Clarkson PLC

10 August 2020

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

Interim results

Clarkson PLC today announces unaudited interim results for the six months ended 30 June 2020.

Summary

- Robust first half performance
- Particularly strong trading in the Broking division
- Underlying profit before taxation of £21.1m (2019: £20.1m)
- Underlying earnings per share of 51.4p (2019: 48.5p)
- Robust balance sheet, with £88.8m of free cash resources[1] (31 December 2019: £68.7m)
- Board has decided to pay the equivalent of the deferred 2019 final dividend of 53p per share as an interim dividend and declared a further interim dividend for 2020 of 25p per share (2019: 25p per share)

[1] Free cash resources are cash and cash equivalents and current investment deposits, after deducting interest-bearing loans and borrowings, amounts accrued for performance-related bonuses and amounts held by regulated businesses

	Six months ended 30 June 2020	Six months ended 30 June 2019
Revenue	**£180.4m**	£167.8m
Underlying profit before taxation*	**£21.1m**	£20.1m
Reported profit before taxation	**£20.9m**	£19.2m
Underlying earnings per share*	**51.4p**	48.5p
Reported earnings per share	**50.6p**	46.2p
Interim dividend per share	**25p**	25p

* Before acquisition related costs of £0.2m (2019: £0.9m).

Andi Case, Chief Executive Officer, commented:

"Clarksons has delivered a positive first half during 2020 despite the unprecedented challenges that we have all faced and I would like to thank all my Clarksons colleagues for their hard work. The Company has produced strong cash flow, boosted by the excellent performances of our Broking and Research divisions, allowing the Board to pay the equivalent of the 2019 final dividend as well as an interim dividend for 2020. We have delivered 17 consecutive years of dividend growth.

"Stimulus packages are being rolled out around the world and the impact on the speed and shape of global trade recovery is still to be determined. As a result, guidance for the full year remains withdrawn. We remain confident in the fundamentals of the global shipping industry and that Clarksons will continue to benefit from its leading market position and full range of services."

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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 and reconciliation of the term 'underlying' and related calculations are included within the Chief Executive Officer's 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 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.

Chair’s review

As a Board, our priority over the past six months has been the safety and wellbeing of our global teams whilst ensuring that our clients are best supported to respond and adapt effectively to the challenges which COVID-19 has presented. Our well diversified business and best in class position across most market sectors has meant that, despite the global disruption, we have continued to deliver a first-class service to our clients. I extend my thanks to all of our colleagues who have enabled this by adapting so well to rapidly changing working conditions.

It is against this backdrop that I am delighted to report that overall the Group has delivered a 5% growth in underlying profit compared to the same period last year. Both the Broking and Research divisions performed particularly strongly as clients demanded the best advice and execution, together with quality data and analysis, during a period of high volatility and very different working environments. Whilst the market backdrop has been mixed, the average ClarkSea Index, being a weighted average of earnings for all main vessel types, was 8.6% higher than the whole of 2019, predominantly reflecting both strength in the gas market and particularly strong tanker markets following a period of contango in the oil price. The dry cargo market had a weak first half though rates have been stronger since June as market activity started to improve. The container market suffered from lower industrial output of components and finished goods and the offshore market saw some weakness in oil exploration and production, but increased interest in renewables.

By contrast, our Financial and Support divisions both had a challenging first half. In Financial, we suffered from a paucity of capital market transactions in the shipping industry due to market disruption. Following a detailed review at the end of 2019 we had already taken the decision to make changes in this business, cutting costs to reflect the new environment and lowering the hurdle to profitability. The impact to our Support business from the collapse in the oil price meant that we also trimmed costs in this area. We expect to see improved results from both businesses in the second half.

Interest in, and adoption of, our innovative technology platform **Sea/**, which offers modules to make an end-to-end digitisation to support the freight supply chain, has increased. The dramatic rise in remote working has focussed businesses on the need to access data remotely, implement strict controls and meet regulatory requirements, regardless of location.

Whilst we are traditionally second half weighted, the delayed impact of the slowing of world trade due to COVID-19 is expected to impact the business in the second half, and the speed at which trade rebounds will determine when our markets see proper recovery. Markets are currently operating in a lower rate and volume environment than we saw in the first half, but we expect that our diversified offering and strong market position will ensure that our broking performance remains robust and our Financial and Support businesses improve.

Sir Bill Thomas
Chair
7 August 2020

Chief Executive Officer's review

Although the global impact of the COVID-19 pandemic has presented an unprecedented challenge for individuals and companies alike, the medium-term fundamentals of the global shipping markets remain positive, driven by supply/demand dynamics and regulatory changes.

I am pleased to report a positive first half and strong cash performance, demonstrating once again the success of Clarksons' business model. Our geographically and operationally diverse offering, in addition to our market leading position, enables us to capitalise on market opportunities as they arise, and I believe we have the best teams in the business delivering invaluable insights, execution and services to our clients.

Clarksons started the year in a good position, with a robust balance sheet and an improved forward order book, but without doubt, the first half of 2020 has been the most disruptive period for working practices in living memory and I would like to thank everyone throughout the Group for their hard work and dedication that has ensured that we have continued to deliver a first-class service to our clients. Indeed, against this backdrop, across all parts of the Group, we have seen very impressive performance from the teams both in day to day business volumes, and securing a number of major transactions assisting both spot and forward revenues.

The Broking division had a very strong first half, with profit up 35% on the same period last year, driven by standout performances in the tanker and gas divisions. Elsewhere, we also saw a healthy performance from the sale and purchase division in the first quarter whilst the offshore business was making great headway in renewables, offsetting some of the weakness in the oil and gas sector. Given the impact of COVID-19 on global GDP and short term trade shock, we anticipate some impact on activity in the second half, with each of the markets at different stages of reaction/rebalancing and the impact of logistical delays, storage, increased scrapping, layup and docking also having an effect on localised demand and supply balances. GDP growth, spurred by the raft of global financial stimulus packages being rapidly rolled out by governments around the world, together with an end to the pandemic, will create the foundations for a sustained recovery.

It is also important to note that the world is looking to a cleaner future in terms of supply of tonnage. Although there is currently a heavily depressed newbuilding market, it is perhaps most significant that 23pct of the global order book today is alternative fuel, compared to only 3pct of the existing fleet. Clarksons is proud to have played a significant role in a number of these initiatives and the impact from a cleaner future on the order book and scrapping of the older existing fleet will be positive to demand / supply in the medium and longer term.

Capital markets have been challenging for some time, and COVID-19 has worsened investor sentiment. Growing concerns about the impact from the pandemic exacerbated the dearth of transactions and meant that the Financial division made a loss in the first half. Following a review undertaken at the end of last year, we have identified and actioned several areas in which the division can improve efficiencies and lower costs. Given a return to more normalised markets, we are confident that Financial can return to a position of profitability in the second half of the year.

Demand for our research capabilities and market insights has undoubtedly been bolstered by clients' ever-increasing requirements for information and data amidst the volatile macroeconomic backdrop, which helped the Research division deliver an increase in both profit and margin over the same period last year.

The port services division was heavily impacted by the wider market environment with profits decreasing during the first half. This fall in profits can be largely attributed to the collapse in the oil price during the early part of the year, which severely impacted the goods and supplies market, leading to a slowdown in North Sea and offshore activity. We subsequently made cost reductions to reflect the fall in activity in this market and believe that the Support division is set for a better performance in the second half of 2020.

We are encouraged that client interest in and roll out of the **Sea/** suite of technology modules provided by the team at Maritech has increased following the period of disrupted working practices arising from the pandemic. Clients and prospects highlight that **Sea/** meets their needs for effective and increased levels of risk control, audit, compliance, efficiency, communication and data integrity, together with enhanced analytics and validation to enable better decision making.

We had planned a capital markets day to showcase the **Sea/** product and Clarksons investments in shipping technology which we have had to delay due to COVID-19 lockdowns. However, we have every intention of doing the capital markets day when people are back in offices and it is safe to do so.

On a personal note, we were extremely saddened to lose two members of the Clarksons community as a result of the pandemic and our thoughts are with their families at this most difficult of times. I would also like to add how proud I am of the efforts of so many of the team in assisting others less fortunate than themselves through the pandemic.

