Annual Report and Accounts
2014

THE CROWN ESTATE

A progressive commercial business

creating significant value

beyond financial return

Inside this year's integrated Annual Report and Accounts 2014

Strategic report

Governance

Financials

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

Continuing to evolve our integrated approach

Why integrated reporting?

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

An integrated report is aligned with The Companies Act 2006 (Strategic report and Directors' report) Regulations 2013. In the opinion of the audit committee, the International Integrated Reporting Framework has informed the development of this report and we would seek to be in accordance with it by 2015/16.

What's new this year?

In this, our second integrated report, our focus has been on understanding and highlighting the importance of the resources and relationships* that sustain our business and contribute to our success. This year we have also set out strategic objectives to deliver our vision, added a new 'Our Markets' section to explore the trends of the material issues that influence us, and the review of our portfolios now concentrates on the core activities. This has been done in a more concise way and on fewer pages.

What next?

Our approach is still evolving and in future reports we intend to:

- review the way we measure our performance and develop robust indicators for all our strategic objectives
- further develop and integrate the way we measure value – what we call Total Contribution
- show improved connectivity between the different sections of our report
- demonstrate how we are embedding integrated thinking further into our business decisions and explore case studies to reveal how this is delivering greater value.

Integrated reporting at The Crown Estate
http://www.thecrownestate.co.uk/our-business/integrated-reporting/

The Crown Estate's Total Contribution
http://www.thecrownestate.co.uk/our-business/how-we-measure-value/

International Integrated Reporting Council
www.theiirc.org

*Referred to as 'capitals' in the International <IR> Framework

Stay informed:

Online

Corporate website:
www.thecrownestate.co.uk

Online annual report:
www.thecrownestate.co.uk/annualreport-2014/

The Crown Estate is an independent commercial business, created by Act of Parliament.

Our role is to make sure that the land and property we invest in and manage for the nation are sustainably worked, developed and enjoyed to deliver the best value over the long term.

At the heart of how we work is an astute, considered, collaborative approach that helps us create success for our business and for those we work with.

Key highlights

£267.1 million +5.7%
Net revenue profit up 5.7 per cent compared to £252.6 million in 2013

£9.9 billion +14.6%
Capital value up 14.6 per cent compared to £8.6 billion in 2013

£9.4 billion +15.7%
Property value up 15.7 per cent compared to £8.1 billion in 2013 (including share of joint venture properties and other property investments)

20%
The Crown Estate total return. Outperforming our target 17.3 per cent (IPD bespoke benchmark)

+2%
Improvement in carbon intensity

4.3 GW
Renewable energy capacity installed to date

2013
Building Public Trust Awards for both our Integrated Annual Report and Accounts and sustainability reporting

PwC has provided limited assurance against ISAE 3000 for selected key data in 2014. Where you see the Ⓐ symbol in this report it indicates data has been externally assured. For the full limited assurance opinion and our reporting criteria see www.thecrownestate.co.uk/pwc-statement

Our values – commercialism, integrity and stewardship – lie at the heart of everything we do.

£267.1 million
record net revenue profit.

A record performance

Chairman's statement

Another year of excellent results shows The Crown Estate making the most of a favourable wind in the property sector and the UK economy as a whole. The resourcefulness and energy of our management team have again produced market outperformance, growing the value of our property portfolio to £9.4 billion and delivering a 5.7 per cent increase in our net revenue profit to a record £267.1 million.

These hard-won achievements demonstrate the effectiveness of The Crown Estate's commitment to its triple values of 'commercialism, integrity and stewardship', and the ability of a principled business with a long-term focus to respond to varying market conditions. Our ability to contribute £267.1 million to the nation's finances is a strong motivating force in the business, but we are increasingly aware that our Total Contribution to the UK extends well beyond the profit we make. Continuing investment and imaginative management of our assets goes hand-in-hand with engagement with the communities in which we work.

A significant feature of the year has been the strengthening of our partnerships with international investors, in particular on our London portfolio, and the crucial role we play in attracting and facilitating investment in offshore energy undertakings. We are now firmly recognised as a trusted partner and a capable manager of assets and complex development projects. Our reputation and our values are key to this recognition, but just as important are the capabilities, entrepreneurship and enthusiasm of our executive team, and, on behalf of the Board, I take this opportunity to congratulate them on their achievements and to thank them for their tireless commitment to The Crown Estate's success.

The severe winter weather has really tested the resilience of some of our partners and tenants right across our Rural and Coastal estates and in Windsor Great Park, and we have worked hard to support them through this particularly difficult time.

In line with our emphasis on long-term performance, the Board and the executive team have been working hard to shape a clear vision and strategy to guide the business to 2022. This means building on the strengths of our unique asset base and our proven business model to ensure that we not only deliver success today, but build strong foundations for future success. We were delighted to win the prestigious PwC Building Public Trust Award for our first Integrated Annual Report last year. This has reinforced our commitment to work with many other leading businesses to share our business model and thoughtful approach to how we create value – for The Crown Estate, our stakeholders and our customers. This also means mitigating the impact we make as a business on the environment and thinking consciously about what 'good business' means.

We continue to have strong working relationships across Government, especially with the Treasury and the devolved administrations. As Scotland prepares for the referendum on independence we remain firmly committed to our business in Scotland and the dedicated team we have there.

Our vision is to be a progressive commercial business creating significant value beyond financial return.

We will work with partners and stakeholders to grow our business, outperforming the market whilst delivering sustainable long-term returns and making a positive impact through our Total Contribution to the UK.

In everything we do, we are guided by our values – commercialism, integrity and stewardship.

In an increasingly complex and fast changing environment, it is critical that we keep abreast of best practice in terms of governance of the business. This year we have made a number of changes to streamline our processes and Board sub-committees. More details of these are set out in the Governance section of this report. For the first time, we have also undertaken an independent review of the effectiveness of the Board. The general tenor of the report was reassuring in respect of current arrangements, but a number of further changes will be made, including the establishment of a nominations committee.

The Board continues to focus on the strategic direction of the business and to ensure it has a clear understanding of the many diverse markets in which we operate. To inform our work we have an active programme of engagement, including a number of successful strategy days and visits. This year's visits have ranged from our many major development projects in the West End, to our offshore activities in Orkney (Scotland) and Thanet (Kent), to our wider regional retail and rural investments, including our potash mine at Boulby (North Yorkshire).

Strong relationships with stakeholders are very important to us and we hosted well-attended annual receptions in both Wales and Scotland; and in Northern Ireland we met individually with stakeholders.

As Chairman I am very conscious of the real skill and experience of Board Members to complement those of our excellent executive team. Later this month, Jenefer Greenwood will be stepping down from her role, following a decade of service as a Board Member and then as a Board Counsellor. Jenefer has brought invaluable knowledge to the Board from her many years in retail and property and has chaired the Remuneration Committee for over four years with great skill and judgement. We will miss her both as a friend and colleague. In January, we welcomed Peter Madden as a new Board Counsellor, and we look forward to drawing on his extensive business and sustainability expertise. In January I was re-appointed as Chairman, and Gareth Baird's re-appointment as our Scottish Commissioner will bring his wise contribution to the Board for a further term.

We finish the year feeling very proud of a great set of results, but also ambitious to realise for the benefit of the nation the potential we can see in our diverse assets. The business is in a strong position, and with signs of a much improved economic climate we look to the year ahead with optimism.

Sir Stuart Hampson
Chairman

Governance
See page 54

Conscious commercialism is a principle encompassing everything we do.

£9.9 billion
capital value.

Creating significant value

Chief Executive's review

I am absolutely delighted to announce another highly successful year for The Crown Estate as we continue to deliver a strong return for the UK and grow our business in line with our ten-year plan – Vision 2022. Our capital value is at an all-time high of £9.9 billion, our balance sheet is strong and our total return of 20 per cent means that we have, once again, outperformed the market.

Success is a team game

Every part of the business has contributed to this remarkable success story. I want to add my thanks, to those of the Chairman, to everyone at The Crown Estate for all their hard work, enterprise and commitment in delivering these results.

This year we have increased third party funds in our managed strategic joint ventures to some £968 million. We have extended our existing well-established partnership with NBIM and have entered into a new partnership with Oxford Properties, a major Canadian real estate investor, to help realise our ambitious St James's Market project.

Partnership working is a central feature of our business model and these relationships help us to continue to grow our business, expertise and long-term performance.

An active and busy year

We have been busy this year, with almost £1 billion of capital activity – acquisitions, disposals and development projects. Once again London's West End has been a major focus for us, with market conditions supporting our ongoing transformation of Regent Street and St James's. Our development programme has delivered some superb new buildings, attracting the best tenants (office and retail) and premium rents. The demand for flagship stores has brought international names such as J.Crew and Karl Lagerfeld to Regent Street and luxury brands such as Osprey and Tiger of Sweden to St James's. We've also attracted an impressive list of restaurants, including Angela Hartnett's Café Murano and Philippe Le Roux's Villandry, further reinforcing the attractiveness of the West End as a destination of choice.

This year we've invested significantly in public realm improvements to Regent Street St James's and Waterloo Place and hosted traffic-free event days on Regent Street and community pop-up events within our regional retail business. This is placemaking at its best, enhancing the places where our assets are worked, managed and enjoyed.

Whilst the strength of the investment market has limited our opportunities to buy in the West End, it has afforded us the opportunity to sell well – both in London and in the regions. Nevertheless, where we've found value we have made some astute purchases, most notably further strengthening our regional retail portfolio (Silverlink in Newcastle, Coliseum in Cheshire and Banbury Gateway in Oxfordshire) and the Ellington Estate, a major rural acquisition in Northumberland.

Our Energy and Infrastructure team has faced a year of change and volatility as the Government's Energy Market Reform (ERM) has been finalised and the first CFDs (contracts for difference) awarded. This has led to some inevitable attrition in offshore wind, which we see as a positive step in the maturing of the industry, as projects with the most potential come to the fore. Nevertheless, this year has, without doubt, been a landmark year for offshore wind with 1,450 turbines now in the water, including the largest offshore wind farm in the world – the London Array – which brings installed capacity to 4.3 GW. We welcomed the much awaited Siemens and ABP's £310 million investment in the Humber Marine Energy Park which should help boost the industry's supply chain and employment opportunities and further underpin the UK as one of the best places in the world to invest in offshore wind. Other highlights include emerging plans for the UK's first floating wind farm off the coast of Peterhead, Aberdeenshire and further progress with our two carbon capture and storage (CCS) projects. During a particularly harsh and windy winter period, offshore wind has really begun to prove its worth, generating an estimated 5 per cent of the UK's electricity in the three months to February. Given the challenges of climate change, binding decarbonisation targets and the importance of energy security, we remain committed to, and confident in, the potential of our offshore renewables business which delivered a record £15.6 million in revenue last year.

Our active asset management has driven success around our business. In our strategic land portfolio we've secured planning permission for over 1,200 new homes and our marine minerals business has seen steady revenue growth as a result of capitalising on an upturn in UK construction activity. The active management of our rural portfolio has resulted in another year of strong capital growth and our coastal portfolio continues to deliver a good revenue stream.

The Windsor estate has a very particular place in our portfolio and in the nation's heritage. We've invested in new visitor facilities this year at Virginia Water and Swinley Forest and attracted more visitors with a range of new events, including Lapland UK. This has helped to underpin a successful year, driving revenue forward and managing costs.

A responsible business

This is our second integrated Annual Report and Accounts and is a visible commitment to how we have embedded sustainability right at the core of our business. We see being a *successful* business and being a *sustainable* business as one and the same, helping us drive our competitive advantage, to outperform the market and to deliver long-term value beyond financial return. We continue to push best practice on sustainability and I'm very proud of what we've been able to achieve this year, working with our customers, supply chain and partners.

We continue to make progress on the reduction of our carbon impact, achieving a two per cent improvement in emissions intensity this year, further decoupling our impact from our business growth.

We are a commercial business, but at all times we are conscious of our wider role, impact and influence. Across a very diverse portfolio this approach to what we call 'conscious commercialism' is a principle encompassing everything we do. I hope you will see many examples of this throughout this year's report from the story of our strong financial performance, to our approach to collaboration, to our commitment to stewardship across the business.

Our team

Over the year we reaffirmed our philosophy of working as one business and one team with a common sense of purpose. We've continued to build a strong culture and set of behaviours based on our values. This strong team ethos sits at the heart of our continuing success. However, looking forward, attracting and retaining talent in an increasingly competitive marketplace is a critical business challenge.

We have strengthened and deepened our Corporate Affairs team, with a dedicated Director – Judith Everett – to lead on communication and external engagement. We continue to review other areas of our business to ensure that we have the right mix of skills and expertise to deliver our promises but also to run a tight and efficient business.

This year we see a change of leadership in Windsor as Philip Everett LVO, steps down as Deputy Ranger after 16 successful years. He will be succeeded by Paul Sedgwick, who join us from Yattendon Estates.

Looking ahead

We start the new financial year in great shape, seeking to build on momentum, taking a long-term view of our core markets and emerging strategic opportunities. As always, the market has its challenges, but we feel confident that we are well positioned and that London will continue to thrive as a global city. Our investment strategy and business model have served us well and we will continue to take an agile and enterprising approach in seeking to deliver excellence and lasting value beyond financial return.

Alison Nimmo CBE
Chief Executive

100 per cent of our annual revenue profit goes directly to the UK Treasury, and year-on-year we continue to add to the long-term value of our assets and the income they produce.

At the heart of how we work is an astute, considered, collaborative approach that helps us create success for our business and those we work with. We call this 'conscious commercialism'.

One business, one team

At a glance

Urban

As active asset managers we invest in sectors where we are specialists and have critical mass. We are successful placemakers, working in partnership with substantial global investors to lead and implement projects that make the most of our assets. As owners of the whole of Regent Street and much of St James's we are currently delivering a £1.5 billion investment and redevelopment plan in the heart of London's West End, as well as being one of the largest owners of major retail schemes outside of the capital.

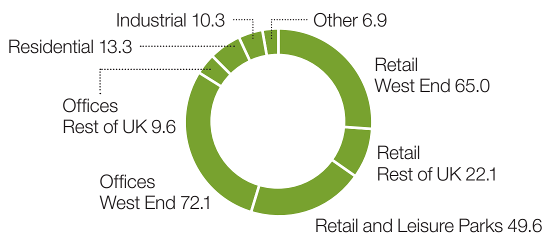
Revenue* £m

2014	248.9
2013	239.5
2012	225.3
2011	226.9
2010	221.4

Property valuation** £m

2014	6,867
2013	5,928
2012	5,480
2011	5,246
2010	4,704

Revenue by activity £m



*Excluding service charge income
**Including share of joint property and other property investments

Rural and Coastal

We are one of the UK's largest rural and coastal landowners, managing and investing in a hugely diverse range of assets and interests. These include more than 139,000 hectares (343,000 acres) of agricultural land and forests, residential and commercial property, mineral rights, renewable energy, aquaculture, marinas, ports and harbours, and around half of the UK's shoreline. We actively manage these assets, applying our experience, skills and understanding to generate revenue and build value.

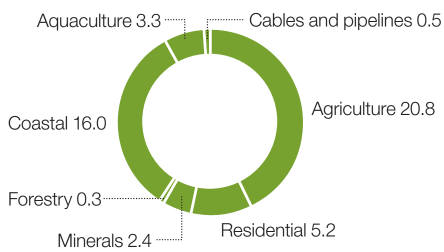
Revenue £m

2014	48.5
2013	46.5
2012	43.3
2011	43.0
2010	41.1

Property valuation £m

2014	1,559
2013	1,437
2012	1,393
2011	1,243
2010	1,143

Revenue by activity £m



Review of activities
See pages 18 – 41

Map of our activities
Visit www.thecrownestate.co.uk/estates-map/

Windsor

We are responsible for managing the whole of the Windsor estate, encompassing some 6,400 hectares (15,800 acres) stretching across 10 miles from north to south and from Berkshire into Surrey. Our role is to manage and maintain this historic estate, combining progressive commercial management with careful stewardship, looking after both our own interests as a business, and those of the many different people and organisations we work with.

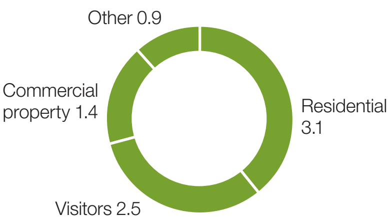
Revenue £m

2014	7.9
2013	7.1
2012	7.4
2011	6.8
2010	6.6

Property valuation £m

2014	225
2013	204
2012	196
2011	186
2010	177

Revenue by activity £m



Energy and Infrastructure

As owners of the UK's seabed out to the 12 nautical mile limit, we have a unique role to play in developing and helping sustain the UK's energy supply and infrastructure by working in partnership with a wide range of organisations. Our interests include wind, wave and tidal power, carbon capture and storage, gas storage, marine aggregates and minerals, cables and pipelines.

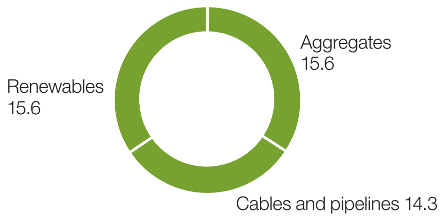
Revenue £m

2014	45.5
2013	39.1
2012	38.2
2011	30.1
2010	30.6

Property valuation £m

2014	759
2013	564
2012	521
2011	393
2010	265

Revenue by activity £m



Working together to create value

Business model

Our Vision statement sets out our commitment to delivering significant value beyond financial return, and our business model shows how we go about creating that value.

It demonstrates how we draw upon different resources and relationships and transform these to deliver greater returns whilst making a positive impact through our Total Contribution to the UK. It is through these processes that we are able to grow our business and outperform the market with a spirit of conscious commercialism.

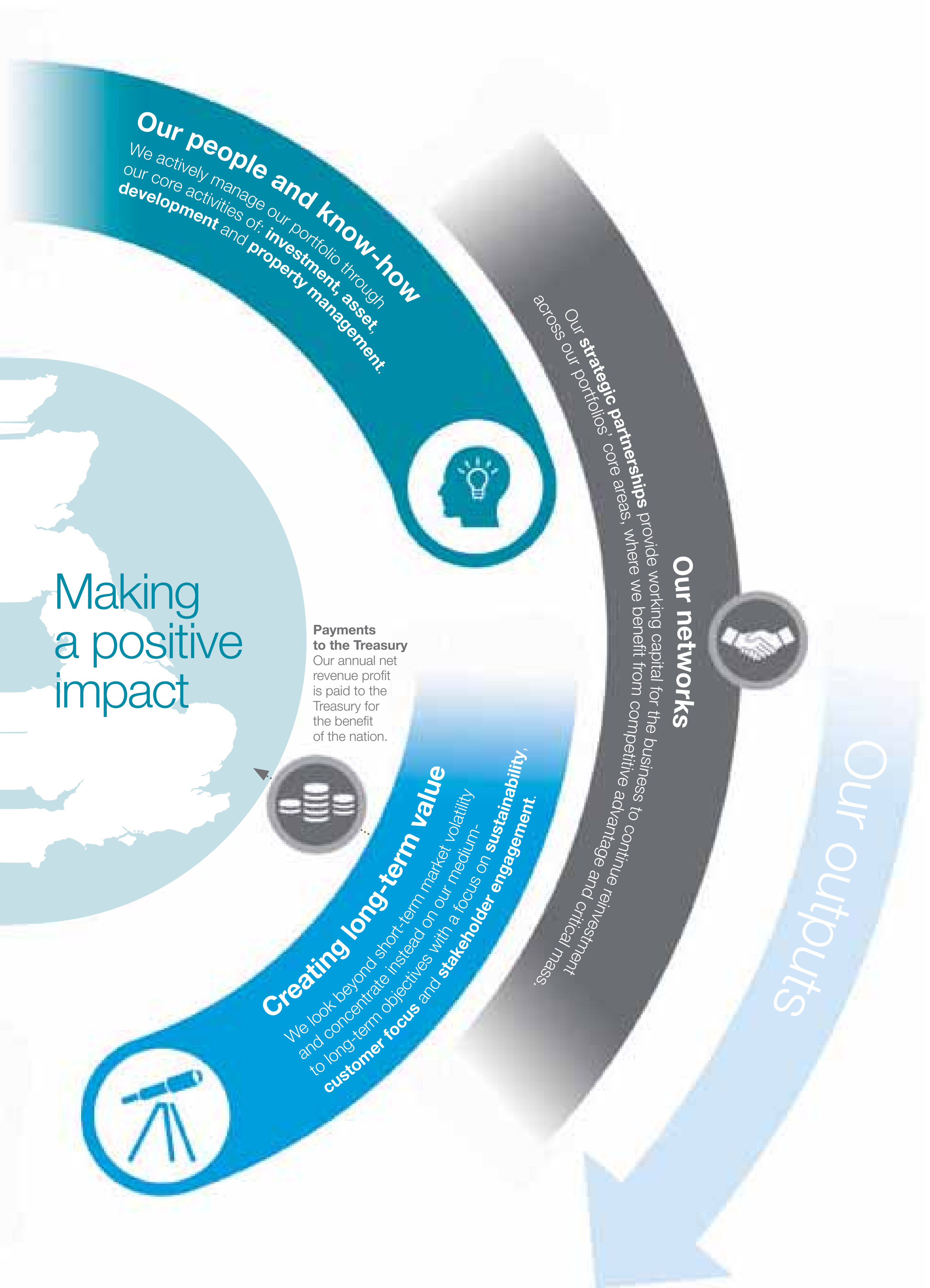
Resources and relationships
See page 10

Strategic objectives
See page 12

Key performance indicators
See page 44

Our Total Contribution
See page 11

Material issues
See page 46


Our people and know-how
We actively manage our portfolio through our core activities of: **investment, asset, development** and **property management.**
Our networks
Our **strategic partnerships** provide working capital for the business to continue reinvestment across our portfolios' core areas, where we benefit from competitive advantage and critical mass.
Our outputs
Making a positive impact
Payments to the Treasury
Our annual net revenue profit is paid to the Treasury for the benefit of the nation.
Creating long-term value
We look beyond short-term market volatility and concentrate instead on our medium- to long-term objectives with a focus on **sustainability, customer focus** and **stakeholder engagement.**

What we draw on to create value

Resources and relationships

We have identified six different resources and relationships that are essential in how we create value. We draw upon these as vital inputs into our business and we are constantly increasing, decreasing and transforming them through our activities.

Financial resources

The financial resources that are available to us to grow our business.

For example, how we recycle capital when we sell an asset.

Physical resources

The land and property that we own and utilise.

For example, the quality of the buildings that we own and manage. This resource is particularly relevant to our business sector.

Natural resources

The natural resources that we nurture, harness and harvest to sustain our business.

For example, the quality of soil that supports the crops grown by our rural tenants.

Our people

The individual skills, competencies and experience of our people which create value and deliver our business objectives.

For example, our organisation-wide commitment to working as one business, one team with one common sense of purpose.

Our know-how

Our collective expertise and processes, which provide us with competitive advantage.

For example, our expertise in development management which allows us to execute extensive development projects in Regent Street and St James's.

Our networks

The relationships we have with customers, colleagues, communities, business partners and Government that are central to our business.

For example, our strategic partnerships that build upon shared values and which provide ongoing investment across our core business.

By these means we are creating greater value for ourselves, our stakeholders and the communities which support us.

These resources and relationships are all intrinsically linked and we recognise how important it is not to focus on maximising one of them at the expense of another. We will become more sustainable, and therefore more successful as a business, by optimising all our resources and relationships. For example, we invest our 'financial resources' in 'our people', equipping them with the skills and training they need to enjoy fulfilling and rewarding careers; this increased 'know-how' can help ensure that on our land and property ('physical resources') we use 'natural resources' more efficiently, which in turn can generate greater 'financial resources' to grow our business.

These six resources and relationships are an integral part of our decision making processes. Their essential role in our business is represented throughout this report, from the further development this year of our business model on the previous page and our material issues on pages 46 – 47 to describing their contribution in creating value for each of our core business activities on pages 18 – 41. Our Finance Director's review on pages 48 – 53 is also structured around the six resources and relationships, highlighting their importance in the creation of strong financial returns.

Defining value beyond financial return

Our Total Contribution

What is Total Contribution?

Total Contribution is the way we measure and communicate the significant value we create beyond financial return. It covers economic, social and environmental contributions.

Our accounting approach is built upon three transparency principles:

Credit – going beyond direct impacts to include indirect activities (arising from work commissioned by us and carried out through our supply chain) and our enabled activities (those undertaken by others on our land).

Confidence – how confident we are in the results, particularly identifying where we are relying on established modelling and assumptions.

Net Contribution – taking into account the negative as well as positive outcomes, including connected activity elsewhere and things that 'would have happened anyway'.

Progress so far

Following the launch of our first Total Contribution report last year, we have been sharing our experiences with others to build momentum and consensus in value measurement. We have also been:

- Reviewing what we measure and the modelling we use to ensure they are relevant and to improve our confidence in the results.
- Consolidating our approach with the production of: a manual to set out responsibilities and timelines for collection, collation and reporting; an updated methodology document addressing changes in approach; and improved data collection tools. This has enabled us to build a baseline covering three years from which we will be able to measure improvement.
- Running pilot projects to identify the ecosystem services and cultural value that our natural resources provide to visitors and local communities.
- Incorporating Total Contribution thinking into decision making – examples include engagement with stakeholders such as planning authorities, and measuring the value of activities such as job creation, community education projects and embedded generation of renewable energy in development and refurbishment.

What next?

We are working towards Total Contribution becoming one of our key performance indicators. This will allow us to measure our relative performance against a firm baseline. Total Contribution is also how we intend to measure our positive impact to the UK.

In order to do this we are looking at possible ways to sum up the year-on-year performance of the different things we are measuring, without losing their individual value. We are also working with an external third party to gain independent assurance on our approach and to validate our results.

The Crown Estate's Total Contribution
http://www.thecrownestate.co.uk/our-business/how-we-measure-value/

Sustainability is integrated in our business as a driver of performance. Total Contribution is our tool for defining and measuring the value we are creating from our business performance. Looking forward, we will be developing this as a mechanism for demonstrating the financial, social and environmental benefits of our business.

Vivienne King
Director of Business Operations and General Counsel

A strategy to maximise value

Strategic objectives

Our strategic objectives are designed to help guide us in setting our priorities and in assessing how we're doing against our vision.

1

To actively manage assets in our core sectors to drive total return and a strong income stream to Treasury.

2

To secure access to capital via third party funds under management through the selective use of strategic partnerships.

3

To encourage a high performance culture and be known as a great place to work, so the best people want to join, stay and thrive.

4

To ensure high levels of customer satisfaction through the value we deliver and a commitment to excellence in how we do business.

5

To measure, report and improve our Total Contribution to ensure that we create value beyond our financial return, acting responsibly, with sustainability built into everything we do.

6

To be recognised and respected for delivering conscious commercialism, and for operating as one business, one team, with a common sense of purpose.

The markets in which we operate

Our markets

The diversity of our business means that our markets are influenced by a wide variety of economic, social, political and technological factors. These will range from the health of the property market, to the emergence of a new technologically-dependent population both as workers and consumers and the need to move to a low carbon economy. We term the most significant of these factors our Material Issues, and review them on an annual basis.

Analysing our markets – Our investment strategy

Our investment strategy underpins our business performance and so the broader trends outlined in this section are those that are most relevant to our ability to deliver against this strategy.

Our investment strategy focuses on sectors where we can outperform the market through our expertise and critical mass. These key areas are West End development, regional retail and leisure, strategic land within our rural portfolio and the offshore wind sector. As part of our investment strategy we also seek to ensure we continue to enjoy access to capital through sales of non-core/ ex-growth assets and the formation of strategic partnerships.

The attractiveness of the UK, and London in particular, to international capital

With a substantial part of our Urban portfolio based in the West End of London, the strength of the city is vital to our future business success. In particular, we have seen considerable benefits from the truly global nature of London and its attraction as a location for both visitors and investors. This is reflected in the significant international capital we have secured for our West End developments, the number of overseas brands and organisations that have opened flagship stores and headquarters on Regent Street and St James's and the amount of business generated by overseas visitors who shop in Central London.

It is clear that London's future success will depend on the UK continuing to be an open and welcoming environment within the global market. That means maintaining depth of liquidity, the rule of law, stable taxation and a safe environment, all of which are so valued by overseas investors.

Our investment strategy focuses on sectors where we can outperform the market through our expertise and critical mass.

Our markets continued

Occupier demand

As a property company, demand for office, retail and residential space is critical to our business. In our Urban portfolio that demand is strongly influenced by the wider economy and by improvements in the economic outlook during 2013/14 which resulted in strengthening occupier demand.

In the short to medium term, we believe that growth will continue and, in particular, we expect strong demand in London's office market for units of all sizes. This reflects the fact that supply of both new and second-hand space will remain relatively limited by historic standards. All of our current schemes are scheduled to complete by early 2016.

We will continue to focus on improving our assets in innovative ways, to provide the best possible space for our occupiers that meets contemporary workplace needs. This includes our extensive pipeline of schemes in the West End which provide high quality, attractive space for a very wide range of business occupiers.

The changing nature of retailing and leisure

In our urban business, one of the central challenges for us will be to respond to changes in the nature of retailing. Technology-driven change is happening very fast and it is difficult to make accurate predictions of what the retail sector of the future will look like. However, it's likely that the most successful retailers will be those that manage the interaction between online, mobile and traditional in-store retail effectively. That flexibility is likely to become ever more important as new services such as 'click-and-collect' develop further.

We also expect the trading environment for many high streets to remain challenging and for a continuation of the movement to a smaller number of dominant schemes, both from existing retailers and new-entrants to the market. This is likely to lead to the further development of the best retail parks into broader leisure destinations in response to consumer trends.

These developments in the market are leading to fierce competition for the most desirable stock and we believe that our focus on investing in high quality shopping parks in strong regional locations will drive returns over the medium to long term. This further underlines the importance of placemaking and the need to continue our investment in making our properties, and the areas around them, sustainable and attractive places to visit.

Planning

With growing pressure on land use and the need for high quality sustainable development, planning policy will have an important influence across our portfolios. The reforms to planning legislation under the National Planning Policy Framework have helped stimulate the residential development market. This, combined with ongoing pressure for more housing, means we expect demand for strategic land will continue to increase. We see this as an ongoing driver of returns in our rural business and, in response, our pipeline of strategic land sales has been accelerated. We will be looking to replenish this portfolio over the longer term.

In the short to medium term, we expect strong demand in London's office market for units of all sizes.

Overall, we believe that the market for residential property is likely to remain strong, especially for high quality developments in good locations. However, in the longer term there is a risk that an oversupply of less well located/ high quality stock, especially in London, could affect pricing.

Planners will also need to ensure their decisions prevent the economic strength of central London leading to fragmentation of the city in a way that causes social or economic tensions. We know that there are particular challenges for those who work in London and we have signed up to the Mayor's housing covenant to provide homes for working Londoners. Effective planning decisions will help to manage those differing needs and sustain a mixed community in central London.

Looking to the retail sector, the West End has seen continued demand for units in the best locations, from both domestic and international occupiers. Outside of London there are early signs of improvement in the retail landscape, particularly for the best retail parks and, after a period of stagnation, rental growth is likely to return over the next year or two.

In more rural areas, we see the competing demand for land use and natural resources becoming more acute in the years ahead as the demands for land for farming, conservation, energy and leisure grow. The potential impacts of climate change are also a concern. The UK loses about 70,000 hectares (173,000 acres) every year to development, including renewable energy projects. As a result, planners will face increasing needs to balance those different demands for land and ensure that it is used efficiently. The Crown Estate will continue to review its rural portfolio to understand the locations and types of land that will achieve the best returns.

