The Crown Estate
Integrated Annual Report and Accounts
2017/18

Brilliant places through conscious commercialism

The Crown Estate 2017/18
Introduction

Creating brilliant places through conscious commercialism

The Crown Estate is a £14.1 billion UK real estate business with a portfolio unlike any other.

It includes some of central London's best places to work, shop and visit; brilliant destinations across the country and offshore wind. We also have a substantial rural and coastal portfolio, and manage the seabed around England, Wales and Northern Ireland.

We actively manage our portfolio to deliver strong returns for the nation's finances. We also take a long-term view, working alongside our customers, partners and communities to create great experiences.

We call this creating brilliant places through conscious commercialism.

Front cover:

Rushden Lakes, Regional
Our enriched understanding of our visitors at each location is driving new approaches to creating brilliant places. See **pages 26-27**.

Sabor, Central London
By working in partnership with our customers, we are delivering success for their businesses and ours, learn more on **pages 8-9**.

Blyth Offshore Wind Farm, EMI
In this milestone year for offshore wind, we've brought the industry together to share data, insight and best practice. See **pages 14-15**.

Windsor Great Park, Rural
We carefully balance the needs of the environment and our visitors, at this world-class destination, find out how on **pages 36-37**.

About this integrated report
An integrated report is aligned with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. In the opinion of the Board, our 2017/18 Integrated Annual Report is in alignment with the International Integrated Reporting Council (IIRC) Framework.

To read more about our integrated reporting ambitions for the future including our Total Contribution report visit: **thecrownestate.co.uk/integrated-annual-report**

The Crown Estate Integrated Annual Report and Accounts 2017/18 presented to Parliament pursuant to sections 2(1) and 2(5) of the Crown Estate Act 1961. Ordered by the House of Commons to be printed 27 June 2018.
HC 1134

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

△
We engaged KPMG LLP to undertake independent limited assurance over selected data included within our Summary of selected non-financial data report set out at: www.thecrownestate.co.uk/assurance using the assurance standard ISAE 3000 and, for selected greenhouse gas data, ISAE 3410. KPMG has issued an unqualified opinion over the selected data and their full assurance statement is available on our website at: thecrownestate.co.uk/kpmg-statement. The Reporting Criteria that we used as the basis of preparing selected data in the report are set out at: thecrownestate.co.uk/reporting and should be read in conjunction with the selected data. The data subject to KPMG's assurance has been reproduced in this Report where you see the symbol△.

Highlights

Net revenue profit

£329.4m +4.0%

2017/18	**£329.4m**
2016/17	£316.7m*
2015/16	£304.1m
2014/15	£285.1m
2013/14	£267.1m

*Excludes discontinued operations.

Capital value

£14.1bn +7.3%

2017/18	**£14.1bn**
2016/17	£13.1bn
2015/16	£12.9bn
2014/15	£11.5bn
2013/14	£9.9bn

Revenue by portfolio 2017/18

£476.7m +9.4%
(2016/17: £435.6m)

1	Central London	£233.6m
2	Regional	£123.5m
3	Energy, Minerals & Infrastructure	£73.0m
4	Rural & Coastal (inc. Windsor Estate)	£46.6m
	Total*	**£476.7m**

Note:
All figures are prepared on a proportionally consolidated basis.

*Excluding service charge income of £30.2 million (2016/17: £27.0 million).

People

88%

Employee survey
'great place to work' score

Networks

78.0%

Customer satisfaction rating

Natural resources

+10.8%△

Improvement year-on-year
in carbon emissions intensity

Our People

+12%

Improvement in Health and Safety Incident Severity Score against a target of 10%

Physical resources

11.0%

Total return
Outperformed our MSCI bespoke benchmark of 8.2%

Contents

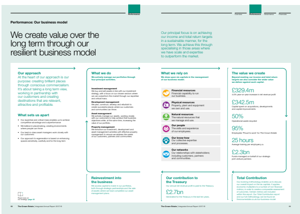
• Indicates that this section is part of the Strategic Report.

Introducing The Crown Estate
2017/18

Brilliant places through conscious commercialism

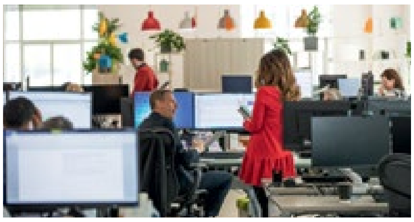
To help us achieve our purpose, we consider the material issues that are central to our business…

Read about the issues that matter to us on **page 7**



…then address them through our business model…

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

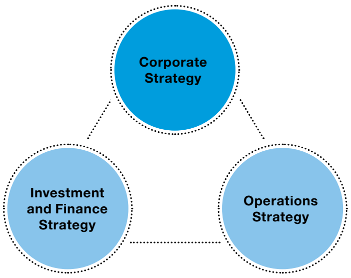


…which informs our corporate strategy.

Read more on **page 12**

We measure our progress against our KPIs…

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



…which is delivered through a well-organised business…

Read more on **page 62**

…underpinned by strong governance and leadership.

Read about our approach from **page 50 to 76**

Central London

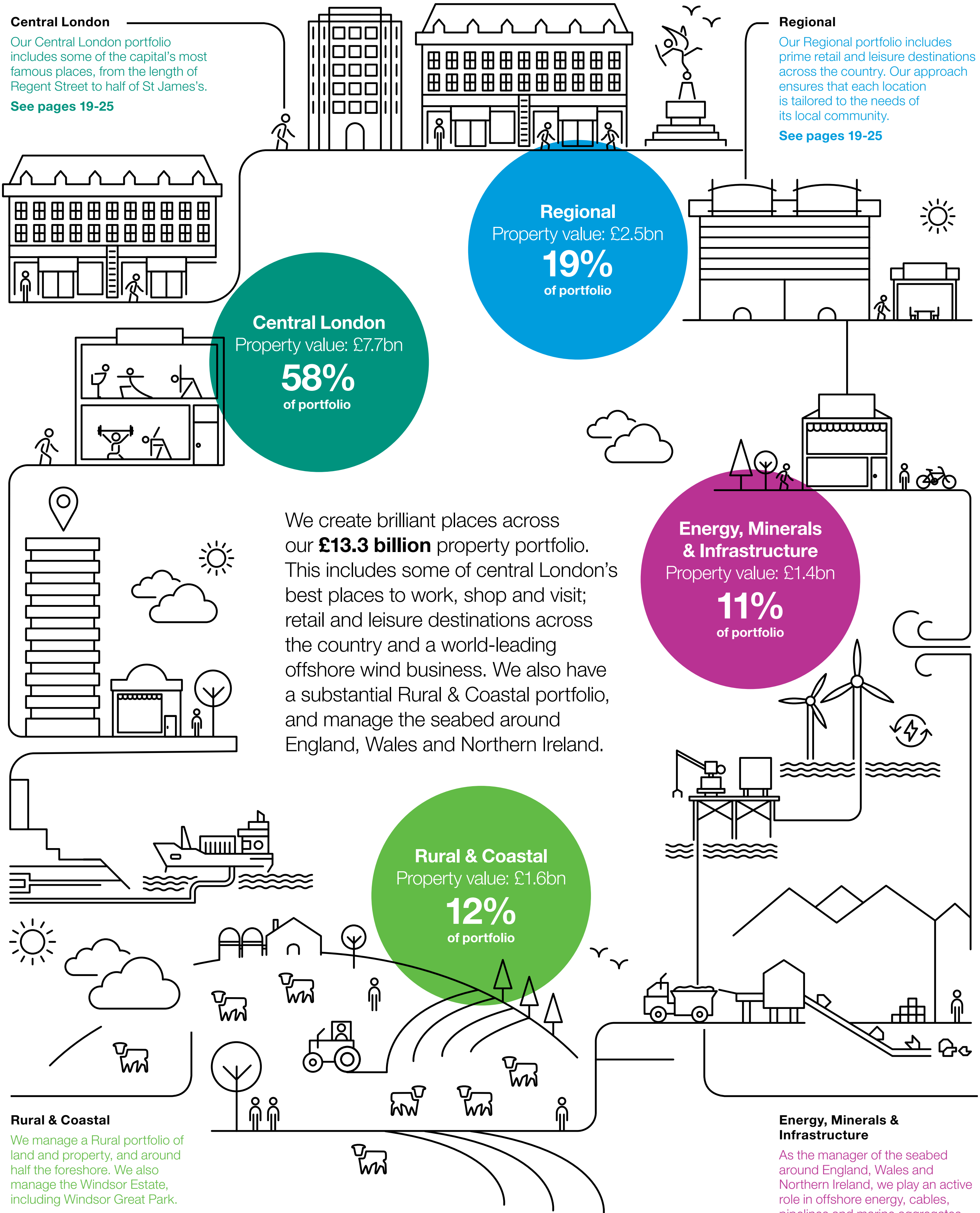
Our Central London portfolio includes some of the capital's most famous places, from the length of Regent Street to half of St James's.

See pages 19-25

Regional

Our Regional portfolio includes prime retail and leisure destinations across the country. Our approach ensures that each location is tailored to the needs of its local community.

See pages 19-25



We create brilliant places across our **£13.3 billion** property portfolio. This includes some of central London's best places to work, shop and visit; retail and leisure destinations across the country and a world-leading offshore wind business. We also have a substantial Rural & Coastal portfolio, and manage the seabed around England, Wales and Northern Ireland.

Rural & Coastal

We manage a Rural portfolio of land and property, and around half the foreshore. We also manage the Windsor Estate, including Windsor Great Park.

See pages 19-25

Energy, Minerals & Infrastructure

As the manager of the seabed around England, Wales and Northern Ireland, we play an active role in offshore energy, cables, pipelines and marine aggregates.

See pages 19-25

Performance

Chief Executive's review

> This is an important and exciting time. We are investing significantly in our people, pivoting the business to a more customer-centric and services-based model, and ensuring that we are well positioned to meet future challenges and opportunities head on."
>
> **Alison Nimmo**
> Chief Executive

We contributed £329.4 million to the Treasury this year, up 4% from last year. We are proud to have contributed £2.7 billion to the Treasury over the past ten years.

During the year we carried out nearly £800 million of sales, purchases and capital expenditure activity. Our capital value has increased by 7.3% to £14.1 billion. Our total return was 11% compared to the annual MSCI bespoke benchmark of 8.2% – our tenth consecutive year of outperformance. On a three-year rolling basis our total return is 12% versus our benchmark of 9%.

These results have been delivered by a hard-working and talented team, driven by a clear set of values and a passion for creating brilliant places through conscious commercialism. Our purpose inspires us to deliver strong financial returns, and lead the industry as a responsible and sustainable business.

Our continued outperformance is founded on a clear strategy, disciplined market positioning and excellence in execution. In central London, we have worked in partnership with our customers to create flexible, modern spaces that enhance the experiences of workers, shoppers and visitors. Outside of London, we are investing in assets that deliver the places and experiences that people want, including stunning new destinations at Rushden Lakes in Northamptonshire and Westgate in Oxford. Offshore wind has had its busiest year to date with 2.3GW△ of new operational capacity – that's over half of all the new capacity built in Europe last year. You can read more about our activities this year in the Markets and portfolio review on pages 16-25.

Looking to the future

While we see a mixed picture for the UK economy, our prime real estate has proven to be resilient. Occupier markets are certainly tougher, but the business is performing strongly and we continue to see demand for high-quality space in the best locations.

Nevertheless, we expect conditions to become increasingly challenging. To stay relevant and resilient we must be alive to the complexities and accelerated pace of change in our world, including the technological, demographic and societal shifts in our markets (see our material issues on page 7).

This year, we have worked together with the Board to look further ahead and consider the shape of the business over the next 20-30 years. We are focused on making the right strategic decisions; continuing to innovate and ensuring the business is fit for the future. This is an important and exciting time. We are investing significantly in our people, pivoting the business to a more customer-centric and services-based model which can face these challenges and opportunities head on.

The changing face of London

This year, we welcomed 57 new customers to our Central London portfolio and leased over 260,000 sq ft. We have worked closely with our customers to find them the right spaces, including new flagship stores for Asics and L'Occitane on Regent Street. At St James's Market, our landmark scheme with Oxford Properties Group, the office space is now 100% let to a range of high profile occupiers a little more than 18 months after completion.

Our long-term partnership with Norges Bank Real Estate Management (NBREM) has been instrumental in making Regent Street one of the world's most popular retail and leisure destinations. Our relationship was further strengthened this year, as the partnership acquired a number of strategic, long-term interests in a block at Oxford Circus. NBREM also acquired a further 25% interest in 20 Air Street.

Having delivered nearly 1.5 million sq ft in central London over the last 15 years, we are now preparing the next phase of our development pipeline and have identified as much potential for the next decade as we delivered in the last. During the year, we commenced the re-development of two £100 million mixed-use schemes, Morley House on Regent Street and The Marq in St James's.

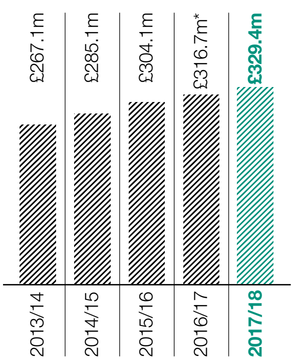
Looking further ahead, the unique scale, quality and contiguous ownership of our Central London portfolio presents a sustainable and repeatable long-term opportunity. Our challenge is to deliver the kind of innovative and flexible space, services and experiences that will meet the future needs of our customers, and the tens of thousands of people who live, work and visit the West End. In response to this, we have been busy preparing a new vision for Central London. This signals a significant shift in emphasis, taking a more holistic approach to our business by leveraging the strategic benefits of our comprehensive holdings. It will allow us to take a broader view and to develop an enhanced range of products and services – for example, our flexible workspace brand at One Heddon Sreet.

We remain very positive about London's long-term prospects as a global city. We expect London's many strengths – not least its vibrancy and culture as well as the depth and professionalism of its markets – to keep attracting businesses, shoppers and visitors. We are well placed to benefit from the opening of Crossrail's Queen Elizabeth Line which could increase visitors in the West End by up to 40% by 2021.

As one of London's largest landowners we continue to work hard, together with our partners and communities, investing in the spaces beyond our buildings to deliver high-quality public realm, such as the recently completed improvements to Jermyn Street. We've also hosted some of the capital's most popular events, including the Lumiere London light festival and the spectacular 300,000-light celebration of The Spirit of Christmas.

Net revenue profit

£329.4m



*Excludes discontinued operations.

Total return

11%

Outperforming our annual MSCI bespoke benchmark of 8.2% in 2017/18

Over 10 years

£2.7bn

Returned to the Treasury over the last decade

Evolving our brilliant places across the country

We continue to transform our Regional portfolio, creating exceptional destinations for our customers and visitors. This year, we delivered over one million sq ft of space from new developments.

In July 2017, we opened Rushden Lakes, developed in partnership with LXB. This retail and leisure scheme in Northamptonshire is a stunning example of our belief that commercial, social and environmental priorities can be unified to create a brilliant destination. Set alongside a 200-acre nature reserve, the 230,000 sq ft centre offers big name fashion and dining, alongside a wide range of leisure and outdoor activities. During the year we confirmed three further phases, delivering another 220,000 sq ft of space, with the next phase due later this year.

October 2017 saw the opening of the £520 million, 800,000 sq ft Westgate Oxford, a joint venture with Landsec that is 96% let or in solicitors' hands. The centre brings together premium fashion, food and film with new public spaces in the heart of a historic city. Westgate Oxford has also delivered innovative sustainable design and created local employment – around 1,000 jobs during construction and some 3,500 retail jobs.

Performance: Chief Executive's review
continued

We're excited by what's ahead because we relish challenge and we build from a strong base."

In parallel we've been busy improving our current portfolio. At the popular Fosse shopping park in Leicester, for example, we've started work on a new £135 million extension creating space for nine stores and six food outlets.

Unlocking the power of offshore wind
This has been a momentous year for the UK's world-leading offshore wind sector, which we support through awarding leases, sharing data and expertise, and helping our customers operate successfully on an increasingly busy seabed. Operational capacity now stands at 7.4GW, supplying the electricity needs for an estimated five million homes.

The dramatic reduction in costs, and continued Government support through the Clean Growth Strategy, signals the potential for a further 10GW or more of offshore wind capacity in the 2020s. We will continue to work with industry and stakeholders to explore the leasing of new seabed rights to help unlock this increasingly important source of renewable energy. Read more on pages 24-25.

Clear priorities for our Rural portfolio
Our strategy for the Rural portfolio is to focus ownership, investment and our stewardship activities on our best performing assets, and to continue our programme of sales to release capital for investment into the wider business. During the year we sold £97 million of land and buildings, including the majority of our Gopsall estate in Leicestershire.

At the Windsor Estate we are focused on delivering our vision to be the UK's leading rural estate. This year we continued to enhance the facilities for our six million visitors with the refurbishment of the Savill Building and continued investment into the gardens. The beautiful and historic Windsor Great Park provided the most stunning backdrop to the Royal Wedding at St George's Chapel.

A broader impact
Like many leading businesses the way we measure our overall success must go well beyond financial performance. Understanding the broader impact of our activities will be crucial in helping us make better informed decisions that embed resilience into the business. We have begun to measure this broader impact through our Total Contribution approach.

We continue to future-proof our business with challenging aspirations to 2030 around super-efficiency, climate resilience, and healthy places and habitats (see pages 33-34).

You will see many examples of our wider impact throughout this Report. For example, in London we continue to support ReStart, which offers intensive coaching and training to unemployed people who are homeless or at risk of homelessness. Our strategic partnership with The Wildlife Trusts has delivered many community projects from the new Nene Wetlands Visitor Centre at Rushden Lakes to our new outdoor classroom and outreach programme at Windsor Great Park.

Our approach to fully integrating sustainability into the business was recognised with a gold award for 'Overall Excellence in Corporate Responsibility' at the Global Good Awards 2018. We also won an award for innovation in corporate reporting at PwC's Building Public Trust Awards 2017, recognising our contribution to the field of integrated reporting.

Our talented team
Our annual people survey, 'One Voice', tells us that our team are highly motivated, with 95% of respondents proud to work for The Crown Estate. This year we've continued to invest in our people, with bespoke training alongside a focus on wellbeing. This will be supported by investment in new expertise, broadening our skills in customer experience, technology and placemaking.

This gives us the agility we need to flex for the future, and is reinforced with our new HQ at St James's Market. We have created a more collaborative, productive and digitally-enabled workspace for our team and were delighted that it was Highly Commended by the British Council of Offices.

We continue to champion diversity and equality in all forms in our business, our industry and with our partners. This year, we reported our Gender Pay Gap statistics and were pleased to measure up positively against the industry and business as a whole (see page 29).

This year we welcomed Lynda Shillaw to the Board. Lynda has a wealth and diversity of experience that complements our existing skills and expertise.

We are well positioned for the future. We have a clear purpose, a well established pipeline of opportunities and a vision for the next 20-30 years.

These are the foundations of a truly forward-looking business, and a team that is capable of consistently delivering long-term value. I look forward to another exciting year ahead.

Alison Nimmo
Chief Executive, The Crown Estate
11 June 2018

Energy generated

7.4GW

Cumulative, fully operational offshore wind capacity

Customer experience

78.0%

Customer satisfaction rating

Award highlights

Investment
IPE Real Estate Global Awards 2018, Silver Regional Award for UK and Ireland

MCSI Annual UK Property Investment Awards 2018, '10 Year Relative Return Award' for St James's Portfolio

Central London
London Planning Awards 2017/18, 'Best New Workplace' for St James's Market

British Council for Offices Awards 2018, Highly Commended in 'Best Commercial Workspace' and 'Best Fit-Out of a Workplace', both for St James's Market

Regional
The PROPS Awards 'Commercial Development of the Year' for Westgate Oxford

Responsibility
The Global Good Awards 2018, Gold award for 'Overall Excellence in Corporate Responsibility'

Material issues

The issues that are material to our long-term success

Each year we review the issues most pertinent to the long-term resilience and success of our business. We call these our material issues.

We are very aware of the economic, political, market, social and environmental issues of significance to our business. We continue to review them annually, with a formal process for materiality that involves discussions with business partners and specialist advisers. Those issues we have identified inform our strategy and business planning, and are closely linked to our risks and opportunities (see page 45).

The UK's exit from the EU continues to dominate headlines, though it will be some time before the impact on our markets is fully understood. We remain confident in London as a leading global city and look forward to the opportunities presented by the opening of the Elizabeth Line later this year.

A number of longer-term trends have come into sharper focus. Advances in digital technology are proving increasingly powerful in shaping the way we work, shop, live and communicate. They are already having a transformative impact on our markets, particularly in retail. In our Central London office portfolio the increasing prevalence of flexible working, coupled with an improved understanding of our customers' aspirations, is helping inform workplace design of the future.

We continue to work alongside our customers and partners to better understand these challenges, helping embed resilience into their businesses and ours. You can read more about our Markets and our portfolio review on pages 16-25.

Over the last few years we have also made significant progress in customer experience and we now better understand the quality of our service and the strength of our relationships. We can use this to refine our product, improve our services and contribute to the success of our customers.

Central to our long-term success is the importance of attracting and retaining the best talent and nurturing a high performing culture. We recognise the importance of the work environment in both getting the best out of our team and attracting new skills. In moving our HQ to St James's Market, we have created a technologically-enabled workplace that showcases flexible working, and supports the health and wellbeing of our people.

We must also champion diversity in its broadest sense, including diversity of thought and skills. This year, we will be investing significantly in recruiting new talent, particularly in customer experience, placemaking and digital. You can read more about this in our Operations review, starting at page 28.

Public trust in business has been challenged once again this year, with a number of high profile companies facing scrutiny over their corporate responsibility and contribution to society. Our purpose and values-led approach continue to guide us in how we do business. By ensuring that integrity remains the foundation of our business, we protect our reputation and trusted relationships. It also helps us to create and maintain our strategic partnerships with like-minded investors.

Air quality is now a serious health issue and we have an important role to play, particularly in central London where we are one of the capital's major landowners. Working alongside our partners and stakeholders, we are investing in the public environment and the spaces around our buildings to prioritise pedestrians, reduce vehicle numbers and congestion. This will improve the experience for the millions of people who live, work and visit the West End.

As we think about the long-term future of the business, fully integrating sustainability into our decision-making becomes ever more important. This year, we have continued to work towards our Aspirations 2030, which include social and environmental targets designed to help us embed resilience into the business. More information is available at page 33.

Our material issues

Health of the economy
The health of the economy and political stability; as linked to geopolitical issues and global economic influences, impact upon our business and our customers' businesses, influencing our ability to achieve sustainable, profitable growth.

Reputation and trust
Our reputation and the trust of our stakeholders and wider society are fundamental for us to operate successfully.

Customers' aspirations
Our customers are at the heart of our business's success and their aspirations and expectations continue to rise quickly.

London's place in the world
With around 60% of our capital value in London, the capital's position as a sustainable and thriving world city is crucial to our success.

Impact of technology and data on the business
Technology is rapidly changing our world, with disruption, digitisation, data and information security impacting how we do business now and in the future.

Government policy and constitutional change
At every level, corporately and in our portfolios, our business is impacted by the UK constitution and prevailing government policy.

Availability of skills and talent
Realising the full potential of our business depends upon our ability to attract and retain a diverse range of skills and expertise, both internally and through our supply chain.

The natural environment
Our ability to deliver on our purpose is impacted by our planet's finite resources and growing population and the consequent pressure on our climate, as well as natural and built environments.

Strategic relationships
Strategic alliances with partners and suppliers who share our values and ambition are a significant enabler to our business and the long-term future of our portfolio.

Brilliant places through conscious commercialism
Central London: Retail

Building successful partnerships with our customers

Across the business we are working hard to deepen our relationships and establish long-term partnerships with our customers. By improving our understanding of their businesses and needs, we both stand a better chance of being successful.

For our retailers in central London, it is crucial that our spaces work for them and provide the best platform for their brand. This year, we worked alongside H&M Group, our long-term partner, to help launch Arket. This was the third time that H&M Group have chosen to launch global brands on Regent Street, and was followed later in the year by the first UK outpost of their Weekday brand.

It's also really important that we provide a great experience for everyone who visits the West End. L'Occitane first introduced their unique sense of quality and heritage to Regent Street over 15 years ago. This year, we helped them move to a bigger unit and realise their vision for a first UK flagship store – and now their biggest store in the world. This really proves the power of relationships.

Psycle, the lifestyle and fitness brand, launched their first store with us on Mortimer Street in 2014 and recently wanted to grow their offer. We have been able to facilitate their expansion, and they have now taken over the whole building. This has also had a big impact on the local community.

This year, we have been challenging ourselves to think hard about what we want the West End to look like in the future, particularly in terms of the range of uses and experiences and how they might complement our existing offer. We know that to be successful will require ever-stronger partnerships, both with existing customers and new ones.

Central London retail lettings

£12.4m

Headline rent on new Central London retail lettings this year

New retail customers

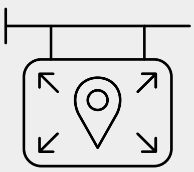
17 new customers

Taking nearly 80,000 sq ft of space

Rent reviews

£6.8m

113,000 sq ft of rent reviews agreed at 5% above previous passing rent



Summer Streets

1.7m

Our annual Regent Street festival, celebrating culture, food & drink, wellness and style, attracted 1.7 million visitors this year. Over 60 brands participated in our traffic-free events, offering on-street activations and in-store experiences

For more information visit:
thecrownestate.co.uk/our-places

"Embedding a customer-centric culture has ensured that we are having better conversations with our customers, we are connected with their businesses and ambitions for the future. All of which enhances our level of collaboration and differentiates the service we offer."

Katerina Mercury
Senior Asset Manager,
Central London Retail,
The Crown Estate

Image: Sabor, a Spanish-inspired restaurant, bar and asador from Nieves Barragan and José Etura on Heddon Street, Central London

Performance: Our business model

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

Our approach

At the heart of our approach is our purpose: creating brilliant places through conscious commercialism. It's about taking a long-term view, working in partnership with our customers and creating destinations that are relevant, attractive and profitable.

What sets us apart

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

Read more on our strategy: **page 12**

What we do

We actively manage our portfolios through four principal activities.

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

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

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

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

Reinvestment into the business

We access capital to invest in our portfolios, both through strategic partnerships and the sale of assets where we have completed our asset management plans.

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

What we rely on

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

Financial resources
Financial capability to run our business.

Physical resources
Property, plant and equipment we own and use.

Natural resources
The natural resources that we manage and use.

Our people
The skills and experience of our employees.

Our know-how
Our collective expertise and processes.

Our networks
Our relationships with stakeholders; including customers, partners and communities.

The value we create

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

£329.4m
4.0% year-on-year increase in net revenue profit

£342.5m
Capital spent on acquisitions, developments and capital improvements

50%
Operational waste recycled

95%
Employees 'Proud to work' for The Crown Estate

25 hours
Average training per employee p.a.

£2.3bn
Funds managed on behalf of our strategic joint venture partners

Our contribution to the Treasury

Our annual net revenue profit is paid to the Treasury.

£2.7bn

Generated for the Treasury in the last ten years.

Total Contribution

Our evolving methodology enables us to discuss our overall impact on the six capitals. It applies economic multipliers to a number of non-financial metrics, in order to create a comparable assessment of outcomes. Certain metrics are included within this report. Our Total Contribution report and our full methodology can be found at: thecrownestate.co.uk/total-contribution

Performance: Our strategy and KPIs

Our clear corporate strategy drives the business

This is focused on the following four objectives:

Strategic objective	What are we trying to achieve?
Actively manage our assets to drive sustainable outperformance against our commercial targets	**We have two key commercial targets, agreed with the Treasury, which underpin our strategy:** To increase our net revenue profit at an agreed rate, measured on a three-year rolling basis. To outperform our MSCI total return bespoke benchmark on a three-year rolling basis.
Nurture a high-performance culture and reputation as a great place to work	**Through nurturing a high-performance culture we are creating an environment that attracts and retains the best people.** Our annual 'One Voice' survey tracks employee sentiment, enabling us to identify both strong performance as well as areas for improvement. We measure this against the UK national benchmark for employee engagement.
Build ever stronger relationships through high levels of customer and partner satisfaction, loyalty and recommendation	**Customer experience is at the heart of our approach, driving excellence in how we do business.** We undertake regular customer engagement surveys to better understand our customers and anticipate future trends. We implement our findings, working alongside our partners and customers, through portfolio action plans.
Be a leading responsible and resilient business which thinks long term	**We seek to create value beyond financial return through acting responsibly and sustainably in everything we do.** Our evolving Total Contribution methodology helps us understand our broader impact against each of the capitals. To support business resilience we implement robust systems that drive efficient and effective operations, including health and safety, governance and crisis preparedness.

Key

- (A) Achieved
- (O) On track
- (M) More work to do

Other metrics

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

How did we perform this year?

2017/18 Target

5% annualised growth in net revenue profit on three-year rolling basis

(A) 6.0% p.a.*

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

*Excludes discontinued operations

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

2017/18	**6.0%***
2016/17	7.0%
2015/16	6.6%

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

(A) 12% p.a.

Compared to our bespoke total return benchmark of 9.0%

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

2017/18	**2.8**
2016/17	2.5
2015/16	2.7

2017/18 Target

Outperformance of UK national benchmark for employee engagement (77%*)

*Willis Towers Watson

(A) 88%

Consider The Crown Estate to be a 'great place to work'

Annual employee engagement survey (2016/17: 84%)

2017/18 Target

Outperform the Institute of Customer Service benchmark of 78.1%

(M) 78.0%

Customer satisfaction rating

2017/18 Target

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

(O) 10.8%△

Improvement in carbon emissions intensity on 2016/17 bringing us to a 22% improvement against the baseline

10% improvement in Incident Severity Score on 2016/17

(A) 12%

Improvement in the Health and Safety Incident Severity Score, representing a 2%△ outperformance of the target

Priorities for 2018/19

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

- Outperform the UK national benchmark
- Continue our focus on learning and developing talent
- Invest in new skills and expertise, particularly around digital, placemaking and customer experience
- Realise the full potential of our new flexible, modern HQ

- Outperformance of Institute of Customer Service benchmark
- Deliver an evolving customer experience strategy that reflects the ongoing transformation of our business and the changing needs of our customers
- Embed customer experience across the business and establish stronger partnerships with customers and partners

- Improve carbon emissions intensity against 2012/13 benchmark for property under direct control
- 10% year-on-year improvement in Incident Severity Score based on two-year average (moving to a three-year rolling average from 2018/19)

Brilliant places through conscious commercialism

Energy, Minerals & Infrastructure: Offshore wind

Facilitating a world-leading sector

This has been a milestone year for the UK's offshore wind sector and the busiest ever for construction. Total operational capacity reached 7.4GW this year, generating enough power for more than five million homes.

Offshore wind is now delivering large-scale, low carbon power and in 2017 achieved record low bid prices, making the sector cost-competitive with other low carbon technologies for the first time.

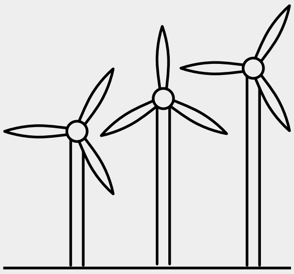
As the sector matures, our team have been working closely with our customers and stakeholders to bring the industry together, sharing data and managing the competing demands for space on our increasingly busy seabed.

We have also contributed to world-class research which is delivering new insight and expertise to help the sector thrive. For example, working with our partners, we have supported a pioneering four-year study into seabird behaviour in and around offshore wind turbines.

The study, the most comprehensive to date, was led by Offshore Renewables Joint Industry Programme, with funding from the UK Government and managed by the Carbon Trust. It brought together 11 leading offshore wind developers, including our customer Vattenfall, owners of the Thanet wind farm where the study was conducted. They were supported by leading ornithologists and environmental advisers, Crown Estate Scotland and Marine Scotland.

The findings provide an excellent platform from which further research can build, informing consenting decisions and better wind farm design, just as the next generation of more powerful offshore turbines are being created.

We also shared the findings on our Marine Data Exchange, which was created to store, manage and share survey data collected by all our customers throughout the lifetime of a project. It now holds over 100TB of data from over 2,500 surveys.



Turbines installed

1,762

Offshore wind turbines installed at the end of 2017

Greenhouse gas (GHG) emissions avoided

23TWh

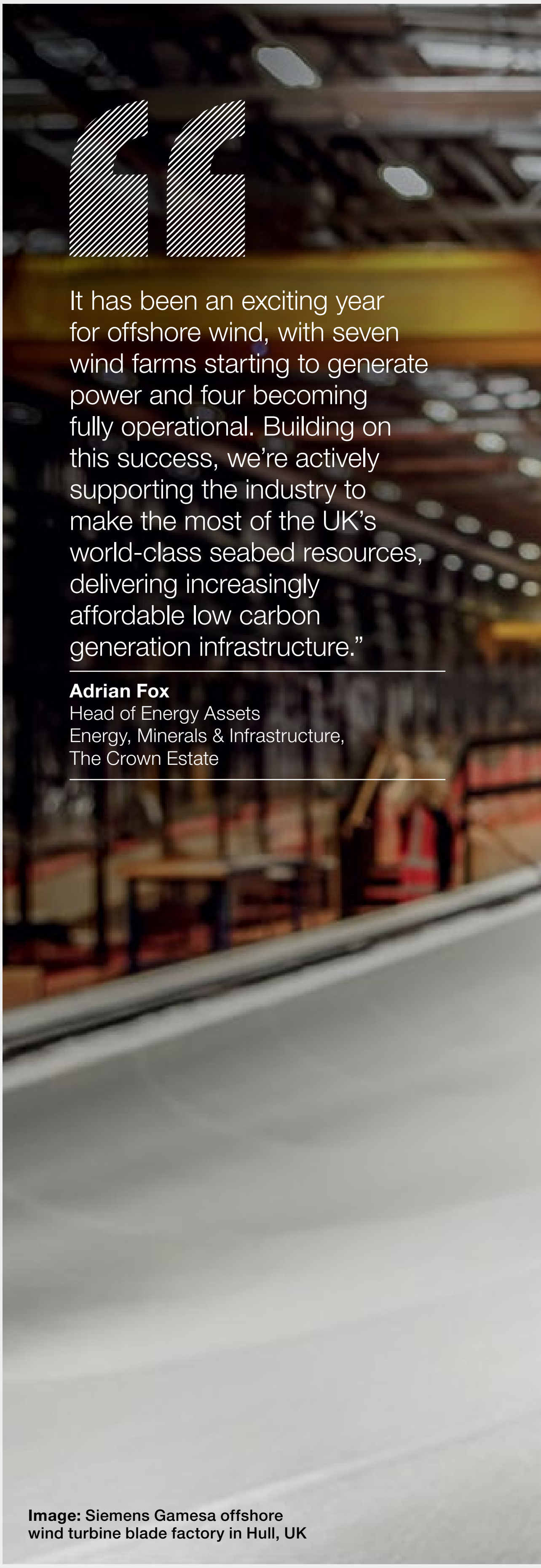
Terrawatt hours of renewable energy generated over 2017/18

Impact of greenhouse gas (GHG) emissions avoided

£193m

Total Contribution impact
Related to positive impacts and social benefits resulting from reduced concentrations of atmospheric greenhouse gases*

*See thecrownestate.co.uk/total-contribution



"It has been an exciting year for offshore wind, with seven wind farms starting to generate power and four becoming fully operational. Building on this success, we're actively supporting the industry to make the most of the UK's world-class seabed resources, delivering increasingly affordable low carbon generation infrastructure."

