Clarkson PLC Annual Report 2012

INVESTING IN THE FUTURE

Economic conditions around the globe continue to affect the shipping industry.

Despite the tough environment, we have continued to invest in our business to ensure we retain our position as the global market leader.

What's in this report

INVESTING TO EXPAND OUR GLOBAL REACH

We ensure we have the capability to match the ever changing movement in where business is being done and to make sure we have the right geographical spread of business. This year will mark 25 years since Clarksons opened an office in Hong Kong, ten years since we opened in Houston and five years of having a presence in Hamburg. This spread of offices, recently expanded with the opening of Amsterdam, underlines our global footprint.

35

offices in 15 countries

HOUSTON HAMBURG HONG KONG

Group performance

REVENUE

US$280.7m

	US$m
2012	**280.7**
2011	313.3
2010	312.6
2009	277.2
2008	460.5

REVENUE STERLING EQUIVALENT

£176.2m

	£m
2012	**176.2**
2011	194.6
2010	202.6
2009	176.7
2008	250.3

PROFIT BEFORE TAXATION*

£20.4m

	£m
2012	**20.4**
2011	32.2
2010	32.4
2009	22.5
2008	39.2

PROFIT BEFORE TAXATION**

£23.3m

	£m
2012	**23.3**
2011	35.4
2010	32.4
2009	22.5
2008	18.2

DIVIDEND PER SHARE

51p

	pence
2012	**51**
2011	50
2010	47
2009	43
2008	42

EARNINGS PER SHARE**

87.2p

	pence
2012	**87.2**
2011	134.1
2010	125.4
2009	90.0
2008	41.9

* Before exceptional item and acquisition costs

** After exceptional item and acquisition costs

Chairman's review

"Challenging times present opportunities and our history has taught us to be prepared for the future, whatever the current conditions."

Clarksons can trace its history back 160 years, but few eras have been as challenging for the shipping industry as the one we are currently experiencing. The depressed global macroeconomic situation, uncertainty caused by the Euro-crisis and a difficult debt market have conspired with natural issues, including droughts in the US last year, to produce a gloomy backdrop for the sector.

These difficult conditions put pressure on all businesses and these results show that Clarksons is not immune. However, we remain convinced that our strategy of building a broad-based business with a global footprint, which provides services which add real value to clients, works and our continuing increases in market share bears this out.

Some parts of our broking business have inevitably felt the impact of falling rates and asset values, but others have registered good growth. Financial operations have felt the double hit of start-up costs and low deal flow, but we continue to lay the foundations for the future. Our rapidly growing support and world-leading research divisions have both performed strongly.

All employees have worked hard to achieve these results, but management realises that when the market offers little help, focus on costs and improving efficiency within the business are key.

Control of costs is always important, but comforted by our strong balance sheet we also continue to invest in our strategy. We recruit and develop the best people, give them the best technology to do their job and provide them with the best support network. This gives us the tools to service clients, develop our business and deliver value to investors.

Results

Underlying profit before tax of £20.4m (2011: £32.2m) was lower than the previous year, resulting from challenging market conditions. The underlying earnings per share was 76.8p (2011: 121.5p).

Basic earnings per share of 87.2p (2011: 134.1p) include the exceptional receipt of a legal settlement of £4.5m (2011: £3.2m reimbursed legal fees), and acquisition costs of £1.6m (2011: £nil).

Dividend

I am delighted that for the tenth successive year we have been able to raise our dividend payment.

The board is recommending a final dividend of 33p (2011: 32p). The interim dividend was 18p (2011: 18p) giving a total dividend of 51p (2011: 50p). The dividend is covered 1.7 times.

The dividend will be payable on 7 June 2013 to shareholders on the register as at 24 May 2013, subject to shareholder approval.

Future

Although there are few signs of improvement in the shipping markets as we begin 2013, we remain confident in our strategy and our ability to offer the best service to our clients. Challenging times present opportunities and our history has taught us to be prepared for the future, whatever the current conditions.

Bob Benton Chairman

INVESTING TO EXTEND OUR MARKET SHARE

We continue to develop our services and equip Team Clarksons with the right tools to help our clients and remain at the forefront of the industry. The breadth and depth of our offer continues to raise the bar in the industry and as a result we have increased market share and secured new clients during 2012. As the world's leading shipping services group we will continue to position ourselves for growth.

884

cargo types carried on vessels fixed by Clarksons

Chief executive's review

"Investment is a vital ingredient of our strategy to enhance our position as global leader in our markets and we are investing to ensure we get the right people, the best technology and products and the right worldwide footprint."

Strategic positioning

Last year the shipping markets remained significantly, and in some cases increasingly, challenged, with the market still seeking to recalibrate after the turmoil initiated by the financial crisis and the actual shrinkage of seaborne trade that followed in 2009 – the first time we had seen real contraction since 1983. Whilst the volume of seaborne trade returned to growth in 2010 and has continued to grow ever since, the new vessels ordered in the preceding strong markets have continued to deliver over the past few years. Consequently, even with substantial slippage and cancellations, delivery of vessels from shipyards has been at a significantly faster rate than the demolition of tonnage. In 2012 seaborne trade grew by approximately 4.5% (2011: 4.3%), but this was not enough to counterbalance the net fleet growth of 6.0% (2011: 8.7%).

Whilst 2012 did not therefore quite achieve a rebalance of demand/supply, it did mark some significant milestones. Firstly 2012 was a record year for the demolition of vessels and secondly, for the first time in more than ten years demolition exceeded the contracting of new tonnage.

Lower results from our broking division were symptomatic of the weakness of a market not helped by further uncertainty in the global economic outlook. Some markets have therefore experienced the worst freight environment since the 1980s, which has had an inevitable impact on Clarksons' overall financial results.

Due to a lack of available trade finance combined with continued weak freight rates and thus asset values, the market has not surprisingly seen lower sale and purchase volumes, which has meant lower revenues earned from this activity within the group. However we are pleased to report that, overall within our broking division we have still managed to grow volume and secure new clients across the group, which further reflects the hard work, professionalism, skills and unflagging enthusiasm of all in Team Clarksons. The successful execution of our strategy remains key, and within the overall result there were some bright areas, such as gas, specialised products, offshore and demolition. In these market conditions we believe it is more important than ever to support our clients, and we have continued to invest to push forward the unrivalled breadth and depth of our offer which we believe continues to raise the bar in the industry.

However, the progress made in some parts of our business was not enough to compensate for weaker performances by others, particularly our investment in our financial division. Tough market conditions have been a feature of our industry in recent times and while Clarksons has always recognised the discipline of cost control, this becomes even more essential in troubled times. We have made hard decisions and will continue to focus on this area while ensuring we support our strategy through carefully targeted investment.

Our financial division faced much tougher challenges than other parts of the group, entering new markets at a difficult time, with low liquidity of deals for the same reasons facing the sale and purchase market, but also interestingly at a time where much bigger financial institutions without the same client interaction are leaving the market. The division's losses reflected the start-up costs of our equity sales and trading operation in New York but were mainly due to the continued lack of deal flow in the sector. Accordingly we have refocused financial services to improve efficiency, addressing cost issues and closing our Dubai office.

We believe this is the right time to be developing our strengths, thereby enabling us to deliver in a market area where the board sees real opportunity. We obviously have unrivalled client interaction across the industry and the need for good information and analysis within both debt and equity markets is clear. Clarksons is attracting clients in both areas due to the strength of its expertise and contacts.

In our port services business the EnShip acquisition has delivered greater than expected synergies and this area remains a focus with an excellent platform for organic and acquisitive growth. Research continues to produce excellent results and remains at the core of everything we do in the business. We have seen in particular growth in our services business in terms of consultancy in shipping and offshore and in our valuations business. We are continuing to invest in technology in this area to create new mechanisms for client solutions and reduce production costs.

Investment is a vital ingredient of our strategy to enhance our position as global leader in our markets and we are investing more than ever before to ensure we get the right people, the best technology and products and the right worldwide footprint. Investment in people has always been key, especially when ensuring we have the right geographical and business spread. Not only have we hired exceptional senior talent, but we have continued to expand our extensive training programmes as we develop a whole new generation of industry professionals. We also believe in giving our teams the best tools for the trade, and our IT department works across the business to create bespoke platforms and to develop cutting edge tools.

We have the capability to match the ever changing movement in where business is done and while that means expanding in some markets – Singapore is now the second largest office in the group – we have also taken strategic decisions on offices where it makes sense to downsize or relocate assets. For example, we closed our office in Sydney and are reducing our presence in South Africa.

The world today has an ever increased need for transparency and corporate governance. Our investment in people and systems has not been exclusively in the revenue areas of the business, but also in human resources, legal services and in the roll-out of our own advanced accounting systems, all of which help to add rigour to our systems whilst at the same time answering the needs of clients, management and employees alike. Ensuring that Clarksons is run as efficiently as possible is an essential element of meeting our commitment to deliver value to all our shareholders. To have achieved these improvements whilst also reducing our administration costs last year underlines that commitment and is testament to our strategy.

Current trading and outlook

As we enter 2013 spot remains the predominant market and this has reduced our forward visibility on income. However, with more ships on the water our ability to earn increasing spot revenues should go some way to mitigating this situation. In the short to medium term once markets start to see a glimmer of an increase in rates they will start to take off again.

The demand/supply imbalance, which we have consistently highlighted for several years, will in each market correct itself in its own time. The existing fleet, especially the older fleet, is not only impacted by oversupply pressure but also by the introduction of new design vessels, with reduced bunker consumption levels, which is assisting the scrapping rate of older tonnage. Further, at a time when low sulphur emissions are coming into clearer focus, the challenges set by changing regulation are likely to put further pressure on the older fleet.

Debt shortage is likely to remain an issue for the industry, not helped as European banks continue to deleverage, but this offers opportunities for Clarksons, particularly within our financial division.

This year will mark 25 years since Clarksons opened an office in Hong Kong, ten years since we opened in Houston and five years of having a presence in Hamburg. This spread of offices, recently expanded with the opening of Amsterdam, underlines our global footprint, but that geographical presence is just one way we can help clients meet the challenges of their business and the markets. Clarksons will continue to invest to develop its service and equip ourselves with the right tools to help clients and to remain at the forefront of the industry. As the world's leading shipping services group we will continue to position ourselves for growth.

We are confident Clarksons will meet the market challenges, with a proven strategy, a sound balance sheet, investment in our world leading services and a commitment to deliver shareholder value.

Andi Case Chief executive

INVESTING IN TECHNOLOGY

Investing in the right tools to service our clients is crucial and these range from IT which enables departments to create bespoke platforms, to the development of cutting edge research tools. World leading technology combined with the best teams and the best support network ensures that we are at the forefront of our industry.

1bn

vessel data points captured in 2012

Divisional performance

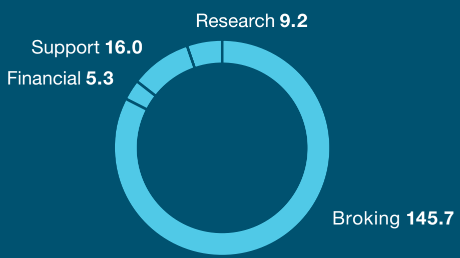
Clarksons is the world's leading provider of integrated shipping services and our network of offices across five continents gives us unrivalled strength in depth. The breadth of our business, covering all types of freight and vessel, proved invaluable in what was yet another turbulent year for the shipping industry. More than ever in these challenging markets clients need support from a provider they can trust and which can offer a full range of services.

The global economic slowdown and the uncertainty caused by the Euro-crisis had an inevitable impact on our broking business. Freight rates remained under pressure and the spot market retained its predominance as the demand/supply imbalance of recent years continued. However, our business model once again proved itself adaptable and we were able to deliver robust performances in several sectors and gain market shares.

Our financial division faced an extremely tough environment, but we have continued to strengthen relationships and develop our offer to appeal to clients still faced with difficult banking markets. Organic and acquisitive growth lifted our support division which now offers an expanded level of service. Finally, Clarksons' world class research and analysis teams delivered strong growth on continued demand for its market-leading products which underpin our activities across the company.

REVENUE

Total: £176.2m



SEGMENT RESULTS

Total: £22.3m

BROKING

Clarksons' shipbroking services are unrivalled for the number and calibre of brokers, breadth of market coverage, geographical spread and depth of intelligence resources.

REVENUE

US$232.1m

FINANCIAL

Clarksons caters for the financial services needs of the maritime, offshore and energy related markets.

REVENUE

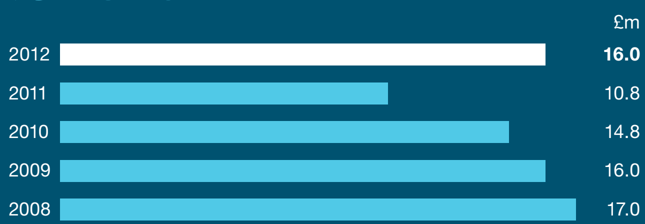
US$8.4m

SUPPORT

Clarksons is engaged in port, agency and associated services worldwide.

REVENUE

£16.0m



RESEARCH

Clarkson Research Services is recognised throughout the maritime world as the most comprehensive and reliable information provider.

REVENUE

£9.2m

Business review

BROKING

Clarksons' shipbroking services are unrivalled for the number and calibre of brokers, breadth of market coverage, geographical spread and depth of intelligence resources.

REVENUE

US$232.1m
2011: US$263.4m

SEGMENT RESULT

£25.2m
2011: £35.9m

FORWARD ORDER BOOK FOR 2013

US$81m*
At 31 December 2011 for 2012: US$91m*

* Directors' best estimates of deliverable FOB

Dry bulk

The dry bulk market reflected the slowdown in most economies worldwide and the uncertainty surrounding the Euro-crisis. Growth in dry bulk seaborne trade slowed from 5% (2011) to 3.4% (2012). Third quarter economic activity in China came under intensified pressure due to the negative sentiment created by the Euro-crisis and the looming US 'fiscal cliff'. The worst droughts in the US in 56 years added to the disappointing trade levels as seasonal grain volumes declined substantially.

While trade volume growth slowed, dry bulk newbuilding deliveries continued robustly, resulting in a year-end net fleet growth of 10.2%. The resulting imbalance between trade and fleet growth exerted severe downward pressure on freight rates which led to a year-on-year decline in the Baltic Dry Index of 43.4%.

Clarksons has once again delivered on its commitment to grow volumes and market share throughout 2012. Regional consolidation strategies continued to be implemented and seeds sown in Australia and South East Asia especially, are adding to the strength of our team in this region. Expansion in North Africa and India further strengthened our footprint in the Middle East which is benefiting from the rapid growth in coal, fertiliser and aggregates trade.

The market will continue to struggle with the impact of oversupply. However, planned increasing in cargo volumes and continued growth in demand is fundamental to our long-term belief in this sector.

Containers

Projects

With significant pressure on charter rates throughout the year and a lack of long-term fixtures at sustainable levels especially for existing tonnage, there was very little activity in the Containership Projects – S&P Markets for larger modern vessels.

With many banks having problems in their container debt portfolio, debt availability seriously impacted the broader container sale and purchase activity. Liquidity on secondhand sales was thus centred on older and smaller units which traditional cash buyers continued to pick up at levels in line with 'scrap plus' depending on survey and delivery positions. Regional operators were also attracted by smaller and older units which could be secured at scrap related levels. South East Asian buyers especially, picked up a lot of tonnage specific to their trade patterns and requirements.

Throughout the year there was an increasing focus on the fuel efficiency of new designs compared to existing designs and with the order book now down to the lowest levels since 2004 and new contracting even down to 2002 levels, there is beginning to be an increased appetite to secure positions for these modern vessels, with the main challenge being finance.

Chartering

Seaborne trade in containers has been the strongest sector in shipping for the past 40 years, but last year's growth rate slowed to 3.5%. As a consequence 2012 performed flat which was in line with expectations. While there was no immediate signs of the much sought after recovery, the continued reduction in the order book means we are closer to seeing a recovery in rates. The liner companies managed to implement some freight improvement by concerted restraint and prudent management of existing assets whether owned or time chartered. This did mean that time charter levels remained borderline for owners in most sizes of vessels, but post panamax tonnage stood out in that rates held up much better in spite of there being a reasonable supply of re-let tonnage.

For 2013 the first step will be for the lines to build again on the freight increases they managed in the last few months. Preliminary estimates point towards 6–7% trade growth in 2013.

Clarksons' team performed solidly during the last 12 months. Importantly our market coverage increased and our fixture volumes grew again, in part as a result of broker panel appointments, but also as a direct benefit of new personnel building on our existing team. While our spot performance was encouraging, there was still a lack of longer term fixing to underpin the results, a feature of the market as a whole, with the lines eschewing longer term commitment and happy to fix short with optionality. The signs are that this may not continue ad infinitum, so we are well placed for when they do start locking in more efficient tonnage for longer periods.

Deep sea

In keeping with the three previous years, 2012 proved to be a challenging freight market for deep sea tankers. However, in difficult markets the various desks performed well and either maintained or strengthened their market positions. The crude oil markets saw improvements in VLCCs, the largest of the vessels, which were offset by reductions in other sectors including the second largest suezmaxes. The refined products market was equally confused with the relative returns from larger product carriers counterbalanced by reductions in the busier medium-sized market known as MRs. There is undoubtedly reason for future optimism as freight rates in certain sectors cannot fall much further, and whenever a more buoyant market does return we remain well placed to maximise returns from our market leading position. This pre-eminent position is consolidated by our investment in research and analysis, at a time when there is a great deal of change in both the trade flow of crude and refined products, aligned with our global approach and constant improvements in the information and technology side of our business. The best teams, working with the best tools and the best support network is a business plan that cannot be replicated by our competitors in such challenging conditions.

Geneva, Houston, Singapore and Delhi all continue to consolidate positions in their respective markets and we have now commenced a deep sea operation in our Dubai office. Deep sea enters 2013 with over supply of tonnage conspiring with a very weak global economy – clearly a far from ideal scenario. Nevertheless, the experience of our various global teams combined with our investment in new people and training means that deep sea will meet these challenges head on, while preparing for the market to improve.

A clear strategy has been established and the whole team globally is working on its implementation. We feel sure that, however difficult the short term might prove to be, there are and will continue to be exciting and profitable business opportunities which Clarksons' best in class status will help us access.

Business review continued

BROKING CONTINUED

Specialised products

Clarksons' specialised products entered 2012 in a robust position, considering the undertones across the sector.

A state of supply/demand equilibrium is now at least within sight, largely due to restraint in placing new orders in recent times by owners and financiers. While the overall order book remains at meagre levels, it should be noted that a select few of the most prominent owners have opted to part-replace their fleets by placing orders at Chinese yards. Previous perceptions of low cost barriers to entry led to over ordering of tonnage by non-sector specialists and as a result over supply continues to persist to some degree. Despite there being considerable investor interest in specialised products tonnage, there is still quite a lot of distress in the owning market and a realisation that due to the contract nature of this market, there are further barriers to entry which has limited the number of new orders placed.

While economic uncertainty and consequent volatility has remained a bugbear to these markets, especially in the Western world, the emerging nations continue to power trade in today's two-speed world. China's commercial downshift impacted volume growth in the earlier part of the year, although we have seen renewed optimism for the future as the year progressed.

A number of the more established owners within this sector continue to seek opportunities to absorb capacity from those in a distressed position in order to obtain the potential efficiencies of building a critical mass of tonnage. The majority of comparable contracts of affreightment (COA) have been renewed at increased levels, although spot freight markets have typically traded in a tight range throughout the year. The seasonality experienced in the latter part of 2012, involving an upswing on a select few arterial routes, has not been as extreme as the short lived spike at the end of 2011, and a number of potential upcoming statutory and regulatory requirements look set to suppress margins for a number of market participants.

Nevertheless, the long-term outlook for the specialised products market continues to be healthy. At present, fleet growth looks set to decline further and this, coupled with steady seaborne trade volume growth across the diverse basket of cargoes that is specialised products, paints a rosier picture for the year ahead. Continued strategic shifts within the Middle East region, together with the emerging 'game-changer' that is shale gas, should act as a further catalyst for our markets.

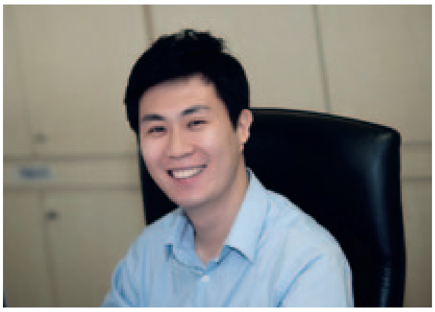
Clarksons has once again proven itself as the market leader and further grown volume in the sector.

