

Despite tough conditions, one thing is for sure...

Annual Report 2009



...we have a strong story to tell.

On behalf of the nation, The Crown Estate manages a highly diverse property portfolio across the United Kingdom. We are above all a commercial organisation with a strong sense of stewardship and a commitment to manage our assets sustainably.



We achieve the objectives laid down by Parliament: we earn a surplus for the benefit of the UK taxpayer, and enhance the value of the estates we manage.

Our property ranges from offices and shops in the heart of London, to commercial premises and housing, to farmland and forestry through to the foreshore and seabed.



We see the people and businesses that occupy and use our land and property as our customers: they are very important to us. We seek to work with them to help add value to their businesses; and what's good for their business is good for ours.



We help many of our tenant farmers to diversify so they can undertake new commercial activities. We regenerate property to benefit our tenants, and also to enhance the community in which they and their neighbours live and work.







We are active custodians of the seabed and foreshore in our charge.

By playing our part in the development of offshore wind power, we make our contribution to providing the UK with renewable energy and help reduce carbon emissions: an example of how doing what's good for business is also doing good more widely.



We set ourselves high standards and aim to conduct our business in a blue-chip way. We want people to have confidence in us, to believe that the hallmark of The Crown Estate is quite simply: ‘Trust’.

This is how we attract the best customers and how we work with the best partners; how we conclude the best deals; and how we attract and retain the best talent.





We're in business for the long term.

And while we never take our eye off our financial performance, our status allows us to resist the temptations of passing fashion and the dangers of short-termism.

This enables us to embed sustainability into our business strategy and to focus on the long-term value of our assets.



**We have achieved a great deal.
But in uncertain economic times,
challenges certainly lie ahead.**

**However, we have laid solid foundations.
And we have in place a strong team of
professionals so that we can continue to
develop and expand the business during
the coming years.**

Roger Bright CB July 2009

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**To The Queen's Most Excellent Majesty**

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

What we do

Urban estate

The urban estate consists of over 400 commercial properties in London and elsewhere, including shops, offices, retail and business parks, shopping centres and industrial sites. There are also over 2,000 residential properties ranging from 1,280 units let on monthly regulated or assured tenancies, to long leasehold properties in Millbank, Regent's Park and Kensington.

£221.4m

Revenue

72.8% of Group

£4,231m

Property valuation
including indirect
investments

73.9% of Group



For more information about the **urban estate** see pages 6–11

Marine estate

The marine estate includes over 55% of the UK's foreshore, the beds of tidal rivers and estuaries and almost all of the seabed out to the 12-nautical-mile territorial limit around the UK. It also includes the rights to explore and utilise the natural resource of the UK continental shelf with the exception of oil, coal and gas. It covers a diverse portfolio of interests embracing marine aggregates, potash mining, oil and gas pipelines, telecommunication and power cables, aquaculture, renewable energy, moorings, marinas, wildfowling and ports.

£49.7m

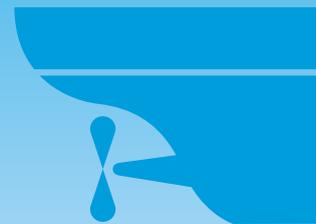
Revenue

16.3% of Group

£409m

Property valuation

7.1% of Group



For more information about the **marine estate** see pages 12–17

Rural estate

The rural estate is one of the largest in the UK with almost 146,000 hectares (360,000 acres) of agricultural land, forests, residential and commercial property in England, Scotland and Wales (excluding Windsor). There are also 34 active mineral lettings producing limestone, sand, gravel, clay, slate, five mines and Royal leases (including one gold mine in Northern Ireland). There are 780 agricultural tenancies and 770 residential properties. The forestry estates cover almost 11,000 hectares (27,000 acres) of which almost one third is managed by The Crown Estate, with the remainder let.

£26.7m

Revenue

8.8% of Group

£920m

Property valuation

16.1% of Group



For more information about the **rural estate** see pages 18–23

Windsor Estate

The Windsor Estate covers around 6,300 hectares (15,600 acres) and includes Windsor Great Park and Home Park, the Savill and Valley Gardens, residential properties and some commercial properties including Berkshire and Swinley Forest golf clubs, Ascot Racecourse, Smith's Lawn, two let farms and almost 3,200 hectares (7,700 acres) of forest. Windsor Great Park is the only Royal Park managed by The Crown Estate. The Board of The Crown Estate has a duty to maintain its character as a Royal Park and forest.

£6.3m

Revenue

2.1% of Group

£166m

Property valuation

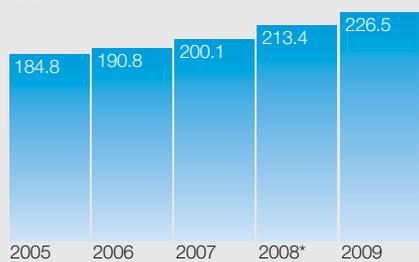
2.9% of Group



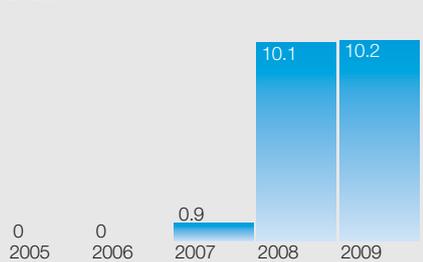
For more information about the **Windsor Estate** see pages 24–27

Highlights of the year

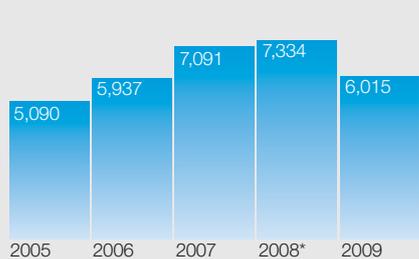
Income surplus
£million



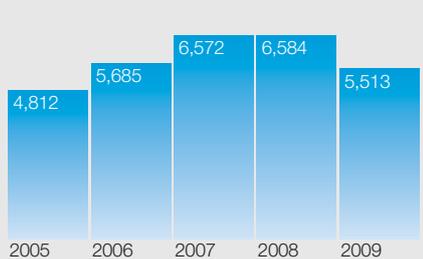
Income from indirect investments
£million



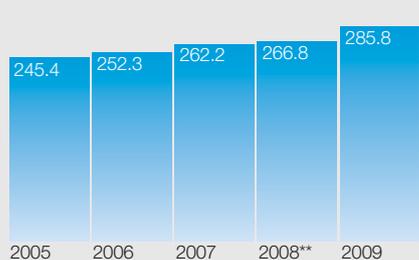
Capital value
£million



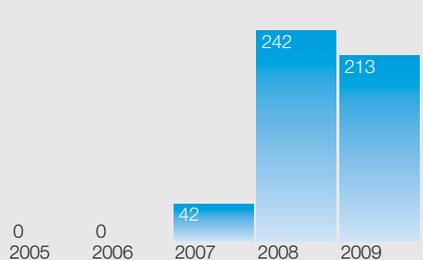
Property valuation – directly held property
£million



Revenue (excluding service charge income)
£million



Value of indirect investments
£million



“I am confident that once the global downturn has run its course, The Crown Estate will continue to go from strength to strength as our previous priorities place us in good stead for the future.”

Chairman's introduction

Despite an increasingly difficult economic climate, this has been another good year for The Crown Estate. Our financial results have improved year-on-year and we have returned £226.5 million to the Treasury, in the form of our net income surplus. This is an increase of 6.1% over 2007/08 (restated). However, our capital values fell by 18% to £6 billion, in line with the global downturn across all our property sectors.

2008/09 has been an extraordinary year for all of us. Events have moved at a pace and in a direction that nobody has experienced during his or her working lifetime. Against this background of market turmoil, The Crown Estate has recorded excellent results in income terms, with important contributions from each of our four estates as they continued to increase their focus on active portfolio management.

On the urban estate, although all sectors of the market were affected by a recession which worsened as the year progressed, our team navigated a path through the storm with considerable skill and commitment. The rural estate again delivered a strong set of results. Farming has experienced a number of difficulties but we have worked with our tenants to explore new ways in which we can support their businesses. At Windsor, we have seen a year of consolidation with thankfully no repeat of the foot and mouth outbreak which marred 2007/08.

The marine estate took great strides towards establishing The Crown Estate as an important partner in the Government's commitment to developing the UK's renewable energy capability. We have the expertise, the sites and also the financial resources, through our new commitment to co-invest in projects, to make a real difference in offshore wind, wave and tidal energy generation.

A challenging year such as 2008/09 places greater requirement than ever upon effective teamwork and once again our organisation owes a great debt to Roger Bright and his colleagues. They have made

a tremendous contribution throughout the year and while the waters ahead will be choppy and unpredictable, we have in place a highly capable and committed team. I would also like to extend my thanks to the members of the Board for their support and expertise during the year. Not only have they provided valuable input at Board meetings, they have also shown great willingness to participate in a wide range of sub-committees, specifically with regard to the Quadrant project on the urban estate and on the marine estate.

Looking around our organisation, I have been both impressed and delighted to see how closely our people at all levels have worked together to combat the negative aspects which have prevailed in the broader economy. Together, they have faced difficult days with good humour and on behalf of the Board I extend to them our heartfelt thanks.

In our view, the year ahead will be extremely challenging: one that will require all the expertise and experience that our people can muster. Factors such as the fall in bank interest rates will impact our financial performance and prove more detrimental in 2009/10 than in the year currently under review.

I will step down from my role at the end of December 2009, so this will be the last occasion on which I will report our performance through the Annual Report. It has been a great privilege to lead this unique organisation for the last seven years. Despite the uncertainties of the present time, I believe our long-term fundamentals are sound and I am confident that once the global downturn has run its course, The Crown Estate will continue to go from strength to strength as our previous priorities place us in good stead for the future.



A handwritten signature in black ink, which appears to read 'Ian Grant'.

Ian Grant CBE Chairman

Chief Executive's overview and goals

The year saw us deliver a sound performance in challenging circumstances, largely due to a diversified portfolio based on high quality, sustainable assets and supported by a talented team which we strengthened during the year. The Crown Estate is an organisation focused on long-term achievement and this strategy will place us in a good position to face the difficult months ahead.

The year under review was characterised by an already challenging property sector becoming markedly worse as the onset of the credit crunch tipped the UK into a deep recession. Neither The Crown Estate nor our customers are immune to a global crisis of such daunting scale and we have had to contend with a number of difficult circumstances including, tenant defaults, which have affected our income stream.

Nevertheless, we have reported a creditable financial performance which bears testimony to our continued focus on high quality assets, sustainable growth and the importance of medium- and long-term performance over short-term gain. Our people are crucial to the delivery of that strategy and we have continued to build our team, bringing a number of new people into the organisation during the year, particularly in the marine estate as we prepare for a major expansion in offshore renewable energy generation.

Our revenue (excluding service charges) for 2008/09 rose by 7.1% to £285.8 million. The net income surplus, which is the profit which we pass to the Treasury for the benefit of UK taxpayers, increased by 6.1% to £226.5 million.

Reflecting the downturn in the UK commercial property sector, however, the total value of our directly held property portfolio reduced by 16.3% to £5.5 billion. Our total capital value at the end of the year was £6 billion, representing a fall of 18% over the previous year.

We monitor our performance against the Investment Property Databank (IPD) Index, which benchmarks The Crown Estate against our peers. For 2008/09, our total return was -15.8%, outperforming the IPD Quarterly Index which reported a return of -25.5%. This follows three consecutive years in which we outperformed the Index.

The estates

The urban estate reported revenue excluding service charges from directly held property and income from indirect investments of £213.3 million, an increase of 3.3%. The portfolio fell in value by 21.4% to £4.2 billion.

On the marine estate, we achieved income growth of 18.5% to £49.7 million, with property value increasing by 10.6% to £409.5 million. The marine estate represents a major opportunity for The Crown Estate, as we continue to play our part in helping the UK meet its renewable energy targets. This year we signalled our commitment to co-investing in the marine estate alongside other developers, and are moving decisively from being a relatively reactive manager of this part of our portfolio to a much more proactive role.

The rural estate has recorded another good performance, with revenue up by 18.9% to £26.7 million and values also rising by 1.9% to £919.5 million. Agriculture has enjoyed a period of prosperity but is now facing a challenging period. We are actively seeking opportunities where we can co-invest to support our tenants' businesses and help them through the recession.

The Windsor Estate continues to make an important contribution to our performance, with the cost of running the estate down by 3.5% to £2 million, although values were down by some 4.3% to £165.5 million. Windsor provides an outstanding public amenity, incorporating a world-class heritage landscape which we are proud to manage.



“The Crown Estate is an organisation focused on long-term achievement and this strategy will place us in a good position to face the difficult months ahead.”

It is clear to us that a successful business has to be a sustainable business. For The Crown Estate sustainability is about balancing a strong financial performance with the need to positively contribute to the environment and communities in which we operate. Our report this year therefore integrates our sustainability activity within the reporting of our business activities as denoted by a green tinted heading.

Looking ahead

As we head into more difficult times, it is important that we keep sight of our long-term goals and continue to pursue the ‘Going for Gold’ targets you see here. Achieving our objectives may take a little longer than we initially hoped, because of the poor business environment, but we will not allow ourselves to be deflected from our long-term aims. We will also maintain our focus on our core values of commercialism, integrity and stewardship.

Finally, I wish to place on record my sincere thanks to Ian Grant, our Chairman, who retires at the end of this year. The Board and staff wish him well. Ian has been an outstanding Chairman and an excellent ambassador for The Crown Estate. He has provided a firm strategic hand on the tiller at Board level while also providing great support for me personally. I thank him unreservedly.



Roger Bright CB Chief Executive



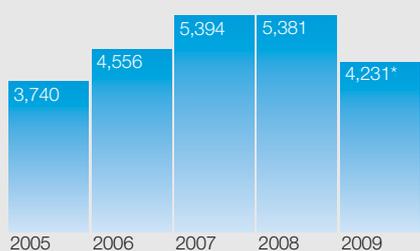
‘Going for Gold’

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

- | | |
|---|--|
| <p>#2 Consistently outperform the IPD Total Return Index</p> | <p>#1 Achieve an income contribution to the Treasury of £250 million</p> |
| <p>#4 Enter The Sunday Times’ list of good employers</p> | <p>#3 Achieve ‘gold’ in the Business in the Community (BiTC) CR Index</p> |
| <p>#6 Establish a strong and respected consumer brand, supported by excellent service from us and our service partners</p> | <p>#5 Win more nationally recognised awards</p> |
| <p>#8 Ensure Crown Estate employees and representatives actively embrace our core values</p> | <p>#7 Establish partnerships with other property owners through a flexible approach to investment and disinvestment</p> |
| | <p>#9 Ensure that we are regarded by our stakeholders as indispensable</p> |

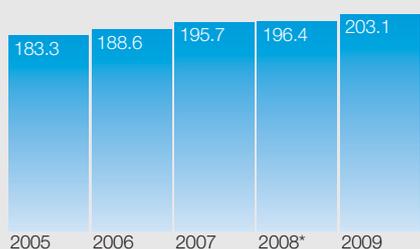
Urban estate

Property valuation including indirect investments
£million



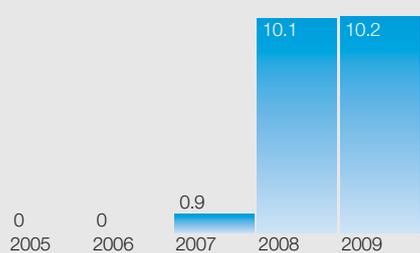
*Including assets held for sale.

Revenue (excluding service charge income)
£million



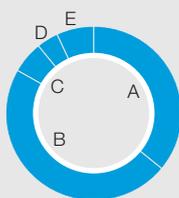
*Restated for conversion to IFRS and adjusted for change in accounting estimate.

Income from indirect investments
£million



Revenue by activity
2009 (£million)

- A Retail – 72.9
- B Office – 96.1
- C Residential – 12.0
- D Industrials – 8.1
- E Other Urban – 14.0



The urban estate includes shops, offices, retail and business parks, industrial sites and residential properties. The year to 31 March 2009 saw revenue hold up well as the estate again outperformed industry benchmarks, although values fell by some 21% as the recession deepened.

The urban portfolio accounts for more than 73% of The Crown Estate's property value (including indirectly held property) and over 74% of its gross revenue surplus. During 2008/09, revenue including indirect investment was £213.3 million, up by 3.3% on the previous year. Property values including indirect investment fell by 21% to £4.2 billion.

This was a challenging year for all sectors of the UK property industry as we found ourselves in the middle of the toughest real estate market for a generation. Values were under pressure throughout the year, but the most dramatic decline came during the last quarter of 2008 (or third quarter 2008/09) as the banking crisis took hold of the economy and IPD reported an average decline of 14.3% in capital values over the period.

This fall in capital values was accompanied by a declining occupational market which severely limited rental growth prospects. All sectors of the market were hit hard, with the West End market maintaining an element of buoyancy longer than most until it too slipped rapidly downwards in the final quarter of the year.

In the face of this tough climate, revenue from the urban estate held up well. In last year's report, we stated that although we cannot buck the market, we can outperform it. During 2008/09 we again outperformed the annual IPD industry benchmark, which recorded a fall of -25.5% in total returns over the year to 31 March 2009 against the urban portfolio's -21.7%.

Our relative success is due to the quality of our portfolio and our continued focus on long-term opportunities. We own high quality, diverse assets and place great emphasis on building and maintaining good relationships with our occupiers.

Developing our strategy

With the volume of transactions greatly curtailed by the economic environment, we took the opportunity to further develop our strategy, particularly regarding asset allocations. We aim to gradually dispose of peripheral and non-core assets in central London, reducing this sector's current weighting down from a high point of 80% to a figure closer to 60%. St James's and Regent Street remain the heartland for investment and both will benefit from a high level of proactive management in the future.

In the case of St James's, we have developed a programme that will see significant change in what is an important area of London; one that will complement Regent Street rather than compete with it. Where Regent Street's attraction to tenants is centred on footfall, the future for St James's is as a destination in its own

“We’re delighted to have successfully launched the first of our worldwide global flagship stores, on London’s acclaimed Regent Street. Opening a unique, world first was never going to be easy but we worked closely with The Crown Estate to articulate a vision that I believe has delivered a new concept for Regent Street.”

Pere Matamales CEO Worldwide Network 2002 S.L., Licensee of National Geographic



Below With the economic recession tightening its grip, the UK's retail businesses have faced tremendous challenges. At CrownGate Shopping Centre in Worcester, we have initiated a major long-term investment programme to ensure that the Centre continues to be a vibrant destination and an attractive, welcoming proposition for retail customers and consumers alike. A refurbishment programme is currently transforming CrownGate, which is home to stores including House of Fraser, Debenhams and BHS. New brands such as Animal and Peacocks have recently moved to the Centre, while encouraging discussions are ongoing with other leading retailers.



Example of #1 **Going for Gold**
See page 5

Urban estate continued



“Our relative success is due to the quality of our portfolio and our continued focus on long-term opportunities.”

right. We aim to retain the mixed-use occupancy that characterises the area at the moment, while at the same time developing the buildings and improving the public realm. Towards the end of the financial year we submitted plans for a 10,000m² office-led scheme at 210–214 Piccadilly.

We also evaluated our benchmarking process during the year. Although the IPD Quarterly Index has served us well, we have now established bespoke benchmarks for most of the portfolio which better reflect our holdings and should enable us to monitor our progress more accurately. We will measure performance against these new benchmarks next year, and publish the findings in the annual report.

Key highlights

The year saw us gain full planning consent for the Quadrant development, a major achievement for the urban estate team. Work has now commenced on Quadrant 3 (the former Regent Palace Hotel) an office, retail and residential development being carried out directly by The Crown Estate. The development of Quadrant 1 (the former Café Royal) as a five-star hotel is also underway with Alrov Group developing under a building agreement. Both projects are due for completion in early 2012.

The Quadrant is part of a £750 million Regent Street investment programme that will totally revitalise the southern Regent Street environment. It is the most ambitious scheme ever undertaken on Regent Street; one which will represent the most significant improvement to the quality of London's public realm, after Trafalgar Square, in the last 30 years. The Quadrant is a mixed use

regeneration scheme of the Regent Palace Hotel, Café Royal and Quadrant Arcade blocks. It will create a new 93,000m² built area in the heart of the West End, together with a 4,100m² public space, and secure Regent Street's reputation as a world-class location.

In line with our strategy, we made a number of minor purchases to build the Regent Street portfolio and enable future development to take place. We also granted long leases on properties at Palace Green in Kensington, and at 9–10 Haymarket.

Regent Street's reputation received a number of endorsements through the year, as major retailers continued to recognise it as the natural London home for international brands and flagship stores. For example, Ferrari, National Geographic, LK Bennett, Tous and Furla all opened flagship stores on the Street during 2008/09. And from late 2009 Anthropologie will offer its signature mix of women's fashion and home décor from its new home at 158 Regent Street.

We were able to take advantage of asset re-pricing and the availability of stock that is not usually possible to acquire. Among these were strategic purchases of two large, dominant A1 retail parks.

The Bath Road Retail Park in Slough, which was acquired for £92 million from SEGRO plc, provides over 18,000m² of prime space which is currently let to national retail chains including Next, Argos and Mothercare.



