

**H. CLARKSON & COMPANY LIMITED**

**Annual Report 2014**

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## H. CLARKSON & COMPANY LIMITED

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## **H. CLARKSON & COMPANY LIMITED**

### **DIRECTORS AND ADVISORS**

#### **DIRECTORS**

The company's directors are set out below:

J R Auckland  
J Bagger  
T G Baggio  
T M Barraclough  
T Becker  
J B Beckwith  
H Brinkhorst  
P Broad  
J D Brynteson  
M J C Cahill  
A L Case  
S Chattrabhuti  
R H Coleman  
D N E Collins  
R S M Coulter  
C Cridland  
P J Curry  
M F Dentice  
S D Emmott  
A G Furze  
N D G Gill  
B F Goodall  
M W Goodall  
S Goodrich  
A J Gray  
J Green  
J D Green  
M G Grimwade  
P Harding  
R A Hartless  
A Hatfield  
D P Insole  
S B Jones  
S Kay  
R C Knight  
A G R Lane  
D P Lepper  
M Lindsey  
Lord Mountevans  
D Low

J McNally  
K Michie  
P G J Middleton  
D Mikhno  
J Milner  
C B Murray  
G W E Murray  
R M Nair  
S Nair  
M C E Neale  
D J Newton  
P D Osgood  
K E Ovesen  
A J T Persenda  
R G J Poyntz  
G J Preece  
M Roberts  
J E J Rogers  
M A Ross  
M P Rowe  
D J Saxby  
G Sewell  
A J Spooner  
W Stephens  
K J Taylor  
N Tsangarides  
R N Tubb  
H C Van Niekerk  
C G P Verdult  
C Y Wang  
J P Webber  
R H White  
R B Whittet  
N C Williams  
H E N Wilsher  
J D Woyda  
V Yang  
S Zois

#### **ADVISORS**

**INDEPENDENT AUDITORS**  
PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

**COMPANY SECRETARY AND REGISTERED OFFICE**  
P Watson  
St. Magnus House  
3 Lower Thames Street  
London  
EC3R 6HE

## H. CLARKSON & COMPANY LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their Strategic Report for the year ended 31 December 2014.

#### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

##### *Principal activities*

The company's principal activities during the year continued to be the provision of shipping-related services. These services include broking facilities for shipowners and charterers.

##### *Business review*

We are delighted to report that H. Clarkson & Company Limited (HCL) has delivered a strong result in 2014. The year has seen recovery in a number of sectors and continued challenges in others. However, the diversity of our product offer and experience and knowledge of our teams has meant that wherever there was activity, HCL has been at the forefront.

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

##### *Key performance indicators*

The directors of the group manage operations on a segmental basis. For this reason, the company's directors believe that analysis using key performance indicators should be viewed in the context of the group. HCL operates within the broking segment which is discussed at group level.

A review of the business by division is given below. The amounts shown exclude adjustments such as foreign exchange differences and accommodation recharges.

##### Broking activities:

Revenue: £101.9m	(2013: £84.4m)
Segment result: £24m	(2013: £15.1m)
Forward order book for 2015: US\$65m	(2013 for 2014: US\$52m*)
* Directors' best estimates of deliverable FOB	

##### Dry bulk

2014 started on a high note, as the Australian iron ore miners experienced no weather-related disruption and many ships were still deployed on the last raw ore shipments from Indonesia after the Indonesian export ban took effect in January 2014. The first quarter Baltic Dry Index (BDI) averaged 1,403, a 25% quarterly decline after an exceptionally strong last quarter of 2013. The index further declined in the second and third quarters by 30% and 4% respectively. The trend was reversed during the first two months of the fourth quarter, but rapidly lost ground in December to end close to the low point of the year. The 2014 average BDI was down by 8% at 1,105 making 2014 the second worst year since the index started in 1999.

There were a number of key factors that derailed the dry bulk freight market recovery. In China the year-on-year decline in coal imports and overall disappointing growth reduced demand. The stockpiling ahead of the aforementioned Indonesian ban on raw ore exports in January 2014 had provided support to the market; thereafter some 200 shipments per month were no longer required. The easing of grain port congestion in South America during the second quarter improved the efficiency of the fleet thereby effectively increasing supply. The fleet continued to expand robustly with net growth of 4.5% during 2014. The decline in oil prices has eroded the advantages of slow steaming and narrowed the premium of fuel-efficient ships.

In 2014 we significantly increased the volume of fixing and, with continued new ship deliveries expected in 2015, unless counterbalanced by slippage of newbuildings or scrapping which has already started, demand growth will struggle to correct the current supply-demand imbalance.

##### Containers

2014 was a difficult year for the container shipping market. Boxship charter market earnings remained depressed, and owners continued to battle with historically low charter rates in most size sectors. Idle capacity and cascading continued to limit any significant increase in earnings. At these levels few liner companies can make significant profits, but the falling bunker prices towards the end of the year started to reduce costs. However, the continued redeployment of panamax vessels surpassed expectations, which supported gains in charter rates in the panamax sector not really seen elsewhere.

The sector still faces issues: surplus capacity generated by the slowdown in trade during the downturn, and the mismatch between a delivery schedule dominated by very large ships and a more balanced pattern of global demand. This is still leading to a substantial degree of 'cascading', which keeps the pressure on charter tonnage and creates freight rate volatility. However, surplus capacity from the downturn is gradually being absorbed, with slow steaming accounting for much of it, and levels of boxship demolition remain elevated. Idle boxship capacity stood at around 1.0-1.5% of the fleet at the end of 2014; this level is significantly lower than that seen in the winter periods in the three previous years; this could be indicative of slowly tightening market conditions.

