Clarkson PLC

9 March 2020

Clarkson PLC (Clarksons) is the world's leading provider of integrated shipping services. From offices in 23 countries on six continents, we play a vital intermediary role in the movement of the majority of commodities around the world.

Preliminary results

Clarkson PLC today announces preliminary results for the 12 months ended 31 December 2019.

Summary

- Financial results in line with market expectations
- Strong performance in broking more than offset weakness in financial services
- One-off, non-cash impairment charge of £47.5m in relation to acquisition of RS Platou in 2015
- Continued strong free cash flow generation
- Robust balance sheet with free cash resources[1] of £68.7m (31 December 2018: £57.0m)
- Improved forward order book from 2019, although COVID-19 virus likely to impact first half performance
- Medium term macro environment for shipping favourable as demand / supply dynamics improve

[1] Free cash resources are cash and cash equivalents and current investment deposits, after deducting amounts accrued for performance-related bonuses, outstanding loans and monies held by regulated entities.

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	£363.0m	£337.6m
Underlying profit before taxation*	£49.3m	£45.3m
Reported profit before taxation	£0.2m	£42.9m
Underlying earnings per share*	118.8p	105.2p
Reported (loss)/earnings per share	(42.4p)	98.8p
Dividend per share	78p	75p

* Before exceptional item of £47.5m and acquisition related costs of £1.6m (2018: £2.4m).

Andi Case, Chief Executive Officer, commented:

"2019 delivered robust underlying financial results and strong free cash flow generation, which has enabled us to increase the dividend for the 17th consecutive year. An excellent performance in our Broking, Support and Research businesses offset weakness in our financial services business. Clarksons has a strong balance sheet and a leading market position across most verticals in shipping and offshore.

"We started 2020 with a stronger forward order book than in 2019, however, the emergence of the COVID-19 virus will impact our first half performance. In the medium term, the environmental regulatory drivers and supply demand dynamics in the shipping industry are favourable and we remain confident in the prospects of the Group."

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Alternative performance measures (APMs)

Clarksons uses APMs as key financial indicators to assess the underlying performance of the Group. Management considers the APMs used by the Group to better reflect business performance and provide useful information. Our APMs include underlying profit before taxation and underlying earnings per share. An explanation of the term ‘underlying’ and related calculations are included within the financial review.

About Clarkson PLC

Clarkson PLC is the world’s leading provider of integrated services and investment banking capabilities to the shipping and offshore markets, facilitating global trade.

Founded in 1852, Clarksons offers its diverse and growing client base an unrivalled range of shipbroking services, sector research, on-hand logistical support and full investment banking capabilities in all key shipping and offshore sectors. Clarksons continues to drive innovation across its business, developing digital solutions which underpin the Group’s unrivalled expertise and knowledge with leading technology.

The Group currently employs over 1,600 people in 53 different offices across its four divisions and is number one or two in all its market segments.

The Company has delivered 17 years of consecutive dividend growth. The highly cash-generative nature of the business, supported by a strong balance sheet, has enabled Clarksons to continue to invest to position the business to capitalise on the upturn in its markets.

Clarksons is listed on the main market of the London Stock Exchange under the ticker CKN and is a member of the FTSE 250 Index.

For more information, visit [www.clarksons.com.](http://www.clarksons.com)

Chair's review

Overview

2019 has been a year of good operating and financial performance, continued strategic progress and consolidation of our leading market position. I am pleased to report to shareholders that our underlying results were in line with market expectations. During the year our broking business, which is a market leader in nearly all its verticals, once again delivered an increased profit and expanded geographically. The strong performance in Broking was offset by weakness in our Financial business, where profits were impacted by the lack of activity in capital markets. However, we were pleased to record solid growth in our Support and Research businesses.

Clarksons is playing an increasingly important role as an agent for change in the sustainability agenda within shipping, as the industry strives for a lower sulphur and lower carbon future powered by cleaner energy. We have also invested in renewables across Broking, Financial and Support, all powered by dedicated market intelligence and research. Regulatory changes are driving changes to the fleet and shipping behaviours, with IMO 2020 being the most recent example. Further greenhouse gas and emissions targets in 2030 and 2050 provide a favourable long-term backdrop to our business as fleets evolve from low sulphur oil to other means of powering ships. In order to reach the 2050 targets, we estimate that most of the world's shipping fleet will need to be replaced. Rates of scrappage will increase as the fleet evolves within the framework of these regulatory changes, improving the supply/demand dynamics.

We have continued to invest in technology during the year. Our recently launched **Sea/** products are complementary to our existing business, providing brokers and clients alike with improved tools for trade. We are beginning to see adoption of the **Sea/** platform by charterers, owners, traders and brokers as we seek to increase efficiency and reduce risk for the entire industry.

Results

Underlying profit before taxation was £49.3m (2018: £45.3m). Reported profit before taxation was £0.2m (2018: £42.9m) due to a non-cash impairment charge arising from the acquisition of RS Platou ASA. Underlying earnings per share was 118.8p (2018: 105.2p). Reported basic loss per share was 42.4p (2018: earnings per share 98.8p).

As explained in the financial review, free cash resources as at 31 December 2019 were £68.7m (2018: £57.0m).

Dividend

Clarksons is increasing its dividend for the 17th consecutive year in line with its progressive dividend policy. The Board is recommending a final dividend of 53p (2018: 51p). Combined with the interim dividend of 25p (2018: 24p), the resulting full year dividend is up 4% to 78p (2018: 75p). The dividend will be payable on 29 May 2020 to shareholders on the register at 15 May 2020, subject to shareholder approval.

Clarksons is committed to its progressive dividend policy, whilst at the same time growing the business with organic and occasionally inorganic investments to grow the profitability. Clarksons has a strong balance sheet and has a business model which generates free cash flow with high cash conversion rates. Dividends will remain an important priority in the years ahead.

People

Over the past year I have spent a great deal of time meeting and getting to know many of the Clarksons global team. I have been very impressed with the quality of people I have met and by the progressive, supportive and inclusive culture. Training, recruiting and providing our people with industry leading tools for trade remains a key pillar of the success of Clarksons. We have again grown the business, hiring a number of highly experienced colleagues to serve our growing and highly valued client base, investing in offices in Tokyo, Seoul, Connecticut, Copenhagen and most recently Madrid, as well as expanding our offering in the renewables space as we work towards a cleaner energy future.

I thank all our colleagues in the Clarksons team for their continued hard work and dedication.

Board

The Board evolution continued in 2019 and into early 2020. I joined the Board as Non-Executive Chair in February last year. At the same time, Ed Warner, who was Acting Chair, stepped down from the Board having served beyond his scheduled departure date to provide stewardship during the search for a new Chair. Peter Anker retired from full-time employment on his 62nd birthday in July 2019, and stepped down from the Board in April. On behalf of the Clarksons team, I would like to thank Ed and Peter for their contribution during their years on the Board.

It was with great sadness that, following a long illness, James Hughes-Hallett CMG, independent Non-Executive Director and former Chair of the Company, passed away on 12 October 2019. James joined the Board in August 2014 and served as Chair from January 2015 until March 2018 when, due to illness, he relinquished this role but continued his duties as a Non-Executive Director and member of the Audit and Risk, Nomination and Remuneration Committees. James' extensive expertise in maritime and global trade was invaluable to Clarksons' operation and strategy.

The Board will remember James for his great leadership and commitment. Even whilst suffering from his illness, James remained dedicated to Clarksons, continuing to serve on the Board as a Non-Executive Director and Committee member, and we remain indebted for the guidance he provided.

We were delighted to welcome Heike Truol to the Board in January 2020 as an independent Non-Executive Director. Heike brings a deep knowledge of dry bulk shipping to the Board, particularly from the customer perspective. Heike's previous experience and skills will complement that of the rest of the Board - she is an experienced adviser and her background in strategic planning will be invaluable.

Shareholder engagement

Having now completed my first year as Chair, I am delighted to have personally met so many of our major shareholders in what has been a year of engagement following the voting results at the last AGM held in May 2019.

I consider the Remuneration Policy to be put to shareholders at the upcoming AGM to be of such importance to the shareholders and the business that I, together with Dr Tim Miller (our Remuneration Committee Chair) and Peter Backhouse (our Senior Independent Director), have led a major engagement process with shareholders who collectively hold 49% of our shareholder register. We have listened to their views and discussed why the Remuneration Policy for Clarksons is appropriate. Having come in fresh to Clarksons in February 2019, and having learnt what I now know about the Company, its management and context, I firmly believe in the remuneration proposal which will be put to the vote in May.

While Clarksons' Remuneration Policy does not conform to current market norms, our executives each have binding contracts of employment. Seeking to update the Policy in the short term would require those contracts to be broken. The Board believes that this is not in the best interests of the Company's stakeholders and that such action would create a significant risk in terms of executive continuity. There is also a serious cultural consideration – Clarksons' reputation is built in part on its history of honouring contracts, it does not break them. When new Executive Directors are appointed or, in the fullness of time, when succession takes place, the Board has committed to make appointments more consistent with market norms, and this legacy remuneration issue will disappear.

Voting against the re-election of remuneration committee members is, I believe, a new principal risk. The Board is keen that shareholders are aware of this risk exposure, and appreciate the considered and independent approach put into consultation. We hope that shareholders understand the explanation given within the 'comply or explain' framework and support the Board's recommendation. I believe it is in the best interests of Clarksons and its stakeholders to do so.

Outlook

The Board considers the medium-term macro environment for shipping to be favourable as the demand/supply dynamics improve and as sustainability-driven regulatory changes such as IMO 2020 move apace. Clarksons benefits from a leading position across its markets, with a truly global footprint, market-leading technology and diversity across sectors and offerings. All these elements make the Group resilient.

Clarksons started 2020 with a stronger forward order book than in 2019, however, since the beginning of the year, the outbreak of the COVID-19 virus in Asia has contributed to significantly reduced short-term freight rates. The extent of its geographical reach and duration will determine by how much global GDP may be challenged, although it does already seem clear that the Company's performance will be impacted in the first half of 2020. The Board remains confident in the medium-term outlook for the shipping, offshore and renewables markets and the Group.

Sir Bill Thomas
Chair
6 March 2020

Chief Executive Officer's review

I am delighted to report a strong underlying performance from Clarksons in a year which has seen volatility, both good and bad, in freight rates, asset values and volumes, caused by a range of natural disasters, trade wars, changing regulation, sanctions and geo-political uncertainty. However, as expected, overall demand/supply dynamics improved with better fleet utilisation, continued low levels of shipbuilding activity and a further growth in seaborne trade. The strength of Clarksons' market-leading teams and the 'best in class' service provided across the global business, combined with confidence in the underlying fundamentals, has enabled the Board to recommend an increase in the final dividend, representing a 17th consecutive year of dividend growth for shareholders.

As we have previously highlighted, shipping in common with many industries, is embarking on significant change to combat environmental challenges. Recent years have seen important developments, including IMO 2020, first agreed in 2016 and enforced from 1 January 2020, introducing a global low sulphur emissions cap. In 2018, the IMO also agreed milestone targets to reduce CO_2 emissions, including a 40% reduction by 2030 and a 50% reduction by 2050. Some industry players are targeting even more ambitious net zero carbon strategies. Although shipping currently produces around 2.4% of global CO_2 emissions, it remains by far the most carbon efficient means of transport. As an industry, efforts towards cleaner emissions are starting to have significant impact and we estimate that overall CO_2 output has been reduced by about 14% since 2008, through measures such as slow steaming and the use of more fuel efficient vessels, despite moving 35% more cargo. Even with this progress however, further accelerated decarbonisation strategies will be needed in the coming decades to hit the targets.