Petrochemical gases and small LPG

2012 was challenging for both producers and owners, with market conditions softening as the year developed. Seaborne petrochemical shipments, as expected, registered a year-on-year reduction. Combined with sanctions in Iran, this resulted in increased vessel availability, which raised idle time and ballast legs. That said, the market saw an increased demand for longer haul petrochemicals, notably in C4s, where the traders utilised economies of scale on the larger semi-refs to the detriment of the smaller units.

The European pressure carrier market, traditionally a timecharter market, came under severe pressure which was not helped by the rationalisation of refinery capacity in Europe. As a consequence, players were renewing term cover, adding length to the market and reducing timecharter rate expectations. However, the Asian market held up fairly well, albeit the fleet is mostly utilised for petchems rather than LPG trade.

Many factors influence the fortunes of the petrochemical gas sector. With that caveat, trade volumes are likely to contract overall and long haul movements are likely to underpin the market before newbuildings add to vessel supply as the year progresses.



Gas

2012 saw a strong performance in all areas of activity resulting in an improvement in the number of transactions concluded across the vessel sizes and success recorded with a variety of new key customers. The freight markets were unspectacular with VLGC rates averaging little better than 2011 albeit with more pronounced volatility. The smaller LGC, Mid and handysize vessel segments were more stable and better performing although less liquid. Nevertheless, the number of deals brokered in most sectors increased, including our success in the ammonia trades which forms an important part of our activity in these segments. Most significant was the improved penetration achieved in LPG commodity brokerage which benefited from a more structured approach to that side of our business.

There were some industry setbacks during the year, namely the virtual extinction of gas exports from Iran as a result of sanctions. This seriously impacted tonne-mile demand for VLGCs and other vessels together with ongoing technical issues affecting exports from some African countries. Despite this we managed to grow market share in all geographical areas. Our brokerage presence was reinforced in Asia and Europe with further plans under consideration in keeping with anticipated market growth and shifts in trade patterns. As always our success lies in being able to maintain the strength in-depth which we have developed and continue to refine in the gas team.

2013 poses challenges for the gas markets as additional vessels enter the fleet, at first outpacing the expected growth in trade. This threatens to keep rates under pressure until the expansion in export capacity from US terminals starts to provide a stimulus later in the year. Focus in 2013 will be on reinforcing our existing areas of activity and capturing emerging markets in Asia and the US which herald change and growth opportunities in the next few years.

Business review continued

BROKING CONTINUED

Sale and purchase

Secondhand

As predicted, 2012 was extremely challenging for the shipping markets in general and for sale and purchase in particular as values continued to fall, dropping by some 30% from January to December, and traditional bank finance remained very difficult to secure.

As a result, our volume of business by number of transactions concluded reduced which, when combined with the falling values, resulted in a fall in revenue for the department as a whole compared with 2011.

However, we more than maintained market share in our more traditional sectors of deep sea tankers and dry cargo, and were pleased to see significant transactions concluded in the specialised tanker sector where we now have a dedicated team operating out of a new office in Amsterdam. Furthermore we significantly grew our recycling business, concluding more than double the transaction levels of 2011 and we are confident this will be expanded further still during 2013.

The unique working relationship between our asset, chartering and finance teams additionally supported by our analysts, has led to some very significant mandates being secured and concluded. We believe that at this time in the market this depth of understanding and service sets us aside and enables us to deliver a differentiated service and thus we are well placed to continue to grow this now important part of our department.

Offshore

2012 proved to be another year of growth for offshore despite a backdrop of more challenging trading conditions within some of the sectors covered by our global team.

Overall, the offshore picture continued to be positive in 2012 with both oil prices remaining high and oil companies continuing to increase their E&P budgets which together translated into increased investment in the offshore service sector. Charter rates and demand within the rig sector continued to remain firm and the Clarksons rig team were able to capitalise on this positivity with further new floater orders at shipyards in Asia. This in turn has further underlined not just our reputation as the leading newbuilding broker in the sector, but also increased Clarksons' global forward order book.

While in 2012 we saw more demand in both the OSV and subsea sectors, we also saw a greater supply of vessels come to the market, especially OSVs, and consequently charter rates have remained under pressure globally. We fully expect this oversupply to filter through into 2013 in certain parts of the OSV market. Rates in this sector remained at best flat compared to 2011, although we did see a significant percentage rise in fixtures globally and our OSV chartering teams in Aberdeen and Singapore were able to take advantage of this rise in demand by growing market share.

The rise in oil company investment spawned an influx of new players into the subsea space and our dedicated team in London was able to take advantage of this growth. It secured a number of long-term charters in the sector as well as helping new players enter the market through acquisition of assets and support with financing. We expect this trend to continue through 2013, with clients looking to work with our global team and to take advantage of not only our unrivalled market knowledge and experience, but also to be able to leverage the Clarksons brand in helping them to grow their companies.

Overall, 2012 was a year for growth with continued investment in people, notably including the first dedicated offshore brokerage team in Shanghai to concentrate solely on oil and gas business in China. We feel we are well placed to continue to grow our market share globally within the five core sectors of rigs, subsea, OSV, survey and renewables that we cover through our worldwide teams.

Newbuilding

2012 was a challenging year for the conventional newbuilding market, with a 30% drop in new orders taken by yards globally compared to 2011. This was highlighted with the major Korean yards struggling to meet their 2012 targets, with HHI 23% down on its 2011 results and only DSME reported to have met their 2012 target of US$11bn. The focus for the big three Korean yards during the year was more towards offshore and the expectation is that this shift will continue in 2013, with increasing management and physical capacity being committed to this sector. However, with a low volume of large asset class conventional ordering in 2012 and a heavily weighted reliance on the offshore markets to deliver new orders and to fill capacity, there will certainly be some pressure and opportunity for new business in 2013 for the conventional markets, albeit against a continually challenging economic and trading environment.

In China and despite a push for diversification away from conventional sectors into the potentially more profitable offshore and gas markets, there still remains a significant focus on their bread and butter business of dry cargo tonnage. Values in this sector have remained flat for some time now and there are no immediate signs that the Chinese yards are gearing for another push down on price to leverage new business. With dry order books now starting to diminish and new eco-efficient designs available at competitive pricing, we have seen ordering placed at the beginning of 2013 and we expect this situation to continue to some extent throughout 2013.

Although 2012 did start off slowly in terms of new orders for Clarksons' newbuilding team, the second half of the year saw an incredibly strong turnaround. We were able to use the strength of the Clarksons global reach to work exclusively on behalf of a number of clients to place orders at the leading shipyards and we managed to increase our total number of orders from 2011 levels. While we continue to believe that 2013 will remain a challenging year for newbuilding, we are confident that as a leading broker in every sector of the marine and offshore space we are well placed to continue to support all of our client's needs whatever their requirements.

INVESTING IN RESEARCH

Research is the foundation for everything Clarksons does. The unique value of Clarksons' research supports existing clients, is fundamental in winning new revenue and is recognised as adding true value. We continue to invest in Clarksons world-leading services, providing bespoke research, valuations and data for clients and expanding the provision of customer service.

3m

research items viewed and data downloads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Business review continued

FINANCIAL

Clarksons caters for the financial services needs of the maritime, offshore and energy related markets.

REVENUE

US$8.4m
2011: US$19.5m

SEGMENT RESULT

£9.9m loss
2011: £2.3m loss

FORWARD ORDER BOOK FOR 2013

US$1m*
At 31 December 2011 for 2012: US$1m*

* Directors' best estimates of deliverable FOB

Futures broking

2012 was a tough environment for dry forward freight agreements (FFAs), which remain the largest activity for Clarkson Securities, but it was a growth year in the iron ore market where we have increased our activity and volume. The container derivatives activity was thin last year, but there are positive signs the industry is adapting to index-linked contracts which are an essential foundation for a futures market to grow and thrive.

The Baltic Capesize 4TC average roughly halved in value from US$15,639 in 2011 to US$7,680 in 2012 and market volumes reduced from 509,344 lots to 461,240. In panamax the move was similar from US$14,000 to US$7,684 in notional value and from 392,557 lots to 363,977, while in supramax from US$14,401 to US$9,425 in notional value and 105,283 lots to 96,224. Given this landscape, our teams performed well and either retained or increased the market share that we have in these three sectors. Our newly established options team had a successful first year and took market share. However, in response to the harsher broking environment we have trimmed our head count and reduced our costs.

During the year, we upgraded our iron ore team, who are now located in London and Singapore. This has resulted in growth of our share in a market that more than doubled in volume from 48,075,500 mt in 2011 to 111,148,500 mt in 2012. We will continue to grow our iron ore team in Singapore as well as shifting some of our dry FFA market capability there to meet the growing demand from our clients in the region.

2013 has started with rates in all the dry markets extremely depressed, but with a more optimistic outlook for the cape sector where the supply/demand balance should result in an uplift towards the end of the year. We anticipate further growth in iron ore volume and expect to grow further our share in this activity.

Financial services

The shipping finance market remained highly challenging throughout 2012 with the global volume of shipping finance transactions reducing by more than 30% in comparison with 2011. Moreover, a large part of these volumes were in fact restructures and refinancings.

The new European core capital requirements that have come into and are due to come into force have combined with continued weakness of the underlying shipping market to have a negative effect on the lending capacity of European banks. Some European financial institutions decided to exit the shipping sector completely including the very well-publicised exit by the biggest shipping lender, currently with a portfolio in excess of US$25bn.

In this challenging environment, Clarksons continues to work with financial institutions developing a variety of alternative financing structures. Throughout 2012, Clarksons was involved in a number of high profile long-term transactions and provided support to other divisions of Clarksons.

The strategy of strengthening relationships with financial institutions is now being delivered, enhancing the Clarksons brand and substantially contributing to providing innovative solutions to our clients.

Investment services

2012 was a difficult year in the capital markets with low transaction volumes, minimal corporate activity and the majority of shipping companies trading below NAV making for extremely challenging trading conditions. As a result the company took the decision to focus the efforts of Clarkson Capital Markets on finishing the build-out of its framework in the US, whilst controlling costs across the division including closing its operation in Dubai. We are however pleased to have now established a sales and trading desk in New York, focused on servicing clients in the public and private equity markets relating to Maritime, Oil Service and Energy with specific additional focus on yield oriented and Master Limited Partnership securities.

One of the critical challenges for any new broker-dealer is to convince institutional investors to add a new broker to the firms they use already. Leading with the unique value of Clarksons' proprietary research we have been highly successful in opening new institutional accounts and our research is recognised as adding true value.

With this continued build-out of our research presence we now have full coverage in the maritime and oil service sectors, with further analysts in targeted areas of core competence due in 2013.

We have also refocused our banking activities, consolidating all investment banking in Houston. Following this move, we have been hired as lead financial advisor on maritime and oil service transactions, which we are hopeful of closing during 2013.

Business review continued

SUPPORT

Clarksons is engaged in port, agency and associated services worldwide.

REVENUE

£16.0m
2011: £10.8m

SEGMENT RESULT

£4.2m
2011: £1.7m

Port services

2012 proved an exciting and successful year for Clarkson Port Services (CPS). It saw the first full year of operating EnShip in Scotland, a new office in the Tyne, the opening of an office on the Humber and integration of freight forwarding in Great Yarmouth.

Agency

The Southern CPS offices had a good start to the year underpinned by the successful grain harvest of 2011. The 2012 harvest was, however, disappointing with much lower export volumes than expected. This necessitated a change of focus for the offices from the export to the import of grain to satisfy the UK's demands, resulting in a fairly neutral overall effect on the CPS agency revenue.

Coal and biomass volumes have held up well for our offices in Liverpool and the Tees, but we have seen a decline in our business connected with offshore renewables as the current projects come to an end and we wait for 'Round 3' of the offshore wind farm developments.

In Scotland, EnShip/Opex had an exceptional year, with its customer base particularly active in the North Sea. The further integration of our UK wide businesses has allowed us to secure agricultural bulk import and export business in Scotland, providing revenue synergies to the enlarged business. Success in Scotland has meant expansion to our office in Aberdeen and there are plans for further expansion throughout Scotland during 2013.

Stevedoring

2012 saw a fall in tonnages handled through the stevedoring business in Ipswich, caused primarily by the poor grain harvest. The effect of this on revenue has in some part been mitigated by higher volume box imports and a reduction in overheads, primarily from the cancellation of previously paid rates.

Freight forwarding

The first seven months of Clarksons' entry into the business of freight forwarding in Great Yarmouth saw revenue being injected from existing Clarkson/EnShip contacts. However, it is now encouraging to see the expansion of our overall customer base and the prospect of some large forwarding projects in 2013.

Property services

Also included within the support segment are the revenues and profits derived from property services. Clarkson PLC holds the head lease of St. Magnus House in Lower Thames Street, London EC3, with an unexpired term of three years. Clarksons occupies 32.8% of the available space, with the remainder sublet on full commercial rents. Clarkson PLC also owns the freehold of Hamilton Barr House in Godalming, which is also let on a full commercial rent.

RESEARCH

Clarkson Research Services is recognised throughout the maritime world as the most comprehensive and reliable information provider.

REVENUE

£9.2m
2011: £8.1m

SEGMENT RESULT

£2.8m
2011: £2.0m

Despite difficult markets, research revenues grew strongly during 2012, reaching £9.2m (2011: £8.1m). Underlying revenue grew by 10% during the year, supported by continued demand for our market-leading shipping products, strong growth of offshore related sales and a good performance by our service contract and valuation business. Offshore sales, excluding advertising, grew by 17% benefiting from the continued expansion of our offshore product range and increased data sales to corporate and government clients.

Clarkson Research Services (CRS) focuses primarily on the collection, validation, analysis and management of data about the merchant shipping and offshore markets. With extensive databases using the latest information management technology, CRS is now well established as a leading information provider to the shipping and offshore markets.

CRS derived its income from the following principal sources:

Digital sales

Sales from CRS's digital database products increased by 15% during the year, lifting digital's contribution to total revenue to 39%. Despite the difficult shipping markets, sales of Shipping Intelligence Network (SIN), our flagship commercial database, remained steady. In addition, sales of the World Fleet Register (WFR), our leading online vessel register, grew significantly over the year. Further data and product enhancements have helped established the WFR as an authoritative source and we continue to gain traction with our corporate and institutional client base. CRS remains the leading provider of offshore data to the insurance market and this contributed to strong growth in offshore data sales.

Our offshore database now offers our clients comprehensive access to market intelligence on structures and companies, oil and gas fields, global Geographical Information System (GIS) coverage and wide ranging commercial data.

Publications

CRS produces weekly, monthly, quarterly and annual publications, registers and maps, available both in print and online. Over recent years our well-established shipping range has been supplemented by a comprehensive offshore offering to which we made a number of enhancements in 2012. Publications, which includes digital distribution, remains an important aspect of CRS's overall offering besides generating important provenance.

Customer services

Clarkson Research continues to expand its provision of customer service contracts to a range of large corporate and institutional clients in both the shipping and offshore industries. A specialist team concentrates on managing retainers and providing bespoke research, valuations and data for banks, shipyards, fabricators, engineering companies, insurers, governments and other corporates. This continues to be an important growth area, with sales growing by 17% in 2012. Clarkson Valuations Limited remains the leading provider of valuation services to the industry.

Financial review

"We maintain our focus on cost control and efficiency and our careful stewardship of the company's finances is reflected by our strong balance sheet."

PROFIT BEFORE TAX*

£20.4m

	£m
2012	**20.4**
2011	32.2
2010	32.4

BASIC EPS*

76.8p

	pence
2012	**76.8**
2011	121.5
2010	125.4

BASIC EPS**

87.2p

	pence
2012	**87.2**
2011	134.1
2010	125.4

* Before exceptional item and acquisition costs
** After exceptional item and acquisition costs

Overview

In a challenging economic environment with freight rates at levels last seen in the 1980s and a weakening US dollar, sterling revenue fell by 9% year on year. This decline in income was partially offset by a 6% fall in administrative expenses, mainly reflecting lower performance-related pay. The group continued to be highly profitable with increased transaction volumes and further growth of both our research and port services businesses.

During the year, as previously reported, the group reached a full and final settlement with Mr Nikitin and an exceptional receipt of US$7m (£4.5m) is shown as an exceptional item. As highlighted last year, acquisition costs of £1.6m are shown in the 2012 income statement; similar costs will recur in 2013.

As indicated in 2011's review, the IAS 19 pension credit of £1.2m was not repeated, with 2012 showing a credit of £0.1m. In 2013, following the amendment to IAS 19, the pension charge is calculated by applying the discount rate to the net defined benefit liability; this will result in a charge of £0.4m. Also in 2013 the decision was made to restructure the cost base of Clarkson Capital Markets which included the closure of the Dubai operation, this will lead to an exceptional charge estimated to be £1m.The group remains cash generative, after allowing for the settlement of prior year bonuses. The balance sheet has strengthened further.

Taxation

The group's effective tax rate in 2012 was 30.4%, an increase from the 29.3% rate incurred in the previous year. This increase reflects a greater overall proportion of profits being generated in higher tax rate jurisdictions, and a bigger impact from non-deductible expenses and disallowable trading expenses.

Earnings per share (EPS)

Basic EPS before the exceptional item and acquisition costs was 76.8p (2011: 121.5p). After the exceptional item and acquisition costs the basic EPS was 87.2p (2011: 134.1p).

Dividends

The board is recommending a final dividend of 33p (2011:32p). The interim dividend was 18p (2011: 18p) which, subject to shareholder approval, would give a total dividend of 51p (2011: 50p). In taking its decision, the board took into consideration the 2012 performance, the strength of the group's balance sheet and its ability to generate cash and the forward order book. The dividend is covered 1.7 times by basic EPS.

Cash and borrowings

The group remains cash generative, after the increased levels of tax, dividend and cash required for working capital. The group ended the year with cash balances of £89.4m (2011: £132.9m). Additionally £25.2m (2011: £nil) was held in short-term notice accounts; these are classified as current investments on the balance sheet. During 2013 cash payments relating to 2012 will be made including performance-related bonuses. After deducting these items net cash and available funds amounted to £75.2m (2011: £71.1m) including balances on short-term deposit. The group maintains a multi-currency revolving credit facility of £25m; there are no current plans to draw down on this facility.

Balance sheet

Net assets at 31 December 2012 were £126.0m (2011: £123.3m). There has been a further improvement in the quality of the balance sheet whereby, before pension provisions, the group had £72.1m of net current assets and investments less non-current liabilities as at the end of 2012 (2011: £68.3m).

A detailed review of our businesses has demonstrated no need for an impairment charge in 2012.

The group's pension schemes have a combined liability before deferred tax of £9.4m (2011: £6.6m). Pension investment returns only partially offset the effects on the liabilities of reduced discount rates, at the lowest point since the pension position was first incorporated onto the balance sheet, and an increase in the CPI.

Risk management

Credit risk

The group has an extensive client base, across all regions of the world, and is exposed to credit-related losses from the non-payment of invoices by these clients. The group mitigates this risk by closely monitoring outstanding amounts, both locally and globally, and by adopting a conservative approach to accounting for bad debt. Uncertainty in freight markets continues to affect the amount of debt that may be irrecoverable.

Liquidity risk

The group's policy is to maintain facilities at such a level that they provide access to funds sufficient to meet all of its foreseeable requirements. The strong generation of cash flow in the business, combined with the available facilities and cash available in the balance sheet, means that the group is well placed to fund future developments of its global business.

Foreign exchange risk

The major trading currency of the group is the US dollar. Movements in the US dollar relative to other currencies, particularly sterling, have the potential to impact the results of the group both in terms of operating results and the revaluation of the balance sheet. Where there were borrowings taken that specifically relate to assets held in foreign currencies, the borrowings were taken in the same currency as the assets.

The group assesses the rate of exchange and non-sterling balances held continually, and has predominantly sold in the spot market during 2012, though some forward cover for 2013 and 2014 has been taken.

Interest rate risk

The group has no borrowings. Monies held on longer 95 and 100 day notice accounts earn interest based on a margin above LIBOR, the actual interest rate is reset each month.

