Clarkson PLC

12 March 2018

Clarkson PLC (Clarksons) is the world's leading provider of integrated shipping services. From offices in 22 countries on six continents, we play a vital intermediary role in the movement of the majority of commodities around the world.

Preliminary results

Clarkson PLC today announces preliminary results for the 12 months ended 31 December 2017.

Summary

- Strong performance aided by early signs of recovery across shipping markets
- Underlying profit before taxation increased 12% to £50.2m (2016: £44.8m)
- Underlying earnings per share up 11% to 116.8p (2016: 105.2p)
- Robust balance sheet, including a 14% increase in free cash resources[1] to £54.1m (2016: £47.3m)
- Dividend increased by 12% to 73p; 15 years of consecutive dividend increases

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

	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	**£324.0m**	£306.1m
Underlying profit before taxation*	**£50.2m**	£44.8m
Reported profit before taxation	**£45.4m**	£47.3m
Underlying earnings per share*	**116.8p**	105.2p
Reported earnings per share	**104.4p**	119.7p
Dividend per share	**73p**	65p

* Before acquisition related costs of £4.8m (2016: exceptional income of £11.1m and acquisition related costs of £8.6m)

Andi Case, Chief Executive Officer, commented:

"I am pleased to report another year of strong growth as we have consolidated our market-leading position and continue to innovate and expand our offering to keep Clarksons at the forefront of the shipping industry.

"The business continues to generate significant cash flows to fund investment and drive shareholder returns, reflected in our 15th year of consecutive increased dividend pay-out. We believe 2018 will be a year of continued growth as early indicators of recovery are showing across our core markets. With our broad, 'best in class' offering across the shipping sector, Clarksons is well positioned to capitalise on the opportunities this presents."

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Alternative performance measures (APMs)

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

About Clarkson PLC

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

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

The Group employs 1,546 people in 48 different offices across its four divisions and is number one or two in all its market segments.

The Company has delivered 15 years of consecutive dividend growth. The highly cash-generative nature of the business, supported by a strong balance sheet, has enabled Clarksons to continue to invest to position the business to capitalise on the upturn in its markets.

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

For more information, visit www.clarksons.com.

Chair's review

Overview

This year the shipping market has displayed some early signs of a recovery following a sustained period of challenging trading conditions for the industry. Despite ongoing headwinds in certain sectors, the strengthening of the broader global economy during 2017 has boosted the shipping market, highlighted within dry cargo where the Baltic Dry Index ended the year 42% higher than it started. Whilst we remain cautious about the near-term direction of the industry, we are pleased to report that Clarksons has once again delivered a confident performance on the back of this wider macro-economic improvement and continues to deliver substantial value to our shareholders. Improvements across a number of divisions over the past year have been particularly pleasing, notably in the dry cargo freight market and container sector, as well as the strong performance in investment banking and project finance.

Against this backdrop, we have consolidated our position as market leader, increasing our market activity through a mixture of innovation, investment and a continued commitment to providing a 'best in class' offering. We have made significant investments in technology over the past 12 months, ensuring that Clarksons not only remains at the forefront of the shipping industry, but continues to innovate and develop new services for our clients.

Our position at the heart of the shipping industry has been built over 166 years, based on a fundamental dedication to our clients, and providing them with a unique, tailored service that offers an unrivalled understanding of the sector.

As market leaders, we have an opportunity to set new benchmarks for best practice in the sector and to create and shape the next generation of broking, banking, market analysis and technology. This has been a key area of focus for Clarksons in 2017 and we are very pleased with the progress we have made during the year. Clarksons continues to pioneer new ways of doing business in the shipping industry and is well positioned to capitalise on this investment in 2018 and beyond.

Results

Underlying profit before taxation was £50.2m (2016: £44.8m). Reported profit before taxation was £45.4m (2016: £47.3m).Underlying earnings per share was 116.8p (2016: 105.2p). Reported earnings per share was 104.4p (2016: 119.7p).

As explained in the financial review, free cash resources at 31 December 2017 were £54.1m (2016: £47.3m).

Dividend

Clarksons has maintained its impressive dividend record this year, having increased it every year since 2002. In line with this progressive dividend policy, the Board is recommending a final dividend of 50p (2016: 43p). Coupled with the interim dividend of 23p (2016: 22p), the resulting full year dividend is up 12% to 73p (2016: 65p), making it the 15th consecutive year of dividend growth.

The dividend will be payable on 1 June 2018 to shareholders on the register at 18 May 2018, subject to shareholder approval.

Clarksons remains a highly cash-generative business and, following the repayment of the outstanding loan notes during 2017, is now debt-free with a strong balance sheet. The current state of our markets means that there are a number of exciting opportunities for growth and the creation of shareholder value, which remains our primary goal. The Board intends to capitalise on these opportunities as a priority, whilst continuing to hold firm to our progressive dividend policy.

People

Our colleagues and their hard work and expertise are at the centre of Clarksons' continued success, and underpin our commitment to providing a 'best in class' global offering. We have continued to invest in and develop talent throughout 2017, as seen by the opening of new offices in Tokyo and Seoul, the hiring of a number of key individuals globally across many business lines and the extension of banking activities into convertible bonds and broking activities into wet FFAs. We take our position as the leading sector employer very seriously, and are committed to continually setting new industry benchmarks of excellence. I would like to thank all our colleagues for their hard work and dedication in 2017.

