

2008 and beyond...

Annual report
2008

**THE CROWN
ESTATE**



What we do



Urban Estate

The Urban Estate consists of over 600 commercial properties in London and elsewhere including shops, offices, retail and business parks, shopping centres and industrial sites. There are also over 2,600 residential properties ranging from 1,340 units let on monthly regulated or assured tenancies, to long leasehold properties in Millbank, Regent's Park and Kensington.

£194.4m

Turnover
(73.4% of group)

£5,381m

Property value
(78.8% of group)



For more information about the Urban Estate see pages 36–39.



Marine Estate

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

£41.9m

Turnover
(15.8% of group)

£370m

Property value
(5.4% of group)



For more information about the Marine Estate see pages 40–42.



Rural Estate

The Rural Estate is one of the largest in the UK with almost 119,000 hectares (294,000 acres) of agricultural land, forests, residential and commercial property in England, Scotland and Wales (excluding Windsor). There are also 34 active mineral lettings producing limestone, sand, gravel, clay, slate, five mines, Royal leases (including one gold mine in Northern Ireland). There are 780 agricultural tenancies and 750 residential properties. The forestry estates cover almost 11,000 hectares (27,000 acres) of which almost one-third is managed by The Crown Estate, with the remainder let.

£22.5m

Turnover
(8.5% of group)

£903m

Property value
(13.2% of group)



For more information about the Rural Estate see pages 43–44.



Windsor Estate

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

£5.8m

Turnover
(2.2% of group)

£173m

Property value
(2.5% of group)



For more information about the Windsor Estate see pages 45–46.

Presented to Parliament pursuant to sections 2(1) and 2(5) of The Crown Estate Act, 1961.

The Crown Estate Annual Report and Accounts 2007-8

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 8 JULY 2008

Annual Report and Accounts for the Year ended 31 March 2008

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There is no organisation in the world quite like The Crown Estate. Our property portfolio includes ancient forests, farms, parkland, coastline, shops, offices and homes.

Our role as guardian, facilitator, manager, influencer, employer and revenue creator is unique.

We have two main objectives: to benefit the taxpayer by paying our revenue surplus to the Treasury, and to enhance the value of the estate and the income it generates.

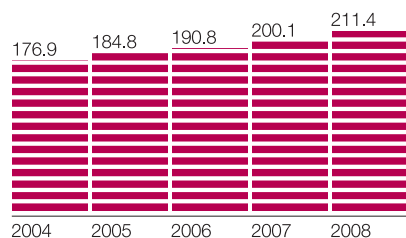


To The Queen's Most Excellent Majesty
 May it please Your Majesty, The Crown Estate Commissioners take leave to submit this their fifty-second Report and Accounts, in obedience to sections 2(1) and 2(5) of the Crown Estate Act, 1961.

	ifc 2 3	What we do Highlights of the year Chairman's introduction	What we do ifc – 3
Operating and financial review	4	Chief Executive's overview and goals	Overview & priorities 4 – 8
	10 11 12 14 15 16 18 19 20 22 24	The Farmer The Biker The Developer The Port Director The Business Council Leader The Teacher The Energy Project Director The Harbour Master The Chief Executive The Farmer The Golf Club Secretary	Customer stories 9 – 24
	26 27 28 29 30 31 32 33 34	West End property swaps Expansion of offshore wind farms Tabley Estate Reducing CO ₂ emissions Acquisition of Deganwy Marina Rural 'Business Deal' Customer focus programme The Royal Landscape Stamford Street	Business stories 25 – 34
	36 40 43 45 47 54	Urban Estate Marine Estate Rural Estate Windsor Estate Corporate Responsibility Financial review	Performance 35 – 57
	58 60 69	The Board Governance report Remuneration report	Governance 58 – 70
	72 74 74 75 76 77 91	The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament Revenue account Statement of total recognised gains and losses Balance sheet Cash flow statement Notes to the financial statements Ten year record	Financials 71 – 92

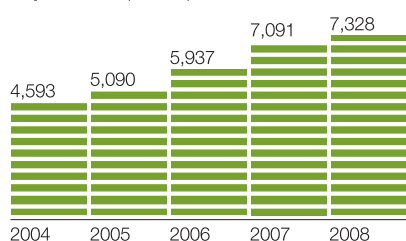
Highlights of the year

Revenue surplus (£million)



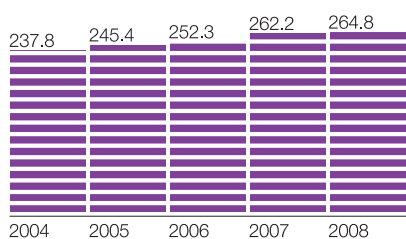
£211.4m
+5.6%

Capital value (£million)



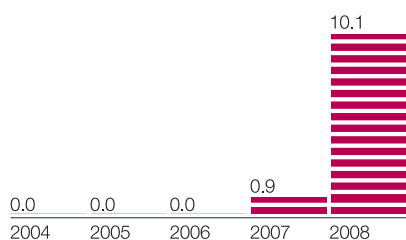
£7,328m
+3.3%

Turnover – Directly held property (£million)



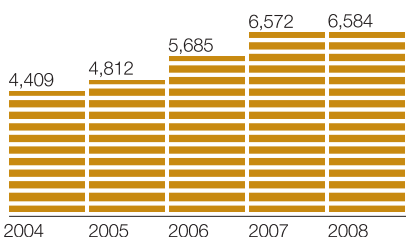
£264.8m
+1.0%

Income from indirect investments (£million)



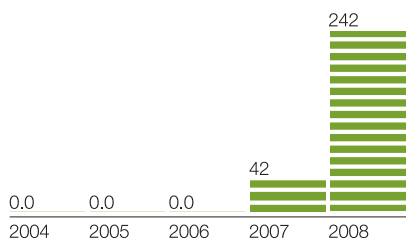
£10.1m

Property value – Directly held property (£million)



£6,584m
+0.2%

Value of indirect investments (£million)



£242m

Chairman's introduction



Ian Grant, Chairman

Over the last 12 months, The Crown Estate achieved tremendous financial results in difficult market conditions. I am delighted that we have returned £211.4 million to the Treasury, in the form of our net revenue surplus, an increase of 5.6% on the previous year. Capital values also rose to £7.3 billion, up 3.3% on the previous year.

Despite market conditions which worsened as the year progressed, we passed a number of key milestones during the year.

On the Urban Estate, we took part in two major swap deals which confirmed our status in the industry, not only as a major player but, equally importantly, as an efficient and forward-thinking organisation that is respected and trusted by our peers. The Rural Estate saw further expansion, particularly through the exciting purchase of Tabley, while the Marine Estate seized a number of significant opportunities relevant to the increasingly important area of renewable energy. At Windsor, I was enormously impressed with the dedicated and far-sighted way our team coped with the restrictions imposed in the Great Park and on our tenant farmers, as a result of the nearby foot and mouth disease outbreak.

Together, the Estates have become increasingly opportunity-focused and I believe that the necessary foundations are now in place for active portfolio management as we move forwards.

Sincere congratulations are due to Roger Bright and all his team; their combined efforts, unyielding support and willing engagement in our work have been central to what has been a year of considerable achievement, and the last 12 months have yet again underlined the tremendous contribution that our people make to our continued success. Strategies, initiatives and processes are an essential aspect of a modern business like ours – but it is people who make them happen and who turn bright ideas into tangible successes. I would like to thank them, on behalf of the Board, for their contributions through the year.

I should also like to thank all the Board members for their contribution to our progress. In a challenging and busy year their knowledge and expertise has been regularly called upon, and has always been readily available. I particularly wish to put on record my thanks to Sir Donald Curry, who stepped down at the end of 2007 after eight years' service to the Board. He played a significant role in helping us rise to a number of challenges, most notably in assisting the Rural Estate to move through important strategic changes.

At the same time, I extend a warm welcome to David Fursdon, who joined us on 1 January 2008. A qualified rural chartered surveyor, an agricultural valuer and a former President of the Country Land and Business Association, David brings with him wide-ranging skills and experience which will prove invaluable to the Board.

As the figures alongside this introduction demonstrate, and as you can read in greater detail on the following pages, 2007/08 has been an excellent year. I know that I can rely on our team, at Board level and throughout the organisation, to continue to work steadfastly to deliver our strategies and ensure that we can report another set of satisfactory figures 12 months from now.

Although we have passed some key milestones, it is important to acknowledge that such milestones are markers on a journey, not destinations in their own right. We have achieved a great deal, but further challenges certainly lie ahead. Our mood is one of cautious optimism. As I write these notes, there are many uncertainties in the UK economy. However, we have laid down solid foundations and I believe we can continue our progress, developing and expanding the business during the coming years.

Ian Grant
Chairman

Going for gold – our aspirations and targets for 2012...

Chief Executive's overview and goals



Roger Bright, Chief Executive

This has been a challenging year for the property sector. Although we take a long-term view and focus on good quality assets that will sustain continued growth for the future, we are nevertheless subject to short-term market conditions. I am pleased to report that we have navigated through troubled waters with demonstrable success and are well-positioned to face the challenges that lie ahead.

The year under review saw the UK economy enter a new and markedly more challenging phase. From the summer of 2007 onwards, the property market turned downwards and we do not expect conditions to improve during the present financial year.

When markets are weak, as at present, the importance of assets able to deliver medium- to long-term performance becomes more marked than ever. It is our focus on high quality assets and sustainable growth that enables me to report on another year of progress for The Crown Estate.

During the year, our turnover rose by 1% to £264.8 million with our net revenue surplus, the profit that is provided to the Treasury for the benefit of UK taxpayers, increasing by 5.6% to £211.4 million. The total value of our directly held property portfolio was £6,584 million, an increase of 0.2%. Our total capital value at the end of the year was £7,328 million, up by 3.3% over the previous year.

We also monitor our performance against the Investment Property Databank (IPD) Index, which benchmarks The Crown Estate against our peers. For 2007/08, our total return was 7.7%, compared to the IPD Quarterly Index which reported a total return of -9.1%. This is the third consecutive year in which we have outperformed the Index, a track record that is testament to the effectiveness of our long-term investment strategy and the progress we have made across all four Estates.

The Estates

On our Urban Estate, turnover from directly held property and income from indirect investments has reached £204.5 million, an increase of 4%. The Urban portfolio, including indirect investments, fell slightly in value by 0.2% to £5,381 million. The prime focus of activity has again been Regent Street. Since 2002, we have seen over 550 new companies move into the Street and, during 2007/08, two major swap transactions enabled us to further consolidate our strength and control in the area. The process of swapping leaseholds and freeholds with industry partners is enormously complex but we achieved our aims with distinction. In the spring of 2008, we received planning consent for our 1 million sq ft Quadrant development at the southern end of Regent Street. The largest prospective development on the Street, the Quadrant will transform the public realm area in this important and historic part of London.

On the Marine Estate, we have achieved revenue growth of 9.4% to £42 million, largely due to an increase in investment activities and asset management initiatives. Our Marine Estate total capital value rose to £370 million, an increase of 10%. We have continued our journey towards becoming a more active investor. We purchased our first marina – in North Wales – and began work on investing in a prototype of the world's largest offshore wind turbine, a deal that completed after the year-end. Renewable energy will be key to meeting the challenges posed by climate change and energy security, and our Marine Estate has a vitally important role to play, with announcements on the phases of offshore wind development in Scotland and the rest of the UK coming early in the new financial year.

Chief Executive's overview and goals continued

For the Rural Estate, the year saw another solid performance, with total property value up by 26.5% to £903 million. This has been a broadly positive 12 months for agriculture, reflected by impressive capital growth supported by encouraging growth in revenue, and we worked with a large number of our tenants to help build their businesses. One of the highlights was the purchase of the Tabley Estate in Knutsford, Cheshire. Gross revenue surplus during the year showed a slight increase to £17 million.

Our Windsor Estate embraces Windsor Great Park, a national asset of considerable importance, which includes The Royal Landscape and The Savill Building which have continued to attract both visitors and plaudits. During the autumn, the Park was closed for six weeks as foot and mouth disease marched almost to the gates. With its significant head of livestock, the Park was extremely vulnerable at this time but thanks to the diligence of our management team we avoided a single outbreak. Windsor Estate reported a gross deficit of £2.1 million, which was maintained at the same level as the previous year.

Going for Gold

The Crown Estate is a property business with a difference. Although we manage, invest and disinvest, as others do, we carry out those activities within a unique context. For us, while the commercial imperative is hugely important it is not the only consideration. As a long-term landowner responsible for a large number of heritage buildings and landscapes, our commercialism is tempered by core values of stewardship and integrity. From the Highlands to Regent Street, we have a significant impact on important concentrations of our urban and rural fabric and on the lives of our tenants and the public at large. Our success or otherwise is measured by that impact, as well as by more conventional financial measures.

To this end, we use a balanced scorecard approach to monitor progress against our priority corporate objectives, and during 2007/08 these have been distilled into nine high level 'Going for Gold' targets to be achieved by 2012. These targets will focus our work on making The Crown Estate an even more successful organisation.



#1. Achieve a revenue contribution of £250 million

Our revenue contribution is the profit we give to Treasury and the UK taxpayer and this is the most important of all our targets. Although the current economic climate may impact our progress, I believe that our policy of concentrating on assembling and managing good quality assets will provide a sound basis for sustaining performance over the medium- to long-term. In addition to ensuring that our portfolio is well positioned for sustained progress, we are also working hard to reduce our administration costs and refine our forecasting and cash flow model.



#2. Consistently outperform the IPD Total Return Index

The Investment Property Databank (IPD) is the world leader in performance analysis of property organisations and the Total Return Index sets the benchmark for ourselves as well as our peers. We aim to exceed the Index on a rolling three-year basis – and will strive to beat it annually whenever possible, as we have done in each of the last three years.



#3. Become one of the top 100 companies in the BitC CR Index

The principles behind Corporate Responsibility (CR) have always been integral to our organisation and played an important role in the evolution of our culture and our values of stewardship and integrity. Now we want to validate that approach and improve the way it connects with our business drivers. The Business in the Community (BitC) Index represents the standards we wish to achieve.



#4. Enter The Sunday Times' list of good employers

Attracting, retaining and motivating high calibre people is essential to our continued success. We want to provide a supportive working environment and a competitive rewards and benefits structure, empowering and motivating our people to align themselves to our core values and objectives. The Sunday Times 'Best Companies to Work For' list is recognised as an external validation of an organisation's reputation as an employer – and we aim to join that list.



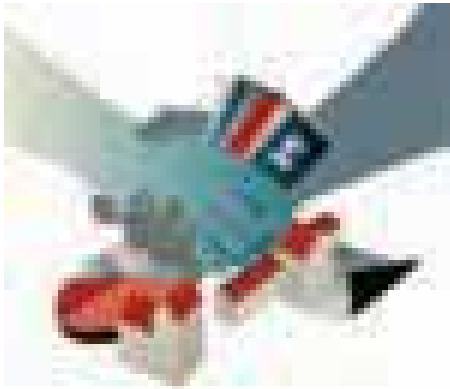
#5. Win more nationally recognised awards

We are proud of our achievements – but always appreciate the endorsement and added sense of satisfaction that comes from external recognition. Recently, we have followed up our success as Estates Gazette's 'Property Company of the Year, London' with several further accolades, including a number for The Savill Building at Windsor. We want to build on those achievements with other projects across the group.



#6. Establish a strong and respected customer brand, supported by excellent service from us and our service partners

Our tenants are valued customers and we aim to become even more customer focused in the coming years. In turn, this will translate into an improved reputation and greater competitive advantage. Each of our Estates is currently piloting a Customer Focus scheme which seeks to develop our business and the businesses of our customers, while also generating cost efficiencies.



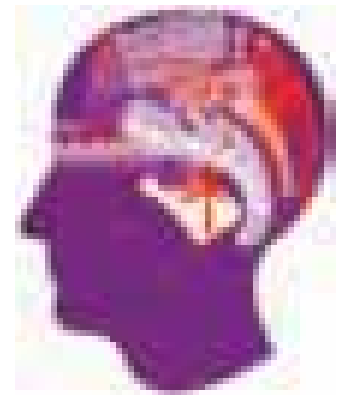
#7. Establish partnerships with other property owners through a flexible approach to investment and disinvestment

As markets have evolved, we have become increasingly innovative in our investment strategy. Compared to our peers, we have a major constraint: we cannot borrow. Instead, we seek to grow in other ways – and chief among those is by partnering with other owners. This enables us to co-invest in projects and also gives us access to additional management skills. Our recent 'Property Company of the Year, London' award, together with the innovative swap transactions concluded by our Urban Estate during the year, show that we are recognised as 'good people to do business with'.



#8. Ensure that Crown Estate employees and representatives actively embrace our core values

It is not only our history and portfolio that set us apart; so too do our values. We are not just another property company and our core values are not just another list of principles. We work hard to engage with our employees as well as with our third party contractors who are, in many respects, our most visible public face for tenants and other customers.



#9. Ensure that we are regarded by our stakeholders as the best custodians of a diverse and unique portfolio

Although we have consistently delivered on our targets across disparate real estate areas, we are never complacent. We understand the importance of maintaining a sure balance between commercialism on the one hand and integrity and stewardship on the other. We believe that The Crown Estate is the natural home for the assets under our stewardship, including the Marine Estate, and we will continue to demonstrate that fact to our stakeholders.

Looking ahead

In summary, 2007/08 was a year of considerable achievement for The Crown Estate, despite challenging conditions. We can be in no doubt that the coming year will be equally, if not more, uncertain. The Going for Gold targets I have outlined, with their emphasis on financial and investment performance, innovation, customer focus and corporate responsibility, will play a key role in the demanding times that lie ahead.

Good results and customer satisfaction depend upon the commitment and expertise of our people. Throughout the year, I have been enormously impressed by the dedication and expertise of our employees. They have faced change with skill and good humour and I thank them unreservedly.

While we face a challenging year ahead, I believe that our strategy, our targets and our people have together created a solid foundation. We face the future with confidence.

Roger Bright
Chief Executive

Great to do business with...



The Farmer

Mark Pilkington
Warwickshire

When we purchased the Ashby St Ledgers estate in Warwickshire in 2005, we did so with a keen eye for how a conventional estate could be transformed into a series of contemporary, dynamic businesses. At Chapel Farm, we invested heavily to help make the ambitious plans of dairy farmers Mark and Hilary Pilkington a reality. To date, we have built a new eco-friendly farmhouse as well as helping to fund a new milking parlour and other new infrastructure.

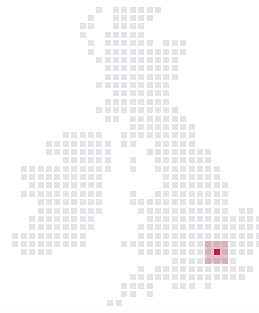




The Biker

James MacIntosh
Banffshire

At Glenlivet, we are improving facilities for mountain bikers; an initiative that will bring additional visitors to this wonderful part of Scotland. As well as developing a challenging labyrinth of cycle tracks in our forests, we are looking to work alongside the Lecht Ski Centre to introduce a downhill route from the top of their facility down to the village of Tomintoul. Bikers would then be able to use the Lecht chairlift to return to the top.



The Developer

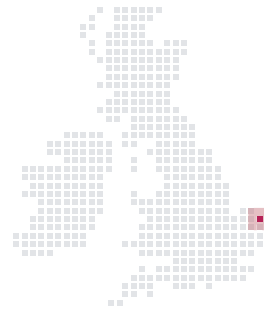
Mike Forster

Luton

Part of a three-way consortium of landowners, we worked closely with developer Easter Group to bring the environmentally-responsible Butterfield business and technology park to reality. Close to Luton, this 85-acre project features the UK's first office buildings to incorporate an innovative ventilation system using earth ducts. The buildings will be energy efficient while the landscaping will create a bio-diverse natural environment. The first phase is now complete, with occupiers including Royal Bank of Scotland and The University of Bedfordshire.