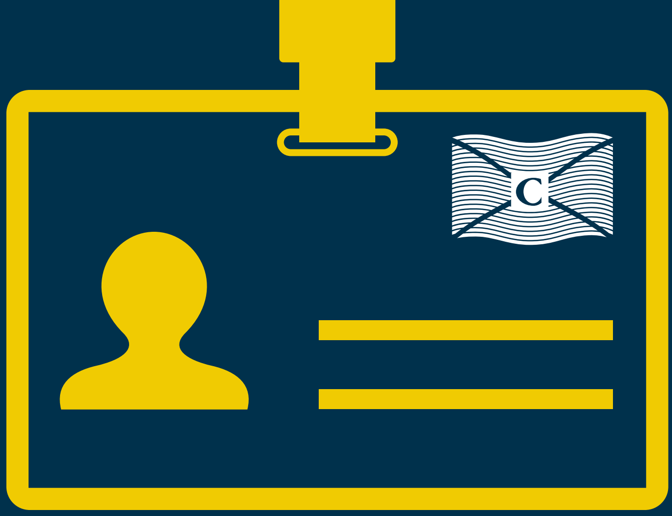
Reputational risk

The group has built an enviable reputation in the market over the past 161 years, and relies upon this to attract business from all major participants in its markets. Clarksons protects against reputational risks by promoting an ethical work environment and providing training programmes where appropriate. A dedicated training officer has been appointed and implemented a training programme to improve consistency and approach. Investment in compliance, quality assurance and legal functions also act to ensure that best practices are put in place throughout the group.

Operational risk

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

Jeff Woyda Finance director



964

employees in Team Clarksons

INVESTING IN PEOPLE

People are crucial to our success and we continue to attract and retain the best talent providing a bedrock for our future growth. As well as hiring exceptional people we have extensive training programmes as we invest in and develop a whole new generation of industry professionals.

Board of directors

From left: Bob Benton, Andi Case, Jeff Woyda

Bob Benton Chairman (Non-executive)

Bob Benton, 55, was appointed a director of the company in May 2005 and became chairman in August 2008. He has spent the majority of his career in the City of London, and is currently managing director of Bob and Co Ltd (formerly Benton Media Ltd) which is a company consulting and investing in media content. He was recently non-executive chairman of Handmade PLC until its acquisition by Almorah Services Ltd, and prior to that he was a managing director and head of media at Canaccord Adams Ltd. He was previously chief executive of Ingenious Securities Ltd, prior to which he was chairman of Bridgewell Securities Ltd, and has also held the positions of chairman and chief executive of Charterhouse Securities Ltd, global head of sales at ABN AMRO, and managing director of HSBC James Capel Ltd. In March 2011 he was appointed as a non-executive director of Talent Group PLC.

Andi Case Chief executive

Andi Case, 46, was appointed chief executive in June 2008, having previously been chief operating officer of Clarksons. He joined Clarksons in 2006 as managing director of the group's shipbroking arm, H Clarkson & Company Ltd. He began his shipbroking career with C W Kellock and later Eggar Forrester. Prior to joining Clarksons he was with Braemar Seascope for 17 years, latterly as head of sale and purchase and newbuildings.

Jeff Woyda Finance director

Jeff Woyda, 50, was appointed a director of the company in November 2006. Having qualified with KPMG, Jeff spent 13 years at GNI where he was chief operating officer and a member of the Gerrard Group PLC executive committee.

Ed Warner, James Morley

Ed Warner Non-executive director

Ed Warner, 49, is chairman of investment bank Panmure Gordon, derivatives exchange LMAX, and the Standard Life European Private Equity Trust. He is also an independent non-executive director of Grant Thornton LLP, a leading accountancy and advisory practice, and since 2007 has been chairman of UK Athletics, the sport's national governing body. In 2006 he successfully sold IFX Group PLC, the financial trading company, having been its chief executive for three years. Previously he was chief executive of Old Mutual Financial Services UK, head of Pan European Equities at BT Alex Brown, and head of global research at Dresdner Kleinwort Benson. He was a top ranked investment strategist in the leading surveys of institutional investors.

James Morley Non-executive director

James Morley is a chartered accountant with some 25 years of experience as an executive board member at both listed and private companies. Most recently, he was chief operating officer at Primary Insurance Group and prior to this was group finance director at Cox Insurance Holdings, group finance director at Arjo Wiggins Appleton PLC, group executive director (finance) at Guardian Royal Exchange and was both deputy chief executive and group finance director at AVIS Europe PLC. James started his career at Arthur Andersen & Co. He is currently senior independent director of Costain Group PLC and The Innovation Group plc, and a non-executive director of Speedy Hire PLC and BMS Associates Limited. Previously he was a non-executive director of The Bankers Investment Trust PLC, W S Atkins PLC and Trade Indemnity Group PLC. James joined the Clarksons board on 6 November 2008.

Report of the directors

The directors present their report and the audited consolidated group and company financial statements for the year ended 31 December 2012, which were approved by them on 6 March 2013.

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 related services. A review of the group's performance and likely future developments is contained in the chairman's review, the chief executive's review, the business review and the financial review on pages 5 to 27.

Principal risks and uncertainties

The principal risks and uncertainties facing the group are credit, liquidity, foreign exchange, interest rate, reputational and operational. Narrative on these risks is included in the risk management section of the financial review on page 27.

Group results and dividends

The results of the group, giving details of the profit, dividends and retained earnings are shown on pages 51 to 53. An interim dividend of 18p (2011: 18p) was paid in September 2012. The directors are recommending a final dividend, if approved, of 33p (2011: 32p), payable on 7 June 2013 to shareholders registered at the close of business on 24 May 2013, making a total dividend for the year of 51p (2011: 50p) per share.

Share price

The closing market price of the shares at 31 December 2012 was £12.00 (31 December 2011: £11.48) and the range during 2012 was £11.20 to £13.90 (2011 range: £10.15 to £13.55).

Directors

The following have been directors during the year ended 31 December 2012: Bob Benton, Andi Case, James Morley, Martin Stopford, Ed Warner, Paul Wogan and Jeff Woyda.

On 10 February 2012 Paul Wogan announced his resignation from the board. On 8 March 2012 Martin Stopford announced his retirement from the board with immediate effect.

The directors of the company as at the date of this report are shown on pages 30 and 31.

At the date of this report, each director has confirmed that they are not aware of any relevant audit information of which the auditors were unaware, and that they have taken the steps that ought to have been taken in their duty as directors to ascertain relevant audit information and establish whether the auditors are aware of it.

Re-election of directors

The company's Articles of Association require one-third of the directors who are subject to retirement by rotation to retire and submit themselves for re-election at the Annual General Meeting (AGM) each year. James Morley will retire by rotation, and being eligible, offers himself for re-election in 2013. Following a full performance evaluation during the year, he continues to be considered by the board to be effective and to demonstrate commitment to his role.

Directors' indemnities and insurance

Section 236 of the Companies Act 2006 allows companies the power to extend indemnities to directors against liability to third parties (excluding criminal and regulatory penalties) and also to pay directors' legal costs in advance, provided that these are reimbursed to the company should the individual director be convicted or, in an action brought by the company, where judgement is given against the director. The company currently has a directors' and officers' insurance policy in place which provides this cover, and this was in place throughout the year and up to the date of signing of these financial statements.

Substantial interests

The company has been notified of the following substantial interests in its issued share capital as at 28 February 2013 (being the latest practicable date prior to the approval of these accounts):

Employees and employee share trusts	22.7%
Blackrock Inc	4.8%
Kames Capital	4.4%
First Pacific Advisers LLC	3.2%
CRE Capital LLC and CRE Fiduciary Services Inc	3.1%
Heronbridge Investment Management LLP	3.0%
Legal and General Group PLC	3.0%

Save for the above, the company is unaware of any substantial interests, other than those of the directors whose interests are shown on page 46, in its issued share capital.

As at 28 February 2013, employees directly held 6.39% of the company's share capital and 16.36% was held by employee share trusts for use under the company's various incentive schemes.

Share capital and control

Details of the company's share capital are shown in note 22 to the financial statements.

The holders of ordinary shares are entitled to receive dividends when declared, the company's report and financial statements, to attend and speak at general meetings of the company, to appoint proxies and exercise voting rights.

There are no restrictions on transfer, or limitations on the holding of ordinary shares and no requirements to obtain prior approval to any transfers. No ordinary shares carry any special voting rights with regard to control of the company and there are no restrictions on voting rights. Major shareholders have the same voting rights per share as all other shareholders. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements or restrictions on share transfers or on voting rights.

Shares acquired through Clarksons' share schemes and plans rank equally with the other shares in issue and have no special rights.

The rights and obligations attached to the company's ordinary shares are set out in the company's Articles of Association, copies of which can be obtained from Companies House in the UK.

Change of control

The company is not party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

The service contracts for executive directors contain a provision whereby within 12 months of a change of control, if notice is given by the company or executive director (of not less than four weeks in the case of the latter), the executive will receive immediately an amount equivalent to 12 months salary, benefits and bonus.

Upon change of control, all unvested awards under the Clarkson PLC Long Term Incentive Plan (LTIP) would vest unconditionally, subject to the extent that any performance condition attaching to the relevant award has been achieved.

Interests in voting rights

Other than as stated on page 32, as far as the company is aware, there are no persons with significant direct or indirect holdings in the company. Information provided to the company pursuant to the Financial Services Authority's (FSA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the company's website.

The company has not acquired or disposed of any interests in its own shares.

Employment policies

Clarksons employs over 900 people throughout our global network of offices across five continents. Our people are crucial to our success and we will continue to attract and retain the best.

The company aims to create a working culture that is inclusive for all, and aims to maintain high standards and good employee relations wherever it operates.

Clarksons is an equal opportunities employer and applies employment policies which are fair and equitable. Appointments, training and career development are determined solely by application of job criteria, personal ability and competence regardless of gender, race, disability, age, sexual orientation or religious or political beliefs.

Our employment policies are developed to reflect local legal, cultural and employment requirements. We believe that having a diverse workforce helps to meet the different needs of our customers across the globe. We have an inclusive culture and environment which respects, values and makes the most of the individual differences we each bring to the company, to the benefit of our customers, employees, shareholders and wider communities. A diverse workforce helps Clarksons as a group to understand and adapt to changing customer needs and brings new perspectives on the challenges we face in everyday business.

The company is dedicated and committed to ensuring high standards in its employment policies throughout every group company and aims to provide equal opportunities for all employees. Full and fair consideration is given to applications for employment by those with a disability. For colleagues who become disabled whilst in employment of a group company, every effort is made to assist them to continue in their current role or to find continuing employment with the group where possible.

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

The policy of communication with employees is of high priority. Employees are provided with full information on all aspects of the business operations and are encouraged to have an active interest in promoting its commercial success. The company's intranet is accessible by all employees and contains current news and other employee information. 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 available on the group's corporate website: www.clarksons.com.

Employees are encouraged to become involved in the financial performance of the group through the operation of a restricted share plan and share option schemes. Employees holding restricted shares are entitled to dividends and voting rights. The Clarkson PLC Sharesave Plan was launched during 2012 giving employees the opportunity to participate in the company's growth and success.

Report of the directors continued

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the chairman's review, the chief executive's review, the business review and the financial review on pages 5 to 27. The financial position of the group, its cash flows, liquidity position and borrowing facilities are also described in the financial review. The risk management section of the financial review and note 25 to the financial statements include a description of the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The group has considerable financial resources available and a strong balance sheet, as explained in the financial review on pages 26 and 27. As a result of this, and after making enquiries, the directors believe that the group is well placed to manage its business risks successfully despite the challenging market conditions.

The directors have a reasonable expectation that the company has sufficient resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Charitable and political donations

Clarksons is committed to making a positive difference to the communities in which it operates. The company supports many charitable organisations.

During the year, the group made various charitable donations amounting in aggregate to £73,000 (2011: £169,000).

No political contributions were made.

Pension schemes

The assets of the company's pension schemes are held totally separate from the assets of the group and are invested with independent fund managers. The pension schemes are controlled by trustees who include both company and employee nominees. The trustees are responsible for looking after the assets of the pension schemes and for ensuring that their funds are only used to provide retirement benefits in accordance with their trust deeds and rules. The pension schemes' auditors and actuaries are all independent of the company. Further details are provided in note 21 to the financial statements.

Payment of liabilities

The group pays its trade payables in accordance with the terms negotiated for 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 financial statements. The group's exposure to the risks arising from financial instruments is included in note 25 to the financial statements.

Corporate governance

Please refer to the separate corporate governance statement.

Annual general meeting

Resolutions will be proposed at the AGM to be held on 10 May 2013 to renew the directors' authority to allot new shares, issue new shares other than pro rata, and purchase the company's own shares. Further details of these resolutions together with explanatory notes can be found in the notice of meeting.

Independent auditors

PricewaterhouseCoopers LLP expressed their willingness to be re-appointed as independent auditors of the company. Upon the recommendation of the audit committee, resolutions to re-appoint them as auditors and to authorise the directors to determine their remuneration will be proposed at the AGM.

By order of the board

Steve Deasey Secretary

6 March 2013

Corporate governance statement

The board recognises that sound corporate governance is critical to Clarksons' business integrity and to maintaining and underpinning investors' trust in the company. We are committed to maintaining high standards of corporate governance, which we believe are fundamental to discharging our stewardship responsibilities.

As required by the Listing Rules, this section on corporate governance, together with the directors' remuneration report on pages 39 to 48 sets out how the company has applied the principles set out in the UK Corporate Governance Code (2010) (the Code). The Code is available on the Financial Reporting Council's website www.frc.org.uk.

Since Paul Wogan's resignation on 10 February 2012, there has been a diligent search within the marketplace as to a replacement. A new senior independent director will be nominated, following the recruitment of a new non-executive director. Otherwise, the directors consider that the company has complied with the Code throughout the year. The following pages explain how we have applied these principles in order to help to create long-term sustainable growth in value for shareholders.

The board of directors

The board has high standards of ethics, organisation, information, analysis and governance, with an open culture between executives and non-executives and our committees are well run and effective. The board has a good balance of executive and non-executive directors which creates a balance of complementary skills and approaches which enhance the breadth and quality of board debate. The non-executive directors fulfil a crucial role in corporate accountability. They have the duty to ensure that the strategies proposed by the executive directors are given full and critical debate and that the decisions taken are not only in the best long-term interests of shareholders, but also take account of the interests of the stakeholders, clients and employees. The non-executive directors contribute significantly to the effective functioning of the board and its committees.

The board meets at least four times a year and the directors' attendance at the meeting is shown in the table on page 36. Biographical details are shown on pages 30 and 31.

The board provides effective leadership and overall control of the group, setting a framework of prudent and effective controls to enable risks to be properly assessed and managed.

Our chairman and chief executive have clearly defined and separate responsibilities whilst retaining a close working relationship. The chief executive's primary role is the running of the company's business, the successful implementation of the agreed strategy and the day-to-day operational leadership of the group. The chairman is responsible for the leadership of the board and leads the board in the determination of its strategy and co-ordinates the business of the board. The chairman also ensures effective communication with shareholders and that the board is aware of the views of major shareholders.

All directors are collectively responsible for the company's long-term success and are responsible for the proper conduct of the company's affairs. 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 the board committees, whose chairmen report back to the board.

On appointment Bob Benton, James Morley and Ed Warner met the independence criteria set out under the Code. Ed Warner, a non-executive director, is also non-executive chairman of Panmure Gordon, the company's joint stockbroker. Where a potential or possible conflict of interest arises, Ed Warner declares his interest and removes himself from any involvement in the relevant business. The board considers that Ed meets the independence criteria pursuant to the Code.

Board performance evaluation

During the year, the board conducted the annual evaluation of its own performance and that of its committees and individual directors. The chairman met with the non-executive directors during the year without the executive directors present. Ed Warner evaluated the chairman's performance with each of the other directors.

Based on the results of the external performance evaluation carried out in 2011 and the internal review undertaken during the year, it was concluded that the board operates effectively and in an open manner. Board members have a good level of involvement in matters between board meetings and each continues to make a valuable contribution with proper commitment to their respective roles.

The non-executive directors have a wide range of skills and varied commercial experience and they provide constructive challenge and help develop our strategy. A careful assessment is made by the board of the time commitment required from the chairman and the non-executive directors to discharge their roles properly.

The terms and conditions of appointment of our non-executive directors are available for inspection at the company's registered office. 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 furtherance of their duties at the expense of the company. The chairman regularly reviews and agrees with each director their training and development needs. All directors have access to the services of the company secretary and may take independent professional advice at the company's expense in conducting their duties. It is expected that all directors attend board and relevant committee meetings, unless they are prevented from doing so by prior commitments. Where directors are unable to attend meetings due to conflicts in their schedules, they receive the papers scheduled for discussion in the relevant meetings, giving them the opportunity to relay any comments to the chairman in advance of the meeting. Where matters relating to a director may constitute a conflict of interest, that director will duly leave the meeting.

Corporate governance statement continued

Board and committees

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

	Board	Strategy meeting	Audit committee	Remuneration committee	Nomination committee
Total number of meetings	7	1	3	3	1
Bob Benton	7	1	3*	3	1
Andi Case	6	1	–	2*	–
James Morley	7	1	3	3	1
Ed Warner	7	1	3	3	1
Jeff Woyda	7	1	3*	3*	1*
Martin Stopford[1]	2	1	–	–	–
Paul Wogan[2]	1	1	–	–	–

* Andi Case, Jeff Woyda and Bob Benton attend these meetings at the invitation of the committee chairman.

1 Martin Stopford resigned as an executive director of Clarkson PLC on 8 March 2012.

2 Paul Wogan resigned as a non-executive director of Clarkson PLC on 10 February 2012.

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, excluding the chairman and chief executive, retire annually by rotation, and where eligible, seek re-election.

The board delegates certain responsibilities to its principal committees as follows:

Audit committee

The members of the audit committee are the non-executive directors, James Morley and Ed Warner and until his resignation on 10 February 2012, Paul Wogan. James Morley chairs the committee. At the invitation of the committee the chairman of the board, the chief executive, the finance director and the financial controller attend its meetings.

The audit committee is responsible for notifying the board of any significant concerns of the external auditor arising from their audit work, any significant deficiencies or material weaknesses in the operation of our internal controls over financial reporting and the internal control and risk management systems. It undertakes an annual review of the group's internal controls, including financial, operational, compliance and risk management. The committee's terms of reference are available on request from the company secretary. They are reviewed on an ongoing basis to ensure compliance with the requirements of the Code.

The company continually seeks to improve and update existing procedures and to introduce new controls where necessary. The risk management system is designed to identify key risks and to provide assurance that these risks are fully understood and managed. As an ongoing process the executive oversees the development of the internal control procedures which provide assurance to the committee that the controls which are operating in the group are effective and sufficient to counteract the risks to which it is exposed.

The need for an internal audit function is reviewed annually by the board and the audit committee. After taking into account the size and structure of the group, it has been concluded that there is at present no requirement for an internal audit function.

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

The audit committee has a formal policy which addresses the independence of the external auditors in the provision of both audit and non-audit services. The committee meets privately on a regular basis with the external auditors in the absence of management.

The audit committee reviewed PricewaterhouseCoopers LLP's (PwC) overall work plan and approved their remuneration and terms of engagement and considered in detail the results of the audit, PwC's performance and independence and the effectiveness of the overall audit process. The audit committee recommended PwC's re-appointment as auditors to the board and this resolution will be put to shareholders at the AGM.

To ensure that the auditors maintain their independence, the audit committee has implemented the company's policy which restricts the engagement of PwC in relation to non-audit services. During the year the auditors also provided tax advisory and compliance services and other assurance and advisory services with fees of £186,000 and £114,000 respectively. A fee breakdown is shown in note 3.

The policy is designed to ensure that the provision of such services does not have an impact on the external auditors' independence and objectivity. It identifies certain types of engagement that the external auditors shall not undertake. It also requires that individual engagements above a certain fee level may only be undertaken with appropriate authority from the committee chairman or the committee.

The policy also recognises that there are some types of work, such as accounting and tax advice, where a detailed understanding of the company's business is advantageous. The policy is designed to ensure that PwC is only appointed to provide a non-audit service where it is considered to be the most suitable supplier of the service.

Remuneration committee

The remuneration committee advises on remuneration and incentive schemes for senior staff, and makes recommendations for the operation of the company's performance-related schemes. Further details for the work of this committee are contained within the directors' remuneration report on pages 39 to 48.

Nomination committee

The committee comprises the chairman and the non-executive directors and is chaired by Bob Benton. In accordance with its terms of reference, the committee considers the balance of skills and experience of the board membership to include skills, knowledge, diversity and experience, and makes recommendations to the board on the appointment of new directors. The committee also reviews future succession planning for the board.

