DUCHY *of* CORNWALL

SUSTAINABLE STEWARDSHIP

INTEGRATED ANNUAL REPORT 2018

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For the year ended 31st March 2018

Presented to Parliament pursuant to Section 2 of the Duchies of Lancaster and Cornwall (Accounts) Act 1838

INTRODUCTION

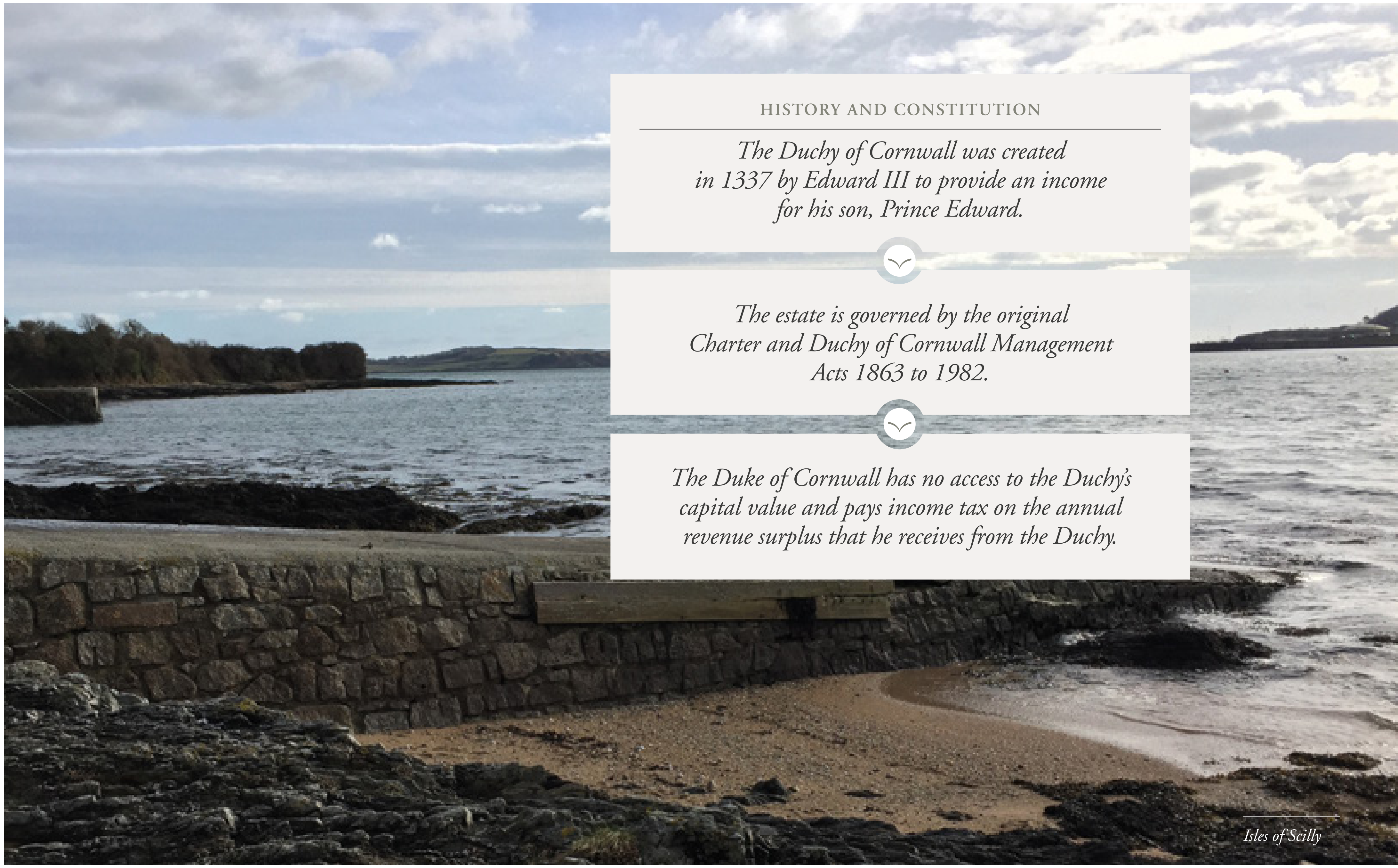
WELCOME

This Integrated Annual Report summarises activity on the Duchy of Cornwall Estate for the year ended 31st March 2018. It aims to describe how decisions made in the course of meeting our commercial responsibilities affect local communities, the economy and the natural environment.

CONTENTS

SUSTAINABLE STEWARDSHIP

The Duchy is a private estate that provides an income to The Duke of Cornwall. It is managed in harmony with The Prince's ethos in order that it can be passed on with pride to the next generation.



HISTORY AND CONSTITUTION

The Duchy of Cornwall was created in 1337 by Edward III to provide an income for his son, Prince Edward.

The estate is governed by the original Charter and Duchy of Cornwall Management Acts 1863 to 1982.

The Duke of Cornwall has no access to the Duchy's capital value and pays income tax on the annual revenue surplus that he receives from the Duchy.

Isles of Scilly

Review of the year

HIGHLIGHTS OF THE YEAR

Here are just a few of the highlights from another busy year across the Duchy estate.

2017

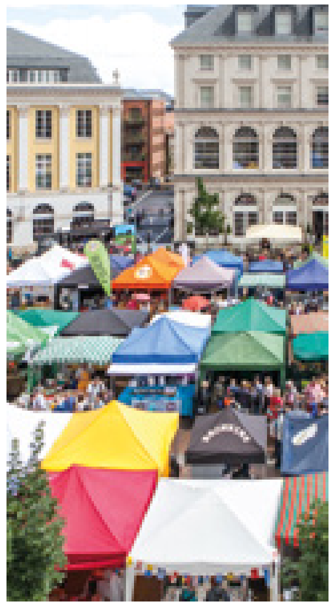
JULY

The Duke and Duchess of Cornwall make their annual visit to Devon and Cornwall. Their Royal Highnesses are welcomed by hundreds of people as they celebrate the outstanding work of local charities, businesses and community groups. The Duke also has an opportunity to inspect parts of the Duchy estate and meet tenants.

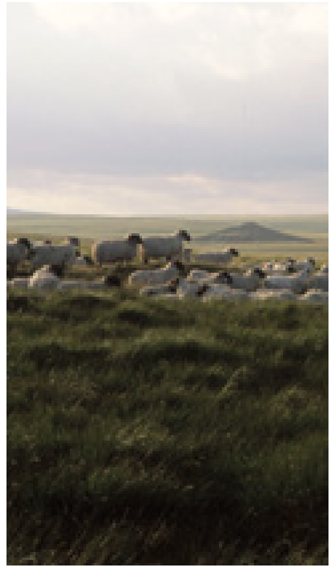
AUGUST

DORSET FOOD
& ARTS FESTIVAL

Crowds flock to Queen Mother Square in Poundbury for the annual Dorset Food & Arts Festival. With more than 50 stalls showcasing the region's finest produce, large and well-established companies rub shoulders with artisan producers while visitors enjoy cooking demonstrations, local shopping and product tasting.



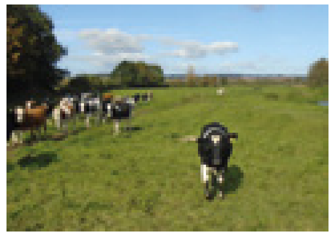
SEPTEMBER



DARTMOOR HILL
FARM PROJECT

The Dartmoor Hill Farm Project receives £36,000 of funding from The Prince's Countryside Fund to deliver The Prince's Farm Resilience Programme, proven to help small farms improve their way of working. The Dartmoor Hill Farm Project has been supported by the Duchy since its inception in 2003.

A new farm business tenancy is granted to father and son Mark and Matthew Humphry, at Isle Brewers, Somerset. A reorganisation of the estate and a new 40-year tenancy increased the size of the holding and enabled the inclusion of the next generation.



NOVEMBER

The Duke of Cornwall visits the new purpose-built Damers First School in Poundbury to hear from children about their eco-initiative Litter Free Dorset. Aiming to reduce plastic bottle waste, 20 shops and businesses in Poundbury have signed up to offer free water refills to visitors, residents and customers.

2018

JANUARY

Plans for a new whisky distillery on Dartmoor move a step closer as the lease is agreed for the brownfield site in Princetown. The distillery will be a boost for the local economy with production due to start in spring 2019.

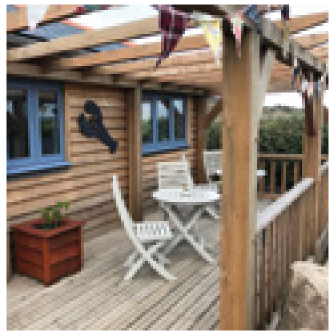
FEBRUARY

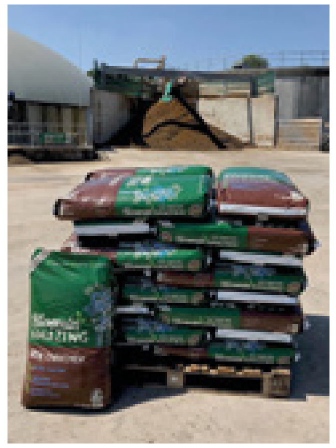
The Duke of Cornwall views the first of three avenues of trees planted to mark his forthcoming 70th birthday. This avenue, along the A49 in Herefordshire, features 70 trees of species personally chosen by His Royal Highness. The other two avenues will be located in Somerset and Cornwall.

A £450,000 conversion project is completed at Newton St Loe, Bath, providing a much-needed three-bedroom home for the village. The former coach house was restored using reclaimed materials, handmade timber doors and windows, and incorporating a dedicated bat roost. It far exceeds required energy performance standards.

MARCH

Award-winning Isles of Scilly company Island Fish moves into its bespoke new premises on Bryher in time for the tourist season. Mike and Sue Pender have supplied fresh shellfish for over 50 years, and the next generation is now growing the business while maintaining a low-impact method of fishing.





A new peat-free soil conditioner, made from the renewable by-products of the Duchy's anaerobic digester, is launched across nurseries and garden centres. Bloomin Amazing™ contains nutrient-rich material that is produced as a by-product when maize and rye silage is converted into renewable energy for more than 2,000 homes in Poundbury.

Tour of the Duchy estate

OUR DIVERSE PORTFOLIO

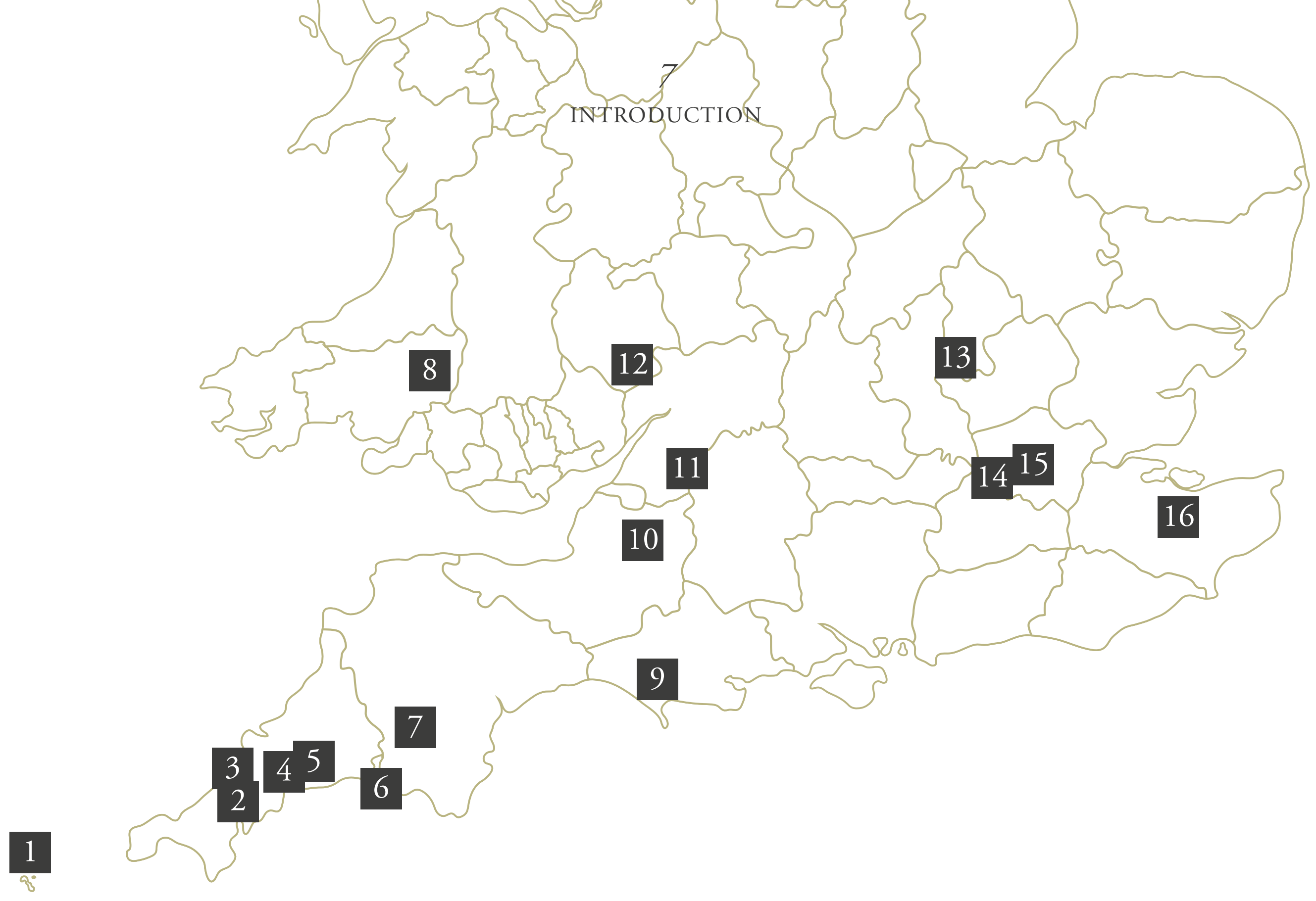
The Duchy of Cornwall estate extends across 23 counties in England and Wales. The map highlights a number of examples from its varied portfolio.

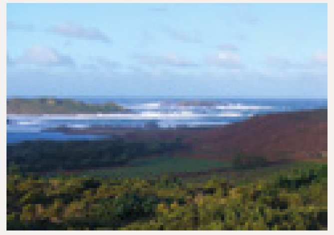
LAND
53,000
hectares

WATERS, WOODLANDS AND HERITAGE SITES
2,225
hectares of woodland and 16 heritage sites

DEVELOPMENT SITES
£58*m*
in value, including Poundbury and Nansledan

COMMERCIAL PROPERTY
£291*m*
in value, including 14 major commercial properties

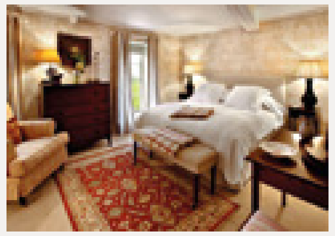




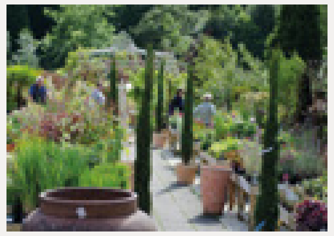
1
ISLES OF SCILLY
The Isles of Scilly have been part of the Duchy of Cornwall since the 14th century.

2
TRURO
Eastern District Centre
A partnership project with Cornwall County Council and Waitrose on Duchy-owned land.

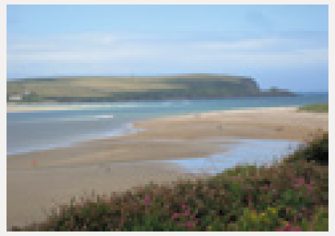
3
NEWQUAY
Development projects
The Duchy is involved in a major development project at Nansledan.



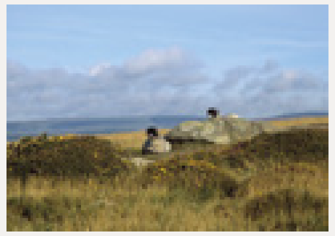
4
DUCHY OF CORNWALL HOLIDAY COTTAGES
We have a small number of period properties available as holiday cottages.



5
DUCHY OF CORNWALL NURSERY
Lostwithiel
The nursery opened its doors to the public in 1975 and includes a renowned café.



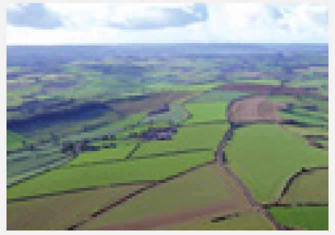
6
COASTAL AND INLAND WATERS
Including the Dart, Salcombe and Kingsbridge, Avon, Tamar, Looe, Helford and Camel estuaries and coastal foreshore around Cornwall and the Isles of Scilly.



7
DARTMOOR AND PRINCETOWN
Most of the Duchy's 27,200 hectares on Dartmoor has been part of the estate since the 14th century.

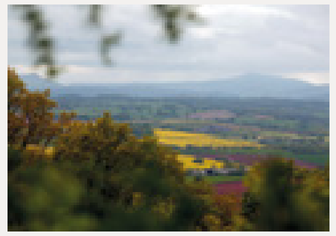
8
LLWYNYWERMOD
The Welsh home of Their Royal Highnesses The Prince of Wales and The Duchess of Cornwall.

9
POUNDBURY
The urban extension to Dorchester, Poundbury is built on principles of architecture and urban planning advocated by The Prince of Wales.



10
EASTERN DISTRICT ESTATES
The Eastern District includes land in Gloucestershire, Somerset, Wiltshire and Dorset.

11
HIGHGROVE HOUSE AND HOME FARM
Highgrove is the family home of Their Royal Highnesses. The nearby 425-hectare Home Farm is entirely organic.



12
HEREFORD ESTATES
Incorporating the Guy's estate, purchased in 2000, and the Cradley estate.

13
COMMERCIAL PORTFOLIO
Standard investment properties, including two near Milton Keynes.

14
HEAD OFFICE
The Duchy's head office is at 10 Buckingham Gate, London. It includes the Duchy archive store.

15
LONDON
Mainly Kennington Estate assets, including 16 flats and 23 houses, various commercial buildings, The Oval cricket ground and a number of long leases.

16
KENT ESTATES
Purchased in 2000 and now including over 500 hectares of farmland and rural residential property.

STRATEGIC REPORT

INTRODUCTION

OUR PURPOSE

Our purpose is to manage the estate in harmony with The Prince's ethos in order that it can be passed on with pride to the next generation.

OUR VALUES

This is supported by our values and the loyalty, passion and commitment of our people.

See creating value for our employees p28

OUR ACTIVITIES

Through our activities, we aim to generate positive impacts and value over the long term, balancing environmental, social and economic needs

See our business model p14–15

OUR STRATEGIC OBJECTIVES

and are guided in all that we do by our strategic objectives

See p14

OUR PERFORMANCE

which we measure through our key performance indicators.

See p16–17

Dartmoor

PERFORMANCE HIGHLIGHTS

We aim to create long-term value for all our stakeholders. Here are some of the key performance highlights.

FINANCIAL

DISTRIBUTABLE SURPLUS

£21.7m

in 2017/18, up 4.9%

See page 16

CHERISHING THE ESTATE

£31.3m

Five-year capital investment plan

See page 17

ASSETS

£940m

Investment property valuation up £27m

See page 46

NON-FINANCIAL

RENEWABLE ENERGY

2,901kW

of renewable energy installed capacity across the estate, up 18%

See page 17

DIRECT CARBON EMISSIONS

55%

reduction on baseline

See page 82

TENANT SATISFACTION

87%

of rural commercial tenants say they have high overall satisfaction

See page 25

NEW HOMES AND JOBS

281

new homes and

388

new jobs at Poundbury in 2017

See page 17

FROM THE SECRETARY AND KEEPER OF THE RECORDS

ALASTAIR MARTIN
SECRETARY AND KEEPER
OF THE RECORDS

Taking our lead from His Royal Highness The Prince of Wales, sustainability has always been at the heart of how we operate.

We have long attached great importance to achieving a balance between financial results, supporting our communities and enhancing the natural environment on which we all depend.

We believe this 2017/18 Integrated Annual Report, our second fully integrated report, complies with the Framework of the International Integrated Reporting Council (IIRC). This framework helps us explain how we create value in the short, medium and long terms, for a range of stakeholders.

How we create value over the longer term is affected by macroeconomic and political trends, some of which are reviewed later in this report. These create uncertainty for those who run businesses or live on the estate. Examples of how we try to support our tenants through these uncertainties include farm tenant seminars on Brexit and our natural capitals project, which aims to protect and enhance natural resources across the estate.

The Duchy actively encourages knowledge sharing and regularly hosts groups who can bring new insights or with whom we can share what we are doing. Over the past year, we've welcomed university groups, business leaders, charities, architects and developers as well as local and national government representatives including the Secretary of State for Environment, Food and Rural Affairs, who met with farming tenants and attended a seminar on the future of food production.

As always, The Prince of Wales undertook a number of public and private visits across the estate. A particular highlight for me this year was the official opening of the new Damers First School in the heart of the community at Poundbury, part-funded by the Duchy and now attended by 450 children.

Following on from the very useful residential tenants' survey last year, we commissioned a similar exercise for our rural commercial property tenants. These are typically tenanted by small businesses, start-ups to established enterprises, ranging from chocolatiers to IT companies, architects to stained glass specialists. Some are live-work units. As with the residential tenants' survey, the results were very encouraging: tenants find our staff friendly and approachable, and rate communication very highly, but there are issues with heating systems and broadband speeds. There is more detail about the results of the survey on page 25.

We continue to make significant investment in our existing properties, both through substantial projects such as the complete renovation of the former royal bungalow on St Mary's, Isles of Scilly, which will join our very successful holiday let portfolio, to the routine but important round of regular overhauls and modernisations. Our internal team of nine building surveyors, who all understand very well The Prince's passion for the built environment, manage these works and the often complex issues arising from them.

Compared to recent years, there has been little movement in our asset portfolio, with no significant acquisitions. A farm in Shropshire was sold, part of an outlying estate that was purchased in 2000. We were pleased to sell to the tenant and to Harper Adams University, which specialises in agricultural and rural education and already owns adjoining land. Two small commercial units in the Midlands with a combined value of around £6million were sold early in the year, as we re-focus our urban commercial portfolio on higher-quality property.

There have been no changes to membership of The Prince's Council this year. The group is drawn from recognised leaders in agriculture, commercial property, estate management, investment management, law and finance. Along with HRH The Prince of Wales, they provide vital oversight, governance and guidance, and I am very grateful for all they do for the Duchy.

As with many organisations, we have been preparing for the new General Data Protection Regulation, as well as other changes to legal requirements that impact on the management of a landed estate.

This year we have developed disclosure around our key performance indicators. We now have a complete set of targets, and many have at least two years' data. You can read more on pages 16–17. The significant growth in the Revenue account distributable surplus that was achieved this year, up £1m to £21.7m, results from a number of factors that are unlikely to be repeated in future years. Indeed, there is likely to be little if any growth next year. These factors included a material contribution from the restructuring of the loan portfolio, taking advantage of historically low interest rates. Balance sheet gearing remains very low. We have revised our five-year forecast: even a modest growth in the Revenue account surplus is dependent on the careful reinvestment of capital cash flows arising from development sales.