Results

Total revenue in the first half was £180.4m (2019: £167.8m) and administrative expenses were £151.4m (2019: £140.6m). Underlying profit before taxation was £21.1m (2019: £20.1m), which, after acquisition related costs of £0.2m (2019: £0.9m), resulted in a reported profit before taxation of £20.9m (2019: £19.2m). Underlying earnings per share, before acquisition related costs, were 51.4p (2019: 48.5p). Reported earnings per share were 50.6p (2019: 46.2p).

	2020 £m	2019 £m
Underlying profit before taxation	**21.1**	20.1
Acquisition related costs	**(0.2)**	(0.9)
Reported profit before taxation	**20.9**	19.2

Cash and Dividends

Clarksons has generated strong levels of cash in the period and maintains a healthy balance sheet, with cash balances at 30 June 2020 of £158.9m (31 December 2019: £175.7m) and a further £1.8m (31 December 2019: £2.4m) in short-term deposit accounts, classified as current investments on the balance sheet. Net cash and available funds, after deducting amounts accrued for performance-related bonuses but including these short-term investments, amounted to £100.3m (31 December 2019: £84.7m). Free cash resources, after adjusting for amounts held by regulated businesses, amounted to £88.8m (31 December 2019: £68.7m).

As announced on 27 March 2020, the Board deferred the decision on the amount and timing of the 2019 final dividend to protect the Company until the impact of COVID-19 on the business became clearer. The robust performance and cash position of the Company means that the Board has now decided to pay the equivalent of the 2019 final dividend of 53p per share as an interim dividend on 21 September 2020 to shareholders on the register on 7 September 2020.

The Board has also declared a further interim dividend for 2020 of 25p per share (2019: 25p per share) which will be paid on 11 December 2020 to shareholders on the register at the close of business on 27 November 2020.

Clarksons has paid a growing dividend for 17 consecutive years and it is the Board's intention to continue its long-held progressive dividend policy at the full year, should the Company continue to perform strongly.

Outlook

Despite the ongoing challenges facing the shipping industry, Clarksons has continued to perform well as a business. We expect the Broking division to remain robust in the second half and following our cost cutting initiatives we anticipate a return to profitability in Financial and improved profit from port services. We also expect demand for our research products to continue to grow.

While stimulus packages are being rolled out around the world, the impact on the speed and shape of global trade recovery is still to be determined. This, together with macroeconomic and geopolitical sensitivities and ever-changing exchange rates, means that the Board believes guidance should currently remain withdrawn for the full year. We remain confident in the fundamentals of the global shipping industry and that Clarksons will continue to benefit from its leading market position and diverse offering across all aspects of broking and the shipping world.

Andi Case
Chief Executive Officer
7 August 2020

Business Review

Broking

Revenue: £147.1m (2019: £130.1m)
Segment underlying profit: £29.4m (2019: £21.8m)

Dry cargo

Dry bulk earnings and seaborne trade were significantly affected in the first half as the effects of COVID-19 compromised industrial production and manufacturing across the globe.

As China emerged from lockdown in the second quarter, industrial output rebounded, with record steel production output driving the demand for iron ore. Although many ore supplying countries responded, the much-needed Brazilian iron ore supplies fell short due to prolonged rain and new regulations. Shipments started to ramp up at the beginning of June, leading Capesize earnings to increase from US$3,648/day to peak at US$30,857/day by the end of June.

China also restocked soybeans to secure food supplies and feedstock, whilst grain seaborne trade further benefitted from China's commitment to buy agricultural goods from the US as part of the first phase of their trade deal. The record volume of grain seaborne trade cushioned the sub-Cape sector's earnings, which would otherwise have suffered from reduced demand from construction related industries (such as cement and clinker, steel, ferrous scrap and petcoke) and energy coal which is also suffering from a structural decline in the European coal markets.

The bulker fleet continued to expand with strong deliveries during the first half, while recycling activity was muted during the second quarter as the three leading bulker recycling yards were closed due to COVID-19 measures.

The Baltic Dry Index (BDI) was also affected by the change in vessel fuel types under the IMO 2020 sulphur cap regulations and saw a four-year first half average low of 685 (23.4% year-on-year decline).

As countries emerge from lockdown and suitable fiscal and monetary policies to inject economic growth start to take hold, bulker seaborne demand should increase, particularly with infrastructure led initiatives. However, the market will also need to contend with the growing fleet supply. Overall earnings in the second half are expected to outperform the first half.

Containers

Global container trade has always been, and remains, significantly exposed to disruption to the world economy, consumer activity and supply chains. Consequently, the pandemic has had a significant impact in the year to date, made even worse by operational challenges. Box trade volumes saw a major collapse in the second quarter and are expected to be significantly lower this year compared to 2019 levels.

Global container trade volumes were down 3% year-on-year in the first quarter and down 14% year-on-year in April-May, as the pandemic spread more globally despite activity in China starting to recover. The volume of idle containerships reached c.12% of fleet capacity in May. At the end of the first half, global container trade was projected to decline by c.9% in TEU-miles in the full year, though forecasts remain subject to further revisions. Boxship port activity statistics for June and a slight reduction in idle capacity provide tentative signals that the worst may be passing. The easing of restrictions in many countries means that the risk profile is shifting; Asian activity appears to be offering some support but the impact in developing economies now needs close monitoring.

The box freight and containership charter markets both saw pronounced pressure. The SCFI composite spot box freight index had fallen 20% by April. Following robust liner capacity management (blank sailings, service suspensions and idling capacity) freight rates recovered so that by the end of June the SCFI was up 4% since start of the year. Lower bunker prices have also offered support to liner company performance. The Clarksons Containership Charter Rate Index was down 34% by mid-June relative to the start of the year as demand trends had a major impact on charterer decision-making. The one-year charter rate for a 6,800 TEU containership, for example, declined from US$25,000/day at the end of 2019 to US$10,000/day in mid-June 2020. However, towards the end of June signs of improved demand saw an uptick in earnings in some of the larger size charter market sectors. Meanwhile, containership sale and purchase activity was subdued in the first half.

On the supply side, delays to deliveries have seen limited fleet growth (approximately 1% in the first half) and capacity growth forecasts downgraded (less than 2% expected for the full year). The order book stands at 9% of fleet, with newbuild appetite currently limited. Recycling was impacted by lockdowns in the Indian Sub-Continent, but activity has recently picked up notably as restrictions have eased. Boxship scrubber retrofit activity has been slowing, and the remaining programme looks vulnerable to slippage and cancellation.

Tankers

The tanker market in the first half of 2020 was characterised by generally very strong and extremely volatile earnings. Crude tanker earnings in the first half of 2020 were significantly stronger than both the first and second half of 2019. Clarksons assessed earnings for VLCCs trading on the main Middle East to Far East route were 307% higher than in the first half of 2019 and 29% higher than in the second half of 2019. Clarksons assessed average Suezmax and Aframax earnings increased by 178% and 99% respectively relative to the first half of last year and were 14% and 10% higher respectively when compared to the second half of 2019.

In January, markets maintained some of the strength seen in the final quarter of 2019, when sanctions restricted the trading activities of a significant number of vessels controlled by a major tanker owner. However, the lifting of these sanctions combined with the reduction in oil demand, led to a short period of weaker earnings before the market turned upwards in early March, following the decision by key oil producers to sharply increase production despite falling demand. This led not only to a sharp increase in demand for tankers to lift the crude oil cargoes, but also a surge in time charter enquiry and build-up of floating storage, as oil prices collapsed and crude oil forward price curves moved into steep contango. Crude tanker earnings were very strong from mid-March until early May, further supported by recovering demand in China and crude pricing that was attractive to buyers.

Crude tanker earnings started to fall back to lower levels, after OPEC+ re-grouped in mid-April to agree steep crude production cuts that were implemented from the start of May. These cuts, along with falling production and exports from other key producers, most notably the US, led to a sharp reduction in cargo liftings and hence reduced demand for tankers. The large number of vessels tied up in floating storage and delays in discharging did not prevent lower earnings. By the end of June all segments of the crude tanker market were seeing much lower levels of earnings.

The products tanker market also witnessed similar strength and volatility in earnings. In the first half assessed earnings on the benchmark Middle East to Far East route for LR2s and LR1s, along with average clean MR increased by 154%, 144% and 83% respectively when compared to the first half of 2019; relative to the second half of 2019 these increased by 74%, 77% and 51% respectively. A sharp increase in floating storage, time charter enquiry and vessel delays as well as long-haul shipments from west to east, all contributed to the very strong earnings across the products tanker markets. However, by mid-year, products tanker earnings had also fallen back to lower levels following reduced level of underlying products demand and refinery run cuts, despite the large number of vessels remaining in floating storage.

