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CLARKSONS

Annual Report and Accounts
2005



Clarksons is the world's leading shipping services group.

Through its global network of offices it gives its clients unique access to shipbroking services across the full range of dry bulk, tanker and sale & purchase sectors.

In recent years the group has expanded to become a fully integrated shipping services provider covering such activities as research, consultancy and publications, derivatives broking, financial services, logistics, fund management and property services.

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Highlights

	2005	2004
Revenue – continuing operations	£115.9m	£82.4m
Profit before taxation – continuing operations	£26.8m	£23.1m
Earnings per share – continuing operations	108.9p	98.0p
Dividends per share	32.0p	25.0p

Record results

16% increase in profit before taxation

Increased earnings per share

11% increase in earnings per share

Increased dividend

Dividend of 32.0 pence per share, an increase of 28%

Profit on discontinued operations

£5.7 million profit after taxation and before minority interests

Strong cash flow

Cash and short-term deposits of £55.1 million (2004: £44.1 million)

Continued global expansion

Chairman's statement

We remain committed to expanding all our shipping service activities in which the Clarkson brand and our competitive advantage of market intelligence give us an edge.

I am pleased to report that your company has produced another record profit.

The result reflects the company's ability to continue growing its widening range of activities strongly and the chief executive's review this year for the first time gives a detailed description of the progress made during the year by each individual business segment. This increased transparency will enable a clearer understanding of how your company operates.

Your company has attracted an exceptionally broad spread of talented individuals with core competence and expertise into its global operations. We continue to see the benefits in the results.

Returns and cash flows have again been strong reflecting a sound underlying ability to generate cash.

Strategy

We remain committed to expanding all our shipping service activities in which the Clarkson brand and our competitive advantage of market intelligence give us an edge. An advantage of these shipping service activities, such as logistics, fund management, financial services, property and derivatives broking, is that they should be less closely linked to the shipping cycle and should therefore increasingly improve the consistency and predictability of our earnings.

As part of this strategy we announced in 2005 our intention to set up a shipping hedge fund to enable a greater investment participation in a major global industry for which there are currently few such

investment opportunities. At present we are testing our systems and procedures prior to the public launch of the fund.

The company's strategy is also to continue developing shipbroking activities globally, following our customers to where the business is best served and broadening our product range. Our expansion is focused in sectors where there is potential to improve the quality of our earnings and increase market share.

2005: a summary

2005 was a busy and successful year. January saw the group make a special contribution into our defined benefit pension scheme, thereby largely eliminating the deficit. In March we completed the acquisition of the Ferrobulk Group, now renamed Clarkson Italia. In early May the London offices moved to St Magnus House, by the River Thames, which has helped productivity and given us a better public face at no higher rental cost. By the end of the first half of the year we had sold our two combination carriers operated by Pasir Bulk Carriers.

In September we established a new logistics project, shipping jet fuel to Hong Kong airport in the *Pacific Dhow*. In December we announced the closure of our ferry operation, based in Southampton. Throughout the autumn we negotiated the acquisition of the shipbroking group J O Plowright & Co (Holdings) Limited ('Plowrights'); this was completed in early January 2006 as was the recruitment of a new financial services team. We have also been developing our plans for the 2006 launch of the Clarkson Shipping Hedge Fund.

Chairman's statement

Dividend

The company is committed to maintaining a progressive dividend policy but is also funding significant growth in its business. Major cash spends are referred to in the finance director's review.

The directors are recommending that the dividend for the year is 32.0 pence per share, up 28% on last year.

The board and staff

In May 2005 Bob Benton was appointed a non-executive director of the company. Bob Benton is the chairman of Bridgewell Group Limited. Prior to joining Bridgewell, Bob was chairman and chief executive of Charterhouse Securities, global head of sales at ABN AMRO and was managing director of HSBC James Capel. Bob's city experience has brought new expertise to complement the board's other skills.

Our greatest asset remains our staff. On behalf of the company I would like to thank all our employees who have contributed so strongly to another excellent performance. Their role is critical in a people business such as Clarksons. Their hard work, great skill and enthusiasm is highly appreciated.

Outlook

Although it is impossible to predict either the exact timing or balance of shipping demand and supply, 2006 has started well with freight rates above long term averages, with Chinese growth continuing to be the major driver. It is increasingly important to distinguish between the different shipping sectors to get a complete picture, a point which the more detailed breakdown we are providing this year emphasises. A strong forward order book and the close relationship between income and our main cost, staff remuneration, reduces earnings volatility year to year.

New broking activities and the development of shipping service activities such as fund management, financial services and property services will broaden our base and give greater consistency to earnings. Your company is well placed to produce another excellent result in 2006 and to continue to generate increased returns to its shareholders.

Tim Harris CHAIRMAN

3 April 2006

Chief executive's review of operations

Consistent growth and further diversification away from traditional shipbroking activities has helped us to another year of record profits.

Introduction

Consistent growth and further diversification away from traditional shipbroking activities has helped us to another year of record profits despite significant declines in freight rates in key areas of the bulk markets.

The company is determined to continue to spread its income base around our core of shipping service activities. We have significantly added to our portfolio of businesses and increased our global reach in key areas. Significant expansion in gas markets, specialised products, financial services and fund management have all been achieved and funded without unduly affecting underlying profitability.

Although the company's ability to return record profits

year-on-year will be tested by freight market downturns, the company continues to grow robustly. With the intention to better explain the company's activities and increase transparency this review will describe more fully the different group activities.

Clarksons operates now in the forefront of all the major bulk shipping businesses as intermediary brokers, consultants and analysts. Our services extend far beyond the front-end brokerage business and we take seriously the role of out-sourcer to include full support, pre- and post-fixture.

We are retained by a wide-ranging group of industry users including large publicly-owned utilities, energy groups and shipowners of differing sizes. We offer a

Chief executive's review of operations

global service with representation in the major industry centres, almost without exception, with offices in 17 different locations.

We maintain our ambition to further expand our global network and are widely recognised as the industry consolidator. New acquisitions remain under consideration but, as with all businesses, timing is of the essence. Acquisitions are likely to be financed by increased borrowing while the stock market awards such a relatively low rating to the group's equity. We shall meantime continue to grow organically.

Whilst our offices all operate autonomously and independently we have invested significantly in IT which will ensure that information flows speedily and efficiently to our global colleagues and clients alike. We describe as follows our principal activities:

Dry bulk chartering

Revenue: £31.9 million (2004: £25.4 million)

Result: £7.1 million (2004: £7.1 million)

Forward order book for 2006: US\$24 million

(At 31 December 2004: US\$24 million)

We deploy people in many offices globally as this is a relatively fragmented business particularly as we move down the vessel size categories. This activity is

principally organised around the three size categories of capesize, panamax and handymax.

We have extensive coverage across the market in the capesize segment with teams in London, Shanghai, Hong Kong, Genoa, Paris and Johannesburg. With the assistance of other correspondents around the world, these offices monitor cargo flows and seek to optimise fleet deployment for owners and cargo interests alike.

Our forward order book in dry markets is significant. It is facilitated by our excellent relationships with the financial community, trading houses and shipbuilders, particularly in China, Japan and Korea. These clients take advantage of our range of activities and ability to assist them in different areas of their operations including their long term planning.

Although there is significant competition from boutique brokerage firms and commodity brokers we do not anticipate commission margins being significantly challenged. We are however not complacent about this, because such brokerage houses attempt to influence the physical markets through merely working the attractive commission business without the necessary investment in support and post-fixture functions. We rely on our clients to recognise the different service levels whilst we will focus on our main challenge of

Chief executive's review of operations

increasing market share to make up for any weakness in freight market levels.

The panamax sector has grown as the fleet has expanded in recent years. The segment attracts significant attention from traders and our presence in synthetic markets help us to understand closely the drivers in the physical markets. We shall concentrate our focus on growing in the geographical locations favoured by our clients. This will particularly include Dubai, China and Greece – the first two being important bases for cargo and the latter having control over tonnage.

We have spread our dry business including growing significantly our coverage of the handy/handymax businesses in Europe. We have grown in Greece through organic expansion and in Italy we have fully and successfully integrated the recently acquired Ferrobulk activities. These businesses create a platform for further growth in Europe just as we recognise the need to service the growing cargo-base in Asia. Our new office in Dubai is now fully operational and making a positive contribution. Australia/New Zealand provide us with a good cargo focus and we shall selectively expand our teams there, albeit some of the operators have been attracted to Singapore by the favourable fiscal environment – hence we have added to our team there as we have also done in Hong Kong.

Container chartering

Revenue: £2.4 million (2004: £1.7 million)

Result: £0.5 million (2004: £0.3 million)

Forward order book for 2006: US\$3 million

(At 31 December 2004: US\$3 million)

The significance of the containerisation of so many trades is not lost on us! As a marketplace it is rapidly becoming the largest gross earner of freight although it has meant, with the age of the mega-ships (10,000 teu and above) which are largely beyond the influence of intermediaries, that we target panamax size vessels and below. Such has been the dominance of the major liner companies and their big marketing teams, compounded by integration, that the market remains very tight. Even so, we have seen the percentage of reliance on charter tonnage increase to close to 50% in the last few years. Unit cost has undoubtedly been a factor in this with the container lines diverting resources into network development and market share rather than hardware.

Clarksons has invested significantly in its research capability which provides a valuable platform from which our container brokers can provide clients with independent market-leading data and analysis. Given the need for greater transparency amid legislation to limit the influence of the conference lines, Clarksons

Chief executive's review of operations

will seek to promote new products to assist industry users and liner companies to optimise planning.

Our operations have been based in London and Shanghai but we are expanding into Singapore. We have been reticent to add any German representation up to now – German brokers are predominantly aligned as sole brokers for in-house tonnage – but we are aware that without it, we would always find our influence limited. Nevertheless we have written some excellent period deals in Germany from both London and Shanghai.

Deep sea chartering

Revenue: £20.2 million (2004: £18.3 million)

Result: £4.8 million (2004: £5.3 million)

Forward order book for 2006: US\$7 million

(At 31 December 2004: US\$6 million)

In 2005 we expanded our activities in the energy freight businesses, the largest part of which involves transportation of crude oil and related products – our deep sea chartering business. We continue to grow around our key centres of London, Houston and Singapore.

Crude oil is the largest seaborne commodity trade, most of which is handled by VLCCs, suezmaxes or aframax tankers. A significant part of this business is conducted

on behalf of oil majors some of whom still use panels of shipbrokers who need to pre-qualify for inclusion. Clarkson's transparency of accounting and significant investment in providing support services places the company in a pre-eminent position to pre-qualify ahead of its shipbroking competitors.

Unlike the dry bulk markets there has traditionally been less operator-based timecharter activity as oil companies manage a large proportion of their freight requirements through the spot markets. The increasing presence of tonnage pools and the consolidation in the owning community has occurred at the same time that oil companies have (on the whole) elected to reduce the size of their owned fleets. Logically this increases our cargo clients' exposure to freight market volatility.

We anticipate that the energy groups and oil traders will now further seek to selectively secure their longer term equity oil returns through increasingly securing outsourced high quality freight coverage in a managed financial environment. This should mean that the oil companies (and oil traders) may increasingly turn to COA and timecharter cover. This will increase the ability of ownership groups to better manage their exposure to residual value risk and freight market volatility. This should add to our term forward order book and we are equipping our teams to offer a high quality service in

Chief executive's review of operations

conjunction with our sale and purchase, derivatives broking and newly recruited financial services team.

If crude tanker owners are positive in 2006, as seems likely, they should be able to avert major declines in freight markets and the first quarter has already proved to be strong. Although second and third quarters are historically weaker, seasonal factors should again support a stronger last quarter, particularly as fleet growth is manageable and demand for energy grows unabated, especially in Asia.

Products are loosely defined as 'clean' or 'dirty'. We have significant presence in both these areas in our three main centres. Clean products are lighter distillates such as gasoil, kerosene, naphta and gasolene, requiring coated tank ships. Dirty products are lower distillates/fuel oils which can be shipped in conventional tankers. Disruptions caused by hurricanes and under-investment in refineries have significantly tightened the market for this type of vessel during 2005 and we anticipate further additions to the volume of business available in 2006. We expect a growing term forward order book, as we observed in the paragraph on crude oil above.

Our product teams sit alongside our specialised products division and are already benefiting from our significant growth in that segment through the acquisition of Plowrights.

Specialised products chartering

Revenue: £4.0 million (2004: £3.3 million)

Result: £0.6 million (2004: £0.4 million)

Forward order book for 2006: US\$5 million

(At 31 December 2004: US\$3 million)

Clarksons has particularly targeted this significant marketplace – hence our acquisition of Plowrights in January 2006. We are excited about the synergies already being created through the successful integration of that business with Clarksons' existing chemicals desk. By working alongside the other businesses in Clarksons we are able to enhance the service that we can provide to both Clarksons' and Plowrights' clients.

Plowrights has developed an excellent reputation for managing relationships through its tailored and bespoke service to each of its clients. It brings to Clarksons a team of well respected and highly talented individuals who fit our need to employ personnel of the highest quality. This is consistent with our pledge to employ the best individuals and then to fully equip them in a business environment where they can provide a superior level of support to our clients.

The structure of our organisation and our ability to provide full analytical and logistic support makes us a logical outsourcer for major energy and chemical

Chief executive's review of operations

groups who wish to take advantage of our global spread. Although London is by far our biggest centre, with over 40 people, we also have teams in Houston and Singapore. Through the Plowrights acquisition, we have also inherited a 25% interest in Panasia which has a presence in both Singapore and Shanghai.

We are very optimistic about prospects for this specialised area, in which the introduction of new legislation next year will force vegetable oils to be carried on more sophisticated tonnage and is expected to create further tightening in the market. It is at times such as these that our major clients are able to take maximum advantage from our ability to assist their planning process. The energy companies who have heavily relied on a relatively small group of dedicated shipowners, some of whom combine their activities with terminaling, may find that this will now include a greater level of investment than previously anticipated.

Gas chartering

Revenue: £3.4 million (2004: £2.0 million)

Result: £0.2 million (2004: £0.4 million)

Forward order book for 2006: US\$4 million

(At 31 December 2004: US\$2 million)

2005 was also a significant year for Clarksons in the LPG, ammonia and petrochemical gas markets. We

brought together a dedicated team of LPG specialists to work with our existing team who had previously been particularly strong in ammonia and petrochemical gases. This LPG activity is focused in London which remains the principal business centre for this product. Eventually we shall seek to grow overseas, particularly in Asia and the USA.

The enlarged division has gelled together well, giving us an unrivalled position in this market sector where we believe significant growth potential exists. Again, there are synergies with our knowledge base, particularly on petrochemical gases, which works well alongside our expanded specialised products division.

Our team has advised on and been involved in a number of significant transactions including the first LPG freight derivatives transactions. The team has also been heavily involved in term charters, newbuildings and second hand deals, working closely with our dedicated private client sale and purchase brokers and the vessel newbuilding desk. This significant quality business further underscores future income streams.

The team's coverage of the spot markets is exceptional and they are assisted by sitting alongside product brokers. This is a first for Clarksons and from this lesson we are encouraged to consider expanding into

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other energy commodities brokerage at the appropriate time. A record number of negotiations have been concluded and considering that the new team arrived without forward order book coverage their overall result was an exceptional achievement.

LPG is largely produced from oil and gas fields though small quantities are produced in the oil refining process. With new gas fields (particularly new LNG projects) coming on-stream over the coming three/four years we are confidently predicting that LPG trade will grow. The supply of the product to the market is also set to grow as anti-flaring restrictions come into force. Despite delays to projects and technical problems with export facilities the market should further tighten in 2006, with scheduled newbuilding deliveries outweighed by the expected increase in demand and from the number of old vessels that could be scrapped.

Sale and purchase broking

Revenue: £32.4 million (2004: £16.8 million)

Result: £9.4 million (2004: £4.9 million)

Forward order book for 2006: US\$16 million

(At 31 December 2004: US\$12 million)

Private client broking

The private client broking desk covers secondhand and demolition business. This business can be highly rewarding,

particularly in strong buying markets such as we have witnessed in 2004 and 2005. Revenue has been significant and the normal 1% brokerage charge has not come under any significant pressure.

Values are at extremely high levels when compared with historical values but more importantly the volume of transactions has been exceptionally high. 2005 was a record year for secondhand sale and purchase transactions with 1,281 vessels sold for a total value of US\$27.8 billion across the market.

Clarksons represents buyers and sellers across the globe through its four sale and purchase teams located in London, Singapore, Hong Kong and Piraeus. We have now added secondhand/demolition and newbuilding brokers to our Shanghai team.

In 2005 all these teams were highly profitable and although 2006 is unlikely to be as exciting we start the year with a significant forward order book of ships waiting to be delivered under MOAs.

Newbuilding

The newbuilding desk acts as an intermediary in the placing of contracts by shipowners for new vessels at the shipyards.

The newbuilding desk has a different cash flow profile to

Chief executive's review of operations

the other parts of the group. Virtually all its business is being written for forward delivery – in the current market, with very long forward order books, this means two or three years hence! Newbuilding commissions are collected at the time of payment by the buyer of their stage payments under the shipbuilding contract which normally features a small portion in the first year and the majority close to delivery. This means that year on year the newbuilding desk's revenue reflects the delivery of the past years' forward order book more than the spot income derived from the initial instalments paid on new business written. After three very strong years for newbuilding, we have a significant forward order book – currently well in excess of 100 vessels. We have been successful this year in replenishing our forward book both by number of contracts and by value as newbuilding prices – and therefore commissions payable – have increased.

2005 was another good year for the newbuilding desk with both the volume and value of business remaining high. We have been supported by the strongest newbuilding market in years with prices reaching all time record levels in the middle of the year before falling off slightly in the second half. Whilst we have recently seen newbuilding prices in some sectors edging up again, it will be a significant challenge for us to maintain the same volume of business in 2006 due to record shipyard orderbooks

creating tight availability across the board – although we have had a very strong start to the current year. Values should remain strong throughout the year so, even though we would expect to see the volume of new business across the market declining in 2006 compared to 2005, we would expect the value of our forward order book to continue to grow. We will also see the benefit in 2006 of the more expensive vessels in our forward order book delivering this year – rather than the cheaper vessels contracted in 2002/2003 which delivered through 2005 – so we would expect to be able to deliver another strong set of newbuilding figures in 2006.