We look forward to celebrating His Royal Highness's 70th birthday later in 2018. Events with tenants and staff are planned, and the Duke of Cornwall avenues, planted in Herefordshire, Somerset and Cornwall, are coming into leaf. I thank all staff, from those who retire this year – one of whom has worked at the Duchy for 48 years – to our latest recruits. It has been another memorable year of which we should all feel proud.

Alastair Martin
Secretary and Keeper of the Records

The contents of the Strategic Report are signed on behalf of the Proper Officers by Alastair Martin, Secretary and Keeper of the Records, 6th June 2018.

INTEGRATED THINKING

We believe integrated thinking is fundamental to sustainable development and, as such, it has always been part of how the estate is managed. Our ambition is to systematically apply integrated thinking across our activities to optimise financial results and transparency, add value to communities and the natural environment, and enhance the estate's living legacy.

TOWARDS INTEGRATED REPORTING

2014/15

We took our first step towards integrated reporting, informed by the International <IR> Framework developed by the IIRC.

2015/16

We reported on strategic risk and our capitals (the financial and non-financial resources we produce and use). This included the results of a corporate natural capital account, one of the first large-scale applications of this accounting method in the UK.

2016/17

We completed the transition by publishing our first fully integrated report. This included enhanced reporting on our stakeholders, their priorities and how we create value for them. We identified new key performance indicators for our strategic objectives.

2017/18

This year, we again present a fully integrated report. We more clearly explain the Duchy of Cornwall's business model and strategy, showing a holistic picture of how we operate to create long-term value. We have also expanded the range of data covered by key performance indicators linked to our strategy.

www.duchyofcornwall.org

External context

FACTORS INFLUENCING VALUE CREATION

A range of external factors affect the Duchy's ability to create long-term value. We monitor these issues and adapt our approach in response.

The issue

The UK's departure from the EU: "Brexit"

Uncertainty resulting from the UK's decision to leave the EU makes planning and investment decisions more complex, with future circumstances liable to change.

The impact

The uncertainty around the UK's medium-term trade position and farming subsidies is impacting on the farming sector and the rural economy, and may affect rental and land values. Removing the influences of the Common Agricultural Policy could increase the emphasis on output and reduce the value placed on the natural environment. Recent proposals for UK subsidy regimes to focus on protecting the natural environment could address this risk. The funding of heritage and building projects could be at risk.

Our response

Until clarity comes, it is hard to define a response or to understand the longer-term impact. We will continue with our measured programme of rationalisation – consolidating our rural property assets, supporting farm diversification and enhancing the physical quality of our property. We have begun work on a detailed project to assess natural capitals across the estate.

The issue

Shortage and affordability of homes

Parliament says "estimates put the need for additional housing in England at between 232,000 to 300,000 new units per year, a level two to three times current supply".[1]

The impact

The area where the Duchy estate's land is predominantly situated "has more than its share of local authority districts with high house prices relative to earnings".[2]

Our response

We have always responded to local community need for homes by making land available and we will continue to do so. We believe we have a robust consultation process and will continue to work to meet market demand and government policy. To date, 1,665 homes have been built at Poundbury and Nansledan, as well as at other smaller sites.

1 www.parliament.uk/business/publications/research/key-issues-parliament-2015/social-protection/housing-supply
2 Smith, E. (2010). *Portrait of the South West.* Office for National Statistics

The issue

Biodiversity and biosecurity

The planetary boundaries concept presents a set of nine boundaries within which humanity can continue to thrive for generations to come. "Crossing these boundaries could generate abrupt or irreversible environmental changes."[4] Four of these boundaries have already been crossed.

The impact

Relevant to the estate are boundaries associated with biodiversity loss and an overload in nitrogen and phosphorus biochemical cycles. These affect the sustainability of terrestrial and marine ecosystems, impacting on nature's ability to support mankind; for example, through pollination. There is also an increasing incidence of plant disease and invasive species in the UK.

Our response

We have launched a major new project to enhance the value of natural capital across the Duchy estate (see page 31).

The issue

Climate change

Weather plays a vital role in farming. It is predicted that "within the next decades, climate change is likely to have severe effects on UK agriculture. Increased numbers of extreme events – such as floods – may be the most serious immediate problem. The effects may be partially mitigated by planting different crops and developing new varieties. Short-term uncertainty makes planning difficult."[3]

The impact

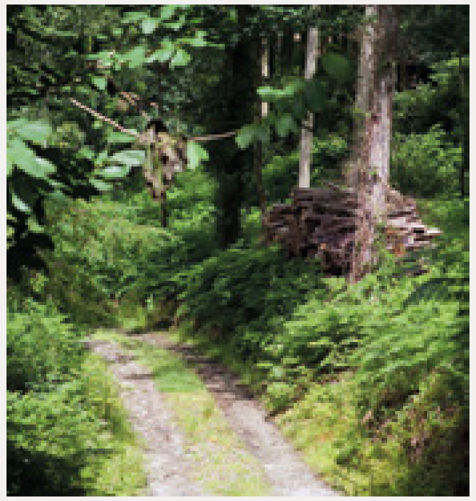
The most apparent impacts on the Duchy estate to date have resulted from extreme weather events, with localised rainfall causing soil erosion and flooding. Variability in weather patterns affects our tenants' profitability and viability, and could mean that natural resources are depleted.

Our response

We work to build awareness among tenants and staff, influence what happens on our land, and design strategies to lessen the impacts of climate change. Our new project to develop Integrated Natural Resource Management Plans (described on page 31) will look at these issues in a detailed way for each farm and estate, and at a landscape level. Work has been undertaken with Cranfield University to manage water and soil problems on Duchy estate land, including workshops for tenants and industry advisers.

Tree diseases

Over recent years, there has been an alarming increase in the range of pests and diseases afflicting our trees. The Duchy of Cornwall's woodlands have been affected by diseases such as Phytophthora Ramorum on larch and sweet chestnut trees, as well as the much-publicised ash dieback. Under the leadership of HRH The Prince of Wales, the Duchy is seeking to develop greater resilience in its woodlands. To achieve this, woodland management aims to create more diversity in terms of species, age and structure. The Duchy is also working in partnership with other organisations on the critical issue of plant health and biosecurity. In February 2018, the Duchy helped to sponsor a conference at Highgrove that aimed to improve the collaborative effort to safeguard the health of our trees and woodlands.



3 researchbriefings.files.parliament.uk/documents/SN03763/SN03763.pdf
4 stockholmresilience.org/research/planetary-boundaries.html

Our business model

VALUE CREATION

Through our business model and under the leadership of The Duke of Cornwall, we approach our activities with commercial realism and social and environmental responsibility.

WE RELY ON RESOURCES AND RELATIONSHIPS TO CREATE VALUE

Understanding how we depend and impact on our inputs enables us to be efficient and responsible in the way we use and enhance them in the long term.

FINANCIAL
The estate's property assets, financial investments, loans and cash

MANUFACTURED
Mainly buildings – some very old, some newly constructed – and renewable energy installations

NATURAL
As an historic estate of 53,000 hectares, natural capital is a major resource

PEOPLE
Our people's skills, capabilities, values and commitment, including our employees and Council and Committee members

COMMUNITY
Our community relationships that support the effective management of the estate

INTELLECTUAL
The intellect, diversity and long-term service of our people, tenants and HRH as Duke of Cornwall

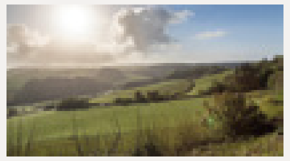
AND ARE GUIDED BY OUR STRATEGIC OBJECTIVES

PROVIDE INCOME
to support the public, charitable and personal activities of The Duke of Cornwall and his immediate family

GENERATE CAPITAL AND REBALANCE CAPITAL ASSETS
while maintaining the quality and integrity of the estate

ENGAGE WITH AND PROACTIVELY SUPPORT COMMUNITIES
by listening and responding to local needs and priorities, and by promoting economic and social well-being

CHERISH, PROTECT AND ENHANCE
the physical fabric of land and property to maintain the estate for future generations



WORK TOWARDS ENVIRONMENTAL PROGRESS AND IMPROVEMENT
with farmers, partners and other interested parties

REDUCE THE ENVIRONMENTAL IMPACT
of the Duchy's in-house operations

WE COMBINE A LONG-TERM PERSPECTIVE WITH SUPPORT AND ENGAGEMENT

Nurturing strong relationships with tenants, communities and employees, and working together to secure a proud legacy across the landscape and built environment for future generations.

SUPPORTING TENANTS, COMMUNITIES AND LOCAL ECONOMIES – HOMES, ENTERPRISE, JOBS AND SKILLS

CARING FOR NATURE – PROTECTING AND ENHANCING THE LANDSCAPE

SUSTAINABLE MANAGEMENT – MANAGING AND BALANCING OUR PORTFOLIO RESPONSIBLY AND TRANSPARENTLY

PLACE-MAKING – SUPPORTING NEW HOMES AND BUSINESS PREMISES AND DEVELOPING SUSTAINABLE COMMUNITIES

ENHANCING THE PHYSICAL FABRIC OF THE ESTATE – IMPROVING BUILDINGS AND INFRASTRUCTURE

THAT ENABLES US TO CREATE REAL VALUE FOR OUR STAKEHOLDERS

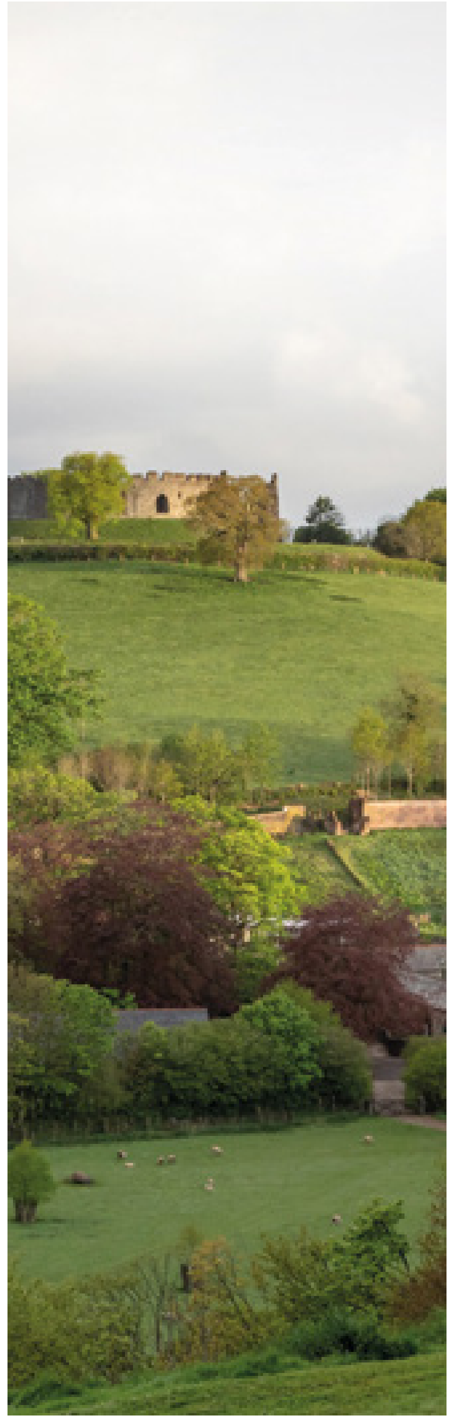
Through our approach and activities, we generate positive impacts for all stakeholders, balancing environmental, social and economic needs.

GREATER FINANCIAL VALUE – BY DELIVERING A GROWING REVENUE SURPLUS AND INCREASED CAPITAL VALUES

ENHANCED NATURAL CAPITAL – BY SUPPORTING SUSTAINABLE FARMING AND RURAL COMMUNITIES

STRONGER COMMUNITIES – BY STIMULATING LOCAL PROSPERITY AND SUPPORTING RURAL INFRASTRUCTURE, INCLUDING:

- Direct employment for 153 people
- Supporting livelihoods, including through 700 agricultural tenancies
- New homes and more than 600 residential lettings
- Investment in local education and schools
- Financial support through the Duke of Cornwall Benevolent Fund



Key performance indicators

OUR PERFORMANCE

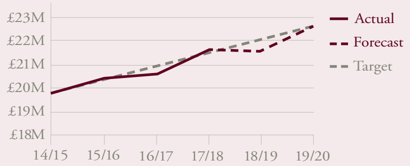
As we work to create sustainable value across our strategic objectives, our Key Performance Indicators (KPIs) are designed to drive performance against clear and measurable short-, medium- and long-term goals.

We introduced our current set of KPIs in 2016/17. Where data is available, we have aimed to show the performance trend over time. We have also indicated the strategic objective to which each KPI relates (for further details see page 14).

Provide income

ANNUALISED GROWTH IN DISTRIBUTABLE SURPLUS

Target:
2.6%
p.a. average annualised growth in revenue surplus 2015/20

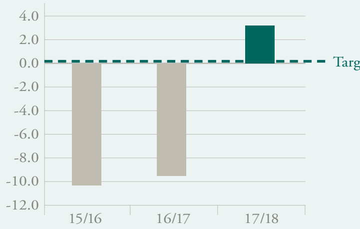


Progress: **Ahead of target**
Over the last three years we achieved an average annualised increase in revenue surplus of 3.1%, but expect growth to slow next year.

Generate capital and rebalance capital assets

CAPITAL CASH FLOW

Target:
Generate positive capital cash flows from the property portfolio



Progress: **On target**
A long period of investment in development sites is turning around and receipts will now exceed investment.

MAINTAIN A COHESIVE, QUALITY, CORE PROPERTY PORTFOLIO

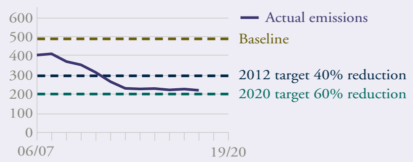
Target:
No net diminution in the core property portfolio

Progress: **On target**
In 2017/18, only 28 hectares of land was sold from a core estate of 42,500 hectares, of which 25 hectares was peripheral land with difficult access on an estate that is being substantially reorganised.

Reduce the environmental impact

DIRECT GREENHOUSE GAS (GHG) EMISSIONS

Target:
60%
reduction against baseline by 2020



Progress: **On target**
Having met our 2012 target of a 40% reduction on baseline, we are now aiming for a 60% reduction by 2020. This year we achieved 55%.
For further detail, please see Carbon Report on page 82.

Engage with and proactively support communities

ENGAGEMENT WITH TENANTS

Target:
Meaningful contact with every farm tenant at least annually, and increase yearly the overall number of estate farms HRH has visited

Progress: **Behind**
There was meaningful contact with 91% of farm tenants, down from 94% last year. A small number of tenants were not met with in either year and Land Steward teams are working to improve engagement. Through an ongoing programme of engagement, HRH met with five more farm tenant families for the first time this year.

LENGTH OF FARM BUSINESS TENANCIES (FBTS) FOR EQUIPPED HOLDINGS

Target:
Let all equipped FBTs for periods of no less than
10 years

Progress: **On target**
The average FBT length on equipped holdings is 21 years with none being less than 10 years. Since this KPI was introduced in 2016, all agreements have been for at least 10 years, with the average length 18 years and one recent FBT on a farm in Somerset of 40 years.

Engage with and proactively support communities continued

JOBS CREATED AT URBAN EXTENSION PROJECTS

Target:
At least one job created per house sold

Poundbury
By 2017/18
1.9 people employed per house sold

Nansledan
By 2017/18
1.3 people employed per house sold

Progress: **At Poundbury**, 1,515 residential units were sold by the end of 2017. There were 184 businesses employing 2,364 full- and part-time employees and 535 construction workers. **At Nansledan**, we envisage delivery of some 4,250 homes and a similar number of jobs over the next 35 years. To date, 150 homes have been occupied, 22 people work in the businesses and 172 construction workers have been employed as part of the development.

COMMUNITY ENGAGEMENT ON MAJOR DEVELOPMENT PROJECTS

Target:
Engagement process for all projects

Progress: **On target**
In 2017/18 there was one major new project – the Great Field at Poundbury – and a community consultation event was held. Local community consultation events were held for all three new potential development sites in 2016/17.

Cherish, protect and enhance land and property

REPAIRS SPEND

Target:
Repairs spend at least to keep pace with benchmark level of repairs spend on rural estates

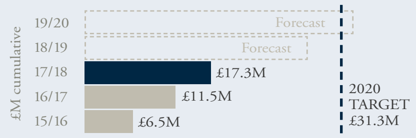
Rolling five-year repairs spend increase		
	16/17	*17/18*
Duchy	3.8%	3.3%
Benchmark	2.9.%	4.8%

Progress: **Behind**
The rolling five-year total of repairs spend across our rural estate grew by 3.3% in 2017/18. The Savills Rural Benchmark figure grew by 4.8%.

Cherish, protect and enhance land and property

CAPITAL INVESTMENT IN THE PROPERTY ESTATE

Target:
£31.3m
to be invested over five years as per 2015/20 strategy



Progress: **On target**
Over the last three years we have invested £17.3million and our forecasts suggest that the five-year target will be met. However, planning and getting contractors on site can take longer than anticipated and delays can occur.

SAFE BUILDINGS AND PLACES

Target:
0 HSE reportable incidents or accidents[1]

1 Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013

Progress: **On target**
There have been no reports of injuries, diseases or dangerous occurrences over the last two years. We continue to develop our safety data capture and reporting tools.

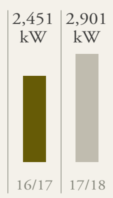
THE PROPORTION OF LAND THAT IS COVERED BY A NEW NATURAL RESOURCE MANAGEMENT PLAN

Target:
Complete natural resource management plans for 40% of farms by 2019 and 100% by 2020

Progress: **Started**
With the project in the final design stages, surveys have been completed for four test farms. We plan to complete 84 surveys during 2018/19 and have set an ambitious target to complete the remainder the following year.

Work towards environmental progress and improvement

RENEWABLE ENERGY INSTALLED CAPACITY AND PROJECTS FACILITATED



Target:
Grow installed renewable energy capacity annually and facilitate other projects

Progress: **On target**
We have a renewable energy installed capacity of 2.9MW, up 18% on last year. This includes biomass, solar and heat pumps and represents an investment of £3.8million. We hope to commission our first hydro scheme later in 2018.

NATURAL CAPITAL ASSETS

Target:
Enhancement of natural capitals on every farm

Progress: **Started**
This project is in the final design stages. Once farms have been assessed we will be able to report on measures taken to enhance natural capital on each farm.

We have reviewed our KPIs and have made a number of minor adjustments to reduce repetition and add robustness. This includes a new KPI to support our strategic objective "Generate capital and rebalance capital assets".

Material risks

THE DUCHY ESTATE'S MATERIAL RISKS

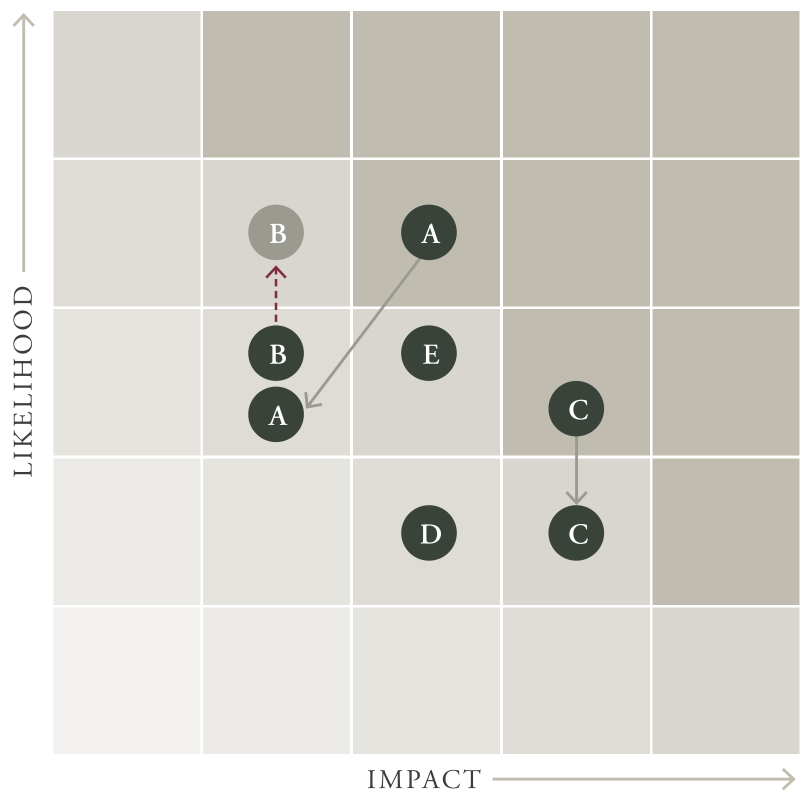
In a constantly changing world, we will always face risks and uncertainties. Even with our comprehensive approach to risk management, it is not possible to eliminate all risks, only to anticipate how they might impact on the Duchy and its operations and develop a robust response.

Those risks that could have a material impact on our work and value creation are set out below. Details on our principal financial risks and uncertainties can be found in the governance section on pages 40–41.

Why is this a risk?	*How we manage this risk*	*Potential impacts*
A CAPITAL CASH GENERATION		
Our ability to create long-term financial value depends on having sufficient capital funds to maintain and enhance the Duchy estate. This, in turn, is dependent on our ability to generate capital funds alongside investing in income-earning assets that provide Revenue account surplus. There is an increasing requirement for capital investment to maintain and improve the estate, but we are constrained by our ability to borrow, sell non-core property and reduce capital expenditure.	We combine good budgetary control and forward planning with ongoing strategic reviews of asset holdings. We rely on some short-term borrowing to provide funds for significant asset acquisitions.	*Strategic objectives affected:* • Provide income • Generate capital and rebalance capital assets • Cherish, protect and enhance the estate *Resources and relationships affected:* • Financial • Manufactured
B THE STATE OF FARMING		
The complex and uncertain outlook faced by the agricultural sector brings financial, social and environmental risks. It significantly affects many of our assets and tenants, with commodities and farming enterprises coming under financial pressure.	Our increasingly diversified asset portfolio mitigates the scale of this risk. However, for our agricultural tenants, life continues to be challenging on several fronts.	*Strategic objectives affected:* • Provide income • Engage with and proactively support communities *Resources and relationships affected:* • Natural • Financial • Community
C SAFE BUILDINGS AND PLACES		
Being the owner of a large portfolio of buildings and associated structures brings inherent safety risks. Buildings used by our staff and tenants must always be safe places to live and work. Site health and safety is vitally important, especially where we undertake maintenance and improvement projects. Similar risks are presented by our historic minerals assets (mines, quarries, adits), the marine estate and St Mary's harbour.	Safety is a key focus for the team of building surveyors and land agents who manage our properties. We maintain a comprehensive risk register and risk oversight process covering all assets and activities. We also engage external health and safety consultants and provide a comprehensive safety training programme for our employees.	*Strategic objectives affected:* • Cherish, protect and enhance the estate *Resources and relationships affected:* • People • Manufactured

Why is this a risk?	*How we manage this risk*	*Potential impacts*
D BALANCING ACCESS AND PROTECTION		
The public derives significant recreational and aesthetic value from the Duchy estate. This is especially the case on Dartmoor, the Isles of Scilly and the Cornish foreshore, in Duchy woodlands, and on public rights of way and permissive access. It is vital we balance short-term value creation and public access with long-term preservation of our social and environmental heritage. This requires a sensitive and thoughtful approach.	Local land management, combined with continuous ownership and longer-term stewardship, increases our understanding of our natural and social assets, and improves our management of the risks. We are currently assessing the natural capital on the estate to inform future management and protection, while identifying opportunities for public benefit. We have close working relationships with stakeholders with specific interests in these issues, and a formal access risk management programme is in place.	*Strategic objectives affected:* • Engage with and proactively support communities • Cherish, protect and enhance the estate *Resources and relationships affected:* • Natural • Community
E PUBLIC UNDERSTANDING AND PERCEPTION		
The Duchy estate is a unique organisation. Public understanding and perception of its work, and the outcomes it achieves, are important to its ability to create value. There is a risk of confusion among stakeholders over the scope and role of the Duchy of Cornwall; for example, it must be differentiated from Duchy Originals (now known as Waitrose Duchy Organic), an organic food brand set up by The Prince of Wales in 1990 and a separate entity. The Duchy is also quite distinct from the County of Cornwall and there is room for confusion in this respect.	Communication continues through the Duchy website, press releases and this Integrated Annual Report. Duchy employees are engaged in a broad programme of outreach with communities where Duchy assets exist. Examples include working with the Council of the Isles of Scilly, Devon farming clubs and local Rotary clubs.	*Strategic objectives affected:* • Engage with and proactively support communities *Resources and relationships affected:* • People • Community • Intellectual

HOW OUR RISK PROFILE IS EVOLVING



2016/17 to 2017/18, actual movement
2017/18 forward, anticipated movement

THE DUCHY'S MATERIAL RISKS

A Capital cash generation: In 2017/18, this was better than budgeted and exceeded previous years. Anticipated sales of development land and projects over the next few years will further improve the situation.

