H. CLARKSON & COMPANY LIMITED

Annual Report 2018

H. CLARKSON & COMPANY LIMITED

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H. CLARKSON & COMPANY LIMITED

DIRECTORS AND ADVISORS

DIRECTORS

The company's directors are set out below:

J R Auckland
T M Barraclough
T W Becker
H Brinkhorst
P Broad
J D Brynteson
M J C Cahill
A L Case
S Chattrabhuti
R S M Coulter
P J Curry
M F Dentice
S D Emmott
A G Furze
N D G Gill
B F Goodall
M W Goodall
S Goodrich
A J Gray
J D Green
J F Green
P Harding
R A Hartless
R Hemminga
D P Insole
S B Jones
S Kay
R C Knight
A G R Lane
D P Lepper
M Lindsey
D Low
R McKinlay
J McNally
P G J Middleton
D Mikhno
J Milner
C B Murray
S Nair
M C E Neale
D J Newton
K E Ovesen
A J T Persenda
D M Potts
G J Preece
M Roberts
J E J Rogers
M A Ross
M P Rowe
D J Saxby
G Sewell
N Tsangarides
H C Van Niekerk
C G P Verdult
C Y Wang
J P Webber
R H White
N C Williams
H E N Wilsher
J D Woyda
V Yang
S Zois

ADVISORS

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COMPANY SECRETARY AND REGISTERED OFFICE
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STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their Strategic Report for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The company's principal activities during the year continued to be the provision of shipping-related services, specifically broking facilities for ship owners and charterers across a wide variety of markets.

KEY PERFORMANCE INDICATORS

The directors of the ultimate parent company, Clarkson PLC, manage operations on a segmental basis. For this reason, the company's directors believe that analysis using key performance indicators should be viewed in the context of the group. H. Clarkson & Company Limited operates within the broking segment which is discussed in the group's Annual Report. A review of the business by division is given below.

PRINCIPAL RISKS AND UNCERTAINTIES

The identification, control and monitoring of risks facing the business remains a management priority and steps continue to be taken to further improve our risk management procedures. The principal risks monitored are foreign exchange risk, credit risk, liquidity risk, reputational risk and operational risk.

Foreign exchange risk
The major trading currency of the company is the US dollar. Movements in the US dollar relative to other currencies, particularly pounds sterling, have the potential to impact the results of the company both in terms of operating results and the revaluation of the balance sheet. The company assesses the rate of exchange and non-sterling balances held continually, and has predominantly sold in the spot market during 2018, though some forward contracts for 2019 and 2020 have been taken.

Credit risk
The company has an extensive client base and is exposed to credit-related losses from the non-payment of invoices by these clients. The company mitigates this risk by closely monitoring outstanding amounts and by adopting a conservative approach to accounting for bad debt. Uncertainty in freight markets continues to affect the amount of debt that may be recoverable.

Liquidity risk
The company's policy is to maintain sufficient funds to meet all of its foreseeable requirements. The strong generation of cash flow in the business, combined with the cash available in the balance sheet, means that the group is well placed to fund future developments of its global business.

Reputational risk
The company has built an enviable reputation in the market and relies upon this to attract business from all major participants in its markets. The company protects against reputational risks by promoting an ethical work environment and providing training programmes where appropriate. Our dedicated training officer and training programme continues to improve consistency and approach. Investment in compliance, quality assurance and legal functions also act to ensure that best practices are put in place throughout the company.

Operational risk
Operational risks are where the company may suffer direct or indirect losses from people, systems, external influences or failed processes. The company continually reviews the systems in place to mitigate against operational risk, and puts in place plans to protect against such risks wherever they are significant or practicable. Examples include business continuity plans, staff contracts and IT security arrangements. The company also keeps in place and under review appropriate levels of insurance cover.

BUSINESS REVIEW

Despite a first quarter that saw difficult shipping and offshore markets impact financial performance, the breadth, depth and quality of the company's underlying business proved robust against market challenges. H. Clarkson & Company Limited has made significant progess in strengthening the company's market-leading position, introducing new products and continuing to deliver 'best in class' service to clients.

H. Clarkson & Company Limited has continued to invest in market-leading technology to provide a revolutionary platform in which to interact with clients and provide innovative solutions. This combined with the company's focus on outstanding service, unique market insights and deep sector expertise has enabled the company to perform even in a challenging marketplace.

The entity's principal objectives and strategies are consistent with that of the ultimate parent company, Clarkson PLC, these are discussed in the group's Annual Report which does not form part of this report.

The net assets of the company at 31 December 2018 were £20.0m (2017: £16.2m).

Broking activities:

Revenue: £96.9m	(2017: £95.3m)
Operating Profit: £6.7m	(2017: £13.1m)
Forward order book for 2019: US$47.3m*	(2017 for 2018: US$36.1m*)

* Directors' best estimates of deliverable FOB

Dry cargo

Dry cargo vessel earnings increased across all sectors reaching the highest level in seven years. Year-on-year sectoral performance is reflected by an 18% improvement in the Baltic Dry Index compared to 2017. The capesize market was responsible for the highest volatility and peaked during the third quarter, while the smaller sizes continued the upward trend towards the end of the year to finish with the strongest quarter. On average the capesize sector improved by 9%, the panamax sector by 19%, the supramax sector by 22% and the handysize sector by 14%. Period rates and asset values both increased on the stronger market fundamentals.

Newbuild deliveries slowed to a 10-year low, which kept tonnage tight and reduced demolition to a minimal level. As a result, the fleet expanded by a mere 2.9%. Irrespective of the improved earnings, newbuild orders slowed year-on-year with the majority scheduled for delivery in 2020 or later.

The year was impacted by the well-documented US-China trade war, which started in April. For the dry cargo market, China's announcement to retaliate on the imposed trade tariffs, by limiting US grain imports and soybeans in particular, weighed on market sentiment. Yet, the market remained balanced as non-Chinese buyers took advantage of the heavily discounted US grain prices, while China took advantage of other suppliers, mainly from East Coast South America (ECSA). The market weakened towards the end of the year when the ECSA crops were depleted.

The manufacturing sector in emerging Asian economies expanded during 2018, which ensured healthy demand for industrial materials. However, seaborne trade growth was limited by a variety of supply disruptions, such as environmental and labour strike-related mine and railway closures. Those 'lost' volumes will return to the market in 2019 and will offset some of the expected losses due to recent iron ore tailings dam collapse in Brazil. China's industrial manufacturing output expanded throughout 2018, but succumbed to the uncertainty of the outcomes of the trade dispute with the US and contracted in December. The Chinese government intends to stabilise economic growth through monetary and fiscal policy measures. The allocated capital towards infrastructure spending as part of such an economic stimulus package is supportive of demand for industrial materials.

Irrespective of the many disruptions in 2018, dry bulk seaborne trade grew by 2.6% and with the signs of amicable trade solutions between the US and China, dry bulk trade is well positioned to accelerate growth.