Infrastructure

Good quality infrastructure is vital for economic development and plays a central role across all our portfolios. This ranges from the importance of Crossrail for our developments in the West End to the need for the connections required to develop the UK's offshore renewables sector.

The Crown Estate will continue to play a critical role in facilitating energy infrastructure. We expect increasing demand for cables and pipelines for efficient transmission of energy from offshore generation, as well as for transporting carbon dioxide to carbon capture and storage projects and for gas storage. This part of our business will also play a key role in telecommunications and broadband as more remote areas of the UK become connected. In our marine minerals business, we anticipate continued growth in the demand seen over recent years from a range of construction and infrastructure projects.

Good quality infrastructure is vital for economic development and plays a central role across all our portfolios.

Our markets continued

Government policy

The Crown Estate has strong working relationships across Government, especially with the Treasury and the devolved administrations including the Scottish government. An area of our business that is particularly related to government policy is the Energy and Infrastructure portfolio. The recent energy market reform has brought welcome clarity and we can see a clearer pathway towards future growth and attractive investment opportunities in the maturing offshore wind industry. However, we believe that some projects will prove too costly or construction too challenging and we expect some further attrition in the pipeline of projects.

We also expect further development in wave and tidal projects and carbon capture and storage. While these are still emerging technologies, we believe, given the right policy framework, there is clear potential for them to play a significant role in the UK's future energy markets.

The combination of the need to move to a lower carbon economy and underpin the UK's energy security means that we expect continued focus on enabling renewable energy developments, leading to a significant growth in installed capacity from 2018–2022.

Analysing our markets – Our material issues

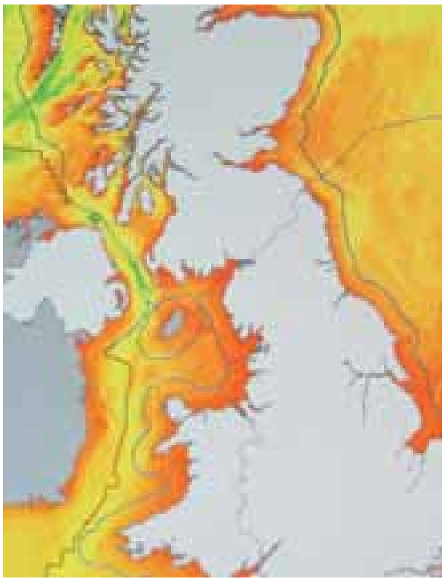
While our investment strategy underpins our commercial business approach, we are also conscious of the material issues which impact our ability to deliver on our strategic objectives. We follow a structured process for the annual review of material issues, based upon economic impact and stakeholder interest as well as likely future impact – which means many of our material issues are present in this analysis of our markets.

Our material issues are:

- Optimisation of the portfolio for sustained and profitable growth
- Attraction of suitable commercial partners and investors
- Reputation and trust
- Government policy
- Attraction, nurturing and retention of best talent
- Governance
- Health and safety
- Availability of natural resources
- Customer focus
- Health of the economy
- Effect of climate change
- Successful placemaking

Material issues
See pages 46 – 47

We are also conscious of the material issues which impact our ability to deliver on our strategic objectives.



Our investment strategy is influenced by our markets and underpins our approach to business.

We outline what we have been doing across our portfolios through our core activities of investment, asset, development and property management.

What we've been doing

Review of activities

Throughout this section we discuss the main activities we undertake. Whilst producing it we have been taking into consideration the resources and relationships that we are reliant upon and how they interconnect to create greater value.

Whether it is investing in our people and their know-how to build better networks and make better deals for all parties or the efficient use of natural resources, all that we do aims to enhance our physical assets and deliver stronger financial returns.

Investment management

During the course of the last financial year, we have continued with our primary strategy of investment into our core sectors, where we have critical mass and a high level of expertise, as well as timely disposals of non-core assets. We also launched another strategic partnership which released capital for reinvestment, spreads our development risk, and strengthens our existing relationships.

Over the year we invested £263.6 million in acquisitions, £248.1 million in capital expenditure and made disposals realising £457.2 million.

Urban

Within the Urban portfolio our key sectors are focused on the West End of London and in prime regional retail and leisure space around the UK. Across the West End there has been continued investment from domestic and overseas capital which has driven pricing, and the sector has witnessed record breaking investment volumes during 2013/14. Outside London, our investment markets have also experienced an increase in investor appetite not just for prime investments but also in secondary markets which began to recover in many regions during the course of the year. This has created strong competition for the most desirable stock, but our continued investment within these core areas has added value to the quality of our portfolio and will drive returns over the medium to long term.

In the West End we have been able to consolidate our position through the acquisition of adjoining interests and merging existing ones through leasehold purchases. This has increased our footprint in these areas and allowed us further control of key areas within our portfolio. This strategy has been applied in the purchases of 13 Charles II Street, 106 and 115 Jermyn Street which are in St James's, and Goldsmith's House within the Regent Street Partnership. This allows us to build on our know-how

Our development plans for St James's continue apace, this year attracting quality fashion brands such as Barbour, Duchamp, Sunspel and Tiger of Sweden alongside desirable restaurant offerings including Villandry, Chop Shop and Cicchetti.

to create world-renowned shopping and restaurant destinations, alongside providing first-class office space.

Our acquisitions outside London included the purchase of Silverlink, on the outskirts of Newcastle, which is a prime retail park in the North East. The park was acquired for £131 million and is one of the country's most successful shopping parks. The value of our portfolio of retail parks now stands at over £1.2 billion (including our share of joint ventures) and our position was further strengthened through our acquisition of the Coliseum shopping park in Cheshire for £81 million. As part of our focus on increasing our portfolio of prime retail and leisure schemes, we have also made a commitment to fund the development of the £80 million Banbury Gateway fashion park in Oxfordshire. This new park will have 285,000 sq ft of prime retail, restaurant and leisure space and will further cement our position as a leading operator within the retail park sector – we are the 5th largest direct owner in the UK.

Our strategic partnership with Norges Bank Investment Management (NBIM) was extended further in a deal that allowed us to release capital for further re-investment and provided NBIM with a 25 per cent interest in the £390 million Quadrant 3 development on Regent Street. This deal is the 12th and largest concluded by the Regent Street Partnership since its formation in 2011 and will further support the £1 billion investment programme that is transforming this world-class street.

The Crown Estate now manages £968 million of partnership capital within strategic joint ventures on behalf of institutional investors. They include, in addition to NBIM, the Healthcare of Ontario Pension Plan (HOOPP) and Oxford Properties Group, the real estate investment division of the Ontario Municipal Employee Retirement System (OMERS). We will continue to look for opportunities to strengthen these relationships across our networks, and develop new ones, by leveraging our prime assets and skills through partnerships in which we share our assets, release capital and manage third party funds.

The strength of the market has also allowed us to complete non-core sales during the course of the year. Sales of such non-core assets included Cabot Park in Avonmouth for £31 million and the Zenith Industrial Park in Basildon for £18.8 million.

Rural and Coastal

It has been another active year for investment in our Rural and Coastal portfolio. In line with our policy of disposing of land that does not fit our long-term strategy we sold two major assets. The Cranwell and Roxholm Estate in Lincolnshire, a 1,200 hectare (3,000 acre) mixed farm, was sold to a private buyer and the 560 acre Quadring Fen Farm, also in Lincolnshire, was sold to the Duchy of Lancaster.

Our principal acquisition was the 1,400 hectare (3,500 acre) Alcan Farms agricultural land portfolio in Northumberland from Rio Tinto. This purchase includes agricultural land, farm buildings, 19 houses, and an operational 13 turbine wind farm leased to ScottishPower Renewables, and will now be known as the Ellington Estate.

3,500 acre

Ellington Estate was the principal investment on our Rural and Coastal portfolio, which includes agricultural land, farm buildings, 19 houses, and an operational wind farm.

Seeing the big picture helps create bigger shops and offices

and more attractive places for people to enjoy

West End

Because we can see the big picture and take a long-term view, we are able to work with our investment partners to develop bigger and better shops and offices and improve public spaces. This is transforming an iconic location and creating a sustainable, world-class retail and business environment, that in turn is attracting more major brands and leading companies, more employees and visitors than ever before.

Review of activities continued

This gives us a diverse range of income sources in areas where The Crown Estate has specialist skills. In particular, we see opportunities to improve the asset through increasing the long-term value of the farms, progressive and sustainable farm management and investing in better drainage.

We have also continued to review our residential assets to determine where there is a case for investing in improvements to meet emerging requirements in areas such as energy efficiency and where disposal would be more in line with our business priorities. These sales generated £7.4 million over the year.

Windsor

Investment at Windsor is focused on maintaining the 6,400 hectare (15,800 acre) estate and managing existing assets for the enjoyment of the three million visitors the park receives each year. A good example being the £1.3 million investment made last year in a new pavilion at Virginia Water which opened in September. In the past year we acquired eight houses from the Metropolitan Police on the edge of the estate. The purchase reflects our intention to enhance the performance of our property portfolio, where we are aiming to provide an extra 40 properties for rent on the open market over the next ten years. This is part of investing in the estate to create additional income and support a sustainable financial future.

Energy and Infrastructure

In what has been a landmark year for the offshore wind industry, including the opening of the world's largest offshore wind farm, London Array, and the implementation of the Government's Electricity Market Reform package, we have witnessed the crucial role our investments have made to help the industry come of age. In light of the Energy Act and our work to facilitate offshore renewable investment, developers, governments and suppliers are gaining a better understanding of feasibility and affordability within the sector as it matures. We are continuing this investment approach in offshore wind where we are co-investing up to £100 million with developers in origination and consenting of future projects.

We play a key facilitating role in the UK's offshore energy and infrastructure projects, using our networks and expertise to demonstrate the benefits of the sector and secure third party investment. Our own investment focus is on de-risking projects by addressing technical, physical and environmental constraints. To date our investment has reached £122 million since 2008/09, encompassing the support of technological developments, research and development, and the provision of data.

Our work, for example, has included investment in the Offshore Renewables Joint Industry Programme, which aims to reduce the risks around gaining consent for offshore wind farms and accelerate development. Over the next three years, £3 million of public and private sector funding will be provided for research, of which we are providing £400,000. Through the Offshore Wind Programme Board we have also commissioned an update to our 2012 report on cost reduction to aid the sector.

We launched the Wave and Tidal Knowledge Network to support developers with key grid connection and environmental information, in partnership with the Department of Energy and Climate Change (DECC) as part of its Marine Energy Programme Board. As we look forward, this data will become increasingly important as the industry begins to identify specific projects for development in light of the UK Government, devolved administrations and the European Commission offering over £50 million in support for first array wave and tidal projects.

Asset management

Dynamic and active asset management is at the centre of the way we do business and how we secure strong returns. Across our portfolios, by using our specialist expertise, networks and partnerships, we have been able to develop and improve our assets in innovative ways, to provide high quality space for our occupiers, unlock opportunities and drive our future performance.

Urban

In the Urban portfolio our focus remains on enhancing the value of our core assets in London's West End and across our regional portfolio. Within the West End office market, occupational demand improved throughout the year, whilst the supply of both new and second-hand space remained relatively limited by historic standards. Vacancy rates also remained below the long-term average and these fundamentals are likely to continue to support future rental growth over the medium term. In the retail park sector, the trend for retailer consolidation continued, which saw declining occupation on the high street and an increase in the relocation of occupiers to out-of-town destinations, both from existing retailers and new-entrants to the market.

The letting programme at St James's Gateway demonstrates our expertise in asset management and has been one of the many successes over the last year. Since practical completion of this landmark development in July 2013, each of the six office floors has been let, all of the residential flats have been sold or let and 70 per cent of the retail space is also let. The office tenants include Virgin Money and Haymarket Financial. Equally, our commitment to improving the retail provision, in and around Jermyn Street, was reflected in the arrival of Tiger of Sweden, Barbour International, Grosvenor Shirts, Osprey London, Duchamp and Sunspel.

On Regent Street we welcomed J.Crew and Watches of Switzerland as tenants of our new W4 development and celebrated ten years of public art with the opening of 'An Age, An Instant' sculptural gates.

Our largest development project to date, Quadrant 3, part of the Regent Street Partnership with NBIM, is now fully let. This year we saw Twitter take two of the office floors, joining Telefonica, Halfords Media, and Top Right Group in this RIBA London award-winning building.

On our W4 development we let all retail space within a month of completion, to fashion brand J.Crew – their first store to open outside of the USA – and to Watches of Switzerland. Tudor Capital Europe and Ares Management have taken four of the five and a half floors of office space within the building, which is known as 10 New Burlington Street. Karl Lagerfeld and a flagship Hackett store have also opened on Regent Street during the year.

Within our St James's portfolio, Trafalgar House has been comprehensively restored following an extensive refurbishment project and is now fully let. We have also welcomed several new restaurant offerings to the area, which will support our activities in the retail and office markets. Over the year, we saw new openings including Villandry, Café Murano, Chop Shop and Cicchetti.

Similarly, in our regional portfolio we have continued to expand the restaurant and leisure offerings at our retail parks, helping to improve the customer experience wherever possible. In Newcastle, ZaZa Bazaa, a banquet restaurant that offers a selection of global cuisines, opened at the Gate and in Nottingham, the Victoria Retail Park welcomed Subway, McDonalds, Frankie & Benny's and Costa.

The Victoria Retail Park re-development opened in summer 2013 and footfall has since increased by 40 per cent year-on-year. Significant improvements have been made to the car park, including better landscaping with a tree-lined pedestrian walkway to improve the overall environment of the centre. A new Halfords store and the creation of two new units, which are pre-let to M&S Simply Food and TK Maxx, are planned to open in early 2015.

Rural and Coastal

Our focus in managing our diverse rural and coastal assets is to look for innovative and creative ways to optimise the return they make over the long term. That ranges from working to make sure our prime agricultural land is as productive as it can be, to growing a sustainable aquaculture sector in Scotland and managing opportunities from our property portfolio. We ensure that any residential development is high quality and we protect and preserve our coastline while enhancing the opportunities for leisure and commercial use.

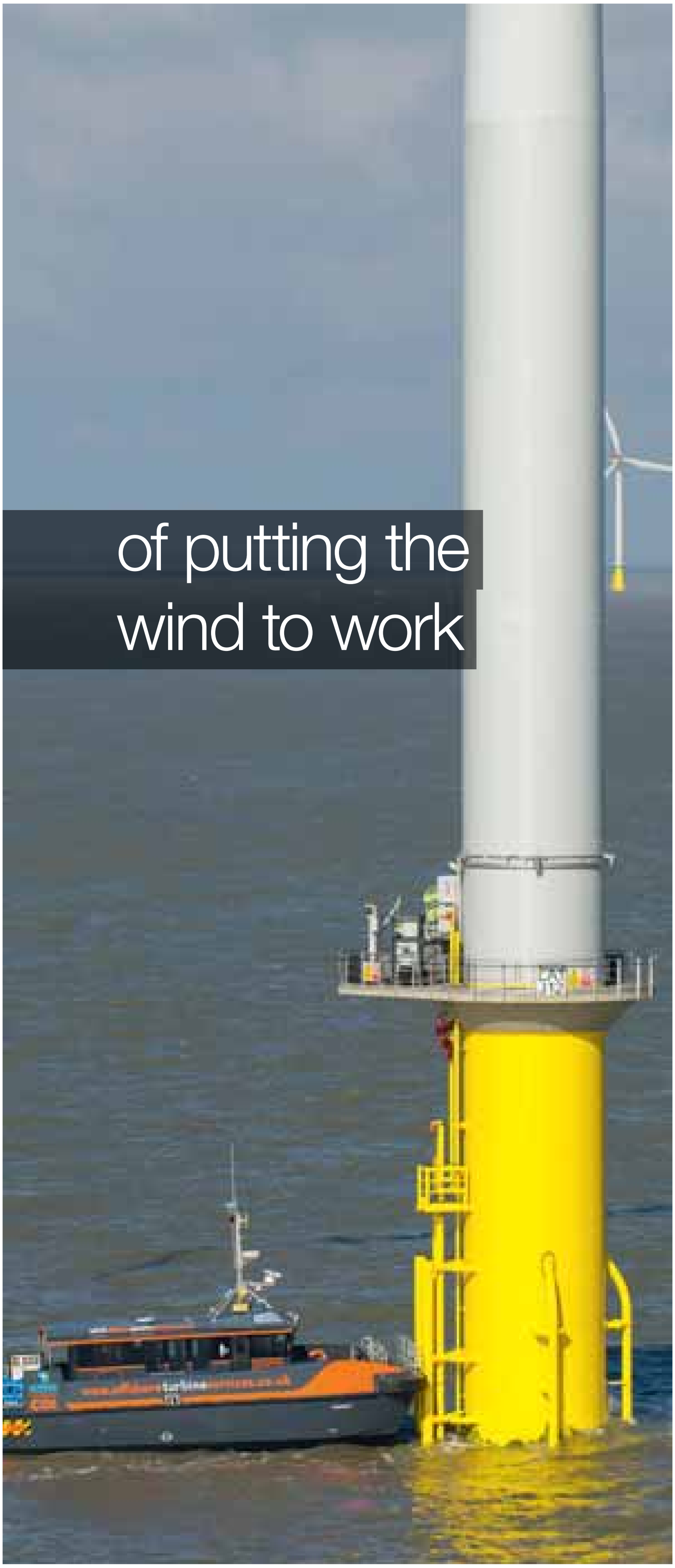
We have continued to review our rural assets to ensure we manage them in the most effective way. In particular, we have focused on developing fresh management approaches including looking at the greater use of farm business tenancies which can, in the right circumstances, offer more flexibility to both our tenants and us.

We ensure that our portfolio managers listen to tenants' particular needs and ambitions for investment, succession or retirement, and then look to develop modern tenancies that help them meet those aims. For example, negotiating new agreements that allow extended security and investment to facilitate improvement in business performance for the tenant and raise the value of our asset. As active asset managers we are committed to this progressive approach and it is becoming more widely adopted across the industry.

A central part of our strategy is to manage our assets actively to ensure that we optimise their use. An example of our work in this area is the 405 hectares (1,000 acres) of grade 1 land that had been leased to Moulton Parish Council for many years. The Council had found it hard to manage the land with its large numbers of smallholders and so we negotiated the surrender of the lease and developed direct relationships with the tenants. This active management benefits tenants and makes it easier to enhance the productivity of the land. We continue to explore opportunities where the surrender of headleases or subleases would give us directly managed relationships with the tenants.


Helping secure
the future
of offshore


by demonstrating
the benefits



of putting the wind to work

Offshore energy

Offshore energy is an exciting new industry that's already making a major contribution to the UK's energy infrastructure. As managers of the UK seabed, we're applying our experience, knowledge and expertise to help de-risk and develop the industry, encouraging investment and creating opportunities for our partners, our business and the country as whole.

Review of activities continued

As part of our commitment to engaging with local communities, we continue our work to develop local management agreements (LMAs). These give not-for-profit organisations access to areas of the foreshore and seabed, and, with specialised support from The Crown Estate, they can develop a business case for projects that deliver direct benefits to the local community. Our initial focus has been in Scotland where we now have three LMAs in Skye, North Uist and the island of Gigha in Argyll and Bute. LMAs have helped coastal communities in these locations benefit from our expertise, develop projects that meet their particular local needs and then manage them locally.

Within our coastal portfolio we have continued to demonstrate commitment to long-term relationships with tenants and a willingness to support their work to enhance their business. We invested in improving the pontoon moorings on the Hamble giving greater choice for users, meeting customer needs and improving the value of the facilities. On the tidal stretch of the Lymington River we agreed a new 28-year lease that will facilitate the management of some 1,600 river moorings and walk-ashore pontoon moorings. This will enable investment in further protection works to secure the long-term future of the harbour and help it to attract more leisure users.

Windsor

A key element in our management of the Windsor estate is to encourage visitors by offering new activities and facilities and making better use of our woodland assets to help raise income. In encouraging visitors, major events on the estate require careful management and site selection to ensure that they do not have a detrimental environmental impact. An example of this was the Lapland UK event that took place in December, where we identified Whitmoor bog as the most suitable location. The attraction was in place for four weeks and was hugely popular, bringing in 42,000 visitors. Through our careful management, the operator then cleared and restored the site very effectively without impacting the environment. We also apply this considered management approach in offering our land for filming purposes, where we have become a location of choice and developed strong working relationships with BBC, SKY and Disney among others, and work closely with Natural England to ensure habitats aren't disturbed in the filming process.

We also recognise that we have a role in supporting the long-term sustainable development of the communities around the estate. In particular, we are working closely with our local planning authorities as they develop their Neighbourhood Plans. This includes exploring options for revitalising Ascot town centre where we have been able to draw upon the expertise from our development and strategic land parts of the business.

Energy and Infrastructure

We actively manage the use of our marine holdings to secure opportunities in energy, minerals and grant leases. Our focus in these areas reflects our aims of both supporting the broader national requirements to develop low carbon energy and deliver increased returns from our assets. Another important part of our work is to manage activity on our seabed effectively to avoid conflicts.

1,450

wind turbines currently installed in UK waters, more than any other country in the world. Our latest test and demonstration round is looking to drive forward investment and development in floating wind turbine technology.

Marine minerals represents a major part of this portfolio's business and it has seen another successful year, generating returns of £15.6 million, an uplift of 1.6 per cent on last year. This was partly due to the robust recovery in the UK construction market that has led to increased extraction rates, with 16 million tonnes of marine aggregate produced in 2013/14 within our licensed areas. This year, we also invited companies to bid for rights to explore and develop new licences for marine aggregates, with the tender process expected to continue throughout 2014 and successful bidders confirmed in 2015.

Among the many other users of our marine assets are utility companies, to whom we license use of the seabed and foreshore to install infrastructure. Our revenue over the year in our cables and pipelines business was £14.3 million, representing approximately one third of our Energy and Infrastructure revenue, with 160 active cable and pipeline assets under agreement.

One of the most significant developments in cables and pipelines during the year was the lease we agreed with ScottishPower Transmission and National Grid in September for the Western High Voltage Direct Current (HVDC) Link, the first ever subsea electricity link between Scotland, England and Wales. The HVDC submarine cables will have a capacity of approximately 2,000 MW, enough capacity to meet the electricity demands of more than four million homes. We also agreed principles with BT for subsea cables in the Highland and Islands of Scotland and the Isles of Scilly as part of the national plan to provide broadband to more rural parts of the UK. The work in the Highlands and Islands will require 400 kilometres of cables and will be the biggest subsea engineering project ever undertaken in the UK.

We are a hub for information, bringing together data on a very broad range of issues from different partners. We protect and share this information on behalf of the industry, using platforms we have invested in and developed in-house. These include the Marine Data Exchange, which provides access to survey data and reports collated during the planning, building and operating of offshore renewable energy projects. Additionally, the Marine Resource System (MaRS) maps the increasingly complex interactions between competing development interests, environmental and conservation demands and legislative and regulatory frameworks, and has been instrumental in identifying areas for development across the Energy and Infrastructure portfolio.

A major new platform introduced this year was our System Performance, Availability and Reliability Trend Analysis (SPARTA) project. This collaboration between the Offshore Renewable Energy Catapult, The Crown Estate, and offshore wind farm owner/operators will improve wind turbine operational performance by increasing safety, reliability and availability. This £850,000 project will provide a way of sharing anonymised information about offshore wind farm performance. This access to benchmarked data will mean operators can identify opportunities to improve efficiency and so reduce costs.

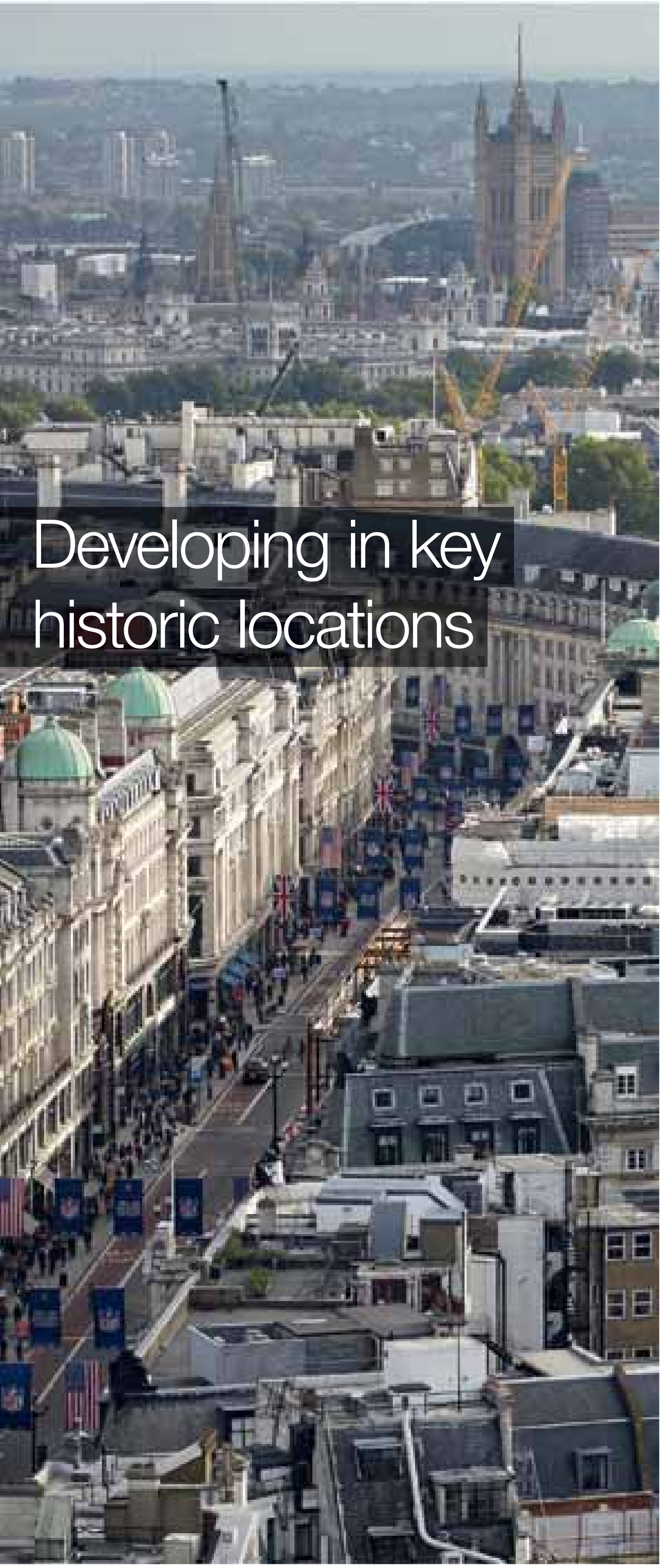
Development management

A high quality development pipeline in our core sectors remains key to the progress of our business model. We work with a range of partners and developers across our networks to ensure that all our projects are implemented in line with our development sustainability principles. These principles address the use of natural resources, which we believe helps to enhance the long-term value of our assets.

Urban

Whilst West End development has seen a modest increase in space under construction in the past year, the supply of prime office space remains constrained when set against historic standards. In contrast, The Crown Estate has an extensive pipeline of schemes and we are well placed to take advantage of the anticipated supply shortage. We will deliver several schemes over the coming years into a market place where we expect demand for prime space in the West End to remain strong.

One of the most significant landmarks achieved over the last year has been our partnership deal with Oxford Properties Group to deliver the £320 million St James's Market scheme. The scheme is set to deliver 210,000 sq ft of offices and 50,000 sq ft of high quality retail and restaurant space, alongside wider improvements to the public realm in the area. Demolition work began in September and completion is planned for early 2016. The scheme is integral to our wider St James's strategy, in which we will invest over £500 million into the area over the next ten years. This will enhance the area's position both in the West End office market and as one of the capital's foremost destinations for high quality shopping and dining.



Developing in key historic locations

and successful delivery of our urban strategy

Development

is built on the foundations of our own expertise and know-how

Successful delivery of our commercial investment plans for Regent Street and St James's requires an industry-leading approach to sensitive redevelopment built on expertise, innovation and collaboration. By extensively consulting key stakeholders and the community right from the start, setting the highest standards of sustainability and applying our accomplished in-house knowledge of development management, we're creating an exciting new vision for the West End from the ground up.

Review of activities continued

Our continuing strategy to improve the retail and office space on Regent Street took another major step forward when work commenced on the W5 South project in April 2013. This is due to complete in December 2015, and will provide 78,000 sq ft of offices, alongside an additional 32,000 sq ft of retail and leisure space onto the street. The scheme has attracted the attention of some of the largest global fashion retailers. The neighbouring W4 development was completed in March and provides 33,000 sq ft of flagship retail space and brings a further 97,000 sq ft of prime office space to the West End.

Structural refurbishment work began at Quadrant 2 South, Regent Street in December 2013, where Grade II listed properties are being refurbished behind the original retained façades. The project will provide 48,000 sq ft of modern office space and is expected to complete by summer 2015. In line with our development principles, the building will have a number of features to reduce its energy use and carbon emissions. It will have access to power from the UK's first molten carbonate fuel cell which The Crown Estate installed at the nearby Quadrant 3 development and the use of photovoltaic panels will further enhance the green credentials of this innovative development project.

Our recently completed projects include the major refurbishment of Trafalgar House that has provided 15,000 sq ft of high quality office space and was fully let within eight months of completion. Another key project, St James's Gateway, a £100 million scheme developed in a 50:50 joint venture between The Crown Estate and HOOPP, completed in May 2013. Designed by leading architect, Eric Parry, it provides over 100,000 sq ft of mixed use space to St James's. The substantial refurbishment of British Columbia House is on schedule to complete in the second half of 2014.

As a listed building, it has required the application of a range of our specialist skills to preserve its history, whilst creating a property that meets contemporary occupier demands. Our target is that all of our large development projects achieve BREEAM excellent.

Linked to these projects are a number of residential developments which include both affordable and private rented schemes, several of which completed during the year. At Ogle Street, W1 we facilitated the provision of 21 affordable homes and at Albany House, Regent Street and 80-82 Mortimer Street a further 24 residential flats, both linked to our W4 and W5 South schemes, were completed. Work has started on the residential schemes linked to the St James's Market project and these will provide 32 new residential homes, 12 of which will be affordable housing.

Outside London, our projects have included the leisure extension to our MK1 fashion park in Milton Keynes. Following on from the fashion park's success, we are investing a further £32 million to fund the development of a new leisure park with an IMAX cinema and seven restaurants. The investment is a part of our wider strategy to increase leisure activities at our retail parks to enhance the experience of visitors and increase the time they spend there.

In partnership with Land Securities we have achieved outline planning consent to transform the existing shopping centre at the Westgate Centre in Oxford. The project will provide a new 800,000 sq ft retail destination in the centre of town and we see this sector as a natural extension to our growing specialism in prime retail.

Rural and Coastal

We continue to look for opportunities in our portfolio to develop strategic sites for residential and other types of development. The strategic land portfolio realised more than £5 million in 2013/14, with sales worth over £20 million in progress.

During the year, we secured planning permission for over 1,200 homes in five different locations. There are planning decisions pending for another 1,800 homes including a project in Thetford where we are working with other local landowners to deliver a major urban extension for the town. In Bingham, the agreed consented development will provide 1,050 new homes, a business park, a new primary school and a £7 million investment in local infrastructure. We also began marketing residential development opportunities in Taunton, Elsenham, Dunster and Fochabers.