Whilst Korea remains our main market and contributes in excess of 75% of our newbuilding income, we are continuing to expand our presence in China. In 2005, we added a newbuilding desk to our Shanghai office and we are delighted that they are already contributing positively to our results. As the Korean yards continue to focus on more value added products, we expect to see our clients increasingly turning to the Chinese yards for conventional tonnage and, as a result, we expect our Shanghai office to become increasingly important to our overall performance. We hope to expand the office further this year through new personnel to capitalise on the wealth of new opportunities and the strength of our existing relationships in China.

Chief executive's review of operations

Futures broking

Revenue: £12.3 million (2004: £12.4 million)

Result: £3.6 million (2004: £4.2 million)

Forward order book for 2006: US\$6 million

(At 31 December 2004: US\$12 million)

Clarksons was the original creator of the forward freight agreement (FFA) some 20 years ago which evolved from the period charter market. An FFA is a principal-to-principal cash-settled contract for difference based upon standardised cargoes, routes or timecharter indices. Settlements use, amongst other prices, indices generated by The Baltic Exchange. Much of this business is still undertaken over-the-counter, with the principals bearing all the counterparty risk. Several institutions, including the London Clearing House, now offer clearing facilities to this particular market. Commissions are earned on the gross value of the original FFA contract. The market can be divided into two elements: dry (for dry bulk related contracts) and wet (for oil related products). The primary difference is that commissions earned on dry bulk contracts are spread over the life of that contract as they expire, whereas the wet commissions (which require minimal post deal support) are increasingly paid up front.

Clarksons remains the world's foremost arranger of FFA trades. Arranging FFAs is a regulated activity and

Clarkson Securities Limited (CSL) is authorised and regulated by the UK Financial Services Authority (FSA) to provide such a service to market counterparties and intermediate customers. CSL also provides extensive market information, including indicative forward prices such as those referred to elsewhere in this review.

The dry sector of the business achieved a similar result to that of 2004 despite falling rates throughout 2005. This was in part due to the extensive book of business brought forward from 2004 and the team's success in generating spot activity. The sector suffered from commission reductions and competition from other financial services organisations trying to enter this market. On the wet side, there are far too many brokers chasing insufficient business so whilst rates are not as weak, we experienced reduced volumes and did not have a substantial book of forward business to fall back on. 2006 will be a difficult year for both dry and wet sectors and the level of forward business generated in 2005 is lower than that of 2004. Generating spot revenues to compensate for this remains the challenge.

CSL wishes to maintain its primary position in the FFA market place. It is seeking, in conjunction with a number of other brokers, to introduce screen trading to its clients in a format which will provide a wide range of participants with substantial liquidity and reduced credit

Chief executive's review of operations

risk. This will primarily benefit the dry sector of the business. In the wet sector, CSL will focus on providing more specialised derivative solutions to its clients where there is currently far less competition; the introduction of the LPG FFA is an example of this.

Research services

Revenue: £4.5 million (2004: £2.4 million)

Result: £0.8 million (2004: £0.5 million)

Shipping relies on accurate information. The research services division ('Research') provides and charges for a wide range of information and is recognised as the premier provider of such data. Research is also responsible for Clarksons' worldwide IT operations and support strategy.

As an example of the scope of this information, in any given copy of Shipping Intelligence Weekly, it is possible to find information on tanker spot market rates, product tanker spot rates, the liquid bulk carrier market, the large bulk carrier market, timecharter rates, the gas and chemicals market, the container and offshore markets, the secondhand market and vessel prices, ship sales, changes in the bulk fleet, shipbuilding orders and prices, the demolition market, general economic indicators and a shipping insight. Research also produces detailed ship registers, both hard copy

and digitally, other specialised periodicals, books, maps and consultancy. Much of this information is also available on subscription over the internet on Shipping Intelligence Network (SIN).

Research results were strong during 2005. Digital products performed particularly well. The year was dominated by the integration of the Oilfield Publications Limited (OPL) business whereby we combined the publishing and sales skills of OPL with research's existing technology. We also opened a research office in Shanghai during the summer. The consultancy team had a strong year supporting a number of shipping IPOs.

The challenge in 2006 for Research is as a fully integrated research operation to continue the globalisation of our IT systems.

Logistics – continuing

Revenue: £1.1 million (2004: nil)

Loss: £0.4 million (2004: loss £0.5 million)

In September 2005, the company acquired the 4,850 dwt products tanker 'Pacific Dhow', built 2005, from Turkish owners. The vessel was purchased to service a four year contract the company had secured to transport jet fuel to Hong Kong International Airport

Chief executive's review of operations

from a local refinery. The vessel commenced operations in October 2005 and following the initial start-up phase is now trading successfully and should make a positive contribution to earnings for the remainder of the contract, as well as providing a platform for the development of further business in this field.

The wholly owned freight ferry *CFF Seine*, which was acquired in May 2005 for £3.2 million, is undergoing one-off extensive maintenance whilst we consider how best to utilise this asset.

Clarkson Logistics continues to utilise the group's global presence and expertise to provide transport solutions to industrial customers.

Logistics – discontinued

Revenue: £4.7 million (2004: £5.0 million)

Result: £5.4 million (2004: loss £2.7 million)

As reported in the 2005 interim statement, Pasir Bulk Carriers (Pasir), the Singapore based shipping venture in which Clarkson held a majority 58 per cent stake, sold its two combination carriers in the first half of the year after the completion of their bareboat charter to SembCorp.

Channel Freight Ferries ceased operations in December 2005 after traffic volumes failed to meet expectations.

These two operations were not seen as an integral part of our logistics activities going forward and as a consequence have been treated as discontinued.

Chief executive's review of operations

Fund management

Revenue: nil (2004: nil)

Loss: £0.4 million (2004: nil)

The company has indicated that it wishes to offer sophisticated institutional investors the opportunity to invest in a shipping hedge fund. To achieve this, Clarkson Fund Management Limited, a wholly owned subsidiary of Clarkson PLC, is now authorised and regulated by the FSA and registered with the US Securities Exchange Commission to undertake discretionary investment management activities for the newly formed Cayman Island based Clarkson Shipping Hedge Fund. We have assembled a highly skilled team to manage the investment portfolio which will comprise shipping securities and derivatives.

This year has suffered the full cost of establishing the fund management team. It is anticipated that the fund will be launched in 2006.

Property services

Revenue: £5.5 million (2004: £0.1 million)

Result: £0.3 million (2004: loss £0.2 million)

Clarkson PLC acquired the head lease of St Magnus House, in Lower Thames Street, London EC3, with an unexpired term of eleven years, from HSBC Bank in December 2004. As from May 2005 Clarksons occupied 40,000 square feet of the building out of a total of 136,000 square feet, representing approximately 30% of the available space. A programme to sub-let remaining available surplus space in the building to independent shipping businesses was largely completed by February 2006.

The group has recently increased its shareholding in The Baltic Exchange to 13%. The Baltic Exchange fulfils an invaluable role as an independent supplier of indices to the shipping markets, but as it also derives a significant part of its income from property, any dividend income received by Clarksons in the future will be included under this heading.

Financial services

In January 2006 Clarkson Financial Services ('CFS') recruited a new team to extend the range of services offered by the Clarksons group.

CFS will concentrate on three major areas of business:

- Structuring and arrangement of shipping-related projects;
- Advisory work for financial institutions;
- Ship operation.

CFS will work alongside Clarkson Fund Management Limited, concentrating on investors keen to invest in physical assets, rather than shares in shipping companies, as well as developing a range of other shipping services.

We were successful in recruiting an experienced team with a good track record and long-standing relationships with various financial institutions, particularly in Germany.

Whilst we intend to capitalise on this connection, with the first project ready for distribution on the German KG market at the time of writing, the team is working on the development of the investor base, with Islamic finance, American investment funds and UK tax lease structures being some of the possibilities being investigated.

Chief executive's review of operations

We believe that creation of CFS will allow the group to diversify further away from traditional shipbroking activities and create different income streams. Normally financial projects would involve long-term big-ticket deals which generate a mixture of fees and commissions, some paid upfront and some over the period of the project.

Overall, we are optimistic regarding the prospects of CFS and expect substantial developments in this area in 2006.

Key business issues

Forward order book

The shipbroking businesses charge commission based on the underlying value of the transaction in which they are engaged. However there is often a delay between completing an agreement (or 'negotiation') and the performance of the contract. This delay results in a book of business representing commissions that are not capable of being invoiced until a later date but which, other things remaining equal, are expected to be invoiced at some time in the future; we call this estimate of future commission receivable the forward order book. At 31 December the group had negotiated business involving commission due for invoicing in the year following amounting to approximately US\$65 million against US\$62 million at the end of the previous year.

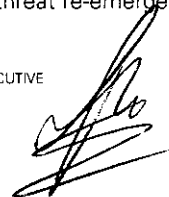
Remuneration

We compete for talented people primarily with unregulated, unlisted private companies who remunerate their staff in a perhaps less accountable environment than a public company. It is essential that we offer

competitive remuneration packages so as to retain our key employees who remain eminently poachable. In 2005 we reviewed the structure of remuneration to ensure we remained competitive and increased the percentage returned to staff as bonus from 45% to 50% of relevant net profit which has caused a reduction in our global operating margins. We do not anticipate any significant further changes to this new remuneration structure, but we may need to revisit the issue should the competitive threat re-emerge.

Richard Fulford-Smith CHIEF EXECUTIVE

3 April 2006



Finance director's review

These profits are a record for this company and the highest since it was listed on the London Stock Exchange in 1986.

Results

Profit before taxation on continuing operations increased to £26.8 million, compared with a restated figure of £23.1 million for 2004. Earnings per share on continuing activities were 108.9 pence per share (2004 restated after the removal of the discontinued operations: 98.0 pence per share).

The company also earned 7.9 pence per share from discontinued activities (2004: loss 12.0 pence per share) – see 'discontinued activities' below.

The profit for the year attributable to shareholders, which is after tax and combines both continuing and discontinued operations, amounted to £19.1 million (2004: £13.7 million).

Overall these profits are a record for this company and the highest since it was listed on the London Stock Exchange in 1986.

Revenue on continuing operations, which is primarily derived in US dollars, increased to £115.9 million in 2005 (2004: £82.4 million).

Taxation

The effective tax rate on continuing operations is 33.2% (2004: 32.0%). The overall effective tax rate on continuing and discontinued operations was 27.2% (2004: 31.4%).

The overall tax rate is lower than the standard rate of UK tax of 30.0% due to overseas non-taxable income offsetting the impact of disallowable trading expenses.

Dividends

The directors are recommending that the total dividend for the year increases to 32.0 pence per share (2004: 25.0

pence per share); this dividend represents a 28% increase on last year. The final dividend of 22.0 pence per share will be paid to shareholders on 16 June 2006. Under the new accounting standards the cost of this dividend will be charged to equity in 2006.

Foreign exchange

The US dollar is the major trading currency of the group. The average sterling exchange rate for the period was US\$1.81 (2004: US\$1.84). At 31 December 2005 the sterling exchange rate was US\$1.72, a significant strengthening since 31 December 2004 when the exchange rate was US\$1.92. The group used spot currency contracts to convert cash collected into local currency to meet operating costs. Under the new accounting standards this has resulted in a profit of £1.5 million (2004: loss £0.9 million).

Property

After 25 years in Camomile Street the company moved to new London headquarters at St Magnus House, on the River Thames, in May 2005, resulting in an additional capital spend of £6.7 million. In April 2005 the group acquired two long leasehold residential properties within close proximity of the new office for the use of visiting clients at a cost of £1.7 million.

Cash flow

Cash generation remains a key strength of the group.

In January 2005, the group made a special contribution into the pension scheme of £10.0 million.

The group acquired the *CFF Seine* in May 2005 for £3.2 million (€4.7 million) and in September 2005, acquired the *Pacific Dhow* for £8.3 million (US\$14.1 million) financed by floating rate bank loans.

Finance director's review

The sale of the two Pasir combination bulk carriers enabled the group to repay secured bank borrowings of £1.7 million (US\$3.4 million).

During the year the group accumulated cash as profit linked bonus entitlements were accrued; bonuses are paid in February following the end of the financial year.

At the end of the financial year the aggregate cash balance had increased to £55.1 million (2004: £44.1 million) and borrowings of £8.2 million (2004: £1.8 million).

Subsequent to the year end a number of significant payments will be made totalling £54.9 million. These include £32.6 million in staff bonuses relating to 2005, £7.4 million in cash for the acquisition of Plowrights, an £11.3 million (US\$ 20.0 million) investment in the new Clarkson Shipping Fund and a £3.6 million final dividend payment relating to 2005.

Acquisitions

In March 2005 the group acquired the Maredorado Group (also known as Ferrobulk) for a total consideration, including a deferred element, of £11.2 million satisfied in cash and shares.

Also during the year the group acquired an LPG team for a consideration of £1.9 million satisfied in shares.

In January 2006 the group acquired Plowrights for a consideration of £8.1 million, payable as to £7.4 million in cash and £0.7 million in shares. Deferred consideration of up to £1.0 million may be payable over the next two years dependent on the achievement of performance targets over that period.

Discontinued operations

During the first half of 2005 the group sold both of the Pasir combination bulk carriers operated by SembCorp after they determined to re-deliver the vessels. The after tax profit arising from this sale was £11.1 million of which £4.5 million was due to the minority shareholders in Pasir. This logistics – outsourcing business has been treated as a discontinued operation.

In December 2005, Channel Freight Ferries ceased daily sailings and preparation was made for the orderly closure of the business. The after tax loss arising from this activity was £5.4 million. This logistics – ferries business is treated in these accounts as a discontinued operation.

The results of discontinued operations are shown separately from the current year's reported profits for continuing operations, along with equivalent adjustments to the 2004 comparatives.

Segmental reporting

The 2005 accounts provide, for the first time, a detailed analysis of the operating performance of the full range of business activities undertaken by the Clarkson group, to provide shareholders with a fuller understanding of the spread of business activity.

Pensions

The group operates a variety of pension schemes throughout the world, the majority of which are defined contribution arrangements. The UK, however, has both a defined contribution section and a defined benefit section within the main UK pension scheme.

Defined benefit pension arrangements give rise to open ended commitments and liabilities for the sponsoring

Finance director's review

company. As a consequence the company closed its existing defined benefit section of the UK scheme to new entrants on 31 March 2004 and will close this section for further accrual to all existing members as from 31 March 2006.

The UK defined benefit pension scheme liability at the end of 2005 was £0.4 million representing less than 1% of the gross liabilities of the scheme. (2004: £7.9 million or 8% of gross liabilities).

From 1 April 2006 all future pension benefits accruing will arise in defined contribution schemes.

Following advice from the Company's pension advisers, Hewitt Bacon & Woodrow Limited the Company determined to close the Funded Unapproved Retirement Benefit ('FURB') Scheme which operated for R J Fulford-Smith and myself. As a result a supplementary 'one-off' payment, which is referred to in the remuneration committee's report was made in the year. No further payments will be made into the FURB, which will be wound up on 6 April 2006 or shortly thereafter.

Risk management

The identification, control and monitoring of risks facing the business remain a management priority and steps continue to be taken to improve further our risk management procedures. The risks monitored include operational, market, treasury, credit and reputational risk. Details of our approach to risk management are provided in the corporate governance statement.

Compliance and regulation

Clarksons has two subsidiaries which are authorised and regulated by the UK Financial Services Authority (FSA).

Clarkson Securities Limited provides futures broking services and Clarkson Fund Management Limited provides investment management services to the new Clarkson Shipping Fund.

Both companies have strong balance sheets to comply with regulatory capital adequacy requirements.

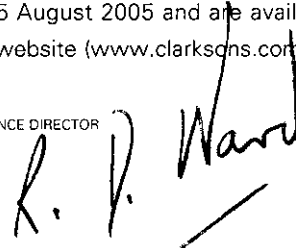
International Financial Reporting Standards

The 2005 accounts have been prepared in accordance with accounting policies which are consistent with International Financial Reporting Standards (IFRSs). Previous years' accounts were prepared under UK Generally Accepted Accounting Practice. Under IFRSs, which include the separate treatment of discontinued activities, it is necessary to amend certain comparative figures. Full details are provided in the notes to the accounts.

Details of the effects of the transition to IFRSs were released on 25 August 2005 and are available on the Clarkson PLC website (www.clarksons.com).

Rob Ward FINANCE DIRECTOR

3 April 2006



Board of directors

Tim Harris CBE

Chairman
NON-EXECUTIVE

Tim Harris aged 58 was appointed a director of the company in March 2002. He is executive chairman of James Fisher and Sons plc and a director of Neptune Orient Lines. He was previously with P&O where he was assistant managing director and prior to that chairman and chief executive of P&O Cruises and chief executive of P&O Nedlloyd.

Richard Fulford-Smith

Chief executive

Richard Fulford-Smith aged 50 joined Clarksons in 1992 from Simpson Spence & Young and was previously with Ocean Transport and Trading group, Eggar Forrester and J.E. Hyde. He was appointed to the PLC board in April 2004.

Bob Benton

Director
NON-EXECUTIVE

Bob Benton aged 48 was appointed a director of the company in May 2005. He is chairman of Bridgewell Group Limited. He was previously chairman and chief executive of Charterhouse Securities, global head of sales at ABN AMRO and managing director of HSBC James Capel

Martin Clark

Director
NON- EXECUTIVE

Martin Clark aged 60 was appointed a director of the company in January 2002. He is a non-executive director of Senior plc and of ICM Computer Group plc. He was previously group finance director of Caradon plc and prior to that finance director at Northern Foods plc and Associated British Foods plc.

The non-executive directors comprise the audit and risk management and the remuneration, management development and succession committee of the company

Martin Stopford

Director

Martin Stopford aged 58 joined Clarksons in 1990 and was previously a vice president at Chase Manhattan Bank and a director of British Shipbuilders. He was appointed to the PLC board in September 2004

Rob Ward FCA

Finance Director

Rob Ward aged 57 joined Clarksons in 1991 and was previously with Credit Lyonnais Laing & Cruickshank, Mercantile House Holdings PLC and Henry Ansbacher Holdings PLC. He was appointed to the PLC board in October 1993.

Martin Watson

Director
NON-EXECUTIVE

Martin Watson aged 59 was appointed a director of the company in September 2001. He is also a non-executive director of London Clubs International PLC. He is a founding partner of London law firm, Watson, Farley & Williams.

Report of the directors

The directors present their report and the group accounts for the year ended 31 December 2005, which were approved by them on 3 April 2006.

Principal activities and business review

The principal activity of the company during the year was that of an investment holding company, whose subsidiaries were primarily involved in the provision of shipping and shipping services. A review of the group's performance and likely future developments is contained in the chairman's statement, the chief executive's review of operations and the finance director's review on pages 2 to 19.