The incoming IMO 2020 sulphur cap legislation on marine fuels has been the subject of many discussions as it is shrouded with uncertainty regarding the most economical solution for shipowners. However, the time leading up to enforcement in 2020 is limited and the new regulations will limit available fleet supply to some extent as ships go out of service to prepare for compliance, thereby keeping the expansion of the active fleet below 3%.

Containers

Following the improvements seen in 2017, 2018 was a more mixed year for the containership sector. Containership earnings fluctuated, as improvements in the first half of the year were followed by an easing back in the second half. Meanwhile, the box freight market saw volatility across the year, as well as a clear divergence between the performance on the key Transpacific and Far East-Europe trade lanes in the second half. Year-on-year fuel price increases also placed significant pressure on liner company financials.

Globally, container freight rates throughout the year were fairly flat compared to 2017. The full year 2018 SCFI composite index averaged only 1% up on the 2017 average, though still up by 28% on 2016. It is however noteworthy that in the second half of 2018, benchmark China-US West Coast freight rates were up 54% year-on-year whilst China-North Europe freight rates were up just 3% year-on-year.

On the charter market, earnings continued to make positive progress in the first half, backed by limited supply expansion outside the largest ship sizes and rapidly expanding regional trade volumes. The charter market 'basket' index increased by 32% to 68 points in the first half, but then eased back in the second half to 52 points at the end of 2018, a level only marginally higher than at the end of 2017. Nevertheless, the average 'basket' index level across the year stood at 60 points, 28% up on the 2017 full year average, with the average 2,750 TEU ship one year rate up by 23% on the same basis. Volume growth moderated a little, with rates for some of the larger asset classes holding up better than for their feeder counterparts, a reversal of the previous trend. The one year charter rate for a 2,750 TEU ship stood at US$9,500 per day at the end of 2018, 2% above the end of 2017 level, having previously increased to US$12,100 per day at the end of the first half. The one year rate for a 9,000 TEU ship stood at US$29,000 per day at the end of 2018, 71% above the end of 2017 level.

Broking activities (continued):

Containers (continued)

In 2018, demand remained fairly robust, though risks from the world economy have clearly escalated. Global trade volumes are estimated to have expanded by 4.5% to 201m TEU in the full year 2018, following growth of an estimated 5.5% in 2017. The rate of expansion on trades involving developing economies proved strong, though growth on the main lane east-west trades appears to have been more moderate. Expansion on the key westbound Far East-Europe was limited in part due to declining import levels to the UK and Germany, and a sharp drop in volumes into Turkey, though growth on the Transpacific was much firmer, partly supported by a 'rush' to ship cargo before the potential imposition of more stringent tariffs. Containership fleet capacity growth accelerated in 2018, through the ongoing delivery of new 'mega-ships'. In 2018, capacity expanded by 5.6%, pushing the balance between supply and demand growth in favour of the former. However, surplus capacity in the sector remains much reduced, with around 2% of fleet capacity on average standing idle through 2018 compared to 7% back at the start of 2017.

Looking ahead, boxship capacity expansion is set to slow to around 3% in both 2019 and 2020. Whilst trade growth could well remain robust and supportive of market progress, demand side risks have grown and will need to be tracked closely. The trade war between the US and China could potentially have an impact on 5% of global container trade. There are, however, a number of 'wild cards' related to the potential impact of the IMO 2020 global sulphur cap on vessel recycling, operating speeds and time out of service, which could help further containership sector rebalancing. On the supply side, despite a steady flow of feeder ship ordering, at an aggregate level, the ordering of newbuildings remained relatively moderate with 1.2m TEU contracted in 2018; the order book now stands at a historically low 13% of fleet capacity. Liner company consolidation has continued, and for operators and owners alike, fuel economics are now firmly in play.

Tankers

The tanker market was extremely weak for much of 2018, but rebounded strongly in the final quarter. In spite of the early weakness, annual average earnings for VLCCs on the main Middle East-Far East route declined by just 2% versus the 2017 average. Meanwhile, average annual earnings for suezmaxes and aframaxes increased by 7% and 17% respectively versus 2017 levels.

In the products tanker sector, the strong end to the year meant that annual average earnings for LR2s and LR1s trading in clean products on the key Middle East-Far East route increased by 9% and 2% respectively versus 2017 average levels. However, average earnings for MRs in 2018 declined by 14% versus 2017 levels.

In the first half of the year, the crude tanker market was held back by a combination of strong voluntary compliance with OPEC and non-OPEC production cuts and additional unplanned output reductions. However, in the second half of the year, sharp increases in production and exports from a combination of OPEC countries, Russia and the US, together with weather-related delays to vessels in the fourth quarter, conspired to drive earnings back up to higher levels.

In the products tanker sector, the market continued to feel the effects of the strong fleet growth of the previous three years and the oil products trade was hampered by backwardation in forward price curves for much of the year, albeit earnings started to recover in November and December. Forward price curves for a number of oil products returned to contango and some long-haul arbitrage opportunities were seen. In addition, the clean products tanker market was assisted by the strength of the crude tanker market, as several LR2 products carriers switched to crude oil or fuel oil trade. Meanwhile, a number of other LR2s were delayed in discharging clean products cargoes in Asia.

Crude tanker fleet growth fell sharply in 2018 due to a combination of reduced deliveries and a sharp increase in vessel demolition. The overall crude tanker fleet in dwt grew by just 0.6%, compared to growth of 5.2% in 2017 and 6.0% in 2016. In the products tanker sector, fleet growth also fell sharply, principally due to a further reduction in newbuilding deliveries. Deep sea products tanker fleet growth fell to 1.2% in 2018, which was the lowest growth in percentage terms since 2001, lower than the 4.0% in 2017 and 6.2% in 2016.

In 2019 crude tanker fleet growth is expected to be 3.1% due to a slight increase in newbuilding deliveries, and reduced demolition due to an anticipated increase in vessel earnings. Products tanker fleet growth is expected to increase to 2.7% due to increased deliveries of MR products tankers after a year of very low deliveries in 2018.

Tanker earnings are expected to soften temporarily in the first half of the year from the strong levels seen in late 2018 due to a combination of new OPEC and non-OPEC oil production cuts, a concentration of newbuilding deliveries in the early part of the year, refinery maintenance, and a seasonal reduction in oil demand and vessel delays in the spring.

Nevertheless, unless a significant global economic downturn or unpredictable geopolitical factors intervene, both crude and products tanker markets are expected to strengthen on average in 2019.

A number of factors are expected to support the markets including: the removal of tankers from the market for the installation of exhaust gas cleaning systems ahead of the IMO 2020 reduction in the sulphur content of bunker fuels; geopolitical disruption to oil markets that may favour increased spot market shipments of crude oil; the commissioning of substantial new refining capacity in Asia; rising US crude oil exports; and potential changes in crude oil and oil products cargo flows ahead of the impending bunker fuel sulphur content reduction. These factors are expected to be particularly supportive of tanker markets in the second half of the year.