Adrian Fox
Head of Energy Assets
Energy, Minerals & Infrastructure,
The Crown Estate

Image: Siemens Gamesa offshore wind turbine blade factory in Hull, UK

Performance

Markets and portfolio review

The investment strategy

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

As we are unable to take on debt, it is also imperative that we recycle capital efficiently. We do this through attracting third party investment or by disposing of assets where we have completed our asset management plans.

Principally focused on assets in the West End, retail and leisure destinations across the country and offshore wind, we create brilliant places that deliver great customer experiences.

Total return

11.0%

Outperforming our MSCI bespoke total return benchmark of 8.2%

Total property value

£13.3bn

Occupancy rate

97%

Across Central London and Regional portfolios

New lettings

£33.7m

In Central London and Regional this year at 5% above March 2017 ERV

Building for long-term success

Last year, we said we were working to position the business for more challenging market conditions. As we reflect on an increasingly mixed picture for the UK economy, our continued focus will be on driving sustainable outperformance in sectors where we have a clear competitive advantage.

For the tenth consecutive year we have outperformed our bespoke total return benchmark, delivering total returns of 11.0% against our benchmark of 8.2%, with outperformance coming from offshore wind and retail leasing in Central London. On a three-year rolling basis our total return is 12.0% against a benchmark of 9.0%.

Trading throughout the market cycle

Our outperformance is underpinned by our willingness to take a long-term view, which means staying active throughout the market cycle. This year, we opened two schemes in our Regional portfolio; Rushden Lakes in Northamptonshire and, in partnership with Landsec, Westgate in Oxford. Both are examples of decisions made several years ago which have now come to fruition.

Our total capital activity amounted to nearly £800 million this year. This included deepening our partnership with NBREM, who took a further 25% in 20 Air Street. We also raised further capital from our Rural portfolio, with £97 million of sales.

Again working alongside NBREM, we acquired a number of interests in a strategic block at Oxford Circus, embedding a significant development opportunity into the business for the future.

On our Regional portfolio, we agreed funding for three further phases of Rushden Lakes and, as part of the Fosse Partnership, began work on a £135 million extension to Fosse.

Strong leasing performance

We also made good progress in the occupier markets and despite challenging conditions, our void rate remains low, at just 3%. In Central London, the office space in our recently completed developments is now fully let, and we welcomed significant new retail customers, including Microsoft and Asics.

In Oxford, over six million shoppers have visited Westgate since October 2017, and it is already 96% let or in solicitors' hands.

Elsewhere, offshore wind had another record-breaking year, with 2.3GW of new capacity coming online.

Looking to the future

We are confident in the long-term prospects for central London and our outstanding destinations around the country. Over the coming years, we will continue to build on our competitive advantage in these key markets, forging ever-stronger relationships with our customers and partners.

Paul Clark
Chief Investment Officer

Our markets

In this section we look at the major issues influencing our occupational and investment markets. At a national level, the narrative continues to be dominated by uncertainty surrounding the terms of the UK's exit from the European Union, though it will be some time before we can be certain about the impact that Brexit will have on our markets.

In the meantime, however, there are a number of other forces at play that are affecting real estate markets. The changing nature of the workforce and the transformative impact of data and technology reflect an evolution in the needs and expectations of our customers. We must position the business so that it is best placed to meet these challenges and deliver sustainable, long-term outperformance.

Investment

Real estate markets have remained remarkably resilient over the year, with London in particular defying uncertain economic and political headwinds and reinforcing its position as a leading global city. Demand for commercial property in the West End remains strong and continues to outstrip supply, as international investors benefit from a competitive currency devaluation and relatively low interest rate environment. Over the year, yields remained stable and investment volumes were broadly in line with last year.

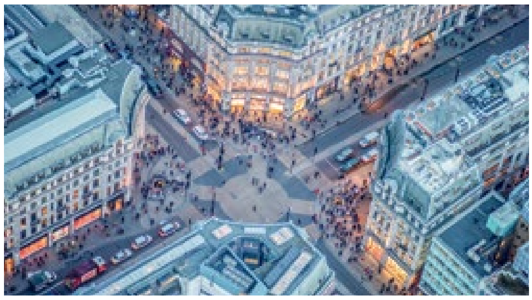
While conditions in the retail sector have undeniably been more challenging, retail warehousing has, for the most part, proved to be defensive. Transaction volumes were relatively flat year-on-year and yields remained stable, particularly on prime out of town stock as investors sought more secure income streams in response to concerns around the occupational market.

In the immediate term, we expect returns across our principal sectors to be lower and for investment volumes to reduce, though in the long-term we believe central London remains an attractive destination for capital. Out of town, investor appetite for retail warehousing is likely to reflect the resilience of the occupational markets.

Central London

In the West End, the occupational markets have also proved incredibly resilient. Take up for the year was above the long-term average and this, combined with fewer development completions, has led to reduced availability. There is over 1.2 million sq ft of space under construction in the West End over the next five years. Approximately half of that is already pre-let, supporting our view that central London continues to be an attractive destination for domestic and international occupiers. Prime rents have largely remained stable over the year, though rental growth forecasts are less optimistic.

"Occupational markets in the West End have been remarkably resilient. Take up for the year was the strongest since 2007 and above the long-term average."



The most significant factor this year is the continued expansion in flexible working space, with serviced office occupiers comprising over 20% of take up during the year. Businesses are responding to a fundamental shift in the needs and expectations of the modern workforce, where location may no longer be the predominant consideration. Varying lease terms, flexible floorplates, adaptable working conditions, digitally-enabled space and an increased focus on health and wellbeing are now also crucially important factors. Flexible leasing is a growing part of the mix in workplace solutions and London is leading the charge in Europe, with several dozen new operators entering the market. We welcome this expansion and the increased variety of products and services.

Prime retail rents and yields have remained stable across the West End, and while supply has increased slightly following a number of store rationalisations, demand remains for prime stock. Retailers have faced a number of challenges, with last year's business rate increase and minimum wage rises augmented by increasing pressure on the disposable incomes of consumers. That being said, the outlook for West End retail remains positive, particularly in prime locations, as retailers continue to place a premium on the physical store as an effective mechanism for driving brand awareness and customer engagement.

Residential sales volumes and prices have both fallen compared to last year and remain well below historic averages, though showed some sign of improving in the first half of 2018. Market sentiment suggests that vendor and purchaser pricing expectations are now more closely aligned, and demand for new build stock is strong. The rental market performed well over the last 12 months, with positive rental growth over much of the year, though in part aided by a reduction in supply. Looking to the future, sales volumes and pricing are likely to be flat for 2019, though we still expect strong demand from international buyers who will continue to benefit from the relative weakness of sterling.

Performance: Markets and portfolio review
continued

Regional retail
Outside of London the retail market has faced some significant challenges, as a number of retailers have filed for administration or announced plans to restructure via company voluntary arrangements (CVA). This is in part a reflection of the same increasing cost pressures and shrinking disposable incomes that are challenging central London retailers, but it also points to the difficulty that some retailers are having in adjusting their business models to the structural changes in the sector.

Retail is rapidly changing. Consumers expect more from their shopping experience and are engaging with their favourite retailers and brands across both digital and physical platforms. Established technology gives them the ability to compare prices instantly, and evolving fulfilment models are more complex than ever, with consumers able to purchase at a time and place of their choosing. The entire consumer proposition has changed and this provides a significant opportunity for retailers – and landlords – to innovate and evolve.

Looking to the future, the role of the physical store will be crucial to the future of retailing but it will need to adapt; occupiers will be challenged to provide a relevant, technologically-enabled offer that is complementary to the customer shopping journey. Out of town destinations also need to provide a broader range of use classes to deliver memorable customer experiences.

In the short term, we expect further polarisation within the market as occupiers and investors become increasingly selective, focusing their resources on prime, experience-led schemes.

Agriculture
For the third year in a row, land values fell across the UK, and while the divergence between amenity and commercial farmland continued at a national level, there are also significant regional variances that reflect a scarcity of transactional evidence. Publicly marketed land remained at recent levels, with only 150,000 acres made available for sale on the open market last year. Perhaps unsurprisingly, farmers reduced as a proportion of overall buyers in the face of concerns over Brexit, ongoing farming subsidies, future trading arrangements and availability of labour. Institutions and private buyers were more acquisitive this year, with the latter motivated by lifestyle reasons or the favourable tax regime. Forecast average land values are relatively flat, though given the uncertainty facing the sector we think there is more downside risk in the short term.

"Retail is rapidly changing. Consumers expect more from their shopping experience and are engaging with their favourite retailers and brands across both digital and physical platforms."

Energy policy
The energy market remains policy-led, with Government intervention driving virtually all new investment in electricity generation plant. For these reasons, the energy policy environment remains of critical importance to our business.

The Government ran its second auction for Contracts for Difference (CfDs) during the year and offshore wind emerged as the clear winner, securing contracts to deliver 3.2GW of new clean power in the early 2020s. It also demonstrated that significant cost reduction is possible, with a strike price of £57.50 representing nearly half of the price in the first auction round in 2015.

In October 2017, the Government published its Clean Growth Strategy, setting out its approach to delivering against its legally binding decarbonisation targets. Importantly for offshore wind, the Clean Growth Strategy confirmed both a significant budget for future CfD auctions and that the next auction round would be in 2019. It also set out that, provided costs continued to fall, there was a deployment potential for at least a further 10GW of capacity in the 2020s, and possibly more beyond this.

The Government identified that it would work with us to consider the potential for new deployment of offshore wind in the late 2020s, and would work alongside the offshore wind industry to deliver a Sector Deal as part of its flagship Industrial Strategy.

Portfolio review

Our purpose of creating brilliant places through conscious commercialism is at the heart of everything we do. For us, it means thinking long term about how we create value. We know that we will only be successful if our customers are too, and we put them at the heart of every decision that we take.

This section describes our approach to managing, investing in and developing the assets that we own by drawing upon the capitals that are available to us; including our people and know-how, our networks and our physical resources.

1. Investment management

This year we remained active in the capital markets, with our total capital activity amounting to nearly £800 million. Disposals amounted to £417.1 million, with purchases and capital expenditure, primarily on development, making up the remainder.

Central London

In Central London, disposals amounted to £241.1 million and included a small number of significant transactions. In September, we extended our strategic joint venture partnership with NBREM at 20 Air Street, where they acquired a further 25% interest for £112.5 million. Elsewhere, we sold a 125-year head lease interest in Golden Cross House on the Strand for £67 million, allowing us to retain a long-term interest whilst also recycling capital. In Holborn, we sold the freehold to 10 Bloomsbury Way, representing the last of our interests in the area.

In addition, we also worked alongside NBREM to purchase a number of assets on Oxford Street, Swallow Place, and Princes Street for £113.6 million. The deal consolidates our ownership in a key block at the heart of our strategic holdings in the West End, and will enable us to develop our vision for the area. Our long-term aspiration is to create exceptional working, shopping and dining experiences in a new landmark scheme, doing justice to its world-class location.

In the shorter term, we also have a unique opportunity to deliver improved public realm at Princes Street, pictured to the right. This would create a vibrant new gateway to Regent Street, and support the opening of the Elizabeth Line.

Investing in leading Regional destinations

In our Regional portfolio, our trading activity has been more balanced this year, reflecting our continued commitment to holding real estate across the country that generates strong returns. In November, we confirmed the purchase of three further phases at Rushden Lakes from specialist

Creating world-class experiences in London's West End

The West End is a place for celebration and enjoyment. In August this year, Regent Street hosted Fashion and Design month and St James's welcomed London Fashion Week Men's collection.

In January, London's Lumiere light festival returned once again, attracting 1.5 million visitors to central London over four nights.

To coincide with the opening of the Elizabeth Line, we have ambitious plans to improve the public space south of Oxford Circus, providing an important new gateway for millions of people visiting the West End.

Images from top to bottom: Lumiere London light festival; London Fashion Week Men's collection in St. James's; and an artist's impression of new public space at Princes Street.

Performance: Markets and portfolio review
continued

Images top to bottom: Westgate Oxford which opened in October 2017; Princes Arcade in St James's which re-launched in March 2018; Phase 1 of Rushden Lakes, where we agreed funding for three further phases this year; and an artist's impression of The Marq, a 35,000 sq ft office scheme in St James's, due to launch in spring 2019.

development partner LXB Retail Properties Plc, building on the successful launch of Phase 1 in 2017. The agreement commits us to funding an additional 220,000 sq ft of mixed use space, with the next phase due to complete in 2018.

Earlier in the year, having completed our asset management plans, we sold Altrincham Retail Park for £63 million to Orchard Street Investment Management, helping raise capital for reinvestment into the business.

Recycling capital from our Rural portfolio
In line with our investment strategy, we continue to make disposals from our Rural portfolio where we believe that opportunities for further growth are limited. This year, we sold £97 million of Rural assets at more than 25% ahead of book values. This included receipts from the Gopsall estate of £34.9 million and £9.9 million from our Taunton estate.

In our Rural portfolio, we actively promote land for residential and commercial development and this year made two significant disposals for a total of £20.7 million. We sold a consented site for 180 homes to Lane End Developments and our share in a 600-unit site in north-east Hemel Hempstead to Homes England for £13.2 million. We also acquired 35 acres adjacent to our remaining holdings at Hemel Hempstead for £8 million, augmenting our strong strategic interests in the area.

2. Development management

Preparing the next phase of development in Central London
Last year we concluded the largest development pipeline in our history. Whilst we have a small number of schemes currently on site, much of our focus is now on positioning for a next phase of development in Central London, over the next decade and beyond.

The role of the traditional landlord is changing and our relationship with our customers needs to change too. Enduring relationships come from listening to and responding to their needs. This could mean us providing an enhanced range of services or improving the quality of public spaces, for example. We are clear that, whatever is required, this represents a significant change of emphasis for the business.

We know from our customers that increased flexibility is crucial, both in terms of physical space and the terms that we offer. Later this year we will launch our flexible workspace brand at One Heddon Street, which will offer 350 desks, a café, reception area and a health and wellbeing offer to its members.

To the north of Oxford Circus, we are developing Morley House, a £100 million mixed-use scheme. This project, set to complete in summer 2020, creates 44 new homes and reflects our desire to nurture a greater sense of community within the West End.

As part of this development, we will create a lounge, workspace area and cinema, helping to enhance the amenity offer.

Elsewhere in London, we are targeting a spring 2019 launch for The Marq, a 35,000 sq ft office scheme on Duke Street, which is on track to be one of the UK's first WELL Gold Certified Core and Shell buildings. This recognises the positive impact of its design, construction and day-to-day operation on users' health and wellbeing.

The Marq will be complemented by a further 11,000 sq ft of retail and restaurant space and six new apartments at 33 Bury Street.

This year we also launched the newly refurbished Princes Arcade, which connects Piccadilly with Jermyn Street, and brings 13 new boutiques to market. On Regent Street, Quadrant Arcade is due to complete in late summer 2018 and our vision is to create a new destination focused on beauty and wellness.

In March, we achieved resolution to grant planning permission from Westminster City Council to enable the re-development of 33-35 Piccadilly. The new scheme will deliver 37,000 sq ft of office and flagship retail space and facilitate the introduction of smaller, more flexible retail on Vine Street.

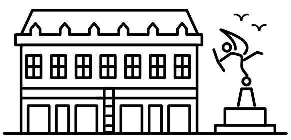
At St James's Market, where we relocated our headquarters in June 2017, we have had the rare opportunity to move into our own development, and have learned invaluable lessons through the process, experiencing the journey as our customers do. We are already working to incorporate these lessons, helping enhance services that we offer to new and existing customers.

Creating Regional destinations of the future

Following our landmark re-development of Westgate shopping centre in Oxford with Landsec last year, and the launch of phase 1 of Rushden Lakes, we have continued to pursue development where we see opportunities to enhance our offer, improve the experience for customers and embed resilience into our portfolio.

Earlier this year, as part of the Fosse Partnership, we acquired the former Everards Brewery site adjacent to Fosse shopping park in Leicester for £27 million. Work has now begun on site to deliver a £135 million extension to the scheme, creating nine additional shops and six more eateries. Due to complete in 2020, it is already 66% pre-let with deals agreed with Next, Debenhams, TK Maxx, Clarks and Schuh.

As shopping habits continue to evolve, we are pushing ourselves to think hard and adapt to meet the changing expectations of our customers and the communities where we operate. As part of this thinking, we have partnered with the Architect's Journal to launch the Future Retail Destinations competition, challenging our team as well as experts from across the sector, to explore what brilliant retail experiences will offer in 2030 and beyond.



Development

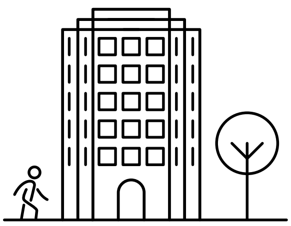
1.1 million sq ft

of new space launched in Central London and Regional this year

Strategic Land

940 homes

Planning approval received for 940 new homes on our Strategic Land portfolio this year



Central London offices

35 customers

35 new customers welcomed to our Central London office portfolio this year

Central London offices

180,000 sq ft

leased for a total headline rent of £15.7 million

In September last year, alongside our partners TH Real Estate, we took the decision not to proceed with the proposed extension to Princesshay shopping centre in Exeter due to market conditions.

Lastly, on our Strategic Land portfolio we received a planning approval for 600 new homes at Hemel Hempstead. We also received planning approval for 175 homes at Kingkerswell in Devon and 165 at Feering in Essex.

3. Asset management

Central London

We benefit from extraordinary critical mass in the West End and welcome many millions of people to use and enjoy our spaces each year. This provides us with a huge opportunity to make our spaces more attractive places to live, work and spend time. We want to partner with our customers, working alongside them to offer increased flexibility, build a sense of community, promote a healthy lifestyle and create exceptional experiences.

We have also had a really strong year in the occupational markets. We welcomed over 54 new customers who took nearly 260,000 sq ft of space. New lettings delivered a total headline rent of £30.2 million at 6% above March 2017 ERV, and we completed 145,000 sq ft of rent reviews for £9.75 million at 6% ahead of previous passing rent.

Offices

During the year, we welcomed 35 new office customers who took more than 180,000 sq ft. In particular, we have now fully let all of our recent developments. This represents a huge success, particularly in light of challenging market conditions over the last 12 months.

At St James's Market, our joint venture with Oxford Properties, 100% of office space is now leased, with customers such as The Carlyle Group, J O Hambro Capital Management and Towerbrook Capital Partners taking space. Elsewhere in St James's, 25 Bury Street is also fully let. Good progress is being made at 15 King Street, where premium lifestyle fitness brand Equinox has taken office space. They have also now opened a luxury gym elsewhere on the portfolio, helping improve the amenity offer in the area.

It is also crucially important that we build and maintain close relationships with existing customers, so that we can better understand and react to their needs. At One Vine Street, we brought in an architect and designed a solution that allowed C-Quadrat, one of our existing customers, to expand their footprint on the portfolio.

Performance: Markets and portfolio review
continued

Retail

We have performed strongly this year in the face of uncertain headwinds, leasing over 80,000 sq ft of space for £12.4 million, at 14% above March 2017 ERV. Over the year, we have welcomed a number of significant new customers and strengthened relationships with existing ones.

We are really proud that Microsoft will open their new UK flagship at Oxford Circus on Regent Street. Their new store will become a community hub, offering workshops and digital training programmes for customers. In the same block we also welcomed a new flagship from sportswear label Asics, bringing together all four of their performance and lifestyle brands into a state of the art concept store.

Over 15 years after opening their first boutique on Regent Street, beauty and fragrance brand L'Occitane have opened an iconic new UK flagship. Their largest in the world, the store offers customers a multi-sensory journey through the textures, fragrances and sounds of Provence. Regent Street also saw the UK launch of the Swedish fashion brand Weekday, and the global launch of the Nordic fashion and homeware brand Arket. Together, these represent the fourth and fifth brand openings on our portfolio from our long-term customer H&M Group. It is also the third time that they have chosen to launch a brand globally on Regent Street.

In St James's, Aspinal of London opened a new flagship store, offering their full range of men's and women's premium leather goods and providing a venue for their product launches and exclusive collaborations. We also saw openings from independent eyewear brand Cubitts and British shoemakers Grenson.

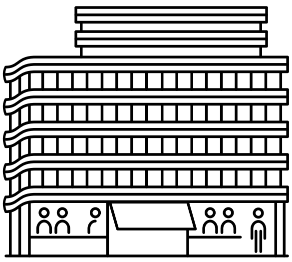
We have continued to build on our reputation for world-class food and dining, adding Magpie, a modern European restaurant and bar, and Sabor, the first solo venture from ex-Barrafina chef Nieves Barragan, to Heddon Street. In St James's, we've introduced San Carlo and Scully. West African-inspired Ikoyi won Best Newcomer of the Year at the 2017 London Restaurant Festival Awards, and Nordic restaurant Aquavit was awarded their first Michelin star in London. Celebrated sushi restaurant The Araki earned their third Michelin star.

Building a sense of community in the West End

An integral part of our role as one of central London's major landowners is the contribution we make to our community, environment and society.

For a number of years we have supported Recruit London, a programme run with the Cross River Partnership that supports local people seeking employment, which since 2009, has placed over 1,700 into work. We continued ReStart, targeted specifically at supporting those that are homeless or at risk of homelessness.

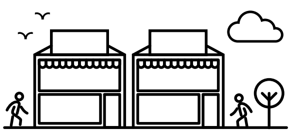
"We are really proud that Microsoft will open their new UK flagship at Oxford Circus on Regent Street, with their new store set to become a community hub."



Central London retail

£12.4m

Headline rent from new retail lettings in Central London this year



Regional

280,000 sq ft

Rent reviews at 4.0% ahead of previous passing rent

The programme provides coaching and training for vulnerable job seekers, preparing them for interviews and helping to overcome the social and economic impacts of homelessness.

Our leadership on sustainability was recognised by GRESB, the global benchmark for environmental, social and governance performance of real assets. For the fifth year running, they awarded us their 'Green Star' rating for sustainability performance across our Central London and Regional portfolios, and identified Regent Street as a sector leader.

We are helping improve air quality in the capital with a number of ongoing initiatives to reduce emissions from our buildings and the vehicles on our streets. This year, supported by Westminster City Council, we brought CityTree to London for the first time. CityTree is a breakthrough technology, designed by GreenCity Solutions to combat air pollution and heat in cities, delivering up to 275 times the air cleaning capability of a single tree.

We also encourage all our restaurant customers to join the Sustainable Restaurant Association. This year, we jointly hosted workshops on minimising food waste and we have introduced a waste consolidation scheme in St James's. This now supports 50 of our customers, including Aquavit, Café Murano and Ole & Steen.

Finally, we have worked to enhance our health and wellbeing offer, with over 1,000 individuals now signed up to Regent Street Wellbeing, a programme of activities that promotes physical and mental wellness and provides volunteering opportunities.

Regional

This year has been challenging for a number of our Regional customers, and a small number of our retailers face uncertain futures. Despite these challenges, our portfolio continues to be incredibly resilient. This year, we completed nearly 130,000 sq ft of new lettings and over 280,000 sq ft of rent reviews, with an increase of 4% above previous passing rent. Our void rate also remains low, at 3.3%.

Against this backdrop, close relationships with our customers are ever more important and we must show that we can adapt and respond to their changing needs.

Westgate shopping centre, our partnership with Landsec, is now 96% let or in solicitor's hands to a fantastic array of flagship retail, a five-screen boutique Curzon Cinema, Junk Yard Golf and an exciting selection of restaurants. Many of our customers have chosen Westgate for their first venture outside of London. A partnership over eight years in the making, Westgate was the UK's largest shopping centre development of the year and has already welcomed over six million visitors.

Working with our local communities

We work in partnership with local communities across the country on a range of initiatives – from helping tackle environmental issues to putting on great events.

As part of Princesshay's tenth anniversary celebrations, we partnered with a local artist, the RSPB and the Devon Wildlife Trust to create a stunning art installation. Thousands of swifts, made from plastic bottles collected from Princesshay, took flight above the city centre. The sculpture demonstrated the relationship between nature and the built environment.

Rushden Lakes hosted its first 'Weekender'; three days of free events including fashion and stylist pop-ups. The lakes became the stunning backdrop for a silent cinema, with visitors treated to free snacks.

We celebrated Chinese New Year with wishing trees on Regent Street. Following the tradition of gifting to friends and family, our beautiful Bonsai trees gave visitors a host of offers and experiences from the street's retailers and restaurant operators.

For the fifth year in a row we held Summer Streets, pedestrianising Regent Street from Oxford Circus to Piccadilly Circus on every Sunday in July and collaborating with local businesses to provide entertainment and activities.

CityTree, launched in March on Glasshouse Street, is a pioneering living wall, harnessing the power of nature to remove harmful particulate matter from the air.

Images clockwise from top left:
art installation at Princesshay, Exeter; exercise class hosted by lululemon at Summer Streets; wishing tree for Chinese New Year on Regent Street; silent cinema at Rushden Lakes, Northamptonshire; and CityTree on Glasshouse Street.

Performance: Markets and portfolio review
continued

We are also delighted with the success of Rushden Lakes; a ground-breaking shopping and leisure destination set against a backdrop of outstanding natural beauty. Phase 1 of Rushden Lakes is now fully let, with further lettings to retailers including Jack Wills and Superdry agreed after the opening in the summer. As part of our partnership with The Wildlife Trusts, we also launched the first Nene Wetlands Visitor Centre at Rushden Lakes this year, creating a place for shoppers and visitors to explore the 200 acre wetlands Site of Special Scientific Interest (SSSI) surrounding the scheme. We are now working alongside our development partner, LXB, on the pre-letting of subsequent phases, with the leisure-focused Phase 2 already 90% pre-let.

At Fosse, we have also continued our investment to enhance the look and feel for shoppers, and have been working closely with a number of retailers as they try out new formats. This includes Superdrug, who launched a unique in-store beauty concept, and fashion retailer Joules, who launched their first pop-up with great success.

At Princesshay, in Exeter, we celebrated the scheme's tenth anniversary with a series of community events and successfully negotiated renewals on a raft of expiring leases, including Molton Brown, Oasis, Monsoon and Crew. We have also welcomed an array of exciting new beauty and lifestyle brands to the line-up including KIKO Milano, MAC Cosmetics and Lush.

Partnering with customers and communities
As shopping habits evolve, we are continuing to invest at each of our destinations to improve our offer, creating the best possible experience for shoppers.

In February, we brought a number of our retailers together for the first time in an interactive session, exploring how retail and leisure will evolve and how our destinations can respond.

As part of the UK Green Building Council's Wellbeing Lab, we partnered with M&S on an industry-leading research project, looking at the role of store design and the built environment in promoting health, wellbeing and productivity in the workplace. We are now working with them to adopt best practice, informing our future development plans.

This year, we completed the roll-out of free WiFi for all shoppers across our portfolio and now offer electric vehicle charging across nine of our retail and shopping parks.

As well as working hard to create value for our customers and partners, our team are also focused on ensuring their schemes have a positive impact in their local communities. Our Recruit Regional initiative plays a key role in this. It matches local jobseekers to jobs with retailers and restaurateurs on our sites, as well as with other businesses in the area. It is now up and running at Princesshay, Crowngate, Rushden Lakes and Fosse and is set to launch at Silverlink next year.

“As shopping habits evolve, we are continuing to invest at each of our destinations to improve our offer, creating the best possible experience for shoppers.”

We are also working with others community groups. For example, at Banbury Gateway we have partnered with Banbury and Bicester College, connecting creative arts students to brands on the park and giving them the opportunity to publish content on our social media channels.

Over the year, we have worked closely with industry body, REVO, to help develop their thinking on how to create more accessible retail destinations and services, as well as taking part in their steering committee for sustainability and community engagement.

Energy, Minerals & Infrastructure

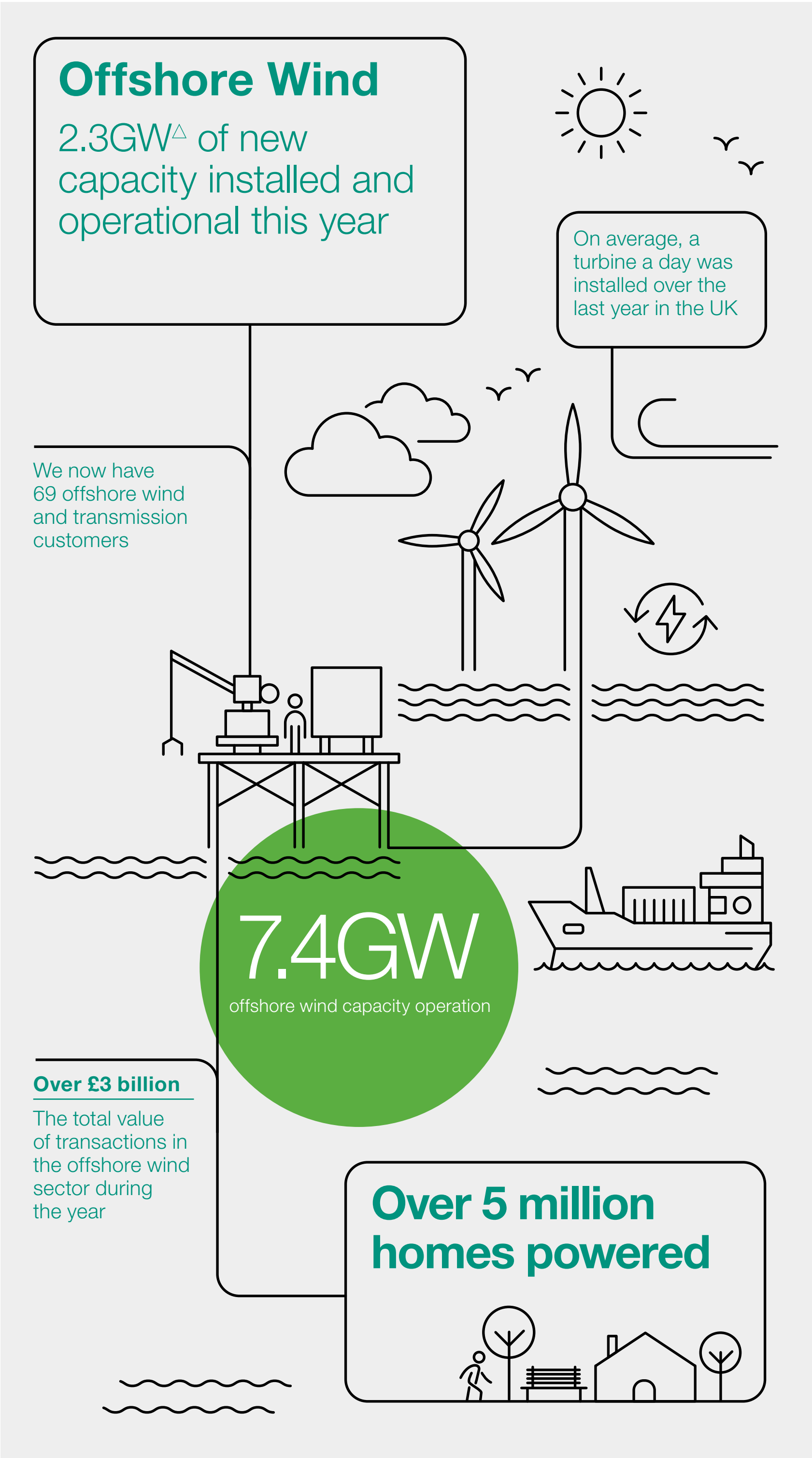
Offshore wind
It has been another important year for offshore wind and the busiest yet for construction. Development this year delivered over half of all the new capacity built in Europe, setting the sector on track to grow its contribution to the UK's electricity supply to 10% by 2020.

By the close of the year, there was 7.4GW of offshore wind in operation, supplying the electricity needs of over five million homes. In April, Britain went more than two days without using any coal-fired power for the first time in more than a century, a significant milestone in the story of the UK's energy transition. Importantly, all of this is happening hand-in-hand with the growth of the UK supply chain, creating jobs and opportunities across the country.

2017 also brought significant progress on cost reduction with the latest Contracts for Difference auction halving prices since 2015, making the sector cost-competitive with all large-scale generation technologies. Building on this, we announced plans to work with the offshore wind sector and stakeholders over the course of 2018, to consider making new seabed rights available. This process would put a development pipeline in place to satisfy demand out to 2030 and beyond.

As all of this evolves, we continue to work closely with our customers and partners, helping to bring the sector together and encourage information sharing. In April 2018, we held our first ever offshore wind operational customer event, bringing sector peers together to hear from industry representatives and share knowledge, as well as launching our sixth annual Offshore Wind Operational Report, which tracks the sector's progress over the year.

This event built on the success of our 'developer days', a series of events that we have run with customers in the past, creating opportunities for



project developers to collaborate with their peers in the industry on best practice and lessons learned.

The Offshore Renewables Joint Industry Programme (ORJIP), launched by The Crown Estate in partnership with Government and the sector, is also playing a role in helping to address information gaps. This year, it concluded two important studies to help the sector better understand its impact on the marine environment during both the construction and operation of offshore wind farms.

Both of the studies are now available on our Marine Data Exchange (MDE), alongside all of the supporting information. We created the MDE to store, manage and share survey data and reports collected by our offshore renewable and marine aggregates customers. During the year, data has been collected from over 113 new surveys and has been downloaded over 7,000 times worldwide.

Minerals & Infrastructure

Over the year, we concluded our latest aggregates tender round, awarding five agreements, and launched a second which is due to complete in summer 2018.

On our infrastructure portfolio, the 1GW Nemo interconnector has now been laid, connecting the UK with the Belgian electricity market. This strengthened an important customer relationship with National Grid, who also successfully exercised their option for IFA2, a second 1GW interconnector between Britain and France. In April, North Sea Link Limited exercised their option for a 1400MW interconnector between England and Norway, with construction beginning in May.

The Windsor Estate

At Windsor, we welcomed six million visitors and celebrated our third consecutive year of profitable operations, delivering revenues of £11.2 million. We completed the second phase of our refurbishment of the Savill Building, further enhancing this fantastic visitor destination with a new retail offer, coffee bar and facilities.

It has also been a busy year for filming on the Estate, with four major motion pictures staged within the grounds, generating over £400,000 in revenue.

Our team continue to win accolades for the stunning gardens at Windsor Great Park, including winning five awards at the RHS Early Ornamental Show, which took place in The Savill Garden in April. In the lead up to the Royal Wedding, the team worked hard to ensure the Estate looked its very best, when the world's attention turned towards Windsor Great Park as the spectacular backdrop to the event.

Brilliant places through conscious commercialism
Regional: Retail and Leisure

Creating brilliant places in our Regional portfolio

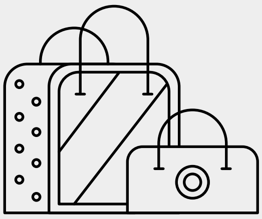
Over the last 12 months we have been enriching our understanding of our visitors at each location; exploring how and why they use our spaces, and what we can do to better meet their needs. These insights inform how we tailor our approach to each location, ensuring we meet the preferences of the people who use it most.

This has driven a focus on assets that are not just brilliant places to shop, but also to eat, exercise and be entertained. This range of complementary uses will be crucial in ensuring destinations are resilient and fit for the future, and has informed our approach at Rushden Lakes and Westgate.

We are building on these successes and already thinking about the next phase of development on our Regional portfolio. At Rushden Lakes, we are adding exciting new leisure activities, including a cinema, rock climbing and cycle hire. At Fosse in Leicester, work has also begun on the extension, where nine additional retailers will be complemented by a new line-up of restaurants and improved public spaces.

Alongside this, we continue to work with local communities across the breadth of the country. Our Recruit Regional scheme, for example, provides training and support for jobseekers, and connects them with employers at our centres and is now established at four of our destinations. We are working with partners in each location to deliver against the specific employment and skills needs of people in the area.

