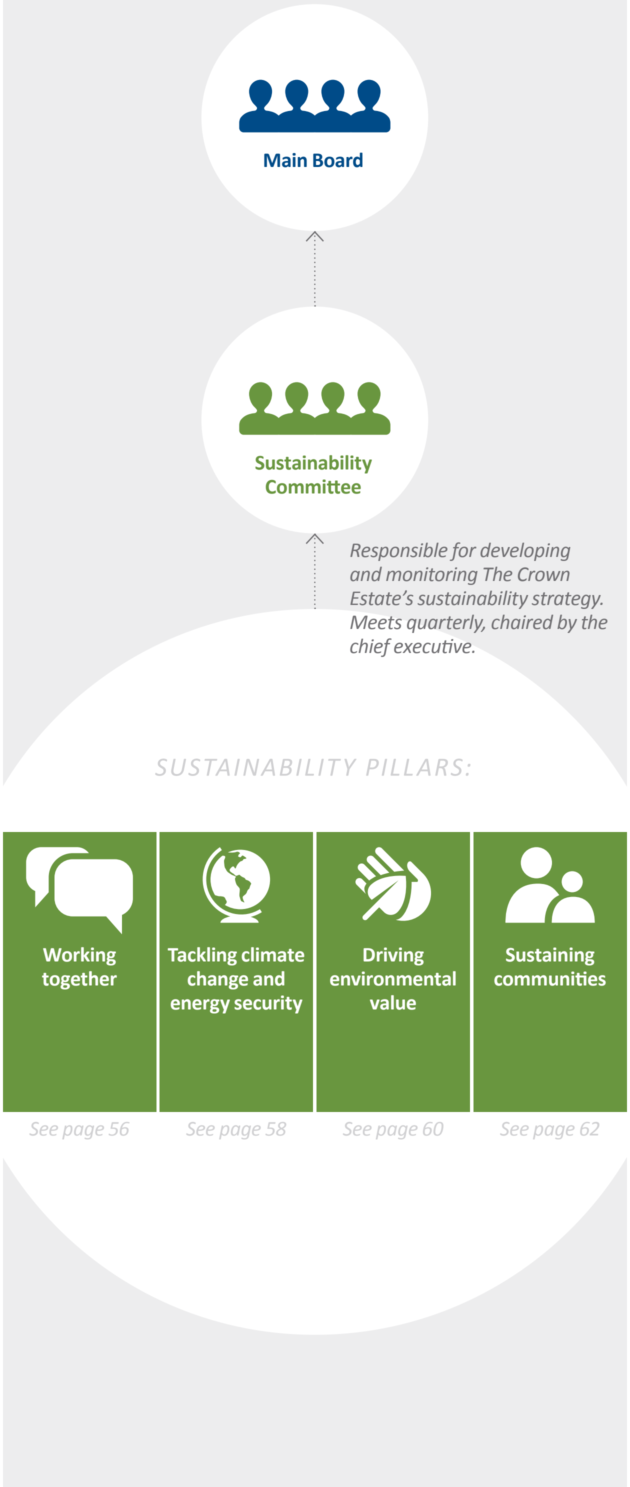
- ***Build*** upon our strategy to put sustainability at the heart of our business
- ***Catalyse*** durable engagement with employees and other stakeholders to support innovative ideas
- ***Increase*** our influence where we have limited, or no, control to achieve continual improvement
- ***Improve*** energy efficiency particularly in historic building stock, where we are aware of our responsibility to protect heritage, while still providing leadership
- ***Develop*** a method to usefully measure the benefits and impacts of our business
- ***Strengthen*** communications, capturing and engaging with others on achievements and challenges

Our strategy

For more information and to see the full report, visit:
www.thecrownestate.co.uk/annual-report/

Sustainability is integral to our values of commercialism, integrity and stewardship and therefore to how we do business.

We have a clear governance structure for sustainability that defines roles and responsibilities and helps us implement our strategy.



Materiality and engagement

We undertake a formal process to determine the most material issues for our business. This is informed by our business goals, our corporate risk management process and through engagement with our stakeholders.

We are committed to ensuring that whenever we engage, we meet the highest standards of transparency with our stakeholders through the following commitments:

1. All relevant stakeholders will be consulted.
2. The information we provide will be accurate, accessible and written in clear language.
3. We will keep a clear record of all communications.
4. We will provide feedback so that the consultation is a genuine two-way process in clear language.
5. The views of stakeholders will be considered before coming to any final decisions.

In the past financial year we have engaged with our stakeholders on a wide range of issues including pre-planning of new developments and progress on the world's first commercial wave and tidal energy programme. These have taken place at locations ranging from Elsenham in Essex, to Fochabers and Pentland Firth in Scotland. We also sit on working groups to develop policy such as the Country Land and Business Association and the British Property Federation.

Control or influence

The way we manage our diverse portfolio broadly falls into two categories: 'control' – where we directly manage the property, typically through managing agents and are able to set standards and identify common goals; and 'influence' where our challenge is to encourage action in line with our values, through engagement, research and by recognising best practice through awards. The sustainability performance data in this report covers the properties and activities under our control. Our online annual and sustainability report details where we have control and influence across all of the activities carried out on each of our estates.

Working together

We recognise we have a responsibility to act in a way that demonstrates we can be trusted today and over the long term.

Our approach

We work to build open, transparent and mutually beneficial relationships with all of our stakeholders, including:

Employees
Creating a fulfilling work environment

Customers
Promoting quality service, choice and flexibility

Suppliers
Building relationships which create value for us and for the wider market

Wider stakeholders
Ensuring that we are good people to do business with

Our action

Employees
We have rolled out a new Code of Business Ethics and are working on a communication plan to embed this into our business. 91 per cent of managers completed three day management development training over the past year and we continued to achieve Investors in People (IIP).

Customers
We aim to deliver excellent service at all times and we measure this through surveys. Of the 197 urban and rural tenants surveyed, responses indicate that 84% are willing to recommend The Crown Estate as a landlord.

Suppliers
Our diverse portfolio is supported by a wide range of suppliers and through our new ethical supply chain policy we encourage them to meet the same high standards we set for ourselves. We engage on best practice and our urban business partners continue to perform against our Environmental Performance Index (EPI).

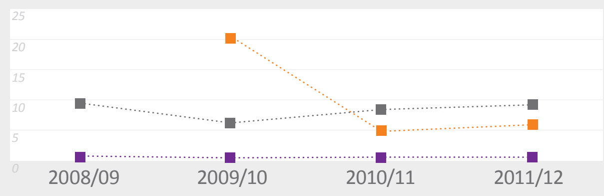
Wider stakeholders
We recognise that the success of our business depends on positive engagement with many different stakeholders. In addition to local communities, we also engaged with politicians at all levels of Government, including national, devolved, regional and local and other organisations with an interest in our activities.

A good example of creating mutual benefit for all stakeholders is our engagement at Tomintoul in Scotland where we are providing funds, facilities and staff time to help develop a sustainable regeneration strategy with the local community, Moray Council, Cairngorms National Park Authority and Highland and Islands Enterprise.

Our performance

Health & Safety incidents

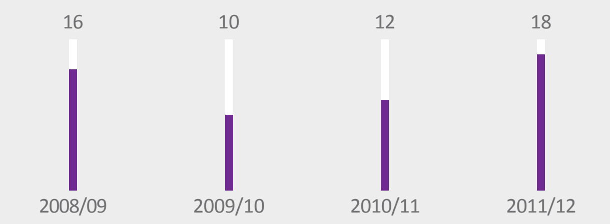
- Accident Severity Rate (ASR) – Number of employee lost days per 100,000 hours worked
- Accident Incident Rate (AIR) – Number of accidents per 100 employees
- Accident Frequency Rate (AFR) – Number of RIDDOR reported injuries per 100,000 employee hours



Data note: In 2009/10 the ASR rate was high due to a smaller workforce and more time off work, including one incident that resulted in 104 days off

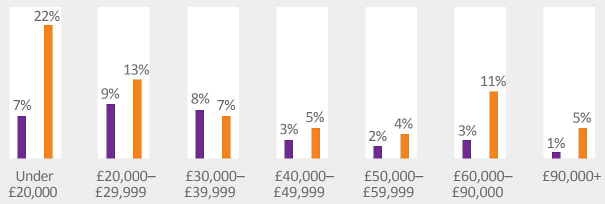
Average hours of training per year per employee

- Number of hours



Employee salary ratios by gender 2011/12 (67% male, 33% female)

- Percentage of total employees (female)
- Percentage of total employees (male)



For more information and to see the full report, visit: ***www.thecrownestate.co.uk/annual-report/***

Targets

● Target achieved ● Target partially achieved ● Target on track for achievement ● Target not met

Current targets	*Status*
Achieve 600 hours of employee volunteering (by 31 March 2012).	629 hours of volunteering achieved.
At least 90 per cent of our managers to undertake the core leadership and management programme (by 31 March 2012).	91 per cent have completed their programme of training.
Site-based employees to complete at least 90 per cent of all job related health and safety training as determined by The Crown Estate training matrix (by 31 March 2012).	93 per cent of training completed (271 courses).
Management board directors to deliver 90 per cent of the safety briefings to their departments (by 31 March 2012).	Safety briefings delivered by directors and managers as opposed to all being delivered by directors.
Implement our education programme to include working with academic institutions on at least four research projects; 15 schools (knowledge sharing projects); and 10 students (work experience and internships) (by 31 March 2012).	Partnered with 18 universities Worked with 145 different schools Hosted 16 work experience placements and 11 internships

Ongoing/New targets

- Introduce a mentoring programme to utilise the experience of our employees and provide support and growth for others (31 March 2013).
- Achieve 650 hours (1.5 hours per person) of employee volunteering (31 March 2013).
- Create a promotional programme aimed at improving Health and Safety learning opportunities through increased incident reporting (31 March 2013).
- Launch the 'Forests for the Future' educational resource in England and Wales (31 March 2013).

Flagship 'Forests for the Future' education project

A web-based resource that uses forests to promote an understanding of climate change in schools; launched in Scotland in July 2011, already 4,870 pupils from 128 schools have visited our rural estate, planting 1,265 trees. This has also led to the establishment of four new forest schools on our land where primary schoolchildren can experience the sights and sounds of the forest. Forests for the Future (**www.forestsforthefuture.co.uk**) is organised in partnership with the Forestry Commission (Scotland and England), the Royal Highland Education Trust, Forest Research, Farming and Countryside (FACE) and Westonbirt the National Arboretum. We intend to roll this out in England and Wales during 2012/13.

Below
Children creating a climate change bar chart out of wood.

Tackling climate change and energy security

Climate change presents physical, financial and regulatory risk and opportunities to our business and to society as a whole.

Our approach

Our approach is focused on:

Mitigation
Making our operations more energy efficient

Adaptation
Understanding and adapting to the changes in climate

Energy security
Enabling the development of renewable energy

Our action

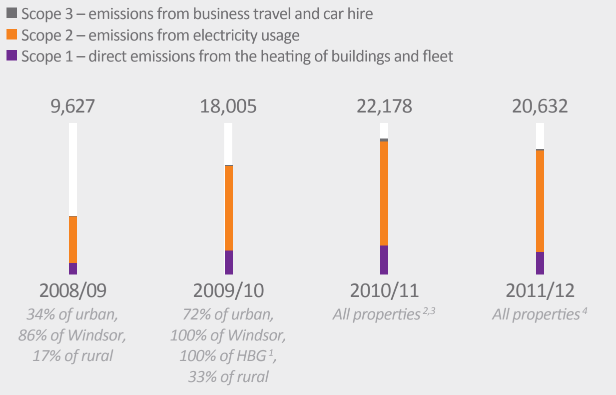
Mitigation
From a 2007/08 baseline we have exceeded our 34 per cent target and achieved a CO_2 intensity improvement of 47 per cent. We are not complacent though and are setting a new ambitious target for a further 50 per cent by 2022 for property under our direct control. Over the year we identified efficiencies through greater measurement and monitoring supported through our continued roll-out of smart meters, now 90 per cent complete. We also purchased the largest and most efficient fuel cell in Europe, estimated to reduce emissions at our Quadrant 3 development by 40 per cent, and introduced LED lighting at our Windsor estate. One of our big challenges is our historic building stock, where we are aware of our responsibility to protect heritage whilst still providing leadership.

Adaptation
Adapting to an uncertain future is challenging, and it is only through partnership that we will be able to understand and prepare for the changes ahead. We actively participated in the inaugural meeting of the UK National Adaptation programme, to address climate change challenges for agriculture, forestry and the natural environment. In addition, we have undertaken risk assessments on key parts of our marine and rural estate and carried out pilot studies to integrate potential climate change risks into our investment decision process.

Energy security
Renewable energy will play an important role in addressing rising concerns around energy security, sustainable growth and climate change. By reducing the level of financial guarantees we require, we have made it easier for small firms to enter the wave and tidal market. We have increasingly committed resources to offshore and wave and tidal programmes, and of the approximate 50 GW in our development pipeline, some 13 GW of projects have already been signed. Such is the scale of the Round 3 offshore wind programme that on its own it could supply around 25 per cent of the UK's electricity by 2020. Long-term, sustainable decision making is supported by our Marine Resource System (MaRS), an advanced GIS-based asset planning tool that identifies areas of opportunity within the marine estate. Going forward, we will build on growing interest in tidal barrages, deliver onshore renewables, and have started work on an ambitious infrastructure project with Ofgem, DECC and the National Grid that will connect offshore wind farms and move electricity around the UK via an offshore grid.

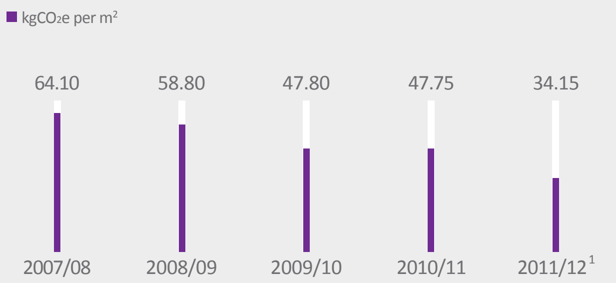
Our performance

Carbon emissions: absolute emissions (tCO_2e)



1 HBG – Housing Business Group
2 HBG sold midway through the year
3 2010/11 emissions have been restated using estimates (<2%) from 21,847 tCO_2e to provide full data coverage
4 In 2011/12, PricewaterhouseCoopers LLP has provided limited assurance on Scope 1 and 2 energy emissions excluding car fleet: a total of 20,202 tonnes (1% estimated). For the full limited assurance report, see www.thecrownestate.co.uk/PwCassurance

Carbon emissions intensity ($kgCO_2e$ per m^2)



1 Including the rural estate reported on for the first time

For more information and to see the full report, visit:
www.thecrownestate.co.uk/annual-report/

Targets

● Target achieved ● Target partially achieved ● Target on track for achievement ● Target not met

Current targets	*Status*
Reduce carbon emissions from property under our direct control by 34 per cent from our 2007/08 baseline (2020).	47 per cent reduction in carbon emissions from 2007/08 baseline – measured on intensity basis.
Obtain DECs for the top 20 energy consumers in our commercial portfolio (31 March 2012).	Nine DECs have been obtained – 10 are in progress.
Complete and implement our approach to integrating climate change risks into the urban property investment decision process (31 March 2012).	The tool has been refined and is now being used in the investment process.
Facilitate the installation of 5-8 GW of renewable energy generation capacity on our estate, including offshore wind, wave and tidal (2015).	On track for over 5 GW of capacity to be fully operational by 2015. Some 13 GW of offshore wind projects have been signed and 36 wave and tidal sites are under development.
Deliver at least 500 MW of renewable energy across our rural estate through the implementation of a range of renewable technologies (2015).	More work required. Currently 426 MW of wind, PV and hydro capacity is scheduled for completion by the end of 2015.

Ongoing/New targets

- Improve carbon emissions intensity by a further 50 per cent from a 2011/12 baseline for property under our direct control (2022).
- Facilitate the installation of 5-8 GW of renewable energy generation capacity on our estate, including offshore wind, wave and tidal (2015).
- Deliver at least 500 MW of renewable energy across our rural estate through the implementation of a range of renewable technologies (2015).