Broking activities (continued):

Specialised products

Early optimism in 2018 quickly changed as earnings for chemical tankers came under substantial pressure, negatively influenced by challenging market conditions in the increasingly interlinked deep sea products tanker world.

Whilst the Clarksons Platou Bulk Chemical Index actually recorded a 6% increase from January to December 2018, and the index was on average 9% higher than 2017, increased voyage costs compressed net earnings for owners for much of the year. In a similar manner to the prevailing spot markets, the period charter and asset sectors were also bereft of the usual activity with deal volume reduced, especially in the summer period. Uncertainty surrounding the impending IMO 2020 regulations and their impact was undoubtedly a contributory factor to lower deal volume and also increased short-termism with initial periods of time charter.

Overall, the volume of seaborne trade for specialised products in 2018 was however encouraging, with estimated annual growth of around 6%. Organic chemicals (such as methanol, benzene and styrene) and inorganic chemicals (such as caustic soda, sulphuric and phosphoric acids) growth was particularly evident throughout the year, along with a rapidly increasing lubricants and base oils sector. For the first time ever, annual seaborne trade in this sector is now greater than 300m mts, more than double that of 15 years ago. Seaborne trade in this sector has only declined once (1992 by just 0.6%) in the last 35 years. Despite geo-political uncertainty generally flowing through to downgraded economic expectations, the market experienced continued import demand from a number of key end-user locations, with China and India recording 7% and 5% year-on-year import increases respectively. US-China trade wars have thus far had little direct impact on our overall market as the trade lane only accounts for just over 0.5% of total seaborne trade.

Turning to the other part of the tonne-mile demand equation, distance growth, chemical carriers on average travelled 0.6% further in 2018 when compared to the previous year, meaning more ships were needed to satisfy the same volume obligation.

On the supply side, real net fleet growth was slightly higher in 2018 compared to 2017, with an influx of modern products tankers. That said, the order book is still well below the long-run average and we expect the available fleet to contract in the medium-term. The fleet of chemical tankers, including 10% of 'IMO 3' product tankers, stood at 53.7m dwt at the start of 2018. By the end of the year, we believe 2.7m dwt of deliveries and 1.3m dwt of removals were registered. The overall fleet of chemical tankers at the end of 2018 was more than three times the size of the fleet in 2001.

Whilst earnings and market sentiment were somewhat depressed throughout much of 2018, fundamentals continue to point to a potential increase in utilisation over the medium to long-term.

Gas

2018 saw some improvement in fortunes across most of the sectors of the LPG carrier market, albeit more pronounced in some segments than in others. This recovery was supported by a slowdown in newbuilding deliveries combined with an acceleration in the pace of older vessel removals. In conjunction with the continued expansion of LPG trade, average freights for the year edged above the average 2017 levels.

Following a slowdown in the growth of US LPG exports in the first quarter, which negatively impacted tonne-mile demand, volumes have since recovered. However, the movement of US tonnes into China was adversely impacted from the second quarter by the imposition of trade tariffs. Whilst these volumes have been largely displaced by Middle Eastern suppliers, the redirection of US cargoes into Middle Eastern import markets such as Indonesia, Japan and South Korea has served to support laden distances overall. Despite the ongoing delay of new flows from the Mariner East II terminal expansion in the US, high utilisation levels from the existing terminals in the US Gulf in particular, have continued to drive the lion's share of the growth in seaborne trade, which is estimated to have expanded at a rate of just below 4% year-on-year.

Net growth in the VLGC fleet shrank to 1.3% in 2018, following the addition of ten newbuildings and the removal of six units which, in combination with volume growth, saw the benchmark Arabian Gulf-Japan rate jump by 25.1%. Higher bunker prices eroded some of these gains, but the time charter equivalent earnings were still up by over 21% at an average of just over US$18,000 per day. As a result of improved trading conditions, there has also been an increase in secondhand sales and acquisitions this year. Partially on the back of a firming larger vessel market, rates for the mid and handysizes also experienced some improvement, although growth in both fleets segments of 2.7% year-on-year has moderated the impact of this. Benchmark handysize semi-refrigerated freights have risen by 11% to average US$14,800 per day. In contrast, despite ammonia trade growth of over 4%, midsize freights have fallen by 2% as they were not able to capitalise on the longer haul petrochemical market, which continued to provide an increasingly large number of the handy units with employment.

The absence of any notable growth in overall petrochemicals trade prevented any significant recovery in term charter levels for the 12,000 and 8,000 cbm units, which generally flatlined overall during 2018. However, spot levels started to edge upwards in the second half of the year. The smaller units have fared much better and the recovery in the pressure sector has continued the gradual improvement started last year and the 12 month assessed time charter levels for pressure carriers in the East have risen by 19.4% to US$8,000 per day, whilst those in the West have jumped 24%, driven by an ageing fleet, an absence of newbuildings and healthy coastal LPG and petrochemical gas trades.

Broking activities (continued):

Gas (continued)

The outlook for LPG trade remains positive next year, with the pace of growth to rise slightly to an estimated 5% per annum, as volumes from Mariner East II start to flow and as the Enterprise terminal in the US Gulf Coast undergoes another phase of expansion. There are however a number of factors which may moderate the scale of this expansion, including lower arbitrage opportunities from the US into Asia, with the new Australian projects now up and running. However, Middle Eastern flows to China should remain healthy, particularly as new propane dehydrogenation plants in China build production in the second half of 2019. Ammonia trade should show some further upside next year, although growth expectations are fairly restrained at 1.5%, with further possibility of increased exports and growth from Russia. On the petrochemical gas side, most of the upside is set to come with the start-up of the new ethylene terminal in the Gulf Coast which should help absorb some of the fleet growth which will take place in the handysize segment. Whilst fleet growth is expected to be modest in most sectors of the fleet, the VLGC fleet is expected to undergo a further phase of growth next year as another wave of newbuildings deliver. This will be moderated by the removal of older units but we will still expect the scale of the expansion to offset some of the positive impact of trade growth, as well as the shift in trade flows to soften tonne-miles.

LNG

The LNG shipping market experienced significant growth in 2018. The near-term LNG shipping market was strong throughout 2018 with rates reaching all-time highs later in the year. The spot freight rate assessment for tri-fuelled diesel electric (TFDE) vessels averaged US$88,700 per day for 2018, up 93% compared with 2017. Spot TFDE rates reached record levels of US$190,000 per day in November.

High shipping demand was driven primarily by new projects ramping up production and early winter restocking by northeast Asian importers.

Global LNG trade volumes were up 9.4% to 322.5m mts per year, with Australian exports jumping by 22.8% to 69.3m mts. The Wheatstone project second liquefaction train (T2) and Ichthys project started production in 2018, and the Gorgon facility, which started in 2017, continued to ramp up exports into 2018 which added to growth.