We have worked in partnership with The Wildlife Trusts to deliver community-focused projects, such as the nature trail at South Aylesford Retail Park and the BioGraffiti wall at The Gate in Newcastle. These projects enhance biodiversity and invite local people to engage with our destinations in a new way.



100m visitors

to destinations on our Regional portfolio this year

Employment placements

170

Unemployed people placed into employment through our Recruit Regional programme

Impact of employment placements

£6m

Total Contribution impact
Related to positive impact and social benefits of unemployed people placed into employment (income received and reduced state support).*

*See thecrownestate.co.uk/total-contribution

"We are challenging ourselves to think hard about how the best destinations can adapt to meet changing expectations on everything from the role of technology to sustainability, community and visitor experience."

Hannah Milne
Director, Regional Portfolio, The Crown Estate

Image: Rushden Lakes, Northamptonshire

Performance

Operations review

We recognise that as our markets continue to shift, so too will the types of skills we need to remain competitive. Over the next year we will be growing our team, adding further expertise in digital, placemaking and customer experience."

Judith Everett
Chief Operations Officer

Employee engagement

88%

Employees think that The Crown Estate is a 'great place to work'

Employee engagement impact

£111,000

Total Contribution impact
Related to positive impacts and social benefits of engaged employees (workplace productivity and reduced sickness absence days)*

Our Aspirations 2030

We are working towards our ambitious sustainability Aspirations 2030, which will help future-proof our business:

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

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

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

*See thecrownestate.co.uk/total-contribution

This year, as we have adapted to the ever-increasing pace of change, we have continued to focus on the parts of our business that will be fundamental to our long-term success and resilience: our purpose, our people and our customers.

This focus has ensured that we are building from strong foundations as our business enters the next phase of its transformation.

We have invested in our talented in-house team, including the launch of intensive leadership and management development programmes. These will equip our leaders of today and tomorrow with the skills they need to succeed.

We recognise though, that as our markets continue to shift, so too will the types of skills we need to remain competitive. Over the next year we will be growing our team, adding further expertise in digital, placemaking and customer experience.

Our understanding of customer satisfaction also continues to evolve. To complement our existing survey programme, we are mapping customer journeys across the business, providing deeper insight that we can put into action.

For the first time, we also brought our Central London in-house and managing agent teams together for training in customer experience excellence. This has established a shared vision, putting our customers at the heart of how we do business.

As we continue to nurture a high performing culture that helps us attract and retain the best talent, we have been focused on creating a more diverse, healthy and inclusive workplace. This was reflected in strong results from our annual staff survey, with 88% of employees agreeing this is a 'great place to work'.

We are also focused on better understanding our broader impact and measuring it through our Total Contribution methodology. This tracks our impact on the six capitals on which we draw to deliver our success. These capitals are referenced throughout the report and in this section we focus on our people and know-how, our networks and natural resources. More data on performance against our capitals is available online thecrownestate.co.uk/performance-against-capitals/

Our operational highlights from this year and priorities for the future are set out in the following pages.

Judith Everett
Chief Operations Officer

Our people and know-how

Our success is dependent on our people and their know-how. Building upon our purpose, we nurture a high-performing culture that promotes innovation, collaboration and encourages development.

In the year ahead, we will increase investment in our people to support our shift to a more customer-centric approach.

Wellbeing

At St. James's Market, our new HQ has realised our ambition to create a workplace that supports the wellbeing and productivity of our people.

We have created a successful showcase for technologically-enabled, modern and flexible working. It was designed around our people, creating a sustainable environment which has a positive and significant impact on staff wellbeing.

To understand the effectiveness of our new office we worked with Leesman, the global standard for understanding how workplaces support employee and organisational performance.

Leesman surveyed our people prior to the move to our new HQ and again afterwards. Following the move, our employee score increased by 25 points, achieving 78.3 on a scale of 0-100. This puts our office in the top 2% of buildings worldwide for workplace effectiveness and performance.

We have also established a network of wellbeing champions to help shape and implement our future strategy. This ensures that our approach is grounded in what our people want and raises awareness of wellbeing throughout the business.

Our wellbeing programme has been extended this year to include mental health initiatives. We have supported national campaigns such as 'Time to Talk', hosted external speakers and trained mental health first aiders to help support our people.

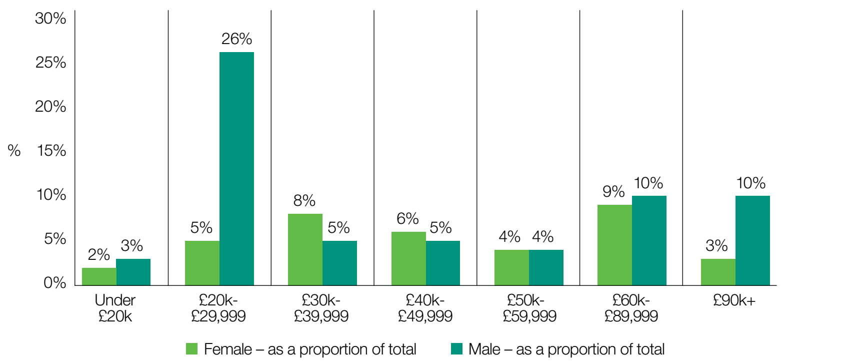
We have also extended this approach into our supply chain, hosting occupational and mental health training sessions alongside our partners on The Marq and Morley House.

Our sickness absence rate for 2017/18 was 1.86%.

Inclusion and diversity

We are committed to promoting greater diversity and inclusion across our business. A diverse workforce supports a healthier and more productive workplace, which in turn benefits from a greater breadth of ideas and perspectives. Our policies promote equality and fairness for all, and do not discriminate against any of the nine protected characteristics, which include disability, gender, religion, race and sexual orientation.

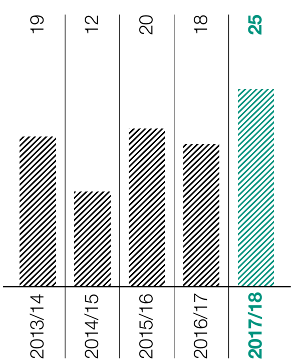
Employee salary ratios by gender 2017/18 (63% Male, 37% Female)△



Calculation based on employee actual base salary (excluding bonus) at 31 March 2018 and average headcount (e.g. six months worked during the financial year for an employee = 0.5 headcount)

Average hours of training per year per employee

25



The graph above illustrates our employee salary ratios by gender within each salary bracket. This year, we also published our Gender Pay Gap, which showed an average business-wide pay gap of -3% mean and -31% median thecrownestate.co.uk/gender-pay-gap, putting us well ahead of our competitors and most other companies.

We know there is still much more to do to support diversity and inclusion in the broadest sense. We want to play an active role in attracting people from diverse backgrounds into the industry.

We have a number of initiatives and partnerships in place to help us achieve this, including:

- A structured recruitment process, supporting unbiased hiring decisions;
- Active monitoring of our talent pipeline, ensuring all employees have equal access to development and equal opportunity for progression;
- A range of family-friendly policies, including: maternity, paternity and shared parental leave; emergency care and helping to support work/life balance;
- Hosting mentoring and career events that promote opportunities and awareness from a wider talent pool. These include events with: the Taylor Bennett Foundation; Reading Real Estate Pathways to Property and the Into University programme; and
- Supporting organisations such as Real Estate Balance and The Mentoring Foundation to promote women into senior positions, Stonewall on greater LGBT representation and Purple on accessibility.

Performance: Operations review
continued

Culture and behaviours
Our annual staff survey, One Voice, has demonstrated another strong set of results with 95% of our people saying they are proud to work for The Crown Estate.

Our One Voice results identified areas for improvement such as speed of decision-making, consistency in application of policies and tackling difficult issues. These will be addressed through team-level action plans in the year ahead.

Learning and development
Linked to our culture and behaviours is a strong focus on supporting learning and development across the business. This helps enhance our skills and ensures our people feel valued. We have seen a 39% increase in the average number of training hours per employee this year, from 18 hours p.a. to 25 hours p.a.

This year we have invested significantly in management and leadership development, including a second group on our Connected Leaders programme and the introduction of a new management development programme. This strengthens our talent pipeline to support succession planning, and also nurtures a more agile, collaborative and empowered way of working.

More broadly, we have introduced training to support personal effectiveness, such as the RICS Introduction to Property course, and a bespoke Customer Excellence programme on our Central London portfolio. In the near future, this programme will be rolled out across the business, including our managing agents on other portfolios.

Reward
We offer competitive reward packages aligned to performance and benchmarked against comparable organisations in our sectors. Our range of employee benefits include private medical insurance, enhanced maternity and paternity leave, sick pay and season ticket travel loans, in addition to other voluntary benefits that support employee wellbeing.

Volunteering hours

+74%

Employees spent 2,705 hours volunteering

Workplace injuries

52

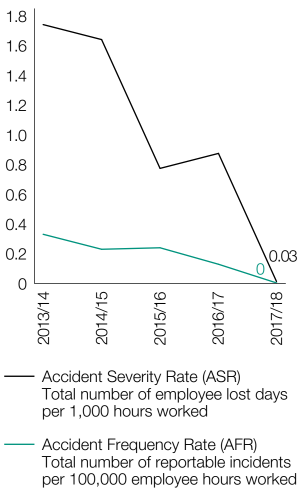
All direct minor (52) and major (0) workplace injuries this year

Impact of workplace injuries

-£21,000

Total Contribution impact
Related to negative impacts and social costs from workplace injuries (poorer health, medical costs and reduced workplace productivity)*

Health and safety incidents



*See thecrownestate.co.uk/total-contribution

We are proud to be an accredited Living Wage employer by the Living Wage Foundation. This commitment ensures that everyone working for The Crown Estate, regardless of whether they are employees or directly employed contractors, will receive a minimum hourly wage of £10.20 in London and £8.75 outside London.

Volunteering
All our employees have two days of volunteering time that they can use to support any cause they choose. This year, volunteering numbers increased again as 208 employees volunteered for a total of 2,705 hours, a 74% increase in hours on 2016/17. This was largely driven by the Windsor 'Great Estate Tidy', beach cleaning on our Coastal portfolio and mock interviews with candidates from our ReStart and Recruit programmes.

We also support Pathways to Property, an initiative led by the Reading Real Estate Foundation at Henley Business School at the University of Reading. This raises awareness among students from diverse backgrounds about careers in real estate, and also supports our ambition to diversify the workforce in the sector. In the year ahead, we intend to offer even more opportunities with direct links to what we do as a business.

Health and safety
Creating an environment and culture where our people can thrive and our customers feel supported, safe and secure is an integral part of how we work.

We measure our health and safety performance using an Incident Severity Score. Given the unique range of risks we manage, this is a measure developed specifically for us to track our incident performance across our directly managed activities and our indirectly managed property portfolio.

We have a target to achieve a 10% year-on-year improvement in the Incident Severity Score which we have outperformed by 2%△ with a score of 144△. Our Accident Frequency Rate (AFR) is 0△ and our Accident Severity Rate (ASR) is 0.033△. Both figures are much lower this year, as they relate purely to absence from workplace injuries. Prior year figures included both sickness absence and data on staff now employed by Crown Estate Scotland.

Workplace injuries include all injuries sustained by employees that occurred whilst at work and undertaking a work activity. These include both minor and more serious injuries, including those reportable to the Health and Safety Executive (HSE). We continue to promote reporting of all incidents and had 52 workplace injuries during the year. However, all of these were minor and no serious employee injuries were sustained.

We have had zero reportable incidents (RIDDOR) to the HSE on directly managed assets and three

Wellbeing in our workplace

As well as creating a more collaborative space and investing in technology, our new HQ has been designed to meet the highest wellbeing standards.

The International WELL Building Institute (IWBI) sets the global standard for health and wellbeing in buildings. We aligned the design and fit-out of our office to the most advanced requirements of the WELL certification. Careful consideration went into everything from air quality, ambient noise and access to natural light, to the products used to decorate and clean the building. The design of the furniture and variety of spaces to work mean that people can choose the right location to support their activity, whether that is focused study or collaborative project work. The office is also supported by cycle parking spaces with extensive changing facilities to encourage physical activity.

incidents reportable to HSE within those parts of the portfolio managed by third parties.

We are a Client Partner of the Considerate Constructors Scheme, which aims to promote best practice and raise standards across our construction sites.

Our employees are surveyed annually and we continue to see an improving trend in relation to health and safety behaviour, culture and attitudes. In 2017, we became Construction Logistics and Community Safety champions, which is a scheme developed to protect vulnerable road users such as cyclists from construction traffic.

At Windsor, the Forestry and Arboriculture team achieved a Gold award in the internationally-renowned RoSPA Health and Safety Awards. This is testament to the high standards set for health and safety management systems, including practices such as leadership and workforce involvement.

Employee turnover

7%

This year we are reporting voluntary turnover for the first time. Analysis of this helps us understand why people choose to leave the business

Employee turnover

We look at the mix of talent and skills within our business carefully. As well as seeking to retain good people and support continuity, it is also important to bring in fresh talent and new ideas. In line with other businesses, this year we are reporting our voluntary turnover for the first time. This metric is more meaningful than total turnover as it relates to those choosing to leave the business. Careful monitoring and a better understanding of this can help us to influence the rate, which is currently at 7%. Principal reasons for leaving include: career progression or change, management, retirement, relocation or unsatisfactory job content.

Performance: Operations review
continued

Our networks

Our relationships with customers, partners, government and communities are central to everything that we do. They are important in ensuring that we do business the right way, and crucial to our ambition to create brilliant places.

We have a large and diverse group that makes up our networks; and it is by listening and building strong relationships that we enhance customer experience and earn goodwill and trust. Both of these are material issues to our business and you can read more at page 7.

Stakeholder engagement
Maintaining strong working relationships with national, devolved and local levels of government is integral to demonstrating our values and commitment to transparency. We engage with a wide range of politicians and local communities given the breadth of our portfolio, involving a number of sectors and around 160 constituencies.

In December 2017, we appeared before the Treasury Sub-Committee as part of our accountability to UK Parliament. Earlier in the year, we also hosted a placement from the Industry and Parliament Trust to help build relationships between Government and business, with an MP spending a day with colleagues from across The Crown Estate.

Examples of local engagement from our portfolio-led activity include:

- In Westminster, we have held a number of policy roundtables with customers, industry and representatives from the Greater London Authority and Westminster City Council on matters which affect the long-term success of the city. This includes air quality, housing and Oxford Street pedestrianisation.
- In our Regional portfolio, where we are seeking to enhance the relationship between our destinations and the community, we regularly engage stakeholders alongside our consumer activity. Most notably, for the launch of our two major schemes at Rushden Lakes and Westgate, as well as through our local recruitment schemes.
- A strategic land site at East Hemel in St Albans where we have established a local community forum to ensure active and regular dialogue, with four meetings in 2017/18.

Customer experience

This year, overall customer satisfaction has increased across the business.

We achieved an overall customer satisfaction rating of 78.0%. This means that more than three quarters of our customers are either satisfied or highly satisfied with the service they receive from us.

We have also achieved a Net Promoter Score (NPS) of 31.5. NPS measures the loyalty that exists between a provider and a customer. Our score places us ahead of the UK Customer Service Institute benchmark, which achieved an average NPS score of 15.3. At a time when customer expectations are increasing, these insights have helped us to understand how well we are meeting our customers' needs and deepened our knowledge of what matters most to them.

We have since developed action plans, focusing on driving greater engagement and collaboration with our customers. Through individual meetings, hosted events and briefings, we have improved our customer relationships and helped them to form new networks with each other. Next year, we will increase our in-house resource, supporting our ambition to deliver more sophisticated insights from our analysis.

Crisis preparedness

Robust crisis management procedures and plans are critical to our resilience as well as our reputation. We carry out regular training and stress-testing of our processes with different teams. This is supported by our business continuity plans and operational procedures at an asset level.

We work closely with our managing agents and other parts of our supply chain to ensure our processes are aligned. This year, we have particularly focused on strengthening our engagement with external partners on security related issues, including the New West End Company, Heart of London and the Metropolitan Police, as well as other landowners, through the West End Security Group.

Community and stewardship

Last year, we invested over £700,000 in community and stewardship initiatives. We invest in projects that can add value to our business, customers and the communities or environments where we operate.

Projects include: our employment, skills and training programmes, Recruit and ReStart; environmental initiatives in Windsor Great Park (see pages 36-37) and Project Soil, a programme to address soil quality and ensure the long-term sustainability of farms in the UK.

In the year ahead, we will be increasingly looking to focus on three areas relevant to our business: employment, social inclusion and the environment. These will also help us meet our Aspirations 2030, to create healthy places and habitats where our customers, employees, communities and natural habitats can thrive.

Customer satisfaction rating

78.0%

Institute of Customer Service benchmark 78.1%. Top quartile for the real estate sector

Greenhouse gas (GHG) emissions

20,205 tCO_2e

tonnes of CO_2e emitted (scopes 1 and 2). See table on page 35

Impact of greenhouse gas (GHG) emissions

-£482,000

Total Contribution impact
Related to negative impacts and social costs from increased concentrations of greenhouse gases*

*See thecrownestate.co.uk/total-contribution

Our natural resources

Management of natural resources in a considered way, and for the long term, is integral to our business resilience. Our success is dependent on working with our networks, from our managing agents and supply chain, to our customers and communities.

We monitor ourselves, in part, through what we are doing to meet our Aspirations 2030: climate resilience, healthy habitats and places, and super-efficiency. Within these, we are working towards a number of targets which are aligned to the United Nations Sustainable Development Goals (SDGs).

You can see more data on our progress online thecrownestate.co.uk/performance-against-capitals

Climate resilience

Through our Development Sustainability Principles, Sustainability Action Plans and Occupier Fit Out Guides, we work with many stakeholders to reduce our carbon emissions (see page 35). At the same time, we are increasing our purchase of renewable energy, with at least 67% of our current supply on a green tariff. We have been accepted as members of RE100, a global collective of influential businesses committed to using 100% renewable electricity. We have also been playing an active role in the development of the UK's world-leading offshore wind sector (see pages 14-15) to provide an increasing supply of renewable energy.

We know we must adapt to likely climatic changes and have identified a variety of risks and opportunities posed by climate change (as referenced in the risk and opportunity table on page 47). This will help inform the development of climate adaptation plans for our core holdings.

A number of our targets are currently being validated by the Science Based Target initiative (SBTi). Approved science based targets are those in line with the level of decarbonisation required to keep global temperature increases below 2 degrees Celsius.

Healthy places and habitats

Across our business we look for ways to improve the quality of experience for our customers and visitors, as well as enhancing the quality of natural habitats.

In central London, our biodiveristy masterplan seeks to promote ecology and biodiversity in the West End. This has seen us extend our Wild West End collaboration, which brings together a number of neighbouring landowners, to deliver living spaces which support biodiversity, improve

Performance: Operations review
continued

Healthy places

We want to create destinations where our customers, employees and communities can thrive, and benefit from the relationship between nature and the built environment.

We work across a number of initiatives to bring this vision to life. At Rushden Lakes, we have collaborated with The Wildlife Trusts to bring together seven separate wildlife reserves into one square mile of nature reserve.

At Windsor Great Park, we have created over 15 miles of mountain biking trails, helping protect the rich biodiversity of the forest by minimising the impact of people using it.

In central London, we have added new spaces to Wild West End, including at St James's Market. Our customers have continued to cultivate their allotment gardens on the rooftops of our buildings on Regent Street, alongside a colony of several thousand honey bees.

Images clockwise from top to bottom: Regent Street beekeeper; mountain biking at Swinley Forest, Windsor and the Nene Wetlands Nature Reserve at Rushden Lakes

air quality and urban cooling. We have created a total of 2,984m^2 of additional green space, putting us well on the way to achieving our target of at least 5,000m^2 by 2022.

In our Regional portfolio, we have been working to assess and improve green space. This is best exemplified at Rushden Lakes, which has brought new life and visitors to an ecologically important SSSI wetlands area, under the management of The Wildlife Trusts.

At Windsor, we have been working to protect the condition of our Sites of Special Scientific Interest. Over 3,000 hectares are maintained and enhanced, with 72% in 'favourable condition' and 100% in 'recovering or favourable condition', ahead of Government targets.

Carbon emissions: absolute emissions (tCO_2e)

31,278△

Scopes 1, 2 and 3 in line with the Greenhouse Gas Protocol (see next page)

Operational waste recycled

50%

From all of our directly managed assets

Super efficiency

We have continued to strengthen our relationship with the Ellen MacArthur Foundation, with 15 employees from across the business undertaking the CE100 Executive Education Course. Over the next year, we will look at how we can apply circular economy principles to our business and supply chain.

Having achieved an average of 98% of waste from our developments being diverted from landfill, our focus is now on reuse and recycling. Of our operational waste generated, 100% was diverted from landfill and 50% of that was recycled over 2017/18.

Carbon emissions

The table below gives three different views of our carbon emissions as measured under the Greenhouse Gas (GHG) Protocol.

When we report in accordance with the GHG Protocol, we must report two figures for our Scope 2 emissions (typically from electricity). The first, Location-based method, reflects the emissions according to the National Grid energy mix. The second, Market-based method, reflects emissions based on our actual purchase of energy on a renewable electricity tariff. In 2015/16 and 2016/17, a UK Residual factor was applied, but in 2017/18 we used emission factors specific to our suppliers, resulting in a significant decrease in emissions reported.

The intensity metric shows our absolute emissions normalised by floor area and reflects the impact of measures we have implemented to increase energy efficiency.

Carbon emissions: Scope 1, Scope 2, and Scope 3 emissions[1]

Emission source		Location-based method					Market-based method[2]		
		2013/14	2014/15	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18
		tCO_2e	tCO_2e	tCO_2e	tCO_2e	tCO_2e	tCO_2	tCO_2	tCO_2
Scope 1	Direct emissions from fleet and heating of buildings	6,169	6,443	5,868	5,906	5,663∆	n/a	n/a	n/a
Scope 2	Emissions from generated electricity usage	21,201	13,548	11,221	12,621	14,542∆	7,342	7,159	2,637∆
Gross Scope 1 and 2		**27,370**	**19,991**	**17,089**	**18,527**	**20,205**	**7,342**	**7,159**	**2,637**
Scope 3	Indirect emissions from business travel	387	311	265	208	188	n/a	n/a	n/a
	Indirect emissions from energy used exclusively by our tenants	1,568	14,499	15,840	13,109	8,722	2,773	3,842	223
	Indirect emissions from electricity and transmission distribution losses	1,813	1,185	927	1,142	2,163	n/a	n/a	n/a
	Total Scope 3	3,768	15,995	17,032	14,459	11,073∆	n/a	n/a	n/a
Gross Scope 1, 2 and 3		**31,138**	**35,986**	**34,121**	**32,986**	**31,278∆**	**10,115**	**11,001**	**2,860**
Emissions intensity (indexed kg CO_2e – 2012/13 baseline)									
	Current methodology	–	–	–	87[3]	78∆			
	Previous methodology	98	94	89	82	n/a			

1 We have used the GHG Protocol Corporate Accounting and Reporting Standard to calculate our emissions. This includes reporting all sources of emissions that are under our operational control. For more detail on the breakdown of emissions, please see thecrownestate.co.uk/performance-against-capitals/
2 Emissions for market-based reporting are reported in tCO_2 rather than tCO_2e due to the availability of emission factors.
3 The 2016/17 figure has been restated from 82 to 87 as a result of work undertaken on the methodology to increase accuracy and reduce complexity.

Brilliant places through conscious commercialism
The Windsor Estate, Windsor Great Park

Managing a world-class destination

Windsor Great Park attracts six million visitors a year. The rich landscape of historic parkland, award-winning gardens, ancient woodland and diverse ecosystems represents some of the UK's most important ecological treasures.

Our ongoing challenge is to carefully balance its popularity as a visitor destination with the needs of the environment. In our management of this thriving rural estate, we have worked hard this year to enhance the experience we offer our visitors.

With the completion of the refurbishments to the award-winning Savill Building, we have improved the dining and shopping experience for our visitors. We also enhanced accessibility of The Savill Garden, with new pathways and facilities.

We have joined one of England's most ambitious conservation projects, Back from the Brink, to save 20 endangered species from extinction, including the violet click beetle which is found in our ancient oaks. We are also growing a nursery of 9,000 new trees from our own ancient forest, preserving genetic continuity for another thousand years.

This year, we opened an environmental centre and outdoor classroom as part of our five-year partnership project with the Berks, Bucks and Oxon Wildlife Trust. This educates young people on our important role in conserving the Windsor Estate.

This was a particularly special year for Windsor Great Park as it provided the backdrop for the marriage of the Duke and Duchess of Sussex in May 2018. The global event was watched by over two billion people, with the Long Walk hosting thousands of well-wishers from around the world.

With the Savill Garden and broader estate providing much of the foliage for the floral displays for the wedding, the work of our gardens team was in the spotlight. This year they also won a number of awards, including the Royal Horticultural Society (RHS) Ornamental Show.

Visitors

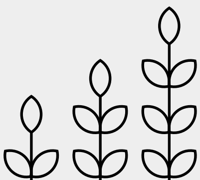
6m

This year, six million people visited Windsor Great Park

Award winning

8 awards

Our Gardens team won seven awards at the RHS Ornamental Show and Main Rhododendron Show. Our Forestry team won gold at the RoSPA Health & Safety Awards



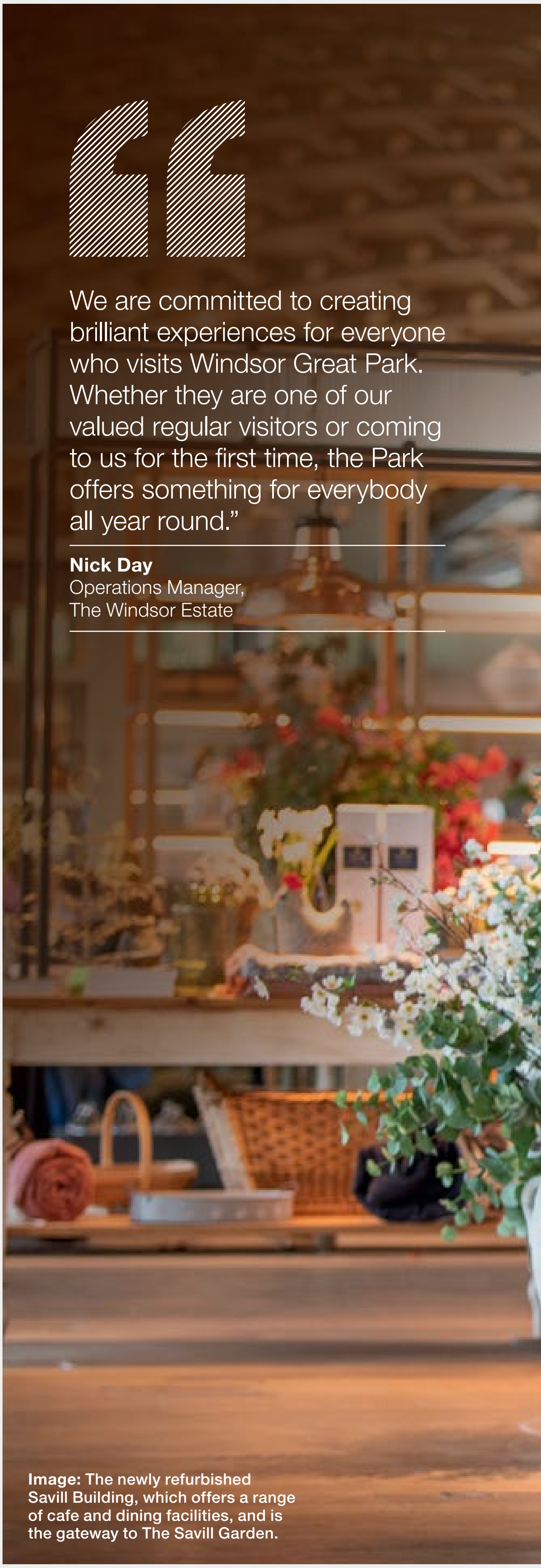
SSSIs[1] on the Windsor Estate

72%

in favourable condition and 100% are in favourable or recovering condition

1 Sites of Special Scientific Interest.

For more information visit:
thecrownestate.co.uk/our-places



"We are committed to creating brilliant experiences for everyone who visits Windsor Great Park. Whether they are one of our valued regular visitors or coming to us for the first time, the Park offers something for everybody all year round."

Nick Day
Operations Manager,
The Windsor Estate

Image: The newly refurbished Savill Building, which offers a range of cafe and dining facilities, and is the gateway to The Savill Garden.

Performance

Financial review

We have delivered an eighth consecutive year of income growth, returning a net revenue profit of £329.4 million to the Treasury."

Kate Bowyer
Chief Financial Officer

Presentation of information

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

Management review the business primarily on a proportionally consolidated basis.

The figures and commentary presented in this section are consistent with our management approach, as we believe this provides a more meaningful analysis of the Group's performance. The supplementary disclosures on pages 112 and 113 reconcile the accounts between the two bases.

Net revenue profit growth

4.0%

2017: 8.1%

Record income return to the Treasury

£329.4m

2017: £316.7 million from continuing operations

Strong growth in valuations

£801.7m

2017: £262.1 million

Partners' funds

£2.3bn

Funds managed on behalf of our strategic joint venture partners 2017: £2.0 billion

Gross Value Added (GVA)

£394.2m

Total Contribution impact (2017: 375.7 million)
Conventional measure of an organisation's economic contribution (profits, taxes and wages paid).*

*See thecrownestate.co.uk/total-contribution

Growth in income through focused development and asset management

The Crown Estate has delivered an eighth consecutive year of income growth, returning a net revenue profit of £329.4 million to the Treasury, 4% higher than in 2017 from continuing operations.

Growth has been driven by successful letting of recent developments in Central London and Regional and increases in operational offshore wind capacity. Like-for-like growth has been muted, with reversionary uplifts offset by allowances for retailer failures.

These results are underpinned by our low vacancy rate, which is just 3% across the Central London and Regional portfolios at year end. This reflects a clear and disciplined focus on best quality assets in each of the sectors where we have scale and expertise, and demonstrates the importance of our active approach to asset management in driving income growth.

Robust capital growth enabled by funding stability

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

This year, driven by retail rental growth in Central London and increased maturity of the offshore wind portfolio, our revaluation surplus was £801.7 million (2017: £262.1 million). Alongside profits from disposals and grant of long leases of £102.2 million (2017: £231.5 million), this has driven the total value of our balance sheet to £14,090.7 million (2017: £13,134.5 million).

At the end of the year, through partners' investment and their share of capital growth, funds managed on behalf of our strategic joint venture partners had grown to £2,349.8 million (2017: £2,045.5 million).

Long-term perspective underpins strategic risk management

Consideration of emerging risks and opportunities is an integral part of how we both shape our strategy and ensure its delivery. This year, we continued to develop our approach to drive consistency and resilience into our risk methodology. We also involved a broader pool of stakeholders in our material issues debate, improving its quality and relevance to our operational initiatives.

You can read more about this on page 7 and see our viability statement on pages 43-45.

Kate Bowyer
Chief Financial Officer

Financial resources

Consolidated revenue account

	2018			2017
	Group as presented £m	**Share of joint ventures £m**	**Proportionally consolidated £m**	Proportionally consolidated £m
Revenue	452.1	54.8	506.9	462.6
Direct costs	(90.2)	(14.5)	(104.7)	(81.4)
Gross surplus	361.9	40.3	402.2	381.2
Gross surplus margin			*79.3%*	*82.4%*
Indirect costs – administrative costs	(30.2)	–	(30.2)	(26.1)
Operating surplus	331.7	40.3	372.0	355.1
Share of profit from joint ventures	38.4	(38.4)	–	–
Net investment revenue, and other income	0.5	(1.9)	(1.4)	0.7
Treasury agreements and Statutory transfers	(41.2)	–	(41.2)	(39.1)
Net consolidated revenue account profit from continuing operations	329.4	–	329.4	316.7
Net revenue account profit from discontinued operations	–	–	–	12.1
Net consolidated revenue account profit	329.4	–	329.4	328.8

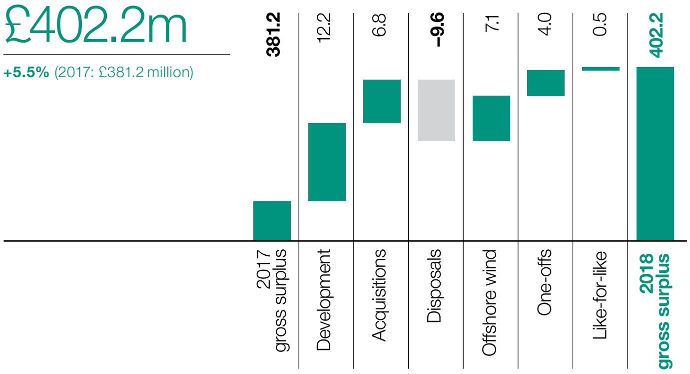
Net revenue profit increased 4.0% to £329.4 million from £316.7 million in 2017 on a continuing basis. The overall net revenue profit for 2017, including discontinued operations, was £328.8 million.

Revenue, which includes shares of joint venture income and service charge income, increased 9.6% to £506.9 million. Excluding service charge income of £30.2 million (2017: £27.0 million) revenue increased 9.4% to £476.7 million from £435.6 million. The sources of increased revenue and gross surplus performance are illustrated by the chart above.

Gross surplus bridge £m

£402.2m

+5.5% (2017: £381.2 million)



Gross surplus

The chart above illustrates how our overall gross surplus increased 5.5% from £381.2 million to £402.2 million. New developments contributed the largest component of this, adding £12.2 million principally as a result of the completion of Rushden Lakes and Westgate shopping centre during the year. Within acquisitions, the Central London portfolio was the major contributor to the new income of £6.8 million.

Income foregone on disposals reduced the gross surplus by £9.6 million. This included the deepening of our strategic partnership with NBREM at 20 Air Street in Central London, the disposal of Altrincham Retail Park and our continuing programme of disposals in the Rural & Coastal portfolio.

New offshore wind farms achieving first power contributed a further £7.1 million to the gross surplus. One-off adjustments, such as a change to income recognition for minerals, contributed a further £4.0 million.

Gross surplus in respect of like-for-like assets remained relatively flat overall, however within this the picture is mixed. On the Regional portfolio, whilst our void rate has remained low, the subdued occupier market resulted in a reduction in like-for-like gross surplus. Rental growth in Central London and offshore wind, as well as a positive contribution from the Windsor Estate, broadly balanced out the position.

Overall, our gross surplus margin has declined slightly to 79.3% compared with 82.4% in 2017, reflecting the cost of write offs in the challenging operating environment.

Indirect costs – administrative costs

Administrative costs grew £4.1 million to £30.2 million from £26.1 million over the year. With the relocation of our HQ to St James's Market, we now pay rent to our joint venture for our premises. This is partly offset at the operating surplus level by the income generated from letting our previous office. Other contributors to the variance from last year are our investment in our technology infrastructure, a reduction in the credit for capitalised salaries and our increased investment in our people through a learning and development programme.

Performance: Financial review
continued

Balance sheet

	2018			2017
	Group as presented £m	**Share of joint ventures £m**	**Total proportionally consolidated £m**	Total proportionally consolidated £m
Investment properties	**13,538.6**	**1,148.8**	**14,687.4**	13,747.9
Investment in jointly controlled entities	**1,111.1**	**(1,111.1)**	**–**	–
Cash and cash equivalents	**886.9**	**17.1**	**904.0**	842.8
Other assets and liabilities	**(1,445.9)**	**(54.8)**	**(1,500.7)**	(1,456.2)
Net assets	**14,090.7**	**–**	**14,090.7**	13,134.5

Net assets have increased by 7.3% from £13,134.5 million to £14,090.7 million. Overall surpluses of £903.9 million from the revaluation of investment properties, lease premia received and capital sales were the main contributors to the increase.