Marine Energy Pembrokeshire

We are partially funding the development of wave and tidal energy through the Marine Energy Pembrokeshire forum. The forum helps developers and statutory bodies work together to understand and potentially overcome barriers to consent. Current activity includes developing a consent route map, seminars and events on supply chain issues and helping to generate political support for wave and tidal energy. Other stakeholders include the Welsh Assembly Government, Milford Haven Port Authority and Pembrokeshire Coast National Park Authority.

Below Pembrokeshire coastline, Wales.

Driving environmental value

We believe efficient and responsible use of resources drives value for our business and stakeholders – by managing costs effectively and creating opportunities.

Our approach

We meet our responsibilities and drive value by:

Promoting better estates
Applying a systematic approach for continual improvement

Cutting water use and reducing waste
Using resources efficiently and responsibly

Managing biodiversity
Acting in accordance with our biodiversity action plans

Our action

Promoting better estates

We aim to achieve the highest standards of estate management and construction. We once again raised the bar for our urban business partners in the Environmental Performance Index (EPI) and we continue to review our Urban Sustainability Guidelines to reflect best practice for construction projects. We implemented ISO 14001 environmental management systems on more of our portfolio and have only a handful of smaller operations left which we intend to certify over the next two years.

Cutting water use and reducing waste

Although our direct water use is fairly limited we recognise that some of our estates fall within areas of severe water stress. We therefore intend to map these and develop an efficiency action plan where it will have the most impact. A partially completed programme of mains pipe renewal and leak identification at Windsor has resulted in a local water consumption decrease of 16 per cent so far.

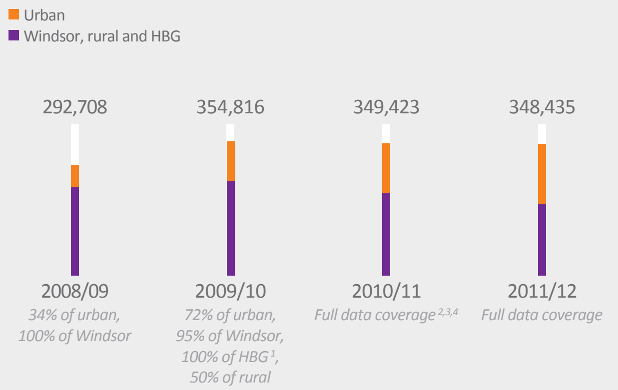
Our target is to send zero operational waste to landfill by 2016, where we have control. Where we have influence we offer advice on waste management and offer waste services to our tenants where economies of scale make sense. Construction waste from developments and major refurbishments is addressed through our sustainability development guidelines and we engage with contractors on smaller refurbishment projects, to achieve greater success.

Managing biodiversity

We have a huge number of Sites of Special Scientific Interest (SSSIs) fully, or partially, covering our estate. Having successfully achieved 98 per cent in 'favourable or recoverable' condition we are now progressing towards a more stretching target of 50 per cent in 'favourable' condition by 2020. We work to enhance the biodiversity across our portfolio using our own expertise and through the Marine Stewardship and Research Funds.

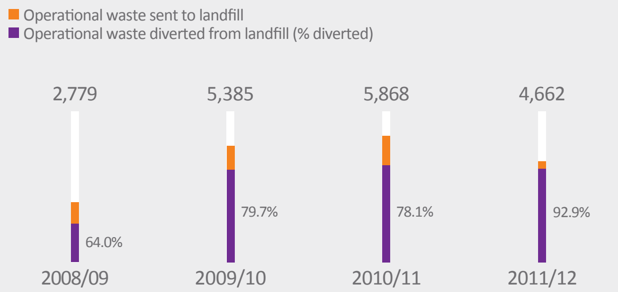
Our performance

Absolute water consumption (m³)



1 HBG – Housing Business Group
2 HBG sold midway through the year
3 Windsor estate includes all properties, with <1% of consumption based on estimates
4 Consumption for 2010/2011 has been restated due to the identification of more accurate data

Waste: operational waste (tonnes)



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www.thecrownestate.co.uk/annual-report/

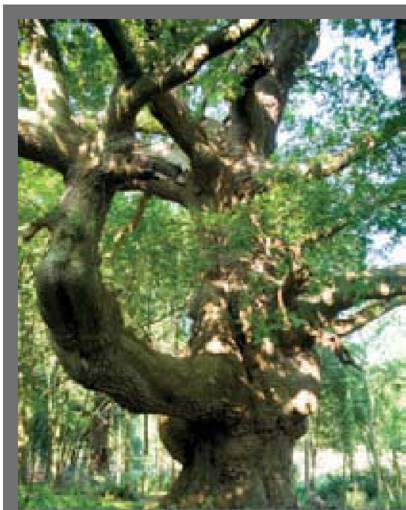
Targets

● Target achieved ● Target partially achieved ● Target on track for achievement ● Target not met

Current targets	*Status*
Achieve BREEAM 'Excellent' rating on at least 75 per cent of all new build and major redevelopment projects (ongoing).	Quadrant 3 was the only major development to complete during the year – it achieved an 'Excellent' rating.
Divert 90 per cent of non-hazardous waste from landfill from our own offices, the Windsor estate and our directly managed portfolio (where we provide waste services) (31 March 2012).	93 per cent of non-hazardous waste was diverted from landfill in 2011/12.
Reuse or recycle 80 per cent of non-hazardous waste from demolition, excavation, refurbishment strip-out (projects over £300,000 in value) and construction (2015).	93 per cent recycling rate has been achieved in 2011/12.
Total waste generated on all development projects over £100,000 will be no greater than 15m^3 per 100m^2 of floor area, and a minimum of 15 per cent recycled materials (by value) to be used in projects over £300,000 in value (2012).	9.07m^3 of waste was generated per 100m^2 of floor area on new developments with no developments generating more than 15m^3. 19 per cent recycled content by value was achieved on projects where data was available.
95 per cent of Sites of Special Scientific Interest (SSSIs) to be in 'favourable' condition by 2020.	Currently 42 per cent of our English SSSIs are in 'favourable' condition. More work required.

Ongoing/New targets

- Achieve BREEAM 'Excellent' rating on all completed new build and major refurbishment projects overseen by the Development team (ongoing).
- Zero operational waste to landfill where we have control (2016).
- Reuse or recycle 90 per cent of non-hazardous waste from all new build and major refurbishment projects overseen by the Development team (ongoing).
- 50 per cent of Sites of Special Scientific Interest on the rural and Windsor estates in England (8,666 ha) will be in 'favourable' condition, while maintaining at least 95 per cent in 'favourable or recovering' condition, in line with the Government target (2020).
- Map all of our estates against water stress and develop an efficiency action plan where we have most impact (31 March 2013).



1,000 years old and still growing

In Windsor Great Park and forest there are several oak trees which are over 1,000 years old and thousands more defined as 'ancient', creating unique, species rich wildlife habitats. We have an ongoing conservation programme through 're-propping' large limbs that are near to collapse, and keeping their genes alive through the planting of their acorns.

Waste not want not

Our recently completed Quadrant 3 development has set a new benchmark for sustainable construction, exceeding targets on resources use and waste. We retained 50 per cent of the façade and re-used 1,500 tonnes of steel. Materials used for construction had 36 per cent recycled content (20 per cent by value); this included pioneering a new process for making concrete from the waste from the China Clay industry. We surpassed our target and the Waste & Resources Action Programme's (WRAP) 'best practice' benchmark, only producing 6m^3 of waste per 100m^2, and over 90 per cent of the remaining waste was recycled.

Sustaining communities

Our activities can have a direct influence on communities through our support for local projects, employment and economic development.

Our approach

We work constructively in partnership with communities in and around our core holdings to address recognised community needs. We focus our approach on projects relevant to our business strategy and falling within one of our focus areas – 'Education', 'Enterprise' and 'Estate access and Experience'. All investment under this policy must have defined, and measurable, business and community benefits.

We believe that working for mutual benefit in this way is essential for the long-term success of our business, helping us to retain tenants and increasing the value of our portfolio.

Our action

Over the past year, we introduced and embedded our new community investment policy. This includes projects we fund and those to which we give in-kind donations (employee time, resources, and use of facilities), such as Forest Schools, training in rural skills and free office space for community groups. A number of projects fall outside of our criteria but still provide benefit. These 'other community investments' include projects supported by our Marine Stewardship and Research Funds.

We are using our community investment guide to develop new projects in line with our policy and best practice. Our challenge for the coming year is to ensure we have a comprehensive yet simple method to measure the benefits from our action.

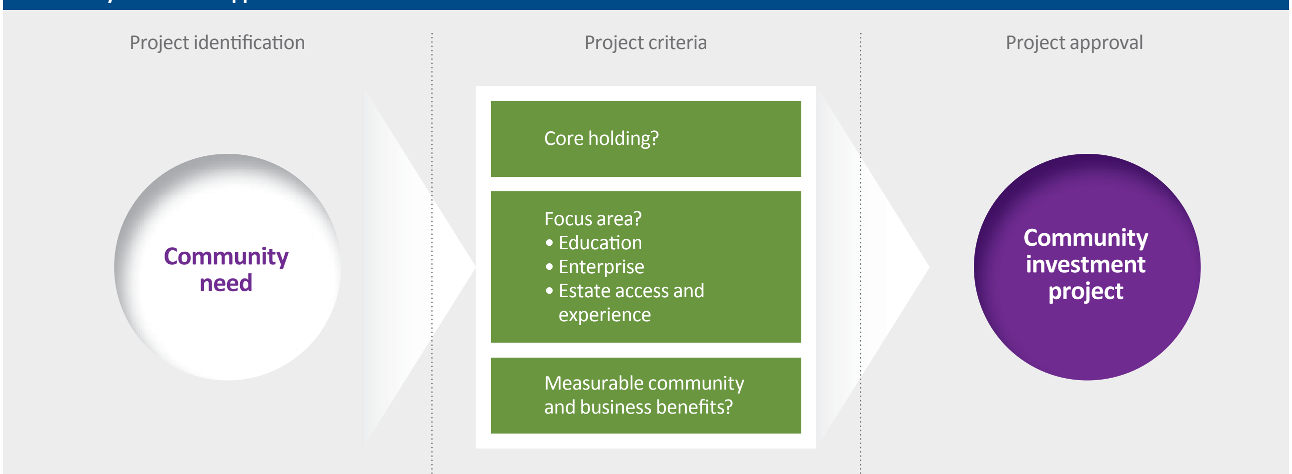
We continue to collect data and report in accordance with LBG methodology.

Our performance

Community investment 2011/12 (£)

Percentage of staff volunteering (%)

Community investment approach



For more information and to see the full report, visit: ***www.thecrownestate.co.uk/annual-report/***

Targets

● Target achieved ● Target partially achieved ● Target on track for achievement ● Target not met

Current targets	*Status*
Apply our new community investment strategy to 80 per cent (by value) of our community activities (the remaining 20 per cent is to allow for the transition of activities).	All community investment projects have been assessed according to the new strategy.
Measure the outputs from significant community investment projects (with a value of over £10,000).	Outputs have been measured on all significant projects and some smaller ones.
Support and deliver 10 community events across The Crown Estate in liaison with third parties.	Over 20 community events have been delivered in liaison with third parties.
Contribute to the implementation of three public realm initiatives.	Contributed to the implementation of three public realm initiatives – two complete and one under development (work will start in 2013).
40 out-of-work London residents to be placed in full-time occupation by the workplace coordinator.	118 out-of-work residents have been placed into full-time occupation.

Ongoing/New targets

- Investigate an appropriate methodology for measuring community and business success (31 March 2013).
- Complete three more public realm projects in central London (31 March 2016).
- Provide free office accommodation in central London for at least four community groups (31 March 2013).
- Continue to place at least 30 unemployed London residents per annum into employment in the West End, London (ongoing).

Education

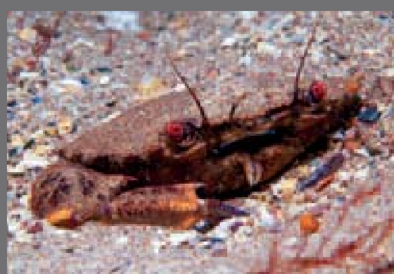
Children at Dunster First School building owl boxes, reinforcing the importance of biodiversity. We have involved over 70 students, young mums and job seekers in nearly 2,000 hours of educational activity over the past year. Activities range from shelter building to 'A' level woodland management theory and practice, helping to make participants more employable to public service organisations.

Estate access and experience

We partially fund a marine reserve ranger at St Abbs and Eyemouth to promote the site and educate visitors on the diversity of the marine environment. This year there have been 15 guided walks (289 participants); six talks (to 177 participants) and 30 educational sessions (506 participants).

Enterprise

Faheem Qureshi (left) placing residents in work. Sara Sefari (*right*) was successful in her application for the position of sales assistant with FCUK. Store Manager, Tom Faulkner (*middle*), says "I will definitely use The Crown Estate services again when I look to recruit staff. The quality of candidates is spot on".



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Board of Directors

From left:

Chris Bartram MA, FRICS
Non-executive Board member
Appointed to the Board on 1 January 2007. Chris is currently Chairman of Orchard Street Investment Management and was Managing Director of Haslemere NV which was floated on the Amsterdam Stock Exchange in 1999. He was previously Managing Partner of Jones Lang Wootton. He is a non-executive Director at Land Securities Group plc and is Chairman of Estate Management Development Fund at Cambridge University. He is also a Wilkins Fellow of Downing College, Cambridge. Past appointments include: President of the British Property Federation and Chairman of the Bank of England Property Forum.

Dr Anthony White MBE
Non-executive Board member
Tony has worked in the utility and finance sectors since leaving Oxford University with a Doctorate in Physics in 1977. His professional interests include the valuation of generating assets in liberalised power markets, the evolution of energy markets in a carbon constrained world and the development of network regulation. He left Climate Change Capital, a bank he and four others established in 2003, but continues to provide advice through his company BW Energy Limited. He is a non-executive director of the National Renewable Energy Centre at Blyth and Green Energy Options. He is a member of the British Government's Nuclear Liabilities Financing Assurance Board and its High Level Strategy Group for the Built Environment. He was awarded an MBE in 2004 for services to UK energy policy.

Jenefer Greenwood BSc, FRICS
Board counsellor
Non-executive Board member February 2004 – December 2011
Appointed to the Board on 19 February 2004. Jenefer joined Grosvenor in May 2003 as Retail Strategist to give advice on retail positioning across the portfolio. She previously worked for CB Hillier Parker for 25 years, where she was Head of Retail. One notable project during this time included the retail plan and branding of Regent Street. Within Grosvenor she has recently been appointed Director – Sales & Lettings for Great Britain and Ireland across all retail, commercial and residential estates. In May 2012, Jenefer was appointed as non-executive Director of Assura Group, where she is also Chair for the Remuneration Committee, Jenefer is also Chairman of the Advisory Board of the National Skills Academy for Retail. She is a past President of the British Council Shopping Centres (BCSC) and member of the ICSC European Advisory Board. She is also a Governor of Westonbirt School.

David Fursdon FRICS, FAAV
Non-executive Board member
Appointed to the Board in January 2008. David is a qualified rural chartered surveyor and agricultural valuer. He was educated at St John's College Oxford and at the RAC Cirencester. He owns and manages an 800 acre family estate in Devon. He was formerly President of the Country Land & Business Association (CLA). He is now an English Heritage Commissioner, Chairman of SW Chamber of Rural Enterprise, Chairman of the SW Board for the 2012 Games and SWRDA Board member. He is also the chairman of Governors for Blundell's School, Parish Chairman, Deputy Lieutenant for Devon and a former member of the Government's Affordable Housing Commission. Previously he has been a civil servant, a teacher and an equity partner of a firm of Auctioneers and Chartered Surveyors.

Sir Stuart Hampson
Chairman and First Commissioner
Sir Stuart took up the post of chairman of The Crown Estate on 1 January 2010. Sir Stuart joined The Crown Estate on 1 January 2010. He was born in 1947 and educated at St John's College Oxford. He spent 12 years as a civil servant before joining the John Lewis Partnership where he was Chairman for 14 years. He was a founding member of the Oxford Retail Group on planning law and of London First, the private/public sector partnership aimed at maintaining London's standing as a world-class capital. Sir Stuart chaired the Business in the Community team tackling economic renewal in deprived communities, and he is one of the Prince of Wales's Ambassadors in this area. Sir Stuart was President of the Royal Agricultural Society of England in 2005/2006. He was knighted in 1998 for services to retailing.