B State of farming: The difficult and uncertain trading environment for farmers continues. It is likely to be further exacerbated by the uncertainty produced following the decision to leave the EU. Recent announcements on the probable timing and direction of future farm subsidy regimes have improved clarity.

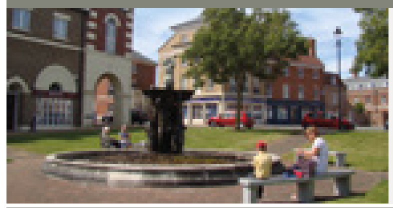
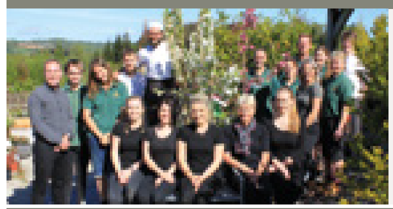
C Safe buildings and places: A revised health and safety oversight structure is now in place and functioning well. There have been no reportable incidents during the year.

D Balancing access and protection: A working group was established two years ago to address issues of access, and its work is now in place. The residual risk of damage to the environment remains.

E Public understanding and perception: The conclusion of a long-running litigation gave us reassurance over the status of the Duchy of Cornwall. Our move to integrated reporting has given us the opportunity to more comprehensively explain our strategy and the work we do. A new communications working group has been established.

KEY STAKEHOLDERS AND THEIR PRIORITIES

Our work impacts and is influenced by a wide range of stakeholders with diverse priorities. It is vital that we listen to their views and understand what matters to them as we plan and carry out our work.

Stakeholders	*Key priorities*	*Response*
DUKE OF CORNWALL 	The Duchy of Cornwall estate generates revenue to fund the public, private and charitable activities of The Duke of Cornwall and his family. Part of our aim is to continually improve the estate in order to pass it on to future generations in a stronger condition.	The estate is managed in harmony with The Prince's ethos to balance social, environmental and financial issues, as evidenced by the objectives on page 14 and the KPIs on page 16.
TENANTS 	Tenants want well-maintained properties, responsive management and long-term tenancies, all at appropriate market rents. New tenants want to create or grow businesses or build homes with a landlord who will work openly and constructively with them.	Specific KPIs track property repair spend and capital investment, monitor the length of new farm tenancies and ensure we have meaningful engagement with tenants (see page 16). We have re-let new farms and upgraded agricultural, commercial and residential property. We carry out tenant surveys looking at a different property type each year.
COMMUNITIES 	Community stakeholders say their top priorities include rural enterprise and business, skills and community-based opportunities. They want affordable homes and to be involved with what happens in their neighbourhood.	The estate nurtures existing communities and helps create new ones. For example, Poundbury now has 187 businesses employing 2,364 full- and part-time employees. We hold community consultation events for all major development projects.
EMPLOYEES 	Employees want to enjoy a range of opportunities and secure employment. They value an environment where they can make decisions in the best long-term interests of multiple factors, rather than focusing purely on short-term financial performance.	Meeting our vision requires high-quality, committed and innovative employees who we develop, support, motivate and reward. We recruit from a mix of backgrounds, skills and experiences, and aim to be an excellent workplace. A bespoke management training programme was launched this year (see page 28).
ENVIRONMENT 	The sustainable, commercial management of our land and property was the primary issue in our stakeholder materiality review. At a minimum, we must ensure that our natural capital is not being depleted.	We aim to enhance our natural capital and support sustainable farming, providing food and viable livelihoods. Our natural resource management (described on page 30) will help us quantify this as a step to its preservation and enhancement.

Material issues

UNDERSTANDING WHAT MATTERS MOST

When we began the transition to integrated reporting, we set out to deepen our understanding of which issues matter most to Duchy estate stakeholders through a formal engagement process.

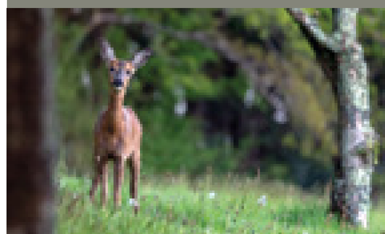
On this page, we summarise the issues that are most material to our stakeholders and that have the biggest impact on our ability to create value.

ASSESSMENT PROCESS

The original assessment began with a consultation of a representative sample of tenants, senior estate officers and others to identify their priorities and concerns, and assess their relative importance. This was followed by a series of integrated thinking workshops with the wider estate workforce. We also carried out a benchmarking exercise to review what other land and property management organisations considered to be material.

Our material issues were again reviewed by the Executive Committee in 2017. Under the overarching theme of Sustainable Stewardship, we have grouped them into three categories: Supporting tenants and communities; Caring for nature; and Sustainable management.

OUR MOST MATERIAL ISSUES

SUSTAINABLE STEWARDSHIP		
	Material issues	*How these link with our strategic objectives*
SUPPORTING TENANTS AND COMMUNITIES		
	*Relationships with tenants* *Support for communities* *Place-making and affordable homes*	ENGAGE WITH AND PROACTIVELY SUPPORT COMMUNITIES CHERISH, PROTECT AND ENHANCE
CARING FOR NATURE		
	*Sustainable farming, food and forestry* *Enhanced natural capitals* *Environmental footprint of our operations*	CHERISH, PROTECT AND ENHANCE WORK TOWARDS ENVIRONMENTAL PROGRESS AND IMPROVEMENT REDUCE THE ENVIRONMENTAL IMPACT
SUSTAINABLE MANAGEMENT		
	*Sustainable, commercial management* *Responsible investment* *Diversified revenue streams*	WORK TOWARDS ENVIRONMENTAL PROGRESS AND IMPROVEMENT GENERATE CAPITAL AND REBALANCE CAPITAL ASSETS PROVIDE INCOME

Creating value for our stakeholders

Creating value for

PRESENT AND FUTURE DUKES OF CORNWALL

The Duchy of Cornwall was established in 1337 to generate an income for the present and future Dukes of Cornwall. The revenue surplus sustains the public, charitable and private activities of The Prince of Wales and his family.

Under the 1337 charter, The Prince is entitled to the annual revenue surplus generated by the Duchy estate. The money is used to cover personal and professional expenditure – including staff, charitable work and public duties – for The Prince of Wales and The Duchess of Cornwall, The Duke and Duchess of Cambridge, and The Duke and Duchess of Sussex. The income does not cover official travel or property services, which are funded by the Sovereign Grant. His Royal Highness voluntarily pays income tax at the prevailing rate and has no access to funds from the sale of capital assets. He is the longest-serving Duke of Cornwall and continues to be actively involved in running the estate.

DISTRIBUTABLE SURPLUS
£21.7m
in 2017/18

RENEWABLE ENERGY PROJECTS AND EMISSIONS REDUCTION
£5.0m
invested in work across the estate in the last decade

FIVE-YEAR CAPITAL
£31.3m
investment plan

HRH with Grace Parker and Charlotte Batten, joint tenants of Burraton Farm, Stoke Climsland, Cornwall.

Michael "Corky" Spicer started work on a Duchy farm in Dorset in 1973 as a general farm worker. He retires in November 2018 after 45 years on the farm. The pictures show Corky meeting HRH The Duke of Cornwall in 1981 and HRH The Duke of Cambridge 37 years later in 2018.

LEADERSHIP AND RUNNING OF THE ESTATE

The Duke of Cornwall chairs two annual meetings of The Prince's Council and undertakes diverse public and private engagements to engage with Duchy employees, tenants and communities.

His philosophy is to take a long-term, sustainable approach to nurturing and improving the estate in order to pass it on to the next generation in a stronger condition.

Bona vacantia – recycling money into the community

When an individual living in Cornwall passes away with no will or surviving relatives, their estate is handed to The Duke of Cornwall through a process known as bona vacantia. This arrangement is also true for the dissolution of any company registered in Cornwall.

All the income from bona vacantia is put back into the local community through The Duke of Cornwall's Benevolent Fund, which was set up by The Prince of Wales more than 40 years ago.

In 2017, beneficiaries of the charity included the Young Carers Fund, administered by the Cornwall Community Foundation. The Fund received £25,000 for the third year running to directly support young people caring for a relative or friend with a disability, illness, mental health condition or substance abuse problem. The Duke also awarded £20,000 to a crisis fund that helps people urgently in need of small, one-off amounts of money – for example, to buy food, clothing or transport for people at risk of homelessness.

In the past decade, The Duke of Cornwall's Benevolent Fund has donated £1.25million to charity

HRH with Clementine Pursey, daughter of Kevin Pursey, tenant of Tretire Farm, Hereford.

Creating value for our stakeholders

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THE PEOPLE WHO LIVE AND WORK ON THE ESTATE

The Duchy estate provides homes and livelihoods through more than 600 residential lettings and 700 agricultural tenancies. Alongside our legal responsibilities as a landlord, we aim to promote access to opportunities and friendly support so that our tenants thrive with us.

RESIDENTIAL LETTINGS
600

AGRICULTURAL TENANCIES
700

INVESTED
£10.7m
in maintaining and improving homes and places of work

HRH with three generations of the Smith Family, tenants of Bunshill Farm, Hereford.

ENABLING NEW BEGINNINGS

In September 2017, Kevin and Justyna Hughes took over the tenancy of Hill Barn Farm in Hereford, a 91 hectare Duchy starter farm. Kevin's family have been livestock farmers for generations, but their current holding was proving too small to support the growing, extended family. Having worked together in Australia, New Zealand and Wales, the couple and their two young daughters have now established their own herd of Jersey cows and they are looking forward to diversifying in the future.

SUPPORTING SUSTAINABLE BUSINESS GROWTH

At 56 hectares, Kersbrook Farm, near Stoke Climsland, is a sustainable progression opportunity for a farmer looking to expand their business. It comes with a farmhouse, well-equipped buildings and the potential to acquire additional land over time. Dairy farmers Martyn and Laura Thirtle-Mills took over Kersbrook Farm in 2017. Having previously managed a 36 hectare holding, it was the perfect stepping stone to enable them to secure their livelihood and expand their herd at the pace that was right for them.

ENCOURAGING DIVERSIFICATION

The Duchy financially supported Christine Malseed (wife of a tenant) to become an accredited farm succession planning facilitator in December 2017. Succession planning is an often challenging but vital task for enabling farmers to secure their future. Since she completed her training, Christine has gone on to launch an independent advisory service that helps other farmers implement farm succession plans. As well as benefiting her clients, Christine's diversified career complements the family's existing business raising beef, sheep and turkeys.

INVESTING IN FUTURE COMMUNITIES

Nansledan – the new urban extension of the coastal town of Newquay – embodies the principles of architecture and urban planning championed by The Duke of Cornwall. In time, it will evolve into a thriving community comprising some 4,000 homes centred on a high street, with a church, shops, community gardens and public spaces.
As well as providing jobs and meeting local housing needs, the Duchy wants to ensure children can be schooled close to home.
It is building a new primary school to accommodate around 420 pupils in 14 classrooms, to help meet the rising demand for local primary school places in the area.
The consortium that is constructing Nansledan is working with the Duchy and local education providers to create higher education placements and apprenticeships.

Early in 2018, we commissioned an independent survey of our rural commercial tenants, building on the very useful residential tenants' survey conducted last year. We have started work to address specific issues. Here are some of the main messages from the survey.

WHAT OUR RURAL COMMERCIAL TENANTS VIEW AS OUR STRENGTHS

- *87% have a high level of satisfaction with the Duchy as a landlord and are very satisfied as Duchy tenants.*
- *90% comment that we are easy to do business with, and 96% say they find our staff friendly and approachable.*
- *Communication is rated particularly highly, with 93% giving ratings of "good" or "excellent". They say we understand their needs and respond well to general requests.*
- *Almost three quarters of respondents rate renting from the Duchy as "better" or "much better" than their previous rental experiences.*

WHAT NEEDS IMPROVEMENT

- *The area of least satisfaction is the heating systems in our properties. Two-thirds find that they are unreliable, are not good value for money and do not heat the property sufficiently.*
- *While tenants like the attitude of our maintenance staff and contractors, they would like to see a quicker initial response time and to be kept better informed of progress on maintenance issues.*
- *Nearly half of tenants reported their broadband speeds to be "very poor" or "poor".*

Creating value for our stakeholders

Creating value for
THRIVING LOCAL COMMUNITIES

The Duchy invests time, money and expertise into local communities across the estate. Through our regional offices and Land Stewards, we actively seek the views of local people and support projects that add value to community life.

Modern Slavery Statement Available online at www.duchyofcornwall.org/modernslavery.html

A MORE SUSTAINABLE FUTURE FOR THE ISLES OF SCILLY

With a population of only 2,500 people and being situated 28 miles from the Cornish mainland, the Isles of Scilly face specific challenges when it comes to funding infrastructure development. The Duchy of Cornwall is supporting a partnership that is working to transform the islands into a low-carbon, sustainable community. In 2017, it successfully launched Smart Energy Islands – a £10.8million flagship project led by Hitachi and supported by the European Regional Development Fund that aims to cut electricity bills by 40%, meet 40% of the islands' energy demands with renewable energy, and see 40% low-carbon or electric vehicles on the islands by 2025. The scheme will provide opportunities for young people to undertake internships and develop STEM (science, technology, engineering and maths) skills while selecting 10 regional supply chain business partners to develop the new products and services. The first programme of its kind, the model is scalable to other rural communities and cities around the world, offering good potential to export UK-grown expertise.

PUTTING COMMUNITIES AT THE HEART OF DEVELOPMENT

The Duchy takes a community-led approach to development planning to ensure its proposals are right for the people they affect. We believe that involving the community from the earliest stages of a project creates open and collaborative relationships and helps to ensure local people are invested in plans that reflect the needs of the area. An example is in Shepton Mallet, where we commissioned The Prince's Foundation for Building Community to run a series of workshops and consultations to give local people the opportunity to influence plans for a new development comprising 600 homes, a school, a commercial centre and green space. Over 12 months, local MPs and councillors, planning officers, residents, businesses and representatives of some 50 local organisations were engaged to help shape the plans.

BREXIT SEMINARS FOR FARMING TENANTS

The farming sector faces unprecedented challenges. With the implications of Brexit still unclear, we want to support our agricultural tenants by enabling them to share their views and concerns and helping to ensure they are resilient to future changes. In January 2018, the first Brexit seminar for Duchy farming tenants was held in North Somerset and attended by 90 people from the local area, including Hereford and Wessex. It was hosted by farm management consultancy Andersons. Following positive feedback, a second seminar was held in St Mellion in February. This was attended by more than 50 of our farming tenants from Cornwall and Dartmoor.

MODERN SLAVERY

United Nations Sustainable Development Goal 8, which is focused on achieving decent work and economic growth, calls for immediate and effective measures to end modern slavery, a global problem that is also present in the UK. Potential areas of risk to which the Duchy could be exposed include seasonal farm labour used by tenant farmers, construction workers employed by house builders at development sites, and the supply chains used for construction materials, again at development sites.

The Duchy's inaugural Modern Slavery Statement was published in June 2018 and is available on the Duchy of Cornwall website. It sets out what is being done to raise awareness of the issue of modern slavery among our tenants, contractors and staff, and how we are engaging with our suppliers to ensure there is no modern slavery within our supply chains.

Victor Jackson Square, Poundbury
‹

Creating value for our stakeholders

Creating value for
OUR EMPLOYEES

We work hard to create an inclusive and supportive working environment for our 153 employees based in the head office in London and in regional offices across the South West, as well as those who work at the Duchy Nursery, woodlands, holiday cottages and St Mary's Quay.

INDEPENDENT EMPLOYEE SURVEY
87%
of our 157 employees responded

INTRODUCED
new
management development programme

LAUNCHED
flexi-time
system to promote work–life balance

Staff at the Duchy Nursery, Lostwithiel, Cornwall.

LISTENING AND RESPONDING TO EMPLOYEE FEEDBACK

To continuously raise standards, the Duchy of Cornwall is committed to engaging with and listening to its employees. In 2017, we commissioned an independent employee survey to better understand our strengths and areas for improvement.

Shaping our response

We have started acting on these insights with a new management development programme called Sustainable Leadership. It will run for two years and will provide managers with the skills and insights they need to deliver better leadership, communication and team management. Our employees are also working together to improve internal communication.

In January 2018, we introduced a new flexi-time system that allows people to vary the start and end times of their working day to provide a better work–life balance.

CELEBRATING OUTSTANDING SERVICE

In 2018, Eastern District Land Steward David Curtis celebrated 40 years of outstanding commitment working for the Duchy of Cornwall. David arrived in 1978 with a diploma in Rural Estate Management and went on to qualify with the Royal Institution of Chartered Surveyors and the Central Association of Agricultural Valuers. David managed Duchy estates across the South West for 20 years before setting up the new Duchy office in Hereford and becoming responsible for the management of 15,378 hectares of Duchy land across 12 counties stretching from Dorset to Nottinghamshire. He also led major projects such as the £7million regeneration of the Harewood End Estate and transformation of dilapidated barns into bespoke modern business space in Upper Twyford – both held up as exemplars for sustainable energy. David was recognised for his loyal service to the Duchy and Royal Family in 2004 when he was appointed a Member of the Royal Victorian Order.

WHAT OUR STAFF VIEW AS OUR STRENGTHS

- *Leadership is rated most highly out of all the topics covered.*
- *Trust is strong, except for a few cases where people expressed concern about speaking out.*
- *There is a real sense of pride in belonging to a unique and prestigious organisation.*
- *Relationships and teamwork are generally strong.*
- *Managers are approachable and our staff feel fairly treated.*
- *Our employees are loyal and dedicated to delivering quality work.*
- *The work employees do is perceived as interesting, varied and stimulating.*
- *In general, people are clear about their roles.*

WHERE THEY TELL US WE CAN IMPROVE

- *We can make better use of our resources, both human and technical.*
- *Work needs to be more evenly distributed and manageable, including looking at the possibility of flexible working.*
- *Practices around managing change could be more effective.*
- *We have the opportunity to enhance communication and stimulate cross-team collaboration.*
- *We have room to improve support of self-development opportunities and leadership and management capabilities.*

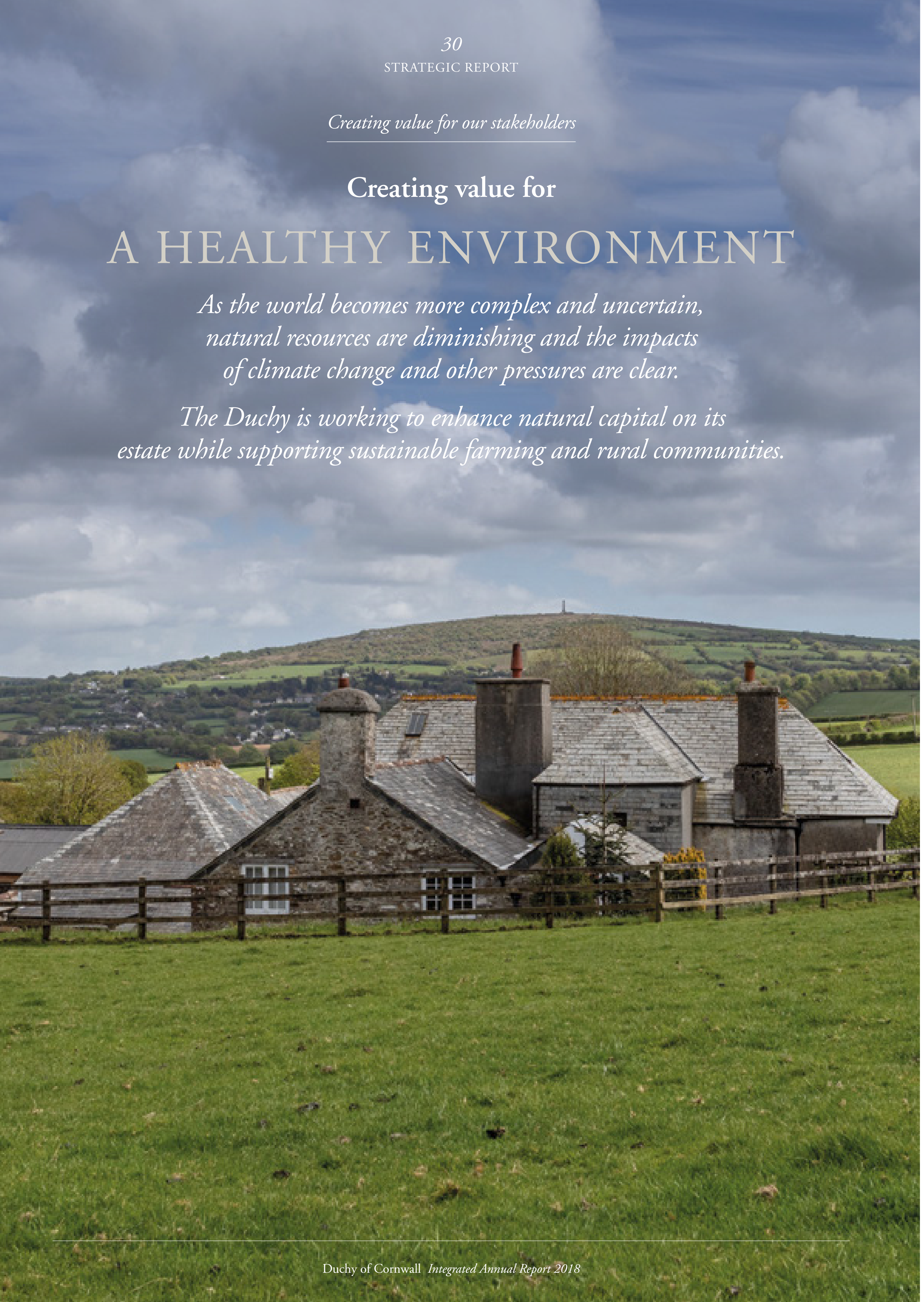
Creating value for our stakeholders

Creating value for

A HEALTHY ENVIRONMENT

As the world becomes more complex and uncertain, natural resources are diminishing and the impacts of climate change and other pressures are clear.

The Duchy is working to enhance natural capital on its estate while supporting sustainable farming and rural communities.