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

Investment properties

	Proportionally consolidated	
	2018 £m	2017 £m
Investment properties at fair value	**14,687.4**	13,747.9
Less: deferred income from lease premia received	**(1,633.1)**	(1,571.5)
Less: head lease liabilities	**(2.5)**	(2.4)
Add: lease incentives	**27.6**	21.0
Investment properties at valuation	**13,079.4**	12,195.0
Owner occupied properties at valuation	**91.8**	135.7
Other property investments at valuation	**85.4**	87.3
Total property at valuation	**13,256.6**	12,418.0

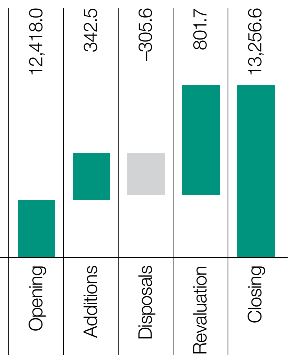
The table above reconciles the fair value of properties as shown in the balance sheet to the open market valuation on a proportionally consolidated basis which is discussed in the valuation section below. An outline of the principal valuation methodologies and assumptions is given in note 20 to the financial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

Investment property valuation bridge

£m

£13,256.6m

+6.8% (2017: £12,418.0 million)



On a proportionally consolidated basis, total valuation of property increased to £13,256.6 million. Additions and capital expenditure in the year totalled £342.5 million. Book value of disposals account for £305.6 million of the movement and the revaluation surplus increased the value by £801.7 million.

Valuation by portfolio

	Market value		Surplus/(deficit)		
	2018 £m	2017 £m	**2018 £m**	2018 %	2017 %
Central London	**7,737.2**	7,218.7	**488.0**	6.7	1.0
Regional	**2,540.2**	2,470.4	**26.3**	1.0	(1.1)
Energy, Minerals & Infrastructure	**1,394.1**	1,124.4	**265.8**	23.6	19.9
Rural & Coastal	**1,279.4**	1,323.7	**7.9**	0.6	1.9
Windsor Estate	**305.7**	280.8	**13.7**	4.7	1.5
Total Investment property – continuing operations	**13,256.6**	12,418.0	**801.7**	6.4	2.2
Profit on disposal and lease premia received			**102.2**		
	13,256.6	12,418.0	**903.9**	7.3	4.1

The table above illustrates the sources of the investment property capital growth amounting to £903.9 million or 7.3%.

The Central London portfolio increased in value from £7,218.7 million to £7,737.2 million principally from revaluation gains. Capital growth across the portfolio was driven largely by retail leasing transactions driving estimated rental value growth, while the equivalent yield moved 23bps from 3.91% to 3.68%. We invested £182 million in the portfolio, principally to buy in strategic head lease interests, but this was broadly matched by £241 million of capital receipts, predominantly lease premia from the sale of long leases.

The Regional portfolio increased in value from £2,470.4 million to £2,540.2 million. Development expenditure has been focused on Westgate and the funding of Rushden Lakes. The Portfolio review (pages 19-25) provides further detail of our development activity. On standing investments, rental values and yields were largely stable year-on-year, with specific adjustments for local occupier conditions. The strongest valuation performance came from offshore wind with the value of the Energy, Minerals & Infrastructure portfolio increasing 24% to £1,394.1 million. The growth was driven by the achievement of development milestones by our customers and favourable yield movements, reflecting the increasing maturity of the sector.

Despite generally softening agricultural values, our Rural & Coastal portfolio has proved relatively resilient, supported by the growth in value of strategic land assets. It was a key source of capital with gross sales totalling £97 million, delivering the majority of total Group gains above book value of £38.3 million.

Joint ventures and joint operations

We now manage £2,349.8 million (2017: £2,045.5 million) on behalf of our strategic joint venture partners. This increase is due to revaluation gains particularly within the joint operation with NBREM, further investment by Oxford Properties at St James's Market and further investment into the Fosse Partnership at Fosse.

The Crown Estate's share of investment properties held in joint ventures £1,159.4 million (2017: £1,062.9 million) is included within investment properties. Our share of net assets in joint ventures increased 12.1% from £990.9 million to £1,111.1 million. On the completion of St James's Market and Westgate, the share of income from joint ventures was £54.8 million in the year (2017: £34.0 million).

Cash flow

	2018 £m	2017 £m
Net cash inflow generated from operating activities	**350.2**	367.2
Net cash inflow/(outflow) from investing activities	**48.6**	(130.2)
	398.8	237.0
Net cash (outflow) from discontinued operations	**–**	(0.4)
Payment to the Consolidated Fund less Parliamentary Supply Finance	**(337.5)**	(318.3)
Net cash inflow (outflow) in the year	**61.3**	(81.7)
Opening cash at 1 April	**825.6**	907.3
Closing cash at 31 March	**886.9**	825.6

Our cash balances increased from £825.6 million to £886.9 million over the year. Operating activities generated £398.8 million with the majority of this being paid to the Treasury (Consolidated Fund) representing our net revenue profit payment. Overall net inflow from investing activities amounted to £48.6 million; of the £407.6 million raised by disposals, £273.8 million was invested in our property and £87.4 million was invested in joint venture assets, principally Westgate and Fosse.

Performance: Financial review
continued

Other disclosures

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

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

Taskforce for Climate-related Financial Disclosures (TCFD)
Through our association with The Prince's Accounting for Sustainability Project (A4S) we have committed to work together with other members of A4S towards adoption of the recommendations of TCFD. Its recommendations will catalyse more consistent, comparable, and reliable disclosure of climate related information that will facilitate more informed business and investment decision-making. We talk more about our approach to climate change in the Operations review on page 33.

Supplier payments
We aim to pay our suppliers within 30 days of receipt of a correctly documented invoice, or on completion of a service where a fee is recoverable from a third party, or in a shorter period according to contract. Over the past financial year, we paid 71% of suppliers within the target period (2017: 73%). This includes disputed invoices and amounts recoverable from third parties. On average, suppliers are paid within 36 days of receipt of an invoice, and we are actively considering how to streamline our payment processes in order to ensure that suppliers are paid within our target. We observe the principles of the Better Payment Practice Code.

Charitable donations
Under the terms of the Crown Estate Act 1961, we are restricted in our ability to make charitable donations.

As permitted by section 4(2) of the Act, we made donations during the year of £5,300 (2017: £5,540).

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

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

Viability Statement

In accordance with the 2014 revision of the UK Corporate Governance Code, the Board confirm that they have a reasonable expectation that The Crown Estate will continue in operation and meet its liabilities as they fall over the five years to 31 March 2023.

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

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

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

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

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

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

Performance

Our risk and strategy architecture

Risk: refining our model

Last year, we reported on a number of risk initiatives that sought to build on our existing risk management processes. This year, we have continued to develop our approach and the model that we use to drive consistency and resilience into our risk methodology:

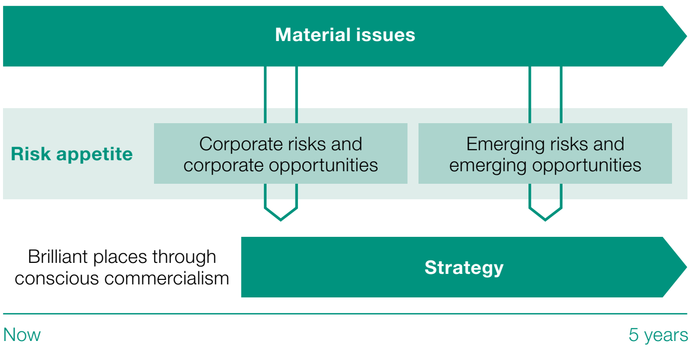
Risk architecture:
In October 2017, the Board approved the formalisation of our strategic risk architecture – a risk model that seeks to link our strategic analysis to the development and delivery of strategy in the long term. The architecture starts with our material issues, and tracks them as they manifest in risks and opportunities for The Crown Estate over the next 24 months (our corporate risks) and out to five years (our emerging risks). That risk analysis is then filtered through our risk appetite to weave it into our strategy, looking out to five years and beyond. The approval of our architecture marks an important point in the maturity of our risk model and facilitates robustness and repeatability into the processes that support our strategy. Our risk architecture is summarised in the diagram below.

Risk Group:
Following its reconstitution in the 2016/17 financial year, the Risk Group is now driving the risk agenda within the business, reporting to the Executive Committee, Audit Committee and Board, as set out in more detail below. This year also saw the Risk Group take a central role in our material issues thinking, to harness a broader pool of stakeholders than in previous years. To augment that further, the Risk Group sought input from our legal supply chain in the formulation of our material issues content for the Board strategy session in October 2017, further strengthening the diversity of thought being applied.

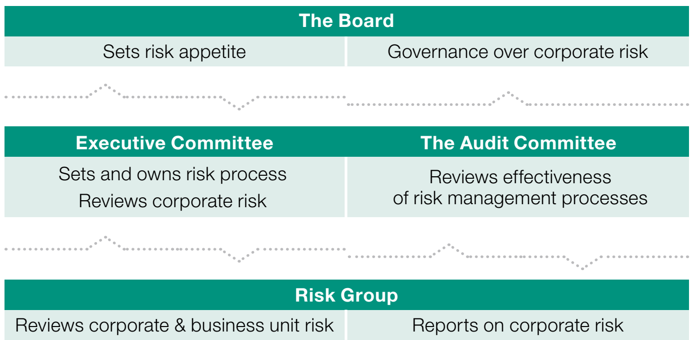
Risk governance:
Looking forward, in the 2018/19 financial year we will undertake a review of our risk governance, as part of our wider work on streamlining our approach and driving excellence into what we do. The findings of that review will be incorporated into our existing framework and architecture, seeking to further enhance the resilience of our approach and the quality of information that is available to the Board.

Following its reconstitution in the 2016/17 financial year, the Risk Group is now driving the risk agenda within the business, reporting to the Executive Committee, Audit Committee and Board.”

Our risk and strategy architecture



Risk management framework



Risk appetite:

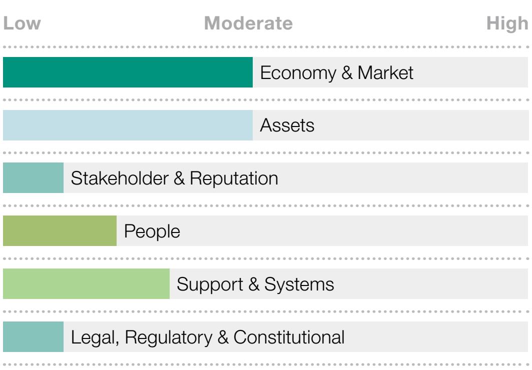
The Board undertook a review of our risk appetite in October 2017, as part of our Board Strategy Session. The Board agreed to continue to use the risk appetite model that it first adopted in October 2016, which adopts six key risk themes, which flow across our business: Economy & Market; Assets; Stakeholder & Reputational; People; Support & Systems; and Legal, Regulatory & Constitutional.

This methodology allows a strong link to be drawn between risk appetite and detailed strategic planning, and forms a key part of our strategic risk architecture. Risk appetite for each theme is shown in the table starting on page 46. Overall, the Board agreed that our risk appetite should not be altered.

In summary that risk appetite is: to take measured risk to drive outperformance, where we have confidence in our delivery by virtue of our critical mass and expertise in our core markets. Our risk appetite in relation to our market and our assets is moderate, and below that of our peer group.

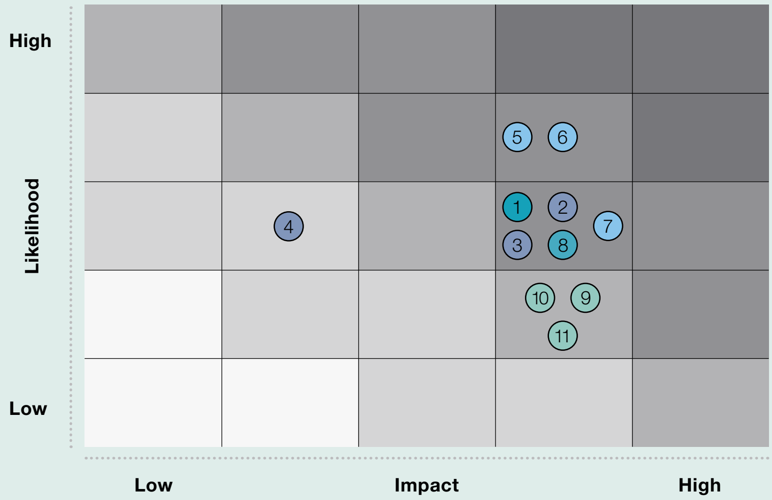
We do not take significant risk by investing large amounts of capital in risky or volatile asset classes and, similarly, we are conscious of the market and our exposure to Central London, but choose to manage this by investing in prime assets through our exposure to a range of sub-sectors and covenants.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

Summary risk appetite



Our principal risks and opportunities

The principal risks and opportunities we face in managing The Crown Estate and delivering our objectives are set-out in the heat map and table below. They are largely related to our portfolio of assets and are typical of a real estate organisation. These are not the only risks associated with The Crown Estate. The risks are grouped by risk theme rather than order of importance.



Our top risks and opportunities

1. Investment performance risk and uncertainty
2. London's attractiveness/ competitiveness
3. Development strategy and implementation
4. Adverse effect of climate change
5. Ability to manage a major incident (including cyber or information security breach)
6. Information systems risks
7. Digital risk
8. People risk
9. Health and safety
10. Government policy
11. Trust and strategic relationships

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

Performance: Our risk and strategy architecture
continued

Our KPIs (see pages 12-13)

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

Risk and opportunity	Material issues	Principal mitigations
Economy & Market 1 2		
1 – Investment performance Our investment performance and ultimately our investment strategy are key to driving total return and a strong income stream to the Treasury. An ineffective investment strategy or constraints to delivery of our strategy more broadly (i.e. through sub-optimal decision-making, limited availability/timing of access to funds, or lack of sustainability) could result in a failure to deliver against our performance targets. Economic uncertainty and its impact on consumer confidence could also threaten achievement against our total return benchmark. This could be further compounded by the impact of the UK's withdrawal from the EU and manifest in the following ways: (a) Weakening occupier demand and tenant failures that result in increased voids and defaults, particularly across our Central London and Regional portfolios, which have significant exposure to retail, leisure and office sectors. (b) Replacement of subsidies available to our tenant farmers with reduced subsidies or alternate support mechanisms could lead to adverse profitability, downward pressure on rents and potential defaults. (c) Financing constraints, devaluation of sterling, and post 2020 subsidy funding could impact offshore wind project delivery resulting in slower than projected rate of growth in energy capacity and hence a reduced rate of growth in our income from offshore wind.	Reputation and trust Health of the economy Strategic relationships Customer aspirations	Board oversight and approval of investment strategy, with formal review of implementation and performance monitoring. Financial modelling and forecasting along with regular economic and market analysis, including covenant checks on our major tenants. Formal Investment Committee in place, with responsibility for scrutiny over proposed investment decisions (subject to delegated authorities). Exploration of joint venture investments and oversight of existing joint ventures through Joint Venture Oversight Group. Diverse external inputs provided on global markets, economic analysis and disruption in the property industry.
Assets 1 2 5		
2 – London's attractiveness/competitiveness There is a risk that London becomes less attractive as a result of the physical environment (transport, congestion and air quality), and becomes less conclusive for our customers and tenants. Given significant elements of our portfolio and hence our revenue stream are linked to the ongoing success of Central London, in the medium to long term this could have an impact achievement of our objectives and those of our strategic partners.	London's place in the world Customer aspirations	Long-term development programme in place to invest in Regent Street and St James's portfolios. Close working and liaison with Westminster City Council as part of our regular programme of investment in Regent Street and St James's. Successful placemaking and public realm improvements.
3 – Development strategy and implementation The development of our portfolio and roll-out of our development pipeline play a key role in our overall strategy to ensure our portfolio meets customer demands, to deliver sustainable long-term returns. It is essential therefore, that our approach to development is effective, i.e. we build the right products to attract occupiers and meet their current and future needs. It is also essential that our development pipeline is implemented effectively, i.e. are completed to time, cost and quality to maximise the returns and protect the interests of our key stakeholders. As a result, we face risks relating to development performance including development overruns, development letting exposure, and/or supplier/sub-contractor failure. Changes in the market have a knock on effect on our risk exposure. Adverse planning judgements can also have an impact on the roll-out of our development pipeline and the long-term vision for our portfolio.	Reputation and trust Health of the economy Strategic relationships Government policy	Development and Project Management Governance Framework. Regular development monitoring through Project Control Groups for our major developments. Third party due diligence and continuous monitoring of developer financial health. Robust evaluation and appraisal of major development business cases. Regular reviews of the suitability of our future and current property offering, with conclusions incorporated into our strategy.
4 – Adverse effect of climate change The Crown Estate has a diverse portfolio that could be adversely affected by climate change, and related adverse weather events such as flooding. There is a risk that we could fail to adapt our portfolio to the threat from climate change. Conversely, by acting effectively now to manage climate change we have an opportunity to build resilience, identify efficiency and deliver as a responsible business.	Government policy and Constitutional change The natural environment	Integrated approach to sustainability underpinned by Executive Committee oversight. Developments/refurbishments built to a high sustainability standard (e.g. BREEAM) to meet or exceed EPC standards. Offshore wind programme with defined objectives.

Activity in 2017/18 and outlook	Change in impact compared to prior year	Change in likelihood compared to prior year
Our commercial remit of meeting our performance targets continues from year to year. The annual refresh of our investment strategy is a key factor in ensuring we organise and prepare the business and give ourselves the best chance to meet our targets. This took place in autumn 2017 and underwent a rigorous review process prior to Board approval in October. As well as economic change and the impact of the UK's withdrawal from the EU, we are operating against a backdrop of ever-increasing customer expectations, digital innovation and the rise of industry disruptors. In order to deliver a resilient, world-class portfolio and sustainable performance over the longer term, work will continue in the year ahead to develop a clear strategy and vision to deliver brilliant places to our customers in the long term.	⟷	⟷
We continue to invest in Central London and a significant focus for this year and the year ahead is the establishing and implementing an updated vision and strategy for the Central London portfolio as a whole. As has been the case for some time, maintaining strong and trusted relationships with our partners and stakeholders is fundamental to our ongoing success and reputation. We continue to take an active role, through close working with our stakeholders and through practical steps to ensure London retains its attractiveness and tackles some of its challenges around transport, congestion and air quality.	⟷	⟷
Having largely completed our busiest ever development pipeline (including moving into our St James's Market HQ), we are now establishing development opportunities for the future by concluding a series of feasibility studies as well as obtaining planning consent where possible. We will also prepare for more significant investment into public realm and place, alongside technological innovations that will create customer value and retention in the long term.	⟷	⟷
The process of developing our detailed approach to climate change is underway, involving the analysis of our risks and opportunities in alignment with the TCFD guidance. Our integrated approach ensures we address the risk to our assets through the sustainable acquisition and developments. More widely, we continue to address the risks and opportunities generated by climate change including for property and energy supply.	⟷	⟷

Performance: Our risk and strategy architecture
continued

Our KPIs (see pages 12-13)

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

Risk and opportunity	Material issues	Principal mitigations
Support & Systems 1 2 3		
5 – Ability to manage a major incident (including an information security breach) The Crown Estate portfolio in London is concentrated within Regent Street, St James's and Kensington; and could be at risk from a major incident, such as a terror attack. Maintaining information security is also an important priority for us. Although we are confident in our ability to comply with legislation such as the General Data Protection Regulation, any breaches that occur could result in significant damage to our business and our reputation. Additionally, the corporate IT systems at the core of our operations will always be subjected to attempted cyber-attacks with criminal intent, despite our attempts to fully secure them.	Reputation and trust Impact of technology and data on the business	Information Security Group is in place with responsibility for liaising with appropriate authorities. The corporate IT infrastructure and systems are protected by a comprehensive Information Security Framework accredited under IS0 27001, including firewall threat and detection monitoring systems. Crisis Management Framework and preparedness testing. Appropriate insurance arrangements in place.
6 – Information Technology Risk Our Information Technology plays a key role in how we manage our business. There is a risk that the investment we make in this area does not result in our technology and systems keeping pace with business needs and hence does not deliver the tools, secure systems and management information we require to manage our diverse portfolio of assets and meet our objectives in the future.	Impact of technology on the business	Investment in our IT capability. Executive level oversight in creation of our IT strategy. Recruitment and retention of the right skills and capability.
7 – Digital Risk Understanding the needs of our customers is fundamental to the ongoing success of our business. This forms an important element in shaping our strategy. However, a failure to understand and adapt to fast moving digital advances and technological change could pose a risk to the business. This could manifest through not understanding or foreseeing the impact of a digital change particularly across the retail sector, and/or not incorporating this into our forward portfolio vision This could result in a loss of competitive advantage and a potential impact on the sustainability of our income stream.	Impact of technology and data on the business Customer aspirations	Digital working group. Customer insight and analysis. Use of agencies who collect and manage consumer data on our behalf.
People 3		
8 – People Risk Our staff are fundamental to driving our business performance. There is a risk we are unable to reward, retain or recruit key talent or respond to significant changes in remuneration across key sectors, particularly when compared to our listed peer group, and during periods of market buoyancy.	Availability of skills and talent Reputation and trust	Remuneration Committee oversight and appointment of advisory reward consultants. Remuneration benchmarking and industry comparison. Strong recruitment processes together with formal succession planning arrangements.
Stakeholder & Reputation, Legal, Regulatory & Constitutional 4 6		
9 – Health and Safety We own a diverse range of properties (forests, parks, farms, shoreline, rivers and seabed, retail parks offices, residences etc.) and our aim is to ensure that these are safely worked, developed and enjoyed by staff, customers, contractors and members of the public. There is a risk that a significant health and safety incident occurs resulting in serious harm to members of staff, suppliers, customers or other persons, leading to fines or penalties and damage to our reputation.	Reputation and trust	Development and roll-out of management systems accredited to OHSAS 18001. Comprehensive regular reporting to the Executive Committee and Board. Health and safety training, programme of compliance reviews, Incident Reporting Hotline, and promotion of health and safety culture.
10 – Government policy The Crown Estate is an independent commercial business, created by Act of Parliament. Government policy can have a direct impact on our constitution, as well as impacting areas of activity such as our offshore wind leasing programme, Board appointment processes, and activities within the jurisdiction of the devolved administrations.	Government policy and constitutional change	Regular liaison with HM Treasury. Ongoing review of upcoming legislative/policy changes on our business. Strong working relationships with stakeholders across Government.
11 – Trust and strategic relationships Trust is an important element of all successful businesses. We work with a number of strategic partners through joint ventures and arrangements. A breakdown in those relationships and hence the trust of our real estate investment partners' results could result in an inability to deliver our objectives particularly in relation to the asset management and development of our Central London and Regional portfolios.	Strategic relationships, Reputation and trust	Regular partner and stakeholder engagement. Best-in-class commercial reporting to our joint venture partners. Robust joint venture governance processes to support compliance and performance.

Activity in 2017/18 and outlook	Change in impact compared to prior year	Change in likelihood compared to prior year
This year we have built on embedding our Crisis Management and Business Continuity arrangements to ensure they remain relevant and fit for purpose. Looking forward, we will continue to focus on maintaining business resilience; we will build on the extensive work undertaken already to enhance our health and safety, crisis preparedness, security and business continuity provisions, corporately and for our assets by using our supply chain.	↑	↑
Following investments in our IT capability and an environment of increasing risk and potential impact, this year we have focused on consolidation and ensuring our systems and infrastructure are secure and meet the needs of our business.	↑	↑
We recognise that innovations in technology and the rise of industry disruptors pose both a risk and an opportunity to our business. As with many businesses, we are ensuring our business evolves and transforms with the pace of change, including ensuring we are resourced to meet our aspirations and objectives (e.g. to engage with 'big data' to better trends and changes in consumer behaviour to support the needs of our customers).	New	New
Our people are a key asset to our business. This year, we have focused on strengthening key processes around resourcing and development to ensure effective execution of the employee life-cycle. This year, we will focus on: culture and values; performance and reward; talent, resourcing and development; and organisation effectiveness. We will make the most of our new headquarters to support collaboration, new ways of working, the wellbeing of our employees and effective internal communications.	↔	↔
Our approach to health and safety continues to focus on building and maintaining an effective health and safety culture. Thorough reporting has been in place throughout the year and will continue to be a key management priority.	↔	↔
We work closely with the Treasury and also monitor wider Government policy, constitutional change and political uncertainty, particularly within the context of Brexit. Whilst important, our approach has been to look beyond the current dynamics and focus on delivering long-term sustainable growth.	↔	↔
Effective stakeholder engagement has been and continues to be an area of strategic significance for us. Furthermore, with approximately 40% of The Crown Estate portfolio in managed joint ventures, understanding the needs of our strategic partners remains critical to our reputation, the viability of our business model and maintaining outperformance.	New	New

Chairman's review

Our strategic approach is embedded in our governance

Through periods of uncertainty and change, it is essential that a Board is performing to the best of its ability; to anticipate the issues that will be material to The Crown Estate in the future and to develop a business culture that is resilient to disruption."

Robin Budenberg
Chairman

After many years in a tried and tested model, the property industry finds itself in a state of transition. A 'bricks and mortar' mentality is being replaced by placemaking and service-led customer experience; traditional thinking is being disrupted by new challengers; and digital enablement is driving and accelerating change.

This provides us with both a challenge and a significant opportunity. As an organisation and as a Board, we are proactively tackling the issues that will define our offering in the future, working collaboratively in our aim to continue to deliver market outperformance in the long term. We do that within our overarching commitment to conscious commercialism and ethical business decision-making; seeking to take best practice from both the public and private sectors. It is important that we share the highlights of that work with you; our customers, partners and stakeholders.

Focus

Through this period of uncertainty and change, it is essential that the Board is performing to the best of its ability; to anticipate the issues that will be material to The Crown Estate in the future and to develop a business culture that is resilient to disruption. Aligned to that, the Board has continued to tailor its approach this year, focusing on three key areas: Long-term strategy; The Crown Estate's broader purpose; and Board.

A full account of the Board's priorities and activities over the last year can be found on pages 56-57 and a summary of those focal points are set out below.

1. Long-term strategy

I reported last year that we had instigated a governance process of portfolio vision presentations for the Board, giving our portfolios an opportunity to bring the long-term to life. This year, those vision presentations have been set into a strategic framework, focusing on the issues we will face in realising the long-term potential of our business.

These strategic presentations have been formed based on ideas from throughout the business and also with external inputs from partners, such as the Javelin Group and the World Economic Forum. As a Board, we also look to gain a diversity of thought, insight and perspective in all of our decision-making, whether that be based on social background, ethnicity, gender, sex or business experience.

2. Broader purpose

The Crown Estate continues to deliver exceptional financial performance and to be at the forefront of sustainable business practice. But we face very different challenges in the future and we need to continue to develop our social purpose. This includes how we enhance wellbeing and the environment; and also how we can make a meaningful contribution to the people who enjoy our assets. Whether they be our customers or members of the communities in which we operate, we want to establish thriving places that are attractive, inclusive and accessible to all.

Alongside continuing to develop our Total Contribution methodology, the Board has been exploring how we can integrate our broader impact into our everyday business. We see this as creating better commercial decisions, that are fit to deliver in the long-term.

3. Effectiveness

As part of our three-yearly cycle, this year we undertook an externally facilitated Board evaluation, partnering with Independent Board Evaluation. That review went deeper than we have been before into how we operate and how we can refine our approach. As a Board, we are fully committed to using the findings to drive sustainable improvement in our overall Board performance.

Further details of that effectiveness review can be found on page 58.

The Future

In an increasingly competitive world, we need to focus where we can genuinely add value. We have great sources of competitive advantage, particularly in central London where the contiguous nature of our portfolio creates distinct strategic options. Our overall approach is being adapted to embrace digital, to put the customer at the heart of our business and to challenge historic ways of thinking. Enabling that customer focus is vital for all our activities, from offshore wind to Regent Street, and the agility and resilience embedded in our governance is helping us to do this.

We are laying the groundwork now for a strategy that will take us through the change to come and I am confident that the business and the talented people within it will respond and perform strongly for you; our customers, partners and stakeholders.

On that note, I am delighted to welcome Lynda Shillaw to the Board. Lynda brings experience across different regions and sectors in the UK including retail, office, rural, infrastructure and finance with a focus on placemaking; nurturing a sense of community in both urban and rural environments. She also brings a commitment to broader social value and sustainability, which are intrinsic to our approach. Lynda will join our Audit Committee, to further strengthen the commercial grounding of that Committee's activities.

Further detail of our Board composition, skills and experience can be found on pages 54-55.

Robin Budenberg
Chairman

Our annual strategy cycle

March-April
Approval and Implementation

May-August
Material Issues/ Strategic Planning

September-October
Validation and Approval

November-February
Business Planning and Budgeting

Guide to the Governance Section

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

Alignment with the UK Corporate Governance Code

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

The themes of this governance report:

Leadership

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

Read more: **pages 52-53**

Effectiveness

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

Read more: **pages 58-59**

Accountability

Our decisions are discussed within the context of the risks involved.

Read more: **pages 68-69**

Stakeholder relations

Strong and transparent relationships with our stakeholders are crucial to achieving our aims.

Read more: **pages 60-61**

Remuneration

See our full Remuneration report.

Read more: **pages 70-76**

Leadership

Governance to deliver strategy and resilience

The Board is supported by governance that enables the creation and delivery of long-term strategy within the Board's risk appetite.

Board Committees

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

Read more: **pages 67-76**

The Board

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

Chairman

Senior Independent Board Member

Independent Non-Executive Board Members

Executive Board Members

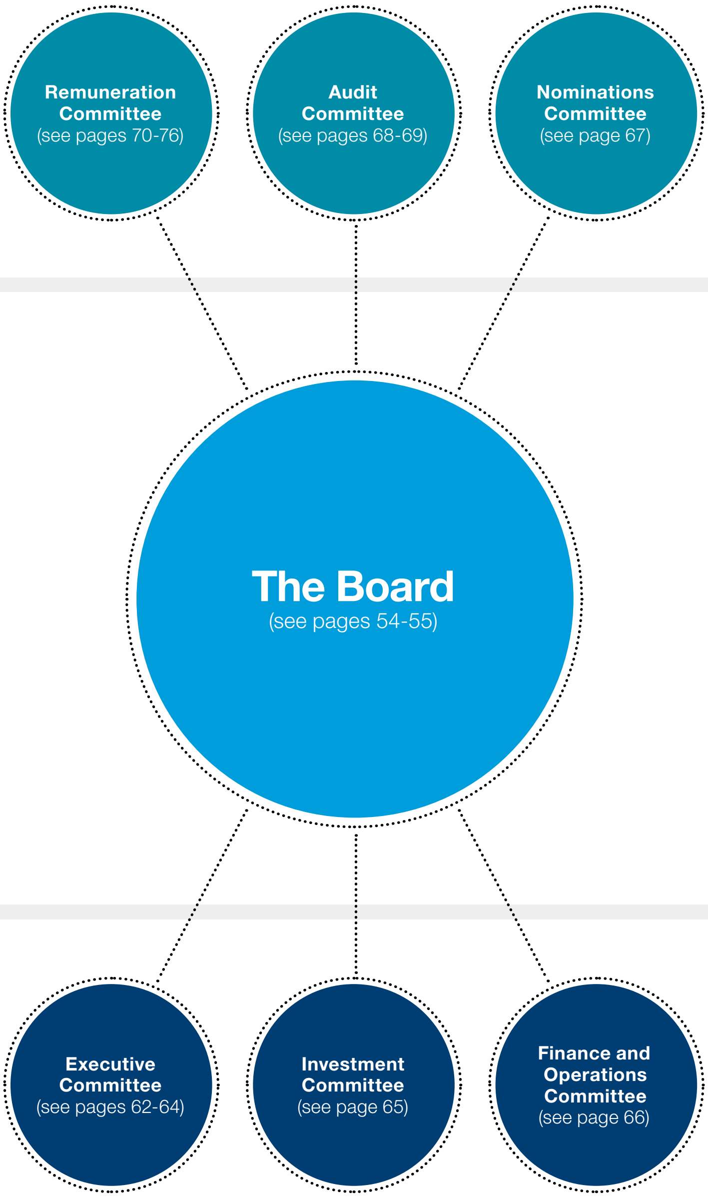
Non-Executive Board Counsellors

Read more: **pages 54-59**

Executive Committees

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

Read more: **pages 62-66**



The role of the Board

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

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

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

Delegation

The Board has set clearly defined delegations to all of its Committees, through recorded terms of reference which are regularly reviewed to ensure that they are current and continue to meet best practice. The key delegated duties for each Committee are confirmed in the individual Committee reports in this Annual Report. In February 2018, the Board instigated a review of delegations and terms of reference for its Committees, which is anticipated to be presented to the Board for consideration in July 2018.

The independence of the Board

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

Board roles*

Chairman

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

Senior Independent Board Member

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

Independent Non-Executive Board Members

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

Executive Board Members

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

Non-Executive Board Counsellor

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

General Counsel and Company Secretary

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

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

Our Board
2017/18

A balanced, skilled and experienced Board

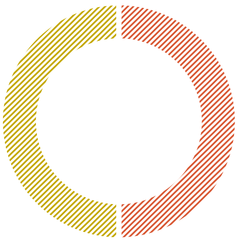
We are committed to continuing to improve the diverse* mix of backgrounds, commercial experience and approach that sits on our Board. Through this we aim to bring rounded decision-making and challenge, as well as expansive strategic thinking.

Key

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

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

Gender



Male	50%
Female	50%

Tenure

<1 year	12.5%
1-3 years	37.5%
3-5 years	12.5%
5 years +	37.5%

* Diversity and tenure is calculated by reference to Board Members only, as at 31 March 2018.

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

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

Strengths
Finance / Leadership / Strategic overview / Governance

Appointment
1 August 2016

Tenure: 2 years

N

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

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

Strengths
Leadership / Corporate overview / Government relations / Urban regeneration / Property

Appointment
1 January 2012 and reappointed on 1 January 2016

Tenure: 6 years

Paula Hay-Plumb
Independent Non-Executive Board Member

Skills and experience
Paula is an experienced director in both the public and private sectors. She spent nine years on the Board of national regeneration agency; English Partnerships, and in 1997/98 chaired the Government's Coalfields Taskforce. A Chartered Accountant, Paula currently acts as a Non-Executive Board Member of Hyde Housing Association, Aberforth Smaller Companies Trust plc and The Oxford University Hospitals NHS Foundation Trust. She is also a Trustee of Calthorpe Estates.

Strengths
Finance / Governance and audit / Regeneration

Appointment
1 January 2015

Tenure: 3 years

A (N)

Dipesh Shah OBE
Independent Non-Executive Board Member

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

Strengths
Energy and infrastructure, including renewables

Appointment
1 January 2011 and reappointed on 1 January 2015

Tenure: 7 years

(R)

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

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

Ian Marcus
Independent Non-Executive Board Member and Senior Independent Board Member

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

Strengths
Real estate investment banking

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

Tenure: 6 years R A N

Kate Bowyer
Chief Financial Officer and Executive Board Member

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

Strengths
Real estate finance

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

Tenure: 2 years

James Darkins
Independent Non-Executive Board Member

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

Strengths
Strategic leadership / Real estate investment management

Appointment
1 January 2016

Tenure: 2 years A R

Lynda Shillaw
Independent Non-Executive Board Member

Skills and experience
Lynda has broad experience from managing multi-faceted property estates across different regions of the UK and different asset classes, including office, retail and farmland. She has a deep interest in sustainable placemaking, focusing on nurturing a sense of community in both urban and rural environments. Lynda is currently Divisional CEO Property for Manchester Airports Group, where she is responsible for its investment and development portfolio across its three airports as well as its interest in the 3.5 million sq ft Airport City Manchester Development.