Alison Nimmo CBE
Chief executive and Second Commissioner

Alison took up the post of chief executive of The Crown Estate on 1 January 2012. Prior to this, she spent five years with the Olympic Delivery Authority (ODA) where, as Director of Design and Regeneration, she was responsible for delivering the overall design and early delivery of many of the venues for the London 2012 games. Alison is a chartered surveyor and town planner who specialises in regeneration and was awarded a CBE for services to urban regeneration in 2004. Her previous roles have included: a central role in the London 2012 bid team and interim Director leading the establishment of the Olympic Delivery Authority; Chief executive of Sheffield One and Project Director of Manchester Millennium Ltd.

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

Appointed to the Board on 1 January 2011. Dipesh has an extensive background in business, including renewable energy, utilities and infrastructure. Since 2009 he has been a non-executive member of The Crown Estate's offshore energy supervisory committee, and currently holds a number of non-executive appointments with Thames Water, JKX Oil & Gas Plc and the 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite Fund). He is a Trustee of the British Youth Opera and a Governor of Merchant Taylor's School. Recent appointments include: Chief executive of the UK Atomic Energy Authority, Chairman of Viridian Group Plc and of HgCapital Renewable Power Partners LLP, and a Non-executive Director of Lloyds of London and Babcock International Group Plc.

Ian Marcus MA, FRICS
Non-executive Board member

Appointed to the Board in January 2012. Ian is currently UK Managing Director of Evans Property Group, a position he took up in May 2012. He was previously Chairman of European Real Estate Investment Banking at Credit Suisse where he was responsible for leading the bank's property related activities across its asset management, private banking and investment banking businesses. He is also Chairman of the Bank of England Commercial Property Forum and Chairman of The Prince's Regeneration Trust. Ian's previous roles have included the Presidency of the British Property Federation and Chairmanship of the Investment Property Forum. He is a member of the Real Estate Advisory Board of the Department of Land Economy at the University of Cambridge, an Eminent Fellow of the RICS and a Member of the Chartered Surveyors Company.

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

Appointed to the Board on 1 October 2009. 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. He is Chairman of Scott Country Potato Growers Ltd, Vice Chairman of Grainco Ltd, and a Director of Scotland Food and Drink and of the Royal Highland and Agricultural Society of Scotland. He has been involved with farming co-operatives for many years, and it was this commitment to co-operation that led to his chairmanship of the Scottish Agricultural Organisation Society (SAOS) for two separate three-year terms. He also chairs the South of Scotland regional advisory board of Scottish Enterprise. He is a fellow of the Royal Agricultural Society and Deputy Lord Lieutenant for Roxburgh, Ettrick and Lauderdale.

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

Appointed to the Board in January 2003. Dinah read history at Bedford College, University of London. She is a non-executive Director of Pennon Group plc (the parent company of South West Water and Viridor Waste) and of Shires Smaller Companies Investment Trust. In 2005 she became Chair of the National Forest Company, a project to regenerate a large area of central England through multi-purpose forestry and major landscape change. Until 2002 she was Director-General Environment in DEFRA, where her responsibilities covered policy for sustainable development, climate change, air and water quality, waste, chemicals and the environmental aspects of farming. In her previous posts in the civil service she dealt with housing, construction, property, regeneration and transport. She is also a Trustee of The Land Trust and Keep Britain Tidy and a member of CPRE's Policy Committee.

Management Board

Alison Nimmo CBE
Chief executive and Second Commissioner

Chris Bourchier
Director of the rural estate

Paul Clark
Director of Investment and Asset Management

Vivienne King
Director of Legal

John Lelliott
Finance director

Rob Hastings
Director of the marine estate

Governance report

Introduction

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

In managing the business of The Crown Estate, the Board of Commissioners (the Board) is wholly committed to business integrity, high ethical values and professionalism across all its activities – all in accordance with the organisation's core values of commercialism, integrity and stewardship. As a vital part of this commitment, I recognise, as do the Board, the importance of high standards of governance and have ensured that we have in place a corporate framework document setting out the basis on which The Crown Estate operates and the formal structure for decision making.

The UK Corporate Governance Code issued by the Financial Reporting Council is widely acknowledged as representing best practice in governance. Although The Crown Estate is not obliged to comply with the requirements of the Code, its Board nevertheless supports the principles and provisions set out in the Code; and in so far as the Code provisions are applicable to the circumstances of the organisation, The Crown Estate seeks to comply with the Code where this is appropriate. Many areas of our governance, however, are governed by the Crown Estate Act 1961, HM Treasury guidance or other Government guidance where relevant/appropriate.

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

During the year we strengthened our corporate governance framework through the introduction of a new code of business ethics, the integration of procedures in response to the Bribery Act 2010 (including training for all staff), and updated Board and committee structures and delegated authority levels.

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

Sir Stuart Hampson
Chairman

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

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

The Crown Estate may be traced back to the reign of King Edward the Confessor and, until the accession of King George III, the Sovereign received its rents, profits and expenses. However since 1760, the annual surplus, after deducting management costs, has been surrendered by the Sovereign to Parliament to help meet the costs of civil government. In return, the Sovereign receives the Sovereign Grant, which is calculated and paid by the Treasury with reference to the net revenue surplus (profit) of The Crown Estate. The Sovereign Grant replaces the civil list from the financial year 2012/13.

The duties of the Commissioners are to maintain The Crown Estate as an estate in land (with such cash or investments as may be required for the discharge of their functions) and to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management. By the Civil List Act 1952, the net income from The Crown Estate, after defraying costs of collection and management, is required to be paid into the Treasury and made part of the Consolidated Fund (general government revenues). The Commissioners have authority to do on behalf of the Crown in relation to The Crown Estate all such acts as belong to the Crown's right of ownership, subject only to the detailed restrictions set out in the Act. The Board must comply with such directions, as to the discharge of their functions under the Act, as may be given to them by the Chancellor of the Exchequer and the Secretary of State for Scotland.
The Commissioners submit annually to the Treasury a forecast of their activities in a corporate plan covering the following and two ensuing years. The Crown Estate is not the property of the Government, nor is it the Sovereign's private estate. It is part of the hereditary possessions of the Sovereign in right of the Crown.

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

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

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

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

Composition of the Board

At 31 March 2012 the Board comprised eight members: a chairman (who is non-executive), the chief executive and six non-executive Board members. The composition of the Board is defined by the Crown Estate Act 1961.

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

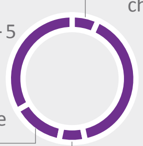
Duties

The main duties of the Board are to:

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

Brief biographies of each of the current members are set out on The Board page.

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



Delegated authorities

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

- approving the annual report and accounts
- approving the annual budget and strategic plan
- agreeing capital expenditure or disposals over £50 million for urban transactions and over £10 million for rural, marine, and energy related transactions
- agreeing investment strategy
- granting or varying authority levels for Board committees and the chief executive.

Certain matters are delegated to committees of the Board and these are described in the terms of reference of the committees in question. The duties of the audit committee, sustainability committee, remuneration committee, Scottish management board, energy committee and Quadrant board committee are summarised later in this report. Other issues are delegated to executive committees which include the management board (including investment and strategy matters), stock selection committee and communications committee.

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

The chief executive, Alison Nimmo is responsible for directing and promoting the profitable operation and enhancement of The Crown Estate. Her duties include responsibility for the development of The Crown Estate and its effective operation, strategic planning, ensuring implementation of objectives, policies and strategies approved by the Board, including sustainability targets and objectives, being responsible for public relations and acting as the Treasury's appointed accounting officer for The Crown Estate.

The Boardroom table

- Board members
- Non-executive Board members
- Non-executive Board counsellors
- Management Board executive directors

Christopher Bartram
Non-executive Board member
(and SID)
– Urban asset management and investment

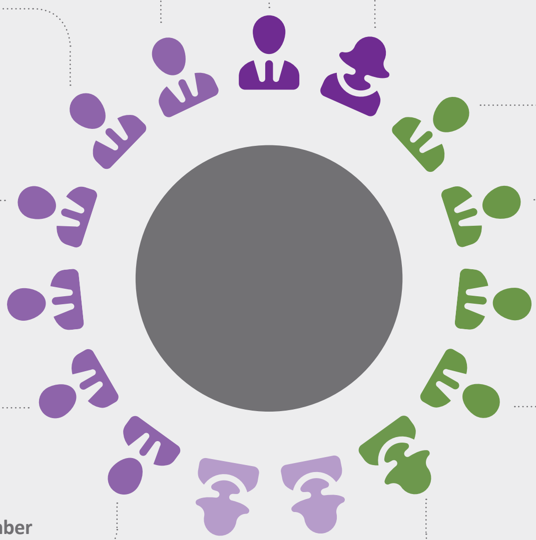
Sir Stuart Hampson
Non-executive chairman
– Leadership
– Strategic overview
– Government relations

Dipesh Shah OBE
Non-executive Board member
– Marine
– Energy including renewables and infrastructure

Alison Nimmo CBE
Chief executive
– Leadership
– Corporate overview
– Government relations
– Property

Paul Clark
Director of investment and asset management

Ian Marcus
Non-executive Board member
– Real estate investment banking



Robert Hastings
Director of marine estate

Gareth Baird
Non-executive Board member
– Scotland
– Farming
– Enterprise

Christopher Bourchier
Director of rural estate

Dr Anthony White MBE
Non-executive Board member
– Low carbon energy and investment

John Lelliott
Finance director

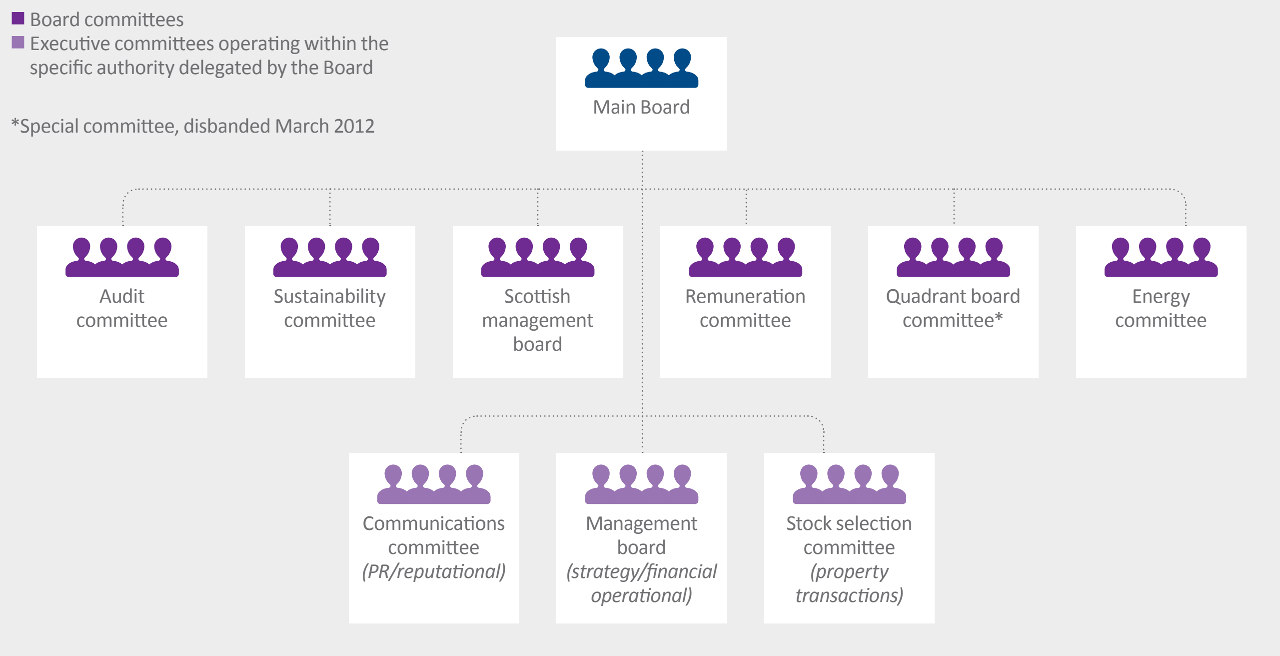
David Fursdon
Non-executive Board member
– Rural land/business
– Public bodies

Vivienne King
Legal director
(Board secretary)

Jenefer Greenwood
Non-executive Board counsellor
– Urban asset management
– Retail strategy

Dinah Nichols CB
Non-executive Board counsellor
– Sustainability
– Governance
– Government/public bodies

Structure of Boards and committees



The non-executive main Board members

The non-executive members are Christopher Bartram, David Fursdon, Gareth Baird, Dipesh Shah, Anthony White, and Ian Marcus (appointed 1 January 2012). The Board reviews annually the independence of each of its non-executive members to ensure that they bring an objective viewpoint and none of the factors implying a lack of independence applies. None of the non-executive members has (to his or her knowledge) any conflict of interest which has not been disclosed to the Board.

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

Christopher Bartram is the nominated senior independent director on the Board as from 1 January 2012, following Jenefer Greenwood's Board member term expiring in December 2011.

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

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

The role of Board secretary is held by Vivienne King, legal director. In addition to other executive duties, the Board secretary's responsibilities include supporting and advising the chairman, ensuring that all Board procedures are followed and ensuring good information flow to Board members. The secretariat service to the main Board is provided by David Purkis. The head of human resources, Valerie Burns, acts as secretary to the selection panel for new Board appointments, and facilitates the induction of new Board members upon appointment. All Board members, including the non-executives, have access to the advice and services of the Board secretary.

Appointments process

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

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

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

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

Time served by Board members at 31 March 2012

Appointment	Date of most recent appointment	Date of expiry	Total length of service at 31 March 2012
Sir Stuart Hampson (chairman)	1 January 2010	31 December 2013	2 years
Alison Nimmo[1] (chief executive)	1 January 2012	31 December 2015	3 months
Roger Bright[2]	1 September 2009	31 December 2011	11 years
Jenefer Greenwood[3]	1 January 2008	31 December 2011	8 years
Christopher Bartram (senior independent director as from 1 January 2012)	1 January 2011	31 December 2014	5 years
David Fursdon	1 January 2012	31 December 2015	4 years
Gareth Baird	1 October 2009	30 September 2013	2 years
Dipesh Shah	1 January 2011	31 December 2014	1 year
Anthony White	1 January 2011	31 December 2014	1 year
Ian Marcus[4]	1 January 2012	31 December 2015	3 months

1 Alison Nimmo's appointment commenced on 1 January 2012.

2 Roger Bright retired as chief executive on 31 December 2011.

3 Jenefer Greenwood's appointment expired on 31 December 2011; she has been retained as Board counsellor for 2012.

4 Ian Marcus's appointment commenced on 1 January 2012.

Non-executive main Board counsellors

Martin Moore and Dinah Nichols continued to work with the Board as Board counsellors following the expiry of their terms as Board members at the end of 2010. This helped to retain the balance of traditional expertise at the Board table following the appointment of two new Board members with renewable energy expertise. Martin Moore subsequently stood down as Board counsellor at the end of December 2011 and Jenefer Greenwood was appointed as a Board counsellor as from 1 January 2012 following the expiry of her term as Board member at the end of December 2011.

The Crown Estate's terms of reference for the Boards and its committees provide for the appointment of up to two Board counsellors whose role is to provide exemplary knowledge, experience and competence to supplement the knowledge of the main Board and inform decision making; main Board counsellors are non-voting co-optees to the main Board.

Board counsellors are responsible to the chairman and the main Board, and attend all routine and ad-hoc main Board meetings, functions, site visits etc. They are additionally available to serve on Board committees (other than audit committee) at the invitation of the chairman.

Board counsellors are appointed at the invitation of the chairman in consultation with the main Board; they may be drawn from retiring Board members or from external third parties. The appointment of an external party who was not previously a Crown Estate main Board member would be a matter for the main Board as a whole to agree on.