The Port Director

Peter Hardy
Norfolk

Our support was essential to the creation of a new harbour which will encourage trade and bring much-needed jobs to Great Yarmouth. EastPort is a public/private partnership and the granting of a 99-year lease of the seabed was vital to this major deal. By working closely with the various stakeholders, we enabled public funds to be released and helped ensure that when the harbour opens in 2009 it will play a key role in the regeneration of one of the most deprived areas of England.





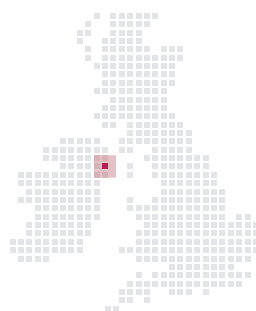
The Teacher

Maria Fay-Russell
London

With many key workers unable to afford to live in London, we were one of the first organisations to implement a Choice Based Lettings (CBL) system. This gives key workers a real choice in where they wish to live and provides accommodation at reasonable rates. Our CBL system went online in October 2007, so teachers like Maria Fay-Russell can check out properties from her computer. Maria found a suitable home online and is now living with her family in their new home close to Victoria Park.







The Energy Project Director

Martin Wright
Northern Ireland

As landlords of the seabed around the UK, we are passionate about our potential to encourage and enable renewable energy projects. During 2007 we arranged a five-year non-commercial lease which allowed Bristol-based Marine Current Turbines to progress an ambitious tidal energy scheme based in the narrows of Strangford Lough in Northern Ireland. The 1.2MW SeaGen project, which is due to be commissioned during the summer of 2008, will provide renewable energy for around 1,000 homes.



The Harbour Master

Captain Ken Gray
Ross-shire

Responsible for the leading deep water port in Scotland, the Cromarty Firth Port Authority has seen business fluctuate significantly over the years. The traditional rental agreement, which was based on turnover across the previous five years, meant that rent payable was out of step with business performance. We worked closely with the Port Authority to restructure the lease so that it is now linked to profitability and therefore more accurately reflects current market conditions.







The Chief Executive

Sarah Porter
London

The Heart of London Business Alliance acts on behalf of businesses and property owners in the area around Piccadilly Circus and Leicester Square, with particular focus on maintaining a safe and clean environment. As a property owner, we help fund the Alliance and also sit on the Board of Directors. When the organisation was looking to relocate, we recommended one of our properties in Haymarket which offered the right mix of location and value. We also arranged a cost-effective fit-out, helped organise furniture and co-ordinated the moving date to reduce inconvenience.



What we do	1c – 3
Overview & priorities	4 – 8
Customer stories	9 – 24
Business stories	25 – 34
Performance	35 – 57
Governance	58 – 70
Financials	71 – 92

Page 21





The Farmer

Nigel Berryman
Windsor

With foot and mouth disease rattling the gates of Windsor Great Park during the autumn of 2007, we took the radical decision to close the Great Park for six weeks which meant that a series of high profile events were cancelled. Our actions, together with the support of tenants, DEFRA and the veterinary professionals, kept the disease at bay on the Windsor Estate, ensuring that even though farmers like Nigel Berryman lost some cattle on neighbouring land, his stock on Crown Estate land survived.



What we do 16 – 3	Overview & priorities 4 – 8	Customer stories 9 – 24	Business stories 25 – 34	Performance 35 – 57	Governance 58 – 70	Financials 71 – 92
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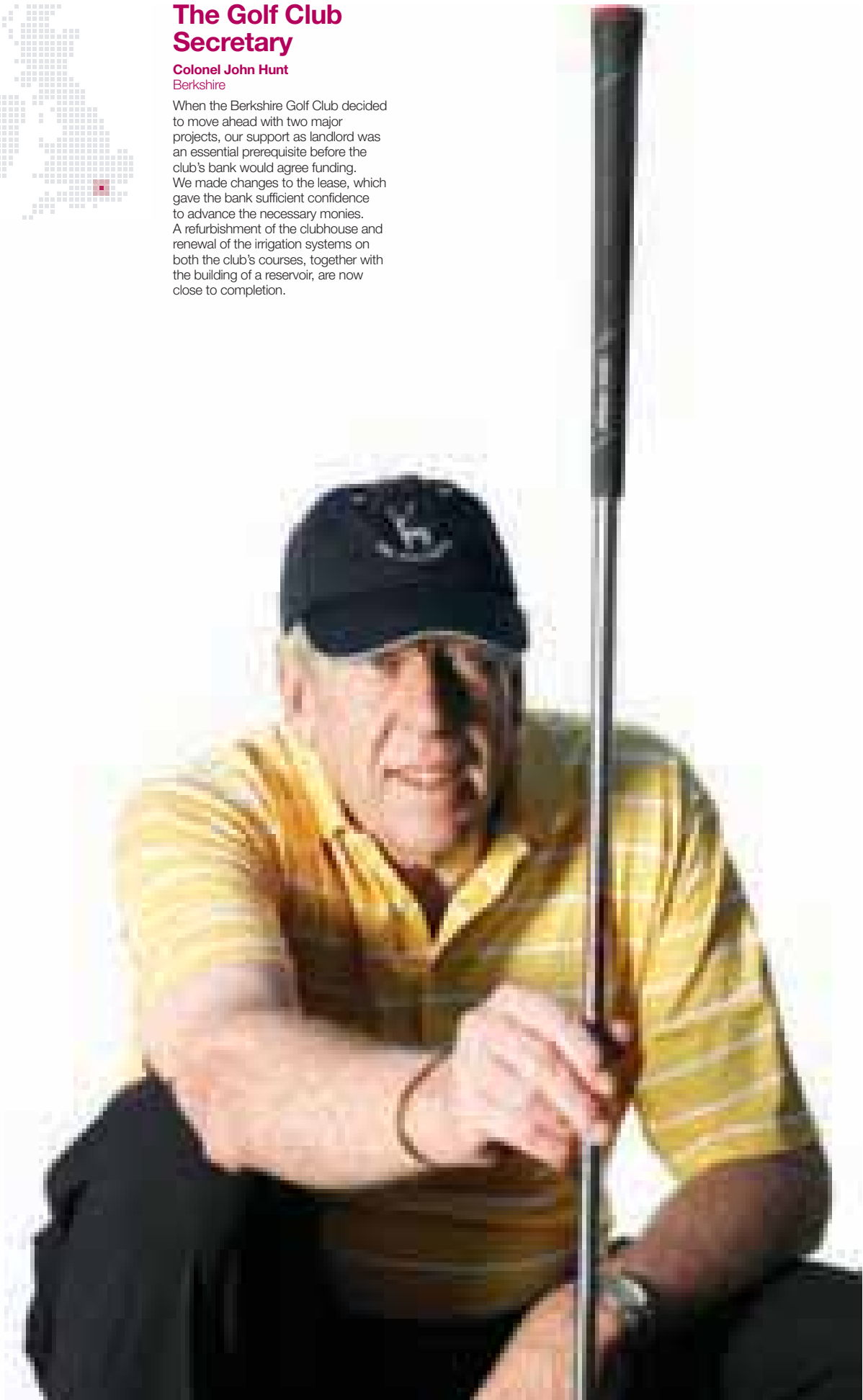
The Golf Club Secretary

Colonel John Hunt
Berkshire

When the Berkshire Golf Club decided to move ahead with two major projects, our support as landlord was an essential prerequisite before the club's bank would agree funding.

We made changes to the lease, which gave the bank sufficient confidence to advance the necessary monies.

A refurbishment of the clubhouse and renewal of the irrigation systems on both the club's courses, together with the building of a reservoir, are now close to completion.



Achieving great things throughout the year...

West End property swaps

Demonstrating its innovative approach to adding value to its Regent Street portfolio, The Crown Estate this year completed two major Regent Street property swaps, first with the Pollen Estate (Pollen) and then with Great Capital Partnership (GCP). The GCP swap completed in February 2008 and was hailed as the largest property swap transaction in the West End ever, involving 580,000 sq ft of prime West End property, valued at over £350 million. The £100 million+ Pollen swap completed in December 2007. The GCP and Pollen deals together unlock over 1 million sq ft of development potential on Regent Street, expanding significantly the scope of The Crown Estate's investment programme to reinvigorate Regent Street and its buildings.



For more information about the Urban Estate see pages 36–39.

Expansion of offshore wind farms

In 2007/08 activity in offshore wind farms increased significantly. The generating capacity of offshore wind farms increased to about 500MW, with ongoing expansion reaching 1,000MW within the next year and over 2,000MW by 2010. Two new wind farm sites were granted consent – Gunfleet Sands, off the Essex coast and a project at Teeside. Following the announcement in December 2007 by John Hutton, the Secretary of State for Business, Enterprise and Regulatory Reform, of the Government’s intention to begin a strategic environmental assessment into further delivery of up to 25GW of offshore wind energy by 2020, The Crown Estate is working with industry on ways of facilitating this.



For more information about the Marine Estate see pages 40-42.

Tabley Estate

During the year we successfully completed the purchase of the Tabley Estate in Cheshire from The University of Manchester. Comprising 1,460 hectares (3,608 acres) in north east Cheshire, the Tabley Estate includes 18 equipped farms, a further 18 lettings of farmland, three land parcels let as grazing, 52 residential properties, 13 commercial leases, the Cheshire Showground and a number of sporting agreements. This acquisition represents a unique opportunity to add to our Rural Estate holdings and underlines The Crown Estate's commitment to remain a major rural land owner.



For more information about the Rural Estate
see pages 43–44.



Reducing CO₂ emissions

A target was set to reduce CO₂ emissions by 3% in those parts of the Urban Estate under our direct control, compared with last year's figures. Taken on a like-for-like basis, we achieved an overall reduction of 19% in CO₂ emissions from a total of 45 buildings. We have instructed all our Urban managing agents to purchase Climate Change Levy Exempt energy for our close managed portfolio – subject to contractual terms and costs. To date this has been procured for 30% of the portfolio – a major factor in the reduction of carbon emissions.



For more information about reducing CO₂ emissions across the business see page 52.

Acquisition of Deganwy Marina

We completed our first direct acquisition of a marina which has expanded our portfolio of marinas to include wholly owned facilities branded with The Crown Estate and operated through contracted partnerships. Bought from Interguide Investment Holdings, the 165-berth marina is set in the village of Deganwy amongst the beautiful surroundings of the north Wales coastline, and has superb sailing waters. The marina will be leased to Quay Marinas and will operate as Deganwy Quay Marina, with the office and retail space leased to Majestic Yachts. This is our first direct investment in Wales and the first acquisition made as part of our new marine investment programme. This purchase increases our exposure to the marina sector in north Wales and complements our interest in the nearby Conwy Marina, also run by Quay Marinas.



For more information about the Marine Estate see pages 40–42.



Rural 'Business Deal'

In 2007, a series of business development meetings were held between The Crown Estate, managing agents and tenants. These focused on how improvements could be made to the landlord-customer relationship to lead to enhanced business opportunities. This project has concluded with the formation of a 'Business Deal' that proposes terms for a modern relationship between landlord and tenant as well as initiating a framework for co-investment. It states, among other things, that The Crown Estate will provide online information, and make available capital for viable co-investment projects, and requires tenants to give early warning where business change is anticipated and report any property issues as soon as they arise.



For more information about the Rural Estate see pages 43–44.

Customer focus programme

In 2007/08 we initiated a customer focus programme to improve our performance in the area of customer service. We identified two particular strands to pursue: business efficiency and business development. Working with Managing Agents from each Estate, we are testing and developing specific ideas in pilot areas in the south west of England (Rural), west of Scotland (Marine) and St James's (Urban). We also involved colleagues from across the business in the design process by asking them to contribute their ideas about excellent customer service from their own experience as customers in their everyday lives.



For more information about the Customer focus programme across the business see page 51.



The Royal Landscape

Turnover in excess of £1.5 million was generated from The Savill Building and The Royal Landscape in 2007/08 and despite the closure of the park for six weeks due to the nearby foot and mouth outbreak visitor numbers have increased to over 410,000 this year. In March 2007, we launched a new venture with Windsor Castle, offering joint tickets for the Castle and The Savill Building. Visitors have also been able to benefit from new facilities at Virginia Water with the opening of a new car park in March 2008. The Savill Building has continued to attract external recognition now winning 11 awards, together with being one of only two UK finalists in the RIBA Stirling Prize.



For more information about the Windsor Estate see pages 45-46.

Stamford Street

We made our first major acquisition under our new residential investment strategy of a 58 unit apartment block at Stamford Street on London's South Bank for £23 million, which is being built for us by Crest Nicholson. This is the first major investment by The Crown Estate to supplement our traditional residential portfolio and is part of a strategy to replace assets that are sold to leaseholders through enfranchisement and lease extensions. It also reflects our objective to invest in areas with good rental and capital growth prospects.



For more information about the Urban Estate see pages 36–39.



A well managed and responsible business...

Urban Estate

The Urban Estate includes shops, offices, retail and business parks, industrial sites and residential properties. The year to 31 March 2008 saw the Estate perform comfortably ahead of industry benchmarks and meet its target for income returns.

The Urban portfolio represents more than 78% of The Crown Estate's total property value and over 75% of its gross revenue surplus. During the year under review, turnover including indirect investment was £204.5 million up 4% on 2006/07. Property value including indirect investment fell by 0.2% to £5,381 million.

During the year, significant investment activity was undertaken across the office, regional, residential and retail portfolios. There was a successful programme of office sales in line with the investment strategy and Regent Street continued to attract major new retailers such as Banana Republic and AIX Armani as well as moving on with its development timetable.

It is clear that in the early part of the financial year, we enjoyed the final months of a long bull market for all aspects of commercial and residential property. The impact of the credit crunch became clearly apparent by December 2007 with the annual IPD industry benchmark in the calendar year displaying a fall of 7.7% in capital values. In effect, market liquidity almost completely dried up. However, despite that, we were able to continue concluding key asset management transactions.

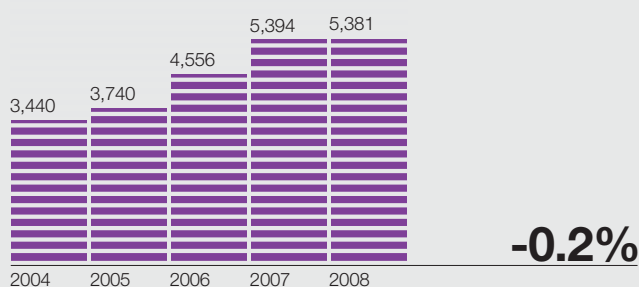
Consolidating our strengths

In the West End, take-up of office space was in line with the long-term average and supply remained restricted with a vacancy rate of just 2.5%. Prime rents rose 17% to £120 per sq ft but this is expected to move sideways over the next few years. The vast majority of West End deals are in the £60 to £80 per sq ft range, which is seen as more sustainable and it is in this bracket that rents are likely to be more resilient over the next year.

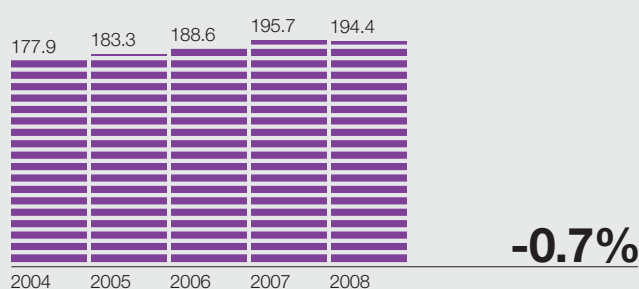
Throughout 2007, retail was the worst performing sector with a total return on the IPD Quarterly Index of -11.8%. This was due to poor rental growth of just 1.6% and a fall in property values of 15.8%. Central London retail, however, held up particularly well with a total return of -1.4%. Our own experience on Regent Street has been of significant demand from retailers wishing to gain representation as the result of strong asset management plus good levels of tourism. This relatively healthy performance is reflected by sales which grew in London by 2.7% in the year to April 2008 in contrast to the rest of the UK which fell 1.5%.

In broad terms our strategy has been to invest in our core central London holdings where tactical opportunities arise to assemble blocks of property and to exercise greater management control.

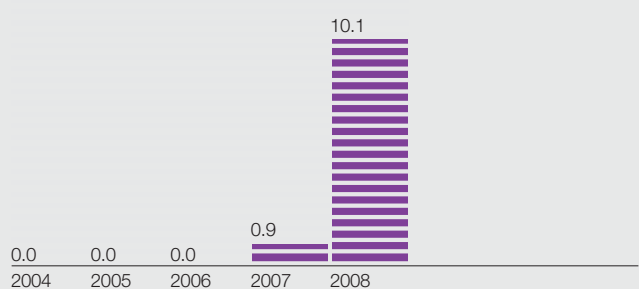
Property value including indirect investment 2004–2008 (£million)



Turnover 2004–2008 (£million)

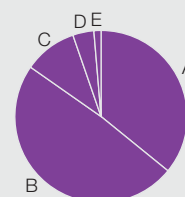


Income from indirect investments 2004–2008 (£million)



Turnover by activity 2007/2008 (£million)

A Retail	69.7
B Office	95.0
C Residential	19.4
D Industrials	7.7
E Other Urban	2.6



Among the highlights of the year, we concluded two major property swap transactions. The first, which was finalised in December, was with The Pollen Estate and included 13 properties valued at around £100 million in the heart of Regent Street and Mayfair. The transaction saw four buildings transferred from our portfolio to The Pollen Estate, allowing it to build up its strategic ownership which extends from Savile Row to New Bond Street. In return, we gained properties that further consolidate our ownership and control of Regent Street, providing us with the opportunity to promote plans for some 37,200 sq m (400,000 sq ft) built area mixed-use developments. We now have the potential to develop two exciting, large-scale mixed-use schemes, offering flagship stores and high quality office space.

In February, we concluded the largest ever West End swap, with The Great Capital Partnership (GCP). This transaction involved 580,000 sq ft of West End property valued at over £350 million and gave both parties major development opportunities in the heart of London. We gained three freehold properties for our Regent Street portfolio, further strengthening our position on the Street. We acquired the freehold interest in 21 Sackville Street, W1, where we had no previous interest, together with the leasehold interests in 99–101 Regent Street (Victory House), and 203 Regent Street/1 Conduit Street (Kendal House), where we already held the freehold. GCP acquired three leasehold properties from our portfolio, as well as one freehold and amended terms on seven other leaseholds.

This is the fifth property swap we have undertaken on Regent Street since 2002. Such transactions are a key part of our investment strategy on the Street and by value swaps represent over 70% of recent major transactions. We now have over 1 million sq ft of development potential on Regent Street; potential that will be realised in mixed use developments comprising flagship stores, modern office space and residential units, over the next decade.

The Quadrant, our most important current Regent Street development, continued to make good progress during 2007/08 with planning consent granted by Westminster City Council in December 2007. The Quadrant is a mixed use regeneration scheme of the Regent Palace Hotel, Café Royal and Quadrant Arcade blocks, at the southern end of Regent Street, just off Piccadilly Circus. This redevelopment is a key milestone in our £500 million Regent Street investment programme; one that will create a new 1 million sq ft built area in the heart of the West End, with an additional 44,000 sq ft of public realm area. After Trafalgar Square, this will be the most significant addition to London's public realm seen in the West End over the last 30 years. As part of our commitment to environmental sustainability, a central energy centre will be developed within the scheme using tri-generation. The first of its kind in central London, this will be fuelled in part by hydrogen, rather than diesel, and will service the Regent Palace Hotel and Café Royal blocks.