Procedure to deal with directors' conflicts of interest

A director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the group. Directors are required to give notice of any such potential situational and/or transactional conflicts which are considered at the board meeting and, if considered appropriate, situational conflicts are authorised, or the director takes whatever action the board considers appropriate. Directors are not permitted to participate in such considerations or to vote regarding their own conflicts.

The company has comprehensive procedures in place to deal with any situation where a director has an actual or potential conflict of interest. Under these procedures members of the board are required to:

- consider each conflict situation separately on its particular facts;
- consider the conflict situation in conjunction with the rest of their duties under the Companies Act 2006;
- regularly review conflict authorisations; and
- keep appropriate records and board minutes demonstrating any authorisation granted by the board for such conflict and the scope of any approvals given.

Shareholder relations

The company is committed to maintaining good communications with investors. The primary means of communication with the majority of our shareholders is via our Annual Report, Interim Report and website on which we publish Interim Management Statements and Trading Updates.

The executive directors regularly meet with the large investors and institutional shareholders. Following the announcement of the interim and full year results, presentations are made by the executive directors to analysts, major shareholders and investment managers. The non-executive directors are fully briefed after such meetings.

The board considers the AGM to be an opportunity to meet and communicate with investors, giving shareholders the opportunity to raise with the board any issues or concerns they may have.

Internal control

The board is responsible for the company's system of internal controls and for reviewing the effectiveness of such a system. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The directors acknowledge the requirements of the Code and seek to review all aspects of risk management in relation to each part of the group. The risk management system is regularly reviewed by the board in accordance with Turnbull guidance.

Policies and risk management procedures together with key controls are reviewed frequently to ensure that they continue to be effective and protect the company's stakeholders.

The company maintains its Code of Business Conduct and Ethics, and this has been issued to all staff. An established governance process is in place to monitor regulatory developments and to ensure that all existing and forthcoming regulations are complied with. All employees are expected to play a role in maintaining Clarksons' status as a responsible business while day-to-day management of corporate responsibility is performed by our directors, managers and employees.

Managing business risk to deliver opportunities is a key element of all our business activities, and is undertaken using a practical and flexible framework which provides a consistent and sustained approach to risk evaluation. Our internal control system encompasses all controls including those relating to financial reporting processes, operational and compliance controls, and those relating to risk management processes.

There is a comprehensive budgetary process in place with both annual and regular forecasts being considered and approved by the board and monthly monitoring of trading results taking place. The group has designed controls and processes to mitigate risks associated with financial reporting and the preparation of consolidated accounts.

Senior management within each office have responsibility to ensure compliance with group policies and to also identify risks within their business and to make sure that these risks are controlled and monitored in the appropriate way.

The board, with advice from the audit committee, has carried out an annual review of the effectiveness of the system of internal control and risk management and confirms that the ongoing process for identifying, evaluating and managing the group's significant risks has operated throughout the year and up to the date of the approval of this Annual Report. Where any significant control weaknesses were identified during the year, necessary actions have been taken and monitored to remedy them.

Employment and human rights

Clarksons employs over 900 people throughout its global network of offices across five continents. As an employer Clarksons has high standards of employment practice and takes the issues of equality and diversity very seriously. Clarksons believe that a diverse and inclusive culture is a key factor in being a successful business.

Clarksons is committed to involving all employees in the performance and development of the group. Its approach to employee development offers continual challenges in the job, learning opportunities and personal development. We ensure that training, career development and promotion opportunities are available for all our employees.

It is the group's policy to give full consideration to suitable applications for employment of disabled persons and to ensure that any reasonable adjustments are made to that person's job content or in the workplace to accommodate a person's disabilities. Disabled employees are eligible to participate in all career development opportunities available to employees.

Corporate governance statement continued

The company places strong emphasis on recruiting and growing talent to enable it to build a strong team to deliver its clients the best possible service. Our employees have determination to be the best informed experts in their areas and have commitment to the highest standards of professionalism. Our people are crucial to our success and we will continue to attract and retain the best.

The company is an equal opportunities employer and is committed to treating its employees and customers with dignity and respect.

The group maintains a zero tolerance policy concerning discrimination, sexual harassment and retaliation against individuals who report problems in the group's workplace.

The group encourages all of its employees to participate fully in the business through open dialogue. Employees receive news of the group through the employee intranet, email notices, discussions, briefings and in-house publications.

In order to encourage wider employee share ownership, the company provides a Savings Related Share Option Plan (SAYE).

Health and safety

The company believes that it is vital to look after its staff by making sure that they have a safe place to work. We are committed to operating high standards of health and safety, designed to minimise the risk of injury and ill health of all employees and any other parties involved in the conduct of its business operations. Clear policies and procedures are in place in order to mitigate health and safety risks across the business. Compliance to these procedures is closely monitored and reported.

Corporate and social responsibility

Clarksons maintains its commitment to conducting business in an ethical and honest way everywhere it operates. The company's approach to corporate social responsibility aligns responsible business practices with sustainable development of our business which delivers value for our stakeholders and for the company. Operating in a responsible manner is simply part of how the company conducts its business and supports a sustainable business model.

The company regularly meets with stakeholders and is committed to maintaining good communications with investors in order to fully understand the issues that are important to them. The board regularly receives feedback on the views of major investors and the executive directors communicate regularly with them on the company's progress.

We rely on our employees to make strategy happen. This means we have to find the best people and treat them in the right way. We want them to develop and grow with our business. Business success is achieved when employees are enabled to do their very best. We give everyone the chance to develop to their full potential and we stay true to our principles of equality, diversity and fairness. Clarksons provides a working environment in which everyone is treated fairly and with respect. Clarksons aims to be a responsible employer and adopt standards and values in their business practice designed to help guide its staff in their conduct and business relationships. We believe that if we develop every employee's awareness and enhance their skills so that every act of every employee is capable of scrutiny then best practice procedures should be followed in everything that they do.

Our Graduate Trainee Scheme (the Scheme) provides individuals graduating in the coming academic year an opportunity to be part of a unique and unrivalled programme, designed to accelerate a career in shipbroking. The recruitment process has been developed to attract and identify those with the potential to be high performers in the industry. Alongside the mainstream training and development programmes, the Scheme aims to nurture talent to develop future business leaders who will understand and meet the diverse and changing needs of the business.

The company offers a select number of paid internships to students on an annual basis, this tends to be for a longer period (up to three months) and typically take place in the research and broking divisions. It also has contact with a number of inner London and Home Counties schools and supports their work experience initiatives. Clarksons donates on an annual basis to a number of national and local maritime causes. Two other areas that are given regular charitable support are health and young people.

Clarksons will strive for further improvement in health, safety and environmental performance as it takes actions to enhance the sustainability of the business.

Environment

Climate change represents a significant global challenge and the group aims to minimise its impact on the environment. Clarksons is committed to reducing utility usage and ongoing energy costs. At the St Magnus House building in the UK an environmental management system is in place for lighting and air conditioning controlled by a supervisory PC utilising the latest software. Regular maintenance is carried out to ensure that all units are working at their optimum efficiency.

The company has undertaken a wide scale cleaning tender exercise for St Magnus House into which a Waste Management Contract has been incorporated. This will provide a more efficient service and will result in an increase in the number of recycling streams and a reduction in waste going into incinerators and landfill.

The company's most critical environmental and sustainability impact areas include carbon emissions linked to energy use and travel and the company continues to make extensive use of its video conferencing facility in order to contain executive travel.

Clarksons successfully operates a cycle to work scheme which was implemented several years ago which combined with the provision of a secure bike store and shower facilities, encourages staff to use bicycles.

Clarksons acknowledges the importance of ensuring that its businesses are conducted with care and consideration for the environment. It is continuing to grow and develop an environmental strategy so that it is integrated into its business strategy. It is aiming to achieve productive and rewarding engagement on environmental issues within the Clarksons group, and to grow and develop local programmes across Clarksons worldwide.

Directors' remuneration report

Statement by the chairman of the remuneration committee

I am pleased to present the remuneration committee's report on directors' remuneration for 2012. In anticipation of new legislative requirements, this report is split into two sections, the first setting out the policy on directors' remuneration, and the second showing how this policy was implemented in the past year. Although the new legislation is not effective until later this year, we will be seeking your support for the entire report by way of a single advisory vote at the AGM on 10 May 2013.

Our objective in setting remuneration policy at Clarksons is to attract and retain the best talent in our markets, while at the same time ensuring a close alignment between the interests of shareholders and management. We have had a consistent policy since 2006 and believe that it has served the company's shareholders well since then. There is a consistent approach to the application of the remuneration policy across the whole company, in particular, bonus plans are operated company-wide and all UK employees have the opportunity to participate in share plans. Generally, employees earning over £100,000 p.a. have not had an increase in salary for several years. The major elements of the executive directors' reward structures are as follows:

- base salaries are reviewed annually. They have not increased over the past six years.
- annual bonuses are determined by adjusted pre-tax profits. There is a lower threshold below which no bonuses are earned. In 2012 the threshold was increased by 5% over 2011. There are higher hurdles which trigger increased bonus rates. These hurdles were not reached last year. As with the lower threshold, these hurdles were increased over the prior year to ensure that targets are progressively harder to reach. Following several years of the hurdles increasing they were frozen for 2013 recognising the challenging market conditions facing the business.
- the chief executive could earn a bonus higher than that determined by the pre-tax profit formula dependent on shipbroking revenues that he generates personally. This has not been a factor in any of the past five years.
- the executive directors sacrificed 10% of the bonuses they were eligible to receive in 2012 to enable the company to reward other senior members of staff. In the previous two years they sacrificed 5% of the bonuses they were entitled to.
- 10% of annual bonuses are paid in deferred shares.
- there is a Long Term Incentive Plan that grants shares dependent on a combination of earnings per share (EPS) growth and total shareholder returns. The lower and upper EPS targets in this plan were increased by 6% and 7% respectively in 2012 over 2011. For 2013 awards, where EPS targets are set around the 2015 year end figure the upper end of the EPS range was retained at 150p and the lower end has been reduced slightly from 115p to 105p compared to 2012 awards. This reduction reflects the tougher market outlook and the entire range is ahead of current broker forecasts for 2014 (2015 figures are not yet available).

Both executive directors are shareholders in Clarksons and accordingly understand the imperative to deliver long-term returns for the company's owners. Their short-term rewards are directly aligned to the profitability of the company, as is evident from the reduction in their compensation in 2012.

The remuneration committee believes these to be correct principles for a business such as Clarksons and I commend this remuneration policy to you. Should you have any questions, please contact me at the company address. I will be available at the AGM to answer any questions and discuss the policy more widely.

Ed Warner

Policy report

This part of the directors' remuneration report sets out the remuneration policy for the company with effect from 1 January 2013.

How the remuneration committee operates to set the remuneration policy

The remuneration committee is responsible, on behalf of the board for:

- setting the senior executives' remuneration policy and actual remuneration;
- reviewing the design of all share incentive plans for approval by the board and shareholders;
- approving the design of, and recommending targets for, any performance-related pay schemes the company operates for senior executives.

The remuneration committee encourages dialogue with shareholders and engages with the company's major shareholders on a regular basis. Major shareholders will be consulted on a timely basis on any material changes proposed for the remuneration policy.

Summary of overall 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 link between reward and performance and maintain a reasonable relationship of rewards to those offered in other competitor companies in order to attract, retain and motivate executives within a framework of what is acceptable to shareholders.

There are few comparable UK public companies involved solely in the business of providing shipping and related wholesale financial services. Comparisons are therefore made with City-based companies and private companies in the shipping sector, many of which are headquartered overseas. In the highly competitive global labour market which operates within the shipping services sector where business is based around personal client relationships, the retention of key talent is critical to continued business success. Remuneration levels are set to attract and retain the best talent and to ensure that market competitive rewards are available for the delivery of strong business and personal performance within an appropriate risk framework.

It is recognised by the remuneration committee that the current management team is highly regarded and would be attractive to Clarksons' competitors in the shipping industry, and, increasingly, wholesale brokerage and agency businesses. Retention of key talent in this context is critical, whilst recognising the need for appropriate succession planning.

The proportionate breakdown of the total remuneration is such that, in line with most other wholesale brokerage and agency companies, a very high proportion of the package is performance-related. The chief executive's bonus recognises that he performs the duties and responsibilities incumbent with the role of group chief executive and in addition, as a shipbroker, generates significant revenues.

Remuneration policy report

Key elements of remuneration

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes in year	Page
Base salary	• To attract and retain key talent critical for the business • Set at a level to cover essential living costs without any bonus award	• Reviewed periodically • Salaries are determined taking into account: – the experience, responsibility, effectiveness and market value of the executive – the pay and conditions in the workforce • Paid monthly	• Base salaries have remained unchanged since 2006 for each executive director post and this policy has also applied to all higher paid employees, except those who have assumed additional responsibility		None	
Benefits	• To provide a market standard suite of basic benefits in kind and to aid retention	Principal taxable benefits are: • car allowances • healthcare insurance • club membership			None	
Annual bonus	• To reward significant annual profit performance • To ensure that the bonus plan is competitive with our peers and to do so this forms a significant proportion of the remuneration package • To ensure that if there is a reduction in profitability the level of bonus payable falls away sharply	• 90% of the bonus is paid in cash and although they have no contractual obligation the directors have agreed that 10% of annual bonus payable is deferred in shares, vesting after four years • To improve the risk profile of the bonus plan a clawback provision has been incorporated for overpayments due to misstatement or error	• In line with Clarksons' peers, annual bonus is not subject to a formal individual cap • Instead, performance criteria are re-calibrated carefully each year to ensure the total bonus pool and individual allocations are controlled • Furthermore, the CEO will receive the higher of the executive annual bonus and the bonus determined by his continuing broking activities. This underpin was agreed when the CEO joined the board	For the CEO and FD, bonus is determined by group performance on the following basis: • below a 'profit floor' set by the committee each year no bonus is triggered • above the floor, an escalating percentage of profits is payable into a bonus pool for progressively higher profit before tax performance • profit for bonus calculations does not include mark-to-market valuations or business that has not been invoiced • for the CEO a further key determinant of his annual bonus is the significant broking revenues generated by him personally	None	

Policy report continued

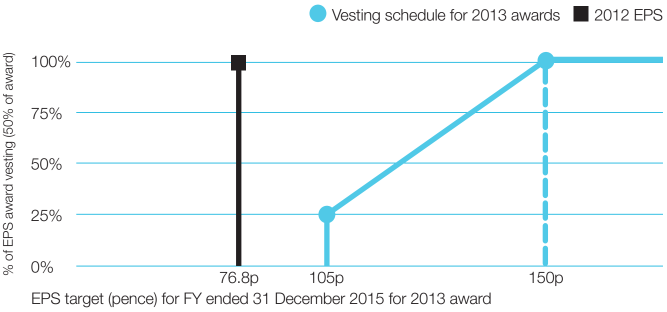
	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes in year	Page
Long Term Incentive Plan (LTIP)	• To incentivise and reward significant long-term financial performance and share price performance relative to the stock market • To encourage share ownership and provide further alignment with shareholders	• All awards are performance-related and may comprise deferred shares or HMRC approved or unapproved options • The current policy is for awards to be granted each year following the publication of annual results • Similar to the annual bonus, to improve the risk profile of the bonus plan a clawback provision has been incorporated for overpayments due to misstatement or error	• Annual maximum limit of 150% of basic salary for awards subject to long-term performance targets	• 50% of the award will be determined by the company's EPS for 31 December 2015 and 50% will be determined by the company's TSR performance from 1 January 2013 to 31 December 2015 against the constituents of the FTSE SmallCap Index (excluding investment trusts)	None	See charts below showing the basis for the vesting of LTIP awards to be granted in 2013
Pension	• To provide a market competitive pension arrangement and to aid retention	• Executive directors participate in a company defined contribution pension scheme. If an individual is capped by HMRC limits they receive a cash allowance (net of NI) in lieu of pension contributions	• Employer contributions are 15% of base salary or an equivalent cash allowance net of employer's NI		None	

For the LTIP award to be granted in 2013:

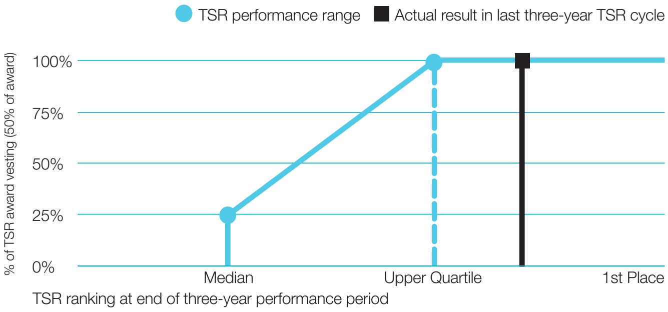
- the vesting of 50% of the award will be determined by the company's EPS for 31 December 2015, as shown in chart (i) below. The EPS for 2012 is shown (black line) for reference
- the vesting of the remaining 50% will be determined by the company's TSR performance from 1 January 2013 to 31 December 2015 against the constituents of the FTSE SmallCap Index (excluding investment trusts), as shown in chart (ii) below. The level of total shareholder return achieved against the FTSE SmallCap over the last three-year cycle is shown (black line) for reference

EPS and relative TSR are considered to be the most appropriate measures of long-term performance for the group, in that they ensure executives are incentivised and rewarded for the earnings performance of the group as well as returning value to shareholders.

(i) EPS target range for 2013 award (50% of award)



(ii) TSR target range for 2013 award (50% of award)



The above policy would also be anticipated forming the basis on which a new executive director was appointed, however, flexibility would be retained to offer remuneration on appointment outside the above policy. Ongoing policy for the individual would then be subject to the above policy with any changes subject to shareholder approval.

Remuneration policy across the group

The remuneration policy for the executive directors is designed with regard to the policy for employees across the group as a whole and is consistent between the executive directors and the remainder of the workforce. In particular there has been a widespread salary freeze for all employees earning salaries of £100,000 or more. In contrast, salaries for lower paid employees have generally increased (on average across the population) each year.

The annual bonus plan operates on a similar profit-driven basis across the group and there is a relatively high level of employee share ownership across the group. The key differences in policy for executive directors relates to participating in the long-term incentive share awards, which have strict vesting conditions. This is considered appropriate to provide a link for a proportion of performance pay with the longer term strategy thereby creating stronger alignment of interest with shareholders.

Directors' service contracts and appointment terms

The remuneration committee reviews the contractual terms for executive directors to ensure that these reflect best practice.

The remuneration related elements of the current contracts for executive directors are shown in the table below:

Provision	Detailed terms
Notice period	One year by the company or the director
Termination payment	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, the company reserves the right to pay in lieu of notice an amount equivalent to basic salary, contractual benefits and annual bonus for the notice period. The remuneration committee recognises that, whilst it is unusual in most PLCs, it is common in the shipping industry to pay an amount in lieu of annual bonus for the notice period but considers that the policy is appropriate for the following reasons: • salary forms a lower proportion of remuneration than in most other UK companies; • typically in the shipbroking industry, income from business conducted is received over a number of years in arrears (which means that for a departing executive they would receive rewards for performance in previous periods); • bonuses are only payable if profit thresholds and targets are achieved i.e. there is no automatic entitlement to a bonus; and • unvested awards under the LTIP are capable of vesting subject to performance Termination payments would not normally be made beyond contractual obligations, including any payment in respect of notice to which a director is entitled.
Change of control	Within 12 months of a change of control the executive or the company may give notice (of not less than four weeks in the case of the former) whereupon the executive will receive immediately an amount equivalent to 12 months salary, benefits and bonus. Upon change of control all unvested awards under the Clarkson PLC Long Term Incentive Plan would vest unconditionally, subject to the extent that any performance conditions attaching to the relevant award has been achieved.

Policy report continued

	Date of contract	Unexpired term at 31 December 2012	Notice period
Details of the current executive directors' service contracts are as follows:			
Andi Case	17 June 2008	12 months	12 months
Jeff Woyda	3 October 2006	12 months	12 months

	Date of appointment	Unexpired term at 31 December 2012	Notice period
Details of the non-executive directors' appointment terms are as follows:			
Bob Benton	25 May 2005	16 months	3 months
James Morley	5 November 2008	22 months	3 months
Ed Warner	27 June 2008	18 months	3 months

Non-executive directors are appointed by letter of appointment for a fixed term not exceeding three years, renewable on the agreement of both the company and the director and are subject to re-election at the AGM 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.