Time served as Board counsellors as at 31 March 2012

Appointment	Date of most recent appointment	Date of expiry	Length of service as Board counsellor
Jenefer Greenwood[1]	1 January 2012	31 December 2012	3 months
Dinah Nichols	1 January 2012	31 December 2012	1 year
Martin Moore[2]	1 January 2011	31 December 2011	1 year

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

2 Martin Moore's appointment as Board counsellor expired on 31 December 2011; he was previously a Board member.

Succession planning

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

Board meetings

The Board held eight scheduled meetings and one special meetings of the main Board during the year ending 31 March 2012. As well as meetings in London the Board also met in Windsor. In addition, there were four scheduled meetings of the audit committee, three meetings of the sustainability committee, five meetings of the remuneration committee, three of the Scottish management board (formerly the Scottish committee), two meetings of the Quadrant committee and four of the energy committee. In addition to scheduled Board meetings, each year the Board attends a special meeting which takes place over two days at which broad strategy, external factors and the direction of the business is discussed in depth. This year's meeting was held in Canterbury.

Timeline: Key business at main Board meetings throughout the year

MAY (Windsor)
- Review of Windsor business
- Review year end results
- Review carbon capture and storage (CCS) programme
- Review rural annual report
- Approve terms of reference (ToR) for new Energy committee

JUNE (London)
- Review annual reports on:
  – Health and safety
  – Risk
  – Urban estate
  – Portfolio performance
- Review report on Climate Change committee on renewable energy
- Approve purchase of Maddox House headlease

JULY (London)
- Review Q1 financial report
- Review business improvement programme
- Review implementation of Bribery Act
- Review update on joint ventures
- Review asset management strategy for regional portfolio
- Review annual reports on:
  – Audit committee
  – Sustainability committee
  – Remuneration committee

SEPTEMBER (London)
- Review engagement in Scotland
- Approve acquiring interest in John Lewis store, Exeter
- Agree to investigate investment in a port and harbour development

OCTOBER (London)
- Review Q2 financial report
- Review health and safety report
- Review impact of market development in offshore wind
- Endorse new code of business ethics
- Approve acquiring MK1 Milton Keynes shopping centre

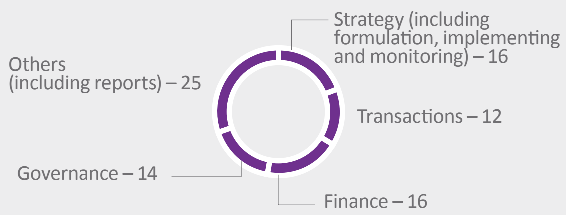
Information flow

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

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

Board members have taken part in formal visits to rural and marine estates in England and Scotland; visits to the London portfolio, including the Quadrant development. The Board away day in November was held in Kent, where the opportunity was taken to visit a wind farm on Romney Marsh, an operations and maintenance centre at Ramsgate for the Kentish Flats and Thanet offshore wind farms, and a proposed wind turbine manufacturing facility.

Number of papers



Board processes

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

Liability

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

Board effectiveness

Board performance evaluation

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

Also during the year the non-executive Board members reviewed the performance of the chairman and the relationship between themselves, the chairman and the chief executive.

The two parts of the Board performance appraisal process were then followed up at the Board away day in November with discussion about issues raised. There were no major issues arising. Areas identified for improvement have been actioned.

NOVEMBER (London)	JANUARY (London)	FEBRUARY (London)	MARCH (London)
Review marine estate annual report	Review Q3 financial report	Review draft corporate plan framework	Agree new Treasury target regime
Approve ToR for new Scottish management board	Review development update report	Approve changes to delegated authority levels	Approve indicative budget for 2012/13
Approve sale of Fleet Place House, Holborn	Review carbon, capture and storage (CCS) programme	Review health and safety report	Review business improvement programme progress
Review engagement in Scotland	2012 Olympics – review opportunities and business implications	Approve redevelopment of Block W5(S) Regent Street	Agree to disband the Quadrant board committee
Board away day (Kent)		Approve local management agreement policy for coastal estate	Update on Scotland
Review investment strategy		Update on Scotland	
Review financial strategy			
Review business improvement programme			
Board appraisal summary			

Induction

All new Board members receive a full, formal and tailored induction on joining the Board. The process is overseen by the head of human resources. This involves the provision of necessary background information, briefing by key management personnel and implementing training where appropriate. Upon appointment, all new non-executive Board members are offered two day non-executive director training.

The induction programme for the new chief executive Alison Nimmo and new Board member Ian Marcus included meetings with:

- the chairman about the composition of the Board, expectations of Board members, key challenges facing the Board, and the chairman's approach to managing Board meetings
- the (out-going) chief executive about the overview of The Crown Estate, the management team and the challenges for the business
- the legal director about the Crown Estate Act 1961 and corporate governance
- the director of finance on the organisation's finances
- the estate directors and others about their respective estates and investment strategy
- the Board secretariat about Board meeting processes and procedures, distribution of Board papers and annual processes including Board appraisals and declaration of interests
- the head of human resources about HR strategy and health and safety
- Other senior managers as appropriate.

Estate visits are organised throughout the year to help Board members familiarise themselves with The Crown Estate.

Board committees

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

A summary of the role and duties of the six Board committees (audit committee, sustainability committee, remuneration committee, energy committee, Quadrant committee, and Scottish management board) is given below. The terms of reference of these committees are available on our website.

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

Audit committee

Members

The current members are:

Christopher Bartram
Committee chairman

David Fursdon
Non-executive Board member

Anthony White
Non-executive Board member

Ian Marcus
Non-executive Board member

The secretary to the audit committee is Sally Sugden.

The chairman of the Board believes that the financial knowledge and experience of the audit committee meet the needs of the business. The audit committee is authorised by the Board to obtain outside or independent professional advice and such advisers may attend meetings as necessary.

Meetings are held three times a year. The following executives ordinarily attend meetings: the chief executive, the director of investment and asset management, the finance director and the legal director. The head of internal audit and the financial controller are also in attendance. The external audit partner (National Audit Office audit director) is invited to attend scheduled meetings. The committee submits an annual report to the main Board, reporting on its activities during the year.

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

Duties

The main duties of the audit committee are to:

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

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

'Whistleblowing'

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

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

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

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

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

The Comptroller and Auditor General

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

Report of the committee's activities

During the year, the committee met three times for routine business and once for a valuation meeting and considered all matters within the committee's terms of reference, as set out above. Additionally, the committee also considered insurance, litigation and annual valuation in 2011/12.

Remuneration committee

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

Sustainability committee

Members

The current members are:

Alison Nimmo
Committee chairman (as from 1 January 2012)

Anthony White
Non-executive Board member

Dinah Nichols
Board counsellor

Christopher Bourchier
Director of the rural estate

Paul Clark
Director of investment and asset management

Robert Hastings
Director of the marine estate

Vivienne King
Legal director

John Lelliott
Finance director

The secretary to the sustainability committee is Jane Baptist, a member of the sustainability team. The head of sustainability ordinarily attends the meetings.

Meetings are held quarterly. The committee reports to the main Board particularly in relation to relevant policy statements or decisions and the achievements against objectives and targets.

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

Duties
The main duties of the sustainability committee are to:

- formulate policy and strategy in relation to sustainability for approval by the Board
- drive implementation of the strategy and policies
- approve all sustainability targets and monitor progress against them;
- oversee production of the annual sustainability report
- ensure sustainability is incorporated into business planning and other decision making frameworks
- provide representation from amongst members and the head of sustainability for The Crown Estate at external events relating to sustainability.

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

- progress made by the four champions network groups
- setting targets and next steps
- performance against targets and next steps
- Carbon Reduction Commitment Energy Efficiency Scheme and progress against the early action metrics
- BITC CR Index.

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

Energy committee

The energy committee replaced the former offshore energy supervisory committee.

Members
The current members of the committee are:

Alison Nimmo
Committee chairman (as from 1 January 2012)

David Fursdon
Non-executive Board member

Dipesh Shah
Non-executive Board member

Anthony White
Non-executive Board member

Paul Clark
Director of investment and asset management

Robert Hastings
Director of the marine estate

John Lelliott
Finance director

Vivienne King
Legal director

The secretary to the committee is Amy Kavanagh. Meetings are held at such frequency as may be appropriate for the purposes of consideration of energy matters. The following executives from the marine estate ordinarily attend meetings: the head of external relations, policy and planning; the head of development and asset management; the head of offshore wind and the head of new energy and technology.

Duties
The energy committee's duties are:

- to consider investment and disinvestment proposals and to review them against the corporate investment strategy and the marine estate business strategy or the rural estate strategy for renewable energy, as appropriate, and any other Crown Estate renewable energy strategy from time to time, as appropriate
- to evaluate and progress specific investment proposals
- to consider and endorse proposals over £10 million before they are submitted to the main Board
- to ensure that the responsibilities which have been delegated by the main Board are being executed as required
- to monitor capital projects against approved plans
- to ensure that decisions being taken by the main Board of The Crown Estate in relation to energy matters are being conducted in a manner which ensures that due process is applied in the performance of the statutory duties of The Crown Estate Commissioners in delivering the business objectives of The Crown Estate. This is to apply to both development and asset management of the following typical areas of business for The Crown Estate:

  i. energy from wind (onshore or offshore)

  ii. energy from ocean waves

  iii. energy from tidal streams, barrages and lagoons

  iv. storage of carbon dioxide in seabed geological formations

  v. natural gas storage in seabed geological formations

  vi. the transmission of electricity using sub-sea cables (either through networks or point to point)

  vii. the transmission of carbon dioxide using subsea pipelines (either through networks or point to point)

  viii. energy from renewable sources onshore

  ix. such further activity involving energy as arises on The Crown Estate portfolio.

Report of the committee's activities
During the year, the committee met four times and considered all matters within the committee's terms of reference.

Scottish management board

The Scottish management board replaced the former Scottish committee as from January 2012.

Members

The current members are:

Gareth Baird
Committee chairman

Alison Nimmo
Chief executive (as from 1 January 2012)

Vivienne King, Robert Hastings, John Lelliott, Christopher Bourchier, Paul Clark
Management board directors

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

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

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

Duties

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

- implementing the strategic direction as set by the main Board
- taking ownership of the corporate areas as defined by the balanced scorecard (financial; operational; people; customer and stakeholder relations; governance and sustainability to the extent sustainability is not addressed at the sustainability committee) insofar as they relate to Scotland
- setting, owning, monitoring and driving forward the corporate agenda
- adding value to the business through greater strategic oversight, enhanced accountability and coherent purpose.

Report of the committee's activities

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

- political position in Scotland
- enhancing engagement with stakeholders
- monitoring financial performance
- stewardship
- communication
- business planning.

Quadrant committee

Quadrant committee (up to 2011. The committee was formally disbanded in March 2012).

Members

The members were:

Roger Bright
Committee chairman

Christopher Bartram
Non-executive Board member

Jenefer Greenwood
Non-executive Board member

Martin Moore
Board counsellor

The secretary to the Quadrant committee was Philomena Sullivan.

The following executives ordinarily attended meetings: director of investment and asset management, legal director, finance director and head of Regent Street portfolio.

Duties

The main duties of the Quadrant committee were to:

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

Report of the committee's activities

During 2011/12 the committee met twice. Minutes of the meetings were reported to subsequent main Board meetings. With the major directly developed project Quadrant 3 now complete, the Board agreed that the work of the special committee was concluded and it has now been disbanded. The remainder of the Quadrant project will be completed within 'business as usual' governance arrangements.

Attendance at Board and committee meetings

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

	Main Board	Board away day	Audit committee	Sustainability committee	Remuneration committee	Scottish management board	Quadrant committee	Energy committee
Total number of meetings	**9**	**1**	**4**	**3**	**5**	**3**	**2**	**4**
Sir Stuart Hampson	9	1	n/a	n/a	n/a	n/a	n/a	n/a
Roger Bright[1]	6	1	2	1	3	2	2	3
Alison Nimmo[2]	3	n/a	1	1	2	1	n/a	1
Christopher Bartram	8	1	4	n/a	1*	n/a	1	n/a
David Fursdon	8	1	3	n/a	5	n/a	n/a	2
Gareth Baird	9	1	n/a	n/a	5	3	n/a	n/a
Dipesh Shah	8	1	n/a	n/a	n/a	n/a	n/a	4
Anthony White	9	1	2	3	1*	n/a	n/a	4
Ian Marcus[3]	3	n/a	1	n/a	n/a	n/a	n/a	n/a
Jenefer Greenwood[4]	9	1	n/a	n/a	5	n/a	2	n/a
Dinah Nichols[5]	7	1	n/a	2	n/a	n/a	n/a	n/a
Martin Moore[6]	6	–	n/a	n/a	n/a	n/a	1	n/a

n/a = not applicable

1 Chief executive, Roger Bright, retired on 31 December 2011.

2 Alison Nimmo's appointment as chief executive commenced on 1 January 2012.

3 The appointment of Ian Marcus as Board member commenced on 1 January 2012.

4 Jenefer Greenwood's appointment as Board member expired on 31 December 2011, and her appointment as Board counsellor commenced 1 January 2012.

5 Dinah Nichols remained a Board counsellor for the full reporting year.

6 Martin Moore's appointment as Board counsellor expired on 31 December 2011.

* Audit committee members attended the October Remuneration committee meeting

Management board

Members
The current members of the management board are:

Alison Nimmo
Chief executive and chairman (as from 1 January 2012)

Christopher Bourchier
Director of the rural estate

Paul Clark
Director of investment strategy and asset management

Robert Hastings
Director of the marine estate

Vivienne King
Legal director

John Lelliott
Finance director

The secretary to the management board is David Purkis. Meetings were held on a fortnightly basis during 2011 and changed to monthly for 2012.

The management board operates within the delegated financial limits available to the chief executive. The management board is responsible for the delivery of business objectives and targets within the overall strategies and control framework agreed annually by the Board.

Duties
The main duties of the management board are to:

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

Attendance

During the year, the management board met 20 times. Attendance by individual members of the management board was as follows:

	Number of meetings
Alison Nimmo (as from January 2012)	5
Roger Bright (up to December 2011)	14
Christopher Bourchier	19
Paul Clark	18
Robert Hastings	18
Vivienne King	19
John Lelliott	19

Other executive committees

The stock selection committee considers, amongst other things, specific investment and divestment proposals, reviewing them against strategy. The third executive committee is the communications group whose duties include considering questions of public relations policy and reviews and recommends an annual strategy and programme of public relations activities.

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

Auditors

The financial statements of The Crown Estate are audited by the Comptroller and Auditor General in accordance with section 2(6) of the Crown Estate Act 1961. The audit certificate appears in *The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament*. Fees of £9,975 have been incurred in respect of non-audit services. The audit fee for work performed in the year of account was £135,000.

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

So far as the accounting officer is aware, there is no relevant audit information of which The Crown Estate's auditor is unaware; and the accounting officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that The Crown Estate's auditor is aware of this information.

Health and safety

Building on the programmes from previous years, The Crown Estate continues to improve standards of health and safety control and compliance across all areas of its business. The focus of the past 12 months has been the further expansion and embedding of the integrated safety, health and environmental management system, accredited to both ISO 14001: 2004 and OHSAS 18001: 2007, to our directly managed estates. Additionally, The Crown Estate continues to support its marine estate through the provision of dedicated support in the form of the marine health and safety adviser.

As with the previous year, The Crown Estate entered the International Safety Awards (operated and accredited by the British Safety Council), and again gained recognition of the continuing improvements made to arrangements created to protect the safety, health and wellbeing of its employees.

The Crown Estate continues to review accident and incident information, so that emerging trends can be identified, lessons learnt and preventative actions applied.

It is intended over the coming year to develop a programme of behavioural safety initiatives to further improve performance and to continue in the expansion of the ISO 14001: 2004 and OHSAS 18001: 2007 accreditation process across the business on a rolling programme. The focus of all of these programmes and actions is to provide The Crown Estate with a robust management system that supports a progressive safety culture.

Risk management statement

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

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

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

- Financial (revenue) – Failure to meet the financial targets over two years
- Financial (total return) – Failure to outperform the IPD targets over two years
- Reputation – Failure to maintain credibility with key stakeholders
- Compliance (criminal) – Failure to comply with legislation leading to criminal conviction
- Compliance (civil/regulatory) – Failure to comply with legislation/regulation (e.g. health and safety, environmental) leading to penalties.