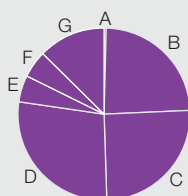
Aerial view of Regent Street with The Quadrant development highlighted in purple.

“The Quadrant, our most important current Regent Street development, continued to make good progress during 2007/08 with planning consent granted by Westminster City Council in December 2007.”

Urban Estate continued

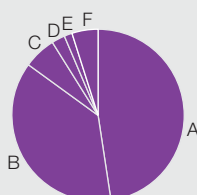
Security of income (net rent) Urban commercial portfolio (£million)

A	Lease expired	0.8	0.4%
B	<5 years	43.2	23.9%
C	5–10 years	45.6	25.2%
D	10–20 years	50.2	27.8%
E	20–50 years	9.1	5.0%
F	50–75 years	9.2	5.1%
G	>75 years	22.8	12.6%



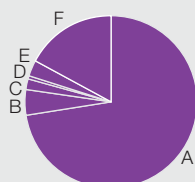
Property value by sector (including indirect investment and owner occupied Urban Commercial (£million))

A	Office	2,231	47.6%
B	Retail	1,753	37.4%
C	Retail Warehouse	287	6.1%
D	Industrial	118	2.5%
E	Residential	71	1.5%
F	Other	231	4.9%



Property value by region (including indirect investment and owner occupied Urban Commercial (£million))

A	West End	3,399	72.5%
B	City	227	4.8%
C	Midtown	93	2.0%
D	Rest of London	27	0.6%
E	Rest of South East	142	3.0%
F	Rest of UK	803	17.1%



We also made a number of key disposals, including the Oxford Street Quadrangle. This sale, among others in High Holborn and elsewhere, is part of our strategy to dispose of non-core assets in order to concentrate on our core London holdings – including Regent Street – and diversification outside central London.

We formed an important partnership during the year, the Gibraltar Limited Partnership. This is a £600 million, 50/50 arrangement with British Land through their Hercules investment vehicle to own and manage large retail parks together. We have contributed parks in Cheltenham and Leamington Spa, with British Land adding a park in Edinburgh. The partnership will enable both parties to share expertise and generate mutually attractive rewards from a portfolio of successful retail parks.

Enhancing our residential position

Talk of a crash is probably extreme but there are challenging times ahead. The RICS UK March 2008 housing market survey reported its lowest reading since the survey began in 1978 and the stock of unsold properties has increased 50% over the past year. We however expect ultra prime capital values to be the most resilient.

On the lettings side, the story is different. The Q1 RICS residential lettings survey reported increasing occupier demand for rental properties and increasing gross yields.

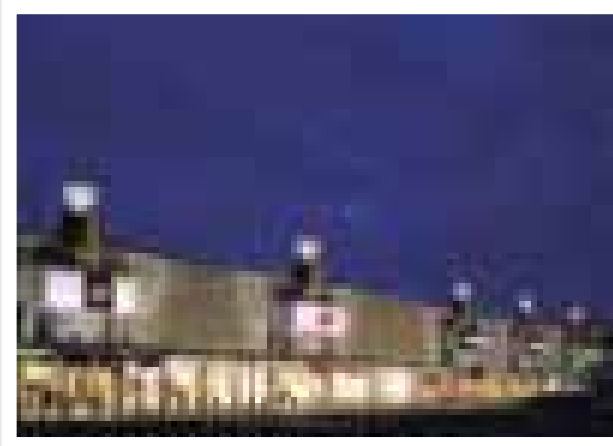
In March, we completed our exciting new residential apartment development in Stamford Street, SE1, just off London's South Bank. The block of 58 one and two bedroom flats is in a prime location on the South Bank, close to the National Theatre, the OXO Tower and Waterloo Station. Setting a precedent for further investment in residential property, this £23 million purchase is our first major acquisition designed to diversify our residential exposure by building a more extensive portfolio of market let developments. We have now added to the Stamford Street purchase with an acquisition of a residential development of 60 units in Paddington Basin which offers good rental and attractive growth prospects.

Maintaining our position in the industrial sector

The current dynamics for investment in the industrial sector are not particularly attractive. Rental growth continues to be modest and there is a high level of supply. Returns will also be damaged by the introduction of 'empty rates' in April 2008.

The outwards movement in yields is however returning the sector back to its traditional attraction of high income return.

We are comfortable with our existing holdings, particularly recent purchases which have indexed rents, long leases and strong covenants. Our strategy is to seize opportunities as they occur, particularly where asset management initiatives can generate greater future value.



Fort Kinnaird retail park outside Edinburgh. Part of the limited partnership deal with British Land.

“We will continue to seize opportunities as they occur, particularly where asset management initiatives can generate greater future value.”

Well-placed to meet future challenges

Looking ahead, the lack of supply in the London commercial market, particularly in the core areas of St James’s and Mayfair, should underpin rental values but we do have some concern over a downturn in the financial and business services sector. The City is expected to be the poorest performing segment due to the high level of development and fallout from the financial sector.

Our strategy of disinvesting from more peripheral London holdings and south east offices is expected to continue. However, as we have moved from a sellers’ to a buyers’ market, the prices previously achievable are no longer available. Outside the south east, investment very much depends on the local supply and demand equation. Across the rest of the UK, rental growth is expected to be limited and, with yields moving out, returns are not expected to be markedly competitive over the next few years.

Retailer margins are expected to come under increasing pressure as their costs increase and consumer spending weakens. However, the development pipeline is at a 15-year high at 64 million sq ft, of which 40% is in new schemes and 37% is under construction.

Outside London, we believe there are opportunities to buy prime city centre retail schemes and dominant retail warehousing with open planning consents where yields have reverted back to more sustainable levels.

In the residential market, we expect the continued release of capital from our prime long leasehold properties and we will aim to maintain our residential weighting through investment in new residential blocks in central London, let on market rents. This strategy will be particularly relevant where blocks of property can be secured now but will not be delivered until around 2010, by when we would expect the economy to be improving.

Overall, it will be a tough year. Returns will struggle to be positive and there is no prospect of a material market recovery. Values have dropped by 15% and may yet fall further in coming months.

For 2009, there are prospects for a modest recovery and the long-term future for The Crown Estate is sound. Our fundamentals are good and we are well placed to weather the downturn. We cannot buck the market, but we can certainly outperform it. Attractive buying opportunities will emerge for an organisation such as ours that is able to look beyond short-term pricing issues and seize the long-term value.

What we do 3
 Overview & priorities 4 – 8
 Customer stories 9 – 24
 Business stories 25 – 34
 Performance 35 – 57
 Governance 58 – 70
 Financials 71 – 92
 Page 39

Marine Estate

The Marine Estate includes 55% of the foreshore of the UK and almost all of the seabed out to the 12 mile nautical limit. The Marine Estate covers a diverse portfolio of interests and, over the last 12 months, has recorded a good performance in a challenging environment.

During the year, the Marine Estate turnover was £41.9 million. This performance represents an increase of 9.4% over the previous year. The total property value of the Marine Estate rose by 10% to £370.2 million.

The marine aggregates business performed particularly well, with revenue up by 12% to £17.7 million. The coastal estate, which includes marinas, ports, harbours and other coastal activity, contributed £11.3 million in revenue. The renewable energy sector of the Marine Estate experienced a significant increase in interest from both Government and the general public during 2007/08. At £1.1 million, the contribution from the renewables sector was relatively small – however, we expect this to increase in the coming years.

The performance drivers behind the Marine Estate are diverse and often resilient to movements in the wider economy. The Government's support for renewable energy and, specifically, offshore wind farms, is a particularly powerful long-term influence. We have begun to implement a strategy of developing a portfolio of investments and also actively supporting areas which indirectly benefit the commercial dealings of the Marine Estate.

The year was characterised by important progress in three distinct areas: in our established business sectors; in developing our portfolio of interests, through direct investment; and in continuing to identify and evaluate the latent value in the Estate, such as the potential for renewables.

Promoting our existing business areas

We have successfully continued to promote and support our established areas of operation, including aggregates, cables and pipelines, and aquaculture. The focus remains on managing diverse interests and maximising the value of the Marine Estate; in short, doing even better those things that we have always done well.

For example, the Marine Estate owns and manages the mineral rights to the seabed extending to the edge of the UK continental shelf. We issue consents for non-exclusive sampling and licences for commercial aggregate extraction and also issue leases for major pipeline and cable projects.

Aquaculture plays an important role in both the Marine Estate and also in the lives of many of the communities in which we operate, most notably in Scotland. Following the success of our annual awards for salmon farmers, in 2007/08 we have widened the scheme to include the whole of Scotland's marine aquaculture industry. The awards recognise operators who employ the highest standards of husbandry, offer innovative training programmes, support local communities and manage their businesses with a high level of environmental awareness.



Tobermory Harbour where we have invested £320,000 in two pontoons that will be leased back to the Tobermory Harbour Association.

“Our strategy to expand our marina interests was endorsed during the year by a comprehensive study which revealed the vital role played by marinas in the economic development of the UK.”

Developing our portfolio

We see the marine sector as an area where we can more actively make direct investments. Specifically, we have pursued investments in the coastal leisure sector where there is a shortage of supply and increasing demand and in the industrial sector where ports are reaping the dividend from globalisation and increased trade.

Our team is actively looking at developing the leisure and commercial use of ports, harbours and marinas, investigating the possibility of including retail or residential accommodation which will deliver financial benefit for The Crown Estate while also providing greater opportunities for the local community.

We entered the Scottish marina sector for the first time, purchasing Rhu Marina, one of the country's best known facilities, in a deal worth an initial £4 million, which completed just after year-end. The acquisition of the 175-berth marina with related facilities on the Firth of Clyde represents a major boost to the growing marine leisure market in Scotland. The area around Rhu is recognised as one of the finest sailing areas in the world and we have ambitious plans in place to grow the business.

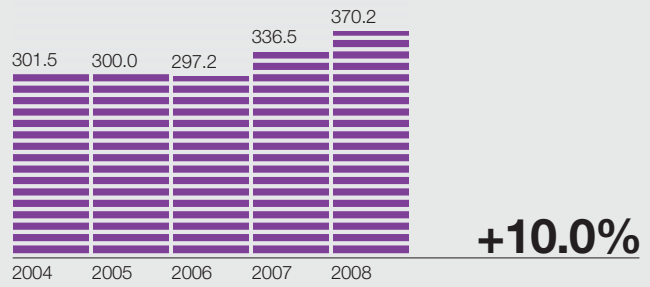
In Conwy, North Wales, we acquired our first Welsh marina. Set among beautiful surroundings, the 165-berth Deganwy Marina offers excellent sailing. In common with Rhu, the Deganwy Marina will be leased to Quay Marinas.

Our strategy to expand our marina interests was endorsed during the year by a comprehensive study which revealed the vital role played by marinas in economic development. The Economic Benefits of Coastal Marinas of the UK and Channel Islands Report shows that the sector directly employs over 1,700 people, supports the employment of a further 22,000 people and adds value of over £500 million a year to the British economy.

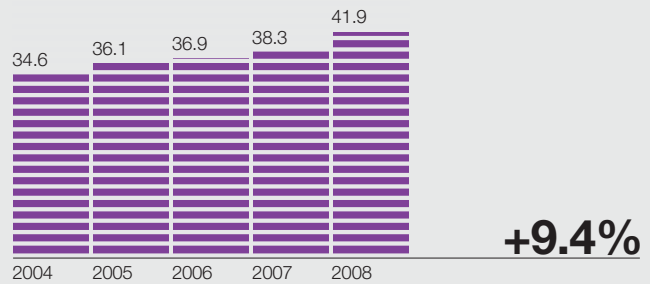
In addition to our marina acquisitions, we also seek to develop our port interests. We have expanded the facilities at Peterhead, on the east coast of Scotland, and introduced an innovative leasing arrangement at Great Yarmouth, which will help boost local tourism and enhance the local economy.

Our Scottish harbours continued to be the beneficiaries of strategic and investment support during 2007/08. At Tarbert, we are working with the Harbour Authority and investigating the possibility of developing the harbour through a joint venture. The west coast of Scotland is an important sailing location and our support for Tarbert Harbour, alongside other development activity that we have in the area, will contribute to furthering this objective and strengthening the local economy. At Tobermory Harbour, we invested £320,000 in two pontoons that will be leased back to the Tobermory Harbour Association for management under commercial lines. The pontoons were deployed in time to provide the additional berthing for the 2007 summer sailing season.

Property value 2004–2008 (£million)

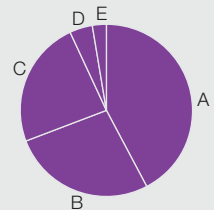


Turnover 2004–2008 (£million)

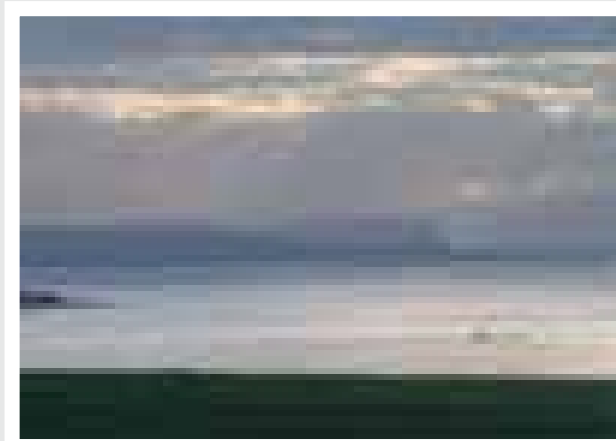


Turnover by activity 2007/2008 (£million)

A Dredging	17.7
B Coastal	11.3
C Cables/Pipelines	10.0
D Fish Farms	1.8
E Renewables	1.1



Marine Estate continued



The Pentland Firth where we are starting a programme to deliver over 1,000MW of wave and tidal energy by 2020.

“We continued to promote good stewardship of our Marine Estate and during 2007/08 invested £829,000 in many important initiatives across the UK.”

Planning for the future

Far beyond our own interests, the combined pressures of climate change and energy security are presenting challenges which are of a truly global scale. As an energy intensive economy with declining traditional energy resources, the UK has particular issues to resolve over a relatively short time frame.

The Government's commitment to substantially increase its renewable energy generating capacity over the next decade sets out a path that, if successful, will generate 25% of the UK electricity from the wind, wave and tidal natural resources of the Marine Estate. We want to ensure that we can meet this need while ensuring that we achieve our statutory obligations of enhancing the value of our Estates through good management. To this end, we have commenced a methodical investigation of the energy potential of the Marine Estate. Having already established renewable generating facilities on the Marine Estate, we are now actively working to understand how to develop the full potential of our energy generating capacity.

There are already a considerable number of renewable energy projects either in operation or near to operation and our natural resources will supply at least 1% of the UK's electricity within the next year. However, the Government's target of 20% renewable energy by 2020 requires us to achieve some important milestones. Over the next year we plan to: encourage industry competition that will lead to the delivery of 25GW of offshore wind energy generation by 2020; start programmes to deliver over 1,000MW of wave and tidal energy into the Pentland Firth by 2020 and to build a wave energy facility in the Western Isles to bring the technology to a pre-commercial stage; and co-develop the design of electricity transmission infrastructure to support offshore renewables so that it may be constructed over the next five years.

Towards the end of the financial year, we took the important step of signing an agreement to purchase the prototype of the world's largest offshore wind turbine, known as the Britannia project. This investment will help us gain the vital first-hand knowledge of the challenges facing the development of turbines for deep water deployment. This is an important step in the future of offshore wind and a great opportunity to help establish a new industrial base of activity to advance the UK's leadership in renewable energy.

Marine Stewardship Programme

We continued to promote good stewardship of our Marine Estate and during 2007/08 invested £829,000 in many important initiatives across the UK. Among many such examples of our support, we funded a new moorings system at Chanonry Sailing Club at Fortrose Bay and new learning facilities for GCSE and A-Level students visiting the National Maritime Museum.

We also contributed to a major marine community project in Strangford Lough, Northern Ireland, as well as to Dover Sea Sports Development Centre, RSPB Cymru and St Abbs and Eyemouth Voluntary Marine Reserve in Scotland.

Rural Estate

The Rural Estate comprises 119,000 hectares (294,000 acres) of agricultural land and forests as well as residential and commercial property. During 2007/08 the Estate grew significantly in value and the long-term prospects are very positive.

For the year under review, the Rural Estate gross revenue surplus was £16.7 million, up 1.2% on the previous year. The property value of the Rural Estate was £903 million, an increase of 26.5% over 2006/07.

The fundamentals behind the rural sector remain strong. At a global level, production has not met levels of consumption for the last three years and stocks are falling, while climate change and water scarcity are impacting on supply. At the same time, although demand is growing from an increasing world population and increasing affluence, more land is being used for the production of energy crops; this all points towards rising food prices and therefore rents, particularly from the arable sector which forms a large part of the Rural Estate.

The past year has seen marked increases in commodity prices, with global cereal prices responding to low stocks and poor weather conditions in key areas at a time of growing demand for food and energy. While commodity prices are now off their peak and speculators take profits, they have encouraged farmers to expand production and to enter the market as purchasers. Consequently, demand for land currently far outstrips supply and 2007/08 saw the price of arable land rise well above £10,000 per hectare in many areas. Although these higher values clearly constrain farm expansion, they enhance the net worth and security of owner occupiers.

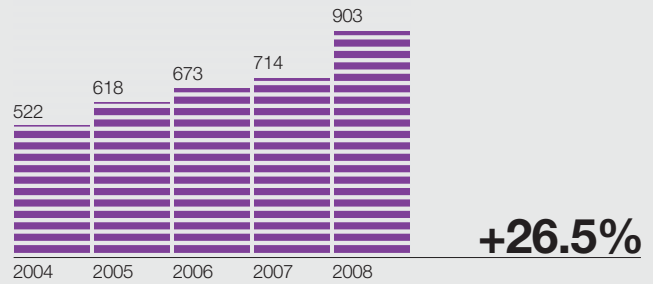
For our arable and dairy tenants, improved market conditions during the year restored profitability after a period of poor returns, enabling them to invest in refurbishment and purchases of new facilities and equipment. Livestock enterprise also experienced better margins, although the intensive livestock sector – pigs and poultry – came under considerable pressure due to high feed and energy costs.

In the residential sector, we have seen valuations plateau and rents rise marginally, in a general easing-back that reflects the macro picture in the UK. Values in the commercial property sector, where we have limited exposure, have fallen in line with those in more urban areas.

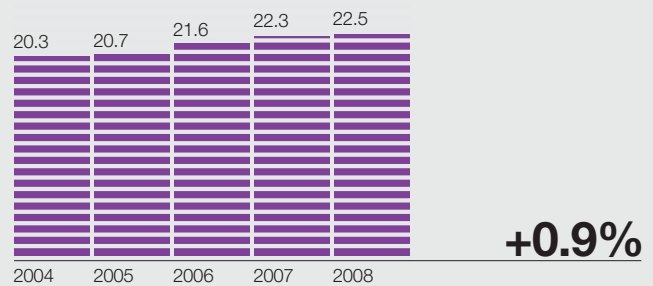
Continuing to invest

Where some organisations seek immediate profits, we take a longer term view. Our objective is sustainable growth and returns over a number of years, as demonstrated by our acquisitions of the Ashby St Ledgers Estate near Daventry in 2005, and of the Tabley Estate near Knutsford, Cheshire, during the past year. The former has demanded an innovative approach as we purchased a trading business, together with crops and livestock, and are now evolving it into a successful new business model.