Specialised products

2020 started with a good dose of optimism in the Specialised Products markets following a buoyant end to 2019. This, fuelled by the IMO 2020 bunker fuel regulation change and seasonally robust products sector tonnage demand, drove spot chemical and edible oil freight rates upwards. When the oil markets swung into contango traders snapped up floating storage space from VLCCs down to MRs and tonnage exited the chemical sector to make the most of the increased earnings. Chemical and edible freight rates improved, and space tightened as larger parcels were broken down onto smaller sized vessels. However, when the OPEC+ nations reached a supply deal, tonnage gradually returned to the sector, raising competition levels once more and in turn creating downward pressure on bulk chemical and edible oil freight rates.

Benchmark spot rates increased in the first half of 2020 compared to 2019. The Clarksons Platou Specialised Products Bulk Chemical index recorded a 19% rise over the period, whilst the Clarksons Platou Specialised Products Edible Oils Index increased by 5%; this market is particularly influenced by the peaks and troughs of the petroleum products markets, due to the transient nature of the tonnage traded between the two sectors. Despite these heightened freight levels, the period and secondhand markets have seen little deal liquidity with the prevailing conditions causing too much uncertainty for long-term commitments.

The Specialised Products markets to date has been shielded to some extent from the demand side shocks experienced in other bulk shipping sectors as a result of COVID-19. For some products traded volumes are down, but in others volumes have actually increased. The factors governing this are complex, however now the seasonally slower summer months are upon us the impact is being felt somewhat more acutely than we may have experienced in previous years. Overall seaborne trade in specialised products is expected to contract this year in line with GDP predictions at approximately 4.9% to 309m tonnes, compared to 325m tonnes for full year 2019. Delays in major project investment in the Middle East and US are expected as manufacturing supply chains are locked down and halted, and investment appetite dries up. Seaborne trade in specialised products is expected to recover in 2021 and is currently estimated to be 325m tonnes, or a 5.4% year-on-year increase. Seaborne trade and tonnage demand in the latter stages of this year will be reliant on the rate of recovery of individual country supply chains.

From the supply side, the net fleet is expected to contract this year and into next, reflecting an order book that now stands at 5% of the in-service deadweight, which is the lowest it has been in almost 20 years. With investment expected to be minimal in the wake of COVID-19, and an expected increase in seaborne trade in specialised products next year, fundamentals are pointing towards increased utilisation in 2021.

Gas

2020 started on a positive note for the LPG Gas Carrier Market, reinforcing the recovery which had commenced as 2019 drew to a close. The first quarter was surprisingly healthy despite the challenges created by the collapse in oil and gas prices and the erosion of LPG import demand, initially in China. LPG exports from North America continued to grow, rising around 4m mt year-on-year and Middle Eastern volumes were also up year-on-year ahead of the OPEC+ cuts. However, as global demand started to fall, OPEC+ cuts kicked in and newbuilding deliveries increased fleet supply, so freights came under increasing pressure during the second quarter. Demand from the Petchems sector for LPG as a feedstock was increasingly challenged by more competitive naphtha, due to weaker oil prices, and autogas consumption also contracted, although there was some growth in domestic consumption in Asia and the West. This softer sentiment, further compounded by concerns over global economic growth levels, served to drive down freight at a faster pace than demand/supply fundamentals alone may have suggested.

This shift has been most discernible in the VLGC segment where spot freights on AG-Japan fell to a level of US$23.93 pmt on 23 June, compared with a high of US$81.07 on 22 January. Time charter equivalent daily rates averaged US$50,642 per day in the first quarter and US$33,380 per day in the second quarter. However, since reaching their low point, rates have shown some more signs of resilience as tonnes from the West have continued to flow East supporting tonne-mile demand. There have also been some indications of Petchem demand in Europe improving due to more positive LPG/Naphtha ratios. On the export side, the challenge through the second half of this year is the potential contraction in gas-related seaborne trade volumes – the dual effect OPEC+ cuts combined with a falling oil and gas rig count in the US which will ultimately impact NGL supply as a result. If this materialises, then we could see flat year-on-year trade. Encouragingly, the start-up of four new PDH projects in addition to two new crackers which will also require imported LPG feedstock could mean that an increasing proportion of Western tonnes may have to flow into Asia to compensate for the shortfall from the Middle East, thus supporting tonne-mile demand.

The softer sentiment which has become apparent in the VLGC segment has weighed on the size categories below and the LGC, Midsize and Handysizes segments have all also succumbed to pressure on freight levels. The 12-month time charter rate for an LGC has fallen 7% over the last quarter to just over US$30,000 per day yet, the average year to date is still up 43% on the same period last year. On a 38,000 cbm Midsize, rates have dropped 8% to US$28,279 per day, but are up by 57% year-on-year. Nevertheless, the 12-month time charter rate is currently assessed at US$19,900 per day compared with around the US$28,000 per day at the start of the year. The Semi Ref Handysize rates have declined by 7% this quarter, receiving some support from longer haul Petchems trade. Unlike in the VLGC segment, there has been relatively limited change in fleet supply in these segments. The main challenge now is expected to come from the trade side, with Ammonia expected to contract by 15% and zero growth in LPG.

The smaller vessels have had a very difficult time with weak derivatives demand from the Chemical sector, mainly industrial, impacting Petrochemical gas trade flows. Both the smaller semi-ref and pressure carrier freights have fallen sharply since the start of this year, with the only signs for support near term coming from a deteriorating age profile and minimal order book. The concern is that weak derivatives demand, as a result of lower levels of GDP growth, may impact the utilisation levels of crackers going forward. However, lower throughput levels at refineries have stimulated some longer Propylene flows to help compensate for regional imbalances.

LNG

The LNG shipping market experienced a drop in near-term freight rates in the first half, as growing LNG trade flows were offset by lower northeast Asian LNG spot prices due to weak demand and growing availability of LNG carriers. Spot LNG headline rates for conventional 160,000 cbm Tri-Fuel Diesel Electric tonnage fell 12.1% to an average of US$45,770 per day, in the first half compared to the same period of 2019.

The spread between the northeast Asia LNG price and the European Title Transfer Facility natural gas prices plunged 44% year-on-year to US$0.44 per million British Thermal Unit (mBTU) in the first half, from US$0.78 per mBTU in the first half of 2019. The narrower price spread meant that Atlantic spot cargoes were making shorter-haul voyages and staying in the Atlantic Basin, particularly in the first quarter.

The spread between the northeast Asia LNG price and the US Henry Hub natural gas prices plunged 67% year-on-year to US$1.03 per mBTU in the first half, from US$3.14 per mBTU in the first half of 2019, leading to a significant number of shut-ins in the US Gulf Coast export plants, which operated well below their official capacity, particularly in the second quarter.

Global LNG trade volumes were up 7% to 186.5m mt in the first half, pushed primarily by new supplies from the US and to a lesser extent by higher exports from Australia, Qatar and Nigeria.

On the demand side, Asia remained the largest region supported by higher imports in the JKT area, China and India, while the biggest rise in demand was recorded in Europe.

Imports into Europe jumped by 21% to 53.2m mt and squeezed gas pipeline imports from Russia and Algeria. Japan remained the largest importer at 36.5m mt, but its imports slipped 1.7% on the back of lower power demand and high inventories. The second largest buyer, China, increased its LNG imports by 7.5% to 28.6m mt. South Korea remained the world's third largest buyer and its imports climbed 9% to 21.7m mt. Meanwhile, imports in India rose by 12% to 11.9m mt.

An additional four liquefaction projects with a total export capacity of 4.4m tonnes per annum are scheduled to start in the second half of 2020 in Russia, Malaysia and Indonesia.

In total, 13 LNG carriers and one floating storage regassification unit (FSRU) were delivered in the first half, a drop of 7 LNG vessels and one FSRU compared to the first half of 2019. Another 27 LNG carriers – of which seven are undedicated – and three FSRUs are scheduled for delivery before the end of the year.

Only three LNG conventional carriers were ordered in the first half 2020, down from the 27 vessels ordered in the first half of 2019. However, two medium size LNG carriers and two large FSU were ordered for projects in Malaysia and in Russia respectively.

Newbuild ordering and shipyard slot booking is expected to resume in the remainder of 2020, supported by several liquefaction projects that reached final investment decision in 2019 or are expected to reach it during 2020.