Above During the year we added to our retail park portfolio with the acquisition of Bath Road Retail Park in Slough, for £92 million. The Park comprises 18,068m² (194,485 sq ft) of A1 consented retail space which is currently let to ten national chains including Next, JJB Sports, Mothercare, Argos and B&Q Warehouse. The deal was notable for its rapid completion, which underlined our reputation as a reliable purchaser in a difficult market. The purchase of the Bath Road site was followed by the acquisition of a 50% share in the Crown Point Shopping Park in Leeds, as we continue to actively manage our regional portfolio.



Example of #2 'Going for Gold'
See page 5

Urban estate continued

In Leeds, we purchased a 50% share of the Crown Point Shopping Park from Morley, Aviva's UK-based asset management business, for £67.7 million. On the edge of Leeds city centre, Crown Point is an open-consented shopping park with a broad range of quality high street brands. Both acquisitions reinforce our strategy to diversify our portfolio outside London.

We also purchased six multi-let industrial estates from SEGRO plc, for £64.4 million. Three properties are located in Greater London while the others are in Basildon, Oxford and Swindon. The estates are fully let to good quality tenants including Kerry Foods, Costco and Carlsberg and we anticipate attractive initial returns as well as rental growth prospects.

In Worcester, we began a comprehensive refurbishment project which will enhance our CrownGate Shopping Centre. This is part of a long-term £5 million improvement plan intended to support the businesses of our retail tenants in Worcester and explore the potential for further developing the scheme.

Playing our role

We take sustainability seriously and are committed to supporting our people, customers and the environment as well as the wider community.

During the year we continued to develop our tri-generation programme which will eventually service many of our properties in the Quadrant development. This project, which is the first of its kind in London, will be fuelled in part by hydrogen. We are also working on firstly identifying and secondly reducing our carbon footprint and water consumption across the urban estate. We monitored a number of buildings within the portfolio and have assessed that total like-for-like carbon emissions decreased by 0.1% during the year. This will be an important area of focus for 2009/10. Like-for-like water consumption decreased by 8% and we will work to ensure that this downward trend is maintained.

The Regent Street lights were again at the heart of the London Christmas shopping experience and were this year switched on by pop band McFly. For the future, we intend to balance the environmental impact of the lights by planting native woodland on our Glenlivet Estate.

As part of our Biodiversity Action Plan, we are carrying out studies into the feasibility of keeping honey bees on the rooftops of two buildings in Regent Street and also into the possible installation of a 'green roof' on the CrownGate Shopping Centre in Worcester. A specialist will help to create an ideal habitat on the Regent Street roofs, including appropriate flowers and plants as well as a small pond. Bees are an important part of ecosystems as they are key pollinators and an important food source for birds.

As part of the feasibility study for the green roof at Worcester, The Crown Estate is looking into the types of flora and fauna that would be conducive to endangered species in the area, including the kestrels that reside near the shopping centre. In addition to contributing to conservation in an urban environment, the green roof has the potential to reduce the energy needs of the centre by providing insulation and helping it to adapt to climate change impacts such as heavy rain by slowing surface water run-off rates.

£203.1m

Urban estate revenue

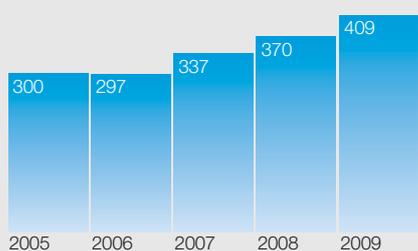
“Regent Street is one of the country’s premier retail destinations and Swallow Street one of the top places to eat in London. We are confident that by creating more places where people can take advantage of the West End’s unrivalled offer of dining and entertainment, the area will continue to thrive.”

Councillor Danny Chalkley Westminster City Council

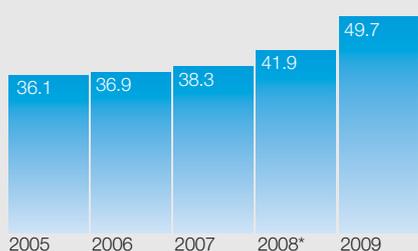


Marine estate

Property valuation
£million



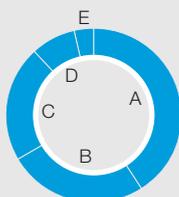
Revenue (excluding service charge income)
£million



*Restated for conversion to IFRS and adjusted for change in accounting estimate.

Revenue by activity
2009 (£million)

- A Dredging – 20.3
- B Coastal – 12.8
- C Cables/Pipelines – 10.7
- D Fish Farms – 4.1
- E Renewables – 1.8



The marine estate includes 55% of the foreshore of the UK and almost all of the seabed out to the 12-mile nautical limit. The estate has recorded a good performance in a challenging environment, with excellent progress being made in the renewable energy sector.

Revenue for the marine estate rose by 18.5% to £49.7 million during 2008/09, with total property value increasing to £409.5 million, up 10.6% on the previous year. Our balance sheet reflects the fact that we invested some £21 million during the year, more than ever before in a 12-month period.

The marine aggregates side of the estate again performed well, with income up by some 14.7% to £20.3 million. The coastal estate, which includes marinas, ports, harbours and other coastal activity, contributed £12.8 million to our revenue, an increase of 13.3%. The figures for the aquaculture business also improved, with revenue up to £4.1 million, in part due to a change in our accounting processes which have produced a one-off financial benefit.

Although the marine estate is influenced by factors in the wider economy, it is subject to resilient performance drivers, including the Government's support for renewable energy. This aspect of our organisation, while still small relative to the aggregates and coastal sectors, enjoyed a surge in activity, driven by the Round 3 tendering process for offshore wind farms and increased interest in wave and tidal power.

The activity in the renewables sector placed new and greater demands upon our people and we responded by increasing our staffing from 23 to 63. We have a skilled and dedicated team in place to ensure that the marine estate continues to make an increasing contribution to The Crown Estate as a whole.

Overall, we made excellent progress during 2008/09 in three distinct areas: in our established business sectors; in developing our portfolio; and in realising the potential of our assets to generate renewable energy.

Making progress in our established businesses

We own and manage the mineral rights to the seabed across an area extending to the edge of the UK continental shelf. Consents are issued for non-exclusive sampling and licences for commercial aggregate extraction as well as leases for major pipeline and cable projects. This business remains of central importance to the marine estate.

Aquaculture is a key industry on the estate, particularly in Scotland, where it is an important source of work and income for many communities. We continued to support and promote this valuable industry throughout the year, investing around £250,000 in research and development. In June 2008, the top performers in the aquaculture sector were honoured at The Crown Estate Marine Aquaculture Awards. The Awards reward innovation and best practice while recognising operators who employ the highest standards of husbandry, offer innovative training programmes, support local communities and manage their businesses with a high level of environmental awareness.

“We enjoy a tremendous relationship with The Crown Estate, one which has generated benefits for both parties. Their financial support enabled us to speed up a programme to improve the harbour, including 88 new mooring berths for visitors. This year, The Crown Estate has funded a team to look at developing the shore-side to further enhance facilities.”

Alan Macdonald Chairman of the Board of Trustees, Tarbert Harbour Authority



Below Against a background of growing demand for accessible deep water transhipment facilities for the largest vessels, we are working closely with Orkney Islands Council and Highlands and Islands Enterprise to support a new container terminal at Scapa Flow. The Scottish Government has also indicated that it is in favour of the project. The next phase of work, which will cost over £1 million, will see the appointment of a project manager and the commissioning of detailed studies to support applications for planning consents. Ultimately, the new container terminal will meet industry demand while also making a significant contribution to local and national sustainable economic development.



Example of #7 'Going for Gold'
See page 5

Marine estate continued



£49.7m

Marine estate revenue

Developing opportunities in the coastal sector

During the year, we published a report into the contribution of marine businesses to the UK economy. The report found that this totals almost £50 billion annually, or over 6% of the overall economy, and provides 890,000 jobs. Many of these are dependent on tourism and in the last 12 months we have again pursued investment opportunities to support the coastal leisure sector while also further diversifying our portfolio.

Complementing last year's purchase of Rhu Marina in Scotland and of Deganwy Marina in Wales, we have acquired Burnham Yacht Harbour in England. This 350-berth marina, located on the north bank of the River Crouch outside the town of Burnham-on-Crouch, is home to the famous Burnham Week, the longest running annual yachting regatta on the UK mainland. The marina is an important resource for the sailing community on the east coast and is a valuable addition to our growing marina portfolio.

At Wick in Scotland we are working with the local harbour authority to jointly finance a £576,000 scheme to install a marina development. Wick harbour is the largest such facility on the east coast of Caithness, and in the face of declining fish landings the harbour authority has a vision to rejuvenate its fortunes with a diverse portfolio of activities for its long-term future. It is expected that pontoons will be in place in time for the 2009 summer sailing season.

Also in Scotland, we completed the construction of new pontoons at Tarbert which have provided 88 additional berths in this increasingly important sailing area.

The Crown Estate's ability to invest depends on capital raised from capital activity across the Estate, and as markets declined so too did the ready availability of funds.

Exploiting the potential for renewables

Natural resources such as wind and wave are set to become a vital component of the UK's energy capability, both in terms of CO₂ mitigation and energy security supply. The Government's commitment to renewable energy has created an outstanding opportunity for the marine estate and this was underlined by the Energy Bill, which received Royal Assent in November.

We are actively working to realise the marine estate's potential in three distinct areas.

Firstly, one of the world's most significant infrastructure projects is now evident around the UK coastline, as offshore wind farms become reality. The Government's challenge is for 25GW of power to be generated by wind farms by 2020. Round 1 projects will be largely completed by the summer of 2009, while the last 12 months have also seen three Round 2 projects commence their construction phase, at Thanet, Gunfleet Sands and Greater Gabbard. By the end of 2009, we expect the capability of offshore wind farms to reach the 1GW mark.



Above It is widely recognised that offshore wind farms have the potential to provide most of the energy to meet the Government's target for renewables: 15% by 2020. However, in order to fulfil that potential, the fledgling wind farm industry requires extensive support and careful nurturing. As part of our commitment to work as a key facilitator, we have purchased Clipper's prototype of the world's largest offshore turbine. This 7.5MW MBE turbine, also known as the Britannia project, will enable us to gain and share firsthand knowledge of the challenges facing the development of wind turbines for deep water marine deployment. The acquisition of the turbine is an important step forward for offshore wind energy and a great opportunity to help establish a new industrial base of activity to advance the UK's leadership in renewables.

Marine estate continued

In March 2009, we achieved our most important renewable milestone to date, with the completion of the competitive tender process for the licensing of Round 3 wind farms. We received a total of 40 bids from 18 different organisations in nine countries. Many additional companies are committed to bids as alliance partners and supply chain participants. We have a crucial part to play in Round 3 projects. For the first time, we are co-investing alongside developers to facilitate the development process. By 2020, we anticipate investing some £80 million, with return on capital provided through an income stream based on seabed leases. Our role is to provide a strategic overview of the development process across the entire UK and to act as enablers. We will work closely with all stakeholders, including the UK and devolved governments, providing seed capital to help reduce risk and, ultimately, ensure that the renewables sector quickly fulfils its huge potential.

The second aspect of renewables in which we are involved is wave and tidal power, where we are again co-investing in order to minimise the risk process for developers. Option fees are charged to developers to secure sites for commercial scale developments. These fees are then match-funded by The Crown Estate to accelerate the timetable for successful development. The first stage, which involves allocating sites for wave and tidal power in the Pentland Firth area, is now complete. The intention is to build a programme that will deliver 700MW of power by 2020.

Although clearly capable of helping the Government meet or even exceed its target for renewable energy, all of these projects require an efficient transmission system. This is the third area that has seen significant input from the marine estate during the year.

In December, we published the findings of a study into offshore grid connections for Round 3 wind farms. The study, which was funded by The Crown Estate and carried out by Senergy Econnect and National Grid, identifies the extent and cost of work necessary to provide optimised transmission connections. This study followed hard on the heels of our East Coast Interconnector feasibility study which evaluated the practicality of a high capacity offshore transmission line running down the east coast, from Shetland to Norfolk.

Working to combat climate change

Renewables are key components of the UK's move towards carbon reduction and cleaner energy. While we are investing significant resources in these areas, we are also working on a legal framework that will enable the storage of carbon dioxide generated by, for example, existing and planned coal-fired power stations. The 2008 Energy Act saw The Crown Estate granted the rights to store CO₂ and natural gas in the seabed up to 200 nautical miles from the shore, in appropriate subterranean geological structures.

Significant investment is required in transmission infrastructure and carbon capture technology, but we are keen to commercialise CO₂ storage and are working with the UK and devolved governments to explore the opportunities. This will be an important focus for 2009/10: the objective is to issue leases for storage during the last quarter of the financial year.

In the meantime, we have already agreed a lease with Gateway Storage Company for a 1.5 billion m³ gas storage facility in the Irish Sea, 15 miles south-west of Barrow-in-Furness. This project will increase the UK's current gas storage capability by around 30%.

Investing in sustainable development

We have invested £1.7 million to date, with a further £1.5 million to follow, in a strategic, proactive management approach that will ensure the fair and sustainable use of the marine environment.

Our marine spatial planning system (MaRS) now forms the cornerstone of our work and informs everything that we do on the marine estate. It draws on complex sustainability indexing to help us identify the correct decisions where there is a competing requirement for resource. MaRS was key to the identification of the 11 indicative areas for offshore wind farm development under the Round 3 process and a number of outside bodies have shown an interest in its capabilities. For the future, it will

“In March 2009, we achieved our most important renewable milestone to date, with the completion of the competitive tender process for the licensing of Round 3 wind farms. We received a total of 40 bids from 18 different organisations in nine countries.”

“Our Regional Environmental Assessment programme aims to deliver a more effective, consistent and scientifically robust way of addressing the key environmental issues of marine aggregate extraction. The Crown Estate is investing £700,000 to gather important baseline data – a significant contribution at a time when our members are caught in the midst of a severe downturn.”

Mark Russell Director of the British Marine Aggregate Producers Association

improve decision-making, ensuring that we always apply our core values of integrity, commercialism and stewardship in the face of increasing demands on the sensitive natural resources under our care.

Marine Stewardship Programme

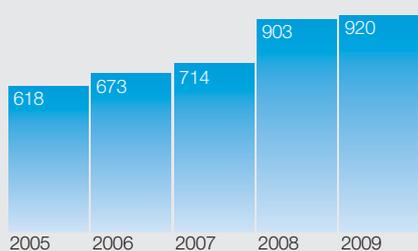
First established in 1999, the Marine Stewardship Programme now has real momentum and is consistently over-subscribed with good quality projects.

The Programme promotes good stewardship of the marine estate and during 2008/09 we invested £800,000 in 60 projects throughout the UK. These included a boulder bed to protect dunes at Llandanwg in Wales from wave attack, support for the National Trust's information booklet and a DVD about Strangford Lough in Northern Ireland, and a fourth year of funding for the Fishing for Litter project in Scotland.



Rural estate

Property valuation
£million



The rural estate comprises 146,000 hectares (360,000 acres) of agricultural land and forests as well as residential and commercial property. The estate has reported growth in both revenue and property value during the year.

The rural estate enjoyed a positive year, despite the poor conditions in the UK economy. Revenue was £26.7 million, up 18.9% on the previous year.

The property value of the rural estate was £919.5 million, an increase of 1.9% over 2007/08.

The relative buoyancy of the global food and bio-energy markets, together with the advantages of a mixed portfolio of well-structured businesses, have ensured a robust performance for the rural estate during a period of extreme macroeconomic disruption and huge volatility in commodity and input prices.

Strong arable commodity markets began to weaken during the summer, bringing greater stability and strength to livestock markets, particularly those reliant on high grain input. Dairy markets worldwide weakened during the year, but the devaluation of sterling restricted imports and yielded higher single farm payments, as these are paid in euros. Inputs including oil, fertiliser and pesticides were slower to fall back from extreme highs, but had tracked downwards by the end of the year.

Land prices rose by over 20% during 2008, but fell back by up to 10% towards the end of the financial year.

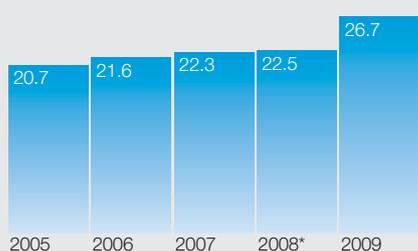
Rents rose strongly in early arable farm reviews, reflecting the significant upturn in profitability. Later in the year, rentals reflected prevailing market conditions, with arable rent increases moderating and those related to livestock strengthening markedly. Residential and commercial property performance has been affected by falling capital values and the downturn in new property development is impacting on mineral revenues as orders decrease.

Investing in our portfolio

We made good progress on our strategy to re-balance our assets through active portfolio investment.

The year saw a number of strategic purchases including land adjoining our estate at Ashby St Ledgers in Northamptonshire, at Feering in Essex and close to Torquay in Devon. Sales of non-core assets included those at Tathwell Grange Farm at Louth in Lincolnshire, Sutton Farm at Derwent in Yorkshire and land at Holmewood in Cambridgeshire, to help facilitate the development of the Great Fen Project. This is one of the most ambitious habitat restoration projects ever undertaken in Britain and will create a 3,700 hectare wetland between Huntingdon and Peterborough.

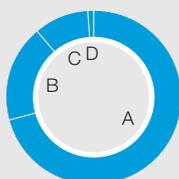
Revenue (excluding service charge income)
£million



*Restated for conversion to IFRS and adjusted for change in accounting estimate.

Revenue by activity
2009 (£million)

- A Agricultural – 18.9
- B Residential – 4.8
- C Minerals – 2.7
- D Forestry – 0.3



“Extreme volatility in commodity prices means that these are tough times for traditional farm businesses. The Crown Estate has greatly assisted us in diversifying: firstly by providing additional grain storage to help grow our farm contracting company; and secondly by jointly investing to improve the cottages on the farm, one of which we sublet.”

Richard Butler Tenant farmer at Wick Farm on the Savernake Estate in Wiltshire
(winner of The Crown Estate Rural Business Award for 2008)



Below A pure premium mineral water, Speyside Glenlivet is enjoyed in fine restaurants and hotels around the world. We have a long history of working with the company, which employs 13 people and pays a royalty to extract the water from the hills on our Glenlivet Estate. However, the bottled water market is exceptionally competitive, particularly vulnerable to an economic downturn, and sadly the business entered administration in March 2009. When the company ran into difficulties, we again took the long-term view, providing support so that an agreement could be struck to quickly sell the business to Highland Spring. Our actions have helped ensure that the famous Speyside Glenlivet brand name will survive and that the company will continue to be an important source of jobs and income in a very remote area of Scotland.

**Sustainability activity**

Refer to pages 28 – 39

Rural estate continued

£26.7m

Rural estate revenue

Supporting sustainable development

High quality, sustainable development on the rural estate is central to our future success. At the same time, we fully recognise our responsibilities as the owner of large and important tracts of the British countryside. We observe a high standard of estate management and during the year we updated our guiding principles on development which are summarised in 'Building in Partnership' (available at www.thecrownestate.co.uk/bip.pdf). This publication sets out our approach to sustainable development, our support for strong and vibrant communities and our commitment to working in partnership with all stakeholders. It also underlines our role as stewards of the environment, the high standards we insist upon with regard to building quality and our firm support for the rural economy.

During the year we piloted and launched an improved, structured approach to stakeholder engagement to ensure that individuals are informed of any proposed changes that may impact on their communities.

For example, on the Patshull Estate near Wolverhampton we are building 10 new homes, including four for affordable housing, in the village of Burnhill Green. Following detailed consultation with the planning authority and local residents, the development will incorporate exceptional insulation and renewable energy technology. At the front of the homes, new landscaping will put the village green back into Burnhill Green.

Estate visits by Board members and senior managers continued throughout the year. These ensure direct local engagement with tenants and give each party the opportunity to discuss issues of importance face-to-face.

Increasing our customer focus

In last year's report, we committed to continued piloting of 'The Business Deal', a framework which aims to further improve the way that tenants and the rural estate can work together. The pilot study was completed during 2008 and 'The Business Deal' is now being promoted and rolled-out across The Crown Estate as a whole.

We constantly seek to support our customers' businesses, and this is more important than ever in a challenging economic environment. The last 12 months saw a number of initiatives, including the ongoing development of a quality beef supply chain, in collaboration with Waitrose. This is being supported by a programme of market research to evaluate customer perceptions of food and leisure facilities provided by businesses on The Crown Estate.

At Dunster, in Somerset, our senior team has met with local stakeholders and tenants, not only to outline our strategic goals but also to evaluate opportunities for growth in economic activity, through the Dunster Development Project. A programme is underway to identify how products produced in the community can be more effectively marketed. Tourism is a major opportunity for Dunster and we are working alongside the community to promote the estate as a destination in its own right, one that is able to complement local attractions such as Minehead and Exmoor.