Property value 2004–2008 (£million)

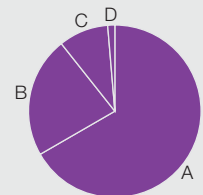


Turnover 2004–2008 (£million)



Turnover by activity 2007/2008 (£million)

A	Agricultural	15.0
B	Residential	5.1
C	Minerals	2.1
D	Forestry	0.3



“Looking to the future, we expect relatively strong rental growth and opportunities to release capital through asset management initiatives, including selective land sales with the benefit of vacant possession.”

Turnover and gross revenue surplus figures for 2007/08 are stated prior to the change in accounting estimates (see note 3).

Rural Estate continued

The purchase of Tabley from the University of Manchester, which was concluded in July 2007, has brought a further 1,460 hectares (3,608 acres) into the Rural Estate.

At £35 million, this was our largest rural estate acquisition for many years. Tabley is an extensive agricultural, residential and sporting estate comprising 18 equipped farms, a further 18 lettings of farmland, three land parcels let as grazing, 52 residential properties, 13 commercial leases, the Cheshire Showground and a number of sporting agreements providing rights for shooting, fishing and boating. The acquisition underlines The Crown Estate's commitment to remain a major rural land owner. We are committed to working closely with existing tenants and the local community to secure a strong and vibrant future for the estate.

Working together with customers

We continue to develop and implement new and more effective ways in which our expertise and experience can be aligned more closely with those of our customers, to mutual benefit. The Crown Estate has an extremely diverse portfolio – from international fashion retailers to local food producers – and we are keen to work alongside individual businesses to help them take advantage of market opportunities in new and innovative ways. This integrated approach is delivering benefits for us and for our tenants.

For example, towards the end of our financial year we confirmed an agreement to work with our tenants and premium retailer, Waitrose, to pilot the development of a new red meat supply chain. If this project is successful for all parties, we anticipate expansion to other product areas, offering new opportunities to many of our tenants across the Rural Estate.

Under the umbrella of our ongoing Customer Focus programme, we launched a pilot study in the south west of England. During a series of workshops, involving our own team, managing agents and tenants, we have taken a detailed look at the landlord/tenant relationship and how improvements can be made to maximise business opportunities. Each party outlined their own needs and these have now been formalised in the style of a business/customer contract entitled 'The Business Deal'. Although not legally binding, it does provide a framework to enhance the way tenants and the Rural Estate can work together. The pilot will continue through 2008 and tenants will be kept up to date with progress through our 'Rural Bulletin' publication, which has continued to improve communication between The Crown Estate and our tenants.

Playing our part

The Rural Estate has an important part to play, not only in the businesses of our tenants, but also in the lives of communities and the general public throughout the UK.

Our involvement and sponsorship of the CALM Project (Carbon Accounting for Land Managers) was advanced through evaluation of the 'CALM Calculator' which assesses the carbon footprint of an estate. The Ashby St Ledgers Estate near Daventry was used in the pilot and our intention is to use this tool to assess activities on other rural estates. We have also worked with the Edinburgh Centre for Carbon Management to understand more thoroughly how our forestry assets can contribute to climate change mitigation.



The price of arable land rose well above £10,000 per hectare in many areas during 2007/08.

Several high profile community events were held during the year, raising awareness of our activities at local level and reinforcing our commitment to our core values. These events have included the opening of new themed 'Smugglers' walking trails' at Glenlivet; the planting of a new native woodland to commemorate the centenary of the Scout movement on the Derwent Estate; school events during National Tree Week and barn owl conservation projects on several estates throughout the country.

Our activities and efforts have been recognised in many ways, including two honours for the Glenlivet Estate, which won a European Award of Excellence from the European Landowners' Organisation and was also a finalist in the Scottish Thistle Awards under the sustainable tourism category.

The estate visit programme continued to provide Board members with the opportunity to take a strategic view of individual rural estates, while preserving direct contact with tenants. Follow-up visits by members of the senior management team ensure further direct liaison with our customers.

Looking to the future, we expect limited opportunities to make significant purchases. We do however expect relatively strong rental growth and opportunities to release capital through asset management initiatives, including selective land sales with the benefit of vacant possession.

For our tenants, prospects for the current crop year have improved due to higher plantings and more positive weather reports. The effects of low carry-over stocks, variable weather conditions and energy crop substitution, however, will ensure continuing volatility.

Windsor Estate

The Windsor Estate covers 6,300 hectares (15,600 acres) of the Surrey and Berkshire countryside. It includes Windsor Great Park, farms, Ascot Racecourse and important gardens as well as forests and residential and commercial properties. Although the year was not notable in financial terms, we were very pleased by the way in which the nearby foot and mouth outbreak was handled.

For the year to 31 March 2008, the Windsor Estate saw turnover increase to £5.8 million, up by 5.5%, despite the foot and mouth disease during the year which reduced visitor numbers. Property value was £173 million, an increase of 1.8%. The cost of maintaining Windsor Great Park was £7.9 million which was offset by income from commercial and residential property of £4.8 million and from agriculture and forestry of £1 million. The deficit is broadly the same as for the previous year.

The greatest driver for the Windsor Estate is to maintain the Great Park for the public's use and enjoyment, the only Royal Park managed by The Crown Estate. In a typical year we welcome over 2 million visitors who enjoy a wide variety of recreational activities such as horse riding, walking, fishing and cycling. The Park is part of a vast Norman hunting chase, set in 2,020 hectares (5,000 acres) of the Surrey and Berkshire countryside stretching from Windsor Castle in the north to Ascot in the south. With its varied landscape and sweeping deer lawns, woods, coverts and huge solitary ancient oaks, the Park abounds in wildlife. The pastoral landscape offers visitors peaceful respite and the opportunity to witness a rich and unique heritage a thousand years in the making. The majority of the Park has Site of Special Scientific Interest (SSSI) status and has to be managed to a high environmental standard.

In addition to managing Windsor Great Park, we are responsible for a number of commercial and residential properties. In common with other areas of The Crown Estate, we have been affected by the economic downturn although demand remains strong, in particular for our residential property. We have seen a moderate increase in rental values and enjoy remarkably low void levels.

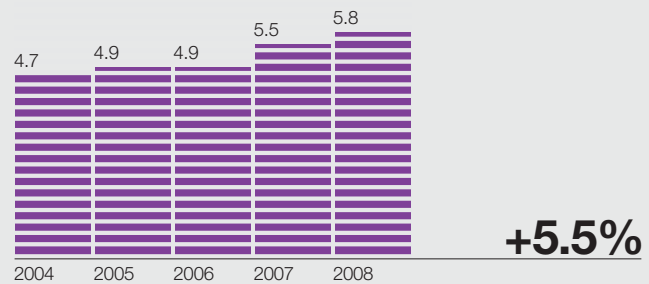
Rising to the challenge of foot and mouth

While poor weather throughout the summer was disappointing and reduced visitor numbers, the nearby outbreak of foot and mouth disease was the single greatest challenge the Windsor Estate faced during the year. Although no incidents of the disease occurred within the boundary of the Estate, we nonetheless decided to close the Great Park to the public in September 2007, as a precaution. This decision was not forced upon us by Government, but we believed – and still believe – that it was the right course of action. It undoubtedly helped to ensure the survival of the cattle of our tenant farmers, as well as the resident deer population.

Property value 2004–2008 (£million)

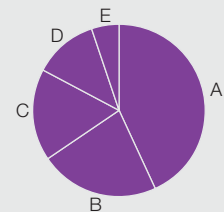


Turnover 2004–2008 (£million)



Turnover by activity 2007/2008 (£million)

A Residential	2.5
B Savill Garden & Building	1.3
C Commercial property	1.0
D Forestry	0.7
E Agricultural	0.3



Turnover and gross revenue surplus figures for 2007/08 are stated prior to the change in accounting estimates (see note 3).

Windsor Estate continued

The Park was closed for six weeks and no public access was allowed and all main entrances and exits had full disinfectant baths. We also established an Emergency Committee to co-ordinate the efforts of our own team, local vets and tenants. All cattle on the Windsor Estate were blood-tested three times, thankfully with negative results in each case. Sadly one of the Estate tenants had young stock slaughtered as a precaution but these were grazing on neighbouring land.

The closure necessitated the cancellation of a number of minor and two major events: the National Carriage Driving competition and the Windsor half marathon, which attracts 6,000 runners and raises considerable funds for local charities.

As the threat posed by foot and mouth receded, the park fully re-opened in early November, with The Savill Garden and Savill Building admitting visitors two weeks earlier. People quickly returned in numbers, encouraged by the mild winter weather. We were especially busy over the Christmas period, selling out of Christmas trees very early in the season, and visitor numbers were up again in February 2008.

Consolidating our progress

Foot and mouth apart, 2007/08 was a year of consolidation and steady progress.

The Savill Building was once again recognised for its innovative design. The gateway to The Royal Landscape, encompassing The Savill Garden, The Valley Gardens and Virginia Water, the Savill Building was one of only two UK finalists in the RIBA Stirling Prize 2007. Since its opening in June 2006, the building has attracted over 800,000 visitors and been recognised by 11 award schemes.

In June 2007, the New Zealand Garden was officially opened by the Duke of York. Located within The Savill Garden, this new initiative showcases plants from the region and was developed in close co-operation with the New Zealand High Commission.

During the year, we also completed the restoration of the car park at Virginia Water. This important facility has now been modernised, with new ticketing arrangements, making it more convenient for visitors to enjoy this part of the Park.

Looking ahead, we anticipate an increase in visitor numbers together with progress on several important projects.

We will be continuing work on The Royal Landscape, including the stabilisation and a degree of repair work to the Leptis Magna ruins, an important Roman folly on the edge of the Virginia Water lake.

Environmental concerns are close to the heart of the Windsor Estate and we will continue to look at ways in which we can become more energy efficient. For example, we will evaluate the benefits of building a heat and power plant, possibly with biofuels as a primary energy source. We will also focus attention on how we can best upgrade our housing stock in keeping with modern best practice.



Leptis Magna ruins, an important Roman folly due for repair work in 2008.

“Demand remains strong for our residential property, where we have seen a moderate increase in rental values and enjoy remarkably low void levels.”

Being responsible in the way we work...



More detailed information about corporate responsibility and key performance indicators (KPIs) can be found on our website:
www.thecrownstate.co.uk/cr

What we do	ifc – 3
Overview & priorities	4 – 8
Customer stories	9 – 24
Business stories	25 – 34
Performance	35 – 57
Governance	58 – 70
Financials	71 – 92

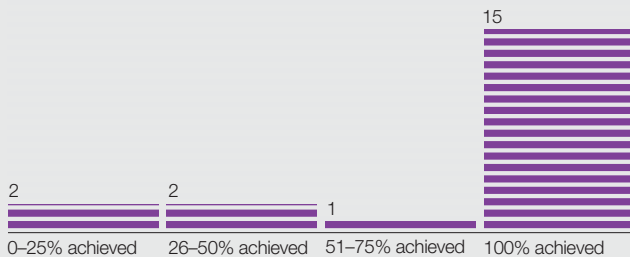
Page 47

Corporate Responsibility

We have been reporting on Corporate Responsibility (CR) publicly since 2004, when we set out our overall vision, approach and commitment, and identified the key issues facing our business. Over the past four years we have continued to develop our CR strategy and our management systems. We set ourselves ever-more challenging targets year-on-year to achieve our goal of continuous improvement in economic, social and environmental performance. The following is a summary of our achievements over the past year – further details can be found in the full CR report on our website.

Of the 20 targets we set ourselves over the past year 75% were fully achieved. This represents our best performance since 2004 and is testament to the commitment and hard work of our employees and advisers. Our progress against the targets is verified by our CR advisers whose statement of verification can be found in the full CR report.

Achievement against CR targets 2007/08 Number of targets



The pressure on our business to become more sustainable is increasing. In the urban context attention has been firmly focused on reducing carbon emissions from the built environment. Evidence suggests that occupiers themselves are increasingly paying attention to sustainability. We therefore continue to work with them and our business partners to improve the environmental management of properties in our direct control and by influencing occupiers of all our properties.

Separately, our Marine Estate offers a unique set of challenges, where our ownership of foreshore, seabed, estuary beds and tidal rivers renders us acutely aware of the potential impacts of climate change through coastal flooding and the deterioration of natural habitats. We have a major opportunity to play a key role in mitigating the UK's contribution to climate change by enabling investment in offshore wind and tidal energy projects, and facilitating carbon storage below the seabed.

Similarly across our rural portfolio, the movement in global food prices and changing market conditions continue to require sensitive management and innovation. We consider our role to include both advice and practical assistance to our tenant farmers to diversify their activities, and pursue sustainable business models.

These are just a few examples of our activity in a rapidly changing world.

Materiality review

Over the past year we acknowledged that we needed to refine our CR strategy in recognition of global challenges and climate change. We have therefore focused our attention on a number of CR issues which are material to both our business and society as a whole. In liaison with our external CR advisers we identified those issues which currently have the most impact on our business. The process involved an in-depth internal consultation, a brainstorming workshop, extensive research into government strategy and best practice in sustainability across a range of industry sectors and stakeholders.

From this exercise, we developed an overarching philosophy from which stems a set of six high level commitments. These are each accompanied by our business rationale in the form of a statement of belief. The commitments fit underneath our current five key themes and largely pick up on the critical issues within the previously adopted nine long-term objectives, which they now replace. They will form the backbone of our CR strategy from now on.

Overarching philosophy

We believe that our business activities have direct social, environmental and economic impacts and we therefore aim to act responsibly in everything we do to help secure a sustainable future.

The six high level commitments and associated beliefs are set out under the following five key theme headings together with an outline of key achievements which can be seen to have supported them.

The way we do business

Our aim is to apply the best modern working practices, manage business risks effectively and demonstrate value for money whilst dealing honestly and fairly with people.

Statement of belief:

“We believe that we should take some responsibility for the environmental and social impacts of our suppliers, which also pose reputational risks to our business.”

High level commitment:

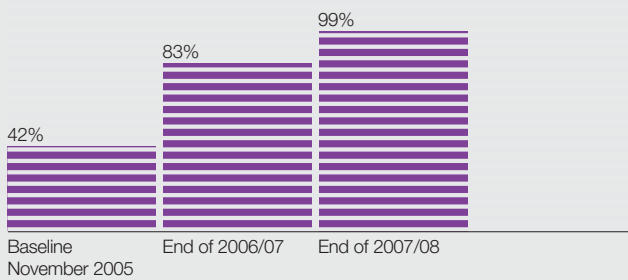
Responsible procurement: “We will work with our suppliers to ensure environmental and social good practice, and we will help and encourage them to adopt sustainable solutions.”

In the past year we have taken part in a range of initiatives in order to further our commitment to responsible procurement. We have:

- Hosted a CR Forum with our legal business partners in order to further responsible business practice throughout our supply chain.
- Instructed all our Urban managing agents to purchase only Climate Change Levy (CCL) exempt electricity for our portfolio (where the premium is not greater than 10%) in order to deliver on our commitment to be a responsible landlord.
- Continued to encourage the improved environmental performance of our Urban managing agents through the Environmental Performance Index (EPI).

Key Performance Indicator (KPI)

Average score of Urban managing agents against Environmental Performance Index (EPI) (foundation level)

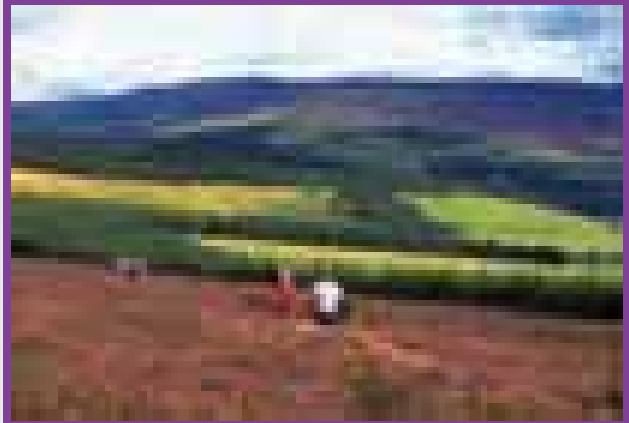


We have seen a steady improvement in the managing agents' scores at foundation level over the past three years. We have now set our agents targets at the intermediate and advanced levels of the EPI and expect to see the implementation of a range of new environmental initiatives as a result.

Case study

Glenlivet Estate takes second place in sustainable tourism award

The Crown Estate took second place in Visit Scotland's prestigious Scottish Thistle Award for 2007 in the Sustainable Tourism category for its work on the Glenlivet Estate. Businesses across Scotland were asked to show how their commitment to Scotland's environment and people guides their operations, growth and ambitions.



Corporate Responsibility continued

Our people

We are proud of the expertise and enthusiasm of the people we employ and we want them to feel fulfilled in their work.

Statement of belief:

“We believe that our people are our single most important asset, and that they have a right to feel valued.”

High level commitment:

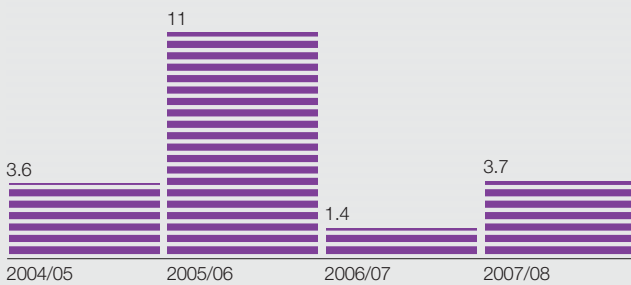
Employee health, well-being and satisfaction: “We will ensure the health, well-being and ongoing development of our employees, and help and encourage them to make sustainable business decisions.”

Over the past year we have:

- Delivered five CR awareness-raising events for employees to ensure that our commitment to responsible business is understood throughout the organisation.
- Delivered diversity training to 89% of permanent employees who were in employment for the full year.
- Implemented a new Occupational Health and Safety strategy which has involved the introduction of a comprehensive health surveillance programme.

KPI

Average number of training days per Crown Estate employee



2005/06 – Figures were particularly high due to a number of compulsory in-house training sessions for all employees.

2006/07 – The time spent on the preparation and subsequent move to new office headquarters for central London-based employees resulted in fewer training sessions.

Case study

David Shaw named as Mayfair Times Property Personality of the Year

David Shaw, Head of Regent Street Strategy and Development at The Crown Estate was awarded the Mayfair Times Property Personality Award at the inaugural Mayfair Times Personality of the Year Awards. The award was given in recognition of his role leading the team responsible for the transformation of Regent Street since 2002.



Our customers

To us, being good people to do business with means understanding the needs of our customers and tenants and responding to them in a positive way.

Statement of belief:

“We believe that our business is dependent upon our ability to meet the evolving needs of our customers, to whom we owe a duty of care.”

High level commitment:

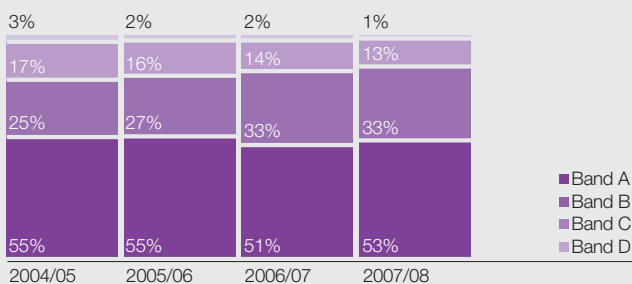
Customer focus: “We will build our brand upon the quality of service delivered to customers, and on responsible business values.”

