

CHIEF EXECUTIVE'S REVIEW



Dan Labbad
Chief Executive

A pivotal year

“I hope that when we look back at this time it will be seen as a pivotal moment. One where we took the time and care to understand the needs of the world around us and the unique contribution we could make.”

Dominated by COVID-19, this past year has continued to test our individual and collective resilience.

While we hope that we are now beginning to enter a new phase with fewer restrictions, we are deeply aware that there is no 'return to normal'. Alongside the ongoing challenges of managing the pandemic, COVID-19 has accelerated or thrown into sharper focus longer-term trends, including technological disruption, accelerating consumer demand, innovation, socio-economic inequality and climate change. It is clear that an increased level of uncertainty and instability is here to stay.

The health, safety and wellbeing of people has continued to be at the heart of our COVID-19 response. Alongside this, supporting our customers – especially in retail, leisure and dining – who have experienced severe operational and economic challenges, has been another key focus of the year. As a result, recognising our interdependence, we have worked more closely with our customers than ever before, seeking to help those businesses where we can make the most meaningful difference. Read more on our response to COVID-19 on page 36.

Our purpose and strategy

As outlined in last year's Annual Report, at the beginning of 2020 we began a deep review of our purpose and strategy to respond to the longer-term trends impacting our business and ensure that we could better adapt to ongoing change. This recognised that the same things that had underpinned our achievements to date would not be the things that ensured our success for the future. In fact, without deep and wide-ranging change, parts of our portfolio would risk obsolescence, high volatility and a muted forecast for growth. We would also risk undermining trust and legitimacy with our customers and stakeholders.

We have outlined the results of this strategic review on pages 12-13. In summary, by working together with our stakeholders we will harness the powerful attributes that are unique to our business, rising to the challenges and opportunities before us to ensure we deliver broader social, environmental and financial value for our customers, stakeholders and the nation, wherever we operate, for many years to come.

Building on a continuum of history that dates back more than 260 years and a diverse portfolio spanning the country, we can be more than simply

owners or managers of land and seabed. Instead, we have the opportunity to play an active role across a number of critical areas facing society and the natural world, leveraging our scale and convening power to redefine our impact and make a meaningful difference. Crucially, the Crown Estate Act ensures that we not only return all our net revenue profit to Treasury for the benefit of the nation, but that we are compelled to do so in a way that is purpose-driven and for the long term. Over the last 10 years we have delivered for today, returning £3.0 billion to the public purse while also investing for the future, building a portfolio worth £14.4 billion.

This mandate is encapsulated through our new purpose, 'to create lasting and shared prosperity for the nation'. This will be our 'north star' for the years to come and is guiding our ambitious new strategy which will continue to evolve as required and see us drive fundamental change in the way we operate to galvanise our impact around three key areas:

- Being a leader in supporting the UK towards a net zero carbon future
- Helping to create thriving communities and renewing urban centres in London and across the UK
- Taking a leading role in stewarding the UK's natural environment and biodiversity.

Through a relentless focus on our customers, we will reset the way we work to deliver impactful outcomes for them – particularly based on deep insight, enhancing our digital capabilities and building strong relationships at all levels. This means in addition to getting the basics right, we will empower our people to innovate to deliver new products and services that enhance productivity, meet changing demands and evolve with our customers. This approach will help customers achieve success, at the same time as enabling us to strive for equality of outcomes and opportunities as we create value for the communities in which we operate.

To enable this, we are reshaping how we organise ourselves. Central to this is operating as a single Group business, comprising four Strategic Business Units: London, Regional, Marine and Windsor & Rural. As well as reviewing our systems and processes, we are undertaking a restructure across much of the business to improve our ways of working and bring in new skills and capabilities.

All of this is underpinned by our values, which we have evolved to help bring our purpose to life through our actions and behaviours, setting out what our customers and stakeholders can expect from us. Read more on why these are so important to us on page 5.

Our performance

For the financial year 2020/21, we made a net revenue profit of £269.3 million which, as expected, represents a 21.9% decline on 2019/20. This means our average growth on a three-year rolling basis has declined by 6.5%, 10.5 percentage points below our target of 4% growth.

We announced the outcome of the Offshore Wind Leasing Round 4 (Round 4) bidding process earlier this year, (read more on pages 31 and 37), and as a result are now holding £879 million of customers' cash deposits – equivalent to one year's option fee income. We will begin to recognise this income when our customers take up their options, which is predicated on successful Habitats Regulations Assessment approval – a process that is expected to take around one to two years. We have attributed a value to Round 4 for the first time this year, which has caused our capital value to increase at a time when commercial property values have been falling.