Sale and purchase

Secondhand

"Challenging times'' does not describe fully how difficult the environment has been for buying and selling ocean going tonnage during the first half of 2020. Sale and purchase markets ground to a halt worldwide as the shipping industry tried to get to grips with operating within the new ''norm'' of COVID-19 travel restrictions. With no crew changes being permitted nor any third parties being allowed onboard vessels, ship inspections became impossible to organise let alone changes of ownership. Consequently, our business had to endure both logistical impediments and financial indecision. Shipowners had enough practical problems trying to operate the vessels that they owned without trying to find a reason to buy another one.

We had enjoyed a reasonable start to the year, concluding some business prior to the pandemic really taking hold in Europe. Now that lockdowns are easing and consumption is slowly starting to return, we are once again able to arrange and conclude deals.

Newbuilding

Newbuild orders dropped sharply during the first half, down by over 50% year-on-year as the economic uncertainty, and logistical challenges created by COVID-19 hit. Activity over the half year dropped to levels similar to previous lows in 2016, 2009, 2002 and 1999 although there were continued orders reported for tankers and gas vessels. The order book, already at generational lows, continues to trend downwards, suggesting pressure on yards to market hard to secure orders later in the year but also for continued low fleet growth, beneficial for the broader shipping markets.

Shipbuilding deliveries were down around 15% year-on-year during the first half, although output activity has now recovered to 85% of 2019 levels. Some continued delivery slippage may still be a feature of 2020 and yards building cruise ships in Europe face particular challenges.

Underlying trends towards alternative fuels and fuel-efficient ships with Energy Saving Technologies (ESTs) continue. Activity to retro-fit vessels with scrubbers at repair yards has slowed, initially due to disruption in China and now in part due to a narrowing spread between low and high sulphur fuel pricing.

Offshore

General

The first months of the year started on a positive note with the gradual market recovery expected to continue after having gained momentum in 2019. Project sanctioning and final investment decisions had seen solid improvement through last year with resulting gradual improvement for drilling rig and vessel activity. COVID-19, the OPEC+ price war and the significant drop in oil demand and prices have undoubtedly changed the near-term outlook for the sector. Most of the offshore focused operators have already announced average capital expenditure cuts for 2020 of 20-30% compared to original plans, and are aggressively reducing operating expenses in order to protect cashflow. A significant slowdown in field development and exploration activity, together with operational challenges due to risks associated with COVID-19 has resulted in a sharp decline in overall offshore activity levels, a drop in the number of active rigs and vessels and a strong increase in lay-ups. In line with oil prices strengthening during the second quarter, activity levels have stabilised and the pace of contract cancellations has slowed . Additionally, some drilling programmes that were previously postponed with no new timeline announced, have now been confirmed with new dates.

Drilling market

The offshore drilling segment has seen cancellations and early terminations of existing contracts, as well as option periods not being exercised. Outstanding rig tenders were withdrawn and planned tenders postponed, whilst operators have tried to renegotiate existing contracts. At the same time, drilling contractors have faced increased operating expenses due to COVID-19. Consequently, at least one large driller has already filed for Chapter 11 bankruptcy protection while numerous others are preparing for balance sheet restructuring. It seems likely the offshore rig market will test new lows in terms of actively working rigs, both in the jackup and floater segment, with resulting adverse impact on fleet utilisation and downwards pressure on rates.

The subsea and field development market

Major subsea engineering, procurement and construction contractors saw backlog increase by around 20% in 2019; most of this is likely to be executed, providing some level of offshore activity for 2020 and 2021. However, as sanctioning of new projects will likely come close to a full halt during 2020, major contractors are likely to face the prospects of declining backlog again. Consequently, major contractors are unlikely to charter additional vessel capacity from owners and several of the leading industry players have already indicated they will reduce fleet size. Furthermore, the operators' strong focus on reducing near-term operating expenses implies lower levels of activity in subsea inspection, maintenance and repair , adding further challenges for the subsea vessel universe. The relative bright spot is within the construction and support of offshore windfarms, where activity so far seems only temporarily affected by COVID-19 induced delays and operational challenges. Beyond that, activity related to offshore windfarms seems relatively unaffected and provides some support for subsea vessel owners with suitable tonnage.

Offshore support vessels (PSV and AHTS)

Global OSV activity has dropped significantly in 2020, in line with reduced exploration and field development. The segment is already seeing a substantial number of vessels cancelled/terminated and contracts deferred. Consequently, the number of vessels in layup globally is set to increase again and both term and spot rates will face further downwards pressure in many regions.

Offshore Renewables

The market for offshore wind energy continues to develop according to our projections and Levelized Cost of Energy is continuing to come down faster than many had expected. These levels ensure the development of a steady flow of offshore wind projects in Europe and the European offshore wind energy market can now be regarded as mature. This is not yet the case in the emerging areas such as Japan, Taiwan and the US, including several other countries, where initial projects were launched and are currently just gearing up for initial construction phases. These markets are at the start of the cycle and there are great expectations to the potential of these markets for our clients and Clarksons.

Driving the development of the market is the upsizing and industrialisation of this unique maritime industry. We are witnessing rapid advances in technology with wind turbines currently being installed with capacities of 9.5MW, while 12-14MW turbines are being sold for future projects. This also poses opportunities for the vessel side of the supply chain industry, creating the need for new vessels with greater installation capacities. Clarksons is well positioned to benefit from this.

We are pleased to see the positive impact from investment in our Renewables team. During the first half of 2020, the offshore renewables group has seen high levels of activity and built a healthy pipeline of projects, in addition to closing a series of major contracts resulting in a notable increase in our commission earnings and forward book. Due to the nature of this highly regulated energy industry, we have been shielded from the knee-jerk reactions witnessed in the oil and gas space and so far no projects have been cancelled and, to the contrary, we note more and more independent and national energy companies are pledging to increase their green energy and renewables investments.

Futures

This has been a period of considerable disruption with most of the teams in lockdown. The wet FFA team have been incredibly active in one of the most volatile markets that we have seen.

Dry FFA notional values have deteriorated but volumes have improved. In the first half of 2020, Capes averaged US$7,180, Panamaxes US$7,231 and Supramaxes US$6,033 compared with US$10,034, US$8,243 and US$8,203 respectively for the first half of 2019. Volumes on Capes increased to 317,501 lots, Panamaxes to 379,554 lots and Supramaxes 127,737 lots representing increases over the equivalent period last year of 21%, 15% and 49% respectively.

Dry Options volumes also improved to 178,213 lots, up from 138,556 lots in the first half of last year. We are pleased to have maintained our market share.

Wet FFA volumes for Clean were 137,263 lots and Dirty 228,957 lots, up from 82,623 lots and 135,793 lots respectively in the equivalent period in 2019.

Iron Ore saw a small reduction in futures TSI 62% volumes averaging 3.5m mt per day, compared with 4.9m mt per day in the first half of 2019. Options volume similarly dipped to 1.3m mt per day from 1.9m mt per day in the first six months of last year. Our market share has improved over the quarter with a strong performance from the team.

Financial

Revenue: £13.3m (2019: £16.1m)
Segment underlying loss: £1.6m (2019 profit: £1.1m)

Securities

As news of COVID-19 unfolded, global financial markets responded with sell-offs, volatility and a sharp increase in borrowing costs, which rivalled, and at times exceeded, those seen during the 2008 global financial crisis. Economic and financial policymakers have responded with action on an unparalleled scale to dampen the impact on near-term economic activity and, where they can, minimise longer-term damage and help the global economy to recover quickly as and when the threat from the virus recedes.

March will surely go down as one of the most turbulent months as COVID-19 spread worldwide and more countries went into a complete lock-down. The price of Brent oil also plummeted, falling from an average price at US$63.65 per barrel in January and US$55.66 per barrel in February to below US$30 by the middle of the month.

April saw global equities rebound as investors began to focus on expectations that economic lockdowns might soon ease, and economies start to recover. The S&P 500 Index saw its strongest monthly rally in 30 years, shrugging off negative unemployment data.

Government bond yields broadly declined in April, but with some regional divergence. Investor sentiment improved markedly, driving a strong rebound in riskier assets. The more positive mood seen in late March continued into April, gaining support from further policy announcements from central banks, including the Federal Reserve widening the scope of its corporate bond purchases.

Eurozone equities advanced as some countries began to allow some parts of the economy to reopen. The healthcare and information technology sectors were among the top gainers. UK and Norwegian equities recovered over the period as the governments declared they had passed the peak of COVID-19 and began to ease lockdown measures.