Above The year saw a number of sales and purchases on the rural estate, as we continue to actively manage our portfolio of assets. We acquired three farms, comprising over 440 acres, at Feering in Essex, Rosehill Farm near Torquay and Nortoft Farm in Northamptonshire, which has been added to our Ashby St Ledgers Estate. These purchases are part of our long-term development and investment strategy, and the tenants will benefit from our ongoing commitment to support their businesses. In fact we have already given a long-term tenancy at Nortoft Farm to a local farming business for its suckler cow herd. Strategic disposals during the year included 1,500 acres of land in Yorkshire, Lincolnshire and Cambridgeshire.

Rural estate continued

On the Tabley Estate in Cheshire, we held a team event designed to create greater understanding between our tenants and our managing agents. All members of the team visited several businesses on the Estate in order to gain first-hand experience of key issues and to see matters from the customer's perspective.

Building on our reputation for environmental stewardship

We are responsible for 145 Sites of Special Scientific Interest (SSSIs) across the rural estate. The Government set us a target of ensuring that at least 95% of these sites are in favourable or recovering condition by 2010. We are pleased to report that this objective will be reached over a year ahead of the deadline.

Carbon management remained a core area of focus during 2008/09 and we worked with Carbon Accounting for Land Management (CALM) to conduct assessments of carbon emissions and carbon sequestration at Ashby St Ledgers and Patshull. In Scotland, we worked with the Edinburgh Centre for Carbon Management (ECCM) to quantify the sequestration potential of changing the land management practices of an area of forestry. The ECCM team have also determined the carbon emissions associated with the Regent Street Christmas lights. In future, we intend to help the urban estate balance the environmental impact of the lights by planting native woodland on the Glenlivet Estate.

We are also seeking to improve the energy efficiency of the housing stock. A pilot audit has been completed, and we plan to introduce a new Crown Estate residential quality standard, following close consultation with tenants.

In response to a Government call for bids for suitable 'eco-towns' we have been working with partners to assess the suitability of a site in Nottinghamshire adjoining our Bingham Estate.

Together with the other three estates, we launched our Biodiversity Action Plan in 2008/09 and this will provide a programme whereby we not only fulfil our statutory obligations but are also able to enhance our reputation for environmental stewardship.

From the macro to the micro

The coming 12 months will doubtless present a number of challenges for the rural estate and our customers, as the UK continues to be subject to adverse economic conditions. A good financial performance will be challenging in the short term, although we do expect to see some commodity prices strengthening.

Our key priorities are to continue to address major strategic issues, while never losing sight of the smaller-scale local challenges that present opportunities to develop the estate and to support our customers.

Accordingly, we will continue to address long-term macroeconomic issues such as food supply, while also working hard to optimise the production of renewable energy and, at a local level, helping customers to build their businesses.

145

Sites of Special Scientific Interest across the rural estate

“Our key priorities are to continue to address major strategic issues, while never losing sight of local challenges.”

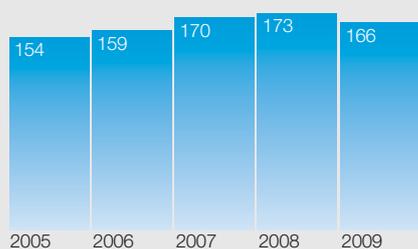
“We’ve worked with The Crown Estate and the local council to harvest methane gas produced from a landfill site on the Fochabers Estate. The project has created a waste management solution that not only allows us to build a successful business but also recycles waste and provides low-carbon energy for up to 1,600 homes.”

Andrew Leach Managing Director at Renewable Power Systems



Windsor Estate

Property valuation
£million



The Windsor Estate covers 6,300 hectares (15,600 acres) of the Surrey and Berkshire countryside. It includes the Great Park, farms, Ascot Racecourse, the Savill and Valley Gardens as well as forests and residential and commercial properties. The Estate enjoyed a year of consolidation, with thankfully no repeat of the foot and mouth outbreak of 2007.

For the year to 31 March 2009, revenue on the Windsor Estate was £6.3 million, up by 8.5% on the previous year, when revenue was adversely affected by the foot and mouth outbreak which caused Windsor Great Park to close its gates to visitors for a period. Property value was £165.5 million, down by 4.3% due to the economic situation and the general decline in property values across the UK. The cost of maintaining the Great Park was £8.3 million which was offset by revenue from commercial and residential property of £5.4 million and from agriculture and forestry of £1.0 million. This deficit is in line with that recorded in previous years.

The Great Park lies at the heart of the Windsor Estate. Our primary role is to maintain this beautiful resource for the public to use and enjoy. Every year, we welcome over one and a half million visitors to the park where they take part in a great range of recreational activities, from fishing and horse riding to walking, cycling and

simply enjoying the fresh air. With its varied landscape, the park abounds in wildlife and the greater part of it has Site of Special Scientific Interest (SSSI) status.

Beyond the Great Park, the responsibilities of the Windsor Estate include a number of commercial and residential properties which continue to be attractive propositions for tenants. Occupancy levels remain high and rents relatively stable.

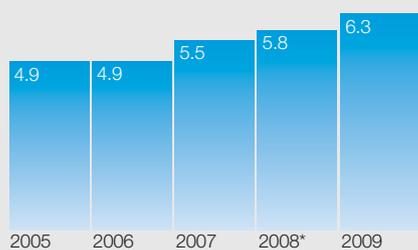
Restoring the fabric of the Estate

Stewardship of the assets under our management is a core value at The Crown Estate, and restoration and repair of the important structures and landscapes within the Great Park is a fundamental part of those responsibilities.

In May 2009, following six months of painstakingly-researched restoration, we were able to re-open the Leptis Magna Ruins to the public. At a cost of some £200,000, the work is a key feature within The Royal Landscape restoration project to reinstate significant historic features in the Grade 1 listed landscape.

The Leptis Magna Ruins represent a 'Roman Temple' and were built from columns, capitals and pieces of decorative entablature from the ancient Roman city of Leptis Magna in Libya. They were given as a gift to King George IV, when he was Prince Regent, from the Bashaw of Tripoli and were erected by Sir Jeffrey Wyatville,

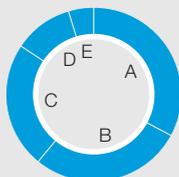
Revenue (excluding service charge income)
£million



*Restated for conversion to IFRS and adjusted for change in accounting estimate.

Revenue by activity
2009 (£million)

- A Residential – 2.1
- B Savill Garden and Building – 1.8
- C Commercial property – 1.5
- D Forestry – 0.7
- E Agricultural – 0.3



Comparative revenue figures are stated prior to the change in accounting estimate discussed in the 2007/08 financial statements.

“In order to continue to meet the high expectations of our 1,000 members and their guests, we recently carried out several improvements, including building a new clubhouse at Smith’s Lawn. These developments were only possible through the wholehearted support of The Crown Estate, in particular their co-operation in drawing up the new leases.”

Charles Stisted Chief Executive Officer at Guards Polo Club, Windsor Great Park



“The Crown Estate gave us generous support throughout the process to build a new, larger hall. They provided the land and some funding as well as invaluable help with the complex planning procedure. When the new hall is opened in October, we will for the first time be able to hold events with the whole school gathered together in one room.”

Alison Lewis Head Teacher at The Royal School, Windsor



Windsor Estate continued

the King's favourite architect, on the south bank of Virginia Water. Ruined garden follies were fashionable throughout the Victorian period and the Leptis Magna Ruins are a very early example of this genre. The repair and restoration work not only provide greater public access through the creation of a new viewing point, but we have also secured the long-term preservation and safety of this magnificent folly for generations to come.

At The Savill Garden, work was carried out on the Temperate House to enhance the existing framework of plants to provide colour and interest throughout the year. The Temperate House re-opened in July 2008. Later in the year, we obtained planning consent from Runnymede Borough Council for an exciting new design for the Rose Garden. Working with talented designer Andrew Wilson, we intend to create a modern design which will explore the contemporary use of roses, in keeping with the key values established by the garden's creator, Sir Eric Savill. The planting of over 2,500 new roses and re-landscaping commenced during the first half of 2009, with the garden due to re-open to the public in the summer of 2010.

Sustaining the future

We work hard to ensure that sustainability is central to the way in which we manage the Windsor Estate.

As reported last year, we are evaluating the feasibility of building our own heat and power plant. The intention is to use timber from the Estate to provide energy. This is a long-term project which has commenced with a viability study.

We have continued to investigate how the properties on the Estate can be modernised to a high environmental standard and have invested significant funds in our own eco-house. This pilot property incorporates the latest range of energy saving technologies, including a heat pump, solar panels and enhanced insulation. The next stage is to let the eco-house to a tenant and work with this tenant to monitor environmental performance, a move which will provide us with practical environmental data. We will use the trial to assess which technologies may be suitable for future roll-out across other properties.

For the future, we are seeking to introduce a more environmentally-friendly sewage treatment system on the Estate. The new process will make use of natural bacteria and a network of lagoons, similar to a reed bed system.

We launched our Biodiversity Action Plan in 2008/09 and over the coming years this will help us to enhance our reputation for environmental stewardship. The Windsor Estate has a long history of conserving species and habitats and we will work to raise awareness of our biodiversity achievements.



Above The size of our Windsor Estate means that, traditionally, we have been both a producer of green waste and a buyer of compost for horticulture. Each of these activities has significant environmental impact. During 2008/09 we upgraded and improved our composting system which now recycles all green waste generated within the boundaries of the Great Park from landscaping, forestry and other activities. This waste is then transformed into Grade A compost, by adding horse manure, before being reused on our grounds. Over the last 12 months, we composted an estimated 2,800 tonnes. As the composting takes place within the Park, we have reduced the CO₂ emissions associated with transporting waste off-site and importing compost. The new system has also helped us avoid potential waste management costs, such as landfill tax which was £32 per tonne in 2008/09.

Sustainability: Introduction



At the same time, there is ongoing work to understand the possibility of renewable energy generation across our rural estate. The urban estate has a role to play in its use of electricity from climate change levy exempt sources and through investigating the installation of renewables on-site.

The review has also resulted in the restructuring of our sustainability governance and a re-evaluation of our long-term sustainability aims, evidence of which is our decision to recruit a specialist. Much of this work is ongoing and we have therefore decided to focus on our performance in the past year in this report and fully launch our revised strategy in autumn 2009. At this point we will be in a position to set out our long-term targets and discuss in depth how sustainability will be effectively managed throughout The Crown Estate.

We have long recognised that it makes sound business sense to conduct business in a responsible and sustainable manner and this has been essential in order for us to live up to our values of commercialism, integrity and stewardship. A recognition of the value of sustainability is now of even greater importance as the world economy struggles with recession. There is no room in successful business for sustainability as a 'bolt-on'; only a truly embedded sustainability strategy will be able to deliver real value.

At The Crown Estate we have a corporate responsibility, not just for today but for future generations, to ensure that we bring benefits to our own business and at the same time benefit the economy, and the communities and environments in which we operate.

This is The Crown Estate's vision for sustainability. It owes its origins to an extensive review of our approach to delivering sustainability ensuring that it is truly embedded within our organisational structure and business strategy. The review, undertaken over the past year, has already resulted in a much deeper understanding of how sustainability is a core feature of our business and is explicit in the diligent and responsible management of our varied assets across our marine, rural and urban environments.

I am particularly proud that we are able to communicate in this report on the unique ability of The Crown Estate to support innovation in the renewables sector. The marine estate team has long been central to the successful development of offshore wind energy technology and is now playing a similar role in exploring the opportunities for wave and tidal power.

Vivienne King Director
(with responsibility for sustainability)

Performance overview

69%
Targets achieved

8%
Water reduction across the commercial buildings we manage

0.1%
Reduction in CO₂ emissions across the commercial buildings we manage

56%
Employees spent time volunteering in the community

647,622
Tonnes of CO₂ averted by electricity generated from wind farms on The Crown Estate

55%
Waste diverted from landfill from the commercial buildings we manage

5
New marine research reports in the public domain

21%
Reduction in CO₂ emissions from Windsor fleet

100%
Forests are Forest Stewardship Council (FSC) certified

Addressing opportunities, risks and challenges

Running our business in a sustainable manner means that we are presented with real opportunities.

- We have an exciting chance to realise the commercial potential of renewable energy generation in the UK.
- We are exploring the carbon sequestration potential of our rural and marine assets and are also looking into other ways of quantifying the non-financial value of our assets.
- Managing our buildings sustainably can enhance their long-term value and save money for our tenants.
- Ensuring that sustainability is part of the design process for new developments will create more marketable, usable and healthy buildings.
- Working to create sustainable communities will ensure the long-term success of our business and the tenants on whom we depend.

There are also certain risks and challenges associated with sustainability within our business strategy. Like many of our real estate industry peers, we are managing our capital expenditure very carefully and this can mean that sustainability improvements to building stock are delayed. However, we expose ourselves to risk if we do not, for example, continue to work hard to monitor

and reduce both our impact on the environment and how the environment impacts us, especially with the tightening of regulations such as the Carbon Reduction Commitment. We are mindful of this risk and despite minimising capital expenditure as much as possible, this does not mean that we are failing to make any sustainable improvements to our assets. For example, Windsor Great Park has invested £304,000 on installing energy efficient windows at some of its domestic tenancies (this accounted for 19% of Windsor's total housing investment this year). Within the urban estate the housing business group invested £3.4 million in its housing stock to improve its environmental performance.

Balancing the different aspects of sustainability can be a challenge. An action which is positive in terms of reducing carbon emissions – such as investment in tidal and offshore wind power – may not necessarily be good for local biodiversity. Similarly production of renewable energy through development of offshore wind farms may raise environmental concerns about 'industrialisation' of the sea but it is a case of balancing one long-term environmental imperative – CO₂ reduction – against another – protection of the marine environment and following our core values.

“Managing our buildings sustainably can enhance their long-term value and save money for our tenants.”

Sustainability: Climate change and energy security

We see it as our responsibility to understand and manage our carbon emissions. We are measuring and monitoring CO₂ associated with energy use and transport on our urban estate but on our rural and marine estates this is a far more complex process. We have been exploring the opportunities of carbon modelling and some of the results are represented here.



For a full breakdown of our performance visit www.thecrownestate.co.uk/sustainability

Carbon emissions across the estates

Urban commercial buildings

Total CO ₂ emitted from buildings we manage (tonnes)	15,880
Proportion of buildings we manage reporting data	89%
Buildings that we manage as a proportion of the entire commercial portfolio	12%



Rural – Patshull

CO ₂ equivalent emitted (tonnes)	2,868
CO ₂ sequestered (tonnes)	108
Patshull Estate as a proportion of all agricultural tenancies	1%



Business travel

CO ₂ equivalent from employee business travel (tonnes)	288
Proportion of employees submitting business travel data	66%



Marine – offshore wind farm electricity generated

CO ₂ equivalent averted from wind farms (tonnes)	647,622
Proportion of UK renewable energy generation facilitated by The Crown Estate	6%



16,899

tonnes of CO₂ emitted from building energy use and business travel

Energy

	2006/07 CO ₂ (tonnes)	2007/08 CO ₂ (tonnes)	2008/09 CO ₂ (tonnes)
Direct energy consumption (Scope 1)			
Gas and heating fuel in buildings	1,430	2,700	3,024
Fleet and car hire (petrol and diesel)	238	285	236
Total	1,668	2,985	3,260
Electricity – indirect energy consumption (Scope 2)			
Total	11,235	12,983	13,588
Business travel (Scope 3)			
Travel – Taxi	n/a	n/a	5
Travel – Bus	n/a	n/a	0
Travel – Rail	n/a	n/a	7
Travel – Air	n/a	24.3	40
Total	n/a	24.3	52

Data note 1. 16 New Burlington Place: Use of on-site CHP and solar generation averted the use of 10,968kWh of electricity in 2008/09, equivalent to 5,900kg CO₂.

Data note 2. Reported in line with Greenhouse Gas Protocol.

Data note 3. 2007/08 CO₂ emissions for gas and electricity differ to those reported in last year's report. Accurate energy data for more buildings became available this year and we have updated 2007/08 data to capture this information.

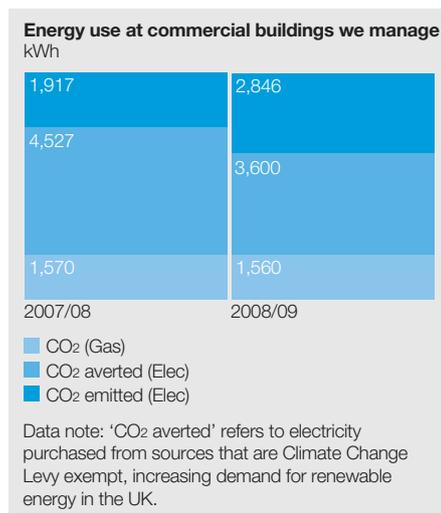
The table above shows our CO₂ emission figures. This is made up of the energy use in the commercial buildings that we manage and in the offices that we occupy ourselves. Emissions from business travel are also included. Our overall increase from 2007/08 arises from the following:

- The portfolio of commercial buildings we manage has grown by 40 properties.
- We are gathering energy data for an increased proportion of our portfolio, with 89% now reporting data (compared to 80.5% in 2007/08 and 77% in 2006/07).
- The marine team monitored its employee business travel for the first time and this information has been included in the total CO₂ figures.

This increase in data coverage is part of our ongoing efforts to ensure compliance with the Carbon Reduction Commitment. A focus for this year will be to establish effective energy monitoring systems at the Windsor Estate and for our residential portfolio. We also aim to collect energy data for all employee business travel.

We have achieved some reductions on individual estates. At Windsor we have reduced the CO₂ emissions from our fleet of vehicles by 21% compared to 2007/08, when they were 157 tonnes. This year emissions were 124 tonnes.

Like other property owners, we face challenges in monitoring our performance over time, across a portfolio that is constantly shifting (through acquisition, disposal and refurbishment). In order to give an accurate indication of our performance, therefore, we have taken the set of buildings (38 in total) that have been consistently in our portfolio for two years, comparing them on a 'like-for-like' basis. This allows us to look at how management of, and improvements to, buildings have improved their energy efficiency in the past year. The results show that the total CO₂ emissions for these properties have decreased by 0.1% in the last financial year. We made improvements to building management and invested in energy efficient technology. However, a cold winter made it difficult for us to achieve the greater energy savings that we were expecting.



Sustainability: Driving environmental value

It is our responsibility to manage and reduce our environmental impacts. To do this, we collect data. In this section of the report we have included performance data graphs on what we consider to be the biggest impacts we have on the environment.

A wider range of graphs and performance data can be found on our website: www.thecrownestate.co.uk where a number of our indicators are reported to meet the Global Reporting Initiative (GRI) guidelines.

8%

reduction in water use



A total of 2,260 tonnes of waste was produced from those parts of the portfolio where The Crown Estate manages waste collection (12 buildings). As can be seen above 55% of this waste was diverted away from landfill through recycling (segregated at source), processing at a materials recovery facility (MRF), incineration to create energy or processing of food waste into Grade A slurry. The latter disposal route is one example of a number of initiatives taking place across The Crown Estate to minimise waste to landfill. Similarly, on the Windsor Estate, an estimated 2,800 tonnes of green waste is composted each year and reused on-site.



As can be seen in the above graph, we achieved a reduction of 8% in water use at like-for-like properties. We consider this to be a significant achievement given that our target was to achieve a 3% reduction. This comparison is based on 29 properties out of a total of 56 for which we purchase water.

Increasing visitor numbers at the Windsor Estate together with the water demands of the agricultural tenants there has meant that water consumption increased from 186,953m³ to 232,916m³. Alongside establishing a robust energy and waste monitoring/reduction system, the Windsor Estate will be looking to engage with tenants through newsletters and forums in order to manage water consumption. Total water consumption across the Windsor Estate and the commercial buildings we manage was 340,572m³.

**Focus on mineral extraction:
balancing stakeholder opinion**

In the marine environment there were 21.5 million tonnes of marine aggregates extracted in 2008/09. This activity makes a significant positive contribution to the economy and society. It helps to meet the demand for construction materials (12.47 million tonnes in 2008/09), is the primary source of materials for beach replenishment (2.15 million tonnes), and hence coastal protection, and is also a significant export activity (6.88 million tonnes – to nearby European countries). However, extraction of marine aggregates from the seabed around the UK and the extraction of minerals on land can be contentious. This seemingly large volume of materials actually comes from a very small area of the UK seabed (90% of the

extraction comes from around 50km²) but despite this small area there are significant environmental concerns which the regulator has to be satisfied are either non-existent, or minimal, before approving an application for extraction. These concerns include impacts on marine life, possible interactions with fragile coastlines and recovery after the (generally) former glacial deposits are extracted.

Extraction also takes place on the rural estate, where remedial action taken by operating companies can sometimes mean that areas that were previously of little environmental value can be transformed into areas rich in biodiversity. We also work with operating companies to explore innovative practices such as underground rather than open mining.

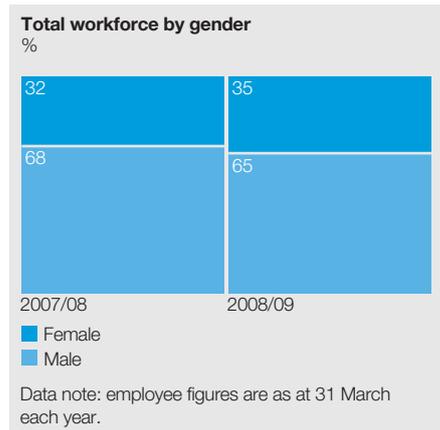
This means a reduction in noise, blasting and dust and also means that other activities can continue above the area. Extraction of aggregates also creates local employment. The ability of the UK extraction industry to provide locally sourced building materials for UK developments is also significant. It not only creates employment and boosts the UK economy but it also means that there is less of a need for material to be transported from elsewhere, thus saving significant amounts of CO₂.