During 2014, we expanded the container sale and purchase presence. The team concluded a number of projects on post-panamax vessels including, several long-term sale and charter backs and newbuilding contracts where we also sourced the financing and arranged post-delivery time charters. As a result of these developments we grew our chartering performance year-on-year and continued to increase market share.

STRATEGIC REPORT (CONTINUED)

*Strategic Report (continued)*

Broking activities (continued):

Containers (continued)

In 2015, demand growth is expected to outpace capacity expansion. Together with the rapid rate of demolition, the thin order book outside the larger sizes and a likely slowdown of the 'cascade', this may in the medium-term lend gradual support to the earnings environment.

Tankers

The crude tanker market strengthened considerably in 2014, albeit from very low levels seen in 2013. With far fewer newbuilding deliveries entering the market, lower fleet growth helped to underpin the recovery. In the VLCC sector, average earnings on the benchmark AG-East route increased by 55% versus the weak levels that were seen in 2013. China was once again key to driving vessel demand growth with rising seaborne crude oil imports including increased long-haul shipments from Latin America and West Africa. The first and fourth quarters saw particular strength in earnings, with a smaller rally seen during the summer, in line with seasonal refinery throughput and demand changes. Looking ahead to 2015, fewer VLCC newbuildings are expected to enter the market and further refinery capacity development and strategic stock building in China and India is expected to continue to support VLCC demand.

Suezmax average earnings increased by 79% from the levels seen in the previous year, sharp spikes were also seen at the beginning and end of the year, with a small rally mid-year. The suezmax market was supported by a lower number of newbuilding deliveries entering the market meaning the fleet size remained relatively stable. On the demand side, suezmaxes continued to benefit from increased long-haul west to east shipments as well as increased employment in the Middle East and in West Africa to Europe trades. Suezmax fleet growth is expected to remain low or negative in 2015, with very few newbuildings expected to be delivered from shipyards. The surplus that appears to be building in crude oil markets also points to further employment in shipping cargoes to storage facilities and potentially some floating storage employment in 2015.

In the aframax sector, average earnings increased by 75% in 2014. The rise in earnings was assisted by the aframax fleet reducing in size for the second successive year. Newbuilding deliveries were at the lowest level since 2001 and removals continued at a strong pace despite the rise in benchmark earnings. The dirty trading aframax fleet shrunk by an even greater amount than the overall fleet, as the majority of aframax sized newbuildings delivered into the market were coated LR2 products tankers that entered the clean products trading market rather than the dirty markets. The western aframax markets also saw sharp spikes in earnings at the start and end of the year, with a more modest rally in the middle of the year, while the markets east of Suez saw a more modest first half of the year there was more consistent strength in the second half. The erratic nature of exports from Libya played a part in some of the considerable volatility that was seen in the market, particularly west of Suez.

Another significant development in 2014 was the steep fall in crude oil prices in the second half. Front month Brent futures prices peaked in mid-June at US\$115/barrel, falling to below US\$60/barrel at the end of the year. In spite of the fall in prices, OPEC decided at its 27 November meeting to maintain current levels of production, a decision which prompted further price declines. The OPEC decision and the fall in prices appears to be a positive development for the tanker market in 2015, maintaining high levels of seaborne crude oil trade and potentially stimulating greater demand for oil. In addition, if the surplus in crude oil continues to grow, floating storage employment may support vessel earnings. The persistence or growth of this surplus of oil will be contingent on production levels in areas that have been subject to instability, any further decisions that are taken by OPEC during the year and the ability or desire of non-OPEC producers to maintain or increase output in the face of lower prices.

In the clean products tanker market, average earnings for LR2 product carriers on the benchmark AG-Far East route increased by 34% versus 2013's average levels. Earnings remained at weak levels in the first half of the year, as the market was affected by the large number of LR2s that switched from dirty to clean trading throughout 2013. The market strengthened considerably in the second half of the year, coinciding with the full operation of new Middle Eastern refining capacity and high volumes of naphtha being shipped from Northwest Europe and the Mediterranean to the Far East. Average earnings for LR1s on the benchmark AG-Far East market increased 18% in 2014 versus 2013's levels. The LR1 market also saw a relatively weak start to the year and a stronger second half. This sector was also affected by the amount of both LR2 and LR1 tonnage that switched from dirty to clean trades in 2013, however the total LR1/panamax fleet shrunk for the third successive year, with very few newbuildings delivered into the market.

Benchmark clean products average earnings for MR products tankers were 7% lower in 2014 versus 2013's levels. The influx of MR newbuilding tonnage, together with the enlarged LR1 and LR2 clean trading fleets, weighed on the market in the first half of the year when earnings were weaker than those seen in the first half of 2013. However, earnings strengthened in the second half of the year, particularly in the fourth quarter when earnings reached levels not seen since 2008. Falling crude prices in the second half of the year led to improved refining margins and higher outputs in a number of regions, which together with new Middle Eastern refining capacity and the closure of refining capacity in Australia, helped to support vessel demand.

Looking ahead to 2015, MR deliveries are expected to be maintained at a relatively high level, potentially exceeding the number of deliveries seen in 2014. In addition, deliveries of LR2 products tankers are expected to increase in 2015. However, the LR1/panamax fleet is expected to continue shrinking with barely any newbuilding deliveries expected. It is also possible that a stronger market for dirty trading aframax will draw some LR2s back to that market sector, particularly as the dirty trading aframax fleet will otherwise continue to shrink. Seaborne oil products trade is expected to continue its robust growth, driven by several factors including the commissioning of more new refining capacity in the Middle East and the likely closure of further capacity in Europe and Australia. Lower oil products prices may also stimulate additional demand and higher trading volumes.