Over the past year we have:

- Worked with our rural tenants to develop a supply chain initiative through which they can promote their sustainable products to Waitrose. This means that we have not only helped to enhance their businesses but also continued to encourage sustainable business practices.
- Progressed with phased improvements to our housing stock with a view to fully meeting the Government’s Decent Homes Standard by 2010.
- Offered advice and partnership investment opportunities to rural tenants aimed at enabling them to diversify and access national retail markets. Grant Thornton has been appointed to give advice on proposed diversification and joint venture projects.

KPI

Condition of housing on the Rural Estate



Band A: Modernised with full modern facilities in the previous 10 years.

Band B: Modernised to full modern standards in the previous 10–20 years.

Band C: Unmodernised in 20 years but with all basic facilities.

Band D: Unmodernised and lacking basic facilities.

Case study

Scottish Aquaculture awards

Since 2006 The Crown Estate has run an awards scheme to highlight and reward innovation, best practice and sustainability in the Scottish salmon farming industry.



The environment around us

As stewards of our portfolio we strive to act in a responsible manner so as to leave a legacy for future generations by preserving and enhancing those parts of the Estate rich in bio-diversity and architectural and historical value.

Climate change

Statement of belief:

“We believe that climate change presents both physical and regulatory risks to our business, and to society as a whole, in the medium and longer-term.”

High level commitment:

Climate change: “We strive to achieve a zero carbon footprint. We will reduce our own carbon emissions, encourage our customers to do similarly and promote sequestration through forestry and carbon capture.”

Resource efficiency

Statement of belief:

“We believe that the prudent use of resources maximises business efficiency, as well as sustaining environmental capital for future generations.”

High level commitment:

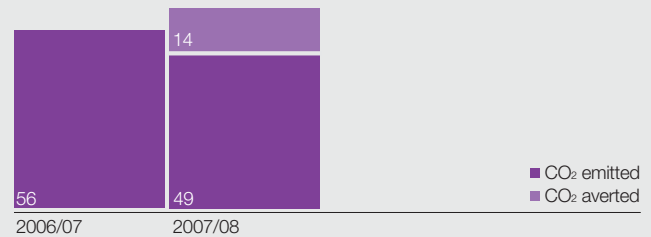
Resource efficiency: “We will use resources efficiently. We will reduce our energy and water use, limit waste production, increase the reuse and recycling of our own waste and encourage our customers to do likewise.”

Over the past year we have:

- Achieved our target of facilitating the displacement of over one million tonnes of CO₂ per annum through the wind energy produced on the Marine Estate.
- Encouraged all Urban managing agents to conduct energy, water and waste audits at the properties that they manage, thus ensuring that our buildings are managed in an efficient and sustainable manner.
- Become a member of the National Home Energy Rating (NHER) scheme.
- Supported Natural England in achieving their target of 95% of Sites of Special Scientific Interest (SSSIs) being in favourable or recovering condition by 2010. We are currently on schedule to achieve this target for our own SSSIs.

KPI

Building efficiency: close managed Urban portfolio CO₂ emissions
(kg CO₂/m²)



As can be seen from the graph above, energy consumption per metre squared (m²) rose across our Urban close managed portfolio during 2007/08, although the associated carbon emissions actually fell as we have now started to purchase CCL exempt electricity.

Building efficiency is a measure of how much energy a building uses, relative to its floor area. This allows a comparison to be made between the efficiency of different buildings or portfolios. For full qualifying notes please go to www.thecrownestate.co.uk/cr

Case study

Energy efficient Christmas lights for Regent Street

The Regent Street 2007 Christmas lights, sponsored by Nokia, combined an exciting new interactive approach to festive lighting with minimal impact on the environment. The materials used to make them were recyclable and the LEDs used a fifth of the energy required by traditional light bulbs.



The wider community

We know that vibrant and thriving communities have an important role on our estate and we want to contribute to their vitality.

Statement of belief:

“We believe that the value of our estates is dependent upon the economic, social and environmental well-being of the communities using and surrounding them.”

High level commitment:

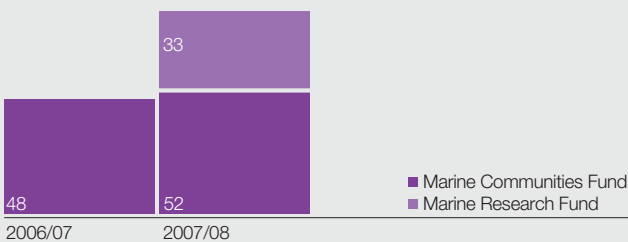
Sustainable communities: “We aim to ensure that our business activities have a positive economic, social and environmental impact on the wider community.”

Over the past year we have:

- Become a founding member of the Westminster Small and Minority Business Council (WSMBC) and encouraged two of our Urban managing agents to become associate members.
- Set up a Give As You Earn (GAYE) scheme for employees and achieved enough participation to achieve the equivalent of a Bronze award under the Payroll Giving Quality Mark.
- Taken part in The Year of Food and Farming that aims specifically to develop relationships with local schools, in partnership with farm tenants, offering educational resources to demonstrate the link between food and farming.
- Carried out visitor surveys at Windsor Great Park to ascertain usage, public opinion and understanding as well as the ecological impact of human activities on the Park.

KPI

Projects support by Marine Communities and Marine Research Funds
(Number)



N.B. The Marine Communities Fund has previously been known as the Marine Stewardship Fund and Communities and Renewable Fund.

Case study

The Crown Estate's programme of marine stewardship

Over the past year projects and schemes run for the benefit of coastal communities all around the UK shared over £800,000 in funding from The Crown Estate's programme of marine stewardship. Projects included a series of aquarium displays at the Loch Fyne Oyster Bar overlooking Loch Fyne in Scotland (pictured below). It was designed to raise awareness of the local marine wildlife amongst locals and visitors.



Financial review



John Lelliott, Finance Director

Our strong results this year have been discussed in the Chief Executive's review. The purpose of this review is to develop some of the elements that contributed to the year's success and highlight areas receiving special consideration going forward. The results are underpinned by both investment activity and asset management initiatives across the entire Estate.

As a long-term landowner we have obligations to achieve year-on-year long-term growth. Over the past ten years we have seen revenue growth of 68.1% delivering to the Treasury £1.7 billion, capital growth of 121.7% and a total return that has outperformed IPD over the past one, three, five and ten years.

The Crown Estate Act 1961

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

Given these arrangements, our results are all the more impressive. In particular, if our revenue results were not affected by the requirements of The Crown Estate Act, they would increase by £43.4 million from £211.4 million to £254.8 million. The majority of this relates to profit on sales of freeholds of £47 million which is retained within the capital account for reinvestment in the Estate. Full details of this are given in note 4 to the financial statements.

Accounting and regulatory issues

The 2007/08 financial statements contain two changes in accounting estimate. These have arisen as a result of our preparations for implementation of International Financial Reporting Standards (IFRS) and the change of accounting system in 2008/09.

The first change relates to our policy on income recognition in respect of rent, royalties and similar payments. For 2007/08 all such income is recognised in the year in which it accrues rather than in the accounting period in which it was demanded. This brings us into line with best practice in the property sector.

The impact of this has been the recognition of £34.9 million as a reduction in turnover for the year 2007/08. This amount represents the income invoiced to tenants prior to 31 March 2008, which is in respect of income for the following financial year. The adjustment has been shown as a separate item on the face of the revenue account in order that a fair comparison can be made with the previous year's income.

The second change relates to the recovery of capital expenditure for new works and improvements under our Treasury Agreement. The introduction of our new accounting system has enabled us to recover capital expenditure on a property by property basis, rather than by geographical location. This now allows us to improve the tracking of base costs relating to each property. The change in accounting estimate has resulted in a £30.6 million decrease in the recovery of new works and improvement costs through the revenue account in 2007/08. This adjustment has been shown separately on the face of the revenue account to enable easier comparison with previous years.

Property valuation

The total value of the Estate, inclusive of indirect holdings, rose by 3.2% to £6,826 million for the year ending March 2008. This year growth was driven by our 'alternative' investments with our Rural portfolio increasing in value by 26.5% to £903 million, our prime residential holdings rising by 18.5% and the Marine portfolio increasing by 10%. Our commercial Urban portfolio contracted by 2.5%.

At 69% of The Crown Estate, the commercial Urban portfolio has the largest bearing on our performance. In the main, it has performed broadly in line with the market, with values falling as property yields have moved out. Our highest exposure, however, has been to relatively defensive prime properties in the West End, where a lack of supply meant the market remained tight at the year end. Indeed, on the IPD Quarterly Index, central London Retail fell in value by only 5.4% and West End and Midtown offices by 7% in the year to 31 March 2008. This compares with a decline of 13.9% across the Index as a whole. Overall, the equivalent yield on our direct commercial portfolio moved out from 4.94% to 5.43% while at the same time the IPD Quarterly Index moved from 5.3% to 6.4%.

The year has also been characterised by a record turnover of property as we seek to add value through asset management. A number of non-core properties have been sold and two swaps were completed in the West End which delivered marriage value, both by extinguishing intermediate leases and assembling blocks of property with future refurbishment potential.

In terms of capital growth the strongest performance came from our Rural portfolio, which delivered 26.5%. This was driven by a shortage of land coming to the market and increased demand from farmers and overseas buyers attracted by the strong growth in commodity prices. The Marine portfolio delivered growth of 6.6% followed by the Urban portfolio at 1.5%. Combined with an overall income return of 3.4% The Crown Estate as a whole generated a total return of 7.7% which compares to the IPD Quarterly Index to 31 March 2008 (inclusive of transactions) of –9.1%.

Transparency of disclosure and the pursuit of best practice is a priority to us. We continually seek to improve both the benchmarking of our performance and the independence of our portfolio valuations. With IPD, we now formally benchmark our Urban commercial portfolio, our agricultural portfolio and a portfolio of residential properties directly developed or purchased in line with our investment strategy. We now submit

Revenue/capital

Revenue	2007/08 £million	2006/07 £million
Turnover	264.8	262.2
Rental income	258.4	257.8
Revenue surplus	211.4	200.1
Operating costs	40.2	38.7
Administrative expenses	15.5	13.3
Capital		
Capital value	7,328	7,091
Property value	6,584	6,572
Indirect investments	242	42

Financial review continued

the whole of our Urban commercial portfolio for analysis on a six-monthly basis. As at March 2008 this amounted to 423 properties with a total value of £4,690 million, or 69% of the entire estate.

In April last year we appointed DTZ and Jones Lang LaSalle as external valuers. At 31 March 2008 they valued £3,946 million of property representing 89% of the portfolio benchmarked by IPD and 60% of our direct property ownership. Over the course of next year we intend to increase this level to 100% and 68% respectively. Our intention is also to move to quarterly valuations from September 2009.

As in previous years, we commissioned independent check valuations of a sample of our rural properties (4.9% by value of the agricultural estate). The results of this exercise reassuringly supported the tone of the main valuation. In addition, all purchases and developments completed during the year were valued independently of the acting investment advisers (over 10% of the estate).

Investment in partnerships

In April 2007 we completed our investment in a 50:50 joint venture partnership with Hercules Unit Trust. The new vehicle, The Gibraltar Limited Partnership, contributed £8.4 million to the Revenue Account this year. This was the second such investment in land through the structure of limited partnerships following our acquisition of 4.7% of the Lend Lease Retail Partnership in September 2006. Our investment in indirect property has increased to £242 million which represents 3.5% of our total investment in property.

During the year we continued to analyse alternative approaches to investment. With proper due diligence, specifically bearing in mind the constraints of The Crown Estate Act 1961, we established that we can make corporate acquisitions where the underlying rationale is to purchase land or property. As a result, in April 2008 we completed the acquisition of Rhu Marina in Scotland through a corporate acquisition.

International Financial Reporting Standards (IFRS)

We intend to present our financial statements for 2008/09 in accordance with the principles of IFRS. This will bring The Crown Estate into line with listed property companies and will therefore allow for direct comparison with our peers. This implementation will be a year ahead of other public sector organisations. We do not intend to issue interim financial statements for the six months to September 2008.

IFRS compliance will not change the underlying performance and cash flows of the business. However, it will have a significant impact on the way in which the results are presented.

Work has been carried out on assessing the impact of IFRS and ensuring that the new finance system will enable full compliance with IFRS.

We will still need to produce accounts in accordance with the requirements of The Crown Estate Act 1961.

Cash flow

Retaining a strong liquidity position remains a very important part of our investment strategy. With the investment market subdued, combined with our inability to borrow, it is vital that we have sufficient funds to enable us to take advantage of opportunities the current market may present, as well as being able to fund our development projects.

This year there has been significant investment activity, mainly on the commercial estate and the West End in particular where we have taken the opportunity to consolidate and strengthen our holdings. The overall total investment across the estate, including our investment in the Gibraltar Limited Partnership, was £713 million and our total disinvestment was £934 million. A substantial element of this activity was cash neutral as we continued our successful strategy of transacting property swaps and investing property rather than cash into our joint venture. The actual capital cash investment in the estate was £308 million with cash receipts of £329 million leading to a net inflow of £21 million compared with a net inflow of £193 million in 2006/07.

Risk factors and risk management

Risk management is well established within The Crown Estate and we continue to further develop and embed the risk management process within all departments, key processes and projects. The vision for risk management is to move from 'established' to 'fully embedded' and to raise the awareness of risk at all levels of the organisation in such a way that all significant business decisions are risk informed. Risk management is an effective corporate governance and business planning tool as well as a means of ensuring effective strategic and operational decisions take into consideration key risks that may impact on the business.

Risk management is the responsibility of the Management Board. Executive managers are designated 'risk owners' for strategic risks and for risks that relate to those functions, projects and processes that they directly manage. Management considers the key risks that threaten the achievement of The Crown Estate's corporate and departmental objectives: on an ongoing basis (as part of their daily business activities); quarterly (by way of formal Risk Registers and Internal Control Statements); and annually (as part of the corporate planning and budgeting process). Quarterly risk reporting incorporates the corporate risk register, departmental and project risk registers, and internal control statements. The Risk Committee, which aims to ensure consistency and best practice, reviews key risks reported by management quarterly, and escalates those risks identified and assessed as significant to the Management Board.

Charitable donations

The Crown Estate provided donations to a range of bodies, including charities, totalling £10,157 in 2007/08 (£5,950 in 2006/07), as permitted by The Crown Estate Act 1961, section 4(2).

Supplier payment performance

The Crown Estate's payment policy is to pay all suppliers within 30 days of receipt of a correctly documented invoice, or on completion of service where a fee is recoverable from a third party, or according to contract where a shorter payment period is agreed. During the year The Crown Estate paid 61% of invoices from suppliers within this period. This percentage includes invoices under dispute and amounts recoverable from third parties. On average, invoices from suppliers are paid within 36 days of receipt. The Crown Estate observes the principles of the 'Better Payment Practice Code'.

Information systems – financial systems

Work on the implementation of our new financial systems was on time and on budget, and went live on 2 June 2008 as planned. The use of a modern business management tool across the organisation will facilitate improved financial management and greater visibility of business information. Extensive training and comprehensive business support have been the hallmarks of a successful business change and the smooth transition to the new system.

Insurance

Building upon the significant savings and cover enhancements achieved in 2007, The Crown Estate's insurance programme was renewed in April 2008 without significant change to the overall cost.

A new Annual Owner Co-ordinated Insurance Programme was introduced in October 2007 to provide significantly improved cover for construction projects. Various other initiatives have been pursued including a Claims Defensibility Health Check at two locations.

The Crown Estate's risk management process incorporates an ongoing review of key risks faced by The Crown Estate in all areas of the business. We continue to consider our insurance needs in line with our diverse business operations, developments and initiatives launched.

Regarding commission, the advice received from our brokers is that the level of commission income retained by The Crown Estate remains well within the market norm.

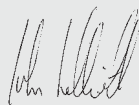
Looking ahead

Last year we expressed concerns about the residential market and a consequential impact on the retail sector. Whilst we expected a slowdown in the economy we did not foresee the substantial reversal in the market that occurred following the credit crunch and the turmoil in the financial sector. Our confidence in the rural sector and the resilience of the West End has however been fully justified.

We were, and remain, relatively content that we are most heavily exposed to sectors where the demand and supply equation remains positive. Therefore, whilst we expect 2008/09 to be a tough year, we still believe that we will perform relatively well due to our exposure to 'alternative' sectors such as marine and rural; together with our exposure to super prime residential and commercial property in the West End where supply remains restrictive. We are also reassured by our defensive purchases in recent years outside of London, which are let on long leases with excellent covenants.

The main concern going forward is that the credit crunch feeds through to the occupational market and how far this will impact on rental values. We are well positioned at the moment with a record void rate of just 3% but realise the effort and initiative that will be required to sustain this.

2007/08 has been a record year in terms of transactional activity and the turnover of property. Our cash position is such that we are able to take advantage of current market conditions. We expect to continue trading through 2008/09 in pursuit of our investment strategy and preparing properties in anticipation of improving market conditions going into 2011/12.



John Lelliott
Finance Director

The Board

Ian D Grant CBE, FRAGS

Chairman, First Commissioner and Scottish Commissioner

Ian Grant first joined The Crown Estate Board on 1 September 1996 and was subsequently appointed Chairman of The Crown Estate in October 2002. He farmed in Perthshire from 1962–93. He is Chairman of Scottish Exhibition Centre Limited and is Deputy Chairman of NFU Mutual. In 1988 he was awarded the CBE for services to agriculture. His other previous appointments have included President of the Scottish NFU; Chairman of the EC Cereals Working Party; Chairman of the International Federation of Agricultural Producers Grains Committee and Chairman of the Scottish Tourist Board. He was Deputy Chairman of Scottish & Southern Energy plc, a non-executive Director of Clydesdale Bank plc and East of Scotland Farmers Limited. Aged 64.

Roger Bright MA (Cantab)

Chief Executive and Second Commissioner

Roger Bright graduated from Cambridge in 1973 and joined the Department of the Environment, where he went on to hold a series of senior positions, including Principal Private Secretary and Press Secretary to the Secretary of State. He left the civil service and became Deputy Chief Executive Officer of the Housing Corporation in 1991 and then held senior posts at the Personal Investment Authority, including Chief Executive, and subsequently Head of the Investment Business (Personal Investment Authority firms) Department at the Financial Services Authority. Roger joined The Crown Estate in June 1999 as Director of Finance and Administration and was appointed to the Board in April 2000. In June 2001 he was appointed Chief Executive of The Crown Estate, taking up the post on 1 September 2001. Aged 56.

Hugh Duberly CBE

Non-executive Board Member

Appointed to the Board on 19 November 2001. Hugh Duberly farms in Cambridgeshire and was a member of the Huntingdonshire District Council from 1979 until 2004. He was previously President of the Country Landowners Association and a Director of the Agricultural Mortgage Corporation plc. Chairman of both the Papworth Trust and the Shuttleworth Trust, Hugh is also a Governor of Writtle College. He is HM Lord-Lieutenant of Cambridgeshire. Aged 65.

Martin Moore MRICS

Non-executive Board Member

Appointed to the Board in April 2002. Martin Moore is Managing Director of PRUPIM (Prudential Property Investment Managers) and director of M&G Ltd, the UK and European investment management arm of Prudential plc. He is a Board member and past President of the British Property Federation and chairs their Sustainability Committee. He also chairs the sustainability group of the Property Industry Alliance. Martin is a past Chairman of the Investment Property Forum and Westminster Property Owners Association, was a member of the CABI Design Review Committee and has worked on various property related panels for both the Association of British Insurers and the Royal Institution of Chartered Surveyors. Aged 51.