Ultimately, it is our responsibility to continue to conduct research into the range of possible negative and positive impacts of all of our activities and to make business decisions which are true to our values of commercialism, integrity and stewardship.

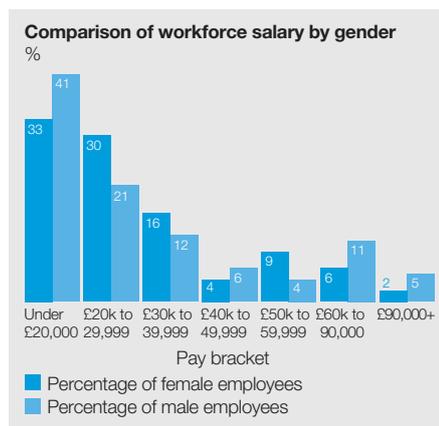


Sustainability: Working together

For us, 'working together' encompasses working not only with our employees but with our customers, our business partners and stakeholders too. In this 2009 annual report, we have focused specifically on employees and how we support them. We have also provided information on our approach to stakeholder engagement.



Whilst we always recruit on merit, we are conscious of the need to give everyone a fair chance. In 2008/09 there was an increase in the proportion of female employees from 32% to 35% of the total workforce. Broken down by department, our head office functions are majority female, with the rural team approaching an even split, with 44% of its workforce being female. Within all other teams, female employees represent only 30% or less of the workforce.

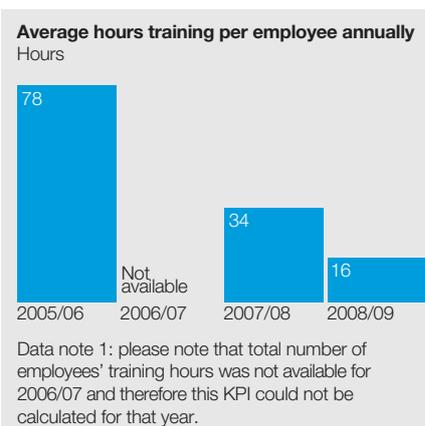


The graph above compares the salary distribution of males and females employed by The Crown Estate. The lowest paid employees (paid under £20,000) are primarily male, with 41% of all men employed by The Crown Estate in this category. In lower- to mid-range positions (salaries between £20,000 – £59,000), female employees tend to be slightly over-represented, with 59% of the females falling into these categories and 43% of the males. However, only 8% of the females at The Crown Estate are paid £60,000 or above, compared to 16% of the males.

Comparison of The Crown Estate salaries with national figures (based on full-time employees)

	The Crown Estate	UK national figures (from National Statistics Office, April 2008)
Median male salary	£20,092	£27,102
Median female salary	£28,637	£21,400
Top 10% of males earn over	£70,908	£54,813
Top 10% of females earn over	£58,938	£40,362

As can be seen in the table above, the median salary for women is higher than the national average and higher than that for men. Broadly speaking, national gender pay gaps are not reflected at The Crown Estate which is largely due to our culture of diversity and inclusiveness. However, the male median salary is lower than the national average because of the high number of non-professional male employees at Windsor.



In the past year, we have focused our training activity on core competencies. Training in key areas continues to be a priority.

16

hours of training per employee

Consulting with our stakeholders

Effective stakeholder engagement is central to our commitment to 'working together', playing a key role in placing our sustainability strategy at the heart of our operations. We are currently developing a stakeholder management system, which will allow us to consult with our stakeholders in a more effective way.

However, stakeholder engagement already forms a central part of the development of our business strategy. In the past year we have undertaken the following projects:

- We helped to establish the Stakeholder Advisory Group (SAG) in the Pentland Firth, where we are involved in a joint project to generate marine renewable energy from these waters. The SAG acts as a forum for local parties such as environmental Non-Governmental Organisations (NGOs) and marine industries. The aim is to maximise the potential for socio-economic gains for surrounding communities and minimise conflict between existing use and new developments.

- We held a two-day session for our marine estate team in Northern Ireland to enable them to consult with managing agents, staff, NGOs and local government.
- We met with local stakeholders, including tenants, at our rural estate in Dunster to develop our strategy for economic growth in the area with the aid of the Dunster Development Project.
- We ran a consultation with the local planning authority and residents regarding the planned housing development in Wolverhampton.
- We sought input from local stakeholders, including commercial and residential tenants, before developing a strategy for economic growth in the St James's area.
- We held two public consultations and exhibitions with local authorities, councillors, tenants and the general public for both the refurbishment of the malls and the development of a new retail unit in Worcester.

Over the course of the next year, we will be using the stakeholder management system to gather feedback to influence our sustainability strategy. We will also be undertaking a very detailed, UK-wide, stakeholder engagement programme on the offshore renewable energy opportunities in 2009/10 in partnership with the UK and devolved governments. The marine estate will also be using the marine spatial planning tool that has been developed to engage with stakeholders and involve them more directly in the planning of the UK's marine environment. We anticipate that this trial will involve national agencies, NGOs and local communities.

The diagram below shows the stakeholders that we have identified for consultation:

The Crown Estate stakeholder map

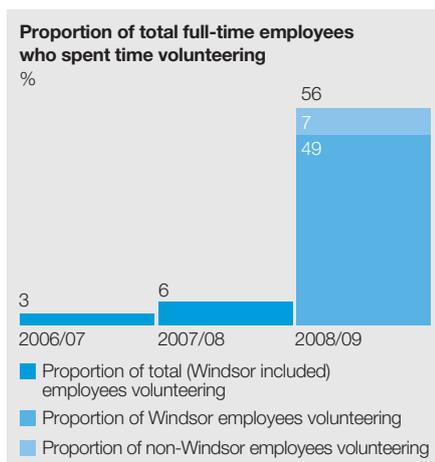


Sustainability: Sustaining communities

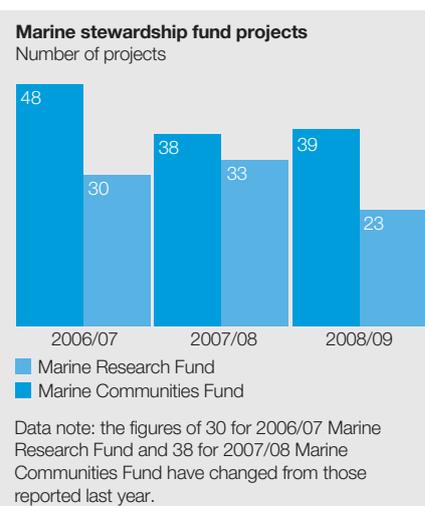
As a landowner of a large and varied portfolio across the UK, The Crown Estate has contact with many and varied communities and we work hard to ensure our impact is a positive one. The performance indicators below demonstrate some of the ways in which we bring benefit to the communities in which we operate.

56%

of employees spent time volunteering



In 2008/09, 234 full-time employees spent time volunteering, representing 56% of the total workforce. This is a significant increase from former years as demonstrated in the graph above. In 2007/08 6% of employees volunteered and 3% in 2006/07. The Windsor team had a big part to play in this uplift, with the entire team of 203 employees spending the day showcasing their work to 1,600 primary school children, giving them the opportunity to understand the activities and dynamics of a large rural estate. (This will be a biennial event). Thirty one employees, including three Management Board members, were involved in volunteering from other areas of the business.



The marine stewardship programme is divided into two categories. The Marine Research Fund invests in projects that provide scientific evidence to support a range of pertinent marine issues such as aquaculture, aggregate-based studies, offshore renewable energy and socio-economic issues linked to the marine assets. The Marine Communities Fund invests in projects that contribute to the development of best practice and sustainable management of the marine environment. In 2008/09, The Crown Estate invested £800,000, supporting a total of 60 different projects. Project size varies from very small (£500) to the more extensive (£85,000).

As part of our continued efforts to support the establishment of London as a World City and to have a positive impact on the communities of which we are a part, the urban estate supported a number of community groups in 2008/09. Examples are the Westminster Small and Minority Business Council, the Heart of London BID, both the Jermyn and Regent Street Associations, the St. James's Conservation Society and the New West End Company.

Sustainability: Progress against 2008/09 targets

We are proud to report that we achieved 69% of our targets this year.

Target	Progress
To develop an E-Procurement policy.	75%
To incorporate sustainability considerations into purchasing decisions with a view to reducing pollution, enhancing energy efficiency and reducing waste. This will initially be applied to the following product areas: IS equipment, paper for legal deeds and print management systems.	100%
To pilot the 'Customer Focus' projects, which involve the implementation of business efficiency and development measures, at Taunton, Dunster, Bryanston, St James's (London) and on the Scottish west coast.	100%
To launch the report 'Socio-economic indicators of marine-related activities in the UK economy' and extend this work by developing sustainability indicators, and gather Q1 data, for two marine business strands.	100%
To promote Health and Well-being to all employees via a programme of at least three awareness-raising events and via a web-based lifestyle questionnaire for completion by employees, to help inform relevant health promotion activities for delivery in 2009/10.	100%
To achieve all of those objectives in the Housing Energy Efficiency Strategy that are designated for completion within the first year.	65%
To reduce water usage, in those parts of the urban estate that are under our control, by 3% compared with 2007/08 levels ('like-for-like' properties only).	100%
To develop a Sustainable Development Brief for development and refurbishment in Regent Street, London.	100%
To reduce carbon dioxide emissions associated with energy use in those parts of the urban estate that are under our control by 3% compared with 2007/08 levels ('like-for-like' properties only). <i>NB In line with DEFRA guidance, target achievement is based on the carbon emissions from all energy use, regardless of whether it is from Climate Change Levy (CCL) exempt sources. In fact, 56% of the electricity that we buy for the buildings that we manage is CCL exempt.</i>	3%
To reduce the carbon emissions associated with vehicle usage in the administrative functions of our HQ building by 6% compared with 2007/08, in order to support the Government target to reduce carbon emissions from vehicles by 15% by 2010/11.	100%
To develop an action plan to reduce carbon emissions from the marine estate's employee business travel.	100%
To increase the number of employees participating in the Employee Volunteering Scheme from 6% of permanent employees to 10%.	100%
As a minimum to meet the Decent Homes Standard across the whole of The Crown Estate's domestic portfolio by 2010.	Deemed unviable

Sustainability: Plans for the year ahead

We will be fully launching our new sustainability strategy in the autumn, with a view to integrating sustainability into our business decision making. In the meantime we will continue to manage our existing impacts and work to achieve our targets. As well as our targets, as set out below, we have given an indication of a number of other areas in which we will be taking action. Whilst progress against targets will be formally monitored and scored at the year-end in accordance with normal practice, we will provide only an update on progress against these actions.

Standards and accreditation

Target: Achieve Silver in the BITC CR Index by January 2011.

Target: Achieve certification for the following management systems:

- ISO14001 for the urban property management function by March 2010.
- ISO14001 for head office functions in London (16 New Burlington Place and Camberley House) by March 2011.
- OHSAS18001 for the Occupational Health and Safety management system by March 2011.

Target: Develop a 'Crown Estate Quality Standard' for all direct let residential property, initially focused to ensure high levels of energy efficiency.

Biodiversity

Target: Continue to maintain 95% of SSSIs in recovering or favourable condition to meet the Government target.

Resource use

Target: Achieve a 3% reduction in water use in those parts of the urban estate under our direct control compared with 2008/09 levels ('like-for-like' properties only).

Target: Achieve a 40% diversion of waste going direct to landfill on the Windsor Estate over the financial year 2009/10 (to include waste streams from all activities, offices, green waste composted on-site, Savill Building, hazardous and chemical waste produced on-site and fly tipping).

Target: Reduce CO₂ associated with energy use in those parts of the urban estate under our direct control by 3% compared with 2008/09 levels ('like-for-like' properties only).

Actions: We will increase the scope of our carbon data baseline to give a more accurate carbon footprint, which will enable us to better focus our efforts to reduce carbon emissions. Understanding our carbon emitting and sequestering activities better will allow the urban estate to help finance the establishment of a native pine and birch woodland, on a 40 hectares area of the Glenlivet Estate in Scotland, as an 'offset' to our Regent Street Christmas lights. We will also introduce initiatives to reduce our paper consumption by 10% at 16 New Burlington Place (our head office).

Renewable energy

Action: We will prioritise land-based renewable energy opportunities, with a view to initiating at least 10 renewable energy projects.

Travel

Target: Develop a green travel strategy to establish the carbon baseline for all employee business travel, to set targets for reduction and to report on our performance in next year's report.

Action: We will further reduce the CO₂ emissions associated with vehicles engaged in file movement and with our fleet employed at Windsor.

Development

Action: We will deliver an exemplar scheme at Burnhill Green, Patshull, as an example of a high quality sustainable development.

Customers

Action: We will undertake a structured audit of diversification opportunities in which to co-invest with tenants to provide alternative revenue streams across the rural portfolio, with a view to investing in, or facilitating, at least five new business development projects.

Employees

Action: We will develop and implement a stress management policy and procedure.

Sustainable communities

Target: Develop a Community Investment strategy by March 2010. This will include a commitment to maintaining a minimum level of 15% of employees participating in the Employee Volunteering Scheme.

Actions: We will be focusing on maximising the value of investment in marine business activities to communities around the UK. To achieve this we will be piloting a programme to enable local communities to benefit financially from renewable energy in the Highlands and Islands, and we will engage with stakeholders and the supply chain of The Crown Estate's offshore renewable energy programme through a series of events across the UK. We will also set up a series of pilot programmes to develop the use of The Crown Estate's marine spatial planning tool, MaRS, to enable local communities to plan the sustainable utilisation of their marine environment and resources.

The urban estate is committed to helping London cement its status as a World City by, for example, contributing to the development of five West End public realm initiatives. We will also support and deliver at least five community focused events in Regent Street and the West End, some with an international profile.

Communications

Action: We will continue to work with external bodies to improve sustainability accountability and reporting for The Crown Estate.

“In a year of significant economic challenges and changes to personnel, it is very encouraging that 69% of targets were achieved.”

Sustainability: Adviser's statement

Upstream Sustainability Services (a business unit of Jones Lang LaSalle Ltd and hereafter referred to as Upstream), has once again conducted a formal review to establish The Crown Estate's level of achievement against its annual sustainability targets. Upstream is a strategic adviser to The Crown Estate on sustainability issues, and is therefore not fully independent. However, this statement is based on a formal documented audit of the organisation's target achievement levels.

As in previous years, Upstream obtained the necessary information for the audit by attending quarterly meetings of the sustainability committee, and interviewing a number of the sustainability target coordinators. Each target is awarded a percentage completion score on the basis of evidence submitted to validate its completion. Where target achievement is based on management action rather than quantifiable performance, assessment has been based on the completion of milestones agreed in advance. This has necessitated a degree of professional judgement from Upstream.

From the review findings, Upstream concludes:

- The level of achievement against the 2008/09 targets represents strong performance, with 69% of targets fully achieved (9 out of 13). This is compared to 75% last year.
- All targets related to employees and customers were fully achieved. This reflects the significant levels of work that have been undertaken in these areas this year.

- Of its 13 targets, six were related to the environment and of these, four were achieved. The proportion of environmental targets set demonstrates The Crown Estate's commitment to managing its environmental impacts. There are significant challenges associated with improvement in this area, such as the need for capital expenditure and buy-in from tenants and contractors. These challenges impacted on the ability of The Crown Estate to meet all environmental targets.
- It has been decided that the long-term target to meet the Decent Homes Standard across the portfolio by 2010 is not appropriate as the level of investment required would not yield significant benefit for tenants. Upstream has had discussions with The Crown Estate about developing an alternative standard, primarily focused on energy efficiency, and is satisfied that this is a sensible strategic decision.

As in previous years, Upstream would again comment that the majority of The Crown Estate targets still principally relate to management actions, rather than quantifying performance improvements. There are significant difficulties in evaluating quantifiable progress against management targets and the variations in the scope and level of challenge presented can make comparisons with previous years and with peers' performance difficult. We are therefore very encouraged by the development of the new Sustainability Strategy and look forward to seeing the long-term performance based targets which are due to be released in autumn this year.

Key highlights of The Crown Estate's performance in the past year include:

- The extension of carbon emissions reporting to incorporate emissions associated with land management on the rural estate and energy use on the Windsor Estate. There is also wider coverage of the urban estate.
- The development of sustainability indicators that will be used to assess the impact of different marine industries.
- The completion of a formal, quantified assessment of the energy efficiency of the entire housing stock of the Housing Business Group portfolio.
- 56% of The Crown Estate employees undertaking some form of volunteering activity that is of benefit to the community. This is a demonstration of the level to which working with the community is embedded in the ethos of The Crown Estate.

In a year of significant economic challenges and changes to personnel, it is very encouraging that 69% of targets were achieved. The Crown Estate's continued commitment to sustainable business is evident and the efforts taken to address environmental and socio-economic impacts across the estates and to further embed sustainability in the organisation are admirable.

Upstream looks forward to working with The Crown Estate to set long-term performance targets and to further develop and embed its strategy.



Abigail Dean Senior Consultant

Financial review



The Crown Estate Act 1961

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

Given these arrangements, our income results are very good and we continue to deliver an increased income contribution to the Treasury.

The Crown Estate Act requires that the distinction between income and capital is maintained in the accounts. In order to achieve this and at the same time comply with International Financial Reporting Standards (IFRS) we have presented our Income and Expenditure Account in a three column format.

We have reported an income surplus of £226.5 million in the year ended 31 March 2009 compared with £213.4 million (restated) in the previous year. The effect of adopting IFRS, which combines capital and income, is that our overall income and expenditure account reports a deficit of £1.29 billion, compared with a surplus of £246 million for the previous year. The majority of this deficit relates to revaluation losses of £1.33 billion reflecting deteriorating market conditions during the year. Our capital account result does not however affect our payment to the Treasury since any capital gains or losses are not recognised within the income computation under The Crown Estate Act.

International Financial Reporting Standards (IFRS)

Last year, we decided that we would be an early adopter of IFRS ahead of other public sector organisations. The conversion has been a challenge as we had the added complication of having to comply with the requirements of The Crown Estate Act as detailed above. The adoption of IFRS should nevertheless enable a more direct comparison with our peers in the property sector.

The impact of IFRS on restated net assets for 2007/08 has been an increase of £5.7 million as a result of changes in the way income from the granting of rent-free periods has been recognised. The biggest change has been to the income and expenditure account which now shows the impact of revaluation gains and losses previously taken through the balance sheet.

As a landed estate, The Crown Estate is unusual in the property industry in the way that we are required to keep the Estate intact. As a result we receive lease premiums in exchange for granting long leases over some of our substantial listed properties. IFRS has presented a challenge in the way that these premiums have been accounted for with the result that we have had to go back many years to then spread this income over the remaining lease life. The changes to the financial statements made as a result of adopting IFRS are explained more fully in note 35.

Property valuation

The total value of the Estate, inclusive of indirect holdings, fell by 16.1% to £5.7 billion for the year ending March 2009. The outward shift in yields across the year has seen our urban commercial portfolio decline from 69% to 63% of The Crown Estate. The remaining 37% of the portfolio, made up of rural, marine and residential, has been more resilient.

I am delighted to report another strong set of results for the year. Investment activity and asset management initiatives across the whole Estate have underpinned our performance which is discussed in the Chief Executive's overview. The purpose of this review is to develop some of the elements that contributed to the year's success and highlight areas receiving special consideration going forward.

As a long-term landowner, we have obligations to achieve year-on-year long-term growth. Over the past 10 years we have seen revenue growth of 70.5% delivering to the Treasury £1.8 billion. Despite the fall in capital values this year, we have achieved capital growth of 65.9% over the same period, and a total return that has outperformed Investment Property Databank (IPD) over the past 10 years. Our financial Key Performance Indicators (KPIs) are threefold: income performance, which is measured against targets set by the Treasury; total return, which we compare with the IPD All Property Index and our peers; and capital growth which is also measured against the IPD All Property Index and our peers.

Our performance this year has been as follows:

KPI	Target	Actual
Net income surplus	£224.2m	£226.5m
Total return	-25.5%	-15.8%
Capital growth	-29.7%	-19.3%

Above John Lelliott, Finance Director.

The urban commercial portfolio performed broadly in line with the market, falling in value as property yields have moved out and more latterly rental values have started to fall. Overall, the equivalent yield on these properties moved out from 5.5% to 6.6% and capital growth was -27.8%. This compares with our IPD benchmark of -30.0%. Better performance has come from our central London retail holdings and our 'bond like' long leasehold lettings with long dated reversions. The largest write-downs in value have been the Gibraltar Limited Partnership, the only property interest which carries gearing, and those properties held for development.