THE DUCHY ESTATE'S NATURAL CAPITAL INCLUDES:

23,875
hectares of enclosed farmland (with an estimated 920,000 tonnes of carbon stored in its soils)

3,300
hectares of woodland (with 167,800 tonnes of carbon stock in above-ground tree biomass)

160
miles of coastal margins

24,000
hectares of mountains, moors and heaths (approximately)

32,000
hectares of mineral rights (in addition to surface ownership)

Moors and heaths (including
14,150
hectares of peatland)

Small areas of
urban green space

These assets provide food and fuel, and climate regulation and water purification functions, whilst generating recreational opportunities and aesthetic enjoyment.

Burraton Farm, Stoke Climsland, Cornwall. In the background is Kit Hill Country Park, given to Cornwall Council on behalf of the people of Cornwall in 1985 to celebrate the birth of Prince William.

ENHANCING NATURAL CAPITAL

To maximise the environmental value we create, we need to understand the estate's natural capitals – including soils, watercourses and biodiversity – and the opportunities to protect and improve them.

Following a successful pilot phase, we have launched a major new project to understand and enhance the value of natural capital across our rural estates. Over the next two years, we will complete a robust survey covering 15,000 hectares of farmland. We are working with partners to also include the unenclosed moorlands of Dartmoor and the coastal heaths of the Isles of Scilly.

Managing natural capital at the farm level

Our vision is that, eventually, every Duchy farm will have its own natural capital management plan, designed in partnership with tenants, which will include a blueprint to protect vulnerable natural features. Where there is potential to enhance the value of the natural capitals, actions will be agreed to ensure sustainable farming can thrive alongside the improved management of natural resources.

The process for developing a management plan will involve collating existing data and discussing the management of each holding before undertaking a scientific site survey. A digitised map will be produced to identify the natural capitals requiring attention on each farm. This information will enable tenants to meet their environmental objectives and support Duchy Land Stewards in their day-to-day estate management.

The approach also offers the potential to create added value for society and income streams for tenants by identifying ways we can enhance natural capital while providing new services and benefits to the public. This might include using land to reduce flood risk to surrounding areas, and managing soils to store more carbon and help mitigate carbon change.

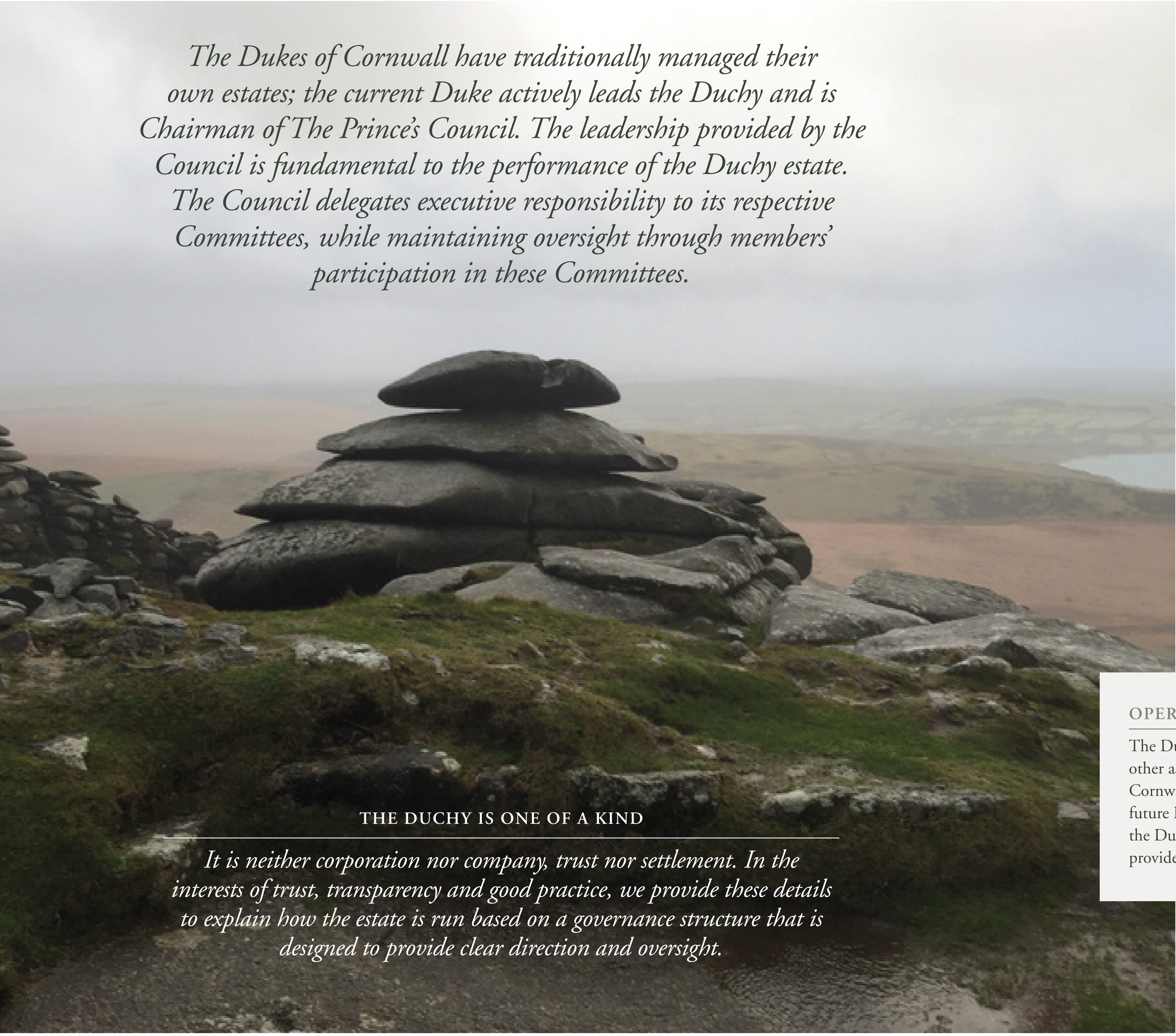
We plan to survey the natural capitals of 84 Duchy farms over the next 12 months, covering 15,000 hectares

IN ACTION: THE PENCALENICK ESTATE

The Pencalenick Estate near Truro comprises two farms and an area of Duchy woodland. It was one of the first sites to be fully assessed, primarily because one of the farms is to be re-let in the autumn of 2018 and we want to ensure the incoming tenant is aware of the opportunities for enhancing its natural capitals alongside their farming systems. The outcomes of the survey include a requirement to protect water quality and prevent soil erosion by not arable cropping on steep ground or in close proximity to water courses; these areas will be returned to permanent grassland, which reduces surface water run-off and provides valuable feeding habitat for pollinator insects and raptors. To maximise the benefits beyond its own boundaries, the Duchy is seeking to link grassland areas with other existing or permanent grassland features to create a scalable network of habitat stretching across farms and, in time, involving other landowners. Designated parkland on the estate will be restored with areas suitable for sowing seed mixes for farmland birds. A hedgerow management plan will improve the potential for food, nesting and new saplings. In selecting the new tenant, the Duchy will seek a farmer who can work with us to make a long-term contribution to the value of the natural capitals of the estate.

GOVERNANCE

DIRECTION, OVERSIGHT AND TRANSPARENCY

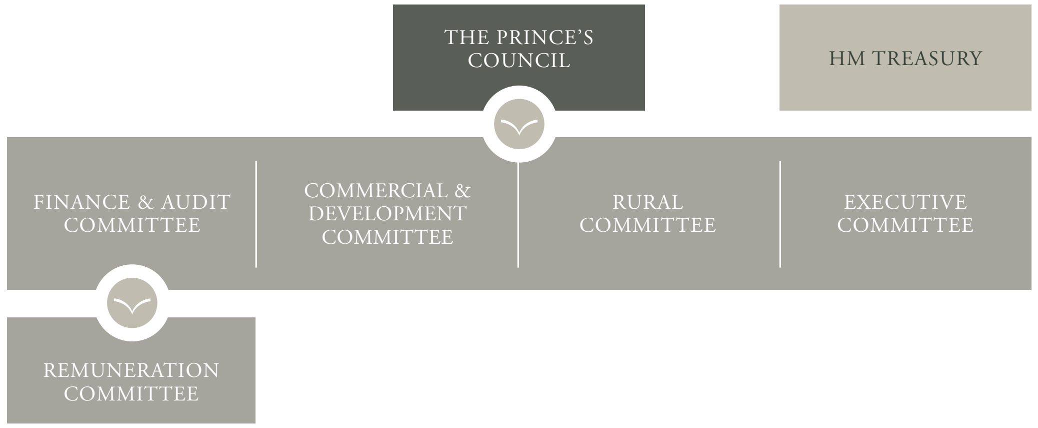


The Dukes of Cornwall have traditionally managed their own estates; the current Duke actively leads the Duchy and is Chairman of The Prince's Council. The leadership provided by the Council is fundamental to the performance of the Duchy estate. The Council delegates executive responsibility to its respective Committees, while maintaining oversight through members' participation in these Committees.

THE DUCHY IS ONE OF A KIND

It is neither corporation nor company, trust nor settlement. In the interests of trust, transparency and good practice, we provide these details to explain how the estate is run based on a governance structure that is designed to provide clear direction and oversight.

GOVERNANCE AT A GLANCE



TRANSPARENCY

The Duchies of Lancaster and Cornwall (Accounts) Act 1838 gave HM Treasury a role to ensure that actions taken by any Duke when managing the Duchy cannot compromise the long-term value of the estate. For this reason, HM Treasury must, for example, approve all property transactions with a value of £500,000 or more.

The management of the estate is subject to the supervision of The Prince's Council and to an annual independent external audit. In addition, the Duchy's annual accounts are laid before the House of Commons and the House of Lords so that Parliament can be satisfied that HM Treasury is fulfilling its statutory responsibilities.

In relation to the International Integrated Reporting Council (IIRC) Framework for integrated reporting, we confirm that members of The Prince's Council have been involved in the development of this Integrated Annual Report and consider that it complies with the IIRC Framework. The Prince's Council acknowledges its overall responsibility for the accuracy and integrity of the Report's contents.

OPERATING FRAMEWORK

The Duchy estate was created by Charter in 1337 by Edward III for his son and heir Prince Edward. The land, property and other assets of the Duchy, and the proceeds of disposals of assets, are subject to the terms of the Charter and the Duchy of Cornwall Management Acts 1863 to 1982. These govern the use of the Duchy's assets for the benefit of the present and future Dukes of Cornwall. The Prince of Wales, as The Duke of Cornwall, is entitled to the annual net revenue surplus of the Duchy. He is not entitled to the proceeds or profits from the sale of capital assets, which are retained in the Duchy to provide income for future beneficiaries.

THE PRINCE'S COUNCIL AND COMMITTEES

The Prince's Council provides the Duchy with invaluable professional expertise and experience. Its membership includes recognised leaders in agriculture, commercial property, estate management, investment management, law and finance. Appointments to The Prince's Council are within the gift of The Duke of Cornwall.

	Appointed	*Membership*					
		Council	*Finance & Audit*	*Rural*	*Commercial & Development*	*Remuneration*	*Executive*
THE PRINCE'S COUNCIL							
Chairman: His Royal Highness The Prince of Wales		✓					
The Lord Warden of the Stannaries – Sir Nicholas Bacon	June 2006	✓	✓	✓	✓	✓	
The Receiver General to His Royal Highness – The Hon James Leigh-Pemberton	December 1999	✓	✓			✓	
The Attorney-General to His Royal Highness – Jonathan Crow QC	December 2006	✓					
The Rt Hon The Lord Rothschild	June 2006	✓					
Mark Thomas	December 2006	✓		✓			
The Countess of Arran	June 2007	✓		✓			
James Williams	November 2009	✓	✓	✓		✓	
John Stephen	May 2012	✓			✓		
The Secretary and Keeper of the Records – Alastair Martin	May 2012	✓	✓	✓	✓	✓	✓
Ian Marchant	May 2012	✓	✓				
Clive Alderton, Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall	October 2015	✓	✓				
ADVISERS TO THE COUNCIL							
David Fursdon	April 2008			✓			
Paul Morrell	February 2012				✓		
Andrew Wright, Treasurer to TRH The Prince of Wales and The Duchess of Cornwall	May 2012		✓				
Sir Michael Hintze	September 2014		✓				
Henry Richards	November 2014				✓		
Kit Martin	February 2015				✓		
Lord Downshire	August 2017			✓			
DUCHY STAFF							
Linda Bryant, Property Services Director							✓
David Curtis, Land Steward, Eastern District				✓			✓
Chris Gregory, Land Steward, Western District and Isles of Scilly				✓			✓
Ben Murphy, Estate Director					✓		✓
Andrew Phillips, Rural Director of Finance				✓			✓
Nick Pollock, Head of Planning					✓		✓
Keith Willis, Finance Director		✓	✓	✓	✓	✓	✓

THE PRINCE'S COUNCIL

Sir Nicholas Bacon
The Lord Warden of the Stannaries, Sir Nicholas is a Norfolk landowner with commercial interests predominantly in London. He is President of the Royal Horticultural Society.

The Hon James Leigh-Pemberton
Receiver General, James was a Managing Director and Chief Executive Officer of Credit Suisse in the United Kingdom. In September 2013, he was appointed to head UK Financial Investments (UKFI). Following the merger of UKFI with UK Government Investments (UKGI), he is currently Deputy Chairman of UKGI.

Jonathan Crow QC
The Attorney-General to His Royal Highness, Jonathan, formerly First Treasury Counsel (Chancery) is a practising barrister specialising in company and commercial litigation and public law.

The Rt Hon The Lord Rothschild
Chairman of The Rothschild Foundation, J Rothschild Capital Management and Five Arrows Limited.

Mark Thomas
A pedigree beef and sheep farmer from Launceston, Cornwall, Mark is a landowner and tenant. He is the past Chairman of the National Beef Association (South West) and President of South Devon Herd Book Society.

The Countess of Arran
For the last 26 years, Lady Arran has been involved in managing a traditional rural estate and has wide charitable interests in the South West.

James Williams
James Williams returned to his home county of Cornwall after an extensive career in investment management, working in many parts of the world. His interests cover education, the arts and agriculture, as well as his involvement with Cornish charitable ventures.

Alastair Martin
Secretary and Keeper of the Records, Fellow of the Royal Institution of Chartered Surveyors and the trustee of several private estates.

John Stephen
A Chartered Surveyor, John was previously Chairman for England of Jones Lang LaSalle. He is currently a non-executive director/adviser to several private property companies, family offices and charities.

Ian Marchant
Former Chief Executive Officer of Scottish and Southern Energy, Ian has been Chairman of the international oil services company, Wood, since 2014. He is Honorary President of the Royal Zoological Society of Scotland and Chairman of Thames Water plc.

Clive Alderton
Clive is Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall. He took his present role in The Royal Household in 2015 having previously served in several diplomatic posts overseas, most recently as Her Majesty's Ambassador to the Kingdom of Morocco.

ADVISERS TO THE COUNCIL

David Fursdon
David is a qualified rural surveyor and agricultural valuer. He is Chairman of Beeswax Dyson Farming Limited and a Trustee on the National Trust Board. A former CLA President and Crown Estate and English Heritage Commissioner, David is the owner of a family estate management, property and tourism business. He is Lord Lieutenant of Devon.

Paul Morrell
A chartered quantity surveyor, Paul was Senior Partner and international Chairman at Davis Langdon (now part of AECOM). He subsequently became the Government's first Chief Construction Adviser and now practises as an independent consultant.

Andrew Wright
Andrew is Treasurer to TRH The Prince of Wales and The Duchess of Cornwall.

Sir Michael Hintze
With a background in finance (Salomon Brothers, Goldman Sachs and Credit Suisse First Boston), Michael is the founder, Chief Executive and Senior Investment Officer of CQS, one of Europe's leading credit-focused multi-strategy asset management firms that has been providing investment solutions to institutional investors for almost 20 years. He is a Senior Portfolio Manager and active in the charitable sector through the Hintze Family Charitable Foundation.

Henry Richards
Henry was Executive Chairman of Lands Improvement Holdings Limited (LIH) before standing down when the business was sold in September 2015, and he remains a consultant to the company. Prior to joining LIH, he was a Director of Savills and spent the first six years of his career with Jones Lang Wootton.

Kit Martin
Kit trained as an architect and is an Honorary Fellow of the Royal Institute of British Architects. He has spent a lifetime conserving historic buildings. He was Projects Consultant to The Prince's Regeneration Trust and a founding Trustee of Save Europe's Heritage. He was awarded a CBE for services to conservation.

Lord Downshire
Nick Downshire is a Peer, landowner and accountant. Nick attended the Royal Agricultural College, Cirencester. He then worked in corporate finance and as a finance director in the technology sector. He now holds a number of non-executive directorships and runs the family estate in Yorkshire.

GOVERNANCE IN ACTION

Many members of The Prince's Council sit as non-executives on one or more of the supporting Committees, providing a clear mechanism for two-way dialogue, guidance and reporting.

Role and remit	*Principal resources and relationships overseen*	*Matters reviewed*
THE PRINCE'S COUNCIL		
• Chaired by The Prince of Wales. • Provides advice to His Royal Highness with regard to the strategy of the Duchy. • With the exception of the membership of the Secretary and Keeper of the Records, the Council is a non-executive body.	The Prince's Council has always taken a holistic view of the resources and relationships the Duchy draws from and impacts on. In its discussions and recommendations, the Council takes care to balance all resources and relationships.	Met twice, in June and December 2017. Other than regular reports from the Council Committees, matters reviewed included: farming and new farm lettings; forestry; the trading enterprises (nursery, holiday cottages, harbour, anaerobic digestion plant); natural capitals; the marine estate; property transactions; financial budgets, forecasts and five-year business model; and routine human resources, public relations and legal matters.
FINANCE & AUDIT COMMITTEE		
• Advises on the Duchy's financial strategy and liaises with the external auditor. • Chaired by The Hon James Leigh-Pemberton, the Receiver General. • The Committee reviews financial performance and ensures an appropriate balance is struck between revenue and capital growth, that any variations between forecast and budget are understood and are appropriate, and that risks are being well managed.	Financial Manufactured	Met four times, in June, September, November and March. Specific topics covered included: findings of the annual external audit; restructuring of loans; integrated thinking and reporting; the provision of affordable housing; property transactions and development projects; property valuations and yields; and the management of risk. Each meeting received detailed management accounts and a financial commentary, investment performance report and financial investment valuation.
RURAL COMMITTEE		
• Advises on the rural economy. • Chaired by Sir Nicholas Bacon, the Lord Warden. • Much of the value provided by the Rural Committee flows from the time and expert guidance given by members outside of formal meetings. Members carry out an extensive range of visits to the Duchy district offices, estates and farm tenants.	Natural Community Financial Manufactured	Met twice, in June and November. Each meeting reviews financial issues and the state of farming. At their meetings this year, the Committee considered: the management of the woodlands; debt collection processes and statistics; the management of the natural resources of the Duchy and payments for ecosystems services; the results of the residential tenants' survey; the performance of the rural portfolio compared to the Savills Rural Estate Benchmark; developments at the Duchy Nursery; and strategic KPIs for the estate. There were field visits to prospective new tenants during farm tenderings, and a two-day visit to the Isles of Scilly to meet with tenants, business people and community leaders to consider the particular issues faced by island communities.

Role and remit	*Principal resources and relationships overseen*	*Matters reviewed*
COMMERCIAL & DEVELOPMENT COMMITTEE		
• Advises on the commercial property portfolio and development sites (excluding Poundbury). • Chaired by John Stephen.	Manufactured Community	Met four times, in July, September, November and March. As part of the Committee's work, it considered the valuations and financial reports it regularly receives in relation to the commercial property portfolio and development sites, and dealt with routine lease matters. The Committee monitored the main developments at Nansledan and Truro in Cornwall, and other sites in Kennington, Hereford, Somerset and Kent. Specific matters included: the future of Dartmoor Prison; affordable housing; the Kennington residential and commercial estate; and the development of asset management plans for key properties or those facing a time of transition.
EXECUTIVE COMMITTEE		
• Implements strategy and manages all operational activities. • Chaired by Alastair Martin, the Secretary and Keeper of the Records.	People Intellectual Community Financial	Meets formally four times a year. Each meeting is structured around three fundamental questions: • Are we making progress on our strategic objectives? • Are our teams working effectively? • Is the organisation running smoothly? Specific topics included: the Data Protection Act and GDPR; KPIs for the strategic objectives; residential tenants survey; staff survey; natural resource management plans; flexible working; modern slavery policy; and asset class weightings and strategies for increasing the Revenue account surplus. There was an away day on the Committee's modus operandi. Regular matters considered included health and safety, legal, human resources and public relations issues, as well as management accounts, budgets and forecasts.

A NOTE ON ANCIENT TITLES

Some roles within the Duchy have ancient titles, with the responsibilities attached to them roughly equivalent to senior leadership roles in other organisations. The four Proper Officers, as they are known, are:

- **The Lord Warden of the Stannaries:** after The Duke of Cornwall, the Lord Warden is the most senior position on The Prince's Council, and Deputy Chairman.
- **The Receiver General to His Royal Highness** is non-executive chair of the Finance & Audit Committee and has oversight of financial affairs.
- **The Attorney-General to His Royal Highness**, in whose name legal proceedings are taken and defended, is the principal legal officer providing legal advice and support.
- **The Secretary and Keeper of the Records** has executive responsibility for the management of the Duchy and is equivalent to the Chief Executive in other organisations.

Delivery of the Duchy's long-standing development at Poundbury is guided by monthly site meetings involving key staff, the Poundbury Development Director, and the Secretary and Keeper of the Records.

The Remuneration Committee, chaired by Sir Nicholas Bacon, the Lord Warden, meets annually in March as a sub-committee of the Finance & Audit Committee. Its role is to review and approve staff salaries and benefits.

OTHER DISCLOSURES

THE DUKE OF CORNWALL'S BENEVOLENT FUND

In the Benevolent Fund's last financial year, it made grants and commitments of c.£113,000 (2017: c.£127,000) to a variety of charities, primarily operating in Cornwall. In accordance with the wishes of The Prince of Wales, grants were made to educational and agricultural charities, together with the restoration of churches and environmental charities, as well as to a variety of other charitable causes.

CHARITABLE DONATIONS

Charitable donations made by the Duchy of Cornwall estate amounted to £115,000 (2017: £96,000), made to causes in the following areas:

- Agriculture £15,000 (2017: £16,000)
- Environment £35,000 (2017: £22,000)
- Community £65,000 (2017: £58,000).

Significant individual donations included:

- £28,000 (2017: £39,000) to the Isles of Scilly Initiative, a body dedicated to the promotion of the destination of the Isles of Scilly; and
- £15,000 (2017: £15,000) to the Dartmoor Hill Farm Project.

GOING CONCERN

After making due enquiries and undertaking the normal forecasting procedures, including a five-year financial and strategic plan, the Proper Officers consider that the Duchy has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the financial statements.

EMPLOYMENT POLICIES

The Duchy of Cornwall's employment policies and practices have been updated and developed to continue to support the Duchy's business plans and to develop its skilled workforce. In line with its Employee Relations Policy, the Duchy is committed to open discussion and direct consultation with employees and it maintains two-way channels of communication, including an intranet, a staff Duchy day, and a staff consultative committee.

All employees undertake an annual appraisal process to align their performance against objectives and their contribution to the overall business plans of the Duchy. They have the opportunity to agree to a Personal Development Plan to support their personal development needs and career aspirations.