Board

Peter Backhouse, Senior Independent Director, and I have been interviewing prospective successors for Ed Warner on the Board and as Chair of the remuneration committee, and expect to be able to announce a new appointment to the Board this year. When a suitable candidate is found, Ed will retire from the Board and as Chair of the remuneration committee, having served nine years as an independent Non-Executive Director.

Outlook

The near-term future for the shipping markets remains mixed, but we have seen improvements in a number of our markets and are beginning to see the first signs of a broader industry turnaround. Clarksons remains well positioned for an industry upturn given our strong financial position, unrivalled sector expertise and the continual development of innovative client offerings across the sector.

James Hughes-Hallett
Chair
9 March 2018

Chief Executive Officer's review

I am pleased to report another strong performance from Clarksons in 2017 as the business achieved revenue of £324.0m, representing growth of 6%.

Through our commitment to differentiate our offering by innovating and constantly developing our capabilities, we have reinforced our position at the forefront of the shipping industry and delivered another year of profitable growth, resulting in a 15th consecutive year of dividend growth for our shareholders.

The continued overall recalibration of the shipping markets is a positive sign to the markets. However, movement in sectoral demand/supply balances have once again shown how reactive the individual markets are to such balances. The rising cost of steel and currency movements have led to the continued slowing of fleet growth through lower levels of newbuildings. This, together with reasonable levels of end of life recycling enabled by high scrap steel prices, are key factors in changing the demand/supply imbalance, which in turn supports an improvement in rates and asset values in a number of sectors.

The sector showing most improvement was the dry cargo market, evidenced by the strong recovery in the Baltic Dry Index, although some of these gains were tempered by other sectors such as deep sea tankers and LPG which saw continued deliveries into already fully supplied markets. Overall in 2017, the average of the ClarkSea Index, which measures earnings for most of the main vessels in bulk shipping, was 14% higher than last year.

As shipping represents in the order of 85% of world trade, we must always remain cautious of geo-political and macro-economic factors. We start 2018, as we did 2017, with lower forward visibility of earnings from a lower forward order book. This reflects both the reduced levels of newbuilding orders and lower period business done in the market in recent times, as highlighted last year. Nevertheless, spot volumes and rates have been improving, which during 2017 more than offset the lower forward order book brought forward, and produced increased revenue across the business.

We continue to place great emphasis on ensuring we are the advisors of choice across all of our divisions. This strategy of diversification and being 'best in class' in all verticals has served us well and should be a driver for growth as more of our markets see better times.

Overall, the broking teams enjoyed a successful year as, generally, market conditions improved. Dry cargo performed significantly better during 2017, with spot earnings reaching the highest level in five years, and following a protracted downturn, the offshore markets started to see some signs of renewed interest following the sustained strengthening of the oil price during the second half. There were also improvements seen in the specialised products and futures markets, with the secondhand sale and purchase team having a particularly strong year.

Clarksons Research had another year of strong revenue growth as it continues to establish itself as the market-leading provider of intelligence and data across the shipping, trade, offshore and energy markets. 2017 was a period of focused investment in new products and technologies, which muted profit growth, but will provide an improved platform for the future. Our clients recognise the invaluable contribution that Clarksons' trusted intelligence can provide in both helping them to set strategy and enabling fast and effective short-term decision-making.

The financial division performed strongly during the year. Clarksons Platou Securities completed an increased number of corporate transactions, including high profile activity in the equity and debt capital markets, continued activity in restructurings and a number of M&A transactions. The successful roll out of our metals and mining business during 2017 and the recent addition of a convertible bond team further adds to the extensive services we are able to deliver to our clients. The project finance market has also seen increased activity, particularly in the real estate sector, where our team in Oslo have been both busy and effective, and the dry cargo and container sectors, where clients are looking to benefit from the long awaited upturn.

The port services team has had another profitable year, having benefited as the year unfolded from the upturn in activity in the oil and gas industry. The team has continued to expand into new markets and has made several hires, strengthening its offering.

As global trade evolves, we recognise the need to constantly innovate and improve to strengthen further our leading position in the sector. During the year, Clarksons has focused particularly on driving digital change, investing in developing digital solutions and pioneering innovative technology to shape the shipping industry and complement our existing business. Whilst it is early days, I am delighted to report increasing adoption of the Clarksons Cloud platform, both internally, where our teams are benefiting hugely from improved information flows and tools to help decision-making and improved connectivity to clients, and externally, where a number of high profile clients have adopted our tools, particularly through our collaboration in launching Recap Manager with the London Tanker Brokers' Panel, and more generally through our operations platform, Gateway.

Despite industry-leading technology investment, in the second half of the year, as announced to the market, Clarksons was subject to a cyber security incident. The team responded rapidly and decisively and whilst the eventual impact on the business was minimal, and at no time was the Clarksons Cloud impacted, we have put in place extensive additional security measures to best prevent a similar incident happening in the future.

A leading edge offering across finance, broking, research, support and technology must be delivered by a first class team, and we have continued to invest in the best talent globally as we strive to deliver 'best in class' service to all our clients. Our office network has grown further to include offices in Japan and Korea as we continue to supplement our global capabilities with local expert knowledge. In addition, we have made a number of key hires in dry cargo, securities, structured asset finance, futures, port services, IT, data collection and operations. I would like to thank all of our employees for their hard work and dedication to Clarksons' success during 2017.