Relative importance of spend on pay

The following table sets out the percentage change in profit, dividends and overall spend on pay in 2012 compared to 2011:

	2012 £m	2011 £m	Percentage change
Profit after tax	**16.2**	25.1	(35%)
Dividends	**9.4**	9.0	4%
Employee remuneration costs, of which:	**112.8**	122.3	(8%)
Executive directors' total pay (continuing)	**3.4**	5.6	(40%)
Executive directors' annual bonus (continuing)	**2.5**	4.8	(47%)

Implementation report

Directors' emoluments and compensation (audited)

Details of emoluments and compensation payable in their capacity as directors during the year are set out below.

	2012					2011		
	Basic salary and fees £000	Benefits £000	Fixed pay £000	Performance related bonus £000	Total remuneration £000	Fixed pay £000	Performance related bonus £000	Total remuneration £000
Executive directors								
Andi Case	550	47	597	2,102	2,699	593	3,930	4,523
Jeff Woyda	250	12	262	448	710	262	838	1,100
Non-executive directors								
Bob Benton	120		120		120	117		117
James Morley	66		66		66	65		65
Ed Warner	66		66		66	65		65
Former directors								
Martin Stopford	42	8	50		50	264	472	736
Paul Wogan	7		7		7	65		65
	1,101	67	1,168	2,550	3,718	1,431	5,240	6,671

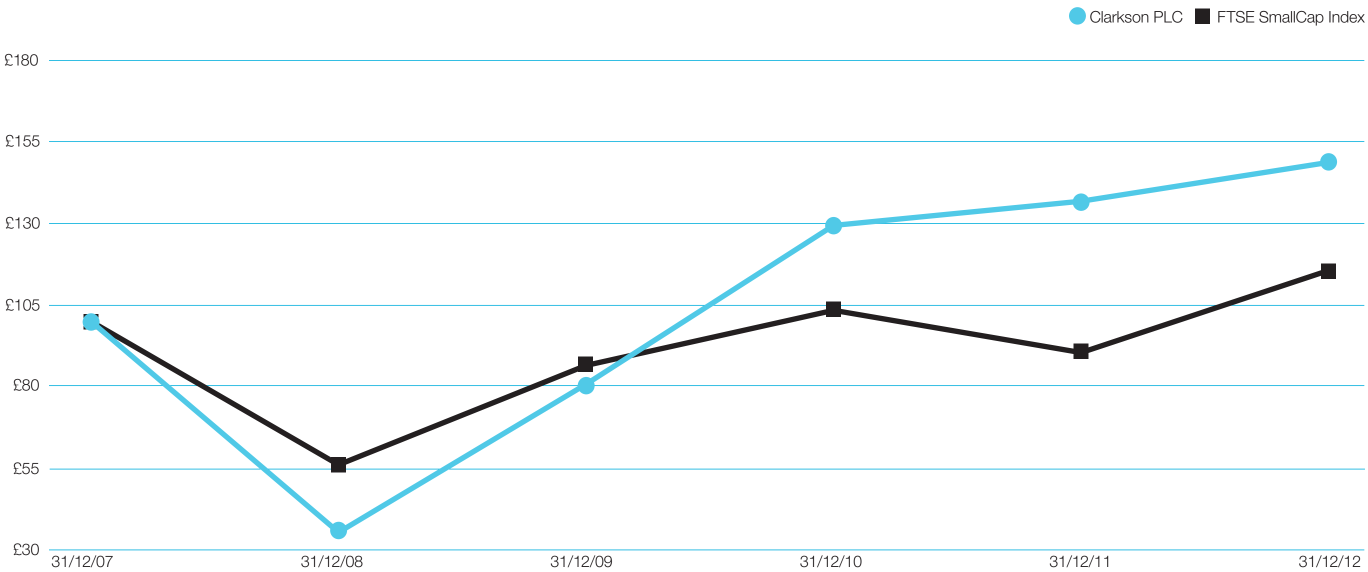
Benefits include cash allowances in lieu of company cars, healthcare insurance, club memberships and pension supplements.

Included in the performance-related bonuses above are the total bonuses payable to executive directors. In line with higher earning employees up to 10% will be paid in the form of restricted shares which vest after four years.

Pension contributions were £50,000 for Andi Case and £37,500 for Jeff Woyda in both years with the balance for Andi Case (up to 15% of salary) paid as a cash supplement in lieu of pension (net of employer's NI).

Performance graph

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



This graph shows the value, by 31 December 2012, of £100 invested in Clarkson PLC on 31 December 2007 compared with the value of £100 invested in the FTSE SmallCap Index. The other points plotted are the values at intervening financial year-ends.

Implementation report continued

Directors' interests in shares

The company requires executive directors to build a shareholding equivalent to 100% of the executive directors' salary. Until this is attained they are required to retain 50% of any share award that vests.

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

	Number of ordinary shares 2012	Number of ordinary shares 2011	Percentage of salary held in shares under the shareholding guideline	Guideline met?
Bob Benton	**4,700**[1]	4,700[1]	N/A	N/A
Andi Case	**662,939**[2]	633,698[2]	100%	Yes
James Morley	**4,500**	4,500	N/A	N/A
Ed Warner	**15,000**	15,000	N/A	N/A
Jeff Woyda	**66,626**[2]	60,391[2]	100%	Yes

1 The beneficial owner of these shares is Marianne Kingham who is married to Bob Benton
2 These figures include restricted shares granted as part of annual bonus as follows:

	Number of shares			
Bonus year / Vesting date	2008 April 2013	2009 April 2014	2010 April 2015	2011 April 2016
Andi Case	57,233	26,689	34,971	29,241
Jeff Woyda	18,937	5,694	7,461	6,235

Further restricted share awards will be made in 2013 in respect of up to 10% of the directors' 2012 bonus.

Directors' interests in share options over ordinary shares are as follows:

	Options held at 1 January 2012	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2012	Exercise price £	Dates from which exercisable	Expiry dates
Andi Case	25,000[1]	–	–	–	25,000	9.91	October 2010	October 2017

1 These options are fully vested and were granted for nil consideration.

Directors' share incentives (audited)

The following share awards have been granted as nil cost options under the LTIP, subject to the EPS and TSR performance criteria (50% of the award each) detailed in the LTIP section of this report on page 42.

	Interests under plan at 1 January 2012	Awards granted in year	Awards vested in year	Awards lapsed in year	**Interests under plan at 31 December 2012**	Grant date	Vesting date	Date exercisable until	Value of awards granted in year £000
Executive directors									
Andi Case	99,388[1]	–	99,388	–	**99,388**	15 Dec 09	15 Dec 12	15 Dec 19	–
	77,175[2]	–	–	40,594	**36,581**	23 Dec 10	23 Dec 13	23 Dec 20	–
	67,237[3]	–	–	–	**67,237**	25 May 11	25 May 14	–	–
	–	61,937[4]	–	–	**61,937**	11 May 12	11 May 15	–	825
Jeff Woyda	45,182[1]	–	45,182	–	**45,182**	15 Dec 09	15 Dec 12	15 Dec 19	–
	35,080[2]	–	–	18,452	**16,628**	23 Dec 10	23 Dec 13	23 Dec 20	–
	30,562[3]	–	–	–	**30,562**	25 May 11	25 May 14	–	–
	–	28,153[4]	–	–	**28,153**	11 May 12	11 May 15	–	375
Former directors									
Martin Stopford	40,664[1]	–	40,664	–	**–**	15 Dec 09	–	–	–
	31,572[2]	–	30,938	634	**–**	23 Dec 10	–	–	–
	27,506[3]	–	21,448	6,058	**–**	25 May 11	–	–	–

The share price on the date of the award was 1. £8.06 2. £11.22, 3. £9.63, 4. £13.50.

The vesting of the awards will be based on the following criteria (applying to separate 50% parts of each award):

Earnings per share

Date of grant	23 December 2010	25 May 2011	11 May 2012
Threshold vesting level (25% of award)	95.0p	108.5p	115.0p
Maximum vesting level (100% of award)	123.0p	140.0p	150.0p
Current level of achievement of performance condition based on 2012 EPS figure (max 100%)	**0%**	**0%**	**0%**

Awards vest pro rata between the lower and upper targets.

The EPS thresholds were not achieved and therefore no awards vested under this EPS part of the LTIP in respect of awards granted in 2007, 2008 and 2010.

Total shareholder return

Awards under this element will vest dependent on Clarkson's TSR over three years compared to the TSR of the companies in the FTSE SmallCap Index as at the start of the performance period. The performance period commences on 1 January in the financial year in which the award is made.

Awards will vest pro rata between threshold and maximum performance.

Date of grant	23 December 2010	25 May 2011	11 May 2012
Threshold vesting level (25% of award)		Median	
Maximum vesting level (100% of award)		Upper quartile or above	
Current level of achievement of performance condition based on TSR performance as at 31 December 2012 (max 100%)	**94.8%**	**78.4%**	**32.2%**

Pensions (audited)

Andi Case and Jeff Woyda are members of the defined contribution scheme.

The company contribution for Andi Case is equivalent to 15% of base salary and comprises a scheme contribution limited to £50,000 and the balance net of national insurance as an allowance.

The company contribution to the scheme for Jeff Woyda is 15% of base salary.

No directors held any entitlement to benefits under the defined benefit scheme.

Payment to former director

Martin Stopford retired in March 2012 and was considered a good leaver under the LTIP, resulting in awards vesting on cessation of employment subject to the achievement of the performance conditions. He received the following payments in 2012:

Type of compensation	Basis of calculation	Performance metrics		Value £000
Consultancy fees[1]				50
Restricted shares	10% of Bonus deferred for 4 years	Vest in full on retirement	12,869 shares at £12.98[3]	167
Performance awards[2] granted 2009	EPS – 50% TSR – 50%	EPS achievement – 95.83% TSR achievement – 100%	40,664 shares at £12.98[3]	528
Performance awards[2] granted 2010	EPS – 50% TSR – 50%	EPS achievement – 94.64% TSR achievement – 100%	30,938 shares at £12.98[3]	402
Performance awards[2] granted 2011	EPS – 50% TSR – 50%	EPS achievement – 41.27% TSR achievement – 100%	21,448 shares at £12.98[3]	278
Total				**1,425**

1 Following his retirement, Martin Stopford was paid £50,000 for consultancy services.

2 EPS performance was determined based on the 2011 EPS outturn. TSR performance was determined based on the TSR performance at the date of cessation.

3 Share price on date of cessation of employment.

Implementation report continued

Remuneration committee

The remuneration committee comprises all the non-executive directors – Bob Benton, Ed Warner and James Morley, and is chaired by Ed Warner. None of the committee members have day-to-day involvement with the business nor do they have any personal financial interest in the matters to be recommended. Steve Deasey, company secretary, acts as secretary to the committee. The number of formal meetings held and the attendance by each member is shown in the table below. The committee also held informal discussions as required.

	Number of meetings attended out of potential maximum
Bob Benton	3 out of 3
Ed Warner	3 out of 3
James Morley	3 out of 3

In particular the board is satisfied that the committee has the range of skills and relevant business experience to reach an independent judgement on the suitability of the remuneration policy. The committee's remit already covers remuneration arrangements for all employees (where the committee reviews bonus payments for all employees in the business) and consideration of risk is foremost in the committee's deliberations. The terms of reference are available on request from the company secretary.

External advisors

New Bridge Street (NBS) are appointed by the committee to provide independent advice and services that materially assist the committee in their consideration of matters relating to directors' remuneration, design of share incentive plans and measurement of performance against vesting targets. Neither NBS nor its parent company, Aon Corporation, has any other connection with the company.

The fees paid by the company to NBS during the financial year for advice to the remuneration committee was £43,000. No additional fees were paid by the group to Aon Corporation in respect of other services.

NBS is a signatory to the Remuneration Consultants' Code of Conduct.

Statement of shareholder voting at AGM

At the 2012 AGM, the directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	9,990,592	79.3%
Against	2,610,245	20.7%
Abstentions	77,456	
Total	**12,678,293**	

At the AGM to be held on 10 May 2013 a resolution approving this report is to be proposed as an ordinary resolution.

This report to shareholders provides information on the remuneration and share interests of all Clarkson PLC directors and the criteria by which that remuneration has been determined. It has been prepared in accordance with the Companies Act 2006 and the applicable Listing Rules.

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

Ed Warner Remuneration committee chairman

6 March 2013

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the corporate governance statement on pages 35 and 36 of this Annual Report confirm that, to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the business and financial reviews include a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

Bob Benton Chairman

6 March 2013

Independent auditors' report to the members of Clarkson PLC

We have audited the financial statements of Clarkson PLC for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statements of changes in equity, the consolidated and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 35 to 38 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 34, in relation to going concern;
- the parts of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Andrew Paynter Senior statutory auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

6 March 2013

Consolidated income statement

For the year ended 31 December

		2012				2011		
	Notes	Before exceptional item and acquisition costs £m	Exceptional item (note 5) £m	Acquisition costs (note 6) £m	After exceptional item and acquisition costs £m	Before exceptional item £m	Exceptional item (note 5) £m	After exceptional item £m
Revenue	3, 4	176.2	–	–	176.2	194.6	–	194.6
Cost of sales		(6.3)	–	–	(6.3)	(3.4)	–	(3.4)
Trading profit		169.9	–	–	169.9	191.2	–	191.2
Other income		–	4.5	–	4.5	–	–	–
Administrative expenses		(150.8)	–	(1.5)	(152.3)	(161.0)	3.2	(157.8)
Operating profit	3, 4	19.1	4.5	(1.5)	22.1	30.2	3.2	33.4
Finance revenue	3	1.2	–	–	1.2	1.0	–	1.0
Finance costs	3	–	–	(0.1)	(0.1)	(0.2)	–	(0.2)
Other finance revenue – pensions	3, 21	0.1	–	–	0.1	1.2	–	1.2
Profit before taxation		20.4	4.5	(1.6)	23.3	32.2	3.2	35.4
Taxation	7	(6.1)	(1.1)	0.1	(7.1)	(9.5)	(0.8)	(10.3)
Profit for the year		14.3	3.4	(1.5)	16.2	22.7	2.4	25.1
Attributable to:								
Equity holders of the parent		14.3	3.4	(1.5)	16.2	22.7	2.4	25.1
Earnings per share								
Basic	8	76.8p			87.2p	121.5p		134.1p
Diluted	8	75.8p			86.0p	120.3p		132.8p

Consolidated statement of comprehensive income

For the year ended 31 December

		Group	
	Notes	2012 £m	2011 £m
Profit for the year		16.2	25.1
Other comprehensive income:			
Actuarial loss on employee benefit schemes – net of tax	21	(3.8)	(7.3)
Foreign exchange differences on retranslation of foreign operations	23	(1.3)	(0.9)
Foreign currency hedge – net of tax	23	1.5	(0.7)
Total comprehensive income for the year		12.6	16.2
Total comprehensive income attributable to:			
Equity holders of the parent		12.6	16.2

Consolidated and parent company balance sheets

As at 31 December

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Non-current assets					
Property, plant and equipment	10	**8.0**	8.4	**3.4**	4.0
Investment property	11	**0.4**	0.4	**0.4**	0.4
Intangible assets	12	**39.8**	40.3	**–**	–
Trade and other receivables	14	**0.4**	0.4	**0.1**	0.1
Investments	15	**1.9**	1.9	**0.2**	0.2
Investments in subsidiaries	16	**–**	–	**53.9**	53.7
Deferred tax asset	7	**14.7**	12.1	**5.1**	4.0
		65.2	63.5	**63.1**	62.4
Current assets					
Trade and other receivables	14	**33.2**	37.5	**24.7**	23.7
Income tax receivable		**0.3**	0.6	**0.1**	1.5
Investments	15	**25.2**	–	**13.1**	–
Cash and cash equivalents	17	**89.4**	132.9	**11.1**	24.9
		148.1	171.0	**49.0**	50.1
Current liabilities					
Trade and other payables	18	**(69.7)**	(95.5)	**(7.1)**	(34.2)
Income tax payable		**(2.5)**	(4.2)	**–**	–
Provisions	19	**–**	(0.2)	**–**	–
		(72.2)	(99.9)	**(7.1)**	(34.2)
Net current assets		**75.9**	71.1	**41.9**	15.9
Non-current liabilities					
Trade and other payables	18	**(1.7)**	(1.2)	**–**	–
Provisions	19	**(1.8)**	(1.6)	**(1.8)**	(1.6)
Employee benefits	21	**(9.4)**	(6.6)	**(9.4)**	(6.6)
Deferred tax liability	7	**(2.2)**	(1.9)	**–**	–
		(15.1)	(11.3)	**(11.2)**	(8.2)
Net assets		**126.0**	123.3	**93.8**	70.1
Capital and reserves					
Share capital	22	**4.7**	4.7	**4.7**	4.7
Other reserves	23	**37.5**	37.5	**32.4**	31.8
Retained earnings		**83.8**	81.1	**56.7**	33.6
Total equity		**126.0**	123.3	**93.8**	70.1

The financial statements were approved by the board on 6 March 2013, and signed on its behalf by:

Bob Benton Chairman **Jeff Woyda** Finance director

Registered number: 1190238

Consolidated statement of changes in equity

For the year ended 31 December

	Notes	Group Attributable to equity holders of the parent Share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2012		**4.7**	**37.5**	**81.1**	**123.3**
Profit for the year		–	–	16.2	16.2
Other comprehensive income:					
Actuarial loss on employee benefit schemes – net of tax	21	–	–	(3.8)	(3.8)
Foreign exchange differences on retranslation of foreign operations	23	–	(1.3)	–	(1.3)
Foreign currency hedge – net of tax	23	–	1.5	–	1.5
Total comprehensive income for the year		–	0.2	12.4	12.6
Transactions with owners:					
Net ESOP shares acquired	23	–	(0.8)	–	(0.8)
Share-based payments	23	–	0.6	–	0.6
Tax on other employee benefits	7	–	–	(0.3)	(0.3)
Dividend paid	9	–	–	(9.4)	(9.4)
		–	(0.2)	(9.7)	(9.9)
Balance at 31 December 2012		**4.7**	**37.5**	**83.8**	**126.0**

	Notes	Group Attributable to equity holders of the parent Share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2011		4.7	40.0	71.7	116.4
Profit for the year		–	–	25.1	25.1
Other comprehensive income:					
Actuarial loss on employee benefit schemes – net of tax	21	–	–	(7.3)	(7.3)
Foreign exchange differences on retranslation of foreign operations	23	–	(0.9)	–	(0.9)
Foreign currency hedge – net of tax	23	–	(0.7)	–	(0.7)
Total comprehensive income for the year		–	(1.6)	17.8	16.2
Transactions with owners:					
Net ESOP shares acquired	23	–	(1.4)	–	(1.4)
Share-based payments	23	–	0.5	–	0.5
Tax on other employee benefits	7	–	–	(0.2)	(0.2)
Profit on ESOP shares		–	–	0.8	0.8
Dividend paid	9	–	–	(9.0)	(9.0)
		–	(0.9)	(8.4)	(9.3)
Balance at 31 December 2011		4.7	37.5	81.1	123.3

Parent company statement of changes in equity

For the year ended 31 December

	Notes	Share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
		Company Attributable to equity holders of the parent			
Balance at 1 January 2012		**4.7**	**31.8**	**33.6**	**70.1**
Profit for the year		**–**	**–**	**36.3**	**36.3**
Other comprehensive income:					
Actuarial loss on employee benefit schemes – net of tax	21	**–**	**–**	**(3.8)**	**(3.8)**
Total comprehensive income for the year		**–**	**–**	**32.5**	**32.5**
Transactions with owners:					
Share-based payments	23	**–**	**0.6**	**–**	**0.6**
Dividend paid	9	**–**	**–**	**(9.4)**	**(9.4)**
		–	**0.6**	**(9.4)**	**(8.8)**
Balance at 31 December 2012		**4.7**	**32.4**	**56.7**	**93.8**

	Notes	Share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
		Company Attributable to equity holders of the parent			
Balance at 1 January 2011		4.7	31.3	35.1	71.1
Profit for the year		–	–	12.9	12.9
Other comprehensive income:					
Actuarial loss on employee benefit schemes – net of tax	21	–	–	(7.3)	(7.3)
Total comprehensive income for the year		–	–	5.6	5.6
Transactions with owners:					
Share-based payments	23	–	0.5	–	0.5
Tax on other employee benefits		–	–	1.9	1.9
Dividend paid	9	–	–	(9.0)	(9.0)
		–	0.5	(7.1)	(6.6)
Balance at 31 December 2011		4.7	31.8	33.6	70.1