Although Qatar was still the world's largest exporter at just over 77m mts, Australia is expected to become the biggest in 2019 once its new export projects reach full capacity. The US and Russia also increased exports significantly in 2018. US production was up by 54.7% to 22.1m mts and Russian LNG loadings from both Sakhalin and Yamal projects were up by 71.8% to 18.2m mts.

Elsewhere, rising upstream gas production also resulted in additional LNG exports. In Oman, the Khazzan gas project has meant the country could boost its LNG production by 16.8% to 9.5m mts and in Trinidad exports increased by 14.3% to 13.0m mts. Additional domestic gas production in Egypt resulted in climbing LNG exports, with shipments up 93.9% to 1.51m mts. In West Africa, Cameroon also started exporting LNG from a floating LNG (FLNG) production unit in June and shipped around 0.7m mts in 2018.

On the demand side, Asia remained the largest and fastest growing importing region. Japan remained the largest importer at 82.6m mts, but year-on-year growth was flat. The second largest buyer, China, continued its growth with imports up 30.5% to 51.7m mts, driven by environmental policy to switch to gas from coal and economic growth. South Korea remained the world's third largest buyer and increased imports by 11% to 41.9m mts. Meanwhile, India also increased imports by 12.3% to 21.4m mts.

New Atlantic basin production in the US and European transshipments of Russian Yamal cargoes, combined with the long-haul to supply Asian buyers, raised the average distance travelled globally by each cargo. In 2018, average distances were up by 4.4% to around 4,077 nautical miles compared with last year's average of 3,904 nautical miles.

Traded volumes are expected to increase again in 2019, with seven large projects to come online including Shell's Prelude FLNG project in Australia, and six onshore US liquefaction facilities.

Some 48 conventional LNG carriers and four FSRUs were delivered in 2018, double the number of LNG vessels delivered in the previous year. 64 conventional LNG carriers and one FSRU were ordered in 2018, the highest for 14 years. Most were placed against long-term contracts for upcoming export projects, however, a number of speculative orders were also placed by new and existing entrants, who anticipate tonnage requirements into early 2020s and beyond. Newbuild ordering is expected to continue into 2019, with a number of liquefaction projects anticipated to reach final investment decision in 2019.

Broking activities (continued):

Sale and purchase
Secondhand

Market conditions across all shipping sectors remained fairly challenging which when combined with the tightening of the capital markets as a source of funds for our publicly quoted clients, meant that we had to work especially hard to find meaningful business to transact.

Looking forward to 2019, it is difficult for us to predict whether this volume of business is repeatable. However, with all the regulatory changes concerning fuel and Ballast Water Treatment Systems, there are sure to be differing views amongst shipowners worldwide as to how best to manage their fleets and that in itself should provide the foundations for sale and purchase activity.

Newbuilding

2018 showed a steady level of contracting against 2017, remaining above the 2016 lows.

In value terms, US$64.7bn of orders were placed compared to US$69.2bn in 2017 and US$36.7bn in 2016. Although in dwt terms ordering fell 14% year-on-year, contracting volumes by cgt were up 2%, reflecting increased orders for high value LNG and large containerships.

Tanker ordering fell by around a third to 23m dwt, including 39 VLCCs (2017: 56) while bulker order volumes dropped 25% to 31m dwt. A run on LNG ordering developed over the year, both driven by speculative and project demand, with 69 orders of US$11.7bn being placed. LPG ordering increased to 41 vessels (2017: 27) and containership orders increased to 190 (2017: 140). Cruise and ferry also remained active sectors.

Korean yard order intake increased 67% and, driven by a 98% share of LNG orders, achieved a 44% global share of orders by cgt, compared to 32% for China and 13% for Japan. The equivalent numbers in dwt are Korea (43%), China (39%) and Japan (15%). Shipyard output declined by 10% during 2018 to reach 30.2m cgt, with a steeper decline when measured in dwt, reflecting an 18% year-on-year reduction in tanker and bulker tonnage delivered. The market continues to fragment with respect to a division of focus between high value/technology asset classes such as gas and offshore, where the Korean yards continue to place an increased focus, and dry and wet conventional tonnage, where the Chinese yards are continuing to press their intentions to maintain and grow market share. From a regional perspective, Chinese yards retained their lead position with a 36% market share by cgt, followed by Korea and Japan both at 25%. The equivalent numbers in dwt are China (43%), Japan (25%) and Korea (25%) with Japanese output actually slightly higher than Korea.

Whilst contracting levels were relatively consistent, much of the activity that took place was catalysed by what remained bottom cycle pricing and yards took challenging deals to secure production and maintain market share. The likely consequence of this is that they will seek to increase their pricing policy for 2019 to mitigate against challenging contracts placed over the last 18 months.

We continue to capitalise on our position in the industrial space, on the relationships that this volume of contracting activity creates, and on the strong synergies existent throughout the Group.

Offshore

2018 has, in general, been another challenging year for the offshore oil services sector. During the first half of the year, oil prices strengthened significantly, inducing much needed optimism across the industry, and operators signalled increasing activity levels moving forward. The strong oil price drop towards the end of the year, however, has once again increased uncertainty with regard to future market conditions, which could adversely affect the recovery for offshore oil services.

During 2018, we have observed a steady increase in rig tendering and fixing activity and slightly improving utilisation for selected rig and OSV segments. Field development activity is, however, still progressing slowly and operators did not increase sanctioning of new developments notably compared to last year. Offshore contractors and suppliers, however, regained some optimism and seem to be preparing for increasing activity levels. This is evidenced by increasing sale and purchase activity and a few noteworthy M&A transactions, particularly in the offshore rig segment. In spite of the careful optimism, utilisation and rates in general across the different offshore service segments remain at depressed levels.

By order of the board
R L Spencer
Company Secretary

11 June 2019

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and audited financial statements of the company for the year ended 31 December 2018, which were approved by them on 11 June 2019.

FUTURE DEVELOPMENTS

The macro-economic environment continues to present uncertainty, but the rate environment has improved in a number of our markets and we remain confident in the turnaround of the shipping industry where H. Clarkson & Company Limited remains well positioned, particularly as the market leader, to capitalise on opportunities as and when these occur. We continue to invest in our innovative technology offering and remain committed to hiring the finest talent, thereby positioning H. Clarkson & Company Limited at the forefront of the market and maintaining our leading position by providing first class products and services for our clients.

RESULTS AND DIVIDENDS

The company's profit for the financial year is £5.8m (2017: £11.1m). Dividends totalling £10.0m (2017: £18.0m) were paid during the year. Transfers from reserves amounted to £4.2m (2017: £6.9m).

The directors recommend a final dividend for the year of £nil (2017: £10.0m).

The business review, principal risks and uncertainties and any key performance indicators are detailed under the Strategic Report section of these financial statements.

DIRECTORS

The current directors of the company on 11 June 2019 are shown on page 1.

There were no new appointments in the year.