Group results and dividends

The results of the group are shown on page 35. An interim dividend of 10.0 pence (2004: 9.0 pence) was paid in September 2005. The directors will be recommending a final dividend of 22.0 pence (2004: 16.0 pence), payable on 16 June 2006 to shareholders registered at the close of business on 2 June 2006, making a total dividend for the year of 32.0 pence (2004: 25.0 pence) per share.

Share price

The closing market price of the shares at 31 December 2005 was 868.0 pence (31 December 2004: 724.0 pence) and the range during 2005 was 700.0 pence to 985.0 pence (2004 range: 455.5 pence to 832.5 pence).

Directors

The directors of the company as at the date of this report are shown on page 20.

R J Benton was appointed to the board as a non-executive director on 25 May 2005.

In accordance with the company's articles of association, T C Harris and R D Ward will retire by rotation at the annual general meeting and will stand for re-election. R J Benton, who was appointed by the directors during the year, will stand for election at the annual general meeting.

No director had a material interest in any contract of significance to the group's business during the year.

Company secretary

S G Deasey was appointed company secretary on 1 June 2005.

Substantial interests

The company has been notified of the following substantial interests in its issued share capital as at 23 March 2006 (being the latest practicable date prior to the approval of these accounts):

Employees and employee share trusts	21.12%
CMB Group	17.83%
Barclays Group	5.56%
Lloyds TSB Group	5.26%

Save for the above, the company is unaware of any substantial interests, other than those of the directors whose interests are shown on page 29, in its issued share capital.

As at 23 March 2006, employees directly held 9.98% of the company's share capital; 9.98% was held by employee share trusts for use under the company's various incentive schemes; and 1.16% was held by the Executive Share Purchase Trust in respect of deferred consideration, arising from various acquisitions.

Report of the directors

Share capital

Details of the company's share capital and any movements during the year are shown in note 21 to the accounts.

Employment policies

The group operates worldwide and its employment policies vary to meet local conditions and legal requirements. It is committed to equal opportunities for all employees. In the UK, the policy of staff communication, consultation and participation continues. Where such policies do not exist in acquired companies, steps are taken to introduce them. Clarkson News, the group's in-house magazine, provides employees and former employees who are now pensioners with information about the group and staff issues. Information is also readily available on the group's corporate web site, www.clarksons.com.

Employees are encouraged to become involved in the financial performance of the group through the operation of share option, profit sharing and restricted share plan schemes. At 23 March 2006, employee share trusts held 1,709,370 shares (2004: 1,666,276 shares) for allocation to employees at a future date under share incentive schemes. Of these, nil shares (2004: 171,643 shares) were held on behalf of the Profit Sharing Scheme, 205,720 shares (2004: 179,125 shares) by the Executive Share Purchase Trust, and 1,503,650 shares (2004: 1,315,508 shares) under the Restricted Share Plan.

Full and fair consideration is given to applications for employment by those with a disability. Where an employee becomes disabled whilst in the employment of a group company, every effort is made to find continuing employment where possible.

Charitable and political donations

During the year, the group made various charitable donations amounting in aggregate to £108,000 (2004: £64,000). No political contributions were made.

Pension scheme

The assets of the company's pension scheme are held totally separate from the assets of the group and are invested with independent fund managers. The pension scheme is controlled by the trustees who include both company and employee nominees. The trustees are responsible for looking after the assets of the pension scheme and for ensuring that its funds are only used to provide retirement benefits in accordance with its trust deed and rules. The pension scheme's auditors and actuaries are both independent of the company.

Going concern

The directors believe that the group has adequate resources to continue in operation for the foreseeable future. These accounts have therefore been prepared on a going concern basis.

Payment of liabilities

The group pays its trade payables in accordance with the terms negotiated with them. Trade payables principally represent client balances and are settled as requested. The company has no trade payables.

Financial instruments

The group's policies on financial instruments are set out in note 2 to the accounts.

Post balance sheet event

In January 2006 the group completed the acquisition of the J O Plowright & Co (Holdings) Limited group of companies. Further details are provided in note 23 to the accounts.

Report of the directors

Annual general meeting

Resolutions will be proposed at the annual general meeting to renew the directors' authority to allot new shares, issue new shares other than pro-rata and purchase the company's own shares.

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors of the company will be proposed at the annual general meeting.

By order of the board

S G Deasey SECRETARY

3 April 2006



Corporate governance

Clarkson PLC is committed to ensuring high standards of corporate governance. As required by the Listing Rules, this section on corporate governance, together with the report of the remuneration committee, details how the company has applied the principles set out in the Combined Code during the year ended 31 December 2005. The directors consider that the company has complied with the Combined Code throughout the year.

The board of directors

The company is headed by an experienced board of directors, comprising a non-executive chairman, group chief executive, two further executive directors and three non-executive directors. The board meets at least four times a year and the meetings were attended by all the directors. Biographical details are shown on page 20.

The directors are responsible for the proper conduct of the company's affairs. The directors' meetings include reviews of financial and business performance, opportunities and the monitoring of business risks. They have adopted a formal schedule of matters reserved for their decision. Certain matters, such as the annual review of the internal controls function, have been delegated to board committees, whose chairmen report back to the full PLC board. Appropriate directors' liability insurance is in place.

The roles of the chairman and chief executive have been clearly established and agreed by the board. The chairman is primarily responsible for the running of the board. The chief executive's primary role is the running of the company's business.

The senior independent director is M A Watson.

Board and committees

The members of the board and its committees at the year end and their attendance at board meetings during the year were as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Total number of meetings	5	2	1	3
Current directors:				
R J Benton Appointed 25 May 2005	3	—	—	2
M Clark	5	2*	1	3
R J Fulford-Smith	5	—	—	—
T C Harris	5*	2	—	3
R M Stopford	5	—	—	—
R D Ward	5	—	—	—
M A Watson	5	1	1*	3*

* Chairman

The chairman met with the non-executive directors during the year without the executive directors present, and a meeting of the non-executive directors took place without the chairman in order to evaluate his performance.

All non-executive directors are appointed for a specific term.

A copy of the committees' terms of reference is available on request from the company secretary.

The composition of the board as between executive and non-executive directors subsequent to the 2005 annual general meeting complies with the Code's requirement for smaller companies.

The nomination committee considers all new appointments to the board against a detailed job description. The terms of appointment of the non-executive directors are available for inspection at the company's registered office.

Corporate governance

On appointment, all directors are provided with induction training relating to the company's business. In addition, individual directors may seek professional advice on any matter concerning them in the furtherance of their duties at the expense of the company. All directors have access to the advice and services of the company secretary.

During the year the chairman undertook a formal evaluation of the board and each of its members. This was in the form of a rigorous assessment of the board's performance and that of its committees and individual directors including interviews with each director. This evaluation process continues.

In accordance with the company's articles of association, all directors are subject to election at the first AGM following appointment, and thereafter one-third of the directors retire annually by rotation, and where eligible, seek re-election.

The remuneration committee advises on remuneration and incentive schemes for senior staff and makes recommendations for the operation of the company's profit sharing and share option schemes. Further details of the work of this committee are contained within the report of the remuneration committee on pages 27 to 31. Although having the company chairman sit on the remuneration committee does not presently comply with the Combined Code it should be noted that it is anticipated the FRC will be recommending at its next consultation that the existing provisions be relaxed to allow this.

The board undertakes an annual review of the group's internal controls, including financial, operational, compliance and risk management and confirms that these controls remain effective.

The main role and responsibilities of the audit and risk management committee is to consider the company's risk assessment, internal control procedures and the use of external auditors. The committee's terms of reference are reviewed on an ongoing basis to ensure compliance with the requirements of the Code.

The audit committee has established arrangements by which staff of the group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The group does not presently have an internal audit function but the need for such a function is regularly reviewed.

On occasions it may be necessary to employ the company's external auditors for certain non-audit work. During the year they also provided due diligence and taxation services. All non-audit services are reported to the audit committee which has satisfied itself that these services do not affect the auditors' objectivity and independence.

Shareholder relations

The importance of maintaining good relations with individual and institutional investors is recognised by the board. This includes meetings on a regular basis between the executive directors and institutional and private investors, following profit and other relevant announcements.

The company encourages shareholder attendance at the annual general meeting, at which the chairman takes any questions on the previous year's results and gives an update on current year trading.

Health, safety and the environment

It is group policy to protect the health and safety of its employees and any other parties involved in the conduct of its business operations.

The group understands the impact that its operations could have on the environment, and although most of its operations are office based it does operate a small number of vessels.

It is the policy of the group to meet or exceed all legal and industry requirements and to have systems to define and eliminate or minimise environmental effects and risks.

Corporate governance

It is group policy for all its office based activities and vessel operations to make the most efficient use of energy and materials and to minimise any adverse environmental impact and waste generation and to safely and responsibly dispose of residual waste.

Internal control

The board is responsible for the establishment and ongoing implementation of the company's internal control mechanisms. These are designed to identify and counter the particular risks to which the company is exposed. By their very nature, these controls can provide reasonable but not absolute assurance against material misstatement or loss.

The board regularly reviews and reports on the effectiveness of the group's system of internal control and the directors confirm that they have carried out a review of the effectiveness of the system of internal control during the year.

A number of key procedures have been established to provide effective internal controls. These include budgeting and reporting systems, monitoring, supervision and stewardship procedures and a continuing review of the group's controls.

The company's currency risk exposure arises as a result of US dollar earnings, while costs are mainly incurred in pounds sterling. This risk is managed, inter alia, by means of foreign exchange contracts, currency options/swaps and treasury instruments. The board monitors currency hedging through regular reports from the group's treasury department.

Report of the remuneration committee

Remuneration committee

The remuneration committee is comprised of non-executive directors, who have no day-to-day involvement with the business and no personal financial interest in the matters to be recommended. The committee's terms of reference include the determination of executive remuneration, the consideration of granting of options and allocation of share scheme shares, the approval of the total quantum of company earnings-related incentive rewards and making appropriate recommendations to the board.

The names of the directors who have served on the remuneration committee during the year are as follows: R J Benton, M Clark, T C Harris and M A Watson.

The remuneration committee appointed Hewitt Bacon & Woodrow Limited to provide advice and services that materially assist the committee in their consideration of matters relating to directors' remuneration.

	Meetings attended
Total number of meetings	3
Current members:	
M A Watson (Chairman)	3
R J Benton Appointed 25 May 2005	2
M Clark	3
T C Harris	3

Remuneration policy

The policy of the company is to ensure that executive rewards are linked to performance, to provide an incentive to achieve the key business aims, deliver an appropriate level of total remuneration for acceptable performance and maintain a reasonable relationship of rewards to those offered in other companies in order to attract, retain and motivate executives within the bounds of what is acceptable to shareholders.

There are few comparable UK public companies involved solely in the business of providing shipping services. Comparisons are therefore made with companies in the financial services sector. The remuneration committee is advised by Hewitt Bacon & Woodrow Limited on the issue of comparability with the benchmark companies.

The remuneration committee seeks to structure total benefits packages which align the interests of shareholders and senior executives. Directors' remuneration will be the subject of regular review in accordance with this policy in the next and following financial years.

Non-executive directors' remuneration is set by the chairman, chief executive and finance director with guidance from Hewitt Bacon & Woodrow Limited and is set by reference to the median level of FTSE 250 companies.

Base salary

Base salary is reviewed annually and is determined by reference to individual responsibilities, performance and external market data. Therefore it is set to reflect the experience, responsibility, effectiveness and market value of the executive.

Benefits

The principal taxable benefits for executive directors are the provision of car allowances, healthcare insurance and club memberships.

Annual performance bonus

The remuneration committee considers that the performance-related elements of the executive directors' packages (normally consisting of annual cash bonuses and annual grants over shares using the market value at the date or dates

Report of the remuneration committee

of grant) give the executive directors the potential to receive annual benefits, but only if significant value has been delivered to shareholders. It is therefore considered that, in terms of providing motivation to the executive directors to improve shareholder value, the performance-related elements of the directors' packages are the most important.

In 2005 executive directors participated in a bonus scheme which is linked principally to the achievement of group earnings per share targets with the balance based on personal objectives. Bonuses were paid in full in 2005 as the maximum performance targets were exceeded by a considerable margin. The EPS targets were set for a three year period ending 31 December 2006. They will be reviewed for 2007 and thereafter. Bonuses up to 150% to 450% of base salary may be paid.

Share schemes

Executive directors are encouraged to become involved in the financial performance of the group through the operation of share incentive schemes.

Details of the company's incentive schemes are as follows:

Restricted Share Plan	Restricted share awards outstanding at 01.01.05	Restricted shares awarded during the period	Market price of restricted shares awarded	End of performance period	Number of shares vested during the period	Market price of shares at date of vesting	Restricted share awards outstanding at 31.12.05
Director							
R J Fulford-Smith	58,315	—	—	30.04.05	58,315	£8.63	—
R J Fulford-Smith	43,859	—	—	30.04.06	—	—	43,859
R J Fulford-Smith	11,607	—	—	30.04.07	—	—	11,607

These shares were granted prior to Mr Fulford-Smith's appointment as a director based on performance at that time.

Long Term Incentive Plan

A new long term incentive plan was adopted in May 2004 to replace the restricted share plan and the senior executive share option scheme. The new plan comprises an Inland Revenue approved part and an unapproved part and allows senior executives to be granted options and/or share awards. There is an annual limit of 150% of basic salary for share awards or 450% of basic salary for options. Grants will be subject to prescribed performance conditions. At 31 December 2005 no options or share awards had been granted.

Performance graph

TOTAL SHAREHOLDER RETURN

This graph shows total shareholder return (that is, share price growth assuming reinvestment of any dividends) of the company over the past five financial years compared to the FTSE Small Cap Index, which the committee considers an appropriate index for comparison purposes.

Value of investment of £100 on 1 January 2000
allowing for reinvested dividends.

— Clarkson PLC FTSE Small Cap

Policy on service contracts

The company's policy on the duration of directors' contracts is that:

Executive directors should have rolling service contracts terminable on no more than one year's notice served by the company or the director; and

Non-executive directors are appointed for a fixed term not exceeding 3 years, renewable on the agreement of both the company and the director.

Report of the remuneration committee

The normal retirement date for executive directors is 60, but this may be extended to 65 by mutual agreement. The normal retirement date for non-executive directors is 70.

There are no predetermined provisions for compensation on termination within executive directors' service agreements, which exceed one year's emoluments. In the event of early termination of the contracts, each director is entitled to compensation equal to his basic salary and contractual benefits for the notice period.

There is no entitlement to compensation for discretionary bonuses which might have been earned during the notice period. Share options would be treated as for any member of the scheme, depending on the reason for termination of the contract.

The policy on termination payments is that the company does not normally make payments beyond its contractual obligations, including any payment in respect of notice to which a director is entitled.

Directors' service contracts

Details of the current directors' service contracts are as follows:

	Date of contract	Unexpired term at 31.12.05	Notice period
R J Benton	25.05.05	29 months	3 months
M Clark	29.01.05	25 months	3 months
R J Fulford-Smith	02.07.04	12 months	12 months
T C Harris	26.05.04	17 months	3 months
R M Stopford	01.09.04	12 months	12 months
R D Ward	18.08.04	12 months	12 months
M A Watson	04.09.04	20 months	3 months

Executive contracts of service are negotiated on an individual basis as part of the overall remuneration package. R J Fulford-Smith, R M Stopford and R D Ward have rolling one year contracts terminable on 12 months' notice.

Non-executive directors are appointed for specified terms and are subject to re-election at the annual general meeting following appointment, and thereafter every three years. Each appointment can be terminated before the end of the three year period with three months' notice due. The board determines the level of remuneration of non-executive directors after taking independent financial advice.

Directors' share incentives

Directors' interests in shares

The beneficial interests of the directors in the share capital of the company at 31 December 2005 are as follows:

	Ordinary shares	
	2005 Number	2004* Number
R J Benton	—	—
M Clark	7,500	7,500
R J Fulford-Smith	662,955**	662,955**
T C Harris	10,778	10,778
R M Stopford	62,082	124,164
R D Ward	50,000	50,000
M A Watson	5,000	5,000

* or at date of appointment, if later.

** includes 55,466 Restricted Shares granted prior to Mr Fulford-Smith's appointment as a director based on performance at that time which are due to vest in April 2006 and April 2007.

On 5 January 2006 R M Stopford sold beneficial interests in 5,000 ordinary shares in the company.

R D Ward and M A Watson are directors and joint trustees of Clarkson (Trustees) Limited which acts as trustee for the shares issued under the long term incentive plan.

Report of the remuneration committee

Directors' emoluments and compensation

(Audited)

Details of directors' emoluments and compensation received during the year are set out below:

	Basic salary and fees 2005 £'000	Benefits 2005 £'000	Performance related bonuses 2005 £'000	Total 2005 £'000	Total 2004 £'000
Executive directors:					
R J Fulford-Smith Appointed 23 April 2004	500	23	2,250	2,773	1,551
R M Stopford Appointed 1 September 2004	225	11	281	517	53
R D Ward	350	11	438	799	756
G D Weston Resigned 30 April 2004	-	-	-	-	553
Non-executive directors:					
M E Beckett Resigned 26 May 2004	-	-	-	-	16
R J Benton Appointed 25 May 2005	18	-	-	18	-
M Clark	30	-	-	30	25
T C Harris	100	-	-	100	55
M A Watson	30	-	-	30	25
	1,253	45	2,969	4,267	3,034

Directors' remuneration is shown as from date of appointment.

Benefits include cash allowances in lieu of company cars, healthcare insurance and club memberships.

There are no sums payable to third parties for services made available by the directors.

No director was paid or was entitled to receive a sum paid by way of expense allowance that is chargeable to UK income tax in respect of his qualifying service (2004: £nil).

There are no elements of remuneration of a non cash nature, other than the benefits referred to above.

Pensions

(Audited)

Executive directors of the company earned pension benefits in the group pension schemes.

Defined benefit scheme

The following table sets out the change in each director's accrued pension in the company defined benefit scheme during the year and his accrued benefits in the scheme at the year end:

	Additional pension earned during the year £'000	Transfer value of additional pension earned less directors' contributions during the year £'000	Pension entitlement at normal retirement date accrued at the end of the year £'000	Pension entitlement at normal retirement date accrued at the start of the year £'000
R J Fulford-Smith	3	38	41	37
R M Stopford	4	70	49	43
R D Ward	4	64	51	46

Basic salary is the only element of remuneration which is pensionable under the defined benefit scheme.