Optimism over tighter supply also pushed oil prices up in May and June. Daily Brent crude oil spot prices averaged US$29 per barrel in May, up US$11 per barrel from the average in April, as initial data show global oil demand was higher than EIA had forecast and as adherence to announced production cuts was high. EIA expects monthly Brent prices will average US$41 per barrel during the second half of 2020 and rise to an average of US$50 per barrel in 2021. The forecast of rising crude oil prices reflects expected declines in global oil inventories during the second half of 2020 and through 2021. EIA expects high inventory levels and spare crude oil production capacity will limit upward price pressures in the coming months, but as inventories decline into 2021, those upward price pressures will increase.

Financial Markets continued to rebound in May as economies around the globe started to reopen. There were also constructive news headlines related to effective therapies and positive data on some early-stage results for COVID-19 vaccines. Fixed income markets were also generally higher, but returns varied widely across the debt spectrum.

The offshore oil and gas industry began 2020 on a cautiously optimistic note. That optimism was quickly shattered with the onset of COVID-19 and the equally rapid collapse in crude oil prices. Global capex for exploration and production companies is expected to drop by up to US$100 billion this year.

COVID-19 has had a major impact on global shipping markets, with the slump in demand for goods from China having a ripple effect on everything from container ships to oil tankers.

Despite the extremely harsh market conditions, we managed to complete a US$30m equity raise for Borr Drilling in May, a capital raise for Scorpio Bulkers of US$76m in June, a US$200m bond restructuring for American Tankers, and a US$36m PIPE for GasLog at the end of June. In addition, in June, we also completed a NOK 117m private placement for Freyr AS, a Norwegian based company planning lithium-based battery cell factories and a wind park.

Project finance

Shipping

The year started out with bright prospects as supply demand fundamentals looked promising across the dry bulk, container and tanker markets. Even the Offshore PSV market looked interesting as the oil companies had reduced costs, the oil price seemed stable at a profitable level and the active fleet was shrinking. COVID-19, the fall in the oil price and demand had a negative impact on the above segments, with the exception of the short-term rate increase in tankers.

Capital markets experienced extreme volatility making it challenging to launch new transactions. Further to this, raising equity in US dollars from Norwegian investors became even more difficult as the Norwegian kroner depreciated by around 30% against the US dollar. Despite the bleak backdrop, there was transaction activity and the team managed to close a few transactions. The current shipping project portfolio negotiated the situation well.

During the first half, the team concluded the sale of one Aframax Tanker and two AHTS vessels and concluded a sale leaseback of one Product Tanker with an alternative finance provider. Many projects were postponed due to COVID-19 but as market activity picks up we expect a catch-up effect and more activity in the second half of the year. The team already have several on-going transactions, which are expected to close in the second half of the year.

As banks continue to scale down and exit the sector, the team is benefitting from its well established relationships to work closely with alternative capital sources across all geographic areas. While the LTV requirements are higher than traditional debt and with higher margins, the capital is more flexible and available. Going forward the core focus will be to work with both alternative sources of financing, as well as structuring and placing projects with our close investors.

Real estate

2020 had a remarkable start, but from mid-March, when lockdown began due to COVID-19, Norway's real estate market closed and no transactions were concluded until the beginning of June. Our focus in this period was to secure the cash flow on all existing projects and to inform, involve and create safety for our lenders, investors and boards in the project companies. Just before summer we secured the buying position in several prestigious properties lining up a busy second half of 2020, subject to more normalised trading and no recurrence of COVID-19.

We have launched a new company in the Real Estate Group – Clarksons Platou Project Development (CPPD) – making us a complete provider of services within commercial real estate. CPPD has secured its first big assignment, converting an old industrial building into 52 exclusive apartments in a town 40 minutes outside Oslo.

Clarksons Platou Real Estate Investment Management AS continues to invest its committed capital from Oslo Opportunity AS while new fund initiatives are on hold until the market returns to normal.

Structured asset finance

2020 began on a positive note, but sentiment changed with COVID-19 knocking the wind out of the industry's sails. Despite substantial decreases in central bank interest rates in all major economies, the political and economic uncertainty has resulted in substantial increases in the cost of US dollar funding for the leading banks.

There is now less direct US dollar funding available and at a higher cost, indirect US dollar financing through back leveraging of Chinese leasing companies has also reduced significantly. Equally, credit rating downgrades for some clients has seen their borrowing capacity reduced. In many instances, this has resulted in house banks choosing not to quote for new projects. Furthermore, with a number of US and Australian financial institutions shifting their focus to domestic projects, funding liquidity has reduced even further. This has all had a major impact on leasing companies worldwide who used to rely on underlying debt at attractive terms.

Banks are in preservation mode and focused on existing portfolios with limited appetite for new deals. Cross sector contamination (particularly for those banks with aviation exposure) has left limited capital to support shipping lending. Credit and risk departments have been seen to take a hard stance to support fresh lending at a time of crisis and uncertainty and have sought to lend only to the strongest clients and credits, often on stringent terms.

Within China, the top tier lessors finance themselves via a variety of sources including bonds and other paper, which gave them an advantage during the early days of the crisis. Nevertheless, being unable to source liquidity from their traditional banks, unless at a higher cost, they are now busy with follow-up/execution and are only selectively open for business.

In Japan, regional lenders who have supported their local communities through financing ship owners have sought customers overseas as they are forced to change their business model given lack of local demand. Financing projects are, however, practically on hold among the bigger and smaller JOLCO arrangers. While traditionally financed by Japanese banks and therefore somewhat less affected by the rising cost of funds, JOLCO investors have recently taken a hit affecting their confidence, particularly after the postponement of the Olympic Games. Ever cautious, Japanese investors and banks are even more careful in the current environment.

The majority of alternative capital providers are less affected as they are less reliant on the banks and have been seen to increase their activities particularly for the second-tier owners and those owners re-financing older vessels. With a targeted unlevered IRR of 10%+ however, and often all-equity finance, financings tend to be quite expensive and are often a "finance of last resort" for the majority of owners.

Support

Revenue: £11.5m (2019: £13.3m)
Segment underlying profit: £0.2m (2019: £1.3m)

Agency - UK

Overall, the first half proved to be a difficult trading period heavily affected in certain sectors by COVID-19.

Our stevedoring and shortsea broking departments performed above expectations with good export volumes through the port of Ipswich and good support for imports and exports for our brokers. Vessel agency income in parts of the dry bulk sector was adversely affected by lower customer activity levels than expected and also as compared to 2019. We expect a better second half of 2020 with strong import tonnages of wheat and other commodities compensating for what is overall expected to be a relatively poor UK harvest for cereals other than barley. Animal Feed imports are expected at normal trading volumes for the second half.

Our offshore renewables agency business has begun 2020 very well, winning the support of major contracts for UK offshore windfarms off the English and Scottish coastline. Much of this income was scheduled to be in the second half of the year but these projects are starting later than we anticipated, adversely affecting our income in the first half. We expect the second half of 2020 to contain more activity and for our profits to recover accordingly.

Our offshore oil and gas business has suffered from the economic consequences of the restrictions resulting from the pandemic. Customers have reacted by cancelling or deferring projects and have minimised their day-to-day activity levels as a result of the falls in the price of oil. Where appropriate, we have taken action to reduce our costs in line with reduced demand. The cost of these actions is included in the first half figures.

Our Agency business has been impacted by COVID-19 especially in the second quarter. Most affected was the Port Call department. This led to declines in both revenues and the number of vessels compared with same period last year. The Transit department however has continued to do well achieving a revenue increase of 28%.

Gibb Tools

Our new Safety and Survival division has begun 2020 very successfully, operating from our purpose-built facility in Great Yarmouth. It is already exceeding monthly targets and we anticipate continued growth from its top tier customer base as well as extensive new prospects, as we look to expand geographically and by product / service offering.

However, our traditional tooling and supplies business in both Aberdeen and Great Yarmouth has been heavily affected by the considerable downturn in demand from the oil and gas market. Following five years of growth for the business, our customers immediately reacted to the collapse in the oil price by cancelling or deferring many projects and minimising their day-to-day operational spend on our goods and services. Accordingly, the first half result for the business as a whole has suffered. We have taken action to address our operating costs to rebalance the business’ overheads to meet the new demand levels. The cost of this exercise is included in the first half.