## H. CLARKSON & COMPANY LIMITED

### STRATEGIC REPORT (CONTINUED)

#### *Strategic Report (continued)*

#### Broking activities (continued):

##### Tankers (continued)

Market participants within the specialised sphere entered 2014 in an upbeat mood, looking forward to a number of positive trade fundamentals on the horizon. In reality, whilst contract of affreightment renegotiation levels have been broadly positive throughout the year, the average annual Clarksons Specialised Analysis Spot Indices recorded just a 0.1% rise for chemicals and a 3.5% decrease for edible oils in 2014 when compared to the previous year. The interlinked period charter markets have also been lacking vitality for much of the year.

This generally subdued market performance, largely driven by China's economic downshifts and strategic moves to advance their own domestic chemical production, caused a weak summer market for most arterial trade lanes which has persisted towards the year-end. Elsewhere, with the global specialised markets coupled with wider macroeconomic performance, a fragile economy in Europe and reduced economic growth from key 'emerging market' nations such as Brazil and India, has further constrained performance. Despite facing global headwinds, the American chemical industry has continued to expand in 2014.

##### Specialised

The widely reported sharp decline in crude oil pricing has also filtered through to chemical commodity values. These shifts could play into the hands of those regions geared to utilising naphtha as a petrochemical feedstock. Whilst it could be argued that the chemical markets are more driven by supply and demand fundamentals and less by sentiment than the crude markets, recent price volatility has undoubtedly impacted on the specialised shipping markets in the short term.

In the edible oils sector, overall volumes have remained robust, but have seen some changeability throughout the year due to clean/dirty petroleum products market shifts and also legislative influence. One such example of the latter has been reduced tax mechanisms for the world's largest two crude palm oil producers, Malaysia and Indonesia.

The overall specialised fleet and order book has seen limited growth during 2014 with most contracting activity focused on the stainless steel chemical tanker segment which resonated with the investment community, particularly in the first half.

Many owners and operators still face challenging market conditions whilst there is undoubtedly a cost pressure on the industry which is set to increase with tightening environmental regulations such as SOx/NOx emissions control areas and the potential requirement for ballast water treatment systems.

The medium- to long-term outlook for our markets remains encouraging. Fresh ship contracting activity has been scarce of late and net fleet growth looks set to be limited in future years. Expected growth in overall seaborne trade of specialised and ongoing investments within the US and Middle East Gulf should generate revised supply chains acting as a tonne-day demand provider for our markets.

We have reinforced our position as the market leader in this sector and implemented a number of initiatives which have driven growth and returns.

##### PCG and small LPG

Shipping markets in the petrochemical sector for semi-refrigerated tonnage has been challenging, with idle time and ballasting increasing as the year progressed. Those owners with period cover fared better than those exposed to the unpredictable spot market. Some trading lanes have held their freight levels well, whilst other lanes have needed owners to reduce their rates to enable arbitrage product movement. The fall in the oil price has helped to underpin owner's returns despite the fall in some spot rates.

The European petrochemical sector has witnessed a number of announcements from producers securing ethane feedstock from the US on a long-term basis, giving support to the European sector that use this tighter feed in crackers. This will help to underpin the employment prospects in the smaller ethylene and semi-refrigerated sector. The longer term future of the heavy feed crackers, allowing for the recent softening in crude prices, remains questionable. Asia will also start to see a change in trading patterns as the Chinese PDH (propane dehydrogenation) plants come on stream; as a consequence propylene imports to China will be reduced which will be to the detriment of the pressure sector. Nevertheless, this may give way to longer haul opportunities in the larger semi-refrigerated sector.

Whilst seaborne trade in petrochemical gases is expected to increase year-on-year, there are 14 units over 12,000 cbm to be delivered. In the smaller size sector, with minimal deliveries and ageing tonnage, the prospects look brighter; this sector is term orientated and therefore less exposed to the spot market.

The pressure sector had a particularly difficult year with rates falling across the sector. The 3,500 cbm have been the hardest hit with a 25% reduction in time charter levels. The future looks rather ominous with 37 units due to deliver in 2015 more than offsetting the 12 units which will reach the difficult age of 25.

Our petrochemical gas team is not immune to the volatility of the market. However, the team has held its market position with a strong term portfolio and an increased position in our forward order book.

STRATEGIC REPORT (CONTINUED)

*Strategic Report (continued)*  
*Broking activities (continued)*

Gas

Main gas team

2014 was a dramatic year for the LPG market with strong growth in seaborne trade volumes and relatively modest fleet growth underpinning a record setting year for VLGC freights. The growth in US LPG exports, supported by continued shale related NGL recovery and terminal expansions provided the bulk of the growth in trade. However, export volumes from the Middle East and Africa also added to overall shipping demand. With Asia accounting for 80% of the growth in imports, a significant proportion of which was sourced from western exporters, this provided a further boost to tonne-miles and culminated in an all-time spot market high of US\$149 pmt AG-Japan during the summer. The smaller vessel sizes have also experienced some recovery this year, with midsize handysize freight rates edging steadily upwards throughout the year.

Toward the end of 2014, VLGC spot freights have more than halved – as the weakening crude price and the impending wave of new deliveries started to dampen both product and freight enquiries. Weaker bunker prices have served to help support earnings, however, and freights still remain at relatively firm levels historically.