Strengths
Real estate, retail and infrastructure / Finance

Appointment
1 January 2018

Tenure: 3 months

Gareth Baird
Board Counsellor

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

Strengths
Scottish affairs / Farming / Enterprise

Appointment
1 October 2009, reappointed on 1 October 2013, retired from the Board on 30 September 2017 and appointed as a Board Counsellor on 1 October 2017.

Tenure: 8 years

Peter Madden OBE
Board Counsellor

Skills and experience
Peter is the former Chief Executive of 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. He stepped down in June 2017. Previously, Peter was Chief Executive of Forum for the Future, a non-profit organisation working globally with cities, governments and leading businesses to promote sustainable development. Peter is a member of Ingersoll Rand's Advisory Council and Director of ecovivid.

Strengths
Sustainability / Urban innovation

Appointment
1 January 2014 and reappointed on 1 January 2018

Tenure: 4 years R

Our Board's year

Our Board has increased its activity this year in support of our strategy and innovation agenda.

Strategy and innovation

- Undertook the Board strategy session.
- Approved the 2018/19 and five-year strategy for The Crown Estate.
- Approved the Corporate Plan for The Crown Estate.
- Reviewed the long-term strategic vision for each of The Crown Estate's portfolios.

Financial performance

- Reviewed quarterly financial results and capital forecasts.
- Reviewed regular performance updates, including against non-financial targets.
- Approved the revenue target and budget for 2018/19.

Investment, assets and funding

- Approved the sale of Altrincham Retail Park.
- Approved the re-development of Morley House.
- Approved the development of Fosse Park West and the Fosse Park Food Court.
- Implemented a new form of market reporting for the Board.

People, culture and values

- Reviewed The Crown Estate's approach to stakeholder and customer engagement.
- Reviewed the results of The Crown Estate's staff survey, 'One Voice'.
- Reviewed The Crown Estate's health and safety activity and performance.
- Reviewed reports on sustainability.

Risk management and internal control

- Reviewed and approved The Crown Estate's strategic risk architecture.
- Considered and approved The Crown Estate's material issues.
- Reviewed regular reports on assurance from the Audit Committee.
- Reviewed reports on risk from the business, including information security and privacy.

Governance and stakeholder management

- Approved the key principles to support a review of the terms of reference for the Board and Committees of The Crown Estate.
- Approved the methodology for establishing The Crown Estate's viability and approved the Viability Statement.
- Approved The Crown Estate's register of interests.
- Evaluated the Board's effectiveness, as part of an externally facilitated Board evaluation.
- Approved The Crown Estate's Annual Report for 2016/17 as being fair, balanced and understandable.

How we keep the Board informed

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

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

Attendance at the Board during the 2017/18 financial year

Board Member/Counsellor	Board	Strategy session
Robin Budenberg	7/7	1/1
Alison Nimmo	7/7	1/1
Ian Marcus	7/7	1/1
Kate Bowyer	7/7	1/1
James Darkins	7/7	1/1
Paula Hay-Plumb	7/7	1/1
Dipesh Shah	7/7	1/1
Lynda Shillaw[1]	2/2	0/0
Gareth Baird[2,3]	7/7	1/1
Peter Madden[3]	7/7	1/1

1 Appointed to the Board on 1 January 2018.
2 Retired from the Board on 30 September 2017 and was appointed as a Board Counsellor on 1 October 2017.
3 Board Counsellor.

Board visit to Rampion Offshore Wind Farm

In April 2017, our Board visited the Rampion Offshore Wind Farm to see first-hand the construction of a key part of the UK's world-leading offshore renewables industry. Following a briefing on the project, and health and safety, the Board visited the wind farm itself on crew vessels, docking against the column of a wind turbine to experience the scale of the installation and also the highly technical nature of access to and from these assets. Beyond relief that it was a particularly calm day, the Board were grateful to representatives of E.on and the Rampion project team for both their time and insights.

Board visits such as this, and the visit to the recently completed Rushden Lakes, are a key part of ensuring that our Board get close to our assets and our customers.

Board activity and administration

The Board had seven scheduled meetings during the year, spread evenly across the calendar. In addition, the Board undertook a special strategy session over two days in October, near Rushden Lakes, where long-term strategy was examined, the strategy for the 2018/19 financial year was set and detailed discussions were undertaken on risk and The Crown Estate's material issues.

Board meetings are scheduled for three hours, and are augmented by time spent 'in camera' for Board Members and also for Independent Non-Executive Board Members only (both with and without the Chairman). Special topic sessions are also undertaken and this year such sessions included our work on customer focus, digital disruption and long-term visions from Directors of Portfolios.

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

Induction and training

In addition to the normal business of the Board, this year we have inducted a new Board Member (Lynda Shillaw). Board induction at The Crown Estate includes meetings and background material and is coordinated by the Company Secretary. Induction is designed to build a broad understanding of our business, including: strategy, financial and accounting arrangements, governance, risk and our material issues.

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

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

Effectiveness

Delivering best-in-class governance

This year our Board benefited from external facilitation in undertaking a review of its effectiveness, whilst also continuing to deliver against its priorities from the 2016/17 financial year.

Externally facilitated Board evaluation in 2017/18

The Board of The Crown Estate has committed to seeking to comply with the provisions of the UK Corporate Governance Code, where it can properly be applied to The Crown Estate. As part of that commitment, and in compliance with Code Provision B.6.2, this year the Board evaluation was externally facilitated by Independent Board Evaluation (IBE). IBE was contracted on an arm's length basis and has no other connection with The Crown Estate, beyond the evaluation services specifically contracted.

An overview of the process for the externally facilitated Board evaluation is set out below:

Summer 2017

A procurement exercise was undertaken by the Company Secretary and a preferred supplier recommendation was approved by the Board. Terms of reference were then agreed with IBE, and historic evaluation materials and a full induction pack was provided to the IBE team.

September 2017

The Chairman's appraisal was led by the Senior Independent Board Member and undertaken by the Board; and findings were delivered to the IBE team. The Chairman's appraisal of individual Board Members was undertaken and provided to the IBE team.

October 2017

The IBE team undertook individual interviews with all Board Members, each member of the senior executive team and the Company Secretary and attended the Board strategy session.

November 2017

The IBE team prepared reports on the Board and its Committees, and sought further input and clarification where needed.

December 2017

The IBE team delivered the reports on the Board and its Committees to The Crown Estate and attended a special Board evaluation session at the December Board meeting. The key conclusions and recommendations were discussed, and deliverables and objectives were recorded by the Company Secretary.

December 2018

The IBE team will return to The Crown Estate to review progress against the deliverables and objectives.

Key conclusions, deliverables and objectives

Overall assessment:
The Board is both dedicated to delivering for The Crown Estate and engaged with the business. The culture of the Board is evolving in recognition of the need to continue to drive toward a more commercial approach and the need for the business and the Board to embrace ongoing change; and there are opportunities for improvements to be realised in information flows and clarity of remit.

Board deliverables:
Based on the recommendations provided in the IBE report, the Board has agreed the following key deliverables for the 2018/19 financial year:

- Refresh the terms of reference for the Board and its Committees to reflect a more progressive approach.
- Build further engagement sessions into the Board calendar to foster closer collaboration with the business and its staff.
- Refresh the Board induction and training programmes.
- Agree a clear set of Board objectives for the 2018/19 financial year (see below).

Board objectives:
In March 2018, the Board agreed the following four objectives for the 2018/19 financial year:

- Ensure that the executive delivers a clear ambition for our future operating model which is woven into the core strategies.
- Ensure that the portfolio vision presentations for Central London, Regional and Energy, Minerals & Infrastructure deliver key insights on operating requirements, digital, social impact and sustainability.
- Shape the strategy for The Crown Estate's capital trading to ensure that we strike the correct balance between our commercial imperatives and the market, legal, reputational and stakeholder risks that may arise.
- Provide oversight to the executive in developing a People Strategy for The Crown Estate.

Reporting against the Board's 2016/17 actions

We reported last year on a series of actions that were agreed to drive performance and good governance within the Board and its Committees and also to foster a culture of supportive challenge with the senior executives of The Crown Estate. An update on those actions is provided below.

Area of evaluation	Actions from 2016/17	Progress made in 2017/18
Board focus	• Seek further opportunities to discuss strategy in the Board calendar. • Executive to formulate a re-description of The Crown Estate's purpose for presentation to the Board. • Embed reporting and review of culture in the Board calendar.	• Portfolio Vision presentations delivered for each portfolio and Board half-year strategy session undertaken. • The Crown Estate's purpose now embedded into strategy. • Specific culture focused items delivered in the Board calendar, with a 'people' themed Board meeting added for 2018/19.
Board composition	• Continue to embed diversity as a requirement of Board recruitment. • Review the Board calendar to include more informal Board sessions. • Seek opportunities to provide external input for Board consideration.	• Diversity remains a core requirement of The Crown Estate's recruitment and Board recruitment under the Governance Code for Public Appointments. • Non-Executive Board Member only (with and without the Chairman) sessions undertaken at each Board meeting and for Committees. • External inputs received, including from the Javelin Group, CEBR and the World Economic Forum.
Risk management	• Examine and redefine The Crown Estate's risk appetite. • Describe The Crown Estate's internal assurance through a formal assurance framework. • Explore opportunities for more regular Board strategic risk discussions. • Consider the benefit of an additional risk-focused Audit Committee meeting.	• Risk appetite now examined by the Board on a six-monthly basis. • Assurance framework now embedded with management and the Audit Committee. • Six-monthly strategic risk sessions embedded. • Risk-focused Audit Committee undertaken and added to the ongoing Board calendar.
Collaboration	• Continue to focus on embedding the new executive structure and conduct a review of implementation at the end of the financial year.	• Implementation review undertaken and strategy streamlined to facilitate greater collaboration in 2017/18.
Conflicts of interest	• Continue to run regular conflict exercises for the Board and senior management.	• Full Crown Estate conflict exercise (including Board and senior management) performed in March 2018.

Stakeholder relations

Maintaining a relationship of trust with our constitutional stakeholders

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

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

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

The key restrictions are:

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

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

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

The arrangements for management as between the Treasury and The Crown Estate are recorded in a framework document, which can be found on The Crown Estate's website and was most recently updated in January 2018 (thecrownestate.co.uk/hm-treasury-and-the-crown-estate).

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

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

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

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

The Accounting Officer's statement

The Accounting Officer

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

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

In preparing the accounts the Board is required to:

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

The Treasury has appointed the Chief Executive (the Second Commissioner) as the Accounting Officer for The Crown Estate. Her responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in 'Managing Public Money'. With regard to this Annual Report, the Accounting Officer takes personal responsibility for the Annual Report itself and for the judgements required for determining that it is fair, balanced and understandable.

The Accounting Officer's Statement

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

There have been no personal data related incidents in 2017/18 which are required to be reported.

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

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

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

- the acceleration of change in the commercial property industry, as it is disrupted by digital and services-led providers;
- the evolving demographics of our customers, stakeholders and staff; and
- the ongoing challenges presented in the areas of information security, privacy and responsible business practice.

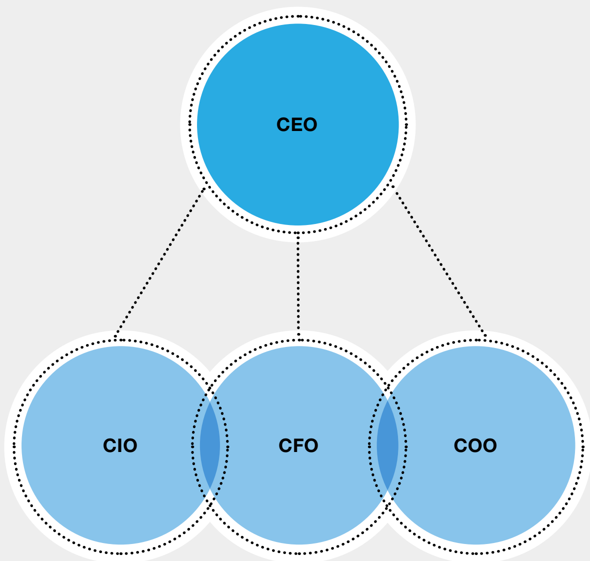
Alison Nimmo
Chief Executive
11 June 2018

Our Executive Committee

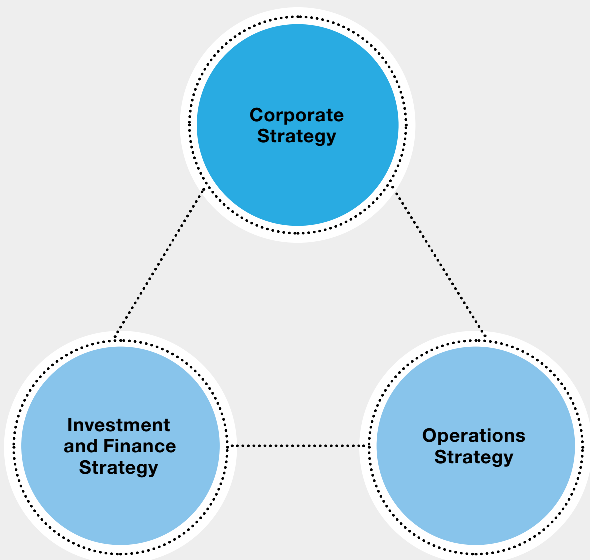
An agile and integrated executive team

Further streamlining of our strategic approach
We reported last year on our new executive governance structure, which saw clear ownership of strategy alongside our new, leaner Executive Committee. In the 2017/18 financial year, we undertook further integration, consolidating the Finance and Systems Strategy into the Investment Strategy (to create the Investment and Finance Strategy) and into the Operations Strategy (to create a more integrated strategy across operations and systems). Strategy in the 2018/19 financial year will be delivered in this new format, with our strategic objectives drawing a thread of consistency and integration through the strategic framework.

People



Strategy



Alison Nimmo CBE
Chief Executive

Roles and responsibilities
Alison is the Chief Executive of The Crown Estate, chairing each of the Executive Committees and has responsibility for the formulation and implementation of the Corporate Strategy on behalf of the Board.

For Alison's biography, please see page 54.

Read more: **pages 4-6**

Kate Bowyer
Chief Financial Officer

Roles and responsibilities
As Chief Financial Officer, Kate has joint responsibility for the formulation and implementation of the Investment and Finance Strategy and Operations Strategy on behalf of the Board. Kate's responsibilities include The Crown Estate's finance function and business technology.

For Kate's biography, please see page 55.

Read more: **pages 38-43**

Paul Clark
Chief Investment Officer

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

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

Read more: **pages 16-25**

Judith Everett
Chief Operating Officer

Roles and responsibilities
As Chief Operating Officer, Judith has joint responsibility for the formulation and implementation of the Operations Strategy on behalf of the Board. She leads on people, customer, brand and marketing, communications and sustainability. Her focus is on shaping these central functions and positioning The Crown Estate as a progressive business.

Judith joined The Crown Estate in 2013 as Director of Corporate Affairs. She has experience of business development, brand building, communication and engagement activity across a range of sectors, having worked with Royal Dutch Shell, Scottish Enterprise, Threadneedle Investments and AstraZeneca.

A graduate of both Aberdeen and Edinburgh universities, where she read International Relations and Business. Judith is also a member of the CBI's London Council.

Read more: **pages 28-35**

Rob Booth
General Counsel and Company Secretary

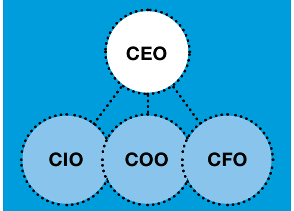
Roles and responsibilities
As General Counsel and Company Secretary, Rob acts as an independent adviser and stakeholder to decision-making by the Executive Committees, but not as a member. Rob's responsibilities include legal, information security, secretariat and knowledge management.

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

The Executive Committee report

The Executive Committee report

Chair and member structure



"We have used our Executive Committee to refine our strategic thinking on digital, our operating model and harnessing innovation."

Alison Nimmo
Chief Executive

Attendance by members of the Executive Committee during 2017/18

Alison Nimmo (Chair)	11/11
Paul Clark	11/11
Judith Everett	11/11
Kate Bowyer	11/11

Overview

Meeting 11 times this year, our Executive Committee delivers the strategic direction of our business for our Board. It brings together all aspects of what we do, analyses material issues and risk to generate the Corporate Strategy, and ensures that business plans are aligned to our strategic objectives. It also reports on the delivery of the Corporate Strategy to the Board.

This year

2017/18 saw a very busy agenda for the Executive Committee, as we streamlined our strategy and pushed our strategic thinking as part of our strategic planning cycle.

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

- the strategy of The Crown Estate for 2018/19;
- the business plans and Corporate Plan for 2018/19;
- strategic risk and material issues;
- The Crown Estate's financial and non-financial performance;
- health and safety and sustainability; and
- people, culture, governance and major corporate projects.

The key duties of the Executive Committee are:

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

Strategy

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

Harnessing innovation

Our governance sees our Directors of Portfolios join the Committee four times each year to act as stakeholders to the key strategic discussions. In addition this year, the Committee has engaged the Directors of Portfolios in relation to their respective portfolio visions to the Board and has sought a series of specific inputs on progression and innovation within our business model, such as 'space as a service', wellbeing and public realm and the use of our industry ecosystem.

February:
Energy, Minerals & Infrastructure portfolio vision presentation.

March:
Central London portfolio vision presentation.

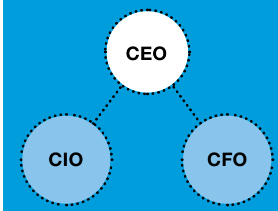
May:
Rural & Coastal portfolio vision presentation.

June:
Regional portfolio vision presentation.

The Investment Committee report

The Investment Committee report

Chair and member structure



"We are using the Investment Committee to push forward on The Crown Estate's integrated thinking and decision-making."

Paul Clark
Chief Investment Officer

Attendance by members of the Investment Committee during 2017/18

Alison Nimmo (Chair)[1]	9/10
Kate Bowyer	10/10
Paul Clark[2]	9/10

1 Judith Everett deputised as Chair for the July 2017 meeting.
2 Paul Clark did not attend the February 2018 meeting, no deputy was nominated.

Overview

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

This year

2017/18 has seen a consistent level of transactional activity across The Crown Estate's portfolios, with a number of significant investment and development decisions, including in connection with our strategic joint venture partners. We have also taken input from a number of external sources to ensure that our view of the markets within which we operate remains as broad as possible.

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

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

The key duties of the Investment Committee are:

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

Strategy

The Investment Committee is the home of the Investment and Finance Strategy. The Directors of each Portfolio, together with the Head of Development, Head of Commercial Finance and the Head of Investment Strategy, report to the Committee against their delivery of individual business plans in support of the Investment and Finance Strategy.

Financial delegated authorities

The Board takes a risk-weighted approach to delegation, and has increased the principal financial approvals* of the Investment Committee, from 1 April 2018:

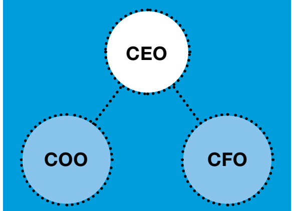
Central London and Regional portfolios: Capital transactions	to a maximum of £100 million (previously £50 million)
Rural & Coastal and Energy, Minerals & Infrastructure portfolios: Capital transactions	to a maximum of £50 million (previously £20 million)
Extensions of existing strategic joint ventures	to a maximum of £20 million (The Crown Estate's interest)
New non-strategic joint ventures	to a maximum of £20 million (The Crown Estate's interest)

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

The Finance and Operations Committee report

The Finance and Operations Committee report

Chair and member structure



"We have used the Finance and Operations Committee to unlock value and improve operational performance."

Judith Everett
Chief Operations Officer

Attendance by members of the Finance and Operations Committee during 2017/18

Alison Nimmo (Chair)	4/4
Judith Everett	4/4
Kate Bowyer	4/4

Overview

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

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

This year

2017/18 has seen the Committee continue to progress its oversight of efficiency and consistency of delivery by the functions reporting to the Committee.

This has been delivered through a more collaborative approach, sharing best practice and insights for the benefit of the whole business.

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

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

The key duties of the Finance and Operations Committee are:

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

Strategy

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

Operational excellence

The current focus of the Finance and Operations Committee is to embed operational excellence in all that we do. Whether that be support to our people, the resilience and usability of our systems or wellbeing and health and safety, The Crown Estate is exploring best-in-class and aiming to deliver to that level. Our office move in 2017 provided a real moment of acceleration in performance and support to our staff. Embedding that acceleration is a key part of continuing to realise the value of our people and approach. At the same time, the Committee is taking a look at how we use our supply ecosystem; to be a smart buyer, to leverage partnerships and to embed collaboration in our outsourced activities.

The Nominations Committee report

"To deliver the high-quality and integrated decision-making for The Crown Estate; it is essential that we have the best possible breadth and depth of skills, experience and diversity throughout the organisation, including within our Board and most senior executives."

Robin Budenberg
Chairman and Chair of the Nominations Committee

Attendance by members of the Nominations Committee during 2017/18*

Robin Budenberg (Chair)	2/2
Paula Hay-Plumb	2/2
Ian Marcus	2/2

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

Overview

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

This year

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

- the membership of the Board and all Board Committees;
- future Board recruitment and reappointments;
- the leadership of the Executive Committee; and
- Board and senior executive succession planning.

In particular, the Committee considered the appointment of Lynda Shillaw, the reappointment of Peter Madden and the appointment of Gareth Baird as a Board Counsellor, on his retirement from the Board. In addition, the Committee examined the short- to medium-term skills and expertise mix, recognising that a number of Board Members are approaching the end of their tenure on the Board and that the lead time for new appointments is significant.

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

For the Board, succession planning has focused on our breadth of skills with particular reference to customer-centricity, digital and retail. For our senior executive succession, discussions have focused on the skills and experience needed to meet the challenges arising from the markets within which we operate.

Non-Executive Board appointments

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

The key duties of the Nominations Committee are:

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

Strategy

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

The Audit Committee report

"The Audit Committee is continuing to refine its approach, in support of delivering The Crown Estate's strategic objectives."

Paula Hay-Plumb
Chair of the Audit Committee

Attendance by members of the Audit Committee during 2017/18

Paula Hay-Plumb (Chair)	4/4
James Darkins	4/4
Ian Marcus	4/4

Overview

Having historically met three times each year, the Audit Committee added a fourth meeting to its calendar this year, to focus specifically on risk. This additional meeting will now form an ongoing part of the Audit Committee's approach.

The Committee plays a crucial role in oversight and scrutiny of our internal control environment, financial reporting and approach to risk; providing a verbal update to the Board after each meeting, and an annual report demonstrating the discharge of its activities during the year.

Composition of the Audit Committee

The composition of the Audit Committee has remained constant this year, with the members having served for the following periods of time:

- Paula Hay-Plumb – 3 years (as Chair);
- James Darkins – 2 years; and
- Ian Marcus – 6 years

Between its members the Audit Committee benefits from skills and experience gained from significant exposure to:

- accountancy and finance (public and private sector);
- Audit Committee conduct;
- investment management and investment banking; and
- property and commercial operation.

Further credentials of the members are set out on pages 54-55 and the members of the Committee possess the financial knowledge and commercial experience to meet the needs of the Board and the business; and to satisfy the requirements of the UK Corporate Governance Code.

In addition to the members, the following groups are also invited to attend the Committee:

- The Crown Estate: Chief Executive, Chief Financial Officer, Chief Investment Officer, General Counsel and Company Secretary, Head of Internal Audit, Group Financial Controller and otherwise as specified by the Committee;
- The National Audit Office (NAO): representatives of our external audit team; and
- PwC: representatives of our co-sourced internal audit partner.

As our external auditor, the NAO are given complete access to all financial and other information and the Committee meets with the NAO without management present. In addition, the Audit Committee Chair meets with the Head of Internal Audit on a regular basis.

The key duties of the Audit Committee are:

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

Key areas of Audit Committee activity

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

Area	%
Other (e.g. litigation)	7%
Property valuation and performance	6%
Internal audit	24%
Financial reporting and related matters	21%
External audit	15%
Governance and risk management	27%

Reporting and assurances

During the year, the Committee reviewed and obtained reports and assurances from a number of sources, to enable it to perform its duties in relation to governance, risk management and internal control, as delegated by the Board. The reports included updates from management in relation to key matters of focus. This specifically covered HR systems and, given the elevated risk highlighted in these areas, privacy and information security. The other key sources of assurance included:

- **Management update on accounting matters, disclosures and judgements in relation to the financial statements**. The Committee received regular reports from the CFO outlining the proposed approach and processes in relation to treatment of material events and to ensure alignment with the UK Corporate Governance Code. This included providing the Committee with assurance on key processes underlying the Viability Statement, Going Concern and assessment of the Annual Report and Accounts as fair, balanced and understandable.

- **Management's disclosure of the results of the year end valuations**. The results of the year end valuations, with particular regard to the underlying processes. This included the basis for valuation across different elements of the portfolio, and processes to preserve independence and manage conflicts in relation to the valuers.
- **Management's summary of assurance**. This was the second year of using the assurance framework to provide a high-level view of the different sources and levels of assurance that exist across the business over effective management of key risks. The framework provided a good degree of comfort over management of key business areas as well as highlighting gaps in assurance where corrective action can be taken. The framework was also used by the Committee to direct the work of Internal Audit and determine topics for reporting back to the Committee through dedicated 'risk spotlights'.
- **Management reports on processes to support effective management of key risks**. The Committee focused on risk through review of the key corporate risks escalated by management via the Risk Group, and a separate dedicated review of risk areas through the use of 'risk spotlights'. The introduction of a July Audit Committee enabled management to present to the Committee on two key risk areas selected by the Committee. In 2017/18, management presented reports on the management on legal risk and risks to our reputation.
- **Independent assurances on internal control**. The Committee receives independent assurance through the work of internal audit at each meeting. It reviews and endorses the annual plan of internal audit activity prepared by the Head of Internal Audit, and reviews the results of that work together with management's progress in strengthening and enhancing internal controls where improvement opportunities have been identified. The Committee works closely with the Head of Internal Audit who has unfettered access to the business. It endorsed the Internal Audit Charter which sets out Internal Audit's roles and responsibilities, including its independence.

Fraud and whistleblowing
Fraud prevention and detection is a key matter for The Crown Estate, and to that end a Fraud Risk Assessment was performed by Internal Audit on behalf of the Committee. This was done to support its assessment of the processes and controls to prevent and detect fraud. The Committee was satisfied that a robust framework is in place including a whistleblowing hotline and a confidential email address which are available to internal and external stakeholders. Where improvements were identified these were being addressed by management. In addition to this, the Committee now receives a positive confirmation that no fraud or bribery has been identified at each meeting. The Committee also reviewed processes to ensure transparent and proper treatment of gifts and hospitality.

External auditor performance
The NAO's appointment as external auditor is mandated by the Crown Estate Act 1961. Historically, the NAO's performance in delivering its external audit mandate was discussed by the Committee and feedback provided in discussions between the Chair of the Audit Committee and senior representatives of the NAO. For the 2017/18 audit year, the Audit Committee has signed off a more structured assessment process. That new process will be undertaken following the completion of the 2017/18 audit, with formal feedback provided under an agreed performance framework.

Significant areas of judgement*
The Committee reviewed the Annual Report and Accounts, with particular attention to accounting policies and areas of judgement. The primary judgements considered related to the valuation of The Crown Estate's assets, given its materiality to the balance sheet. The Committee debated the valuation process, methodology and assumptions. Based on the level of oversight and independent scrutiny over the valuation, the Committee was satisfied that the valuation was professionally conducted resulting in an effective valuation.

Fair, balanced and understandable*
The Committee considered whether the process followed in the production of the 2017/18 Annual Report and Accounts supported its assessment as being "fair, balanced and understandable" in accordance with the 2016 UK Corporate Governance Code. The Committee was satisfied that the process followed was appropriate and endorsed the presentation of the Annual Report and Accounts to the Board as being "fair, balanced and understandable".

Supported by external advice the Committee also endorsed the presentation of the Annual Report and Accounts to the Board as being in alignment with the IIRC Framework.

*Activity undertaken at the June 2018 Audit Committee.

June 2017
- Review of CFO report (inc. updates on accounting, viability and internal control)
- Review of internal audit programme and results (inc. annual opinion)
- Review of management assurances on internal control
- Review of matters of substance to support the Annual Report and Accounts (inc. management representations)
- Review of governance and assurance to support annual valuation of The Crown Estate 2016/17
- Review of external audit completion report (inc. management letter) on the 2016/17 financial statement audit
- Approval of Annual Report and Accounts 2016/17
- Note and approve the risk management update

July 2017
- Review of CFO report (inc. updates on accounting, viability and internal control)
- Review of internal audit programme and results (inc. annual opinion)
- Risk Spotlights

November 2017
- Review of CFO report (inc. updates on accounting, viability and internal control)
- Review of internal audit programme and results (inc. annual opinion)
- Review and discuss processes to prevent and detect fraud
- Review of governance update from Joint Venture Oversight Group
- Review of litigation update

March 2018
- Review of CFO report (inc. updates on accounting, viability and internal control)
- Review of internal audit programme and results (inc. annual opinion)
- Endorse the internal audit programme for 2018/19
- Review of the Assurance Framework
- Note and approve the Internal Audit Charter
- Review external audit's progress report on the 2017/18 financial statement audit

The Remuneration report

The Remuneration report

"The Remuneration Committee continues to support delivery of our strategic objectives, especially our commitment to be a high-performing business, known as a great place to work."

Ian Marcus
Chair of the Remuneration Committee

Attendance by members of the Remuneration Committee during 2017/18*

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

1 Board Counsellor

* The Remuneration Committee is supported by the Head of Human Resources, who also acts as Secretary for Remuneration Committee meetings.

Overview

Meeting five times this year, the Remuneration Committee has responsibility for delivering a remuneration policy which supports the delivery of our long-term strategic objectives. In particular, our commitment to being a high performance business, enabling The Crown Estate to attract and retain the talented, professional and experienced people that it needs. The Committee is focused on ensuring the right balance between rewarding short-term financial success and recognising delivery of long-term performance, whilst staying true to The Crown Estate's purpose of creating brilliant places through conscious commercialism. The Committee works within the Treasury-approved executive reward strategy. That strategy, implemented in April 2016, set a clear framework which the Remuneration Committee has been overseeing.

Membership

The Remuneration Committee is chaired by Ian Marcus, who has acted as chair of the Committee for the last four years. The other members of the Committee are Dipesh Shah, James Darkins and Peter Madden. See page 52 to see how the Remuneration Committee fits in to our Governance structure.

Governance and role

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

Remuneration Committee attendance

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

Responsibilities and terms of reference

The Remuneration Committee is appointed by, and reports to, the Board. A minimum of two meetings are held annually and in 2017/18 the Committee met on five occasions. The primary purpose of the Remuneration Committee is to set and ensure implementation of remuneration policy for The Crown Estate. The full scope of its responsibilities include to:

- determine and agree with the Board the remuneration framework for The Crown Estate;
- set the overarching objectives and parameters of remuneration policy for The Crown Estate, having regard to the remuneration trends across the relevant market, and to review the ongoing appropriateness and relevance of the remuneration policy to ensure that it is sufficient to attract and retain the calibre of people necessary for the future performance of the business;
- obtain reliable, up-to-date information about remuneration in other relevant comparable organisations;
- have oversight of the gender pay gap analysis, as part of the Government's newly introduced annual reporting requirement, and encourage steps necessary to address any structural weaknesses that are highlighted;
- determine the total individual remuneration package of the executives, including salary, allowances, bonuses, any long-term incentive payments and pension benefits. This is to ensure that the executive and other members of senior management of The Crown Estate are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of The Crown Estate. The Chief Executive's remuneration package is reviewed by the Remuneration Committee, on the recommendation of the Chairman of the Board, in the context of the Treasury Business Case guidelines as approved by Treasury Ministers in March 2015;
- approve the design of, and agree the targets for, any performance-related pay schemes operated by The Crown Estate and approve the total annual payments made under such schemes;
- determine the policy for, and scope of, pension arrangements for The Crown Estate;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and The Crown Estate, and comply with such Treasury guidance as may be in place, to ensure that failure is not rewarded and that the duty to mitigate loss is fully recognised; and
- approve and oversee any major changes in employee benefits structures.

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

Willis Towers Watson have been the Remuneration Committee's appointed principal advisers since 2014. During 2017, Willis Towers Watson, in a consultant capacity to The Crown Estate, provided the Committee with a broad range of strategic advice relative to reward and benefit matters across The Crown Estate. A review of their appointment planned for 2017 was postponed due to other priorities and will be undertaken in 2018.

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

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

- Review of progress against people and culture targets under the Corporate Plan.
- Ongoing review of delivery of remuneration policy, ensuring it remains fit-for-purpose, and relevant in the context of developments in market pay.
- The Gender Pay Gap data was considered in detail at the June meeting. While the headline figures were very encouraging for the organisation, it was clear that focus on gender diversity at all levels of the company would ensure a better balance in the talent developed, promoted and rewarded. This has been shared, with detailed commentary, internally and externally.
- Salary increases for the executive and senior managers with total compensation potential in excess of £140,000 at the July 2017 salary review.
- Overall levels of salary increases across the business effective in July 2017.
- Oversight of CEO remuneration package, which is consistently delivered well within the Treasury approved limits.
- Achievement against personal scorecard targets for the executive and the resulting allocation of bonus awards.
- Achievement against the performance conditions for the award of transition award incentive cash plans (three employees currently have these awards).
- An overview of The Crown Estate Pension Scheme governance and investment, including an annual meeting with the Chair of The Crown Estate Pension Scheme Trustee Board.

Remuneration policy and benchmarking
The Crown Estate's remuneration policy seeks to provide sustainable levels of remuneration to attract, retain and motivate high-quality employees, recognising that whilst we are a public corporation, we compete for talent in a highly commercial environment. Accordingly, for the majority of employees, we aim to pay salaries at around market median and bonus awards determined by reference to the performance of the business and individual contribution.

The Remuneration Committee has adopted a progressive and balanced performance-related pay policy to ensure that an appropriate proportion of the executive remuneration is delivered through performance-related pay, with incentives to outperform targets, which include external benchmarking.

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

The Committee also has oversight for the pay and reward policy across the business, with particular focus on the remuneration of senior employees (those with remuneration packages valued at £140,000 or more), whose pay is also the subject of benchmarking research prepared by the Reward and Operations team.

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

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

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

The Remuneration report
continued

Principles and policy on annual bonuses
The annual bonus arrangement for the executive is based on the achievement of key business targets supporting our KPIs, with a maximum possible award of 60% or 70% of basic salary in 2017/18 (80% maximum for the Chief Executive). The maximum award is subject to receipt of an outstanding individual performance rating and is conditional on The Crown Estate meeting or exceeding predetermined performance targets. These targets are to increase our net revenue profit on a three-year rolling basis as agreed with the Treasury, and to outperform a bespoke total return benchmark, also on a three-year rolling basis.

Executive cash incentive plans
The Chief Investment Officer (CIO) is eligible to receive a discretionary non-pensionable cash incentive award. This was put in place as a transitional arrangement, commencing in April 2016 over three years, with any payment due annually on 31 July. The award provides the CIO with an opportunity of up to 25% of base pay in the 2017/18 review period.