There will be further industry-wide changes as the sustainability agenda becomes more urgent and emission policy is set for 2030 and 2050. We are well positioned to continue to help and advise our clients to navigate these changes at every stage of the shipping lifecycle. This year we have further invested in expanding our strong renewables capability by growing our dedicated renewables broking, investment banking, and UK support teams and also enhancing our research and the quality of our offshore wind and emissions data.

We are already seeing an increase in ships powered by alternative fuels and an increasing focus on reducing greenhouse gases. Clarksons is proud to have not only played a part in ordering many such vessels and successfully concluding and continuing to work on such initiatives, but also to be leading the way as an agent for change with our clients in a variety of ways towards a cleaner energy future. At this time of innovation and change, there any many challenges and opportunities, not least in financing. As the industry adopts new designs and technologies, there needs to be a sensible and pragmatic transition in order for global trade to flow and the more than 12 billion tonnes of seaborne trade to reach its destination.

In 2019, as we moved towards IMO 2020 coming in to force, strategies to deal with this new regulation were executed and there was an increase in ships leaving the water for scrubber fitting. This, together with US sanctions, contributed to an increase in tanker rates in the latter part of the year as supply became constrained. We anticipate continued market disruption with big spreads in fuel prices in the short to medium-term as the industry recalibrates to the new requirements.

We continue to drive innovation across the industry, with our market-leading technology bringing transformative digital solutions to the chartering process. Our **Sea/** suite of products is enabling users to make better decisions more efficiently, with less risk and more control. The software, delivered by our wholly owned SaaS provider Maritech Services Limited, has been designed to help manage increasing complexity and regulation across our industry. We continue to believe that technology is a valuable additional service which will complement our world class broking teams. Many but not all of our products have now been commercially launched and our software is now being used by all categories of participant in the shipping and offshore markets. With the launch of additional modules later this year, we expect to see an acceleration of this uptake.

Turning to our performance by division, the broking teams delivered an exceptional performance in the year, despite a mixed macroeconomic backdrop. The tanker and gas markets performed very strongly, with mixed fortunes across the year in the dry cargo markets. In addition, we began to see some recovery in the offshore markets, with margins starting to lift as a result of increased activity.

Although the market dynamics provided a favourable environment for the broking teams, the Financial division saw another challenging year overall. Macroeconomic uncertainty continued to fuel negative sentiment in the global shipping and offshore capital markets, with transactions at a low level despite a promising pipeline. Newbuilding activity, other than dual fuel projects, remained at low levels during 2019, although we anticipate the introduction of IMO 2020 and the shift to a cleaner energy future will lead to earlier scrapping of ships and changes across entire vessel fleets that will require future financing.

The Research team again delivered a strong performance, with increases to both revenue and profitability. The team expanded its digital capabilities and grew its client base, cementing its position as the leading provider of authoritative intelligence and data to shipping, trade, energy and offshore markets. The teams' increased volumes of annuity revenue and retention of clients has been driven by a focus on excellent client service and the provision of unparalleled market insights to enable better and more informed decision making.

The Support division has seen profitable growth during the year, new office openings and the launch of Gibbs Safety and Survival, a specialist division focusing on the supply of personal protective equipment and safety and survival equipment. An uptick in activity across the offshore and renewables industry has seen positive momentum building for the support division.

I welcome this opportunity to thank everyone at Clarksons for their hard work during the year. Our people are our core asset, successfully growing our business and making it possible for Clarksons to deliver value to our shareholders. During the year we expanded our global footprint and invested in expertise across the business, including our very successful wet FFA team, who have gone from a standing start to becoming a market leader within the year. We have also opened new offices in Copenhagen and Connecticut, successfully rolled out our offices in Tokyo and Seoul, and since the year-end acquired Martankers which has created a base for the Group in Spain.

On behalf of everyone at Clarksons, I would like to highlight the invaluable role that James Hughes-Hallett played in guiding the Company and providing great leadership and expertise throughout. He will be greatly missed by all those who knew him.

I would also like to congratulate Sir Bill Thomas on his knighthood for his services to politics and charity. Sir Bill has made a significant contribution as Chair in his first year at Clarksons and I thank him for his stewardship and guidance. I am also delighted that Heike Truol has joined the Board as a Non-Executive Director. Heike brings a deep knowledge of dry bulk shipping to the board, particularly from a client perspective, and I look forward to working with her.

As highlighted in the interim results issued on 12 August 2019, we undertook a review of impairments to goodwill on the balance sheet relating to the acquisition of RS Platou ASA. The outcome of that review is a non-cash impairment charge of £47.5m relating to the carrying value of RS Platou ASA. The impairment charge does not affect our cash balances or distributable reserves. Whilst the offshore oil and shipping capital markets are in a difficult stage of their respective cycles, the strategic rationale of the acquisition of RS Platou remains sound as the funding environment for new build ships from banks remains limited and as the offshore markets improve and as the offshore wind markets continue their growth.

The global backdrop remains mixed, with continuing trade wars, the impact of the COVID-19 outbreak, and the changing pressures on global GDP impacting freight rates in most markets. Oxford Economics has forecast that if COVID-19 becomes a pandemic in Asia, global GDP will take a 0.5% hit, whilst if this becomes a global pandemic, the negative impact on global GDP will be 1.5%. The current outbreak has adversely affected the freight rate environment, with the ClarkSea index down 32% since the first week of 2020. Despite the challenges that this presents in the immediate future, the macro environment has been broadly supportive of positive forward momentum, and we start 2020 with a strong forward order book of US$113m. Capital markets, however also remain challenged as investors continue to sit on the sidelines.

2019 has been a strong year for Clarksons and global demand for shipping continues apace, irrespective of the pricing dynamics within specific markets. As a business, we have been signalling for some time the favourable industry supply / demand dynamics, with new builds at historic lows and an increasing number of ships being scrapped, in part to meet new regulatory requirements. We have invested across the business in teams and technology and we are confident that we are best positioned to help our clients navigate the complexities of the shipping and offshore markets, with a particular focus on the evolution of the industry towards a low carbon, low sulphur future, as we go into 2020.

The outlook for the coming year is however likely to be affected by the current COVID-19 outbreak, which we anticipate will impact our first half performance. Nevertheless, we continue to believe the fundamentals of the shipping industry are improving and we remain confident in the medium-term outlook.

Andi Case
Chief Executive Officer
6 March 2020

Business review

Broking

Revenue: £283.0m (2018: £251.7m)
Segment underlying profit: £55.5m (2018: £44.0m)
Forward order book for 2020: US$113m* (At 31 December 2018 for 2019: US$107m*)
* Directors' best estimate of deliverable forward order book (FOB)

Despite a challenging start to the year, performance in the second half was encouraging across both our asset and chartering activities.

Dry cargo

The Baltic Dry Index (BDI) matched last year's seven-year high of 1,353. Capesize earnings performed 11% better year-on-year, which partly offset the earnings decline in the smaller size sectors. The third quarter of 2019 marked the highest quarterly earnings since 2010, following a weak first half which was riddled by trade disruptions.

Iron ore volumes were undercut due to the Vale dam rupture in Brazil but partially recovered during the second half of the year. The sub-Cape sectors suffered under the US-China trade dispute with weak US soybean cargoes, which was compounded by softer Chinese soybean demand due to African Swine Fever (ASF). Strong coal and construction demand from emerging Southeast Asian countries supported the sub-Cape market, but the declining trend in Europe's coal demand, as the Continent increasingly turns to gas and renewables for power generation, compromised seaborne trade growth.

Shipowners responded to the weak earnings environment during the first half of the year by postponing new build deliveries and sending ships to drydocks to install sulphur emission cleaning systems (scrubbers) in preparation for the IMO 2020 bunker fuel sulphur limit restriction, effective from 1 January 2020. Thereby the active tonnage has remained tight and demolition remained limited.

While the focus for shipping has been on preparations for the IMO 2020 regulations, longer-term planning has also been affected, with a more cautious approach to investment in new generation eco-friendly vessels. New build orders reduced by 45% year-on-year, which resulted in the order book being 10% of the fleet, all of which is scheduled to deliver over the next three years.

Fleet growth in the short term poses downward pressure on earnings, but the supply balance will recalibrate as shipowners adjust to the market through cancellation or postponement of new builds and demolition of older uneconomical tonnage. Growing pressure on greenhouse gas emissions and shipping's carbon footprint will reduce fleet growth with higher costs to comply, charterers having responsibility toward deployment of compliant vessels and lower eco speeds.

Seaborne trade growth should expand as iron ore volumes recover, world economic growth improves, and China continues with monetary stimulus and investment in emerging regional and African economies. Upside potential for seaborne trade exists if Europe also reverts to infrastructure related stimuli.

The outbreak of COVID-19 in China is expected to weigh on world economic growth. To counter such a downturn, many countries might be forced to increase monetary stimulus.

Nevertheless, fleet growth will continue to challenge seaborne demand, whilst fragile geopolitics and combatting COVID-19 will affect seaborne trade and market volatility.

Containers

Containership market conditions overall saw further progress in 2019, although improvements were heavily weighted towards earnings at the larger end of the charter market. The container freight market, meanwhile, proved challenging for operators, with spot box freight rates generally finding it hard to make headway. The key Shanghai Containerised Freight Index (SCFI) averaged 811 points across the full year, down by 3% on 2018, though rising in the final quarter. Despite this backdrop, containership charter rates improved through most of 2019, following a downward trend in the second half of 2018, with the 'basket' containership charter rate index up by 19% between the start and the end of the year, although the full year index average was down 6% year-on-year. Nevertheless, the trend was clearly upwards, and sentiment saw a marked improvement. Charter rates in the larger sizes again saw the greatest gains, up over 60% during 2019, with improvements for the smaller ships significantly more limited. The one-year charter rate for a 6,800 20-foot Equivalent Units (TEU) containership, for example, increased from $11,000/day at the end of 2018 to an average of US$25,000/day in December 2019.

In terms of fundamentals, global seaborne box trade growth proved soft in 2019; clear headwinds from the world economy, including the US-China trade dispute and disruptions in developing economies, had a notable impact. Box trade growth is estimated to have reached just under 2% in both TEU and TEU-mile terms. On the supply side, capacity growth appeared to become more manageable. Total fleet capacity expansion stood at 4.0% across 2019 (compared to 5.6% in full year 2018) and is expected to slow with the order book historically limited at around 11% of fleet capacity. Boxship contracting remained fairly subdued in 2019 at 0.79m TEU. Despite this, with demand side impetus limited, the headline fundamentals suggested limited rebalancing. However, factors related to the introduction of the IMO 2020 global sulphur cap have provided support to vessel earnings, with boxship time out of service for scrubber retrofit estimated to have reduced available active capacity on average across 2019 by 1.5% (and by 2.3% in sizes 8,000 TEU and above). Moreover, average container service speeds dropped by circa 2% in 2019, further absorbing capacity.