The 2015 market is expected to undergo a period of unprecedented change as the energy markets adapt to a new pricing environment. These changes will coincide with the most rapid phase of expansion in the VLGC fleet since 2008 which suggests that another interesting year lies ahead.

LNG

The spot market saw a 25% increase in activity in 2014. Despite the market experiencing a noticeable downward correction in rates at the start of the year, on the back of a significant number of redelivered vessels and in anticipation of 17 deliveries of newbuildings, rates remained mostly steady from February onwards. The spot market for modern tri-fuel LNG carriers averaged around US\$72,000/day, while steam-power LNG carriers on average earned around US\$50,000/day. With the newbuildings deliveries of a two or even three tier market evolved with each tier commanding different charter rates.

Short-term chartering activity during 2014 was primarily driven by excess production from Australia's North West Shelf and Indonesia's Bontang, uninterrupted production from Nigeria and Norway, along with new supplies from Papua New Guinea. In addition to the large number of tenders from production plants, in the first half we had a record number of re-exports from European terminals in Spain, Belgium and the Netherlands. Amidst sharp fall in crude and LNG prices, the arbitrage opportunities were limited in the second half of 2014. Thus the 2014 short-term chartering market was dominated by intra-regional trades (short-term in nature) punctuated by some inter-basin arbitrage opportunities from the Atlantic to the Pacific basin.

Three new LNG production projects commenced operation: Algeria, Papua New Guinea (which started few months ahead of schedule) and the first coal-bed methane project in Queensland, Australia. There are around 19 new export projects under construction adding nearly 150 million tonnes of LNG production capacity in next 3-4 years. The new liquefaction capacity will require substantial fleet increase and in 2014 we saw some very strong ordering representing the second most active year in the sector's history after 2004.

The long-term fundamentals for LNG demand remain strong and the shipping market continues to expand. We are well positioned for changing sector dynamics and already see the benefits of efforts we have made developing our team and enhancing the market coverage. We have increased our chartering market share considerably concluding a substantial number of short-term fixtures. In 2015, we are focused on giving greater impetus to the spot market and in project business.

Sale and purchase

Secondhand

The positive momentum, and optimism, gained towards the end of 2013 spilled over into the first quarter of 2014 allowing us to conclude a pleasing number of transactions both on the secondhand and newbuilding desks as buyers looked to secure vessels that could offer prompt charter-free delivery at increasingly firm values.

The dry cargo freight markets failed to firm positively as had been expected with daily earnings across the board weakening through until year-end. This prolonged downturn filtered through to the values which have been dropping as a result and, in turn, reduced the liquidity of the secondhand sale and purchase markets whilst sellers took time to adjust to the re-calibration of buyers' price ideas. However, the weakening Japanese Yen against the US dollar has meant that a steady stream of tonnage is building from the larger Japanese owners who are finding their customers keen to redeliver their vessels back to them at the earliest possible opportunity and we do feel that with the Japanese financial year-end approaching, we will start to see an increased volume of sales candidates in the first quarter of 2015 willing to face these new, lower levels. So there is reason to be confident of increased levels of activity going forward, albeit at reduced prices.

The tanker market on the contrary has enjoyed a very buoyant year-end as the benefits of the falling oil prices began to show themselves clearly in the amount of crude oil being shipped out to the major world consumers with China topping that list. As earnings lifted substantially, values followed suit and the volume of transactions we were able to conclude increased fairly immediately as optimism returned that this better market might be more than a short-term seasonal lift. We were able to benefit from this increased deal activity better than most not only on spot business but also using the opportunity to finalise some of the larger project transactions we had been working on during the year.

This, combined with the successful completion of a number of sale and leaseback transactions we handled, has enabled us to increase significantly our transaction volumes year-on-year. The challenge remains to continue this success going forward into 2015.

## H. CLARKSON & COMPANY LIMITED

### STRATEGIC REPORT (CONTINUED)

#### *Strategic Report (continued)*

#### Broking activities (continued)

##### Sale and purchase (continued)

##### Newbuilding

2014 concluded a successful year for the newbuilding team, with key transactional activity prevailing across the key market asset classes.

The first half of the year was bolstered by the carry through of capital markets backed transactions from the end of 2013, which continued to drive volume into the asset markets, alongside Clarksons concluding some cornerstone industrial business in China.

2014 concluded a successful year for the newbuilding team, with key transactional activity prevailing across the key market asset classes.

The first half of the year was bolstered by the carry through of capital markets backed transactions from the end of 2013, which continued to drive volume into the asset markets, alongside Clarksons concluding some cornerstone industrial business in China.

The second half of 2014 showed a slow-down in contracting activity as capital markets and private equity players took stock against an active approach to the market over the previous 12 month period. This did, however, make room for the return of the more traditional owner base to the market, who stepped back in to pick up a more conventional approach to ordering volumes, with a particular focus on the crude and MGC sectors of the market. Clarksons' heritage client base allowed us to position ourselves successfully here and ensured that the year closed again as an active and successful year for the team.

Looking to 2015, there are a number of challenges on the horizon. The depth of activity continues to create new opportunities and the newbuilding team is well placed to continue to capitalise on these as we move through 2015.

##### Offshore

Whilst 2014 started with signs of optimism in certain sectors of the offshore market, by the end of the year there was negative sentiment, with an over supplied rig and vessel market exacerbated by a rapidly falling oil price. There had been expectations of a more buoyant performance in the subsea sector, but it became clear as the year progressed that subsea contractors had difficulty finding work for their vessels as many of the expected subsea projects were either postponed or cancelled.