PROPER OFFICERS' REPORT

STATEMENT OF THE PROPER OFFICERS' RESPONSIBILITIES IN THE PREPARATION OF THE ACCOUNTS

The Lord Warden of the Stannaries, the Receiver General, the Attorney-General, and the Secretary and Keeper of the Records (the "Proper Officers") are responsible for preparing the Governance Report and the Accounts, defined below, in accordance with applicable law and regulations.

The Accounts Direction given by HM Treasury dated 8th May 2017 (the "Accounts Direction") requires the Proper Officers to prepare Accounts for each financial year. Under the Accounts Direction the Proper Officers have prepared Group financial statements and Duchy of Cornwall financial statements (the "Accounts") in accordance with the International Financial Reporting Standards (IFRSs), as adopted by the EU and as applied to the Accounts by the Accounts Direction.

Under the Accounts Direction, the Proper Officers must not approve the Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Duchy of Cornwall, and of the surplus or deficit of the Group for that period. In preparing these Accounts, the Proper Officers:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU and as applied to the Group and the Duchy of Cornwall by the Accounts Direction have been followed, subject to any material departures disclosed and explained in the Accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Group and the Duchy of Cornwall will continue in business; and
- prepare the Accounts in accordance with the Accounts Direction, which is reproduced in the Appendix to the Accounts.

The Proper Officers are responsible for keeping proper accounting records that are sufficient to show and explain the Duchy of Cornwall's transactions, disclose with reasonable accuracy at any time the financial position of the Duchy of Cornwall, and enable them to ensure that the Accounts comply with the Accounts Direction. They are also responsible for safeguarding the assets of the Duchy of Cornwall and hence for taking reasonable steps in the prevention and detection of fraud and other irregularities.

The Proper Officers are responsible for the maintenance and integrity of the Duchy of Cornwall's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

So far as the Proper Officers are aware, there is no relevant audit information of which the Duchy of Cornwall's auditor is unaware; and they have taken all the steps that they ought to have taken as Proper Officers in order to make themselves aware of any relevant audit information and to establish that the Duchy of Cornwall's auditor is aware of that information.

PRINCIPAL FINANCIAL RISKS AND UNCERTAINTIES

A comprehensive risk management process exists within the Duchy, covering all the assets and activities of the Duchy and its strategic, project, operational, hazard and financial risks.

The Prince's Council and its sub-committees take account of strategic risk as part of their deliberations. Project, operational, hazard and financial risk is controlled by members of the Executive Committee, and any issues arising are highlighted at their regular meetings, or escalated at an earlier stage if appropriate.

A risk register and risk management structure supports the Council and Committees. Risks are grouped by asset or activity with a named individual responsible for assessing each risk and the corresponding mitigations. An over-arching risk management structure categorises risks for review and comparison.

RISK AND INTERNAL CONTROL STATEMENT

The Duchy's operations expose it to a variety of financial risks, including the effects of changes in credit risk, investment markets risk, currency risk, movements in interest rates and liquidity issues. All these risks could affect the organisation's net assets, operating surplus, liquidity and/or structure. The Duchy's risk management process seeks to minimise potential adverse effects on financial performance.

Looking at each of these risks in turn:

Property risk

The Duchy holds a diversified property portfolio that is actively monitored by management so as to reduce the overall risk profile.

Credit risk

The Duchy is exposed to credit risk in relation to its tenants and financial institutions. Credit risk in respect of the Duchy's tenants is reviewed on a regular basis and appropriate action is taken where necessary. For new lettings, the Duchy undertakes credit checks and holds tenant deposits where appropriate. For banks and financial institutions, the Duchy's appointed investment consultants assess the credit quality of the organisation, taking into account its financial position, past performance experience and other relevant factors.

Investment markets risk

The Duchy is exposed to adverse movements within the financial markets and employs fund managers to manage its investment portfolios and the risks associated therein. Portfolios are reviewed on a regular basis to ensure they reflect the overall objectives of the Duchy.

Foreign exchange risk

Foreign exchange risk arises on assets and liabilities denominated in a currency other than the Duchy's functional currency of Sterling. The most significant exposure within the financial investment portfolio is to the US Dollar. The spread of a +/- 10% exchange rate movement would equate to £1.2million. Such an impact would not be material in relation to the capital value of the Duchy, so no specific mitigation measures are considered necessary.

Interest rate risk

The Duchy's exposure to interest rate fluctuations is primarily related to bonds and is managed by external fund managers. Exposure to interest rate fluctuations on borrowings is fully hedged.

Liquidity risk

Without resorting to further borrowing, the Duchy has to generate all the capital cash it requires for major improvements to the fabric of the estate and for the restructuring of the portfolio. Such activities are therefore constrained by the Duchy's ability to raise capital cash through sale of property, which can be adversely affected during periods when there is limited economic activity in the property sectors within which the Duchy operates. The Duchy is well placed to manage this risk over the medium term through careful capital cash flow planning and borrowing facilities, which are readily available to us at competitive rates.

His Royal Highness has delegated executive responsibility for the management of the Duchy to the Secretary and Keeper of the Records, and the Finance & Audit Committee regularly reviews the nature and extent of the Duchy's operations and financial risks. The Committee is satisfied that the Duchy maintains and operates an appropriate system of internal controls, although any such system can only manage, rather than eliminate, risk. It is therefore not possible for such a system to provide absolute assurance against material misstatement or loss.

The key internal financial controls are:

Financial management

A comprehensive annual budgeting and forecasting system is approved in Council. Attention is paid to the composition and performance of the Capital account along with Revenue account returns, including benchmarking where appropriate. These reports are considered in detail by the senior management team before being submitted to Council.

District office procedures and controls

District offices operate a system of robust procedures and controls, in accordance with directions issued by the Secretary and Keeper of the Records. Compliance is overseen by the Executive Committee.

Capital investment appraisal

Clearly defined guidelines are in place for the assessment, authorisation and control of all capital receipts and expenditure.

Risk register

A comprehensive risk register is maintained and used as the basis for regular review by the Executive and Finance & Audit Committees.

In addition to the financial risks outlined here, a wide range of other factors is taken into account, including macroeconomic and environmental challenges as described on pages 12–13 and 18–19 of this report.

ACCOUNTS

Independent auditor's report to The Duke of Cornwall

REPORT ON THE AUDIT OF THE ACCOUNTS

OPINION

In my opinion, the Duchy of Cornwall's Group financial statements and Duchy of Cornwall financial statements (the "Accounts"):

- give a true and fair view of the state of the Group's and of the Duchy of Cornwall's affairs as at 31st March 2018 and of the Group's revenue surplus, the Group's capital surplus and the Group's and the Duchy of Cornwall's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied to the Duchy of Cornwall by the Accounts Direction given by HM Treasury dated 8th May 2017; and
- have been prepared in accordance with the Accounts Direction given by the HM Treasury dated 8th May 2017.

I have audited the Accounts, included within the Integrated Annual Report (the "Annual Report"), which comprise: the Group and the Duchy of Cornwall Balance Sheets as at 31st March 2018; the Group Revenue Account Statement of Comprehensive Income, the Group Capital Account Statement of Comprehensive Income, the Group and the Duchy of Cornwall statements of Cash Flows, and the Group and the Duchy of Cornwall Statements of Changes in Capital and Reserves for the year then ended; and the notes to the Accounts, which include a description of the significant accounting policies.

BASIS FOR OPINION

I conducted my audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. My responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the Accounts section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence

I remained independent of the Group in accordance with the ethical requirements that are relevant to my audit of the Accounts in the UK, which includes the FRC's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

CONCLUSIONS RELATING TO GOING CONCERN

I have nothing to report in respect of the following matters in relation to which ISAs (UK) requires me to report to you when:

- the Proper Officers' use of the going concern basis of accounting in the preparation of the Accounts is not appropriate; or
- the Proper Officers have not disclosed in the Accounts any identified material uncertainties that may cast significant doubt about the Group's and the Duchy of Cornwall's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Accounts are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Duchy of Cornwall's ability to continue as a going concern.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the Accounts and my auditor's report thereon. The Proper Officers are responsible for the other information. My opinion on the Accounts does not cover the other information and, accordingly, I do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with my audit of the Accounts, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Accounts or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If I identify an apparent material inconsistency or material misstatement, I am required to perform procedures to conclude whether there is a material misstatement of the Accounts or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report based on these responsibilities.

With respect to the Strategic Report and Proper Officers' report, I also considered whether the disclosures required by the Accounts Direction given by HM Treasury dated 8th May 2017 have been included.

Based on the responsibilities described above and my work undertaken in the course of the audit, ISAs (UK) require me also to report certain opinions and matters as described below.

Strategic Report and Proper Officers' report

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Proper Officers' report for the year ended 31st March 2018 is consistent with the Accounts and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and the Duchy of Cornwall and their environment obtained in the course of the audit, I did not identify any material misstatements in the Strategic Report and Proper Officers' report.

RESPONSIBILITIES FOR THE ACCOUNTS AND THE AUDIT

Responsibilities of the Proper Officers for the Accounts

As explained more fully in the Statement of the Proper Officers' responsibilities in the preparation of the Accounts set out on page 39, the Proper Officers are responsible for the preparation of the Accounts in accordance with the Accounts Direction given by HM Treasury dated 8th May 2017, and for being satisfied that they give a true and fair view. The Proper Officers are also responsible for such internal control as they determine is necessary to enable preparation of the Accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Accounts, the Proper Officers are responsible for assessing the Group's and the Duchy of Cornwall's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Proper Officers either intend to liquidate the Group or the Duchy of Cornwall or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Accounts

My objectives are to obtain reasonable assurance about whether the Accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Accounts.

A further description of my responsibilities for the audit of the Accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Use of this report

This report, including the opinions, has been prepared for and only for The Duke of Cornwall in accordance with Section 9 of the Duchy of Cornwall Management Act 1982 and for no other purpose. I do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by my prior consent in writing.

OTHER REQUIRED REPORTING

OPINION ON MATTERS REQUIRED BY THE DUCHY OF CORNWALL MANAGEMENT ACT 1982

In my opinion:

- proper accounting records have been kept by the Proper Officers of the Duchy of Cornwall;
- the Proper Officers of the Duchy of Cornwall have maintained a satisfactory system of control over transactions affecting the Duchy of Cornwall Property, as defined in the Duchy of Cornwall Management Act 1982; and
- the Accounts are in agreement with the accounting records of the Duchy of Cornwall.

OTHER MATTERS ON WHICH I AM REQUIRED TO REPORT BY EXCEPTION

Under the terms of my engagement I am required to report to you if, in my opinion:

- I have not received all the information and explanations I require for my audit; or
- certain disclosures of Proper Officers' remuneration specified by the Accounts Direction given by HM Treasury dated 8th May 2017 are not made.

I have no exceptions to report arising from this responsibility.

OTHER MATTERS

In my opinion, any conditions or restrictions that are subject to:

- a sanction of approval under:
  - Section 11 of the Duchy of Cornwall Management Act 1863; or
  - Section 2 of the Duchy of Cornwall Management Act 1868; or
- an authorisation under Section 3 or 7 of the Duchy of Cornwall Management Act 1982 have been satisfied or complied with.

James Chalmers

Chartered Accountant and Statutory Auditor
London
6th June 2018

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2018

Presented to Parliament pursuant to Section 2 of the Duchies of Lancaster and Cornwall (Accounts) Act 1838

GROUP REVENUE ACCOUNT STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Revenue	2	34,595	35,575
Operating costs	2	(13,365)	(13,551)
Operating surplus		**21,230**	**22,024**
Finance income	5	3,353	3,345
Finance costs	6	(3,787)	(3,494)
Net finance costs		(434)	(149)
Net surplus for the year		20,796	21,875
Surplus attributable to:			
Non-controlling interests		77	145
HRH		**20,719**	**21,730**
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to income statement:			
Actuarial (loss)/gain on retirement benefit obligations	7	(4,035)	2,845
Total comprehensive income on Revenue account		**16,761**	**24,720**
Total comprehensive income attributable to:			
Non-controlling interests		77	145
Duchy of Cornwall		16,684	24,575

All operations are considered to be continuing.

The Duchy is not subject to corporation tax as it is not a separate legal entity for tax purposes. However, His Royal Highness voluntarily pays income tax on the Duchy's net surplus for the year (note 1).

GROUP CAPITAL ACCOUNT STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Net gain from fair value adjustment on investment property	8	17,781	22,856
Hedge termination costs		–	(4,382)
Net gain on the disposal of investment property		773	1,908
Net gain on revaluation of investment property held for sale		1,719	425
Net gain on the disposal of investment property held for sale		969	1,430
Net gain/(loss) on the disposal of financial assets	11	1,812	(851)
Impairment of financial assets	11	(1,300)	–
Charge from Revenue for salary costs	2	(875)	(897)
Other costs		(355)	(255)
Net surplus for the year on Capital account		**20,524**	**20,234**
Other comprehensive (expense)/income			
Items that will not be reclassified to capital profit or loss:			
Net loss on revaluation of owner-occupied property	9	(637)	(671)
Items that may be reclassified to capital profit or loss:			
Net gain/(loss) on the revaluation of financial assets	11	4,512	(3,907)
Net gain on the revaluation of financial derivatives	15	562	6,691
Total comprehensive income on Capital account		**24,961**	**22,347**

The notes on pages 52 to 79 are an integral part of these financial statements.

GROUP BALANCE SHEET

	Notes	As at 31st March 2017 £'000	As at 31st March 2018 £'000
Assets			
Non-current assets			
Investment property	8	912,661	940,473
Property, plant and equipment	9	13,936	13,964
Investment in joint venture	10	8,579	11,208
Financial assets	11	66,280	62,655
Trade and other receivables	12	3,700	200
Total non-current assets		**1,005,156**	**1,028,500**
Current assets			
Inventories		1,485	1,679
Trade and other receivables	12	10,763	8,826
Cash and cash equivalents		4,132	11,045
		16,380	21,550
Investment property assets held for sale	13	26,624	16,455
Total current assets		**43,004**	**38,005**
Total assets		**1,048,160**	**1,066,505**
Liabilities			
Current liabilities			
Trade and other payables	14	(23,848)	(24,769)
Borrowings	15	–	(132)
Total current liabilities		**(23,848)**	**(24,901)**
Non-current liabilities			
Trade and other payables	14	(10,506)	(5,095)
Borrowings	15	(100,000)	(105,000)
Derivative financial instruments	15	(8,020)	(1,602)
Retirement benefit obligations	7	(8,055)	(5,138)
Total non-current liabilities		**(126,581)**	**(116,835)**
Net assets		**897,731**	**924,769**
Reserves			
Revenue reserve available for distribution to HRH		3,486	5,187
Retirement benefit reserve		(9,909)	(7,064)
Capital reserve		911,779	927,435
Hedging reserve		(7,813)	(1,122)
		897,543	924,436
Non-controlling interest		188	333
Total reserves		**897,731**	**924,769**

The notes on pages 52 to 79 are an integral part of these financial statements.

The financial statements on pages 44 to 79 were approved by the Proper Officers and signed on their behalf by Alastair Martin, Secretary and Keeper of the Records, 6th June 2018.

DUCHY OF CORNWALL BALANCE SHEET

	Notes	As at 31st March 2017 £'000	As at 31st March 2018 £'000
Assets			
Non-current assets			
Investment property	8	902,962	930,124
Property, plant and equipment	9	8,838	7,678
Investment in joint venture	10	8,579	11,208
Investment in subsidiaries	10	9,189	8,867
Financial assets	11	66,280	62,655
Trade and other receivables	12	10,350	6,350
Total non-current assets		**1,006,198**	**1,026,882**
Current assets			
Inventories		353	376
Trade and other receivables	12	9,434	7,461
Cash and cash equivalents		3,602	10,464
		13,389	18,301
Investment property assets held for sale	13	26,624	16,455
Total current assets		**40,013**	**34,756**
Total assets		**1,046,211**	**1,061,638**
Liabilities			
Current liabilities			
Trade and other payables	14	(23,330)	(22,895)
Total current liabilities		**(23,330)**	**(22,895)**
Non-current liabilities			
Trade and other payables	14	(10,506)	(5,095)
Borrowings	15	(100,000)	(105,000)
Derivative financial instruments	15	(8,020)	(1,602)
Retirement benefit obligations	7	(8,055)	(5,138)
Total non-current liabilities		**(126,581)**	**(116,835)**
Net assets		**896,300**	**921,908**
Reserves			
Revenue reserve available for distribution to HRH		3,209	4,276
Retirement benefit reserve		(9,909)	(7,064)
Capital reserve		910,813	925,818
Hedging reserve		(7,813)	(1,122)
Total reserves		**896,300**	**921,908**

The notes on pages 52 to 79 are an integral part of these financial statements.

The Duchy has elected under Section 408 of the Companies Act 2006 as allowed by the Accounts Direction given by HM Treasury dated 8th May 2017 not to include its own statement of comprehensive income in these financial statements. The profit for the year for the Duchy was £21,096,000 (2017: £20,286,000).

The financial statements on pages 44 to 79 were approved by the Proper Officers and signed on their behalf by Alastair Martin, Secretary and Keeper of the Records, 6th June 2018.

GROUP STATEMENT OF CHANGES IN CAPITAL AND RESERVES

	Revenue account		Capital account		Total £'000	Non-controlling interest £'000	Total reserves £'000
	Revenue reserve £'000	Retirement benefit reserve £'000	Capital reserve £'000	Hedging reserve £'000			
Balance as at 1st April 2016	**3,327**	**(5,874)**	**887,380**	**(8,375)**	**876,458**	**111**	**876,569**
Net surplus for the year	20,719	–	20,524	–	41,243	77	41,320
Other comprehensive income/(expense)							
Net loss on revaluation of owner-occupied property (note 9)	–	–	(637)	–	(637)	–	(637)
Net gain on revaluation of financial assets (note 11)	–	–	4,512	–	4,512	–	4,512
Gain on financial derivatives (note 15)	–	–	–	562	562	–	562
Actuarial loss on retirement benefit obligations (note 7)	–	(4,035)	–	–	(4,035)	–	(4,035)
Total comprehensive income/(expense)	**20,719**	**(4,035)**	**24,399**	**562**	**41,645**	**77**	**41,722**
	24,046	(9,909)	911,779	(7,813)	918,103	188	918,291
Less payments made to HRH							
In respect of current year	(17,233)	–	–	–	(17,233)	–	(17,233)
In respect of prior year	(3,327)	–	–	–	(3,327)	–	(3,327)
Balance as at 31st March and 1st April 2017	**3,486**	**(9,909)**	**911,779**	**(7,813)**	**897,543**	**188**	**897,731**
Net surplus for the year	21,730	–	20,234	–	41,964	145	42,109
Other comprehensive income/(expense)							
Net loss on revaluation of owner-occupied property (note 9)	–	–	(671)	–	(671)	–	(671)
Net loss on revaluation of financial assets (note 11)	–	–	(3,907)	–	(3,907)	–	(3,907)
Gain on financial derivatives (note 15)	–	–	–	6,691	6,691	–	6,691
Actuarial gain on retirement benefit obligations (note 7)	–	2,845	–	–	2,845	–	2,845
Total comprehensive income/(expense)	**21,730**	**2,845**	**15,656**	**6,691**	**46,922**	**145**	**47,067**
	25,216	(7,064)	927,435	(1,122)	944,465	333	944,798
Less payments made to HRH							
In respect of current year	(16,542)	–	–	–	(16,542)	–	(16,542)
In respect of prior year	(3,487)	–	–	–	(3,487)	–	(3,487)
Balance as at 31st March 2018	**5,187**	**(7,064)**	**927,435**	**(1,122)**	**924,436**	**333**	**924,769**

Revenue reserve: The revenue reserve and only the revenue reserve is available for distribution to HRH.

Capital reserve: The capital reserve contains the gains and losses on revaluation of assets held to generate income. Proceeds from disposal of capital assets have to be reinvested. Neither the gains/losses on revaluation nor the proceeds from disposal are available for distribution to HRH.

DUCHY OF CORNWALL STATEMENT OF CHANGES IN CAPITAL AND RESERVES

	Revenue account		Capital account		Total reserves £'000
	Revenue reserve £'000	Retirement benefit reserve £'000	Capital reserve £'000	Hedging reserve £'000	
Balance as at 1st April 2016	**3,483**	**(5,874)**	**886,945**	**(8,375)**	**876,179**
Net surplus for the year	20,286	–	19,993	–	40,279
Other comprehensive income/(expense)					
Net loss on revaluation of owner-occupied property (note 9)	–	–	(637)	–	(637)
Net gain on revaluation of financial assets (note 11)	–	–	4,512	–	4,512
Gain on financial derivatives (note 15)	–	–	–	562	562
Actuarial loss on retirement benefit obligations (note 7)	–	(4,035)	–	–	(4,035)
Total comprehensive income/(expense)	**20,286**	**(4,035)**	**23,868**	**562**	**40,681**
	23,769	(9,909)	910,813	(7,813)	916,860
Less payments made to HRH					
In respect of current year	(17,233)	–	–	–	(17,233)
In respect of prior year	(3,327)	–	–	–	(3,327)
Balance as at 31st March and 1st April 2017	**3,209**	**(9,909)**	**910,813**	**(7,813)**	**896,300**
Net surplus for the year	21,096	–	19,583	–	40,679
Other comprehensive income/(expense)					
Net loss on revaluation of owner-occupied property (note 9)	–	–	(671)	–	(671)
Net loss on revaluation of financial assets (note 11)	–	–	(3,907)	–	(3,907)
Gain on financial derivatives (note 15)	–	–	–	6,691	6,691
Actuarial loss on retirement benefit obligations (note 7)	–	2,845	–	–	2,845
Total comprehensive income/(expense)	**21,096**	**2,845**	**15,005**	**6,691**	**45,637**
	24,305	(7,064)	925,818	(1,122)	941,937
Less payments made to HRH					
In respect of current year	(16,542)	–	–	–	(16,542)
In respect of prior year	(3,487)	–	–	–	(3,487)
Balance as at 31st March 2018	**4,276**	**(7,064)**	**925,818**	**(1,122)**	**921,908**

GROUP STATEMENT OF CASH FLOWS

	Notes	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Cash generated from operating activities	16	**20,177**	**18,369**
Interest paid		(3,583)	(3,422)
Net cash from operating activities		**16,594**	**14,947**
Cash flows from investing activities			
Purchase of financial investments		(27,377)	(3,159)
Loans repaid		500	3,500
Investment in joint venture		(3,935)	(2,629)
Proceeds from disposal of financial investments		34,602	2,026
Purchase of investment property		(586)	(1,141)
Property improvements and development expenditure		(12,932)	(11,168)
Proceeds from disposal of investment properties		6,030	6,254
Purchase of property, plant and equipment		(1,641)	(2,272)
Proceeds from disposal of assets held for sale		6,338	12,133
Financial investment income received		2,372	2,892
Interest received		552	427
Net cash inflow from investing activities		**3,923**	**6,863**
Cash flows from financing activities			
Proceeds from borrowings		–	45,132
Borrowings repaid		(208)	(40,000)
Payments made to HRH		(20,560)	(20,029)
Net cash outflow from financing activities		**(20,768)**	**(14,897)**
(Decrease)/Increase in cash in the year		**(251)**	**6,913**
Cash and cash equivalents at start of year		4,383	4,132
Cash and cash equivalents at end of year		**4,132**	**11,045**

DUCHY OF CORNWALL STATEMENT OF CASH FLOWS

	Notes	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Cash generated from operating activities	16	**18,854**	**15,249**
Interest paid		(3,568)	(3,294)
Net cash from operating activities		**15,286**	**11,955**
Cash flows from investing activities			
Purchase of financial investments		(27,377)	(3,159)
Loans repaid		500	4,000
Investment in joint venture		(3,935)	(2,629)
Distribution received from QMS		325	322
Proceeds from disposal of financial investments		34,602	2,026
Purchase of investment property		(586)	(1,141)
Property improvements and development expenditure		(12,932)	(11,168)
Proceeds from disposal of investment properties		6,030	6,254
Purchase of property, plant and equipment		(1,602)	(499)
Proceeds from disposal of assets held for sale		6,338	12,041
Financial investment income received		2,342	2,892
Interest received		1,123	997
Net cash inflow from investing activities		**4,828**	**9,936**
Cash flows from financing activities			
Proceeds from borrowings		–	45,000
Borrowings repaid		–	(40,000)
Payments made to HRH		(20,560)	(20,029)
Net cash outflow from financing activities		**(20,560)**	**(15,029)**
(Decrease)/Increase in cash in the year		**(446)**	**6,862**
Cash and cash equivalents at start of year		4,048	3,602
Cash and cash equivalents at end of year		**3,602**	**10,464**

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements incorporate the financial statements of the Duchy of Cornwall and its subsidiary undertakings all prepared up to 31st March 2018.