Dinah Nichols CB

Non-executive Board Member

Appointed to Board in January 2003. Dinah Nichols is a non-executive Director of Pennon Group plc (a water and waste company) and of Shires Smaller Companies Investment Trust. In 2005 she became Chair of the National Forest Company. Until 2002 she was Director-General Environment in DEFRA, where her responsibilities covered policy for sustainable development, climate change, air and water quality, waste, chemicals and the environmental aspects of farming. In her previous posts in the civil service she dealt with housing, construction, property, regeneration and transport. Dinah is also Chair of the regeneration charity Groundwork, North London, and a Trustee of ENCAMS and the Travel Foundation. Aged 64.

Jenefer Greenwood BSc, FRICS

Non-executive Board Member

Appointed to the Board on 19 February 2004. Jenefer Greenwood is currently Grosvenor Estate's Retail Strategist, a position she took up in May 2003. Previously she worked for CB Hillier Parker for 25 years, where she was Head of Retail. Within Grosvenor she has particular responsibility for the retail positioning, leasing direction and marketing within the £3 billion development programme. She is a Board member of New West End Company and a member of the Advisory Board of the National Skills Academy for Retail. Past President of the British Council of Shopping Centres (BCSC) and a member of the ICSC European Advisory Board, she is also a Governor of Westonbirt School. Aged 50.

Chris Bartram MA, FRICS

Non-executive Board Member

Appointed to the Board on 1 January 2007. Chris Bartram is currently Chairman of Orchard Street Investment Management and was Managing Director of Haslemere NV which was floated on the Amsterdam Stock Exchange in 1999. Current non-executive appointments include: Chairman of Estate Management Development Fund at Cambridge University and Associate Fellow, Downing College, Cambridge. Past (non-executive) appointments include: President of the British Property Federation, Chairman of the Bank of England Property and a non-executive Director of George Wimpey plc. Aged 58.

David Fursdon FRICS, FAAV

Non-executive Board Member

Appointed to the Board in January 2008. David Fursdon is a qualified rural chartered surveyor and agricultural valuer. He owns and manages an 800-acre family estate in Devon. He was formerly President of the Country Land & Business Association (CLA) which has 37,000 members across England and Wales. David is currently the Chairman of Governors for Blundell's School, Parish Chairman, Deputy Lieutenant for Devon and a former member of the Government's Affordable Housing Commission and Heritage Protection Review. Before taking the chairmanship of the CLA Board in 2003, he worked full time as an equity partner of Stags, the West Country Chartered Surveying firm. Aged 55.



Governance report

Introduction

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

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

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

Statutory Position of The Crown Estate and the Board

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

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

The duties of the Board are to maintain The Crown Estate as an estate in land (with such cash or investments as may be required for the discharge of their functions) and to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management. By the Civil List Act 1952 the net income from The Crown Estate, after defraying costs of collection and management, is required to be paid into the Exchequer and made part of the Consolidated Fund (general government revenues).

The Board have authority to do on behalf of the Crown in relation to The Crown Estate all such acts as belong to the Crown's right of ownership, subject only to the detailed restrictions set out in the Act. The Board must comply with such directions, as to the discharge of their functions under the

Act, as may be given to them by the Chancellor of the Exchequer and the Secretary of State for Scotland. The Board submit annually to the Treasury a forecast of their activities in a corporate plan covering the following and two ensuing years.

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

The Crown Estate is a statutory corporation; it is not a company for the purposes of the Companies Act.

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

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

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

Composition of the Board

At 31 March 2008 the Board comprised eight members: a Chairman (who is non-executive), Chief Executive and six non-executive members. The composition of the Board is defined by The Crown Estate Act 1961.

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

Brief biographies of each of the current members are set out on page 58.

The role of the Board

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

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

Delegated authorities

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

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

Certain matters are delegated to committees of the Board and these are described in the terms of reference of the committees in question. The terms of reference of the Audit Committee, Corporate Responsibility Committee, Remuneration Committee, Scottish Committee and Quadrant Board are summarised later in this report. Other issues are delegated to executive committees which include the Management Board (including investment and strategy matters), stock selection committee and communications group.

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

The Management Board as at 31 March 2008 consists of:

Roger Bright, Chief Executive

Christopher Bourchier, Director of Rural Estates

Paul Clark, Director of Investment Strategy & Asset Management (appointed 29 October 2007)

Vivienne King, Legal Director

John Lelliott, Director of Finance & Information Systems

Rob Hastings, Director of Marine Estates

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

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

responsible for public relations and acting as HM Treasury's appointed Accounting Officer for The Crown Estate.

The non-executive members

The non-executive members are Hugh Duberly, Jenefer Greenwood, Martin Moore, Dinah Nichols, Christopher Bartram, Sir Donald Curry (appointment expired 31 December 2007), and David Fursdon (appointed 1 January 2008). The Board reviews annually the independence of each of its non-executive members to ensure that they bring an objective viewpoint and none of the factors implying a lack of independence set out in the Combined Code applies. None of the non-executive members has (to his or her knowledge) any conflict of interest which has not been disclosed to the Board.

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

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

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

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

Appointments' process

Board members are formally appointed and selected in accordance with the Government's general principles for public appointments. The appointment process is compliant with the principles set down in the Nolan Committee's report on Standards in Public Life. In practice, initial appointments are made for a period of four years with a further potential renewal for a second period of four years. There is a presumption against further renewal but in any event a maximum ten year appointment period applies.

The Crown Estate is required to operate to the highest standards of prudence, probity and professional competence. Board members are selected to provide collectively an appropriate balance of skills, experience and qualities, and minimal conflicts of interest with their outside activities. The potential pool is therefore relatively small, but all new appointments are publicly advertised and wide soundings with relevant outside bodies (including the Public Appointments Unit) are undertaken before a shortlist is drawn up.

The selection panel (comprising a representative from the Treasury, an independent member agreed with Treasury and up to three existing Board members including the Chairman and the Chief Executive) supervises the process, interviews candidates against the detailed written requirements of the post and agrees its recommendation. The Cabinet Office appoints an independent scrutineer. The Chairman makes recommendations for re-appointments with a presumption against second extensions. Appointments are made by Her Majesty The Queen on the advice of the Prime Minister. Special arrangements apply for appointments to the roles of Chairman and Chief Executive, within the Government's principles.

Succession planning

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

Board meetings

The Board held seven scheduled meetings of the Main Board during the year ending 31 March 2008. As well as meetings in London the Board also met in Windsor. In addition there were three meetings of the Audit Committee, five meetings of the Corporate Responsibility Committee, two meetings of the Remuneration Committee, three of the Scottish Committee and one meeting of the Quadrant Committee.

In addition to scheduled Board meetings, each year the Board attends a special meeting which takes place over two days at which broad strategy, external factors and the direction of the business is discussed in depth. This year's meeting was held in Southampton.

Information flow

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

Current terms of office

Board member	Date of most recent appointment	Date of expiry	Length of service as at 31 March 2008
Ian Grant (Chairman)*	1 October 2006	31 December 2009	5 years
Roger Bright (Chief Executive)	1 September 2005	31 September 2009	7 years
Christopher Bartram	1 January 2007	31 December 2010	1 year
Sir Donald Curry**	1 January 2004	31 December 2007	8 years
Hugh Duberly	1 January 2006	31 December 2009	6 years
Jenefer Greenwood	1 January 2008	31 December 2011	4 years
Martin Moore	22 April 2006	31 December 2010	6 years
Dinah Nichols	16 January 2007	31 December 2010	5 years
David Fursdon***	1 January 2008	31 December 2011	3 months

*Formerly a non-executive Board member.

**Sir Donald Curry's appointment expired on 31 December 2007.

***David Fursdon's appointment commenced on 1 January 2008.

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

Board processes

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

Liability

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

Board effectiveness

Board performance evaluation

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

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

One re-appointment was made during the year to 31 March 2008.

Induction

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

Board committees

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

A summary of the role and terms of reference of the five Board committees (Audit, Corporate Responsibility, Remuneration, Scottish and Quadrant Committee) is given below. The terms of reference of these committees are available on request.

In addition to these five Board committees, three other executive committees operate with specific authority delegated by the Board. First, the Management Board is chaired by the Chief Executive and comprises directors. The Management Board considers strategic issues, significant organisational policies and reviewing investment strategy and operates within the financial delegation of the Chief Executive. In reviewing investment strategy, the committee considers economic and property market analyses and forecasts, the overall weightings of the portfolio and the movements necessary to optimise performance. The Stock Selection Committee considers, amongst other things, specific investment and divestment proposals, reviewing them against strategy. The third executive committee is the Communications Group whose duties include considering questions of PR policy and reviewing and recommending an annual strategy and programme of PR activities.

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

Audit Committee

Members

The current members of the committee are:

Martin Moore (Committee Chairman)

Christopher Bartram, non-executive Board member

David Fursdon, non-executive Board member
(appointed 1 January 2008)

The secretary to the Audit Committee is David Purkis.

Sir Donald Curry was a member and Chairman of the committee until 31 December 2007, when his appointment expired.

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

Meetings are held three times a year. The following executives ordinarily attend meetings: the Chief Executive, the Director of Investment and Asset Management, the Director of Finance and Information Systems and the Legal Director. The Head of Internal Audit and the Financial Controller are also in attendance. The external Audit Partner (NAO Audit Director) is invited to attend scheduled meetings. The committee submits an annual report to the Main Board, reporting on its activities during the year.

Terms of reference

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

Specific duties include:

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

The Audit Committee is authorised by the Board to investigate any activity within its Terms of Reference and to seek any information that it requires from any employee, consultant or contractor and call for documentary evidence of any transaction.

'Whistleblowing'

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

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

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

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

The Comptroller and Auditor General

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

Report of the committee's activities

During the year, the committee met three times (on each occasion with the NAO Audit Director in attendance) for routine business and considered all matters within the committee's terms of reference, as set out above. Additionally, the committee also considered health and safety, insurance, pension scheme and litigation in 2007/08.

During 2007/08, Internal Audit completed a performance review of the Audit Committee. The review concluded that the Audit Committee at The Crown Estate functions effectively in performing a range of activities in line with good practice, HM Treasury and NAO guidance. There were some minor improvements that could be made for better performance and appropriate remedial action has been recommended.

Remuneration Committee

The committee's membership, terms of reference and activity is described in the Remuneration Committee report on pages 69 and 70.

Corporate Responsibility Committee

Members

The current members are:

Roger Bright (Committee Chairman)

Dinah Nichols, non-executive Board member

The secretary to the committee is Jane Baptist, Corporate Responsibility Manager.

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

Terms of reference

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

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

Report of the committee's activities

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

- setting objectives and targets;
- monitoring performance;
- good management practice;
- benchmarking; and
- external consultancy and audit advice.

The work of the committee is reflected in the Corporate Responsibility section of the Annual Report and Accounts.

Scottish Committee

Members

The current members are:

Ian Grant (Committee Chairman)

Roger Bright, Chief Executive

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

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

Duties

The Scottish Committee will:

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

Report of the committee's activities

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

- monitoring financial performance;
- stewardship;
- investment/disinvestment; and
- communication.

Attendance at Board and committee meetings

Attendance by individual members at Board, Audit and Corporate Responsibility, Remuneration, Scottish and Quadrant Committee meetings, which they were eligible to attend, was as follows:

	Main Board	Board Awayday strategy	Audit Committee	Corporate Responsibility Committee	Remuneration Committee	Scottish Committee	Quadrant Committee
Number of meetings in year	7	1	3	5	2	3	1
Ian Grant	7	1	n/a	n/a	n/a	3	n/a
Roger Bright	7	1	3	5	2	1	1
Christopher Bartram	6	1	3	n/a	n/a	n/a	1
Sir Donald Curry*	4	1	1	n/a	n/a	n/a	n/a
Hugh Duberly	7	1	n/a	n/a	2	n/a	n/a
David Fursdon**	2	n/a	n/a	n/a	n/a	n/a	n/a
Jenefer Greenwood	6	1	n/a	n/a	2	n/a	1
Martin Moore	7	1	3	n/a	2	n/a	1
Dinah Nichols	7	1	n/a	5	n/a	n/a	n/a

*Sir Donald Curry's appointment expired on 31 December 2007.

**David Fursdon's appointment commenced on 1 January 2008.

n/a = not applicable.

In addition Board members have taken part in formal visits to estates at Bryanston, Whitehill, Romney Marsh, Billingborough, Applegirth, Gorhambury, Putteridge and Dunster. In addition a number of visits were made to parts of the London and Marine Estates, as well as attendance at a number of ad-hoc seminars and events.

Quadrant Committee

Members

The current members are:

Roger Bright (Committee Chairman)

Chris Bartram, non-executive Board member

Jenefer Greenwood, non-executive Board member

Martin Moore, non-executive Board member

The secretary to the Quadrant Committee is Philomena Sullivan.

Meetings are held monthly as and when required.

The following executives ordinarily attend meetings:

Director of Investment and Asset Management, Legal Director, Director of Finance and Information Systems and Head of Regent Street Strategy and Development.

Duties

The Quadrant Committee will:

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

Report of the committee's activities

The new committee held its first meeting in March 2008. This committee will exist for a short term only for the duration of the strategic planning stage of the Quadrant project, until wound up by the Main Board. Minutes of the meetings are reported to subsequent Main Board meetings.

Auditors

The financial statements of The Crown Estate are audited by the Comptroller and Auditor General in accordance with section 2(6) of The Crown Estate Act 1961. The audit certificate appears on pages 72 and 73. No fees have been incurred in respect of non-audit services. The audit fee for work performed in the year of account was £95,000.

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

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

Health and safety

Following the internal review of health and safety management systems an in-house Health and Safety Manager was appointed to further improve the policies, procedures and control measures implemented across the organisation. The services of health and safety consultants Sypol have been retained for the short term to provide site-based support as identified by the Health and Safety Manager.

As part of the regular review of health and safety management systems and the associated control measures, both the health and safety policy statement and procedures manual were updated. Particular attention was paid to ensuring that the procedures reflected the organisation's activities and those responsibilities were made clear to all concerned.

The use of electronic workstation assessments has continued, with completion monitored to ensure that assessments and the identified actions are completed. The organisation's intranet site and associated IT systems continues to be utilised as a repository for relevant health and safety documentation, information and guidance. Following a competitive tender exercise National Britannia was appointed to provide occupational health services to the organisation. To date, a programme of baseline medical assessments has been rolled out to all estate operational employees; this has been based on hazards that they could be exposed to during the completion of their normal work activities. National Britannia has also assisted in the completion of return to work programmes for employees returning from long-term sickness.

The monitoring of accident and incident reporting has continued, with regular statistical reviews of the collated data undertaken as part of the assessment of safety performance across all operations. The 2007/08 figures shows a reduction in events from the previous year.

It is intended over the coming year to improve the consistency of health and safety systems and associated control across the organisation; to draw on the knowledge and experience within the organisation; and identify how related industry best practice can be introduced and implemented.

Statement of the Board's and Accounting Officer's responsibilities

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

In preparing the accounts the Board are required to:

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

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

Statement on internal control

Scope of responsibility

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

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

The Crown Estate's system of internal control is designed to manage risk to an acceptable level rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by The Crown Estate. The Board regularly reviews this process. This process has been in place and operating effectively throughout the year ended 31 March 2008 and up to the date of approval of the annual report and financial statements, and accords with HM Treasury guidance.

The system of internal control

The Crown Estate's system of internal control and risk management considers all types of controls including those of an operational and compliance nature, as well as internal financial controls. It is embedded in the operations of The Crown Estate and includes processes for monitoring its continuing effectiveness.

It encompasses: control activities; information and communication processes; records; policies and procedures; behaviours; and other aspects of the organisation that taken together are designed to facilitate:

- achievement of strategic objectives;
- orderly and legitimate conduct of its business;
- effective and efficient operations;
- quality in internal and external reporting; and
- compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

The risk and control framework

Executive management is accountable to the Board for establishing and monitoring the system of internal control and for providing assurance to the Board that it has done so.

All employees have responsibility for internal control as part of their accountability for achieving their objectives. All staff are encouraged to become familiar with these requirements during their induction process and through on-the-job training and awareness. They collectively have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal controls. This includes an understanding of The Crown Estate, its objectives, the industries and markets in which it operates, and the risks it faces.

Key elements of The Crown Estate's system of internal controls include:

- strategic objectives and corporate planning;
- risk management;
- management structure, reporting lines and accountability;
- investment appraisal;
- budgeting and financial planning, monitoring and control;
- delegated financial approval limits;
- policies and procedures;
- information and communication;
- regulatory compliance;
- competent people;
- code of conduct; and
- independent assurance.

Risk management is well established within The Crown Estate for all departments, key processes and projects. The vision of risk management is to move from 'established' to 'fully embedded' and to raise the awareness of risk at all levels of the organisation in such a way that all significant business decisions are risk informed.

Key elements of The Crown Estate's risk management processes include:

- clear strategic and business objectives;
- executive management considering the significant risks that threaten the achievement of The Crown Estate's corporate objectives on an ongoing basis and, as part of the annual corporate planning process, risks identified by line management on a quarterly basis;
- executive management being designated 'risk owners' for strategic risks and for risks that relate to those functions, projects and processes that they directly manage;
- cross departmental Risk Committee reviewing the risks reported by line management, having regard, in particular, to any significant weaknesses in internal control that have been identified by line management, on a quarterly basis;
- line management identifying and assessing, managing, monitoring and reporting on the key risks and the effectiveness of the related system of internal control in managing the significant risks, on an ongoing basis, as part of their business activities;
- certification by way of internal control statements from management, providing assurance that key risks have been identified and managed, and mitigating controls are in place and operating effectively;
- assurance from specialist functions and committees that legal, regulatory, health and safety, ethical and environmental risks are appropriately identified and managed;
- established risk management policy and guidelines designed to provide support to management in their risk assessment responsibilities and consistency of results across all departments; and to define clear accountabilities, processes and reporting formats;
- risk profiling methodology to determine the threats to the achievement of business objectives in terms of likelihood and impact at both inherent and residual level, after taking account of mitigating and controlling actions;
- risk appetites and tolerances are assessed and managed by management, reflecting experience and past history of effective risk management;
- a hierarchy of risk registers (for departments, projects and business processes) used as the basis for quarterly review of risk management at Risk Committee, Project Monitoring Committee and Management Board level;
- risk reporting, incorporating the corporate risk register, departmental and project risk registers, and internal control statements;

- risk management framework, policy and processes which are consistent with best practice including Government Guidelines;
- ongoing consideration of the procurement of insurance cover; and
- Internal Audit facilitating the implementation of a robust risk management framework whereby management identifies, evaluates, manages, monitors and reports key risks.

Review of effectiveness of internal controls

The Audit Committee reviews the effectiveness of the system of internal controls and reports its findings to the Board. This includes the requirement for the Head of Internal Audit to report to the Audit Committee on the implementation of actions identified as a result of Internal Audit's annual programme of work.

The Accounting Officer is responsible for putting in place arrangements for gaining assurance with respect to the effectiveness of the system of internal controls. The Accounting Officer forms his own view on effectiveness after due and careful consideration of the information and assurances provided to him, and is advised by the following:

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

During the year, Ernst & Young LLP was appointed as co-sourced Internal Audit partner for The Crown Estate, to complement the existing in-house Internal Audit team, which comprises three staff led by the newly appointed Head of Internal Audit.

Internal Audit, under the oversight of the Audit Committee, has reviewed the system of internal controls, including risk management and corporate governance, and concluded that adequate controls are in place and operating effectively, with the exception of the item highlighted below.