The value of our housing and residential holdings fell by 10.2% to £578 million as a result of net sales of £77 million; the underlying capital growth was however positive. After very strong performance last year the rural portfolio steadied, rising in value by 1.9% to £920 million. This was probably conservative as the *Mason v Boscowen* VAT ruling overhung the market at the valuation date, impacting negatively on reversionary rents. The position was however resolved in the subsequent Government budget. The marine portfolio has risen by 10.6% to £409 million primarily due to a growing wind farm income stream and direct investment in marinas.

Transactional activity was significantly down on last year but we have continued to trade, with activities characterised by increased investment in marine and commercial property outside London. A number of non-core sales have been made during the year, realising £209 million which was 9.5% above their 31 March 2008 valuation.

Transparency of disclosure and the pursuit of best practice is a priority for us. We continually seek to improve both the benchmarking of our performance and the independence of our portfolio valuations. From April 2009 the urban commercial portfolio is now divided into three portfolios: Regent Street; the rest of London; and diversification. In September 2008 we

started valuing these portfolios on a quarterly basis and each portfolio is now submitted to IPD with its own bespoke benchmark. The three portfolios total £3.34 billion and are valued by DTZ and Jones Lang LaSalle.

Further valuation appointments have been made during the year, in order to achieve greater consistency and to separate the valuation function from the managing agent function. To this end, Jones Lang LaSalle now values our residential portfolio at Regent's Park and Kensington Palace Gardens, Knight Frank values our affordable housing and Savills values the agricultural estate. We also instigated a check valuation of the marine estate this year. Vail Williams evaluated a 7% sample of our coastal interests totalling £11.4 million and were within 1.7%.

At the start of the year we also set total return targets for the residential, rural and marine parts of the business. These are being combined into a weighted IPD benchmark report which will reflect the composition of The Crown Estate and therefore more accurately benchmark our asset performance.

Investment in partnerships

In June 2008 we formed a co-ownership agreement with Morley Fund Management for an interest in property at Crown Point Shopping Park, Leeds, in which we invested £67.7 million. In December 2008 we invested in another trust in land at Princes Street, London with CGNU Life Assurance for a consideration of £12 million. This brings our total number of investments in limited partnerships to four which in total are valued at £213.2 million with an income account contribution of £10.2 million.

Cash flow

During 2008/09 we benefited from starting the year with healthy cash reserves just as liquidity problems were beginning to affect the market. As a result we were able to take advantage of investment opportunities that were congruent with our investment

strategy as well as consolidating and strengthening our holdings. Nevertheless, maintaining a strong liquidity position remains very important to us given our inability to borrow: it is vital that we have sufficient funds to enable us to take advantage of opportunities the current market may present, as well as being able to fund the development commitments on our urban central London portfolio and marine estate.

This year there has been significant investment activity, mainly on the urban commercial portfolio and on the marine estate. The overall total investment across The Crown Estate, including our investment in the 50% interest in Crown Point Shopping Park, Leeds, was £412 million and our total disinvestment was £231 million, leading to a net outflow of £181 million compared with a net inflow of £21 million in 2007/08.

Risk factors and risk management

Risk management is well established within The Crown Estate, with continuing activity to develop and embed risk management processes across the organisation to help ensure we continue to deliver healthy income and capital returns. Risks that threaten achievement of The Crown Estate's corporate and departmental objectives are identified and assessed by management on an ongoing basis (as part of daily business activities), quarterly (by way of formal risk registers) and annually (as part of the business planning process). Key risks reported by management are considered and discussed by the cross-departmental risk committee and Management Board and reported to the audit committee. The Management Board also performs an annual risk assessment to identify and assess strategic risks facing the organisation.

Financial review continued

Principal risks and uncertainties

The risks listed here are not the only ones associated with The Crown Estate and are predominantly external. They are not set out in any particular order. Additional risks and uncertainties not presently known to management or currently deemed to be less material may also have an adverse impact on the organisation. All these risks could affect the organisation structure, its operating surplus, net assets, liquidity and/or resources.

Risk	Principal mitigations
Portfolio performance Increase/decrease in revenues and property value caused by macro-economic and market risk, including the current economic downturn, capital availability, changing demand, tenant risks and investment opportunities.	Investment strategy Investment appraisal process both of acquisitions and disposals Economic and market monitoring Portfolio performance monitoring Tenant and arrears monitoring
Developments and projects Failure of developments and projects to deliver expected benefits, cost overruns, letting risks, capital exposure and supplier/third party capability issues.	Business case evaluation process Project management processes Close management of lettings on development projects Monitoring of supplier/third party costs and performance
Operational framework Failure to remain competitive in the way we operate, management of our suppliers and key partners and their relationship with our customers and, internally, our ability to attract and retain key talent.	Ongoing review of our business model and cost base Monitoring of supplier performance Review of remuneration structure and reward strategy
Stakeholder perception Adverse impact on our reputation due to changing perceptions of key stakeholders and/or non-compliance with regulation.	Stakeholder relationship management strategy Health & Safety policy for the corporate office and property portfolio Legal and regulatory compliance model Community engagement and investment programmes Customer focus programmes
Sustainability Decline in revenues and property value as a result of failure to manage the compliance and commercial implications of climate change and environmental regulation, or failure to keep abreast of best sustainability practice.	Sustainability strategy Sustainability considered in property investment decisions

Charitable donations

The Crown Estate provided donations to a range of bodies totalling £10,425 in 2008/09 (£10,157 in 2007/08), as permitted by The Crown Estate Act 1961, section 4(2).

Supplier payment performance

The Crown Estate's payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of service where a fee is recoverable from a third party, or according to contract where a shorter payment period is agreed. During the year The Crown Estate paid 62% of invoices from suppliers within this period. At the beginning of the financial year The Crown Estate implemented a new purchase ordering system. Immediately following the change the average time taken to pay suppliers

was 48 days. The Crown Estate now commits to pay all suppliers within 10 days providing a valid invoice complying with standard terms of business is received. The Crown Estate observes the principles of the 'Better Payment Practice Code'.

Our employees

Whilst these are undoubtedly testing times for our business, we have solid foundations in the skills and talents of our people our values of commercialism, integrity and stewardship, and the way we do business. We promote and reinforce our vision and values both to our employees and business partners so that they know:

- they are part of a modern, but entrepreneurial business that rewards their ambition and contribution;
- the business they work for always tries to do the right thing – so they can too;

- they are part of a business which takes its responsibilities seriously and focuses on the long term.

Through enhanced communication channels we listen and respond to our staff and involve them in our strategic planning.

We want all our staff to be 'good people to do business with' and support them with training and development. The Crown Estate is accredited as an 'Investor in People' and is continually reviewing areas where further improvements can be made, reflecting the importance we place upon our people. As a result of a thorough review of our internal communications we have made a number of improvements, striving to encourage more employee involvement and engagement through two-way communication channels. These include the introduction of a new 'Team Talk' process which encourages discussion and debate,

a regular newsletter available both online and in print, organisational briefings by the Chief Executive and senior managers, formal and informal feedback processes and the intranet. Employees also receive copies of the corporate plan, annual report and sustainability report.

The final phases of our revised reward strategy will be rolled out this year. These flexible and competitive reward policies and practices will attract, retain and motivate

employees and help to develop a high performance culture that supports the achievement of our business goals.

Our focus over the next three years will be to deliver the remaining elements of the programme, and to keep arrangements under continual review to ensure that they continue to remain flexible and competitive.

We continue to monitor sickness absence closely with the aim of reducing absences.

We are committed to improving the health, wellbeing and attendance of all employees and we value the contribution our employees make to our success. Therefore, it is in the best interests of The Crown Estate to ensure that employees are able to make as full a contribution as possible and that absences are minimised.

Our sickness absence rates for 2008/2009 were:

	Total average number of employees during the year	Total days lost	Average percentage working days lost	% lost to long-term
General administration	212	1,118.5	2.0%	49.0%
Operating activities	213	1,986.5	3.6%	65.4%
Total	425	3,105.0	2.8%	59.5%

The Crown Estate encourages all its employees to manage their wellbeing and adopt a healthy lifestyle through a number of health and wellness initiatives. We also offer beneficial rates for health insurance, dental and optical care and provide free confidential advice and counselling services and flu vaccinations.

The Crown Estate is an equal opportunity employer and is 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 many talented people who enjoy working in the challenging and unique environment that The Crown Estate offers. To reinforce this message, our staff turnover fell below 10% in 2008/09 to 9.2% compared with 11.5% in 2007/08.

Information systems – financial systems

We continue to invest in our information systems to help us achieve our corporate objectives. Our strategy will continue to target core property management systems and the underlying business processes that support them. During the year we completed the implementation of our Agresso financial system and it is now embedded within The Crown Estate. The benefits of improved financial management are now being realised across the business. We have also made a strategic investment in Spatial Data Systems (digitising and consolidating our cartographic records and providing a marine decision support tool (MaRS®)), and have extended our capability to support strategic planning decisions,

especially in relation to our investment in renewable and low carbon energy.

During the financial year there was one non-reportable personal data incident and none in the prior year.

Insurance

The Crown Estate's insurance programme was re-tendered by our insurance brokers in advance of the April 2009 renewal. As a result of this exercise, no increases have been incurred in the rates used to calculate the premiums payable by our tenants.

The Crown Estate continues in its support for those provisions within the Commercial Lease Code that relate to the disclosure of insurance commissions. Our average commission on the insurance arranged on the property portfolio is 7.7%. The advice received from our brokers is that this is at the lower end of the commission levels retained by other major property owners.

Looking ahead

During the year we have started to take advantage of market conditions to reposition the portfolio in line with our investment strategy. Significant investments have been made, as values fell and attractively priced purchase opportunities arose, in high quality retail parks and industrial estates which have secure income streams and provide asset management opportunities. We expect this trend to continue through 2009/10, targeting the purchase of dominant shopping centres, open A1 retail parks and south east industrials. We have also made a number of disposals of properties that are not core to our strategy.

We expect yields to stabilise during 2009/10 but it will be another tough year as the recession feeds through to higher unemployment, more pressure on retailer margins and a higher level of voids across the portfolio. Rental values are now falling and we are not expecting them to start picking up until 2011/12. This is also starting to impact on the marine portfolio as turnover rents on marinas, ports and aggregate extraction come under pressure.

2009/10 will therefore be a particularly challenging year. Our view is that for a business such as The Crown Estate, with a long-term agenda and sound fundamentals in place, the coming 12 months will nonetheless reveal interesting opportunities to deliver our strategy, proactively manage our assets and improve our portfolio. To this end we will be taking forward our development programme, working up planning applications and continuing to invest time and money in renewable energy.



John Lelliott Finance Director

The Board

1 Ian D Grant CBE, FRAGS

Chairman, First Commissioner and Scottish Commissioner

Ian Grant first joined The Crown Estate on 1 September 1996 as Scottish Commissioner and was subsequently appointed Chairman of The Crown Estate on 1 October 2002. He is also Chairman of the Scottish Exhibition Centre Ltd in Glasgow.

He farmed in Perthshire from 1962-1993 and in 1988 he was awarded the CBE for services to agriculture. He is also an Honorary Doctor of Business Administration from Napier University, Edinburgh.

His previous appointments have included President of NFU Scotland; Chairman of the EC Cereals Working Party; Chairman of the International Federation of Agricultural Producers Grains Committee and Chairman of the Scottish Tourist Board. He was, until last year, Deputy Chairman of NFU Mutual and previously held the same post at Scottish & Southern Energy plc. He is a past non-executive director of East of Scotland Farmers and Clydesdale Bank plc.

Aged 65.

2 Roger Bright CB, MA(Cantab)

Chief Executive and Second Commissioner

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

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

Aged 57.

3 Hugh Duberly CBE

Non-executive Board member

Appointed to the Board in November 2001.

He farms in Cambridgeshire and was a member of the Huntingdonshire District Council from 1979 until 2004. He was previously President of the Country Landowners Association and a director of the Agricultural Mortgage Corporation plc. He is Chairman of both the Papworth Trust and the Shuttleworth Trust, and a Governor of Writtle College. He is HM Lord-Lieutenant of Cambridgeshire.

Aged 66.



4 Martin Moore MRICS

Non-executive Board member

Appointed to the Board in April 2002.

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

Aged 52.

5 Dinah Nichols CB

Non-executive Board member

Appointed to the Board in January 2003.

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

Aged 65.

6 Jenefer Greenwood BSc, FRICS

Non-executive Board member

Appointed to the Board in February 2004.

Jenefer Greenwood is currently Grosvenor Estate's Retail Strategist, a position she took up in May 2003. Previously she worked for CB Hillier Parker for 25 years, where she was Head of Retail. Within Grosvenor she has particular responsibility for the retail positioning, leasing direction and marketing within the £3 billion development programme.

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

Aged 51.

7 Chris Bartram MA, FRICS

Non-executive Board member

Appointed to the Board on 1 January 2007.

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

Aged 59.

8 David Fursdon FRICS, FAAV

Non-executive Board member

Appointed to the Board in January 2008.

David Fursdon is a qualified rural chartered surveyor and agricultural valuer. He owns and manages an 800-acre family estate in Devon. He was formerly President of the Country Land & Business Association (CLA) which has 37,000 members across England and Wales. He is currently 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 and Heritage Protection Review. Before taking the chairmanship of the CLA board in 2003, David worked full time as an equity partner of Stags, the West Country Chartered Surveying firm.

Aged 56.

Governance report

Introduction

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

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

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

During the year internal audit reviewed governance related controls and processes, including the role of the Board, audit committee, codes of ethics, risk management, internal control framework, policies and procedures, communication and accountability, comparing these to typical good practice. This, in addition to ongoing monitoring of governance requirements by the legal and finance teams, did not identify any major areas where improvement was required to the governance operated by The Crown Estate.

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

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

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

The duties of the Commissioners are to maintain The Crown Estate as an estate in land (with such cash or investments as may be required for the discharge of their functions) and to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management. By the Civil List Act 1952 the net income from The Crown Estate, after defraying costs of collection and management, is required to be paid into the 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 Commissioners must comply with such directions, as to the discharge of their functions under the Act, as may be given to them by the Chancellor of the Exchequer and the Secretary of State for Scotland. The Commissioners submit annually to the Treasury a forecast of their activities in a corporate plan covering the following and two ensuing years.

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

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

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

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

Under The Crown Estate Act 1961 (First Schedule, 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 2009 the Board comprised eight members: a Chairman (who is non-executive), Chief Executive and six non-executive members. The composition of the Board is defined by the Crown Estate Act 1961.

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

Brief biographies of each of the current members are set out on pages 44–45.

The role of the Board

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

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

Delegated authorities

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

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

Certain matters are delegated to committees of the Board and these are described in the terms of reference of the committees in question. The terms of reference of the audit committee, sustainability committee, remuneration committee, Scottish committee, Quadrant board committee, and Round 3 wind farm committee are summarised later in this report. Other issues are delegated to executive committees which include the management board (including investment and strategy matters), stock selection committee and communications group.

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

The Management Board as at 31 March 2009 consists of:

Roger Bright, Chief Executive

Christopher Bouchier, Director of the Rural Estate

Paul Clark, Director of Investment Strategy & Asset Management

Vivienne King, Legal Director

John Lelliott, Director of Finance

Rob Hastings, Director of the Marine Estate

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

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

The non-executive members

The non-executive members are Hugh Duberly, Jenefer Greenwood, Martin Moore, Dinah Nichols, Christopher Bartram, and David Fursdon. 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.

Hugh Duberly is the nominated senior independent director on the Board.

Each of the non-executive Board members has a formal letter of appointment, recording current best practice in this area. All Board members' appointments are held by virtue of a Royal Warrant for a fixed term of four years.

The role of Board secretary is held by Vivienne King, Legal Director. In addition to other executive duties, the Board secretary's responsibilities include supporting and advising the Chairman, ensuring that all board procedures are followed, ensuring good information flow to Board members. The Head of Human Resources, Valerie Burns, acts as secretary to the selection panel for new Board appointments, and facilitates the induction of new board members upon appointment. All Board members, including the non-executives, have access to the advice and services of the Board secretary.

Appointments process

Crown Estate Commissioners, who are alternatively known as Board members, are appointed in accordance with the Office of the Commissioner for Public Appointments (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. Under new rules the maximum term which a Board member, in any capacity, can serve on the Board is 10 years.

Governance report continued

Current terms of office

Board member	Date of most recent appointment	Date of expiry	Total length of service as at 31 March 2009
Ian Grant (Chairman) *	1 October 2006	31 December 2009	12 years
Roger Bright (Chief Executive)	1 September 2005	30 September 2009	8 years
Christopher Bartram	1 January 2007	31 December 2010	2 years
Hugh Duberly	1 January 2006	31 December 2009	7 years
Jenefer Greenwood	1 January 2008	31 December 2011	5 years
Martin Moore	22 April 2006	31 December 2010	7 years
Dinah Nichols	16 January 2007	31 December 2010	6 years
David Fursdon	1 January 2008	31 December 2011	1 year

* Formerly a non-executive Board member from 1996 to 2002; Chairman since October 2002.

Succession planning

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

Board meetings

The Board held nine scheduled meetings of the Main Board during the year ending 31 March 2009. As well as meetings in London the Board also met in Windsor. In addition, there were three meetings of the audit committee, four meetings of the sustainability committee, four meetings of the remuneration committee, two of the Scottish committee, seven meetings of the Quadrant committee and two of the Round 3 wind farm 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 London.

Information flow

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

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

Board processes

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

Liability

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

Board effectiveness

Board performance evaluation

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

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

Induction

All new Board members receive a full, formal and tailored induction on joining the Board. The process is overseen by the Head of Human Resources. This involves the provision of necessary background information, briefing by key management personnel and implementing training where appropriate.

Board committees

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

A summary of the role and terms of reference of the six Board committees (audit, sustainability, remuneration, Scottish, Quadrant and Round 3 wind farm committee) is given below. The terms of reference of these committees are available on request.

In addition to these six Board committees, three other executive committees operate with specific authority delegated by the Board. First, the Management Board is chaired by the Chief Executive and comprises Directors and Heads of Department. The Management Board considers strategic issues, significant organisational policies and reviewing investment strategy, and operates within the financial delegation of the Chief Executive. In reviewing investment strategy, the committee considers economic and property market analyses and forecasts, the overall weightings of the portfolio and the movements necessary to optimise performance. The stock selection committee considers, amongst other things, specific

investment and divestment proposals, reviewing them against strategy. The third executive committee is the Communications Group whose duties include considering questions of PR policy and reviews and recommends an annual strategy and programme of PR activities.

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

Audit committee

Members

The current members of the committee are:

Martin Moore (Committee Chairman)

Christopher Bartram, non-executive Board member

David Fursdon, non-executive Board member

The secretary to the audit committee is Jenny Chadwick.

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 as necessary 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 Director of Finance and the Legal Director. The Head of Internal Audit and the Financial Controller are also in attendance. The external Audit Partner (NAO 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.

Terms of reference

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

Specific duties include:

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

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 or
- 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

The National Audit Office (NAO) acts as The Crown Estate's external auditors. The appropriate NAO Director attends meetings of the audit committee and has complete access to all financial and other information.

Report of the committee's activities

During the year, the committee met three times for routine business and considered all matters within the committee's terms of reference, as set out above. Additionally, the committee also considered health and safety, insurance, pension scheme and litigation in 2008/09.

Governance report continued

Remuneration committee

The committee's membership, terms of reference and activity is described in the remuneration committee report on pages 55 to 56.

Sustainability committee

Members

The current members are:

Roger Bright (committee Chairman)

Dinah Nichols, non-executive Board member

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

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

Terms of reference

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

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

Report of the committee's activities

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

- setting objectives and targets
- monitoring performance
- benchmarking
- review of the sustainability strategy
- Key Performance Indicators
- ISO14001
- climate change policy implications.

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

Scottish committee

The current members are:

- Ian Grant (committee Chairman)
- Roger Bright, Chief Executive

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

Meetings are held at least three times a year. The following executives ordinarily attend meetings: Director of the Marine Estate, Director of the Rural Estate, Director of Investment and Asset Management, Head of New Business Development (Rural) and Head of Marine Business Development (Scotland).

Duties

The Scottish committee will:

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

Report of the committee's activities

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

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

Quadrant committee

Members

The current members are:

Roger Bright (committee Chairman)

Chris Bartram, non-executive Board member

Jenefer Greenwood, non-executive Board member

Martin Moore, non-executive Board member

The secretary to the Quadrant committee is Philomena Sullivan.

During 2008/09 the committee met seven times. For 2009/10 it is anticipated that meetings will be held on a quarterly basis.

The following executives ordinarily attend meetings: Director of Investment and Asset Management, Legal Director, Director of Finance and Head of Regent Street Portfolio.

Duties

The Quadrant committee will:

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

Report of the committee's activities

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

Round 3 wind farm committee

This committee existed for a short term only up to May 2008.

The committee members were:

Roger Bright (committee Chairman)

Chris Bartram, non-executive Board member

Dinah Nichols, non-executive Board member

David Fursdon, non-executive Board member

The secretary to the committee was Danielle Lane.

The following executives ordinarily attended meetings: Director of Marine, Head of Business Development (Marine), Legal Director, and Director of Finance.