We are encouraged by the rebalancing of supply and demand we are seeing across the shipping industry, with activity levels picking up across a number of our key markets. The strengthening of the oil price in the second half of 2017 has been particularly beneficial to the offshore markets, whilst our financial teams have also profited from an improved economic outlook in both shipping and offshore. Increasing levels of industrial production and continued infrastructure spend in some of the world's major economies provide further momentum for growth in the medium-term.

Clarksons remains at the forefront of the shipping industry and our investment in cutting edge digital solutions will enable us to offer our clients a unique and innovative platform to support their business needs. Our commitment to providing 'best in class' service, combined with our global reach and unrivalled market insights, has enabled us to deliver another year of profitable growth and market share gains and positions us well for the coming year.

Andi Case
Chief Executive Officer
9 March 2018

Business review

Broking

Revenue: £238.9m (2016: £233.6m)
Segment underlying profit: £43.9m (2016: £40.2m)
Forward order book for 2018: US$93m* (At 31 December 2016 for 2017: US$112m*)
* Directors' best estimate of deliverable forward order book (FOB)

In a year when the Baltic Dry Index increased by 42% and the container sector continued to make gains on 2016, our broking division delivered meaningful growth in both revenues and margins.

Dry cargo

The dry cargo freight market performed significantly better in 2017 as seaborne trade continued to absorb excess fleet capacity. The average Baltic Dry Index was 53% higher in 2017 than in 2016, with spot earnings reaching the highest level in five years. The capesize sector rates doubled on last year's average, while the panamax sector increased by 76%, the supramax sector by 52% and the handysize sector by 46%. The stronger rates environment led the path for an increase in period rates and asset prices, particularly in secondhand values.

Newbuild deliveries slowed to a nine-year low, following a period of depressed contracting, yet a slowdown in demolition resulted in fleet expansion of 3% year-on-year. The improved earnings and market sentiment throughout 2017 led to an increase in new orders for delivery from late 2019 onwards; nevertheless the order book to fleet ratio remains at a 15-year low.

After a ten-year recessionary period following the financial crisis, world economic growth exceeded expectations in 2017. China was once again a key player during a year of economic and supply-side reforms. Its industrial production has expanded significantly since its about-turn in mid-2016, steered by the longest upturn in housing sales in more than two years. In addition, dry cargo demand was furthered by robust economic growth and strong industrial production in the majority of other nations.

Higher economic growth led to increased energy demand which outpaced the addition of new greener energies and thereby the ongoing reliance on coal. Emerging economies also continue to rely on coal as the cheapest energy form to propel economic growth. Pollution control has been a high priority, particularly in China, which focused on quality over quantity in industrial production, shifting the raw material demand to high quality minerals, which are most economical from Australia and Brazil.

The demand for grains grew alongside world GDP growth and 2017 witnessed a year of plentiful supply with record crops in most exporting countries.

The demand outlook for 2018 is more conservative with uncertainties such as China's housing market, geo-politics, adverse weather conditions and stricter environmental regulations. At the same time, the slowing pace of fleet growth still indicates that the supply/demand balance will tighten by a further 1.4%, signifying a continued general improvement in rates, earnings and asset values.

The Clarksons Platou dry cargo team has expanded its global presence in 2017, with our offices strengthening on the back of growing young teams and improving quality of business concluded. Our Japan office is now established with its first full year of trading. We continue to look at key strategic hires to grow and improve our business, as all markets are giving a positive sentiment against the strong fundamentals.

Containers

2017 saw improvements in the container shipping sector, following the severely pressurised conditions of 2016. Box freight rates made further gains into 2017, having bottomed out in 2016. Although rates on some trade lanes have more recently lost some ground, 2017 saw freight rate levels on a global basis average around 20% above 2016 full year average levels, with the SCFI composite index average up 27%. Against this backdrop, charter market vessel earnings picked up from bottom of the cycle levels at the end of the first quarter. Although there has been some variation across ship sizes, in the main, the charter market held onto its gains or saw further gradual upward movements in the remainder of the year. The one-year rate for a 2,750 TEU ship stood at US$9,350 per day at the end of 2017, 55% above the level at the end of 2016, whilst the charter market 'basket' index rose by 35% on the same basis.

Demand side conditions improved further in 2017, with global trade volumes estimated to have expanded by around 5% in the full year to 191m TEU. The rate of expansion on intra-Asian trades accelerated further, growth on North-South trades bounced back more quickly than expected, and volumes on the key Transpacific and Far East-Europe trades also turned in a robust performance. Containership fleet capacity growth remained moderate, despite ongoing deliveries of 'mega-ships', with an expansion of 3.7% in 2017. Whilst some surplus remains in the sector, it appears to be much reduced, with 2% of the fleet standing idle at the end of 2017 compared to around 7% a year earlier.

Sector fundamentals look set to continue improving in 2018 with volume growth levels likely to be sustained and supply growth projected in the 4% range. Despite the first contracts for very large boxships in two years being signed in the autumn, the ordering of newbuild capacity remained relatively limited at 0.7m TEU in 2017; the order book now stands at 13% of fleet capacity. Meanwhile, record levels of containership sale and purchase activity were seen last year and consolidation of the sector remains ongoing with further merger and joint operation activity involving major operators to be concluded this year. Liner companies still face capacity management challenges and risks remain on the demand side, but in 2018 additional fundamental re-balancing could well support further market improvements.