Liners – Egypt

The Liner Division has achieved a 15% increase in activities the first half of 2020 compared with same period of 2019 and we expect to maintain a similar growth percentage for the rest of the year.

Research

Revenue: £8.5m (2019: £8.3m)
Segment underlying profit: £3.1m (2019: £2.8m)

Despite challenging trading conditions, Research performed robustly during the first half with revenues reaching £8.5m (2019: £8.3m) and profits increasing to £3.1m (2019: £2.8m).

In response to COVID-19, we have put in place a range of initiatives that have mitigated the impact on our business operations while also supporting our global client base through the provision of leading research focused specifically on the impact of COVID-19 on the shipping and offshore industry. In doing so, Clarksons Research has further strengthened its position as the global market leader in the provision of trusted data and intelligence around shipping, trade, offshore and energy. We have also maintained an excellent profile for the Clarksons group while expanding our data and intelligence support to the Broking, Banking and Technology business units of Clarksons.

Although the short-term outlook remains uncertain, Research has managed COVID-19 related operational disruption well to date, maintaining good productivity, data quality and delivery of our comprehensive research coverage in full. Our Shanghai operation was working remotely in February and March but has now returned to the office environment, providing improved capacity. Additional resources, alongside further digitalisation of workflows, has allowed us to tightly manage our sales operation that supports our annuity revenue. This has ensured a continued flow of new business, low debtor levels and good client renewal despite some subscription deferrals associated with the obvious challenges faced by our broad and international client base. Our global Research team continues to show excellent flexibility and staff morale remains good.

Sales across our digital offering continued to grow during the first half, supported by our ongoing investment programme and delivery of highly relevant market insights. The early launch of COVID-19 related data and intelligence, establishing dedicated areas across each of our digital platforms to track market impact, has been extremely well received by clients as a trusted framework for monitoring developments and informing decision making. The latest of our COVID-19: Shipping Market Impact Assessment series was published on Shipping Intelligence Network at mid-year with coverage including: analysis of the deep economic impact globally and multi-year risks; a comparison with the financial crisis; trends in trade that suggest the sharpest contraction for over 35 years but that "peak" economic impact may have passed; improved activity in shipping's largest market China; the best first half for the ClarkSea index in ten years driven by the "disruption upside" of floating storage demand in the tanker market; deep concerns in the Cruise, Ferry, PCC and Offshore markets; low levels of newbuild ordering; improving activity trends in demolition and sale and purchase after earlier disruption; slowing scrubber retro-fit activity; port restrictions; discussion of "mega" trends that may amplify post-COVID-19 including environment and technology.

Further new intelligence added to our offering in the first half has included a weekly Floating Storage Tracker, documenting a peak at over 400m barrels and 11% of tanker capacity, and our weekly Port Activity Tracker showing global port calls down 9.8% year-on-year in May but moderating to down 6.1% year-on-year in June. Sales of our World Fleet Register have remained particularly robust in the first half, supported by demand for trusted intelligence during the challenging markets and our continued expansion of research focused on environment and technology. New content on World Offshore Register and Offshore Intelligence Network has included a specific COVID-19 impact assessment for the offshore industry, a regular offshore impact tracker and expanded research around offshore renewables.

Although we have streamlined our product development programme to an extent, targeted progress continues around key areas: initiatives related to the environment; our digital architecture and API; data development and quality. We continue to invest heavily to provide data and intelligence to help frame the important decisions that stakeholders across industry will need to make to facilitate the Green Transition. During the first quarter we launched new "eco" profiles and analytics on the World Fleet Register. An update of our Fuelling Transition report, profiling the 2.4% of global CO_2 emissions from shipping and the latest uptake of alternative fuels and energy saving technologies, is planned for early in the second half. Using innovative algorithmic techniques, our data analytics team continues to develop and expand our underlying proprietary database with an increasing focus on near-term and higher frequency data. Working with the Clarksons Technology business, Maritech, Research led a successful project to improve the depth of our underlying movement and deployment data utilised by, amongst other systems, Sea/net, with further benefits expected.

Our services, consultancy and valuation business has remained steady in the first half, supporting our corporate client base across finance, marine equipment, shipbuilding, ship owning, commodity, insurance, academia and government. Our Shipping and Shipbuilding to 2030 and Offshore and Energy to 2030 seminars were delivered virtually, with excellent feedback from clients. A focus on strong client service, including regular messaging alongside individual dialogue and support, has helped renewal rates across our annual retainers and subscriptions remain high. Clarksons Valuations, the market leaders in the provision of valuations to the shipping and offshore industry, have maintained output and their strong relationships with leading financial institutions.

Directors’ responsibilities statement

The Directors confirm that:

- these interim financial statements have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’ as adopted by the European Union; and

- the interim report includes a fair review of the information required by:

  (a) DTR 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2020, and their impact on the interim financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

  (b) DTR 4.2.8R, being material related party transactions that have taken place in the first six months of the financial year ending 31 December 2020, and any material changes in the related party transactions described in the 2019 annual report.

A list of the current Directors is maintained on the Clarkson PLC website: www.clarksons.com.

The maintenance and integrity of the Clarkson PLC website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Sir Bill Thomas
Chair
7 August 2020

Independent review report to Clarkson PLC

Report on the interim financial statements

Our conclusion

We have reviewed Clarkson PLC's interim financial statements (the "interim financial statements") in the interim results of Clarkson PLC for the six month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Consolidated balance sheet as at 30 June 2020;
- the Consolidated income statement and Consolidated statement of comprehensive income for the period then ended;
- the Consolidated statement of changes in equity for the period then ended;
- the Consolidated cash flow statement for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The interim results, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
7 August 2020

Consolidated income statement
for the half year to 30 June

	Notes	2020 Before acquisition related costs £m*	2020 Acquisition related costs (note 4) £m*	2020 After acquisition related costs £m*	2019 Before acquisition related costs £m*	2019 Acquisition related costs (note 4) £m*	2019 After acquisition related costs £m*
Revenue	3	180.4	-	180.4	167.8	-	167.8
Cost of sales		(6.2)	-	(6.2)	(7.2)	-	(7.2)
Trading profit		174.2	-	174.2	160.6	-	160.6
Administrative expenses		(151.2)	(0.2)	(151.4)	(139.7)	(0.9)	(140.6)
Operating profit	3	23.0	(0.2)	22.8	20.9	(0.9)	20.0
Finance revenue		0.5	-	0.5	0.6	-	0.6
Finance costs		(2.5)	-	(2.5)	(1.6)	-	(1.6)
Other finance revenue - pensions	9	0.1	-	0.1	0.2	-	0.2
Profit before taxation		21.1	(0.2)	20.9	20.1	(0.9)	19.2
Taxation	5	(4.9)	-	(4.9)	(4.6)	0.2	(4.4)
Profit for the period		16.2	(0.2)	16.0	15.5	(0.7)	14.8
Attributable to:							
Equity holders of the Parent Company		15.6	(0.2)	15.4	14.7	(0.7)	14.0
Non-controlling interests		0.6	-	0.6	0.8	-	0.8
Profit for the period		16.2	(0.2)	16.0	15.5	(0.7)	14.8
Earnings per share							
Basic	6	51.4p		50.6p	48.5p		46.2p
Diluted	6	51.3p		50.6p	48.3p		46.1p

* *Unaudited*

Consolidated statement of comprehensive income
for the half year to 30 June

	2020 £m*	2019 £m*
Profit for the period	16.0	14.8
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial gain on employee benefit schemes – net of tax	0.9	0.5
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange differences on retranslation of foreign operations	1.5	3.6
Foreign currency hedges recycled to profit or loss – net of tax	1.5	0.3
Foreign currency hedge revaluations – net of tax	(2.7)	(0.4)
Other comprehensive income	1.2	4.0
Total comprehensive income for the period	17.2	18.8
Attributable to:		
Equity holders of the Parent Company	16.7	18.0
Non-controlling interests	0.5	0.8
Total comprehensive income for the period	17.2	18.8