Duties:

The Round 3 wind farm committee were to:

- review and comment at a strategic level, progress on the Round 3 wind farm project
- review the approach to, and effectiveness of, risk analysis and mitigation
- 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 had previously given express delegated authority to the committee. This would arise in circumstances where such pre-conditions would otherwise require full Board approval
- explore any issues specifically raised by the Board as matters of concern; this would arise in circumstances where such issues would otherwise require full Board approval.

Report of the committee's activities:

The committee met twice during the year until it was disbanded by the Main Board in May 2008. Minutes of the meetings were reported to subsequent Main Board meetings.

Attendance at Board and committee meetings

Attendance by individual members at Board, audit, sustainability, remuneration, Scottish, Quadrant and Round 3 wind farm committee meetings, which they were eligible to attend, was as follows:

	Main Board	Board awayday strategy	Audit committee	Sustainability committee	Remuneration committee	Scottish committee	Quadrant committee	Round 3 wind farm committee
Number of meetings in year	9	1	3	4	4	2	7	2
Ian Grant	9	1	n/a	n/a	n/a	1	n/a	n/a
Roger Bright	9	1	3	3	4	2	7	2
Christopher Bartram	7	1	3	n/a	n/a	n/a	7	2
Hugh Duberly	9	1	n/a	n/a	4	n/a	n/a	n/a
David Fursdon	9	1	n/a	n/a	n/a	n/a	n/a	2
Jenefer Greenwood	8	1	n/a	n/a	3	n/a	7	n/a
Martin Moore	8	1	3	n/a	4	n/a	6	n/a
Dinah Nichols	7	1	n/a	4	n/a	n/a	n/a	2

n/a = not applicable.

In addition board members have taken part in formal visits to estates at Bingham, Tabley, North Wales, Savernake, Wychwood, Fochabers, Taunton, Laxton, Gopsall, Portland, Inverness, Orkney and Rhu. In addition a number of visits were made to parts of London, as well as attendance at a number of ad-hoc seminars and events.

Governance report continued

Auditors

The financial statements of The Crown Estate are audited by the Comptroller and Auditor General in accordance with section 2(6) of The Crown Estate Act 1961. The audit certificate appears on page 57. No fees have been incurred in respect of non-audit services. The audit fee for work performed in the year of account was £180,000.

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

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

Health and Safety

Following the appointment of the in-house Health and Safety Manager, a review of existing Crown Estate arrangements was undertaken to identify current areas of potential improvement across the organisation.

As part of this review the Health and Safety Manager assessed the suitability of the Health and Safety management systems, supporting IT based systems and the services of Health and Safety consultants.

This review identified a number of opportunities for further development and strengthening of control measures across the business, including:

- continued development of the Health and Safety Management System in-line with the requirements of the external standard OHSAS 18001
- the review and production of revised Health and Safety procedures that reflect the organisation's activities
- the selection of the revised E-risk compliance monitoring system (supplied by Connaught Compliance) for the monitoring of Health and Safety compliance activities of the appointed Managing Agents across the urban estate's retail portfolio
- the implementation of a web enabled accident/incident reporting system for the central capture, collation and analysis of 'failure data'
- the revision of Health and Safety support to the Windsor Estate aimed at providing an increased focus and structure to the support function.

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

The 2008/09 figures shows a continued downward trend on previous years, as detailed below.

All accident/incident rates: 2007/08 = 87

All accident/incident rates: 2008/09 = 60

It is intended over the coming year to further develop The Crown Estate's Health and Safety management system in line with the requirements of OHSAS 18001 and to improve the consistency of Health and Safety systems and associated control across the organisation; to draw on the knowledge and experience within the organisation; and identify how the lessons learnt from related-industry best practice can be introduced and implemented.

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

The Commissioners (the Board) are responsible for ensuring that The Crown Estate has in place a system of controls, financial and otherwise, and under section 2(5) of The Crown Estate Act 1961 are required to prepare a statement of accounts in the form and on the basis determined by the Treasury. The 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 the going concern basis.

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

Statement on internal control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of The Crown Estate's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in The Crown Estate for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

- strategic objectives and corporate planning
- risk management
- management structure, reporting lines and accountability
- investment appraisal

- budgeting and financial planning, monitoring and control
- delegated financial approval limits
- policies and procedures
- information and communication
- regulatory compliance
- competent people
- code of conduct
- independent assurance
- information security.

The risk and control framework

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

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

Governance report continued

- risk appetites and tolerances assessed and managed by management, reflecting experience and past history of effective risk management
- hierarchy of risk registers (for departments, projects and business processes) used as the basis for quarterly review of risk management at risk committee, project monitoring committee and Management Board level
- risk reporting, incorporating the corporate risk register, departmental and project risk registers, and internal control statements
- internal audit facilitating the implementation of a robust risk management framework.

The Crown Estate has put in place various robust and specific arrangements to ensure information security, which are in line with Cabinet Office guidance, including security and IT policies that apply to all staff. This has been developed during the year to accommodate the requirements of the security policy framework (SPF). The Crown Estate now also has a register of its information management system assets and also an information assets owner's log, which identifies responsible officers and enables The Crown Estate to manage its responsibilities in respect of its systems and data, (particularly in respect of confidential and personal data). Other arrangements include:

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

Review of effectiveness of internal controls

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

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

Internal audit, under the oversight of the audit committee, has reviewed certain elements of the system of internal controls, including risk management and corporate governance, and concluded that there have been no significant issues identified. Two minor issues were identified which are highlighted below:

- during the implementation of The Crown Estate's new finance systems, a number of issues arose in relation to financial controls. Some key account reconciliations were not completed in the early part of the financial year and issues were encountered with the payment authorisation process which required some controls to be bypassed in order to manually process a payment run. Following reviews by the finance team and internal audit, a number of areas for improvement were identified, and a process was put in place to address these issues. These issues did not have any significant impact on internal controls at year-end
- during the year, a gap analysis has been carried out to assess compliance with government IT security standards as defined in the Manual of Protective Security and HMG Security Policy Framework. A number of areas for improvement were identified, and work on these was undertaken in the year. There was one minor breach in information security during the year relating to the insecure storage and unencrypted transmission of personal data.



Roger Bright CB Chief Executive

24 June 2009

Remuneration report

Remuneration committee

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

The current members of the remuneration committee are:

Hugh Duberly (Committee Chairman)

Jenefer Greenwood, non-executive Board member

Martin Moore, non-executive Board member

The meetings are held twice annually. The following executives ordinarily attend: the Chief Executive and Director of Finance, who absent themselves if matters relating to their individual reward packages are discussed. The secretary to the remuneration committee is Valerie Burns, Head of Human Resources.

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

Terms of reference:

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

The duties of the committee include:

- retaining oversight of the process whereby senior management reward systems and packages are agreed
- 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
- ensuring that decisions are equitable and taken with due diligence.

Remuneration and pension entitlements of the Board were as follows:

Board	2008/09 Total remuneration excluding bonus £	2007/08 Total remuneration including bonus £	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2009 £	Cash equivalent transfer value as at 31 March 2008 £	Cash equivalent transfer value as at 31 March 2009 £	Real Increase in cash equivalent transfer £
Ian Grant – Chairman	49,284	49,145	–	–	–	–	–
Roger Bright – Chief Executive	200,878*	273,808	1,171	57,534	1,534,385	1,319,030	100,731
Christopher Bartram	19,085	19,032	–	–	–	–	–
Hugh Duberly	19,085	19,032	–	–	–	–	–
Jenefer Greenwood	19,085	19,032	–	–	–	–	–
Martin Moore	19,085	19,032	–	–	–	–	–
Dinah Nichols	19,085	19,032	–	–	–	–	–
David Fursdon	19,085	4,758	–	–	–	–	–

*Roger Bright the Chief Executive is entitled to receive a non-pensionable annual bonus up to maximum of 40% of his 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 2008/09 is £80,357, during 2007/08 he received £77,829.

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

The Chairman and non-executive members of the Board are initially appointed for terms of four years with the prospect of renewal for a further term. Roger Bright, the Chief Executive, is also appointed on a four year contract with a notice period of six months and which expires in September 2009.

Remuneration report continued

The salary and pension entitlements of the members of the Management Board were:

Management Board	2008/09 Total remuneration £,000	2007/08 Total remuneration £,000	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2009 £	Cash equivalent transfer value as at 31 March 2008 £	Cash equivalent transfer value as at 31 March 2009 £	Real increase in cash equivalent transfer value £
Christopher Bouchier	140–145	135–140	811	42,180	714,143	663,574	(52,276)
Paul Clark	190–195	80–85	1,493	2,090	8,676	24,439	13,999
Robert Hastings	145–150	135–140	1,830	5,997	55,568	80,409	28,176
Vivienne King	140–145	130–135	1,189	17,076	250,463	236,948	(15,222)
John Lelliott	130–135	130–135	594	56,943	1,254,839	1,274,662	18,116

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 three months. Their remuneration is determined by reference to individual job responsibilities and market data and is reviewed periodically.

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

Pensions

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

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

Pension benefits are provided to Roger Bright, Chief Executive and members of the Management Board through the Principal Civil Service Pension Scheme or The Crown Estate Pension Scheme. Roger Bright is a member of the Principal Civil Service Pension Classic Scheme, and Robert Hastings is a member of the Principal Civil Service Pension Premium Scheme. The remaining members of the Management Board are ordinary members of The Crown Estate Pension Scheme. Bonuses are non-pensionable.

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



Roger Bright CB Chief Executive

24 June 2009

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 2009 under The Crown Estate Act 1961. These comprise the statement of income and expenditure, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

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

The Board and Chief Executive as Accounting Officer are responsible for preparing the annual report, which includes the remuneration report, the financial statements in accordance with The Crown Estate Act 1961 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions. These responsibilities are set out in the statement of The Crown Estate Commissioners' and Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the operating and financial review, The Board and Governance report, included in the annual report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises: what we do, highlights of the year, Chairman's introduction, the unaudited part of the remuneration report and the ten-year record.

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with The Crown Estate Act 1961 and directions made thereunder by HM Treasury, of the state of The Crown Estate's affairs as at 31 March 2009 and of its deficit, recognised gains and losses and cash flows for the year then ended
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and Treasury directions made thereunder
- information, which comprises the operating and financial review, the Board and governance report, included in the annual report, is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

29 June 2009

Statement of income and expenditure

For the year ended 31 March 2009

	Note	2008/09			2007/08		
		Income account £'000	Capital account £'000	Total £'000	Income account £'000	Capital account £'000	Total £'000
Revenue	4	304,157	7,583	311,740	251,547	6,870	258,417
Costs	4	(80,456)	–	(80,456)	(78,925)	–	(78,925)
Operating surplus	4	223,701	7,583	231,284	172,622	6,870	179,492
Recovery of capital expenditure under The Crown Estate Act 1961	10	(21,330)	21,330	–	10,126	(10,126)	–
Net revaluation (losses)/gains on investment property (including profits on disposals)	11	–	(1,194,689)	(1,194,689)	–	287,215	287,215
Share of (loss)/profit from joint ventures	18	8,660	(122,785)	(114,125)	8,380	(46,540)	(38,160)
Share of profit from other property investments	19	1,523	(11,193)	(9,670)	1,719	(3,376)	(1,657)
Parliamentary resource finance	13	2,342	–	2,342	2,357	–	2,357
Statutory transfers	14	(10,912)	10,912	–	(9,909)	9,909	–
Net operating (loss)/profit before financing		203,984	(1,288,842)	(1,084,858)	185,295	243,952	429,247
Investment revenue	5	22,473	–	22,473	28,152	–	28,152
Net (deficit)/surplus	4	226,457	(1,288,842)	(1,062,385)	213,447	243,952	457,399
Consolidated Fund Payment	15	(230,000)	–	(230,000)	(211,000)	–	(211,000)
(Deficit)/surplus after Consolidated Fund payment		(3,543)	(1,288,842)	(1,292,385)	2,447	243,952	246,399

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

All results are derived from continuing operations.

Statement of recognised income and expense

For the year ended 31 March 2009

	Note	2008/09			2007/08		
		Income account £'000	Capital account £'000	Total £'000	Income account £'000	Capital account £'000	Total £'000
Unrealised deficit on revaluation of other investments	11	–	–	–	–	(22)	(22)
Revaluation (deficit) of owner occupied properties	11	–	(25,328)	(25,328)	–	(11,458)	(11,458)
Actuarial (loss)/gains on retirement benefits	9c	(1,151)	–	(1,151)	3,641	–	3,641
Total recognised in equity		(1,151)	(25,328)	(26,479)	3,641	(11,480)	(7,839)
Net (deficit)/surplus		226,457	(1,288,842)	(1,062,385)	213,447	243,952	457,399
Total recognised income and expense for the year		225,306	(1,314,170)	(1,088,864)	217,088	232,472	449,560

Balance sheet

As at 31 March 2009

	Note	2008/09 £'000	2007/08 £'000
Assets			
Non-current assets			
Investment properties	16	5,965,329	7,104,937
Investment properties being redeveloped	16	21,350	27,780
Property, plant and equipment:			
Owner occupied property	16	86,523	112,922
Other property, plant and equipment	17	8,492	4,859
Investment in joint ventures	18	185,732	203,296
Other property investments	19	27,501	38,693
Other investments	20	4,845	4,865
Receivables due after one year	21	11,399	3,252
Total non-current assets		6,311,171	7,500,604
Current assets			
Non-current investment property assets held for sale	16	221,944	12,001
Inventories	22	230	2,350
Trade and other receivables	23	31,635	69,339
Cash and cash equivalents		390,086	518,362
Total current assets		643,895	602,052
Pension asset	9a	907	848
Total assets		6,955,973	8,103,504
Liabilities			
Current liabilities			
Trade and other payables	24	164,941	103,107
Total current liabilities		164,941	103,107
Non-current liabilities	24	776,190	666,691
Total liabilities		941,131	769,798
Net assets		6,014,842	7,333,706
Capital and reserves			
Revenue reserve available for distribution to The Consolidated Fund	25	5,314	10,067
Reserves relating to the Capital account	25	6,008,621	7,297,463
Total reserves arising from the Statement of Income and Expenditure		6,013,935	7,307,530
Revaluation reserve	25	–	25,328
Pensions reserve	25	907	848
Total capital and reserves		6,014,842	7,333,706



Roger Bright

Second Commissioner and Accounting Officer

24 June 2009

Cash flow statement

For the year ended 31 March 2009

	Note	2008/09 £'000	2007/08 £'000
Cash generated from operating activities	27	249,798	232,810
Interest received		23,289	28,189
Distributions received from investment in joint ventures		8,007	6,886
Distributions received from other property investments		1,523	1,719
Net cash inflow from operating activities		282,617	269,604
Cash flows from investing activities			
Purchase of property		(192,485)	(188,198)
New works and improvements and other capital outlay on properties		(114,283)	(69,918)
Proceeds from disposal of investment properties		231,490	328,831
Investment in joint ventures		(104,809)	(49,941)
Investment in other property investments		-	(4)
Purchase of plant and equipment		(3,981)	(2,310)
Sale of plant and equipment and antiques		-	53
Loan (advance)/repayment		(889)	312
Other cash flows from investing activities		(1,278)	(647)
Net cash (outflow)/inflow from investing activities		(186,235)	18,178
Cash flows from financing activities			
Parliamentary Resource Finance		2,342	2,357
Net cash inflow from financing activities		2,342	2,357
Net increase in cash and cash equivalents before Consolidated Fund payment		98,724	290,139
Consolidated Fund payment		(227,000)	(207,000)
(Decrease)/increase in cash in the year after Consolidated Fund payment		(128,276)	83,139
Cash and cash equivalents at start of year		518,362	435,223
Cash and cash equivalents at end of year	28	390,086	518,362

Notes to the financial statements

1. Notes to the financial statements

a. Basis of preparation

These financial statements have been prepared on a going concern and an accruals basis under the historic cost basis, 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.

First time adoption of International Financial Reporting Standards as adopted by the European Union

The directions from the Treasury require that the financial statements are prepared for the first time, in accordance with International Financial Reporting Standards (IFRSs) 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.

The accounts are prepared in accordance with IFRS issued by the International Accounting Standards Board as adopted by the European Union (adopted IFRSs). 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 IFRS, however the impact is not regarded as material, as the amounts are minimal.

The principal impacts of adopting IFRS and the directions made by the Treasury, together with comparatives for the year ended 31 March 2008 contained within this report, are set out in note 35. These accounting policies have been adopted consistently in all material respects throughout the year and the comparative figures in respect of 2007/08 have been restated to reflect the IFRS adjustments.

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force at the reporting date. Other than IFRS 8 'Operating Segments' and IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their inter Action', The Crown Estate has not adopted any standards or interpretations in advance of the required implementation dates. At the date of approval of these financial statements, the following standards and guidelines relevant to The Crown Estate were in issue but not effective for the current financial period:

Amendments to IAS 1 – Presentation of Financial Statements;
IAS 27 and IFRS 1 amendments – Cost of investment in a subsidiary, jointly controlled entity or associate;
IFRIC 15 – Agreements for the construction of real estate.

It is not expected that the adoption of these Standards or Interpretations will have a material impact on the financial statements.

To meet the requirements of The Crown Estate Act 1961, and the directions made by the Treasury for the presentation of this information in these two primary statements, the movements in the Statement of Income and Expenditure and in the Statement of Recognised Income and Expense 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 in exchange for a premium and the transfers between the capital and income account as required by Statutory provisions and Treasury Agreements as detailed in notes 1b and 1c.

b. The Crown Estate Act 1961 – Statutory provisions

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

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

c. 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. With effect from 1 April 2008, by agreement with the Treasury, the mechanism by which the income account is charged was amended. The new method is calculated as an amount equivalent to 9% of the previous year's gross revenue as disclosed in the income account, excluding service charges. Prior to 1 April 2008 the income account was charged with an amount equivalent to:

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

Notes to the financial statements continued

1. Notes to the financial statements (continued)

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

2. Significant accounting policies

a. Properties

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

Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties and those held for development are held at fair value. They are valued on the basis of open market value and, under the IAS 40 requirement to show fair value, the independent valuations are grossed up to reflect deferred income on lease premiums. When The Crown Estate begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such. Such properties are valued at either the market value of the partially-built development or the market value of the land, plus development costs expended to date.

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

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

Owner occupied properties

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

Disposals

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

Non-current property assets held for sale

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

Impairment

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

b. 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. As the amounts are not material, this does not affect The Crown Estate's ability to comply with IFRS.

2. Significant accounting policies (continued)

The Crown Estate as lessee – finance leases

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

c. 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

Computer equipment and software: 4 years

Office equipment: 4 years

d. Joint ventures

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

e. Other investments – antiques and paintings

Antiques and paintings are shown at fair value. Any surplus or deficit arising from changes in fair value are recognised directly in the revaluation reserve. The last valuation was carried out during the year ended 31 March 2008.

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

f. Inventories

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

g. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

h. Revenue

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

Rental income

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

Other income

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

i. 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.

Notes to the financial statements continued

2. Significant accounting policies (continued)

j. 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:

i. 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. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008/09, employers' contributions were payable to the PCSPS at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. For 2009/10 the employer contribution will be between 16.7% and 24.3% of pensionable pay. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

ii. The Crown Estate Pension Scheme

The Crown Estate Pension Scheme is a defined benefit scheme. The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. In accordance with IAS 19 the current service cost of the scheme is charged to the income account. The current service cost is The Crown Estate's share of the cost of the accruing benefits over the year on the IAS 19 assumptions. The contributions are agreed by The Crown Estate and the Trustees on the basis of triennial valuations using the projected unit method. At 30 September 2005, the value of the scheme's assets was £14.78 million and the actuarial value of the technical provisions exceeded these assets by 45%. The actuarial assumptions used for the statutory funding valuation are that the pre-retirement investment yield would in the long term exceed earnings increases by 2% per annum and the post-retirement investment yield would exceed pension increases by 1.5% per annum. The Trustees and The Crown Estate have agreed a seven-year recovery plan to eliminate the deficit. Consequently, an additional amount of £85,000 per month is being paid to the scheme by The Crown Estate. Furthermore, the regular employer contribution rate has increased to 28.7% of pensionable earnings per annum. The Trustees and The Crown Estate are currently assessing the funding level of the scheme as at 30 September 2008 and will be agreeing the level of contributions that are required to recover the deficit in due course.

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

a. Trade receivables

The basis of arriving at the bad and doubtful debt 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.

b. 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.

c. Operating leases

The Commissioners have exercised judgement in identifying that in all material respects, where The Crown Estate is the lessor such leases are accounted for as operating leases. In exercising this judgement consideration has been given to the nature and economic life of the buildings which are all accounted for as held within investment properties, and whether the risks and rewards of ownership remain with The Crown Estate.

d. 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.

e. Property valuations

Investment properties, investment properties being redeveloped and owner-occupied properties are shown at market value in accordance with valuations carried out by independent valuers. Valuations are based on a number of key assumptions including an estimate of future rental income. Note 16 refers to a greater degree of uncertainty at 31 March 2009, due to the economic climate.

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.

There is no primary or secondary split and the details below are a complete analysis by business segment.

This note reflects the early adoption of IFRS 8.