Resignations during the year and up to the date of signing were as follows:

S Allen	(resigned 5 April 2018)	P Osgood	(resigned 20 January 2018)
T G Baggio	(resigned 30 June 2018)	W Stephens	(resigned 13 May 2019)
J B Beckwith	(resigned 31 August 2018)	R N Tubb	(resigned 31 May 2018)
D R Dancy	(resigned 16 February 2018)	R B Whittet	(resigned 20 September 2018)
A Galloway	(resigned 29 March 2018)		

DIRECTORS' INSURANCE AND INDEMNITIES

The group maintains a directors' and officers' insurance policy. No qualifying indemnity provisions are in place for the benefit of the directors.

EMPLOYMENT

The company employed 413 staff (2017: 388) at the end of 2018, 145 (2017: 159) in positions whereby they contribute directly to the earning of revenue and 268 (2017: 229) employed in supporting roles. The company seeks to employ, motivate and retain high calibre staff. To retain flexibility, incentivise staff and protect the company's earnings, a significant proportion of total annual compensation is made in the form of variable discretionary bonuses linked to profits.

The company seeks to appoint the best candidate for each and every vacancy. All appointments within the company are based on merit, and candidates are considered against fair and objective criteria which enable all employees, irrespective of gender, race or disability, to advance in their career. We give full consideration to all applications for employment and ensure that any reasonable adjustments are made to our interviewing process to accommodate a person's disabilities.

The company is committed to employment policies which follow best practice, and deliver equal opportunities for all employees, irrespective of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation. Disabled employees are encouraged to tell us about their disability so that we can support them as appropriate, whether they join us with a disability, or develop a disability whilst employed by the company. Reasonable adjustments are made to job content and work place to ensure that disabled employees are not placed at a substantial disadvantage. Appropriate arrangements are also made for the continued training, career development and promotion of disabled employees.

The company depends on the skills and commitment of its employees and ongoing training programmes seek to update knowledge and ensure that the company's goals are met in a correct and efficient way. Everyone is given the chance to reach their full potential and is treated fairly, applying the principles of equality and diversity. The company's core strength is its people and attracting and retaining the best is key to its success.

EMPLOYMENT (CONTINUED)

Employees are encouraged to broaden their knowledge of the business where possible. For example, employees in our Commodity Quay office are able to attend regular lunchtime seminars on different topics. These seminars are led by in-house experts and/or external speakers, covering a wide range of topics on either an area of Clarksons' business or an area of personal development. Employees, regardless of department, are encouraged to attend these seminars, which provide a forum for interested individuals to further their knowledge of a subject.

Our training schemes remain unique in our industry, blending the collective skilled counsel and guidance of our staff with the tutelage of external experts from all areas of the shipping, trading and commodity markets.

Communicating with employees is an important priority. Our flat management structure means that any employee has direct access to the senior management team, with divisional managing directors working side by side with the trainees they recruit. All employees have access to the employee intranet and directory which contains current news, details of employee policies and other relevant information. Employees have opportunities to attend briefings about the company's business and Clarkson News, the company's periodic in-house magazine, provides current and former employees with information about the company's operations around the world. Employees also have access to the company's financial and regulatory publications, which are available on the corporate website.

Participation in the group's ShareSave scheme allows employees to participate in the group's share price performance, and offers the opportunity, on maturity of the scheme, for employees to become shareholders in the group and share in its continued growth and success.

DISCLOSURE OF INFORMATION TO AUDITORS

At the date of this report, as far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware and they have taken all the steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

By order of the board
R L Spencer
Company Secretary

11 June 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF H. CLARKSON & COMPANY LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, H. Clarkson & Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Balance Sheet as at 31 December 2018; Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company'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 financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we 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 our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF H. CLARKSON & COMPANY LIMITED (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our 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 financial statements.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We 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 our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

John Waters (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

11 June 2019

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

PROFIT AND LOSS ACCOUNT

	Note	2018 £m	2017 £m
TURNOVER	5	**96.9**	95.3
Administrative expenses		**(91.6)**	(82.3)
Other operating income		**1.4**	0.1
OPERATING PROFIT	7	**6.7**	13.1
Income from other fixed asset investments	6	**0.1**	0.1
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAX		**6.8**	13.2
Interest receivable and similar income	6	**1.0**	1.0
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		**7.8**	14.2
Tax on profit on ordinary activities	10	**(2.0)**	(3.1)
PROFIT FOR THE FINANCIAL YEAR	17	**5.8**	11.1

All amounts arise from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

	Note	2018 £m	2017 £m
Profit for the financial year	17	**5.8**	11.1
Other comprehensive (expense) / income: Foreign currency hedge (loss) / gain - net of tax	17	**(2.0)**	6.0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3.8**	17.1

The notes set out on pages 15 to 23 are an integral part of these financial statements.

H. CLARKSON & COMPANY LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

BALANCE SHEET

	Note	**2018** **£m**	2017 £m
FIXED ASSETS			
Intangible assets	12	**5.9**	2.1
Investments	13	**0.2**	0.2
		6.1	2.3
CURRENT ASSETS			
Debtors	14	**45.8**	56.5
Cash at bank and in hand		**37.6**	33.9
		83.4	90.4
CREDITORS: amounts falling due within one year	15	**(79.5)**	(76.5)
		(79.5)	(76.5)
NET CURRENT ASSETS		**3.9**	13.9
NET ASSETS		**10.0**	16.2
CAPITAL AND RESERVES			
Called-up share capital	16	**1.4**	1.4
Hedging reserve	17	**(1.0)**	1.0
Retained Earnings	17	**9.6**	13.8
TOTAL EQUITY	18	**10.0**	16.2

The notes set out on pages 15 to 23 are an integral part of these financial statements.

The financial statements on pages 12 to 23 were approved by the board of directors on 11 June 2019, and were signed on its behalf by:

M J C Cahill
Director

11 June 2019

H. Clarkson & Company Limited
Company Registration No. 00152738

STATEMENT OF CHANGES IN EQUITY

	Note	Called-up share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
BALANCE AS AT 1 JANUARY 2017		1.4	(5.0)	20.7	17.1
Profit for the year	17	-	-	11.1	11.1
Other comprehensive income for the year	17	-	6.0	-	6.0
Total comprehensive income for the year		-	6.0	11.1	17.1
Dividends	11	-	-	(18.0)	(18.0)
Total transactions recognised directly in equity		-	-	(18.0)	(18.0)
BALANCE AS AT 31 DECEMBER 2017		1.4	1.0	13.8	16.2
BALANCE AS AT 1 JANUARY 2018		**1.4**	**1.0**	**13.8**	**16.2**
Profit for the year	17	-	-	**5.8**	**5.8**
Other comprehensive expense for the year	17	-	**(2.0)**	-	**(2.0)**
Total comprehensive income for the year		-	**(2.0)**	**5.8**	**3.8**
Dividends	11	-	-	**(10.0)**	**(10.0)**
Total transactions recognised directly in equity		-	-	**(10.0)**	**(10.0)**
BALANCE AS AT 31 DECEMBER 2018		**1.4**	**(1.0)**	**9.6**	**10.0**

The hedging reserve comprises the effective portion of the fair value of cash flow hedging instruments net of deferred tax, relating to hedged transactions that have not yet occurred.