Our aim on each site is to secure a commercially viable scheme that will provide an attractive place for people to live and work. We select our developer partners on the basis of their track record for quality design, sustainable development and community approach as well as financial offer. We will continue to set sustainability standards for the new buildings where appropriate. This year we required properties in one key development to meet Level 4 standard in the Code for Sustainable Homes.

Another element in our work to enhance the value of our assets is our engagement with tenants to help them develop business cases for investment which we can then consider pursuing as joint initiatives. Developments that have emerged through this route include a new grain store on the Wingland estate and dairy facilities on a property in Essex. We are reviewing carefully emerging planning policy on the use of farm buildings and will support development where it can enhance our physical and natural resources and benefit the local economy.

A similar approach is also reflected in a number of projects in our Coastal portfolio. This is illustrated by our partnership with ABP, Morgan Sindall and the City Council to enhance the waterfront around the Royal Pier in Southampton. It is expected that this will create new office space and improve the Mayflower Park, creating a single site

Office lettings have remained strong. Regent Street Quadrant 3 is now fully occupied with Twitter taking two floors, while at One Eagle Place in St James's all six floors have been let since completing in July 2013 with tenants including Virgin Money and Haymarket Financial.

for the Boat Show and other activities. The Crown Estate has provided land to facilitate the development as well as sharing our know-how, including from our Energy and Infrastructure portfolio to advise on the dredging needed. In return we have negotiated a share in the returns from the use of the Mayflower Park, where we remain the freeholder.

Windsor

This year saw the completion of our new Virginia Water Pavilion, a £1.3 million investment which provided improved catering, visitor information and enhanced views to Virginia Water Lake. The building has been developed with a range of advanced energy efficiency measures including photovoltaic panels, rainwater harvesting and ground source heating. Its design fits in with the landscape of the park thanks to its timber cladding, made from commercially managed trees on the estate.

Development also started on a new £3.25 million biomass power generation plant which will supply power to many of the offices and houses on the estate. A wood chip boiler, supplied by sustainably sourced timber chippings from the estate, will have a capacity of 1,000 KW and is expected to be completed later this year.

We have also continued to invest in provision for our staff with the opening of new mess room facilities and storage depot. As well as the improvement in the physical environment for those working on the estate, these new developments also provide an opportunity for the teams to come together more frequently which helps in our collaborative approach to managing the park.

Energy and Infrastructure

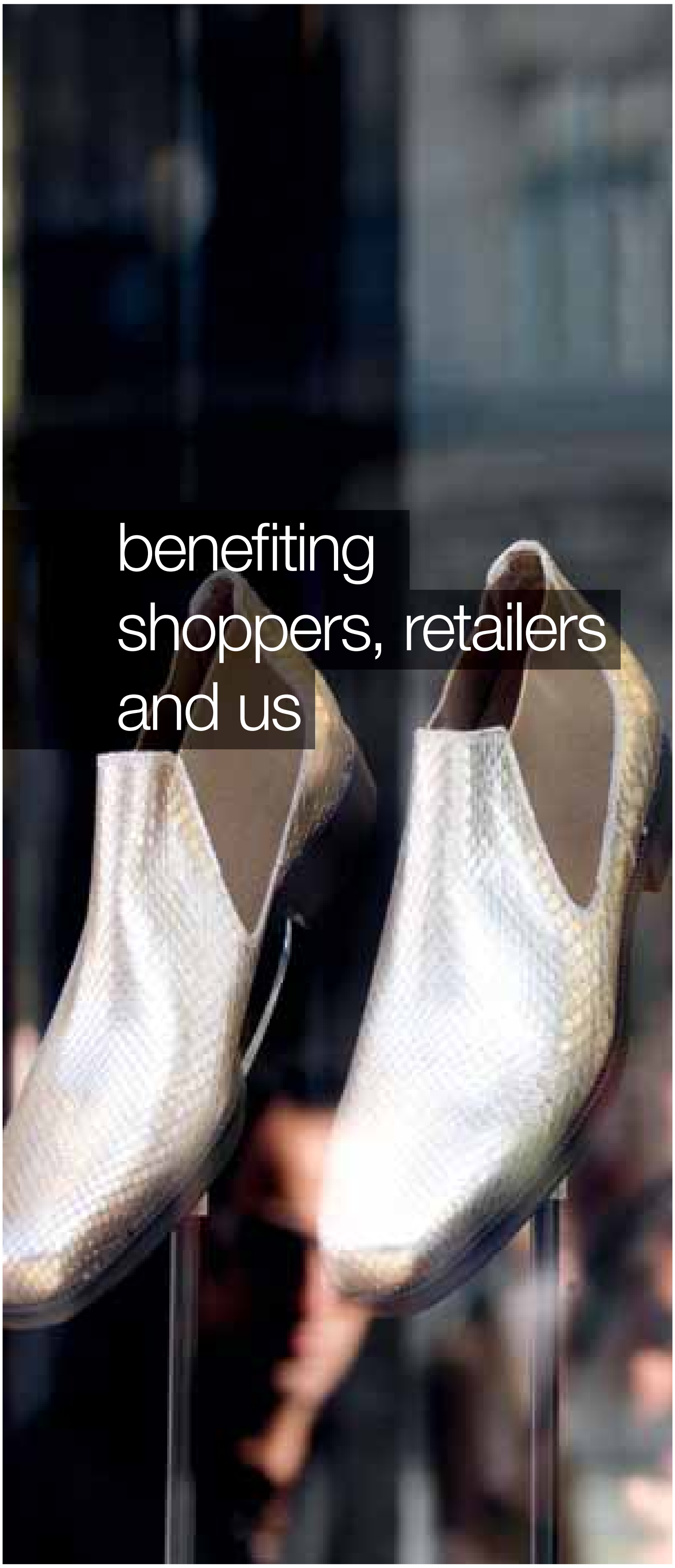
As a result of our activity this year we will have 0.7 GW of offshore wind turbine capacity under construction by summer 2015, with a further 4.9 GW consented pre-construction and 11 GW in planning. The significant potential of energy generation from offshore wind as these projects progress through the development process was highlighted in December 2013, when electricity generated by offshore and onshore wind facilities supplied nearly 10 per cent of the UK's energy needs, a new record.

The ongoing development of offshore wind projects, as well as the overall attractiveness of the UK as a location for renewables sector investment, gained a major boost with the announcement of Green Port Hull. This landmark investment agreement between Siemens and Associated British Ports is estimated to bring 1,000 direct jobs to the regional economy in the fabrication and manufacture of offshore wind turbines for the energy sector. We played a major facilitating role in the deal, bringing together key regional and national stakeholders.

In significantly improving the development process for offshore wind projects, and bringing major employment and economic benefits, the agreement was symbolic of the positive progress made in the offshore renewables industry this year. In addition, this year saw major progress in the ABLE Marine Energy Park project, a renewable energy manufacturing site also based on Humberside. In partnership with our Rural and Coastal team we are arranging a lease of the site which has the potential to bring a further boost to both the sector and local economy.

The UK-wide benefits of the offshore renewables sector are demonstrated by the positive progress made in development work off the coasts of Wales and Northern Ireland. Construction is well underway at Gwynt y Môr wind farm off the north coast of Wales which will be capable of powering 400,000 homes once fully completed. Two tidal demonstrator projects in Strangford Lough in Northern Ireland have also made good progress this year, while surveys and feasibility studies are being undertaken for an offshore wind scheme off the County Down coast.

More welcoming environments attract more customers



Regional retail parks

Making regional retail parks more welcoming places for shops and shoppers is not only good for retailers, but good for our business too. We draw on our expertise to get the right mix of tenants, improve the built environment and enhance the shopping experience for everyone. Ensuring that more people spend more of their time at our retail parks, more often.

Review of activities continued

During the year we announced a new leasing programme to encourage further investment in a range of offshore wind test and demonstration projects which included projects to develop arrays of up to 15 machines utilising floating foundations. We expect the results of these tenders and the stakeholder engagement later in 2014, with a view to enabling projects to start construction in 2017.

By facilitating these opportunities we can show how advances in new technology drive further cost reduction, and so increase market confidence and encourage investment in the industry that will be needed for sustained growth.

In addition, we have applied our know-how and understanding of developer requirements to identify seven areas of seabed that are suitable for wave and tidal test and demonstration projects and have subsequently shaped the provision of access to the seabed and leased some of these Zones. We have now leased around 40 wave and tidal projects in the UK with a total potential capacity of up to 2 GW.

The past year has also seen further developments in tidal range energy schemes with more projects under development or in operation in UK waters than any other country in the world. This includes 150 MW of potential capacity for which statutory consents have been obtained. The Crown Estate has played a key part in facilitating this, spending £3 million on enabling actions to date. During 2013/14 we provided around £70,000 for a research study into how the Pentland Firth and Orkney waters wave and tidal projects could be developed in harmony with local fishing activities.

In response to strong interest from the market we are now examining what seabed rights could potentially be released for tidal range projects.

Another important potential use of our assets is in CCS where there was further progress during the year. We have granted seabed and subsurface storage rights to Shell for the depleted Goldeneye gas field, 65 miles from St Fergus, north east Scotland (associated with the Peterhead CCS Project) and to National Grid for an offshore saline aquifer approximately 70 miles from the East Yorkshire coast (associated with the White Rose CCS project in the Humber Valley). These two projects have now been awarded a total of £100 million in funding from the Department of Energy and Climate Change (DECC) to develop Front End Engineering and Design studies.

Property management

We place great importance on placemaking as a way of enhancing the customer experience and improving our physical resources. Our property management activities are focused around understanding our customers and their businesses as we aim to be the landlord of choice across our core sectors.

Urban

Our asset teams have worked very closely with our property managers to ensure that our vacancy rate has remained low throughout 2013/14. In particular, voids caused by previous tenant failures have re-let well and this is a testament to the quality of our portfolio.

£1.3 million

Virginia Water Pavilion investment provides new catering facilities and has seen an uplift in visitors to this area of Windsor Great Park. Our Lapland UK event hosted at Windsor was a great success, attracting 42,000 people in four weeks.

Placemaking has remained a key focus across our regional retail portfolio, including public realm improvements to Victoria Retail Park in Nottingham and pop-up community events at Crown Gate in Worcester.

We believe that there is clear evidence that enhancing the streets and public realm around our buildings is an important factor in the long-term outperformance of our properties. That has been shown in the improvements we have undertaken in Regent Street over the last decade and we have continued this approach into our St James's holdings. Works are currently underway to improve Waterloo Place and Regent Street south of Piccadilly Circus. These will deliver a new London square and wider footways in St James's, improving the flow of pedestrian traffic and giving the area some much needed additional public space.

The Regent Street lighting scheme is being extended south to Waterloo Place and will continue in Haymarket; completion is scheduled to coincide with the opening of the St James's Market scheme, ensuring the landmark development is fully supported by its surrounding public space.

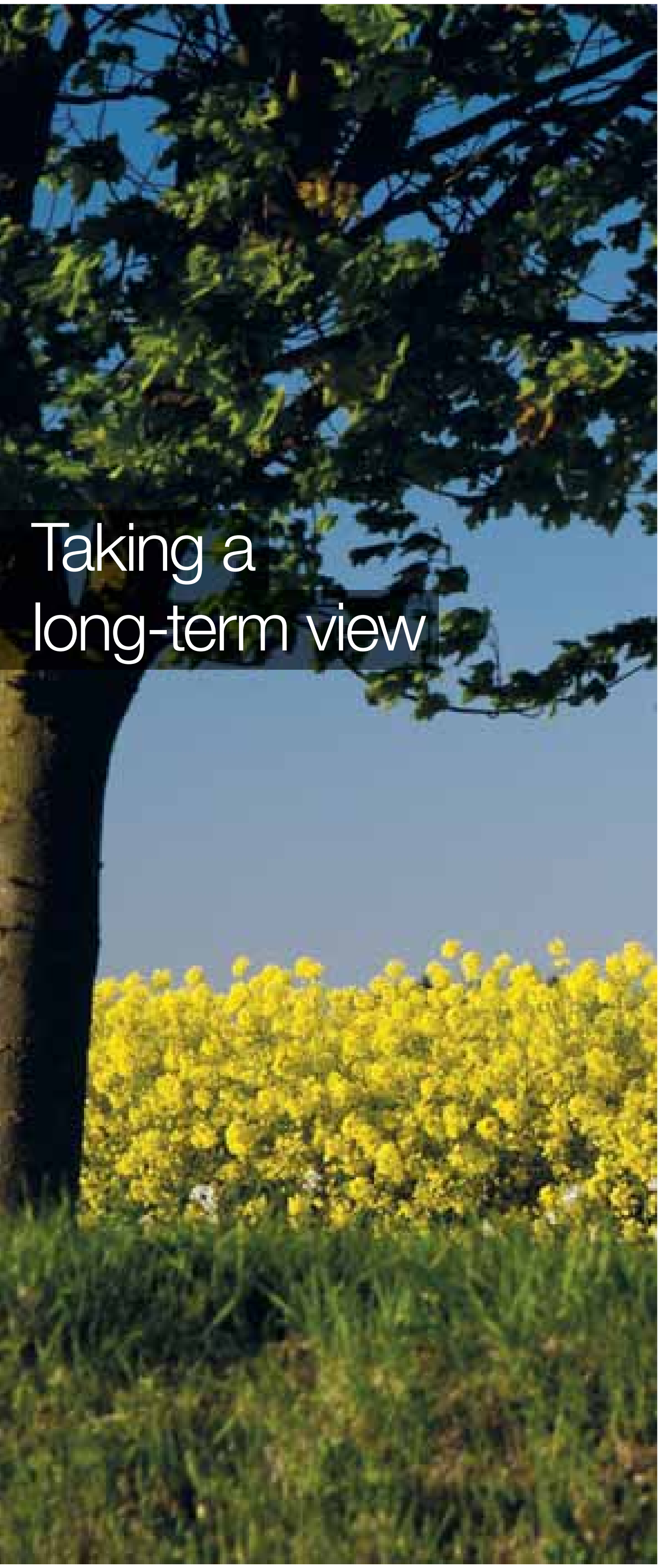
We hope to extend this approach to Jermyn Street and St James's Street in the coming years. As well as physical improvements to the streets, we also look to improve the area by working closely with Westminster City Council, Transport for London and the Mayor to reduce traffic levels. For example, our Regent Street delivery consolidation scheme reduced the number of vehicle movements to participating retailers by 80 per cent. We are now looking to extend this approach to bring similar benefits to St James's.

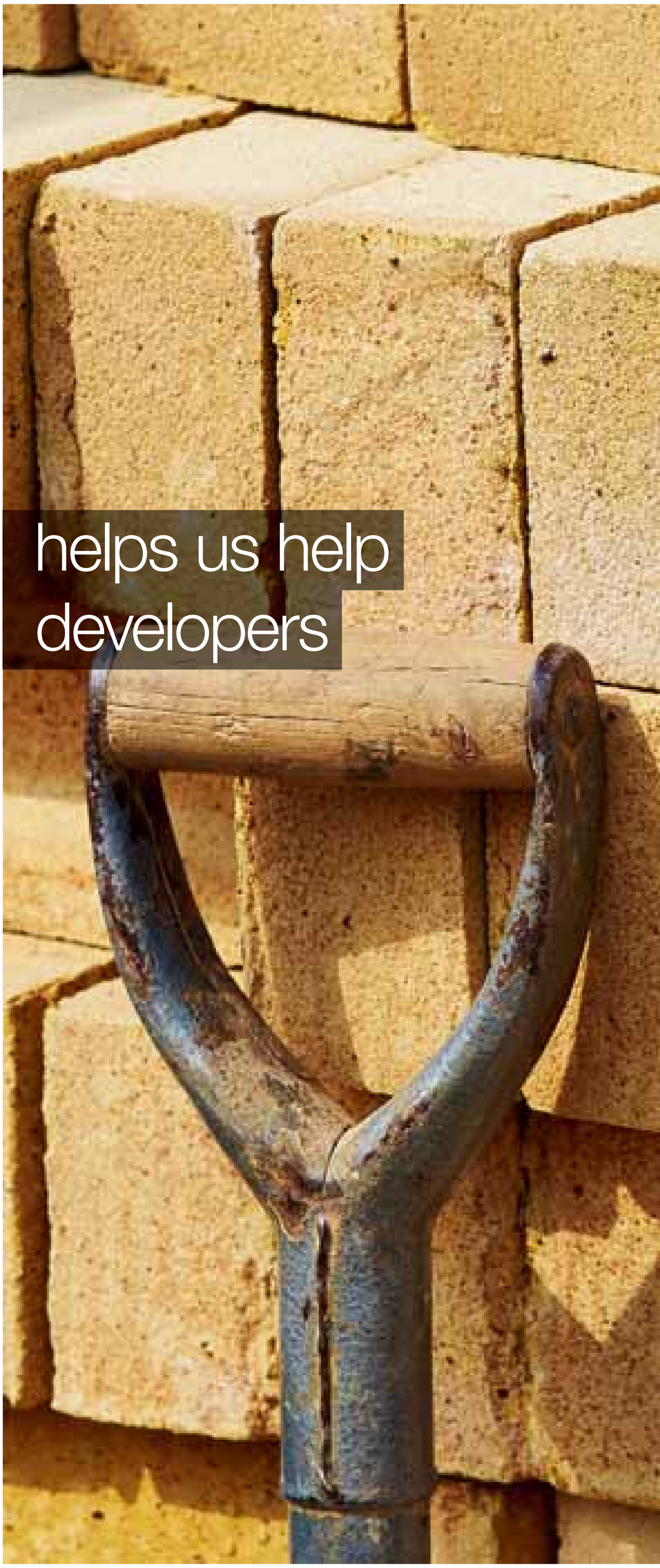
Hosting events in St James's and on Regent Street helps raise the profile of our assets and bring a new audience to these areas, extending their influence as world-renowned shopping and leisure destinations.

During 2013/14 our events included the RIBA Regent Street Windows Project that brought unique retail design and contemporary architecture to the shops on the street. The annual Motor Show in November saw a parade of 300 vehicles along Regent Street, whilst the Concours d'Elegance vintage car rally in St James's proved a huge success. The St James's Fayre saw 500 stakeholder guests take part in a spectacular night of carol singing at St James's Church, Piccadilly; whilst the Regent Street Christmas lights were turned on by a host of celebrities, accompanied by performances from a range of bands and singers. Each of these distinctive events helped to draw in new visitors and reinforce the international appeal of Regent Street and St James's.

In our regional developments, we also took a number of steps to improve the wider public realm around our buildings. We have secured planning permission to upgrade the external appearance of the Coliseum retail park in Cheshire Oaks, develop a new children's playground facility and provide enhanced landscaping. Another important aspect of our work on improving facilities is to engage the local community and we are working with a local community group, the Youth Federation Group (YFG) on improvements to the rose garden that will encourage biodiversity.

We are committed to the high quality management of all aspects of our properties and were pleased to reward a number of our managing agents at our 2014 Urban Sustainability Conference. Regent Street Direct were recognised for their management of the Quadrant 3


Taking a
long-term view


helps us help
developers

Strategic land

The strategic development of rural land can play a key role in meeting housing demand around the UK. We take a long-term approach and consult extensively with local authorities and local communities. This makes us more effective at bringing forward suitable development land for new homes to be built, contributing both to our own revenues and the UK's housing stock.

Review of activities continued

development (20 Air Street), introducing a range of initiatives that make the building more environmentally sustainable as well as for their work on education and engagement related to biodiversity. Our agents in the Crowngate Shopping Centre in Worcester also received an award for the creation of 'pop up' shops for retail and community use and for their work on developing occupier and stakeholder relationships within the city.

Rural and Coastal

As part of our commitment to the effective stewardship of our physical and natural resources we've continued to invest in improving the resilience of our estate to extreme weather. However, the storms and record rainfall during the year presented major challenges for our tenants and we are working closely with them as they deal with the problems caused by flooding.

At Sunk Island near Hull we spent £450,000 to upgrade the flood protection and drainage system. The works are designed to protect the high grade agricultural land and heritage of the island. They included a £100,000 investment in the Spragger Clough doors which prevent the River Humber flooding the estate at high tide. This challenging project involved work on structures which were originally built in 1883, and had to be finished before the end of September 2013 to avoid affecting the overwintering birds in the Humber Estuary. These repairs proved their worth in December's East Coast storm, helping to prevent flooding to the Island.

There was also some flooding on the Friskney Estate, although work to improve the resistance of vulnerable properties limited the damage. The weather also caused problems for aquaculture where fish could not be harvested in the storm conditions causing a shortfall in supply.

Another important element in ensuring the long-term performance of our rural portfolio is the need to find ways of managing our resources sustainably and, in particular, to address the pressure on the soil. Our policy on new lettings is to fully test the soil prior to the tenancy and we plan to extend this testing policy across our estate. We are also talking to other landowners and stakeholders about the best approach to maintaining the quality of soils and using technology to develop our understanding of the problem and identify solutions.

As well as their contribution to the environment we recognise that our properties also have a role to play in supporting their neighbouring communities. One way we do this is through providing career development opportunities for local people. We have launched a pilot scheme on our Whitehill Estate to develop the skills of young people with a view to helping them enter into careers in countryside management. The same principles of careful stewardship also apply to our coastal portfolio and this year our Marine Stewardship Programme has continued to support community initiatives that improve and enhance the coastal and marine environment.

1,050

new homes will be built in Bingham following consent for a community scheme which includes a new school and business park. In the past 12 months we secured planning for over 1,200 new homes within the year across five sites in England and Scotland.

Collaborative expertise between our Rural and Coastal and Energy and Infrastructure teams is facilitating the landmark £450 million Able Marine Energy Park on Humberside, potentially bringing a major boost to the local economy and offshore renewables sector.

Windsor

We made a number of enhancements to our physical and natural resources across the park this year, including completion of a scenic avenue of limes leading from Cumberland Lodge, with another avenue set to complete in 2014. We are also improving three boundary gates into the Great Park to make them more welcoming, building on the extensive landscaping work that has taken place over the past ten years.

As in many areas of our Rural and Coastal portfolio, Windsor also saw significant damage caused by the weather. A large number of trees were brought down in the gales and some of the land next to the River Thames flooded, but there was limited damage to property. We will continue to work closely with tenants to support them in dealing with the challenges caused by extreme weather.

An important aspect of our management approach at Windsor is to support our tenants in developing their businesses.

Last year we agreed a sublet agreement with one of our tenants for the planting of vines on their land. These were harvested for the first time in 2013/14, with the assistance of volunteers from the estate and will produce 8,000 bottles of sparkling wine for Christmas 2014.

Energy and Infrastructure

The past year saw the wind power capacity of turbines installed in UK waters reach 4.3 GW of which 3.8 GW is operational, enough to power three million homes with electricity, with a further 0.7 GW to be completed by summer 2015.

Our management responsibilities in the energy and infrastructure sector include researching the impact of development on particular species, both to protect biodiversity and help project developers. Our recent research on a protected species of sea worm showed that the species could live alongside dredging and renewable energy activity on the seabed. Valuable data like this on understanding the marine environment can help our marine aggregate and offshore developer partners gain consents for their activities.

In marine aggregates we focused on providing information and guidance to help the industry operate in sustainable ways, a major landmark being the production of a 15-year review of marine aggregate dredging in the UK, detailing how the industry developed from 1998 to 2012 and its impact on the seabed and coastline. With funding by the Department for Environment Food and Rural Affairs (DEFRA) from the marine aggregate levy we also published an overview of recent research and industry practice on aggregate dredging, summarising the results of £25 million of research carried out between 2002 and 2011. We have committed to reviewing all dredging licences over a rolling five-year period and we publish annual reports on the extent of dredging in any given area. Stakeholders have welcomed the high levels of transparency we provide about this activity.

As a business we are committed to health and safety. This year we continued to support the RenewableUK Health and Safety Award which aims to improve safety in the renewables industry through an annual award scheme and worked in partnership with a range of government bodies and trade associations. In all these relationships we share our know-how and access to information so we have a better understanding of the marine environment and the requirements of those who use this vital national resource.


By listening to
our rural tenants


and taking
a wider
commercial view

Rural

As a progressive commercial business we take an active approach as rural landlords, and work closely with tenants when they seek to expand or develop their own businesses. By understanding their needs, taking a flexible approach, and investing our own capital and expertise where required, we can form new agreements that benefit all parties and encourage innovation in the rural business sector.

Across our business, throughout the year, we are involved in a range of activities that deliver value beyond financial return by enhancing the way our assets are worked, managed and enjoyed both now and in the long term.

Creating value beyond financial return

Our stewardship work

Stewardship, one of our three core values, plays a vital role in our active asset management approach and we see it as an integral component to delivering a successful and a sustainable business in the long term as part of our Vision 2022 objectives. Highlights from our stewardship work over the past 12 months include:

Our Marine Stewardship Programme supports community initiatives and scientific research that help promote the long-term sustainable management of our coastal portfolio. Since being established in 1999 we have invested some £10 million in projects across the UK through the programme. We helped 45 projects through the Marine Stewardship Programme this year, with our support covering four main categories of Environment, Education, Access and Biodiversity. An example of our Environmental support is The Green Blue, an organisation that encourages greater environmental awareness among the recreational boating community in order to reduce overall impact and generate cost savings through changes to energy use, recycling and water use.

Our Education work this year included funding for P1 Marine Foundation who help to increase appreciation and understanding of our coastal environment among youngsters in Kent and Greater London through actively demonstrating coastal resources and the need for conservation. Among our Access projects, we helped the Craignish Boat Club community project to develop boating facilities and a pontoon at Craignish, Argyll with a focus on providing access for young people from the local area to enjoy water sports such as sailing and kayaking.

In Northern Ireland an example of one of our Biodiversity projects, North Coast Living Seas, completed this year. The project has raised awareness of the marine environment around Northern Ireland amongst local communities and government.

Our Workplace Coordinator scheme has placed over 730 people within the West End, contributing around £6.8 million to the UK economy. The scheme, which was this year rebranded as 'Recruit West End', was established in 2009 and works in partnership with local Government stakeholders and West End tenants to secure jobs for unemployed people in the local area. The project has gained widespread recognition within the industry and we have been proud to share our learnings and approach with fellow commercial property organisations. We have placed people in retail and leisure positions at prized employers across our portfolio.

Through the U-Explore platform our Energy and Infrastructure portfolio has explored ways to increase awareness of the sector in order to encourage the

Image courtesy of Cycletherapy

future development of skills and expertise in the industry. This year we invested in U-Explore interactive offshore wind education resource, a dedicated portal to showcase offshore wind industry careers to secondary school option takers, older students aged 12 and above as well as parents.

Enhancing the value of our assets through improving the places where people work, live and play is a key part of our approach across the Urban portfolio. This year we celebrated placemaking with a new publication marking ten years of public art on Regent Street and where we have invested £25 million in wider public realm improvements over the last decade. The occasion was marked with the unveiling of two new public art pieces as part our latest W4 development, at 10 New Burlington Street and New Burlington Mews. We also hosted a number of traffic-free street events, including an NFL on Regent Street day and Summer Streets series throughout July.

Using our land for education and recreation we are able to facilitate understanding of the natural environment across our portfolio. At Windsor, over the past year we have accommodated 700 children in Forest Schools, enabling them to gain hands-on experience outside of the classroom. A new 24.2 km cycling network was opened in Swinley Forest providing a range of routes suitable for all abilities. The site receives over 170,000 visitors each year and has been designed to channel cyclists to protect the extensive conservation value of the forest as a Special Protection Area. On our forestry estates, education and conservation are also a key part of our approach. Highlights at Dunster this year included embarking on a ten-year programme to bring 30 hectares of heathland habitat SSSI into favourable condition and working with local schools to conserve the endangered black poplar. At Glenlivet we have hosted two successful community orchard planting events and have looked to help the local economy benefit from our conservation work through a business workshop demonstrating the opportunities provided by our new mountain bike trails there.

Looking ahead, over the next 12 months we have committed to extending and developing our current Marine Stewardship Programme right across the entirety of our business. The extended programme will empower portfolios and departments to identify, fund and enable projects that will bring about additional benefits in support of our business priorities beyond day-to-day activity, making investments that underpin our commercial delivery across all business areas, while supporting our commitment to ‘conscious commercialism’.

Finance Director’s review ‘Education’
See page 53

Measuring our success

Key performance indicators

Why these indicators?

It is through these indicators that we measure our performance against our strategic objectives. They cover both financial and non-financial indicators, communicating the broader value we create beyond financial return.

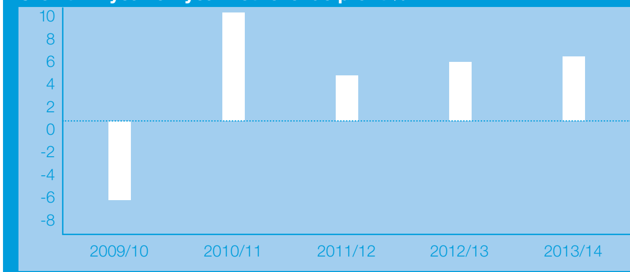
We have reduced the number of key performance indicators this year as part of our review of how we measure performance and intend to develop new indicators this year to ensure that they are better suited to deliver our vision.

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

Net revenue profit

£267.1m

Growth in year-on-year net revenue profit %



Our targets
To deliver a year-on-year increase in annual revenue profit.

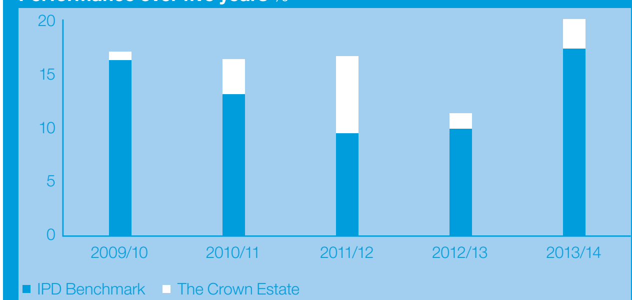
Strategic objective 1 5
See page 12

Total return compared to IPD bespoke benchmark

20.0%

Total return compared to IPD bespoke benchmark of 17.3%

Performance over five years %



Our targets
To outperform our IPD bespoke benchmark.

Strategic objective 1
See page 12

Working hours without a reportable incident

260,144 working hours without a reportable incident Ⓐ

3 reportable incidents in the year

Our targets
400,000 working hours without a work-related incident.

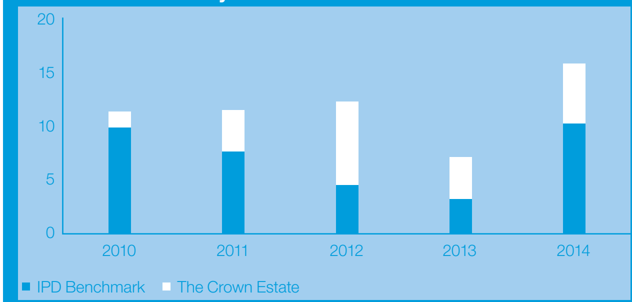
Strategic objective 3
See page 12

Capital growth compared to IPD bespoke benchmark

15.7%

Capital growth compared to IPD bespoke benchmark of 10.2%

Performance over five years %



Our targets
To outperform the IPD bespoke capital growth index.

Strategic objective 1 5
See page 12

External recognition

Awards

Throughout the year we have been externally recognised for our performance, these are some of the awards we have won:

2014 British Council for Offices awards
Best Commercial Workspace
1 Eagle Place development

Property Week Sustainability
Initiative of the Year 2014
Quadrant 3 Fuel Cell

IP Real Estate Gold Awards
Best Large Real Estate Investor

2013 Building Public Trust Awards
Integrated Annual Report and Accounts 2013 and sustainability reporting award
Recognition in the Public Sector for Excellence in Reporting

RIBA London National Awards 2013
Quadrant 3, Regent Street

Business in the Community Corporate Responsibility (CR) Index – Platinum Big Tick 2013

Strategic objective 6
See page 12

Greenhouse gas emissions intensity indexed trend

2% improvement in emissions' intensity

Between 2012/13 and 2013/14
Trend based on measurement of $kgCO_2e/m^2$.
Intensity for 2013/14 is 98Ⓐ. Results weighted based upon relative impact of asset type.