The Clarksons Platou containers team has benefited from both a rise in sale and purchase and time charter rates, whilst at the same time adding to market share throughout our global network. Our chartering team is busy providing on and off market solutions to the liner industry as they navigate through a new and consolidated environment. The sale and purchase team has concluded significant marquee business and has provided strong support to institutional-backed sales where validation and execution are paramount. Our team continues to add to its footprint with an operational presence now in Seoul to add to our Singapore, Shanghai, Tokyo, London, Hamburg and Oslo bases.

Tankers

As was anticipated, the tanker market weakened further in 2017. Clarksons' published assessments of average earnings for VLCCs, suezmaxes and aframaxes fell by 57%, 43% and 40% respectively year-on-year, to levels well below long run averages. Products tanker earnings also fell further, with Clarksons' earnings assessments for LR2s and LR1s on the key Middle East-Far East route falling by 39% and 36% respectively year-on-year, to very weak levels historically. MRs fared somewhat better; nevertheless Clarksons' published assessment of average earnings for 2017 was 16% lower year-on-year.

Crude tanker demand growth was restrained by OPEC and non-OPEC production cuts that took effect from the start of 2017. However, vessel demand did continue to grow, driven by an increase of 0.8m barrels per day in Chinese crude imports and rising crude exports from the US, Brazil and Kazakhstan, as well as Nigeria and Libya which were exempt from the cuts. The OPEC cuts meant that growing crude oil requirements in Asia were met by increased long-haul shipments from West of Suez. Products tanker demand also continued to grow, but growth was restrained by the high levels of products inventories that had built up previously and competition between naphtha and LPG in the petrochemicals sector.

The crude tanker fleet size increased sharply for a second successive year, registering growth of 5.2%, following growth of 6.0% in 2016. Deliveries of new crude tanker tonnage rose to 27.8m dwt in 2017 versus 21.0m dwt in 2016, however the weaker freight market and higher prices on offer for selling vessels for demolition meant that scrapping rose substantially to 9.2m dwt, compared to 1.6m dwt in 2016. Products tanker net fleet growth fell to 3.9% in 2017, from 6.2% in 2016 and 5.4% in 2015. However, the overhang of tonnage that had built up in the previous two years, combined with slightly below average growth in trade, meant that the market weakened further. Products tanker demolition also increased, with 2.1m dwt removed from the market, compared to 0.8m dwt in 2016. Deliveries in the MR sector were reduced from previous years' levels, but deliveries of LR products tankers rose slightly.

In 2018, crude tanker fleet growth is projected to fall to 3.4% with deliveries declining somewhat and removals expected to increase further. OPEC and non-OPEC production cuts are due to continue to the end of the year, therefore vessel demand growth is expected to be driven once again by large increases in crude imports into Asia and growth in exports from predominantly the US, Brazil and Kazakhstan. The crude tanker sector seems likely to remain challenging in 2018, with the market expected to recover from 2019 when production cuts are due to end and fleet growth is expected to reduce further. There appears to be more upside potential in 2018 for products tankers. Fleet growth is projected to fall to 2.2%, which is below long-run levels of trade growth. Robust growth in global oil demand is projected and a further running down of oil products inventories may stimulate greater growth in volumes of trade and vessel demand.

We are now well established in every major tanker chartering hub, further proof that our global approach has been successful. We remain focused on increasing our volumes with Chinese accounts.

Our Clarksons Platou tankers team were successful during the year in commencing a working relationship with two target accounts, proving that opportunities still exist to enhance our client portfolio. Our pioneering IT applications, a key part of our overall IT strategy, are at the forefront of the tankers industry and provide us with confidence that we can further differentiate ourselves from our competitors going forward.

Specialised products

Key trade lanes throughout the chemical tanker market spent most of 2017 in a state of flux. However, in a reversal from the trend in 2016, the second half of the year experienced more buoyant spot markets than the first half. The Clarksons Platou Specialised Spot Chemical Index recorded a 6.7% increase throughout the year, whilst the Edible Oils Spot Index posted an increase to finish the year 5.3% up compared to where it began. Spot chemical freight rates finished the year on par with the long-run average; a result that was driven once again by a more active ex-US transpacific market.

Period charter and asset deal volume for much of 2017 was lacklustre due to the delta between charterers' and owners' ideas, however activity increased in the fourth quarter. The stainless steel sector has seen a two-tier market develop, with the gap between older and more modern 'eco' tonnage increasing.

Overall trade volume growth in the specialised products market was robust once again in 2017. Seaborne trade in 2017 is expected to reach nearly 300m mts, a year-on-year increase of nearly 5%. A combination of vast infrastructure spending, urbanisation rates, growing populations and increasing social mobility are positive mega-trends which continue to drive specialised products trade.

China and India remain two of the key end-user growth countries in our markets. Based on the first ten months of 2017, China recorded a 5.4% year-on-year rise in specialised products imports, while India showed import growth of 5.8% year-on-year for the first eight months of 2017. Elsewhere, the development of liquid shale gas based projects in the US and continued Middle East investment are clear signals that both of these regions will continue to strive to meet the chemical demand of these, and other, developing economies. A renewal in palm oil volumes seen towards the latter end of the summer, as well as a reinvigorated Asian petroleum products market, combined with resilient contract of affreightment nominations, also helped to push volumes upward.