The notes set out on pages 15 to 23 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

H. Clarkson & Company Limited provides shipping-related services. These services include broking facilities for ship owners and charterers.

The company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Commodity Quay, St Katharine Docks, London, E1W 1BF.

2 STATEMENT OF COMPLIANCE

The financial statements of H.Clarkson & Company Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) BASIS OF PREPARATION

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets or liabilities measured at fair value.

The preparation of financial statements (in conformity with FRS 102) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

(b) EXEMPTIONS FOR QUALIFYING ENTITIES UNDER FRS 102

The company is exempt from the requirement to produce consolidated financial statements by virtue of section 400 of the Companies Act 2006. The company is included in the consolidated financial statements of Clarkson PLC, a company registered in England and Wales. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Clarkson PLC, includes the company's cash flows in its own consolidated financial statements.

(c) FOREIGN CURRENCIES

The financial statements are presented in pounds sterling and rounded to millions. The company's functional and presentation currency is the pound sterling. Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Gains and losses arising on retranslation are included in the Profit and Loss Account.

(d) REVENUE RECOGNITION

Turnover consists of commissions receivable from dry cargo chartering, container chartering, deep sea chartering, offshore and specialised products chartering, gas chartering and sale and purchase broking and is recognised by reference to the stage of completion. Stage of completion is measured by reference to the underlying commercial contract. Consideration is therefore required as to whether the parties' obligations have been fulfilled and the commission revenue can be recognised. Provisions made at the time of invoicing are directly offset against revenue. Broking commissions are recognised when the services have been performed.

Shipbroking revenue consists of commission receivable and is recognised by reference to the stage of completion, which is measured by reference to the underlying commercial contract, except where doubt exists as to the ability to collect payment, as explained in note 14.

Other operating gains includes amounts receivable from the sale of investments.

(e) INCOME FROM FIXED ASSET INVESTMENTS

This represents dividends received from subsidiary companies and investments which are recognised when they are received.

(f) EMPLOYEE BENEFITS

The group provides a range of benefits to employees, including share-based compensation plans and defined contribution pension plans.

(i) Share-Based Payment Transactions

The group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services in exchange for the grant of the awards is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of awards that are expected to vest. At each balance sheet date, the company revises its estimates of the number of awards that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Profit and Loss Account.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) EMPLOYEE BENEFITS (CONTINUED)

(ii) Pensions

The company also participates in two defined benefit group schemes, being the Clarkson PLC scheme and the Plowrights scheme. The charge to annual profits for the defined benefit element of the UK pension scheme is calculated so as to recognise the cost on a rational and systematic basis over the period of the employees' service lives. Any adjustment arising from prior years is spread over the expected remaining service lives as a percentage of salary roll. The Clarkson PLC scheme was closed to further accrual for all existing members as from 31 March 2006. The Plowrights scheme was closed to further accrual from 1 January 2006. As it is not possible to identify the company's share of the scheme's assets and liabilities, these schemes are accounted for as defined contribution schemes.

The company also participates in a defined contribution pension scheme. Contributions are charged in the Profit and Loss Account as they become payable in accordance with the rules of the schemes.

(g) TAXATION

Taxation expense for the period comprises of current and deferred tax recognised in the reporting period. Tax is recognised in the Profit and Loss Account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

(i) Current Tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Profit or Loss Account.

(ii) Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

(h) INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

Development costs are recognised as intangible assets when the criteria of IAS 38 is met. Directly attributable costs that are capitalised include the development employee costs and an appropriate portion of relevant overheads. Other development expenditure that does not meet the IAS 38 criteria is recognised as an expense when incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Purchased intangible assets are capitalised at cost and amortised on a straight-line basis over their useful economic lives, which the directors believe to be 5 years. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

(i) IMPAIRMENT OF NON-FINANCIAL ASSETS

The directors assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the directors estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, or other available fair value indicators.

(j) GOODWILL

Purchased goodwill is capitalised and amortised on a straight line basis over its useful economic life up to a presumed maximum of 10 years. The company evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the Profit and Loss Account.

(k) INVESTMENTS

All the company's fixed investments are for the long-term and are treated as fixed assets. Investments are included in these financial statements at cost, less any provision for permanent diminution in value.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) HEDGE ACCOUNTING
The company uses various financial instrument to reduce exposure to foreign exchange movements. These include forward foreign exchange contracts. All financial instruments derivatives are initially recognised on the Balance Sheet at their fair value adjusted for transaction costs.

The fair values of financial instrument derivatives are determined by reference to quoted prices in an active market. Where no such active market exists, the fair value is determined using appropriate valuation techniques from observable data, including discounted cash flow analysis and the Black-Scholes option pricing model.

Gains and losses on financial instrument derivatives which qualify for hedge accounting are recognised according to the nature of the hedge relationship and the item being hedged.

Cash flow hedges: financial instrument derivatives are classified as cash flow hedges when they hedge the company's exposure to changes in cash flows attributable to a particular asset or liability or a highly probable forecast transaction. Gains or losses on designated cash flow hedges are recognised directly in equity, to the extent that they are determined to be effective.

Where financial instrument derivatives do not qualify for hedge accounting, changes in the fair market value are recognised immediately in the Profit and Loss Account.

(m) TRADE AND OTHER PAYABLES
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

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

(n) TRADE AND OTHER RECEIVABLES
Trade receivables are non-interest bearing and are generally on terms payable within 90 days. Allowance for impairment of trade receivables is based on experience and ongoing market information about the credit-worthiness of specific counterparties and expected credit losses in respect of the remaining balances.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

(o) PROVISIONING
Trade debtors are stated net of specific provisions against doubtful debts which are made on the basis of policies and regular reviews established by management. Provisions are established on the basis of the age of the amounts overdue. Further provisions are made in respect of particular problem balances.

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. Any estimates or judgements which are relevant to this company are included above in the summary of significant accounting policies section.

5 TURNOVER

All areas of the business work closely together to provide the best possible service to our clients. All turnover originates in the UK and relates to broking.

6 INCOME FROM FIXED ASSET INVESTMENTS AND INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £m	2017 £m
Dividends received	**0.1**	0.1
Bank interest received	**1.0**	1.0
	1.1	1.1

7 OPERATING PROFIT

	2018 £m	2017 £m
Operating profit is stated after charging:		
Staff costs (see note 8)	**69.2**	62.2
Foreign exchange losses	**1.8**	4.3
Amortisation and impairment of goodwill and other intangibles	**0.1**	0.1
Research and development	**7.3**	5.1
Auditors' remuneration: Audit services	**0.1**	0.1

There were no fees payable for non-audit services (2017: £nil). Any non-audit fees arising in the year were borne by another group company.