As of the end of 2019, whilst headline fundamentals going forward appear relatively balanced, the vessel scrubber retrofit schedule and other impacts related to the IMO 2020 regulations look likely to continue to support gains in vessel earnings for larger charter market vessels in particular, although for the sector as a whole significant risks to demand from the world economy clearly remain and still need to be tracked closely. The ability of container shipping lines to absorb the cost of low sulphur, IMO 2020 compliant fuel through box freight levels is also set to be an increasingly telling factor behind trends in the box shipping industry.

Tankers

The tanker market strengthened considerably in 2019, driven by a combination of geopolitical developments, IMO 2020 related reductions in trading fleet supply, strong growth in crude imports into China and strong growth in crude exports from the United States.

Clarksons' published annual average earnings for Very Large Crude Carriers (VLCCs) on the main Middle East to Far East route increased by 126% versus the 2018 average, to levels above the long-run averages recorded since 1990. Meanwhile Clarksons' average annual earnings for Suezmaxes and Aframaxes increased by 92% and 62% respectively versus 2018 levels, both also surpassing the long-run average levels.

In the products tanker sector, Clarksons' annual average earnings for Long Range 2 (LR2) tankers and Long Range 1 (LR1) tankers trading in clean products on the key Middle East to Far East route increased by 100% and 80% respectively versus 2018 average levels. Clarksons' average earnings for Middle Range tankers (MR) in 2019 increased by 57% versus 2018 levels. Products tanker earnings were slightly below the long-run average levels.

Geopolitical developments had a strong influence on the market. In particular, changes to US sanctions policy in May and again in September led to reductions in the VLCC trading fleet. The changes announced in September precipitated an extreme spike in tanker earnings. The spike was ultimately short-lived, however both crude and products tanker earnings were sustained at high levels throughout the fourth quarter driven by factors such as continued growth in oil demand and refining capacity; record levels of Chinese crude imports and US crude exports; the restoration of higher levels of Russian crude exports following disruption over the summer; and typical seasonal factors such as bad weather.

The crude tanker fleet grew by 6.4% in 2019. However, the size of the trading fleet was reduced by the removal of Iranian tonnage; the temporary removal of vessels from service in order to retrofit exhaust gas scrubbers in preparation for IMO 2020; increased numbers of vessels being employed in floating storage as stocks of IMO 2020 compliant fuel were built up; and by the additional sanctions imposed in late September.

The products tanker fleet grew by an estimated 4.6% in 2019. However, the clean products trading fleet was similarly reduced by a significant number of LR2s switching to crude oil or dirty products trade. This meant that, although the total LR2 fleet grew by an estimated 7.2% in 2019, the clean trading LR2 fleet increased by just 0.5%.

Earnings remained at high levels at the beginning of 2020, however the return of tonnage that had been affected by sanctions in late September, together with several factors that are expected to be short-term headwinds to earnings including the effects of the COVID-19 virus; disruption to crude exports from Libya; and refinery maintenance in the Middle East led to much softer earnings in many of the crude and products tanker markets by early February.

Looking ahead in 2020, fleet growth in both the crude and products tanker segments is expected to be lower than in 2019, while the trading fleet is expected to remain constrained by the combination of further scrubber retrofitting, floating storage, and the absence of Iranian vessels in the market. Crude tanker demand growth is expected to be driven by higher levels of crude exports from the US, Brazil, Norway and the start-up of exports from Guyana. Meanwhile a combination of continued demand growth, higher run rates at recently built refineries in Asia, and further new refining capacity are all expected to lead to higher crude imports into Asia, assuming that the worst effects of COVID-19 are confined to the first half of the year.

In the products tanker sector, China is expected to see higher levels of products exports following the rapid growth in refining capacity and fresh quotas for products exports. Upgrades and increases in refining capacity in the Middle East may also lead to increased shipments from that region once refinery maintenance in the early part of the year is concluded. It is also possible that IMO 2020 may lead to higher refinery run rates and additional volumes of crude oil and oil products trade as refiners, traders and bunker suppliers adjust to the switch to lower sulphur bunker fuels. The current geopolitical backdrop also continues to provide the potential to create further volatility in the tanker market.

Specialised products

The majority of 2019 proved to be challenging for the Specialised Products sector. The earnings environment remained under pressure for much of the year with freight rates suppressed by an oversupply of tonnage, added to by an influx of part capable IMO product carriers due to a weak products market. However, fundamentals began to change in the latter stages of the year with the products sector picking up due to seasonality factors and the IMO 2020 effect. As a result, chemical tanker earnings improved as products tonnage exited the sector due to the more robust returns for trading clean petroleum products (CPP). On top of these market developments, geopolitical factors and the switch to IMO 2020 compliant fuel led to a rise in benchmark chemical freight levels as owners looked to recoup their additional costs.

The Clarksons Platou Bulk Chemicals Index recorded an 11% increase from January to December 2019 and was on average 4% higher than 2018. Although slightly later than was expected, the elevated levels reflected market opinion that the fourth quarter of 2019 would be a period of increased optimism for the chemical markets. This was chiefly due to the reinvigorated products market, with traders looking to capitalise on the supply disconnect of compliant IMO 2020 fuels outside of the main bunkering hubs and take advantage of any arbitrage opportunities. We witnessed a similar rise in the edible oils freight rates, with the Edible Oils Index recording a 10% rise during the year.

Due to ongoing weak returns, deal liquidity in the time charter market was low for much of the year and the short-termism that characterised 2018 was evident once again.

Overall seaborne trade volumes continued to grow in 2019 with a 3.1% year-on-year increase expected, or a total of 332.5m tonnes. This shows that the key macro megatrends of world population growth, urbanisation and rising social mobility rates remain the key drivers for Specialised Products seaborne trade growth. Most of this increase was recorded in the organic chemicals sector, which has been fuelled by increasing production levels in both the US and the Middle East. This has been supported by sustained increases in import demand in the key end user markets of China and India, both of which recorded a 7% increase on an annualised basis. The US-China trade dispute continues to cause some concern amongst participants although before the year-end, some positive signs of a deal being reached were seen. That said, this trade lane still accounts for less than 1% of total seaborne trade and thus there has been little direct impact.

Meanwhile, we expect average trading distances for chemical carriers in 2019 to have increased by 0.5% when compared to the previous year. This shows that more vessels are required to meet the same volume obligation.

On the supply side, the chemical tanker fleet stood at 53.6m deadweight (dwt) at the start of the year. 3.1m dwt was delivered throughout 2019 whilst 1.2m dwt was removed from the fleet. Despite this, the order book is still one of the lowest of all major shipping sectors and is measured at 6% of the in-service dwt. Meanwhile, net fleet growth is expected to be lower in 2020 before contracting in future years.

As mentioned, market sentiment and earnings were mostly depressed for much of 2019. Increased influence from the clean petroleum products trade will remain a challenge for chemical tanker owners and, as such, we assume that there will be additional modern products tanker tonnage (with part IMO capability) competing for chemical tanker market share. Headline fundamentals including the impact of IMO 2020 and the resulting elevated cost base for the industry, combined with continued volume growth and a contracting fleet, point towards healthier earnings and a potential elevation of utilisation levels in the short to medium term.

Gas

2019 has, overall, been a year of recovery in the LPG carrier market segment, with the improvement proving more marked in the larger vessel sizes than in the smaller gas carrier sector. Firmer freights were underpinned by a number of factors, which included a slowdown in the pace of fleet expansion, market inefficiencies and delays both loading and discharging which served to extend voyage durations, thus raising utilisation levels. Further adding to this was the uncertainty ahead of the impending IMO 2020 deadline and retrofitting of vessels with scrubbers, which tightened tonnage availability. LPG trade also showed continued growth, with North American exports registering very healthy growth levels, rising by over 7 million metric tonnes (m mt) on the 2018 level of 32.6m mt following a new project on the West Coast of Canada and continued growth from the US. This far exceeded the marginal downturn in Middle Eastern exports as a result of disruptions to Saudi exports following the drone attacks and as sanctions lowered Iranian exports. The increase in Australian exports as two new projects commenced production also served to boost overall seaborne LPG trade, which is estimated to have risen by 7.5% year-on-year. Whilst the Very Large Gas Carrier (VLGC) fleet rose by 18 units, with no vessels sold for scrap due to the stronger market, this was not sufficient to compensate for the rising volume and the change in trade patterns witnessed.

The VLGC segment led the recovery, with the benchmark spot freight AG-Japan rising 67% on the 2018 level and timecharter equivalent earning rose nearly threefold to just over $46,000 per day. Freights in the size categories below followed suit, although the scale of the increase was not so pronounced as in the larger sector. Assessed Large Gas Carrier 12-month timecharter has risen by 47% and Midsize freights are up 38%, returning to levels not seen since 2016. In addition to growing LPG trade volumes, Ammonia exports are estimated to have risen 1% year-on-year and with some longer haul flows developing, this has provided some further support. Although Handysize freights also improved over the last 12 months, the increase was a more modest 18% on a 20,000 cubic metre (cbm) Semi-Refrigerated (Semi-Ref) unit, reflecting the lack of longer haul petrochemical gas cargoes. The lack of support from the petrochemicals market generally was more acutely reflected in the smaller Ethylene carriers, with 17,000cbm timecharter levels only fractionally higher than 2018 and assessed rates on the 12,000 and 8,250cbm units static, although these headline numbers do not reflect the idle time which has been incurred. 2020 may offer some reprieve for this sector of the market with the start-up of Ethylene exports from the new US Gulf Coast Enterprise/Navigator terminal at the end of last year and modest newbuilding deliveries.

The pressure carrier and smaller Semi-Ref segment has fared slightly better due to the addition of virtually no newbuildings and a deteriorating age profile, and freights have stabilized at close to 2018 numbers, but these levels had already shown improvement over the last few years after bottoming out in 2016.

LNG

The LNG shipping market experienced a significant drop in near-term freight rates, despite growing trade flows. The spot rates for conventional 160,000cbm Tri-Fuel Diesel Electric (TFDE) tonnage fell 22% year-on-year averaging US$69,300 per day in 2019. This was largely attributed to shorter haul voyages on the back of lower northeast Asian LNG spot prices and thinner cross-basin LNG arbitrage activity. Additional production from the Atlantic basin, combined with low demand in Asia and low re-export from Europe, pushed down the average distance travelled globally by each cargo by 1.9% to around 4,006 nautical miles.

Global LNG trade volumes were up 12% to 355m mt per year, pushed by new supplies from US, Russia and Australia. US LNG exports jumped by around 70% to over 35m mt with the commissioning of Sabine Pass T5, Corpus Christi T2, Cameron T1, Freeport T1 and Elba Island projects and the ramp-up of Corpus Christi T1 and Cove Point. Russian LNG exports rose by 57% to 29m mt driven by the ramp up of Yamal LNG T2 and T3. Australia’s LNG exports climbed by 14% to 76m mt, on the back of the start-up of Prelude FLNG and the ramp up of Wheatstone T2 and Ichthys projects. Qatar retained the world’s biggest exporter position with 77m mt exported in 2019, but Australia is expected to overtake it in 2020 once Prelude FLNG reaches full capacity. Elsewhere, Algeria LNG exports were up by 25% to 12m mt, partially offsetting a drop in pipeline exports to Europe, and higher output from Zohr field enabled Egypt to switch to a 3.8m mts LNG net exports position in 2019 from a 0.7m mts net import position in 2018.

LNG re-export dropped 25% to 3.39m mts, driven by lower activity in the European terminals, amid narrower inter basin price spread. The spread between the northeast Asia LNG price and the European title transfer facility (TTF) natural gas prices plunged 61% year-on-year to US$0.80 per million British Thermal Unit (BTU) in 2019, from US$2.07 per million BTU in 2018.