* *Unaudited*

Consolidated balance sheet

as at 30 June

	Notes	2020 £m*	2019 £m*	31 December 2019 £m#
Non-current assets				
Property, plant and equipment		**25.4**	25.6	25.6
Investment properties		**1.2**	1.2	1.2
Right-of-use assets		**52.5**	49.5	53.4
Intangible assets	8	**238.4**	298.6	238.2
Trade and other receivables		**2.1**	1.5	2.1
Investments		**4.7**	4.7	4.8
Employee benefits	9	**18.4**	19.3	15.5
Deferred tax assets		**8.6**	8.5	9.1
		351.3	408.9	349.9
Current assets				
Inventories		**1.3**	0.8	1.1
Trade and other receivables		**76.1**	83.5	77.0
Income tax receivable		**0.3**	1.0	0.1
Investments	10	**14.4**	38.9	15.6
Cash and cash equivalents	11	**158.9**	109.1	175.7
		251.0	233.3	269.5
Current liabilities				
Interest-bearing loans and borrowings	12	**(3.3)**	(6.0)	(1.2)
Trade and other payables		**(117.1)**	(122.1)	(151.3)
Lease liabilities		**(9.2)**	(8.6)	(8.7)
Income tax payable		**(7.8)**	(6.5)	(9.1)
Provisions		**(0.5)**	(0.2)	(0.3)
		(137.9)	(143.4)	(170.6)
Net current assets		**113.1**	89.9	98.9
Non-current liabilities				
Interest-bearing loans and borrowings		**(0.1)**	(0.1)	(0.1)
Trade and other payables		**(3.1)**	(2.6)	(2.4)
Lease liabilities		**(52.0)**	(51.5)	(53.7)
Provisions		**(1.5)**	(0.1)	(1.5)
Employee benefits	9	**(6.4)**	(4.3)	(4.5)
Deferred tax liabilities		**(7.2)**	(6.5)	(6.0)
		(70.3)	(65.1)	(68.2)
Net assets		**394.1**	433.7	380.6
Capital and reserves				
Share capital	13	**7.6**	7.6	7.6
Other reserves		**157.8**	241.9	158.4
Retained earnings		**226.9**	182.1	211.5
Equity attributable to shareholders of the Parent Company		**392.3**	431.6	377.5
Non-controlling interests		**1.8**	2.1	3.1
Total equity		**394.1**	433.7	380.6

** Unaudited # Audited*

Consolidated statement of changes in equity

for the half year to 30 June

	Notes	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 2020		7.6	158.4	211.5	377.5	3.1	380.6
Profit for the period		-	-	15.4	15.4	0.6	16.0
Other comprehensive income:							
Actuarial gain on employee benefit schemes - net of tax		-	-	0.9	0.9	-	0.9
Foreign exchange differences on retranslation of foreign operations		-	1.6	-	1.6	(0.1)	1.5
Foreign currency hedges recycled to profit or loss – net of tax		-	1.5	-	1.5	-	1.5
Foreign currency hedge revaluations – net of tax		-	(2.7)	-	(2.7)	-	(2.7)
Total comprehensive income for the period		-	0.4	16.3	16.7	0.5	17.2
Transactions with owners:							
Employee share schemes		-	(1.0)	(0.3)	(1.3)	-	(1.3)
Tax on other employee benefits		-	-	(0.6)	(0.6)	-	(0.6)
Dividend paid	7	-	-	-	-	(1.7)	(1.7)
Acquisition of non-controlling interest		-	-	-	-	(0.1)	(0.1)
Total transactions with owners		-	(1.0)	(0.9)	(1.9)	(1.8)	(3.7)
Balance at 30 June 2020		7.6	157.8	226.9	392.3	1.8	394.1

	Notes	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 policy		-	-	(2.6)	(2.6)	-	(2.6)
Adjusted balance at 1 January 2019		7.6	237.1	183.3	428.0	4.0	432.0
Profit for the period		-	-	14.0	14.0	0.8	14.8
Other comprehensive income:							
Actuarial gain on employee benefit schemes - net of tax		-	-	0.5	0.5	-	0.5
Foreign exchange differences on retranslation of foreign operations		-	3.6	-	3.6	-	3.6
Foreign currency hedges recycled to profit or loss – net of tax		-	0.3	-	0.3	-	0.3
Foreign currency hedge revaluations – net of tax		-	(0.4)	-	(0.4)	-	(0.4)
Total comprehensive income for the period		-	3.5	14.5	18.0	0.8	18.8
Transactions with owners:							
Employee share schemes		-	1.3	(0.3)	1.0	-	1.0
Dividend paid	7	-	-	(15.4)	(15.4)	(2.8)	(18.2)
Contributions from non-controlling interest		-	-	-	-	0.1	0.1
Total transactions with owners		-	1.3	(15.7)	(14.4)	(2.7)	(17.1)
Balance at 30 June 2019		7.6	241.9	182.1	431.6	2.1	433.7

* *Unaudited*

Consolidated cash flow statement
for the half year to 30 June

	Notes	2020 £m*	2019 £m*
Cash flows from operating activities			
Profit before taxation		20.9	19.2
Adjustments for:			
Foreign exchange differences		(0.6)	(0.1)
Depreciation		7.1	6.4
Share-based payment expense		0.8	0.6
Loss on sale of investments		0.1	0.1
Amortisation of intangibles		0.2	0.6
Difference between pension contributions paid and amount recognised in the income statement		-	(0.2)
Finance revenue		(0.5)	(0.6)
Finance costs		2.5	1.6
Other finance revenue – pensions		(0.1)	(0.2)
Increase in inventories		(0.2)	-
Decrease/(increase) in trade and other receivables		4.1	(6.8)
Decrease in bonus accrual		(36.8)	(40.9)
(Decrease)/increase in trade and other payables		(0.5)	13.1
Increase in provisions		0.1	0.1
Cash utilised from operations		(2.9)	(7.1)
Income tax paid		(5.3)	(5.2)
Net cash flow from operating activities		(8.2)	(12.3)
Cash flows from investing activities			
Interest received		0.5	0.6
Purchase of property, plant and equipment		(1.8)	(1.1)
Purchase of intangible assets		(3.1)	(2.3)
Proceeds from sale of investments		7.6	16.1
Proceeds from sale of property, plant and equipment		0.2	-
Purchase of investments		(10.9)	(30.0)
Acquisition of subsidiaries	8	(1.2)	-
Cash acquired on acquisitions		0.7	-
Net cash flow from investing activities		(8.0)	(16.7)
Cash flows from financing activities			
Interest paid and other charges		(1.6)	(1.5)
Dividend paid	7	-	(15.4)
Dividend paid to non-controlling interests		(1.7)	(2.8)
Proceeds from borrowings	12	2.1	6.0
Payment of lease liabilities		(4.5)	(4.1)
Proceeds from shares issued		0.1	-
(Acquisition of)/contribution from non-controlling interests		(0.1)	0.1
ESOP shares acquired		(0.1)	-
Net cash flow from financing activities		(5.8)	(17.7)
Net decrease in cash and cash equivalents		(22.0)	(46.7)
Cash and cash equivalents at 1 January		175.7	156.5
Net foreign exchange differences		5.2	(0.7)
Cash and cash equivalents at 30 June	11	158.9	109.1

* *Unaudited*

Notes to the interim financial statements

1 Corporate information

The interim financial statements of Clarkson PLC for the six months ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 7 August 2020. Clarkson PLC is a public limited company, listed on the London Stock Exchange, incorporated and registered in England and Wales and domiciled in the UK.

The interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 were approved by the Board of Directors on 6 March 2020 and delivered to the Registrar of Companies. The Auditors' report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The interim financial statements have been reviewed, not audited.

2 Statement of accounting policies

2.1 Basis of preparation
The interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019, which were prepared in accordance with IFRSs as adopted by the European Union.

The Group has considerable financial resources available to it, a strong balance sheet and has consistently generated an operating profit and good cash inflow. As a result of this, the Directors believe that the Group is well placed to manage its business risks successfully, despite the challenging market backdrop created by the Covid-19 pandemic and oil price fluctuations. Management has stress tested a range of scenarios for the period to 31 December 2021, modelling different assumptions with respect to the Group's cash resources. Areas considered include varying levels of profit and cash generation to reflect a significant impact on world seaborne trade similar to that experienced in the global financial crisis in 2008 and the period thereafter. Under all these scenarios, the Group is able to generate profits and cash, and has positive net funds available to it. Accordingly, the Directors have a reasonable expectation that the Group has sufficient resources to continue in operation for at least the next 12 months. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The interim consolidated income statement is shown in columnar format to assist with understanding the Group's results by presenting profit for the period before acquisition related costs; this is referred to as underlying profit. The column 'acquisition related costs' includes the amortisation of intangible assets acquired through business combinations and the expensing of the cash and share-based elements of consideration linked to ongoing employment obligations on acquisitions.