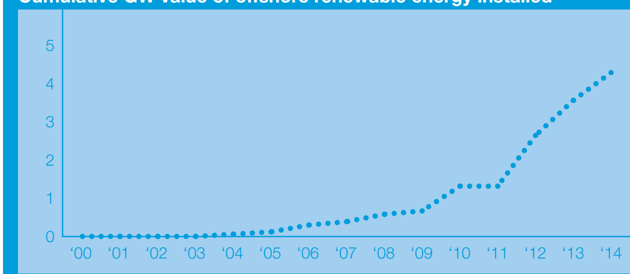
Our targets
To improve carbon emissions' intensity by a further 50 per cent from a 2012/13 baseline for property under our direct control by 2022.

Strategic objective 5
See page 12

Renewable energy capacity installed

4.3 GW installed

Cumulative GW value of offshore renewable energy installed



0.7 GW installed in 2013/14Ⓐ

Our targets
To facilitate the installation of 5–8 GW of renewable energy generation capacity on our portfolio by 2015.

Strategic objective 5
See page 12

Key factors affecting our performance

Material issues

Our material issues are factors that could potentially influence our ability to deliver our strategic objectives. We have a structured process for determining these based upon economic impact, stakeholder interest and likely future impact. The Management Board, chaired by the Chief Executive, and facilitated by an external third party, review these every year.

Optimisation of the portfolio for sustained, profitable growth

Resources and relationships affected

What we're doing
Continuing to grow our revenue surplus and so increase our contribution to Treasury, outperforming our peer group at a total return level.

How we measure performance
- Annual revenue profit year-on-year growth (KPI)
- Total return compared to our IPD bespoke benchmark (KPI)
- Capital growth compared to the IPD benchmark (KPI)

Key performance indicators
See pages 44 – 45

Attraction of suitable commercial partners and investors

Resources and relationships affected

What we're doing
Creating strategic partnerships and attracting investors who share our values to provide working capital that enables us to continue to reinvest.

How we measure performance
The amount of third party funds under our management

Finance Director's review
See pages 48 – 53

Reputation and trust

Resources and relationships affected

What we're doing
Inspiring trust through leadership, and demonstrating how seriously we take our responsibility for the long-term management of the assets we look after on behalf of the nation.

How we measure performance
Through our stewardship programme and external, independent recognition as a leader in:

- Managing strategic property assets
- Enabling offshore low carbon energy projects
- Being the partner of choice

Review of our activities
See pages 18 – 41

Government policy

Resources and relationships affected

What we're doing
We work with the grain of Government and need to anticipate and be responsive to changes in policy that may impact our business.

How we measure performance
- Regular review of relevant policy
- Active participation in key policy reviews, openly communicated through corporate channels

Attraction, nurturing and retention of best talent

Resources and relationships affected

What we're doing
Ensuring that we attract and retain the best people, encourage a high performance culture and are recognised as a great place to work.

How we measure performance
- Employee turnover
- Training hours per employee
- Employee salary ratios by gender
- We intend to baseline performance on staff satisfaction before we introduce a KPI

Finance Director's review
See pages 48 – 53

Governance

Resources and relationships affected

What we're doing
Ensuring that we have the right culture, organisational structure and management processes in place to achieve our strategic objectives and vision.

How we measure performance
See our Governance report pages 54 – 83

Material issues
http://www.thecrownestate.co.uk/our-business/material-issues/

Resources and relationships
Page 10

Key to resources and relationships:

Financial resources
Physical resources
Natural resources
Our people
Our know-how
Our networks

Health and safety

Resources and relationships affected

What we're doing
Creating a positive culture towards health and safety and wellbeing that enables the business to operate in a safe and sustainable manner.

How we measure performance
- Working hours without a reportable incident (KPI)
- Accident frequency, severity and incident rates (see Finance Director's review)

Visit our website
www.thecrownestate.co.uk

Availability of natural resources

Resources and relationships affected

What we're doing
Identifying the risks, opportunities and value of the natural resources we use and are responsible for.

How we measure performance
- Operational and development waste diverted from landfill
- Absolute water consumption

Visit our website
www.thecrownestate.co.uk

Customer focus

Resources and relationships affected

What we're doing
Pursuing specific customer focus initiatives to enhance our business performance and reputation, whilst we develop a business-wide customer focus strategy.

How we measure performance
We are using the Institute of Customer Service survey to establish a baseline in assessing colleagues' views on how our strategy, organisation, culture and processes enable us to deliver excellent customer service.

Health of the economy

Resources and relationships affected

What we're doing
Increasing our contribution to the UK economy. Our performance is influenced by the economy – as economic conditions improve so do the opportunities for us.

How we measure performance
Our Total Contribution

Visit our website
www.thecrownestate.co.uk

Effect of climate change

Resources and relationships affected

What we're doing
Managing the physical, financial and regulatory risk and opportunity that climate change presents to our business.

How we measure performance
- Greenhouse gas emissions intensity indexed trend (KPI)
- GW of renewable energy capacity installed (KPI)
- Absolute emissions

Finance Director's review
See pages 48 – 53

Visit our website
www.thecrownestate.co.uk

Successful placemaking

Resources and relationships affected

What we're doing
Creating successful places where people want to be.

How we measure performance
- Number of projects achieving BREEAM 'excellent' rating
- Visitor numbers/footfall
- Public realm projects undertaken
- Awards for excellence

Review of our activities
See pages 18 – 41

Visit our website
www.thecrownestate.co.uk

Delivering sustainable results

Finance Director's review

Creating value and achieving long-term sustainable growth is essential to the continuing delivery of our corporate objectives. It is our approach to value creation, articulated in our business model, which has enabled us to deliver a record net revenue profit of £267.1 million for the year ended 31 March 2014, an increase of £14.5 million (5.7 per cent) on last year.

This performance continues our track record of year-on-year increases in net revenue profit and strong total returns. We have now delivered a total of £2.2 billion to the Treasury over the last ten years, and have consistently outperformed our IPD bespoke benchmark.

Continued delivery of our objectives will be achieved through an active asset management approach with a focus on our core sectors where we have critical mass and expertise. This was exemplified over the year in the acquisitions made within our regional retail portfolio, strategic land sales, and continued facilitation and enablement of the offshore renewables sector.

Investment and development in the West End will be critical going forward, and this year saw new development work start at Quadrant 2 and W5 on Regent Street as well as St James's Market, coupled with the successful letting of completed prime office space and the attraction of international brands across our Regent Street and St James's portfolios.

Creating value through our focus on these key areas is represented in our financial performance. However, the value we deliver goes beyond financial return, as it also includes the social and environmental contribution we make and the wider benefits we bring to our stakeholders, partners and the communities in which we operate.

A key ingredient in delivering value beyond financial return is in harnessing the expertise and experience of our staff. Across a varied portfolio we are able to add value through connecting people, ideas and opportunities in ways that recognise our common sense of purpose. Just one example of where we have applied our expertise collaboratively this year includes our purchase of Alcan Farms, which brought together our specialist knowledge of rural management and renewable energy. With the diverse range of income sources on this site we see significant opportunities to use our specialist knowledge to improve the asset and so increase its long-term value.

We continue to drive forward efficiencies and during the year we undertook reviews of a number of our support functions, enabling us to improve delivery, reduce costs and provide value for money. Our business has a progressive commercial outlook, and as we develop we look for continued improvement.

As I outlined last year, we are taking an integrated approach to our business from corporate planning through to our decision making. In this our second of a three year plan to integrate our reporting our focus has been on understanding and highlighting the importance of the resources and relationships that sustain our business and contribute to our success. You will have seen how our performance is framed by these resources and relationships from our business model through to our review of activities.

We are taking an integrated approach to our business from corporate planning through to our decision making.

£2.2 billion
delivered to the Treasury over the last ten years.

It is important to underline that integrated reporting is not simply about the way we describe our activities externally but it also helps us to apply integrated thinking to the way we conduct our business. This integrated approach to what we do ensures that we take a broader, long-term view of our business and the way we manage our assets which, in turn, delivers sustainable value.

Financial resources

Annual revenue profit

Annual revenue profit was £267.1 million, representing a 5.7 per cent increase on last year which represents a record profit for The Crown Estate. This improved performance reflects the successful implementation of our investment strategy. During the year we benefited from the successful lettings of development properties coming on stream as well as strong rent reviews in the West End of London, low void and failure rates and successful asset management initiatives as well as an increased contribution from renewables.

Net assets

The capital value of The Crown Estate at 31 March 2014 was £9.9 billion, an increase of nearly 15 per cent over the previous year's value. Over £1 billion of this is a result of property revaluation gains. The property revaluation section below gives more details of this.

Cash flow

At the start of the year, our cash reserve was £585.5 million. During the year our capital activity amounted to nearly £1 billion. We made £263.6 million of acquisitions including the purchases of Silverlink Retail Park, The Coliseum Shopping Park and Alcan Farms, and incurred £248.1 million on capital expenditure on investment properties. We made disposals which realised £457.2 million, including a 25 per cent disposal of Quadrant 3, the sale of the Intercontinental Hotel, Cabot Park, Avonmouth and Cranwell and Roxholme Farm. We also formed The St James's Market Partnership, a joint venture with Oxford Properties, and contributed the St James's Market development site to the joint venture. Overall our total capital activity led to a net outflow of funds to the value of £61.7 million compared with an inflow of £6.1 million in 2012/13.

Physical resources

Assets under management

With the addition of our partners' share of St James's Market and Quadrant 3, we now have £968 million of partner assets under our management, a 59 per cent increase on last year. Regent Street, which we manage on behalf of Norges Bank Investment Management (NBIM), continued to make up the majority of the assets which we manage for third parties.

Property valuation

The total property value of the estate, including the share of joint venture and other property investments increased to £9.4 billion at 31 March 2014, an increase of 15.7 per cent over the figure of £8.1 billion at 31 March 2013.

Performance this year has been driven by our West End portfolio. Capital growth from standing investments was 15 per cent, driven in equal part by yield compression and rental value growth. However, after transactions and development activity are taken into account, the underlying capital growth increased to 22 per cent. Particularly strong contributions came from our development programme, associated lettings ahead of forecast plus planning permissions to return listed office properties to their former residential use.

Outside of London, capital growth on standing investments was more muted at 5.2 per cent. Principally through acquisitions, the value of the portfolio has grown by 19 per cent to £1.8 billion. However, with over 80 per cent concentrated on the prime end of the retail sector it did not benefit from the increased investment appetite and associated yield compression experienced in the south-east office and industrial sectors.

Nevertheless, the combined Urban commercial portfolio delivered an exceptional total return of 21 per cent beating the IPD Annual Index by 6.7 per cent. Of that outperformance, 2.3 per cent came from held investments, 1.1 per cent from transactions and 2.9 per cent from development activity – a strong vindication of our active approach to asset management.

The combined Rural and Coastal portfolio has increased in value by 8.5 per cent to £1.56 billion. However after taking account of net receipts of £19 million the underlying capital growth was 9.9 per cent. The fundamental driver of values across the portfolio was the increase in value of prime agricultural land with vacant possession. The market continues to be characterised by a shortage of supply and strong demand fuelled by commodity prices and the attraction of land as a safe investment. Significant contributions also came from planning permissions gained on strategic land. On a regional basis, growth continues to be stronger on commercial arable farms in East Anglia and the East Midlands. Growth was weaker on the estates with smaller livestock farms with a higher residential weighting.

The coastal element of the portfolio has remained flat with capital values up by 5.5 per cent to £218 million. On the leisure side turnover rents remain under pressure but performance from the commercial ports has been robust.

The Energy and Infrastructure portfolio has grown in value by 34.6 per cent to £759 million. Net investment across the portfolio totalled £17 million. The majority of this was invested in the facilitation of the offshore wind industry but we are supporting a number of other projects across the portfolio including the wave and tidal programme and carbon capture storage. The principal growth area was offshore wind which increased by 50 per cent due to a combination of physical progress, improved energy production data and an inward movement of yields as the industry matures.

Finance Director's review continued

There is now 4.3 GW of installed capacity, 0.7 GW under construction by summer 2015 and 4.9 GW consented. Elsewhere, the offshore aggregates valuation increased by 23 per cent to £118 million in recognition of an improving market and extended licence terms. Aggregate extraction is however still at 75 per cent of its pre-recession peak.

The principal valuers remain DTZ on our core West End holdings, JLL on our Regional and Residential properties and Savills on the Rural portfolio. JLL value the Offshore wind portfolio.

Natural resources

Accounting for natural resources

We recognise that we not only have responsibility for natural resources on our land but also that we are reliant upon natural resources in our supply chain, particularly for our development activity. To better understand where specific risks and opportunities lie, we have been developing an internal management framework that maps this at a corporate level, and converts it into a practical tool that can be used on the ground to make better informed decisions.

We continue to have a proactive management programme for the good management of our natural resources, from the completion this year of the clearance of 104 hectares (257 acres) of Rhododendrons in Swinley Forest and coppice management of 40 hectares (100 acres) of ancient semi-natural oak woodland, and restoration of a further 20 hectares (50 acres) of oak woodland within Dunster Forest.

Building upon our own supply chain standards, we have also this year developed guidance for occupiers of our buildings who are carrying out fit-out work to help them to make more environmentally friendly decisions in the construction materials they use.

Through our Total Contribution approach we have been undertaking pilot projects to value the ecosystem services that natural resources deliver. Over the past year we have contributed, with other leading organisations, to the work of the Natural Capital Committee (NCC) Landowners Group and The Prince's Accounting for Sustainability (A4S) to help ensure that this information informs decision making. Furthermore we have joined the Natural Capital Coalition to help to build consensus on a harmonised framework for natural and social capital accounting.

Going forward we intend to build upon our pilot projects and develop a comprehensive system of valuation for our entire business. We also plan to roll out an ecological masterplan covering our core holdings in the West End of London to improve biodiversity, the health of the local environment and portfolio value.

Climate change

Climate change is a material issue for The Crown Estate as it presents physical, financial and regulatory risk and opportunity to our business. In response we are focusing on mitigation, adaptation and enabling the development of low carbon energy. This year we have launched a range of tools to help us to continue to reduce our carbon impact and ensure that sustainability is integrated in our decision making, including sustainability in investments, development principles and fit-out guides. Work is also underway on how we adapt to a changing climate on our rural estate for example through forest resilience programmes and recognising and incentivising good soil management.

Our carbon emissions intensity (kgCO_2e/m2 weighted against relative impact of asset type) improved by two per cent over the past financial year. This is a considerable achievement against a backdrop of continued business growth and increasing absolute emissions (nine per cent) which are largely due to the addition of newly developed or refurbished properties and more tenants.

Global GHG Emissions Data – 1 April 2013 – 31 March 2014

	2013/14 Emissions (tCO_2e)	2012/13 Emissions (tCO_2e)
Scope 1 Direct emissions from fleet and the heating of buildings	**7,096**	5,789
Scope 2 Emissions from generated electricity usage	**21,201**	20,054
Gross scope 1 and scope 2 emissions	**28,297**	**25,843**
Purchased green tariff	**21,694**	21,004
Net scope 1 and scope 2 emissions (Gross minus purchased green tariff electricity)	**6,603**	**4,839**
Emissions Intensity (weighted kg CO_2e/m^2)	**98**	**100**

Data note: We have used the GHG protocol Corporate Accounting and Reporting Standard to calculate our emissions. We have reported all sources of emissions that are under our operational control apart from de minimis sources.

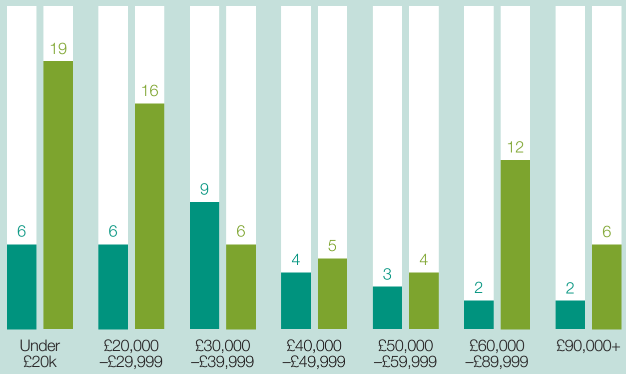
The emissions for 2012/13 have been restated due to amendments to the DEFRA emissions conversion factors (details can be found on www.thecrownestate.co.uk).

We have also measured indirect Scope 3 emissions of 3,768 tCO_2e from energy used exclusively by our tenants, where we were able to obtain it, from business travel and car hire, and from electricity transmission and distribution losses. The equivalent figure for 2012/13 was 3,456 tCO_2e (not including transmissions and distribution losses). Therefore our total gross scope 1, 2 and 3 emissions for 2013/14 were 32,065 tCO_2e.Ⓐ

We will continue to find ways to reduce our direct impact but we recognise that most of the emissions from our estate are created by others and are therefore outside of our direct control and not included in the table above. Through our Total Contribution we are measuring the emissions produced, avoided through renewables and sequestered by trees and plants over our entire estate, to help identify action to improve our overall carbon budget.

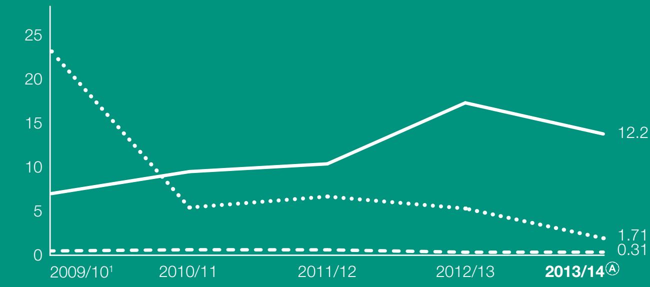
The activities section of this report outlines some of the work we are currently undertaking to play our part in addressing the challenges of climate change, both directly and in enabling initiatives of our customers.

Employee salary ratios by gender 2013/14
(68% Male, 32% Female) %



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

Health and safety incidents



ASR – Total number of employee lost days per 1,000 hours worked
AIR – Total number of employee incidents per 100 employees
AFR – Total number of reportable incidents per 100,000 employee hours worked

1 In 2009/10 the ASR rate was high due to a smaller workforce and accidents resulting in more days off, including one resulting in 104 days off.

Our people

Equal opportunities and diversity

The Crown Estate is committed to eliminating discrimination and encouraging equality and diversity amongst our workforce.

We recognise and encourage the varied contributions that a diverse workforce makes to our business and we create an environment in which they are valued.

We ensure compliance with equalities legislation. We are also members of the Employers' Forum on disability.

The gender diversity of our employees is 32 per cent female as shown above split by salary, whilst 20 per cent of our Main Board (including Board Counsellors) and 19 per cent of our senior managers are female.

Reward

We aim to offer competitive reward packages (salary and performance related bonuses) and these are set around the market median for the majority of roles, benchmarked against comparable organisations in the sectors in which we operate. We also provide a range of flexible employee benefits, including pensions, season ticket loans and sickness pay. Salary ratios by gender are shown above.

Human rights

We are committed to adhering to all applicable laws in the UK including those related to human rights and employment. For our supply chain, which does stretch beyond the UK, we are committed through our contractors and business partners to operate in accordance with the Universal Declaration of Human Rights (UDHR), the International Labour Organisation (ILO) Core Conventions and the Guiding Principles on Business and Human Rights endorsed by the United Nations Human Rights Council.

We are not aware of any breaches in the last financial year.

Health and safety

Health and safety is a key business challenge and risk. We are committed to applying a positive and proactive health and safety culture across all areas of our business.

Over the last year we have introduced a new behaviour safety programme on our Windsor estate and Rural and Coastal portfolio. This has focused on challenging perceptions and attitudes towards safety and creating a positive health and safety culture. It included a range of activities from safety leadership training and safety tours, to a supplier Safety, Health and Environmental Forum to engage and share best practice and risk culture workshops, which were built on the principle, "I can prevent someone else's injury".

The Accident Incident Rate (AIR), as shown in the chart above, shows a general increase over the past five years. This is due to a higher level of reporting as a result of our programme to encourage employees to report all incidents. Whilst we are reporting more incidents, the severity and impact has reduced, as shown in the decrease in the Accident Frequency (AFR) and Accident Severity (ASR) rates. This provides a positive picture in terms of our safety performance.

We have had three reportable incidents this year including one which involved an employee falling from height while working at our Windsor estate. The employee has returned to work and as part of our behavioural safety programme has been inspiring his colleagues to take a more proactive approach to their safety by speaking about the real personal impacts of his experience.

As we continue to improve our measurement and reporting we have expanded our external assurance this year to incorporate Health and Safety.

We have also improved how we recognise employee good health and safety practice, by including health and safety as one of the categories in our new

Finance Director's review continued

quarterly superstar awards, along with Sustainability and Customer Focus.

We are very pleased to have secured a Gold achievement award in the RoSPA (Royal Society for the Prevention of Accidents) Occupational Health and Safety Awards 2014 representing an on-going commitment to raising health and safety standards for our retail park portfolio. As well as winning awards we also jointly sponsor the Renewable Energy Health and Safety Awards to promote the sharing of best practice in health and safety across the renewable sector.

Looking forward we intend to roll out the second year of our behaviour programme, at higher risk locations and introduce an appropriate programme across other areas of our business.

Wellbeing

The contribution of our employees is critical to our success and we support our staff in leading healthy lifestyles that increases their wellbeing and reduces absence from work. This is part of our support for staff to reduce days lost through sickness.

We provide beneficial rates for health insurance and dental services and free confidential advice and counselling services.

In order to encourage employees to adopt a healthy lifestyle both personally and professionally, we have this year introduced a series of activities including a running club. Our new employee led, Green Workplaces initiative has also inspired volunteer juice bars which have proved to be very popular.

Culture and behaviours

As part of our Vision 2022 programme we have introduced a set of key behaviours which we think will help underpin our future success. Employees at all levels have committed to these behaviours, which range from being 'open and honest with each other and the people we work with' to being 'enterprising in how we create value, agile and considered in how we do business'. A significant part of these behaviours is that they are to be embedded within our employee performance reviews as well as integrated into everything we do.

Our know-how

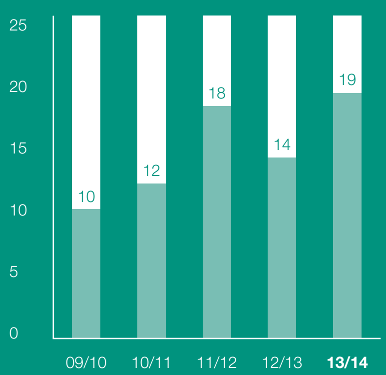
Training

We continue to invest in training to ensure our employees have the skills that are critical to successful business performance, including investment in leadership and management capability. This is demonstrated by the fact that our average training hours per person for 2013/14 stands at 19 hours and average spend per person was £680. We have been recognised as an Investors in People (IIP) employer since 2003 and this year we were awarded with an IIP bronze standard.

We also invest in the development of our leadership team and encourage them to build their expertise through involvement with other organisations – for example as Non-Executive Directors or by sitting on boards and volunteering for charities. This has the double benefit of contributing to the wider community as well as enhancing their leadership capability.

The average number of employees increased in the year to 31 March 2014, from 456 in 2012/13 to 458 in 2013/14. Our employee turnover rate for voluntary leavers excluding retirements was 7.6 per cent, with overall employee turnover at 10.6 per cent.

Average hours of training per year per employee



We continue to invest in training to ensure our employees have the skills that are critical to successful business performance.

Our networks

Charitable donations

As permitted by the Crown Estate Act 1961 (Section 4(2)) we made donations of £nil in the year to 31 March 2014 compared with £1,750 in the previous year.

Supplier payment performance

We observe the principles of the ‘Better Payment Practice Code’ and our payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of a service where a fee is recoverable from a third party or according to contract where a shorter payment period is agreed. During the year to 31 March 2014, we paid 75 per cent of supplier invoices within the period. This includes disputed invoices and amounts recoverable from third parties. On average suppliers’ invoices are paid within 30 days of receipt.

Customer focus

In addition to working with our customers on a day-to-day basis on each of our portfolios, our cross-business customer focus group continues to explore and implement specific initiatives designed to benefit our customers and enhance our business performance. During the year we joined the Institute of Customer Service as a means of furthering our commitment to excellence in how we do business.

Education

As part of our approach to stewardship, we initiate, facilitate and participate in educational programmes and events. These involve children of all ages, university students and adults. Much of our unique landscape including forest and parkland is used to teach young children about how proactive management of these natural habitats can play an important role in addressing climate change, food security and biodiversity.

As well as hosting educational activities on our portfolio, we are raising awareness and access to information on digital platforms through backing ‘Forests for the Future’, an online resource enabling children to learn more about the natural environment. In our Energy and Infrastructure portfolio we are also investing in an offshore wind educational resource through the U-Explore website.

We started a new initiative in February 2013 to provide work experience to children from less advantaged and diverse backgrounds in order to help address the imbalance within the professions that The Crown Estate represents. We linked up with two charities, IntoUniversity and the Reading Real Estate Foundation, and in 2013/14 we have provided work experience to nine students from both charities as well as hosted a learning event for a group of 13–15 year olds at our offices during which our professionals provided them with advice on the real estate profession.

John Lelliott
Finance Director

Strategic report ‘Our stewardship work’
See pages 42 and 43

A key ingredient in delivering value beyond financial return is in harnessing the expertise and experience of our staff.

5.7%
increase in net revenue profit.

Committed to strong governance

Governance

The Crown Estate is in an unusual position as both a public body, set up to carry out specific duties whilst remaining independent from Government, and as a statutory corporation operating on a commercial basis. That structure brings us within best practice corporate governance standards drawn from both the private and public sector. As a Board we are committed to strong corporate governance across the entirety of The Crown Estate business that supports effective stewardship of the assets we manage.

I, and my fellow Board Members, believe that strong corporate governance is critical to the effective management and success of our business. It reinforces our values, our behaviours and culture, and supports our commitment to an ethically accountable and transparent way of doing business.

The Crown Estate Act 1961 sets out many of our governance requirements. We supplement these requirements by adopting best practice from both the public sector and the private commercial sector, being respectively the Code of Good Practice 2011, issued jointly by HM Treasury and the Cabinet Office, and the UK Corporate Governance Code, issued by the Financial Reporting Council. The Board supports the principles and provisions set out in both codes in so far as they are applicable to the circumstances of The Crown Estate and are consistent with our Act.

Together, these provide us with strong foundations. Alongside the diverse skillset and expertise of our Board Members and executive team, they equip the Board with the necessary tools which are fundamental to ensuring that our organisation delivers against its long-term strategic objectives.

However, as I set out in last year's Annual Report, as part of delivery of our Vision 2022 we recognised that we needed to review our structures to ensure they were still fit for purpose. In particular, we wanted to ensure that our governance could support greater growth for The Crown Estate over the next ten years and reflect the increased complexity, enhanced ambitions and diversity of our business.

That review has now been completed and, as a result of the outputs, we have implemented a number of changes to strengthen further our approach to robust business delivery.

This includes revision to the focus of the Board to enhance the opportunity for it to operate at a strategic level.

We have made a number of changes to our committee structure in order to streamline business delivery. The Energy and Stock Selection Committees have been replaced with a single Investment Committee. This enables us to ensure greater clarity and consistency over investment decisions across the whole business.

The sustainability and communications committees have also been replaced with regular reporting to the Board, which also enables us to embed the business of those committees into all of our decision making.

All these changes help to enable the executive to be more agile and responsive to opportunity while operating within an appropriate framework of control and oversight.

While we have a diverse balance of skills on the Board, the review of our structures identified the lack of a professionally qualified accountant as a member of the Audit Committee and, as a result, we are looking to appoint an accountant to the Board within the current recruitment process.

In line with best practice corporate governance we place great importance on regular Board evaluation. To reflect this, we annually assess the performance of the Board through a series of individual assessments of Members, led by myself. My own performance and the Board's as a whole is also assessed through separate evaluation led by the Board's Senior Independent Board Member.

In addition, in accordance with best practice, we have this year undergone an externally facilitated review. The review was led by PwC and focused on the key areas of leadership and effectiveness. The outcome of that review was positively received and overall reassuring. It provided several valuable recommendations to enhance our performance and assist in achieving our vision for the future. The most significant has been to formalise our Board appointment procedures by establishing a Nominations Committee. This committee will precede the formal process for Board appointments, assess skillsets needed to maintain a diverse and fully competent Board, as well as assisting in succession planning for Board Members and Executive Directors.

Our focus for the year ahead will be to reassess the changes we have made to our Board and committee structures to ensure that they are achieving optimum performance and that they accurately reflect any further changes in our business or in best practice or legislation. We will, of course, report back on progress in next year's report.

The Board has considered the Annual Report and Accounts and are of the view that taken as a whole they are fair, balanced and understandable and provide the information necessary for stakeholders to assess our performance, business model and strategy.

To meet and support the expectations set by the organisation, the Board and its committees have been extremely active this year, and the details of its activities are set out in the monthly Board activity table detailed later in this report.

The following section of the report provides more detail on our approach to governance, including the Board's statutory position and composition, as well as delegated authorities, and the work of the committees.

Sir Stuart Hampson
Chairman

Governance

Board Members

Sir Stuart Hampson
Chairman and
First Commissioner

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

Key strengths
- Leadership
- Strategic overview
- Government relations

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

External appointments
Sir Stuart chaired the Business in the Community team tackling economic renewal in deprived communities, and he is one of the Prince of Wales's Ambassadors in this area. Sir Stuart was President of the Royal Agricultural Society of England in 2005/2006. He was knighted in 1998 for services to retailing.

Age 67.

Alison Nimmo
CBE, FRICS, MRTPI

Chief Executive
and Second
Commissioner

Appointment
Alison took up the post of Chief Executive of The Crown Estate on 1 January 2012.

Key strengths
- Leadership
- Corporate overview
- Government relations
- Urban regeneration

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

External appointments
Alison is Non-Executive Director at Berkeley Group and a visiting professor for Sheffield Hallam University. In 2014, she was awarded the prestigious Royal Town Planning Institute Gold Medal for recognition of her services to town planning and sustainability throughout her career.

Age 49.

Gareth Baird
DL, FRAgS

Non-Executive
Board Member
and Scottish
Commissioner

Appointment
Appointed to the Board on 1 October 2009.

Key strengths
- Scottish affairs
- Farming
- Enterprise

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

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

Age 56.

David Fursdon
DL, FRICS, FAAV

Non-Executive
Board Member

Appointment
Appointed to the Board on 1 January 2008.

Key strengths
- Rural land/business
- Public bodies

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

External appointments
David is Chairman of the SW Rural and Farming Network, Chairman of Beeswax Farming Ltd and Chairs the joint Government and Industry 'Future of Farming' Review. He serves as a Non-Executive Director on the Dyson Family Board, is Parish Chairman, a Deputy Lieutenant for Devon, a former member of the Government's Affordable Housing Commission and a former English Heritage Commissioner. Previously he has been a civil servant, a teacher and an equity partner of a firm of auctioneers and chartered surveyors.

Age 61.

Dipesh Shah
OBE, MSc, FRSA

Non-Executive
Board Member

Appointment
Appointed to the Board on 1 January 2011.