Despite the falling market, we continued to grow market share on the chartering front as well as winning a number of significant field development projects which kick in for the 2015 and 2016 seasons. On the subsea side we concluded a number of long-term charters at the start of the year as well as taking delivery of a couple of newbuildings.

For 2015, negative sentiment should mean that we see a little more volatility in both secondhand and charter pricing, which both our chartering and project teams will be able to take advantage of. We do expect challenging trading conditions, however we are optimistic that over the next 12 months a significant volume of deals will get concluded.

#### Non-trading activities:

Revenue: £0.3m	(2013: £0.2m)
Segment result: £0.2m	(2013: £(1.7)m)

Revenue predominantly relates to other fees receivable. Results includes divisional recharges.



By order of the board  
P Watson  
Company Secretary

14 April 2015



## H. CLARKSON & COMPANY LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their report and audited financial statements of the company for the year ended 31 December 2014, which were approved by them on 14 April 2015.

#### *Future developments*

An increased forward order book within broking means that we begin 2015 with a degree of optimism. The shipping markets have begun to show signs of improvement and we are confident that our strategy to provide the best service to our clients should in turn provide enhanced shareholder return in the future.

### RESULTS AND DIVIDENDS

The company's profit for the financial year is £19.2m (2013: £11.3m). Dividends totalling £20.0m (2013: £5.0m) were paid during the year. Transfers from reserves amounted to £(0.8)m (2013: £6.3m to reserves).

The directors recommend a final dividend for the year of £20.0m (2013: £20.0m).

### DIRECTORS

The current directors of the company on 14 April 2015 are shown on page 1.

Appointments in the year were as follows:

S Goodrich	(appointed 16 September 2014)
H E N Wilsher	(appointed 16 September 2014)
T M Barraclough	(appointed 2 December 2014)

Resignations during the year were as follows:

N P Collins	(resigned 16 December 2014)
G M Harness	(resigned 17 March 2014)
S Keyhan-Rad	(resigned 17 March 2014)
G Margaronis	(resigned 30 January 2014)

### DIRECTORS' INDEMNITIES, INSURANCE AND CONFLICTS OF INTEREST

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

### EMPLOYMENT

The company employed 348 staff at the end of 2014, 272 in positions whereby they contribute directly to the earning of revenue and 76 employed in supporting roles. The company seeks to employ, motivate and retain high calibre staff. To retain flexibility, incentivise staff and protect the company's earnings, a significant proportion of total annual compensation is made in the form of variable discretionary bonuses linked to profits.

We seek to appoint the best candidate for each and every vacancy. All appointments within the company are based on merit, and candidates are considered against fair and objective criteria. We give full and fair consideration to all applications for employment and ensure that any reasonable adjustments are made to our interviewing process to accommodate a person's disabilities.

*The company 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.

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

## H. CLARKSON & COMPANY LIMITED

### DIRECTORS' REPORT (CONTINUED)

#### RISK MANAGEMENT

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

##### *Foreign exchange risk*

The major trading currency of the company is the US dollar. Movements in the US dollar relative to other currencies, particularly sterling, have the potential to impact the results of the company both in terms of operating results and the revaluation of the balance sheet. The company assesses the rate of exchange and non-sterling balances held continually, and has predominantly sold in the spot market during 2014, though some forward cover for 2015 and 2016 has been taken.

##### *Credit risk*

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

##### *Reputational risk*

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

##### *Operational risk*

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

#### DISCLOSURE OF INFORMATION TO AUDITORS

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

#### INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

**H. CLARKSON & COMPANY LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Strategic Report, Directors' 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



By order of the board  
P Watson  
Company Secretary

14 April 2015

## H. CLARKSON & COMPANY LIMITED

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

#### REPORT ON THE FINANCIAL STATEMENTS

##### *Our opinion*

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

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### *What we have audited*

H. Clarkson & Company Limited's financial statements comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account and statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### OPINION ON MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

##### *Adequacy of accounting records and information and explanations received*

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

##### *Directors' remuneration*

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

#### RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

##### *Our responsibilities and those of the directors*

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements 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 & Ireland) (SAs (UK & 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.

## H. CLARKSON & COMPANY LIMITED

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

#### *What an audit of financial statements involves*

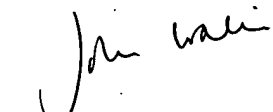
We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

14 April 2015

**H. CLARKSON & COMPANY LIMITED**

**PROFIT AND LOSS ACCOUNT**  
*for the year ended 31 December 2014*

Note	2014 £m	2013 £m
2 TURNOVER	102.2	84.6
Administrative expenses	(78.4)	(71.4)
Other operating income	<u>0.4</u>	<u>0.2</u>
2&3 OPERATING PROFIT	24.2	13.4
4 Income from other fixed asset investments	<u>0.1</u>	<u>0.1</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION	24.3	13.5
4 Interest receivable and similar income	<u>0.3</u>	<u>0.2</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	24.6	13.7
7 Taxation on profit on ordinary activities	<u>(5.4)</u>	<u>(2.4)</u>
PROFIT FOR THE FINANCIAL YEAR	<u>19.2</u>	<u>11.3</u>

All amounts arise from continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
*for the year ended 31 December 2014*

Note	2014 £m	2013 £m
Profit for the financial year	19.2	11.3
15 Foreign currency hedge - net of tax	(3.4)	2.3
TOTAL RECOGNISED GAINS RELATING TO THE YEAR	<u>15.8</u>	<u>13.6</u>

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical costs equivalents.