All Executive Committee members (CEO, CIO, COO and CFO from 2017) are participants in the Long-Term Incentive Plan introduced in April 2016. This discretionary, non-pensionable, cash plan has a three-year performance period and any payment in July 2019, the first maturity date under the plan, will be subject to performance against specific criteria over the preceding three years. The opportunity for CEO, CIO and CFO, is up to 40% of base pay, and COO up to 25% of base pay. Five other senior managers are participants in the plan.

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

Executive departure payments
No departure payments were made this year.

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

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

In accordance with our policy on non-executive earnings, which requires disclosure for appointments in publicly listed companies, Alison Nimmo earned £64,000 to 31 March 2018, as a non-executive director of The Berkeley Group Holdings Plc. Paul Clark is a non-executive director of Ronson Capital Partners and Hermes Property Unit Trust.

Pensions
The Crown Estate operates two pension schemes: the Principal Civil Service Pension Scheme (PCSPS) and The Crown Estate Pension Scheme (CEPS). Each scheme comprises a number of sections which offer different pension benefits. The Classic, Classic Plus and Premium sections of the PCSPS provide defined benefits based on final earnings. The Nuvos and Alpha sections of the PCSPS provide defined benefits based on career average earnings. PCSPS benefits are subject to an upper earnings limit of £160,800.

Since March 2009, no new employees have been admitted to the PCSPS or the CEPS Opal section, and are instead offered access to the CEPS Quartz – Core and Top Up (hybrid) or Topaz (defined contribution) sections.

The table on page 73 provides an overview of benefits. Some employees who historically opted out of pension membership are offered a cash allowance equal to 8% of basic pay, however, this is not open to new employees or anyone opting out of pension membership in future.

As at 31 March 2018, a total of 218 employees were members of the open sections of CEPS and a further 19 receive a cash allowance. The Crown Estate Board Members, with the exception of Alison Nimmo and Kate Bowyer, are Non-Executive appointments and are not members of either CEPS or the PCSPS. Pension benefits are provided to Kate Bowyer and other members of the executive through CEPS. Alison Nimmo receives a cash allowance equal to 12% of her basic pay as she opted out of the CEPS due to HMRC pension protection rules.

Pension payments increase in line with the Retail Price Index for CEPS and the Consumer Price Index for the PCSPS.

On death, a spouse's pension is payable equal to half of the Quartz Core member's pension. For Topaz and Quartz Top Up, a lump sum equal to the value of the member's account is payable. On death-in-service, a lump sum benefit of four times salary is payable from the CEPS and cash allowance scheme. For PCSPS, the level of death-in-service lump sum varies depending on the section (see table on page 73). The PCSPS and CEPS (Opal Section) provide a service enhancement to 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. Ill-health pensions are brought into payment immediately without actuarial reduction and, for PCSPS and CEPS Opal members, service is enhanced.

Details of executive membership of pension schemes is shown on page 75.

Overview of pension scheme benefits

Pension scheme	PCSPS Classic/ Classic Plus	PCSPS Premium	PCSPS NUVOS	PCSPS ALPHA	CEPS Opal	CEPS Quartz scheme	CEPS Topaz scheme
Arrangement	Defined benefit	Defined benefit	Career average	Career average	Defined benefit	Hybrid Defined benefit/ Defined contribution	Defined contribution
Benefit	1/80th	1/60th	2.3%	2.32% p.a.	1/80th	1/80th defined benefit	n/a
Scheme retirement age	60	60	65	Later of SPA or 65	60	65	65
Scheme earnings cap from 1 April 2018	£160,800	£160,800	£160,800	£160,800	£160,800	£32,079 DB section	n/a
Employee contribution from 1 April 2018	Between 4.6% and 8.05% depending on salary	Between 4.6% and 8.05% depending on salary	Between 4.6% and 8.05% depending on salary	Between 4.6% and 8.05% depending on salary	1.5%	5% for Defined benefit section Optional for Defined contribution section	Optional
Death-in-service lump sum	2x pensionable salary	3x pensionable salary	3x pensionable salary	Higher of 2x final pay/ 5x pension	4x salary	4x salary	4x salary
Ill-health benefit	Yes	Yes	Yes	Yes	Yes	No	No
Redundancy (attaching benefits)	Yes	Yes	Yes	Yes	Yes	No	No
Employees	46	8	3	71	11	105	113

The Remuneration report
continued

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

Remuneration and pension benefits of the Board

Board Members
Single total figure for remuneration.

	Salary (£)		Bonus payments (£)		Other payments (£)		Pension benefits (to the nearest £1,000)[7]		Benefits in-kind (to the nearest £100)		Total (to the nearest £1,000)	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Robin Budenberg (Chairman from 1 August 2016)[4]	50,000	33,333	–	–	–	–	–	–	–	–	50,000	33,000
Alison Nimmo (Chief Executive)[1,2]	334,950	323,128	246,566	244,588	39,323	37,904	–	–	800	700	622,000	606,000
Kate Bowyer (Chief Financial Officer) (appointed to the Executive Committee on 3 October 2016 and appointed to the Board on 1 January 2017)[1,3]	219,170	105,249	133,821	55,550	–	–	21,000	7,000	800	300	375,000	168,000
James Darkins	20,000	20,000	–	–	–	–	–	–	–	–	20,000	20,000
Paula Hay-Plumb[5]	25,000	25,000	–	–	–	–	–	–	–	–	25,000	25,000
Ian Marcus[5]	25,000	25,000	–	–	–	–	–	–	–	–	25,000	25,000
Dipesh Shah	20,000	20,000	–	–	–	–	–	–	–	–	20,000	20,000
Lynda Shillaw (appointed 1 January 2018)[4]	5,000	–	–	–	–	–	–	–	–	–	5,000	–
Gareth Baird (appointment expired 30 September 2017, appointed as a Board Counsellor 1 October 2017)[6]	20,000	25,828	–	–	–	–	–	–	–	–	20,000	26,000

1 The bonus award for Alison Nimmo and Kate Bowyer have been approved by the Remuneration Committee. Any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2017/18, the deferral for Alison Nimmo is £79,062 (2016/17: £81,963) and for Kate Bowyer the deferral is £28,781 (2016/17: £nil). The deferred element of the bonus is payable in July following the financial year that the award was approved.
2 The other payments for Alison Nimmo comprise an allowance in lieu of pension contributions.
3 Kate Bowyer was appointed to the Board on 1 January 2017. From 3 October 2016, she was also a member of the Executive Committee and her remuneration figures for the period from October 2016 to 31 March 2017 are shown in the table above. Her annual equivalent salary for 2016/17 was £212,787 p.a.
4 The full year equivalent total remuneration for 2016/17 for Robin Budenberg was £50,000. The full year equivalent for Lynda Shillaw for 2017/18 was £20,000.
5 Chairs of Committee receive an additional £5,000 p.a. to reflect their greater level of responsibility.
6 Gareth Baird received an additional £5,828 p.a. in 2016/17 compared with Independent Non-Executive Board Members to reflect his greater level of responsibility as Scottish Commissioner. This post was dissolved on 31 March 2017 when the Scottish portfolio was devolved.
7 In the case of the defined benefit sections of the scheme, the value of pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum, less contributions made by the individual. In the case of the defined contribution sections, the figure represents the pension contribution made by The Crown Estate.

Pension benefits	Accrued pension at normal retirement date as at 31 March 2018 £'000	Real increase in pension at normal retirement date £'000	Cash equivalent transfer value at 31 March 2018 £'000	Cash equivalent transfer value at 31 March 2017 £'000	Real increase in cash equivalent transfer value £'000
Alison Nimmo	–	–	–	–	–
Kate Bowyer	n/a	n/a	n/a	n/a	n/a

Alison Nimmo is not a member of The Crown Estate Pension Scheme. She receives a payment in lieu of pension contributions as disclosed in the single figure for remuneration.

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

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

Board Counsellors

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

	Salary £	
Single total figure for remuneration[1]	**2017/18**	2016/17
Peter Madden	**20,000**	20,000

1 Gareth Baird was appointed as a Board Counsellor on 1 October 2017. His remuneration for the year ended 31 March 2018 is shown in the table of Board Members remuneration.

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

Executive Committee

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

	Salary		Bonus payments		Transition award		Pension benefits[3] (to the nearest £1,000)		Benefits in kind (to the nearest £100)		Total	
	2017/18 £'000	2016/17 £'000	**2017/18 £'000**	2016/17 £'000	**2017/18 £'000**	2016/17 £'000	**2017/18 £**	2016/17 £	**2017/18 £**	2016/17 £	**2017/18 £'000**	2016/17 £'000
Paul Clark[1]	**260-265**	250-255	**160-165**	155-160	**60-65**	60-65	**47,000**	44,000	**800**	700	**535-540**	510-515
Judith Everett[2]	**195-200**	190-195	**100-105**	95-100	**–**	–	**28,000**	27,000	**800**	700	**325-330**	315-320

1 The bonus award for Paul Clark has been approved by the Remuneration Committee. Any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2017/18, the deferral is £37,674 (2016/17: £36,225). The deferred element of the bonus is payable in July following the subsequent financial year that the award was approved.
2 The bonus award for Judith Everett has been approved by the Remuneration Committee. Any amount over 50% of basic pay is subject to 12 months deferral in line with the agreement with the Treasury. For 2017/18, the deferral is £5,351 (2016/17: £5,513).
3 In the case of the defined benefit sections of the scheme the value of pension benefits is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum, less contributions made by the individual. In the case of the defined contribution sections the figure represents the pension contribution made by The Crown Estate.

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

Pension benefits

Executive Committee member	Accrued pension at normal retirement date as at 31 March 2018 £'000	Real increase in pension at normal retirement date £'000	Cash equivalent transfer value at 31 March 2018 £'000	Cash equivalent transfer value at 31 March 2017 £'000	Real increase in cash equivalent transfer value £'000
Paul Clark	20-25	0-2.5	773	661	76
Judith Everett	n/a	n/a	n/a	n/a	n/a

Paul Clark is a member of the CEPS Opal section and Judith Everett is a member of the CEPS Topaz section.

The Remuneration report
continued

Pay multiples

	2017/18	2016/17
Band of highest paid executive's total remuneration (as defined below) £'000	**580-585**	565-570
Median total remuneration of all employees £	**43,575**	41,401
Ratio	**13.35**	13.71

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

Compensation for loss of office
The table below shows exit packages as a result of the restructuring of the business, particularly of the Finance department (2016/17 Business Technology department).

Exit package cost band

	2017/18 Number	2016/17 Number
Less then £10,000	**1**	-
£10,001-£25,000	**4**	5
£25,001-£50,000	**6**	5
£50,001-£100,000	**11**	-
Total number of exit packages	**22**	10
Total cost	**£1.1m**	**£0.2m**

Staff report

	2017/18 £m	2016/17 £m	**2017/18 Number**	2016/17 Number
Commissioners	**1.2**	1.0	**10**	9
Staff with permanent employment contracts	**31.3**	29.5	**392**	403
As shown in note 9 of the financial statements (excluding early retirement costs) – continuing operations	**32.5**	30.5	**402**	412
Staff employed in discontinued operation	**–**	2.2	**–**	32
Total staff	**32.5**	32.7	**402**	444
Other staff engaged on the objectives of The Crown Estate	**0.8**	0.8	**12**	15
Total staff	**33.3**	**33.5**	**414**	**459**

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

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

Ian Marcus
Chair of the Remuneration Committee
11 June 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of The Crown Estate and The Crown Estate Group for the year ended 31 March 2018 under the Crown Estate Act 1961. The financial statements comprise: The Crown Estate's and The Crown Estate Group's Consolidated Statements of Comprehensive Income (group only), Balance Sheets, Statements of Cash Flows, Statements of Changes in Capital and Reserves; and the related notes, including the significant accounting policies. 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.

In my opinion the financial statements:

- give a true and fair view of the state of The Crown Estate's and The Crown Estate Group's affairs as at 31 March 2018 and of the Crown Estate Group's net revenue profit and capital profit for the year then ended;
- have been properly prepared in accordance with the Crown Estate Act 1961 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of The Crown Estate in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework that has been applied is the Crown Estate Act 1961 and relevant HM Treasury directions made under the Act.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of The Crown Estate's control environment, as required by International Standards on Auditing. My work in this area did not identify any areas of concern.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 68-69.

In this year's report the following changes to the risks identified have been made compared to my prior year report:

- the significant risk identified in the prior year relating to the transfer of Scottish assets and business under the Scotland Act 2016 has not been raised this year, as the transfer concluded within the 2016/17 period and was fully reported in that year's financial statements; and
- the significant risk relating to joint ventures and joint operations has not been raised again in the current year. This is because we have confirmed that no new joint arrangements (ventures or operations) commenced during the period and no significant changes have been made to existing arrangements.

Risk	My response
Investment property valuations The most significant transactions and balances within The Crown Estate's financial statements relate to investment property assets and their valuations. Management engaged professional valuers to provide valuations of investment property assets as at 31 March 2018. The valuations are formed from the application of methodologies that use a number of assumptions and judgements, which, if inappropriate or incorrect, present a significant risk of material misstatement within the accounts.	I performed procedures to gain assurance from the work conducted by third party valuers engaged by The Crown Estate. In assessing whether their work provides a sound basis for valuation, on a sample basis, I considered their overall competence, capability and objectivity (as management's experts), as well as the scope of their work and its relevance to the accounts and my opinion. In particular, I considered the valuation methodology they applied, the completeness and validity of the data inputs to those valuations, and, using independent valuation experts within my audit team, the appropriateness of the key assumptions on which the valuations were based. I have challenged management on the reasons for significant movements in individual property valuations at year end confirming these reasons to underlying documentation. **Key observations** I found The Crown Estate controls over the valuation process to be designed and operating adequately and that asset valuations have been prepared using appropriate methodology and assumptions. I have no matters to raise.

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

Risk	My response
Revenue recognition The Crown Estate has a strategic objective to deliver a compound five per cent per annum increase in the net revenue surplus (profit) measured across a three year period, adjusting for the net revenue surplus generated by discontinued operations. To achieve the five per cent average, The Crown Estate needed to generate a net revenue surplus of £319.7 million in 2017/18. The Crown Estate's key source of income is contractual rental revenue. In addition, it receives income from royalties for the extraction of minerals as well as income for the sale of produce and miscellaneous fees. There is a presumed risk of fraud due to revenue recognition as required by International Standards on Auditing. I have not rebutted this risk on the basis that the net revenue surplus is a key performance measure for The Crown Estate. If revenue was recognised in the accounts before it was properly due to The Crown Estate, for example, it would present a significant risk of material misstatement within the accounts.	I have reviewed the design, implementation and operating effectiveness of The Crown Estate's budget setting and monitoring controls, including over revenue. I have considered the consistency of the design and operation of these procedures across the organisation. I have also confirmed the consistency of the internally reported financial results, used in the budget monitoring process, between the various management levels within the organisation. I have predicted the total value of contractual rental income for the year and, in conjunction with this, tested a risk-based sample of leases back to underlying documentation to confirm the accuracy of the data used in my prediction. The risk characteristics I have considered for sample selection included new and high value leases. I performed a risk assessment on less-predictable revenue and tested a sample of royalty, turnover rent and other/miscellaneous income transactions. I have also considered whether management's recognition of revenue from unsettled rent reviews is appropriate and whether the impairment made for aged debt is materially sufficient. **Key observations** I found The Crown Estate controls to be designed and operating adequately. I also have no matters to raise from the detailed substantive testing.

Application of materiality

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

Based on my professional judgement, I determined overall materiality for The Crown Estate's financial statements at £140.3 million and for The Crown Estate's Group at £140.9 million, which is approximately 1% of net assets. I chose this benchmark as I consider it to be the principal consideration for users in assessing the financial performance of The Crown Estate. This is comparable to the materiality level and benchmark that I used to audit and certify the 2016/17 financial statements.

I have determined that for financial statement components connected with the revenue account and the consolidated revenue account within the consolidated statement of comprehensive income, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given the net revenue account profit is distributable to the Consolidated Fund. I have therefore determined that the level to be applied to these components is £32.8 million, and for The Crown Estate Group is £32.9 million, being approximately 10% of net revenue profit. Again, this is comparable to the materiality level and benchmark that I used to audit and certify the 2016/17 financial statements.

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

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

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £0.3 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Accounting Officer's statement, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Crown Estate Act 1961.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Crown Estate Group's or The Crown Estate's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on The Crown Estate Group's or The Crown Estate's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Audit scope

The scope of my audit was determined by obtaining an understanding of The Crown Estate, The Crown Estate Group, and its environment, including entity/group-wide controls, and assessing the risks of material misstatement at the group level.

Total net assets for the group are £14,090.7 million of which £14,088.3 million are attributable to the parent, The Crown Estate.

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

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

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

This work covered substantially all of the group's net assets and net income/expenditure, and together with the procedures performed at group level, gave me the evidence I needed for my opinion on the group financial statements as a whole.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Remuneration report to be audited have been properly prepared in accordance with the Treasury directions made under the Crown Estate Act 1961;
- in the light of the knowledge and understanding of The Crown Estate and The Crown Estate Group and its environment obtained in the course of the audit, I have not identified any material misstatements in the 'Performance' and 'Governance' sections of the annual report; and
- the information given in the 'Overview', 'Performance' 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

Adequacy of accounting records information and explanations received

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

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

Conclusions relating to principal risks, going concern and viability statement

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

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

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

Report

I have no observations to make on these financial statements.

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

14 June 2018

Consolidated statements of comprehensive income

Consolidated revenue account for the year ended 31 March

	Note	2018 £m	2017 £m
Revenue	5	**452.1**	428.6
Costs	6	**(120.4)**	(103.7)
Operating surplus		**331.7**	324.9
Finance income	11	**3.2**	3.2
Share of revenue profit of joint ventures	21	**38.4**	28.6
Share of revenue profit from other property investments	22	**1.6**	2.2
Net operating profit before depreciation, Treasury agreements and Statutory transfers		**374.9**	358.9
Depreciation of tangible fixed assets	23	**(4.3)**	(3.1)
Net operating profit before Treasury agreements and Statutory transfers		**370.6**	355.8
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	**(31.8)**	(31.1)
Statutory transfers	15	**(11.7)**	(10.3)
Parliamentary Supply finance	16	**2.3**	2.3
Net consolidated revenue account profit from continuing operations		**329.4**	316.7
Net revenue account profit from discontinued operations		**–**	12.1
Net consolidated revenue account profit		**329.4**	328.8
Consolidated statement of comprehensive income			
Net consolidated revenue account profit		**329.4**	328.8
Items that will not be reclassified subsequently to profit:			
Re-measurement gain on retirement benefits	10c	**1.6**	2.6
Total consolidated comprehensive revenue account profit		**331.0**	331.4

Consolidated capital account for the year ended 31 March

	Note	2018 £m	2017 £m
Revenue	5	**17.1**	16.0
Charge from revenue for salary costs	9	**(10.8)**	(11.4)
Net revaluation gains in investment property (including profits on disposal)	13	**868.5**	496.1
Share of profit on disposal of property in joint ventures	13	**2.1**	–
Share of revaluation gains in joint ventures	13	**33.7**	8.3
Share of revaluation (deficit)/gains in other property investments	13	**(1.9)**	1.6
Impairment of discontinued operations		**–**	(291.8)
Capital profit before Treasury agreements and Statutory transfers		**908.7**	218.8
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	**31.8**	31.1
Statutory transfers	15	**11.7**	10.3
Net consolidated capital account profit from continuing operations		**952.2**	260.2
Net capital account profit from discontinued operations		**–**	3.9
Net consolidated capital account profit		**952.2**	264.1
Consolidated statement of comprehensive income of the capital account			
Net consolidated capital account profit		**952.2**	264.1
Items that will not be reclassified subsequently to capital account profit:			
Gain/(deficit) on revaluation of owner occupied properties	19	**1.5**	(12.4)
Surplus on revaluation of antiques	24	**–**	0.5
Share of joint venture fair value movements on interest rate swaps treated as cash flow hedges	21	**0.9**	0.1
Total consolidated comprehensive capital account profit		**954.6**	252.3

The Crown Estate Act 1961 specifies certain distinctions between capital and revenue transactions. The revenue account represents income generated from managing the portfolio, net of any associated costs and, by agreement with the Treasury, certain adjustments between the revenue and capital accounts. The capital account includes profits or losses arising on the sale of investment properties, revaluation gains and the other adjustments with the revenue account noted above. Further detail can be found in note 1.

Balance sheets
As at 31 March 2018

	Note	**Group 2018 £m**	Group 2017 £m	**Parent 2018 £m**	Parent 2017 £m
Assets					
Non-current assets					
Investment properties	18	**13,538.6**	12,689.2	**13,362.3**	12,557.8
Owner occupied property	19	**91.8**	135.7	**91.8**	135.7
Investment in joint ventures	21	**1,111.1**	990.9	**1,111.1**	990.9
Other property investments	22	**85.4**	87.3	**34.3**	40.4
Plant and equipment	23	**17.5**	16.0	**17.5**	16.0
Other investments	24	**10.8**	10.8	**10.8**	10.8
Receivables due after one year	25	**54.6**	58.0	**54.6**	58.0
Pension asset	10a	**9.4**	8.4	**9.4**	8.4
Total non-current assets		**14,919.2**	13,996.3	**14,691.8**	13,818.0
Current assets					
Trade and other receivables	26	**80.0**	53.3	**302.9**	235.4
Cash and cash equivalents		**886.9**	825.6	**882.5**	824.1
Total current assets		**966.9**	878.9	**1,185.4**	1,059.5
Total assets		**15,886.1**	14,875.2	**15,877.2**	14,877.5
Liabilities					
Current liabilities					
Payables and deferred income – amounts falling due within one year	27	**173.9**	179.7	**167.4**	177.5
Provisions	28	**–**	0.4	**–**	0.4
Total current liabilities		**173.9**	180.1	**167.4**	177.9
Payables and deferred income – amounts falling due after more than one year	27	**1,621.5**	1,560.6	**1,621.5**	1,560.6
Total liabilities		**1,795.4**	1,740.7	**1,788.9**	1,738.5
Net assets		**14,090.7**	13,134.5	**14,088.3**	13,139.0
Capital and reserves					
Revenue reserve available for distribution to the Consolidated Fund		**1.7**	1.1	**1.7**	1.1
Pension reserve		**9.4**	8.4	**9.4**	8.4
Capital reserve		**14,039.7**	13,077.9	**14,037.3**	13,082.4
Revaluation reserve		**39.9**	47.1	**39.9**	47.1
Total capital and reserves		**14,090.7**	13,134.5	**14,088.3**	13,139.0

A total comprehensive revenue account profit of £331.0 million (2017: £331.4 million) and a total comprehensive capital account profit of £947.7 million (2017: £260.2 million) are recorded in the financial statements of the Parent for the year ended 31 March 2018.

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

Alison Nimmo
Second Commissioner and Accounting Officer
11 June 2018

Statements of changes in capital and reserves
For the year ended 31 March 2018

	Revenue account			Capital account			Total
Group	**Revenue reserves available for distribution to the Consolidated Fund £m**	**Pension reserve £m**	**Total £m**	**Capital reserve £m**	**Revaluation reserve £m**	**Total £m**	**£m**
As at 1 April 2017	**1.1**	**8.4**	**9.5**	**13,077.9**	**47.1**	**13,125.0**	**13,134.5**
Net consolidated profit for the period	**329.4**	**–**	**329.4**	**952.2**	**–**	**952.2**	**1,281.6**
Other consolidated comprehensive income:							
Revaluation surplus of owner occupied properties	**–**	**–**	**–**	**–**	**1.5**	**1.5**	**1.5**
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	**–**	**–**	**–**	**0.9**	**–**	**0.9**	**0.9**
Re-measurement gain on retirement benefits	**–**	**1.6**	**1.6**	**–**	**–**	**–**	**1.6**
Total consolidated comprehensive profit for the year ended 31 March 2018	**329.4**	**1.6**	**331.0**	**953.1**	**1.5**	**954.6**	**1,285.6**
Pension reserve adjustment	**0.6**	**(0.6)**	**–**	**–**	**–**	**–**	**–**
Owner occupied reserve transfer	**–**	**–**	**–**	**8.7**	**(8.7)**	**–**	**–**
Payments to the Consolidated Fund – paid in year	**(320.0)**	**–**	**(320.0)**	**–**	**–**	**–**	**(320.0)**
Payments to the Consolidated Fund – payable	**(9.4)**	**–**	**(9.4)**	**–**	**–**	**–**	**(9.4)**
As at 31 March 2018	**1.7**	**9.4**	**11.1**	**14,039.7**	**39.9**	**14,079.6**	**14,090.7**
As at 1 April 2016	0.9	6.0	6.9	12,813.7	59.0	12,872.7	12,879.6
Net consolidated profit for the period	328.8	–	328.8	264.1	–	264.1	592.9
Other consolidated comprehensive income:							
Revaluation deficit of owner occupied properties	–	–	–	–	(12.4)	(12.4)	(12.4)
Surplus on revaluation of antiques	–	–	–	–	0.5	0.5	0.5
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	–	–	–	0.1	–	0.1	0.1
Re-measurement gain on retirement benefits	–	2.6	2.6	–	–	–	2.6
Total consolidated comprehensive profit for the year ended 31 March 2017	328.8	2.6	331.4	264.2	(11.9)	252.3	583.7
Pension reserve adjustment	0.2	(0.2)	–	–	–	–	–
Payments to the Consolidated Fund – paid in year	(309.0)	–	(309.0)	–	–	–	(309.0)
Payments to the Consolidated Fund – payable	(19.8)	–	(19.8)	–	–	–	(19.8)
As at 31 March 2017	1.1	8.4	9.5	13,077.9	47.1	13,125.0	13,134.5

Parent	Revenue account			Capital account			Total
	Revenue reserves available for distribution to the Consolidated Fund £m	Pension reserve £m	Total £m	Capital reserve £m	Revaluation reserve £m	Total £m	£m
As at 1 April 2017	**1.1**	**8.4**	**9.5**	**13,082.4**	**47.1**	**13,129.5**	**13,139.0**
Net profit for the period	**329.4**	**–**	**329.4**	**945.3**	**–**	**945.3**	**1,274.7**
Other comprehensive income:							
Revaluation surplus of owner occupied properties	**–**	**–**	**–**	**–**	**1.5**	**1.5**	**1.5**
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	**–**	**–**	**–**	**0.9**	**–**	**0.9**	**0.9**
Re-measurement gain on retirement benefits	**–**	**1.6**	**1.6**	**–**	**–**	**–**	**1.6**
Total comprehensive profit for the year ended 31 March 2018	**329.4**	**1.6**	**331.0**	**946.2**	**1.5**	**947.7**	**1,278.7**
Pension reserve adjustment	**0.6**	**(0.6)**	**–**	**–**	**–**	**–**	**–**
Owner occupied reserve transfer	**–**	**–**	**–**	**8.7**	**(8.7)**	**–**	**–**
Payments to the Consolidated Fund – paid in year	**(320.0)**	**–**	**(320.0)**	**–**	**–**	**–**	**(320.0)**
Payments to the Consolidated Fund – payable	**(9.4)**	**–**	**(9.4)**	**–**	**–**	**–**	**(9.4)**
As at 31 March 2018	**1.7**	**9.4**	**11.1**	**14,037.3**	**39.9**	**14,077.2**	**14,088.3**
As at 1 April 2016	0.9	6.0	6.9	12,810.3	59.0	12,869.3	12,876.2
Net profit for the period	328.8	–	328.8	272.0	–	272.0	600.8
Other comprehensive income:							
Revaluation deficit of owner occupied properties	–	–	–	–	(12.4)	(12.4)	(12.4)
Surplus on revaluation of antiques	–	–	–	–	0.5	0.5	0.5
Share of joint venture fair value movements on interest-rate swaps treated as cash flow hedges	–	–	–	0.1	–	0.1	0.1
Re-measurement gain on retirement benefits	–	2.6	2.6	–	–	–	2.6
Total comprehensive profit for the year ended 31 March 2017	328.8	2.6	331.4	272.1	(11.9)	260.2	591.6
Pension reserve adjustment	0.2	(0.2)	–	–	–	–	–
Payments to the Consolidated Fund – paid in year	(309.0)	–	(309.0)	–	–	–	(309.0)
Payments to the Consolidated Fund – payable	(19.8)	–	(19.8)	–	–	–	(19.8)
As at 31 March 2017	1.1	8.4	9.5	13,082.4	47.1	13,129.5	13,139.0

Statements of cash flows
For the year ended 31 March 2018

	Group 2018 £m	Group 2017 £m	**Parent 2018 £m**	Parent 2017 £m
Operating surplus – consolidated revenue account	**331.7**	324.8	**328.8**	324.8
Increase in provisions for employee benefits	**0.8**	0.2	**0.8**	0.2
Increase in receivables	**(25.1)**	(6.4)	**(62.4)**	(147.5)
Increase/(decrease) in payables	**3.7**	20.9	**(0.4)**	19.7
Decrease in provisions	**(0.4)**	(1.1)	**(0.4)**	(1.1)
Cash generated from operating activities	**310.7**	338.4	**266.4**	196.1
Interest received	**3.0**	3.0	**3.0**	3.0
Distributions from investment in joint ventures	**34.9**	23.6	**34.9**	23.6
Distributions received from other property investments	**1.6**	2.2	**0.9**	1.4
Net cash inflow from operating activities	**350.2**	367.2	**305.2**	224.1
Cash flows from investing activities				
Acquisition of investment properties	**(122.1)**	(115.9)	**(107.0)**	(46.9)
Capital expenditure on investment properties	**(151.7)**	(447.1)	**(124.0)**	(374.0)
Proceeds from disposal of investment properties	**407.6**	506.6	**407.6**	506.6
Other capital receipts	**8.1**	18.1	**7.4**	18.1
Net investment in joint ventures	**(87.4)**	(84.1)	**(87.4)**	(84.1)
Proceeds from disposal of plant and equipment	**0.3**	0.2	**0.4**	0.2
Purchase of plant and equipment and other investments	**(6.2)**	(8.0)	**(6.3)**	(8.0)
Net cash inflow/(outflow) from investing activities	**48.6**	(130.2)	**90.7**	11.9
Cash flows from financing activities				
Parliamentary Supply finance	**2.3**	2.3	**2.3**	2.3
Net cash inflow from financing activities	**2.3**	2.3	**2.3**	2.3
Cash flows from continuing operations	**401.1**	239.3	**398.2**	238.3
Cash flows from discontinued operations	**–**	(0.4)	**–**	(0.4)
Net increase in cash and cash equivalents before Consolidated Fund payment	**401.1**	238.9	**398.2**	237.9
Consolidated Fund payment	**(339.8)**	(320.6)	**(339.8)**	(320.6)
Increase/(decrease) in cash in the year after Consolidated Fund payment	**61.3**	(81.7)	**58.4**	(82.7)
Cash and cash equivalents at start of the period	**825.6**	907.3	**824.1**	906.8
Cash and cash equivalents at end of the period	**886.9**	825.6	**882.5**	824.1

Notes to the Group and Parent consolidated financial statements

1. Basis of preparation

The consolidated financial statements incorporate the financial statements of The Crown Estate. The 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 in accordance with directions made by the Treasury.

The directions from the Treasury require that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Union and the IFRS Interpretations Committee (IFRS IC) in force at 31 March 2018, except where these conflict with the Crown Estate Act 1961.

These financial statements are prepared in sterling, rounded to the nearest one hundred thousand pounds, which is the functional currency of The Crown Estate.

Impact of the Crown Estate Act 1961 on the financial statements

The Crown Estate is a body corporate regulated by the Crown Estate Act 1961 (the 'Act') and domiciled in the UK. The provisions of the Act 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.

The revenue account represents income generated from managing the portfolio of assets on behalf of the Crown, net of any associated costs and subject to the charge from revenue for salary costs for certain employees and the transfers between the capital and revenue account as required by Statutory provisions and Treasury agreements.

The capital account includes profits or losses arising on the sale of assets from the portfolio, the realisation of revaluation gains, the income arising on the grant of operating leases over land in exchange for a premium and other adjustments with the revenue account noted above. The Act requires capital and revenue accounts are distinguished in the financial statements. The Act 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 Act, and the directions made by the Treasury:

- separate income statements are presented for revenue and capital accounts; and
- movements in comprehensive income are analysed between revenue and capital accounts.

Treasury agreements

The Act allows adjustments between revenue and capital specifically for the purposes of recouping capital expenditure out of the revenue account. 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, this requirement is fulfilled by a transfer from the revenue to the capital account of an amount equivalent to 9 per cent of the previous year's revenue, excluding service charges, but including depreciation of plant and equipment.

Changes in accounting policies

The accounting policies used in these financial statements are consistent with those applied in the last annual financial statements, amended to reflect the adoption of new standards, interpretations and amendments that became effective in the year. None of these has had any material impact on the financial statements.

A number of new standards have been issued, but are not yet effective for The Crown Estate. An analysis on the impact of the more significant standards is set out below.

Standard, impact and effective date	Likely impact to The Crown Estate
IFRS 9 Financial instruments, addresses the classification, measurement and de-recognition of financial assets and liabilities. It changes requirements for hedge accounting and the impairment models. IFRS 9 is effective for The Crown Estate from 1 April 2018.	Due to The Crown Estate's limited use of debt or complex financial instruments, it is unlikely that this standard will have a material impact on the reported results.
IFRS 15, Revenue from contracts with customers, establishes a new five step model for the recognition of revenue, which is based on the principle that revenue is recognised when control of a good or service passes to a customer. IFRS 15 is effective for The Crown Estate from 1 April 2018.	IFRS 15 does not apply to gross rental income, which comprises the vast majority of The Crown Estate's revenue. The standard does apply to service charge income, licence fees, produce at Windsor and other miscellaneous revenue. At present The Crown Estate does not believe that IFRS 15 will have a significant impact on the timing or recognition of income on these revenue streams.
IFRS 16, Leases, does not significantly affect the accounting for short-term rental arrangements for the lessor. The Crown Estate grants a number of leases with terms of 99 years or more and comprise primarily of a lease premium with modest ongoing rental income. These leases are currently accounted for in accordance with IAS 17, Leases and recorded in the capital account. The full assessment of the adoption of IFRS 16 in this area is ongoing. For lessees, IFRS 16 removes the distinction between finance and operating leases. It will result in almost all leases being recognised on the balance sheet as 'right of use' assets and future rental payments recorded as liabilities. Rental payments, which are currently recognised within costs will be classified as finance expenses and depreciation. IFRS 16 is effective for The Crown Estate from 1 April 2019.	IFRS 16 is not likely to have a significant impact on the accounting for rental income within the revenue account. The full assessment of the impact of the implementation of the standard on the extended leases is ongoing, but it is not expected to have a material impact on The Crown Estate's net assets or revenue profit. The Crown Estate makes head lease payments, rents office space and has other office related leases. The total value of payments under these leases is less than £4 million p.a.. While an own use asset and corresponding liability will need to be created for these leases, the standard is not expected to have a material impact on the net assets or net revenue profit of The Crown Estate.

2. Significant accounting policies

2a. Basis of consolidation

The consolidated financial statements for the year ended 31 March 2018 incorporate the financial statements of The Crown Estate and all of its subsidiary undertakings. Subsidiary undertakings are those entities controlled by The Crown Estate. The Crown Estate controls an entity when it is exposed to, or has rights to variable returns from the entity and has an ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences and until the date control ceases.

2b. Properties

Investment properties are those which are held 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.

Notes to the Group and Parent consolidated financial statements
continued

2. Significant accounting policies continued

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.

Fair value measurement of investment property

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.

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

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

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

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

The Crown Estate treats as owner occupied certain dwellings occupied by employees and pensioners at the Windsor Estate. 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 recorded in the consolidated capital account.