Key strengths
- Energy including renewables and infrastructure

Experience
Dipesh has an extensive background in business, including renewable energy, utilities and infrastructure. Previous appointments include: Chief Executive of the UK Atomic Energy Authority, Chief Executive of several businesses in BP Group PLC, Chairman of Viridian Group Plc and of HgCapital Renewable Power Partners LLP, and a Non-Executive Director of Lloyds of London and Babcock International Group Plc.

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

Age 60.

Dr Tony White
MBE

Non-Executive
Board Member

Appointment
Appointed to the Board on 1 January 2011.

Key strengths
- Low carbon energy and investment
- Competitive energy markets

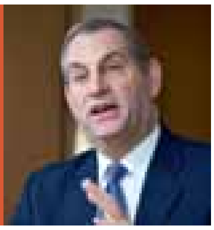
Experience
Tony has worked in the utility and finance sectors since leaving Oxford University with a Doctorate in Physics in 1977. His professional interests include the valuation of generating assets in liberalised power markets, the evolution of energy markets in a carbon constrained world and the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

External appointments
Tony is a Non-Executive Director of Green Energy Options, 2OC and The Green Deal Finance Company. He is a member of the British Government's Nuclear Financing Assurance Board and is a Vice President of the Combined Heat and Power Association. He was awarded an MBE in 2004 for services to UK energy policy.

Age 61.

Ian Marcus
MA, FRICS

Non-Executive
Board Member



Appointment
Appointed to the Board on 1 January 2012.

Key strengths
- Real estate investment banking

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

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

Age 55.

Chris Bartram
MA, FRICS

Non-Executive
Board Member

Appointment
Appointed to the Board on 1 January 2007.

Key strengths
- Urban asset management and investment

Experience
Chris is currently Chairman of Orchard Street Investment Management and was Managing Director of Haslemere NV which was floated on the Amsterdam Stock Exchange in 1999. He was previously Managing Partner of Jones Lang Wootton.

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

Age 64.

Jenefer Greenwood
BSc, FRICS

Board Counsellor
Non-Executive
Board Member
January 2004 –
December 2011

Appointment
Appointed to the Board on 1 January 2004 and appointed as Board Counsellor on 1 January 2012.

Key strengths
- Urban asset management
- Retail strategy

Experience
Jenefer has over 35 years' experience in the retail real estate sector. She was Retail Executive Director at CB Hillier Parker and latterly Director, Sales & Lettings at Grosvenor Britain and Ireland. She retired in 2012 and continues to provide consultancy advice on location analysis, retail positioning and asset management.

External appointments
Jenefer is a Non-Executive Director of Assura Group Ltd, where she also chairs the Remuneration Committee. Jenefer sits on the Board of the National Skills Academy for Retail, and was the first Chairman. She is a past President of the British Council Shopping Centres (BCSC) and member of the ICSC European Advisory Board. She is also a Governor of Westonbirt School.

Age 56.

Peter Madden
Board Counsellor

Appointment
Appointed as Board Counsellor on 1 January 2014.

Key strengths
- Sustainability
- Urban innovation

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

External appointments
Peter is an Advisory Board Member for Center for Energy Efficiency and Sustainability, and a member of the UK Government Smart Cities Forum. His previous posts have included Head of Policy at the Environment Agency, Ministerial Adviser at Defra, Director of Green Alliance and Head of Policy at Christian Aid.

Age 49.

Management Board

From left: Rob Hastings, Vivienne King, Ken Jones, Alison Nimmo, Judith Everett, John Lelliott and Paul Clark.

Alison Nimmo CBE, FRICS, MRTPI
Chief Executive

Alison took up the post of Chief Executive of The Crown Estate on 1 January 2012. Prior to this, she spent five years with the Olympic Delivery Authority (ODA) where, as Director of Design and Regeneration, she was responsible for delivering the overall design and early delivery of many of the venues for the London 2012 games. (See page 56 for full biography.)

Age 49.

John Lelliott FCCA
Finance Director

John became Finance Director in 2001, having joined The Crown Estate in 1985. He has responsibility for Finance, IS, and Internal Audit. John is a member of the ACCA Global Sustainability Forum, The Prince of Wales Accounting for Sustainability project (A4S) and the A4S CFO Leadership Forum. John is also a Trustee and Vice-Chair of Asthma UK.

Age 61.

Rob Hastings BSc, MBA
Director of Energy and Infrastructure

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

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

His penultimate role was as a Director and Chairman of Shell Wind Energy Limited. He has also served as a Director of the British Wind Energy Association (now Renewable UK). He is currently serving on the Offshore Wind Industry Council and the CCS Developers Forum. He is also chairing the Finance Steering Group for the EU Ocean Energy Forum.

Age 51.

Paul Clark BA (Hons), MPhil, MRICS
Director of Investment and Asset Management

Paul joined The Crown Estate in 2007 and has overall responsibility for investment strategy as well as managing the Urban portfolio.

Previously, he was responsible for the Church Commissioners' £1.7 billion property investment portfolio. Significant recent initiatives have included establishing major joint ventures with HOOPP and Oxford Properties in St James's as well as the Regent Street Partnership with NBIM, completion of major development projects in the West End (including 10 New Burlington Street and Eagle Place) and establishing a clear and focused investment strategy for the business.

Age 51.

Vivienne King BSoc Sci
Director of Business Operations and General Counsel

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

Vivienne has been the Legal Director and Company Secretary of The Crown Estate since 2007. She has responsibility for the legal requirements of the portfolio and for business delivery to robust standards of corporate governance, and health and safety. She is also responsible for HR and is the Director who has overall accountability for driving sustainability.

A member of the City of London Solicitors Company and Chief Legal Officer Network, Vivienne was named a 'Power General Counsel' in 2013 by *Legal Week* magazine.

Vivienne is a trustee of The Womens Pioneer Housing Trust.

Age 53.

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

Ken joined The Crown Estate in November 2012 following a 31 year career at Savills managing 40 staff and an annual turnover of £3 million. At Savills, he headed up portfolio valuation and agricultural investments with clients including the Church Commissioners, the Duchy of Lancaster and The Crown Estate. A Chartered Surveyor by profession, he is responsible for the strategic development and management of agricultural, mineral and forestry estates, including rural residential and commercial interests, as well as the only Royal Park within The Crown Estate portfolio, the Windsor estate, and over half the foreshore around the UK.

He is a Liveryman of the Worshipful Company of Farmers.

Age 61.

Judith Everett MA, MBA
Director of Corporate Affairs

Judith joined The Crown Estate in 2013.

Judith has experience of business development, marketing and external affairs at an international level across a variety of sectors, including time with companies as varied as Royal Dutch Shell, Scottish Enterprise and Threadneedle Investments. She joined from AstraZeneca, where she was a member of the global Corporate Affairs leadership team, covering strategy, brand and sustainability.

Judith's primary role is to lead on the strategy and direction of Corporate Affairs, a team responsible for public affairs, media, marketing, digital and internal communications.

Judith is a graduate of both Aberdeen and Edinburgh universities where she read International Relations and Business.

Age 50.

Governance report

Our governance structure

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

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

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

Investment Committee
Has delegated authority to approve transactions up to £50 million for Urban and up to £20 million for Rural and Coastal, Energy and Infrastructure and Windsor.

Scottish Management Board
Responsible for decisions relating to, or affecting, The Crown Estate's business or reputation in Scotland.

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

The Board of Commissioners (the Board)

Statutory position of The Crown Estate and Crown Estate Commissioners

The Crown Estate Act 1961 (the Act) followed the recommendations of the Report of the Committee on Crown Lands 1955 ('the Eve Report'), which envisaged the role of the Crown Estate Commissioners, as analogous to that of trustees of a trust fund. It established The Crown Estate as a body corporate operating with an independent commercial mandate in the management of The Crown Estate. As such, The Crown Estate is a statutory corporation and not a company for the purposes of the Companies Act. The formal name of the organisation is The Crown Estate Commissioners but it operates under the name The Crown Estate and any references to the Commissioners are to the individual Executive and Non-Executive Board Members and vice versa.

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

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

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

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

Governance report continued

Composition of the Board

At 31 March 2014 the Board comprised eight members: a Chairman (who is Non-Executive), the Chief Executive and six Non-Executive Board Members. The composition of the Board is defined by the Crown Estate Act 1961.

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

Duties

The main duties of the Board are to:

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

Delegated authorities

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

- approving the Annual Report and Accounts;
- approving the annual budget and corporate plan;
- agreeing capital expenditure or disposals over £50 million for Urban transactions and over £20 million for Rural and Coastal, Energy and Infrastructure and Windsor related transactions;
- agreeing novel and contentious transactions over £5 million;
- agreeing investment strategy; and
- granting or varying authority levels for Board Committees and the Chief Executive.

Certain matters are delegated to committees of the Board and these are described in the terms of reference of the committees in question. The duties of the Audit Committee, Remuneration Committee, Investment Committee, Management Board, and Scottish Management Board are summarised later in this report.

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

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

The Non-Executive Members of the Board

The Non-Executive Members are Chris Bartram, David Fursdon, Gareth Baird, Dipesh Shah, Tony White and Ian Marcus. The Board annually reviews the independence of each of its Non-Executive Members to ensure that they bring an objective viewpoint and that no lack of independence is implied. None of the Non-Executive Members has (to his or her knowledge) any conflict of interest which has not been disclosed to the Board.

Each of the Non-Executive Board Members has a Royal Warrant from Her Majesty the Queen and terms of engagement from The Crown Estate.

The role of Company Secretary is held by Vivienne King, Director of Business Operations and General Counsel. In addition to other executive duties, the Company Secretary's responsibilities include:

- supporting and advising the Chairman in relation to matters such as the annual review of Board competence and succession, terms of reference of the Board and committees, and relevant changes in corporate governance;
- providing support to the Senior Independent Board Member in the annual appraisal of the Chairman; and
- ensuring agendas allow sufficient time for debate and challenge and that the Board is equipped with the relevant tools and sufficient information to effectively perform their role.

The secretariat service to the Board is administered by the Board secretary, Cheryl Lake, who succeeded David Purkis in the role in January 2014. All Board Members, including the Non-Executives, have access to the advice and services of the Company Secretary.

Senior Independent Board Member

Chris Bartram is the nominated Senior Independent Board Member. The Senior Independent Board Member role is defined in our Boards and committees terms of reference. The role includes appraising the performance of the Chairman, representing the Board on selection panels, and acting as an intermediary for other Board Members.

As the longest serving Board Member and as Chairman of the Audit Committee, Chris has extensive experience of The Crown Estate and enjoys the respect of the Chairman and other Board Members in carrying out his role as Senior Independent Board Member. His experience, the quality of his advice, his considered and well-measured approach, together with his mindfulness of taking the collective view, makes for a highly professional discharge of his Senior Independent Board Member duties.

Appointment and tenure

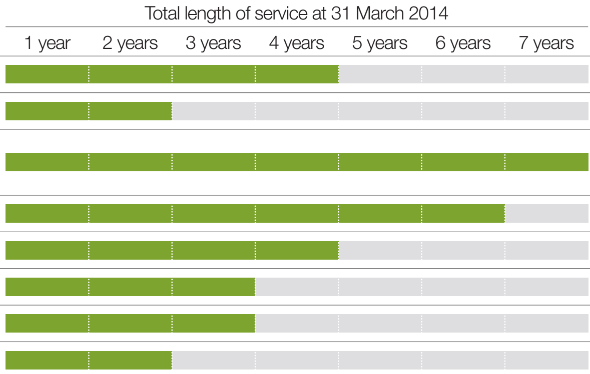
Crown Estate Commissioners are appointed for a term of four years, with the possibility of extension for a second term of four years. The maximum consecutive term which a Board Member may serve on the Board is currently eight years. The appointment process for Non-Executive Board Members follows the Office of the Commissioner for Public Appointments (OCPA) Code of Practice. One of the key principles of this Code is selection based on merit, after fair and open competition, and with the aim of achieving a balance of relevant skills and backgrounds on the Board, with minimal conflicts of interest with their outside activities. Maintaining an appropriate balance, including a diverse range of skills, experience, knowledge and background is of paramount importance. Gender and ethnic diversity is a significant element of this. Executive search consultants appointed to support selection panels are required to identify a pool of suitable candidates for consideration which includes a good balance of female candidates and candidates drawn from an ethnically diverse background, wherever possible.

Board Members are nominated for appointment following interview by a selection panel which comprises: the Chairman, a Board Member, a representative of the Treasury and an independent member. The selection process additionally includes the involvement of the Treasury Minister who is involved at each stage of the appointment process. The Treasury is responsible for recommending The Crown Estate appointments to the Prime Minister and Her Majesty the Queen.

Similar arrangements apply to the appointment to the role of the Chairman.

Governance report continued

Time served by Board Members at 31 March 2014



	Date of appointment	Date of expiry
Sir Stuart Hampson (Chairman)*	1 January 2010	31 December 2017
Alison Nimmo (Chief Executive)	1 January 2012	31 December 2015
Chris Bartram (SID as from 1 January 2012)	1 January 2007	31 December 2014
David Fursdon	1 January 2008	31 December 2015
Gareth Baird*	1 October 2009	30 September 2017
Dipesh Shah	1 January 2011	31 December 2014
Tony White	1 January 2011	31 December 2014
Ian Marcus	1 January 2012	31 December 2015

* Re-appointed 1 January 2014

Non-Executive Board Counsellors

The Crown Estate's terms of reference for the Board allow for the appointment of Board Counsellors drawn from:

- retiring Board Members;
- external third parties as prospective Board Members who have gone through the OCPA process; and
- external third parties as advisers who have not gone through the OCPA process.

There can be no more than four Board Counsellors in place at any given time, two under the first two categories above, and two under the last category above.

The role of Board Counsellor is to assist the Board in order to provide the collective Board with an appropriate balance of skills, knowledge and expertise to supplement the knowledge of the Board and inform decision making. Board Counsellors attend Board meetings in a non-voting capacity as co-optees to the Board. They are additionally available to serve on Board committees (other than Audit Committee) at the invitation of the Chairman.

Dinah Nichols and Jenefer Greenwood continued to work with the Board as Board Counsellors following the expiry of their terms as Board Members at the end of 2010 and 2011 respectively. This helped to retain the balance of skills, expertise and qualities at the Board table. Dinah Nichols retired as a Board Counsellor on 31 July 2013. On 1 January 2014 Peter Madden was appointed as a Board Counsellor.

Board Counsellors for the year ended 31 March 2014

Appointment	Date of appointment as a Counsellor	Date of expiry	Length of service as Board Counsellor
Jenefer Greenwood[1]	1 January 2012	30 June 2014	2 years and 3 months
Peter Madden[2]	1 January 2014	31 December 2017	3 months
Dinah Nichols[3]	1 January 2011	31 July 2013	2 years and 4 months

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

2 Peter Madden's appointment as Board Counsellor commenced on 1 January 2014. Peter was appointed under the Board Counsellor category of 'external third party adviser'.

3 Dinah Nichols retired from her position as Board Counsellor on 31 July 2013.

Succession planning

Board Members' appointments and re-appointments are staggered to allow the managed transition of the Board's business and enable the Board to maintain an appropriate balance of skills.

Board activity

Board meetings

Board meetings are pre-scheduled and a calendar of Board and Committee meetings is circulated well in advance to facilitate Boards and Committee Members and Counsellors to plan their schedule and ensure meaningful participation in meetings. The Board held nine scheduled meetings and one special meeting during the year ending 31 March 2014.

As well as meetings in London, the Board also met in Windsor and Edinburgh. In addition, there were three scheduled meetings of the Audit Committee, one meeting of the Sustainability Committee, five meetings of the Remuneration Committee, four of the Scottish Management Board and three of the Energy Committee. In addition to Board meetings, each year the Board convenes for a strategy setting meeting away-day which takes place over two days, at which strategy, external factors and the broad direction of the business is discussed in depth. This year's meeting was held in Milton Keynes where the opportunity was taken to visit Stadium MK as well as several retail assets across the Urban portfolio; MK1 Shopping Park, John Lewis Distribution Centre at Magna Park and the Westgate Shopping Centre; Oxford.

The agenda for Board meetings is set by the Company Secretary and the Chief Executive. The papers are circulated a week in advance.

Information flow

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

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

Board Members and Counsellors have made estate visits across all of our core portfolios in addition to those mentioned above. These include Rural and Coastal estates in England, Scotland and Wales; visits to the London portfolio, including the St James's Gateway development and Block W4; and estate visits to Orkney and Thanet on the Energy and Infrastructure portfolio. They also held receptions in Wales and Scotland.

Board processes

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

Liability

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

Board performance evaluation

Each year, the Board conducts a formal evaluation of its effectiveness. The Board's progress against the matters identified from the 2013 Board effectiveness review is shown below.

During the last financial year, the Chairman also carried out an annual appraisal with each of the Non-Executive Board Members, Board Counsellors and the Chief Executive. These appraisals were conducted under our evaluation system which ensures opportunity for assurance and challenge. The appraisal output included both perspectives of the Board Members and Board Counsellors (from the point of view of his/her position and from the Board), and the Chairman's observations. In addition, the Senior Independent Board Member led a Board Member and Counsellor review of the performance of the Chairman, and the relationship between themselves, the Chairman and the Chief Executive.

This Board performance appraisal process was followed up at the Board away-day in October with discussion about issues raised.

Actions from 2013 Board Effectiveness Review	Progress recorded in 2013/14
Main Board to receive brief output reports of Board committee meetings.	The regular reporting of committees to the Board has improved.
Board discussions should be at a more strategic level.	Board agendas strike a better balance with papers having sufficient content to support high-level strategic consideration.
The Board should have more opportunity to interface with staff.	The change from the regular formal estate visits to a variety of site visits and the presentations by executive team members before Board meetings allow greater personal interaction.
Board to have more insight into risk management strategy.	Risk is being addressed more regularly by the Board.
The Remuneration Committee should have more access to external advisers.	The Board is bringing in relevant external commercial and professional experience to the Remuneration Committee.

Governance report continued

Timeline: Key business at Main Board meetings throughout the year

April 2013
London
(Special meeting)

- Approval of a joint venture for the St James's Market Development

May 2013
Windsor

- Review Windsor estate financial results
- Update on biomass plant at Windsor
- Review progress and development of 'Vision 2022' at Windsor
- General progress across the Windsor estate
- Review unaudited year end results
- Note governance statements for the Annual Report and the updated Register of Interests
- Review the management of relationships in Scotland, Wales and Northern Ireland
- Update on Corporate Manslaughter Act 2007

June 2013
London

- Review Corporate Plan key priorities update
- Review Annual Reports on:
  - Valuation and performance
  - Health and Safety
  - Corporate Governance Monitoring Group
- Approve the sale of the Cranwell and Roxholme Estate
- Presentation by the St James's team

July 2013
London

- Review Q1 financial report
- Review initial outcome of 'Structure for Growth' workstream
- Approve the sale of a 25% interest in Quadrant 3
- Approve purchase of Silverlink shopping park, Newcastle
- Review valuation of offshore interests
- Review Annual Reports on:
  - Risk Management
  - Audit Committee
  - Sustainability
  - Remuneration Committee
- Presentation by Rural and Coastal team

September 2013
Edinburgh

- Review the half-year real estate development update
- Update on business activity, communications and stakeholder engagement in Scotland
- Approve the purchase of Alcan Farms

October 2013
Milton Keynes
(Strategy meeting)

- Update on 'Vision 2022' Core Proposition and Positioning
- Strategic investment review
- Financial strategy
- Structure for Growth update
- Approve the purchase of Banbury Gateway Shopping Park

November 2013
London

- Site visit with Regent Street W4 team
- Note the Energy and Infrastructure bi-annual report
- Note the Corporate Plan Q2 progress on key priorities
- Review health and safety report

January 2014
London

- Site visit to block W4
- Review Q3 financial report
- Approve revised Treasury policy
- Approve updated Boards and Committees Terms of Reference
- Note the Risk Management Update
- Approve sale of properties at 7 Cleveland Row and Russell Court
- Update on 'Vision 2022' Core Proposition and next steps
- Review health and safety report

February 2014
London

- Approve the Corporate Plan for 2014/15

March 2014
London
(Held on 1 April)

- Results of the external Board effectiveness review
- Approve indicative budget for 2014/15
- Update on offshore wind

This year, for the first time, a follow-up review of the effectiveness of the Board was facilitated by an independent external consultant, PwC, selected after a competitive tender.

The external review was carried out in early 2014. PwC's approach included one-to-one interviews with each Board Member, a Board Counsellor and the members of the Management Board together with a desktop review of Board papers and the Board processes.

The report from PwC records that the Board is working well and the Chairman is very well respected. The Board constitution is currently satisfactory. Given that there is only one executive on the Board, the interaction between the Board and the Management Board is important and the basis on which the executives participate in Board meetings should be reviewed. Specific recommendations from the externally facilitated Board effectiveness review undertaken are set out below.

1. The Board should establish a Nominations Committee to include responsibility for:
   a. working towards increased female representation on the Board;
   b. review the process for identifying the Senior Board Member;
   c. considering the optimal term of office on the Board (including that of the Chief Executive); and
   d. oversight of executive succession.
2. The Chairman should review the frequency of Board meetings and adjust the agenda accordingly, encourage strategic discussion and consider the balance between formal and informal Board time.
3. The Board should review the executives' attendance at Board meetings and consider alternative approaches to encourage greater participation.
4. The Chairman and Company Secretary should develop a rolling programme of external speakers at Board meetings or other Board events and ensure Board Members are aware of external training opportunities.

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

Induction

A member of the human resources department acts as secretary to the selection panel for new Board appointments, and oversees the induction of new Board Members upon appointment.

All new Board Members and Counsellors receive a full, formal and tailored induction on joining the Board. Induction programmes for Board Members are designed to:

- build an understanding of the nature of The Crown Estate, its business and the markets in which it operates;
- build a link with employees;
- build an understanding of The Crown Estate's main relationships and stakeholders;
- build an understanding of the role of a Non-Executive Board Member, Counsellor, Director; and
- build an understanding of the decision making framework within which the Board operates.

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

- the Chief Executive about the overview of The Crown Estate, the management team and the challenges for the business;
- the Director of Business Operations and General Counsel about the Crown Estate Act 1961, corporate governance, health and safety, sustainability and HR strategy;
- the Director of Corporate Affairs on Main Board familiarisation programme and Core Proposition and Positioning;
- the Director of Finance on the organisation's finances and accounting arrangements;
- the Portfolio Directors and others about their respective portfolios and investment strategy;
- the Board secretariat about Board meeting processes and procedures and annual processes including Board appraisals and declaration of interests; and
- other senior managers as appropriate.

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

Upon appointment, all new Board Members are offered an externally facilitated Non-Executive Director training course in order to further understand their duties.

Governance report continued

The Boardroom table

- Executive Board Members
- Non-Executive Board Members
- Non-Executive Board Counsellors
- Management Board Executive Directors (attend the Board)

Sir Stuart Hampson
Non-Executive Chairman
– Leadership
– Strategic overview
– Government relations

Gareth Baird
Non-Executive Board Member
– Scottish Affairs
– Farming
– Enterprise

Chris Bartram
Non-Executive Board Member (and SID)
– Urban asset management and investment

David Fursdon
Non-Executive Board Member
– Rural land/business
– Public bodies

Ian Marcus
Non-Executive Board Member
– Real estate investment banking

Dipesh Shah OBE
Non-Executive Board Member
– Energy including renewables and infrastructure

Dr Tony White MBE
Non-Executive Board Member
– Low carbon energy and investment
– Competitive energy markets

Jenefer Greenwood
Non-Executive Board Counsellor
– Urban asset management
– Retail strategy

Peter Madden
Non-Executive Board Counsellor
(appointed 1 January 2014)
– Sustainability
– Urban innovation

Dinah Nichols CB
Non-Executive Board Counsellor
(retired 31 July 2013)
– Sustainability
– Governance
– Government/public bodies

Alison Nimmo CBE
Chief Executive
– Leadership
– Corporate overview
– Government relations
– Property
– Urban regeneration

Paul Clark
Director of Investment and Asset Management

Judith Everett
Director of Corporate Affairs

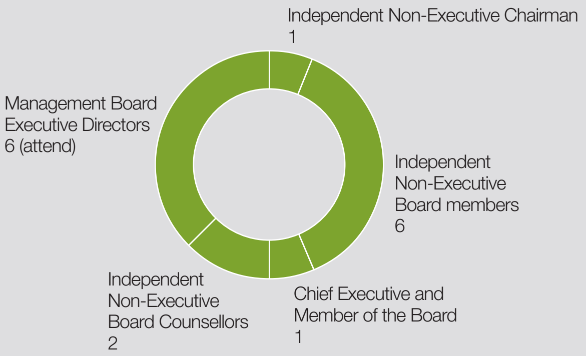
Rob Hastings
Director of Energy and Infrastructure

Ken Jones
Director of Rural and Coastal

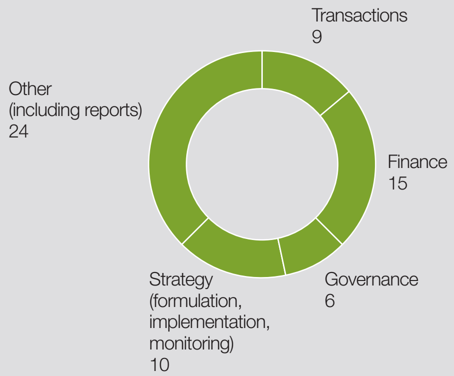
Vivienne King
Director of Business Operations and
General Counsel (Company Secretary)

John Lelliott
Finance Director

Balance of Non-Executives and Management Board Executive Directors at Board meetings as at 31 March 2014



Number of papers 2013/14



Attendance at Board and Committee meetings

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

n/a = not applicable

1 Board Counsellor.

2 Retired July 2013.

3 Board Counsellor as of January 2014.

Board committees

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

A summary of the role and duties of the five Board Committees (Audit Committee, Investment Committee, Management Board, Scottish Management Board and Remuneration Committee), is given below. The terms of reference of these committees are available on our website.

A review of the governance of The Crown Estate was carried out during the year and as a result of this, the energy committee and stock selection committee were merged into a new single Investment Committee as from 1 January 2014. A report of the activity of the Energy and Stock Selection committees for the nine months to 31 December 2013 is included within the Investment Committee section below.

The review also identified that the Sustainability Committee could be disbanded as from 1 January 2014. A logical watershed had been reached and this would better enable and support the integration of sustainability into the Board and Management Board agendas. A report on its activities for the nine months to 31 December 2013 is detailed in the section below.

In addition to the Board committees, there are four other management committees established by the Chief Executive composed of a mix of Management Board executive directors and other senior executives. These are the Risk Committee, Joint Venture Working Group, Central Health and Safety Committee, and the Corporate Governance Working Group.

Governance report continued

Audit Committee

Chris Bartram
Chairman of the audit committee

Introduction by the Chair of the Committee

During 2013/14, the Committee's activity has been very diverse, reflecting the business as a whole, from governance of real estate joint ventures to oversight of the valuation of our offshore activity.

Members of the Audit Committee

The current members of the Audit Committee are:

Chris Bartram
Chairman and Board Member

David Fursdon
Board Member

Ian Marcus
Board Member

Tony White
Board Member

There have been no changes to membership of the Audit Committee during the year. The secretary to the Committee is Sally Sugden.

The Committee considers it has a good cross-section of experience from relevant sectors. I have served on the Committee for seven years, of which three years have been as Committee Chairman. David Fursdon has served over five years on the Committee with Tony White and Ian Marcus both having served for two years each. Further background of the members is set out on pages 36 – 56.

The Audit Committee invites the Chief Executive, Director of Investment and Asset Management, Director of Finance, Director of Business Operations and General Counsel, the Head of Internal Audit, Financial Controller and a representative from the external auditor to attend all meetings. The Committee also meets with the external auditor without management present, and I meet with the Head of Internal Audit regularly.

The Committee met three times during 2013/14 in line with its original schedule. In addition I provide an oral report to the Main Board after each Committee meeting, and the Committee submits an annual report to the Main Board reporting on its activities during the year.

Key areas of Audit Committee activity and judgement applied

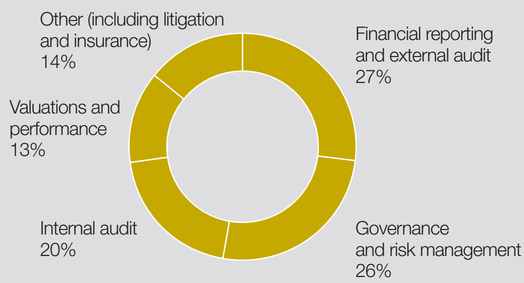
The Audit Committee has performed each of its principal duties during the year in line with its remit. In particular it has supported the Board in fulfilling its oversight responsibilities on financial reporting, systems of internal control, management of risks, and processes for monitoring compliance with legislation and regulation. In particular for 2013/14, the Committee has sought to comply with relevant aspects of the revised UK Corporate Governance Code (the Code) requirements, where applicable.

During the year, the Committee reviewed the annual financial statements, with particular attention to accounting policies, areas of judgement, audit adjustments and the level of unadjusted errors. The Audit Committee also paid particular attention to the Code's recommendations and comparison of the Annual Report with the 'fair, balanced and understandable' principles. The significant issues considered in relation to the annual financial statements and the key areas of judgement taken were:

- valuation of the real estate portfolio; and
- classification of operating leases with particular regard to offshore energy assets.

The allocation of time across the key areas of Audit Committee activity have been set out below:

Audit Committee time allocation



A summary of the key business taken at each Audit Committee meeting is set out below:

June 2013 London
Approve Annual Report and Accounts 2012/13
Review external audit's Completion Report (including Management Letter) on the 2012/13 financial statement audit
Review of annual valuation and performance of The Crown Estate 2012/13
Review of management assurances on internal control supporting the governance statement
Review of Head of Internal Audit's Annual Report and Opinion
Review of the results of the Internal Audit Programme 2013/14
Note and approve the update on key corporate risks
Note Bribery Act procedures in operation
Note update on The Crown Estate Pension Scheme Governance

November 2013
London

Note unaudited interim financial statements 2013/14
Review interim valuation for six months ended 30 September 2013
Note external audit's planning report on the 2013/14 financial statement audit
Approve reappointment of the National Audit Office as external auditors
Note the results of the Retrospective Investment Appraisals and lessons learned
Review of the results of the Internal Audit Programme 2013/14
Note and approve the update on key corporate risks
Note and approve updated Internal Audit Charter
Review of Annual Report on activity of Joint Venture Working Group

March 2014
London

Approve the accounting policies, style and format of the Annual Report and Accounts 2013/14
Note UK Corporate Governance Code changes affecting audit committees
Note external audit's progress report 2013/14
Review of the results of the Internal Audit Programme 2013/14
Endorse the 2014/15 Internal Audit Programme
Note and approve updated Internal Audit Charter
Review and discuss processes to prevent and detect fraud
Review and note the revised Investment & Project Monitoring Guidelines
Review business continuity and disaster management processes
Note the results of the insurance renewal

(Note: The 2013/14 Annual Report and Accounts were approved at the June 2014 Audit Committee)

The Committee paid particular attention to the valuation exercise. We reviewed the results of both the interim and final valuations, with particular regard to the processes supporting the valuation, use of valuation experts and areas of judgement. Particular attention was given to the valuation of our offshore activities given the specialist nature of the valuation in this area.