	Urban		Rural		Marine		Windsor		Crown HQ		Total	
	2008/09 £'000	2007/08 £'000										
Reflected in the income account:												
Rent and royalties	199,298	167,403	26,142	20,990	49,623	33,263	3,973	3,855	–	1	279,036	225,512
Premiums on leases	–	614	32	20	15	6	–	1	–	–	47	641
Sale of produce	–	–	403	315	–	–	267	355	–	–	670	670
Service charge income	18,308	19,674	–	–	–	–	–	–	–	–	18,308	19,674
Other income	3,836	3,034	125	157	54	43	2,081	1,617	–	199	6,096	5,050
Revenue recognised in the income account	221,442	190,725	26,702	21,482	49,692	33,312	6,321	5,828	–	200	304,157	251,547
Direct costs:												
Management fees and costs	(26,579)	(27,087)	(3,875)	(3,333)	(2,082)	(1,734)	(5,264)	(4,850)	12	(1)	(37,788)	(37,005)
Repairs and maintenance	(2,177)	(3,288)	(2,025)	(1,972)	(50)	(26)	(872)	(1,719)	–	125	(5,124)	(6,880)
Other expenditure	(12,924)	(11,810)	(1,086)	(489)	(1,812)	(1,938)	(2,211)	(1,358)	15	(393)	(18,018)	(15,988)
Total direct costs	(41,680)	(42,185)	(6,986)	(5,794)	(3,944)	(3,698)	(8,347)	(7,927)	27	(269)	(60,930)	(59,873)
Gross surplus	179,762	148,540	19,716	15,688	45,748	29,614	(2,026)	(2,099)	27	(69)	243,227	191,674
Indirect costs:												
Administrative expenses (note 6)	(618)	(474)	(989)	(776)	(1,877)	(1,274)	–	–	(13,546)	(12,969)	(17,030)	(15,493)
Indirect operating expenses (note 7)	–	–	–	–	–	–	–	–	–	(730)	–	(730)
Depreciation of tangible fixed assets (note 17)	(33)	(91)	(28)	(36)	(2)	–	(253)	(236)	(2,186)	(2,659)	(2,502)	(3,022)
Profit/(loss) on sale of plant and equipment (note 11)	–	22	–	–	–	–	10	42	(4)	129	6	193
Total indirect costs	(651)	(543)	(1,017)	(812)	(1,879)	(1,274)	(243)	(194)	(15,736)	(16,229)	(19,526)	(19,052)
Total costs	(42,331)	(42,728)	(8,003)	(6,606)	(5,823)	(4,972)	(8,590)	(8,121)	(15,709)	(16,498)	(80,456)	(78,925)
Operating surplus reflected in the income account	179,111	147,997	18,699	14,876	43,869	28,340	(2,269)	(2,293)	(15,709)	(16,298)	223,701	172,622

Notes to the financial statements continued

4. Segmental analysis (continued)

	Urban		Rural		Marine		Windsor		Crown HQ		Total	
	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000
Income from grant of leases reflected in the capital account	7,583	6,870	-	-	-	-	-	-	-	-	7,583	6,870
Net valuation (loss)/gains (inc profits on disposals) (note 11)	(1,223,542)	88,965	21,001	168,417	18,474	23,297	(10,622)	6,536	-	-	(1,194,689)	287,215
Share of (loss) in joint ventures (note 18)	(114,125)	(38,160)	-	-	-	-	-	-	-	-	(114,125)	(38,160)
Share of (loss) in other property investments (note 19)	(9,670)	(1,657)	-	-	-	-	-	-	-	-	(9,670)	(1,657)
Parliamentary resource finance	-	-	-	-	-	-	-	-	2,342	2,357	2,342	2,357
Investment revenue (note 5)	576	814	(20)	110	81	120	17	43	21,819	27,065	22,473	28,152
Total net (deficit)/ surplus reflected in the income and expenditure account	(1,160,067)	204,829	39,680	183,403	62,424	51,757	(12,874)	4,286	8,452	13,124	(1,062,385)	457,399

4. Segmental analysis (continued)

	Urban		Rural		Marine		Windsor		Crown HQ		Total	
	2008/09 £'000	2007/08 £'000										
Balance sheet												
non-current												
assets:												
Investment properties (note 16)	4,532,006	5,725,368	919,880	903,010	409,462	370,180	103,981	106,379	-	-	5,965,329	7,104,937
Investment properties being re-developed (note 16)	21,350	27,780	-	-	-	-	-	-	-	-	21,350	27,780
Owner occupied property (note 16)	24,787	46,125	203	271	-	-	61,533	66,526	-	-	86,523	112,922
Plant and equipment (note 17)	594	171	23	43	68	-	741	683	7,066	3,962	8,492	4,859
Investment in joint ventures (note 18)	185,732	203,296	-	-	-	-	-	-	-	-	185,732	203,296
Other property investments (note 19)	27,501	38,693	-	-	-	-	-	-	-	-	27,501	38,693
Other investments (note 20)	-	-	-	-	-	-	-	-	4,845	4,865	4,845	4,865
Receivables due after one year (note 21)	11,335	3,188	64	64	-	-	-	-	-	-	11,399	3,252
Total non-current assets	4,803,305	6,044,621	920,170	903,388	409,530	370,180	166,255	173,588	11,911	8,827	6,311,171	7,500,604
Unallocated current assets											644,802	602,900
Unallocated liabilities											(941,131)	(769,798)
Net assets											<u>6,014,842</u>	<u>7,333,706</u>
Capital expenditure (note 16)	265,000	601,644	16,161	47,111	21,418	11,180	4,189	3,231	-	-	306,768	663,166

Notes to the financial statements continued

5. Investment revenue

	2008/09 £'000	2007/08 £'000
Bank interest income	22,541	28,142
IAS 19 retirement benefits – net financing (cost)/return (note 9b)	(68)	10
	22,473	28,152

6. Administrative expenses

	2008/09 £'000	2007/08 £'000
Administrative expenses comprise:		
Salaries, national insurance and pension costs	7,497	7,520
Commissioners' remuneration	533	504
Management and administration expenses	8,820	7,374
Auditors' remuneration	180	95
	17,030	15,493

7. Indirect operating expenses

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

	2008/09 £'000	2007/08 £'000
Re-organisation expenses	–	730

8. Employee information

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

	2008/09 £'000	2007/08 £'000
Wages and salaries	14,426	12,121
National insurance costs	1,256	1,113
Pension accrued liability	2,127	3,240
Pension payments	179	555
Total staff costs	17,988	17,029
Less: Capitalised staff costs	(4,347)	(3,442)
Staff costs reflected in the income account	13,641	13,587

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

	2008/09		2007/08	
	Parliamentary Resource account	Crown Estate Revenue account	Parliamentary Resource account	Crown Estate Revenue account
Commissioners	8	–	8	–
General administration	30	146	31	141
Operating activities	–	207	–	213
	38	353	39	354

9. IAS 19 retirement benefits

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

a. Balance sheet and notes

	31 March 2009 £'000	31 March 2008 £'000
Reconciliation of the present value of the defined benefit obligation		
Present value of defined benefit obligation at beginning of year	20,326	22,646
Current service cost	403	529
Interest cost	1,312	1,180
Members' contributions	32	25
Actuarial gain on plan liabilities	(2,632)	(3,705)
Benefits paid	(722)	(904)
Past service costs	179	555
Present value of defined benefit obligation at end of year	18,898	20,326
Analysis of the defined benefit obligation		
Present value of the unfunded defined benefit obligation	–	–
Present value of the funded defined benefit obligation	18,898	20,326
	31 March 2009 £'000	31 March 2008 £'000
Reconciliation of fair value of plan assets		
Fair value of plan assets at start of year	21,174	19,142
Expected return on plan assets	1,244	1,190
Actuarial (loss) on plan assets	(3,783)	(64)
Contributions by The Crown Estate	1,860	1,785
Contributions by Members	32	25
Benefits paid	(722)	(904)
Fair value of assets at end of year	19,805	21,174
Amounts to be recognised in the balance sheet		
Present value of funded obligation	18,898	20,326
Fair value of scheme assets	(19,805)	(21,174)
Net asset in the balance sheet	(907)	(848)

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

	2008/09 £'000	2007/08 £'000
Interest on obligation	1,312	1,180
Expected return on plan assets	(1,244)	(1,190)
Net financing cost/(return) – note 5	68	(10)
Current service cost	403	529
Past service cost	179	555
Total	650	1,074

Notes to the financial statements continued

9. IAS 19 retirement benefits (continued)

c. Total amount recognised in the statement of recognised income and expense

	2008/09 £'000	2007/08 £'000
Actuarial (loss)/gain	(1,151)	3,641
Actuarial (loss)/gain recognised in the statement of recognised income and expense	(1,151)	3,641

d. Cumulative amount recognised in the statement of recognised income and expense

	2008/09 £'000	2007/08 £'000
Cumulative (loss)/gain recognised in the statement of recognised income and expense	(233)	918

e. The assets in The Crown Estate Pension Scheme and the expected rates of return were:

	Long-term rate of return expected at 31 March 2009	Long-term rate of return expected at 31 March 2008	Long-term rate of return expected at 31 March 2007	Value at 31 March 2009 £'000	Value at 31 March 2008 £'000	Value at 31 March 2007 £'000
Equities	8.00%	7.50%	7.50%	6,454	8,608	9,208
Bonds	3.80%	4.50%	4.75%	13,371	12,561	9,837
Other	0.50%	4.50%	4.75%	(20)	5	97
Total market value of assets	5.5%	5.7%	6.1%	19,805	21,174	19,142

The overall expected return on assets is calculated as the weighted average of expected returns on each individual asset class.

The expected return on equities is the sum of inflation, the dividend yield, economic growth and investment expenses. The return on gilts is the current market yield on long-term gilts. The expected return on other assets is the current interest rate set by the Bank of England. The Trustees have recently resolved to invest 60% in index-linked gilts and 40% in equities. The figure of 5.5% at 31 March 2009 reflects this mix.

The amount of Crown Estate related investments included in the fair value of the plan assets was £nil (31 March 2008 – £nil).

	31 March 2009 £'000	31 March 2008 £'000
Actual return on plan assets	(2,539)	1,126

Principal actuarial assumptions at the balance sheet date

	31 March 2009	31 March 2008
Discount rate	6.50%	6.5%
Rate of increase in salaries	3.75%	4.5%
Price inflation	2.75%	3.5%
Pension increases	2.75%	3.5%
Mortality table	PNXA00MC with 1% underpin birth year	PXA92MC birth year

9. IAS 19 retirement benefits (continued)

In last year's FRS 17 valuation the PA92 year of birth mortality table was used. This year the PA00 year of birth table with a 1% underpin has been used, to allow for future mortality improvements. Based on these mortality tables the assumed life expectations on retirement at age 60 are:

	31 March 2009	31 March 2008
Retiring today:		
Male	87.1	86.8
Female	89.7	89.7
Retiring in 20 years:		
Male	89.3	87.9
Female	91.7	90.7

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

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	increase/decrease by 1%	increase/decrease by 6%
Rate of inflation	increase/decrease by 1%	increase/decrease by 13%
Rate of salary growth	increase/decrease by 1%	increase/decrease by 2%
Rate of mortality	increase by 1 year	increase by 3%

f. History of experience gains and losses

	31 March 2009 £'000	31 March 2008 £'000	31 March 2007 £'000	31 March 2006 £'000	31 March 2005 £'000
Present value of defined benefit obligation	18,898	20,326	22,646	21,791	16,653
Fair value of assets	19,805	21,174	19,142	15,967	13,289
Surplus/(deficit)	907	848	(3,504)	(5,824)	(3,364)
Experience (loss)/gain on scheme liabilities:					
Amount (£'000)	2,632	3,705	201	4,953	—
Percentage of the present value of the scheme liabilities	14%	18%	1%	23%	0%
Comprised of:					
Change in assumptions	2,290	3,980	136	4,690	—
Experience gain	342	(275)	65	263	—
Experience (loss)/gain from the difference between the expected and actual return on scheme assets:					
Amount (£'000)	(3,783)	(64)	(207)	1,711	605
Percentage of scheme assets	(19%)	0%	(1%)	11%	5%

For 2008/09 employer contributions were £1,860,000 (£1,785,000 in 2007/08). The Crown Estate's estimate of contributions to be paid to the Scheme in 2009/10 is £1,543,000.

For 2008/09 employer contributions to The Principal Civil Service Pension Scheme (PCSPS) were £1,419,413 (£2,478,279 in 2007/08).

Notes to the financial statements continued

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

	2008/09 £'000	2007/08 £'000
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1c:		
Charge	21,330	–
Purchase of leaseholds	–	4,738
New works and improvements	–	(14,864)
Total recovered from the capital account	21,330	(10,126)
Depreciation of fixed assets charged as costs in the income account (note 17)	2,502	3,022
Total recovery under the Treasury Agreement	23,832	(7,104)

The charge for 2008/09 is calculated after taking into account the change in accounting estimate as disclosed in the 2007/08 financial statements.

11. Net revaluations gains in property and investments (including profit/(loss) on disposal)

	2008/09 £'000	2007/08 £'000
Reflected in the statement of income and expenditure:		
Revaluation of investment properties	(1,319,204)	235,080
Revaluation of owner-occupied properties	(1,804)	–
Adjustment for gross up for deferred rent movement	109,278	5,130
Gain on disposal of investment properties	17,041	47,005
Net revaluation (losses)/gains on investment property	(1,194,689)	287,215
Share of revaluation losses in joint ventures	(122,785)	(46,540)
Share of revaluation losses in other property investments	(11,193)	(3,376)
Total reflected in the capital account	(1,328,667)	237,299
Profit on disposal of plant and equipment	6	193
Total reflected in the statement of income and expenditure	(1,328,661)	237,492
Reflected in the statement of recognised income and expense:		
Revaluation of owner-occupied property	(25,328)	(11,458)
Revaluation of other investments	–	(22)
Total reflected in the statement of recognised income and expense	(25,328)	(11,480)
Total	(1,353,989)	226,012

12. Financial instruments

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

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

The financial assets held by The Crown Estate are cash equivalents and trade and other receivables (note 23). 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 24), and the fair value of these liabilities equals their carrying value.

13. Parliamentary Resource finance

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

14. Statutory transfers

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

	2008/09 £'000	2007/08 £'000
Moieties:		
Mineral dealings	10,912	9,909

15. 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.

Notes to the financial statements continued

16. Properties

	Investment properties freehold £'000	Investment properties leasehold £'000	Total investment properties £'000	Investment properties being re-developed £'000	Owner- occupied property £'000	Total properties £'000
At 1 April 2007	6,879,028	67,325	6,946,353	91,208	123,812	7,161,373
Less: deferred income from lease premiums received	(667,575)	–	(667,575)	–	–	(667,575)
Less: head lease liabilities	–	(575)	(575)	–	–	(575)
At valuation 1 April 2007	6,211,453	66,750	6,278,203	91,208	123,812	6,493,223
Additions	559,799	–	559,799	–	–	559,799
New works and improvements	69,350	–	69,350	33,449	568	103,367
Transfers	97,961	–	97,961	(97,961)	–	–
Disposals	(807,652)	–	(807,652)	–	–	(807,652)
Revaluation	212,636	21,360	233,996	1,084	(11,458)	223,622
At valuation 31 March 2008	6,343,547	88,110	6,431,657	27,780	112,922	6,572,359
Deferred income from lease premiums received	672,705	–	672,705	–	–	672,705
Head lease liabilities	–	575	575	–	–	575
At 31 March 2008	7,016,252	88,685	7,104,937	27,780	112,922	7,245,639
At 1 April 2008	7,016,252	88,685	7,104,937	27,780	112,922	7,245,639
Less: deferred income from lease premiums received	(672,705)	–	(672,705)	–	–	(672,705)
Less: head lease liabilities	–	(575)	(575)	–	–	(575)
At valuation 1 April 2008	6,343,547	88,110	6,431,657	27,780	112,922	6,572,359
Additions	192,485	–	192,485	–	–	192,485
New works and improvements	87,079	1,389	88,468	25,058	757	114,283
Transfers	(69,850)	27,200	(42,650)	42,670	(20)	–
Disposals	(242,143)	–	(242,143)	–	(4)	(242,147)
Revaluation	(1,208,947)	(36,099)	(1,245,046)	(74,158)	(27,132)	(1,346,336)
At valuation 31 March 2009	5,102,171	80,600	5,182,771	21,350	86,523	5,290,644
Deferred income from lease premiums received	781,983	–	781,983	–	–	781,983
Head lease liabilities	–	575	575	–	–	575
At 31 March 2009	5,884,154	81,175	5,965,329	21,350	86,523	6,073,202

The historic cost of the properties was £1,833,696,000 (2007/08 – £1,693,484,000).

Investment properties identified as held for sale at the year-end are included within disposals.

The property portfolio was valued on 31 March 2009 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.

16. Properties (continued)

In relation to the property valuations made by The Crown Estate's valuers, the financial markets have seen significant turbulence over the last year or so resulting in severe liquidity shortages. The turmoil in the credit markets had an immediate effect on the real estate investment market resulting in some transactions failing and/or prices being renegotiated downwards. This has caused a marked reduction in the volume of transactions with activity below the levels of recent years. The negotiation of price chips prior to the completion of transactions remains common. Generally, there is greater volatility in the evidence generated by comparable transactions and in these circumstances there is a greater degree of uncertainty than that which exists in a more active and stronger market in forming an opinion of the realisation prices of property assets.

Whereas transaction evidence underpins the valuation process, the definition of Market Value, including the commentary in Practice Statement 3.2.4, requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

In the market conditions which currently prevail, there is likely to be a greater than usual degree of uncertainty in respect of valuations.

The value of The Crown Estate's portfolio is affected by these conditions which are outside its control.

17. Plant and equipment

	Plant and machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost at 1 April 2007	1,171	9,950	1,741	12,862
Additions	167	1,995	148	2,310
Disposals	(58)	(2,122)	(252)	(2,432)
Cost at 31 March 2008	1,280	9,823	1,637	12,740
Depreciation at 1 April 2007	792	5,267	1,219	7,278
Charge	158	2,695	169	3,022
Disposals	(92)	(2,120)	(207)	(2,419)
Total depreciation at 31 March 2008	858	5,842	1,181	7,881
Net book value at 31 March 2008	422	3,981	456	4,859
Net book value at 1 April 2007	379	4,683	522	5,584

	Plant and machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost at 1 April 2008	1,280	9,823	1,637	12,740
Additions	212	5,754	86	6,052
Disposals	(5)	(6)	(85)	(96)
Cost at 31 March 2009	1,487	15,571	1,638	18,696
Depreciation at 1 April 2008	858	5,842	1,181	7,881
Charge	123	2,208	171	2,502
Disposals	(63)	(5)	(111)	(179)
Total depreciation at 31 March 2009	918	8,045	1,241	10,204
Net book value at 31 March 2009	569	7,526	397	8,492

Notes to the financial statements continued

18. Investment in joint ventures

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

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

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

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

	Gibraltar LP 2008/09 £'000	Crown Point 2008/09 £'000	Princes Street 2008/09 £'000	Total 2008/09 £'000	Gibraltar LP 2007/08 £'000
Non-current assets	213,774	48,000	4,150	265,924	301,710
Current assets	24,673	1,357	115	26,145	6,534
Gross assets	238,447	49,357	4,265	292,069	308,244
Current liabilities	(5,053)	(1,214)	(70)	(6,337)	(4,948)
Long-term bank loan	(100,000)	–	–	(100,000)	(100,000)
Share of net assets	133,394	48,143	4,195	185,732	203,296
Income	12,688	2,551	104	15,343	14,535
Expenses	(6,519)	(155)	(9)	(6,683)	(6,155)
Share of profit on ordinary activities reflected in the income account	6,169	2,396	95	8,660	8,380
Share of loss on revaluation of investment reflected in the capital account	(91,574)	(23,386)	(7,825)	(122,785)	(46,540)
Total share of income reflected in the statement of income and expenditure	(85,405)	(20,990)	(7,730)	(114,125)	(38,160)

Summary of movement in the year in investment in joint ventures:

	2008/09 £'000	2007/08 £'000
At 1 April	203,296	–
Net equity additions	104,809	249,941
(Deficit) on revaluation of investment properties	(122,785)	(46,540)
Distributions receivable during the year	(8,248)	(8,485)
Share of profit for the year	8,660	8,380
At 31 March at carrying value	185,732	203,296

In respect of the Gibraltar Limited Partnership, the partnership is dependent for its working capital requirements on cash generated from operations and a £200 million credit facility. The partnership is required to comply with a number of covenants in relation to its credit facility the principal of which is that the amount of the loan drawn must not exceed 35% of the value of the partnership's properties. As at 31 March 2009 the partnership had placed £37 million of cash loaned from the limited partners in a blocked account in order to maintain compliance with this covenant.

The general partner, Gibraltar General Partner Limited, is aware that future compliance with this covenant could be affected if there are continued reductions in property values. Whilst the general partner will continue to monitor adherence to this covenant, further cash injections will be required from the limited partners, or alternative sources of funding sought, to maintain compliance in the event of continued reductions in property values.

The general partner has concluded that these circumstances give rise to material uncertainty that could cast significant doubt upon the partnership's ability to continue as a going concern and it may therefore be able to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries, and considering the uncertainties described above, the directors of the general partnership have a reasonable expectation that the partnership has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the general partner considers it appropriate to prepare the financial statements on a going concern basis.