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 date of disposal plus any costs directly incurred as a result of the sale.

Property assets held for sale

The Crown Estate will report assets as held for sale when a contract to sell the property has been exchanged, the property is immediately available for sale in its current condition, the sale is expected to complete within one year of the balance sheet date and it is highly likely the transaction will complete.

Discontinued operations

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

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 Act, a lease premium received on the grant of a lease with a term of 30 years or less is recorded within the revenue account and spread evenly over the life of the lease.

The Crown Estate as lessee – finance leases

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

2d. Other property, plant and equipment

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

Vehicles: 4–10 years depending on the nature of the vehicle

Plant and equipment: 4–10 years

Computer equipment and software: 4 years

Office equipment: 4 years

Leasehold improvements for owner occupied property:
Length of the lease

Useful lives and estimated residual values are reviewed annually.

2e. Joint arrangements – Joint ventures

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

2f. Joint arrangements – Joint operations

A joint operation is a joint arrangement whereby contractually there is an agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Crown Estate accounts for its share of the jointly controlled assets, its share of any liabilities jointly incurred with other venturers and its share of income and expenditure arising from these assets.

2g. Other property investments

Other property investments are shown at fair value which is equivalent to the share of net asset value.

2h. Other investments – antiques and paintings

Antiques and paintings are shown at fair value. Any surplus or deficit arising from changes in fair value are recognised directly in the revaluation reserve. A valuation was carried out during the year ended 31 March 2017. They are valued by recognised experts every three years.

2. Significant accounting policies continued

2i. Revenue

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

Rental income

Rental income, including fixed rental uplifts, is recognised on a straight-line basis over the term of the lease which is considered to be the date of the lease commencement to the earliest termination date. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Lease incentives, such as rent free periods and contributions towards tenant costs are recognised 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. Royalty income is recognised as the minerals are extracted.

Other income

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

2j. Taxation

The Crown Estate is not subject to corporation, income or capital gains tax. The consolidated revenue profit is paid to the Treasury on an annual basis and will be used for the benefit of the taxpayer. As a result of this unique position, The Crown Estate does not recognise any deferred tax.

2k. Pensions – Defined Benefit Plans

The Crown Estate operates two pension schemes providing retirement and related benefits to all eligible employees as follows:

a. The Principal Civil Service Pension Scheme (PCSPS)

The PCSPS is an unfunded multi-employer defined benefit scheme. The Crown Estate is unable to identify its share of the underlying assets and liabilities and as such has accounted for the scheme as a defined contribution scheme. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

b. The Crown Estate Pension Scheme

The Crown Estate Pension Scheme has: a defined benefit section, the Opal Section (which closed to new entrants with effect from 1 January 2008); a defined contribution section and a hybrid section, the Quartz Section.

The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. The full value of the net assets or liabilities are recorded on the Balance Sheet at each reporting date.

The current service cost of the scheme is charged to the revenue account. The contributions are agreed by The Crown Estate and the Trustees on the basis of triennial valuations using the projected unit method. The Remuneration report contains further details of the operation of the scheme.

Re-measurement gains and losses are recognised in the pension reserve. 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

The preparation of these financial statements requires the Board make certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income, expenses and related disclosures. In the process of applying the accounting policies, which are outlined in note 2, the Board have made no individual judgements that have a significant impact on the financial statements, except those involving estimates that are outlined below.

3a. Property valuations

Investment properties and owner occupied properties are shown at fair value as calculated by independent qualified valuation experts, further information about valuations is included in note 20. Valuations are based on a number of key assumptions including an estimate of future rental income, anticipated future costs, and a discount rate. The valuers also compare their valuations to market data for other similar assets.

3b. Joint venture valuations

Joint ventures primarily comprise property investments and therefore the carrying value includes the same inherent risks as for assets that are wholly owned. However, certain future expenses, such as property improvements, require the approval of both joint venture partners, increasing the uncertainty over this element of the valuation.

3c. Operating leases

The Board has 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. Accounting for complex transactions

By their nature, property transactions can be complex and are often material. For example, judgement is required in assessing exactly when risks and rewards of an asset transfer to or from The Crown Estate, which assets should be classified as held for sale and whether transactions, or components thereof, are capital or revenue account in nature. The Crown Estate considers each individual property transaction separately and seeks independent accounting advice as necessary.

Notes to the Group and Parent consolidated financial statements
continued

4. Segmental analysis

Business segmental analysis

The Crown Estate operations are all in the UK and are currently organised into five operating divisions, plus central costs. These divisions are the basis on which operations are monitored and decisions are made by the members of the executive committee, which is considered to be the Primary Operating Decision Maker. For the year to 31 March 2018, the divisions were: Central London, Regional, Rural & Coastal, Energy, Minerals & Infrastructure and the Windsor Estate. Further analysis of the composition of each business unit is contained in the Performance section of this Annual Report and Accounts. As of 1 April 2017, the management of the Scotland portfolio was passed to Scottish Government and as such the Scotland portfolio division was reflected as a discontinued operation in the prior year.

								2018
Consolidated revenue account	Note	**Central London £m**	**Regional £m**	**Rural & Coastal £m**	**Windsor Estate £m**	**Energy, Minerals & Infrastructure £m**	**Central costs/other £m**	**Total £m**
Revenue (excluding service charge income)	5	**209.8**	**92.5**	**35.4**	**11.2**	**73.0**	**–**	**421.9**
Service charge income	5	**23.8**	**6.4**	**–**	**–**	**–**	**–**	**30.2**
Revenue – as reported	5	**233.6**	**98.9**	**35.4**	**11.2**	**73.0**	**–**	**452.1**
Direct property costs	6	**(21.5)**	**(9.7)**	**(5.6)**	**(9.3)**	**(3.6)**	**–**	**(49.7)**
Service charge expense	6	**(32.6)**	**(7.9)**	**–**	**–**	**–**	**–**	**(40.5)**
Total direct costs		**(54.1)**	**(17.6)**	**(5.6)**	**(9.3)**	**(3.6)**	**–**	**(90.2)**
Gross surplus		**179.5**	**81.3**	**29.8**	**1.9**	**69.4**	**–**	**361.9**
Administrative expenses[1]	8	**1.0**	**(0.1)**	**(0.3)**	**(0.2)**	**(0.5)**	**(30.1)**	**(30.2)**
Operating surplus/(deficit)		**180.5**	**81.2**	**29.5**	**1.7**	**68.9**	**(30.1)**	**331.7**
Finance income	11	**–**	**–**	**0.1**	**–**	**–**	**3.1**	**3.2**
Share of revenue profit from joint ventures[1]	21	**13.4**	**25.0**	**–**	**–**	**–**	**–**	**38.4**
Share of revenue profit from other property investments	22	**0.7**	**0.9**	**–**	**–**	**–**	**–**	**1.6**
Net operating profit/(loss) before depreciation, Treasury agreements and Statutory transfers		**194.6**	**107.1**	**29.6**	**1.7**	**68.9**	**(27.0)**	**374.9**
Depreciation of tangible fixed assets	23	**–**	**–**	**–**	**–**	**–**	**(4.3)**	**(4.3)**
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	**–**	**–**	**–**	**–**	**–**	**(31.8)**	**(31.8)**
Statutory transfers	15	**–**	**–**	**–**	**–**	**–**	**(11.7)**	**(11.7)**
Parliamentary Supply finance	16	**–**	**–**	**–**	**–**	**–**	**2.3**	**2.3**
Net consolidated revenue account profit – distributable to the Consolidated Fund		**194.6**	**107.1**	**29.6**	**1.7**	**68.9**	**(72.5)**	**329.4**

1 Included within the Central London administrative expenses and share of profit from joint ventures is an adjustment to eliminate The Crown Estate's share of rental expenses payable to a joint venture.

4. Segmental analysis continued

Consolidated capital account	Note	Central London £m	Regional £m	Rural & Coastal £m	Windsor Estate £m	Energy, Minerals & Infrastructure £m	Central costs/ other £m	Total £m
								2018
Amortisation of income from grant of lease premia	5	**16.6**	**0.4**	**–**	**0.1**	**–**	**–**	**17.1**
Charge from revenue account for salary costs	9	**(4.6)**	**(2.4)**	**(1.1)**	**–**	**(2.7)**	**–**	**(10.8)**
Net revaluation gains on investment property (including profits on disposal)	13	**554.0**	**0.7**	**34.5**	**12.8**	**266.5**	**–**	**868.5**
Share of profit on disposal of property in joint ventures	13	**–**	**2.1**	**–**	**–**	**–**	**–**	**2.1**
Share of revaluation gains in joint ventures	13	**10.2**	**23.5**	**–**	**–**	**–**	**–**	**33.7**
Share of revaluation gains/(deficit) in other property investments	13	**4.1**	**(6.0)**	**–**	**–**	**–**	**–**	**(1.9)**
Capital profit before Treasury agreements and Statutory transfers		**580.3**	**18.3**	**33.4**	**12.9**	**263.8**	**–**	**908.7**
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	**–**	**–**	**–**	**–**	**–**	**31.8**	**31.8**
Statutory transfers	15	**–**	**–**	**–**	**–**	**–**	**11.7**	**11.7**
Net consolidated capital account profit		**580.3**	**18.3**	**33.4**	**12.9**	**263.8**	**43.5**	**952.2**

Investment properties	Note	Central London £m	Regional £m	Rural & Coastal £m	Windsor Estate £m	Energy, Minerals & Infrastructure £m	Central costs/ other £m	Total £m
Market value of investment properties	18	**7,274.0**	**1,758.6**	**1,279.4**	**213.9**	**1,394.1**	**–**	**11,920.0**
Deferred income from lease premiums received	18	**1,570.3**	**62.7**	**–**	**0.1**	**–**	**–**	**1,633.1**
Head lease liabilities	18	**–**	**2.5**	**–**	**–**	**–**	**–**	**2.5**
Less: lease incentives	18	**–**	**(17.0)**	**–**	**–**	**–**	**–**	**(17.0)**
Investment properties at fair value – as reported	18	**8,844.3**	**1,806.8**	**1,279.4**	**214.0**	**1,394.1**	**–**	**13,538.6**
Joint ventures								
Share of investment properties in joint ventures at valuation	21	**412.1**	**747.3**	**–**	**–**	**–**	**–**	**1,159.4**
Share of other net assets in joint ventures	21	**14.1**	**(62.4)**	**–**	**–**	**–**	**–**	**(48.3)**
Share of joint ventures – as reported	21	**426.2**	**684.9**	**–**	**–**	**–**	**–**	**1,111.1**
Proportionally consolidated investment properties								
Market value of investment properties	18	**7,274.0**	**1,758.6**	**1,279.4**	**213.9**	**1,394.1**	**–**	**11,920.0**
Owner occupied property	19	**–**	**–**	**–**	**91.8**	**–**	**–**	**91.8**
Share of investment properties in joint ventures at valuation	21	**412.1**	**747.3**	**–**	**–**	**–**	**–**	**1,159.4**
Other property investments	22	**51.1**	**34.3**	**–**	**–**	**–**	**–**	**85.4**
Total market value of investment properties – proportionally consolidated	20	**7,737.2**	**2,540.2**	**1,279.4**	**305.7**	**1,394.1**	**–**	**13,256.6**
Acquisitions and capital expenditure	18 & 19	**182.6**	**54.3**	**21.7**	**11.0**	**2.7**	**–**	**272.3**

Notes to the Group and Parent consolidated financial statements
continued

4. Segmental analysis continued

2017

Consolidated revenue account	Note	Central London £m	Regional £m	Rural & Coastal £m	Windsor Estate £m	Energy, Minerals & Infrastructure £m	Central costs/ other £m	Total continuing operations £m	Discontinued operations – Scotland portfolio £m	Total £m
Revenue (excluding service charge income)	5	197.2	94.6	38.6	10.5	60.7	–	401.6	18.0	419.6
Service charge income	5	21.0	6.0	–	–	–	–	27.0	0.1	27.1
Revenue – as reported	5	218.2	100.6	38.6	10.5	60.7	–	428.6	18.1	446.7
Direct property costs	6	(13.2)	(8.0)	(6.3)	(9.6)	(3.3)	–	(40.4)	(2.7)	(43.1)
Service charge expense	6	(30.7)	(6.5)	–	–	–	–	(37.2)	(0.2)	(37.4)
Total direct costs		(43.9)	(14.5)	(6.3)	(9.6)	(3.3)	–	(77.6)	(2.9)	(80.5)
Gross surplus		174.3	86.1	32.3	0.9	57.4	–	351.0	15.2	366.2
Administrative expenses	8	(0.2)	–	0.1	(0.2)	(0.1)	(25.7)	(26.1)	(1.6)	(27.7)
Operating surplus/(deficit)		174.1	86.1	32.4	0.7	57.3	(25.7)	324.9	13.6	338.5
Finance income	11	0.1	–	–	–	–	3.1	3.2	–	3.2
Share of revenue profit from joint ventures	21	8.0	20.6	–	–	–	–	28.6	–	28.6
Share of revenue profit from other property investments	22	0.8	1.4	–	–	–	–	2.2	–	2.2
Net operating profit/(loss) before depreciation, Treasury agreements and Statutory transfers		183.0	108.1	32.4	0.7	57.3	(22.6)	358.9	13.6	372.5
Depreciation of tangible fixed assets	23	–	–	–	–	–	(3.1)	(3.1)	(0.2)	(3.3)
Recovery of capital expenditure under the Crown Estate Act 1961 and by Treasury agreement	12	–	–	–	–	–	(31.1)	(31.1)	(1.1)	(32.2)
Statutory transfers	15	–	–	–	–	–	(10.3)	(10.3)	(0.2)	(10.5)
Parliamentary	16	–	–	–	–	–	2.3	2.3	–	2.3
Net consolidated revenue account profit – distributable to the Consolidated Fund		183.0	108.1	32.4	0.7	57.3	(64.8)	316.7	12.1	328.8

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

4. Segmental analysis continued

2017

Investment properties	Note	Central London £m	Regional £m	Rural & Coastal £m	Windsor Estate £m	Energy, Minerals & Infrastructure £m	Central costs/ other £m	Total continuing operations £m	Discontinued operations – Scotland portfolio £m	Total £m
Market value of investment properties	18	6,719.4	1,772.5	1,323.8	191.9	1,124.5	–	11,132.1	–	11,132.1
Deferred income from lease premiums received	18	1,508.6	62.9	–	–	–	–	1,571.5	–	1,571.5
Head lease liabilities	18	–	2.4	–	–	–	–	2.4	–	2.4
Less: lease incentives	18	–	(16.8)	–	–	–	–	(16.8)	–	(16.8)
Investment properties at fair value – as reported	18	8,228.0	1,821.0	1,323.8	191.9	1,124.5	–	12,689.2	–	12,689.2
Joint ventures										
Share of investment properties in joint ventures at valuation	21	405.4	657.5	–	–	–	–	1,062.9	–	1,062.9
Share of other net assets in joint ventures	21	4.1	(76.1)	–	–	–	–	(72.0)	–	(72.0)
Share of joint ventures – as reported	21	409.5	581.4	–	–	–	–	990.9	–	990.9
Proportionally consolidated investment properties										
Market value of investment properties	18	6,719.4	1,772.5	1,323.8	191.9	1,124.5	–	11,132.1	–	11,132.1
Owner occupied properties	19	47.0	–	–	88.7	–	–	135.7	–	135.7
Share of investment properties in joint ventures at valuation	21	405.4	657.5	–	–	–	–	1,062.9	–	1,062.9
Other property investments	22	46.9	40.4	–	–	–	–	87.3	–	87.3
Total market value of investment properties – proportionally consolidated		7,218.7	2,470.4	1,323.8	280.6	1,124.5	–	12,418.0	–	12,418.0
Acquisitions and capital expenditure	18 & 19	349.3	165.0	30.0	5.8	1.5	–	551.6	2.2	553.8

Notes to the Group and Parent consolidated financial statements
continued

5. Revenue

	2018 £m	2017 £m
Revenue account		
Rent and royalties	**406.9**	386.8
Other income	**15.0**	14.8
Revenue (excluding service charge income)	**421.9**	401.6
Service charge income	**30.2**	27.0
Revenue – as reported	**452.1**	428.6
Capital account		
Revenue – amortisation of deferred income on receipt of lease premia	**17.1**	16.0

6. Costs

	2018 £m	2017 £m
Management fees and costs	**23.3**	21.6
Repairs and maintenance	**5.0**	4.5
Other direct expenditure	**21.4**	14.3
Direct property costs	**49.7**	40.4
Service charge expense	**40.5**	37.2
Administrative expenses (note 8)	**30.2**	26.1
Costs reflected in the revenue account	**120.4**	103.7

7. Property costs

	2018 £m	2017 £m
Service charge income (note 5)	**(30.2)**	(27.0)
Service charge expense (note 6)	**40.5**	37.2
Net service charge expense	**10.3**	10.2
Direct costs (note 6)	**49.7**	40.4
Total property costs	**60.0**	50.6

8. Administrative expenses

	2018 £m	2017 £m
Staff costs	**14.3**	12.6
Management and administration expenses	**15.8**	13.4
Auditors' remuneration in respect of their audit of the financial statements	**0.1**	0.1
Total administrative costs	**30.2**	26.1

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:

	2018 £m	2017 £m
Wages and salaries	**25.9**	24.5
Reorganisation and early retirement costs	**0.8**	0.9
National insurance costs	**3.1**	3.0
Current service cost – defined benefit scheme	**1.4**	1.3
Pension contributions – other pension schemes	**2.1**	1.7
Total staff costs	**33.3**	31.4
Less staff costs charged to capital account	**(10.8)**	(11.4)
Staff costs reflected in the revenue account	**22.5**	20.0
Included in:		
Administrative expenses (note 8)	**14.3**	12.6
Direct costs	**8.2**	7.4
Capital account	**10.8**	11.4
Total staff costs	**33.3**	31.4

	Number	Number
The average number of employees during the year	**404**	412

Members of the executive committee and the Board are considered to be The Crown Estate's key management personnel. Details of their remuneration is disclosed in the Remuneration report.

Notes to the Group and Parent consolidated financial statements
continued

10. Retirement benefits

The disclosures below relate to the Opal and Quartz Core sections of The Crown Estate Pension Scheme. All income statement and other comprehensive income statement balances are recorded in the revenue account. A full actuarial valuation was carried out as at 31 March 2017 and updated to 31 March 2018 by a qualified independent actuary.

At 31 March 2017, the value of the scheme's assets was £54.5 million and these exceeded the actuarial value of the scheme liabilities by £0.4 million (0.7%). The actuarial assumptions used for the statutory funding valuation of the accrued benefits as at 31 March 2018 are that the pre-retirement investment yield would in the long term exceed earnings increases by 1.7% p.a. and the post-retirement investment yield would be in line with pension increases. The actuarial assumptions used to determine the future service contribution rates use investment yields that are 2.0% p.a. and 0.5% p.a. higher respectively than the pre-retirement and post-retirement investment yields adopted for the statutory funding valuation. The regular employer contribution rates have increased to 45.0% of pensionable earnings p.a. for the Opal Section and 19.5% of capped pensionable earnings p.a. for the Quartz Core Section.

10a Balance sheet and notes

Group and Parent **Amounts recognised in the consolidated balance sheet**	**2018** **£m**	2017 £m
Present value of funded obligations	**(45.6)**	(46.1)
Fair value of scheme assets	**55.0**	54.5
Net asset recognised in the consolidated balance sheet at 31 March	**9.4**	8.4

Changes in the present value of the defined benefit obligation	**2018** **£m**	2017 £m
Present value of defined benefit obligation at beginning of year	**46.1**	40.3
Current service cost	**1.4**	1.3
Interest cost	**1.2**	1.3
Members' contributions	**0.2**	0.2
Actuarial (gain)/loss on plan liabilities	**(2.1)**	6.6
Benefits paid	**(1.2)**	(3.6)
Present value of defined benefit obligation at 31 March	**45.6**	46.1
Analysis of the defined benefit obligation		
Present value of the funded defined benefit obligation	**45.6**	46.1

Changes in the fair value of plan assets	**2018** **£m**	2017 £m
Fair value of plan assets at start of year	**54.5**	46.3
Interest income	**1.4**	1.5
Actuarial gain/(loss) on plan assets	**(0.5)**	9.2
Contributions by The Crown Estate	**0.6**	0.9
Members' contributions	**0.2**	0.2
Benefits paid	**(1.2)**	(3.6)
Fair value of assets at end of year	**55.0**	54.5

Analysis of return on plan assets	**2018** **£m**	2017 £m
Interest income	**1.4**	1.6
Actuarial (loss)/gain on plan assets	**(0.5)**	9.2
Actual return on scheme assets	**0.9**	10.8

10b Amounts to be recognised in the consolidated revenue account

	2018 **£m**	2017 £m
Net financing surplus (note 11)	**(0.2)**	(0.2)
Current service cost	**1.4**	1.3
Total pension expense	**1.2**	1.1

10. Retirement benefits continued

10c Total amount recognised in the consolidated statement of comprehensive income

	2018 £m	2017 £m
Actuarial (loss)/gain on plan assets	**(0.5)**	9.2
Actuarial gain/(loss) on defined benefit obligation	**2.1**	(6.6)
Actuarial profit recognised in the consolidated statement of comprehensive income of the revenue account	**1.6**	2.6
Actuarial profit/(loss) on defined benefit obligation:		
(Loss)/gain due to experience	**(0.5)**	0.3
Gain due to demographic assumptions	**1.8**	0.6
Gain/(loss) due to financial assumptions	**0.8**	(7.5)
Total actuarial profit/(loss) on defined benefit obligation	**2.1**	(6.6)

10d Cumulative amount recognised in the consolidated statement of comprehensive income of the revenue account

	2018 £m	2017 £m
Cumulative actuarial gains since adoption of IAS19	**2.2**	0.6

10e Major categories of plan assets

	2018 £m	Percentage of total assets 2018	2017 £m	Percentage of total assets 2017
Equities	**30.7**	**55.8%**	27.5	50.4%
Government bonds	**24.2**	**44.0%**	22.1	40.6%
Other	**0.1**	**0.2%**	4.9	9.0%
Total	**55.0**	**100.0%**	54.5	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.

10f Principal actuarial assumptions at 31 March

	2018	2017
Discount rate	**2.60%**	2.60%
RPI price inflation	**3.10%**	3.20%
CPI price inflation	**2.00%**	2.10%
Rate of increase in salaries	**2.60%**	2.60%
Pension increases	**3.10%**	3.20%

	2018	2017
The mortality assumptions used in this calculation were:		
Life expectancy for a male currently aged 60	**28.1**	29.1
Life expectancy for a female currently aged 60	**29.1**	30.5
Life expectancy for a male when they are 60, currently aged 40	**29.9**	31.3
Life expectancy for a female when they are 60, currently aged 40	**31.0**	32.9

Notes to the Group and Parent consolidated financial statements
continued

10. Retirement benefits continued

10g Experience gains and losses

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Liabilities at year end	**45.6**	46.1	40.3	41.6	36.0
Assets at year end	**55.0**	54.5	46.3	46.9	41.0
Surplus at year end	**9.4**	8.4	6.0	5.3	5.0
Asset (loss)/gain					
Amount (£m)	**(0.5)**	9.2	(1.8)	4.3	(0.6)
Percentage of scheme assets	**(0.9)%**	16.9%	(3.9)%	9.2%	(1.5)%
Liability gain/(loss)					
Experience (loss)/gain (£m)	**(0.5)**	0.3	0.6	1.7	(0.3)
Percentage of scheme liabilities	**(1.1)%**	0.7%	1.5%	4.1%	(0.8)%

For the year to 31 March 2018, employer contributions to The Crown Estate Pension Scheme (including money purchase sections) were £1.6 million (2017: £1.6 million).

For the year to 31 March 2018, employer contributions to The Principal Civil Service Pension Scheme (PCSPS) were £1.2 million (2017: £1.5 million).

For 2017 and 2018, employers' contributions were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands, and the bands will remain consistent in 2019. 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.

11. Finance income

	2018 £m	2017 £m
Bank interest income	**3.0**	3.0
Retirement benefits – net financing surplus (note 10b)	**0.2**	0.2
Total finance income	**3.2**	3.2

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

	2018 £m	2017 £m
By agreement with the Treasury the income account is charged with an amount as disclosed in note 1		
Total recovered from the capital account	**31.8**	31.1
Depreciation of fixed assets charged as costs in the income account (note 23)	**4.3**	3.1
Total recovered under the Treasury agreement	**36.1**	34.2

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

	2018 £m	2017 £m
Reflected in the consolidated capital account		
Surplus on revaluation of investment properties (note 18)	**768.4**	264.6
Adjustment for gross up for deferred rent movement	**61.8**	191.0
Gain on disposal of investment properties	**38.3**	40.5
Net revaluation gains in investment property (including profits on disposal)	**868.5**	496.1
Share of profit on disposal of property in joint ventures (note 21)	**2.1**	–
Share of revaluation gains in joint ventures (note 21)	**33.7**	8.3
Share of revaluation (deficit)/gains in other property investments (note 22)	**(1.9)**	1.6
Total reflected in the consolidated capital account	**902.4**	506.0
Reflected in the statement of comprehensive income of the capital account		
Surplus/(deficit) on revaluation of owner occupied property (note 19)	**1.5**	(12.4)
Total	**903.9**	493.6

14. Financial instruments

The Act restricts The Crown Estate to holding land, cash and such other investments as permitted by section 3(4) of the Act. All holdings in land and property must be held directly by The Crown Estate. Geographically, all holdings must be within the United Kingdom. The financial assets held by The Crown Estate are cash equivalents and trade and other receivables.

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

Trade receivables
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 doubtful trade receivables. Receivables are impaired where there is evidence that the receivable may not be recovered in full. 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 low.

15. Statutory transfers

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

	2018 £m	2017 £m
Moieties:		
Mineral dealings	**11.7**	10.3

16. Parliamentary Supply finance

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

17. Payment to the Consolidated Fund

In accordance with section 1 of the Civil List Act 1952, the net revenue account profit generated by The Crown Estate is paid into the Consolidated Fund. As The Crown Estate is not permitted 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. £320.0 million (2017: £309.0 million) was paid to the Treasury prior to the year end and a further £9.4 million (2017: £19.8 million) is included within payables. The total payment in respect of 2018 will be £329.4 million (2017: £328.8 million).

Notes to the Group and Parent consolidated financial statements
continued

18. Investment properties

Group	2018 Investment properties £m	2018 Properties under development £m	2018 Total £m	2017 Investment properties £m	2017 Properties under development £m	2017 Total continuing operations £m	2017 Discontinued operations – Scotland portfolio £m	2017 Total £m
At opening valuation (before lease incentives)	**10,939.7**	**175.6**	**11,115.3**	10,494.1	153.6	10,647.7	271.8	10,919.5
Acquisitions	**129.5**	**–**	**129.5**	47.9	68.0	115.9	0.5	116.4
Capital expenditure	**69.1**	**72.1**	**141.2**	318.2	115.8	434.0	1.7	435.7
Capital receipts	**(8.1)**	**–**	**(8.1)**	(18.1)	–	(18.1)	–	(18.1)
Transfers to other categories	**134.3**	**(134.3)**	**–**	131.8	(131.8)	–	–	–
Transfer from owner occupied properties	**47.0**	**–**	**47.0**	–	–	–	–	–
Disposals	**(290.3)**	**–**	**(290.3)**	(328.8)	–	(328.8)	(1.6)	(330.4)
Revaluation	**774.5**	**(6.1)**	**768.4**	294.6	(30.0)	264.6	3.3	267.9
Impairment of discontinued operation	**–**	**–**	**–**	–	–	–	(275.7)	(275.7)
At closing valuation (before lease incentives)	**11,795.7**	**107.3**	**11,903.0**	10,939.7	175.6	11,115.3	–	11,115.3
Deferred income from lease premia received	**1,633.1**	**–**	**1,633.1**	1,571.5	–	1,571.5	–	1,571.5
Net finance lease payable	**2.5**	**–**	**2.5**	2.4	–	2.4	–	2.4
Closing fair value – as reported	**13,431.3**	**107.3**	**13,538.6**	12,513.6	175.6	12,689.2	–	12,689.2
Reconciliation to valuation								
At closing valuation (before lease incentives)	**11,795.7**	**107.3**	**11,903.0**	10,939.7	175.6	11,115.3	–	11,115.3
Lease incentives	**17.0**	**–**	**17.0**	16.8	–	16.8	–	16.8
Market value	**11,812.7**	**107.3**	**11,920.0**	10,956.5	175.6	11,132.1	–	11,132.1

18. Investment properties continued

Parent	2018 **Total investment properties £m**	2017 Total Investment properties £m
At opening valuation (before lease incentives)	**10,983.9**	10,919.5
Acquisitions	**114.4**	47.4
Capital expenditure	**113.5**	362.6
Capital receipts	**(7.4)**	(18.1)
Transfer from owner occupied properties	**47.0**	–
Disposals	**(290.3)**	(330.4)
Revaluation	**765.6**	278.6
Impairment of discontinued operations	**–**	(275.7)
At closing valuation (before lease incentives)	**11,726.7**	10,983.9
Deferred income from lease premia received	**1,633.1**	1,571.5
Net finance lease payable	**2.5**	2.4
Closing fair value – as reported	**13,362.3**	12,557.8

Lease incentives at 31 March 2018 were £17.0 million (2017: £16.8 million).

Investment property valuations are complex and derived using estimates of future income and corporate property transactions that are not publicly available. Consequently, all investment property valuations are classified as level 3 within IFRS 13.

All properties classified as investment properties under development are within the Central London and Regional portfolios.

The Crown Estate has a number of joint operations, the most significant of which is with Norges Bank Real Estate Management (NBREM) under which NBREM has a 25% interest through a 150-year lease of the majority of the properties in Regent Street. In September 2017, the lease was amended in respect of 20 Air Street, bringing NBREM's interest in that property to 50%. The Crown Estate's (Group and Parent) share of jointly controlled assets is £4,491.5 million at 31 March 2018 (2017: £4,112.5 million) out of the total investment property value from continued operations of £13,538.6 million (2017: £12,689.2 million).

The property portfolio was valued on 31 March 2018 by independent accredited external valuers with a recognised relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation methods used are in accordance with RICS and those recommended by the International Valuation Standards Committee and are consistent with the principles in IFRS 13. More information about the fair value measurement is set out in note 20.

	Group 2018 £m	Group 2017 £m	**Parent 2018 £m**	Parent 2017 £m
Historic cost of investment properties	**3,160.5**	3,250.0	**2,957.5**	3,089.1
Market value of freehold investment properties	**11,793.5**	10,999.4	**11,617.2**	10,868.0
Market value of long leasehold properties	**126.5**	132.7	**126.5**	132.7

Notes to the Group and Parent consolidated financial statements
continued

19. Owner occupied property

Group and Parent	2018 Central London £m	2018 Windsor Estate £m	2018 Total £m	2017 Total £m
Opening fair value	**47.0**	**88.7**	**135.7**	146.4
Capital expenditure	**–**	**1.6**	**1.6**	1.7
Revaluation	**–**	**1.5**	**1.5**	(12.4)
Transfer to investment properties	**(47.0)**	**–**	**(47.0)**	–
Closing fair value	**–**	**91.8**	**91.8**	135.7

All owner occupied properties are classified as level 3 within the value hierarchy.

During the year, The Crown Estate relocated its headquarters from an owner occupied property in central London to a property which is owned by a joint venture undertaking.

The historic cost of owner occupied properties at 31 March 2018 was £51.9 million (2017: £88.6 million).

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

20. Fair value measurement of properties

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

Valuation process
The entire portfolio is valued on an annual basis by independent and qualified valuers on a fair value basis in accordance with IFRS 13, the RICS Valuation – Professional Standards (The Red Book) January 2016 and VPGA 1 guidance therein regarding valuation for inclusion in financial statements.

The Central London and Regional portfolios are fully valued on a quarterly basis and a tonal exercise is also undertaken at the half year on the Rural and Central London (residential) properties.

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

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

The annual valuation is presented to and the process is endorsed by the Audit Committee. A review is also presented to the Board annually.

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

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

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

20. Fair value measurement of properties continued

Valuation techniques used to derive level 3 fair values of Group properties:

Class of property	**Valuation 2018 £m**	Valuation 2017 £m	Predominant valuation technique	Key unobservable inputs	Range	Principal valuer
Central London portfolio:						
Retail	**3,430.1**	2,903.7	Investment	ERV	£60–£950 psf ITZA	C&W
				Yield	2.85%–4.75%	
Offices	**2,850.2**	2,853.1	Investment	ERV	£25–£125 psf	C&W
				Yield	2.9%–6.25%	
Residential	**650.9**	600.5	Comparable	£ psf	£826–£4,246	JLL
Other Central London	**342.8**	362.1	Investment	Yield	3.1%–12.70%	JLL/C&W
Total Central London	**7,274.0**	6,719.4				
Regional portfolio:						
Retail	**312.9**	324.7	Investment	ERV	£20–£225 ITZA	JLL
				Yield	4.5%–10.9%	
Retail & Leisure Parks	**1,086.3**	1,112.0	Investment	ERV	£12–£125 psf	JLL
				Yield	4.2%–6.2%	
Offices	**157.2**	148.0	Investment	ERV	£26–£32.50	JLL
				Yield	5.4%	
Other Regional	**202.2**	187.8	Comparable/ Investment	Yield	4.2%–5.6%	JLL
				ERV	£4.30–£10.30	JLL
				Proportion of vacant possession value	70%–95%	Savills
Total Regional	**1,758.6**	1,772.5				
Rural & Coastal portfolio:						
Agricultural	**1,056.3**	1,106.8	Comparable/ Investment	Proportion of vacant possession value	50%–100%	Savills/ Strutt & Parker
				Yield	1%–3%	
Coastal	**206.6**	201.9	Investment	Yield	5%–20%	Various
Minerals	**16.5**	15.1	Investment	Yield	5%–15%	Wardell Armstrong
Total Rural & Coastal	**1,279.4**	1,323.8				
Windsor Estate:						
Other	**213.9**	191.9	Comparable/ Investment	Proportion of vacant possession value	65%–95%	
				Yield	7%–16%	Savills

Notes to the Group and Parent consolidated financial statements
continued

20. Fair value measurement of properties continued

Class of property	Valuation 2018 £m	Valuation 2017 £m	Predominant valuation technique	Key unobservable inputs	Range	Principal valuer
Energy, Minerals & Infrastructure portfolio:						
Aggregates	**175.3**	171.9	Investment	Yield	7%–15%	Wardell Armstrong
				Annual extraction	c. 20 million tonnes	
Renewables	**1,103.1**	854.8	Investment/ DCF	Yield	4.5%–19%	JLL/ Powis Hughes
				Discount rate	8%–25%	
Cables and pipelines	**115.7**	97.8	Investment	Yield	6%–15%	Powis Hughes
Total Energy, Minerals & Infrastructure	**1,394.1**	1,124.5				
Total investment properties	**11,920.0**	11,132.1				
Owner Occupied						
London	**–**	47.0	Investment	ERV	£92.90	C&W
				Yield	4.25%	
Windsor Estate	**91.8**	88.7	Comparable	Proportion of vacant possession value	65%–95%	Savills
Total owner occupied properties	**91.8**	135.7				
Total all portfolios at valuation	**12,011.8**	11,267.8				

Value of properties on a proportionally consolidated basis

	2018 £m	2017 £m
Investment properties (note 18)	**11,920.0**	11,132.1
Owner occupied properties (note 19)	**91.8**	135.7
Share of investment properties of joint ventures at valuation (note 21)	**1,159.4**	1,062.9
Other property investments (note 22)	**85.4**	87.3
Total value properties on a proportionally consolidated basis	**13,256.6**	12,418.0

The fair value of investment property is determined using the following valuation methods:

Investment Method
This involves estimating the rental value of each lettable unit within the property, making an assessment of void periods and other costs of letting and then capitalising at an appropriate rate.