Regular committee attention was given to the important area of risk management. We received regular reports on the key corporate risks at each committee meeting and assessed the mitigations and action plans in place to manage the risks. The Committee welcomed the ongoing continuous embedding of risk management across the organisation. In particular, the constitution of a new risk committee chaired by the Director of Finance with participation from senior managers across the business. In 2013/14 the Audit Committee also chose to focus and review mitigations in place to manage potential disaster recovery scenarios and threats to business continuity. The Committee took comfort from the results of a recent test exercise performed.

The Committee reviewed performance against the IPD benchmark twice in the year focusing on relative performance of different asset classes. Attention was also devoted to management's Retrospective Investment Appraisals. The purpose of the appraisals, in addition to reviewing individual performance five years post-transaction, was to identify any potential lessons learned that could be applied to future investment transactions. The Committee found the process valuable in ensuring that continuous improvement is built into the investment process.

The Committee takes its role of oversight in the prevention and detection of fraud very seriously. Fraud and whistleblowing policies are in place and updated as and when required to bring in line with best practice. Suspected frauds can be reported to the Head of Internal Audit through a dedicated whistleblowing hotline or to a whistleblowing e-mail inbox, now available to tenants, suppliers and members of the public as well as staff. Alternatively, the Director of Business Operations and General Counsel or Chief Executive can be alerted, as per the whistleblowing process. If the suspected fraud involves a member of staff at director level or above, it can be reported to the Chair of the Audit Committee. The Committee noted the National Audit Office's recent review of our whistleblowing policy as part of a cross-government review of 39 other whistleblowing policies having identified elements of our policy as either 'satisfactory' or 'excellent'. The Committee also noted that proactive steps have been taken to ensure full compliance with policy. Key policies and procedures are in place and top level commitment given to ensure all principles of the Crown Estate Act 1961 are complied with.

Whilst we are statutorily obliged under the Crown Estate Act to appoint the National Audit Office (NAO) as our external auditors, we reviewed the appointment, the audit fee and the nature and scope of the external audit in order to understand areas of focus. The appropriate NAO Director is invited to attend meetings of the Audit Committee and has complete access to all financial and other information.

The Committee continued to work closely with the Head of Internal Audit, receiving all summary reports on our key processes and controls in line with the internal audit programme, strategy and charter. In addition, we discuss and agree the programme for the year ahead.

At the request of the Board, we considered whether the 2013/14 Annual Report was fair, balanced and understandable and whether it provided the necessary information for stakeholders to assess The Crown Estate's performance, business model and strategy. We were satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

Governance report continued

Alison Nimmo
Chief Executive and Chair of the Management Board and investment committee

Management Board

Introduction by the Chair of the Board

The Management Board has developed a clearly defined vision and strategic objectives for the business this year. This will give a clear sense of direction for the business going forward.

Members of the Management Board

The current members of the Management Board are:

Alison Nimmo
Chief Executive and Chairman

Paul Clark, Judith Everett (from 1 June 2013), Rob Hastings, Ken Jones, Vivienne King and John Lelliott.

The secretary to the Management Board is Cheryl Lake, who succeeded David Purkis in the role with effect from January 2014. Meetings are held on a monthly basis.

The Management Board operates within the delegated financial limits available to the Chief Executive. The Management Board is responsible for the delivery of business objectives and targets within the overall strategies and control framework agreed annually by the Main Board.

Duties

The main duties of the Management Board are to:

- implement the strategic direction of The Crown Estate, with particular focus on Vision 2022;
- set and ensure the achievement of corporate objectives, including financial and operational performance;
- keep under review The Crown Estate's investment strategy in the light of economic market conditions;
- monitor investment performance against bespoke benchmarks and financial performance against revenue targets;
- ensure that business risks are properly identified and managed;
- ensure health and safety issues are monitored and reported effectively;
- exercise oversight and control over The Crown Estate's financial, human and other resources; and
- promote sustainability and customer focus throughout the business.

Report of Management Board's activities

During the year, the Management Board met 12 times. Attendance by individual members of the Management Board was as follows:

	Number of meetings
Alison Nimmo	12
Paul Clark	11
Judith Everett (appointed 1 June 2013)	10
Rob Hastings	12
Ken Jones	12
Vivienne King	12
John Lelliott	12
Total	**12**

The Management Board is an executive committee operating under authority delegated by the Main Board and is responsible for implementing the strategic direction of the business, whilst operating within the delegated financial limits available to the Chief Executive.

This delegation is in respect of operational strategy to help monitor and drive the corporate agenda, whilst enhancing accountability and coherence across the following areas:

- financial
- operational
- people
- customer and stakeholder relations
- governance
- sustainability

In reviewing operational strategy, the Management Board ensures that the corporate business and budget plans are aligned to long-term objectives set by the organisation's Vision 2022 programme.

During the year the Management Board performed the following activities:

- reviewed the investment strategy to reflect performance, research and market changes;
- ensured the effective resourcing and delivery of business plans including sustainability targets;
- monitored and controlled costs, ensuring delivery against strategic business objectives and revenue targets set by HM Treasury;
- considered the availability and allocation of capital funds, and reviewed capital forecasts provided by each department;
- examined and implemented changes to the organisation and its effectiveness in terms of internal structure, as well as reviewing policies and practices to internal and outsourced functions;

- examined and implemented changes to the organisational strategy relating to the culture of the business and its core proposition;
- reviewed quarterly updates on risk management and health and safety across the full breadth of the organisation;
- reviewed and endorsed non-property related proposals being put to the Main Board; and
- liaised with the Main Board, with respect to issues of overarching corporate governance of The Crown Estate.

Investment Committee

Introduction by Chair of the Committee

This year a key priority was to strengthen our committee structure which has included the set up of the new Investment Committee. The new committee replaces the Stock Selection Committee and Energy Committees, which have both fulfilled an effective purpose. However, in recognition of the synergies in capital decision making across both our real estate and renewable energy sectors these have now been combined into a single committee.

Members of the Committee

The members of the Investment Committee are:

Alison Nimmo
Chief Executive and Chairman

Paul Clark, Rob Hastings, Ken Jones and John Lelliott
Management Board Executive Directors

Alan Meakin
Investment Strategy Manager

Additional attendees are invited from time to time at the Investment Committee's discretion, such as the Director of Business Operations and General Counsel, where required. The Committee secretary is Cheryl Lake.

The Investment Committee first met in January 2014.
The activities of the Investment Committee from 1 January 2014 have been set out below, together with the activities of the Stock Selection and Energy Committees to 31 December 2013.

Duties

The Investment Committee is a committee of the Main Board and has a transactional remit subject to its delegated authorities. This delegation is in respect of real estate and energy related investments and divestments of £50 million for any single proposal from the Urban portfolio and £20 million for any single proposal from our Rural and Coastal or Energy and Infrastructure portfolios. This includes joint ventures and major developments.

In reviewing investment or divestment proposals the Committee reviews individual cases against The Crown Estate annual investment strategy to ensure alignment to long-term objectives.

Report of Investment Committee's activities

During the year the Investment Committee, and prior to this the former Energy and Stock Selection Committees, performed the following activities:

- reviewed investment and divestment proposals against the Corporate Investment Strategy and the Energy and Infrastructure Business Strategy or the Rural and Coastal portfolio strategy for renewable energy, as appropriate;
- evaluated progress against specific investment proposals;
- considered and endorsed proposals within delegated authority limits before they are submitted to the Main Board;
- monitored major capital projects against approved plans; and
- ensured that decisions being taken by the Main Board in relation to energy matters are being conducted in a manner which ensures that due process is applied in the performance of the statutory duties of The Crown Estate Commissioners in delivering the business objectives of The Crown Estate.

Following the Committee's formation in January 2014, the Investment Committee met three times. Attendance by individual members of the Investment Committee was as follows:

	Number of meetings
Alison Nimmo	3
Paul Clark	3
Rob Hastings	3
Ken Jones	3
John Lelliott	3
Alan Meakin	3
Total	**3**

Remuneration Committee

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

Governance report continued

Scottish Management Board

Gareth Baird
Chair of the Scottish Management Board

Introduction by the Chair of the Board

Our business in Scotland continues to focus on sectors of strategic importance such as offshore wind, rural and coastal, and aquaculture. This combination of mature and emerging industries has required the recently reconfigured team in Scotland to remain agile, ready to respond to new opportunities and adapt to changes in the policy landscape.

Interest in our business from political and community stakeholders continues. In response to feedback, we have rolled out LMAs and are now piloting new types of agreements that empower local communities and/or deliver mutual benefits to our customers and tenants.

As Scotland prepares for the referendum on independence we remain firmly committed to our business in Scotland and the dedicated team we have there.

Members of the Scottish Management Board

The current members are:

Gareth Baird
Chair and Board Member

Alison Nimmo
Chief Executive

Paul Clark, Judith Everett, Rob Hastings, Ken Jones, Vivienne King, John Lelliott
Management Board Executive Directors

Roy Evans
Head of Corporate Operations

Esther Black, Alan Laidlaw, Ronnie Quinn
Members of the Scottish Leadership Team (SLT)
The secretary to the Scottish Management Board is Estelle Hollis.

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

Duties

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

The main duties of this board are:

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

Report of the Board's activities

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

- business planning for its Scottish business and monitoring financial performance from Scotland;
- exploring business opportunities in Scotland;
- introducing a systematic approach to engagement with stakeholders and the media, and the instigation and promotion of LMAs;
- confirming new organisational structure, including integration of Rural and Coastal teams and changes in managing agents; and
- strategic oversight of response and approach to political scrutiny.

Sustainability Committee

The Committee's core purpose was to ensure sustainability was integrated into the business strategy and operations. The Committee was disbanded with effect from 31 December 2013 in order to allow sustainability to be better integrated into the Management Board agenda on a regular basis.

Members of the Sustainability Committee

The members were:

Alison Nimmo
Chief Executive and Chair

Tony White
Board Member

Dinah Nichols
Board Counsellor

Paul Clark, Rob Hastings, Ken Jones, Vivienne King, John Lelliott
Management Board Executive Directors

Mark Gough
Head of Sustainability

The secretary to the Sustainability Committee was Jane Baptist, a member of the sustainability team. The head of communications, head of human resources, operations manager (Windsor) and the Urban sustainability manager also attended the meetings.

Meetings were held quarterly. The Committee reported to the Main Board.

Duties

The main duties of the Sustainability Committee were to:

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

Report of the Committee's activities

During the year, the Committee met once before it was disbanded. The Committee considered the following:

- progress with the integration of sustainability by each part of the business;
- development of tools to embed sustainability;
- the establishing of a green office network; and
- targets for 2013/14.

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

Risk management statement

The Crown Estate's approach to risk management builds on commercial best practice and central Government requirements, including the UK Corporate Governance Code, Cabinet Office Code of Good Practice, Managing Public Money, and HM Treasury's Orange Book. These form a central element of our corporate governance arrangements.

The Crown Estate has an appropriately cautious risk appetite and pursues its objectives of commercialism, integrity and stewardship in the management of the portfolios through the taking of managed risks in pursuit of these objectives.

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

- financial (revenue) – failure to meet the financial targets over two years;
- financial (total return) – failure to outperform the IPD targets over two years;
- reputation – failure to maintain credibility with key stakeholders;
- compliance (criminal) – failure to comply with legislation leading to criminal conviction/fine; and
- compliance (civil/regulatory) – failure to comply with legislation/regulation (e.g. Health and safety, environmental) leading to penalties.

Responsibilities for risk and controls

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

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

The risk management process has been enhanced in 2013/14 with the introduction of the Risk Committee which met for the first time in April 2013. The Risk Committee was set up by the Management Board to advise and assist in fulfilling its responsibilities with respect to The Crown Estate's management of risk and, in particular, the identification and management of those risks that have the potential to significantly affect current and/or future operations. The Risk Committee meets four times a year, is chaired by the Director of Finance, and supported by the Audit and Risk Team.

Governance report continued

The Risk Committee reviews and analyses risk registers maintained at estate team and corporate department level on a quarterly basis. Key and emerging risks are escalated to senior management and the Management Board. The Management Board reviews the corporate risk register regularly and the corporate risk register is provided to the Audit Committee three times a year.

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

The 'risk reporting and responsibilities' diagram below sets out the process in operation during 2013/14.

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

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

- cultural and ethical behaviour – staff integrity, staff handbook (including The Code of Ethics), shared corporate values, and new corporate behaviours;
- policies and procedures – at all levels of the organisation (e.g. risk management guidelines etc.);
- financial targets and objectives – corporate plan, personal scorecards, budget monitoring, investment appraisals etc.; and
- structural – business planning, reporting lines, delegated authority limits, approval lines, roles and responsibilities etc.

The Main Board takes assurance on the effectiveness of internal controls from:

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

This assurance process is supported by a process of certified internal control statements issued by directors on their areas of operation to the Chief Executive in her capacity as Accounting Officer. The Main Board in turn takes assurance from an internal control statement issued annually by the Chief Executive.

For the year 2013/14 there were no material failures in internal control.

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

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

Risk reporting and responsibilities

Main Board
- Overall responsibility and oversight for risk management
- Receive reports from management on key risks and mitigating actions

Management Board
- Responsibility for ensuring that key and emerging risks are promptly identified and managed
- Risk is a standing agenda item. Ongoing liaison with directors on key risks in addition to formal updates

Audit Committee
- Delegated responsibility from Main Board for review of risk and controls
- Receive reports from management on key risks and mitigating actions

Risk Committee
- Oversight of key operational and strategic risks
- Review of departmental and corporate level risks for escalation

Bi-annual update

Tri-annual update

Quarterly

Audit and Risk Functions
- Regular review with directors
- Key feed into risk committee
- Responsible for maintaining effective framework

Directors/Heads of Department
- Ongoing focus on risk management
- Regular channel of communication with Head of Internal Audit

Regular

Departments (portfolio teams and support functions)
- Core departments produce and maintain risk registers and submit to Audit and Risk on a quarterly basis
- Department registers to link to key corporate risk register
- Risk Champions (senior management level)

Governance report continued

Principal corporate risks and opportunities

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

Material issues affecting our business (see pages 46 – 47).

1. Optimisation of the portfolio for sustained and profitable growth
2. Attraction of suitable commercial partners and investors
3. Reputation and trust
4. Government policy
5. Attraction, nurturing and retention of best talent
6. Governance
7. Health and safety
8. Availability of natural resources
9. Customer focus
10. Health of the economy
11. Effect of climate change
12. Successful placemaking

Material issues	Risk/opportunity	Impact	Principal mitigations	Residual risk ratings	Change from last year
1, 2, 5, 6, 9	**1 – People risks** (a) Risk of flight/unwanted attrition of talent from the business and market conditions, particularly in the property sector, creating challenge to recruitment.	Loss of key talent or inability to attract staff with the right experience impacts adversely on future success.	Remuneration Committee oversight. Strong recruitment processes. Formal succession planning arrangements being prepared. Effective learning and development plan in place across organisation. Remuneration benchmarking and industry comparison. Appointment of reward consultants to advise the Remuneration Committee.	High risk	
1, 2, 5, 10	**2 – Investment performance risks** (a) Ineffective investment strategy or poor execution of investment strategy (i.e. through sub-optimal decision making, lack of sustainability or over exposure to developments) impacts on ability to meet revenue targets or has adverse impact on portfolio valuation. (b) Underperformance compared to industry due to limitations under the Crown Estate Act 1961 (limited availability/timing of access to funds), restricting investment activity and preventing opportunity/ability to optimise portfolios. (c) Inability to attract and retain commercial partners and investors, should there be seen to be a decline in the attractiveness of our core portfolio (due to economic or geopolitical factors), restricting our ability to obtain sufficient working capital funding to reinvest in the estate. (d) Economic impact on our tenants increases voids/defaults resulting in potential threat to our revenue targets.	Revenue targets are not achieved or consistent decline in capital growth compared to the market.	Board oversight and approval of investment strategy with formal review of implementation and performance monitoring. Economic and market analysis/monitoring. Formal investment committee with responsibility for scrutiny over proposed investment decisions (subject to delegated authorities) and investment appraisal process. Quarterly investment Management Board and consideration of external market/real estate views. Focused asset management with appropriate due diligence. Portfolio diversification and monitoring. Exploration of joint venture investments and operational joint venture working group. Continuous monitoring and review including due diligence/ covenant checks.	Medium risk	

Material issues	Risk/opportunity	Impact	Principal mitigations	Residual risk ratings	Change from last year
1, 2, 8, 12	**3 – Development/programme risks** (a) Delays in completion of a major development or a number of developments (land-based or offshore) results in adverse impact on revenue and/or capital growth due to development letting exposure, overruns and/or supplier/sub-contractor failure. (b) Inability to secure timely planning permission for key developments across business due to localism, competing users of seabed, or general opposition.	Development programme delays impacting reputation, resulting in financial loss or reduction in future revenue stream.	Development and Project Management Governance Framework. Regular development monitoring through project control groups. Third party due diligence and continuous monitoring of partner financial health. Robust evaluation of development business cases. Engagement with statutory planning authorities both onshore and offshore.	Low risk	
1, 10	**4 – Energy sector uncertainty** (a) Economic/strategic factors impacting the energy sector (e.g. capital funding constraints, cost of technology) result in delay of our offshore renewable programmes.	Market engagement	Liaison with key stakeholders. Offshore wind programme board representation and strategic workstreams in place. Continued government industry support.	Medium risk	New
7	**5 – Health and safety risks** (a) A significant health and safety incident on our estate results in serious harm to a member of staff, supplier, tenant or other person.	Loss of reputation, penalties/fines and/or legal action against the organisation or members of staff.	Development and roll-out of management systems accredited to OHSAS 18001. Comprehensive regular reporting to the Management Board. Health and safety training and programme of compliance reviews. Incident reporting hotline and promotion of health and safety culture.	Medium risk	
3, 9, 11, 12	**6 – Stakeholder risks** (a) Failure to assess and evaluate the expectations of customers, tenants and wider stakeholders adversely affects our reputation. (b) Missed opportunity to be recognised for positive contributions made (e.g. successful placemaking and creating sustainable developments) resulting in value not being maximised.	Adverse publicity from tenants and other key stakeholders results in reputational damage. Estate value not maximised/recognised by external stakeholders.	Customer focus programme. Market research. Processes in place both within the organisation, and those that act on our behalf (e.g. managing agents) to resolve customer concerns. Achievement of sustainability targets and objectives. Total Contribution measurement and reporting.	Low risk	
1, 6, 8, 11, 12	**7 – Sustainability risks** (a) Failure to comply with current and anticipated social and environmental legislation resulting in fines and/or other sanctions and/or loss of reputation. (b) Loss of value from our portfolio because of lack of strategic planning in decisions and management of portfolios, not taking account of social and environmental factors including climate change/extreme weather events. Similarly, opportunity to use/extract resources available on our estate (land-based and offshore) not effectively utilised.	Compliance failure resulting in negative publicity and possible fines or penalties. Failure to grow business in the long term, resulting in decline in overall portfolio valuation and revenue.	Approved strategy to integrate sustainability in place. Monitoring of new legislation. Sustainability considered in all decisions. Sustainability workstream focus group and Management Board oversight. Developments/refurbishments built to a high sustainability standard (e.g. BREEAM) to meet or exceed EPC standards. Offshore wind programme with defined objectives.	Low risk	
4	**8 – Policy risks** (a) Failure to anticipate and be responsive to changes to government policy that could impact our underlying business and ability to deliver primary objectives.	Failure to meet our targets and corporate objectives.	Regular liaison with the Treasury. Ongoing review of upcoming legislative/policy changes on our business. Strong working relationships with stakeholders across Government. Active participation in key policy reviews openly communicated through corporate channels.	Low risk	

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

The Main Board is responsible for ensuring that The Crown Estate has in place a system of controls, financial and otherwise and under section 2(5) of the Crown Estate Act 1961 are required to prepare a 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 financial year end and of its income and expenditure and cash flows for the financial year in question.

In preparing the accounts the Main Board is required to:

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

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

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

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

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

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

- the ability to retain our key people as the employment market improves, particularly within the industry we operate in;
- the ability to attract and retain commercial partners and investors if there is seen to be a decline in the attractiveness of the sectors in which we operate; and
- renewable energy policy and its impact on the market.

Alison Nimmo CBE
Chief Executive

9 June 2014

Remuneration report

Jenefer Greenwood
Chair of the Remuneration Committee

Introduction by the Chair of the Remuneration Committee

As part of our Vision 2022 ten year strategy we have recognised that a high performance working environment contributes significantly to achieving our strategic goals, including our key objectives in the area of talent acquisition, retention and reward and recognition. These have been taken forward as part of the 'Performance For Growth' workstream – which is one of five principle workstreams linked to our Vision 2022 strategy delivery.

The Remuneration Committee's activities this year have focused on Performance For Growth with the view to providing a benefits package which is valued by staff, is well communicated and provides a simple and transparent performance management system which is effectively used to enable managers to recognise contributions to the success of our business.

Jenefer Greenwood
Chair of the Remuneration Committee

Governance and role

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

Members of the Remuneration Committee

The Remuneration Committee is chaired by Jenefer Greenwood. The other members of the committee, David Fursdon and Ian Marcus are both board members. The Chief Executive and Director of Finance, and Director of Business Operations and General Counsel attend meetings, but absent themselves if matters relating to their individual remuneration are discussed. The secretary to the Committee is the Head of Human Resources.

Responsibilities and terms of reference

The Remuneration Committee is appointed by and reports to the Main Board. A minimum of two meetings are held annually and in 2013/14 the Committee met on five occasions. The primary purpose of the Remuneration Committee is to set remuneration policy for The Crown Estate. The full scope of its responsibilities include:

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

Advisers

The Crown Estate's Head of Human Resources provided information and advice to the Committee throughout the year. The Crown Estate participated in four pay surveys in 2013/14 and also made use of various published surveys to help determine appropriate remuneration levels. Further market intelligence was provided by external recruitment consultancies and HR Directors from relevant comparator organisations.

Prior to the year end a review of executive remuneration advisers to the Committee was carried out and following a full tender process, Towers Watson were appointed (after the year end) as principal advisers going forward. Towers Watson will provide the Committee with a broad range of strategic advice relative to reward and benefit matters across The Crown Estate.

Remuneration report continued

The Chief Executive, Finance Director and Head of Human Resources were invited to attend meetings of the Committee but none were involved in any decision relating to his or her own remuneration.

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

Activities and highlights

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

- the launch of the new ten year business strategy (Vision 2022) which includes a specific focus on our people and culture (Performance For Growth). Performance, reward and recognition policies and processes are being reviewed to support the Vision 2022 strategy, which includes a new behavioural framework applicable to all employees;
- presentations by senior executive search consultants and HR directors operating in comparator market sectors;
- salary increases for Executive Directors and senior managers with earning potential in excess of £100,000, together with overall levels of salary increases across the business/organisation effective in July 2013;
- achievement against personal scorecard targets under the annual bonus scheme for Executive Directors and allocation of bonus;
- achievement against the performance conditions for the award of long-term cash incentive plans; and
- appointment of external remuneration consultants.

Remuneration policy and benchmarking

The Crown Estate's remuneration policy seeks to provide sustainable levels of remuneration to attract, retain and motivate high quality personnel, recognising that whilst we are a public corporation, we compete for talent in a highly commercial environment. Accordingly, for the majority of employees, we aim to pay salaries at around market median and bonus awards determined by reference to the performance of the business and individual contribution. The Remuneration Committee has adopted a progressive but conservative performance-related pay policy to ensure that an appropriate proportion of Executive Director remuneration is delivered through performance-related pay, with incentives to outperform targets, which include external benchmarking.

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

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

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

Components of director's remuneration

Director's remuneration comprises:

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

Principles and policy on annual bonuses

The annual bonus arrangement for Management Board Executive Directors is based on the achievement of key business targets, with a maximum possible award of 50 per cent of basic salary in 2013/14 (40 per cent for the Chief Executive). The maximum award is subject to receipt of an outstanding performance rating and is conditional on The Crown Estate's performance meeting or exceeding predetermined performance targets. These targets being outperformance of the annual net income surplus target and outperformance of the IPD bespoke benchmark.

Directors' long-term cash incentive plans

Paul Clark and Rob Hastings are also entitled to receive a discretionary non-pensionable long-term incentive award (LTIP). The amount of LTIP awarded under the three-year plan is dependent on the delivery of specific targets relating to their areas of responsibility within the business, which are different to those set in relation to the annual bonus arrangements. Paul Clark participates in a three-year LTIP arrangement which commenced in April 2011. This provides an award of up to 20 per cent of base pay at 1 April each year. Payment of any award made under the arrangement is payable in July 2014. Rob Hastings participates in a three-year LTIP arrangement which commenced in April 2011. In 2013/14 this provides an award of up to 60 per cent of base pay at 1 April 2011. All awards and targets are subject to the approval of the Remuneration Committee.

Non-Executive Board appointments held by the Chief Executive and Management Board Executive Directors

Alison Nimmo and Paul Clark each hold one paid Non-Executive Board appointment in addition to their Crown Estate appointment. They are permitted to retain earnings from their appointment as any time commitments are met from personal time and are manageable alongside their executive responsibilities. In accordance with our policy on Non-Executive earnings, which requires disclosure for appointments in publicly listed companies, Alison Nimmo earned £56,500 to 31 March 2014, as a Non-Executive Board Member of Berkeley Group Holdings plc, in addition to her remuneration earned as Chief Executive.

Pensions

The Crown Estate operates two pension schemes: the Principal Civil Service Pension Scheme (PCSPS) and The Crown Estate Pension Scheme (CEPS). Each scheme comprises a number of sections, which offer different pension benefits. The sections of the PCSPS which provide defined benefits are the Classic, Classic Plus and Premium sections, which provide retirement and related benefits to all eligible employees based on individual final emoluments, which are subject to an upper salary limit of £145,800. The NUVOS section provides defined benefit retirement and related benefits to all eligible employees based on a career average emoluments scheme. Since March 2009, no new employees have been admitted to the PCSPS, and are offered access to the CEPS Quartz or Topaz schemes, or, alternatively, an 8 per cent cash allowance. The table below provides an overview of benefits.

Overview of pension scheme benefits

Pension scheme	PCSPS Classic	PCSPS Classic Plus	PCSPS Premium	PCSPS NUVOS	CEPS Opal	CEPS Quartz scheme	CEPS Topaz scheme
	Defined benefit	Defined benefit	Defined benefit	Career average	Defined benefit	Hybrid defined Benefit and defined contribution	Defined contribution
Benefit	1/80th	1/80th	1/60th	1/60th	1/80th	1/80th for each year	n/a
Scheme retirement age	60	60	60	65	60	65	65
Scheme earnings cap from 1 April 2014	£145,800	£145,800	£145,800	£145,800	£145,800	£29,350 DB section	n/a
Employee contribution from 1 April 2014	Between 1.5% for salaries of £15k and 6.85% for salaries of £60k	Between 3.5% for salaries of £15k and 8.85% for salaries of £60k	Between 3.5% for salaries of £15k and 8.85% for salaries of £60k	Between 3.5% for salaries of £15k and 8.85% for salaries of £60k	1.5%	5% for DB section	Optional
Life cover	2x pensionable salary	2x pensionable salary	3x pensionable salary	3x pensionable salary	4x base pay	4x base pay	4x base pay
Ill-health benefit	Yes	Yes	Yes	Yes	Yes	No	No
Redundancy (attaching benefits)	Yes	Yes	Yes	Yes	Yes	No	No

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

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

As at 31 March 2014, a total of 101 employees were members of the open sections of CEPS and a further 43 have elected to receive a cash pension allowance. The Crown Estate Board Members, with the exception of Alison Nimmo, Chief Executive, are Non-Executive appointments and are not members of either CEPS or the PCSPS. Pension benefits were provided to Alison Nimmo, Chief Executive, and members of the Management Board through the PCSPS or CEPS.

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

On death, pensions are payable to the surviving spouse at a rate of half of the member's pension. On death in service, a lump sum benefit of four times pensionable pay is payable to CEPS members. This benefit has also been extended to Rob Hastings. The PCSPS and CEPS (Opal Section) provide a service enhancement in computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill-health for members of these schemes. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Remuneration report continued

Table of earnings

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

Remuneration and pension benefits of the Main Board:

Board Member	**2013/14 Total remuneration excluding bonus £**	2012/13 Total remuneration excluding bonus £	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2014 £	Cash equivalent transfer value as at 31 March 2014 £	Cash equivalent transfer value as at 31 March 2013 £	Real increase in cash equivalent transfer value £
Sir Stuart Hampson (Chairman)	**50,000**	50,000	–	–	–	–	–
Alison Nimmo (Chief Executive)	**217,122**[1]	204,000	357	799	12,052	7,253	3,964
Gareth Baird	**25,828**	25,828	–	–	–	–	–
Chris Bartram	**19,371**	19,371	–	–	–	–	–
David Fursdon	**19,371**	19,371	–	–	–	–	–
Dipesh Shah	**19,371**	19,371	–	–	–	–	–
Dr Tony White	**19,371**	19,371	–	–	–	–	–
Ian Marcus	**19,371**	19,371	–	–	–	–	–

1 Includes leave converted to cash of £5,862 and fixed benefits allowance of £7,260.

The Chairman and Non-Executive Members of the Main Board are initially appointed for terms of four years with the prospect of renewal for a further term. Alison Nimmo, the Chief Executive, is also appointed on a four-year contract with a notice period of six months.

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

The first performance assessment for the payment of bonus was in respect of the 15-month period to 31 March 2013, which acknowledged her appointment in January 2012. For the 15-month period, she was eligible for a maximum award of £102,000. The bonus paid to Alison Nimmo in respect of her performance for the 15-month period ending 31 March 2013 was £74,500, net of the reduction applied under the HM Treasury imposed public pay policy provisions. This was paid in November 2013. The maximum bonus receivable in respect of 2013/14 is £81,600.

Alison Nimmo is a member of CEPS Quartz section. Her pension benefits for 2013/14 were £23,765 (2012/13 £24,208). The pension benefit is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less contributions made by the individual, plus contributions made by The Crown Estate to the individual's defined contribution scheme.

Excluding bonus the single total figure of remuneration for Alison Nimmo for 2013/14 was £241,000 (2012/13 £228,000), for other Main Board Members the single total figure of remuneration is as shown in the table above.

Board Counsellors

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

Board Counsellors	**2013/14 Total remuneration £**	2012/13 Total remuneration £
Dinah Nichols (retired 31 July 2013)	**6,457**	19,371
Jenefer Greenwood	**19,371**	19,371
Peter Madden (appointed 1 January 2014)	**4,843**	–

Management Board Executive Directors

The remuneration and pension benefits of the members of the Management Board were as follows:

Single total figure of remuneration

Management Board Member	Salary 2013/14 £'000	Salary 2012/13 £'000	Bonus payments 2013/14 £'000	Bonus payments 2012/13 £'000	LTIP's 2013/14 £'000	LTIP's 2012/13 £'000	Pension benefits[2] 2013/14 £'000	Pension benefits[2] 2012/13 £'000	Total 2013/14 £'000	Total 2012/13 £'000
Paul Clark	**205–210[1]**	205–210[1]	**90–95**	90–95	**35–40**	35–40	**39**	39	**380–385**	370-375
Judith Everett (from 1 June 2013)	**120–125**	n/a	**40–45**	n/a	**n/a**	n/a	**9**	n/a	**175–180**	n/a
Rob Hastings	**165–170**	160–165	**70–75**	65–70	**95–100**	85–90	**35**	48	**375–380**	360-365
Ken Jones (from 1 November 2012)	**150–155[1]**	60–65	**50–55**	30–35	**n/a**	n/a	**17**	3	**220–225**	95-100
Vivienne King	**150–155**	145–150	**50–55**	55–60	**n/a**	n/a	**44**	55	**245–250**	255-260
John Lelliott	**170–175**	165–170[1]	**60–65**	60–65	**n/a**	n/a	**n/a**	n/a	**235–240**	225-230

1 Includes annual leave converted to cash.

2 The value of pension benefits accrued in the year is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less contributions made by the individual plus contributions made by The Crown Estate to the individual's defined contribution scheme.