On the demand side, Asia remained the largest region but imports into the Japan-Korea-Taiwan area dropped significantly, only partially offset by rising demand from China and the Indian subcontinent region, while the biggest rise in demand was recorded in Europe. Imports into the UK, France, Netherlands, Spain, Belgium and Italy almost doubled, surging by 33m mt to 66m mt, driven by price-sensitive demand in the power and gas storage segment, as well as offsetting declines in domestic gas production and pipeline imports from Algeria and Norway. Japan remained the largest importer at 77m mt, but its imports slumped 7% on the back of mild winter weather and nuclear power plants restart. The second largest buyer, China, slowed down its growth at 15% to 62m mt, partially due to higher domestic gas production. South Korea remained the world's third largest buyer but its imports dropped by 8% to 40m mt due to mild winter weather. Meanwhile, imports in India, Bangladesh and Pakistan rose by a combined 18% to 35m mts.

Traded volumes are expected to increase again in 2020, led by US projects Cameron T2-T3 and Freeport T2-T3, which are set to bring online some 18m tonnes per annum and the ramp-up of the US terminal commissioned in 2019.

Six new liquefaction projects have reached final investment decision in 2019: US Golden Pass, US Sabine Pass T6 expansion, US Calcasieu Pass, Mozambique LNG, Russia's Artic LNG-2 and Nigeria T7 expansion. These projects will add some 19% or 70m tonnes per annum of LNG capacity by mid-2020, which should result in additional demand for tonnage.

Some 40 conventional LNG carriers and three floating storage regassification units (FSRUs) were delivered in 2019, a drop of 10 LNG vessels from 2018. 56 conventional LNG carriers were ordered in 2019, down from the all-time high of 68 vessels ordered in 2018. About half of them were placed against long-term contracts for upcoming export projects in US, Russia and Papua New Guinea and by portfolio players. However, 22 speculative orders were also placed by new and existing players, who anticipate tonnage requirements into early 2020s and beyond. Newbuild ordering is expected to continue into 2020, with several liquefaction projects anticipated to reach final investment decision within the year.

Sale and purchase

Secondhand

For the Sale & Purchase department, 2019 proved to be a hard year and the uplift in transaction levels that we have become accustomed to in the second half of the year unfortunately failed to materialise.

Dry cargo in general had a poor year with both earnings and values being flat, meaning in essence that buyers had no incentive to buy and sellers at the same time were under no real pressure to sell. Our transaction volumes across this sector were reasonable but there were no high capital deals concluded, so although we maintained our market share, the market itself shrank and our revenues therefore reduced.

Conversely on tankers, the freight market soared for most of the second half of the year making sellers reluctant to sell at reasonable levels, with the result being that the only modern tonnage that was sold throughout the year was done so via public auction due to the bankruptcy of one specific fleet. Although we did act in some of these auction sales on behalf of our clients, liquidity in the large crude tanker sector especially remained very tight, so whilst values were indeed high, few significant transactions were concluded when compared to previous years.

The position for container vessels was somewhere between the two conditions above. Whilst the freight earnings did improve steadily throughout the year, there was a lack of confidence from buyers to raise their bids, which sellers felt to be justifiable due to this improvement in charter rates. With this sector being affected more than others by the impending new IMO 2020 fuel regulations as well as the US-China trade dispute, it was difficult to disagree with buyers' cautious approach and as a result, we witnessed a 40% drop in the number of sales concluded across all sizes.

Furthermore, the capital markets once again remained largely closed to shipping, which meant that our traditional strength of acting for publicly quoted clients was not so much a factor and we derived little revenue from this area. At the same time, there were no large fleet mandates from either banks or liquidators, meaning we were unable to conclude any large, en bloc transactions.

Nevertheless, our S&P transaction volumes worldwide fell only slightly against 2018 levels and our teams remained busy. However, with a number of high capital transactions having been agreed very late in the year and concluded in 2020, we start the decade optimistic that opportunities will prove more favourable going forward.

Newbuilding

2019 remained a challenging year for the Newbuilding market. Newbuilding orders were down 25%. In parallel, the global order book has now fallen to under 3,000 vessels, a decline of approximately 10% in 2019 in compensated gross tonnage (CGT) terms, and a 67% decline on its 2008 peak, representing its lowest level since 2004 in CGT terms.

South Korean shipyards took orders for circa 222 vessels over the course of 2019, representing some 37% of the global total in CGT terms: LNG carriers accounted for the largest share of CGT contracted, amounting to 43%, while tankers accounted for the second largest share at 30%.

In China, yards took orders for 402 vessels of 29.1m dwt and 8.9m CGT in 2019, accounting for 34% of the global total in terms of CGT. Yards under the new China State Shipbuilding Corporation (formed through the merger of CSSC and CSIC) have taken orders for around 130 vessels of 14m dwt and 4.0m CGT, accounting for 46% of 2019 contracting at Chinese yards in terms of CGT, underpinned by robust domestic demand and support.

The regulatory shifts that have now started to come into force as of 1 January 2020 played a significant part in both catalysing, as well as inhibiting, investment decisions. Early adopters of alternative fuel technology moved forward with investment and we saw some meaningful ordering across the container, VLGC and tanker spaces, bolstered by strong employment opportunities and support. Across 2019, the share of the order book that is LNG fuel capable increased to 20%, up from 14% at the start of the year.

However, investment in new technology remains capital intensive and with 2020 on the horizon, others took a ‘sit-and-wait’ approach against uncertainty over both technology, regulation and how the trading dynamics of 2020 would play out and this was certainly stifling in terms of new contracting activity.

LNG carrier demand also provided a healthy level of support to the Korean shipyards, with an overhang of speculative options being taken up over the course year, as well as the commencement and conclusion of some larger scale industrial demand that was both meaningful in its contribution to 2019’s overall performance and will certainly flow into the make up of 2020.

Our Group performance remained robust in spite of a challenging trading environment. We executed some significant ordering in the LNG, tanker and container markets, and continued to grow and successfully deliver opportunity from both heritage and industrial relationships. Looking forward, we remain well positioned to capitalise on the opportunities that 2020 will present us with.

Offshore

General

2019 was another challenging year for the offshore oil services sector, though with certain sub-sector differences and signs of optimism. Oil prices were relatively stable through the year, and on the back of that, we witnessed a slight increase in both offshore field development sanctioning and exploration activity. Discipline from OPEC is however still required to balance the oil market and 2019 was another year of strong US shale oil growth, implying limited incentives for the international oil companies (IOCs) to drive significant offshore project developments.

Despite the uncertain backdrop, we have seen an increase in rig tendering and fixing activity, as well as slightly improving utilisation for selected rig and offshore support vessel (OSV) segments. Offshore contractors and suppliers have also regained some optimism and seem to be preparing for increasing activity levels going forward. Capital markets do not, however, generally reflect this and most listed oil services companies have seen significant adverse market capitalisation development, something which for many players affects not just their view on market outlook, but also their capacity to pursue strategic actions and transactions. This has negatively affected the opportunities for both capital markets transactions and asset transactions (S&P).

Drilling rig market

Total offshore rig demand continued to improve in 2019, having bottomed in early 2017 and gained momentum through 2018. The global offshore rig count (rigs on contract) was at 505 units as of the end of 2019, up from 452 units at the end of 2018 and a low point of 433 units in February 2017. Active utilisation is currently around 76% for jackups (vs 69% end of 2018) and 70% for floaters (vs 65% end of 2018).

A deeper analysis of the rig market displays significant regional and sub-segment variances. In shallow water, we see increased rig demand in the Middle East, Asia and Mexico. For the deep water and ultra-deep water floater segment, we see demand growth in South America (Brazil and Guyana), Asia and to some extent the Gulf of Mexico. The North Sea Harsh Environment (HE) semi-submersible market remains the strongest floater segment, especially in Norway. This segment has experienced pronounced tightening due to rising demand and significant supply side attrition, resulting in day rates in this segment having more than doubled from trough levels.

Re-balancing of the broader rig market continues to progress further on the back of low utilisation and rates, financial stress and contractors’ realisation of the need to reduce capacity across the industry. As such, contractors have retired around 40% of the total floater fleet since late 2014. We expect the retirement trend to continue as overcapacity is still an issue and as the industry continues to cut costs. Retirement of assets in the jackup segment has been less pronounced, with about 20% of the fleet at peak capacity retired so far in the downturn.

Subsea and field development market

Sanctioning of new offshore field developments in general continues to progress slowly, but we have seen a meaningful increase during 2017-19, compared to the low point in 2016. A large share of offshore oil projects seem to be economically viable, even after oil prices have dropped strongly from peak levels, and as such, should not prevent operators from increasing sanctioning activity. A number of other factors however, likely contribute to operators' reluctance to significantly ramp up sanctioning activity, and we have witnessed a strong increase in operators' preference for short-cycle over long-cycle oil, something which especially affects the deepwater subsea segment negatively. Backlog for the leading subsea engineering procurement construction (EPC) contractors is only moderately up from levels at the end of 2018, but this is nonetheless the first positive development in three years and we expect the backlog to continue to build somewhat going forward. As there is a significant lag between order intake and offshore execution for large contractors, their fleet utilisation has continued to be low in 2019. This has adverse knock-on effects for vessel providers, leading to low global subsea fleet utilisation. There is also so far, no meaningful improvement in the market for subsea inspections, maintenance and repairs (IMR), which also contributes to depressed fleet utilisation. Continued strong activity in the offshore wind segment has compensated somewhat, but this is far from sufficient to cover the shortfall in subsea EPC/project work and IMR.

Offshore Support Vessels (OSVs), Platform Supply Vessels (PSVs) and Anchor Handling Tug and Supply Vessels (AHTS)

The market for OSVs also generally remains challenging and is still characterised by vessel overcapacity, but we have witnessed meaningful improvement, particularly in the segment for large modern PSVs. Regional variances also apply but, in particular, the North Sea market saw meaningful strengthening in terms of average utilisation and rate levels through 2019. Despite this, most vessel owners are struggling significantly, and we have continued to witness high corporate activity in terms of refinancing, restructuring and consolidation. Some key industry players have however, managed to reduce debt substantially as a result of these processes, making them more competitive going forward. Increased consolidation and significant vessel attrition bodes well for the longer-term rebalancing of the segment, but on the back of the overcapacity, we anticipate a recovery to more sustainable day rate levels on a broader basis to still be some time out.

Renewables

Offshore wind

2019 saw a substantial ramp up in the global focus on the environment. This included significant climate protests, progressive policy decision-making in some countries, and several major investment funds strongly increasing ESG focus. This trend is likely to continue with increasing focus on sustainability, the environment and the need to drive an energy transition. Demand for clean, abundant and reliable energy is likely to continue to grow, with support from popular opinion and governments. Solar and wind are likely to be the main growth segments within renewable energy generation, with wind estimated to contribute 18% of total global power generation by 2050. Estimated wind contribution is expected to be around 3,500 gigawatts (GW) by 2050, of which offshore will contribute approximately 500GW (or 14% of the total wind contribution), according to Bloomberg New Energy Finance, figures supported by Clarksons' own offshore renewables research team. Offshore wind could very well see even stronger growth on the back of improving profitability and learning curve effects. Offshore wind growth is further set to outpace that of other renewable and conventional energy sources.