The pension entitlement shown is that which is paid annually on retirement based on service to the end of the year or date of ceasing to be a director if earlier. The defined benefit scheme provides a pension of up to two thirds pensionable salary on retirement (subject to Inland Revenue capping) dependent on length of service.

Report of the remuneration committee

The increase in accrued pension during the year excludes any increase in inflation.

The transfer value for the UK Listing Authority disclosure has been calculated on the basis of actuarial advice.

The pension scheme also provides dependant's pensions in the event of death, and lump sum benefits on death in service.

The existing defined benefit section of the company's UK Scheme closed to new entrants on 31 March 2004 and was closed to further accrual for all existing members from 31 March 2006.

The pension figures shown in the table above exclude any of the members' AVC and FURB entitlements.

Defined contribution scheme

AVCs

Members of the scheme also have the option to pay Additional Voluntary Contributions into the defined contribution scheme.

FURB

The company also operates a funded unapproved retirement benefits ('FURB') scheme for R J Fulford-Smith and R D Ward who joined the company after May 1989 and are therefore subject to Inland Revenue restrictions on their entitlement to benefit from the group's final salary pension scheme. Following the Government's pension simplification proposals which will be implemented on 6 April 2006 ('A-Day') the company has decided, on advice, to close the FURB scheme. To compensate R J Fulford-Smith and R D Ward for the loss of entitlement under this scheme and following advice from Hewitt Bacon & Woodrow Limited, a supplementary 'one-off' payment has been made in the year in addition to the normal funding required by the scheme. During the year company contributions into the FURB for R J Fulford-Smith amounted to £1,500,000 (2004: £232,943) and for R D Ward amounted to £700,000 (2004: £242,093). No further payments will be made into the FURB which will be wound up on 6 April 2006 or shortly thereafter.

There are no outstanding liabilities in respect of benefits due to current and past directors.

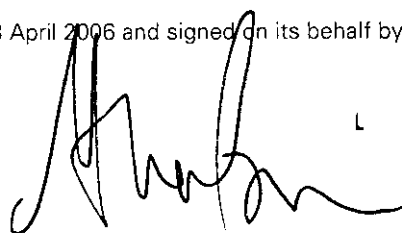
Approval by shareholders

At the annual general meeting of the company to be held on 24 May 2006 a resolution approving this report is to be proposed as an ordinary resolution.

This report was approved by the board on 3 April 2006 and signed on its behalf by:

M A Watson REMUNERATION COMMITTEE CHAIRMAN

3 April 2006



Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the accounts in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union. The directors are required to prepare accounts for each financial year which present fairly the financial position of the group and of the company and the financial performance and cash flows of the group and of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and of the company and enable them to ensure that the accounts comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the independent auditors

to the members of Clarkson PLC

We have audited the group and parent company accounts (the 'accounts') of Clarkson PLC for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated and company statement of recognised income and expense, the consolidated and company balance sheets, and the consolidated and company cash flow statements and the related notes 1 to 28. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the report of the remuneration committee that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, the report of the remuneration committee and the accounts in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts and the part of the report of the remuneration committee to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the report of the remuneration committee to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited accounts. The other information comprises only the directors' report, the unaudited part of the report of the remuneration committee, the chairman's statement, the chief executive's review of operations, the finance director's review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the report of the remuneration committee to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

Report of the independent auditors

to the members of Clarkson PLC

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the report of the remuneration committee to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the report of the remuneration committee to be audited.

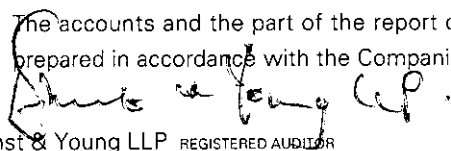
Opinion

In our opinion:

The group accounts give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended;

The company accounts give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the company's affairs as at 31 December 2005; and

The accounts and the part of the report of the remuneration committee to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.



Ernst & Young LLP REGISTERED AUDITOR

London

3 April 2006

Consolidated income statement

for the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Revenue – continuing operations	3, 4	115.9	82.4
Administrative expenses		(92.2)	(62.2)
Operating profit – continuing operations	3	23.7	20.2
Share of profits of associates and joint venture		0.5	0.6
Finance revenue	3	1.6	2.1
Finance costs	3	(0.1)	(0.1)
Other finance revenue – pensions	3	1.1	0.3
Profit before taxation – continuing operations	4	26.8	23.1
Taxation	5	(8.9)	(7.4)
Profit for the year – continuing operations		17.9	15.7
Profit/(loss) for the year from discontinued operations	6	5.7	(1.7)
Profit for the year		23.6	14.0
Attributable to:			
Equity holders of the parent		19.1	13.7
Minority interests	22	4.5	0.3
		23.6	14.0
Earnings per share	7		
Basic – continuing operations		108.9p	98.0p
Diluted – continuing operations		107.7p	98.0p
Basic – profit for the year		116.8p	86.0p
Diluted – profit for the year		115.5p	86.0p

The notes set out on pages 39 to 77 form part of these accounts.

Consolidated and company statement of recognised income and expense

for the year ended 31 December 2005

	Notes	Group		Company	
		2005 £m	2004 £m	2005 £m	2004 £m
Actuarial (loss)/gain on employee benefit obligation – net of tax	20	(2.6)	2.6	(2.6)	2.6
Foreign exchange differences on retranslation of foreign operations	21	1.5	(0.4)	–	–
Total recognised directly in equity		(1.1)	2.2	(2.6)	2.6
Profit for the year		23.6	14.0	12.7	2.8
Recognised income and expense for the year		22.5	16.2	10.1	5.4
Restatement for the effects of adopting IAS 39	21	0.5	–	–	–
Settlement of forward currency contracts	21	(0.1)	–	–	–
Total recognised income and expense		22.9	16.2	10.1	5.4
Attributable to:					
Equity holders of the parent		18.4	15.9	10.1	5.4
Minority interests	22	4.5	0.3	–	–
		22.9	16.2	10.1	5.4

The notes set out on pages 39 to 77 form part of these accounts.

Consolidated and company balance sheet

as at 31 December 2005

		Group		Company	
	Notes	2005 £m	2004 £m	2005 £m	2004 £m
Non-current assets					
Property, plant and equipment	9	21.3	6.2	7.0	1.1
Investment property	10	0.4	–	0.4	–
Intangible assets	11	17.7	5.6	–	–
Investments in associates and joint venture	12	1.0	0.8	–	–
Trade and other receivables	13	0.5	0.7	0.4	0.4
Available-for-sale financial assets	14	2.1	0.7	0.4	–
Investments in subsidiaries	15	–	–	17.3	16.8
Deferred tax asset	5	3.3	3.1	2.4	2.4
		46.3	17.1	27.9	20.7
Current assets					
Trade and other receivables	13	25.7	17.0	20.8	11.3
Cash and short-term deposits	16	55.1	44.1	2.8	0.8
		80.8	61.1	23.6	12.1
Current liabilities					
Interest-bearing loans and borrowings	17	(3.4)	(1.5)	(2.9)	–
Trade and other payables	18	(55.6)	(34.5)	(13.8)	(3.6)
Provisions	19	(3.9)	–	–	–
Income tax payable		(4.8)	(4.7)	–	–
		(67.7)	(40.7)	(16.7)	(3.6)
Net current assets		13.1	20.4	6.9	8.5
Non-current liabilities					
Interest-bearing loans and borrowings	17	(4.8)	(0.3)	–	–
Trade and other payables	18	(4.4)	(0.1)	–	–
Provisions	19	(0.2)	(0.9)	(0.2)	–
Employee benefits	20	(0.4)	(7.9)	(0.4)	(7.9)
Deferred tax liability	5	(1.8)	(0.2)	(0.5)	(0.2)
		(11.6)	(9.4)	(1.1)	(8.1)
Net assets		47.8	28.1	33.7	21.1
Capital and reserves					
Issued capital	21	4.3	4.1	4.3	4.1
Share premium	21	11.1	4.5	11.1	4.5
ESOP reserve	21	(0.5)	(0.4)	–	–
Deferred share consideration	21	1.9	–	–	–
Capital redemption reserve	21	2.0	2.0	2.0	2.0
Profit and loss	21	27.9	17.1	16.3	10.5
Currency translation reserve	21	1.1	(0.4)	–	–
Clarkson PLC group shareholders' equity		47.8	26.9	33.7	21.1
Minority interests	22	–	1.2	–	–
Total equity		47.8	28.1	33.7	21.1

The accounts were approved by the board of directors on 3 April 2006, and signed on its behalf by:

T C Harris CHAIRMAN

R D Ward FINANCE DIRECTOR

The notes set out on pages 39 to 77 form part of these accounts.

Consolidated and company cash flow statement

for the year ended 31 December 2005

		Group		Company	
	Notes	2005 £m	2004 £m	2005 £m	2004 £m
Cash flows from operating activities					
Operating profit/(loss)		23.7	20.2	(3.7)	(3.4)
Adjustments for:					
Profit/(loss) before tax from discontinued operations		5.6	(2.7)	–	–
Depreciation		2.4	1.7	0.8	0.1
Profit on sale of property, plant and equipment		(11.4)	–	–	–
Profit on sale of investments		(0.6)	–	–	–
Difference between ordinary pension contributions paid and amount recognised in the income statement		(0.1)	(0.9)	1.6	1.6
		19.6	18.3	(1.3)	(1.7)
Increase in trade and other receivables		(7.0)	(8.0)	(9.6)	(1.0)
Increase in trade and other payables		21.2	12.5	10.2	0.6
Increase in provisions		3.2	0.7	0.2	–
Cash generated from operations		37.0	23.5	(0.5)	(2.1)
Income tax (paid)/repaid		(6.5)	(4.5)	1.2	0.1
Interest paid		(0.1)	–	(0.2)	–
Net cash flow from operating activities		30.4	19.0	0.5	(2.0)
Cash flows from investing activities					
Interest received		1.3	1.1	0.5	0.4
Purchase of property, plant and equipment		(20.7)	(1.1)	(7.1)	(0.5)
Proceeds from sale of investments		0.8	0.2	–	0.1
Proceeds from sale of property, plant and equipment		15.2	0.1	–	–
Purchase of available-for-sale financial assets		(1.2)	(0.3)	–	(0.1)
Special contribution to pension scheme		(10.0)	–	(10.0)	–
Acquisition of a subsidiary, net of cash acquired		(3.2)	(3.3)	(0.5)	(3.3)
Dividends received from associates and joint venture		0.3	0.3	–	–
Dividends received		0.3	1.0	13.6	3.2
Net cash flow from investing activities		(17.2)	(2.0)	(3.5)	(0.2)
Cash flows from financing activities					
Payments to minority interests		(5.7)	–	–	–
Dividends paid		(4.2)	(3.1)	(4.3)	(3.1)
Proceeds from/(repayment of) borrowings		6.5	(1.5)	2.9	–
Proceeds from issues of shares		–	0.5	6.4	0.5
Net cash flow from financing activities		(3.4)	(4.1)	5.0	(2.6)
Net increase/(decrease) in cash and cash equivalents					
		9.8	12.9	2.0	(4.8)
Cash and cash equivalents at 1 January		44.0	32.0	0.8	5.6
Net foreign exchange difference		1.3	(0.9)	–	–
Cash and cash equivalents at 31 December	16	55.1	44.0	2.8	0.8

The notes set out on pages 39 to 77 form part of these accounts.

Notes to the group and company accounts

1 Corporate information

The group and company accounts of Clarkson PLC for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 3 April 2006. Clarkson PLC is a Public Limited Company incorporated in England and Wales.

The term 'company' refers to Clarkson PLC and the defined benefit pension scheme and 'group' refers to the company, its consolidated subsidiaries and the relevant assets and liabilities of the Executive Share Purchase Trust.

2 Statement of accounting policies

Basis of preparation

This is the first year in which the group and company have prepared their accounts under International Financial Reporting Standards (IFRSs) and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRSs. The group issued a press release in August 2005 incorporating its preliminary IFRS accounts for 2004. The reconciliations to IFRSs from the previously published UK GAAP accounts are summarised in note 28.

The accounting policies which follow set out those policies which apply in preparing the accounts for the year ended 31 December 2005.

The group and company accounts are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds sterling (£0.1 million) except when otherwise indicated.

Statement of compliance

The group and company accounts of Clarkson PLC have been prepared in accordance with IFRSs as adopted by the European Union as they apply to the accounts of the group and company for the year ended 31 December 2005 applied in accordance with the provisions of the Companies Act 1985. No income statement is presented for Clarkson PLC as provided by Section 230 of the Companies Act 1985.

The group and company accounts for the year ended 31 December 2005 represent the first time adoption of IFRSs. Published accounts to 31 December 2004 had previously been prepared under UK GAAP, but have been fully restated to comply with IFRSs.

The accounting policies set out below have been applied consistently to all periods presented in these group and company accounts and on preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRSs. IFRS1 'First-time Adoption of International Financial Reporting Standards' allows a number of exceptions to retrospective application of International Accounting Standards. Where Clarkson PLC has taken advantage of these exemptions it is noted below.

Basis of consolidation

The consolidated accounts incorporate the accounts of Clarkson PLC and all its subsidiary undertakings made up to 31 December each year.

The interest of minority shareholders is stated at the minority's proportion of the value of the assets and liabilities recognised and is presented separately within total equity in the consolidated balance sheet.

The results of companies acquired or disposed of during the year are included in the group from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the accounts of subsidiaries to bring the accounting policies used into line with those used by the group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation, however for the purposes of segmental reporting, internal arms-length recharges are included within the appropriate segments.

Interests in associates and joint ventures

Investments in associate and joint venture entities are accounted for under the equity method of accounting. Investments are carried in the balance sheet at cost plus post acquisition changes in the group's share in the net assets of associates

Notes to the group and company accounts

2 Statement of accounting policies *continued*

and joint ventures, less any impairment in value. The income statement reflects the after tax share of the results of the operations of associates and joint ventures.

The company's investments in subsidiaries

In its separate accounts the company recognises its investments in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of the investment.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

On disposal the attributable amount of goodwill will be included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions prior to the date of transition to IFRSs has been retained at the previous UK GAAP amount subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services: Revenue is recognised as brokerage and commission earnings from shipping related activities invoiced during the year, hire charter earnings, shipowning and other income arising from shipping research and consultancy. Invoices are raised when all material subjects are lifted or in the case of futures contracts, on the settlement date.

Sale of goods: Revenue is recognised when products are delivered.

Interest: Finance revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividends: Dividend income from investments is recognised when the shareholders' legal rights to receive payment have been established.

Rental income: Rental income arising from operating leases on properties is accounted for on a straight line basis over the lease term.

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in the income statement.

In order to hedge its exposure to certain foreign exchange risks, the group enters into forward contracts (see below for details of the group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates as an approximation of rates prevailing at the date of the transaction for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange

Notes to the group and company accounts

2 Statement of accounting policies *continued*

rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value was determined.

Retirement benefit costs

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

For the defined benefit retirement scheme, the cost of providing benefits is determined using the Projected Unit Credit Method (which in turn determines the current service cost), with full actuarial valuations being carried out on a triennial basis, and updated at each balance sheet date.

Past service costs are recognised immediately to the extent that the benefits are already vested. Otherwise, they are amortised on a straight-line basis over the period until the benefits become vested.

The interest element of the defined benefit cost is determined by applying the discount rate to the present value of the benefit obligation. Finance income arising on the defined benefit scheme is determined by applying expected rates of return on plan assets.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the statement of recognised income and expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of scheme assets. Any net asset resulting from this calculation is limited to the past service cost plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for on temporary differences. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax is calculated on an undiscounted basis at the tax rates that are enacted or substantively enacted at the balance sheet date and are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Land held for use in the production or supply of goods or services, or for administrative purposes, is stated in the balance sheet at its historic cost and tested annually for impairment.

Fleet interests, freehold and long leasehold properties, leasehold improvements, office furniture and equipment and motor vehicles are recorded at cost less accumulated depreciation and any recognised impairment loss.

Notes to the group and company accounts

2 Statement of accounting policies *continued*

Depreciation is charged on a straight-line basis over the estimated useful life (after allowing for estimated residual value) of the asset, and is charged from the time an asset becomes available for its intended use. Estimated useful lives are as follows:

Fleet interests	Over the remaining working life to scrap value
Freehold and long leasehold properties	60 years
Leasehold improvements	Over the period of the lease
Office furniture and equipment	4-10 years
Motor vehicles	4 years

Estimates of useful lives and residual scrap values are assessed annually.

At each balance sheet date, the group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss.

Investment property

Land and buildings held for long-term investment and to earn rental income are classified as investment properties. Investment properties are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged on a straight-line basis over the estimated useful life of the asset, and is charged from the time an asset becomes available for its intended use. Estimated useful lives are as follows:

Investment properties	60 years
-----------------------	----------

Impairment of assets

Where there is an indication that an asset may be impaired, or where annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs, typically at business segment or statutory company level.

The recoverable amount is the higher of the fair value less the costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

For property, plant and equipment, where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Derivatives, financial instruments, interest-bearing loans and borrowings

The group has taken advantage of the exemption not to restate comparatives for IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' but to apply these standards from 1 January 2005. Details of the remeasurements required are set out in note 21.

Derivative financial instruments and hedging

The group has adopted the following accounting policy with effect from 1 January 2005 in accordance with IAS 39 'Financial Instruments: Recognition and Measurement':

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The group uses foreign exchange contracts as cash flow hedges. The group does not use derivative financial instruments for speculative purposes.

Any derivative financial instruments are recognised at fair value. The fair value of foreign exchange contracts is calculated by reference to current exchange rates for contracts with similar instruments.

Notes to the group and company accounts

2 Statement of accounting policies *continued*

Changes in the fair value of derivative financial instruments that are designated and are effective as a cash flow hedge are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

Cash flow hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Changes in the fair value of derivative financial instruments that do not qualify for cash flow hedge accounting are recognised in the income statement as they arise.

The following accounting policy applied for the year ended 31 December 2004:

The group used spot and forward foreign currency contracts to reduce exposure to variations in the US dollar exchange rate. The group considers these foreign currency contracts qualify for hedge accounting and gains or losses on these instruments are only recognised when the transaction occurs.

Financial assets

The group has adopted the following accounting policy with effect from 1 January 2005 in accordance with IAS 39 'Financial Instruments: Recognition and Measurement':

All investments are initially recorded at the fair value of the consideration given including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as available-for-sale financial assets, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Unquoted investments, for which there is no satisfactory method of obtaining a fair value, are held at cost.