*The notes set out on pages 14 to 21 form part of these financial statements.*

H. CLARKSON & COMPANY LIMITED

**BALANCE SHEET**  
as at 31 December 2014

Note	2014 £m	2013 £m
<b>FIXED ASSETS</b>		
9 Intangible assets	0.9	1.0
10 Tangible assets	-	-
11 Investments	0.2	-
	<u>1.1</u>	<u>1.0</u>
<b>CURRENT ASSETS</b>		
12 Debtors	49.0	46.0
Cash at bank and in hand	47.2	31.0
	<u>96.2</u>	<u>77.0</u>
13 CREDITORS: amounts falling due within one year	(71.8)	(48.3)
<b>NET CURRENT ASSETS</b>	<u>24.4</u>	<u>28.7</u>
<b>NET ASSETS</b>	<u>25.5</u>	<u>29.7</u>
<b>CAPITAL AND RESERVES</b>		
14 Called-up share capital	1.4	1.4
15 Hedging reserve	-	3.4
15 Profit and loss account	24.1	24.9
16 TOTAL SHAREHOLDER'S FUNDS	<u>25.5</u>	<u>29.7</u>

The financial statements on pages 12 to 21 were approved by the board of directors on 14 April 2015, and signed on its behalf by:



M J C Cahill                      Director

H. Clarkson & Company Limited  
Company Registration No. 00152738

14 April 2015

The notes set out on pages 14 to 21 form part of these financial statements.

## H. CLARKSON & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 STATEMENT OF ACCOUNTING POLICIES

##### (a) PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below and have been applied consistently throughout the year.

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

##### (b) TURNOVER

Turnover consists of commissions receivable from dry bulk chartering, container chartering, deep sea chartering, specialised products chartering, gas chartering and sale and purchase broking and is recognised by reference to the stage of completion. Stage of completion is measured by reference to the underlying commercial contract.

##### (c) INCOME FROM FIXED ASSET INVESTMENTS

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

##### (d) CURRENT TAXATION

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

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

##### (e) DEFERRED TAX

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

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

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

##### (f) 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 profit and loss account.

##### (g) SHARE-BASED PAYMENT TRANSACTIONS

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

##### (h) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are recorded at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated to write off the cost of tangible fixed assets to their estimated residual values over their expected lives. Rates and bases (straight line or other) are those considered appropriate for the company and for the particular class of asset as follows:

Motor vehicles	4 years
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The carrying values of tangible fixed assets are reviewed if circumstances indicate these values may have been impaired.

##### (i) INVESTMENTS

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



NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES - continued

(j) PENSIONS

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

The company also operates various defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

(k) HEDGE ACCOUNTING

The company uses various financial instruments to reduce exposure to foreign exchange movements. These include forward foreign exchange contracts. 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.

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

Where financial instrument derivatives do not qualify for hedge accounting, changes in the fair market value are recognised immediately in the profit and loss account.

(l) TRADE AND OTHER PAYABLES

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

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

(m) PROVISIONING

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

(n) GOODWILL

Purchased goodwill is capitalised and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. The company evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

(o) INTANGIBLE ASSETS

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

(p) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

(q) LEASES

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

# H. CLARKSON & COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SEGMENTAL INFORMATION

The company's primary segmental analysis is based on the classes of business it provides. Segments are consistent with the way the company manages itself and are reported in a manner consistent with the internal reporting provided to the board.

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.

All turnover, profit and net assets originate in the UK.

Business segments	Turnover		Results	
	2014 £m	2013 £m	2014 £m	2013 £m
Broking	101.9	84.4	24.0	15.1
Other	0.3	0.2	0.2	(1.7)
<b>SEGMENT TURNOVER/RESULTS</b>	<b>102.2</b>	<b>84.6</b>	<b>24.2</b>	<b>13.4</b>
Income from fixed asset investments			0.1	0.1
Interest receivable and similar income			0.3	0.2
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			<b>24.6</b>	<b>13.7</b>
Taxation on profit on ordinary activities			(5.4)	(2.4)
<b>PROFIT FOR THE FINANCIAL YEAR</b>			<b>19.2</b>	<b>11.3</b>

### 3 OPERATING PROFIT

Operating profit is stated after charging / (crediting):

	2014 £m	2013 £m
Wages and salaries (see note 5)	61.6	55.3
Foreign exchange (gains) / losses	(2.9)	0.3
Amortisation and impairment of goodwill and other intangibles	0.1	0.1
Auditors' remuneration: Audit services	0.1	0.1
Other services - tax compliance	0.1	-

### 4 INCOME FROM FIXED ASSET INVESTMENTS AND INTEREST RECEIVABLE

	2014 £m	2013 £m
Dividends received	0.1	0.1
Bank interest received	0.3	0.2
	<b>0.4</b>	<b>0.3</b>

### 5 WAGES AND SALARIES (INCLUDING DIRECTORS)

	2014 £m	2013 £m
Salaries, performance-related bonuses and benefits-in-kind	51.8	45.4
Social security costs	7.0	7.0
Pension costs	2.3	2.3
Other salary costs	0.5	0.6
	<b>61.6</b>	<b>55.3</b>

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

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

	2014 No.	2013 No.
United Kingdom:-		
Contributing directly to the earning of revenue	272	258
Supporting roles	76	71
	<b>348</b>	<b>329</b>

# H. CLARKSON & COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 5 WAGES AND SALARIES (INCLUDING DIRECTORS) - continued

18 non-executive directors are remunerated by other companies within the group (2013: 19).

In 2014, executives participated in an annual bonus scheme which was linked principally to profits with the balance based on personal performance. For senior executives, up to 10% of the performance-related bonuses was paid in the form of restricted shares which vest after four years.