The offshore wind industry in Europe has grown rapidly over the last ten years, with over 4,600 turbines in the water generating power at the end of 2019 and another 3,750 to be installed by 2025. On a worldwide basis, our estimates suggest there will be more than 25,000 offshore wind turbines by 2030. The offshore wind market is rapidly evolving towards new regions with China, Taiwan and the US amongst the most developed of the new offshore wind markets. In addition, Japan, South Korea and other countries in Asia are gaining interest. We also see additional new countries in Europe pursuing offshore developments.

It should be highlighted that Levelized Cost of Electricity (LCoE) for offshore wind is coming down strongly and many projects are expected to be subsidy-free post 2023. In the last auction in the UK, offshore wind projects secured offtake agreements at £40 per megawatt (MW), well below the £50 per MW grid price. We register that some energy companies and developers are now also considering building offshore windfarms in the UK without any fixed off take contract with the Government, therefore taking more of an industrial commercial approach.

The offshore wind industry is rapidly moving further from shore and into deeper waters as turbine and vessel technology now allows for significant far shore construction developments and wind conditions are far more favourable further out. This also allows for larger turbines that are able to generate more power per unit. This means longer sailing routes and rougher weather which, combined with bigger turbines, imply increasing demand for larger and more sophisticated assets. Vessel demand in the sector has been growing steadily and with the new cables, foundations and turbines going in the water, a new breed of construction and support vessels will be needed. Overall, the offshore wind farm industry has already moved from an undeveloped and immature marine energy industry to a leading, industrialised marine business sector. In line with an increasing number of projects likely to be sanctioned going forward, we expect to see further increasing demand for vessels to support the construction and maintenance of offshore windfarms.

Renewables broking and advisory

Clarksons Platou has consolidated most of its renewables experts into a dedicated global division to provide ship broking, market intelligence and commercial services, including investment banking, specifically to the rapidly growing offshore renewables market. As such, Clarksons Platou is today regarded as one of the global leaders within the offshore energy sector, with a global footprint and superior deal flow. With a history of supporting the leading market players with bespoke vessel chartering, sale and purchase and newbuilding activities and port services dating back to 2006, we continue to have progressive growth ambitions in this industry. The core Offshore Renewables team is based out of Oslo and Hamburg, with strong support and collaboration with the offshore broker teams in Aberdeen, London, Houston, Shanghai and Singapore, forming a global platform for clients and further growth. The team covers all major asset/vessel segments in the industry. Further, based on our extensive offshore renewables experience, as well as more than 50 years of oil and gas experience, the group can leverage global offices and capabilities in the traditional offshore and shipbroking hubs to advise clients in new regions of interest. The team also collaborates on opportunities with the Financial, Support and Research divisions in the Group.

Futures

2019 was a mixed year in the dry indices: Capes improved to an average US$18,025 (US$16,528 in 2018), Panamaxes weakened to US$11,112 (US$11,653 in 2018) and Supramax 10TC averaged US$9,948 (US$ 11,486 in 2018). Panamaxes have already started to trade the 82,000 DWT, with the expectation that the market will migrate to this new index in the first quarter of 2020. Volumes for the year were all positive, with Capes moving from 488,234 lots in 2018 to 534,128 lots in 2019. Panamax volumes improved once again from 576,040 lots in 2018 to 670,151 lots in 2019 and once again, Panamaxes were the highest volume futures contract. Supramaxes improved from 142,128 lots in 2018 to 171,818 lots in 2019.

Total dry options volumes slipped from 272,666 lots in 2018 to 244,826 lots in 2019 but some new entrants impacted on these volumes in the second half of the year, leaving some room for optimism in 2020.

The headline Cape index was particularly volatile through the year, with the Vale dam rupture in Brazil having a profound impact on the early part of the year, whilst trade disputes dented what might otherwise have been a stronger year for the Panamax and Supramax markets.

The Wet FFA team had a strong year and performed well in a volatile and growing market. Clean volumes improved from 131,106 lots in 2018 to 172,479 lots in 2019 (up 32%) whilst Dirty volumes grew significantly from 191,975 lots to 297,022 lots (up 55%). Though still in its infancy, CME started to clear a new LNG contract just before the year-end and we closed the first contract.

The iron ore market volumes recovered in 2019 after a period of decline during 2018. The Vale dam rupture during the first quarter of 2019 was the catalyst for the recovery in volumes, as a highly volatile market produced good numbers throughout the year. Daily average volumes came in just shy of the 5,000,000mt per day mark and our team, despite some streamlining and reduction in size, held their market share and position. Despite volumes being up and a volatile first half of the year, levels steadied during the second half and we saw growth from our Far Eastern team, with Chinese volumes growing and Western falling. We are planning a fresh approach on iron ore options in 2020 to increase our market share in this growing part of the market, where volumes grew 98.7% year-on-year.

Financial

Revenue: £35.5m (2018: £46.1m)
Segment underlying profit: £3.3m (2018: £8.0m)

We executed a number of key transactions in markets which were dominated by geopolitical risks..

Securities

This first half of 2019 can only be described as extremely difficult. Despite our promising pipeline, it was very challenging to raise any equity or debt within our sectors and as a result, our first quarter was poor, with year on year total revenue down almost 50%. There were no new listings of companies on exchanges in the US or Norway during the first quarter of 2019.

The dam rupture in Brazil, which occurred at the end of January 2019 and is operated by the world's largest producer of iron ore, Vale, impacted the dry bulk shipping industry as seaborne volumes were substantially reduced on the Brazil–China route, hurting especially the capesize market negatively until Easter.

In the second quarter, markets were calm, however this was disrupted in May, with politics taking centre stage with the Brexit negotiations and the continued trade dispute between the US and China. All major indexes fell sharply as a result across all major regions – the US equity market delivered its worst May return in seven years, with energy stocks falling the most. Global bonds also fell markedly in May.

In June, confronted by weaker economic data, risks to the trade outlook and continued low inflation, the US Federal Reserve and the European Central Bank both indicated that further monetary stimulus was coming shortly.

The third quarter of 2019 was a mixed quarter for shares and investors switched back and forth between risk aversion and risk appetite, making it difficult to complete any capital market transactions. The US-China trade dispute rumbled on, as did global growth concerns, but central banks remained supportive. Global stock markets were volatile with a 5% setback in July, then recovery in August and September. Convertible bonds were flat over the third quarter but managed this result with about half of the level draw-downs and volatility seen in the equity markets.

Government bond yields declined markedly over the third quarter due to heightened risk aversion in August when US-China trade tensions escalated. Corporate bonds outperformed government bonds as they benefited from the decline in global yields and an improvement in risk sentiment.

Offshore-related stocks sold off significantly in July and August. While the month of September saw some relief, sentiment for offshore appears to have reached rock bottom, evidenced by stock prices nearing all-time lows. Selling pressure in July and August can be explained by a 10% move in the oil price and leveraged capital structures, with equity taking the hit. The focus on ESG this year from investors and authorities has also put pressure on offshore stocks, as traditional oil production and supporting industries have seen the impact of traditional financial markets weighting sustainability, governance and social responsibility much higher as they incorporate ESG factors in their total risk assessments. We do believe most offshore companies can outlast the current sentiment and are well positioned to see stocks continue to rally in 2020, however only companies successfully managing the ESG risks efficiently will be attractive to investors as they are increasingly looking for products being ESG compliant.

The geopolitical risks that dominated markets for much of 2019 faded in the fourth quarter, helping global equity markets to post gains. In fixed income, corporate bonds performed well amid the improved investor sentiment. With Europe's economy highly dependent on global trade, the announcement of a 'phase one' trade deal between the US and China in December helped bolster investor sentiment heading into the new year.

The market volatility seen throughout 2019 is particularly impacting the commodity and energy industries in which we operate. For offshore, the uncertainty about the timing of a market recovery is making investors apply a wait-and-see approach to equity opportunities. For shipping, companies have been trading well below net asset value (NAV), but the market sentiment has shown signs of recovery as the ripple effects of IMO 2020 sulphur cap regulations that came online at the beginning of 2020 are becoming visible. Europe's convertible bond market enjoyed a modest recovery in 2019 even though interest rates stayed low. For 2020, there is cautious optimism that the revival will continue.

We added a renewables sector to our current focus during 2019, with a full team in Investment Banking in Oslo. The team secured several mandates within the sector during 2019. Norway is blessed with huge renewable resources and the opportunity to make use of them. In addition, focus on renewable power is an important strategy as security of supply and the consequences for climate and economic growth must be considered to secure an efficient and climate friendly energy supply. Initially, our focus has been on offshore wind vessel owners and supply chain, building on relationships and competence from the Renewables team in Clarksons Platou Offshore. Offshore wind is expected to remain a key area for business development, but solar, onshore wind, hydrogen and other technologies will also be of interest. Based on strong investor interest, the Equity Research team in Securities has initiated coverage of several renewables companies and expects to continue to increase expertise within Securities and the broader Group.

Key transactions during the year were the closure of the acquisition of Spectrum ASA by TGS-Nopec Geophysical ASA in August, the US$150m convertible bond loan for Norwegian Air Shuttle ASA in November, the equity raise and IPO of Klaveness Combination Carriers on the Oslo Exchanges in May and the acquisition of 19 product tankers from Trafigura Ltd by Scorpio Tankers Inc. in September. In total, we raised US$2.6bn, with US$894m in debt capital markets (DCM) transactions, US$350m in equity capital markets (ECM) transactions, and performed advisory work in M&A transactions with a total value of US$1.3bn. Clarkson Platou Securities' (CPS) strategy for the last 10 years has been to create an edge and focus on what we are good at. Credentials are paramount, and we feel we are on a positive path, especially since we are expecting more merger and acquisition activity in the coming year.

For 2020, we are braced for continuing volatile equity markets due to the presidential elections, the next phases in the US-China trade relations, the US-Iran tensions and the containment of the COVID-19 virus.

Project finance

Shipping

2019 has been an interesting year in ship finance. Traditional sources of financing for second and third tier shipowners have become scarce as many of the larger banks are exiting or reducing their portfolio and focusing on corporate clients. This has created an opportunity for alternative sources of finance such as direct lenders and lease providers to fill the funding gap. The Norwegian project finance arrangers have focused more and more on using their expertise and teaming up with these sources of capital to structure bilateral projects.

Clarksons Platou Project Finance has structured and placed six new transactions and financed nine vessels in 2019: five vessels through sale leaseback structures, one through preferred equity and three through asset play/co-investment structures. These transactions included two chemical carriers, three bulk carriers, two tankers, one containership and one Offshore Supply Vessel.

With the current availability of alternative finance providers and upcoming refinancing needs, we expect a high level of activity in 2020.

Real estate

The Nordic real estate market delivered a transaction volume in 2019 quite similar to 2018, therefore high in historical terms, but a little below the all-time high in 2017.

Throughout the Nordic market, yields on prime assets and long leases compressed as institutional funds, private equity funds, family offices and other investors sought yielding assets with stable dividends in low volatility macro-economies like the Nordics. In 2019, prime yields in Stockholm and Oslo were similar to major European cities like Berlin, Paris and Madrid. Consensus amongst the major analysts is that we will see prime yields flattening out in 2020.