Responsibilities for risk and controls

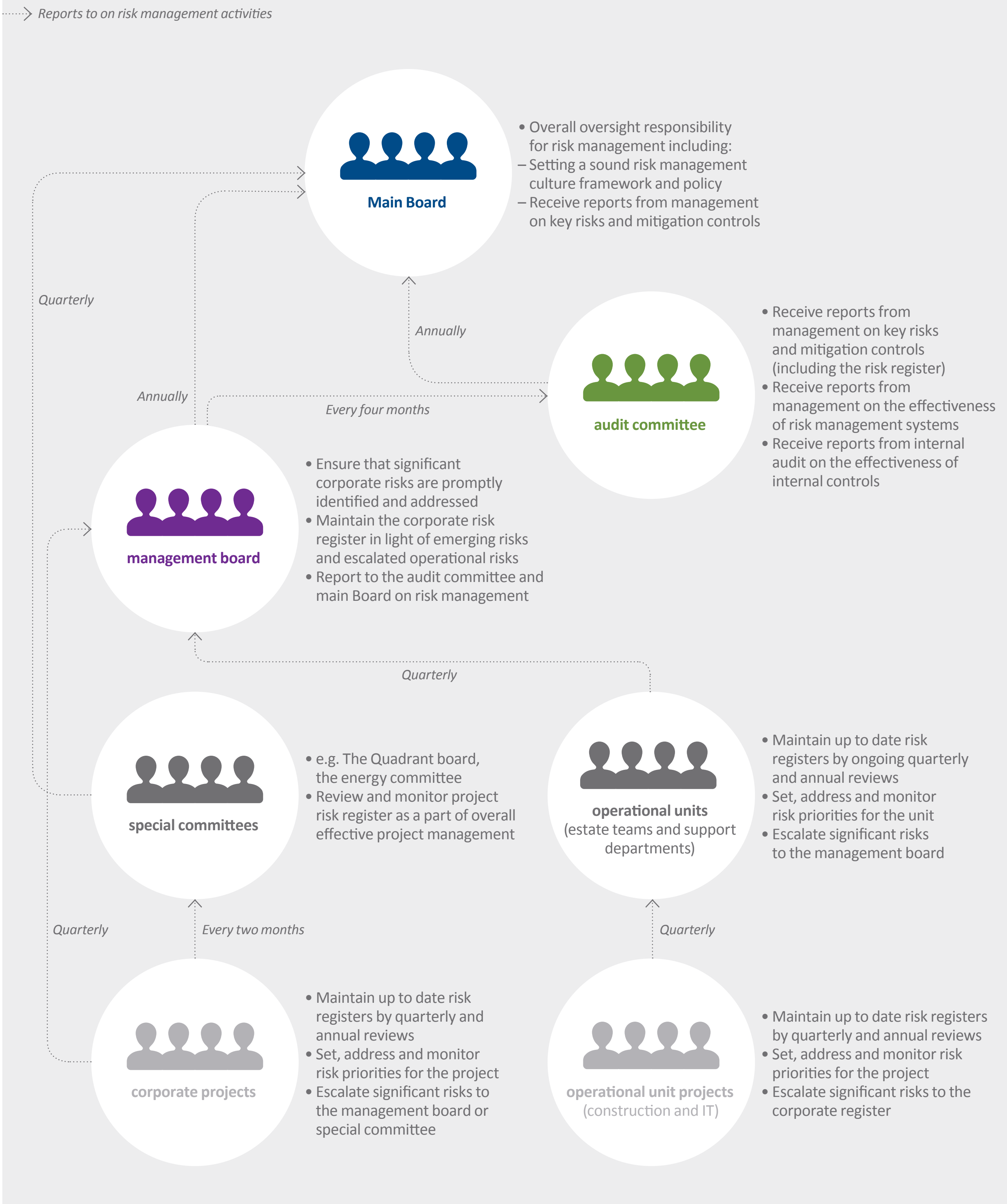
The Board is responsible for determining the nature and extent of the significant risk it is willing to take in achieving its strategic objectives. It does this through the maintenance of sound risk management and internal control systems.

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

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

Risk registers are maintained at all levels and formally reviewed quarterly. Emerging risks are escalated to senior management and the management board. The management board reviews the corporate risk register quarterly and reports to the audit committee triannually. This is illustrated by the 'risk reporting and responsibilities' diagram below:

Risk reporting and responsibilities



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

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

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

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

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

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

For the year 2011/12 there were no material failures in internal control nor any ministerial direction on any issues. The Scottish Affairs Committee report in March 2012 made recommendations for improvement in relation to key stakeholders in Scotland and these are being addressed.

The Crown Estate has in place various robust and specific arrangements to ensure information security, which are in line with Cabinet Office guidance and ISO27001. The business maintained ISO 27001 certification throughout the year. Other controls in place include arrangements for:

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

Principal risks and uncertainties

The risk profile of the organisation has not materially changed over the year and no major new risks have been identified. The principal corporate risks faced by The Crown Estate are shown below. The impact of these risks are on the organisation's structure, revenues, operating surplus, net assets, liquidity and resources The risks are largely portfolio related and typical of a real estate organisation. These are not the only risks associated with The Crown Estate.

Principal corporate risks

Risk	Impact	Principal Mitigations	Residual Risk Ratings
Investment performance Opportunities or threats presented by the economic downturn are not capitalised on or mitigated against resulting in capital or revenue returns not being optimised. Underperformance compared to industry due to limitations under the Crown Estate Act 1961 (limited availability/timing of access to funds) restricting investment activity and ability to optimise investment portfolios. Poor portfolio management or poor implementation of strategy impacts on ability to meet revenue targets or has adverse impact on portfolio valuation. Fall in capital values of assets due to changes in the UK climate	Revenue targets are not achieved or consistent decline in capital growth compared to the market.	Linked investment strategy and business planning monitoring processes. Economic and market monitoring. Strong investment (acquisitions and disposals) appraisal process. Exploration of joint venture investments. Portfolio diversification and performance monitoring. Detailed review and assessment of investment strategy. Retrospective investment appraisal process. Robust monitoring of key portfolio data.	Medium Risk
Development risks Failure of key suppliers and third-party advisers in the current economic environment have an impact on operations (development, property and asset management). Disruption is caused to the operation of the business due to the impact of the Localism Bill on planning applications. The impact of the London 2012 Olympics causes major disruption to our development programme.	Development programme delays impacting reputation and financial loss.	Monitoring of supplier/third-party costs and performance. Third-party due diligence. Robust evaluation of business cases. Liaising with and influencing of key stakeholders.	Medium Risk

Risk	Impact	Principal Mitigations	Residual Risk Ratings
People risks Inability to attract, motivate or retain key staff, resulting in under-performance across key areas of the business. Inadequate succession planning for key roles at Board and management level impact ability to meet corporate objectives. The impact of the London 2012 Olympics causes major disruption to staff and our tenants and their businesses.	Loss of key talent or inability to attract the right type of staff impacts adversely on future success. Short -term disruption to achievement of business objectives.	Strong recruitment processes. Succession planning framework in place. Effective learning and development plan in place across organisation. Remuneration committee support and liaison with HM Treasury. Planning in place to ensure adequate staffing and the impact of transport disruption is kept to a minimum.	Medium Risk
Stakeholder risks Failure to assess and evaluate the expectations of customers and tenants will adversely affect The Crown Estate's reputation.	Adverse publicity from tenants and other key stakeholders results in reputational damage.	Customer focus programme. Market research. Processes in place both within the organisation and agents to resolve customer concerns.	Low Risk
Compliance and sustainability risks Failure to comply with legislation and regulation and meet the expectations of key stakeholders resulting in fines and/or other sanctions and/or loss of reputation. Loss of value from our portfolio because of lack of strategic planning in investment decisions not taking into account climate change factors.	Compliance failure resulting in negative publicity and possible fines or penalties. Decline in overall portfolio valuation and revenue.	A framework of delivery of legal services and identification of legal risk. Monitoring of new legislation and requirements. Approved internal sustainability strategy in place across the business. Champions network in place. Sustainability considered in investment and development.	Low Risk

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

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

In preparing the accounts the Commissioners are required to:

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

The Treasury has appointed the chief executive and second commissioner as the accounting officer for The Crown Estate. Her responsibilities as accounting officer, including her responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in 'Managing Public Money'.

Alison Nimmo CBE
Chief executive

30 May 2012

Remuneration report

Compliance

This report has been prepared in the spirit of the principles and requirements set out in The UK Corporate Governance Code (June 2010).

Members of the remuneration committee

The remuneration committee is chaired by Jenefer Greenwood. The other members of the committee are David Fursdon and Gareth Baird, non-executive board members. The membership of the committee was unchanged throughout the year.

Responsibilities and remit

The remuneration committee is appointed by and reports to the Board. A minimum of two meetings are held annually and in 2011/12 the committee met on five occasions.

The primary purpose of the remuneration committee is to ensure scrutiny and oversight of the reward packages for senior managers, ensuring that rewards are appropriate to recruiting and retaining the skills and experience necessary to take the business forward. The scope of its responsibilities include:

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

Advisers and governance

The Crown Estate's head of human resources provided information and advice to the committee throughout the year, and specialist advice was provided to the head of human resources by Innecto People Consulting Ltd. The Crown Estate participated in five pay surveys in 2011/12 and also made use of various published surveys to help determine appropriate remuneration levels.

The chief executive, finance director and head of human resources were invited to attend meetings of the committee but none were involved in any decision relating to his or her own remuneration. Secretariat is provided by the head of human resources.

The committee submits an annual report to the main Board reporting on its activities during the year.

Remuneration policy and benchmarking

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

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

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

Components of director's remuneration

Director's remuneration comprises:

- fixed pay, including base pay, flexible benefits allowance (5.3 per cent of base pay) together with pension allowance or contribution to a pension scheme.
- variable pay, comprising:
  - annual bonus
  - accumulating long term cash incentive plan arrangements (for selected directors)
  - annual leave converted into cash.

Principles and policy on annual bonuses

The annual bonus arrangement for management board executive directors is based on the achievement of key business targets, with a target bonus of 30 per cent and a maximum possible award of 40 per cent of basic salary in 2011/12. The maximum award is subject to receipt of an outstanding performance rating; target bonus is subject to receipt of a strong performance rating, but both are conditional on The Crown Estate's performance meeting or exceeding predetermined performance targets. These targets being outperformance of the annual net income surplus target and outperformance of the IPD bespoke benchmark. Additionally, in 2011/12, Vivienne King and John Lelliott were also awarded a one-off 10 per cent deferred bonus, which is payable in January 2013.

Long term cash incentive plans

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

Paul Clark participates in a three-year LTIP arrangement which commenced in April 2011. This provides an award of up to 20 per cent of base pay at 1 April each year. Payment of any award made under the arrangement is paid out at the end of the three-year term. No payment is made if he leaves the employment of The Crown Estate. Robert Hastings participates in a three year LTIP arrangement which commenced in April 2011. In 2011/12 this provides an award of up to 40 per cent of base pay at 1 April 2011, but which is subject to significant discounting if he leaves The Crown Estate before the end of the arrangement in March 2014.

All awards and targets are subject to the approval of the remuneration committee.

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

Alison Nimmo and Paul Clark each hold one paid non-executive board appointment in addition to their Crown Estate appointment. They are permitted to retain earnings from their appointment as any time commitments are met from personal time and are manageable alongside their executive responsibilities.

Table of earnings

Remuneration and pension entitlements of the Board were as follows:

Board member	**2011/12 Total remuneration excluding bonus £**	2010/11 Total remuneration excluding bonus £	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2012 £	Cash equivalent transfer value as at 31 March 2012 £	Cash equivalent transfer value as at 31 March 2011 £	Real increase in cash equivalent transfer value £
Sir Stuart Hampson (chairman)	**50,000**	50,000	–	–	–	–	–
Alison Nimmo (chief executive appointed 1 January 2012)	**52,815**	n/a	82	82	1,308	n/a	978
Roger Bright (retired 31 December 2011)	**157,606**	203,891	n/a	n/a	n/a	1,547,797	n/a
Gareth Baird	**21,523**	19,371	–	–	–	–	–
Christopher Bartram	**19,371**	19,371	–	–	–	–	–
David Fursdon	**19,371**	19,371	–	–	–	–	–
Dipesh Shah	**24,214**	–	–	–	–	–	–
Jenefer Greenwood (appointment expired 31 December 2011)	**14,528**	19,371	–	–	–	–	–
Anthony White	**19,371**	4,843	–	–	–	–	–
Ian Marcus (appointed 1 January 2012)	**4,843**	–	–	–	–	–	–

The chairman and non-executive members of the Board are initially appointed for terms of four years with the prospect of renewal for a further term. Alison Nimmo, the chief executive, is also appointed on a four-year contract with a notice period of six months.

Alison Nimmo, the chief executive, is entitled to receive a non-pensionable annual bonus up to a maximum of 40 per cent of her salary which is geared to specific targets and is approved by the Treasury. At the end of the year the amount payable had yet to be determined. The maximum bonus receivable in respect of 2011/12 was £20,400.

Roger Bright, chief executive up until his retirement in December 2011, received a bonus of £59,517 in respect of 2010/11. For 2011/12 the committee endorsed the chairman's recommendation that he should receive an award of £59,640 (39 per cent pro-rated for the period 1 April 2011 to 31 December 2011), but he chose to receive £44,640.

Board counsellors

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

Board counsellors	**2011/12 Total remuneration £**	2010/11 Total remuneration £
Martin Moore (retired 31 December 2011)	**14,528**	4,843
Dinah Nichols	**19,371**	4,843
Jenefer Greenwood (appointed 1 January 2012)	**4,843**	–

Management board executive directors

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

Board member		**2011/12 Total remuneration £'000**	2010/11 Total remuneration £'000	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2012 £	Cash equivalent transfer value as at 31 March 2012 £	Cash equivalent transfer value as at 31 March 2011 £	Real increase in cash equivalent transfer value £
Christopher Bourchier[1]	Salary	**145 – 150**	135 – 140	921	51,495	1,470,333	1,188,334	280,107
	Bonus	**30 – 35**	30 – 35					
Paul Clark	Salary	**190 – 195**	175 – 180	1,615	7,166	169,052	109,512	57,596
	Bonus	**60 – 65**	50 – 55					
	LTIP	**30 – 35**	–					
Robert Hastings	Salary	**150 – 155**	145 – 150	2,129	13,315	191,321	135,896	38,283
	Bonus	**50 – 55**	40 – 45					
	LTIP	**55 – 60**	140 – 145					
Vivienne King	Salary	**130 – 135**	125 – 130	1,285	23,662	622,253	487,052	133,309
	Bonus	**55 – 60**	35 – 40					
John Lelliott	Salary	**155 – 160**	135 – 140	0	63,391	2,258,704	1,818,807	439,897
	Bonus	**60 – 65**	35 – 40					
Band of highest paid director's total remuneration (£'000)		**660 – 665**	330 – 335					
Median total remuneration of all employees £		**31,147**	30,656					
Ratio[2]		**21.22**	10.87					

1 It has been agreed that Christopher Bourchier will leave the business on 31 October 2012 when the organisational structure of the rural and coastal portfolio has been fully implemented. He will receive £487,963 as compensation for loss of office in accordance with his contractual entitlement. This has been recognised within the 2011/12 accounts.

2 In arriving at the above ratio, total remuneration is calculated as being the total of: base pay, flexible benefits allowance, severance payments, annual bonus and LTIPs paid during the year. It excludes employer pension contributions.

The variance in the ratio between 2010/11 and 2011/12 is principally due to the compensation for loss of office for Christopher Bourchier as described above. If the compensation payment to him is excluded, the ratio for 2011/12 would be 9.31.

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

The above information is covered by the Comptroller and Auditor General's audit opinion.

Members of the management board are appointed on permanent contracts which provide for a notice period of six months.

Pensions

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

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

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

The Quartz section provides retirement benefits to all eligible employees based on final emoluments capped at £26,400 of earnings but includes the option of additional retirement benefits provided through a defined contribution arrangement. The Topaz section provides defined contribution benefits to all eligible employees.