Internal control concerns

In the last quarter of the financial year 2006/07, financial irregularities were identified at a subsidiary office. Internal Audit's investigation, which commenced in January 2007 and concluded during the financial year 2007/08, determined how these failings arose and re-assessed the effectiveness of management's ongoing processes for designing, operating and monitoring the system of internal control. Remedial action was undertaken and internal controls at the subsidiary office continue to be improved. A provision has been made (within current liabilities) to cover the confirmed loss in the 2007/08 accounts which is included within creditors and accrued charges (note 24 to the Accounts).



Roger Bright
Chief Executive

19 June 2008

Remuneration report

Remuneration Committee

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

The current members of the Remuneration Committee are:

Hugh Duberly (Committee Chairman)

Jenefer Greenwood, non-executive Board member

Martin Moore, non-executive Board member

The meetings are held twice annually. The following executives ordinarily attend: the Chief Executive and Director of Finance and Information Systems, who absent themselves if matters relating to their individual reward packages are discussed. The secretary to the Remuneration Committee is Valerie Burns, Head of Human Resources. The committee submits an annual report to the Main Board reporting on its activities during the year.

Terms of reference:

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

The duties of the committee include:

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

Remuneration and pension entitlements of the Board were as follows:

Board	2007/08 Total remuneration including bonus £	2006/07 Total remuneration including bonus £	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2008 £	Cash equivalent transfer value as at 31 March 2007 £	Cash equivalent transfer value as at 31 March 2008 £	Real increase in cash equivalent transfer value £
Ian Grant – Chairman	49,145	48,544	–	–	–	–	–
Roger Bright – Chief Executive	264,495	261,685	64	74,422	1,534,385	1,735,595	198,361
Christopher Bartram	19,032	4,727	–	–	–	–	–
Sir Donald Curry (appointment expired 31 December 2007)	14,274	18,798	–	–	–	–	–
Hugh Duberly	19,032	18,798	–	–	–	–	–
Jenefer Greenwood	19,032	18,798	–	–	–	–	–
Martin Moore	19,032	18,798	–	–	–	–	–
Dinah Nichols	19,032	18,798	–	–	–	–	–
David Fursdon (appointed 1 January 2008)	4,758	–	–	–	–	–	–

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

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

Roger Bright, the Chief Executive, is entitled to receive a non-pensionable annual bonus which is geared to specific targets and is approved by the Treasury. During the year he received a bonus of £74,550 (£74,065 in 2006/07).

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

Management Board	2007/08 Total remuneration £'000	2006/07 Total remuneration £'000	Real increase in pension at 60 £	Total accrued pension at 60 at 31 March 2008 £	Cash equivalent transfer value as at 31 March 2007 £	Cash equivalent transfer value as at 31 March 2008 £	Real increase in cash equivalent transfer value £
Christopher Bouchier	135-140	120-125	4,258	39,399	602,245	714,143	110,248
Giles Clarke (departed July 2007)	45-50	150-155	864	11,579	113,527	110,987	3,796
Paul Clark (appointed October 2007)	80-85	-	597	597	-	8,676	7,971
Martin Gravestock (retired September 2007)	60-65	115-120	566	47,397	926,628	965,476	38,086
Robert Hastings	135-140	115-120	2,000	3,968	23,542	55,568	28,176
Vivienne King	130-135	105-110	2,920	15,131	194,638	250,463	54,175
John Lelliott	130-135	115-120	5,336	53,666	1,027,361	1,254,839	225,828

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

Members of the Management Board are appointed on permanent contracts which provide for a notice period of three months. Their remuneration is determined by reference to individual job responsibilities and market data and is reviewed periodically.

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

Pensions

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

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

Pension benefits are provided to Roger Bright, Chief Executive, and members of the Management Board through the Principal Civil Service Pension Scheme or The Crown Estate Pension Scheme. Roger Bright and Martin Gravestock are members of the Principal Civil Service Pension Classic Scheme, Giles Clarke and Rob Hastings are members of the Principal Civil Service Pension Premium Scheme. The remaining members of the Management Board are ordinary members of The Crown Estate Pension Scheme. Roger Bright's bonus is non-pensionable.

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



Roger Bright
Chief Executive

19 June 2008

Financials

What we do
1c - 3

Overview & priorities
4 - 8

Customer stories
9 - 24

Business stories
25 - 34

Performance
35 - 57

Governance
58 - 70

Financials
71 - 92

Page 71

72	The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament
74	Revenue account
74	Statement of total recognised gains and losses
75	Balance sheet
76	Cash flow statement
77	Notes to the financial statements
91	Ten year record

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

I certify that I have audited the financial statements of The Crown Estate for the year ended 31 March 2008 under The Crown Estate Act 1961. These comprise the Revenue account, the Balance sheet, the Cash flow statement and Statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration report that is described in that report as having been audited.

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

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

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

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

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration report and the Ten year record. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with The Crown Estate Act 1961 and directions made thereunder by HM Treasury, of the state of The Crown Estate's affairs as at 31 March 2008 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with The Crown Estate Act 1961 and Treasury directions made thereunder; and
- information, which comprises What we do, Operating and financial review, The Board and Governance report, included in the Annual Report, is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS
24 June 2008

Revenue account

for the year ended 31 March 2008

	Notes	2007/08 £'000	2006/07 £'000
Turnover	2	264,802	262,160
Impact of change in accounting estimate on turnover recognised in the year	2 & 3a	(34,933)	–
Total turnover		229,869	262,160
Direct operating costs	2	(40,199)	(38,718)
Gross surplus	2	189,670	223,442
Administrative expenses	5	(15,493)	(13,271)
Indirect operating expenses	6	(730)	(766)
Recovery of capital expenditure	10	(23,502)	(28,008)
Impact of change in accounting estimate on recovery of capital expenditure	3b & 10	30,606	–
Operating surplus		180,551	181,397
Share of profit from joint venture	17	8,380	–
Indirect investment in property	18	1,719	869
Profit/(loss) on sale of fixed assets		193	(142)
Income from gilt-edged investments		–	794
(Loss) on sale of gilt-edged investments		–	(145)
Bank interest receivable		28,142	24,631
FRS 17 Retirement benefits – Net financing income/(cost)	9c	10	(42)
Surplus on ordinary activities		218,995	207,362
Parliamentary Resource finance	12	2,357	2,249
Statutory transfers	13	(9,909)	(9,539)
Net revenue surplus		211,443	200,072
Consolidated Fund payment	14	(211,000)	(200,000)
Residue carried to revenue reserve		443	72
Revenue reserve brought forward		4,675	7,457
Pension reserve adjustment	33	(711)	(2,854)
Revenue reserve carried forward		4,407	4,675

Statement of total recognised gains and losses

for the year ended 31 March 2008

	Notes	2007/08 £'000	2006/07 £'000
Net revenue surplus		211,443	200,072
Add back: Statutory transfers recovered from General Capital Reserve	13	9,909	9,539
Add back: (Charge to)/recovery of capital expenditure from General Capital Reserve	10	(10,126)	25,802
Net revenue surplus before recoveries from General Capital Reserve		211,226	235,413
Actuarial gain FRS 17 Retirement benefits	9d	3,641	(6)
Unrealised surplus in investment property valuation	15	294,085	1,102,338
Unrealised (deficit)/surplus in owner occupied property valuation	16	(11,458)	16,856
Unrealised (deficit) in share of joint venture investment	17	(46,540)	–
Unrealised (deficit)/surplus in indirect investment in property	18	(3,376)	2,661
Unrealised (deficit) on revaluation of other investments	21	(22)	–
Other profits/(losses)		–	(2,370)
Total recognised gains and losses in the year		447,556	1,354,892

The notes (including accounting policies) on pages 77 to 90 form part of these financial statements.

All results relate to continuing operations.

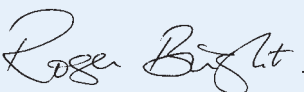
There is no difference between the net revenue surplus and its historical cost equivalent.

Balance sheet

at 31 March 2008

	Notes	2007/08 £'000	2006/07 £'000
Fixed assets			
Tangible fixed assets:			
Investment property	15	6,471,438	6,448,636
Owner occupied property	16	112,922	123,812
Investment in joint venture:			
Share of gross assets	17	308,244	–
Share of gross liabilities		(104,948)	–
	17	203,296	–
Other indirect investment in property	18	38,693	42,065
Other fixed assets	19	4,859	5,584
		6,831,208	6,620,097
Investments:			
Mortgages and loans	20	752	1,064
Other investments	21	4,865	4,941
		5,617	6,005
Total fixed assets		6,836,825	6,626,102
Current assets:			
Stocks and work in progress	22	2,350	752
Debtors and prepayments	23	66,179	71,366
Cash and cash equivalents		518,362	435,223
Total current assets		586,891	507,341
Creditors: amounts due within one year			
Creditors and accrued charges	24	(94,768)	(38,449)
Pension fund provision	9e	–	(3,504)
Total current liabilities		(94,768)	(41,953)
Net current assets		492,123	465,388
Creditors: amounts due in more than one year	24	(1,750)	–
Total net assets excluding pension asset		7,327,198	7,091,490
Pension asset	9e	848	–
Net assets including pension asset		7,328,046	7,091,490
Financed by			
Capital and reserves:			
General capital reserve	33	2,544,837	2,141,819
Revaluation reserve	33	4,777,954	4,948,500
Revenue reserve	33	4,407	4,675
Pensions reserve	33	848	(3,504)
		7,328,046	7,091,490

The notes (including accounting policies) on pages 77 to 90 form part of these financial statements.



Roger Bright

Second Commissioner and Accounting Officer

19 June 2008

Cash flow statement

for the year ended 31 March 2008

	Notes	2007/08 £'000	2006/07 £'000
Net cash inflow from operating activities	25	232,810	172,204
Returns on investments less Consolidated Fund payment			
Interest from gilt-edged securities		–	996
Interest received		28,189	23,745
Income from investment in joint venture		6,886	–
Income from indirect investment in property		1,719	869
Consolidated Fund payment – revenue surplus		(207,000)	(198,000)
Net cash decrease from returns on investments less Consolidated Fund payment		(170,206)	(172,390)
Capital income/(expenditure)			
Purchase of property		(188,198)	(117,738)
New works and improvements and other capital outlay on properties		(69,918)	(67,950)
Sale of properties		327,929	416,774
Other capital receipts		902	1,055
Limited Partnerships and joint ventures		(49,945)	(39,404)
Purchase of fixed assets and antiques		(2,310)	(3,289)
Sale of fixed assets and antiques		53	87
Loan repayment received/(advanced)		312	(1,000)
Other cash flows and investing activities		(647)	(4,684)
Net cash increase from capital income and expenditure		18,178	183,851
Management of liquid resources			
Sale of gilt-edged securities		–	33,177
Net increase from management of liquid resources		–	33,177
Financing			
Parliamentary Resource Finance		2,357	2,249
Increase in cash	26	83,139	219,091

The notes (including accounting policies) on pages 77 to 90 form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2008

1. Accounting policies

a. Accounting basis

The financial statements are prepared on a going concern and an accruals basis under the historic cost convention, modified to include the revaluation of investment and owner-occupied properties. They are prepared in accordance with section 2(5) of The Crown Estate Act 1961 and with the directions made thereunder by the Treasury and, where appropriate, with the Companies Act 1985 and Accounting Standards in the United Kingdom.

b. Crown Estate Act 1961 – Statutory provisions

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

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

c. Treasury agreements

By agreement with the Treasury the revenue account is charged with:

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

Expected lives are as follows:

Vehicles:	4–10 years depending on nature of vehicle
Plant and equipment:	4–10 years
Computer equipment:	4 years
Office equipment:	4 years

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

d. Properties

Valuation

The portfolio of land and buildings and other property assets has been valued at 31 March 2008 by professionally qualified external valuers. The valuations have been carried out in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

Investment properties

Investment properties and those held for development are stated at valuation. They are valued on the basis of open market value. Properties in the course of development are valued at either the open market value of the partially-built development or the market value of the land, plus development costs expended to date.

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

All investment properties in the designated area of the Windsor Estate have been valued at the balance sheet date.

The aggregate surplus or deficit below cost arising from the valuation of investment properties is transferred to the revaluation reserve.

1. Accounting policies (continued)

Owner occupied properties

Properties occupied by The Crown Estate are stated at valuation. They are valued on the basis of existing use value. This includes dwellings occupied by The Crown Estate employees and pensioners at Windsor. The aggregate surplus or deficit below cost arising from the valuation of owner occupied properties is transferred to the revaluation reserve.

Disposal of freehold properties and grants of leases for premiums

Disposals are recognised at the date of legal completion. In accordance with The Crown Estate Act 1961, capital and revenue is required to be distinguished in the financial statements. Profits and losses on disposal are recognised in a general capital reserve. Properties are transferred between categories at the estimated market value on the date of transfer.

Depreciation and amortisation

In accordance with Statement of Standard Accounting Practice No.19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve, and no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties. The Crown Estate considers that this accounting policy is necessary to provide a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

e. Joint ventures

Joint ventures are those entities in which The Crown Estate has significant influence, but not control, over the financial and operating policies. Joint ventures are accounted for under the equity method. The balance sheet incorporates The Crown Estate's share of the net assets of joint ventures. The share of revaluation of investment in joint ventures is reflected in the revaluation reserve.

f. Other indirect investments in property

Other indirect investments in property are shown at The Crown Estate's share of net assets. The share of revaluation of investment in such partnerships is reflected in the revaluation reserve. The Crown Estate's share of net profits is reflected in the revenue account.

g. Stocks

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

h. Gilt-edged securities

Gilts are individually valued each year at the lower of cost and middle market price at the balance sheet date.

i. Grants

The Crown Estate is entitled to apply for Government grants available to landowners generally e.g. for agricultural improvements, forestry planting etc. In the year a grant is received, it is credited to revenue or capital depending on the classification of the related expenditure.

j. Turnover

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

- i) rent, royalty and similar payments falling due within the year excluding service charges collected from tenants and held to meet specific expenses. Rental and similar income is recognised on an accruals basis.

A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews.

- ii) premiums on leases granted for a term of 30 years or less;
- iii) sales of produce; and
- iv) miscellaneous fees and sundry income.

1. Accounting policies (continued)**k. Operating lease incentives**

Under the requirements of UITF 28 incentives for lessees to enter into a lease agreement are treated as a revenue cost. The cost of all lease incentives (such as rent-free periods) is offset against the total rent due.

Where a rent-free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of the lease commencement to the shorter of the date of the next rent review or the lease end date.

Contributions made towards tenant's fit-out costs and other costs are charged to capital as new works and improvements and are recovered from revenue over 25 years.

l. Taxation

The Crown Estate is not subject to corporation, income or capital gains tax. The revenue surplus is paid annually to the Treasury and will be used for the benefit of the taxpayer.

m. Revaluation reserve

The investment portfolio was valued at 31 March 1987 and this value is shown in the first published balance sheet as the 'original cost' of properties. The revaluation reserve reflects changes in the value of properties owned at 31 March 1987 and of properties which have been purchased since that date.

2. Segmental analysis

	Urban Estate £'000	Rural Estate £'000	Marine Estate £'000	Windsor Estate £'000	Crown Estate HQ £'000	2007/08 Total Crown Estate £'000	2006/07 Total Crown Estate £'000
Gross surplus							
Turnover							
Rent and royalties	190,726	21,964	41,895	3,855	1	258,441	257,790
Premiums on leases	614	20	6	1	–	641	1,880
Sale of produce	–	315	–	355	–	670	488
Other	3,034	157	43	1,617	199	5,050	2,002
Total prior to change in accounting estimate	194,374	22,456	41,944	5,828	200	264,802	262,160
Impact of change in accounting estimate (see note 3)	(25,327)	(974)	(8,632)	–	–	(34,933)	–
Turnover recognised in the year	169,047	21,482	33,312	5,828	200	229,869	262,160
Operating costs							
Management fees and costs	7,413	3,333	1,734	4,850	1	17,331	16,961
Repair and maintenance	3,288	1,972	26	1,719	(125)	6,880	7,351
Other expenditure	11,810	489	1,938	1,358	393	15,988	14,406
Total	22,511	5,794	3,698	7,927	269	40,199	38,718
Gross surplus/(deficit) prior to change in accounting estimate	171,863	16,662	38,246	(2,099)	(69)	224,603	223,442
Gross surplus/(deficit) after change in accounting estimate (note 3)	146,536	15,688	29,614	(2,099)	(69)	189,670	223,442

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

These divisions are the basis on which The Crown Estate monitors its operations. There is no primary or secondary split and the above is a complete analysis by business and geographic segment.

2. Segmental analysis (continued)

Other expenditure includes the movement on the provision for bad and doubtful debts as follows:

	2007/08 £'000	2006/07 £'000
Provision at the beginning of the year	3,867	3,022
Income written off during the year	(370)	(706)
Increase in provision for the year	2,640	1,551
Provision at the end of the year	6,137	3,867

3. Adjustments resulting from change in accounting estimates

	2007/08 £'000	2006/07 £'000
a) Reduction in turnover resulting from change in recognition of rent	(34,933)	–
b) Reduction in revenue expenditure resulting from change in estimation of recovery in new works and improvements	30,606	–

a) An adjustment to turnover of £34.9 million has been made in the financial statements for 2007/08. This represents a change in accounting estimate. Previously rent was accounted for in the period that it was demanded, on the grounds that, for the financial statements, this was not materially different to a full accruals basis. As a result of The Crown Estate's move to a new accounting system it is now possible, with better information, to improve accrual estimates (see note 2).

b) An adjustment to expenditure of £30.6 million arises from a cleansing exercise on new works and improvement data. Allocating new works and improvements on a property by property basis rather than estate basis has led to a change in estimates of the historical recovery of new works and improvement expenditure (see note 10).

4. Analysis of adjustment between income and capital

The Crown Estate has a statutory obligation under section 2(4) of The Crown Estate Act 1961 to make a distinction in its assets between income and capital and (with qualifications) make proper adjustments, including provision where appropriate for recouping capital expenditure out of revenue. As a result of this requirement the total adjustments between revenue and capital during the year was £43.3 million (£89.4 million, in 2006/07) and comprise:

	2007/08 £'000	2006/07 £'000
Net revenue surplus	211,443	200,072
Adjustments:		
Statutory transfers (note 13)	9,909	9,539
Capital recovery (note 10)		
i) Purchase of leaseholds	4,738	6,331
ii) New works and improvements	15,742	19,471
iii) Change in accounting estimate for new works and improvements (see note 3)	(30,606)	–
Profit on disposal of freehold properties	47,005	56,614
Capitalised staff costs (note 7)	(3,442)	(2,497)
	254,789	289,530

5. Administrative expenses

Administrative expenses comprise:

	2007/08 £'000	2006/07 £'000
Salaries, N.I. and pension costs	7,520	7,007
Board remuneration	504	492
Management and administration expenses	7,374	5,677
Auditor's remuneration	95	95
	15,493	13,271

6. Indirect operating expenses

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

	2007/08 £'000	2006/07 £'000
Reorganisation expenses	730	766

7. Employee information

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

	2007/08 £'000	2006/07 £'000
Wages and salaries	12,121	11,879
Social security costs N.I. (employer's contribution)	1,113	955
Pension accrued liability	3,240	2,521
Pension payments	555	100
Capitalised staff costs	(3,442)	(2,497)
	13,587	12,958

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

	2007/08		2006/07	
	Parliamentary Resource a/c	Crown Estate Revenue a/c	Parliamentary Resource a/c	Crown Estate Revenue a/c
Commissioners	8	–	8	–
General administration	31	141	32	137
Operating activities	–	213	–	213
Total	39	354	40	350

8. Staff pensions

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

a. The Principal Civil Service Pension Scheme (PCSPS)

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

For 2007/08, employers' contributions of £2,478,279 were payable to the PCSPS (£1,518,246 in 2006/07) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revaluation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

b. The Crown Estate Pension Scheme

The Crown Estate pension scheme is a defined benefit scheme. The assets of the scheme are held separately from those of The Crown Estate, in an independently administered fund. In accordance with FRS 17 the current service cost of the scheme is charged to the revenue account. The current service cost and contributions are determined by the scheme actuary on the basis of triennial valuations using the projected unit method. At 30 September 2005, the value of the scheme's assets was £14.78 million and the actuarial value of the technical provisions exceeded these assets by 45%. The actuarial assumptions used for the statutory funding valuation are that the pre-retirement investment yield would in the long term exceed earnings increases by 2% per annum and the post-retirement investment yield would exceed pension increases by 1.5% per annum. The Trustees and The Crown Estate have agreed a seven year recovery plan to eliminate the deficit. Consequently, an additional amount of £85,000 per month is being paid to the scheme by The Crown Estate. Furthermore, the regular employer contribution rate has increased to 28.7% of pensionable earnings per annum.