The vacancy rate in the Oslo office market is expected to decline over the coming years as a result of conversion and demolition of older office buildings to residential properties, combined with few new office buildings. The strong growth in rent levels we experienced in 2018 continued in 2019 and validated our prediction last year that office buildings with short leases offer an attractive investment opportunity. Together with Clarksons Platou Real Estate Investment Management (CPREIM), we have sought out these kind of opportunistic investment opportunities in Oslo, but have clearly felt the impact of interest and competition.

During 2019, Clarksons Platou Real Estate completed 19 projects and sold one project. Together with CPREIM, we have invested half of the NOK500m committed in equity last year.

Structured asset finance

According to the latest Dealogic data relating to syndicated loans for the year-end, 2019's volume of $57.7bn done in 186 transactions was less than the $59.8bn in 177 transactions recorded during 2018. We expect these relatively steady volumes to continue into 2020 as Basel III and Basel IV protocols, as well as regulatory and environmental constraints, continue to restrict lending to the industry, especially for the European commercial banks.

With the exception of the top-tier owners that these banks continue to support, we expect financing for the second and third tier owners to be sourced from a more diverse group of lenders (such as leasing companies, alternative finance providers and private equity funds) with lower leverage and a higher cost of funding becoming the norm. This will be even more prevalent to those owners seeking to refinance existing debt/balloon payments against older vessels, as there is an increasing shift by banks to support those businesses that rank highly in terms of environmental, social and governance (ESG) issues. We are already starting to see the Poseidon principles adopted by some of the major ship finance lenders influence credit and portfolio strategies and decisions.

The contraction in financing continues despite improved shipping market fundamentals, the greater significance of Chinese lease finance and emergence of alternative finance providers, as well as private equity financing filling some of the void left by the withdrawal of established shipping banks from the sector.

On top of IMO 2020, which is a major shake-up for oil and shipping, we expect the shipping finance landscape to remain challenging. Nevertheless, despite these headwinds, Clarksons Platou Structured Asset Finance continues to develop its targeted strategic financial advisory activities. It has closed a number of transactions of this type during the course of 2019 and has a growing 2020 pipeline, as relationships grow and deepen and our reputation and successes bring referrals and increased repeat business.

Support

Revenue: £27.7m (2018: £23.9m)
Segment underlying profit: £3.1m (2018: £2.3m)

Our range of services has enabled us to benefit from the increased levels of activity in 2019.

Agency

Grain exports performed better than expected in the first half of the year. Additional tonnage became available for export due to the two major bioethanol plants on the east coast either shutting or switching supply away from UK grain. We also experienced a significant amount of malting barley being exported in the first three months, which was due to exporters fulfilling contracts prior to the original 31 March 2019 Brexit date.

The July/August harvest produced a larger than normal crop, resulting in an exportable surplus greater than we have seen since 2014. Coupled with the previous Brexit deadline of 31 October 2019, this led to an extremely busy autumn for all our ports and offices involved in grain export, with record levels seen in Ipswich, Tilbury and Southampton.

Despite the busy end to the year for grain exports, it is estimated that two-thirds of the UK's exportable surplus remains to be exported in the first half of 2020.

Grain imports remained steady throughout the year, with continued shipments of milling wheat from the USA and Canada.

Animal feed imports remained in line with expectation for the first half of the year, but picked up significantly in the second half as the majors attempted to ensure the maximum tonnage was imported prior to 31 October 2019.

Offshore energy activities continued down the east coast of the UK for both offshore renewables and the offshore oil and gas market (as production increased). In offshore renewables we cemented our position within the supply chain supporting construction projects off the coasts of Invergordon, Humber and East Anglia.

2019 saw us continue to support clients during the construction phase of Orsted's 154 turbine Hornsea One project off the Humber coastline, with operations predominately through the ports of Hull and Grimsby. This coming year will see us involved again supporting clients on the cable installation for Triton Knoll and Hornsea Two projects.

During the year, we also continued supporting offshore renewables off the East Anglia coastline, this time on Scottish Power Renewables 714 MW East Anglia One project, the first to be constructed within the East Anglia zone. The summer was busy with our team coordinating numerous crew changes each week, as well as supporting our client's construction and support vessels moving in and out of the local ports of Great Yarmouth and Lowestoft. This project continues in the construction phase for the first half of 2020.

Our aggregate business continues to increase and is now a significant part of our work on the Thames, Humber and Tyne. We have also brought aggregate into Aberdeen in support of the building of a new port facility coordinating, the berthing of the largest vessel ever to enter the port

Gibb Tools

Our supply business had a very successful year both in Aberdeen and Great Yarmouth. Along with the increase in oil and gas activity, we experienced a marked increase in orders from the offshore renewable sector. Both offices increased resources in order to react to demand, as we saw volumes beginning to move towards the levels we were experiencing prior to the drop in oil price a few years ago.

In the second half of 2019, we launched Gibbs Safety and Survival, a new division specialising in the supply of personal protective equipment and safety and survival equipment largely to the offshore industry. Along with the supply of equipment, Gibbs Safety and Survival will also be equipped to service lifesaving equipment.

With the new division and the completion of our purpose-built office and warehouse facility in Great Yarmouth, 2020 looks to be a very exciting year.

Stevedoring

The first half of the year was better than expected for our stevedoring business in Ipswich. This was due to better than anticipated import volumes augmented by increased export volumes. Despite the poor harvest in 2018, we were able to largely keep our warehouses operating at capacity.

As with Agency, our stevedoring business was extremely busy in the second half of the year. With the strong harvest and the pressure to execute contracts prior to the previous Brexit deadline of 31 October 2019, we experienced record volumes through our Ipswich facility.

We continue to work with UK port authorities to find storage solutions for our customers. Along with storage solutions, we remain committed to investment in plant and machinery to allow us to work with UK ports to provide ship loading solutions.

Freight forwarding and logistics

Freight forwarding in Aberdeen, Great Yarmouth and Belfast continued to be a major part of our business, both in support of our agency activities and in support of the offshore oil and renewables industry.

We continue to carefully watch the developments around Brexit as this could have a significant effect on our forwarding business as we support our customers through whatever changes may be put in place.

Research

Revenue: £16.8m (2018: £15.9m)
Segment underlying profit: £5.4m (2018: £5.0m)

We strengthened our position as a global leader in the provision of data and intelligence.

Research revenues grew by 6% to reach £16.8m (2018: £15.9m), supporting an encouraging increase in underlying profit to £5.4m (2018: £5.0m). Over the past twelve months, Clarksons Research has strengthened its position as a global market leader in the provision of data and intelligence across shipping, trade, offshore and energy. Strong investments into Research continue including the expansion of our proprietary database, the use of innovative data analytics, the development of market relevant content and insights, besides the expansion of our global sales capability. Research has expanded its role as a core data provider to the Broking, Financial and Support teams of Clarksons, while increasingly supporting the **Sea/** suite technology initiative. Through the provision of respected research to a wide client base, Research plays an important role in enhancing the Clarksons profile across the shipping industry.

Our strategy to remain market relevant, while providing broad and authoritative data and intelligence, is increasingly influenced by our focus on environmental-related research. The shipping industry produces approximately 880mt of CO_2 per year, 2.4% of global output, and although our analysis shows this output has fallen by 14% during the past decade, the IMO has set significant reduction targets for 2030 and 2050. Our initiatives to explain emissions regulation to commercial decision-makers, to track technology uptake, to analyse the economic impact on markets, earnings and asset value and to project scenarios for required investments have been integrated into our offering and are receiving excellent client feedback. This intelligence is being utilised across the shipping industry, including by governments and policy-makers.

Research focuses on collecting, validating, managing, processing and analysing data around the shipping and offshore markets to support our clients with their strategy and general decision-making processes. Our wide ranging proprietary relational database is at the heart of the Research business – coverage includes 160,000 vessels; 47,000 companies; 30,000 machinery models; 900 shipyards; 6,000 ports; 26,000 berths, 12bn tonnes of trade; 8,000 offshore fields; 1,000 offshore rigs; 2,300 investment projects; 600 wind farms; 200,000 time series and indices. This data flows through into our Research offering and into systems used across the Clarksons operating divisions.

Total global research headcount is 115, with a significant Asia Pacific presence. Over the past two years, dedicated Asian management summits have been held to focus on our development and growth in the region. We continue to benefit from the expansion of our Data Analytics teams, utilising innovative techniques to derive data, as well as the expansion to our Business Development and Sales team. Annuity-based sales have reached 80% and client retention levels remain above target. Research maintains a regionally broad and diversified client base, including good market penetration across the financial, ship owning, insurance, supplier, governmental, private equity, energy, commodity, shipyard, fabrication and oil service sectors.

Research derives its income from the following principal areas:

Digital

Sales across our digital platform grew by an encouraging 16% (2018: 19%), with robust growth in each of our offerings. There are now over 6,000 individual users across our single access integrated platform. Investment into the underlying architecture of our digital offer, including Application Programming Interface (API), is providing wide-ranging benefits. Specific development plans for each of our digital products continue to be executed, to ensure that all systems capture the benefits of our expanded database; utilise latest technology including new data visualisation and customisation tools; and remain market relevant.

Major digital products include:

Shipping Intelligence Network (SIN). SIN is the market-leading commercial shipping database and continues to receive excellent client feedback. Sales grew strongly in 2019, benefiting from high renewal rates, as well as continuing to add new subscribers to the platform. The platform provides wide-ranging data and analysis tracking and projecting market supply/demand, vessel earnings, vessel values and macro-economic data around trade flows and global economic developments. This has included the 24% year-on-year increase in the ClarkSea index across 2019 and the all-time high in tanker freight rates reported in early October. Intelligence briefings profiling the shipping context of major geopolitical events including the impact of US sanctions, the US-China trade dispute, and Brexit were well received alongside analysis of the market impact of IMO 2020. At the start of 2020, additions and changes to our indices to reflect the use of Low Sulphur Fuel Oil (LSFO) and the growth of the 'eco' and 'scrubber' fleets were implemented. Our intelligence briefings in early 2020 also included some initial analysis on the potential disruption impact of the COVID-19 outbreak on the Chinese economy, global trade and the shipping markets specifically.

World Fleet Register (WFR). We continue to see robust sales growth of the WFR, our authoritative on-line vessel register, supported by client interest in the accelerating environmental regulatory timetable facing the shipping industry. The WFR focuses on providing intelligence on around the world shipping fleets and companies, environmental regulation, the tracking of new technology on-board ships and market trends in the shipbuilding market. The roll-out of our ship repair module and analysis, increasingly relevant given the uptick of retrofitting activity such as sulphur oxide exhaust scrubbers, has been particularly well received alongside new data tracking on 'eco' ships, alternative fuels and wide-ranging Energy Saving Technologies (ESTs). Data around companies has also been expanded.

World Offshore Register (WOR). Offshore oil and gas represent 17% of global energy production and while offshore renewables is producing less than 0.5%, it is growing quickly from this low base. Our renewables module, reflecting the increasing internationalisation of this market, was further expanded across 2019 and we intend further investments in this database. Our comprehensive offshore register provides detailed intelligence on all offshore oil and gas fields, oil company investment activity, the infrastructure involved and the mobile assets that support. We have retained our market-leading position in the insurance market, where our data is used as the core reference in identifying rigs and platforms.

Offshore Intelligence Network (OIN). Despite the slow recovery in offshore and energy markets, offshore digital sales overall grew by 14% across 2019. The utilisation time series developed by our Data Analytics team using new algorithmic techniques has been expanded to further offshore sub-segments.