8 STAFF COSTS (INCLUDING DIRECTORS)

	2018 £m	2017 £m
Wages and salaries	**58.9**	52.8
Social security costs	**7.5**	7.1
Other pension costs	**2.8**	2.3
	69.2	62.2

Wages and salaries include cash allowances in lieu of company cars, pension supplements, healthcare insurance and club memberships.

The monthly average number of persons employed during the year, including executive directors, is analysed below:	2018 No.	2017 No.
United Kingdom:-		
Contributing directly to the earning of revenue	**149**	162
Supporting roles	**254**	205
	403	367

18 directors, whose services to the company were of negligible value, were remunerated by other companies within the Clarkson group (2017: 19).

In 2018, executives participated in an annual bonus scheme which was linked principally to profits with the balance based on personal performance. For senior executives, up to 10% of the performance-related bonuses were paid in the form of restricted shares which vest after four years.

During the year, 97,541 shares (2017: 142,915 shares) at a weighted average price of £30.58 (2017: £27.86) were awarded to employees in settlement of 2017 (2016) cash bonuses. There was no expense in 2018 (2017: £nil) as a result of these awards. The fair value of these shares was determined based on the market price at the date of grant.

9 DIRECTORS' EMOLUMENTS

	2018 £m	2017 £m
Aggregate emoluments in respect of qualifying services	**21.4**	23.8
Pension contributions	**0.4**	0.5
	21.8	24.3

The emoluments of the highest paid director, excluding pension contributions, were £1.7m (2017: £2.0m). Pension contributions of £nil (2017: £nil) were made on behalf of the highest paid director. 45 directors will receive shares in respect of qualifying services (2017: 50).

The Clarkson PLC defined benefit pension scheme, as described in note 20, closed to new entrants on 31 March 2004 and closed to further accrual for all existing members from 31 March 2006. 33 executive directors were members of the defined contribution scheme as at 31 December 2018 (at 31 December 2017: 41). 18 directors received emoluments from other group companies (2017: 19).

10 TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax on profit on ordinary activities	2018 £m	2017 £m
Current Tax:		
UK Corporation tax on profits for the year	**2.1**	3.1
Adjustments in respect of prior years	**(0.5)**	0.2
Total current tax	**1.6**	3.3
Deferred Tax:		
Current year	**-**	-
Adjustments in respect of prior years	**0.3**	(0.3)
Impact of change in tax rate	**0.1**	0.1
Total deferred tax	**0.4**	(0.2)
Tax on profit on ordinary activities	**2.0**	3.1

10 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

(b) Tax relating to items (credited) / charged to equity	2018 £m	2017 £m
Deferred tax charge: Foreign currency hedge	(0.5)	1.5
Total tax (credited) / charged in the Statement of Comprehensive Income	(0.5)	1.5

(c) Reconciliation of tax charge

The tax assessed for the year is higher (2017: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £m	2017 £m
Profit on ordinary activities before tax	7.8	14.2
Tax at average UK corporation tax rate of 19.00% (2017: 19.25%)	1.5	2.7
Expenses not deductible for tax purposes	0.7	0.4
Non taxable income	(0.1)	-
Adjustments in respect of prior years	(0.2)	(0.1)
Impact of change in tax rate	0.1	0.1
Tax charge for the year	2.0	3.1

The standard rate of corporation tax in the UK remained at 19.00% throughout 2018. Accordingly, the company's profit for this accounting year is taxed at a rate of 19.00% (2017: 19.25%).

(d) Deferred tax

Included in debtors (note 14) is a deferred tax asset comprising:	Share-based payments £m	Foreign currency contracts £m	Other £m	Total £m
At 1 January 2018	2.4	(0.2)	0.4	2.6
Adjustments in respect of prior years	0.1	-	(0.4)	(0.3)
Effects of short-term timing differences incurred in the year	0.1	-	-	0.1
Tax amounts recognised in equity	-	0.5	-	0.5
Impact of change in tax rate	(0.1)	-	-	(0.1)
At 31 December 2018	2.5	0.3	-	2.8

11 DIVIDENDS

	2018 £m	2017 £m
Equity dividends on ordinary shares:		
Final dividend for 2017, paid in 2018: £3.71 per 50p share (2016, paid in 2017: £6.67 per 50p share)	10.0	18.0
	10.0	18.0
Proposed for approval at the company's board meeting (not recognised as a liability at 31 December):		
Final dividend for 2018 proposed £nil (2017: £3.71 per 50p share)	-	10.0

12 INTANGIBLE ASSETS

	Intangible assets £m	Goodwill £m	Total £m
ORIGINAL COST			
At 1 January 2018	8.3	2.5	10.8
Additions during the year	3.9	-	3.9
At 31 December 2018	12.2	2.5	14.7
ACCUMULATED AMORTISATION			
At 1 January 2018	6.8	1.9	8.7
Provided during the year	-	0.1	0.1
At 31 December 2018	6.8	2.0	8.8
NET BOOK VALUE AT 31 DECEMBER 2018	5.4	0.5	5.9
Net book value at 31 December 2017	1.5	0.6	2.1

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the gas chartering cash-generating unit. The carrying amount of goodwill allocated to this cash-generating unit is £0.5m (2017: £0.6m).

Goodwill is allocated to cash-generating units which is considered for impairment at least annually.

The additions in the year relate to development costs which are currently still in development, as such, no amortisation has been charged for the year on these costs.

As at 31 December 2018, no impairment was deemed necessary in light of the year-end directors' assessment of future performance.

13 INVESTMENTS

	Unlisted £m
COST	
At 1 January 2018	0.2
ADDITIONS / (DISPOSALS)	
Additions / (disposals) in the year	-
NET BOOK VALUE AT 31 DECEMBER 2018	0.2
Net Book Value at 31 December 2017	0.2

The company also holds listed investments at a cost of less than £50,000. The market value of the listed investments at 31 December 2018 was £39,406 (2017: £60,341). There were no additions to investments in the year (2017: none). Subsidiaries and related undertakings are detailed in note 23.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

14 DEBTORS

	2018 £m	2017 £m
Trade debtors	**15.9**	11.0
Amounts owed by group undertakings (includes £0.5m (2017: £1.5m) due after more than one year)	**21.7**	35.7
Other debtors	**2.1**	4.1
Corporation tax	**0.5**	-
Deferred tax asset (note 10) (includes £2.8m (2017: £2.6m) falling due after more than one year)	**2.8**	2.6
Prepayments and accrued income	**2.8**	3.1
	45.8	56.5

Trade debtors are stated after provisions for impairment of £5.2m (2017: £5.2m). Included within the movements in the provision were amounts which were provided at the time of invoicing for which no revenue has been recognised, because collectability was not considered probable.