Consolidated and parent company cash flow statements

For the year ended 31 December

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash flows from operating activities					
Profit before tax		**23.3**	35.4	**35.7**	11.3
Adjustments for:					
Foreign exchange differences	3	**0.5**	(3.2)	**–**	–
Depreciation of property, plant and equipment	3, 10	**2.3**	2.3	**0.7**	0.6
Share-based payment expense	20	**1.4**	1.1	**0.9**	1.1
Loss on sale of property, plant and equipment		**–**	0.1	**–**	–
Amortisation of intangibles	12	**0.5**	–	**–**	–
Loss on disposal of subsidiaries	16	**–**	–	**0.5**	–
Impairment of investments in subsidiaries	16	**–**	–	**–**	0.5
Difference between pension contributions paid and amount recognised in the income statement		**(2.1)**	(2.9)	**(2.1)**	(2.9)
Finance revenue	3	**(1.2)**	(1.0)	**(39.7)**	(19.6)
Finance costs	3	**0.1**	0.2	**–**	0.2
Other finance revenue – pensions	3	**(0.1)**	(1.2)	**(0.1)**	(1.2)
Decrease/(increase) in trade and other receivables		**4.8**	(3.9)	**(0.2)**	(10.0)
Decrease in bonus accrual		**(21.5)**	(7.3)	**(4.4)**	(2.9)
Decrease in trade and other payables		**(2.0)**	(1.6)	**(23.2)**	21.8
Increase in provisions	19	**–**	0.1	**0.2**	0.2
Cash generated/(utilised) from operations		**6.0**	18.1	**(31.7)**	(0.9)
Income tax (paid)/received		**(10.4)**	(10.9)	**2.1**	2.3
Net cash flow from operating activities		**(4.4)**	7.2	**(29.6)**	1.4
Cash flows from investing activities					
Interest received	3	**0.5**	0.5	**0.2**	0.2
Purchase of property, plant and equipment	10	**(2.0)**	(2.3)	**(0.1)**	(0.3)
Proceeds from sale of investments		**–**	10.7	**–**	10.7
Proceeds from sale of property, plant and equipment		**0.1**	0.4	**–**	–
Transfer to current investments	15	**(25.2)**	–	**(13.1)**	–
Acquisition of subsidiaries, including deferred consideration	12, 16	**(0.4)**	(8.7)	**(0.2)**	–
Cash acquired on acquisitions	12	**–**	1.8	**–**	–
Dividends received from investments	3	**0.7**	0.5	**39.5**	19.6
Net cash flow from investing activities		**(26.3)**	2.9	**26.3**	30.2
Cash flows from financing activities					
Interest paid	3	**(0.1)**	(0.2)	**–**	(0.2)
Dividend paid	9	**(9.4)**	(9.0)	**(9.4)**	(9.0)
Repayments of borrowings		**–**	(43.6)	**–**	(43.6)
ESOP shares acquired		**(1.1)**	(1.5)	**(1.1)**	–
Net cash flow from financing activities		**(10.6)**	(54.3)	**(10.5)**	(52.8)
Net decrease in cash and cash equivalents		**(41.3)**	(44.2)	**(13.8)**	(21.2)
Cash and cash equivalents at 1 January		**132.9**	176.3	**24.9**	46.1
Net foreign exchange differences		**(2.2)**	0.8	**–**	–
Cash and cash equivalents at 31 December	17	**89.4**	132.9	**11.1**	24.9

Notes to the financial statements

1 Corporate information

The group and parent company financial statements of Clarkson PLC for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 6 March 2013. Clarkson PLC is a Public Limited Company, listed on the London Stock Exchange, registered in England and Wales and domiciled in the UK.

The term 'company' refers to Clarkson PLC and 'group' refers to the company, its consolidated subsidiaries and the relevant assets and liabilities of the share purchase trusts.

Copies of the Annual Report will be circulated to all shareholders and will also be available from the registered office of the company at St. Magnus House, 3 Lower Thames Street, London EC3R 6HE.

2 Statement of accounting policies

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2012.

The financial statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds sterling (£0.1m) except when otherwise indicated.

The consolidated income statement is shown in columnar format to assist with understanding the group's results by presenting profit for the period before exceptional items and acquisition costs. Items which are non-recurring in nature and considered to be material in size are shown as 'exceptional items'. The column 'acquisition costs' includes the amortisation of intangible assets and the expensing of the cash and share-based elements of consideration linked to ongoing employment obligations on previous acquisitions. These notes form an integral part of the financial statements on pages 51 to 55.

Statement of compliance

The financial statements of Clarkson PLC have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement, or the parent company statement of comprehensive income.

The accounting policies set out below have been applied consistently to all periods presented in these group and company financial statements.

Basis of consolidation

The group's consolidated financial statements incorporate the results and net assets of Clarkson PLC and all its subsidiary undertakings made up to 31 December each year.

Where necessary, adjustments are made to the financial statements 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 arm's-length recharges are included within the appropriate segments.

2.2 Changes in accounting policy and disclosures

New and amended standards adopted by the group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning 1 January 2012 that have had a material impact on the group.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not early adopted

IAS 1, 'Financial statement presentation' regarding other comprehensive income. The effective date is for annual periods beginning on or after 1 July 2012. The main change resulting from these amendments is a requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

IAS 19, 'Employee benefits' was amended in June 2011. The impact on the group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset). The effective date is for annual reports beginning on or after 1 January 2013. The impact of this change is explained in the financial review on page 26.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The effective date is for annual reports beginning on or after 1 January 2013. The group has assessed the impact of the change as being not material.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

2.3 Accounting judgements and estimates

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

Impairment of non-financial assets
The group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 13.

Share-based payments
The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them.

Pensions
The cost of defined benefit pension plans is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 21.

Trade receivables
The provision for impairment of receivables represents management's best estimate at the balance sheet date.

2.4 Property, plant and equipment

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

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. Cost includes the original purchase price of the asset.

Land is not depreciated. Depreciation on other assets is charged on a straight-line basis over the estimated useful life (after allowing for estimated residual value based on current prices) of the asset, and is charged from the time an asset becomes available for its intended use. Estimated useful lives are as follows:

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.

2.5 Investment properties

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

2.6 Business combinations and goodwill

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

All transaction costs related to business combinations are expensed in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the synergies of the combination.

Notes to the financial statements continued

2 Statement of accounting policies continued

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 transition has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

2.7 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be three years.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

2.8 Impairment of non-financial assets

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

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill
The group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The group performs its annual impairment test of goodwill as at 31 December.

2.9 The parent company's investments in subsidiaries

In its separate financial statements the parent company recognises its investments in subsidiaries at cost less provision for impairment. Income is recognised from these investments in relation to distributions received.

2.10 Investments and other financial assets

Classification
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories or held-to-maturity investments. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

Recognition and measurement

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques, unless these are not reliable in which case the investments are shown at cost. Such valuation techniques include using recent arm's-length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost
Loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

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

Foreign exchange contracts are accounted for in accordance with 2.13.

2.11 Impairment of financial assets

The group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence that the group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of between one day and three months.

2.13 Derivative financial instruments and hedge accounting

The group uses various financial instruments to reduce exposure to foreign exchange movements. These can include forward foreign exchange contracts and currency options. All derivative financial instruments are initially recognised on the balance sheet at their fair value adjusted for transaction costs.

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

The method of recognising the movements in the fair value of the derivative depends on whether the instrument has been designated as a hedging instrument and, if so, the cash flow being hedged. To qualify for hedge accounting, the terms of the hedge must be clearly documented at inception and there must be an expectation that the derivative will be highly effective in offsetting changes in the cash flow of the hedged risk. Hedge effectiveness is tested throughout the life of the hedge and if at any point it is concluded that the relationship can no longer be expected to remain highly effective in achieving its objective, the hedge relationship is terminated.

Notes to the financial statements continued

2 Statement of accounting policies continued

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

Cash flow hedges: derivative financial instruments are classified as cash flow hedges when they hedge the group's exposure to changes in cash flows attributable to a particular asset or liability or a highly probable forecast transaction. Gains or losses on designated cash flow hedges are recognised directly in equity, to the extent that they are determined to be effective. Any remaining portion of the gain or loss is recognised immediately in the income statement. On recognition of the hedged asset or liability, any gains or losses that had previously been recognised directly in equity are included in the initial measurement of the fair value of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity remains there and is recognised in the income statement when the forecast transaction is ultimately recognised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Where financial instrument derivatives do not qualify for hedge accounting, changes in the fair market value are recognised immediately in the income statement.

2.14 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs and have not been designated as 'at fair value through profit and loss'.

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

2.15 Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) 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. Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.16 Pensions

The group operates two defined benefit pension plans, both of which may require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur; they are presented in the consolidated statement of comprehensive income.

The 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 defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

2.17 Share-based payment transactions

Employees (including senior executives) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value of the element of these awards which have a Total Shareholder Return performance condition was valued using a stochastic model. All other elements of awards were valued using a Black-Scholes model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in note 8).

2.18 Share capital

Ordinary shares are recognised in equity as share capital at their nominal value. The difference between consideration received and the nominal value is recognised in the share premium account.

Company shares held in trust in connection with the group's employee share schemes are deducted from consolidated shareholders' equity. Purchases, sales and transfers of the company's shares are disclosed as changes in consolidated shareholders' equity. The assets and liabilities of the trusts are consolidated in full into the group's consolidated financial statements.

2.19 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.

Broking
Revenue consists of commission receivable from broking and is recognised by reference to the stage of completion. Stage of completion is measured by reference to the underlying commercial contract.

Financial
Futures broking commissions are recognised when the services have been performed. Fees relating to our financial and investment services businesses are recognised as services are performed.

Support
Port service income is recognised on vessel load or discharge completion date and store rent on a time basis. Agency income is recognised when vessels arrive in port. Rental income arising from operating leases on properties is accounted for on a straight-line basis over the lease term.

Research
Revenue comprises fees, which are recognised as and when services are performed, and sales of shipping publications and other information, which is recognised when products are delivered.

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

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The group considers the executive members of the company's board to be the chief operating decision-maker.

2.21 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.

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

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

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.

2.22 Taxation

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to the financial statements continued

2 Statement of accounting policies continued

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.23 Leases

Where the group is 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.

2.24 Exceptional items

Exceptional items are significant items of a non-recurring nature and considered material in both size and nature. These are disclosed separately to enable a full understanding of the group's financial performance.

3 Revenues and expenses

	2012 £m	2011 £m
Revenue		
Rendering of services	**165.1**	184.1
Rental income	**3.7**	3.8
Sale of goods	**7.4**	6.7
	176.2	194.6
Finance revenue		
Bank interest income	**0.5**	0.5
Income from available-for-sale financial assets	**0.7**	0.5
	1.2	1.0
Finance costs		
Interest-bearing loans and borrowings	**–**	(0.2)
Other interest	**(0.1)**	–
	(0.1)	(0.2)
Other finance revenue – pensions		
Expected return on plan assets	**6.5**	8.0
Interest cost on benefit obligation	**(6.4)**	(6.8)
	0.1	1.2

Operating profit

Operating profit from continuing operations represents the results from operations before finance revenues and finance costs. This is stated after charging/(crediting):

	2012 £m	2011 £m
Included in administrative expenses		
Depreciation	**2.3**	2.3
Amortisation	**0.5**	–
Operating leases – land and buildings	**6.1**	5.9
Net foreign exchange losses/(gains)	**0.5**	(3.2)

Notes to the financial statements continued

3 Revenues and expenses continued

	2012 £000	2011 £000
Auditors' remuneration		
Fees payable to the company's auditor for the audit of the company's accounts and consolidated financial statements	82	85
Fees payable to the company's auditor and its associates for other services:		
The auditing of accounts of subsidiaries of the company	232	205
Audit related assurance services	48	30
Taxation compliance services	50	45
Taxation advisory services	136	157
All other services	66	155
	614	677

	2012 £m	2011 £m
Employee compensation and benefits expense		
Wages and salaries	98.7	107.4
Social security costs	9.7	10.9
Expense of share-based payments	1.4	1.1
Pension costs – defined contribution plans	3.0	2.9
	112.8	122.3

The numbers above include remuneration and pension entitlements for each director. Details are included in the directors' remuneration report in the directors' emoluments and compensation table on page 45.

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

	2012 Number	2011 Number
Broking	724	683
Financial	69	64
Support	75	51
Research	71	69
	939	867

4 Segmental information

The chief operating decision-maker is the executive member of the company's board. Management has determined the operating segments based on the information reviewed by the board.

Clarksons' broking division represents shipowners and charterers in the transportation by sea of a wide range of cargoes.

The financial division includes a futures broking operation which arranges principal-to-principal cash settled contracts for differences based upon standardised freight contracts and a financial and investment services division representing the provision of advice to clients on the financial aspects of a range of shipping-related transactions.

Support includes port and agency services representing ship agency services provided throughout the UK and property services regarding the provision of accommodation.

Research services encompass the provision of shipping-related information and publications.

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 arm's-length recharges are included within the appropriate segments.

Business segments

	Revenue 2012 £m	Revenue 2011 £m	Results 2012 £m	Results 2011 £m
Broking	**145.7**	163.6	**25.2**	35.9
Financial	**5.3**	12.1	**(9.9)**	(2.3)
Support	**19.2**	13.9	**4.2**	1.7
Research	**9.2**	8.1	**2.8**	2.0
	179.4	197.7		
Less property services revenue arising within the group, included under Support	**(3.2)**	(3.1)		
Segment revenue/results	**176.2**	194.6	**22.3**	37.3
Head office costs			**(3.2)**	(7.1)
Operating profit before exceptional item and acquisition costs			**19.1**	30.2
Exceptional item			**4.5**	3.2
Acquisition costs			**(1.5)**	–
Operating profit after exceptional item and acquisition costs			**22.1**	33.4
Finance revenue			**1.2**	1.0
Finance costs			**(0.1)**	(0.2)
Other finance revenue – pensions			**0.1**	1.2
Profit before taxation			**23.3**	35.4
Taxation			**(7.1)**	(10.3)
Profit after taxation			**16.2**	25.1

Business segments

	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Broking	**137.6**	160.3	**53.1**	75.6
Financial	**13.0**	14.4	**1.9**	1.9
Support	**17.6**	16.1	**7.1**	6.6
Research	**4.6**	5.1	**3.5**	3.3
Segment assets/liabilities	**172.8**	195.9	**65.6**	87.4
Unallocated assets/liabilities	**40.5**	38.6	**21.7**	23.8
	213.3	234.5	**87.3**	111.2

Unallocated assets predominantly relate to head office cash balances and tax assets. Unallocated liabilities include the pension scheme deficit and tax liabilities.

Notes to the financial statements continued

4 Segmental information continued

Business segments

	Non-current asset additions				Depreciation		Amortisation	
	Property, plant and equipment 2012 £m	**Intangible assets 2012 £m**	Property, plant and equipment 2011 £m	Intangible assets 2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Broking	**0.9**	**–**	1.0	7.0	**0.8**	0.7	**0.5**	–
Financial	**–**	**–**	–	0.2	**0.1**	0.1	**–**	–
Support	**1.1**	**–**	1.3	0.7	**1.4**	1.5	**–**	–
	2.0	**–**	2.3	7.9	**2.3**	2.3	**0.5**	–

Geographical segments – by origin of invoice

	Revenue	
	2012 £m	2011 £m
Europe, Middle East and Africa**	**131.5**	140.0
Americas	**20.4**	23.9
Asia Pacific	**24.3**	30.7
	176.2	194.6

Geographical segments – by location of assets

	Non-current assets*	
	2012 £m	2011 £m
Europe, Middle East and Africa**	**46.8**	47.8
Americas	**2.2**	2.5
Asia Pacific	**1.5**	1.1
	50.5	51.4

*Non-current assets exclude deferred tax assets.
**Includes revenue for the UK of £111.6m (2011: £119.6m) and non-current assets for the UK of £36.6m (2011: £37.1m).

5 Exceptional item

In November 2011 Clarksons announced that the Court of Appeal in London had decided to deny the claimant (Yuri Nikitin) leave to appeal in the cases between Mr Nikitin and H. Clarkson & Company Limited (HCL), previously highlighted in the contingencies note in Clarksons' financial statements.

HCL has been awarded costs relating to the matters appealed, and has credited its 2011 profits with an amount of £3.2m that it has received on account of those legal costs. The discussions related to the costs of this matter are now concluded.

In March 2012, HCL reached a full and final settlement with Mr Nikitin and the corporate entities involved to conclude all outstanding matters between them. Under the terms of the settlement, which all parties have agreed will remain confidential, an amount of US$7m has been received by HCL which is disclosed as an exceptional item in this Annual Report.

6 Acquisition costs

Included in acquisition costs are cash and share-based payment charges of £1.0m and interest of £0.1m relating to acquisitions made in 2011. These are contingent on employees remaining in service and are therefore spread over the service period.

Also included is £0.5m relating to amortisation of intangibles acquired as part of the 2011 acquisitions.

7 Taxation

Tax charged in the consolidated income statement is as follows:

Continuing operations	2012 £m	2011 £m
Current income tax		
UK corporation tax	**6.1**	5.1
Foreign tax	**3.5**	4.8
Total current income tax	**9.6**	9.9
Deferred tax		
Origination and reversal of temporary differences	**(2.5)**	0.4
Total tax charge in the income statement	**7.1**	10.3

Tax relating to items charged or credited to equity is as follows:

	2012 £m	2011 £m
Current tax credit: Pension benefit	**(0.6)**	(0.7)
Deferred tax credit: Pension benefit	**(0.6)**	(1.9)
Deferred tax charge/(credit): Foreign currency hedge	**0.5**	(0.2)
Deferred tax charge: Other employee benefits	**0.3**	0.2
Total tax credit in the statement of comprehensive income	**(0.4)**	(2.6)

Reconciliation of tax charge

The tax expense in the income statement for the year is higher (2011: higher) than the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are reconciled below:

	2012 £m	2011 £m
Accounting profit before income tax	**23.3**	35.4
Accounting profit at UK average standard rate of corporation tax of 24.5% (2011: 26.5%)	**5.7**	9.4
Effects of:		
Expenses not deductible for tax purposes	**1.5**	1.7
Non-taxable income	**(0.2)**	(0.2)
Higher/(lower) tax rates on overseas earnings	**0.3**	(0.1)
Adjustments relating to prior year	**(0.4)**	(1.0)
Tax losses not recognised/(recognised)	**(0.3)**	0.4
Adjustments relating to changes in tax rates	**0.6**	0.3
Other adjustments	**(0.1)**	(0.2)
Total tax charge reported in the income statement	**7.1**	10.3

Notes to the financial statements continued

7 Taxation continued

Deferred tax

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

	2012 £m	2011 £m
Employee benefits – on pension benefit liability	**0.1**	0.4
– other employee benefits	**0.1**	0.2
Movement on fair value through profit or loss investments	**–**	(1.0)
Tax losses not recognised	**(2.0)**	0.4
Other temporary differences	**(0.7)**	0.4
Deferred tax (credit)/charge in the income statement	**(2.5)**	0.4

Deferred tax included in the balance sheet is as follows:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Deferred tax asset				
Employee benefits – on pension benefit liability	**2.2**	1.7	**2.2**	1.7
– other employee benefits	**8.9**	9.3	**2.5**	2.0
Foreign currency contracts	**–**	0.1	**–**	–
Tax losses	**2.0**	–	**–**	–
Other temporary differences	**1.6**	1.0	**0.4**	0.3
Deferred tax asset	**14.7**	12.1	**5.1**	4.0
Deferred tax liability				
Unremitted earnings of overseas subsidiaries	**(1.2)**	(1.3)	**–**	–
Foreign currency contracts	**(0.3)**	–	**–**	–
Intangible assets recognised on acquisition	**(0.2)**	(0.3)	**–**	–
Other temporary differences	**(0.5)**	(0.3)	**–**	–
Deferred tax liability	**(2.2)**	(1.9)	**–**	–

All deferred tax movements arise from the origination and reversal of temporary differences.