Sea/net. Developed in conjunction with the Clarksons technology business, our vessel movement system **Sea/net** blends satellite and land based AIS data with our proprietary database of vessels and, recently expanded, ports and infrastructure. Despite strong competition, there has been good sales growth across 2019, supported by product enhancement. The development of intelligence around vessel speed, deployment patterns and port activity has been aggregated into time series and profiled in a new report, Port Intelligence Monthly. The underlying data management and processing for the **Sea/net** system has also been improved.

Services

Our specialist services team, which concentrates on developing and managing retainers that provide bespoke data, consultancy and seminars to a range of corporate clients, has been expanded and has increased its global footprint. Good client retention was achieved alongside some notable new data contracts, including API delivery. There was record attendance at our six-monthly seminars, "Shipping and Shipbuilding to 2030" and "Offshore and Energy to 2030", where analysis and modelling of the market outlook, long-term trade development, energy transition, technology scenarios to meet greenhouse gas (GHG) reduction, ship finance requirements and newbuilding demand were presented. Our bespoke services typically become embedded within our clients' workflows, supporting good client retention. Important client groups include banks, shipyards, fabricators, engineering companies, insurers, governments, asset owners and other corporates.

Clarksons Valuations is the largest provider of valuation services to the ship-owning and financial community and is recognised as the leading provider of authoritative valuations to the industry, combining leading expertise, research and technology. Clarksons Valuations has maintained strong positions with all major ship finance banks, leasing companies and asset owners despite the changing financial landscape. The successful project to digitalise workflows, supported by significant investment into the team's operating platform, continues to improve workflow efficiency and client deliverables.

Reports

Benefiting from over 50 years of heritage, our comprehensive market intelligence report and register series continues to generate provenance and profile across the industry. Across 2019, an expanded ship finance section and new ship repair section were added to our Shipping Review and Outlook, while enhancements to our flagship Shipping Intelligence Weekly have also been made. The series is widely recognised across the industry and, in addition to being available individually, is available through our digital platforms.

Financial review

Revenue: £363.0m (2018: £337.6m)
Underlying profit before taxation*: £49.3m (2018: £45.3m)
Reported profit before taxation: £0.2m (2018: £42.9m)
Dividend per share: 78p (2018: 75p)
* Before exceptional items and acquisition related costs

Results

The Group generated revenue of £363.0m (2018: £337.6m) and incurred underlying administrative expenses of £298.2m (2018: £279.7m). The majority of revenue and a significant proportion of expenses are earned in currencies other than sterling.

Underlying profit before taxation was £49.3m (2018: £45.3m), an increase of 9%. The term 'underlying' excludes the impact of exceptional items and acquisition related costs, which are shown separately on the face of the income statement. Management separates these items due to their nature and size and believe this provides further useful information, in addition to statutory measures, to assist readers of the annual report to understand the results for the year.

	2019 £m	2018 £m
Underlying profit before taxation	**49.3**	**45.3**
Exceptional items	**(47.5)**	**-**
Acquisition related costs	**(1.6)**	**(2.4)**
Reported profit before taxation	**0.2**	**42.9**

Exceptional items

As previously identified, the Board has reviewed the need for a non-cash impairment relating to the acquisition of RS Platou ASA. The Board has determined that an impairment charge, relating to goodwill attributable to Securities and Offshore broking, amounting to £47.5m (2018: £nil) was required.

Acquisition related costs

Acquisition related costs include £1.0m of amortisation of intangibles and £0.6m of cash and share-based payments spread over employee service periods. We estimate acquisition related costs for 2020 to be £0.1m, assuming no further acquisitions are made.

Taxation

The Group's underlying effective tax rate was 23.1% (2018: 23.6%), reflecting the broad international operations of the Group and the disallowable nature of many incurred costs, particularly entertaining.

Earnings per share

Underlying basic earnings per share was 118.8p (2018: 105.2p) a 13% increase, calculated as underlying profit after taxation divided by the weighted average number of ordinary shares in issue during the year. The reported basic loss per share was 42.4p (2018 earnings per share: 98.8p).

Forward order book (FOB)

The Group earns some of its commissions on contracts where the duration extends beyond the current year. Where this is the case, amounts that are able to be invoiced and collected during the current financial year are recognised as revenue accordingly. Those amounts which are not yet invoiced, and therefore not recognised as revenue, are held in the FOB. In challenging markets, such amounts may be cancelled or deferred into later periods.

The Directors review the FOB at the year-end and only publish the FOB items which will, in their view, be invoiced in the following 12 months. At 31 December 2019, this estimate was 6% higher than last year at US$113m (31 December 2018: US$107m).

Dividend

The Board is recommending a final dividend of 53p (2018: 51p), which, subject to shareholder approval, will be paid on 29 May 2020 to shareholders on the register at the close of business on 15 May 2020.

Together with the interim dividend of 25p (2018: 24p), this would give a total dividend of 78p, an increase of 4% on 2018 (2018: 75p). In taking its decision, the Board took into consideration the Group's 2019 performance, balance sheet strength, ability to generate cash and FOB.

This increased dividend represents the 17th consecutive year that the Board has raised the dividend.

Foreign exchange

The average sterling exchange rate during 2019 was US$1.28 (2018: US$1.33). At 31 December 2019, the spot rate was US$1.32 (2018: US$1.27).

We do not believe that our business will be materially affected by Brexit, other than any impact arising from movements in foreign exchange rates.

Cash and borrowings

The Group ended the year with cash balances of £175.7m (2018: £156.5m) and a further £2.5m (2018: £1.7m) held in short-term deposit accounts, classified as current investments on the balance sheet.

Net cash and available funds, being cash balances after the deduction of accrued bonuses, at 31 December 2019 were £84.7m (2018: £73.4m). The Board uses this figure as a better representation of the net cash available to the business, since bonuses are typically paid once a year after the year-end, hence an element of the year-end cash balance is earmarked for this purpose.

Given the increasingly regulatory nature of our business, a further measure used by the Board in taking decisions over capital allocation is free cash resources, which deducts monies held by regulated entities from the net cash and available funds figure. Free cash resources at 31 December 2019 were £68.7m (2018: £57.0m).

Balance sheet

Net assets at 31 December 2019 were £380.6m (2018: £434.6m). The reduction in net assets arises principally as a consequence of the non-cash impairment identified above; this impairment has had no effect on distributable reserves as it is offset against the merger reserve which arose on the initial acquisition. The balance sheet remains strong, with net current assets and investments exceeding non-current liabilities (excluding pension provisions and lease liabilities as accounted for under IFRS 16) by £93.7m (2018: £89.3m).

The overall loss allowance for trade receivables was £14.2m (2018: £14.4m).

The Group's pension schemes have a combined surplus before deferred tax of £11.0m (2018: £14.0m).

Jeff Woyda
Chief Financial Officer & Chief Operating Officer
6 March 2020

Risk management

Full details of our principal risks and how we manage them are included in the risk management section of the 2019 annual report, together with our viability and going concern statements.

Our principal risks are:
- Loss of key personnel – Board members
- Economic factors
- Cyber risk and data security
- Loss of key personnel – normal course of business
- Adverse movements in foreign exchange
- Financial loss arising from failure of a client to meet its obligations
- Breaches in rules and regulations
- Changes in the broking industry

Directors’ responsibilities statement

The statement of Directors' responsibilities below has been prepared in connection with the Group's full annual report for the year ended 31 December 2019. Certain parts of the annual report have not been included in this announcement as set out in note 1 of the financial information.

We confirm that:

- to the best of our knowledge, the consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group;

- to the best of our knowledge, the strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and

- we consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 6 March 2020 and is signed on its behalf by:

Sir Bill Thomas
Chair
6 March 2020

Consolidated income statement
for the year ended 31 December

	2019				2018		
	Before exceptional items and acquisition related costs £m	Exception-al items £m	Acquisition related costs £m	After exceptional items and acquisition related costs £m	Before acquisition related costs £m	Acquisition related costs £m	After acquisition related costs £m
Revenue	363.0	-	-	363.0	337.6	-	337.6
Cost of sales	(14.3)	-	-	(14.3)	(12.9)	-	(12.9)
Trading profit	348.7	-	-	348.7	324.7	-	324.7
Administrative expenses	(298.2)	(47.5)	(1.6)	(347.3)	(279.7)	(2.4)	(282.1)
Operating profit/(loss)	50.5	(47.5)	(1.6)	1.4	45.0	(2.4)	42.6
Finance revenue	1.3	-	-	1.3	1.3	-	1.3
Finance costs	(2.9)	-	-	(2.9)	(1.3)	-	(1.3)
Other finance revenue – pensions	0.4	-	-	0.4	0.3	-	0.3
Profit/(loss) before taxation	49.3	(47.5)	(1.6)	0.2	45.3	(2.4)	42.9
Taxation	(11.4)	-	0.3	(11.1)	(10.7)	0.5	(10.2)
Profit/(loss) for the year	37.9	(47.5)	(1.3)	(10.9)	34.6	(1.9)	32.7
Attributable to:							
Equity holders of the Parent Company	36.0	(47.5)	(1.3)	(12.8)	31.7	(1.9)	29.8
Non-controlling interests	1.9	-	-	1.9	2.9	-	2.9
Profit/(loss) for the year	37.9	(47.5)	(1.3)	(10.9)	34.6	(1.9)	32.7
Earnings/(loss) per share							
Basic	118.8p			(42.4p)	105.2p		98.8p
Diluted	118.6p			(42.4p)	104.9p		98.6p

Consolidated statement of comprehensive income
for the year ended 31 December

	2019 £m	2018 £m
(Loss)/profit for the year	(10.9)	32.7
Other comprehensive (loss)/income:		
Items that will not be reclassified to profit or loss:		
Actuarial (loss)/gain on employee benefit schemes – net of tax	(3.1)	1.0
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange differences on retranslation of foreign operations	(16.4)	4.0
Foreign currency hedges recycled to profit or loss – net of tax	0.7	(0.6)
Foreign currency hedge revaluations – net of tax	0.9	(1.4)
Other comprehensive (loss)/income	(17.9)	3.0
Total comprehensive (loss)/income for the year	(28.8)	35.7
Attributable to:		
Equity holders of the Parent Company	(30.5)	32.8
Non-controlling interests	1.7	2.9
Total comprehensive (loss)/income for the year	(28.8)	35.7

Consolidated balance sheet
as at 31 December

	2019 £m	2018 £m
Non-current assets		
Property, plant and equipment	**25.6**	27.0
Investment properties	**1.2**	1.2
Right-of-use assets	**53.4**	-
Intangible assets	**238.2**	293.4
Trade and other receivables	**2.1**	1.1
Investments	**4.8**	4.8
Employee benefits	**15.5**	18.2
Deferred tax assets	**9.1**	8.6
	349.9	354.3
Current assets		
Inventories	**1.1**	0.8
Trade and other receivables	**77.0**	77.0
Income tax receivable	**0.1**	1.2
Investments	**15.6**	9.7
Cash and cash equivalents	**175.7**	156.5
	269.5	245.2
Current liabilities		
Interest-bearing loans and borrowings	**(1.2)**	-
Trade and other payables	**(151.3)**	(135.4)
Lease liabilities	**(8.7)**	-
Income tax payable	**(9.1)**	(8.0)
Provisions	**(0.3)**	(0.2)
	(170.6)	(143.6)
Net current assets	**98.9**	101.6
Non-current liabilities		
Interest-bearing loans and borrowings	**(0.1)**	-
Trade and other payables	**(2.4)**	(10.5)
Lease liabilities	**(53.7)**	-
Provisions	**(1.5)**	(0.2)
Employee benefits	**(4.5)**	(4.2)
Deferred tax liabilities	**(6.0)**	(6.4)
	(68.2)	(21.3)
Net assets	**380.6**	434.6
Capital and reserves		
Share capital	**7.6**	7.6
Other reserves	**158.4**	237.1
Retained earnings	**211.5**	185.9
Equity attributable to shareholders of the Parent Company	**377.5**	430.6
Non-controlling interests	**3.1**	4.0
Total equity	**380.6**	434.6