Turning to the other part of the tonne-mile factor, distance growth, we note that this continued to build on gains realised in 2016. Chemical tankers on average have travelled 0.5% further per voyage in 2017.

As expected, average annual growth for the chemical tanker fleet in 2017 decreased. Net fleet growth in 2017 was approximately 3%, and we believe that in the medium-term this will reduce further due to a meagre order book and continued scrapping. The total chemical tanker order book is now less than 7% of the fleet, representing the lowest level for more than ten years in the sector and the lowest across all major shipping markets.

Overall, set against a backdrop of a global economy seemingly firing on most cylinders, continued import demand growth driven by China and India, as well as positive indications from the US and Middle East in terms of new liquid capacity, we believe that seaborne volumes will continue to grow on an annual basis. Rapidly reducing net fleet growth in the medium-term, longer trading distances and continued issues with fleet productivity remain key determinants for freight rates in the future. Taking this into account, and based purely on fundamentals, we believe that the medium to long-term outlook for the sector remains encouraging.

The Clarksons Platou specialised products team had a busy year and 2017 once again saw us develop the breadth and depth of our offer in this market. Despite the stagnant market backdrop, we have grown volume across both spot, contract of affreightment and period charter markets. Our investment in broking throughout the supply chain from production to end-user has continued, with an approach focused on both expertise and scale. Over the course of the year, we have also strengthened our service level through deeper market insight and investment in technology.

Gas

The second half of 2017 saw little change from the first half of the year as freights remained under pressure across most segments of the gas carrier market. Newbuilding deliveries, in conjunction with a slowdown in the pace of seaborne LPG trade growth, failed to lift freights and the averages for the year slipped below 2016 levels. In the VLGC sector, a total of 20 units were delivered following the slippage of some units into 2018 and two older units were removed from the fleet.

Tonne-miles continued to hold up as arbitrage volumes from the US into Asia grew again on the back of strong import demand, mainly in China, and as a result of strong growth in US export volumes which rose by almost 17%, despite cargo cancellations throughout the year and the delayed start-up of the Mariner East II terminal on the East Coast. However, globally, the annual pace of LPG trade growth slowed to 4.7% year-on-year mainly owing to a reduction in exports from the Middle East due to maintenance and OPEC cuts.

As a result of this and the expansion of the fleet, we saw the benchmark ME Gulf-Japan assessed rate fall 8% to a time charter equivalent just below US$15,000 per day. The weakness in the VLGC sector continued to weigh on the size sectors below, as did further growth in fleet supply in both the mid and handysize sectors. In each of these segments, we saw the fleet grow by 20% and 4% respectively. Although we saw some recovery in ammonia trade, which grew by 1.9% and accounts for a significant proportion of midsize trade, the slowdown in the pace of LPG trade growth and increased availability of tonnage saw the assessed 12 month time charter rate fall by 37% on a 35,000 cbm unit to US$450,000 per calendar month. This downward correction was also mirrored in the handysize sector, with the time charter rate falling 40% to an average of just under US$410,000 per calendar month on a 20,500 cbm semi-ref unit.

Given the growing competition for market share with the midsizes, we increasingly saw the handysizes competing with the smaller 12,000 and even 8,000 cbm semi-ref units for petrochemical gas parcels, occasionally even fixing part cargoes at lower numbers to secure employment. Volume-wise, there was little fundamental change last year compared with 2016, and with this added competition from the larger units, we saw rates for the 12,000 cbm and 8,250 cbm ethylene carriers drop by 7% and 2% respectively, despite a negligible change in fleet supply. In the smaller semi-ref and pressure sectors sub-6,000 cbm, relatively static fleet supply has seen freight levels bottom out and, in combination with more positive coastal LPG and shorter haul petrochemical gas trade, we have seen average East and West trading freight levels for the 3,500 cbm pressure units rebound 21% to almost US$210,000 per calendar month.

Looking ahead, we are expecting continued growth in seaborne LPG volumes albeit at a slower pace than 2017. Much will depend upon the utilisation levels through the existing terminals in the US, as there is only one new terminal expected to start up, and the timing of this remains uncertain. Regarding growth from other regions, new volumes from South Pars should add to the Middle Eastern balances, although last year these were slow to find their way into the international market. Ammonia trade is expected to contract slightly next year and there is limited fundamental growth in petrochemical export volumes, although tonne–miles for both should grow. The main challenge for the larger vessels remains deliveries and the overhang of surplus tonnage which was apparent through 2017. In the smallest sectors of the fleet, it would appear that freights have started to turn a corner and with no tonnage on order and an ageing fleet, we may see further upside from this segment.

On the assets, the number of secondhand transactions went up in 2017 but this figure was inflated by more financial transactions, like sale and leasebacks between private and public companies. The total volume of contracting newbuildings was relatively steady, although significant interest in VLGCs resurfaced from mid-year. Given the age profile of the fleet, the expectation is that we will see a number of overage VLGCs finally hit the beaches, which will have a significant impact on supply/demand balances.

On the product side, given the increase in production over the last few years, 2017 was expected to see a noticeable surplus for the whole year. However, balances for large parts of the year were tighter than expected as lower than predicted exports from the Middle East Gulf added to price constricted arbitrage flows. The market adapted to the new supply capacity, the weaker freight market and the impact of neo Panama on timing and, towards the end of the year, the surplus had started to kick in, dampening the market somewhat. So far, the expected winter surge in pricing and demand has been lower than many expected and some question the direction the market will take in the coming months.