8 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:

	2012 £m	2011 £m
Net profit attributable to ordinary equity holders of the parent	**16.2**	25.1

	2012 Number	2011 Number
Weighted average number of ordinary shares (excluding share purchase trusts' shares) for basic earnings per share	**18,639,717**	18,652,357
Dilutive effect of share options	**8,689**	6,344
Dilutive effect of performance share awards	**192,237**	188,190
Dilutive effect of acquisition related shares	**52,790**	–
Weighted average number of ordinary shares (excluding share purchase trusts' shares) adjusted for the effect of dilution	**18,893,433**	18,846,891

The share awards relating to directors, where the performance conditions have not yet been met at the balance sheet date, are not included in the above numbers. The weighted average number of these shares were 187,892 (2011: 269,132).

9 Dividends

	2012 £m	2011 £m
Declared and paid during the year:		
Final dividend for 2011 of 32p per share (2010: 30p per share)	**6.0**	5.6
Interim dividend for 2012 of 18p per share (2011: 18p per share)	**3.4**	3.4
Dividend paid	**9.4**	9.0
Proposed for approval at AGM (not recognised as a liability at 31 December):		
Final dividend for 2012 proposed of 33p per share (2011: 32p per share)	**6.1**	6.0

Notes to the financial statements continued

10 Property, plant and equipment

31 December 2012

					Group
	Freehold and long leasehold properties £m	**Leasehold improvements £m**	**Office furniture and equipment £m**	**Motor vehicles £m**	**Total £m**
Original cost					
At 1 January 2012	**3.8**	**1.2**	**16.6**	**1.0**	**22.6**
Additions	**–**	**0.4**	**1.4**	**0.2**	**2.0**
Disposals	**–**	**–**	**(0.3)**	**(0.2)**	**(0.5)**
Foreign exchange differences	**(0.1)**	**(0.1)**	**(0.2)**	**–**	**(0.4)**
At 31 December 2012	**3.7**	**1.5**	**17.5**	**1.0**	**23.7**
Accumulated depreciation					
At 1 January 2012	**1.0**	**0.7**	**12.0**	**0.5**	**14.2**
Charged during the year	**0.1**	**0.2**	**1.8**	**0.2**	**2.3**
Disposals	**–**	**–**	**(0.3)**	**(0.1)**	**(0.4)**
Foreign exchange differences	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.4)**
At 31 December 2012	**1.0**	**0.8**	**13.4**	**0.5**	**15.7**
Net book value at 31 December 2012	**2.7**	**0.7**	**4.1**	**0.5**	**8.0**

31 December 2011

					Group
	Freehold and long leasehold properties £m	Leasehold improvements £m	Office furniture and equipment £m	Motor vehicles £m	Total £m
Original cost					
At 1 January 2011	3.8	1.0	15.3	1.4	21.5
Additions	–	0.2	1.9	0.2	2.3
Arising on acquisitions	–	–	0.1	0.1	0.2
Disposals	–	–	(0.7)	(0.7)	(1.4)
At 31 December 2011	3.8	1.2	16.6	1.0	22.6
Accumulated depreciation					
At 1 January 2011	0.9	0.6	10.7	0.6	12.8
Charged during the year	0.1	0.2	1.8	0.2	2.3
Disposals	–	(0.1)	(0.5)	(0.3)	(0.9)
At 31 December 2011	1.0	0.7	12.0	0.5	14.2
Net book value at 31 December 2011	2.8	0.5	4.6	0.5	8.4

31 December 2012

	Company			
	Freehold and long leasehold properties £m	**Leasehold improvements £m**	**Office furniture and equipment £m**	**Total £m**
Original cost				
At 1 January 2012	**1.9**	**0.5**	**6.8**	**9.2**
Additions	**–**	**–**	**0.1**	**0.1**
At 31 December 2012	**1.9**	**0.5**	**6.9**	**9.3**
Accumulated depreciation				
At 1 January 2012	**0.2**	**0.4**	**4.6**	**5.2**
Charged during the year	**0.1**	**–**	**0.6**	**0.7**
At 31 December 2012	**0.3**	**0.4**	**5.2**	**5.9**
Net book value at 31 December 2012	**1.6**	**0.1**	**1.7**	**3.4**

31 December 2011

	Company			
	Freehold and long leasehold properties £m	Leasehold improvements £m	Office furniture and equipment £m	Total £m
Original cost				
At 1 January 2011	1.9	0.5	6.5	8.9
Additions	–	–	0.3	0.3
At 31 December 2011	1.9	0.5	6.8	9.2
Accumulated depreciation				
At 1 January 2011	0.2	0.3	4.1	4.6
Charged during the year	–	0.1	0.5	0.6
At 31 December 2011	0.2	0.4	4.6	5.2
Net book value at 31 December 2011	1.7	0.1	2.2	4.0

Notes to the financial statements continued

11 Investment property

31 December 2012

	Group and company £m
Cost	
At 1 January and 31 December 2012	**0.6**
Accumulated depreciation	
At 1 January and 31 December 2012	**0.2**
Net book value at 31 December 2012	**0.4**

The fair value of the investment property at 31 December 2012 was £0.5m (2011: £0.6m). This valuation was carried out by an independent valuer.

31 December 2011

	Group and company £m
Cost	
At 1 January and 31 December 2011	0.6
Accumulated depreciation	
At 1 January and 31 December 2011	0.2
Net book value at 31 December 2011	0.4

12 Intangible assets

31 December 2012

	Intangibles £m	Goodwill £m	Total £m
Cost			
At 1 January 2012	**7.9**	**51.6**	**59.5**
Foreign exchange differences	**0.1**	**(0.1)**	**–**
At 31 December 2012	**8.0**	**51.5**	**59.5**
Amortisation and impairment			
At 1 January 2012	**6.8**	**12.4**	**19.2**
Charged during the year	**0.5**	**–**	**0.5**
At 31 December 2012	**7.3**	**12.4**	**19.7**
Net book value at 31 December 2012	**0.7**	**39.1**	**39.8**

31 December 2011

	Intangibles £m	Goodwill £m	Total £m
Cost			
At 1 January 2011	6.8	45.0	51.8
Additions	1.1	6.8	7.9
Foreign exchange differences	–	(0.2)	(0.2)
At 31 December 2011	7.9	51.6	59.5
Amortisation and impairment			
At 1 January 2011	6.8	12.3	19.1
Foreign exchange differences	–	0.1	0.1
At 31 December 2011	6.8	12.4	19.2
Net book value at 31 December 2011	1.1	39.2	40.3

Acquisitions

2012

There were no acquisitions in 2012. Information on 2011 acquisitions is set out below for comparative purposes.

2011

EnShip

On 30 November 2011, the group acquired 100% of the share capital of EnShip Limited (EnShip), via its Port Services company, Clarkson Port Services Limited (CPS). EnShip is an Aberdeen-based shipping agency and marine industry logistics specialist with 23 staff.

The acquisition complements CPS' strategy to expand its geographical reach and broaden its services to existing and new customers in bulk shipping and the offshore and renewable industries. The goodwill of £0.7m is attributable to the acquired team and the synergies that will arise as a part of the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

Consideration is payable in both cash and Clarkson PLC shares. On the acquisition date, £1.8m was paid in cash and £0.2m was payable in Clarkson PLC shares. A further £0.4m cash consideration is deferred, payable in 2012.

The fair value of the ordinary shares issued as part of the consideration paid for EnShip was £10.76, based on the Clarkson PLC share price on the acquisition date.

Acquisition-related costs of £0.1m have been charged to administration expenses in the consolidated income statement for the year ended 31 December 2011.

In addition, a further £1.3m cash payment will be made to key employees contingent on them remaining in employment for three years. An additional cash sum up to £0.6m will also be payable in three years subject to the same service conditions and EnShip achieving certain earnings targets over the three years. For both of the above, the cost will be charged to the consolidated income statement over the service period.

Boxton/Bridge

On 16 December 2011, the group acquired 100% of the share capital of Boxton Holding AS (Boxton) and Bridge Maritime AS (Bridge) via Clarkson Norway AS. Both are Oslo-based shipbroking businesses with extensive experience in sale and purchase, newbuilding, leasing and project broking across all shipping markets, and particularly strong client relationships within the container, tanker, gas and offshore markets, with 8 staff.

The acquisition complements Clarksons' strategy to build its presence in Scandinavia. Supported by Clarksons' unrivalled global reach and breadth of broking and capital market services, the enlarged team at Clarkson Norway will be able to significantly expand the offering to our clients. The goodwill of US$8.9m (£5.9m) is attributable to the acquired team and the increased market share in the sector. None of the goodwill recognised is expected to be deductible for income tax purposes.

Consideration is payable in cash totalling US$11.0m (£7.1m). On the acquisition date, US$10.4m (£6.7m) was paid, the remaining US$0.6m (£0.4m) is contingent on the performance of a pre-acquisition contract.

On acquisition, management performed a fair value exercise on the identifiable assets and liabilities. A valuation was performed on the cash flows expected from the existing forward order book of both Boxton and Bridge, discounted where necessary based on factors such as the timing of cash flows and the potential for counterparty default. As a result of this assessment, a total of US$1.7m (£1.1m) was identified as being an intangible asset acquired as a part of the business combination. The intangible asset will be amortised over the useful life, which is deemed to be three years.

Acquisition-related costs of US$0.6m (£0.4m) have been charged to administration expenses in the consolidated income statement for the year ended 31 December 2011.

In addition, a further US$2.7m (£1.7m) will be payable to key employees, by way of ordinary shares in Clarkson PLC, contingent on them remaining in employment for four years. The cost of these shares will be charged to the consolidated income statement over the service period.

Other

On 2 February 2011 the group acquired 100% of the share capital of SFL Securities, LLC for cash consideration of US$0.3m (£0.2m). The name of the company was changed to CIS Capital Markets, LLC post-acquisition. There were no net assets identified on acquisition.

Notes to the financial statements continued

12 Intangible assets continued

The following table summarises the consideration paid for the principal acquisitions, the fair value of the assets acquired and the liabilities assumed:

Recognised amounts of identifiable assets acquired and liabilities assumed:	EnShip £m	Boxton/ Bridge £m	Total £m
Intangible assets*	–	1.1	1.1
Property, plant and equipment	0.2	–	0.2
Trade and other receivables	3.3	0.3	3.6
Cash and cash equivalents	1.1	0.7	1.8
Total assets	4.6	2.1	6.7
Trade and other payables	2.6	0.5	3.1
Income tax payable	0.3	0.1	0.4
Deferred tax liability*	–	0.3	0.3
Total liabilities	2.9	0.9	3.8
Total identifiable net assets	1.7	1.2	2.9
Goodwill	0.7	5.9	6.6
Total consideration	2.4	7.1	9.5
Consideration:			
Cash	2.2	7.1	9.3
Equity instruments	0.2	–	0.2
Total consideration	2.4	7.1	9.5

*Fair value adjustments made on acquisition.

EnShip

The revenue included in the consolidated income statement since 30 November 2011 contributed by EnShip was £0.4m. EnShip also contributed profit of £0.1m over the same period.

Boxton/Bridge

No revenue and profit are included in the consolidated income statement for Boxton and Bridge.

Pro forma information

Had EnShip and Boxton/Bridge been consolidated from 1 January 2011, the consolidated income statement would show revenue of £201.7m and profit, before exceptional items including acquisition related costs, of £33.8m. This information is not necessarily indicative of the 2011 results of the combined group had the purchases actually been made at the beginning of the period presented, or indicative of the future consolidated performance given the nature of the businesses acquired.

13 Impairment testing of goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to operating segment.

Goodwill acquired through business combinations has been allocated to the attributable CGUs for impairment testing as follows:

- Dry bulk chartering
- Specialised products chartering
- Gas chartering
- Sale and purchase broking
- Port and agency services
- Research services
- Investment services

The carrying amount of goodwill allocated to each CGU is as follows:

	2012 £m	2011 £m
Dry bulk chartering	**12.0**	12.0
Specialised products chartering	**12.2**	12.2
Gas chartering	**2.7**	2.7
Sale and purchase broking	**7.6**	7.7
Port and agency services	**1.1**	1.1
Research services	**3.3**	3.3
Investment services	**0.2**	0.2
	39.1	39.2

The movement in the aggregate carrying value is analysed in more detail in note 12.

Goodwill is allocated to CGUs which are tested for impairment at least annually. The goodwill arising in each CGU is similar in nature and thus the testing for impairment uses the same approach.

The recoverable amounts of the CGUs are assessed using a value-in-use model. Value-in-use is calculated as the net present value of the projected risk-adjusted cash flows of the CGU to which the goodwill is allocated. The groups of CGUs for which the carrying amount of goodwill is deemed significant are dry bulk chartering, specialised products chartering and, following the recent acquisitions, sale and purchase broking. The key assumptions used for value-in-use calculations are as follows:

- the pre-tax discount rate used is based on the group's WACC and adjusted for risks within each CGU. As all CGUs have operations that are global in nature and similar risk profiles, the same pre-tax discount rate was applied to each unit. The group pre-tax discount rate is 13% (2011: 12%);
- the cash flow predictions are based on financial budgets and strategic plans approved by the board extrapolated over a five year period. These are based on both past performance and expectations for future market development;
- key drivers in the plans are revenue growth, margin and operating profit percentage and include conservative annual growth rates of between 0% and 5%; and
- cash flows beyond this five year period are calculated applying a multiple which does not exceed the amount if calculated using the long-term average growth rate for businesses operating in the same segment as the CGUs. A change in this rate to 0% would not result in impairment.

The results of the directors' review of goodwill including sensitivity analyses for reasonable changes in assumptions still indicate remaining headroom.

Notes to the financial statements continued

14 Trade and other receivables

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Non-current				
Other receivables	**0.3**	0.3	**–**	–
Prepayments and accrued income	**0.1**	0.1	**0.1**	0.1
	0.4	0.4	**0.1**	0.1
Current				
Trade receivables	**23.6**	28.1	**–**	–
Foreign currency contracts	**1.5**	–	**–**	–
Other receivables	**4.0**	3.2	**–**	0.1
Prepayments and accrued income	**4.1**	6.2	**–**	–
Owed by group companies	**–**	–	**24.7**	23.6
	33.2	37.5	**24.7**	23.7

As at 31 December 2012, the company provided for £0.7m (2011: £nil) of related party receivables. Further details of related party receivables are included in note 27.

Trade receivables are non-interest bearing and are generally on terms payable within 90 days.

As at 31 December 2012, group trade receivables at nominal value of £12.2m (2011: £13.0m) were impaired and fully provided for. The amount of the provision equates to the total amount of impaired debt. The provision is based on ongoing market information about the credit-worthiness of counterparties. The company has no trade receivables (2011: none).

Movements in the provision for impairment of receivables were as follows:

	Individually impaired	
	2012 £m	2011 £m
At 1 January	**13.0**	14.4
Credit for the year	**(0.8)**	(1.4)
At 31 December	**12.2**	13.0

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total £m	Neither past due nor impaired £m	Past due not impaired > 90 days £m
2012	**23.6**	**21.0**	**2.6**
2011	28.1	25.5	2.6

The other classes within trade and other receivables do not include any impaired items.

15 Investments

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Non-current				
Available-for-sale financial assets	**1.9**	1.9	**0.2**	0.2
Current				
Funds on deposit	**25.2**	–	**13.1**	–

Available-for-sale financial assets consist of investments in unlisted ordinary shares and are shown at cost. There are no reasonable pricing alternatives to be able to give a range of fair value to these assets.

16 Investments in subsidiaries

	Company	
	2012 £m	2011 £m
Cost at 1 January	**53.7**	54.4
Recapitalisation of existing subsidiary	**0.2**	–
Disposal of subsidiary	**(0.5)**	–
Capital contribution to subsidiary	**0.5**	–
Pre-acquisition reserves dividend from subsidiary	**–**	(0.2)
Impairment of investment in subsidiary	**–**	(0.5)
At 31 December	**53.9**	53.7

2012
During the year the company subscribed for an additional £0.2m of share capital in Clarkson Investment Services Limited. The investment in Clarkson Fund Management Limited has been disposed of, following the company's dissolution.

Also, £0.5m was given as a capital contribution in relation to the acquisition of the Boxton/Bridge group in 2011.

2011
During the year the company received a dividend out of pre-acquisition reserves of a subsidiary.

The investment in Clarkson Fund Management Limited has been impaired following closure of the hedge funds so that the carrying value represents the fair value of the remaining net assets recoverable.

Notes to the financial statements continued

17 Cash and cash equivalents

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Cash at bank and in hand	**86.1**	117.9	**11.1**	13.0
Short-term deposits	**3.3**	15.0	**–**	11.9
	89.4	132.9	**11.1**	24.9

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending upon the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £89.4m (2011: £132.9m).

18 Trade and other payables

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Current				
Trade payables	**9.6**	11.6	**–**	–
Other payables	**1.2**	1.3	**0.1**	0.1
Owed to group companies	**–**	–	**1.5**	24.7
Other tax and social security	**2.1**	2.4	**–**	–
Deferred consideration	**0.4**	0.8	**–**	–
Foreign currency contracts	**–**	0.5	**–**	–
Accruals and deferred income	**56.4**	78.9	**5.5**	9.4
	69.7	95.5	**7.1**	34.2
Non-current				
Other payables	**1.1**	1.2	**–**	–
Deferred consideration	**0.6**	–	**–**	–
	1.7	1.2	**–**	–

Terms and conditions of the financial liabilities:

- trade payables are non-interest bearing and are normally settled on demand;
- other payables are non-interest bearing and are normally settled on demand; and
- further details of related party payables are included in note 27.

19 Provisions

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Current				
At 1 January	**0.2**	0.3	**–**	–
Utilised during the year	**(0.2)**	(0.1)	**–**	–
At 31 December	**–**	0.2	**–**	–
Non-current				
At 1 January	**1.6**	1.4	**1.6**	1.4
Arising during the year	**0.2**	0.2	**0.2**	0.2
At 31 December	**1.8**	1.6	**1.8**	1.6

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

20 Share-based payment plans

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Expense arising from equity-settled share-based payment transactions	**1.4**	1.1	**0.9**	1.1

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2012 or 2011.

Long Term Incentive Plan
Details of the Long Term Incentive Plan are included in the directors' remuneration report on page 42. Awards made to the directors are given in the directors' remuneration report on page 46.

Share options
Movements in the year
The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2012		2011	
	Number	**WAEP**	Number	WAEP
Outstanding and exercisable at 1 January and 31 December	**40,000**	**£9.91**	40,000	£9.91

The exercise price for all the options outstanding at the end of 2012 was £9.91 (2011: £9.91).

The contractual life of the remaining options is five years. There are no cash settlement alternatives. There were no options granted during 2012 (2011: none).

Other employee incentives
During the year, 442,496 shares (2011: 528,273 shares) at a weighted average price of £13.44 (2011: £12.61) were awarded to employees in settlement of 2011 (2010) cash bonuses. There was no expense in 2012 as a result of these awards.

The fair value of the above shares was determined based on the market price at the date of grant.

As part of a 2011 acquisition, US$2.7m (£1.7m) will be payable to key employees in the form of ordinary shares in Clarkson PLC. This is contingent on the employees remaining in employment for four years. The cost of these shares will be charged to the consolidated income statement over the service period. The 2012 charge in relation to these awards is £0.4m.

Notes to the financial statements continued

21 Employee benefits

The group's two defined benefit pension schemes are in the UK and all financial information provided in this note relates to the sum of the two separate schemes.

Defined benefit pension schemes

The group operates two defined benefit pension schemes, being the Clarkson PLC scheme and the Plowrights scheme, which are funded by the payment of contributions to separately administered trust funds. The schemes' 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 original defined benefit section of the Clarkson PLC scheme to new entrants on 31 March 2004. This section was closed to further accrual for all existing members as from 31 March 2006. The Plowrights scheme was closed to further accrual from 1 January 2006.

Every three years, a pension scheme must obtain from an actuary a report containing a valuation and a recommendation on rates of contribution. Triennial valuations for both schemes have been prepared based on the position as at 31 March 2010.

- The valuation of the Clarkson PLC scheme showed a pension deficit on the original scheme of £4.2m as at 31 March 2010.
- The valuation of the Plowrights scheme showed a pension deficit of £4.6m as at 31 March 2010.

It has been agreed between Clarkson PLC and both sets of Trustees that the company will fund each deficit over a period of five years commencing 1 April 2010. The company agreed to make initial contributions into each scheme before the end of March 2011; a £1.0m contribution was made into the Clarkson PLC scheme in December 2010; a £1.0m contribution was paid into the Plowrights scheme in March 2011. Thereafter the company will make regular monthly contributions to fund the deficits of the two schemes at a combined rate of £1.9m per annum.