9. FRS 17 retirement benefits

a. Balance sheet and notes

The valuation of The Crown Estate pension scheme used for FRS 17 disclosures has been based on a fair value of the assets of the scheme measured at 31 March 2008. The principal actuarial assumptions are:

	31 March 2008	31 March 2007	31 March 2006
Rate of increase in salaries	4.50%	4.25%	4.0%
Rate of increase to pensions in payment before 6 April 1997	3.50%	3.25%	3.0%
Rate of increase to pensions in payment after 5 April 1997	3.50%	3.25%	3.0%
Rate of increase of deferred pensions	3.50%	3.25%	3.0%
Discount rate	6.50%	5.25%	5.0%
Inflation assumption	3.50%	3.25%	3.0%

For 2007/08 employer contributions were £1,785,000 (£3,016,000 in 2006/07), this includes £1,020,000 (£2,326,000 in 2006/07) to reduce the scheme deficit and an adjustment of £nil (£528,000 in 2006/07). The agreed contribution rate for the coming year is 28.7% (28.7% in 2006/07) of pensionable pay.

In accordance with FRS 17, the valuation of the scheme's liabilities has been determined using the projected unit method. In these circumstances the use of this method can lead to the contribution rate underlying the current service cost increasing in future years.

9. FRS 17 retirement benefits (continued)**a. Balance sheet and notes (continued)**

The assets in The Crown Estate pension scheme and the expected rates of return were:

	Long-term rate of return expected at 31 March 2008	Long-term rate of return expected at 31 March 2007	Long-term rate of return expected at 31 March 2006	Value at 31 March 2008 £'000	Value at 31 March 2007 £'000	Value at 31 March 2006 £'000
Equities	7.50%	7.50%	7.50%	8,608	9,208	8,484
Bonds	4.50%	4.75%	4.50%	12,561	9,837	7,464
Other	4.50%	4.75%	4.50%	5	97	19
Total market value of assets				21,174	19,142	15,967
Present value of scheme liabilities				(20,326)	(22,646)	(21,791)
Surplus/(deficit) in scheme				848	(3,504)	(5,824)
Net pension asset/ (liability)				848	(3,504)	(5,824)

b. Analysis of amount charged to operating surplus

	31 March 2008 £'000	31 March 2007 £'000
Current service cost	529	548
Past service cost	555	100
Total operating charge	1,084	648

c. Other finance income/(expenditure)

	31 March 2008 £'000	31 March 2007 £'000
Expected return on pension scheme assets	1,190	1,044
Interest on pension scheme liabilities	(1,180)	(1,086)
Net return	10	(42)

d. Analysis of amount recognised in statement of total recognised gains and losses

	31 March 2008 £'000	31 March 2007 £'000
Actual return less expected return on pension scheme assets	(64)	(207)
Experience (loss)/gain arising on the scheme liabilities	(275)	65
Profit arising from changes in assumptions underlying the scheme liabilities	3,980	136
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	3,641	(6)

e. Movements in surplus/(deficit) during the year

	31 March 2008 £'000	31 March 2007 £'000
Deficit in scheme at beginning of the year	(3,504)	(5,824)
Movement in year:		
Current service cost	(529)	(548)
Contributions	1,785	3,016
Past service costs	(555)	(100)
Other finance income	10	(42)
Actuarial gain/(loss)	3,641	(6)
Surplus/(deficit) in scheme at the end of the year	848	(3,504)

9. FRS 17 retirement benefits (continued)**f. History of experience gains and losses**

	31 March 2008	31 March 2007	31 March 2006	31 March 2005	31 March 2004
Difference between expected and actual return on scheme assets:					
Amount (£'000)	(64)	(207)	1,710	605	1,483
Percentage of scheme assets	0%	(1%)	11%	5%	13%
Experience (loss)/gain on scheme liabilities:					
Amount (£'000)	(275)	65	263	–	78
Percentage of the present value of the scheme liabilities	(1%)	–	1%	–	–
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	3,641	(6)	(2,717)	605	703
Percentage of the present value of the scheme liabilities	18%	0%	(12%)	4%	4%

10. Recovery of capital expenditure

	2007/08 £'000	2006/07 £'000
By Treasury agreement the Income account is charged/(credited) with:		
Purchase of leaseholds	4,738	6,331
New works and improvements	15,742	19,471
New works and improvements change in accounting estimate (see note 3)	(30,606)	–
	(10,126)	25,802
Depreciation of fixed assets	3,022	2,206
	(7,104)	28,008

11. Financial instruments

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

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

Any investment of The Crown Estate's non-cash financial assets would comprise solely of gilts managed on its behalf by the Board for the Reduction of National Debt.

This disclosure excludes short-term debtors and creditors.

12. Parliamentary Resource finance

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

13. Statutory transfers

Under the provisions of The Crown Estate Act 1961 and by Treasury agreement, the following amounts are carried to the General Capital Reserve from the revenue account.

	2007/08 £'000	2006/07 £'000
Moieties:		
Mineral dealings	9,909	9,214
Gilt-edged securities dealings	–	325
To general capital reserve (note 33)	9,909	9,539

14. Consolidated Fund payment

In accordance with section 1 of the Civil List Act 1952, the revenue surplus is due to the Consolidated Fund. As The Crown Estate is not permitted by statute to borrow, the payment to the Consolidated Fund in respect of the net surplus for the year is agreed with the Treasury taking into account The Crown Estate's short-term financing requirements.

15. Tangible fixed assets – investment properties

	Urban Estate £'000	Rural Estate £'000	Marine Estate £'000	Windsor Estate £'000	2007/08 Total Crown Estate £'000	2006/07 Total Crown Estate £'000
Valuation at 1 April 2007	5,292,712	713,586	336,539	105,799	6,448,636	5,578,941
Being:						
Completed properties	5,201,504	713,586	336,539	105,799	6,357,428	5,538,761
Properties under development	91,208	–	–	–	91,208	40,180
Additions						
Freeholds	147,345	39,053	8,306	–	194,704	63,323
Leaseholds	398,408	136	–	–	398,544	54,415
New works	50,157	6,071	612	3,100	59,940	61,086
Other	5,166	1,851	2,262	131	9,410	6,362
	601,076	47,111	11,180	3,231	662,598	185,186
Proceeds from disposals						
Freeholds	(504,523)	(26,631)	(663)	(5,811)	(537,628)	(279,908)
Premiums	(391,918)	–	(57)	(3,376)	(395,351)	(136,866)
Other	(738)	(48)	(116)	–	(902)	(1,055)
	(897,179)	(26,679)	(836)	(9,187)	(933,881)	(417,829)
Surplus on valuation	95,835	168,417	23,297	6,536	294,085	1,102,338
Valuation at 31 March 2008	5,092,444	902,435	370,180	106,379	6,471,438	6,448,636
Being:						
Completed properties	5,053,164	902,435	370,180	106,379	6,432,158	6,357,428
Properties under development	39,280	–	–	–	39,280	91,208

Leasehold properties

The valuation of Crown Estate properties at 31 March 2008 includes £151.4 million (£160.6 million at 31 March 2007) in respect of leasehold properties analysed as follows:

	2007/08 £'000	2006/07 £'000
Leaseholds with 50 or more years to run	151,350	160,610

The leasehold additions figure includes £349.7 million in respect of leasehold interests on Crown Estate freeholds bought back in the course of the year ended 31 March 2008 (£33.3 million in 2006/07).

16. Tangible fixed assets – owner occupied properties

	Urban Estate £'000	Rural Estate £'000	Marine Estate £'000	Windsor Estate £'000	2007/08 Total Crown Estate £'000	2006/07 Total Crown Estate £'000
Valuation at 1 April 2007	59,100	261	–	64,451	123,812	106,454
Additions – Improvements	568	–	–	–	568	502
(Deficit)/surplus on valuation	(13,543)	10	–	2,075	(11,458)	16,856
Valuation at 31 March 2008	46,125	271	–	66,526	112,922	123,812

17. Investment in joint venture

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

	2007/08 £'000
Summary of movement in the year in investment in joint venture:	
Net equity additions	249,941
(Deficit) on revaluation of investment properties	(46,540)
Distributions receivable in the year	(8,485)
Share of profit for the year	8,380
Closing balance at carrying value	203,296

Summarised financial statements for The Gibraltar Limited Partnership:

	2007/08 £'000	2006/07 £'000
Share of income after expenditure and interest	8,380	–
Share of:		
Investment properties	301,710	–
Current assets	6,534	–
Gross assets	308,244	–
Current liabilities	(4,948)	–
Long-term bank debt	(100,000)	–
Share of net assets at 31 March 2008	203,296	–

18. Other indirect investment in property

In September 2006, The Crown Estate acquired a 4.7% share of the Lend Lease Retail Partnership, an English Limited Partnership, for £39.4 million (inclusive of fees). The organisation provides an equity interest in both Bluewater Shopping Centre in Kent and Touchwood Court Shopping Centre in Solihull.

i) Share of profit from investment

	2007/08 £'000	2006/07 £'000
Net income received	1,719	869

ii) Share of assets and liabilities

	2007/08 £'000	2006/07 £'000
Net assets	38,693	42,065

19. Tangible fixed assets – other fixed assets

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

20. Investments – Mortgages and loans

Mortgages and loans

	2007/08 £'000	2006/07 £'000
Eccleshill, Bradford – mortgage	64	64
Jaegar Holdings Ltd – loan	688	1,000
	752	1,064

The mortgage advance is secured. Interest is payable quarterly.

On 30 September 2006 The Crown Estate entered into an agreement with Jaegar Holdings Ltd for a loan of £1,000,000 towards refurbishment of 200/206 Regent Street. The loan is repayable over three years. Interest is payable quarterly at 7% per annum.

21. Other investments

Other investments comprise:

	2007/08 £'000	2006/07 £'000
Antiques and paintings	4,865	4,941

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

22. Stocks and work in progress

Stocks and work in progress comprise:

	2007/08 £'000	2006/07 £'000
Stocks for resale	120	144
Stores	102	100
Work in progress	2,128	508
	2,350	752

Work in progress comprises of costs associated with the implementation of a new financial system. Accumulated costs will be transferred to tangible fixed assets on completion.

23. Debtors

Debtors comprise:

	2007/08 £'000	2006/07 £'000
Amounts receivable within one year:		
Rent receivable	9,702	9,317
Sale of land at Bingham	12,750	12,750
Other debtors	33,970	28,928
Prepayments	432	442
Accrued income	6,825	7,179
	63,679	58,616
Amounts receivable in more than one year:		
Sale of land at Bingham	–	12,750
Lease premium instalment receivable	2,500	–
	2,500	12,750
Total debtors	66,179	71,366

On 11 September 2006 The Crown Estate sold the freehold land at Nottingham Road and Mill Hill, Bingham, Nottinghamshire for £35.5 million, payable over three years. £12.75 million is receivable in September 2008.

24. Creditors:

Creditors and accrued charges comprise:

	2007/08 £'000	2006/07 £'000
Amounts due within one year:		
Trade creditors	4,599	6,562
Rents received in advance	49,244	10,884
Taxes and social security	12,440	3,324
Other creditors	11,233	5,980
Consolidated Fund	7,000	3,000
Accruals and deferred income	10,252	8,699
	94,768	38,449
Amounts due in more than one year:		
Rents received in advance	1,750	–
	1,750	–

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

	2007/08 £'000	2006/07 £'000
Operating surplus	180,551	181,397
(Charge)/recovery of capital expenditure	(7,104)	28,008
Decrease/(increase) in debtors	6,739	(33,112)
Increase/(decrease) in creditors	54,222	(3,512)
(Increase) in stocks and work in progress	(1,598)	(577)
Net cash inflow from operating activities	232,810	172,204

26. Analysis of change in cash and cash equivalents

	2007/08 £'000	2006/07 £'000
Balance at 1 April 2007	435,223	216,132
Net cash inflow	83,139	219,091
Balance at 31 March 2008	518,362	435,223

27. Subsidiary undertakings

Several Crown Estate properties are managed by management companies under the control of or in joint venture with The Crown Estate. These subsidiary and joint venture undertakings are not material by value in the context of The Crown Estate's financial results and therefore consolidated statements have not been prepared.

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

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

28. Capital commitments

At 31 March 2008 The Crown Estate had committed to make capital expenditure of £152 million (£156 million at 31 March 2007) and had authorised additional expenditure of £121 million (£38 million at 31 March 2007).

29. Contingent liabilities

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

30. Issue of accounts

On 16 June 2008 the financial statements are approved by the Audit Committee on behalf of the Board prior to certification by the Comptroller and Auditor General on 24 June 2008. On this date the financial statements for the year ended 31 March 2008 are deemed to be authorised for issue.

31. Related party transactions

During the year, none of the Board members, members of the key management staff or other related parties have undertaken any material transactions with The Crown Estate with the exception of Philip Everett, the Deputy Ranger at Windsor Great Park who is employed in a personal capacity through Smiths Gore Chartered Surveyors where he is a salaried partner. Smiths Gore are amongst The Crown Estate's managing agents and as such receive fees for their services. Philip Everett had no involvement in determining either the appointment or remuneration of Smiths Gore in this capacity. During the year Smiths Gore were paid a total in fees of £1,898,862 (£969,282 in 2006/07), for services they provided across the whole of The Crown Estate.

32. Third party deposits

At 31 March 2008 The Crown Estate held £15,286,826 (£15,520,322 at 31 March 2007) (on deposit on behalf of third parties).

33. Reconciliation of movements in reserves

	2007/08				
	Pension provision £'000	General capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000	Total Crown Estate £'000
Movements in reserves comprise:					
Balance 1 April 2007	(3,504)	2,141,819	4,948,500	4,675	7,091,490
Statutory transfers (note 13)	-	9,909	-	-	9,909
Capital recovery:					
i) Leaseholds	-	4,738	-	-	4,738
ii) New works	-	(14,864)	-	-	(14,864)
Other adjustments	-	27,214	(27,236)	-	(22)
Revaluation reserve released on disposal of freehold properties	-	376,021	(376,021)	-	-
Surplus/(deficit) in valuation of property portfolio					
i) Investment properties	-	-	294,085	-	294,085
ii) Owner occupied properties	-	-	(11,458)	-	(11,458)
iii) Share of joint venture	-	-	(46,540)	-	(46,540)
iv) Investment in Limited Liability Partnership	-	-	(3,376)	-	(3,376)
Actuarial gain	3,641	-	-	-	3,641
Pension reserve adjustments	711	-	-	(711)	-
Net revenue surplus	-	-	-	211,443	211,443
Consolidated Fund payment	-	-	-	(211,000)	(211,000)
Balance at 31 March 2008	848	2,544,837	4,777,954	4,407	7,328,046
	2006/07				
	Pension provision £'000	General capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000	Total Crown Estate £'000
Movements in reserves comprise:					
Balance 1 April 2006	(6,352)	1,911,350	4,024,143	7,457	5,936,598
Statutory transfers (note 13)	-	9,539	-	-	9,539
Capital recovery:					
i) Leaseholds	-	6,331	-	-	6,331
ii) New works	-	19,471	-	-	19,471
Other adjustments	-	(2,370)	-	-	(2,370)
Revaluation reserve released on disposal of freehold properties	-	197,498	(197,498)	-	-
Surplus in valuation of property portfolio					
i) Investment properties	-	-	1,102,338	-	1,102,338
ii) Owner occupied properties	-	-	16,856	-	16,856
iv) Investment in Limited Liability Partnership	-	-	2,661	-	2,661
Actuarial (loss)	(6)	-	-	-	(6)
Pension reserve adjustments	2,854	-	-	(2,854)	-
Net revenue surplus	-	-	-	200,072	200,072
Consolidated Fund payment	-	-	-	(200,000)	(200,000)
Balance at 31 March 2007	(3,504)	2,141,819	4,948,500	4,675	7,091,490

Ten year record

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

	1998/99 £'000	1999/00 £'000	2000/01 £'000	2001/02 £'000	2002/03* £'000
Revenue					
Turnover	173,645	187,202	204,885	223,537	230,039
Direct operating costs	(23,064)	(25,130)	(26,661)	(30,176)	(27,320)
Gross surplus	150,581	162,072	178,224	193,361	202,719
Administrative expenses	(9,237)	(10,226)	(10,701)	(10,743)	(11,347)
Indirect operating expenses	–	–	–	–	–
Net revenue surplus	125,774	132,885	147,740	163,339	171,053
Consolidated Fund payment	126,000	132,900	147,800	163,500	170,800
Investment and owner occupied properties	3,131,177	3,433,612	3,870,938	4,032,640	4,067,438
Investment in joint venture	–	–	–	–	–
Investment in English Limited Partnership	–	–	–	–	–
Other fixed assets	2,565	2,741	2,395	2,133	2,132
Investments	3,848	3,856	3,960	3,994	3,976
Mortgages and loans	–	–	–	–	–
Debtors: due >1 year	–	–	–	–	–
Current assets	188,117	205,450	146,581	167,017	185,371
Pension asset	–	–	–	–	–
Current liabilities	(21,239)	(19,137)	(20,190)	(25,956)	(39,817)
Creditors >1 year	–	–	–	–	–
Capital and reserves	3,304,468	3,626,522	4,003,684	4,179,828	4,219,100
	2003/04 £'000	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000
Revenue					
Turnover	237,779	245,444	252,341	262,160	264,802**
Direct operating costs	(30,201)	(31,953)	(31,613)	(38,718)	(40,199)
Gross surplus	207,578	213,491	220,728	223,442	224,603**
Administrative expenses	(11,031)	(11,746)	(12,321)	(13,271)	(15,493)
Indirect operating expenses	(887)	(2,007)	(1,030)	(766)	(730)
Net revenue surplus	176,930	184,811	190,817	200,072	211,443
Consolidated Fund payment	173,000	185,700	188,000	200,000	211,000
Investment and owner occupied properties	4,408,872	4,812,024	5,685,395	6,572,448	6,584,360
Investment in joint venture	–	–	–	–	203,296
Investment in English Limited Partnership	–	–	–	42,065	38,693
Other fixed assets	2,236	3,209	4,577	5,584	4,859
Investments	4,059	5,042	4,995	4,941	4,865
Mortgages and loans	42	64	64	1,064	752
Debtors: due >1 year	–	–	–	12,750	2,500
Current assets	214,134	306,731	287,198	494,591	584,391
Pension asset	–	–	–	–	848
Current liabilities	(36,120)	(36,645)	(45,631)	(41,953)	(94,768)
Creditors >1 year	–	–	–	–	(1,750)
Capital and reserves	4,593,223	5,090,425	5,936,598	7,091,490	7,328,046

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

** Excludes impact of change in accounting estimate (note 3).

Your notes

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