Our growing investment in commodity brokerage, not only in terms of volume of trades but also geographical areas, has started to show gains. We have made inroads into markets which, until now, were the domain of other 'heritage' brokers who have dominated those areas, the Mediterranean Basin for example. We also saw growth in the number of commodity trades done out of the US and a number of new companies added to our client list. During the year, we took our first steps towards expanding our activity into China, now the major LPG importer in Asia. New hires are under training with a view to transferring to our Shanghai office within the next one to two years, the first time we will have local staff based in China and a move we expect to bring positive results.

LNG

The near-term LNG shipping market recovered through 2017 with a particular strong finish to the year. The spot freight rate assessment for modern dual-fuelled vessels averaged US$54,400 per day for the second half of the year compared with US$37,700 per day in the first half of 2017 and US$33,500 per day for 2016. From July, rates more than doubled to US$82,000 per day by the end of 2017 basis round trip economics.

Strong Asian LNG demand, particularly in China, resulted in a sustained West-East arbitrage and consequently firmer rates. Chinese year-on-year imports were up by 47% to 38m mts in 2017 and the country overtook South Korea as the second largest LNG importer. Demand growth was driven by Chinese environmental concerns, including a nationwide scheme to switch around two million boilers to use gas and discard coal. South Korean LNG demand was also higher for power generation due to lower nuclear power availability.

Overall, northeast Asian demand was up 11% in the year to 174.6m mts. This offset flat to lower imports in other regions including the Middle East and South America. High northeast Asian LNG spot prices towards the latter part of the year were a catalyst for an active spot European reload market supplementing increased Atlantic basin LNG production which was also targeting Asian buyers. US and Angolan LNG output both rose over 300% to nearly 13m mts per annum and 3.8m mts per annum respectively. New Atlantic basin production increased the average distance travelled globally by each cargo in 2017 by 3% to around 3,928 nautical miles, compared with last year’s average of 3,809 nautical miles. Overall, global LNG exports grew by 9.3% to 292m mts per annum in 2017.

Some 26 conventional LNG carriers and FSRUs were delivered in 2017 with 52 scheduled to be delivered in 2018. However, roughly 28m mts per annum of additional supply capacity is expected to come online in 2018 and most of the order book is already committed to projects. Additional LNG production includes the ramp up of Australian, US and Russian projects started in the latter half of last year, as well as new projects. This includes the US Cove Point and Freeport projects, Australia’s Ichthys, Equatorial Guinea’s Fortuna FLNG and Russia’s Yamal LNG second train, amongst others.

Two other floating liquefaction projects are scheduled to start in 2018. Australia’s large-scale Prelude FLNG is the largest vessel ever constructed and will have 3.6m mts per annum liquefaction capacity. Cameroon’s Perenco FLNG is a conversion project with 1.2m mts per annum capacity. A number of new liquefaction projects may also take final investment decisions in 2018, including the US Golden Pass, Driftwood and Rio Grande projects, and the onshore Mozambique facility.

Qatar also indicated it would build more liquefaction capacity after lifting the moratorium on North Field, which would provide more gas for export. It would also debottleneck its existing liquefaction facilities, which in total would add roughly 23m mts per annum by 2024. Two FSRUs were installed in 2017 in Turkey and Pakistan and FSRU import projects in Bangladesh, India, Ghana, and the Ivory Coast are said to be scheduled to start up in 2018.

The Clarksons Platou LNG team was buoyed by the re-establishment of its presence in Singapore and early in the year, the team achieved a significant milestone by embarking on a successful FSRU newbuilding programme. However, it has been another challenging year with projects slowly materialising, re-negotiated or simply deferred. We remain bullish on the market’s fundamentals despite this prolonged lull and we look forward to 2018 and beyond. We are engaged in interesting projects, pursuing new opportunities and strengthening our position in the marketplace. Our focus remains on conventional tonnage, FSRU/FSU and small scale and we continue to work closely with other Clarkson Platou teams to promote our range of services and bespoke solutions to clients.

Sale and purchase

Secondhand

The year as a whole was extremely successful for the sale and purchase department with every desk throughout the Group improving their revenues on a like-for-like basis when compared with 2016 – the second half of the year was particularly pleasing in terms of market share across all sectors. It helped of course that positive sentiment was returning to both the dry cargo and container markets whilst at the same time we had a continued stream of committed sales candidates from major banks across the world looking to reduce their exposure to bad debt. So, with shipowners seeing reasons to be optimistic, and lenders committed to disposing of bad assets, we had the perfect ingredients with which to transact. As such, we were able to conclude a relatively high volume of business whilst asset values continued to steadily rise.

On the tanker side, activity levels were not so high as the freight market weakened in the second half of the year and there were not the same levels of distressed sellers. Nevertheless, we concluded a number of reasonably-sized transactions which gave us a higher market share over our competitors than we might reasonably expect to be able to achieve. If the freight market continues with its current negative trend then we would expect increased demolition activity within this sector, especially amongst the larger crude tonnage, and that in itself should help to turn the markets around during 2018.

The challenge is to continue with these increased activity levels through 2018 and, whilst this will undoubtedly not be easy, we feel reasonably confident that there will be a sufficient flow of sales candidates from the contraction of the European lending market and that we remain well placed to be involved.