The value of our total portfolio has increased from £13.4 billion to £14.4 billion a 7.5% increase. Our 12-month total return is 11.9%, outperforming our annual MSCI bespoke total return of -2.9%. On a three-year rolling basis, it is 6.0% against our MSCI bespoke benchmark of 0.3%. If we exclude the impact of Round 4 our 12-month total return would have been -3.2%, 0.3 percentage points below the annual MSCI bespoke benchmark.

This £1.0 billion increase in assets is driven by two primary events. Our Marine portfolio has increased in value by £2.1 billion primarily as a result of valuing Round 4 for the first time. The relatively modest valuation in relation to the option fee income reflects cautious assumptions around future cash flows, which may manifest through increased volatility in future income and capital values. Offsetting this is a £1.1 billion decrease in capital values, predominantly as a result of the performance of our retail assets across our London and Regional portfolios, as the pandemic has accelerated structural trends in these markets. Uncertainty in the occupational markets going forward may introduce further volatility into both our income statement and capital values, at least in the short term.

As we cannot draw down on our capital account to cover operating expenses, we implemented a structured payment process to remit our net revenue profit for the financial year 2019/20 to the Treasury, which was paid in four instalments, with the final payment in April 2021. We will continue to use the structured payment process for our 2020/21 net revenue profit.

In light of the events of the last year, these results, outside of the Marine sector, reflect the challenges our customers have faced and are in line with the broader market. The resilience in our diverse portfolio means revenue declines and additional bad debt expense, reflecting the impact of the pandemic and challenging occupational markets, have been partially offset by increases in revenue from offshore wind farms, and increased mineral extraction.

Given the scale of the option fee income, the timing of our customers entering into their Round 4 option agreements will have a significant bearing on our future financial results. Elsewhere, we would not expect many of the one-off costs relating to COVID-19 to recur in the current year, however there remains significant uncertainty in the wider economy, and around trading conditions in our occupier markets, which we anticipate will drive some downward pressure on rental income and could affect the recoverability of rental arrears.

Our portfolios

Our Marine portfolio has seen a year in which far-reaching developments have brought it into even greater prominence. Building on the current UK offshore wind pipeline of 41.4GW, the six new offshore wind projects to progress to the next stage of Round 4 could deliver up to a further 8GW of offshore wind power, representing the potential to deliver enough electricity to power 7.4 million homes. Already a world leading sector, the growing role of the UK's offshore wind industry in providing significant renewable energy for the country has brought us a step closer to realising the UK's transition to a net zero future by 2050.

At the same time, competing demands on a busy seabed mean that we, together with our customers and stakeholders, have an even greater responsibility to ensure its long-term sustainable development, including the preservation and enhancement of its biodiversity. Through our strategic review, we have identified a number of ways in which we can help optimise the economic, social and environmental potential of this national asset and in the coming year we will be testing our thinking in this area in collaboration with others.

For our London portfolio, it has been a challenging year for all our customers, predominantly as a result of restrictions imposed during the pandemic, affecting both our revenue and capital performance. While our office portfolio has remained reasonably resilient, retail and hospitality have been severely impacted. While it is too soon to understand longer-term patterns of working and living, it is clear that cities, including London, are going to have to work much harder to earn patronage, both domestically and internationally. What cities offer inherently, in terms of social capital and diversity, will have to be matched by flexible working and dynamic mixed-used spaces that are safe, socially inclusive, environmentally conscious and experientially exciting. For us, the transformation of Regent Street to create a cleaner, greener and more accessible destination provides an important first step (read more on page 41).

Over the year our Regional portfolio has seen further valuation decline, driven by our retail assets. Ongoing structural trends in this market towards online shopping, along with the series of lockdown restrictions, have taken their toll with the failure of both household brands and independent operators. While our void rate has remained resilient in light of market conditions, increasing to 5.7% from 3.5%, the future success of our regional retail holdings will depend on re-mixing and re-purposing where conditions allow. Notwithstanding this challenging backdrop the year has seen some notable highlights including the opening of our retail extension and food court development at Fosse Park in Leicester. Read more on how this contributes to the local community on page 43.

More broadly through our strategic land ownerships, we are reviewing the potential to take a more active role in exploring the portfolio's mixed-use potential, supporting communities and helping to build skills and employment opportunities. In line with this approach we continued to progress our long-term plans for our 350 hectares of land to the east of Hemel Hempstead, which forms part of the first phase of Hemel Garden Communities (HGC) and has the potential to accommodate up to 1.75 million sq ft of commercial space alongside approximately 3,100 new homes.

Outside of strategic land, our Rural portfolio includes over 125,000 acres of farmland across England as well as 50,000 acres of upland and Commons interests across Wales and Cumbria.

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continued

In light of the new Agriculture Act and Environment Bill, which collectively frame the future for the rural economy in the UK, we have started to review our Rural portfolio's strategic potential and will carry on this work in the year ahead to inform our new Rural strategy.