Amounts owed by group undertakings, includes loans to fellow group undertakings, Clarkson Port Services Limited, Clarksons Platou AS, Clarksons Platou (Korea) Company Limited and Clarksons Platou (Australia) Pty Limited totalling £15.1m at 31 December 2018 (2017: £21.5m). The loans are repayable under the agreed terms and interest is charged monthly or quarterly dependent on the agreement. All other amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Derivatives, which are shown above, under other debtors, represent the fair value of outstanding foreign exchange contracts at the year-end. At 31 December 2018 the company had US$60.0m outstanding forward contracts due for settlement between 2019 and 2020 (2017: US$60.0m for settlement between 2018 and 2019). These derivatives are used by management to minimise the risks arising from movements in the foreign exchange rate of USD. The derivatives are accounted for under hedge accounting and the hedging loss of £2.0m net of tax (2017: £6.0m gain) has been recognised in other comprehensive income.

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £m	2017 £m
Trade creditors	**5.1**	5.1
Amounts owed to group undertakings	**36.0**	34.0
Other creditors (includes £0.6m (2017: £nil) due after more than one year)	**1.7**	-
Corporation tax	**-**	1.5
Other tax and social security	**1.7**	1.6
Accruals and deferred income	**35.0**	34.3
	79.5	76.5

Amounts owed to group undertakings, includes a loan from a fellow group undertaking, Clarksons Platou (Offshore) Limited, totalling £2.0m at 31 December 2018 (2017: £18.4m). The loan is repayable under the agreed terms and interest is charged on a monthly basis. All other amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

16 CALLED-UP SHARE CAPITAL

	Number of shares	Nominal value £m
At 1 January and 31 December 2018		
Ordinary shares of 50p each: nominal value		
Allotted, issued and fully paid	**2,700,000**	**1.4**

17 RESERVES

	Hedging reserve £m	Retained earnings £m	2018 Total £m	Hedging reserve £m	Retained earnings £m	2017 Total £m
At 1 January	**1.0**	**13.8**	**14.8**	(5.0)	20.7	15.7
Profit for the financial year	**-**	**5.8**	**5.8**	-	11.1	11.1
Dividend paid	**-**	**(10.0)**	**(10.0)**	-	(18.0)	(18.0)
Movement in other comprehensive (expense) / income for the year	**(2.0)**	**-**	**(2.0)**	6.0	-	6.0
At 31 December	**(1.0)**	**9.6**	**8.6**	1.0	13.8	14.8

The hedging reserve comprises the effective portion of the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred, net of deferred tax of (£0.2m), (2017: £0.2m).

18 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2018 £m	2017 £m
At 1 January	**16.2**	17.1
Profit for the financial year	**5.8**	11.1
Dividend paid	**(10.0)**	(18.0)
Movement in hedging reserve during the year	**(2.0)**	6.0
At 31 December	**10.0**	16.2

19 CONTINGENT LIABILITIES

The company has given no financial commitments to suppliers (2017: none).

The company has given no guarantees (2017: none).

From time to time the company is engaged in litigation in the ordinary course of business. The company carries professional indemnity insurance. There is currently no litigation expected to have a material adverse financial impact on the company's results or net assets.

The company also maintained throughout the financial year directors' and officers' liability insurance.

20 PENSION COMMITMENTS

The company participates in two defined benefit group schemes which are the Clarkson PLC scheme and the Plowrights scheme. The schemes are defined benefit schemes, funded by the payment of contributions by the principal employer to separately administered trust funds. The contributions to the schemes are each determined by a qualified actuary on the basis of triennial valuations. The most recent valuation, as at 31 March 2016 is disclosed in the financial statements of Clarkson PLC.

For the purposes of the disclosures required under Financial Reporting Standard 102 'Employee Benefits', qualified actuaries have updated the valuations to assess the assets (2017: assets) of the schemes at 31 December 2018. Schemes' assets are stated at their market value at 31 December 2018. The pension surplus (2017: surplus) for the schemes arising under these valuations is £18.2m (2017: £16.7m). It is not possible to identify the company's share of the schemes' assets and liabilities, details of which are disclosed in the financial statements of Clarkson PLC.

The company also participates in a defined contribution scheme in conjunction with other group companies. Where required the company makes contributions into this scheme. Pension contributions made in the year are disclosed in notes 8 and 9. There were no amounts prepaid or outstanding at the year-end (2017: none).

21 CONTROLLING PARTIES

The immediate parent undertaking is Clarkson Shipbroking Group Limited.

The ultimate parent undertaking and controlling party is Clarkson PLC, a company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Clarkson PLC consolidated financial statements can be obtained from Commodity Quay, St Katharine Docks, London, E1W 1BF.

22 CASH FLOW STATEMENT AND RELATED PARTY DISCLOSURES

The company is a wholly-owned subsidiary of Clarkson PLC and is included in the consolidated financial statements of Clarkson PLC, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 102 paragraph 1.12(b).

The company is also exempt under the terms of FRS 102 Section 33 from disclosing related party transactions with wholly-owned entities that are part of the Clarkson PLC group. The company received a dividend in the year from HC Shipping & Chartering Limited, an associated company, for £98,000 (2017: £64,250). There were no other related party transactions requiring disclosure that existed in the year (2017: none).

There were no key management personnel in the company apart from the company directors. Details of their compensation are set out in notes 8 and 9.

There were no loans to key management personnel in the year (2017: £nil).

23 SUBSIDIARIES AND RELATED PARTY UNDERTAKINGS

<u>The following companies are held directly:</u>

Company name	*Registered address*	*Percentage of equity shares*	*Principal activity*
Levelseas Limited	Commodity Quay, St Katharine Docks, London E1W 1BF, UK	100	Dormant
Clarkson Holdings Limited	Commodity Quay, St Katharine Docks, London E1W 1BF, UK	100	Holding Company
HC Shipping & Chartering Limited	6 Prince Street, Hull, East Yorkshire, HU1 2LJ	25	Provision of shipping services

<u>The following companies are held indirectly:</u>

Company name	*Registered address*	*Percentage of equity shares*	*Principal activity*
Clarkson Dry Cargo Limited	Commodity Quay, St Katharine Docks, London E1W 1BF, UK	100	Dormant
Clarkson Tankers Limited	Commodity Quay, St Katharine Docks, London E1W 1BF, UK	100	Dormant
Clarkson Sale and Purchase Limited	Commodity Quay, St Katharine Docks, London E1W 1BF, UK	100	Dormant
Clarkson Shipbrokers Limited	Commodity Quay, St Katharine Docks, London E1W 1BF, UK	100	Dormant
Shipvalue.net Limited	Commodity Quay, St Katharine Docks, London E1W 1BF, UK	100	Dormant
Clarksons Platou Legal Services Limited	Commodity Quay, St Katharine Docks, London E1W 1BF, UK	100	Provision of legal services to the shipping industry

In the opinion of the directors, the aggregate value of the company's investments in subsidiaries is not less than the amount at which they are stated in the financial statements.