Newbuilding

Whilst 2017 showed an uptick from a notably subdued 2016 market, it still remained a challenging year for the shipbuilding industry.

Just 902 orders of 72.8m dwt were reported globally, only the third year in the past 20 in which fewer than 1,000 new orders were reported. Of the major sectors, bulk carrier orders saw the biggest uptick, with 286 vessels contracted last year, although this remained subdued compared to historical levels. Driven by large crude units, tanker contracting increased to 271 vessels, but fell well below the level of ordering in 2015. Meanwhile, the boxship newbuilding market showed fewer signs of improvement and just 108 units were ordered. Gas carrier and 'ship-shaped' offshore ordering was also limited, with just 39 and 37 contracts reported respectively in 2017.

Chinese builders won the largest share of orders last year, picking up the majority of bulker orders and taking 9.2m cgt in total. Ordering at Korean yards improved on record low 2016 levels, but remained limited at 6.4m cgt, while reported contracting reached 2.0m cgt at Japanese yards. The strength of cruise newbuilding continued to benefit European shipbuilders, which accounted for 38% of global estimated contract investment in 2017 in value terms, though many yards operating outside the cruise sector struggled.

Although contracting improved year-on-year, it remained a challenging environment for active shipbuilders. Input costs continued to appreciate and freight market fundamentals presented real challenges in owners' willingness to accommodate any upward movement in asset pricing to allow the yards to pass this through. It therefore remained speculative demand that drove activity and this in turn made for a fragile and highly price sensitive environment.

Although contracting remained limited in 2017, shipbuilders continued to deliver a steady volume of tonnage. Total shipyard output reached 97.0m dwt, although 'non-delivery' of the scheduled start year order book was still significant at 30% in dwt terms. However, given the smaller order book, deliveries are currently projected to decline by around 20% in tonnage terms in 2018. After a strong start to the year, total demolition activity in 2017 declined by 21% in tonnage terms to total 35.2m dwt. This left overall fleet growth relatively steady at 3.3%, slightly faster than the previous year but well below pre-2015 levels. The total world fleet stood at 1,924.0m dwt at the end of the year, with fleet growth remaining firm in the gas carrier and tanker sectors.

With output set to decline following multiple years of weak contracting, shipbuilders will be hoping that the moderate upward trend in orders in 2017 accelerates in 2018. Capacity reductions remain ongoing, but many shipyards are still hungry for new orders. Although contracting activity has picked up slightly, conditions remain difficult, and shipbuilders will be hoping for further signs of market improvement in the coming year.

In spite of such challenges, we remained active across all key markets. Our market share in Korea continues to grow, with the team placing over a third of the total number of contracts placed with Korean yards in 2017. We also grew value through some notable transactions in the passenger/cruise space leveraging from our expertise in Sweden and Oslo together with the team in Shanghai. Corporate transactions that have also delivered large volumes to our business activity over the last few years continue to develop and we placed significant volume orders for such industrial business in Korea again this year.

2018 will again present its own challenges and shipbuilders are yet to see the light at the end of the tunnel. However, our breadth of service continues to ensure that we are well placed to capitalise on all opportunities that arise and we are well placed to continue to grow and deliver volumes across all key markets.

Offshore

General

Oil prices strengthened significantly during the second half of 2017, painting a more positive backdrop for the offshore oil services sector in general. Improving oil prices and significant cost reductions amongst most oil companies have enabled significant cash flow improvement in the upstream E&P sector. Most of the major international oil companies have reported significant positive free cash flow during 2017, enabling them to gradually increase investment levels again, should they decide to do so. Activity in most offshore segments is thought to have bottomed out during 2017 and underlying activity drivers have in general turned to the more positive. This is noteworthy both within offshore drilling, field development and subsea services.

During the year, the Clarksons Platou offshore team grew global OSV chartering volumes, gained proper foothold within the offshore renewable/wind sector by expanding into Hamburg and won exclusive brokerage. We anticipate these factors will increase our market share in 2018, notably in the North Sea.

Despite sale and purchase volumes remaining low, the Clarksons Platou offshore team managed to maintain market share and completed key sales to new clients and key important OSV owners.

Our focus and footprint within offshore analysis increased in the year, with key hires in Oslo. We now have the strongest dedicated offshore analysis team in the brokerage business.

Drilling market

As of December 2017, global jackup fleet utilisation stood at around 66%, while floater utilisation was around 62%. While these utilisation levels are exceptionally low, there were some positive developments in the offshore drilling sector during 2017. Jackup utilisation bottomed and stabilised before climbing slightly throughout the year, and both rig segments saw a notable increase in rig fixing activity. In spite of improving fixing activity, active floater utilisation drifted lower as rigs rolling off existing contracts still outpaced new rig contracts and extensions in terms of rig years. Other positive developments included a tightening of the North Sea harsh environment market, particularly for floaters, with an increased number of contracts entered into and future rates climbing slightly. Furthermore, the segment saw an increase in both asset and corporate transactions. Secondhand asset values for certain rig categories (for example stranded harsh semi-submersible newbuilds) also showed noteworthy increases.