Hope value has been included where there is future reversionary potential, e.g. conversion of offices back to their original use as residential.

Discounted cash flow (DCF)
This involves the projection of cash flows to which an appropriate market-derived discount rate is applied to establish the present value of the income stream.

Comparable method
An indication of value arrived at by comparing information of the subject asset with similar assets for which valuation data is available.

Specific valuation considerations have been applied to the following classes of property:

Wind farms
Each wind farm project 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.

Strategic land
Hope value for strategic land is incorporated into the Rural portfolio, discounted to reflect the stage reached in the planning process.

Properties being re-developed
The Residual Method has been adopted which involves calculating the potential value when the property has been completed (using the Investment Method) and then deducting the cost to complete the construction, achieve lettings and appropriate allowances for profit to compensate for the risk of carrying out the development.

20. Fair value measurement of properties continued

Rural and residential properties
These are generally valued using the Comparable Method and cross checked with the Investment Method.

Owner occupied residential property at the Windsor Estate
This has been valued using the Comparable Method with an appropriate discount to the vacant possession value.

Sensitivity analysis
The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy of the investment property are:

- Estimating the rental value of each lettable unit with evidence derived from other recent lettings in the property itself or similar properties nearby, making adjustments for size, specification, location and letting incentives.
- Estimating the length of time taken and the cost to let vacant space and the likelihood of lease renewals.
- Deciding the appropriate capitalisation rate to be applied derived from transactions of comparable properties.
- Choosing the appropriate discount rate to vacant possession value for differing lengths and types of tenure on rural and residential tenancies.
- For property under development the assessment of the value created on completion and the allowance for construction and letting costs to achieve that.
- Inclusion of hope value for a higher value use (e.g. strategic land and properties with potential for residential conversion) dependent upon the likelihood, time and cost of achieving that use.
- Allowance for the level of volatility on turnover related valuations, e.g. offshore wind farms, aggregates and minerals.
- Assessment of functional lifespan of offshore assets, e.g. cables and pipelines.
- Assessing the appropriate discount rate for offshore wind farms 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.

Valuation techniques used to derive level 3 fair values of Parent properties:
The valuation of the Parent properties is as disclosed above except for retail and leisure parks which for the Group is £1,086.3 million (2017: £1,112.0 million) and for the Parent is £909.9 million (2017: £980.5 million).

21. Investment in joint ventures

The Crown Estate's investment in joint ventures is described below:

Group and Parent Name of jointly controlled entity	Percentage owned	Formation date	Partner	Property interest
The Gibraltar Limited Partnership[1]	50%	April 2007	Hercules Unit Trust	Fort Kinnaird Shopping Park, Edinburgh
				Gallagher Retail Park, Cheltenham
Co-ownership agreement	50%	June 2008	Morley Fund Management	Crown Point Shopping Park, Leeds
Westgate Oxford Alliance Limited Partnership	50%	May 2010	Land Securities Group PLC	Westgate, Oxford
Maple Investment Limited Partnership	50%	November 2010	The Healthcare of Ontario Pension Plan	St James's Gateway, London
Wexford Retail Limited Partnership	50%	August 2014	Gingko Tree Investment Limited	Fosse, Leicester
Fosse Park West Limited Partnership	50%	August 2015	Gingko Tree Investment Limited	Castle Acres, Fosse, Leicester
The St James's Partnership Group:				
St James's Market Haymarket Limited Partnership	50%	September 2013	Oxford Properties	2 St James's Market, London
St James's Market Regent Street Limited Partnership	50%	September 2013	Oxford Properties	1 St James's Market, London
St James's Market Development Limited	50%	September 2013	Oxford Properties	
The St James's Partnership Group 2:				
SJM Four (South Block) Limited Partnership	50%	May 2015	Oxford Properties	4 St James's Market, London
St James's Market Development (No. 2) Limited	50%	May 2015	Oxford Properties	

1 On 18 May 2018, The Gibraltar Limited Partnership exchanged contracts to sell its investment property assets to its joint venture partners (note 36).

The Crown Estate purchased the joint venturer's interest in the following arrangement during the year:

Group and Parent Name of jointly controlled entity	Percentage owned	Formation date	Partner	Property interest
Co-ownership agreement	50%	December 2008	CGNU Life Assurance	Property in Princes Street, London

Notes to the Group and Parent consolidated financial statements
continued

21. Investment in joint ventures continued

All joint ventures operate in the United Kingdom.

The assets, liabilities, revenues and expenses of The Crown Estate's primary joint ventures at 100% were:

	Central London				Regional				Total
Group and Parent	Maple LP £m	Princes Street Agreement £m	St James's Market Partnership Group £m	St James's Market Partnership Group 2 £m	Crown Point £m	Gibraltar LP £m	Westgate Oxford Alliance LP £m	Wexford Retail LP[1] £m	£m
Balance sheet at 31 March 2018									
Investment properties at valuation	240.3	–	454.0	129.9	133.0	414.0	562.7	384.9	2,318.8
Lease incentives	–	–	–	–	–	(7.2)	(13.6)	(0.4)	(21.2)
Cash	4.5	–	–	1.5	4.3	6.9	10.0	7.0	34.2
Other assets	4.6	–	35.2	1.4	0.5	8.3	18.4	6.3	74.7
Current liabilities	(3.7)	–	(12.7)	(2.6)	(4.0)	(5.7)	(9.2)	(5.2)	(43.1)
Long-term liabilities	–	–	–	–	–	(141.1)	(0.1)	–	(141.2)
Net assets	245.7	–	476.5	130.2	133.8	275.2	568.2	392.6	2,222.2
Comprehensive income statement for the year ended 31 March 2018									
Income	8.7	0.2	28.9	9.9	7.6	21.1	15.8	17.4	109.6
Expenses	(1.8)	–	(14.7)	(4.4)	(0.3)	(4.7)	(5.3)	(1.6)	(32.8)
Revenue account profit	6.9	0.2	14.2	5.5	7.3	16.4	10.5	15.8	76.8
Profit on revaluation of investment properties	0.8	–	32.2	(12.7)	(0.6)	0.9	52.3	(5.6)	67.3
Profit on disposal of properties	–	–	–	–	–	–	4.2	–	4.2
Total capital account profit	0.8	–	32.2	(12.7)	(0.6)	0.9	56.5	(5.6)	71.5
Fair value movements on interest rate swaps treated as cash flow hedges reflected in the capital account	–	–	–	–	–	1.9	–	–	1.9
Total capital account comprehensive profit	0.8	–	32.2	(12.7)	(0.6)	2.8	56.5	(5.6)	73.4

	Total Central London	Total Regional	Total
The Crown Estate share	50%	50%	50%
Investment properties at valuation	412.1	747.3	1,159.4
Cash	3.0	14.1	17.1
Net assets	426.2	684.9	1,111.1
Revenue	23.8	31.0	54.8
Revenue account profit	13.4	25.0	38.4
Revaluation gains	10.2	23.5	33.7
Gain on disposal of investment property	–	2.1	2.1
Fair value movement on interest rate swaps	–	0.9	0.9

1 Balances include those for Fosse Park West Limited Partnership.

21. Investment in joint ventures continued

Group and Parent	Central London: Maple LP £m	Central London: Princes Street Agreement £m	Central London: St James's Market Partnership Group £m	Central London: St James's Market Partnership Group 2 £m	Regional: Crown Point £m	Regional: Gibraltar LP £m	Regional: Westgate Oxford Alliance LP £m	Regional: Wexford Retail LP[1] £m	Total £m
Balance sheet at 31 March 2017									
Investment properties at valuation	239.4	14.5	416.9	139.9	131.6	403.8	422.5	357.2	2,125.8
Lease incentives	–	–	–	–	–	(6.6)	(1.4)	(0.2)	(8.2)
Cash	5.0	0.4	0.7	1.5	3.2	6.7	10.5	6.3	34.3
Other assets	5.4	0.1	4.2	0.4	0.8	7.5	4.5	7.6	30.5
Current liabilities	(5.0)	(0.2)	(2.1)	(2.1)	(3.0)	(4.6)	(17.4)	(5.0)	(39.4)
Long-term liabilities	–	–	–	–	–	(142.8)	(18.4)	–	(161.2)
Net assets	244.8	14.8	419.7	139.7	132.6	264.0	400.3	365.9	1,981.8
Comprehensive income statement for the year ended 31 March 2017									
Income	8.6	0.4	4.2	6.8	7.4	19.9	2.5	18.2	68.0
Expenses	(1.2)	(0.3)	(1.2)	(1.3)	(0.4)	(4.3)	(0.6)	(1.5)	(10.8)
Revenue account profit	7.4	0.1	3.0	5.5	7.0	15.6	1.9	16.7	57.2
Profit on revaluation of investment properties	(4.6)	–	20.0	(7.4)	(1.2)	(4.8)	11.6	3.0	16.6
Total capital account profit	(4.6)	–	20.0	(7.4)	(1.2)	(4.8)	11.6	3.0	16.6
Fair value movements on interest rate swaps treated as cash flow hedges reflected in the capital account	–	–	–	–	–	0.2	–	–	0.2
Total capital account comprehensive profit	(4.6)	–	20.0	(7.4)	(1.2)	(4.6)	11.6	3.0	16.8

	Total Central London	Total Regional	Total
The Crown Estate share	50%	50%	50%
Investment properties at valuation	405.4	657.5	1,062.9
Cash	3.8	13.4	17.2
Net assets	409.5	581.4	990.9
Revenue	10.0	24.0	34.0
Revenue account profit	8.0	20.6	28.6
Revaluation gains	4.0	4.3	8.3
Fair value movement on interest rate swaps	–	0.1	0.1

1 Balances include those for Fosse Park West Limited Partnership.

Notes to the Group and Parent consolidated financial statements
continued

21. Investment in joint ventures continued

Group and Parent Summary of movement in investment in joint ventures	**2018** **£m**	2017 £m
Opening balance	**990.9**	820.4
Net equity additions	**87.4**	157.1
Share of profit on sale of property	**2.1**	–
Surplus on revaluation of investment properties	**33.7**	8.3
Share of joint venture's fair value movements on interest-rate swaps treated as cash flow hedges	**0.9**	0.1
Distributions received	**(34.9)**	(23.6)
Share of revenue profit	**38.4**	28.6
Transfer to investment properties	**(7.4)**	–
Closing balance	**1,111.1**	990.9

The Gibraltar Partnership has a £140 million loan which matures on 20 June 2019 (with an option to extend for a further 12 months). In addition, the partnership has interest rate swaps which fix the interest at 2.07%. The swaps were valued on 31 March 2018 at £1.6 million (2017: £3.6 million) of which The Crown Estate's share was £0.8 million.

The investment properties included within the net current assets of jointly controlled entities included above have been valued in accordance with the requirements of IFRS 13 and are classified as level 3 within the value hierarchy.

22. Other property investments

Other property investments comprise a 4.9% share of Lend Lease Retail Partnership, an English Limited Partnership, and a 6.4% interest in The Pollen Estate. Lend Lease Retail Partnership provides an equity interest in both Bluewater Shopping Centre, Kent and Touchwood Court Shopping Centre, Solihull.

The Pollen Estate owns freehold property in an area of Mayfair to the west of Regent Street in London and the investment is held by a subsidiary of The Crown Estate.

The investments are held at the Group's share of fair value. The property investments are classified as level 3 within the value hierarchy as defined within IFRS13.

	Group **2018** **£m**	Group 2017 £m	**Parent** **2018** **£m**	Parent 2017 £m
Opening balance	**87.3**	85.7	**40.4**	41.7
Share of revaluation (deficit)/gain of investment reflected in the consolidated capital account	**(1.9)**	1.6	**(6.1)**	(1.3)
Share of net assets reflected in the balance sheet	**85.4**	87.3	**34.3**	40.4
Share of revenue profit	**1.6**	2.2	**0.9**	1.4

23. Plant and equipment

Group and Parent – 2018	**Plant and machinery £m**	**Office equipment £m**	**Leasehold improvements £m**	**Motor vehicles £m**	**Total £m**
Cost – opening balance	**2.8**	**28.2**	**4.9**	**0.9**	**36.8**
Additions	**–**	**1.3**	**4.8**	**0.1**	**6.2**
Disposals	**(0.4)**	**(0.1)**	**–**	**–**	**(0.5)**
Cost – closing balance	**2.4**	**29.4**	**9.7**	**1.0**	**42.5**
Depreciation – opening balance	**2.2**	**18.1**	**–**	**0.5**	**20.8**
Charge in the year	**0.1**	**3.1**	**0.7**	**0.4**	**4.3**
Disposals	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Depreciation – closing balance	**2.2**	**21.2**	**0.7**	**0.9**	**25.0**
Net book value at 31 March 2018	**0.2**	**8.2**	**9.0**	**0.1**	**17.5**

Group and Parent – 2017	£m	£m	£m	£m	£m
Cost – opening balance	4.8	25.7	–	1.2	31.7
Additions	0.2	2.8	4.9	0.1	8.0
Disposals	(1.3)	–	–	(0.2)	(1.5)
Impairment of discontinued operations	(0.9)	(0.3)	–	(0.2)	(1.4)
Cost – closing balance	2.8	28.2	4.9	0.9	36.8
Depreciation – opening balance	3.6	15.6	–	0.7	19.9
Charge in the year	0.3	2.7	–	0.1	3.1
Disposals	(1.3)	–	–	(0.1)	(1.4)
Impairment of discontinued operations	(0.4)	(0.2)	–	(0.2)	(0.8)
Depreciation – closing balance	2.2	18.1	–	0.5	20.8
Net book value at 31 March 2017	0.6	10.1	4.9	0.4	16.0

24. Other investments

Other investments comprise antiques and paintings	**Group 2018 £m**	Group 2017 £m	**Parent 2018 £m**	Parent 2017 £m
Opening balance	**10.8**	10.4	**10.8**	10.4
Disposals	**–**	(0.1)	**–**	(0.1)
Revaluation gain	**–**	0.5	**–**	0.5
Closing balance	**10.8**	10.8	**10.8**	10.8

Notes to the Group and Parent consolidated financial statements
continued

25. Receivables due after one year

	Group 2018 £m	Group 2017 £m	Parent 2018 £m	Parent 2017 £m
Other financial assets	**2.4**	1.8	**2.4**	1.8
Other receivables	**52.2**	56.2	**52.2**	56.2
Total receivables due after one year	**54.6**	58.0	**54.6**	58.0

26. Trade and other receivables

	Group 2018 £m	Group 2017 £m	Parent 2018 £m	Parent 2017 £m
Trade receivables	**33.5**	29.2	**32.7**	26.0
Other financial assets	**0.1**	0.1	**0.1**	0.1
Amounts owed by subsidiary undertakings	**–**	–	**232.8**	182.8
Other receivables	**17.5**	11.2	**17.3**	13.7
Prepayments	**0.8**	1.2	**0.8**	1.2
Accrued income	**28.1**	11.6	**19.2**	11.6
Total trade and other receivables	**80.0**	53.3	**302.9**	235.4

Trade and other receivables are shown after deducting the provision for bad and doubtful debts of £6.0 million (2017: £7.4 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.

27. Payables and deferred income

	Group 2018 £m	Group 2017 £m	Parent 2018 £m	Parent 2017 £m
Amounts falling due within one year:				
Trade payables	**2.7**	3.5	**2.7**	2.6
Rents received in advance	**72.8**	74.2	**72.4**	74.2
Taxes and social security	**16.4**	20.2	**16.4**	20.2
Other payables	**17.3**	17.1	**17.2**	16.9
Consolidated Fund	**9.4**	19.8	**9.4**	19.8
Accruals	**38.7**	29.3	**32.7**	28.2
Deferred income on receipt of lease premia	**16.3**	15.3	**16.3**	15.3
Obligations under finance leases	**0.3**	0.3	**0.3**	0.3
Total payables and deferred income falling due within one year	**173.9**	179.7	**167.4**	177.5
Amounts falling due after more than one year:				
Deferred income on receipt of lease premia	**1,616.8**	1,556.2	**1,616.8**	1,556.2
Obligations under finance leases	**4.7**	4.4	**4.7**	4.4
Total payables and deferred income falling due after one year	**1,621.5**	1,560.6	**1,621.5**	1,560.6

28. Provisions

	Group 2018 £m	Group 2017 £m	Parent 2018 £m	Parent 2017 £m
Opening balance	**0.4**	1.5	**0.4**	1.5
Provision released	**–**	(1.5)	**–**	(1.5)
Payments in year	**(0.4)**	–	**(0.4)**	–
Reorganisation provision	**–**	0.4	**–**	0.4
Closing balance	**–**	0.4	**–**	0.4

29. Leasing

Operating leases with tenants

The Crown Estate leases out all of its investment properties under operating leases for average lease terms of 46 years to expiry. The future aggregate minimum rentals, excluding contingent rents receivable under non-cancellable leases are as follows:

	Group 2018 £m	Group 2017 £m	**Parent 2018 £m**	Parent 2017 £m
Less than one year	**319.5**	303.3	**312.6**	324.4
Between two and five years	**973.7**	955.1	**945.6**	962.2
More than five years	**4,386.3**	4,416.7	**4,342.4**	4,356.9
Total operating leases with tenants	**5,679.5**	5,675.1	**5,600.6**	5,643.5

Contingent rents receivable were £39.8 million at 31 March 2018 (2017: £45.5 million).

Operating leases where The Crown Estate is lessee

The Crown Estate has various operating leases under non-cancellable operating lease agreements. The lease terms are between one and ten years, and the majority have the ability to renew at the end of the term at market rate. The future aggregate minimum payments are as follows:

	Group 2018 £m	Group 2017 £m	**Parent 2018 £m**	Parent 2017 £m
Less than one year	**3.0**	1.0	**3.0**	1.0
Between two and five years	**17.7**	15.3	**17.7**	15.3
More than five years	**147.9**	151.3	**147.9**	151.3
Total operating leases where The Crown Estate is lessee	**168.6**	167.6	**168.6**	167.6

Obligations under finance leases

Finance lease liabilities are payable as follows:

	Group and Parent 2018			Group and Parent 2017		
	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	**49.1**	**(45.4)**	**3.7**	50.2	(46.7)	3.5
Total obligations under finance leases	**50.5**	**(45.5)**	**5.0**	51.6	(46.9)	4.7

The amount recognised as an expense in the year in respect of contingent rentals is £0.3 million (31 March 2017: £0.3 million).

30. Capital commitments

At 31 March 2018, The Crown Estate had committed to make capital expenditure of £288.0 million (31 March 2017: £334.7 million) and had authorised additional expenditure of £91.8 million (31 March 2017: £242.2 million).

31. Contingent liabilities

The Crown Estate is subject to various litigation, claims and warranties arising in the ordinary course of business. Based on the information currently available, it is not expected the resolution of these matters, individually or in aggregate, will lead to any material liabilities.

Notes to the Group and Parent consolidated financial statements
continued

32. Related party transactions

Joint ventures
The transactions outlined below are between the Group and its joint ventures, further details of which are given in note 21.

During the year, The Crown Estate relocated to 1 St James's Market, a property owned by St James's Market Regent Street LP, a joint venture. The Crown Estate is currently benefiting from a rent free period, so no rental payments were made during the year (2017: £nil) and the outstanding payable to the joint venture is £nil (2017: £nil).

	Group 2018 £m	Group 2017 £m	**Parent 2018 £m**	Parent 2017 £m
Year ended 31 March				
Management fees receivable	**3.3**	3.0	**–**	–
Charges from joint ventures	**(1.6)**	–	**(1.6)**	–

Transactions with subsidiaries
Details of transactions between The Crown Estate and other related parties in the normal course of business are disclosed below.

	2018 £m	2017 £m
Management fees paid	**2.9**	2.7

Details of amounts receivable from subsidiaries are outlined in note 26.

Key management personnel
Members of the executive committee and the Board are considered to be The Crown Estate's key management personnel. Details of their remuneration are disclosed in the Remuneration report.

Robin Budenberg, Chairman, is London Chairman of Centreview Partners UK LLP, a sub tenant of The Crown Estate.

33. Third party deposits

At 31 March 2018, The Crown Estate held £33.5 million (31 March 2017: £28.5 million) on deposit on behalf of third parties.

34. Investments

The Crown Estate has the following wholly-owned subsidiary undertakings, all of which are registered at 1 St James's Market, London SW1Y 4AH. Unless otherwise stated the principal activity of the investments is property investment and management.

Purple Holdco Limited – intermediate holding company

Purple Investment Management LLP – asset management advice

Purple Investment GP Limited

TCE Purple Investment, LP

Anther GP Limited

Anther Partners LP

Shoemaker GP Limited

Shoemaker LP

Shoemaker Nominee Limited

Urbanlease Property Management Limited – dormant property management company

34. Investments continued

The Crown Estate has a 50% interest in the following joint ventures. Unless otherwise noted, they are all registered at 1 St James's Market, London SW1Y 4AH:

Maple Investment GP Limited

Maple Investment LP

Maple Nominee Limited

Wexford Retail GP Limited

Wexford Retail LP

Wexford Retail Nominee Limited

Fosse Park West GP Limited

Fosse Park West LP

St James's Market Haymarket GP Limited

St James's Market Haymarket LP

St James's Market Regent Street GP Limited

St James's Market Regent Street LP

SJM Four (South Block) GP Limited

SJM Four (South Block) LP

St James's Market Development Limited

St James's Market Development (No.2) Limited

Gibraltar General Partner Limited[1]

The Gibraltar Limited Partnership[1]

Gibraltar Nominees Limited[1]

Westgate Oxford Alliance GP Limited[2]

Westgate Oxford Alliance Limited Partnership[2]

Westgate Oxford Alliance Nominee No.1 Limited[2]

Westgate Oxford Alliance Nominee No.2 Limited[2]

1 Registered office – York House, 45 Seymour Street, London W1H 7LX.
2 Registered office – 100 Victoria Street, London SW1E 5JL.

35. Issue of accounts

On 7 June 2018, the financial statements were approved by the Board prior to certification by the Comptroller and Auditor General on 14 June 2018. On this date, the financial statements are deemed to be authorised for issue. Post balance sheet events were considered up to this date.

36. Events after the balance sheet date

On 10 April 2018, St James's Market Development LP, a joint venture, concluded negotiations with a subcontractor in relation to delays completing a development. A gain of £3.6 million has been recorded within the 2018 financial statements, representing The Crown Estate's share of this payment.

On 11 June 2018, The Crown Estate purchased the Gallagher Shopping Park in Cheltenham from The Gibraltar Limited Partnership, a joint venture between The Crown Estate and Hercules Unit Trust. Simultaneously, the partnership sold its only other asset, Fort Kinnaird, to a new partnership set up by Hercules Unit Trust. On completion the outstanding debt and related financial instrument were settled in full and the partnership has retained some cash to discharge residual liabilities with the balance of the proceeds distributed to The Crown Estate. This is a non-adjusting subsequent event.

Notes to the Group and Parent consolidated financial statements
continued

Supplementary disclosures

Unaudited

Summary consolidated income statements on a proportionally consolidated basis

The table below is unaudited and does not form part of the consolidated primary statements or notes thereto. It presents the results of the continuing operations of the Group, with its share of the results of jointly controlled interests on a line-by-line, i.e. proportional basis. The revenue and capital profit are the same as presented in the Consolidated Revenue and Capital accounts.

	2018			2017		
Consolidated revenue account	**Group £m**	**Share of jointly controlled entities £m**	**Proportionally consolidated £m**	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Revenue	**452.1**	**54.8**	**506.9**	428.6	34.0	462.6
Direct costs (including service charge costs)	**(90.2)**	**(14.5)**	**(104.7)**	(77.6)	(3.8)	(81.4)
Gross surplus	**361.9**	**40.3**	**402.2**	351.0	30.2	381.2
Indirect costs	**(30.2)**	**–**	**(30.2)**	(26.1)	–	(26.1)
Operating surplus	**331.7**	**40.3**	**372.0**	324.9	30.2	355.1
Net investment revenue	**3.2**	**(1.9)**	**1.3**	3.2	(1.6)	1.6
Share of revenue profit from joint ventures	**38.4**	**(38.4)**	**–**	28.6	(28.6)	–
Share of revenue profit from other property investments	**1.6**	**–**	**1.6**	2.2	–	2.2
Depreciation of tangible fixed assets	**(4.3)**	**–**	**(4.3)**	(3.1)	–	(3.1)
Net consolidated operating profit before Treasury agreements and Statutory transfers	**370.6**	**–**	**370.6**	355.8	–	355.8
Treasury agreements	**(31.8)**	**–**	**(31.8)**	(31.1)	–	(31.1)
Statutory transfers	**(11.7)**	**–**	**(11.7)**	(10.3)	–	(10.3)
Parliamentary Supply finance	**2.3**	**–**	**2.3**	2.3	–	2.3
Net consolidated revenue account profit from continuing operations	**329.4**	**–**	**329.4**	316.7	–	316.7
Net consolidated revenue account profit from discontinued operations	**–**	**–**	**–**	12.1	–	12.1
Net consolidated revenue account profit – distributable to the Consolidated Fund	**329.4**	**–**	**329.4**	328.8	–	328.8

	2018			2017		
Consolidated capital account	**Group £m**	**Share of jointly controlled entities £m**	**Proportionally consolidated £m**	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Revenue	**17.1**	**–**	**17.1**	16.0	–	16.0
Charge from revenue for salary costs	**(10.8)**	**–**	**(10.8)**	(11.4)	–	(11.4)
Revaluation gains including profit on disposal	**868.5**	**35.8**	**904.3**	496.1	8.3	504.4
Share of revaluation gains and profit on disposal in joint ventures	**35.8**	**(35.8)**	**–**	8.3	(8.3)	–
Share of revaluation (loss)/gain in other property investments	**(1.9)**	**–**	**(1.9)**	1.6	–	1.6
Impairment of discontinued operation	**–**	**–**	**–**	(291.8)	–	(291.8)
Consolidated capital account profit before Treasury agreements and Statutory transfers	**908.7**	**–**	**908.7**	218.8	–	218.8
Treasury agreements	**31.8**	**–**	**31.8**	31.1	–	31.1
Statutory transfers	**11.7**	**–**	**11.7**	10.3	–	10.3
Consolidated capital account profit from continuing operations	**952.2**	**–**	**952.2**	260.2	–	260.2
Net capital account profit from discontinued operations	**–**	**–**	**–**	3.9	–	3.9
Net consolidated capital account profit	**952.2**	**–**	**952.2**	264.1	–	264.1

Supplementary disclosures continued

Summary balance sheet on a proportionally consolidated basis

The tables below are unaudited and do not form part of the consolidated primary statements or notes thereto. They present the composition of the net assets of the Group, with its share of the net assets of jointly controlled interests on a line-by-line, i.e. proportional basis.

	2018			2017		
Balance sheet	**Group £m**	**Share of jointly controlled entities £m**	**Proportionally consolidated £m**	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Investment properties	**13,538.6**	**1,148.8**	**14,687.4**	12,689.2	1,058.7	13,747.9
Owner occupied properties	**91.8**	**–**	**91.8**	135.7	–	135.7
Other property investments	**85.4**	**–**	**85.4**	87.3	–	87.3
Total properties	**13,715.8**	**1,148.8**	**14,864.6**	12,912.2	1,058.7	13,970.9
Investment in jointly controlled entities	**1,111.1**	**(1,111.1)**	**–**	990.9	(990.9)	–
Cash	**886.9**	**17.1**	**904.0**	825.6	17.2	842.8
Other assets	**172.3**	**37.4**	**209.7**	146.5	15.4	161.9
Current liabilities	**(173.9)**	**(21.6)**	**(195.5)**	(180.1)	(19.8)	(199.9)
Payables – amounts falling due after more than one year	**(1,621.5)**	**(70.6)**	**(1,692.1)**	(1,560.6)	(80.6)	(1,641.2)
Net assets	**14,090.7**	**–**	**14,090.7**	13,134.5	–	13,134.5

	2018			2017		
Properties at valuation	**Group £m**	**Share of jointly controlled entities £m**	**Proportionally consolidated £m**	Group £m	Share of jointly controlled entities £m	Proportionally consolidated £m
Investment properties	**13,538.6**	**1,148.8**	**14,687.4**	12,689.2	1,058.7	13,747.9
Deferred income from lease premiums received	**(1,633.1)**	**–**	**(1,633.1)**	(1,571.5)	–	(1,571.5)
Head lease liabilities	**(2.5)**	**–**	**(2.5)**	(2.4)	–	(2.4)
Lease incentives	**17.0**	**10.6**	**27.6**	16.8	4.2	21.0
Investment properties at valuation	**11,920.0**	**1,159.4**	**13,079.4**	11,132.1	1,062.9	12,195.0
Owner occupied properties	**91.8**	**–**	**91.8**	135.7	–	135.7
Joint venture properties	**1,159.4**	**(1,159.4)**	**–**	1,062.9	(1,062.9)	–
Other property investments	**85.4**	**–**	**85.4**	87.3	–	87.3
Total properties at valuation	**13,256.6**	**–**	**13,256.6**	12,418.0	–	12,418.0

Ten-year record (unaudited)

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

Income account	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**
Revenue (excluding service charge income)	285.8	299.7	306.8	314.2	332.2	350.8	373.1	395.1	419.6	**421.9**
Direct operating costs (including net service charge expense)	(42.6)	(52.9)	(42.5)	(41.8)	(49.0)	(45.9)	(51.1)	(54.2)	(53.4)	**(60.0)**
Gross surplus	243.2	246.8	264.3	272.4	283.2	304.9	322.0	340.9	366.2	**361.9**
Administrative expenses	(17.0)	(18.5)	(17.1)	(18.4)	(19.8)	(20.0)	(20.9)	(23.0)	(27.7)	**(30.2)**
Net revenue account profit	**226.5**	**210.7**	**230.9**	**240.2**	**252.6**	**267.1**	**285.1**	**304.1**	**328.8**	**329.4**
Consolidated Fund payment	230.0	210.0	231.0	240.2	251.8	266.2	285.1	304.1	328.8	**329.4**
Balance sheet										
Investment, development and owner occupied properties	6,073.2	6,696.4	7,552.3	8,118.4	8,574.7	9,858.7	11,376.5	12,448.8	12,824.9	**13,630.4**
Non-current investment property assets held for sale	221.9	135.1	17.5	22.5	105.5	56.5	–	–	–	**–**
Investment in joint ventures	185.7	212.7	265.0	266.9	275.3	396.3	646.8	820.4	990.9	**1,111.1**
Other property investments	27.5	30.0	33.1	34.0	35.7	35.8	79.0	85.6	87.3	**85.4**
Other plant and equipment	8.5	8.3	7.1	7.7	7.6	6.5	11.8	11.8	16.0	**17.5**
Other investments	4.9	4.9	5.3	5.3	5.4	10.2	10.4	10.4	10.8	**10.8**
Pension asset	0.9	–	2.3	2.8	6.8	5.0	5.3	6.0	8.4	**9.4**
Receivables due after one year	11.4	13.3	21.4	23.7	29.3	39.8	57.4	64.0	58.0	**54.6**
Current assets (excluding assets held for sale)	421.9	480.6	311.0	608.7	610.6	571.3	591.7	958.4	878.9	**966.9**
Current liabilities	(164.9)	(104.6)	(102.3)	(121.3)	(115.5)	(110.9)	(136.1)	(154.7)	(180.1)	**(173.9)**
Non-current liabilities	(776.2)	(837.1)	(859.9)	(914.2)	(920.5)	(992.5)	(1,181.1)	(1,371.1)	(1,560.6)	**(1,621.5)**
Capital and reserves	**6,014.8**	**6,639.6**	**7,252.8**	**8,054.5**	**8,614.9**	**9,876.7**	**11,461.7**	**12,879.6**	**13,134.5**	**14,090.7**

Glossary

Bespoke benchmark
An MSCI benchmark based upon the Annual Index weighted to reflect our average capital employed at March 2017. This excludes our ownership of certain non-commercial assets including the Windsor Estate.

Book value
The amount at which assets and liabilities are reported in the financial statements.

Capital employed
The capital value of an asset at the beginning of a period plus net capital invested over the period.

Capital value
The net assets of The Crown Estate held as capital for Her Majesty and Her Successors.

Carbon Intensity
The amount of carbon dioxide produced per square metre of floor space.

Consolidated Fund
The UK Government's general bank account held at the Bank of England. Taxation and other monies paid to the Treasury are paid into this fund.

Development pipeline
Development projects under construction or planned.

Developer's profit
Net development value minus total development cost. When expressed as a percentage, the developer's profit is divided by the total development cost.

Direct expenditure
Expenditure incurred that relates directly to the operation of the properties from which revenue is received.

Equivalent yield
The constant capitalisation rate applied to all cash flows, that is, the internal rate of return from an investment property reflecting reversions to current market rent.

ERV
The estimated market rental value of lettable space.

Finance lease
A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

Head lease
A leasehold interest held directly from the freeholder and subject to one or more underleases in the whole, or part of the property.

IFRS
International Financial Reporting Standards.

Incident Severity Score
A unique measure developed to an aggregate injuries and serious near misses that occur on our portfolio and as a result of our business.

Indirect investments
Investment in property through joint ventures and other property investments.

Initial yield
The initial net income at the date of purchase expressed as a percentage of the gross purchase price including the costs of purchase.

Integrated annual report
A concise communication about how an organisation creates value in the short, medium and long term.

ITZA
'In terms of Zone A'. A method for measuring retail space on a like-for-like basis.

Lease incentive
Any incentive offered to occupiers to enter into a lease. This includes an initial rent-free period or a cash contribution to fit out.

Lease premium
The price paid for the purchase of a leasehold interest.

Market value
The estimated amount for which a property would exchange for on the date of valuation, between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing, net of purchasers' costs, wherein the parties have each acted knowledgeably, prudently and without compulsion.

Material issues
An issue that would significantly influence our business.

MSCI
MSCI real estate benchmark which produces independent benchmark of property returns, formerly IPD.

Net revenue profit
Profit payable to the Treasury. Also referred to as net revenue surplus.

Open A1 planning consent
A planning consent which permits occupation within the A1 Shops use class under the Town and Country Planning (use classes) Order 1987 without any restriction as opposed to an A1 use restricted to bulky goods, such as furniture or white goods.

Operating lease
Any lease that is not a finance lease.

Over-rented
A property which is let at a rent which is greater than ERV.

Parliamentary supply finance
Monies provided by Parliament in respect of Board Members' salaries and the expense of their Office.

Pre-let
An agreement for a letting to take effect at a future date, often upon completion of a development that is proposed or under construction at the time of the agreement.

Proportionally consolidated
The results and share of joint venture assets and liabilities are presented on a line-by-line basis rather than as a single figure in the consolidated statements of Comprehensive Income and Balance sheets.

Public realm
Publicly owned streets, pathways and rights of way.

Rack rented
A rent representing the full letting value of a property.

Red Book
Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

Reportable incidents (RIDDOR)
Any incidents that are reportable to the Health and Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Revaluation surplus
An increase in the fair value of a property over its book value.

Total Contribution
How we value the economic, social and environmental contribution that our business delivers to the UK.

Total return
Capital growth plus property net income as a percentage of property capital employed.

Vacancy rate
The ERV of voids (excluding those held for development) as a percentage of the total ERV of the portfolio.

Void
Unoccupied and unlet space.

Workplace injuries
This includes all injuries sustained by an employee at work, caused by undertaking a Crown Estate work activity. This includes minor injuries and more serious injuries, including those reportable under RIDDOR.

Notes

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