Consolidated statement of changes in equity

for the year ended 31 December

	Attributable to equity holders of the Parent Company					
	Share capital £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2019	7.6	237.1	185.9	430.6	4.0	434.6
Impact of change in accounting policies	-	-	(3.9)	(3.9)	-	(3.9)
Adjusted balance at 1 January 2019	7.6	237.1	182.0	426.7	4.0	430.7
(Loss)/profit for the year	-	-	(12.8)	(12.8)	1.9	(10.9)
Other comprehensive (loss)/income:						
Actuarial loss on employee benefit schemes – net of tax	-	-	(3.1)	(3.1)	-	(3.1)
Transfer from merger reserve	-	(67.1)	67.1	-	-	-
Foreign exchange differences on retranslation of foreign operations	-	(16.2)	-	(16.2)	(0.2)	(16.4)
Foreign currency hedges recycled to profit or loss – net of tax	-	0.7	-	0.7	-	0.7
Foreign currency hedge revaluations – net of tax	-	0.9	-	0.9	-	0.9
Total comprehensive (loss)/income for the year	-	(81.7)	51.2	(30.5)	1.7	(28.8)
Transactions with owners:						
Share issues	-	0.8	-	0.8	-	0.8
Employee share schemes	-	2.2	0.3	2.5	-	2.5
Tax on other employee benefits	-	-	0.8	0.8	-	0.8
Tax on other items in equity	-	-	0.2	0.2	-	0.2
Dividend paid	-	-	(23.0)	(23.0)	(2.7)	(25.7)
Contributions from non-controlling Interests	-	-	-	-	0.1	0.1
Total transactions with owners	-	3.0	(21.7)	(18.7)	(2.6)	(21.3)
Balance at 31 December 2019	7.6	158.4	211.5	377.5	3.1	380.6

	Attributable to equity holders of the Parent Company					
	Share capital £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2018	7.6	234.7	177.4	419.7	3.7	423.4
Profit for the year	-	-	29.8	29.8	2.9	32.7
Other comprehensive (loss)/income:						
Actuarial gain on employee benefit schemes – net of tax	-	-	1.0	1.0	-	1.0
Foreign exchange differences on retranslation of foreign operations	-	4.0	-	4.0	-	4.0
Foreign currency hedges recycled to profit or loss – net of tax	-	(0.6)	-	(0.6)	-	(0.6)
Foreign currency hedge revaluations – net of tax	-	(1.4)	-	(1.4)	-	(1.4)
Total comprehensive income for the year	-	2.0	30.8	32.8	2.9	35.7
Transactions with owners:						
Share issues	-	1.6	-	1.6	-	1.6
Employee share schemes	-	(1.2)	0.9	(0.3)	-	(0.3)
Tax on other employee benefits	-	-	(0.6)	(0.6)	-	(0.6)
Tax on other items in equity	-	-	(0.1)	(0.1)	-	(0.1)
Dividend paid	-	-	(22.5)	(22.5)	(2.9)	(25.4)
Contributions from non-controlling interests	-	-	-	-	0.3	0.3
Total transactions with owners	-	0.4	(22.3)	(21.9)	(2.6)	(24.5)
Balance at 31 December 2018	7.6	237.1	185.9	430.6	4.0	434.6

Consolidated cash flow statement
for the year ended 31 December

	2019 £m	2018 £m
Cash flows from operating activities		
Profit before taxation	0.2	42.9
Adjustments for:		
Foreign exchange differences	0.4	(1.9)
Depreciation	13.3	5.2
Share-based payment expense	1.1	1.4
Amortisation of intangibles	1.4	1.7
Impairment of intangibles	47.5	-
Difference between pension contributions paid and amount recognised in the income statement	(0.2)	(0.2)
Finance revenue	(1.3)	(1.3)
Finance costs	2.9	1.3
Other finance revenue – pensions	(0.4)	(0.3)
Increase in inventories	(0.3)	(0.1)
Increase in trade and other receivables	(2.9)	(16.5)
Increase/(decrease) in bonus accrual	7.1	(3.4)
Increase in trade and other payables	8.0	2.0
Increase in provisions	0.2	0.2
Cash generated from operations	77.0	31.0
Income tax paid	(9.2)	(8.3)
Net cash flow from operating activities	67.8	22.7
Cash flows from investing activities		
Interest received	1.2	0.9
Purchase of property, plant and equipment	(3.9)	(2.2)
Purchase of intangible assets	(5.0)	(3.9)
Proceeds from sale of investments	10.9	1.7
Proceeds from sale of property, plant and equipment	0.1	0.1
Purchase of investments	(11.8)	(8.0)
Transfer from current investments (funds on deposit)	-	3.8
Dividends received from investments	0.1	0.2
Net cash flow from investing activities	(8.4)	(7.4)
Cash flows from financing activities		
Interest paid and other charges	(2.8)	(0.8)
Dividend paid	(23.0)	(22.5)
Dividend paid to non-controlling interests	(2.7)	(2.9)
Proceeds from borrowings	1.2	-
Payments of lease liabilities	(8.6)	-
Proceeds from shares issued	0.8	1.6
Contributions from non-controlling interests	0.1	0.3
Net cash flow from financing activities	(35.0)	(24.3)
Net increase/(decrease) in cash and cash equivalents	24.4	(9.0)
Cash and cash equivalents at 1 January	156.5	161.7
Net foreign exchange differences	(5.2)	3.8
Cash and cash equivalents at 31 December	175.7	156.5

Notes to the preliminary financial statements

1 General information

The preliminary financial information (financial information) set out in this announcement does not constitute the consolidated statutory financial statements for the years ended 31 December 2018 and 2019, but is derived from those financial statements. Statutory financial statements for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. External Auditors have reported on the financial statements for 2018 and 2019; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

2 Accounting policies and basis of preparation

The financial information set out in this announcement is based on the consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the European Union, and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. The financial information is in accordance with the accounting policies set out in the 2019 financial statements and have been prepared on a going concern basis.

3 Segmental information

Business segments		**Revenue**		**Results**
	2019 £m	2018 £m	**2019 £m**	2018 £m
Broking	**283.0**	251.7	**55.5**	44.0
Financial	**35.5**	46.1	**3.3**	8.0
Support	**27.7**	23.9	**3.1**	2.3
Research	**16.8**	15.9	**5.4**	5.0
Segment revenue / underlying profit	**363.0**	337.6	**67.3**	59.3
Head office costs			**(16.8)**	(14.3)
Operating profit before exceptional items and acquisition related costs			**50.5**	45.0
Exceptional items			**(47.5)**	-
Acquisition related costs			**(1.6)**	(2.4)
Operating profit after exceptional items and acquisition related costs			**1.4**	42.6
Finance revenue			**1.3**	1.3
Finance costs			**(2.9)**	(1.3)
Other finance revenue – pensions			**0.4**	0.3
Profit before taxation			**0.2**	42.9
Taxation			**(11.1)**	(10.2)
(Loss)/profit for the year			**(10.9)**	32.7

4 Exceptional items

As a result of the impairment testing of goodwill, an impairment charge was recognised of £47.5m (2018: £nil).

5 Acquisition related costs

Included in acquisition related costs are cash and share-based payment charges of £0.3m (2018: £0.2m) relating to previous acquisitions. These are contingent on employees remaining in service and are therefore spread over the service period. Also included is £0.3m (2018: £0.5m) relating to the acquisition of the remaining non-controlling interest in Clarksons Platou Tankers AS. The charge consists of cash and share-based payment charges which are linked to future service of the employees and are therefore spread over a four year period.

Also included is £1.0m (2018: £1.7m) relating to amortisation of intangibles acquired as part of the Platou and other prior acquisitions.

6 Taxation

The major components of the income tax charge in the consolidated income statement are:

	2019 £m	2018 £m
Profit at UK average standard rate of corporation tax of 19% (2018: 19%)	-	8.2
Impairment charge not deductible for tax purposes	9.0	-
Expenses not deductible for tax purposes	1.8	1.6
Tax losses not recognised	0.8	0.7
Other	(0.5)	(0.3)
Total tax charge in the income statement	11.1	10.2

7 Earnings/(loss) per share

Basic earnings per share amounts are calculated by dividing profit/(loss) for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share amounts are calculated by dividing profit/(loss) for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares in issue during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2019 £m	2018 £m
Underlying profit for the year attributable to ordinary equity holders of the Parent Company	36.0	31.7
Reported (loss) / profit for the year attributable to ordinary equity holders of the Parent Company	(12.8)	29.8

	2019 Millions	2018 Millions
Weighted average number of ordinary shares - basic	30.3	30.1
Weighted average number of ordinary shares - diluted	30.3	30.2

8 Dividends

The Board is recommending a final dividend of 53p (2018: 51p), giving a total dividend of 78p (2018: 75p). This final dividend will be payable on 29 May 2020 to shareholders on the register at the close of business on 15 May 2020, subject to shareholder approval.

9 Intangible assets

Additions of £5.0m in the year relate to £4.7m of development costs and £0.3m arising on acquisitions. Goodwill and other intangible assets are held in the currency of the businesses acquired and are subject to foreign exchange retranslations to the closing rate at each year-end, amounting to a decrease of £11.5m in the carrying value of goodwill and £1.8m in the carrying value of other intangible assets in the year.

Recognising the continued challenging trading conditions in the offshore broking and securities markets, the directors have revised the estimate of future cash flows expected from these cash generating units. Following these revisions, an impairment loss of £47.5m (2018: £nil) has been recognised as an exceptional item.

10 Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	173.4	154.0
Short-term deposits	2.3	2.5
	175.7	156.5

11 Employee benefits

The Group operates three final salary defined benefit pension schemes, being the Clarkson PLC scheme, the Plowrights scheme and the Stewarts scheme.

As at 31 December 2019, the combined schemes had a surplus of £11.0m (2018: £14.0m). This was after an asset ceiling adjustment of £3.8m (2018: £6.8m) in relation to the Plowrights scheme. As there is no right of set-off between the schemes, the benefit asset of £15.5m (2018: £18.2m) is disclosed separately on the balance sheet from the benefit liability of £4.5m (2018: £4.2m). The Group has recognised a deferred tax asset on the benefit liability amounting to £0.7m (2018: £0.7m) and a deferred tax liability on the benefit asset of £2.6m (2018: £3.1m). The market value of the assets was £194.7m (2018: £188.8m) and independent actuaries have assessed the present value of funded obligations at £179.9m (2018: £168.0m).

12 Share capital

	2019 Million	2019 £m	2018 Million	2018 £m
Ordinary shares of 25p each, issued and fully paid	**30.4**	**7.6**	30.3	7.6

13 Contingencies

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