The bonus and LTIP element of remuneration shown above represents the amount accrued in respect of the financial year which are payable in subsequent years. Members of the Management Board are appointed on permanent contracts which provide for a notice period of six months.

Pay multiples

	2013/14	2012/13
Band of highest paid director's total remuneration £'000	**340–345**	330–335
Median total remuneration of all employees £	**35,678**	32,032
Ratio	**9.58**	9.60

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

Pension benefits

Management Board Member	Real increase in pension at 60 £	Total accrued pension at 60 At 31 March 2014 £	Cash equivalent transfer value At 31 March 2014 £	Cash equivalent transfer value At 31 March 2013 £	Real increase in cash equivalent transfer value £
Paul Clark	1,802	11,321	251,984	232,165	37,984
Judith Everett	n/a	n/a	n/a	n/a	n/a
Rob Hastings	2,337	19,180	292,000	242,000	24,000
Ken Jones	356	503	12,081	3,859	7,137
Vivienne King	1,991	29,970	725,593	771,436	46,095
John Lelliott	n/a	n/a	n/a	n/a	n/a

Rob Hastings is a member of the PCSPS Premium section, Paul Clark and Vivienne King are members of the CEPS Opal section, Ken Jones is a member of the CEPS Quartz section, Judith Everett is a member of the CEPS Topaz section and John Lelliott has elected to receive an 11.5 per cent allowance in lieu of a pension scheme.

Alison Nimmo CBE
Chief Executive

9 June 2014

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 2014 under the Crown Estate Act 1961. The financial statements comprise the Consolidated Statements of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Capital and Reserves and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Crown Estate Commissioners, the Accounting Officer and auditor

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

Scope of the Audit of the Financial Statements

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

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

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, in accordance with the Crown Estate Act 1961 and directions issued thereunder by HM Treasury, of the state of The Crown Estate's affairs as at 31 March 2014 and of its surplus; and
- the financial statements have been properly prepared in accordance with the Crown Estate Act 1961 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Crown Estate Act 1961; and
- the information given in the Strategic report and Governance sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

10 June 2014

Consolidated statements of comprehensive income

Consolidated Revenue Account

	Note	**Year ended 31 March 2014 £m**	Year ended 31 March 2013 £m
Revenue	5	**374.5**	356.4
Costs	6	**(89.7)**	(92.9)
Operating surplus		**284.8**	263.5
Investment revenue	10	**5.5**	10.4
Share of revenue profit from jointly controlled entities	22	**11.6**	11.5
Share of revenue profit from other property investments	23	**1.2**	1.4
Net operating profit before depreciation, Treasury agreements and Statutory transfers		**303.1**	286.8
Depreciation of tangible fixed assets	21	**(2.8)**	(2.8)
Net operating profit before Treasury agreements and Statutory transfers		**300.3**	284.0
Recovery of capital expenditure under The Crown Estate Act 1961 and by Treasury agreement	12	**(27.2)**	(25.5)
Statutory transfers	15	**(8.3)**	(8.2)
Parliamentary Supply finance	16	**2.3**	2.3
Net consolidated revenue account profit – distributable to the Consolidated Fund	17	**267.1**	252.6
Consolidated statement of comprehensive income of the revenue account			
Net revenue account profit – distributable to the Consolidated Fund		**267.1**	252.6
Items that will not be reclassified subsequently to the revenue account profit:			
Actuarial (loss)/profit on retirement benefits	11c	**(2.2)**	2.7
Total consolidated comprehensive revenue account profit		**264.9**	255.3

Consolidated Capital Account

	Note	**Year ended 31 March 2014 £m**	Year ended 31 March 2013 Restated £m
Revenue	5	**23.5**	19.9
Charge from revenue for salary costs	9	**(12.5)**	(11.5)
Net revaluation gains on investment property (including profits on disposal)	13	**1,158.1**	529.1
Share of capital profit/(loss) from jointly controlled entities (including profits on disposal)	13	**41.8**	(11.9)
Share of capital profit from other property investments	13	**0.1**	1.7
Capital account profit before Treasury agreements and Statutory transfers		**1,211.0**	527.3
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	**27.2**	25.5
Statutory transfers	15	**8.3**	8.2
Net consolidated capital account profit		**1,246.5**	561.0
Consolidated statement of comprehensive income of the capital account			
Net capital account profit		**1,246.5**	561.0
Items that will not be reclassified subsequently to capital account profit:			
Unrealised surplus/(deficit) on owner occupied properties	13	**11.7**	(4.1)
Total consolidated comprehensive capital account profit		**1,258.2**	556.9

All results are derived from continuing operations.

Consolidated balance sheet

As at 31 March 2014

	Note	**31 March 2014 £m**	31 March 2013 £m
Assets			
Non-current assets			
Investment properties	18	**9,746.6**	8,474.5
Property plant and equipment:			
Owner occupied property	19	**112.1**	100.2
Plant and equipment	21	**6.5**	7.6
Investment in jointly controlled entities	22	**396.3**	275.3
Other property investments	23	**35.8**	35.7
Other investments	24	**10.2**	5.4
Receivables due after one year	25	**39.8**	29.3
Total non-current assets		**10,347.3**	8,928.0
Current assets			
Non-current investment property assets held for sale	18	**56.5**	105.5
Inventories	26	**0.1**	0.2
Trade and other receivables	27	**19.2**	24.9
Cash and cash equivalents		**552.0**	585.5
Total current assets		**627.8**	716.1
Pension asset	11a	**5.0**	6.8
Total assets		**10,980.1**	9,650.9
Liabilities			
Current liabilities			
Payables – amounts falling due within one year	28	**110.9**	115.1
Provisions	29	**–**	0.4
Total current liabilities		**110.9**	115.5
Payables – amounts falling due after more than one year	28	**992.5**	920.5
Total liabilities		**1,103.4**	1,036.0
Net assets		**9,876.7**	8,614.9
Capital and reserves			
Revenue reserve available for distribution to the Consolidated Fund		**0.6**	0.1
Pension reserve		**5.0**	6.8
Capital reserve		**9,840.6**	8,594.1
Revaluation reserve		**30.5**	13.9
Total capital and reserves		**9,876.7**	8,614.9

The balance sheet of the group is not materially different to the holding company balance sheet.

Alison Nimmo CBE
Second Commissioner and Accounting Officer

9 June 2014

Consolidated cash flow statement

For the year ended 31 March 2014

	Note	31 March 2014 £m	31 March 2013 £m
Cash generated from operating activities	31	**271.1**	260.7
Interest received		**5.3**	10.1
Distributions from investment in jointly controlled entities		**10.5**	9.4
Distributions received from other property investments		**1.2**	1.4
Net cash inflow from operating activities		**288.1**	281.6
Cash flows from investing activities			
Acquisition of investment properties		**(263.6)**	(178.2)
Capital expenditure on investment properties		**(248.1)**	(146.1)
Proceeds from disposal of investment properties		**457.2**	351.9
Net investment in jointly controlled entities		**(5.4)**	(18.2)
Purchase of plant and equipment and other investments		**(1.6)**	(2.8)
Loan repayment		**–**	0.5
Other cash flows from investing activities		**(0.2)**	(1.0)
Net cash (outflow)/inflow from investing activities		**(61.7)**	6.1
Cash flows from financing activities			
Parliamentary Supply finance		**2.3**	2.3
Net cash inflow from financing activities		**2.3**	2.3
Net increase in cash and cash equivalents before Consolidated Fund payment		**228.7**	290.0
Consolidated Fund payment		**(262.2)**	(261.5)
(Decrease)/increase in cash in the year after Consolidated Fund payment		**(33.5)**	28.5
Cash and cash equivalents at the start of the year		**585.5**	557.0
Cash and cash equivalents at the end of the year	32	**552.0**	585.5

Consolidated statement of changes in capital and reserves

For the year ended 31 March 2014

	Revenue account		Capital account		Total
	Revenue reserves available for distribution to the Consolidated Fund £m	Pension reserve £m	Capital reserve £m	Revaluation reserve £m	£m
As at 1 April 2013	**0.1**	**6.8**	**8,594.1**	**13.9**	**8,614.9**
Net profit for the period	**267.1**	**–**	**1,246.5**	**–**	**1,513.6**
Other comprehensive income:					
Revaluation surplus of owner occupied properties	**–**	**–**	**–**	**11.7**	**11.7**
Surplus on revaluation of other investments	**–**	**–**	**–**	**4.9**	**4.9**
Actuarial loss on retirement benefits	**–**	**(2.2)**	**–**	**–**	**(2.2)**
Total comprehensive profit/(loss) for the year ended 31 March 2014	**267.1**	**(2.2)**	**1,246.5**	**16.6**	**1,528.0**
Pension reserve adjustment	**(0.4)**	**0.4**	**–**	**–**	**–**
Payments to the Consolidated Fund	**(266.2)**	**–**	**–**	**–**	**(266.2)**
As at 31 March 2014	**0.6**	**5.0**	**9,840.6**	**30.5**	**9,876.7**
As at 1 April 2012	0.6	2.8	8,033.1	18.0	8,054.5
Net profit for the year	252.6	–	561.0	–	813.6
Other comprehensive income:					
Revaluation deficit of owner occupied properties	–	–	–	(4.1)	(4.1)
Actuarial profit on retirement benefits	–	2.7	–	–	2.7
Total comprehensive profit/(loss) for the year ended 31 March 2013	252.6	2.7	561.0	(4.1)	812.2
Pension reserve adjustment	(1.3)	1.3	–	–	–
Payments to the Consolidated Fund	(251.8)	–	–	–	(251.8)
As at 31 March 2013	0.1	6.8	8,594.1	13.9	8,614.9

The statement of changes in capital and reserves of the group is not materially different to that of the holding company.

Notes to the consolidated financial statements

1. Basis of preparation

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

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

Impact of the Crown Estate Act 1961 on the financial statements

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

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

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

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 revenue account. This conflicts with the treatment required under IFRS, which requires such income to be spread over the lease term. However the impact is not regarded as material. This treatment is consistent with prior years.

Treasury agreements

The Crown Estate Act 1961 allows adjustments between revenue and capital specifically for the purposes of recouping capital expenditure out of revenue. As The Crown Estate is prohibited from borrowing, Treasury agreements provide The Crown Estate with a reliable and predictable source of capital. By agreement with the Treasury, the mechanism by which the revenue account is charged is calculated as an amount equivalent to 9 per cent of the previous year's gross revenue as disclosed in note 5, excluding service charges, and after taking into account depreciation of plant and equipment.

Changes in accounting policies

The financial statements are prepared in accordance with IFRS and Interpretations in force at the reporting date. The policies adopted are consistent with those of the previous year except that The Crown Estate has adopted the following standards during the year:

Amendment to IAS 1 – Financial statement presentation – presentation of items of other comprehensive income. The amendments introduced a grouping of items presented in other comprehensive income between those that will be recycled to the revenue or capital account profit and those that will not. The amendment has affected presentation only and has had no impact on the financial position or performance.

IFRS 13 – Fair value measurement. This standard mainly impacts on disclosures regarding fair value measurement. The adoption of the standard has had no material impact on the fair values recognised or disclosed. The disclosure requirements of IFRS 13 apply prospectively and need not be provided for comparative periods before initial application. Consequently, comparatives of these disclosures have not been provided.

IAS 19 – Employee benefits (revised). This has impacted the defined benefit scheme by replacing the interest cost and expected return on plan assets with a net interest charge on the net defined liability. The Crown Estate has always recognised actuarial gains and losses immediately and there has been no effect on the prior year defined benefit obligation. The comparative period has not been restated as the impact of adopting IAS19 (revised) is not considered to be material.

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

IFRS 10 – Consolidated financial statements

IFRS 11 – Joint arrangements

IFRS 12 – Disclosure of interests in other entities

IAS 27 – Separate financial statements (as revised in 2011)

IAS 28 – Investments in associates and joint ventures (as revised in 2011)

The Crown Estate has also adopted a change in accounting policy regarding the treatment of internal staff costs, in order to give greater transparency. Previously those staff costs attributable to the capital account were charged as capital expenditure to investment properties. Under the revised policy these costs appear on the face of the consolidated capital account as a charge from the consolidated revenue account for salary costs. There is no change in net assets or comprehensive income as a result of the amendment. Previous year figures have been restated to reflect the change.

2. Significant accounting policies

2a. Basis of consolidation

The consolidated financial statements for the year ended 31 March 2014 incorporate the financial statements of The Crown Estate and all of its subsidiary undertakings. Subsidiary undertakings are those entities controlled by The Crown Estate. Control exists when The Crown Estate has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences and until the date control ceases. The financial statements of the group are not materially different to those of The Crown Estate.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

2b. Properties

Properties are valued by independent external valuers at the balance sheet date. The valuations have been carried out in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

Fair value measurement of investment property

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

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

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

Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties and those in the course of construction are held at fair value. They are valued on the basis of open market value. When The Crown Estate begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such.

Energy and mineral assets are valued only where a letting or licence exists, where an entry has occurred, or where an interest is expected to provide either a revenue cash flow or capital receipt within the foreseeable future.

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

Any surplus or deficit arising on revaluing investment properties is recognised in the consolidated capital account.

Investment properties under development

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

Owner occupied properties

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

Disposals

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

Non-current investment property assets held for sale

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

2c. Leases

The Crown Estate as lessor – operating leases

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

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

The Crown Estate as lessee – finance leases

Leasehold properties are recognised as an asset as the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the head leaseholder is included in the balance sheet as a finance lease obligation.

2d. Other property, plant and equipment

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

Vehicles: 4–10 years depending on nature of vehicle

Plant and equipment: 4–10 years

Pontoons: 25 years

Computer equipment and software: 4 years

Office equipment: 4 years

Useful lives and estimated residual values are reviewed annually.

2e. Jointly controlled entities

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

2f. Jointly controlled assets

Jointly controlled assets are those assets which involve joint control and ownership by The Crown Estate and other venturers of assets contributed to or acquired for the purpose of the joint operation. The Crown Estate accounts for its share of the jointly controlled assets, its share of any liabilities jointly incurred with other venturers and its share of income and expenditure arising from these assets.

2g. Other investments – antiques and paintings

Antiques and paintings are shown at fair value. Any surplus or deficit arising from changes in fair value are recognised directly in the revaluation reserve. A valuation was carried out during the year ended 31 March 2014. They are valued by recognised experts every three years.

2. Significant accounting policies continued

2h. Revenue

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

Rental income

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

Royalties

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

Other income

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

2i. Taxation

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

2j. Pensions – Defined Benefit Plans

Two pension schemes operate within The Crown Estate providing retirement and related benefits to all eligible employees. The schemes are as follows:

a. The Principal Civil Service Pension Scheme (PCSPS)

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

b. The Crown Estate Pension Scheme

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

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

3. Significant judgements, key assumptions and estimates

3a. Trade receivables

The basis of arriving at the provision for impairment of receivables is as follows:

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

3b. Unsettled rent reviews

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

3c. Operating leases

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

3d. Risk management

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

3e. Property valuations

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

Notes to the consolidated financial statements continued

4. Segmental analysis

Business segmental analysis

All The Crown Estate operations are in the UK and are currently organised into five operating divisions. The divisions are: Urban, Rural and Coastal, Windsor, Energy and Infrastructure 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.

Consolidated Revenue Account

		Year ended 31 March 2014						Year ended 31 March 2013					
	Note	**Urban £m**	**Rural and Coastal £m**	**Windsor £m**	**Energy and Infra-structure £m**	**Crown HQ £m**	**Total £m**	Urban £m	Rural and Coastal £m	Windsor £m	Energy and Infra-structure £m	Crown HQ £m	Total £m
Rent and royalties	5	**240.9**	**47.7**	**4.7**	**45.5**	**–**	**338.8**	231.1	46.0	4.4	39.1	–	320.6
Revenue premium income	5	**4.7**	**–**	**–**	**–**	**–**	**4.7**	3.4	–	–	–	–	3.4
Other income	5	**3.3**	**0.8**	**3.2**	**–**	**–**	**7.3**	5.0	0.5	2.7	–	–	8.2
Revenue (excluding service charge income)		**248.9**	**48.5**	**7.9**	**45.5**	**–**	**350.8**	239.5	46.5	7.1	39.1	–	332.2
Service charge income	5	**23.7**	**–**	**–**	**–**	**–**	**23.7**	24.2	–	–	–	–	24.2
Service charge expense	6	**(31.4)**	**–**	**–**	**–**	**–**	**(31.4)**	(32.4)	–	–	–	–	(32.4)
Net service charge expense		**(7.7)**	**–**	**–**	**–**	**–**	**(7.7)**	(8.2)	–	–	–	–	(8.2)
Direct costs:													
Management fees and costs	6	**(7.8)**	**(6.5)**	**(5.2)**	**(1.8)**	**–**	**(21.3)**	(7.7)	(6.5)	(5.5)	(1.5)	–	(21.2)
Repairs and maintenance	6	**(0.9)**	**(3.3)**	**(0.9)**	**–**	**–**	**(5.1)**	(1.7)	(1.5)	(1.0)	–	–	(4.2)
Other direct expenditure	6	**(7.1)**	**(1.2)**	**(2.5)**	**(1.0)**	**–**	**(11.8)**	(10.7)	(1.8)	(2.3)	(0.6)	–	(15.4)
Total direct costs		**(15.8)**	**(11.0)**	**(8.6)**	**(2.8)**	**–**	**(38.2)**	(20.1)	(9.8)	(8.8)	(2.1)	–	(40.8)
Gross surplus/(deficit)		**225.4**	**37.5**	**(0.7)**	**42.7**	**–**	**304.9**	211.2	36.7	(1.7)	37.0	–	283.2
Indirect costs:													
Administrative expenses	8	**(0.5)**	**(0.2)**	**(0.3)**	**(0.3)**	**(18.7)**	**(20.0)**	(0.4)	(1.2)	–	(1.0)	(17.2)	(19.8)
(Loss)/profit on sale of plant and equipment		**(0.1)**	**–**	**–**	**–**	**–**	**(0.1)**	–	–	0.1	–	–	0.1
Total indirect costs		**(0.6)**	**(0.2)**	**(0.3)**	**(0.3)**	**(18.7)**	**(20.1)**	(0.4)	(1.2)	0.1	(1.0)	(17.2)	(19.7)
Operating surplus/(deficit)		**224.8**	**37.3**	**(1.0)**	**42.4**	**(18.7)**	**284.8**	210.8	35.5	(1.6)	36.0	(17.2)	263.5
Investment revenue	10	**0.1**	**–**	**–**	**–**	**5.4**	**5.5**	–	–	–	–	10.4	10.4
Share of revenue profit from jointly controlled entities	22	**11.6**	**–**	**–**	**–**	**–**	**11.6**	11.5	–	–	–	–	11.5
Share of revenue profit from other property investments	23	**1.2**	**–**	**–**	**–**	**–**	**1.2**	1.4	–	–	–	–	1.4
Net operating profit/(loss) before depreciation, Treasury agreements and Statutory transfers		**237.7**	**37.3**	**(1.0)**	**42.4**	**(13.3)**	**303.1**	223.7	35.5	(1.6)	36.0	(6.8)	286.8
Depreciation of tangible fixed assets	21	**(0.4)**	**(0.1)**	**(0.4)**	**(0.1)**	**(1.8)**	**(2.8)**	(0.6)	(0.1)	(0.4)	–	(1.7)	(2.8)
Net operating profit/(loss) before Treasury agreements and Statutory transfers		**237.3**	**37.2**	**(1.4)**	**42.3**	**(15.1)**	**300.3**	223.1	35.4	(2.0)	36.0	(8.5)	284.0
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	**–**	**–**	**–**	**–**	**(27.2)**	**(27.2)**	–	–	–	–	(25.5)	(25.5)
Statutory transfers	15	**–**	**–**	**–**	**–**	**(8.3)**	**(8.3)**	–	–	–	–	(8.2)	(8.2)
Parliamentary Supply finance	16	**–**	**–**	**–**	**–**	**2.3**	**2.3**	–	–	–	–	2.3	2.3
Net consolidated revenue account profit/(loss) – distributable to the Consolidated Fund		**237.3**	**37.2**	**(1.4)**	**42.3**	**(48.3)**	**267.1**	223.1	35.4	(2.0)	36.0	(39.9)	252.6

4. Segmental analysis continued

Consolidated Capital Account

		Year ended 31 March 2014						Year ended 31 March 2013					
	Note	Urban £m	Rural and Coastal £m	Windsor £m	Energy and Infra-structure £m	Crown HQ £m	Total £m	Urban £m	Rural and Coastal £m	Windsor £m	Energy and Infra-structure £m	Crown HQ £m	Total £m
Revenue	5	**23.5**	**–**	**–**	**–**	**–**	**23.5**	19.9	–	–	–	–	19.9
Charge from revenue account for salary costs	9	**(4.5)**	**(1.3)**	**–**	**(6.7)**	**–**	**(12.5)**	(4.3)	(1.0)	–	(6.2)	–	(11.5)
Net revaluation gains on property (including profits on disposal)	13	**832.9**	**139.8**	**7.8**	**177.6**	**–**	**1,158.1**	347.7	145.0	12.9	23.5	–	529.1
Share of capital profit from jointly controlled entities (including profits on disposal)	13	**2.1**	**–**	**–**	**–**	**–**	**2.1**	–	–	–	–	–	–
Share of capital profit/(loss) from jointly controlled entities	13	**39.7**	**–**	**–**	**–**	**–**	**39.7**	(11.9)	–	–	–	–	(11.9)
Share of capital profit from other property investments	13	**0.1**	**–**	**–**	**–**	**–**	**0.1**	1.7	–	–	–	–	1.7
Capital account profit before Treasury agreements and Statutory transfers		**893.8**	**138.5**	**7.8**	**170.9**	**–**	**1,211.0**	353.1	144.0	12.9	17.3	–	527.3
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	**–**	**–**	**–**	**–**	**27.2**	**27.2**	–	–	–	–	25.5	25.5
Statutory transfers	15	**–**	**–**	**–**	**–**	**8.3**	**8.3**	–	–	–	–	8.2	8.2
Net consolidated capital account profit		**893.8**	**138.5**	**7.8**	**170.9**	**35.5**	**1,246.5**	353.1	144.0	12.9	17.3	33.7	561.0

Balance Sheet

	Note	Urban £m	Rural and Coastal £m	Windsor £m	Energy and Infra-structure £m	Crown HQ £m	Total £m	Urban £m	Rural and Coastal £m	Windsor £m	Energy and Infra-structure £m	Crown HQ £m	Total £m
Non-current assets:													
Investment properties	18	**7,328.6**	**1,502.4**	**157.0**	**758.6**	**–**	**9,746.6**	6,337.3	1,429.7	143.7	563.8	–	8,474.5
Owner occupied property	19	**43.7**	**–**	**68.4**	**–**	**–**	**112.1**	40.0	0.1	60.1	–	–	100.2
Other property, plant and equipment	21	**0.5**	**0.5**	**1.2**	**0.1**	**4.2**	**6.5**	0.4	0.6	1.2	0.1	5.3	7.6
Investment in jointly controlled entities	22	**396.3**	**–**	**–**	**–**	**–**	**396.3**	275.3	–	–	–	–	275.3
Other property investments	23	**35.8**	**–**	**–**	**–**	**–**	**35.8**	35.7	–	–	–	–	35.7
Other investments	24	**–**	**–**	**–**	**–**	**10.2**	**10.2**	–	–	–	–	5.4	5.4
Receivables due after one year	25	**39.4**	**0.4**	**–**	**–**	**–**	**39.8**	29.2	0.1	–	–	–	29.3
Total non-current assets		**7,844.3**	**1,503.3**	**226.6**	**758.7**	**14.4**	**10,347.3**	6,717.9	1,430.5	205.0	563.9	10.7	8,928.0
Unallocated current assets							**632.8**						722.9
Unallocated liabilities							**(1,103.4)**						(1,036.0)
Net assets							**9,876.7**						8,614.9
Capital expenditure		**440.2**	**34.7**	**7.1**	**17.2**	**–**	**499.2**	277.8	12.0	3.6	19.4		312.8

Notes to the consolidated financial statements continued

5. Revenue

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Revenue account		
Rent and royalties	**338.8**	320.6
Revenue premium income	**4.7**	3.4
Other income	**7.3**	8.2
	350.8	332.2
Service charge income	**23.7**	24.2
Total revenue reflected in the consolidated revenue account	**374.5**	356.4
Capital account revenue		
Income from sale of leases	**23.5**	19.9

6. Costs

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Service charge expense	**31.4**	32.4
Management fees and costs	**21.3**	21.2
Repairs and maintenance	**5.1**	4.2
Other direct expenditure	**11.8**	15.4
Administrative expenses	**20.0**	19.8
Loss/(profit) on sale of plant and equipment	**0.1**	(0.1)
Total costs reflected in the consolidated revenue account	**89.7**	92.9

7. Property costs

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Service charge income	**(23.7)**	(24.2)
Service charge expense	**31.4**	32.4
Net service charge expense	**7.7**	8.2
Direct costs	**38.2**	40.8
	45.9	49.0

8. Administrative expenses

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Salaries, national insurance and pension costs	**7.9**	8.8
Reorganisation and early retirement costs	**0.2**	1.2
Commissioners' remuneration	**0.6**	0.5
Management and administration expenses	**11.1**	9.2
Auditors' remuneration	**0.2**	0.1
	20.0	19.8

Auditors' remuneration includes fees for non-audit services of £8,000 (year ended 31 March 2013: £8,000).

9. Staff costs

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

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Wages and salaries	**21.9**	21.0
Reorganisation and early retirement costs	**0.3**	1.2
National insurance costs	**2.3**	2.0
Current service cost – defined benefit scheme	**0.9**	0.8
Pension contributions – other pension schemes	**1.7**	2.0
Total staff costs	**27.1**	27.0
Less staff costs charged to capital account	**(12.5)**	(11.5)
Staff costs reflected in the revenue account	**14.6**	15.5
Included in:		
Administrative expenses	**8.7**	10.5
Direct costs	**5.9**	5.0
Charged to the capital account	**12.5**	11.5
	27.1	27.0
The average number of employees during the year was	**458**	456

10. Investment revenue

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Bank interest income	**5.3**	10.1
IAS 19 retirement benefits – net financing surplus (note 11b)	**0.2**	0.3
	5.5	10.4

Notes to the consolidated financial statements continued

11. IAS 19 retirement benefits

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

The Crown Estate operates a scheme in the UK with a defined benefit section (closed to new entrants with effect from 1 January 2008), a defined contribution section and a hybrid section (defined benefit for salaries up to £29,350 pa with money purchase provision above that level). This disclosure covers the defined benefit sections only.

At 31 March 2011, the value of the scheme's assets was £29.1 million and the actuarial value of the technical provisions exceeded these assets by £1.7 million (5.7 per cent). The actuarial assumptions used for the statutory funding valuation are that the pre-retirement investment yield would in the long term exceed earnings increases by 2 per cent per annum and the post-retirement investment yield would exceed pension increases by 1 per cent per annum. The Trustees and The Crown Estate have agreed a recovery plan to eliminate the deficit. Consequently, an additional amount of £100,000 per month was paid to the scheme by The Crown Estate until 31 July 2013. Furthermore, the regular employer contribution rate has decreased to 31.4 per cent from 32.5 per cent of pensionable earnings per annum.

A full actuarial valuation was carried out as at 31 March 2011 and updated to 31 March 2014 by a qualified independent actuary.

11a. Balance sheet and notes

	31 March 2014 £m	31 March 2013 £m
Amounts recognised in the consolidated balance sheet		
Present value of funded obligations	**(36.0)**	(32.9)
Fair value of scheme assets	**41.0**	39.7
Net asset recognised in the consolidated balance sheet	**5.0**	6.8
Changes in the present value of the defined benefit obligation		
Present value of defined benefit obligation at beginning of year	**32.9**	31.1
Current service cost	**0.9**	0.8
Interest cost	**1.4**	1.5
Contributions by members	**0.1**	0.1
Actuarial loss on plan liabilities	**1.7**	0.6
Benefits paid	**(1.0)**	(1.2)
Present value of defined benefit obligation at end of year	**36.0**	32.9
Analysis of the defined benefit obligation		
Present value of the unfunded defined benefit obligation	**–**	–
Present value of the funded defined benefit obligation	**36.0**	32.9
Changes in the fair value of plan assets		
Fair value of plan assets at start of year	**39.7**	33.9
Interest income	**1.6**	1.8
Actuarial (loss)/gain on plan assets	**(0.5)**	3.3
Contributions by The Crown Estate	**1.1**	1.8
Contributions by members	**0.1**	0.1
Benefits paid	**(1.0)**	(1.2)
Fair value of plan assets at end of year	**41.0**	39.7
Analysis of return on plan assets		
Expected return on plan assets	**1.6**	1.8
Actuarial (loss)/gain on plan assets	**(0.5)**	3.3
Actual return on scheme assets	**1.1**	5.1

11b. Amounts to be recognised in the consolidated revenue account

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Net financing surplus (note 10)	**(0.2)**	(0.3)
Current service cost	**0.9**	0.8
Total pension expense	**0.7**	0.5

11. IAS 19 retirement benefits continued

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

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Actuarial (loss)/gain on plan assets	**(0.5)**	3.3
Actuarial loss on defined benefit obligation	**(1.7)**	(0.6)
Actuarial (loss)/profit recognised in the consolidated statement of comprehensive income of the revenue account	**(2.2)**	2.7
Actuarial loss on defined benefit obligation:		
Loss due to experience	**(0.3)**	(0.3)
Gain due to demographic assumptions	**–**	0.6
Loss due to financial assumptions	**(1.4)**	(0.9)
Total actuarial loss on defined benefit obligation	**(1.7)**	(0.6)

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

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Cumulative actuarial losses since adoption of IAS 19	**(3.3)**	(1.1)

11e. Major categories of plan assets

	31 March 2014 £m	Percentage of total assets 31 March 2014 %	31 March 2013 £m	Percentage of total assets 31 March 2013 %
Equities	**22.5**	**55.0**	20.5	51.6
Government bonds	**18.4**	**44.8**	19.0	48.0
Other	**0.1**	**0.2**	0.2	0.4
Total	**41.0**	**100.0**	39.7	100.0

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

The amount of Crown Estate related investments included in the fair value of the plan assets was £nil (31 March 2013: £nil).

11f. Principal actuarial assumptions at the balance sheet date

	2014	2013
Discount rate	**4.40%**	4.40%
RPI price inflation	**3.50%**	3.30%
Rate of increase in salaries	**3.50%**	3.30%
Pension increases	**3.50%**	3.30%
Post-retirement mortality (life expectancy):	**S1NxA light YoB CMI 2010 with 1.25% pa trend rate**	S1NxA light YoB CMI 2010 with 1.25% pa trend rate

Notes to the consolidated financial statements continued

11. IAS 19 retirement benefits continued

11g. Experience gains and losses

	31 March 2014 £m	31 March 2013 £m	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m
Liabilities at year end	**36.0**	32.9	31.1	26.9	27.1
Assets at year end	**41.0**	39.7	33.9	29.2	26.8
Surplus/(deficit) at year end	**5.0**	6.8	2.8	2.3	(0.3)
Asset (loss)/gain:					
Amount (£m)	**(0.6)**	3.3	2.1	0.8	3.6
Percentage of scheme assets	**–1.6%**	8.4%	6.2%	2.8%	13.2%
Liability (loss)/gain:					
Experience (loss)/gain (£m)	**(0.3)**	(0.3)	(0.6)	(0.2)	0.1
Percentage of scheme liabilities	**–0.9%**	–1.0%	–1.9%	–0.7%	0.2%

For 2013/14 employer contributions were £1.1 million (£1.8 million in 2012/13). The Crown Estate's estimate of contributions to be paid to the Scheme in 2014/15 is £1.2 million.