19. Other property investments

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

	2008/09 £'000	2007/08 £'000
Net income received	1,523	1,719
Share of revaluation of investment	(11,193)	(3,376)
Reflected in the statement of income and expenditure	(9,670)	(1,657)
Share of net assets	27,501	38,693

20. Other investments

	2008/09 £'000	2007/08 £'000
Antiques and paintings	4,845	4,865

Antiques and paintings are valued by recognised experts every three years on a rolling basis. The last valuation took place in 2007/08. A valuation deficit of £22,000 was recognised in 2007/08.

21. Receivables due after one year

	2008/09 £'000	2007/08 £'000
Mortgages and loans	1,641	752
Other receivables	9,758	2,500
	11,399	3,252

22. Inventories

	2008/09 £'000	2007/08 £'000
Inventories for resale	135	120
Stores	95	102
Work in progress	–	2,128
	230	2,350

Work in progress comprised the costs associated with the implementation of a new financial system. On completion these costs were transferred to plant and equipment.

Notes to the financial statements continued

23. Trade and other receivables

	2008/09 £'000	2007/08 £'000
Trade receivables	10,021	9,702
Proceeds from sale of land at Bingham	–	12,750
Other receivables	12,506	39,630
Prepayments	2,186	432
Accrued income	6,922	6,825
	31,635	69,339

Trade and other receivables are shown after deducting the provision for bad and doubtful debts of £19,480,000 (£6,137,000 for 2007/08). The increase in the trade receivable impairment reflects the application of The Crown Estate's provisioning policy in respect of bad and doubtful receivables.

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

	2008/09 £'000	2007/08 £'000
Trade and other receivables outside their payment terms not yet provided are:		
Within credit terms	–	–
Past due date but not impaired:		
0–1 month	12,383	18,574
1–2 months	1,124	867
More than 2 months	1,323	3,463
	14,830	22,904
Bad and doubtful receivables provision		
Other expenditure includes the movement on the provision for bad and doubtful receivables as follows:		
Provision at the beginning of the year	6,137	3,867
Income written off during the year	(404)	(370)
Increase in the provision for the year	13,747	2,640
Provision at the end of the year	19,480	6,137

24. Payables

	2008/09 £'000	2007/08 £'000
Amounts falling due within one year:		
Trade payables	370	4,599
Rents received in advance	50,929	49,244
Taxes and social security	7,715	12,440
Other payables	69,015	11,233
Consolidated Fund	10,000	7,000
Accruals and deferred income	19,294	10,252
Deferred income on receipt of lease premiums	7,583	8,304
Obligations under finance leases	35	35
	164,941	103,107
Amounts falling due after more than one year:		
Rents received in advance	1,250	1,750
Deferred income on receipt of lease premiums	774,400	664,401
Obligations under finance leases	540	540
	776,190	666,691

25. Reserves

	Revenue account £'000	Capital account £'000	Total reserves arising from income £'000	Revaluation reserve £'000	Pension reserve £'000	Total capital and reserves £'000
As at 1 April 2007	8,331	7,053,511	7,061,842	36,808	(3,504)	7,095,146
Surplus after Consolidated Fund payment	2,447	243,952	246,399	–	–	246,399
Unrealised deficit on revaluation of antiques	–	–	–	(22)	–	(22)
Revaluation (deficit) of owner occupied properties	–	–	–	(11,458)	–	(11,458)
Pension reserve adjustment	(711)	–	(711)	–	711	–
Actuarial (loss)/gains on retirement benefits	–	–	–	–	3,641	3,641
As at 31 March 2008	10,067	7,297,463	7,307,530	25,328	848	7,333,706
As at 1 April 2008	10,067	7,297,463	7,307,530	25,328	848	7,333,706
Deficit after consolidated fund payment	(3,543)	(1,288,842)	(1,292,385)	–	–	(1,292,385)
Revaluation (deficit) of owner occupied properties	–	–	–	(25,328)	–	(25,328)
Pension reserve adjustment	(1,210)	–	(1,210)	–	1,210	–
Actuarial (loss) on retirement benefits	–	–	–	–	(1,151)	(1,151)
As at 31 March 2009	5,314	6,008,621	6,013,935	–	907	6,014,842

Notes to the financial statements continued

26. Leasing

Operating leases with tenants

The Crown Estate leases out all of its investment properties under operating leases for average lease terms of 44 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	2008/09 £'000	2007/08 £'000
Less than one year	192,778	193,561
Between two and five years	646,393	662,278
Between six and 10 years	602,417	624,307
Between 11 and 15 years	337,262	381,472
Between 16 and 20 years	210,709	215,881
Between 21 and 25 years	176,640	176,958
After 25 years	1,770,626	1,753,239
	3,936,825	4,007,696

Contingent rents receivable were £554,027,375 at 31 March 2009 (£559,658,869 at 31 March 2008).

Obligations under finance leases

Finance lease liabilities are payable as follows:

	2008/09			2007/08		
	Minimum lease payments £'000	Future finance charges £'000	Present value of lease obligations £'000	Minimum lease payments £'000	Future finance charges £'000	Present value of lease obligations £'000
Less than one year	35	–	35	35	–	35
Between one and five years	138	(19)	119	138	(19)	119
More than five years	3,152	(2,731)	421	3,183	(2,762)	421
	3,325	(2,750)	575	3,356	(2,781)	575

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

	2008/09 £'000	2007/08 £'000
Operating surplus – income account	223,701	172,622
Profit on disposal of fixed assets	(6)	(193)
Depreciation	2,502	3,022
Decrease in receivables	29,938	4,735
(Decrease)/increase in payables	(6,329)	54,222
(Decrease)/increase in inventories	(8)	(1,598)
Net cash inflow from operating activities	249,798	232,810

28. Analysis of change in cash and cash equivalents

	2008/09 £'000	2007/08 £'000
Balance at start of year	518,362	435,223
Net cash (outflow)/inflow	(128,276)	83,139
Balance at end of year	390,086	518,362

29. Subsidiary undertakings

On 7 April 2008 The Crown Estate acquired a 100% interest in Rhu Marina Holdings Limited and its subsidiary companies, Rhu Marina Limited and Rhu Marina Sales Limited for a total consideration of £4.2 million including associated costs. Rhu Marina Limited held an investment in a marina in Rhu, Scotland. During the year the assets and liabilities of Rhu Marina Holdings Limited and its subsidiaries were acquired by The Crown Estate.

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% by The Crown Estate Commissioners unless stated):

- Fitzgeorge and Fitzjames Management Company Limited
- RM Site Management Limited
- Urbanlease Property Management Company Limited
- Bessborough Gardens Estate Management Company Limited
- Rhu Marina Holdings Limited
- Gibraltar General Partner Limited (50% interest).

30. Capital commitments

At 31 March 2009 The Crown Estate had committed to make capital expenditure of £500 million (£152 million at 31 March 2008) and had authorised additional expenditure of £63.7 million (£121 million at 31 March 2008).

31. Contingent liabilities

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

32. Related party transactions

During the year, none of the Board members, members of the key management staff or other related parties have undertaken any material transactions with The Crown Estate with the exception of Philip Everett, the Deputy Ranger at Windsor Great Park who is employed in a personal capacity through Smiths Gore where he is a salaried partner and David Fursdon, non-executive director who is a non-executive consultant of Smiths Gore. Smiths Gore are amongst The Crown Estate's managing agents and as such receive fees for their services. Neither Philip Everett nor David Fursdon had any involvement in determining either the appointment or remuneration of Smiths Gore in this capacity. During the year Smiths Gore were paid a total in fees of £1,860,542 (£1,898,862 in 2007/08), for services they provided across the whole of The Crown Estate

33. Third party deposits

At 31 March 2009 The Crown Estate held £18,675,686 (£15,286,826 at 31 March 2008) on deposit on behalf of third parties.

34. Issue of accounts

On 22 June 2009 the financial statements were approved by the audit committee on behalf of the Board prior to certification by the Comptroller and Auditor General on 29 June 2009. On this date the financial statements for the year ended 31 March 2009 are deemed to be authorised for issue. Post balance sheet events were considered up to this date.

Notes to the financial statements continued

35. Explanation of the transition to IFRS

2009 is the first year that The Crown Estate is presenting its financial statements under IFRS as modified by the requirements of The Crown Estate Act 1961 and with the directions of the Treasury.

The last financial statements presented under UK GAAP as modified by The Crown Estate Act 1961 and with the directions of the Treasury were for the year ended 31 March 2008.

As IFRS comparatives must be prepared for the year ended 31 March 2008, the date of the transition to IFRS was 1 April 2007.

Reconciliations of the 2008 statement of income and expenditure and the balance sheet from those previously reported are set out in pages 83 to 85.

The Crown Estate Act 1961 requires that income is distinguished separately from capital. Under IFRS certain capital items are required to be reported through the statement of income and expenditure. Previously all capital items were reported through the balance sheet. In order that the financial statements comply with the requirements of The Crown Estate Act 1961 it has been necessary to report the statement of income and expenditure in income, capital and total columns.

The transition to IFRS has had no impact on the cash flows of The Crown Estate.

The principal adjustments are explained below. The references refer to the columns shown in notes 35a, 35b and 35c:

- a** Under UK GAAP lease incentives and rent free periods were amortised over the period to first rent review. Under IFRS such lease incentives are amortised over the period to first break or period of the lease, whichever is the shorter.
- b** Under IFRS gains and losses arising on the revaluation of investment properties are included in the statement of income and expenditure. Previously gains and losses were treated as capital account items recognised in the revaluation reserve.
- c** Under IFRS gains and losses on the sale of investment properties are reflected in the statement of income and expenditure in the capital account column. Previously such gains and losses were treated as capital account items reflected in the general capital reserve.
- d** Under IFRS, the premium received in respect of the grant of a lease over a property is regarded as an operating lease. The resulting deferred income is recognised in the statement of income and expenditure in the capital account column on a straight line basis over the length of the lease. Under the requirements of IAS 40 investment properties are grossed up to reflect the value of this income. Previously receipts on granting a lease where the lease term was greater than 30 years were treated as capital account items, credited to the carrying value of the investment property.
- e** Under IFRS the share of the revaluation of investment in joint ventures and other investments is reflected in the statement of income and expenditure. Previously such gains and losses were treated as capital account items taken to the revaluation reserve.
- f** IAS 17 requires a lease to be classified as either a finance lease or an operating lease. A finance lease exists if substantially all the risks and rewards of ownership are transferred to the tenant. All other leases are operating leases. The Crown Estate has examined its leases and concluded that substantially all are operating leases. As such all property continues to be shown as a property interest in the balance sheet.

Where an investment property is itself subject to a head or groundlease, IFRS requires that the headlease is treated as though it were a finance lease. The net present value of all payments under the finance lease are capitalised into the value of the investment property and a creditor for obligations under finance leases has been recognised. No such distinction was required under UK GAAP.

- g** Under IFRS 5 properties held with the intention of disposal at the balance sheet date are valued at the lower of cost and net realisable value. They are shown in the balance sheet as current property assets. Previously such property was disclosed within investment properties.
- h** As stated in notes 1b and 1c The Crown Estate Act 1961 contains specific provisions for an amount equivalent to the cost of purchase of leaseholds with a lease term of 40 years or less and new works and improvements expenditure of a wasting nature to be recovered from the income account and credited to the capital account through the general capital reserve. Under IFRS this transfer is shown in statement of income and expenditure.

35. Explanation of the transition to IFRS (continued)

a. Reconciliation of the statement of income and expenditure for the year ended 31 March 2008 from UK GAAP as modified to IFRS.

	Income Account					Capital Account				Total statement of income and expenditure under IFRS £'000	
	As previously reported presented in an IFRS format £'000	Lease incentives a £'000	Gross up income and costs for service charge £'000	Total Income account under IFRS £'000	Revaluation of investment properties b £'000	Gains on disposal of investment properties c £'000	Lease premiums d £'000	Revaluation of joint ventures and other investments e £'000	Statutory provisions and Treasury agreements h £'000		Total capital account under IFRS £'000
Turnover	229,869	2,004	19,674	251,547	–	–	6,870	–	–	6,870	258,417
Costs	(59,251)	–	(19,674)	(78,925)	–	–	–	–	–	–	(78,925)
Operating surplus	170,618	2,004	–	172,622	–	–	6,870	–	–	6,870	179,492
Recovery of capital expenditure under The Crown Estate Act 1961	10,126	–	–	10,126	–	–	–	–	(10,126)	(10,126)	–
Net revaluation gains (including profits on disposals)	–	–	–	–	247,080	47,005	(6,870)	–	–	287,215	287,215
Share of profit/(loss) from joint ventures	8,380	–	–	8,380	–	–	–	(46,540)	–	(46,540)	(38,160)
Share of profit from other property investments	1,719	–	–	1,719	–	–	–	(3,376)	–	(3,376)	(1,657)
Parliamentary resource finance	2,357	–	–	2,357	–	–	–	–	–	–	2,357
Statutory transfers	(9,909)	–	–	(9,909)	–	–	–	–	9,909	9,909	–
Net operating profit before financing	183,291	2,004	–	185,295	247,080	47,005	–	(49,916)	(217)	243,952	429,247
Investment revenue	28,152	–	–	28,152	–	–	–	–	–	–	28,152
Net surplus	211,443	2,004	–	213,447	247,080	47,005	–	(49,916)	(217)	243,952	457,399
Consolidated fund payment	(211,000)	–	–	(211,000)	–	–	–	–	–	–	(211,000)
Surplus after consolidated fund payment	443	2,004	–	2,447	247,080	47,005	–	(49,916)	(217)	243,952	246,399

35. Explanation of the transition to IFRS (continued)

b. Reconciliation of the balance sheet at 31 March 2008 from UK GAAP as modified to IFRS.

	As previously reported presented in an IFRS format £'000	Opening balance sheet adjustment (note 35c) £'000	Lease incentives a £'000	Revaluation of investment properties b £'000	Lease premiums d £'000	Properties held for sale g £'000	Re-stated under IFRS £'000
Assets							
Non-current assets							
Investment properties	6,443,658	588,925	–	–	5,130	67,224	7,104,937
Investment properties under re-development	27,780	–	–	–	–	–	27,780
Owner occupied property	112,922	–	–	–	–	–	112,922
Plant and equipment	4,859	–	–	–	–	–	4,859
Investment in joint ventures	203,296	–	–	–	–	–	203,296
Other property investments	38,693	–	–	–	–	–	38,693
Other investments	4,865	–	–	–	–	–	4,865
Receivables due after one year	3,252	–	–	–	–	–	3,252
Total non-current assets	6,839,325	588,925	–	–	5,130	67,224	7,500,604
Current assets							
Non-current property assets held for sale	–	79,225	–	–	–	(67,224)	12,001
Inventories	2,350	–	–	–	–	–	2,350
Receivables	63,679	3,656	2,004	–	–	–	69,339
Cash and cash equivalents	518,362	–	–	–	–	–	518,362
Total current assets	584,391	82,881	2,004	–	–	(67,224)	602,052
Pension asset	848	–	–	–	–	–	848
Total assets	7,424,564	671,806	2,004	–	5,130	–	8,103,504
Liabilities							
Current liabilities							
Trade and other payables	(94,768)	(7,886)	–	–	(453)	–	(103,107)
Total current liabilities	(94,768)	(7,886)	–	–	(453)	–	(103,107)
Non-current liabilities	(1,750)	(660,264)	–	–	(4,677)	–	(666,691)
Total liabilities	(96,518)	(668,150)	–	–	(5,130)	–	(769,798)
Net assets	7,328,046	3,656	2,004	–	–	–	7,333,706
Capital and reserves							
Revenue reserve available for distribution to The Consolidated Fund	4,407	3,656	2,004	–	–	–	10,067
Reserves relating to the Capital account	2,544,837	4,911,692	–	(159,066)	–	–	7,297,463
Total reserves arising from Revenue	2,549,244	4,915,348	2,004	(159,066)	–	–	7,307,530
Revaluation reserve	4,777,954	(4,911,692)	–	159,066	–	–	25,328
Pensions reserve	848	–	–	–	–	–	848
Total capital and reserves	7,328,046	3,656	2,004	–	–	–	7,333,706

35. Explanation of the transition to IFRS (continued)

c. Reconciliation of the balance sheet at 31 March 2007 from UK GAAP as modified to IFRS

	As previously reported presented in an IFRS format £'000	Lease incentives a £'000	Revaluation of investment properties b £'000	Lease premiums d £'000	Head leases f £'000	Properties held for sale g £'000	Under IFRS £'000
Assets							
Non-current assets							
Investment properties	6,357,428	–	–	667,575	575	(79,225)	6,946,353
Investment properties under re-development	91,208	–	–	–	–	–	91,208
Owner occupied property	123,812	–	–	–	–	–	123,812
Plant and equipment	5,584	–	–	–	–	–	5,584
Other property investments	42,065	–	–	–	–	–	42,065
Other investments	4,941	–	–	–	–	–	4,941
Receivables due after one year	13,814	–	–	–	–	–	13,814
Total non-current assets	6,638,852	–	–	667,575	575	(79,225)	7,227,777
Current assets							
Non-current property assets held for sale	–	–	–	–	–	79,225	79,225
Inventories	752	–	–	–	–	–	752
Receivables	58,616	3,656	–	–	–	–	62,272
Cash and cash equivalents	435,223	–	–	–	–	–	435,223
Total current assets	494,591	3,656	–	–	–	79,225	577,472
Total assets	7,133,443	3,656	–	667,575	575	–	7,805,249
Liabilities							
Current liabilities							
Trade and other payables	(38,449)	–	–	(7,851)	(35)	–	(46,335)
Pension fund provision	(3,504)	–	–	–	–	–	(3,504)
Total current liabilities	(41,953)	–	–	(7,851)	(35)	–	(49,839)
Non-current liabilities	–	–	–	(659,724)	(540)	–	(660,264)
Total liabilities	(41,953)	–	–	(667,575)	(575)	–	(710,103)
Net assets	7,091,490	3,656	–	–	–	–	7,095,146
Capital and reserves							
Revenue reserve available for distribution to The Consolidated Fund	4,675	3,656	–	–	–	–	8,331
Reserves relating to the Capital account	2,141,819	–	4,911,692	–	–	–	7,053,511
Total reserves arising from Revenue	2,146,494	3,656	4,911,692	–	–	–	7,061,842
Revaluation reserve	4,948,500	–	(4,911,692)	–	–	–	36,808
Pensions reserve	(3,504)	–	–	–	–	–	(3,504)
Total capital and reserves	7,091,490	3,656	–	–	–	–	7,095,146

Ten-year record

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

Income account	1999/00 £'000	2000/01 £'000	2001/02 £'000	2002/03* £'000	2003/04 £'000	2004/05 £'000	2005/06 £'000	2006/07* £'000	2007/08 Restated £'000	2008/09 £'000
Revenue	187,202	204,885	223,537	230,039	237,779	245,444	252,341	262,160	251,547	304,157
Direct operating costs	(25,130)	(26,661)	(30,176)	(27,320)	(30,201)	(31,953)	(31,613)	(38,718)	(59,873)	(60,930)
Gross surplus	162,072	178,224	193,361	202,719	207,578	213,491	220,728	223,442	191,674	243,227
Administrative expenses	(10,226)	(10,701)	(10,743)	(11,347)	(11,031)	(11,746)	(12,321)	(13,271)	(15,493)	(17,030)
Indirect operating expenses	–	–	–	–	(887)	(2,007)	(1,030)	(766)	(730)	–
Net revenue surplus	132,885	147,740	163,339	171,053	176,930	184,811	190,817	200,072	213,447	226,547
Consolidated										
Fund payment	132,900	147,800	163,500	170,800	173,000	185,700	188,000	200,000	211,000	230,000
Investment and owner occupied properties	3,433,612	3,870,938	4,032,640	4,067,438	4,408,872	4,812,024	5,685,395	6,572,448	7,245,639	6,073,202
Property held for sale	–	–	–	–	–	–	–	–	12,001	221,944
Investment in joint ventures	–	–	–	–	–	–	–	–	203,296	185,732
Other property investments	–	–	–	–	–	–	–	42,065	38,693	27,501
Other plant, property and equipment	2,741	2,395	2,133	2,132	2,236	3,209	4,577	5,584	4,859	8,492
Investments	3,856	3,960	3,994	3,976	4,059	5,042	4,995	4,941	4,865	4,845
Debtors: due >1yr	–	–	–	–	42	64	64	13,814	3,252	11,399
Current assets	205,450	146,581	167,017	185,371	214,134	306,731	287,198	494,591	602,052	643,895
Pension asset	–	–	–	–	–	–	–	–	848	907
Current liabilities	(19,137)	(20,190)	(25,956)	(39,817)	(36,120)	(36,645)	(45,631)	(41,953)	(103,107)	(164,941)
Creditors >1yr	–	–	–	–	–	–	–	–	(666,691)	(776,190)
Capital and reserves	3,626,522	4,003,684	4,179,828	4,219,100	4,593,223	5,090,425	5,936,598	7,091,490	7,333,706	6,014,842

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

The 2007/08 figures are restated to reflect the change to IFRS. The figures shown in prior year columns are as previously reported under UK GAAP.

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