The financial statements of the Group and the Duchy have been prepared on a going concern basis and in accordance with the Accounts Direction issued by HM Treasury dated 8th May 2017 (set out on pages 80 to 81) and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and International Accounting Standards Board's (IASB's) Interpretation Committee. The financial statements have been prepared in Sterling (rounded to the nearest thousand), which is the functional currency of the Group, and under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, derivative financial instruments and financial assets and liabilities held for trading. A summary of the more important Group accounting policies, which have been applied consistently across the Group, is set out below. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1st April 2017 have had a material impact on the Group or the Duchy.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1st April 2017, and have not been applied in preparing these consolidated financial statements. Effects noted as follows:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities effective for periods starting before 1st January 2018. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI that do not recycle. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1st January 2018. The Duchy is working towards the implementation of IFRS 9 with effect from 1st April 2018. It anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9, and expects to take the accounting policy choice to account for all hedges under IFRS 9. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model for trade and inter-company receivables. No material impact on profit for future periods is expected.
- IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

  Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved. The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations. The standard is effective for annual periods beginning on or after 1st January 2018, and earlier application is permitted.

1 ACCOUNTING POLICIES *(continued)*

The Group is working towards the implementation of IFRS 15 with effect from 1st April 2018 and has carried out a review of existing contractual arrangements as part of this process. The Duchy anticipates there will be no material impact for the rental, retail or subsidiary revenue. The profile of cash receipts is not affected by this standard.

- IFRS 16 (effective for periods starting 1st January 2019), 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on the balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1st January 2019 and earlier application is permitted.

Based on existing operating leases under IAS 17, the directors estimate that, if IFRS 16 were implemented on 31st March 2018, an immaterial amount of additional land and buildings, and vehicles and machinery would be recognised. In future periods, the operating lease charge would be replaced by a depreciation charge that, whilst lower over the life of the lease than the current operating lease charge, is not expected to be materially different. The directors do not intend to early adopt IFRS 16 and are in the process of reviewing contracts to identify any additional lease arrangements that would need to be recognised under IFRS 16.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

Carrying value of loans and receivables

The Group tests annually loans and receivable financial assets for indicators of impairment, and performs an impairment assessment if indicators of impairments are identified. The recoverable amount of loans and receivables is determined using valuation techniques and the Group uses its judgement to make assumptions based on the conditions existing at the end of each reporting period and information available.

Operating leases

The Proper Officers have exercised judgement in determining that in all material respects, where the Duchy of Cornwall is the lessor, all such leases are accounted for as operating leases. In exercising this judgement, consideration has been given to the nature and economic life of the buildings (which are all accounted for within investment properties), and whether substantially all the risks and rewards of ownership remain with the Duchy.

Property assets held for sale

Judgement is taken to establish when to classify an investment property as an asset held for sale. The Duchy classifies investment properties as assets held for sale where their carrying amount is likely to be recovered principally through a sale transaction and a sale is considered highly probable within the next 12 months. Information on properties being openly marketed and the status of sale negotiations is used to aid the decision.

Property valuations

Investment properties, owner-occupied property and investment property assets held for sale are all held at fair value, in accordance with valuations carried out by external and internal valuers. Valuations are based on a number of key assumptions, including estimates of future rental income, the ready availability of a market for the properties, and published life tables.

Financial instruments valuations

The Duchy discloses the fair value of its financial instruments in a hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The three levels are as follows:

- Level 1 financial instruments are valued at unadjusted quoted prices in active markets for identical instruments and require no judgement.
- Level 2 financial instruments are valued based significantly on observable market data. Inputs other than quoted prices are directly or indirectly observable for the asset or liability.
- Level 3 financial instruments use valuation techniques that incorporate at least one input (with a potentially significant impact on valuation), which is based on unobservable market data. The valuation techniques considered include the market approach, which uses comparable market transactions, and the income approach, which is based on the net present value of estimated future cash flows adjusted for factors such as credit, liquidity and market risk. Inputs may include price information, volatility statistics, credit data, liquidity statistics and other factors. As a result, Level 3 investments require significant judgement on behalf of both the investment managers and Duchy management.

1 ACCOUNTING POLICIES *(continued)*

REVENUE

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided or goods supplied, stated net of discounts and value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Property income

This comprises rental income and premiums on lease surrenders on investment properties for the year, exclusive of service charges receivable.

Sales of produce at the Duchy's Nursery

The Group operates a nursery selling plants and other goods. Sales of goods are recognised when a product is sold to the customer. Sales are usually in cash or by credit card.

Income at J V Energen LLP

The Group participates in a joint venture, J V Energen LLP, which has built and runs an anaerobic digestion and biomethane injection plant at Dorchester, Dorset. Income is recognised when biomethane is injected into the local gas distribution network or when electricity is exported to the grid. Sales of energy are invoiced and renewable energy subsidies are applied for via Ofgem.

Other income

Other income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Finance income

Income in respect of bank interest, fixed interest and corporate bond investments is accounted for on an accruals basis under the effective interest rate method. Equity income is included on a receipts basis.

FOREIGN CURRENCIES

All foreign exchange dealings relate to the Capital account. Foreign currency transactions are translated into Sterling at rates prevailing at the dates of transaction or at the year end rate where items are remeasured.

Gains and losses arising on conversion or translation are dealt with as part of realised and unrealised investment gains and losses within the Capital Account Statement of Comprehensive Income.

POST-RETIREMENT BENEFITS

The Group operates post-employment schemes that include both defined benefit and defined contribution plans. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows against interest rates. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the operating surplus.

For defined contribution plans the Duchy pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Duchy has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

NET REVENUE SURPLUS FOR THE YEAR

The Duchy of Cornwall is not subject to tax. Since 6th April 1993, on a voluntary basis, His Royal Highness has paid income tax at the prevailing rates in respect of the net revenue surplus of the Duchy for the year.

INVESTMENT PROPERTY VALUATION

Investment properties including those held for development are valued on the basis of fair value. Investment properties are those held to earn income and/or capital appreciation. Any surplus or deficit on the revaluation of investment properties is recognised within the Capital Account Statement of Comprehensive Income.

Marine and mineral interests included within investment property are only specifically valued where a letting exists or where an interest is likely to be sold for a capital premium in the next year. The interests are valued on an existing-use basis.

OWNER-OCCUPIED PROPERTY

Properties occupied by the Duchy of Cornwall are valued on the basis of fair value. The properties are included within property, plant and equipment. Any surplus or deficit arising on revaluation is taken directly to the Capital Account Statement of Comprehensive Income.

No depreciation is provided in respect of these properties: owner-occupied property is maintained to a high standard and will continue to be so. As a result, the residual value of the property at the point where the Duchy would cease to use it, or would dispose of it, is expected to be materially in line with fair value. As such, any depreciation (between fair value and residual value) at any point would be immaterial.

1 ACCOUNTING POLICIES *(continued)*

INVESTMENT PROPERTY ASSETS HELD FOR SALE

Properties being actively marketed with the intention of disposal within 12 months of the balance sheet date are held at fair value. They are shown within the balance sheet as investment property assets within current assets. Any surplus or deficit arising on the revaluation of property assets held for sale is recognised within the Capital Account Statement of Comprehensive Income.

DISPOSAL OF PROPERTIES

The sale of property is recognised from the date on which an unconditional contract is entered into or the last substantive condition in a conditional contract is satisfied. The profit or loss on disposal of properties is taken to the Capital Account Statement of Comprehensive Income. The profit or loss on disposal is determined as the difference between the sale proceeds and the carrying value of the asset at the commencement of the accounting period, plus additions in the period and costs of sale. Properties transferred between categories are also valued at the carrying value at the commencement of the accounting period.

IMPAIRMENT

All properties are carried at fair value. Impairment of other asset types is discussed, where relevant, within their respective accounting policies.

LEASES

All leases and property agreements granted to tenants are accounted for as operating leases, as substantially all of the risks and rewards are retained by the Duchy.

PLANT AND EQUIPMENT

Plant and equipment is stated at historical purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Plant and equipment is purchased out of the Capital account under the terms of warrants issued under Section 7 of the Duchy of Cornwall Management Act 1982.

The plant and equipment is depreciated on a straight-line basis, over the expected useful life, and repaid out of the Revenue Account Statement of Comprehensive Income applying the following rates:

- motor vehicles – 25% per annum; and
- plant and equipment – 4% to 33% per annum.

The plant and equipment residual values and useful lives are reviewed and adjusted if appropriate at each financial year end. The carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

FINANCIAL INVESTMENTS

Available for sale financial investments are measured at fair value with profits or losses on revaluation being taken to the Capital Account Statement of Comprehensive Income. Loans and receivable financial investments are initially recognised at fair value and subsequently measured at amortised cost under the effective interest method.

CONSOLIDATION

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are undertakings in which the Duchy has an interest and which are jointly controlled by the Duchy and one or more other parties. Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

1 ACCOUNTING POLICIES *(continued)*

The Group's share of post-acquisition profits or losses is recognised in the Revenue Account Statement of Comprehensive Income. Its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

INVENTORIES

Wood, nursery and other stocks are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) basis. Inventory is presented net of provisions held for slow moving, obsolete or damaged items.

PROVISIONS

Provisions are recognised when the Duchy has an obligation in respect of a past event, where it is more likely than not that payment (or a non-cash settlement) will be required to settle the obligation, and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently held at amortised cost less allowances for situations where recovery is doubtful. Such allowances are based on an individual assessment of each receivable. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited against "operating costs" in the income statement.

TRADE PAYABLES

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

BORROWINGS

Borrowings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

CAPITALISATION OF STAFF COSTS

Staff costs are recharged to the Capital account on a relevant-time basis for dealing with appropriate capital works or transactions.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Duchy designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Duchy documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Duchy also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 15. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of a hedging instrument is more than 12 months and as a current asset or liability when the remaining maturity of the hedging instrument is less than 12 months.

CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income, within the Capital Account Statement of Comprehensive Income. The ineffective portion of changes in fair value of derivatives is recognised in the surplus or deficit within the Capital Account Statement of Comprehensive Income. Amounts accumulated in reserves are reclassified to Revenue Account Statement of Comprehensive Income in the periods when the hedged transaction takes place.

When a hedging instrument expires, is sold, or no longer meets the criteria for hedge accounting, any effective cumulative gain or loss existing in reserves at that time remains in reserves and is recognised when the forecast transaction is ultimately recognised in the Revenue Account Statement of Comprehensive Income. Any resulting ineffectiveness will be taken to the Capital Account Statement of Comprehensive Income.

INVESTMENT IN SUBSIDIARIES AND ASSOCIATE UNDERTAKINGS

Investments in subsidiaries and associate undertakings are held at cost less accumulated impairment losses by the Duchy.

2 ANALYSIS OF REVENUE ACCOUNT OPERATING SURPLUS

	Notes	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Property income:			
Agricultural income		7,947	8,111
Commercial income		15,406	15,569
Residential income		6,059	6,143
Total property income		29,412	29,823
Sale of goods		5,183	5,752
Total operating income		**34,595**	**35,575**
Staff costs	4	4,813	5,095
Charge to Capital account		(875)	(897)
		3,938	4,198
Direct cost of sales		2,268	2,524
Depreciation	9	849	1,051
Repairs and maintenance		2,795	2,675
Administration		2,836	2,427
Other operating costs		679	676
Total operating costs		**13,365**	**13,551**
Operating surplus		**21,230**	**22,024**

An analysis of the Capital account operating surplus is not deemed necessary given the nature of the transactions and disclosure within the primary statements.

During the year, the Group obtained the following services from the Duchy of Cornwall's auditor and his associates:

	Year ended 31st March 2017 £	Year ended 31st March 2018 £
Fees payable to the Duchy of Cornwall auditor for the audit of the Duchy and consolidated financial statements	80,650	79,820
Fees payable to the Duchy of Cornwall auditor and his associates for other services:		
Tax consultancy fees	4,000	–
The audit of QMS (Poundbury) LLP	5,400	5,560
	90,050	**85,380**

3 LEASING: OPERATING LEASES WITH TENANTS

The Duchy of Cornwall leases out all its investment properties under operating leases with, on average, 91 years remaining to expiry. The aggregate minimum rentals, excluding contingent rents, receivable under non-cancellable leases are as follows:

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Less than one year	17,569	17,950
Between two to five years	61,777	63,788
After five years	313,683	315,246
	393,029	**396,984**

Leases with no fixed expiry date have been excluded from the detail above.

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Contingent rents receivable	**1,463**	**1,834**

The value of the assets generating this rental income is detailed in note 8.

4 STAFF COSTS

The average number of full-time equivalent staff employed by the Duchy during the year was 100 (2017: 100). The split of staff was: Administrative 65, Estate workers 13, Nursery 22 (2017: Administrative 67, Estate workers 13, Nursery 20). The total remuneration for the Group was £5,095,000 (2017: £4,813,000) comprising:

	Group Year ended 31st March 2017 £'000	Duchy Year ended 31st March 2017 £'000	Group Year ended 31st March 2018 £'000	Duchy Year ended 31st March 2018 £'000
Wages and salaries	3,544	3,322	3,640	3,461
Social security costs	341	323	373	360
Pension costs	759	759	971	971
Other staff costs	169	169	111	111
	4,813	**4,573**	**5,095**	**4,903**

Staff costs of £897,000 (2017: £875,000) are charged to the Capital account, reflecting the extent that they are deemed to be enhancing its value.

Other staff costs include benefits (such as health insurance) and skill enhancement costs for appropriate staff.

The emoluments of members of The Prince's Council were as follows:

	Year ended 31st March 2017 £	Year ended 31st March 2018 £
Alastair Martin	256,607	277,562
Jonathan Crow	3,000	3,000
Mark Thomas	8,000	8,000
	267,607	**288,562**

In addition, pension contributions of £37,500 (2017: £36,000) were paid into a Money Purchase Scheme for Alastair Martin.

5 FINANCE INCOME – GROUP

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Income from investments	2,801	2,918
Bank interest	8	13
Loan interest	544	414
	3,353	**3,345**

6 FINANCE COSTS – GROUP

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Loan interest	**3,787**	**3,494**

Loan interest cost recognised for the year ended 2018 includes £273,000 transferred from hedging reserve in relation to the interest rate swaps.

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY

The Duchy operates a defined benefit scheme in the UK, which is a final salary scheme and provides benefits linked to salary at retirement or earlier date of leaving service. The Scheme is open to future accrual but closed to new entrants.

The last completed actuarial valuation as at 1st January 2016 showed a funding deficit at that date of £6,662,000. The Duchy agreed with the trustees of the Duchy of Cornwall Staff Pension Scheme a recovery plan to eliminate this funding shortfall by making additional contributions over a nine-year period backdated to the valuation date. The results of the valuation as at 1st January 2016 have been used as a basis and then rolled forward to 31st March 2018.

The Scheme operates under the Pensions Act 2004.

Trustees have the primary responsibility for governance of the Scheme. Benefit payments are from trustee-administered funds and Scheme assets are held in trusts, which are governed by UK regulation. Responsibility for governance of the Scheme, including setting contribution rates, lies jointly with the Duchy and the trustees. However, investment decisions are the responsibility of the trustees only. The trustees comprise nominations from the Duchy and members in accordance with the Trust Deed and Rules.

DESCRIPTION OF RISKS TO WHICH THE SCHEME EXPOSES THE DUCHY:

- Asset volatility – if the Scheme's assets underperform the discount rate a deficit may result and so to mitigate this, the trustees have agreed that the Scheme's investment strategy will be de-risked over time. This is achieved by funding triggers that allow the Scheme to take advantage of favourable market conditions and developments in the funding level. If the funding level improves by a predetermined amount, then a switch to increase the target allocation for liability matching assets will be made.
- Inflation – the majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although for most increases there are caps in place that protect against extreme inflation).
- Longevity – increases in life expectancy will increase the period over which benefits are expected to be payable, which increases the value placed on the Scheme's liabilities.

There have been no Scheme amendments, curtailments or settlements over the year.

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY *(continued)*

RECOGNITION OF FUNDED STATUS

The amounts to be recognised in the balance sheet are determined as follows:

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Fair value of assets at end of year	22,841	23,763
Present value of obligations at end of year	(30,896)	(28,901)
Net defined benefit obligation	**(8,055)**	**(5,138)**

EXPENSE RECOGNISED IN INCOME STATEMENT

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Current service cost	341	493
Administration expenses	176	133
Operating expense	517	626
Net interest on the net defined benefit obligation	132	185
Total expense recognised in income statement	**649**	**811**

RECONCILIATION OF VALUE OF DEFINED BENEFIT OBLIGATIONS OVER THE YEAR

The movement in defined benefit obligations over the year was as follows:

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Present value of obligations at start of year	**23,579**	**30,896**
Current service cost	341	493
Interest cost	772	730
Distributions	(1,049)	(976)
Experience (gains)/losses	(232)	246
Actuarial losses/(gains) arising from change in financial assumptions	6,704	(1,818)
Actuarial losses/(gains) arising from change in demographic assumptions	781	(670)
Present value of obligations at end of year	**30,896**	**28,901**

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY *(continued)*

RECONCILIATION OF FAIR VALUE OF ASSETS

The movement in the fair value of the assets over the year was as follows:

	31st March 2017 £'000	31st March 2018 £'000
Fair value of assets at start of year	**19,234**	**22,841**
Employer contributions	974	883
Interest income	640	545
Return on Scheme assets excluding interest income	3,218	603
Distributions	(1,049)	(976)
Administration expenses and death in service premia	(176)	(133)
Fair value of assets at end of year	**22,841**	**23,763**

MOVEMENT IN NET DEFINED BENEFIT OBLIGATION OVER THE YEAR

	31st March 2017 £'000	31st March 2018 £'000
Net defined benefit obligation at beginning of the year	**(4,345)**	**(8,055)**
Employer contributions	974	883
Expense recognised in income statement	(649)	(811)
Remeasurement (loss)/gain recognised in other comprehensive income	(4,035)	2,845
Net defined benefit obligation at end of the year	**(8,055)**	**(5,138)**

REMEASUREMENT EFFECTS RECOGNISED IN OTHER COMPREHENSIVE INCOME (OCI)

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Return on Scheme assets excluding interest income	3,218	603
Experience gains/(losses) on obligations	232	(246)
Actuarial (losses)/gains arising from change in financial assumptions	(6,704)	1,818
Actuarial (losses)/gains arising from change in demographic assumptions	(781)	670
Total (losses)/gains recognised in OCI	**(4,035)**	**2,845**

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY *(continued)*

ACTUARIAL ASSUMPTIONS AT END OF YEAR

	31st March 2017	31st March 2018
Discount rate (p.a.)	2.40%	2.60%
Salary increases (p.a.)	4.50%	4.40%
RPI inflation (p.a.)	3.25%	3.15%
CPI inflation (p.a.)	2.25%	2.15%
Pension increases: RPI min 0%, max 5% (p.a.)	3.15%	3.05%
Post-retirement mortality (base table)	86% of S2PMA for males/ 80% of S2PFA for females	86% of S2PMA for males/ 80% of S2PFA for females
Post-retirement mortality (improvements)	CMI 2015 projections with a long-term trend rate of 1.50% p.a. for males and 1.25% p.a. for females (from 2008 onwards)	CMI 2016 projections with a long-term trend rate of 1.50% p.a. for males and 1.25% p.a. for females (from 2008 onwards)

SENSITIVITY ANALYSIS

Based on the assumptions set out above, the impact on the present value of the defined benefit obligations of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below.

Value of obligations at the end of the year if:	31st March 2018 £'000
Discount rate reduced by 0.25% p.a.	30,302
Discount rate increased by 0.25% p.a.	27,540
Salary increases increased by 0.25% p.a.	29,170
Salary increases decreased by 0.25% p.a.	28,582
Inflation increased by 0.25%* p.a.	30,254
Inflation decreased by 0.25%* p.a.	27,659
Life expectancy increased by approximately one year	30,018
Life expectancy decreased by approximately one year	27,788

* This sensitivity allows for the impact on all inflation-related assumptions (salary increases, deferred revaluation and pension increases (subject to the relevant caps and floors)).

The above analyses assume that assumption changes occur in isolation, except in the case of inflation where any change is assumed to have a corresponding impact on salary increases, deferred revaluation and inflation-linked pension increases. In practice this is unlikely to occur and some assumptions may be correlated. The same method (projected unit method) has been applied when calculating these sensitivities as when calculating the defined benefit obligation.

DESCRIPTION OF ANY ASSET-LIABILITY MATCHING STRATEGIES

The trustees have agreed that the Scheme's investment strategy will be de-risked over time. This is done by funding triggers, which allow the Scheme to take advantage of favourable market conditions and developments in the funding level. If the funding level improves by a predetermined amount, then a switch to increase the target allocation for liability matching assets will be made.

7 RETIREMENT BENEFIT OBLIGATIONS – GROUP AND THE DUCHY *(continued)*

BREAKDOWN OF VALUE OF ASSETS AT END OF YEAR

The following tables provide information on the composition and fair value of assets of the Scheme.

	Quoted £'000	Unquoted £'000	Total £'000
UK equities	5,110	–	5,110
Overseas equities	8,411	–	8,411
Index-linked gilts	5,264	–	5,264
UK corporate bonds: investment grade	4,867	–	4,867
Cash and net current assets	–	111	111
At 31st March 2018	**23,652**	**111**	**23,763**

	Quoted £'000	Unquoted £'000	Total £'000
UK equities	5,049	–	5,049
Overseas equities	7,630	–	7,630
Index-linked gilts	5,233	–	5,233
UK corporate bonds: investment grade	4,770	–	4,770
Cash and net current assets	–	159	159
At 31st March 2017	**22,682**	**159**	**22,841**

EFFECT OF THE SCHEME ON THE DUCHY'S FUTURE CASH FLOWS

Description of any funding arrangements and funding policy that would affect future contributions:

The Scheme was in deficit on a funding basis at 1st January 2016, the date of the latest completed annual actuarial report. Funding levels are monitored on an annual basis and the next triennial valuation is due to be completed with an effective date of 1st January 2019.

The Duchy's best estimate of contributions to be paid over following year (£'000)	866
Average duration of the liabilities (years)	20
Expected future benefit payments (£'000):	
Year ending 31st March 2019	852
Year ending 31st March 2020	838
Year ending 31st March 2021	857
Year ending 31st March 2022	928
Year ending 31st March 2023	985
Five years ending 31st March 2028	5,301

The Duchy also contributes to defined contribution scheme arrangements, the charge for which was £315,000 (2017: £313,000).