The Quartz and Topaz sections of The Crown Estate Pension Scheme were introduced in March 2009 as part of the implementation of The Crown Estate's new reward strategy. This strategy sought to introduce market-related salary and benefits, while also taking steps to reduce the contribution which The Crown Estate makes annually to employees' pensions and to limit The Crown Estate's future pension liability. This objective was achieved by repackaging the various elements of the reward package, including the provision of less expensive pension arrangements.

As at 31 March 2012, a total of 119 employees were members of the open sections of The Crown Estate Pension Scheme and a further 47 have elected to receive a cash pension allowance.

The Crown Estate Board members, with the exception of Alison Nimmo, chief executive, are non-executive appointments and are not members of either The Crown Estate Pension Scheme or the Civil Service Pension Scheme.

Pension benefits were provided to Roger Bright, chief executive, and members of the management board through the Civil Service Pension Scheme or The Crown Estate Pension Scheme. Roger Bright was a member of the Civil Service Pension Classic section, and Robert Hastings is a member of the Civil Service Pension Premium section. The remaining members of the management board are members of the Crown Estate Pension Scheme Opal section.

The Civil Service Pension Scheme (Classic and Premium Sections) and The Crown Estate Pension Scheme (Opal section) provide benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service except for the Civil Service Pension Premium Scheme which is 1/60th. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings with the exception of the members of the Civil Service Pension Premium Scheme which is 3.5 per cent. Pensions payment increase is in line with the retail price index for The Crown Estate Pension Scheme and the consumer price index for the Civil Service Pension Scheme. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, a lump sum benefit of four times pensionable pay is payable to Crown Estate Pension Scheme members. This benefit has also been extended to Robert Hastings. The Civil Service Pension Scheme and The Crown Estate Pension Scheme (Opal Section) provide a service enhancement in computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health for members of these schemes. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Alison Nimmo CBE
Chief executive

30 May 2012

Financials

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

I certify that I have audited the financial statements of The Crown Estate for the year ended 31 March 2012 under the Crown Estate Act 1961. The financial statements comprise the statement of income and expenditure, the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in capital and reserves and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of The Crown Estate commissioners, the accounting officer and auditor

As explained more fully in the statement of The Crown Estate commissioners' and accounting officer's responsibilities, the Board and chief executive as accounting officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Crown Estate Act 1961. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to The Crown Estate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by The Crown Estate; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, in accordance with the Crown Estate Act 1961 and directions issued thereunder by HM Treasury, of the state of The Crown Estate's affairs as at 31 March 2012 and of its surplus; and
- the financial statements have been properly prepared in accordance with the Crown Estate Act 1961 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Crown Estate Act 1961; and
- the information given in the 'overview, sustainability and governance' sections of the annual report as identified in the contents page for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

11 June 2012

Statement of income and expenditure

For the year ended 31 March 2012

		Year ended 31 March 2012			Year ended 31 March 2011		
	Note	Income account £m	Capital account £m	Total £m	Income account £m	Capital account £m	Total £m
Revenue	4	**340.7**	**9.2**	**349.9**	329.8	10.6	340.4
Costs	4	**(89.0)**	**–**	**(89.0)**	(85.1)	–	(85.1)
Operating surplus		**251.7**	**9.2**	**260.9**	244.7	10.6	255.3
Recovery of capital expenditure under the Crown Estate Act 1961	9	**(25.4)**	**25.4**	**–**	(24.7)	24.7	–
Net revaluation gains on investment property (including profits on disposal)	10	**–**	**762.5**	**762.5**	–	550.7	550.7
Share of profit from jointly controlled entities	17	**7.6**	**(5.2)**	**2.4**	9.6	–	9.6
Share of profit from other property investments	18	**1.7**	**0.4**	**2.1**	1.5	2.8	4.3
Parliamentary Supply finance	12	**2.3**	**–**	**2.3**	2.3	–	2.3
Statutory transfers	13	**(9.3)**	**9.3**	**–**	(8.4)	8.4	–
Net operating profit before financing		**228.6**	**801.6**	**1,030.2**	225.0	597.2	822.2
Investment revenue	5	**11.6**	**–**	**11.6**	5.9	–	5.9
Net surplus		**240.2**	**801.6**	**1,041.8**	230.9	597.2	828.1
Consolidated Fund payment	14	**(240.2)**	**–**	**(240.2)**	(231.0)	–	(231.0)
Surplus after Consolidated Fund payment		**–**	**801.6**	**801.6**	(0.1)	597.2	597.1

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

All results are derived from continuing operations.

Statement of comprehensive income

For the year ended 31 March 2012

		Year ended 31 March 2012			Year ended 31 March 2011		
	Note	Income account £m	Capital account £m	Total £m	Income account £m	Capital account £m	Total £m
Net surplus for the year		**240.2**	**801.6**	**1,041.8**	230.9	597.2	828.1
Unrealised surplus on owner occupied properties	10	**–**	**1.1**	**1.1**	–	14.1	14.1
Unrealised surplus on other investments	10	**–**	**–**	**–**	–	0.7	0.7
Actuarial (loss)/profit on retirement benefits	8c	**(1.0)**	**–**	**(1.0)**	1.3	–	1.3
Other comprehensive income		**(1.0)**	**1.1**	**0.1**	1.3	14.8	16.1
Total comprehensive income		**239.2**	**802.7**	**1,041.9**	232.2	612.0	844.2

Balance sheet

As at 31 March 2012

	Note	31 March 2012 £m	31 March 2011 £m
Assets			
Non-current assets			
Investment properties	15	**8,014.6**	7,449.7
Property plant and equipment:			
Owner occupied property	15	**103.8**	102.6
Other property, plant and equipment	16	**7.7**	7.1
Investment in jointly controlled entities	17	**266.9**	265.0
Other property investments	18	**34.0**	33.1
Other investments	19	**5.3**	5.3
Receivables due after one year	20	**23.7**	21.4
Total non-current assets		**8,456.0**	**7,884.2**
Current assets			
Non-current investment property assets held for sale	15	**22.5**	17.5
Inventories	21	**0.2**	0.2
Trade and other receivables	22	**51.5**	31.6
Cash and cash equivalents		**557.0**	279.2
Total current assets		**631.2**	**328.5**
Pension asset	8a	**2.8**	2.3
Total assets		**9,090.0**	**8,215.0**
Liabilities			
Current liabilities			
Trade and other payables	23	**120.8**	102.3
Provisions	24	**0.5**	–
Total current liabilities		**121.3**	**102.3**
Non-current liabilities	23	**914.2**	**859.9**
Total liabilities		**1,035.5**	**962.2**
Net assets		**8,054.5**	**7,252.8**
Capital and reserves			
Revenue reserve available for distribution to The Consolidated Fund		**0.6**	2.1
Reserves relating to the capital account		**8,033.1**	7,231.5
Total reserves arising from the Statement of income and expenditure		**8,033.7**	**7,233.6**
Revaluation reserve		**18.0**	16.9
Pension reserve		**2.8**	2.3
Total capital and reserves		**8,054.5**	**7,252.8**

Alison Nimmo CBE
Second Commissioner and Accounting Officer

30 May 2012

Cash flow statement

For the year ended 31 March 2012

	Note	31 March 2012 £m	31 March 2011 £m
Cash generated from operating activities	26	**277.2**	222.2
Interest received		**11.4**	5.8
Distributions from investment in jointly controlled entities		**13.9**	8.7
Distributions received from other property investments		**1.7**	1.5
Net cash inflow from operating activities		**304.2**	**238.2**
Cash flows from investing activities			
Purchase of property		**(166.2)**	(304.5)
Capital expenditure on properties		**(243.7)**	(266.5)
Proceeds from disposal of investment properties		**639.7**	406.1
Net investment in jointly controlled entities		**(13.4)**	(25.7)
Investment in other property investments		**(0.5)**	(0.3)
Purchase of plant and equipment		**(2.9)**	(1.1)
Sale of plant and equipment and antiques		**–**	0.1
Loan repayment		**–**	0.9
Other cash flows from investing activities		**(1.3)**	(1.2)
Net cash inflow/(outflow) from investing activities		**211.7**	**(192.2)**
Cash flows from financing activities			
Parliamentary Supply finance		**2.3**	2.3
Net cash inflow from financing activities		**2.3**	**2.3**
Net increase in cash and cash equivalents before Consolidated Fund payment		**518.2**	**48.3**
Consolidated Fund payment		**(240.4)**	(232.0)
Increase/(decrease) in cash in the year after Consolidated Fund payment		**277.8**	**(183.7)**
Cash and cash equivalents at start of year		**279.2**	462.9
Cash and cash equivalents at end of year	27	**557.0**	**279.2**

Statement of changes in capital and reserves

For the year ended 31 March 2012

	Income account £m	Capital account £m	Total reserves arising from income £m	Revaluation reserve £m	Pension reserve £m	Total capital and reserves £m
As at 1 April 2011	2.1	7,231.5	7,233.6	16.9	2.3	7,252.8
Net surplus for the year	240.2	801.6	1,041.8	–	–	1,041.8
Revaluation surplus of owner occupied properties	–	–	–	1.1	–	1.1
Revaluation surplus of other investments	–	–	–	–	–	–
Actuarial loss on retirement benefits	–	–	–	–	(1.0)	(1.0)
Total comprehensive income for the year ended 31 March 2012	240.2	801.6	1,041.8	1.1	(1.0)	1,041.9
Pension reserve adjustment	(1.5)	–	(1.5)	–	1.5	–
Payments to the Consolidated Fund	(240.2)	–	(240.2)	–	–	(240.2)
As at 31 March 2012	**0.6**	**8,033.1**	**8,033.7**	**18.0**	**2.8**	**8,054.5**
As at 1 April 2010	3.4	6,634.3	6,637.7	2.1	(0.2)	6,639.6
Net surplus for the year	230.9	597.2	828.1	–	–	828.1
Revaluation surplus of owner occupied properties	–	–	–	14.1	–	14.1
Revaluation surplus of other investments	–	–	–	0.7	–	0.7
Actuarial profit on retirement benefits	–	–	–	–	1.3	1.3
Total comprehensive income for the year ended 31 March 2011	230.9	597.2	828.1	14.8	1.3	844.2
Pension reserve adjustment	(1.2)	–	(1.2)	–	1.2	–
Payments to the Consolidated Fund	(231.0)	–	(231.0)	–	–	(231.0)
As at 31 March 2011	**2.1**	**7,231.5**	**7,233.6**	**16.9**	**2.3**	**7,252.8**

Notes to the financial statements

1. Notes to the financial statements

1a. Basis of preparation

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

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

Impact of the Crown Estate Act 1961 on the financial statements

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

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

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

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

Treasury agreements

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

1b. Changes in accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards and interpretations in force at the reporting date. The policies adopted are consistent with those of the previous year except that The Crown Estate has adopted the following standard during the year:

IAS 24 – Related Party Disclosures (amendment) effective 1 January 2011

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

IAS 1 – Financial Statement Presentation – This amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 10 – Consolidated Financial Statements – This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 – Joint Arrangements – replaces IAS 31 Interests in Joint Ventures. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 – Disclosure of Interests in Other Entities – This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 19 – (as revised in 2011) Employee Benefits – This amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 – (as revised in 2011) Separate Financial Statements – The amendment becomes effective for annual periods beginning on or after 1 January 2013.

2. Significant accounting policies

2a. Properties

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

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

Marine and mineral assets are valued only where a letting or licence exists, where an entry has occurred, or where an interest is expected to provide either a revenue cash flow or capital receipt within the foreseeable future. Offshore wind farms have been valued using a Special Assumption (as defined in the Red Book) that all sites where an option has been granted or a site allocated by The Crown Estate within Round 1 and Round 2 of the wind farm tender process are included even if the option is yet to be exercised and an Agreement for Lease is yet to be signed. Mineral bearing land, including marine dredged aggregates, is valued on the basis of market value.

Investment properties are measured initially at cost including related transaction costs. Additions to investment properties consist of costs of a capital nature including certain directly attributable internal staff costs. At the balance sheet date investment properties are revalued to fair value.

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

Owner occupied properties

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

Disposals

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

Non-current property assets held for sale

Properties held with the intention of disposal at the balance sheet date are shown in the balance sheet within current assets.

2b. Leases

The Crown Estate as lessor – operating leases

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

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

The Crown Estate as lessee – finance leases

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.

2c. Other property, plant and equipment

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

Vehicles: 4–10 years depending on nature of vehicle

Plant and equipment: 4–10 years

Pontoons – 25 years

Computer equipment and software: 4 years

Office equipment: 4 years

Useful lives and estimated residual values are reviewed annually.

2d. Jointly controlled entities

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

2e. Jointly controlled assets

Jointly controlled assets are those assets which involve joint control and ownership by The Crown Estate and other venturers of assets contributed to or acquired for the purpose of the joint venture. 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.

2f. Other investments – antiques and paintings

Antiques and paintings are shown at fair value. Any surplus or deficit arising from changes in fair value are recognised directly in the revaluation reserve. The last valuation was carried out during the year ended 31 March 2011. They are valued by recognised experts every three years on a rolling basis.

2. Significant accounting policies continued

2g. 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 the sale of produce, miscellaneous fees and sundry income.

2h. Taxation

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

2i. Pensions – Defined Benefit Plans

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

a. The Principal Civil Service Pension Scheme (PCSPS)

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

b. The Crown Estate Pension Scheme

The Crown Estate pension scheme has a defined benefit section (closed to new entrants with effect from 1 January 2008), a defined contribution section and a hybrid section (defined benefit for salaries up to £26,400 pa with money purchase above that level). The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. In accordance with IAS 19 the current service cost of the scheme is charged to the income account. The current service cost is the Crown Estate's share of the cost of the accruing benefits over the year on the IAS 19 assumptions. The contributions are agreed by the Crown Estate and the Trustees on the basis of triennial valuations using the projected unit method. The Remuneration Report contains further details of the operation of the scheme.