For 2013/14 employer contributions to The Principal Civil Service Pension Scheme (PCSPS) were £1.5 million (£1.1 million in 2012/13).

For 2013/14, employer contributions were payable to the PCSPS at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. For 2014/15 the employer contribution will be between 16.7 per cent and 24.3 per cent of pensionable pay. Employer contributions are to be reviewed every four years following a full scheme valuation by the scheme actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1a		
Total recovered from the capital account	**27.2**	25.5
Depreciation of fixed assets charged as costs in the income account	**2.8**	2.8
Total recovered under the Treasury agreement	**30.0**	28.3

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

	Year ended 31 March 2014 £m	Year ended 31 March 2013 Restated £m
Reflected in the consolidated capital account:		
Surplus on revaluation of investment properties (note 18)	**1,027.7**	437.9
Adjustment for gross up for deferred rent movement	**72.5**	6.5
Gain on disposal of investment properties	**57.9**	84.7
Net revaluation gains on investment property	**1,158.1**	529.1
Share of profit on disposal of property in jointly controlled entities (note 22)	**2.1**	–
Share of revaluation profit/(loss) in jointly controlled entities (note 22)	**39.7**	(11.9)
Share of revaluation gains in other property investments (note 23)	**0.1**	1.7
Total reflected in the consolidated capital account	**1,200.0**	518.9
Reflected in the statement of comprehensive income of the capital account:		
Surplus on revaluation of other investments	**4.9**	–
Surplus/(deficit) on revaluation of owner occupied property (note 19)	**11.7**	(4.1)
Total	**1,216.6**	514.8

14. Financial instruments

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

The cash holdings not needed for operational purposes are maintained in deposit accounts with major United Kingdom clearing banks for a maximum period of 12 months, thereby minimising liquidity risks. These deposits are held on a fixed and floating interest basis. There is no currency risk as The Crown Estate only holds funds in sterling and there are no significant transactions in currencies other than sterling. The Crown Estate monitors the rates offered by the banks and transfers deposits as appropriate to maximise returns.

The financial assets held by The Crown Estate are cash equivalents and trade and other receivables (note 27). 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 28), and the fair value of these liabilities equals their carrying value.

15. Statutory transfers

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

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Moieties:		
Mineral dealings	**8.3**	8.2

16. Parliamentary Supply finance

The Crown Estate Act 1961 provides that monies are provided by Parliament in respect of Commissioners' salaries and the expense of their Office. The total of such expenses chargeable to the Parliamentary Supply finance account for the current year is shown on the face of the consolidated revenue account. The Crown Estate also prepares a Statement of Parliamentary Supply and supporting notes which show outturn against estimate in terms of net resource requirement and net cash requirement which is reported separately to Parliament within The Crown Estate Office Resource accounts.

17. Consolidated Fund payment

In accordance with section 1 of the Civil List Act 1952, the net revenue account profit is due to the Consolidated Fund. As The Crown Estate is not permitted by statute to borrow, the payment to the Consolidated Fund in respect of the net surplus for the year is agreed with the Treasury taking into account The Crown Estate's short-term financing requirements. £261.2 million was paid to the Treasury prior to the year end and a further £5.0 million is included within payables.

18. Investment properties

Portfolio	Urban £m	Rural and Coastal £m	Windsor £m	Energy and Infrastructure £m	Under development £m	**As at 31 March 2014 Total £m**	As at 31 March 2013 Total Restated £m
Opening fair value	6,168.9	1,429.9	143.7	563.8	168.2	**8,474.5**	8,014.6
Less: deferred income from lease premiums received	(925.6)	–	–	–	–	**(925.6)**	(919.1)
Less: Head lease liabilities	(2.4)	–	–	–	–	**(2.4)**	(1.9)
At opening valuation	5,240.9	1,429.9	143.7	563.8	168.2	**7,546.5**	7,093.6
Acquisitions	240.1	23.5	–	–	–	**263.6**	178.2
Capital expenditure	144.1	11.2	6.9	17.2	56.0	**235.4**	134.1
Transfers to other categories	97.3	–	–	–	(97.3)	**–**	–
Disposals	(244.7)	(24.8)	(1.1)	–	–	**(270.6)**	(191.8)
Revaluation	679.8	119.1	7.5	177.6	43.7	**1,027.7**	437.9
At closing valuation	6,157.5	1,558.9	157.0	758.6	170.6	**8,802.6**	7,652.0
Deferred income from lease premiums received	998.1	–	–	–	–	**998.1**	925.6
Head lease liabilities	2.4	–	–	–	–	**2.4**	2.4
Less: classified as held for sale	–	(56.5)	–	–	–	**(56.5)**	(105.5)
Closing fair value	7,158.0	1,502.4	157.0	758.6	170.6	**9,746.6**	8,474.5

Notes to the consolidated financial statements continued

18. Investment properties continued

All investment properties are classified as Level 3 within the value hierarchy as defined within IFRS 13. Level 3 inputs used in valuing the properties are those which are unobservable and observable inputs where significant adjustments have been applied to determine specific property valuations, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, ie derived from prices).

All properties classified as investment properties under development are within the Urban portfolio.

The historic cost of investment properties at 31 March 2014 was £2,852.3 million (31 March 2013 £2,564.7 million).

The value of freehold investment properties at 31 March 2014 was £8,481.3 million (31 March 2013 £7,374.3 million). The value of long leasehold properties at 31 March 2014 was £321.3 million (£277.7 million at 31 March 2013).

Investment properties identified by the Board as held for sale of £56.5 million at 31 March 2014 (31 March 2013 £105.5 million) are re-classified as current assets in the balance sheet.

On 1 April 2011, a 150 year lease was granted to Norges Bank Investment Management (NBIM) in return for a 25 per cent interest in properties located in and around Regent Street in London. In September 2013 a further lease was granted to NBIM in return for a 25 per cent interest in the Quadrant 3 building. The properties within the arrangement have been regarded as a jointly controlled assets for accounting purposes and as such The Crown Estate's interest of 75 per cent in the properties is included within the valuation figure at 31 March 2014.

The Crown Estate's share of jointly controlled assets was valued at £2,532.8 million at 31 March 2014 (£1,798.1 million at 31 March 2013) out of the total investment property value of £8,802.6 million.

The property portfolio was valued on 31 March 2014 by independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation methods used are in accordance with RICS and those recommended by the International Valuation Standards Committee and are consistent with the principles of IFRS 13.
More information about the fair value measurement is set out in note 20.

Valuers fees are charged on a variety of bases including percentage of the valuation and fixed amounts.

More information about fair measurement of investment properties is set out in note 20.

19. Owner occupied property

Portfolio	Urban £m	Windsor £m	**As at 31 March 2014 Total £m**	As at 31 March 2013 Total £m
Opening fair value	40.1	60.1	**100.2**	103.8
Capital expenditure	–	0.2	**0.2**	0.5
Revaluation	3.6	8.1	**11.7**	(4.1)
Closing fair value	43.7	68.4	**112.1**	100.2

All owner occupied properties are classified as Level 3 within the value hierarchy as defined within IFRS 13. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, ie as prices, or indirectly, ie derived from prices).

The historic cost of owner occupied properties at 31 March 2014 was £88.7 million (31 March 2013 £88.6 million).

The property portfolio was valued on 31 March 2014 by independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation methods used are in accordance with those recommended by the International Valuation Standards Committee and are consistent with the principles of IFRS 13.

Information about the fair value measurement of owner occupied properties is set out in note 20.

20. Fair value measurement of properties

For all investment property that are measured at fair value, the current use of the property is considered the highest and best.

Valuation process

The entire portfolio is valued on an annual basis by independent and qualified valuers on a fair value basis in accordance with IFRS 13 , the RICS Valuation – Professional Standards (The Red Book) January 2014 and VPGA 1 guidance therein regarding valuation for inclusion in financial statements.

The Urban portfolio is fully valued on a quarterly basis and a tonal exercise is also undertaken at the half year on the rural and residential properties.

The Crown Estate and our managing agents provide data to the valuers, including current lease and tenant data along with asset specific business plans.

The valuers use this and other inputs including market transactions for similar properties to produce valuations. These valuations and the assumptions they have made are then discussed and reviewed with the asset management team and the Directors.

The annual valuation is presented to and verified by the Audit Committee. A review is also presented to them as at 30 September.

20. Fair value measurement of properties continued

Fair value hierarchy

The following table shows an analysis of the fair values of investment property recognised in the consolidated balance sheet.

All are considered as Level 3 in the fair value hierarchy.

Valuation techniques used to derive Level 3 fair values:

Class of property	Fair value 31 March 2014 £m	Predominant valuation technique	Key unobservable inputs	Range	Principal valuer
Urban portfolio:					
Retail – West End	**2,119.3**	Investment	ERV Yield	£50–£800 psf ITZA 3.5%–6.75%	DTZ
Retail – Rest of UK	**317.6**	Investment	ERV Yield	£30–£225 psf ITZA 4.5%–11.5%	JLL
Retail and leisure parks	**964.9**	Investment	ERV Yield	£13–£51 psf 4.9%–7.3%	JLL
Offices – West End	**1,975.4**	Investment	ERV Yield	£22.50–£107.50 psf 3.5%–6.5%	DTZ
Offices – Rest of UK	**139.5**	Investment	ERV Yield	£20–£30 psf 5.75%–8.75%	JLL
Residential	**550.9**	Comparable	£ psf	£715–£3,920 psf	JLL
Industrial	**125.8**	Investment	ERV Yield	£4–£10 psf 5.5%–9.6%	JLL
Owner occupied	**43.7**	Investment	ERV Yield	£80 psf 4.65%	DTZ
Other urban	**134.7**	Investment	Yield	3%–15%	JLL/DTZ/Cluttons
	6,371.8				
Categorised as:					
Completed properties	**6,157.5**				
Under development	**170.6**				
Owner occupied	**43.7**				
Total Urban at valuation	**6,371.8**				
Rural and Coastal portfolio:					
Agricultural	**1,296.6**	Comparable/ Investment	Proportion of vacant possession value Yield	50%–100% 1.25%–2.25%	Savills
Coastal	**200.1**	Investment	Yield	6%–15%	Various
Forestry	**26.2**	Comparable	Land value Timber value	£1,000–£7,600 per ha £800–£4,000 per ha	Forest Valuations
Aquaculture	**18.5**	Investment	Yield Annual production	11.25% 130–160,000 tonnes	Bidwells
Minerals	**17.5**	Investment	Yield	5%–25%	Wardell Armstrong
	1,558.9				
Windsor portfolio:					
Owner occupied	**68.4**	Comparable	Proportion of vacant possession value	60%–65%	Smiths Gore
Other	**157.0**	Comparable/ Investment	Yield Proportion of vacant possession value	1.25%–12% 60%–95%	Smiths Gore
	225.4				

Notes to the consolidated financial statements continued

20. Fair value measurement of properties continued

Class of property	Fair value 31 March 2014 £m	Predominant valuation technique	Key unobservable inputs	Range	Principal valuer
Energy and Infrastructure portfolio:					
Aggregates	**142.0**	DCF	Yield Annual extraction	7%–15% c. 15,000,000 tonnes	Wardell Armstrong
Renewables	**512.5**	Investment/ DCF	Yield Discount rate	6%–25% 9.5%–29%	JLL/Powis Hughes
Cables and pipelines	**104.1**	Investment	Yield Operational life	6%–9%	Powis Hughes
	758.6				
Total all portfolios at valuation	**8,914.7**				
Categorised as:					
Investment properties	**8,802.6**				
Owner occupied	**112.1**				
	8,914.7				

Value of investment properties including share of jointly controlled entities and other property investments

	31 March 2014 £m	31 March 2013 £m
Investment properties (note 18)	**8,802.6**	7,652.0
Owner occupied properties (note 19)	**112.1**	100.2
Share of investment properties of jointly controlled entities (note 22)	**459.1**	344.4
Other property investments (note 23)	**35.8**	35.7
	9,409.6	8,132.3

The fair value of investment property is determined using the following valuation methods:

Investment Method

The Investment Method has been used which involves estimating the rental value of each lettable unit within the property, making an assessment of void periods and other costs of letting and then capitalising at an appropriate rate.

Hope value has been included where there is future reversionary potential e.g. conversion of offices back to their original use as residential.

Discounted cash flow (DCF)

This involves the projection of cash flows to which an appropriate market-derived discount rate is applied to establish the present value of the income stream.

Comparable method

An indication of value arrived at by comparing information of the subject asset with similar assets for which valuation data is available.

Specific valuation considerations have been applied to the following classes of property:

Windfarms

Each Round 1 and Round 2 windfarm has been valued individually using an 'all risk' yield applied to the minimum and budgeted rents, or the actual output, subject to an end allowance where appropriate.

As a cross check, a discounted cash flow of projected revenue streams has been undertaken with appropriate discount rates for differing levels of status in the development programme.

Round 3 has been valued on a portfolio basis.

Strategic land

Hope value for strategic land is incorporated into the Rural portfolio, discounted to reflect the stage reached in the planning process.

20. Fair value measurement of properties continued

Properties being re-developed

The Residual Method has been adopted which involves calculating the potential value when the property has been completed (using the Investment Method) and then deducting the cost to complete the construction, achieve lettings and appropriate allowances for profit to compensate for the risk of carrying out the development.

Rural and residential properties

These are generally valued using the Comparable method and cross checked with the Investment Method.

Owner occupied commercial property

This has been valued using the Investment Method assuming an appropriate period to let the property at a market rent.

Owner occupied residential property at Windsor

This has been valued using the Comparable Method with an appropriate discount to the vacant possession value.

Sensitivity analysis

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the investment property are:

- Estimating the rental value of each lettable unit with evidence derived from other recent lettings in the property itself or similar properties nearby, making adjustments for size, specification, location and letting incentives.
- Estimating the length of time taken and the cost to let vacant space and the likelihood of lease renewals.
- Deciding the appropriate capitalisation rate to be applied derived from transactions of comparable properties.
- Choosing the appropriate discount rate to vacant possession value for differing lengths and types of tenure on rural and residential tenancies.
- For property under development the assessment of the value created on completion and the allowance for construction and letting costs to achieve that.
- Inclusion of hope value for a higher value use (e.g. strategic land and properties with potential for residential conversion) dependent upon the likelihood, time and cost of achieving that use.
- Allowance for the level of volatility on turnover related valuations e.g. aggregates, minerals and aquaculture.
- Assessment of functional lifespan of offshore assets e.g. cables and pipelines.
- Assessing the appropriate discount rate for offshore windfarms from site exclusivity through to a generating wind farm.

Significant increases/(decreases) in the ERV would result in a higher/(lower) fair value measurement.

Significant increases/(decreases) in the long-term vacancy rate (or yield) would result in a lower/(higher) fair value measurement.

21. Plant and equipment

	Plant and machinery £m	Office equipment £m	Motor vehicles £m	Total £m
Cost at 1 April 2013	**4.1**	**17.4**	**1.7**	**23.2**
Additions	**0.5**	**1.0**	**0.2**	**1.7**
Disposals	**–**	**–**	**(0.2)**	**(0.2)**
Cost at 31 March 2014	**4.6**	**18.4**	**1.7**	**24.7**
Depreciation at 1 April 2013	**2.6**	**11.7**	**1.3**	**15.6**
Charge	**0.7**	**1.9**	**0.2**	**2.8**
Disposals	**–**	**–**	**(0.2)**	**(0.2)**
Total depreciation at 31 March 2014	**3.3**	**13.6**	**1.3**	**18.2**
Net book value at 1 April 2013	**1.5**	**5.7**	**0.4**	**7.6**
Net book value at 31 March 2014	**1.3**	**4.8**	**0.4**	**6.5**
Cost at 1 April 2012	3.0	19.9	1.8	24.7
Additions	1.1	1.4	0.2	2.7
Disposals	–	(3.9)	(0.3)	(4.2)
Cost at 31 March 2013	4.1	17.4	1.7	23.2
Depreciation at 1 April 2012	1.7	13.8	1.5	17.0
Charge	0.9	1.8	0.1	2.8
Disposals	–	(3.9)	(0.3)	(4.2)
Total depreciation at 31 March 2013	2.6	11.7	1.3	15.6
Net book value at 1 April 2012	1.3	6.1	0.3	7.7
Net book value at 31 March 2013	1.5	5.7	0.4	7.6

Notes to the consolidated financial statements continued

22. Investment in jointly controlled entities

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

Name of jointly controlled entity	Percentage owned	Formation date	Partner	Property interest
The Gibraltar Limited Partnership	50%	April 2007	Hercules Unit Trust	Fort Kinnaird Shopping Park, Edinburgh Gallagher Retail Park, Cheltenham Shires Retail Park, Leamington Spa
Co-ownership agreement	50%	June 2008	Morley Fund Management	Crown Point Shopping Park, Leeds
Co-ownership agreement	50%	December 2008	CGNU Life Assurance	Property in Princes Street, London
Westgate Oxford Alliance Limited Partnership	50%	May 2010	Land Securities Group PLC	Westgate Centre, Oxford
Maple Investment Limited Partnership	50%	November 2010	The Healthcare of Ontario Pension Plan	St James's Gateway, London
The St James's Market Partnership Group:				
St James's Market Haymarket Limited Partnership	50%	September 2013	Oxford Properties	St James's Market development, London
St James's Market Regent Street Limited Partnership	50%	September 2013	Oxford Properties	
St James's Market Development Limited	50%	September 2013	Oxford Properties	

All joint ventures operate in the United Kingdom.

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

	Gibraltar LP £m	Crown Point £m	Princes Street £m	Westgate LP £m	Maple LP £m	St James's Market Partnership Group £m	Total £m
Share of assets and liabilities as at 31 March 2014							
Non-current assets	198.3	60.6	6.9	33.4	88.3	71.6	459.1
Current assets	7.3	1.9	0.2	1.3	1.7	10.2	22.6
Gross assets	205.6	62.5	7.1	34.7	90.0	81.8	481.7
Current liabilities	(1.3)	(1.3)	(0.1)	(0.6)	(0.3)	(1.8)	(5.4)
Long-term liabilities	–	–	–	–	–	(5.0)	(5.0)
Long-term bank loan	(75.0)	–	–	–	–	–	(75.0)
Share of net assets	**129.3**	**61.2**	**7.0**	**34.1**	**89.7**	**75.0**	**396.3**
Share of revenues and expenses for the year ended 31 March 2014							
Income	10.1	3.5	0.2	2.3	2.1	–	18.2
Expenses	(4.4)	(0.5)	(0.1)	(1.0)	(0.5)	(0.1)	(6.6)
Share of profit/(loss) on ordinary activities reflected in the consolidated revenue account	5.7	3.0	0.1	1.3	1.6	(0.1)	11.6
Share of profit on disposal of property reflected in the consolidated capital account	–	–	–	–	2.1	–	2.1
Share of profit/(loss) on revaluation of investment reflected in the consolidated capital account	1.6	0.3	1.3	(0.1)	35.3	1.3	39.7
Total share of revenues and expenses	**7.3**	**3.3**	**1.4**	**1.2**	**39.0**	**1.2**	**53.4**

22. Investment in jointly controlled entities continued

	Gibraltar LP £m	Crown Point £m	Princes Street £m	Westgate LP £m	Maple LP £m	St James's Market Partnership Group £m	Total £m
Share of assets and liabilities as at 31 March 2013							
Non-current assets	195.0	60.0	5.6	30.0	53.8	–	344.4
Current assets	7.0	1.8	0.3	0.8	2.0	–	11.9
Gross assets	202.0	61.8	5.9	30.8	55.8	–	356.3
Current liabilities	(1.3)	(1.1)	(0.1)	(1.0)	(2.5)	–	(6.0)
Long-term bank loan	(75.0)	–	–	–	–	–	(75.0)
Share of net assets	125.7	60.7	5.8	29.8	53.3	–	275.3
Share of revenues and expenses for the year ended 31 March 2013							
Income	10.4	3.7	0.2	2.4	0.6	–	17.3
Expenses	(4.1)	(0.3)	(0.1)	(1.2)	(0.1)	–	(5.8)
Share of profit on ordinary activities reflected in the consolidated revenue account	6.3	3.4	0.1	1.2	0.5	–	11.5
Share of (loss)/profit on revaluation of investment reflected in the consolidated capital account	(12.7)	(1.1)	0.1	(1.5)	3.3	–	(11.9)
Total share of revenues and expenses	(6.4)	2.3	0.2	(0.3)	3.8	–	(0.4)

Summary of movement in investment in jointly controlled entities

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
At start of period	**275.3**	266.9
Net equity additions	**78.1**	18.2
Share of profit on sale of property	**2.1**	–
Surplus/(deficit) on revaluation of investment	**39.7**	(11.9)
Distributions received	**(10.5)**	(9.4)
Share of revenue profit	**11.6**	11.5
At end of period	**396.3**	275.3

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

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

The investment property included within the net current assets of jointly controlled entities included above have been valued in accordance with the requirements of IFRS 13.

23. 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.

	31 March 2014 £m	31 March 2013 £m
Share of revenue profit	**1.2**	1.4
Share of revaluation of investment reflected in the consolidated capital account	**0.1**	1.7
Total	**1.3**	3.1
Fair value of investment reflected in the balance sheet	**35.8**	35.7

Notes to the consolidated financial statements continued

24. Other investments

	31 March 2014 £m	31 March 2013 £m
Other investments comprise antiques and paintings		
Opening balance	**5.4**	5.3
(Disposal)/additions	**(0.1)**	0.1
Surplus on revaluation	**4.9**	–
Closing balance	**10.2**	5.4

25. Receivables due after one year

	31 March 2014 £m	31 March 2013 £m
Mortgages and loans	**0.1**	0.1
Other financial assets	**1.8**	2.2
Other receivables	**37.9**	27.0
	39.8	29.3

26. Inventories

	31 March 2014 £m	31 March 2013 £m
Stores	**0.1**	0.2

27. Trade and other receivables

	31 March 2014 £m	31 March 2013 £m
Trade receivables	**8.0**	12.1
Other financial assets	**0.1**	0.1
Other receivables	**5.7**	7.9
Prepayments	**1.0**	0.2
Accrued income	**4.4**	4.6
	19.2	24.9

Trade and other receivables are shown after deducting the impairment of receivables of £6.3 million (31 March 2013: £5.7 million). The trade receivable impairment reflects the application of The Crown Estate's provisioning policy in respect of bad and doubtful receivables.

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

	31 March 2014 £m	31 March 2013 £m
Trade and other receivables outside their payment terms not yet provided are:		
Within credit terms	**–**	–
Past due date but not impaired:		
0–1 month	**6.1**	10.0
1–2 months	**–**	0.5
More than 2 months	**0.5**	0.4
	6.6	10.9
Impairment of receivables		
Other expenditure includes the movement on the provision for impairment of receivables as follows:		
Provision at the beginning of the year	**11.3**	8.5
Income written back/(off) during the year	**0.1**	(2.0)
Increase in the provision for the year	**0.9**	4.8
Provision at the end of the year	**12.3**	11.3

28. Payables

	31 March 2014 £m	31 March 2013 £m
Amounts falling due within one year:		
Trade payables	**3.1**	5.4
Rents received in advance	**57.9**	54.5
Taxes and social security	**8.0**	5.9
Other payables	**3.6**	10.4
Consolidated Fund	**5.0**	1.0
Accruals and deferred income	**23.0**	28.3
Deferred income on receipt of lease premiums	**10.0**	9.3
Obligations under finance leases	**0.3**	0.3
	110.9	115.1
Amounts falling due after more than one year:		
Deferred income on receipt of lease premiums	**988.1**	916.1
Obligations under finance leases	**4.4**	4.4
	992.5	920.5

29. Provisions

	£m
At 1 April 2013	**0.4**
Provision released	**(0.4)**
At 31 March 2014	**–**
At 1 April 2012	0.5
Provision released	(0.1)
At 31 March 2013	0.4

30. Leasing

Operating leases with tenants

The Crown Estate leases out all of its investment properties under operating leases for average lease terms of 41 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	31 March 2014 £m	31 March 2013 £m
Less than one year	**265.4**	242.1
Between two and five years	**866.4**	790.0
More than five years	**3,878.2**	3,843.8
	5,010.0	4,875.9

Contingent rents receivable were £32.1 million at 31 March 2014 (31 March 2013: £29.5 million).

Obligations under finance leases

Finance lease liabilities are payable as follows:

			31 March 2014			31 March 2013
	Minimum lease payments £m	**Future finance charges £m**	**Present value of lease obligations £m**	Minimum lease payments £m	Future finance charges £m	Present value of lease obligations £m
Less than one year	**0.3**	**–**	**0.3**	0.3	–	0.3
Between two and five years	**1.1**	**(0.1)**	**1.0**	1.1	(0.2)	0.9
More than five years	**50.5**	**(47.1)**	**3.4**	50.8	(47.3)	3.5
	51.9	**(47.2)**	**4.7**	52.2	(47.5)	4.7

The amount recognised as an expense in the year in respect of contingent rentals is £0.3 million (year ended 31 March 2013: £nil).

Notes to the consolidated financial statements continued

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

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Operating surplus – consolidated revenue account	**284.8**	263.5
Decrease in inventories	**0.1**	–
Increase in receivables	**(4.5)**	(6.2)
(Decrease)/increase in payables	**(8.9)**	3.5
Decrease in provisions	**(0.4)**	(0.1)
Net cash generated from operating activities	**271.1**	260.7

32. Analysis of change in cash and cash equivalents

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Balance at start of year	**585.5**	557.0
Net cash (outflow)/inflow	**(33.5)**	28.5
Balance at end of year	**552.0**	585.5

33. Subsidiary undertakings

The financial statements include the financial statements of the group and subsidiaries.

The group's subsidiaries, all of which are registered in England, are as follows (held 100% by The Crown Estate Commissioners):

Urbanlease Property Management Company Limited
Purple Holdco Limited
Purple Investment Management LLP
Gibraltar Management Limited

34. Capital commitments

At 31 March 2014 The Crown Estate had committed to make capital expenditure of £401.8 million (31 March 2013: £568.7 million) and had authorised additional expenditure of £nil (31 March 2013: £95.2 million).

35. Contingent liabilities

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

36. Related party transactions

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

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

During the year Smiths Gore were paid £2.7 million (£2.9 million in the year ended 31 March 2013). Neither Philip Everett or David Fursdon had any involvement in determining either the appointment or remuneration of Smiths Gore in this capacity.

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

In 2012, Orchard Street Investment Management LLP took an assignment of a Crown Estate lease from the existing tenant at No.16 New Burlington Place at an annual rent of £254,000. There were no outstanding debts at 31 March 2014 (31 March 2013: £nil) on this tenancy.

Payments to key management personnel for their employment is included in the Remuneration report.

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

37. Third party deposits

At 31 March 2014 The Crown Estate held £22.8 million (31 March 2013: £20.7 million) on deposit on behalf of third parties.

38. Events after the reporting period

On 4 June 2014 the financial statements were approved by the Audit Committee on behalf of the Board prior to certification by the Comptroller and Auditor General on 10 June 2014. On this date the financial statements are deemed to be authorised for issue. Post balance sheet events were considered up to this date. There were no reportable events after the balance sheet date.

Ten-year record (unaudited)

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

	2005 £m	2006 £m	2007 £m	2008 Restated £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Income account										
Revenue (excluding service charge income)	245.4	252.3	262.1	231.9	285.8	299.7	306.8	314.2	332.2	**350.8**
Direct operating costs (including net service charge expense)	(31.9)	(31.6)	(38.7)	(40.2)	(42.6)	(52.9)	(42.5)	(41.8)	(49.0)	**(45.9)**
Gross surplus	213.5	220.7	223.4	191.7	243.2	246.8	264.3	272.4	283.2	**304.9**
Administrative expenses	(11.7)	(12.3)	(13.3)	(15.5)	(17.0)	(18.5)	(17.1)	(18.4)	(19.8)	**(20.0)**
Indirect operating expenses	(2.0)	(1.0)	(0.8)	(0.7)	–	–	–	–	–	**–**
Net revenue account profit	**184.8**	**190.8**	**200.1**	**213.4**	**226.5**	**210.7**	**230.9**	**240.2**	**252.6**	**267.1**
Consolidated Fund payment	185.7	188.0	200.0	211.0	230.0	210.0	231.0	240.2	251.8	**266.2**
Balance sheet										
Investment, development and owner occupied properties	4,812.0	5,685.4	6,572.5	7,245.6	6,073.2	6,696.4	7,552.3	8,118.4	8,574.7	**9,858.7**
Non-current investment property assets held for sale	–	–	–	12.0	221.9	135.1	17.5	22.5	105.5	**56.5**
Investment in jointly controlled entities	–	–	–	203.3	185.7	212.7	265.0	266.9	275.3	**396.3**
Other property investments	–	–	42.1	38.6	27.5	30.0	33.1	34.0	35.7	**35.8**
Other plant, property and equipment	3.2	4.6	5.6	4.9	8.5	8.3	7.1	7.7	7.6	**6.5**
Other investments	5.0	5.0	4.9	4.9	4.9	4.9	5.3	5.3	5.4	**10.2**
Receivables due after one year	0.1	0.1	13.8	3.2	11.4	13.3	21.4	23.7	29.3	**39.8**
Current assets (excluding assets held for sale)	306.7	287.1	494.6	590.1	421.9	480.6	311.0	608.7	610.6	**571.3**
Pension asset	–	–	–	0.9	0.9	–	2.3	2.8	6.8	**5.0**
Current liabilities	(36.6)	(45.6)	(42.0)	(103.1)	(164.9)	(104.6)	(102.3)	(121.3)	(115.5)	**(110.9)**
Non-current liabilities	–	–	–	(666.7)	(776.2)	(837.1)	(859.9)	(914.2)	(920.5)	**(992.5)**
Capital and reserves	**5,090.4**	**5,936.6**	**7,091.5**	**7,333.7**	**6,014.8**	**6,639.6**	**7,252.8**	**8,054.5**	**8,614.9**	**9,876.7**

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

Glossary

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

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

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

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

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

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

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

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

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

ERV
The estimated market rental value of lettable space.

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

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

IFRS
International Financial Reporting Standards

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

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

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

IPD
Investment Property Databank

ITZA
In terms of zone 'A'
A method for measuring retail space on a like-for-like basis.

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

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

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

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

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

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

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

Operating lease
Any lease that is not a finance lease.

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

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

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

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

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

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

Reportable incidents
Any incidents that are reportable to the Health and Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurences Regulations (RIDDOR) 2013.

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

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

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

Void
Unoccupied and unlet space.

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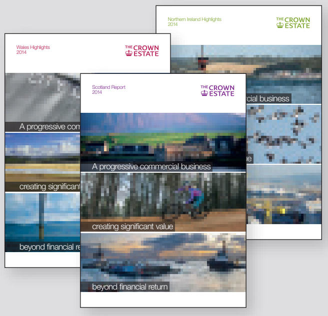
Online

Corporate website:
www.thecrownestate.co.uk

Online annual report:
www.thecrownestate.co.uk/annualreport-14/

Regional Publications

Scotland Report 2014
Wales Financial Highlights 2014
Northern Ireland Financial Highlights 2014



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