8 INVESTMENT PROPERTY – GROUP

	Agricultural & Forestry £'000	Commercial £'000	Residential £'000	Development land £'000	Total £'000
At 1st April 2016	**411,446**	**250,521**	**190,644**	**49,762**	**902,373**
Additions	586	–	–	–	586
Capital improvements	2,370	461	1,255	–	4,086
Capitalised development expenditure	–	–	–	8,354	8,354
Transfer to property, plant and equipment – at fair value	–	(48)	–	–	(48)
Transfer from current assets held for sale	50	–	–	–	50
Transfer to investment property assets held for sale	(8,381)	(4,765)	(729)	(3,103)	(16,978)
Transfer between investment property categories	–	12,272	–	(12,272)	–
Disposals	(118)	(432)	(1,341)	(1,652)	(3,543)
Net (loss)/gain from fair value adjustments on investment property	(884)	8,080	4,978	5,607	17,781
At 31st March 2017	**405,069**	**266,089**	**194,807**	**46,696**	**912,661**
Additions	1,141	–	–	–	1,141
Capital improvements	2,572	450	2,443	14	5,479
Capitalised development expenditure	–	–	–	5,416	5,416
Transfer from/(to) property, plant and equipment – at fair value	–	–	568	(46)	522
Transfer from current assets held for sale	5,519	–	–	–	5,519
Transfer to investment property assets held for sale	(429)	–	(462)	(7,884)	(8,775)
Disposals	(1,986)	(361)	(46)	(1,953)	(4,346)
Net (loss)/gain from fair value adjustments on investment property	(165)	19,981	1,356	1,684	22,856
At 31st March 2018	**411,721**	**286,159**	**198,666**	**43,927**	**940,473**

8 INVESTMENT PROPERTY – THE DUCHY

	Agricultural & Forestry £'000	Commercial £'000	Residential £'000	Development land £'000	Total £'000
At 1st April 2016	**411,446**	**243,354**	**188,644**	**49,762**	**893,206**
Additions	586	–	–	–	586
Capital improvements	2,370	461	1,255	–	4,086
Capitalised development expenditure	–	–	–	8,354	8,354
Transfer to property, plant and equipment – at fair value	–	(48)	–	–	(48)
Transfer from current assets held for sale	50	–	–	–	50
Transfer from investment property assets held for sale	(8,381)	(4,765)	(729)	(3,103)	(16,978)
Transfer between investment property categories	–	12,272	–	(12,272)	–
Disposals	(118)	(432)	(1,341)	(1,652)	(3,543)
Net (loss)/gain from fair value adjustments on investment property	(884)	7,415	5,111	5,607	17,249
At 31st March 2017	**405,069**	**258,257**	**192,940**	**46,696**	**902,962**
Additions	1,141	–	–	–	1,141
Capital improvements	2,572	450	2,443	14	5,479
Capitalised development expenditure	–	–	–	5,416	5,416
Transfer from/(to) property, plant and equipment – at fair value	–	–	568	(46)	522
Transfer from current assets held for sale	5,519	–	–	–	5,519
Transfer to investment property assets held for sale	(429)	–	(462)	(7,884)	(8,775)
Disposals	(1,986)	(361)	(46)	(1,953)	(4,346)
Net (loss)/gain from fair value adjustments on investment property	(165)	19,331	1,356	1,684	22,206
At 31st March 2018	**411,721**	**277,677**	**196,799**	**43,927**	**930,124**

8 INVESTMENT PROPERTY – GROUP AND THE DUCHY

FAIR VALUES OF LAND AND BUILDINGS

The Duchy holds four main classes of investment property: Commercial property (Urban and Rural), Agricultural property (Agricultural, Forestry and Other Rural Assets), Residential property and Development Land. The Duchy's investment property is measured at fair value. For all properties, the current use equates to the highest and best use.

All properties are valued on an annual basis. All significant development sites plus 20% by number of the remaining properties in the mainland rural estate are valued by Savills on a rotational basis. The balance of mainland rural estate properties are valued by internal valuers who are Royal Institution of Chartered Surveyors (RICS) Registered Valuers and are employees of the Duchy of Cornwall. The internal valuers have detailed management knowledge of the properties concerned. The internal valuation team is led by one of the Duchy's employees, an RICS Registered Valuer, supported by the Duchy's Finance Director. All the urban commercial properties and all Isles of Scilly properties are valued externally by Savills each year. All the London residential properties are valued externally by Cluttons each year. All valuations are in accordance with the RICS Valuation – Global Standards 2017 (incorporating the IVSC International Valuation Standards) (the "Red Book") and, if relevant, the RICS Valuation – Professional Standards UK January 2014 (revised 2015).

Valuation fees for external valuers are a fixed amount agreed prior to the valuation and independent of the portfolio value. Internal valuers are not incentivised in any way in relation to property value.

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

The fair value of the Duchy's property portfolio is determined using a variety of techniques depending on the property type and the terms of the lease. These techniques include the yield methodology, adjusted sales comparison approach, and discounted cash flow, and are consistent with IFRS 13 Fair Value Measurement. They involve a degree of judgement and use data that is not widely publicly available. Inputs to the valuations, some of which are "unobservable" as defined by IFRS 13, include capitalisation rates, discount rates and comparable market values for both rents and vacant possession values. For these reasons, and consistent with EPRA's guidance and practice adopted within the property sector, all valuations of the Duchy's property portfolio are classified as Level 3 as defined by IFRS 13.

VALUATION PROCESSES

Property is valued according to one or more of the following three approaches:

i) Yield methodology: the value of the income stream for the term of the lease, by reference to the current rent for the property, rent review provisions, market rent for similar properties and capitalisation rates from similar properties traded in the same geographic region;

ii) Adjusted sales comparison approach: the vacant possession value of similar properties, the time until vacant possession will be achieved and discount rates for similar properties traded in the same geographic region;

iii) Discounted cash flow: net future cash flows for the duration of a project are discounted at an appropriate rate and a risk factor may be applied.

The external valuers provide capitalisation and discount rates. They review all valuations performed by the internal valuers and consider all major inputs to the valuation process, including market rents, comparable vacant possession values for similar properties and the unexpired term of leases. Together with the Duchy's internal lead valuer and finance team they review the output from the valuation including the valuation techniques used for each property, adjustments made to default values for unobservable inputs, and the correlation of valuation inputs to data from the Duchy's property and financial systems. They assess valuation movements compared to the prior-year valuation (at a property, valuer, regional and property-type level), and review ratios of let value to vacant possession value, values per square metre or per hectare, effective yields and comparisons to property market indices.

All development land is valued externally, the majority on the basis of discounted cash flows. Inputs are applied to each section of each development site, taking into consideration the specific situation for each site – the stage of development, the extent of planning permissions and the contractual arrangements in place. Detailed discussions are held between the external valuers and the Duchy's Estate Director and Finance Director. The two main uncertainties in valuing development land are the eventual market prices for the buildings and land at each site and the rate of future sales.

The valuation results are reviewed by the Duchy's Finance & Audit Committee.

8 INVESTMENT PROPERTY – GROUP AND THE DUCHY *(continued)*

RELATIONSHIP OF SIGNIFICANT UNOBSERVABLE INPUTS TO FAIR VALUE AND THE IMPACT OF SIGNIFICANT CHANGES TO THOSE INPUTS

Unobservable input	**Impact on fair value of changes to input**	
	Increase in input	**Decrease in input**
Adjusted comparable vacant possession values	Increase in fair value	Decrease in fair value
Rental values	Increase in fair value	Decrease in fair value
Capitalisation rates	Decrease in fair value	Increase in fair value
Discount rates	Decrease in fair value	Increase in fair value

Impact on fair value of changes to capitalisation and discount rates (ceteris paribus)

All in £'000	Increase of 50 basis points	As disclosed	Decrease of 50 basis points
Agricultural	313,020	364,893	466,805
Other rural assets	26,358	27,425	28,051
Urban commercial	189,710	213,205	241,480
Rural commercial	60,933	64,472	67,412
Residential property	193,458	196,799	200,577

Impact on fair value of changes to market rental values (ceteris paribus)

All in £'000	Increase of 10%	As disclosed	Decrease of 10%
Urban commercial	226,895	213,205	198,905

The fair values at the balance sheet date, valuation techniques, nature and, where meaningful, range of unobservable inputs are shown in the table opposite for each class of investment property.

8 INVESTMENT PROPERTY – GROUP AND THE DUCHY *(continued)*

QUANTITATIVE DATA ABOUT FAIR VALUE MEASUREMENT USING UNOBSERVABLE INPUTS (LEVEL 3) – THE DUCHY

	Property type	Fair value at 31st March 2018 £'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs (where meaningful)
Agricultural & Forestry	Agricultural	£364,893	Yield methodology	Rental values	–
				Capitalisation rate	Farms: 1.4% to 3.5% Bare land: 9% to 10%
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	–
				Discount rate for terminal value	4.2% to 7%
				Estimate of period until vacant possession achieved	0 to 81 years (average 6 years)
	Forestry	£19,403	Adjusted sales comparison approach	Price per hectare	£2,471 to £49,420 (average £8,719) per hectare
	Other rural assets	£27,425	Yield methodology	Rental values	–
				Capitalisation rate	8% to 10%
				Discount rate for terminal value	8.5% to 12%
	Total	**£411,721**			
Commercial	Urban commercial	£213,205	Yield methodology	Rental values	Industrial: £63 to £97 psm Office: £245 to £700 psm Retail: £81 to £1,991 psm
				Capitalisation rate	Industrial: 4.5% to 6.7% Office: 3.4% to 4.0% Retail: 4.8% to 5.3% Other: 2.9% to 7.5%
	Rural commercial	£64,472	Yield methodology	Rental values	–
				Capitalisation rate	6.75% to 11%
	Total	**£277,677**			
Residential		£196,799	Yield methodology	Rental values	–
				Capitalisation rate	3.5% to 8%
			Adjusted sales comparison approach	Adjusted comparable vacant possession values	–
				Discount rate for terminal value	4% to 7%
				Estimate of period until vacant possession achieved, for short-term lets	0 to 20 years (average 0.9 years) Fair value £120m
				Estimate of period until vacant possession achieved, for long-term lets	0 to 164 years (average 38 years) Fair value £77m
Development land		£43,927	Discounted cash flow	Discount rate	7% to 8% (average 7.1%)
				Risk factor	0% to 55% (average 12.8%)
				Time to completion	< 1 year, to 20 years (average 12.6 years)

9 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Motor vehicles £'000	Plant and equipment £'000	Owner-occupied property £'000	Total £'000
At 1st April 2016				
Cost/valuation	157	11,624	5,850	17,631
Accumulated depreciation	(106)	(3,792)	–	(3,898)
Net book value	**51**	**7,832**	**5,850**	**13,733**
Year ended 31st March 2017				
Additions/improvements	71	772	798	1,641
Transfer from investment property	–	–	48	48
Fully written down – cost	(27)	(165)	–	(192)
Depreciation charge	(42)	(807)	–	(849)
Fully written down – depreciation	27	165	–	192
Revaluation	–	–	(637)	(637)
At 31st March 2017	**80**	**7,797**	**6,059**	**13,936**
At 31st March and 1st April 2017				
Cost/valuation	201	12,232	6,059	18,492
Accumulated depreciation	(121)	(4,435)	–	(4,556)
Net book value	**80**	**7,797**	**6,059**	**13,936**
Year ended 31st March 2018				
Additions/improvements	31	1,964	277	2,272
Transfer to investment property	–	–	(522)	(522)
Fully written down – cost	(22)	(179)	–	(201)
Depreciation charge	(41)	(1,010)	–	(1,051)
Fully written down – depreciation	22	179	–	201
Revaluation	–	–	(671)	(671)
At 31st March 2018	**70**	**8,751**	**5,143**	**13,964**
At 31st March 2018				
Cost/valuation	210	14,196	5,143	19,549
Accumulated depreciation	(140)	(5,445)	–	(5,585)
Net book value	**70**	**8,751**	**5,143**	**13,964**

9 PROPERTY, PLANT AND EQUIPMENT – THE DUCHY

	Motor vehicles £'000	Plant and equipment £'000	Owner-occupied property £'000	Total £'000
At 1st April 2016				
Cost/valuation	157	4,834	5,850	10,841
Accumulated depreciation	(106)	(2,415)	–	(2,521)
Net book value	**51**	**2,419**	**5,850**	**8,320**
Year ended 31st March 2017				
Additions/improvements	71	733	798	1,602
Transfer from investment property	–	–	48	48
Fully written down – cost	(27)	(165)	–	(192)
Depreciation charge	(42)	(453)	–	(495)
Fully written down – depreciation	27	165	–	192
Revaluation	–	–	(637)	(637)
At 31st March 2017	**80**	**2,699**	**6,059**	**8,838**
At 31st March and 1st April 2017				
Cost/valuation	201	5,403	6,059	11,663
Accumulated depreciation	(121)	(2,704)	–	(2,825)
Net book value	**80**	**2,699**	**6,059**	**8,838**
Year ended 31st March 2018				
Additions/improvements	31	191	277	499
Transfer to investment property	–	–	(522)	(522)
Fully written down – cost	(22)	(179)	–	(201)
Depreciation charge	(41)	(425)	–	(466)
Fully written down – depreciation	22	179	–	201
Revaluation	–	–	(671)	(671)
At 31st March 2018	**70**	**2,465**	**5,143**	**7,678**
At 31st March 2018				
Cost/valuation	210	5,415	5,143	10,768
Accumulated depreciation	(140)	(2,950)	–	(3,090)
Net book value	**70**	**2,465**	**5,143**	**7,678**

An independent valuation of the Group's land and buildings was performed by valuers – see note 8 for further details. The revaluation surplus was credited to other comprehensive income and is shown in Capital reserve.

10 INVESTMENTS IN JOINT VENTURE AND SUBSIDIARIES

The Group has the following undertakings for the year ended 31st March 2018:

Name	Entity type	Principal activity	% of holding
QMS (Poundbury) LLP*	Partnership	Investment property	100
RP (Poundbury) LLP**	Partnership	Investment property	50
J V Energen LLP***	Partnership	Energy supply	54
Barrow Shipping Ltd***	Company	Biomethane shipping and marketing	30
West Country Soil Improvements Ltd***	Company	Soil improver production and marketing	100

*Registered Office 66 Lincoln's Inn Fields, London WC2A 3LH

**Registered Office c/o C G Fry & Sons, Litton Cheney, Dorchester, Dorset DT2 9AW

***Registered Office c/o Wilkin Chapman LLP, The Maltings, Brayford Wharf, East Lincoln LN5 7AY

INVESTMENT IN JOINT VENTURE

As at 1st April 2018, the Duchy owned 50% of the members' capital of RP (Poundbury) LLP.

	£'000
Balance at 1st April 2017	8,579
Invested in year	2,629
Balance at 31st March 2018	**11,208**

RP (Poundbury) LLP was incorporated on 14th March 2015 and commenced trading on that date. The principal activity of RP (Poundbury) LLP during the year was property development.

The latest audited accounts were produced for the period ended 31st March 2018. The aggregate assets, liabilities, revenue and results for RP (Poundbury) LLP were as follows:

	Year ended 31st March 2018 £'000
Assets	22,415
Liabilities	(5)
Revenue	–
Loss	(1)

The Group's share of the loss has been included within Other costs in the Capital Account Statement of Comprehensive Income.

10 INVESTMENTS IN JOINT VENTURE AND SUBSIDIARIES *(continued)*

INVESTMENTS IN SUBSIDIARIES

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
QMS (Poundbury) LLP	8,539	8,217
J V Energen LLP	650	650
	9,189	**8,867**

During the year, the Duchy retained 54% of the members' capital of J V Energen LLP for £650,000 and is entitled to 59% of the partnership profits. The Duchy has also provided loans to the partnership as described in note 12.

The principal activity of QMS (Poundbury) LLP during the year was the commercial operation of a retail, residential and office building.

The latest audited accounts of QMS (Poundbury) LLP were produced for the year ended 31st March 2018. The revenue and results for QMS (Poundbury) LLP were as follows:

	Year ended 31st March 2017 £'000	Year ended 31st March 2018 £'000
Revenue	441	492
Profit	323	425

The partnerships have been consolidated within these financial statements. The investment in the Group entities are recorded at cost in the Duchy's own financial statements, which is the fair value of the consideration paid.

11 FINANCIAL ASSETS – GROUP AND THE DUCHY

	Available for sale					Loan and receivable	Total
	Equity securities Level 1 £'000	Fixed-interest securities Level 1 £'000	Private equity funds Level 2 £'000	Private equity funds Level 3 £'000	Equity securities Level 3 £'000	£'000	£'000
At 1st April 2016	**25,756**	**18,236**	**12,660**	**8,577**	**752**	**2,500**	**68,481**
Purchases	–	27,222	–	151	4	–	27,377
Sale proceeds	–	(19,950)	(12,760)	(1,313)	(579)	–	(34,602)
Gain on sale	–	1,712	100	–	–	–	1,812
Revaluation	2,094	613	–	1,743	62	–	4,512
Impairment	–	–	–	–	–	(1,300)	(1,300)
At 31st March and 1st April 2017	**27,850**	**27,833**	**–**	**9,158**	**239**	**1,200**	**66,280**
Purchases	3,000	–	–	159	–	–	3,159
Sale proceeds	–	–	–	(1,655)	(9)	(362)	(2,026)
Loss on sale	–	–	–	(13)	–	(838)	(851)
Revaluation	(1,140)	(845)	–	(1,705)	(217)	–	(3,907)
At 31st March 2018	**29,710**	**26,988**	**–**	**5,944**	**13**	**–**	**62,655**

The fair values of financial investments classified as Level 1 are based on quoted market prices on the 31st March 2018. Level 3 investments are valued using valuation techniques in which at least one input is not based on observable market data. There were no transfers of investments between the fair value hierarchy levels during the year. Based on information provided by the fund managers, the Proper Officers believe that whilst significant judgement is required in the valuation of Level 3 investments the effect of stressing the assumptions to a range of reasonably possible alternatives would not result in a material change in the valuation at 31st March 2018.

The loan and receivable investment meets the definition of a hybrid instrument, comprising a debt instrument ("the host") with a right to convert to preference shares at a future date. The debt instrument and preference shares provided a return of 6% per annum until disposal.

The Group made a significant judgement about the impairment of the loans and receivables financial asset as at 31st March 2017. To determine if the loans and receivables financial asset is impaired, the Group evaluates the duration and extent of its investment, and the financial health of, and the short-term business outlook of, the investee (including factors such as industry performance and changes in government policies that are impacting the investee's business) available to the Group at the end of the reporting period.

Several of the financial investments included above are foreign currency denominated and are translated into Sterling at the prevailing rate at the year end. The table below analyses the sensitivity of the above investments to the denominated currency:

	31st March 2017 £'000	31st March 2018 £'000
US Dollar exchange rate +/- 10bpt	**(678)/796**	**(397)/458**

The maximum exposure to the credit risk at the reporting date is the carrying value of the debt securities classified as available for sale.

The carrying value of financial assets, including debt securities classified as available for sale and cash deposits best represents the maximum exposure to counterparty risk at the reporting date.

12 TRADE AND OTHER RECEIVABLES

	Group 31st March 2017 £'000	Duchy 31st March 2017 £'000	Group 31st March 2018 £'000	Duchy 31st March 2018 £'000
Amounts falling due within one year:				
Trade receivables	4,079	3,923	3,420	3,292
Less provision for impairment of trade receivables	(164)	(164)	(144)	(144)
Prepayments	100	100	338	310
Accrued income	6,748	5,575	5,212	4,003
	10,763	**9,434**	**8,826**	**7,461**
Amounts falling due after more than one year:				
Other receivables	3,700	3,700	200	200
Amounts due from Group subsidiaries	–	6,650	–	6,150
	3,700	**10,350**	**200**	**6,350**

The Group's other receivables falling due after more than one year comprise £200,000 at 6% repayable 2018.

Amounts due from the Group subsidiaries comprise two loans to J V Energen LLP, classified as loans and receivables – £4.6million repayable in 2026 and £1.55million repayable at a date to be determined and at least 12 months from the balance sheet date, both at an interest rate of 8%. These loans are secured against the land and buildings of the company.

All receivables are denominated in Sterling.

As of 31st March 2018, trade receivables of £3,276,000 (2017: £3,012,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 31st March 2017 £'000	Duchy 31st March 2017 £'000	Group 31st March 2018 £'000	Duchy 31st March 2018 £'000
Under 3 months	2,422	2,266	2,659	2,238
3 to 12 months	356	356	506	506
Over 12 months	234	234	111	111
	3,012	**2,856**	**3,276**	**2,855**

As of 31st March 2018 trade receivables of £144,000 (2017: £164,000) were impaired and provided for. The impaired receivables mainly relate to tenants who are in financial difficulty.

There is no significant concentration of credit risk with respect to trade receivables as the Duchy has a large number of tenants.

Movements in the provision for impairment of trade receivables are as follows:

	Group 31st March 2017 £'000	Duchy 31st March 2017 £'000	Group 31st March 2018 £'000	Duchy 31st March 2018 £'000
At 1st April	193	193	164	164
Provision for receivables impairment	46	46	25	25
Net receivables written off as uncollectable	(75)	(75)	(45)	(45)
At 31st March	**164**	**164**	**144**	**144**

The creation, release and utilisation of the provision for impaired receivables has been included in the Revenue Account Statement of Comprehensive Income.

The other classes within trade and other receivables do not contain impaired assets.

The fair values of trade and other receivables are not considered to be significantly different from their carrying value.

13 INVESTMENT PROPERTY ASSETS HELD FOR SALE – GROUP AND THE DUCHY

	31st March 2017 £'000	31st March 2018 £'000
At 1st April	12,918	26,624
Disposal	(5,369)	(13,880)
Capital improvements	428	29
Transfer to investment property	(50)	(5,518)
Transfer from investment property	16,978	8,775
Revaluation in year	1,719	425
At 31st March	**26,624**	**16,455**

At the year end, the Duchy was actively marketing properties for sale at the fair values stated above and these are expected to be sold within 12 months of the balance sheet date. This strategy forms part of the long-term aim to continue to improve and rebalance the property portfolio.

14 TRADE AND OTHER PAYABLES

	Group 31st March 2017 £'000	Duchy 31st March 2017 £'000	Group 31st March 2018 £'000	Duchy 31st March 2018 £'000
Amounts falling due within one year:				
Trade payables	7,701	7,370	8,614	6,885
Accruals	1,839	1,652	1,594	1,449
Social security and other taxes	825	825	899	899
Payments received on account	7,347	7,347	9,489	9,489
Rents paid in advance	4,136	4,136	4,173	4,173
Other payable	2,000	2,000	–	–
	23,848	**23,330**	**24,769**	**22,895**
Amounts falling due after more than one year:				
Payments received on account	10,506	10,506	5,095	5,095
	10,506	**10,506**	**5,095**	**5,095**

The fair values of trade and other payables are not considered to be significantly different from their carrying value.