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

3. Significant judgements, key assumptions and estimates

3a. Trade receivables

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

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

3b. Unsettled rent reviews

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

3c. Operating leases

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

3d. Risk management

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

3e. Property valuations

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

4. Segmental analysis

Business segmental analysis

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

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

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

		Year ended 31 March 2012						Year ended 31 March 2011					
	Note	Urban £m	Rural £m	Marine £m	Windsor £m	Crown HQ £m	Total £m	Urban £m	Rural £m	Marine £m	Windsor £m	Crown HQ £m	Total £m
Statement of income and expenditure reflected in the income account:													
Rent and royalties		215.7	25.6	55.5	4.3	–	301.1	225.4	25.3	47.3	4.1	–	302.1
Sales of produce		–	0.2	–	0.5	–	0.7	–	0.2	–	0.3	–	0.5
Other income		9.6	0.1	0.1	2.6	–	12.4	1.5	0.2	0.1	2.4	–	4.2
Revenue recognised in the income account (excluding service charge income)		225.3	25.9	55.6	7.4	–	314.2	226.9	25.7	47.4	6.8	–	306.8
Service charge income		26.5	–	–	–	–	26.5	23.0	–	–	–	–	23.0
Service charge expense		(33.1)	–	–	–	–	(33.1)	(30.5)	–	–	–	–	(30.5)
Net service charge expense		(6.6)	–	–	–	–	(6.6)	(7.5)	–	–	–	–	(7.5)
Direct costs:													
Management fees and costs		(7.1)	(4.3)	(2.9)	(5.3)	–	(19.6)	(9.2)	(3.9)	(2.6)	(5.1)	–	(20.8)
Repairs and maintenance		(1.6)	(1.7)	(0.9)	(0.8)	–	(5.0)	(3.0)	(2.0)	(0.1)	(0.6)	–	(5.7)
Other expenditure		(6.8)	(0.5)	(0.7)	(2.6)	–	(10.6)	(4.3)	(0.4)	(1.2)	(2.6)	–	(8.5)
Total direct costs		(15.5)	(6.5)	(4.5)	(8.7)	–	(35.2)	(16.5)	(6.3)	(3.9)	(8.3)	–	(35.0)
Gross surplus		203.2	19.4	51.1	(1.3)	–	272.4	202.9	19.4	43.5	(1.5)	–	264.3
Indirect costs:													
Administrative expenses	6	(0.3)	(0.8)	(1.4)	–	(15.9)	(18.4)	(0.3)	(0.8)	(1.2)	–	(14.8)	(17.1)
Depreciation of tangible fixed assets	16	(0.2)	–	(0.1)	(0.4)	(1.6)	(2.3)	(0.2)	–	–	(0.3)	(1.8)	(2.3)
Loss on sale of plant and equipment		–	–	–	–	–	–	–	–	–	–	(0.2)	(0.2)
Total indirect costs		(0.5)	(0.8)	(1.5)	(0.4)	(17.5)	(20.7)	(0.5)	(0.8)	(1.2)	(0.3)	(16.8)	(19.6)
Operating surplus reflected in the Income account		202.7	18.6	49.6	(1.7)	(17.5)	251.7	202.4	18.6	42.3	(1.8)	(16.8)	244.7

4. Segmental analysis continued

		Year ended 31 March 2012						Year ended 31 March 2011					
	Note	Urban £m	Rural £m	Marine £m	Windsor £m	Crown HQ £m	Total £m	Urban £m	Rural £m	Marine £m	Windsor £m	Crown HQ £m	Total £m
Income from sale of leases reflected in the capital account		**9.2**	**–**	**–**	**–**	**–**	**9.2**	10.6	–	–	–	–	10.6
Net valuation profit including profits on disposal	10	**462.1**	**181.8**	**111.3**	**7.3**	**–**	**762.5**	335.2	99.3	113.9	2.3	–	550.7
Share of profit in jointly controlled entities	17	**2.4**	**–**	**–**	**–**	**–**	**2.4**	9.6	–	–	–	–	9.6
Share of profit in other property investments	18	**2.1**	**–**	**–**	**–**	**–**	**2.1**	4.3	–	–	–	–	4.3
Parliamentary resource finance	12	**–**	**–**	**–**	**–**	**2.3**	**2.3**	–	–	–	–	2.3	2.3
Investment revenue	5	**–**	**–**	**–**	**–**	**11.6**	**11.6**	0.2	–	0.1	–	5.6	5.9
Total net surplus reflected in the Statement of income and expenditure		**678.5**	**200.4**	**160.9**	**5.6**	**(3.6)**	**1,041.8**	562.3	117.9	156.3	0.5	(8.9)	828.1
Balance sheet													
Non-current assets:													
Investment properties	15	**5,969.8**	**1,188.0**	**725.6**	**131.2**	**–**	**8,014.6**	5,701.1	1,041.8	586.9	119.9	–	7,449.7
Owner occupied property	15	**38.9**	**0.2**	**–**	**64.7**	**–**	**103.8**	36.4	0.2	–	66.0	–	102.6
Other property, plant and equipment	16	**0.5**	**0.1**	**0.6**	**0.9**	**5.6**	**7.7**	0.6	0.1	0.2	0.7	5.5	7.1
Investment in jointly controlled entities	17	**266.9**	**–**	**–**	**–**	**–**	**266.9**	265.0	–	–	–	–	265.0
Other property investments	18	**34.0**	**–**	**–**	**–**	**–**	**34.0**	33.1	–	–	–	–	33.1
Other investments	19	**–**	**–**	**–**	**–**	**5.3**	**5.3**	–	–	–	–	5.3	5.3
Receivables due after one year	20	**23.6**	**0.1**	**–**	**–**	**–**	**23.7**	21.3	0.1	–	–	–	21.4
Total non-current assets		**6,333.7**	**1,188.4**	**726.2**	**196.8**	**10.9**	**8,456.0**	6,057.5	1,042.2	587.1	186.6	10.8	7,884.2
Unallocated current assets							**634.0**						330.8
Unallocated liabilities							**(1,035.5)**						(962.2)
Net assets							**8,054.5**						7,252.8
Additions and capital expenditure on investment properties		**362.7**	**15.4**	**27.6**	**4.2**	**–**	**409.9**	523.1	14.6	29.7	3.6	–	571.0

5. Investment revenue

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Bank interest income	**11.4**	5.8
IAS 19 retirement benefits – net financing surplus	**0.2**	0.1
	11.6	5.9

6. Administrative expenses

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Salaries, national insurance and pension costs	**7.5**	7.5
Reorganisation and early retirement costs	**1.2**	0.5
Commissioners' remuneration	**0.6**	0.5
Management and administration expenses	**9.0**	8.5
Auditors' remuneration	**0.1**	0.1
	18.4	17.1

Auditors' remuneration includes fees for non-audit services of £9,975 (year ended 31 March 2011 – £nil).

7. Staff costs

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

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Wages and salaries	**19.0**	18.1
Reorganisation and early retirement costs	**1.2**	0.5
National insurance costs	**1.9**	1.7
Current service cost – defined benefit scheme	**0.8**	0.7
Past service costs – defined benefit scheme	**–**	0.1
Pension contributions – other pension schemes	**1.7**	2.1
Total staff costs	**24.6**	23.2
Less capitalised staff costs	**(9.8)**	(8.9)
Staff costs reflected in the income account	**14.8**	14.3

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

	Year ended 31 March 2012		Year ended 31 March 2011	
	Parliamentary resource account	Crown Estate income account	Parliamentary resource account	Crown Estate income account
Commissioners	**8**	**–**	8	–
General administration	**27**	**196**	26	189
Operating activities	**–**	**197**	–	208
	35	**393**	34	397

8. IAS 19 retirement benefits

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

The Crown Estate operates a scheme in the UK with a defined benefit section (closed to new entrants with effect from 1 January 2008), a defined contribution section and a hybrid section (defined benefit for salaries up to £26,400 per annum with money purchase provision above that level). This disclosure covers the defined benefit sections only.

At 30 September 2008, the value of the scheme's assets was £20.9 million and the actuarial value of the technical provisions exceeded these assets by 32 per cent. The actuarial assumptions used for the statutory funding valuation are that the pre-retirement investment yield would in the long term exceed earnings increases by 2 per cent per annum and the post-retirement investment yield would exceed pension increases by 1 per cent per annum. The Trustees and The Crown Estate have agreed a seven-year recovery plan to eliminate the deficit. Consequently, an additional amount of £100,000 per month is being paid to the scheme by The Crown Estate. Furthermore, the regular employer contribution rate has increased to 32.5 per cent of pensionable earnings per annum.

A full actuarial valuation was carried out as at 30 September 2008 and updated to 31 March 2012 by a qualified independent actuary.

a) Balance sheet and notes

	31 March 2012 £m	31 March 2011 £m
Reconciliation of the present value of the defined benefit obligation		
Present value of defined benefit obligation at beginning of year	**26.9**	27.1
Current service cost	**0.6**	0.7
Interest cost	**1.5**	1.5
Actuarial gain/(loss) on plan liabilities	**3.1**	(0.5)
Benefits paid	**(1.0)**	(2.0)
Past service costs	**–**	0.1
Present value of defined benefit obligation at end of year	**31.1**	26.9
Analysis of the defined benefit obligation		
Present value of the funded defined benefit obligation	**31.1**	26.9

	31 March 2012 £m	31 March 2011 £m
Reconciliation of fair value of plan assets		
Fair value of plan assets at start of year	**29.2**	26.8
Expected return on plan assets	**1.7**	1.6
Actuarial gain on plan assets	**2.1**	0.8
Contributions by The Crown Estate	**1.9**	2.0
Benefits paid	**(1.0)**	(2.0)
Fair value of assets at end of year	**33.9**	29.2
Amounts to be recognised in the balance sheet		
Present value of funded obligation	**(31.1)**	(26.9)
Fair value of scheme assets	**33.9**	29.2
Net asset/liability in the balance sheet	**2.8**	2.3

8. IAS 19 retirement benefits continued

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

	31 March 2013 projected £m	**Year ended 31 March 2012 £m**	Year ended 31 March 2011 £m
Interest on obligation	1.5	**1.5**	1.5
Expected return on plan assets	(1.8)	**(1.7)**	(1.6)
Net financing (surplus)/cost – note 5	(0.3)	**(0.2)**	(0.1)
Current service cost	0.7	**0.6**	0.7
Past service cost	–	**–**	0.1
Total expense	0.4	**0.4**	0.7

c) Total amount recognised in the Statement of comprehensive income

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Actuarial (loss)/profit recognised in the Statement of comprehensive income	**(1.0)**	1.3

d) Cumulative amount recognised in the Statement of comprehensive income

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Cumulative loss recognised in the Statement of comprehensive income	**(3.8)**	(2.7)

e) Scheme assets

	Planned 2013	£m	**% 2012**	£m	% 2011	£m	% 2010
Equities	40%	13.1	**39%**	11.4	39%	11.5	43%
Index linked gilts	60%	20.7	**61%**	17.8	61%	15.4	57%
Other	–	0.1	**–**	–	–	–	–
Total market value of assets		33.9	**100%**	29.2	100%	26.9	100%
Expected rate of return on scheme assets		5.0%		5.6%		5.8%	

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

The amount of Crown Estate related investments included in the fair value of the plan assets was £nil (31 March 2011 – £nil).

	31 March 2012 £m	31 March 2011 £m
Actual return on scheme assets	**3.8**	**2.4**

Principal actuarial assumptions at the balance sheet date

	2012	2011	2010
Discount rate	**4.75%**	5.50%	5.50%
Expected return on scheme assets at the end of the year	**5.12%**	5.64%	5.80%
Rate of increase in salaries	**3.50%**	4.60%	4.75%
Price inflation	**3.50%**	3.60%	3.75%
Pension increases	**3.50%**	3.60%	3.75%
Mortality	**PNXA00LC**	PNXA00LC	PNXA00LC
Underpin	**with 1% underpin**	with 1% underpin	with 1% underpin
Projection	**Birth year**	Birth year	Birth year

8. IAS 19 retirement benefits continued

The assumed life expectations on retirement at age 60 are:

	31 March 2012	31 March 2011
Retiring today:		
Male	**89.1**	88.9
Female	**91.6**	91.5
Retiring in 20 years:		
Male	**91.3**	91.2
Female	**93.7**	93.6

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

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

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

f) History of experience gains and losses

	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
Present value of defined benefit obligation (£m)	**31.1**	26.9	27.1	18.9	20.3
Fair value of assets (£m)	**33.9**	29.2	26.8	19.8	21.1
Surplus/(deficit) (£m)	**2.8**	2.3	(0.3)	0.9	0.8
Experience (loss)/gain on scheme liabilities:					
Amount (£'000)	**(603)**	(195)	63	342	(275)
Percentage of the present value of the scheme liabilities	**–2%**	–1%	0%	2%	–1%
Difference between the expected and actual return on scheme assets					
Amount (£'000)	**2,113**	805	3,556	(3,783)	(64)
Percentage of scheme assets	**6%**	3%	13%	–19%	0%

For 2011/12 employer contributions were £1.9 million (£2.0 million in 2010/11). The Crown Estate's estimate of contributions to be paid to the Scheme in 2012/13 is £1.8 million.

For 2011/12 employer contributions to the Principal Civil Service Pension Scheme (PCSPS) were £1.9 million (£1.9 million in 2010/11).

For 2011/12, employers' contributions were payable to the PCSPS at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. For 2012/13 the employer contribution will be between 16.7 per cent and 24.3 per cent of pensionable pay. Employer contributions are to be reviewed every four years following a full scheme valuation by the Scheme Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1a	**25.4**	24.7
Total recovered from the capital account	**25.4**	24.7
Depreciation of fixed assets charged as costs in the income account	**2.3**	2.3
Total recovered under the Treasury agreement	**27.7**	27.0

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

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Reflected in the Statement of income and expenditure:		
Surplus on revaluation of investment properties	**683.4**	620.0
Adjustment for gross up for deferred rent movement	**55.4**	22.8
Gain (loss) on disposal of investment properties	**23.7**	(92.1)
Net revaluation gains on investment property	**762.5**	550.7
Share of revaluation loss in jointly controlled entities	**(5.2)**	–
Share of revaluation gains in other property investments	**0.4**	2.8
Total reflected in the capital account	**757.7**	553.5
Loss on disposal of plant and equipment	**–**	(0.2)
Total reflected in the Statement of income and expenditure	**757.7**	553.3
Reflected in the Statement of comprehensive income:		
Surplus on revaluation of owner occupied property	**1.1**	14.1
Surplus on revaluation of other investments	**–**	0.7
Total reflected in the Statement of comprehensive income	**1.1**	14.8
Total	**758.8**	568.1

11. Financial instruments

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

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

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

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

12. Parliamentary Supply finance

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

13. Statutory transfers

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

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Moieties:		
Mineral dealings	**9.3**	8.4

14. Consolidated Fund payment

In accordance with section 1 of the Civil List Act 1952, the income surplus is due to the Consolidated Fund. As The Crown Estate is not permitted by statute to borrow, the payment to the Consolidated Fund in respect of the net surplus for the year is agreed with the Treasury taking into account The Crown Estate's short-term financing requirements. £229.4 million was paid to the Treasury prior to the year end and a further £10.8 million is included within payables and was paid to the Treasury in May 2012.

15. Properties

	Investment properties freehold £m	Investment properties leasehold £m	Total investment properties £m	Owner occupied property £m	Total properties £m
At 1 April 2011	**7,211.0**	**238.7**	**7,449.7**	**102.6**	**7,552.3**
Less: deferred income from lease premiums received	**(863.7)**	**–**	**(863.7)**	**–**	**(863.7)**
Less: head lease liabilities	**–**	**(2.8)**	**(2.8)**	**–**	**(2.8)**
At valuation 1 April 2011	**6,347.3**	**235.9**	**6,583.2**	**102.6**	**6,685.8**
Additions	**82.0**	**84.2**	**166.2**	**–**	**166.2**
Capital expenditure	**238.6**	**5.0**	**243.6**	**0.1**	**243.7**
Transfers	**–**	**–**	**–**	**–**	**–**
Disposals	**(526.1)**	**(56.7)**	**(582.8)**	**–**	**(582.8)**
Revaluation	**683.4**	**–**	**683.4**	**1.1**	**684.5**
At valuation 31 March 2012	**6,825.2**	**268.4**	**7,093.6**	**103.8**	**7,197.4**
Deferred income from lease premiums received	**919.1**	**–**	**919.1**	**–**	**919.1**
Head lease liabilities	**–**	**1.9**	**1.9**	**–**	**1.9**
At 31 March 2012	**7,744.3**	**270.3**	**8,014.6**	**103.8**	**8,118.4**
At 1 April 2010	6,371.0	236.4	6,607.4	89.0	6,696.4
Less: deferred income from lease premiums received	(840.9)	–	(840.9)	–	(840.9)
Less: head lease liabilities	–	(1.9)	(1.9)	–	(1.9)
At valuation 1 April 2010	5,530.1	234.5	5,764.6	89.0	5,853.6
Additions	267.1	37.4	304.5	–	304.5
Capital expenditure	265.2	1.2	266.4	0.1	266.5
Transfers	–	–	–	–	–
Disposals	(321.9)	(50.4)	(372.3)	(0.6)	(372.9)
Revaluation	606.8	13.2	620.0	14.1	634.1
At valuation 31 March 2011	6,347.3	235.9	6,583.2	102.6	6,685.8
Deferred income from lease premiums received	863.7	–	863.7	–	863.7
Head lease liabilities	–	2.8	2.8	–	2.8
At 31 March 2011	7,211.0	238.7	7,449.7	102.6	7,552.3

The historic cost of the properties at 31 March 2012 was £2,745.1 million (31 March 2011 – £2,582.2 million).

Investment properties identified by the Board as held for sale of £22.5 million at 31 March 2012 (31 March 2011 – £17.5 million) are included within disposals and are reclassified as current assets in the balance sheet.

On 1 April 2011, a 150-year lease was granted to Norges Bank Investment Management (NBIM), in return for a 25 per cent interest in properties located in and around Regent Street in London. The £452 million received on the grant of the lease is included within total disposals of £582.8 million. The properties within the arrangement have been regarded as a jointly controlled asset for accounting purposes and as such The Crown Estate's interest of 75 per cent in the properties is included within the valuation figure at 31 March 2012. The Crown Estate's share of jointly controlled assets was valued at £1,638.8 million at 31 March 2012 (£124.1 million at 31 March 2011) out of the total property value of £8,118.4 million.