During the year, 91,061 shares (2013: 98,142 shares) at a weighted average price of £25.04 (2013: £16.04) were awarded to employees in settlement of 2013 (2012) cash bonuses. There was no expense in 2014 (2013: £nil) as a result of these awards. The fair value of these shares was determined based on the market price at date of grant.

### 6 DIRECTORS' EMOLUMENTS

	2014 £m	2013 £m
Aggregate emoluments in respect of qualifying services	25.6	21.0
Pension contributions	0.5	0.6
	<u>26.1</u>	<u>21.6</u>

The emoluments of the highest paid director, excluding pension contributions, were £2.3m (2013: £1.7m). Pension contributions of £6,250 (2013: £25,000) were made on behalf of the highest paid director. 50 directors received shares in respect of qualifying services (2013: 49).

The defined benefit pension scheme, as described in note 18, closed to new entrants on 31 March 2004 and closed to further accrual for all existing members from 31 March 2006. 37 executive directors were members of the defined contribution scheme as at 31 December 2014 (at 31 December 2013: 43). Other directors received emoluments from other group companies. None of these emoluments arise from services to the company and the service of these directors was negligible.

### 7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2014 £m	2013 £m
(a) Taxation on profit on ordinary activities		
<i>Current Tax:</i>		
UK corporation tax - current year	5.5	1.1
UK corporation tax - prior year	0.3	(0.1)
Total current tax	<u>5.8</u>	<u>1.0</u>
<i>Deferred Tax:</i>		
UK deferred tax - current year	0.4	2.6
UK deferred tax - prior year	(0.8)	(1.4)
UK deferred tax - impact of change in tax rate	-	0.2
Total deferred tax	<u>(0.4)</u>	<u>1.4</u>
Taxation on profit on ordinary activities	<u>5.4</u>	<u>2.4</u>
(b) Tax relating to items charged or credited to equity	2014 £m	2013 £m
Deferred tax (credit) / charge: Foreign currency hedge	(0.9)	0.5
Total tax (credit) / charge in the statement of total recognised gains and losses	<u>(0.9)</u>	<u>0.5</u>
(c) Factors affecting the current tax charge		

The tax assessed for the year is higher (2013: lower) than the standard rate of corporation tax in the UK for the year-ended 31 December 2014 of 21.49% (2013: 23.25%). The differences are explained below:

	2014 £m	2013 £m
Profit on ordinary activities before taxation	<u>24.6</u>	<u>13.7</u>
Taxation at average UK corporation tax rate of 21.49% (2013: 23.25%)	5.3	3.2
Expenses not deductible for tax purposes	0.6	0.5
Share-based payments	(0.4)	(2.6)
UK corporation tax - prior year	0.3	(0.1)
Current tax charge for the year	<u>5.8</u>	<u>1.0</u>

## H. CLARKSON & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES - continued

The standard rate of corporation tax in the UK decreased from 23% to 21% with effect from 1 April 2014. Accordingly, the company's profit for this accounting period is taxed at an effective rate of 21.49%.

	Share-based payments £m	Foreign currency contracts £m	Other £m	Total £m
(d) Deferred tax				
Included in debtors (note 12) is a deferred tax asset comprising:				
At 1 January 2014	2.0	(0.9)	(0.2)	0.9
Adjustment relating to prior year	0.8	-	-	0.8
Provided during the year in respect of short-term timing differences	(0.4)	-	-	(0.4)
Tax amounts recognised in equity	-	0.9	-	0.9
At 31 December 2014	<u>2.4</u>	<u>-</u>	<u>(0.2)</u>	<u>2.2</u>

#### 8 DIVIDENDS

	2014 £m	2013 £m
Equity dividends on ordinary shares:		
Final dividend for 2013 paid £7.41 (2012: £1.85) per 50p share.	<u>20.0</u>	<u>5.0</u>
	<u>20.0</u>	<u>5.0</u>
Proposed for approval at the company's board meeting (not recognised as a liability at 31 December):		
Final dividend for 2014 proposed £7.41 (2013: £7.41) per 50p share	<u>20.0</u>	<u>20.0</u>

#### 9 INTANGIBLE ASSETS

	Intangible assets £m	Goodwill £m	Total £m
ORIGINAL COST			
At 1 January 2014 and as at 31 December 2014	<u>6.8</u>	<u>2.5</u>	<u>9.3</u>
ACCUMULATED AMORTISATION			
At 1 January 2014	6.8	1.5	8.3
Provided during the year	-	0.1	0.1
At 31 December 2014	<u>6.8</u>	<u>1.6</u>	<u>8.4</u>
NET BOOK VALUE AT 31 DECEMBER 2014	<u>-</u>	<u>0.9</u>	<u>0.9</u>
Net book value at 31 December 2013	<u>-</u>	<u>1.0</u>	<u>1.0</u>

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the gas chartering cash-generating unit. The carrying amount of goodwill allocated to this cash-generating unit is £0.9m (2013: £1.0m).

Goodwill is tested for impairment annually.

The recoverable amounts of the cash-generating units 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 cash-generating unit to which the goodwill is allocated. The key assumptions used for value-in-use calculations are set out as follows:

- The pre-tax discount rate used is based on the company's weighted average cost of capital and adjusted for risks within each cash-generating unit. The company pre-tax discount rate is 12% (2013: 13%);
- 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 gas chartering. 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. Accordingly no reasonably possible change is foreseen which gives rise to an impairment of goodwill.