The following accounting policy applied for the year ended 31 December 2004:

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

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original value and recoverable amount. Provision is made when there is evidence that the balances will not be recovered in full.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and bank overdrafts. The group receives cash in the ordinary course of business for onward payment to its clients. The liability to clients for such cash is included in trade and other payables due within one year.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable translation costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the group has a present obligation (legal or otherwise) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If material, provisions are discounted using an appropriate current pre-tax interest rate.

Notes to the group and company accounts

2 Statement of accounting policies *continued*

Leases

Group as a lessee: Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentive payments are amortised over the lease term.

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these accounts:

International Accounting Standards (IAS/IFRSs)

IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 19	Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
IAS 21	Amendment to IAS 21 – Net Investment in Foreign Operations	1 January 2006
IAS 39	Fair Value Option	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 January 2006
IFRIC 7	Applying the Restatement Approach under IAS 29 'Financial Reporting in Hyperinflationary Economies'	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 January 2007

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's accounts in the period of initial application.

Upon adoption of IFRS 7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

Notes to the group and company accounts

3 Revenues and expenses

	2005 £m	2004 £m
Finance revenue		
Bank interest receivable	1.3	1.1
Income from available-for-sale financial assets	0.3	1.0
	1.6	2.1
	2005 £m	2004 £m
Finance costs		
Interest-bearing loans and borrowings	(0.1)	(0.1)
	2005 £m	2004 £m
Other finance revenue – pensions		
Expected return on pension assets	6.1	5.2
Finance cost of pension scheme	(5.0)	(4.9)
	1.1	0.3
Operating profit		
Operating profit from continuing operations represents the results from operations before share of profits of associates and joint ventures, financial revenues and finance costs. This is stated after charging/(crediting):		
	2005 £m	2004 £m
Included in administrative expenses:		
Depreciation	1.9	1.7
Operating leases – minimum lease payments	4.3	2.6
– sublease receipts	(3.6)	(0.8)
Net foreign exchange differences	(1.5)	0.9
	£000	£000
Auditors' remuneration shown in thousands of pounds sterling		
Audit services – UK	207	184
Audit services – overseas	28	12
Non-audit services	109	74
Auditors' remuneration relates to services provided by Ernst & Young LLP and associates. The company's audit fee was £70,000 (2004: £55,000).		
	2005 £m	2004 £m
Investment property		
Rental income generated by investment properties	–	–
Direct expenses for investment properties generating rental income	0.1	–
	0.1	–
	2005 £m	2004 £m
Employee benefits expense		
Salaries, commission and fees	26.2	18.9
Performance related bonuses	32.6	21.9
Social security costs	5.7	3.7
Other pension costs	5.6	3.1
	70.1	47.6

Other pension costs includes £1.6 million (2004: £1.6 million) in respect of the group's defined benefit pension scheme and £1.8 million (2004: £1.5 million) in respect of the group's defined contribution pension scheme.

The numbers above include remuneration and pension entitlements for each director. Details are included in the report of the remuneration committee on pages 30 and 31.

Notes to the group and company accounts

3 Revenues and expenses *continued*

The average number of persons employed by the group during the year including executive directors is analysed below:

	2005 Number	2004 Number
UK	257	214
Americas	16	8
Rest of World	177	107
	450	329

Revenue disclosed in the income statement is analysed as follows:

	2005 £m	2004 £m
Sale of goods	4.5	2.4
Rendering of services	107.7	79.9
Rental income	3.7	0.1
Revenue	115.9	82.4
Finance revenue	1.6	2.1
Total revenue	117.5	84.5

Notes to the group and company accounts

4 Segmental information

The group's primary segmental analysis is based on the classes of business it provides. The secondary analysis is presented according to geographic markets comprising UK, Americas and the Rest of the World. This is consistent with the way the group manages itself and with the format of the group's internal financial reporting.

Clarksons chartering divisions represent ship owners and charterers in the transportation by sea of a wide range of cargoes. Dry bulk chartering involves the movement of a wide range of cargoes from grain, phosphate rock, iron ore and coal. Container chartering involves the transportation of a wide range of cargoes in containers. Deep sea chartering arranges the transport of crude oil and related products. Specialised products chartering involves petrochemical liquids and gasses, clean and dirty oil products, lubricants, vegetable oil products and mollasses. Gas chartering focuses on liquified natural gas, liquified petroleum and chemical gasses. Sale and purchase broking covers secondhand vessel transactions, demolition and vessel newbuilding.

Futures broking operation arranges principal-to-principal cash settled contracts for differences based upon standardised freight contracts. Research services encompass the provision of information and shipping publications. Logistics operations are specific projects where Clarkson has financial and operating interest in several logistics projects. Fund management represents the costs of establishing and managing the Clarkson Shipping Hedge Fund. Property services includes the provision of accommodation both within and outside the Clarkson group.

All areas of the business work closely together to provide the best possible service to our clients. Occasionally revenue is shared between different segments to reflect relative contributions to a particular transaction. Internal arms-length recharges are included within the appropriate segments.

Business segments	Revenue		Results	
	2005 £m	2004 £m	2005 £m	2004 £m
Continuing operations				
Dry bulk chartering	31.9	25.4	7.1	7.1
Container chartering	2.4	1.7	0.5	0.3
Deep sea chartering	20.2	18.3	4.8	5.3
Specialised products chartering	4.0	3.3	0.6	0.4
Gas chartering	3.4	2.0	0.2	0.4
Sale and purchase broking	32.4	16.8	9.4	4.9
Futures broking	12.3	12.4	3.6	4.2
Research services	4.5	2.4	0.8	0.5
Logistics	1.1	–	(0.4)	(0.5)
Fund management	–	–	(0.4)	–
Property services	5.5	0.1	0.3	(0.2)
	117.7	82.4		
Less property services revenue arising within the group	(1.8)	–		
Segment revenue/results	115.9	82.4	26.5	22.4
Unallocated			(2.8)	(2.2)
Share of profits of associates and joint venture			0.5	0.6
Finance revenue			1.6	2.1
Finance costs			(0.1)	(0.1)
Other finance revenue – pensions			1.1	0.3
Profit before taxation			26.8	23.1
Taxation			(8.9)	(7.4)
Profit after taxation			17.9	15.7
The share of profit of associates and joint venture is as follows:				
			2005 £m	2004 £m
Dry bulk chartering			0.2	0.2
Sale and purchase broking			0.3	0.4
			0.5	0.6

Notes to the group and company accounts

4 Segmental information *continued*

Business segments	Revenue		Results	
	2005 £m	2004 £m	2005 £m	2004 £m
Discontinued operations (see note 6)				
Pasir	0.3	1.6	11.2	0.8
CFF	4.4	3.4	(5.8)	(3.5)
	4.7	5.0	5.4	(2.7)
Finance revenue			0.2	—
Profit before taxation			5.6	(2.7)
Taxation			0.1	1.0
Profit after taxation			5.7	(1.7)

Business segments	Total assets		Total liabilities	
	2005 £m	2004 £m	2005 £m	2004 £m
Dry bulk chartering	35.8	20.0	17.1	9.0
Container chartering	0.3	0.2	0.5	0.2
Deep sea chartering	14.3	11.5	5.7	3.9
Specialised products chartering	2.0	1.1	0.5	0.2
Gas chartering	4.3	3.0	0.7	0.3
Sale and purchase broking	21.3	11.5	17.7	6.0
Futures broking	10.8	9.7	6.5	6.7
Research services	5.4	5.0	1.4	0.9
Logistics	12.1	1.8	9.7	0.7
Fund management	0.5	—	—	—
Property services	10.5	2.6	2.3	1.0
Segment assets/liabilities	117.3	66.4	62.1	28.9
Unallocated assets/liabilities	9.8	11.8	17.2	21.2
	127.1	78.2	79.3	50.1

Included within total assets shown above are investments in associates and joint venture:

	2005 £m	2004 £m
Dry bulk chartering	0.6	0.6
Sale and purchase broking	0.4	0.2
	1.0	0.8

Notes to the group and company accounts

4 Segmental information *continued*

Other information:

	Capital expenditure				Depreciation	
	Property, plant and equipment	Intangible assets	Property, plant and equipment	Intangible assets	2005	2004
	2005 £m	2005 £m	2004 £m	2004 £m	£m	£m
Dry bulk chartering	1.0	10.2	0.2	0.3	0.2	0.4
Container chartering	–	–	–	–	–	–
Deep sea chartering	0.2	–	0.1	–	0.1	0.3
Specialised products chartering	–	–	–	–	–	–
Gas chartering	–	1.9	–	–	–	–
Sale and purchase broking	–	–	0.1	–	–	0.2
Futures broking	–	–	–	–	–	–
Research services	–	–	0.1	3.2	–	–
Logistics	11.6	–	0.1	–	0.5	0.8
Fund management	–	–	–	–	–	–
Property services	8.6	–	0.6	–	1.1	–
Pasir (discontinued)	–	–	–	–	0.3	–
CFF (discontinued)	–	–	–	–	0.2	–
	21.4	12.1	1.2	3.5	2.4	1.7

Geographical segments – by origin

		Revenue		
		2005	2004	
		£m	£m	
UK		84.9	64.3	
Americas		5.6	2.0	
Rest of World		25.4	16.1	
		115.9	82.4	
		Total assets		
		2005	2004	
		£m	£m	
UK		79.2	61.7	
Americas		4.8	0.6	
Rest of World		43.1	15.9	
		127.1	78.2	
Capital expenditure				
	Property, plant and equipment	Intangible assets	Property, plant and equipment	Intangible assets
	2005	2005	2004	2004
	£m	£m	£m	£m
UK	11.8	1.9	0.8	3.5
Americas	–	–	0.1	–
Rest of World	9.6	10.2	0.3	–
	21.4	12.1	1.2	3.5

Notes to the group and company accounts

5 Taxation

Tax charged in the income statement

	2005 £m	2004 £m
Current income tax		
UK corporation tax – continuing operations	5.5	6.7
– discontinued operations	(0.8)	(1.1)
UK corporation tax	4.7	5.6
Foreign tax – continuing operations	1.7	1.0
– discontinued operations	0.1	–
Total current income tax	6.5	6.6
Deferred tax		
Origination and reversal of temporary differences – continuing operations	1.7	(0.3)
– discontinued operations	0.6	0.1
Total charge in the income statement	8.8	6.4
The tax charge in the income statement is disclosed as follows:		
Income tax expense on continuing operations	8.9	7.4
Income tax credit on discontinued operations	(0.1)	(1.0)
	8.8	6.4

Tax relating to items charged or credited to equity

	2005 £m	2004 £m
Deferred tax (credit)/charge: Actuarial gains/losses on pension schemes (see note 20)	(1.1)	1.0
Tax (credit)/charge in the statement of recognised income and expense	(1.1)	1.0

Reconciliation of the total tax charge

The tax expense in the income statement for the year is lower (2004: higher) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are reconciled below:

	2005 £m	2004 £m
Profit from continuing operations before taxation	26.8	23.1
Profit/(loss) from discontinued operations	5.6	(2.7)
Accounting profit before income tax	32.4	20.4
Accounting profit at UK standard rate of corporation tax of 30.0%	9.7	6.1
Effects of:		
Expenses not deductible for tax purposes	2.3	0.6
Non-taxable income	(0.5)	(0.4)
(Lower)/higher tax rates on overseas earnings	(2.8)	0.1
Decelerated capital allowances	–	0.1
Other adjustments	0.1	(0.1)
Total tax expense reported in the income statement	8.8	6.4

Notes to the group and company accounts

5 Taxation *continued*

Deferred tax

Deferred tax included in the group income statement is as follows:

	2005 £m	2004 £m
Accelerated capital allowances	0.3	–
Employee benefits	1.4	0.1
Other temporary differences	0.6	(0.3)
	2.3	(0.2)

Deferred tax included in the balance sheet is as follows:

	Group balance sheet		Company balance sheet	
	2005 £m	2004 £m	2005 £m	2004 £m
Deferred tax asset				
Employee benefits – on pension contribution	2.3	–	2.3	–
– on pension benefit liability	0.1	2.4	0.1	2.4
Other temporary differences	0.9	0.7	–	–
Deferred tax asset	3.3	3.1	2.4	2.4
Deferred tax liability				
Other temporary differences	(1.8)	(0.2)	(0.5)	(0.2)
Deferred tax liability	(1.8)	(0.2)	(0.5)	(0.2)

There are no potential unrecognised deferred tax assets at 31 December 2005 (2004: £0.3 million) in respect of decelerated capital allowances that are not expected to reverse in the foreseeable future.

There are no unrecognised deferred tax liabilities on temporary differences associated with investments in subsidiaries, associates and joint ventures (2004: £0.1 million).

There are no income tax consequences attaching to the payment of dividends by Clarkson PLC to its shareholders.

Notes to the group and company accounts

6 Discontinued operations

During the first half of 2005 the group sold its two combination carriers as operated by Pasir Bulk Carriers Pte Limited ('Pasir'), its logistics – outsourcing business. This company is now in solvent liquidation.

In December 2005 the board agreed to cease the operations of Channel Freight Ferries Limited ('CFF'), its logistics – ferry business.

The results of the discontinued operations for the year are presented below:

	Pasir £m	CFF £m	2005 Total £m	Pasir £m	CFF £m	2004 Total £m
Revenue	0.3	4.4	4.7	1.6	3.4	5.0
Administrative expenses	(0.5)	(10.2)	(10.7)	(0.8)	(6.9)	(7.7)
Operating profit/(loss)	(0.2)	(5.8)	(6.0)	0.8	(3.5)	(2.7)
Finance revenue	0.2	–	0.2	–	–	–
Profit on disposal on sale of vessels	11.4	–	11.4	–	–	–
Profit/(loss) before taxation	11.4	(5.8)	5.6	0.8	(3.5)	(2.7)
Taxation	(0.3)	0.4	0.1	–	1.0	1.0
Profit/(loss) after taxation	11.1	(5.4)	5.7	0.8	(2.5)	(1.7)

The tax charge relates to the profit or loss on discontinued ordinary activities.

The net cash flows attributable to the discontinued operations are as follows:

	2005 £m	2004 £m
Operating cash flows	–	(1.2)
Investing cash flows – proceeds from sale of property, plant and equipment	15.2	–
– purchase of property, plant and equipment	–	(0.1)
Financing cash flows – repayment of borrowings	(1.7)	(1.3)
Net cash inflows/outflows	13.5	(2.6)

Profit/(loss) per share from discontinued operations:

	2005 pence per share	2004 pence per share
Basic	7.9p	(12.0)p
Diluted	7.8p	(12.0)p

Notes to the group and company accounts

7 Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent 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:

	2005 £m	2004 £m
Net profit attributable to ordinary equity holders of the parent		
– continuing operations	17.9	15.7
Net profit/(loss) attributable to ordinary equity holders of the parent after minority interests		
– discontinued operations	1.2	(2.0)
Net profit attributable to ordinary equity holders of the parent	19.1	13.7

	2005 Number	2004 Number
Weighted average number of ordinary shares (excluding Executive Share Purchase Trust shares) for basic earnings per share	16,451,505	16,011,931
Dilutive effect of deferred share consideration and share options	199,236	2,852
Weighted average number of ordinary shares (excluding Executive Share Purchase Trust shares) adjusted for the effect of dilution	16,650,741	16,014,783

8 Dividends

	2005 £m	2004 £m
Declared and paid during the year:		
Final dividend for 2004 of 16.0 pence per share (2003: 10.5 pence per share)	2.6	1.7
Interim dividend for 2005 of 10.0 pence per share (2004: 9.0 pence per share)	1.6	1.4
Dividend paid	4.2	3.1
Proposed for approval at AGM (not recognised as a liability at 31 December):		
Final dividend for 2005 proposed of 22.0 pence per share (2004: 16.0 pence per share)	3.6	2.6

Notes to the group and company accounts

9 Property, plant and equipment

31 December 2005

	Group					
	Fleet interests £m	Freehold and long leasehold properties £m	Leasehold under 50 years £m	Office furniture and equipment £m	Motor vehicles £m	Total £m
Original cost						
At 1 January 2005	5.2	1.2	3.3	5.3	0.6	15.6
Additions	11.5	1.7	–	7.3	0.2	20.7
Arising on acquisition	–	0.7	–	–	–	0.7
Reclassifications (see note 10)	–	(0.6)	–	–	–	(0.6)
Disposals	(5.8)	–	(2.5)	–	(0.1)	(8.4)
Foreign exchange differences	0.6	–	(0.1)	–	–	0.5
At 31 December 2005	11.5	3.0	0.7	12.6	0.7	28.5
Depreciation						
At 1 January 2005	1.5	0.3	2.7	4.8	0.1	9.4
Provided during the year	0.8	0.1	0.1	1.3	0.1	2.4
Reclassifications (see note 10)	–	(0.2)	–	–	–	(0.2)
Disposals	(2.0)	–	(2.6)	–	–	(4.6)
Foreign exchange differences	0.2	–	–	–	–	0.2
At 31 December 2005	0.5	0.2	0.2	6.1	0.2	7.2
Net book value at 31 December 2005	11.0	2.8	0.5	6.5	0.5	21.3

At 31 December 2005 fleet interests with a net book value of £8.2 million were pledged as security for a loan with an outstanding principal value of £5.3 million.

31 December 2004

	Group					
	Fleet interests £m	Freehold properties £m	Leasehold under 50 years £m	Office furniture and equipment £m	Motor vehicles £m	Total £m
Original cost						
At 1 January 2004	5.6	1.1	2.7	5.0	0.5	14.9
Additions	–	–	0.6	0.3	0.2	1.1
Arising on acquisition	–	–	–	–	0.1	0.1
Disposals	–	–	–	–	(0.2)	(0.2)
Foreign exchange differences	(0.4)	0.1	–	–	–	(0.3)
At 31 December 2004	5.2	1.2	3.3	5.3	0.6	15.6
Depreciation						
At 1 January 2004	0.9	0.2	2.5	4.1	0.2	7.9
Provided during the year	0.7	0.1	0.2	0.7	–	1.7
Disposals	–	–	–	–	(0.1)	(0.1)
Foreign exchange differences	(0.1)	–	–	–	–	(0.1)
At 31 December 2004	1.5	0.3	2.7	4.8	0.1	9.4
Net book value at 31 December 2004	3.7	0.9	0.6	0.5	0.5	6.2

At 31 December 2004 fleet interests with a net book value of £3.7 million were pledged as security for a loan with an outstanding principal value of £1.7 million.