The property portfolio was valued on 31 March 2012 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation standards published by the Royal Institution of Chartered Surveyors (RICS). Offshore wind farms were valued on 31 March 2012 on the basis of market value, in accordance with RICS Valuation Standards. In this valuation a Special Assumption (as defined in the Red Book) has been made that all sites where an option has been granted or a site allocated by The Crown Estate within Round 1, Round 2, Round 3 and Scottish Territorial Waters of the wind farm tender process are included even if the option is yet to be exercised and an Agreement for Lease is yet to be signed. This valuation assumption is consistent with that adopted at 31 March 2011.

16. Plant and equipment

	Plant and machinery £m	Office equipment £m	Motor vehicles £m	Total £m
Cost at 1 April 2011	**1.9**	**18.3**	**1.8**	**22.0**
Additions	**1.2**	**1.6**	**0.1**	**2.9**
Disposals	**(0.1)**	**–**	**(0.1)**	**(0.2)**
Cost at 31 March 2012	**3.0**	**19.9**	**1.8**	**24.7**
Depreciation at 1 April 2011	**1.4**	**12.1**	**1.4**	**14.9**
Charge	**0.4**	**1.7**	**0.2**	**2.3**
Disposals	**(0.1)**	**–**	**(0.1)**	**(0.2)**
Total depreciation at 31 March 2012	**1.7**	**13.8**	**1.5**	**17.0**
Net book value at 1 April 2011	**0.5**	**6.2**	**0.4**	**7.1**
Net book value at 31 March 2012	**1.3**	**6.1**	**0.3**	**7.7**
Cost at 1 April 2010	1.7	17.7	1.7	21.1
Additions	0.2	0.8	0.1	1.1
Disposals	–	(0.2)	–	(0.2)
Cost at 31 March 2011	1.9	18.3	1.8	22.0
Depreciation at 1 April 2010	1.2	10.3	1.3	12.8
Charge	0.2	2.0	0.1	2.3
Disposals	–	(0.2)	–	(0.2)
Total depreciation at 31 March 2011	1.4	12.1	1.4	14.9
Net book value at 1 April 2010	0.5	7.4	0.4	8.3
Net book value at 31 March 2011	0.5	6.2	0.4	7.1

17. Investment in jointly controlled entities

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

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

All joint ventures operate in the United Kingdom.

During the year the investment in the Princes Street Co-ownership arrangement was reduced from 66.67 per cent to 50 per cent.

17. Investment in jointly controlled entities continued

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

	Gibraltar LP £m	Crown Point £m	Princes Street £m	Westgate LP £m	Maple LP £m	Total £m
Share of assets and liabilities as at 31 March 2012:						
Non-current assets	205.9	61.0	5.5	30.1	32.9	335.4
Current assets	35.0	1.4	0.3	1.2	1.2	39.1
Gross assets	240.9	62.4	5.8	31.3	34.1	374.5
Current liabilities	(3.7)	(1.1)	(0.1)	(1.1)	(1.6)	(7.6)
Short-term bank loan	(100.0)	–	–	–	–	(100.0)
Share of net assets	**137.2**	**61.3**	**5.7**	**30.2**	**32.5**	**266.9**
Share of revenues and expenses for the year ended 31 March 2012:						
Income	10.6	3.4	0.2	2.4	0.6	17.2
Expenses	(7.9)	(0.3)	(0.1)	(1.2)	(0.1)	(9.6)
Share of profit on ordinary activities reflected in the income account	2.7	3.1	0.1	1.2	0.5	7.6
Share of profit/(loss) on revaluation of investment reflected in the capital account	(11.6)	(0.9)	0.5	0.3	6.5	(5.2)
Total share of income reflected in the Statement of income and expenditure	**(8.9)**	**2.2**	**0.6**	**1.5**	**7.0**	**2.4**
Share of assets and liabilities as at 31 March 2011:						
Non-current assets	216.8	60.8	6.6	29.5	17.9	331.6
Current assets	31.0	1.8	0.3	1.6	4.3	39.0
Gross assets	247.8	62.6	6.9	31.1	22.2	370.6
Current liabilities	(2.8)	(1.3)	(0.1)	(1.2)	(0.2)	(5.6)
Long-term bank loan	(100.0)					(100.0)
Share of net assets	145.0	61.3	6.8	29.9	22.0	265.0
Share of revenues and expenses for the year ended 31 March 2011:						
Income	11.5	3.3	0.2	1.7	0.2	16.9
Expenses	(6.5)	(0.2)	(0.1)	(0.5)	–	(7.3)
Share of profit on ordinary activities reflected in the income account	5.0	3.1	0.1	1.2	0.2	9.6
Share of profit on revaluation of investment reflected in the capital account	1.2	1.9	2.1	(0.2)	(5.0)	–
Total share of income reflected in the statement of income and expenditure	6.2	5.0	2.2	1.0	(4.8)	9.6

17. Investment in jointly controlled entities continued

Summary of movement in investment in jointly controlled entities

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
At start of year	**265.0**	212.7
Net equity additions	**13.4**	51.4
Surplus on revaluation of investment properties	**(5.2)**	–
Distributions receivable	**(13.9)**	(8.7)
Share of profit	**7.6**	9.6
At end of year	**266.9**	265.0

In respect of The Gibraltar Partnership, the Partnership is dependent for its working capital requirements on cash generated from operations and a £200 million credit facility, which was refinanced on 19 April 2012. The Partnership is required to comply with a number of covenants in relation to its current credit facility the principal of which is that the amount of the loan drawn must not exceed 35 per cent of the value of the Partnership's properties. As at 31 March 2012 the Partnership had placed £52.44 million (31 March 2011 – £46.7 million) of cash loaned from the limited partners together with accrued interest in blocked accounts in order to maintain compliance with this covenant.

On 29 March 2012 the Partnership entered into a new five year £150 million facility agreement with Deutsche Pfandbriefbank AG as facility agent. Irrevocable notice was given to Emerald Funding (Gibraltar) PLC to repay the outstanding loan on 19 April 2012 from the new facility and from the cash held in the blocked account referred to above.

The new loan facility has a loan to value covenant requirement of 40 per cent. The General Partner is of the view that the relaxation of the loan to value covenant along with the expected movement in the value of the properties will result in no breach of this covenant for the foreseeable future.

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

18. Other property investments

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

	31 March 2012 £m	31 March 2011 £m
Net income received	**1.7**	1.5
Share of revaluation of investment	**0.4**	2.8
Reflected in the Statement of income and expenditure	**2.1**	4.3
Share of net assets reflected in the balance sheet	**34.0**	33.1

19. Other investments

	31 March 2012 £m	31 March 2011 £m
Antiques and paintings	**5.3**	5.3

20. Receivables due after one year

	31 March 2012 £m	31 March 2011 £m
Mortgages and loans	**0.1**	0.1
Other financial assets	**1.8**	1.7
Other receivables	**21.8**	19.6
	23.7	21.4

21. Inventories

	31 March 2012 £m	31 March 2011 £m
Inventories for resale	**0.1**	0.1
Stores	**0.1**	0.1
	0.2	0.2

22. Trade and other receivables

	31 March 2012 £m	31 March 2011 £m
Trade receivables	**39.5**	13.6
Other financial assets	**0.1**	0.1
Other receivables	**6.4**	15.1
Accrued income	**5.5**	2.8
	51.5	31.6

Trade and other receivables are shown after deducting the provision for bad and doubtful debts of £8.5 million (31 March 2011 – £10.9 million). The decrease in the trade receivable impairment reflects the application of The Crown Estate's provisioning policy in respect of bad and doubtful receivables.

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

	31 March 2012 £m	31 March 2011 £m
Trade and other receivables outside their payment terms not yet provided are:		
Within credit terms	**–**	–
Past due date but not impaired:		
0–1 month	**37.3**	12.2
1–2 months	**0.2**	1.3
More than 2 months	**2.0**	0.1
	39.5	13.6
Bad and doubtful debts receivables provision		
Other expenditure includes the movement on the provision for bad and doubtful receivables as follows:		
Provision at the beginning of the year	**10.9**	22.7
Income written off during the year	**(2.0)**	(7.9)
Decrease in the provision for the year	**(0.4)**	(3.9)
Provision at the end of the year	**8.5**	10.9

23. Payables

	31 March 2012 £m	31 March 2011 £m
Amounts falling due within one year:		
Trade payables	**4.1**	1.7
Rents received in advance	**52.0**	47.5
Taxes and social security	**13.3**	6.0
Other payables	**12.2**	7.6
Consolidated Fund	**10.8**	11.0
Accruals and deferred income	**18.9**	19.8
Deferred income on receipt of lease premiums	**9.2**	8.3
Obligations under finance leases	**0.3**	0.4
	120.8	102.3
Amounts falling due after more than one year:		
Rents received in advance	**0.8**	0.3
Deferred income on receipt of lease premiums	**909.9**	855.4
Obligations under finance leases	**3.5**	4.2
	914.2	859.9

24. Provisions

	31 March 2012 £m	31 March 2011 £m
Reorganisation provision	**0.5**	–

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

25. Leasing

Operating leases with tenants

The Crown Estate leases out all of its investment properties under operating leases for average lease terms of 34 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	31 March 2012 £m	31 March 2011 £m
Less than one year	**245.9**	220.1
Between two and five years	**783.4**	729.4
More than five years	**3,512.8**	3,366.6
	4,542.1	4,316.1

Contingent rents receivable were £28.1 million at 31 March 2012 (£16.6 million at 31 March 2011).

Obligations under finance leases

Finance lease liabilities are payable as follows:

	31 March 2012			31 March 2011		
	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**	0.4	–	0.4
Between two and five years	**1.1**	**(0.2)**	**0.9**	1.6	(0.3)	1.3
More than five years	**51.0**	**(48.4)**	**2.6**	54.4	(51.5)	2.9
	52.4	**(48.6)**	**3.8**	56.4	(51.8)	4.6

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

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Operating surplus – income account	**251.7**	244.7
Loss on disposal of plant and equipment	**–**	0.2
Depreciation	**2.3**	2.3
Decrease/(increase) in receivables	**4.2**	(23.1)
Increase/(decrease) in payables	**18.5**	(1.9)
Increase in provisions	**0.5**	–
Net cash inflow from operating activities	**277.2**	222.2

27. Analysis of change in cash and cash equivalents

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Balance at start of year	**279.2**	462.9
Net cash inflow/(outflow)	**277.8**	(183.7)
Balance at end of year	**557.0**	279.2

28. Subsidiary undertakings

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

These subsidiary and joint venture undertakings are not material by value or in the context of The Crown Estate financial results and therefore consolidated statements have not been prepared.

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

- Fitzgeorge and Fitzjames Management Company Limited
- Urbanlease Property Management Company Limited
- Maple Holdco Limited
- Maple Investment Management LLP
- Gibraltar Management Limited

29. Capital commitments

At 31 March 2012, The Crown Estate had committed to make capital expenditure of £325.1 million (£405.7 million at 31 March 2011) and had authorised additional expenditure of £194.6 million (£140.5 million at 31 March 2011).

30. Contingent liabilities

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

31. Related party transactions

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

Smiths Gore – where Philip Everett, the Deputy Ranger at Windsor Great Park is a salaried partner and David Fursdon, non-executive director, is a non-executive consultant.

During the year Smiths Gore were paid £2.3 million (£2.0 million in the year ended 31 March 2011). Neither Philip Everett nor David Fursdon had any involvement in determining either the appointment or remuneration of Smiths Gore in this capacity.

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

During the year Orchard Street Investment Management LLP took an assignment of a Crown Estate lease from the existing tenant at No.1 New Burlington Place at an annual rent of £254,000. There were no outstanding debts at 31 March 2012 on this tenancy.

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.

32. Third party deposits

At 31 March 2012, The Crown Estate held £19.8 million (£18.2 million at 31 March 2011) on deposit on behalf of third parties.

33. Issue of accounts

On 28 May 2012, the financial statements were approved by the audit committee on behalf of the Board prior to certification by the Comptroller and Auditor General on 11 June 2012. On this date the financial statements are deemed to be authorised for issue. Post balance sheet events were considered up to this date.

Ten-year record (unaudited)

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

Income account	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 Restated £m	2009 £m	2010 £m	2011 £m	2012 £m
Revenue (excluding service charge income)	230.0	237.8	245.4	252.3	262.1	231.9	285.8	299.7	306.8	314.2
Direct operating costs (including net service charge expense)	(27.3)	(30.2)	(31.9)	(31.6)	(38.7)	(40.2)	(42.6)	(52.9)	(42.5)	(41.8)
Gross surplus	202.7	207.6	213.5	220.7	223.4	191.7	243.2	246.8	264.3	272.4
Administrative expenses	(11.3)	(11.0)	(11.7)	(12.3)	(13.3)	(15.5)	(17.0)	(18.5)	(17.1)	(18.4)
Indirect operating expenses	–	(0.9)	(2.0)	(1.0)	(0.8)	(0.7)	–	–	–	–
Net revenue surplus	**171.1**	**176.9**	**184.8**	**190.8**	**200.1**	**213.4**	**226.5**	**210.7**	**230.9**	**240.2**
Consolidated Fund payment	170.8	173.0	185.7	188.0	200.0	211.0	230.0	210.0	231.0	240.2
Balance sheet										
Investment and owner occupied properties	4,067.4	4,408.9	4,812.0	5,685.4	6,572.5	7,245.6	6,073.2	6,696.4	7,552.3	8,118.4
Non-current investment property assets held for sale	–	–	–	–	–	12.0	221.9	135.1	17.5	22.5
Investment in jointly controlled entities	–	–	–	–	–	203.3	185.7	212.7	265.0	266.9
Other property investments	–	–	–	–	42.1	38.6	27.5	30.0	33.1	34.0
Other plant, property and equipment	2.1	2.2	3.2	4.6	5.6	4.9	8.5	8.3	7.1	7.7
Other investments	4.0	4.1	5.0	5.0	4.9	4.9	4.9	4.9	5.3	5.3
Receivables due after one year	–	–	0.1	0.1	13.8	3.2	11.4	13.3	21.4	23.7
Current assets (excluding assets held for sale)	185.4	214.1	306.7	287.1	494.6	590.1	421.9	480.6	311.0	608.7
Pension asset	–	–	–	–	–	0.9	0.9	–	2.3	2.8
Current liabilities	(39.8)	(36.1)	(36.6)	(45.6)	(42.0)	(103.1)	(164.9)	(104.6)	(102.3)	(121.3)
Non-current liabilities	–	–	–	–	–	(666.7)	(776.2)	(837.1)	(859.9)	(914.2)
Capital and reserves	**4,219.1**	**4,593.2**	**5,090.4**	**5,936.6**	**7,091.5**	**7,333.7**	**6,014.8**	**6,639.6**	**7,252.8**	**8,054.5**

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

Glossary

Balanced scorecard

A tool to measure and monitor progress against our corporate objectives.

Bespoke benchmark

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

Book value

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

Capital employed

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

Capital value

The net assets of The Crown Estate held as capital for Her Majesty and Her successors.

Consolidated Fund

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

Development pipeline

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

Direct expenditure

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

Equivalent yield

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

Finance lease

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

Going for Gold targets

A summary of our corporate ambitions, they distil the essence of our balanced scorecard into a clear and readily understandable format. Going for Gold is in effect a rolling five-year programme, so that we have a continually updated summary of our ambitions.

Head lease

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

IFRS

International Financial Reporting Standards.

Indirect investments

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

Initial yield

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

IPD

Investment Property Databank.

Lease incentive

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

Lease premium

The price paid for the purchase of a leasehold interest.

Market rent

The estimated amount for which a lettable unit should lease for between a willing lessor and a willing lessee on appropriate terms, in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Market value

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

Net income surplus

Profit payable to the Treasury.

Open A1 planning consent

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

Operating lease

Any lease that is not a finance lease.

Over rented

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

Parliamentary Supply finance

Monies provided by Parliament in respect of Board members' salaries and the expense of their office.

Pre-let

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

Public realm

Publicly owned streets, pathways and rights of way.

Rack rented

A rent representing the full market rental value of a property.

Red Book

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

Total return

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

Vacancy rate

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

Void

Unoccupied and unlet space.

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