15 BORROWINGS AND DERIVATIVE FINANCIAL INSTRUMENTS – GROUP AND THE DUCHY

Group

	Less than 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000	Total £'000
At 31st March 2018				
Borrowings	–	–	105,000	**105,000**
Interest rate swaps – cash flow hedges (Level 2)	–	–	1,602	**1,602**
At 31st March 2017				
Borrowings	–	40,000	60,000	**100,000**
Interest rate swaps – cash flow hedges (Level 2)	–	4,820	3,200	**8,020**

Duchy

	Less than 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000	Total £'000
At 31st March 2018				
Borrowings	–	–	105,000	**105,000**
Interest rate swaps – cash flow hedges (Level 2)	–	–	1,602	**1,602**
At 31st March 2017				
Borrowings	–	40,000	60,000	**100,000**
Interest rate swaps – cash flow hedges (Level 2)	–	4,820	3,200	**8,020**

The Duchy has three interest rate derivatives designated into cash flow hedge relationships on the loan facilities totalling £105million. The notional amount of the interest rate derivatives is £105million. As at 31st March 2018, a gain of £6,691,000 was recognised in other comprehensive income in the Capital Account Statement of Comprehensive Income, in respect of the effective cash flow hedge relationships. These are classified as Level 2 financial instruments measured at fair value on directly or indirectly observable inputs.

The bank loan of £30million is repayable in 2025; interest in the year is at a floating rate that has been fully swapped to a fixed rate of 3.17%. The bank loan of £30million repayable in 2027 has been fully swapped to a fixed rate of 2.64%. The bank loan of £45million repayable in 2030 has been fully swapped to a fixed rate of 2.79%. The fair values of borrowings are not considered to be significantly different from their carrying value.

16 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group Year ended 31st March 2017 £'000	Duchy Year ended 31st March 2017 £'000	Group Year ended 31st March 2018 £'000	Duchy Year ended 31st March 2018 £'000
Net surplus on the Revenue account	20,796	20,286	21,875	21,096
Net surplus on the Capital account	20,524	19,993	20,234	19,828
Adjusted for:				
Depreciation	849	495	1,051	466
Impairment of financial assets	1,300	1,300	–	–
Dividend income on available for sale assets	(2,801)	(2,801)	(2,918)	(2,918)
Net finance costs	3,235	2,664	3,067	2,369
Share of loss from associate and joint venture	1	–	–	–
Shortfall of pension charge over contributions	(457)	(457)	(72)	(72)
Net gain from fair value of investment property	(17,781)	(17,249)	(22,856)	(22,205)
Net gain from fair value of investment property held for sale	(1,719)	(1,719)	(425)	(425)
Net gain on property held for sale	(969)	(969)	(1,430)	(1,430)
Profit on disposal of investment property	(773)	(773)	(1,908)	(1,908)
(Gain)/loss on disposal of financial investments	(1,812)	(1,812)	851	851
(Increase)/decrease in inventories	(120)	31	(194)	(23)
(Increase)/decrease in trade receivables	(932)	(725)	2,052	2,024
Increase/(decrease) in trade payables	836	590	(958)	(2,404)
Net cash inflow from operating activities	**20,177**	**18,854**	**18,369**	**15,249**

17 RELATED-PARTY TRANSACTIONS

Two members of The Prince's Council are also trustees of The Duke of Cornwall's Benevolent Fund to which the Duchy of Cornwall, on behalf of The Duke of Cornwall, pays surplus receipts of bona vacantia as detailed in note 18. There were no transactions with the trustees during the financial year and as at 31st March 2018 there was £nil (2017: £nil) remaining payable to the trustees.

Certain Duchy properties, including Highgrove House, are occupied by His Royal Highness The Prince of Wales and his office staff for living accommodation or commercial activities. These are let at open-market values; the total value of annual rent charged amounted to £662,287 (2017: £663,367). As at 31st March 2018 there was £nil (2017: £nil) remaining payable to the Duchy.

During the year, the Duchy paid Mrs Annabel Elliot, The Duke of Cornwall's sister-in-law, in the normal course of business and on an arm's-length basis £30,309 (2017: £24,045) for fees and commission and £26,926 (2017: £27,752) for the purchase of furniture, furnishings and retail stock for the Duchy of Cornwall holiday accommodation, Duchy office at Restormel and Penlyne Nursery. At 31st March 2018, there was £40,157 (2017: £4,173) remaining payable to Mrs Elliot.

Key management personnel are individuals that have the responsibility for planning, directing and controlling the activities of the Duchy. For the year ended 31st March 2018, the Duchy of Cornwall made the following payments to key management personnel: short-term employee benefits (salary) £1,492,000 (2017: £1,295,000); post-employment benefits (retirement benefit plan contribution) £412,000 (2017: £363,000); benefits £26,000 (2017: £94,000); total £1,930,000 (2017: £1,752,000).

Transactions with QMS (Poundbury) LLP, RP (Poundbury) LLP and J V Energen LLP are shown in notes 10 and 12.

During the year, the Duchy received £571,000 of interest (2017: £571,000). In addition, the Duchy leased an area of land to a partnership for which a rent of £112,300 (2017: £98,725) from J V Energen LLP was received.

18 BONA VACANTIA

During the year, His Royal Highness in right of his Duchy of Cornwall, received bona vacantia (being the estate of deceased intestates resident in Cornwall and dying without next of kin or assets remaining following dissolution of a company registered in Cornwall) of £294,000 (2017: £498,000) before allowing for ex gratia payments and other associated costs of £198,000 (2017: £95,000). Surplus receipts of bona vacantia by His Royal Highness are paid over to The Duke of Cornwall's Benevolent Fund; £95,000 (2017: £415,000) was paid during the year. At 31st March 2018, the Duchy retained £134,000 (2017: £133,000) within creditors to meet potential future claims from individuals statutorily entitled to estates that had previously passed as bona vacantia to His Royal Highness.

Copies of The Duke of Cornwall's Benevolent Fund financial statements may be obtained from 10 Buckingham Gate, London SW1E 6LA.

19 CAPITAL COMMITMENTS

At 31st March 2018, the Duchy had Capital commitments of £2,975,000 (2017: £4,754,000) in respect of development and property improvement works and £2,482,000 (2017: £3,459,000) for the acquisition of financial investments.

20 CONTINGENT LIABILITY

During the year to 31st March 2007, the Duchy sold an area of land subject to obtaining vacant possession. If vacant possession was not agreed between 2010 and 2017, it was possible for the purchaser of the land to require the Duchy to repurchase the land concerned at the original price received plus interest. Vacant possession was obtained in April 2017 so this liability did not crystallise.

21 FINANCIAL INSTRUMENTS – GROUP

	Note	Held at fair value £'000	Amortised cost £'000	31st March 2017 £'000
Assets				
Financial assets	11	65,080	1,200	66,280
Trade and other receivables excluding prepayments and accrued income	12	–	14,399	14,399
Cash and cash equivalents		–	4,095	4,095
		65,080	**19,694**	**84,774**
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(29,600)	(29,600)
Borrowings	15	–	(100,000)	(100,000)
Derivative financial instruments	15	(8,020)	–	(8,020)
		(8,020)	**(129,600)**	**(137,620)**

	Note	Held at fair value £'000	Amortised cost £'000	31st March 2018 £'000
Assets				
Financial assets	11	62,655	–	62,655
Trade and other receivables excluding prepayments and accrued income	12	–	3,476	3,476
Cash and cash equivalents		–	11,045	11,045
		62,655	**14,521**	**77,176**
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(24,097)	(24,097)
Borrowings	15	–	(105,000)	(105,000)
Derivative financial instruments	15	(1,602)	–	(1,602)
		(1,602)	**(129,097)**	**(130,699)**

21 FINANCIAL INSTRUMENTS – THE DUCHY

	Note	Held at fair value £'000	Amortised cost £'000	31st March 2017 £'000
Assets				
Financial assets	11	65,080	1,200	66,280
Trade and other receivables excluding prepayments and accrued income	12	–	19,720	19,720
Cash and cash equivalents		–	3,603	3,603
		65,080	**24,523**	**89,603**
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(29,082)	(29,082)
Borrowings	15	–	(100,000)	(100,000)
Derivative financial instruments	15	(8,020)	–	(8,020)
		(8,020)	**(129,082)**	**(137,102)**

	Note	Held at fair value £'000	Amortised cost £'000	31st March 2018 £'000
Assets				
Financial assets	11	62,655	–	62,655
Trade and other receivables excluding prepayments and accrued income	12	–	9,498	9,498
Cash and cash equivalents		–	10,464	10,464
		62,655	**19,962**	**82,617**
Liabilities				
Trade and other payables excluding non-financial liabilities	14	–	(22,368)	(22,368)
Borrowings	15	–	(105,000)	(105,000)
Derivative financial instruments	15	(1,602)	–	(1,602)
		(1,602)	**(127,368)**	**(128,970)**

22 FINANCIAL RISK MANAGEMENT

A review of the Group's financial risks is set out in the Governance section on pages 32 to 41.

MARKET RISK

All borrowings at floating rates are fully hedged by swap agreements. Sensitivity to currency exchange movements is outlined in note 11. The Duchy has a diverse financial investment portfolio predominantly invested in funds so as to minimise risk.

LIQUIDITY RISK

The table below summarises the maturity profile of the Group's financial liabilities on a contractual undiscounted cash flow basis:

	Less than 1 year £'000	2–5 years £'000	More than 5 years £'000	Total £'000
Borrowings	–	–	105,000	105,000
Net interest payable on swap	2,984	11,934	15,719	30,637
Trade and other payables	10,208	–	–	10,208
At 31st March 2018	**13,192**	**11,934**	**120,719**	**145,845**
At 31st March 2017	14,992	53,664	67,717	136,373

CREDIT RISK

The Duchy is exposed to credit risk in relation to its tenants and financial institutions. Credit risk in respect of the Duchy's tenants is reviewed on a regular basis and appropriate action is taken where necessary. For new lettings, the Duchy undertakes credit checks and holds tenant deposits where appropriate. For banks and financial institutions, the Duchy's appointed investment consultants assess the credit quality of the organisation, taking into account its financial position, past performance experience and other relevant factors.

CAPITAL MANAGEMENT

Under the 1337 Charter, The Prince of Wales is not entitled to the proceeds or profit from the sale of capital assets and only receives the annual income the assets generate. The Duchy's financial objective in managing capital assets is to continue to improve the quality of the estate whilst providing an income for future beneficiaries.

The Duchy continually monitors the capital asset weightings, particularly from a diversification and cash flow perspective. Capital cash flow projections are regularly reviewed and updated to ensure that funding is available to meet both liabilities when due and to pursue investment opportunities when considered appropriate. This also ensures that the covenants in relation to the bank loan facilities are adhered to.

23 CASH AND CASH EQUIVALENTS

Net debt consists of loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this measure, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current), current asset investments and cash and cash equivalents.

A reconciliation from the most directly comparable IFRS measure to net debt is given below.

	Group 31st March 2017 £'000	Duchy 31st March 2017 £'000	Group 31st March 2018 £'000	Duchy 31st March 2018 £'000
Loans and other borrowings	108,020	108,020	106,734	106,602
Less: Cash and cash equivalents	(4,132)	(3,602)	(11,045)	(10,464)
Net debt	**103,888**	**104,418**	**95,689**	**96,138**

TREASURY CONSENTS

Treasury consents under Section 7 of the Duchy of Cornwall Management Act 1982:

- Authority for a £45million facility agreement with Coutts Bank plc and repayment of an existing £40million facility
- Authority to sell property for £4,300,000

Treasury consents under Section 11 of the Duchy of Cornwall Management Act 1863:

- Authority for the sale of land for £369,561
- Authority for the sale of land for £390,601
- Authority for the sale of land for £739,838
- Authority for the sale of land for £1,185,048
- Authority for the sale of land and property for £505,000
- Authority for the sale of land and property for £900,000
- Authority for the sale of land and property for £1,232,350
- Authority for the sale of land and property for £1,580,000
- Authority for the sale of land and property for £2,267,650

Alastair Martin

Secretary and Keeper of the Records

6th June 2018

APPENDIX

ACCOUNTS DIRECTION GIVEN BY HM TREASURY

1. The Duchy of Cornwall shall prepare accounts for the financial year ended 31st March 2017 and subsequent financial years comprising:
   - a report for the year, including a Strategic Report; a Proper Officers' Report; a Statement of the Proper Officers' Responsibilities, and a Governance Statement;
   - a Revenue Account Statement of Comprehensive Income and a Capital Account Statement of Comprehensive Income;
   - a Balance Sheet;
   - a Statement of Changes in Capital and Reserves; and
   - a Cash Flow Statement;

   including such notes as may be necessary for the purposes described in the following paragraphs.
2. The accounts shall give a true and fair view of the Revenue Account Statement of Comprehensive Income, Capital Account Statement of Comprehensive Income, Statement of Changes in Capital and Reserves, Cash Flow Statement for the financial year and the balance sheet as at the end of the financial year. Subject to these requirements and the exemptions set out in Schedule 1, the accounts shall be prepared in accordance with International Financial Reporting Standards as adopted by the European Union.
3. The application of the accounting and disclosure requirements of the Companies Act 2006 (CA), accounting standards and other disclosure requirements is given in Schedule 1 attached.
4. This direction supersedes that of 28th May 2015. It shall be reproduced as an appendix to the accounts.

Richard Brown

Treasury Officer of Accounts

8th May 2017

ACCOUNTING AND DISCLOSURE REQUIREMENTS

COMPANIES ACT 2006

1. The disclosure exemptions permitted by the CA shall not apply to the Duchy of Cornwall unless specifically approved by the Treasury.
2. The CA requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, information relating to the Duchy shall be contained in the Proper Officers' Report for the year, which shall be signed and dated by the Secretary or other Proper Officer.
3. The Duchy shall take into consideration the CA requirements as they apply to non-listed companies (to the extent that they can be applied in the circumstances of the Duchy).
4. The statements of comprehensive income be prepared in accordance with International Accounting Standard (IAS) 1.
5. The balance sheet shall be prepared in accordance with IAS 1, separating the classification of the current and non-current assets, and current and non-current liabilities on the face of the balance sheet. The balance sheet shall be signed by the Secretary or other Proper Officer.
6. The Duchy is not required to provide the historical cost information described in paragraph 34(3) of Schedule 1 to the SI20081410.
7. The Duchy is not required to comply with the requirement specified in paragraph 35 of Schedule 1 to SI20081410 to maintain a revaluation reserve.

ACCOUNTING STANDARDS

8. It is considered that the Duchy should prepare separate Statements of Comprehensive Income for both the Revenue and Capital accounts rather than one Statement of Comprehensive Income as required by IAS 1.

OTHER DISCLOSURE REQUIREMENTS

9. The Report for the year shall, inter alia:
   - state that the accounts have been prepared in accordance with this Treasury Direction;
   - include a brief history of the Duchy and its statutory background, and identify its estates by county and area;
   - list Treasury consents under Section 7 of the Duchy of Cornwall Management Act 1982 granted in that year; and
   - provide information concerning the Duchy's charitable and other activities and the principles supporting them. The information should also indicate where copies of the accounts of the charities may be obtained.
10. The notes to the accounts shall, inter alia:
    - disclose the names of the external valuers and the qualifications of the internal valuers;
    - (where it arises) provide details of the terms of any loan from the Capital account for revenue purposes, and the purpose for which it is required and, together with explicit assurance that the loan is not being used to inflate the revenue surplus payable; and
    - provide details of the remuneration package of each member of the Prince's Council, together with a note of the pension contributions made in respect of Council members.
11. A formal valuation of the pension scheme was undertaken in 2016 and the contribution rate subsequently adjusted to ensure that the deficit is forecast to be made good within the term recommended by the actuary and agreed by the trustees. The pension reserve required by IAS 19 shall be a separate non-distributable reserve within the balance sheet.

CARBON REPORT

The Duchy of Cornwall is fully committed to understanding and reducing its carbon footprint. It has calculated and published carbon footprint data for the last 13 years.

CARBON PERFORMANCE SUMMARY

We have achieved a 55% decrease in overall carbon dioxide emissions since the baseline year (representing 220 tonnes carbon dioxide equivalent in 2017/18).

The rate of reduction has flattened over recent years, with a small decrease this year compared to last year. Further reductions are proving harder to achieve. All remaining emissions are offset by specific additional tree planting, with carbon credits being externally verified, and excess credits being sold to sister organisations.

Using the baseline year of 1990, as typically used in Kyoto protocol targets, a 25% reduction was met by 2008/09 and a subsequent reduction target of 40% by 2012 was also achieved. A new target has been developed as part of our KPIs – see page 16: we aim to reduce GHG emissions by 60% against baseline by 2020.

CARBON STATEMENT[1]

	Baseline[2] tCO_2	2013/14 tCO_2	2014/15 tCO_2	2015/16 tCO_2	2016/17 tCO_2	2017/18 tCO_2
OPERATIONAL MANAGEMENT Offices, in-hand property						
Travel – business	132	95	113	101	96	103
Travel – commuting	52	63	64	69	64	58
Energy used in properties	225	30	26	16	29	14
Sub-total	**409**	**187**	**203**	**185**	**189**	**175**
TRADING ACTIVITIES Holiday cottages, nurseries						
Travel – business	9	6	6	4	7	8
Travel – commuting	17	18	15	9	17	14
Energy used in properties	60	17	9	18	18	21
Sub-total	**86**	**42**	**31**	**31**	**42**	**43**
Total emissions	**495**	**229**	**234**	**216**	**231**	**218**
Total travel-related emissions	210	181	199	183	184	183
Total energy used in properties	285	47	35	33	47	35
Total emissions	**495**	**229**	**234**	**216**	**231**	**218**
Reduction on baseline		54%	53%	56%	53%	55%
ENERGY USED IN PROPERTIES						
Gas – gross	54	80	63	58	73	66
Emissions reduction[3]	–	-80	-63	-58	-73	-66
Gas – net	54	0	0	0	0	0
Electricity – gross	156	292	299	323	294	249
Emissions reduction[4]	–	-265	-282	-309	-266	-239
Electricity – net	156	27	17	14	28	10
Oil – gross	75	20	17	19	19	25
Total	**285**	**47**	**35**	**33**	**47**	**35**

1 This Carbon Statement presents the carbon emission data from the activities and assets under the ownership and direct management of the Duchy, and from the commuting of Duchy staff. It has been prepared in accordance with the Duchy's Carbon Reporting Policy, developed in 2008/09 to provide a formal basis for the preparation of the Carbon Statement.

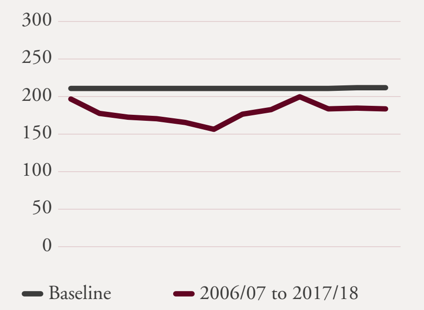
2 PricewaterhouseCoopers LLP provided assurance over the Duchy's 2008/09 carbon emissions data. The data for the baseline and all other years has not been subject to assurance. Assurance will be obtained in future either when there is a significant change in the assets and activities of the Duchy or in general carbon reporting practice.

3 Gas emissions reductions are achieved through purchases via the Green Gas Certification Scheme of biomethane credits from the Rainbarrow Farm AD and Biomethane Plant.

4. Electricity emissions reductions are achieved through the purchase of renewable electricity generated from renewable sources backed by Renewable Energy Guarantee of Origin (REGO) certificates.

CARBON PERFORMANCE SUMMARY

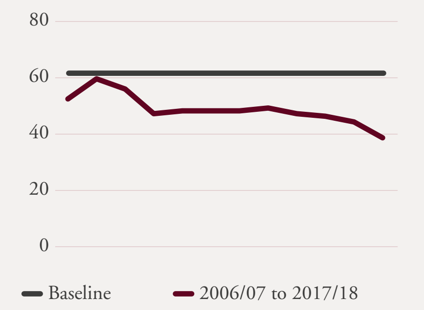
TRAVEL EMISSIONS (tCO_2e)



Decreased by 13% compared to baseline.

Travel emissions at first declined, mainly due to the purchase of a much more fuel-efficient boat for St Mary's harbour on the Isles of Scilly, which is used both as a pilot boat and for inter-island travel. In recent years, travel emissions started increasing because travel to the Isles of Scilly has been undertaken using the longer-journey fixed wing aircraft, the helicopter public transport service from Penzance having ceased.

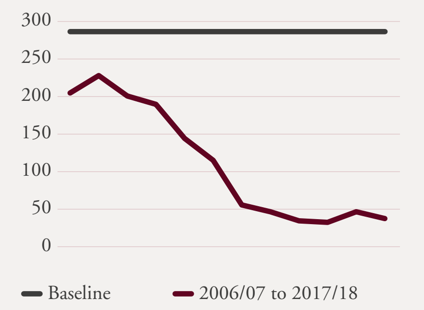
BUSINESS MILES (tCO_2e)



Decreased by 37% compared to baseline.

While there has been a very large reduction in emissions from properties, it is proving harder to reduce emissions from travel. The average gCO_2/km of cars driven by office-based staff has fallen from 167 in 2009/10 to 140 this year, but the number of business miles driven is roughly static, and the total staff commute has risen, as more staff are employed and some have moved further from their place of work.

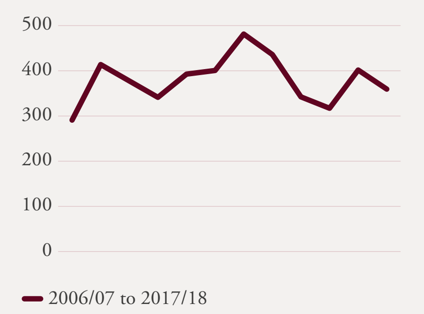
PROPERTY EMISSIONS (tCO_2e)



Decreased by 87% compared to baseline.

Key factors include the switch to renewable fuels and a programme of works to convert offices to renewable heating systems or to upgrade existing systems. All offices and trading businesses purchase only electricity generated from renewable sources backed by Renewable Energy Guarantee of Origin (REGO) certificates, and purchase gas backed by Renewable Gas Guarantees of Origin registered through the Green Gas Certification Scheme (GGCS). Offices at Princetown and Restormel are heated by biomass, and Hereford by ground source.

GAS (MWh)



ELECTRICITY (% brown by £)

HEATING OIL (litres, thousands)

The volume of gas consumed continues to vary. The proportion of non-renewable electricity used is very much reduced since baseline, but has risen slightly this year as some previously let properties with brown supplies came back in hand. There has been a significant drop in heating oil use over the years, and we are now just left with a couple of holiday let cottages that use heating oil. All offices are either on mains gas or biomass systems.

SURFACE AREA REPORT
31ST MARCH 2018

The Duchy of Cornwall is a landed estate of 52,970.9 hectares.

The extent and distribution of the major land holdings at 31st March 2018 were as follows:

	Hectares
Devon	28,424.8
Cornwall	7,614.8
Hereford	5,370.4
Somerset	5,251.2
Isles of Scilly	1,604.5
Dorset	1,329.2
Wiltshire	1,253.3
Gloucestershire	657.4
Kent	519.5
Shropshire	393.1
Nottinghamshire	287.6
Oxfordshire	120.4
Carmarthenshire	83.9
Vale of Glamorgan	19.6
Greater London	15.6
Buckinghamshire	15.4
Hertfordshire	6.0
Norfolk	2.2
Berkshire	1.5
Hampshire	0.4
Middlesex	0.1
Total	**52,970.9**

DUCHY *of* CORNWALL

INTEGRATED ANNUAL REPORT

Year ended 31st March 2018

www.duchyofcornwall.org

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Front cover image

Front cover shows the Manor of Restormel, including the castle, given to Edward of Woodstock (the "Black Prince") when the Duchy of Cornwall was created in 1337, and still owned.

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