Notes to the group and company accounts

9 Property, plant and equipment *continued*

31 December 2005

	Company			
	Freehold and long leasehold properties £m	Leasehold under 50 years £m	Office furniture and equipment £m	Total £m
Original cost				
At 1 January 2005	0.9	0.5	–	1.4
Additions	1.7	–	5.4	7.1
Reclassifications (see note 10)	(0.6)	–	–	(0.6)
At 31 December 2005	2.0	0.5	5.4	7.9
Depreciation				
At 1 January 2005	0.3	–	–	0.3
Provided during the year	0.1	0.1	0.6	0.8
Reclassifications (see note 10)	(0.2)	–	–	(0.2)
At 31 December 2005	0.2	0.1	0.6	0.9
Net book value at 31 December 2005	1.8	0.4	4.8	7.0

31 December 2004

	Company			
	Freehold properties £m	Leasehold under 50 years £m		Total £m
Original cost				
At 1 January 2004	0.9	–		0.9
Additions	–	0.5		0.5
At 31 December 2004	0.9	0.5		1.4
Depreciation				
At 1 January 2004	0.2	–		0.2
Provided during the year	0.1	–		0.1
At 31 December 2004	0.3	–		0.3
Net book value at 31 December 2004	0.6	0.5		1.1

Notes to the group and company accounts

10 Investment property

31 December 2005

	Group and company £m
Cost	
At 1 January 2005	–
Reclassifications (see note 9)	0.6
At 31 December 2005	0.6
Depreciation	
At 1 January 2005	–
Reclassifications (see note 9)	0.2
Provided during the year	–
At 31 December 2005	0.2
Net book value at 31 December 2005	0.4

The fair value of the investment property at 31 December 2005 was £0.9 million.

During 2005 the property at Godalming, Surrey was reclassified under IAS 40 'Investment Property' as an investment property and transferred from 'freehold properties'.

There were no investment properties in 2004.

11 Intangible assets

31 December 2005

	Group goodwill £m
Cost	
At 1 January 2005	5.8
Acquisition of subsidiary and business	12.1
At 31 December 2005	17.9
Amortisation	
At 1 January 2005	0.2
At 31 December 2005	0.2
Net book value at 31 December 2005	17.7

31 December 2004

	Group goodwill £m
Cost	
At 1 January 2004	2.3
Additions	3.5
At 31 December 2004	5.8
Amortisation	
At 1 January 2004	0.2
At 31 December 2004	0.2
Net book value at 31 December 2004	5.6

Notes to the group and company accounts

11 Intangible assets *continued*

Acquisition of Maredorado Srl and subsidiaries ('Ferrobulk') and a Liquid Petroleum Gas ('LPG') business

In March 2005 the group acquired 100% of the voting shares of Maredorado Srl together with its subsidiaries ('Ferrobulk') with an effective date of 1 January 2005. Ferrobulk, based in Genoa, was a privately owned shipbroker with 30 staff serving predominantly the dry bulk sector.

During 2005 the group acquired a liquid petroleum gas brokerage business.

The goodwill arising on these acquisitions results from benefits which cannot be separately quantified and recorded. The Ferrobulk deal enables Clarksons to take advantage of a strong brand name coupled with a skilled workforce which provides a substantial operating platform in the Italian market. The LPG team has given us immediate access to new ship and brokerage opportunities in the growing liquified petroleum gas sector.

The fair and carrying values of the identifiable assets and liabilities of Ferrobulk and the LPG business at the date of acquisition were as follows:

	Ferrobulk		LPG	
	Book value £m	Fair value £m	Book and fair value £m	Fair value to group £m
Property, plant and equipment	0.4	0.7	–	0.7
Trade receivables	1.0	1.0	–	1.0
Other receivables	0.2	0.2	–	0.2
Prepayments	0.1	0.1	–	0.1
Cash and short-term deposits	1.4	1.4	–	1.4
	3.1	3.4	–	3.4
Other payables	(1.7)	(1.7)	–	(1.7)
Accruals	(0.1)	(0.1)	–	(0.1)
Taxation	(0.3)	(0.3)	–	(0.3)
Other tax and social security	(0.3)	(0.3)	–	(0.3)
	(2.4)	(2.4)	–	(2.4)
	0.7			
Fair value of net assets		1.0	–	1.0
Goodwill arising on acquisitions		10.2	1.9	12.1
		11.2	1.9	13.1
	Ferrobulk £m	LPG £m	Total £m	
Discharged by:				
Fair value of shares issued (Ferrobulk 86,234 shares, LPG 190,000 shares)	0.8	1.9	2.7	
Cash	3.7	–	3.7	
Costs associated with acquisition, settled in cash	0.9	–	0.9	
Deferred consideration	5.8	–	5.8	
	11.2	1.9	13.1	

Deferred consideration is payable over the next three years dependent on the achievement of earnings targets over that period and is payable in cash of £3.9 million (see note 18) and shares of £1.9 million (see note 21).

Ferrobulk and the LPG businesses have contributed £5.1 million of revenue and £0.4 million to the net profit of the group in the year.

Notes to the group and company accounts

11 Intangible assets continued

Impairment of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the business units acquired. Each business is treated as a cash generating unit. The recoverable amount of each cash generating unit has been determined based on a value in use calculation using cash flow projections discounted at the group's estimated weighted average cost of capital. The projected cash flows are based on past performance and management expectations for market developments.

12 Investments in associates and joint venture

	Group	
	2005	2004
	£m	£m
Investments in associates	0.6	0.6
Investments in joint venture	0.4	0.2
	1.0	0.8

The investments in associates and the joint venture are listed in note 27.

Summarised financial information – associates

	2005	2004
	£m	£m
Share of the associates' balance sheet:		
Non-current assets	0.2	0.2
Current assets	1.1	0.6
Current liabilities	(0.8)	(0.5)
Net assets	0.5	0.3

	2005	2004
	£m	£m
Share of the associates' income statement:		
Revenue	1.4	1.5
Profit for the year	0.2	0.3

Summarised financial information – joint venture

	2005	2004
	£m	£m
Share of the joint venture's balance sheet:		
Current assets	0.7	0.8
Current liabilities	(0.4)	(0.6)
Net assets	0.3	0.2

	2005	2004
	£m	£m
Share of the joint venture's income statement:		
Revenue	0.9	0.8
Administrative expenses	(0.5)	(0.4)
Profit before taxation	0.4	0.4
Taxation	(0.1)	(0.1)
Profit for the year	0.3	0.3

Notes to the group and company accounts

13 Trade and other receivables

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Non-current:				
Prepayments and accrued income	0.5	0.7	0.4	0.4
Current:				
Trade receivables	20.6	12.6	–	–
Amounts owed by associates and joint venture	0.1	0.3	–	–
Other receivables	2.0	1.6	–	–
Prepayments and accrued income	2.7	2.4	0.1	0.1
Taxation	0.3	0.1	–	0.1
Owed by group companies	–	–	20.7	11.1
	25.7	17.0	20.8	11.3

14 Available-for-sale financial assets

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Unlisted shares	2.1	0.7	0.4	–

Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The unlisted available-for-sale investments are shown at cost because their fair value cannot be measured reliably.

15 Investments in subsidiaries

	Company	
	2005 £m	2004 £m
Cost at 1 January	16.8	13.5
Additions	–	3.3
Recapitalisation of existing subsidiary	0.5	–
At 31 December	17.3	16.8

During the year the company subscribed for £0.5 million of additional share capital in Clarkson Fund Management Limited.

Details of subsidiaries are listed in note 27.

Notes to the group and company accounts

16 Cash and short-term deposits

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Cash at bank and in hand	25.3	18.9	–	0.8
Short-term deposits	29.8	25.2	2.8	–
	55.1	44.1	2.8	0.8

For purposes of the cash flow statement, cash and cash equivalents comprise the following at 31 December:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Cash at bank and in hand	25.3	18.9	–	0.8
Short-term deposits	29.8	25.2	2.8	–
Bank overdrafts	–	(0.1)	–	–
Cash and cash equivalents	55.1	44.0	2.8	0.8

17 Interest-bearing loans and borrowings

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Current:				
Bank overdraft	–	0.1	–	–
US\$ 9,165,000 bank loan	0.5	–	–	–
€4,160,000 bank loan	2.9	–	2.9	–
US\$ 8,500,000 bank loan	–	1.4	–	–
	3.4	1.5	2.9	–
Non-current:				
US\$ 9,165,000 bank loan	4.8	–	–	–
US\$ 8,500,000 bank loan	–	0.3	–	–
	4.8	0.3	–	–

US\$9,165,000 bank loan: this is secured on certain fleet interests, repayable in instalments within 4 years including a final repayment of US\$3,465,600 and bears interest at LIBOR +1.35%.

€4,160,000 bank loan: this is unsecured, may be repaid at the company's discretion, bears interest at LIBOR +0.85% and is part of a facility which is reviewed on a regular basis.

US\$8,500,000 bank loan: this was secured on certain fleet interests, bore interest at LIBOR +1.50% and repaid in full during 2005.

Notes to the group and company accounts

18 Trade and other payables

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Current:				
Trade payables	7.1	4.2	–	–
Other payables	2.2	0.6	–	–
Accruals and deferred income	45.1	28.8	0.7	1.0
Other tax and social security	1.2	0.9	–	–
Owed to group companies	–	–	13.1	2.6
	55.6	34.5	13.8	3.6
Non-current:				
Other payables	0.5	0.1	–	–
Deferred consideration (see note 11)	3.9	–	–	–
	4.4	0.1	–	–

19 Provisions

31 December 2005

	Group		Company	
	Dilapidation of leasehold premises £m	Discontinued operations £m	Total £m	Dilapidation of leasehold premises £m
Current:				
Arising during the year	0.4	3.4	3.8	–
Utilised	(0.8)	–	(0.8)	–
Transferred from non-current	0.9	–	0.9	–
At 31 December 2005	0.5	3.4	3.9	–
Non-current:				
At 1 January 2005	0.9	–	0.9	–
Arising during the year	0.2	–	0.2	0.2
Transferred to current	(0.9)	–	(0.9)	–
At 31 December 2005	0.2	–	0.2	0.2

A provision is recognised for the dilapidation of various leasehold premises. A provision is recognised on the discontinued operations.

31 December 2004

	Group	Company
	Dilapidation of leasehold premises £m	Dilapidation of leasehold premises £m
Non-current:		
At 1 January 2004	0.2	–
Arising during the year	0.7	–
At 31 December 2004	0.9	–

Notes to the group and company accounts

20 Employee benefits

The group's main pension scheme is in the UK and all financial information provided in this note relates to that scheme.

Defined benefit pension scheme

The group operates a defined benefit pension scheme, which is funded by the payment of contributions to a separately administered trust fund. Scheme assets are invested in a range of pooled pension investment funds managed by professional fund managers.

Defined benefit pension arrangements give rise to open ended commitments and liabilities for the sponsoring company. As a consequence the company closed its existing defined benefit section of the UK scheme to new entrants on 31 March 2004. This section was closed to further accrual for all existing members as from 31 March 2006.

Every three years, the pension scheme must obtain from an actuary a report containing a valuation and a recommendation on rates of contribution. The most recent report was prepared as at 31 March 2004. This report showed a pension deficit of £11.9 million. Based upon interim advice from the actuaries a special contribution of £10.0 million was paid by the company to the scheme. A joint funding rate, as agreed by the actuaries, of 26% will apply until 31 March 2006; after this date the company will provide continuing funding at 10% of previously pensionable salaries.

Other pension arrangements

The company operates a funded unapproved retirement benefits scheme for UK members who joined the company after May 1989 and are therefore subject to Inland Revenue restrictions on their entitlement to benefit.

Overseas money purchase pension arrangements have been determined in accordance with local practice and regulations.

The group also operates various other 'money purchase' pension arrangements. Where required the group also makes contributions into these schemes.

The group incurs no material expenses in the provision of post-retirement benefits other than pensions.

The following tables summarise amounts recognised in the consolidated and company balance sheet and the components of net benefit expense recognised in the consolidated income statement:

Benefit liability

	Group and company	
	2005 £m	2004 £m
Defined benefit obligation	(112.8)	(95.4)
Fair value of plan assets	112.4	87.5
Benefit liability	(0.4)	(7.9)

A deferred tax asset on the above liability amounting to £0.1 million (2004: £2.4 million) is shown in note 5.

Recognised in the income statement

	Group	
	2005 £m	2004 £m
Current service cost (recognised in administrative expenses)	(1.6)	(1.6)
Interest cost on benefit obligation (recognised in other finance revenue – pensions)	(5.0)	(4.9)
Expected return on plan assets (recognised in other finance revenue – pensions)	6.1	5.2
Net benefit expense	(0.5)	(1.3)

Notes to the group and company accounts

20 Employee benefits continued

Taken to the statement of recognised income and expense

	Group and company	
	2005 £m	2004 £m
Actual return on scheme assets	17.1	8.6
Less: expected return on plan assets	(6.1)	(5.2)
	11.0	3.4
Actuarial return on defined benefit obligations	(14.7)	0.2
Actuarial (losses)/gains recognised in the statement of recognised income and expense	(3.7)	3.6
Deferred tax credit/(charge) on actuarial (losses)/gains	1.1	(1.0)
Net actuarial (loss)/gain on employee benefit obligations	(2.6)	2.6
Cumulative amount of actuarial gains recognised in the statement of recognised income and expense	-	2.6

The assets of the scheme and the expected rates of return are as follows:

	Group and company					
	Percentage of total 2005 %	Expected rate of return 2005 % pa	2005 £m	Percentage of total 2004 %	Expected rate of return 2004 % pa	2004 £m
Equities	51.4	7.5	57.7	58.0	7.5	50.8
Bonds	42.2	4.0	47.5	34.2	4.5	29.9
Property	4.5	6.5	5.0	6.3	6.5	5.5
Cash and other assets	1.9	4.5	2.2	1.5	4.8	1.3
Benefit asset	100.0		112.4	100.0		87.5

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Changes in the fair value of plan assets are as follows:

	Group and company	
	2005 £m	2004 £m
Opening fair value of plan assets	87.5	79.8
Expected return on assets	6.1	5.2
Contributions	12.1	2.9
Benefits paid	(4.3)	(3.8)
Actuarial gains	11.0	3.4
Fair value of plan assets at 31 December	112.4	87.5

The group expects to contribute £1.0 million to its defined benefit pension plan in 2006.

Notes to the group and company accounts

20 Employee benefits continued

The principal valuation assumptions are as follows:

	Group and company	
	2005 %	2004 %
Rate of increase in pensionable salaries	2.85	2.90
Rate of increase in pensions in payment	2.70 - 2.80	2.50 - 2.70
Price inflation	2.85	2.90
Discount rate for scheme liabilities	4.70	5.30

The mortality assumptions used to assess the defined benefit obligations at 31 December 2005 are based on mortality tables issued by the Continuous Mortality Investigation Bureau in 1999 (as subsequently extended) with allowance for projected longevity improvements to calendar year 2014 (current pensioners) or 2024 (non-retired members).

Changes in the fair value of the defined benefit obligation

	Group and company	
	2005 £m	2004 £m
Opening defined benefit obligation	95.4	92.5
Current service cost	1.6	1.6
Interest cost	5.0	4.9
Employee contributions	0.4	0.4
Actuarial losses/(gains)	14.7	(0.2)
Benefits paid	(4.3)	(3.8)
	112.8	95.4

Historical comparative information

	Group and company				
	2005	2004	2003	2002	2001
Defined benefit obligation	(112.8)	(95.4)	(92.5)	(82.8)	(73.7)
Fair value of plan assets	112.4	87.5	79.8	70.4	78.8
(Deficit)/surplus	(0.4)	(7.9)	(12.7)	(12.4)	5.1
Experience adjustments on plan liabilities	(14.7)	0.2	(6.0)	(7.0)	*
Experience adjustments on plan assets	11.0	3.4	5.6	(11.6)	*

* Information on experience gains and losses in 2001 is not available.

21 Capital and reserves

Share capital

	Group and company			
	2005 Number	2004 Number	2005 £m	2004 £m
Authorised				
Ordinary shares of 25p each:	20,821,154	20,821,154	5.2	5.2
Allotted, issued and fully paid				
Ordinary shares of 25p each:				
At 1 January	16,319,314	16,243,314	4.1	4.0
Issued during the year	736,164	76,000	0.2	0.1
At 31 December	17,055,478	16,319,314	4.3	4.1

On 1 February 2006 79,918 shares were admitted to the Official List to meet obligations arising from an acquisition.

Notes to the group and company accounts

21 Capital and reserves continued

Share premium	Group and company	
	2005 £m	2004 £m
At 1 January	4.5	4.1
Arising on the issue of new shares	6.6	0.4
At 31 December	11.1	4.5

Shares issued during the year	Group and company			
	2005 Number	2004 Number	2005 £m	2004 £m
Acquisitions	276,234	40,000	2.7	0.3
Deferred share consideration	199,236	–	1.9	–
Investment	47,342	–	0.4	–
Employee share schemes	213,352	36,000	1.8	0.2
	736,164	76,000	6.8	0.5

There was no cash received by the group from the issue of these shares during the year.

Profit and loss reserve reconciliation	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Profit and loss reserve at 1 January	17.1	3.9	10.5	8.2
Profit for the year attributable to equity holders of the parent	19.1	13.7	12.7	2.8
Actuarial (loss)/gain on employee benefit obligation – net of tax	(2.6)	2.6	(2.6)	2.6
Dividend paid in year	(4.2)	(3.1)	(4.3)	(3.1)
Restatement for the effects of adopting IAS 32 and IAS 39	0.5	–	–	–
Settlement of forward currency contracts	(0.1)	–	–	–
Deferred share consideration	(1.9)	–	–	–
At 31 December	27.9	17.1	16.3	10.5

Reserves

31 December 2005

	Group					Total £m
	Profit and loss £m	ESOP reserve £m	Deferred share consideration £m	Capital redemption reserve £m	Currency translation reserve £m	
At 1 January 2005	17.1	(0.4)	–	2.0	(0.4)	18.3
Remeasurement on adoption of IAS 32 and IAS 39 (see note 28):						
Trade and other receivables	0.6	–	–	–	–	0.6
Forward currency contracts	0.1	–	–	–	–	0.1
Related deferred tax	(0.2)	–	–	–	–	(0.2)
	17.6	(0.4)	–	2.0	(0.4)	18.8
Settlement of forward currency contracts	(0.1)	–	–	–	–	(0.1)
Dividend paid	(4.2)	–	–	–	–	(4.2)
ESOP shares acquired	–	(0.1)	–	–	–	(0.1)
Deferred share consideration	(1.9)	–	1.9	–	–	–
Total recognised income and expense	16.5	–	–	–	1.5	18.0
At 31 December 2005	27.9	(0.5)	1.9	2.0	1.1	32.4

Notes to the group and company accounts

21 Capital and reserves *continued*

31 December 2004

	Group				Total £m
	Profit and loss £m	ESOP reserve £m	Capital redemption reserve £m	Currency translation reserve £m	
At 1 January 2004	3.9	(0.5)	2.0	–	5.4
Dividend paid	(3.1)	–	–	–	(3.1)
ESOP share proceeds	–	0.1	–	–	0.1
Total recognised income and expense	16.3	–	–	(0.4)	15.9
At 31 December 2004	17.1	(0.4)	2.0	(0.4)	18.3

31 December 2005

	Company			Total £m
	Profit and loss £m	Capital redemption reserve £m		
At 1 January 2005	10.5	2.0		12.5
Dividend paid	(4.3)	–		(4.3)
Total recognised income and expense	10.1	–		10.1
At 31 December 2005	16.3	2.0		18.3

The profit and loss reserve of £16.3 million (2004: £10.5 million) includes a loss attributable to the defined benefit pension scheme of £0.3 million (2004: £5.5 million).