Other pension arrangements

Overseas defined contribution arrangements have been determined in accordance with local practice and regulations.

The group also operates various other defined contribution 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 income recognised in the consolidated income statement:

Benefit liability

	Group and Company	
	2012 £m	2011 £m
Fair value of schemes' assets	**144.0**	138.0
Present value of funded defined benefit obligations	**(152.1)**	(141.0)
	(8.1)	(3.0)
Unrecognised asset in relation to the Plowrights scheme	**–**	(1.1)
Minimum funding requirement in relation to the Plowrights scheme	**(1.3)**	(2.5)
Liability recognised on the balance sheet	**(9.4)**	(6.6)

A deferred tax asset on the above recognised liability amounting to £2.2m (2011: £1.7m) is shown in note 7.

Recognised in the income statement

	Group and Company	
	2012 £m	2011 £m
Expected return on schemes' assets (recognised in other finance revenue – pensions)	**6.5**	8.0
Interest cost on benefit obligation (recognised in other finance revenue – pensions)	**(6.4)**	(6.8)
Net benefit income	**0.1**	1.2

Taken to the statement of comprehensive income

	Group and Company	
	2012 £m	2011 £m
Actual return on schemes' assets	**9.6**	9.9
Less: expected return on schemes' assets	**(6.5)**	(8.0)
Actuarial gains on schemes' assets	**3.1**	1.9
Actuarial losses on defined benefit obligations	**(10.4)**	(8.2)
Actuarial losses recognised in the statement of comprehensive income	**(7.3)**	(6.3)
Tax credit on actuarial losses	**1.8**	1.6
Unrecognised asset in relation to the Plowrights scheme	**1.1**	(1.1)
Tax credit on unrecognised asset	**(0.3)**	0.3
Minimum funding requirement in relation to the Plowrights scheme	**1.2**	(2.5)
Tax credit on minimum funding requirement	**(0.3)**	0.7
Net actuarial losses on employee benefit obligations	**(3.8)**	(7.3)
Cumulative amount of actuarial losses recognised in the statement of comprehensive income	**(21.2)**	(13.9)

Schemes' assets

The assets of the schemes are made up as follows:

	Group and Company			
	Percentage of total 2012 %	**2012 £m**	Percentage of total 2011 %	2011 £m
Equities	**44.8**	**64.5**	43.1	59.4
Government bonds	**36.5**	**52.6**	37.2	51.3
Corporate bonds	**14.4**	**20.8**	14.6	20.2
Property	**3.6**	**5.1**	4.1	5.7
Cash and other assets	**0.7**	**1.0**	1.0	1.4
Benefit asset	**100.0**	**144.0**	100.0	138.0

At 31 December 2011, the overall expected rate of return on assets of 4.8% was determined based on market prices applicable to the period over which the obligation was to be settled. From 1 January 2013, changes to IAS 19 mean that expected returns on assets will be set equal to the discount rate.

Changes in the fair value of schemes' assets are as follows:

	Group and Company	
	2012 £m	2011 £m
At 1 January	**138.0**	131.9
Expected return on assets	**6.5**	8.0
Contributions	**1.9**	2.7
Insurance income for insured pensioners	**0.2**	0.2
Benefits paid	**(5.7)**	(6.7)
Actuarial gains	**3.1**	1.9
At 31 December	**144.0**	138.0

The group expects, based on the valuations and funding requirements including expenses, to contribute £1.9m to its defined benefit pension schemes in 2013 (2012: £1.9m).

Notes to the financial statements continued

21 Employee benefits continued

Defined benefit obligations

The principal valuation assumptions are as follows:

	Group and Company	
	2012 %	2011 %
Rate of increase in pensions in payment	**2.80 – 3.00**	2.80 – 3.10
Price inflation (RPI)	**3.10**	3.20
Price inflation (CPI)	**2.40**	2.20
Discount rate for scheme liabilities	**4.20**	4.60

The mortality assumptions used to assess the defined benefit obligation at 31 December 2012 and 31 December 2011 are based on the 'SAPS Light' standard mortality tables published by the actuarial profession. These tables have been adjusted to allow for anticipated future improvements in life expectancy. Examples of the assumed future life expectancy are given in the table below:

		Group and Company	
		2012 Additional years	2011 Additional years
Post-retirement life expectancy on retirement at age 65:			
Pensioners retiring in the year	– male	**23.7**	23.6
	– female	**24.7**	24.6
Pensioners retiring in twenty year's time	– male	**25.1**	25.0
	– female	**26.2**	26.2

Changes in the fair value of the defined benefit obligation are as follows:	Group and Company	
	2012 £m	2011 £m
At 1 January	**141.0**	132.7
Interest costs	**6.4**	6.8
Actuarial losses	**10.4**	8.2
Benefits paid	**(5.7)**	(6.7)
At 31 December	**152.1**	141.0

Historical comparative information

	Group and Company				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of schemes' assets	**144.0**	138.0	131.9	121.6	114.6
Defined benefit obligation	**(152.1)**	(141.0)	(132.7)	(128.5)	(104.9)
Unrecognised asset	**–**	(1.1)	–	–	–
Minimum funding requirement	**(1.3)**	(2.5)	–	–	–
(Deficit)/surplus	**(9.4)**	(6.6)	(0.8)	(6.9)	9.7
Experience adjustments on schemes' assets	**3.1**	1.9	6.6	5.5	(19.5)
Experience adjustments on schemes' liabilities	**(0.3)**	(0.3)	0.8	(0.2)	(0.5)

22 Share capital

	Group and Company			
	2012 Number	2011 Number	**2012 £m**	2011 £m
Ordinary shares of 25p each:				
At 1 January and at 31 December	**18,984,691**	18,984,691	**4.7**	4.7

There were no shares issued during the year.

23 Other reserves

31 December 2012

							Group
	Share premium £m	**ESOP reserve £m**	**Employee benefits reserve £m**	**Capital redemption reserve £m**	**Hedging reserve £m**	**Currency translation reserve £m**	**Total £m**
At 1 January 2012	**27.8**	**(2.0)**	**2.0**	**2.0**	**(0.4)**	**8.1**	**37.5**
Total comprehensive income	**–**	**–**	**–**	**–**	**1.5**	**(1.3)**	**0.2**
Net ESOP shares acquired	**–**	**(0.8)**	**–**	**–**	**–**	**–**	**(0.8)**
Share-based payments	**–**	**–**	**0.6**	**–**	**–**	**–**	**0.6**
At 31 December 2012	**27.8**	**(2.8)**	**2.6**	**2.0**	**1.1**	**6.8**	**37.5**

31 December 2011

							Group
	Share premium £m	ESOP reserve £m	Employee benefits reserve £m	Capital redemption reserve £m	Hedging reserve £m	Currency translation reserve £m	Total £m
At 1 January 2011	27.8	(0.6)	1.5	2.0	0.3	9.0	40.0
Total comprehensive income	–	–	–	–	(0.7)	(0.9)	(1.6)
Net ESOP shares acquired	–	(1.4)	–	–	–	–	(1.4)
Share-based payments	–	–	0.5	–	–	–	0.5
At 31 December 2011	27.8	(2.0)	2.0	2.0	(0.4)	8.1	37.5

31 December 2012

				Company
	Share premium £m	**Employee benefits reserve £m**	**Capital redemption reserve £m**	**Total £m**
At 1 January 2012	**27.8**	**2.0**	**2.0**	**31.8**
Share-based payments	**–**	**0.6**	**–**	**0.6**
At 31 December 2012	**27.8**	**2.6**	**2.0**	**32.4**

31 December 2011

				Company
	Share premium £m	Employee benefits reserve £m	Capital redemption reserve £m	Total £m
At 1 January 2011	27.8	1.5	2.0	31.3
Share-based payments	–	0.5	–	0.5
At 31 December 2011	27.8	2.0	2.0	31.8

Nature and purpose of other reserves

ESOP reserve – group

The ESOP reserve in the group represents 340,502 shares (2011: 288,798 shares) held by the share purchase trusts to meet obligations under various incentive schemes. The shares are stated at cost. The market value of these shares at 31 December 2012 was £4.1m (2011: £3.3m). At 31 December 2012 none of these shares were under option (2011: none). During the year the share purchase trusts acquired 556,202 shares at a weighted average price of £13.01 (2011: 756,743 shares at £11.90).

Employee benefits reserve – group and company

The employee benefits reserve is used to record the value of equity-settled share-based payments provided to employees. Further details are included in note 20.

Capital redemption reserve – group and company

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

Hedging reserve – group

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

Currency translation reserve – group

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

Notes to the financial statements continued

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 one and eight 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	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Within one year	**6.5**	6.1	**4.3**	4.3
After one year but not more than five years	**13.0**	15.0	**8.6**	12.9
After five years	**1.4**	0.3	**–**	–
	20.9	21.4	**12.9**	17.2

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 2012 is £10.5m (2011: £13.9m).

Contingencies

The group and company have given no financial commitments to suppliers (2011: none).

The group and company have given no guarantees (2011: none).

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

25 Financial risk management objectives and policies

The group's principal financial liabilities comprise trade payables, deferred consideration, foreign currency contracts and provisions. The company's principal financial liabilities comprised loans from group companies and provisions. The main purpose of these financial liabilities is to finance the group's operations. The group and company have various financial assets such as trade receivables, current asset investments and cash and short-term deposits, which arise directly from its operations.

The group and company have not entered into derivative transactions other than the forward currency contracts explained later in this section. It is, and has been throughout 2012 and 2011, the group's policy that no trading in derivatives shall be undertaken for speculative purposes.

The main risks arising from the group and company's financial instruments are credit risk, liquidity risk, foreign exchange risk, interest rate risk and investment risk. The board of directors reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

The group seeks to trade only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis and any potential bad debts identified at an early stage. The maximum exposure is the carrying amounts as disclosed in note 14. There are no significant concentrations of credit risk within the group and company.

With respect to credit risk arising from the other financial assets of the group, which comprise cash and cash equivalents, current investments and available-for-sale financial investments, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The group monitors its risk to a shortage of funds using projected cash flows from operations. The group maintains a multi-currency revolving credit facility of £25m; there are no current plans to draw down on this facility.

The tables below summarise the maturity profile of the group's financial liabilities at 31 December based on contractual undiscounted payments.

31 December 2012

Group	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	**10.8**	**–**	**–**	**1.1**	**–**	**11.9**
Deferred consideration	**–**	**–**	**0.4**	**0.6**	**–**	**1.0**
Provisions	**–**	**–**	**–**	**1.8**	**–**	**1.8**
	10.8	**–**	**0.4**	**3.5**	**–**	**14.7**

31 December 2011

Group	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Trade and other payables	12.9	–	–	1.2	–	14.1
Deferred consideration	–	0.4	0.4	–	–	0.8
Foreign currency contracts	–	–	0.5	–	–	0.5
Provisions	–	–	0.2	1.6	–	1.8
	12.9	0.4	1.1	2.8	–	17.2

The company has undiscounted provisions totalling £1.8m (2011: £1.6m) which are payable in 1 to 5 years (2011: 1 to 5 years).

Foreign exchange risk

The group has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 75% of the group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 90% of costs are denominated in the unit's functional currency.

The group uses 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.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the group's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities).

	Strengthening/ (weakening) in US dollar rate	Effect on profit before tax £m	Effect on equity £m
2012	**5%**	**1.2**	**2.7**
	(5%)	**(1.1)**	**(2.4)**
2011	5%	1.1	2.4
	(5%)	(1.0)	(2.2)

Derivative financial instruments

It is the group's policy to cover or hedge a proportion of its transactional US dollar exposures with foreign currency contracts. Where these are designated and documented as hedging instruments in the context of IAS 39 and are demonstrated to be effective, mark-to-market gains and losses are recognised directly in equity (see note 23) and transferred to the income statement upon receipt of cash and conversion to sterling of the underlying item being hedged.

The fair value of foreign currency contracts at 31 December are as follows:

	Assets		Liabilities	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Foreign currency contracts	**1.5**	–	**–**	0.5

At 31 December 2012 the group had US$60.0m outstanding forward contracts due for settlement in 2013 and 2014 (2011: US$62.5m for settlement in 2012 and 2013).

Notes to the financial statements continued

25 Financial risk management objectives and policies continued

Interest rate risk

The group and company's exposure to the risk of changes in market interest rates relates primarily to the group and company's cash and short-term deposits and current investments. In February 2011, all bank loans and borrowings were repaid in full thereby eliminating the risk of increased charges arising from a rise in interest rates, assuming no amounts are drawn down.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the group and company's profit before tax (through the impact on cash balances and current investments). The effect on equity is the same as profit before tax.

		Group	Company
	Increase in basis points	Effect on profit before tax £m	Effect on profit before tax £m
2012			
Sterling	**+100**	**0.6**	**0.2**
US dollars	**+100**	**0.5**	**–**
2011			
Sterling	+100	0.6	0.2
US dollars	+100	0.5	–

Investment risk

In 2011, the seed capital was withdrawn from the Clarkson Shipping Hedge Fund and the Clarkson Freight Fund, thereby eliminating the risk of any further deterioration in the value of both funds.

Capital management

The primary objective of the group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

A number of the group's trading companies are subject to regulation by the FSA in the UK, FINRA in the US and DFSA in Dubai. All such companies complied with their regulatory capital requirements throughout the year.

The group monitors capital using a gearing ratio, which is normally defined as net debt divided by total capital plus net debt. The group includes within net funds, cash and cash equivalents and current investments. Capital comprises equity attributable to the equity holders of the parent.

	2012 £m	2011 £m
Cash and cash equivalents	**89.4**	132.9
Current investments	**25.2**	–
Net funds	**114.6**	132.9
Gearing ratio	**–%**	–%

26 Financial instruments

Fair values

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2012.

	2012 Level 2 £m	2011 Level 2 £m
Assets		
Foreign currency contracts	**1.5**	–
Liabilities		
Foreign currency contracts	**–**	0.5

27 Related party transactions

The group did not enter into any related party transactions.

During the year the company entered into transactions, in the ordinary course of business, with related parties.

Those transactions, and balances outstanding at 31 December, are as follows:

		Company
	Subsidiaries 2012 £m	Subsidiaries 2011 £m
Management fees charged to related party	**0.9**	0.9
Interest received from related party	**0.1**	0.1
Amounts owed by related party	**24.7**	23.6
Amounts owed to related party	**1.5**	24.7

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 directors' emoluments and compensation table on page 45. Share-based payments relating to the Clarkson PLC directors during the year amounted to £0.9m (2011: £1.0m).

28 Subsequent events

Subsequent to the year-end the decision was made to restructure the cost base of Clarkson Capital Markets which included the closure of the Dubai operation. This will lead to an exceptional charge estimated to be £1m in 2013.

Notes to the financial statements continued

29 Subsidiaries

Principal subsidiaries

Country of incorporation and operation	Company	Percentage of equity shares
UK	H Clarkson & Company Limited	100
	Clarkson Port Services Limited*	100
	Clarkson Financial Services Limited	100†
	Clarkson Investment Services Limited	100†
	Clarkson Legal Services Limited	100
	Clarkson Overseas Shipbroking Limited	100
	Clarkson Property Holdings Limited	100†
	Clarkson Research Holdings Limited	100†
	Clarkson Research Services Limited	100
	Clarkson Securities Limited	100†
	Clarkson Shipbroking Group Limited	100†
	Clarkson Shipping Investments Limited	100†
	Clarkson Valuations Limited	100
	Company Event Management Limited	100
	EnShip Limited*	100
	Genchem Holdings Limited*	100†
	LNG Shipping Solutions Limited	100
Australia	Clarkson Australia (Pty) Limited	100
China	Clarkson Asia Limited*	100
	Clarkson Shipbroking Shanghai Co Limited*	100
United Arab Emirates	Clarkson DMCC*	100
	Clarkson Investment Services (DIFC) Limited*	100
France	Clarkson Paris SAS*	100†
Germany	Clarkson (Deutschland) GmbH*	100
Greece	Clarkson (Hellas) Limited	100
India	Clarkson Shipping Services India Private Limited*	100
Italy	Clarkson Italia Srl*	100†
Norway	Boxton Holding AS*	100
	Boxton Maritime AS*	100
	Bridge Maritime AS*	100
	Clarkson Norway AS*	100
Singapore	Clarkson Asia Pte Limited	100
South Africa	Clarkson South Africa (Pty) Limited*	100
	Afromar Properties (Pty) Limited*	100
Switzerland	Clarkson Shipbroking Switzerland SA*	100
USA	CIS Capital Markets, LLC*	100
	Clarkson Commodities USA, LLC*	100
	Clarkson Shipping Services USA, LLC.*	100

*Not audited by PricewaterhouseCoopers 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 410 of the Companies Act 2006, a complete list of subsidiaries will be annexed to the company's next annual return.

Glossary

Aframax	A tanker size range defined by Clarksons as between 80-120,000 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.
Capesize 4TC	An index derived from an average of four Capesize timecharter rates, published by the Baltic Exchange.
Cgt	Compensated gross tonnage. This unit of measurement was developed for measuring the level of shipbuilding output and is calculated by applying a conversion factor, which reflects the amount of work required to build a ship, to a vessel's gross registered tonnage.
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.
ClarkSea Index	A weighted average index of earnings for the main vessel types where the weighting is based on the number of vessels in each fleet sector.
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, referred to in the industry as opex.
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 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.
E & P	Exploration and Production.

Glossary continued

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 Worldscale 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.
ISM code	International Safety Management code for the safe operation of ships and for pollution prevention as adopted by the IMO.
LGC	Large Gas Carrier. Vessel defined by Clarksons as 40-60,000 cbm.
LNG	Liquefied Natural Gas.
LPG	Liquefied Petroleum Gas.
MGC	Mid-sized Gas Carrier. Vessel defined by Clarksons as 20-40,000 cbm.
MOA	Memorandum of Agreement.
OBO	Oil, Bulk, Ore carrier (see combination carrier).
Oil tanker	Tanker carrying crude oil or refined oil products.
OSV	Offshore Support Vessels. Ships engaged in providing support to offshore oil platforms.
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 of the vessels.
Semi-ref	Semi-refrigerated gas carriers. Ships which employ a combination of refrigeration and pressurisation to maintain the transported gas in liquid form.
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 secondhand 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 120-200,000 dwt.
Supramax	A modern class of Handymax dry bulk carrier defined by Clarksons as 50-60,000 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 200-320,000 dwt.
VLGC	Very Large Gas Carrier. Vessel defined by Clarksons as more than 60,000 cbm.
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 (e.g. 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.

Five year financial summary

Income statement

	2012* £m	2011* £m	2010 £m	2009 £m	2008* £m
Revenue	**176.2**	194.6	202.6	176.7	250.3
Cost of sales	**(6.3)**	(3.4)	(8.0)	(8.3)	(7.5)
Trading profit	**169.9**	191.2	194.6	168.4	242.8
Administrative expenses	**(150.8)**	(161.0)	(160.1)	(145.8)	(190.9)
Impairment of intangible assets	**–**	–	–	–	(13.9)
Operating profit	**19.1**	30.2	34.5	22.6	38.0
Profit before taxation	**20.4**	32.2	32.4	22.5	39.2
Taxation	**(6.1)**	(9.5)	(8.9)	(5.6)	(16.4)
Profit for the year	**14.3**	22.7	23.5	16.9	22.8

* Before exceptional item and acquisition costs.

Cash flow

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Net cash inflow/(outflow) from operating activities	**(4.4)**	7.2	42.3	(18.0)	57.9

Balance sheet

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Non-current assets	**65.2**	63.5	56.1	74.8	87.2
Trade and other receivables (including income tax receivable)	**33.5**	38.1	28.9	30.6	55.2
Current asset investments	**25.2**	–	11.4	–	–
Cash and cash equivalents	**89.4**	132.9	176.3	143.2	184.4
Current liabilities	**(72.2)**	(99.9)	(149.9)	(90.5)	(159.0)
Non-current liabilities	**(15.1)**	(11.3)	(6.4)	(61.3)	(65.4)
Net assets	**126.0**	123.3	116.4	96.8	102.4

Statistics

	2012	2011	2010	2009	2008
Earnings per share – basic	**87.2p****	134.1p**	125.4p	90.0p	41.9p**
Dividend per share	**51p**	50p	47p	43p	42p

**After exceptional item and acquisition costs.

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