2.2 Accounting policies
The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019, except as described below:

- Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual profit or loss.

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

As at the date of authorisation of these interim financial statements, a number of amendments to standards and interpretations were in issue but not yet effective (and in some cases had not yet been adopted by the EU). The Group has not applied these standards and interpretations in the preparation of these financial statements and does not expect these to have a material impact on the Group.

2.3 Accounting judgements and estimates
The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019, with the exception of changes in estimates that are required in determining the provision for income taxes.

2.4 Seasonality
The Group's activities are not subject to significant seasonal variation.

2.5 Forward-looking statements
Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

3 Segmental information

	Revenue		Results	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Broking	**147.1**	130.1	**29.4**	21.8
Financial	**13.3**	16.1	**(1.6)**	1.1
Support	**11.5**	13.3	**0.2**	1.3
Research	**8.5**	8.3	**3.1**	2.8
Segment revenue / underlying profit	**180.4**	167.8	**31.1**	27.0
Head office costs			**(8.1)**	(6.1)
Operating profit before acquisition related costs			**23.0**	20.9
Acquisition related costs			**(0.2)**	(0.9)
Operating profit after acquisition related costs			**22.8**	20.0
Finance revenue			**0.5**	0.6
Finance costs			**(2.5)**	(1.6)
Other finance revenue - pensions			**0.1**	0.2
Profit before taxation			**20.9**	19.2
Taxation			**(4.9)**	(4.4)
Profit for the period			**16.0**	14.8

All revenue is generated externally.

4 Acquisition related costs

Included in acquisition related costs are cash and share-based payment charges of £0.1m (2019: £0.4m) relating to previous acquisitions and £0.1m (2019: £Nil) relating to the Martankers acquisition, see note 8 for further information. These are contingent on employees remaining in service and are therefore spread over the service period. Also included in 2019 was £0.5m relating to amortisation of intangibles acquired as part of a previous acquisition.

5 Taxation

Income tax expense is recognised based on management’s best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate, excluding acquisition related costs, used for the year to 31 December 2020 is 23.2% (the estimated tax rate used for the six months ended 30 June 2019 was 23.0%). The effective tax rate, after acquisition related costs, is 23.4% (2019: 23.1%).

6 Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares in issue during the period, 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:

	2020 £m	2019 £m
Profit for the period attributable to ordinary equity holders of the parent company	**15.4**	14.0

	2020 Million	2019 Million
Weighted average number of ordinary shares – basic	**30.3**	30.2
Dilutive effect of share options and acquisition related share awards	**0.1**	0.1
Weighted average number of ordinary shares – diluted	**30.4**	30.3

7 Dividends

	2020 £m	2019 £m
Declared and paid during the period:		
Final dividend for 2018 of 51p per share	**-**	15.4
Payable (not recognised as a liability at 30 June):		
Interim dividend equivalent to deferred 2019 final dividend of 53p per share	**16.1**	-
Interim dividend for 2020 of 25p per share (2019: 25p per share)	**7.6**	7.6

8 Intangible assets

In February 2020 the group acquired Martankers I, S.L. for £1.2m. This resulted in goodwill of £0.4m and identifiable intangible assets of £0.7m. Also included as part of the acquisition was £1.6m of consideration dependent on performance targets which, as it is linked to continuing employment, will be spread over the service period.

Included within Intangible assets is £225.0m (31 December 2019: £228.3m) of goodwill and £13.4m (31 December 2019: £9.9m) of other intangible assets. Where these arose on acquisitions, these are held in the currency of the businesses acquired and are subject to foreign exchange retranslations to the closing rate at each period end.

In light of COVID-19 and the resulting global macro-economic uncertainty, the Board keeps the carrying value of goodwill under constant review. The Board has considered and not identified any indication of impairment of these assets at 30 June 2020. However, in the event that any of the markets in which we operate has a sustained downturn, an impairment of the relevant CGU's goodwill may be required. See note 14 on page 160 of the 2019 annual report for specific sensitivity disclosures, in particular in relation to the Offshore Broking and Securities CGUs.

9 Employee benefits

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

The following tables summarise amounts recognised in the Consolidated balance sheet and the components of the net benefit (charge)/credit recognised in the Consolidated income statement.

Recognised in the balance sheet

	30 June 2020 £m	30 June 2019 £m	31 Dec 2019 £m
Fair value of schemes' assets	**201.8**	199.0	194.7
Present value of funded defined benefit obligations	**(185.1)**	(177.9)	(179.9)
	16.7	21.1	14.8
Effect of asset ceiling in relation to the Plowrights scheme	**(4.7)**	(6.1)	(3.8)
Net benefit asset recognised in the balance sheet	**12.0**	15.0	11.0

The above is recognised on the balance sheet as an asset of £18.4m (31 December 2019: £15.5m) and a liability of £6.4m (31 December 2019: £4.5m). A deferred tax asset on the benefit liability amounting to £1.2m (31 December 2019: £0.7m) and a deferred tax liability on the benefit asset of £3.5m (31 December 2019: £2.6m) is also recognised on the balance sheet.

Recognised in the income statement

	2020 £m	2019 £m
Recognised in other finance revenue – pensions:		
Expected return on schemes' assets	**2.0**	2.6
Interest cost on benefit obligation and asset ceiling	**(1.9)**	(2.4)
Recognised in administrative expenses:		
Scheme administrative expenses	**(0.2)**	(0.1)
Net benefit (charge)/credit recognised in the income statement	**(0.1)**	0.1

10 Investments

Included within current investments is £12.6m (31 December 2019: £13.2m) in relation to the convertible bonds business within the financial segment. In order to hedge against price movements of the equity portion of these investments, the Group has short-sold related equity securities. The £2.8m balance as at 30 June 2020 (31 December 2019: £6.5m) is shown under trade and other payables.

11 Cash and cash equivalents

	30 June 2020 £m	30 June 2019 £m	31 Dec 2019 £m
Cash at bank and in hand	**157.1**	107.1	173.4
Short-term deposits	**1.8**	2.0	2.3
	158.9	109.1	175.7

Net available funds, after deducting amounts accrued for performance-related bonuses but including current investments, amounted to £100.3m (31 December 2019: £84.7m). Free cash resources, being net available funds less monies held by regulated entities at 30 June 2020 were £88.8m (31 December 2019: £68.7m).

12 Interest-bearing loans and borrowings

During 2019 the Group entered into a prime brokerage agreement with a bank in relation to the convertible bonds business. The balance represents amounts owed in relation to the funding of certain convertible bond acquisitions.

13 Share capital

	30 June 2020 Million	30 June 2019 Million	31 Dec 2019 Million	**30 June 2020 £m**	30 June 2019 £m	31 Dec 2019 £m
Ordinary shares of 25p each, issued and fully paid	**30.4**	30.3	30.4	**7.6**	7.6	7.6

14 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 expected to have a material adverse financial impact on the Group's consolidated results or net assets.

15 Principal risks and uncertainties

The Directors consider that the nature of the principal risks and uncertainties which may have a material effect on the Group's performance in the second half of the year is little changed from those identified in the risk management section of the 2019 annual report on pages 71 to 75. The loss of key personnel – Board is no longer considered a key risk. The remaining risks are 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 and changes in the broking industry. Note 28 of the 2019 annual report sets out the financial risk management objectives and policies of the Group. These are also unchanged from the year-end.

16 Financial instruments

IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value.

	30 Jun 2020		30 Jun 2019		31 Dec 2019	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Investments at fair value through profit or loss (FVPL) – Level 1	**0.4**	**-**	0.4	-	0.4	-
Investments at fair value through profit or loss (FVPL) – Level 2	**13.1**	**-**	37.7	-	13.7	-
Investments at fair value through other comprehensive income (FVOCI) – Level 3	**3.8**	**-**	3.8	-	3.8	-
Foreign currency contracts – Level 2	**0.7**	**1.5**	-	1.3	0.8	0.1
Other payables – Level 1	**-**	**2.8**	-	15.7	-	6.5
	18.0	**4.3**	41.9	17.0	18.7	6.6

The method for determining the hierarchy and fair value is consistent with that used at the year-end. The fair values of financial instruments that are held at amortised cost are not materially different from their carrying amounts.

17 Related party disclosures

The Group's significant related parties are as disclosed in the 2019 annual report. There were no material differences in related parties or related party transactions in the period ended 30 June 2020.