31 December 2004

	Company			Total £m
	Profit and loss £m	Capital redemption reserve £m		
At 1 January 2004	8.2	2.0		10.2
Dividend paid	(3.1)	–		(3.1)
Total recognised income and expense	5.4	–		5.4
At 31 December 2004	10.5	2.0		12.5

Nature and purpose of other reserves

ESOP reserve – group

The ESOP reserve in the group represents 205,720 shares (2004: 225,442 shares) held by the Executive Share Purchase Trust to meet obligations under various incentive schemes. The shares are stated at cost. The market value of these shares at 31 December 2005 was £1,785,650 (31 December 2004: £1,632,200). At 31 December 2005 none of these shares were under option (2004: none).

Capital redemption reserve – group and company

The capital redemption reserve arose on previous share buy-backs by Clarkson PLC.

Currency translation reserve – group

The currency translation reserve represents the currency translation differences arising from the consolidation of foreign operations.

Notes to the group and company accounts

22 Minority interests

	Group 2005 £m	Group 2004 £m
At 1 January	1.2	0.9
Share of profit for the year	4.5	0.3
Funds returned to minority shareholders	(5.7)	–
At 31 December	–	1.2

On the sale of the two vessels in Pasir Bulk Carriers Pte Limited, the available cash funds were returned by the company to its shareholders.

23 Post balance sheet event

In January 2006 the group completed the acquisition of J O Plowright & Co (Holdings) Limited ('Plowrights'). Plowrights has 26 staff predominantly serving the petrochemical, products, lubricant, gas, vegetable oil and molasses freight markets. The initial consideration for the acquisition of £8.1 million was satisfied as to £7.4 million in cash and £0.7 million by the issue of 79,918 new ordinary shares in Clarksons. Deferred consideration of up to £1.0 million may be payable over the next 2 years dependent on the achievement of performance targets over that period. Plowrights' last audited results to 31 August 2004 indicated a pre-tax loss of £0.1 million which, adjusted for non-recurring charges and using an accounting basis consistent with Clarksons, would have produced a pre-tax profit in the region of £1.25 million. Gross assets at 31 August 2004 were £2.5 million. The vendors have warranted net assets at date of completion of £0.1 million.

A considerable proportion of the Plowrights consideration has been applied in eliminating the deficit that has arisen in Plowrights' defined benefit pension scheme. Clarksons has assumed ongoing responsibility for funding the scheme which has since been closed to further accrual.

24 Financial commitments and contingencies

Operating lease commitments – group as lessee

The group has entered into commercial leases in relation to land and buildings and other assets on the basis that it is not in the group's best interests to purchase these assets. The leases have an average life of between 5 and 10 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Within one year	4.6	4.4	4.3	4.3
After one year but not more than five years	17.4	17.4	17.2	17.2
After five years	21.5	25.8	21.5	25.8
	43.5	47.6	43.0	47.3

The group and company has sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 December 2005 is £35.3m (2004: £38.1m).

Notes to the group and company accounts

24 Financial commitments and contingencies *continued*

Contingent liabilities

Commitments to suppliers:

The company has given financial commitments to various suppliers to the extent of £3.4 million (2004: £3.8 million).

A subsidiary company, H Clarkson & Company Limited, and six other parties are the defendants in a Commercial Court action commenced by a client of the subsidiary. In the proceedings, the client is claiming between US\$100 million and US\$138 million in damages. The subsidiary provided market commentary to the client prior to their acquisition of a shipping company which subsequently suffered a financial collapse. The client alleges that it relied on the commentary provided negligently by the subsidiary when evaluating this acquisition. The subsidiary has been advised its case is strongly defensible and, accordingly, no provision has been made in these accounts.

25 Financial instruments

The group's activities expose the business to a number of key risks which have the potential to affect its ability to achieve its business objectives. The following describes the group's financial and investment risk management from a quantitative and qualitative perspective.

The board is responsible for the group's systems of internal control and for reviewing their effectiveness. The systems of internal control are designed to manage rather than eliminate risk and aim to provide reasonable and not absolute assurance.

(a) Interest rate risk management

The following table sets out the carrying amount, by maturity, of the group's financial instruments that are exposed to interest rate risk:

31 December 2005	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Total £m
Fixed rate:						
Cash and short-term deposits	29.8	—	—	—	—	29.8
Floating rate:						
Cash and short-term deposits	25.3	—	—	—	—	25.3
Unsecured bank loan	(2.9)	—	—	—	—	(2.9)
Secured bank loan	(0.5)	(1.0)	(1.0)	(2.8)	—	(5.3)
At 31 December 2005	51.7	(1.0)	(1.0)	(2.8)	—	46.9
31 December 2004	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Total £m
Fixed rate:						
Cash and short-term deposits	25.2	—	—	—	—	25.2
Floating rate:						
Cash and short-term deposits	18.9	—	—	—	—	18.9
Bank overdraft	(0.1)	—	—	—	—	(0.1)
Secured bank loan	(1.4)	(0.3)	—	—	—	(1.7)
At 31 December 2004	42.6	(0.3)	—	—	—	42.3

There are no fixed rate financial liabilities.

The interest on fixed rate assets is fixed for periods of up to 1 month after the balance sheet date. Floating rate financial assets comprise cash deposits on money market deposit at call and 7 day rates.

Notes to the group and company accounts

25 Financial instruments *continued*

The other financial instruments of the group that are not included in the above are non-interest bearing.

The company held cash and cash equivalents of £2.8 million (2004: £0.8 million) held in fixed rate amounts within one year (2004: all floating rate within one year). The company also had an unsecured floating rate bank loan of £2.9 million (2004: £nil) repayable within one year.

(b) Foreign currency risk management

The US dollar is the major trading currency of the group comprising in excess of 90% of revenue in the year under review.

The group uses spot and forward foreign currency contracts only to reduce exposure to variations in the US dollar exchange rate and to meet local currency expenditure in the ordinary course of business.

At 31 December 2005, there were no cash flow hedges in place. At 31 December 2004, the group had US\$4 million outstanding forward contracts with a fair value of £0.1 million which were accounted for as hedges under UK GAAP.

The company has no significant foreign currency risks.

(c) Valuation of financial instruments

The comparison between the book and fair values of all of the group's financial instruments is:

	Book value £m	2005 Fair value £m	Book value £m	2004 Fair value £m
Financial assets				
Cash and short-term deposits	55.1	55.1	44.1	44.1
Available-for-sale financial assets	2.1	2.1	0.7	0.7
Financial liabilities				
Interest-bearing loans and borrowings (current)	3.4	3.4	1.5	1.5
Interest-bearing loans and borrowings (non-current)	4.8	4.8	0.3	0.3
Forward currency contracts	–	–	–	0.1

Market values have been used to determine the fair values of forward contracts which settled during 2005. The fair value of cash and short-term deposits and interest-bearing loans and borrowings have been calculated using market interest rates.

There are no differences between the book and fair values of the company's financial instruments.

(d) Borrowing facilities

The company has two borrowing facilities available to it. The undrawn facilities available as at 31 December 2005 were £4.1 million (2004: £2.0 million). The facilities are reviewed on a regular basis. These were the only two facilities within the group.

(e) Credit risk

There are no significant concentrations within the group and company. Credit risks arising from acting as guarantor are disclosed in note 24.

Notes to the group and company accounts

26 Related party transactions

During the year the group and company entered into transactions, in the ordinary course of business, with related parties. Those transactions, and balances outstanding at 31 December, are as follows:

	Group	
	Joint venture 2005 £m	Joint venture 2004 £m
Amounts owed by related party	0.1	0.3
	Company	
	Subsidiaries 2005 £m	Subsidiaries 2004 £m
Management fees charged by related party	0.3	0.3
Management fees charged to related party	0.9	—
Interest received from related party	0.4	0.2
Amounts owed by related party	20.7	11.1
Amounts owed to related party	13.1	2.6

Compensation of key management personnel (including directors)

There were no key management personnel in the group and company apart from the Clarkson PLC directors. Details of their compensation can be found in the report of the remuneration committee.

27 Subsidiaries, associates and joint venture

Country of incorporation and operation	Company	Percentage of equity shares
Principal subsidiaries		
UK	H Clarkson & Company Limited	100
	Calypso Shipping Investments Limited	100
	Channel Freight Ferries Limited *	100 [†]
	Clarkson Capital Limited	100 [†]
	Clarkson Ferries Limited	100
	Clarkson Financial Services Limited	100
	Clarkson Fund Management Limited	100 [†]
	Clarkson Logistics Limited	100
	Clarkson Mortgage Company Limited	100
	Clarkson Overseas Shipbroking Limited	100
	Clarkson Property Holdings Limited	100 [†]
	Clarkson Research Services Limited	100
	Clarkson Securities Limited	100
	Clarkson Shipbroking Group Limited	100 [†]
	Clarkson Shipping Investments Limited	100 [†]
	LevelSeas Limited	100
	Oilfield Publications Limited	100
	O.P.S. (Holdings) Limited	100 [†]
Australia	Clarkson Australia (Pty) Limited *	100

Notes to the group and company accounts

27 Subsidiaries, associates and joint venture *continued*

Country of incorporation and operation	Company	Percentage of equity shares
Bermuda	Clarkson International Limited *	100
	Clarkson Pacific Limited *	100
China	Bonus Plus Investments Limited *	100
	Clarkson Asia Limited *	100
	Clarkson Logistics (HK) Limited *	100
Dubai	Clarkson FZE *	100
Greece	Clarkson (Hellas) Limited	100
Italy	Clarkson (Genoa) Srl	100
	Clarkson Italia Srl	100
New Zealand	Clarkson New Zealand Limited *	100
Singapore	Clarkson Asia Pte Limited	100
	Pasir Bulk Carriers Pte Limited	58
South Africa	Clarkson South Africa Limited *	100
	Afromar Properties (Pty) Limited *	100
USA	Clarkson Shipping Services USA, Inc.*	100
Associates		
France	AGA Cofimar *	49
South Africa	Dudula Shipping Services (Pty) Limited *	50
UK	H C Shipping & Chartering Limited *	25
USA	Overseas Wiborg Chartering Co. (Partnership) *	50
Joint venture		
UK	LNG Shipping Solutions Limited	50

* Not audited by Ernst & Young LLP and associates

† Held by Clarkson PLC

All the companies in this note are engaged in the provision of shipping and shipping related services.

The group also holds investments in other subsidiaries which are either not trading or not significant. In compliance with Section 231 of the Companies Act 1985, a complete list of subsidiaries will be annexed to the company's next annual return.

Notes to the group and company accounts

28 Transition to IFRSs

The accounts for the year ended 31 December 2005 are the first the group and company is required to prepare in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Published accounts to 31 December 2004 had previously been prepared under UK GAAP, but have been fully restated to comply with IFRSs except for IAS 32 and IAS 39 as detailed below.

The accounting policies set out in note 2 have been applied consistently to all periods presented in these consolidated accounts and on preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRSs.

In preparing its opening IFRS balance sheet, the group and company has adjusted amounts reported previously in accounts prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from previous UK GAAP to IFRSs has affected the group's and company's financial position, financial performance and cash flows is set out in the following tables and the accompanying notes.

Exemptions applied

Clarkson PLC has taken the following exemptions, as permitted by IFRS 1 'First-time adoption of International Financial Reporting Standards', in the transition to IFRSs.

Business combinations: The accounting for acquisitions that occurred prior to the transition date of 1 January 2004 has not been restated.

Employee benefits: All cumulative actuarial gains and losses have been recognised in equity at the transition date. Under IAS 19 'Employee Benefits' the group has adopted early an amendment permitting the full recognition of actuarial gains and losses on an annual basis via the statement of recognised income and expense.

Cumulative translation differences: Under IAS 21 'The Effects of Changes in Foreign Exchange Rates' cumulative translation differences have been reset to zero at the transition date.

Property, plant and equipment: The group has chosen not to restate property, plant and equipment to fair value at the date of transition. These are carried at historic cost which has been taken as the effective cost for IFRS purposes.

Financial instruments: The group has taken the exemption available in IFRS 1 not to restate comparatives for IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'. Information relating to financial instruments is presented in accordance with UK GAAP. IAS 32 and IAS 39, which primarily relate to the accounting treatment and disclosure of financial instruments, were implemented with effect from 1 January 2005. As indicated in the finance director's review in the 2004 annual report, the group uses forward contracts to hedge transaction exposures. Under UK GAAP, the group applied hedge accounting principles supplemented by the disclosures required by FRS 13 'Financial Instruments'. Under IFRS, the group continues to hedge currency exposures. Hedging relationships are formally documented and it is believed that hedge accounting will continue to be allowable under IAS 39, subject to meeting hedge effectiveness testing.

The adjustments necessary to restate the accounts at 1 January 2005 are set out in note 21. These primarily relate to the remeasurement of forward currency contracts and trade and other receivables together with the related tax effect.

Notes to the group and company accounts

28 Transition to IFRSs *continued*

Reconciliation of equity at 1 January 2004 (date of transition to IFRSs)

		Group			Company		
	Notes	UK GAAP £m	Effect of transition to IFRSs £m	IFRS £m	UK GAAP £m	Effect of transition to IFRSs £m	IFRS £m
Non-current assets							
Property, plant and equipment		7.0	–	7.0	0.7	–	0.7
Intangible assets		2.1	–	2.1	–	–	–
Investments in associates and joint venture		0.5	–	0.5	–	–	–
Trade and other receivables		0.3	–	0.3	–	–	–
Available-for-sale financial assets		0.6	–	0.6	–	–	–
Investments in subsidiaries		–	–	–	13.5	–	13.5
Deferred tax asset	(c)	–	4.4	4.4	–	4.0	4.0
		10.5	4.4	14.9	14.2	4.0	18.2
Current assets							
Trade and other receivables	(c)	9.7	(0.4)	9.3	10.6	–	10.6
Cash and short-term deposits	(g)	32.0	–	32.0	5.9	(0.3)	5.6
		41.7	(0.4)	41.3	16.5	(0.3)	16.2
Current liabilities							
Interest-bearing loans and borrowings		(1.3)	–	(1.3)	–	–	–
Trade and other payables	(g)	(22.3)	–	(22.3)	(2.8)	(0.2)	(3.0)
Income tax payable		(2.8)	–	(2.8)	–	–	–
Proposed dividend	(d)	(1.7)	1.7	–	(1.7)	1.7	–
		(28.1)	1.7	(26.4)	(4.5)	1.5	(3.0)
Net current assets		13.6	1.3	14.9	12.0	1.2	13.2
Non-current liabilities							
Interest-bearing loans and borrowings		(1.9)	–	(1.9)	–	–	–
Trade and other payables		(0.2)	–	(0.2)	–	–	–
Provisions		(0.2)	–	(0.2)	–	–	–
Employee benefits	(e)	–	(12.7)	(12.7)	–	(12.7)	(12.7)
Deferred tax liability	(c)	–	(0.4)	(0.4)	–	(0.4)	(0.4)
		(2.3)	(13.1)	(15.4)	–	(13.1)	(13.1)
Net assets		21.8	(7.4)	14.4	26.2	(7.9)	18.3
Capital and reserves							
Issued capital		4.0	–	4.0	4.0	–	4.0
Share premium		4.1	–	4.1	4.1	–	4.1
ESOP reserve	(g)	(0.5)	–	(0.5)	(0.5)	0.5	–
Capital redemption reserve		2.0	–	2.0	2.0	–	2.0
Profit and loss	(h)	11.3	(7.4)	3.9	16.6	(8.4)	8.2
Clarkson PLC group shareholders' equity		20.9	(7.4)	13.5	26.2	(7.9)	18.3
Minority interests		0.9	–	0.9	–	–	–
Total equity		21.8	(7.4)	14.4	26.2	(7.9)	18.3

Notes to the group and company accounts

28 Transition to IFRSs *continued*

Reconciliation of equity at 31 December 2004

		Group			Company		
	Notes	UK GAAP £m	Effect of transition to IFRSs £m	IFRS £m	UK GAAP £m	Effect of transition to IFRSs £m	IFRS £m
Non-current assets							
Property, plant and equipment	(a)	6.6	(0.4)	6.2	1.5	(0.4)	1.1
Intangible assets	(b)	5.5	0.1	5.6	–	–	–
Investments in associates and joint venture		0.8	–	0.8	–	–	–
Trade and other receivables	(a)	0.3	0.4	0.7	–	0.4	0.4
Available-for-sale financial assets		0.7	–	0.7	–	–	–
Investments in subsidiaries		–	–	–	16.8	–	16.8
Deferred tax asset	(c)	–	3.1	3.1	–	2.4	2.4
		13.9	3.2	17.1	18.3	2.4	20.7
Current assets							
Trade and other receivables	(c)	17.7	(0.7)	17.0	11.3	–	11.3
Cash and short-term deposits	(g)	44.1	–	44.1	1.2	(0.4)	0.8
		61.8	(0.7)	61.1	12.5	(0.4)	12.1
Current liabilities							
Interest-bearing loans and borrowings		(1.5)	–	(1.5)	–	–	–
Trade and other payables	(g)	(34.5)	–	(34.5)	(3.3)	(0.3)	(3.6)
Income tax payable		(4.7)	–	(4.7)	–	–	–
Proposed dividend	(d)	(2.6)	2.6	–	(2.6)	2.6	–
		(43.3)	2.6	(40.7)	(5.9)	2.3	(3.6)
Net current assets		18.5	1.9	20.4	6.6	1.9	8.5
Non-current liabilities							
Interest bearing loans and borrowings		(0.3)	–	(0.3)	–	–	–
Trade and other payables		(0.1)	–	(0.1)	–	–	–
Provisions		(0.9)	–	(0.9)	–	–	–
Employee benefits	(e)	–	(7.9)	(7.9)	–	(7.9)	(7.9)
Deferred tax liability	(c)	–	(0.2)	(0.2)	–	(0.2)	(0.2)
		(1.3)	(8.1)	(9.4)	–	(8.1)	(8.1)
Net assets		31.1	(3.0)	28.1	24.9	(3.8)	21.1
Capital and reserves							
Issued capital		4.1	–	4.1	4.1	–	4.1
Share premium		4.5	–	4.5	4.5	–	4.5
ESOP reserve	(g)	(0.4)	–	(0.4)	(0.4)	0.4	–
Capital redemption reserve		2.0	–	2.0	2.0	–	2.0
Profit and loss	(h)	19.7	(2.6)	17.1	14.7	(4.2)	10.5
Currency translation reserve	(f)	–	(0.4)	(0.4)	–	–	–
Clarkson PLC group shareholders' equity		29.9	(3.0)	26.9	24.9	(3.8)	21.1
Minority interests		1.2	–	1.2	–	–	–
Total equity		31.1	(3.0)	28.1	24.9	(3.8)	21.1

Notes to the group and company accounts

28 Transition to IFRSs *continued*

Notes to the reconciliation of equity at 1 January 2004 and 31 December 2004

All the adjustments below represent remeasurements except where specifically identified as reclassifications.