The Windsor Estate is one of the country's most unique and important environmental and ecological sites, and we want it to continue to be recognised as a centre of excellence and best practice. Our ambitious 10-year landscape restoration and replanting scheme will enormously enhance the biodiversity of the Park's precious landscape and you can read more about this on page 44. The Great Park and forests provided crucial open green space during the pandemic and visitor numbers hit six million. We look forward to the planned opening of a new children's adventure play area, along with a tree-top walk, multi-purpose indoor studio and catering facilities in the summer of 2022.

His Royal Highness The Duke of Edinburgh

It was with great sadness in April 2021 that we lost His Royal Highness The Duke of Edinburgh. A figure of national and international importance for over 70 years, he played a special role for Windsor Great Park as its longest serving Ranger. He leaves a lasting legacy and will be greatly missed. In a fitting way, the continued focus and investment towards preserving and enhancing the natural environment at the Park will continue his visionary work. Read more on His Royal Highness's contribution to Windsor Great Park on page 45.

Our net zero ambition

The pandemic has taught us that stability is precious. And nothing threatens that more than climate change. As a generation, we are fortunate enough to still have the opportunity to mitigate the impacts of climate change on our collective future, and we therefore have to act and lean into this challenge.

In December 2020, we outlined our commitment to become a net zero business by aligning to the 1.5°C goal of the Paris Climate Agreement, with a target to become a net zero carbon business by 2030, and climate positive thereafter.

Alongside decarbonising our property portfolio and looking at how we can better utilise our extensive land interests, we are also seeking solutions to restore the natural world by providing and protecting habitats. This is especially important given our dual role on and offshore.

While this will be far from easy, we are holding ourselves to account to ensure we turn over every stone and relentlessly use our business and influence to give ourselves the best possible chance to achieve this ambitious target. Our strategic review has enabled us to weave this commitment through everything we do. This challenge is a collective one and working with others to find creative solutions will be integral to our response.

Our health and safety commitment

In last year's report we acknowledged the need for improvement in our health and safety performance and, although we have made progress, we recognise there are still areas we wish to strengthen. So far we have taken a closer look at our safety culture; embarking on an external benchmarking exercise and raising greater awareness of the importance of placing health and safety at the heart of our decision-making, throughout our business and supply chain. We have also championed capturing lessons from incidents to drive continuous improvement. As well as increasing resource within the team, we have commissioned a series of in-depth surveys across our portfolios and have commenced a full review of our health and safety management system. This will all support the development of our new health and safety strategy, due for release later this year.

Our people and culture

Since joining The Crown Estate one of the most powerful things I have discovered is how our people are energised by aligning themselves to what this organisation stands for. This has been integral to shaping our purpose. This pride is also reflected in our employee survey, *One Voice*, which revealed employee engagement remains high with 93% of our people proud to work for The Crown Estate. 84% said our business was a 'Great place to work', outperforming the UK national benchmark for employee engagement by six percentage points.

Nevertheless, despite the strength of our culture, there are still areas we need to improve so we can become the organisation we aspire to be. One example is in the area of diversity and inclusion. While this is a society-wide issue, we have made it a central part of how we are driving change through the business.

Over the last year, we have reshaped and invigorated our Diversity and Inclusion (D&I) Group to co-ordinate activity across a number of key areas as well as elevating the role of People and Culture to our Group Leadership Team. This is not an issue we can tackle quickly or with soundbites, but we will be seeking to demonstrate momentum and real progress in the short, as well as medium term.

Conclusion

It is difficult to know what the world is going to look like this time next year, let alone in five years' time. What is apparent, and highlighted by the pandemic, is that stability is something we now have to strive for, and that for some issues, like climate change and our natural environment, we are at a crucial juncture where our collective next steps will have far-reaching impacts.

But there is cause for hope. The speed of scientific discovery and the ability to roll out a vaccine programme at pace have shown us that as a society we are capable of extraordinary things when faced with an acute challenge. We must hold on to this as we seek to deal with the no less pressing issues of creating a more sustainable and more equal and inclusive society.

For our part, I hope that when we look back at this time in the decades to come it will be seen as a pivotal moment for The Crown Estate. One where we took the time and care to understand the needs of the world around us and the unique contribution we could make.

If the last year has taught us anything, it's that challenge and uncertainty are the new normal. As we move forward aligned to our new purpose, we take strength from our deep foundations rooted in a rich history, backed up by a diverse portfolio, strong capital base and wealth of talent across the business along with the wide-ranging community of stakeholders we have the opportunity to work with. The Crown Estate is unique, and it is our long-standing ethos of purpose and service that knits the organisation together across its full breadth of activity. This position of strength is both a privilege and a huge opportunity. It is our duty to seize this and play our part in creating lasting and shared prosperity for our customers, the nation and future generations.

Dan Labbad
Chief Executive

9 June 2021