H. CLARKSON & COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 TANGIBLE ASSETS

	Motor vehicles £m	Total £m
ORIGINAL COST		
At 1 January and 31 December 2014	0.1	0.1
ACCUMULATED DEPRECIATION		
At 1 January and 31 December 2014	0.1	0.1
NET BOOK VALUE AT 31 DECEMBER 2014	-	-
Net book value at 31 December 2013	-	-

11 INVESTMENTS

	Unlisted £m
COST	
At 1 January 2014	-
ADDITIONS	
Additions in the year	0.2
VALUE AT 31 DECEMBER 2014	0.2
Value at 31 December 2013	-

The company also holds listed investments at a cost of less than £50,000. The market value of the listed investments at 31 December 2014 was £37,877 (2013: £54,278). Unlisted investments include £0.2m addition in the year for London Tanker Broker Panel.

The directors believe that the carrying value of the investments is supported by their underlying net assets. The principal subsidiary is detailed in note 21.

12 DEBTORS

	2014 £m	2013 £m
Trade debtors	11.5	13.0
Amounts owed by group undertakings* (includes £7.4m (2013: £7.4m) due after more than one year)	31.3	25.1
Other debtors	2.3	1.4
Corporation tax	-	0.3
Derivatives	-	4.3
Deferred tax asset (note 7) - includes £2.2m (2013: £1.9m) due after more than one year	2.2	0.9
Prepayments and accrued income	1.7	1.0
	49.0	46.0

\*In the 2013 column an amount of £7.4m has been reclassified from 'other debtors' to 'amounts owed by group undertakings'.

Derivatives represent the fair value of outstanding foreign exchange contracts at the year-end. At 31 December 2014 the company had US\$100.0m outstanding forward contracts due for settlement in 2015 and 2016 (2013: US\$80.0m for settlement in 2014 and 2015).

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £m	2013 £m
Trade creditors	6.7	4.0
Corporation tax	3.1	-
Other taxation and social security	1.4	3.7
Amounts owed to group undertakings	26.3	10.9
Accruals and deferred income	34.3	29.7
	71.8	48.3

# H. CLARKSON & COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 14 CALLED-UP SHARE CAPITAL

At 1 January and 31 December 2014  
Ordinary shares of 50p each: nominal value  
Allotted, issued and fully paid

Number of shares	Nominal value £m
<b>2,700,000</b>	<b>1.4</b>

### 15 RESERVES

	Hedging reserve £m	Profit and loss account £m	2014 Total £m	Hedging reserve £m	Profit and loss account £m	2013 Total £m
At 1 January	3.4	24.9	28.3	1.1	18.6	19.7
Profit for the financial year	-	19.2	19.2	-	11.3	11.3
Dividend paid	-	(20.0)	(20.0)	-	(5.0)	(5.0)
Movement during the year	(3.4)	-	(3.4)	2.3	-	2.3
At 31 December	-	24.1	24.1	3.4	24.9	28.3

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.

### 16 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2014 £m	2013 £m
At 1 January	29.7	21.1
Profit for the financial year	19.2	11.3
Dividend paid	(20.0)	(5.0)
Movement in hedging reserve during the year	(3.4)	2.3
At 31 December	<b>25.5</b>	<b>29.7</b>

### 17 CONTINGENT LIABILITIES

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

### 18 PENSION COMMITMENTS

The company participates in two defined benefit group schemes which are the Clarkson PLC Scheme and the Plowrights scheme. The schemes are defined benefit schemes, funded by the payment of contributions to separately administered trust funds. The contributions to the schemes are each determined by a qualified actuary on the basis of triennial valuations. The most recent valuation, as at 31 March 2013 is disclosed in the financial statements of Clarkson PLC.

For the purposes of the disclosures required under Financial Reporting Standard 17 'Retirement Benefits', qualified actuaries have updated the valuations to assess the liabilities of the schemes at 31 December 2014. Schemes' assets are stated at their market value at 31 December 2014. The pension deficit for the schemes arising under these valuations is £10.3m (2013: £1.8m). It is not possible to identify the company's share of the schemes' assets and liabilities, details of which are disclosed in the financial statements of Clarkson PLC.

The company also operates a defined contribution scheme in conjunction with other group companies. Where required the company makes contributions into this scheme. Pension contributions made in the year are disclosed in notes 5 and 6. There were no amounts prepaid or outstanding at the year-end.

## H. CLARKSON & COMPANY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 19 ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Clarkson Shipbroking Group Limited.

The ultimate parent undertaking and controlling party is Clarkson PLC, a company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Clarkson PLC consolidated financial statements can be obtained from St. Magnus House, 3 Lower Thames Street, London EC3R 6HE.

#### 20 CASH FLOW STATEMENT AND RELATED PARTY DISCLOSURES

The company is a wholly-owned subsidiary of Clarkson PLC and is included in the consolidated financial statements of Clarkson PLC, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1.

The company is also exempt under the terms of FRS 8 from disclosing related party transactions with wholly-owned entities that are part of the Clarkson PLC group. There were no other related party transactions (2013: none).

Included within other debtors is £nil (2013: £nil) of loans to directors.

#### 21 SUBSIDIARY UNDERTAKINGS

Country of incorporation	Company Name	Percentage of equity shares	
England and Wales	Clarkson Legal Services Limited	100	Held indirectly

The above company is engaged in the provision of shipping-related services.

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

This company 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 the subsidiaries will be annexed to the company's next Annual Return.

The company's share of the net assets of the above is not shown as all of the companies listed above prepare separate financial statements and are included in the consolidated financial statements of Clarkson PLC.