(a) Group and company

Under UK GAAP, a lease premium amounting to £0.4 million was capitalised as part of leasehold improvements in the year ended 31 December 2004. Under IAS 17 'Leases', this premium is now reclassified as a prepayment and will continue to be amortised over the lease term.

(b) Group

Under UK GAAP, goodwill arising on acquisitions subsequent to 1 January 1998 was capitalised and amortised over a period of up to 20 years. Under IFRSs, goodwill is held at its carrying value and subject to annual impairment testing. The amortisation of goodwill for the year ended 31 December 2004 of £0.1 million has therefore been written back. Amounts recognised in the UK GAAP balance sheet at 1 January 2004 have been carried forward without adjustment into the balance sheet prepared in accordance with IFRSs as deemed cost after being tested for impairment. Goodwill previously written off to reserves in accordance with UK GAAP has not been reinstated in the balance sheet.

(c) Group and company

Under IFRSs, deferred tax is provided on all temporary differences and deferred tax assets are only recognised to the extent that they are recoverable. This has resulted in a net increase in deferred tax assets of £2.4 million relating to the pension fund deficit in the year ended 31 December 2004 (1 January 2004: £3.8 million).

Under IFRSs, a temporary difference arises on unremitted distributable earnings of overseas subsidiaries if it is probable that these funds will be remitted in the foreseeable future. As a result, the deferred tax liability for the year ended 31 December 2004 has increased by £0.2 million (1 January 2004: £0.4 million) and the deferred tax asset has increased by £nil (1 January 2004: £0.2 million).

Group

An adjustment of £0.7 million for the year ended 31 December 2004 (1 January 2004: £0.4 million) of deferred tax previously recorded in trade and other receivables under UK GAAP is now reclassified as a non-current asset.

(d) Group and company

Under UK GAAP, any dividend proposed in respect of a year is recognised in the income statement and provided for in the closing balance sheet. Under IFRSs, a declared dividend does not constitute an adjusting post balance sheet event. Hence, the provision for the final dividend of £2.6 million at 31 December 2004 (1 January 2004: £1.7 million) under UK GAAP has been reversed under IFRSs.

(e) Group and company

Defined benefit pension scheme liabilities have been recognised in the balance sheet in accordance with IAS 19, but were not recognised under previous UK GAAP. The deficit at 31 December 2004 was £7.9 million (1 January 2004: £12.7 million).

(f) Group

Under IFRS 1 exemptions, the cumulative translation differences have been set to zero at the date of transition to IFRSs. The closing balance of £0.4 million represents the amount arising in 2004.

(g) Company

Under UK GAAP, the Executive Share Purchase Trust ('ESPT') was consolidated within the company numbers as an ESOP. Under IFRSs the ESPT is shown separately. This results in a decrease in cash and short-term deposits at 31 December 2004 of £0.4 million (1 January 2004: £0.3 million), an increase in trade and other payables at 31 December 2004 of £0.3 million (1 January 2004: £0.2 million) and a decrease in the ESOP reserve at 31 December 2004 of £0.4 million (1 January 2004: £0.5 million).

Notes to the group and company accounts

28 Transition to IFRSs *continued*

(h) Group and company

The adjustments to retained earnings of the group and company are as follows:

	Notes	Group		Company	
		1 January 2004 £m	31 December 2004 £m	1 January 2004 £m	31 December 2004 £m
Goodwill amortisation	(b)	–	0.1	–	–
Deferred tax on pension fund deficit	(c)	3.8	2.4	3.8	2.4
Deferred tax on unremitted overseas earnings	(c)	(0.2)	(0.2)	(0.2)	(0.2)
Proposed dividends	(d)	1.7	2.6	1.7	2.6
Pension fund deficit	(e)	(12.7)	(7.9)	(12.7)	(7.9)
Foreign exchange differences on consolidation	(f)	–	0.4	–	–
ESOP deconsolidated from company figures	(g)	–	–	(1.0)	(1.1)
		(7.4)	(2.6)	(8.4)	(4.2)

Reconciliation of the income statement for the year ended 31 December 2004

	Notes	Group		Analysed between		
		UK GAAP £m	Effect of transition to IFRSs £m	IFRS £m	Continuing operations	Discontinued operations
Revenue		87.4	–	87.4	82.4	5.0
Administrative expenses	(i), (ii), (iii)	(70.0)	0.1	(69.9)	(62.2)	(7.7)
Operating profit		17.4	0.1	17.5	20.2	(2.7)
Share of profit of associates and joint venture	(iv)	0.8	(0.2)	0.6	0.6	–
Finance revenue		2.1	–	2.1	2.1	–
Finance costs		(0.1)	–	(0.1)	(0.1)	–
Other finance revenue – pensions	(ii)	–	0.3	0.3	0.3	–
Profit before taxation		20.2	0.2	20.4	23.1	(2.7)
Taxation	(i), (ii), (iv)	(6.5)	0.1	(6.4)	(7.4)	1.0
Profit after taxation		13.7	0.3	14.0	15.7	(1.7)
Attributable to:						
Equity holders of the parent		13.4	0.3	13.7	15.7	(2.0)
Minority interests		0.3	–	0.3	–	0.3
		13.7	0.3	14.0	15.7	(1.7)

Notes to the reconciliation of the income statement for the year ended 31 December 2004

As the company has not disclosed an income statement in the previous report and accounts, a full income statement reconciliation has not been prepared.

The adjustments to the income statement of the company are as follows:

	Notes	Year ended 31 December 2004 £m
UK GAAP profit after tax		2.1
Elimination of SSAP 24 pension charge	(iii)	2.5
IFRS pension charge	(ii)	(1.3)
Tax on above	(ii)	(0.4)
ESOP deconsolidated from company figures	(vi)	(0.1)
IFRS profit after tax		2.8

Notes to the group and company accounts

28 Transition to IFRSs *continued*

All the adjustments below represent remeasurements except where specifically identified as reclassifications.

(i) Group

Under UK GAAP, the monetary assets and liabilities held in foreign currency ledgers were considered to be separate foreign currency branches. The trading results of foreign currency branches were translated at average exchange rates, or at contracted rates if the trading results were covered by forward exchange contracts, with any exchange differences arising taken directly to reserves.

Under IAS 21 'The Effect of Changes in Foreign Exchange Rates', the trading results of foreign currency ledgers are translated at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities held in foreign currency ledgers are translated at the rate prevailing at the balance sheet date. Differences are recognised in the income statement in the period in which they arise.

Consequently a foreign exchange loss of £0.9 million before taxation relief of £0.3 million (equating to £0.6 million net) has been reclassified as a charge in the income statement in respect of such ledgers.

(ii) Group and company

Under SSAP 24 'Accounting for Pension Costs', contributions to the defined benefit pension scheme were charged to the profit and loss account in accordance with the recommendations of a qualified actuary.

Under IFRSs, pension contributions are charged in accordance with IAS 19 'Employee Benefits' which requires the removal of the SSAP 24 charge relating to the defined benefit scheme of £2.5 million (included in administrative expenses) and replacing it with the IFRS pension charge of £1.3 million. This charge is split between a current service cost of £1.6 million (included in administrative expenses), expected return on plan assets of £5.2 million (included in other finance revenue – pensions) and interest cost of £4.9m (included in other finance revenue – pensions). An adjustment of £0.4 million related to the tax effect of this adjustment.

(iii) Group

Under UK GAAP, goodwill arising on acquisitions subsequent to 1 January 1998 was capitalised and amortised over a period of up to 20 years. Under IFRSs, goodwill is held at its carrying value (the UK GAAP net book value as at 31 December 2003) and subjected to annual impairment testing. The goodwill amortisation charge of £0.1 million for 2004 under UK GAAP has been reversed for IFRS purposes.

(iv) Group and company

Under UK GAAP, any dividends paid or proposed in respect of a year are recognised in the income statement. Under IFRS, dividends are recognised as distributions from equity when paid or when there is a legal obligation to pay. Dividends of £4.0 million, paid and proposed in 2004, have been excluded from the income statement under IFRSs.

(v) Group

Under UK GAAP, the share of profits of associates and joint venture is shown before tax of £0.2 million which is included in the taxation charge. Under IFRSs, the share of profits is reported after tax with no amount in the taxation charge.

(vi) Company

Under IFRSs, the results of the ESPT have been removed from the company numbers resulting in a decrease in profit after tax of £0.1 million.

Explanation of material adjustments to the cash flow statement for the year ended 31 December 2004

Group

Short term deposits were previously included as a liquid resource under UK GAAP and hence the movement of £7.4 million was shown separately from cash on the face of the cash flow statement. Under IAS 7 'Cash Flow Statements' these have been included as a component of cash and cash equivalents and therefore are not shown separately on the face of the cash flow statement.

There were no other material adjustments to the cash flow statement as a result of adopting IFRSs, the only other change being the disclosure requirements to convert all of the previous headings into operating activities, investing activities and financing activities.

Glossary of shipping terms

Aframax

A tanker size range defined by Clarksons as between 80,000 and 120,000 dwt.

Ballast voyage

A voyage with no cargo on board to get a ship in position for the next loading port or docking. On voyage the ship is said to be in ballast.

Bareboat charter

The hire or lease of a vessel from one company to another (the charterer), which in turn provides crew, bunkers, stores and pays all operating costs.

Bulk cargo

Unpackaged cargoes such as coal, ore and grain.

Bunkers

The ship's fuel.

Cabotage

Transport of goods between two ports or places located in the same country, often restricted to domestic carriers.

Capesize

Bulk ship size range defined by Clarksons as 100,000 dwt or larger.

Charterer

Cargo owner or another person/company who hires a ship.

Charter-party

Transport contract between shipowner and shipper of goods.

CIF

Cost, insurance and freight. Delivery of goods is the seller's responsibility to the port of discharge. The freight is paid for by the supplier of goods.

Clean oil

Refined oil products such as naphtha.

COA

Contract of Affreightment. An agreement to transport a defined amount of cargo at an agreed freight rate, with the shipowner choosing the ship.

Combination carrier

Ship capable of carrying oil or dry bulk cargoes, thereby increasing the productivity of the vessel. Typically termed OBO or Ore/Oiler.

Crude oil

Unrefined oil.

Daily operating costs

The costs of a vessel's technical operation, crewing, insurance and maintenance, but excluding costs of financing.

Demurrage

Money paid to shipowner by charterer, shipper or receiver for failing to complete loading/discharging within time allowed according to charter-party.

Dirty oil

Less refined of the oil products such as fuel oil.

Dry (market)

Generic term for the bulk market.

Dry cargo carrier

A ship carrying general cargoes or sometimes bulk cargo.

Dry docking

To put a vessel into a dry dock for inspection, repair and maintenance. Normally done on a regular basis.

Dwt

Deadweight ton. A measure expressed in metric tons (1,000 kg) or long tons (1,016 kg) of a ship's carrying capacity, including bunker oil, fresh water, crew and provisions. This is the most important commercial measure of the capacity.

FFA

A Forward Freight Agreement is a cash contract for differences requiring no physical delivery based on freight rates on standardised trade routes.

FOB

Free On Board. Cost of the delivery of goods is the seller's responsibility only up to the port of loading. The freight is paid for by the buyer of the goods.

FOB (estimate)

Forward Order Book represents estimated commissions collectable over the duration of the contract as principal payments fall due. The forward order book is not discounted.

FOSVA

Forward Ship Value Agreement. An FFA based product designed specifically for the sale and purchase market.

Freight rate

The agreed charge for the carriage of cargo expressed per ton(ne) of cargo (also Worldscales in the tanker market) or as a lump sum.

Handysize/Handymax

Bulk ship size ranges of ships defined by Clarksons as 10-40,000 dwt and 40-60,000 dwt.

IMO

International Maritime Organisation: a United Nations agency devoted to shipping.

Glossary of shipping terms

ISM code

International Safety Management code for the safe operation of ships and for pollution prevention as adopted by the IMO.

LNG

Liquefied Natural Gas.

LPG

Liquefied Petroleum Gas.

MOA

Memorandum of agreement.

OBO

Oil, Bulk, Ore carrier (see Combination carrier).

Oil tanker

Tanker carrying crude oil or refined oil products.

Panamax

Bulk ship size range defined by Clarksons as 60-100,000 dwt. Strictly speaking the largest ship capable of navigating in the Panama Canal.

Parcel tanker

Tanker equipped to carry several types of cargo simultaneously.

Product tanker

Tanker that carries refined oil products.

Reefer

A vessel capable of handling refrigerated cargoes such as meat, fish and fruit.

Ro-Ro

An abbreviation for roll-on roll-off, describing vessels where vehicles drive onto and off the vessels.

Shipbroker

A person/company who on behalf of shipowner/shipper negotiates a deal for the transportation of cargo at an agreed price. Shipbrokers also act on behalf of shipping companies in negotiating the purchasing and selling of ships, both second-hand tonnage and newbuilding contracts.

Shuttle tanker

Tanker carrying oil from offshore fields to terminals.

Spot business

Broker commission negotiated and invoiced within the same business year.

Spot market

Short term contracts for voyage, trip or short term time charters, normally no longer than three months in duration.

Suezmax

A tanker size range defined by Clarksons as 120,000-200,000 dwt.

TEU

Twenty foot Equivalent Units. The unit of measurement of a standard twenty foot long container.

Time charter (t/c)

An arrangement whereby a shipowner places a crewed ship at a charterer's disposal for a certain period. Freight is customarily paid periodically in advance. The charterer also pays for bunker, port and canal charges.

Time Charter Equivalent (TCE)

Gross freight income less voyage costs (bunker, port and canal charges), usually expressed in US\$ per day.

Ton/Tonne

Imperial/Metric ton of 2,240 lbs/1,000 kilos (2,204 lbs).

ULCC

Ultra Large Crude Carrier. Tanker of more than 320,000 dwt.

VLCC

Very Large Crude Carrier. Tanker between 200,000 and 320,000 dwt.

Voyage charter

The transportation of cargo from port(s) of loading to port(s) of discharge. Payment is normally per ton(ne) of cargo, and the shipowner pays for bunker, port and canal charges.

Voyage costs

Costs directly related to a specific voyage (eg. bunker, port and canal charges).

Wet (market)

Generic term for the tanker market.

Worldscale (WS)

An international index of freight for tankers. Worldscale is a schedule of freight rates for a standard ship in US dollars per tonne of oil for an array of oil routes. The rates listed in the table are designated as Worldscale Flat or WS100 and are revised annually.

The above glossary is intended to assist the general reader of these accounts and is not definitive.

Five year financial record

Income statement

	Under IFRSs		Under UK GAAP		
	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Revenue – continuing operations	115.9	82.4	56.8	35.1	42.5
Administrative expenses	(92.2)	(62.2)	(45.5)	(31.4)	(35.2)
Operating profit – continuing operations	23.7	20.2	11.3	3.7	7.3
Profit before taxation – continuing operations	26.8	23.1	11.0	4.3	9.3
Taxation	(8.9)	(7.4)	(4.1)	(1.7)	(3.3)
Profit for the year – continuing operations	17.9	15.7	6.9	2.6	6.0

Cash flow

	Under IFRSs		Under UK GAAP		
	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Net cash inflow from operating activities	30.4	19.0	22.4	1.4	13.9

Balance sheet

	Under IFRSs		Under UK GAAP		
	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Non-current assets	46.3	17.1	10.2	12.6	6.0
Trade and other receivables	25.7	17.0	10.0	7.1	6.8
Cash and short-term deposits	55.1	44.1	32.0	16.2	19.4
Current liabilities	(67.7)	(40.7)	(28.1)	(15.1)	(18.2)
Non-current liabilities	(11.6)	(9.4)	(2.3)	(4.0)	–
	47.8	28.1	21.8	16.8	14.0

Statistics

	Under IFRSs		Under UK GAAP		
	2005	2004	2003	2002	2001
Earnings per share – basic continuing operations	108.9p	98.0p	46.9p	18.0p	42.3p
Dividends per share	32.0p	25.0p	17.5p	15.0p	15.0p

The information for 2004 and 2005 is prepared under IFRSs but that for 2001 to 2003 was prepared under UK GAAP. An explanation of the effect of the transition to IFRSs is shown in note 28 to the accounts.

Furthermore the 2005 report and accounts provides a detailed segmental analysis of some of the information shown above; this includes 2004 comparative data. Such segmental information is not available for 2001 to 2003.

Shareholder information

Financial calendar

Annual general meeting – 24 May 2006

Final dividend payable – 16 June 2006

Interim results for 2006 announced – September 2006

Interim dividend payable – September 2006

Final results for 2006 announced – March 2007

Advisers

Auditors

Ernst & Young LLP

Solicitors

Norton Rose

Simmons & Simmons

Stockbrokers

Panmure Gordon

JPMorgan Cazenove

Registrars

Computershare Investor Services PLC

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