The subsea and field development market

Lead times in the segments for field development and subsea services are significant. 2017, however, demonstrated a clear uptick in equipment awards, marking a clear turning point, and the oil companies increased sanctioning activity compared to 2015 and 2016. For floating production units, ten new contracts were entered into during 2017. This compares to zero new awards in 2016 and four awards in 2015. Correspondingly, awards for subsea Christmas trees (well control units) likely totalled 160-170 in 2017, up from 83 in 2016. These equipment awards relate to fields planned to come on stream mainly from 2020 onwards, implying the majority of SURF/subsea installation work offshore will take place from 2019 onwards. As a consequence of low sanctioning activity since late 2014, most leading subsea contractors currently have substantially reduced order backlogs and we witnessed a notable drop in fleet utilisation for the leading players during 2017. This will likely continue through 2018, until field development work should pick up again from 2019/2020. Reduced fleet utilisation puts pressure on the leading players, which again will provide knock-on effects to smaller industry players and vessel owners. An anticipated recovery in subsea maintenance work may compensate somewhat for reduced field development activity in 2018 and into 2019 but, so far, we have not observed a meaningful uptick in inspection and maintenance-related contracts.

Offshore support vessels (PSV and AHTS)

The offshore support vessel (OSV) market generally remained highly challenging throughout 2017 both for the PSV and AHTS segments. Though there are naturally some regional variances, all or most regional markets continued to face very low utilisation levels and depressed day rates. Currently, we estimate that around 32% of the global PSV fleet is in lay-up, while the corresponding number for the global AHTS fleet is around 34%. The North Sea is the region with best data and visibility in this segment, and, as such, is usually a good proxy for other regions. Utilisation for large PSVs (900+ m^2 deck) in the North Sea averaged 75%, equal to 2016 levels, while utilisation for large AHTSs (20,000+ BHP) averaged around 32%, compared to 35% for 2016. North Sea PSV term rates seem to have bottomed out between GBP5,500 – 6,750 per day for the different categories, slightly up from 2016 levels, but nevertheless levels that provide no meaningful return for vessel owners. There are no representative term rates for AHTSs. Spot rates fluctuated substantially throughout the year, as usual, but in general, averages were marginally higher in 2017 compared to 2016, supported by a relatively strong summer season. Going forward, we anticipate offshore rig activity to increase somewhat in the North Sea, in line with improved fixing activity observed through 2017. This, combined with increasing field development activity post 2018, should support gradually higher demand for OSVs in the region. Overcapacity, however, still remains a significant issue, and we see limited room for substantially higher utilisation and rates near-term. Most other regions remain somewhat behind the North Sea in terms of activity, implying utilisation and day rate levels remained very low throughout 2017. We also continue to expect recovery for these regions to be slow in terms of OSV utilisation and day rates.

Futures

2017 was a year of improved notional values across all ship sizes in the dry market. Capes averaged US$15,128 for the year (US$7,388 in 2016) having finally made the conversion from the older ship size of 172,000dwt to the new 180,000dwt 5TC average. Panamaxes averaged US$9,766 (US$5,562 in 2016) and supramaxes averaged US$9,168 (US$6,235 in 2016). A shift in the supramax liquidity from the 52,000dwt 6TC average to the new 58,000dwt 10TC average has yet to take place and a change of ship type on panamax to the 82,500dwt is some way off.

Whilst volumes for the year were up as a whole, the dispersal was more mixed. Capes had a strong start in the first quarter before deteriorating over the course of the year to come in slightly down; 501,511 lots in 2017 versus 521,161 in 2016 (a decrease of 3.7%) despite the removal of uncertainty over the ship size. Panamaxes conversely improved from 460,829 lots in 2016 to 519,387 lots in 2017 (an increase of 12.7%) whilst supramaxes showed the greatest improvement from 123,688 lots in 2016 to 150,297 lots in 2017 (an increase of 21.5%).

The combined improvement in notional values and volumes resulted in a better year for the division with stronger revenues.

Options volumes on dry FFAs were down 27% from 264,879 lots in 2016 to 192,779 lots in 2017, but the value of these was significantly higher. Given our strong position in the options market which we continue to hold, we have seen a strong performance from this area over the year.

The meteoric rise in annual iron ore volumes slowed to a trickle last year with growth of 1.5% compared to over 50% growth the previous year. This, coupled with a drop in the general commission levels in the sector and the increased activity of the SGX trading screen, made for a difficult year. Despite this, our teams in Singapore and London grew market share in both futures and options and established a stronger position in the market.

With fundamental personnel changes in 2017, our Clarksons Platou futures team held their resolve and positioned themselves with expertise for 2018 by establishing a stronger, leaner desk. We maintained our market share in the options and FFA markets in 2017 and we hope to gain market share in 2018 on the back of the strength of the new team.

The outlook for 2018 is positive and the goal is for Clarksons Platou futures to lead the futures and options space across all commodities.

Financial

Revenue: £52.0m (2016: £41.0m)
Segment underlying profit: £10.1m (2016: £6.8m)

2017 was a year of landmark transactions, with the financial division involved in record levels of activity across the equity and M&A markets.

Securities

2017 has been a tumultuous year marked by natural disasters, geo-political tensions and deep political divisions in many countries. For Europe in particular, the effect of the new and revised regulations like the Market Abuse Regulations and Markets in Financial Instruments Directives (MiFID II) has undoubtedly left the financial community in a state of resignation and confusion. Despite this, the markets have looked at other positives as growth has increased and equity valuations have continued to climb and are near record highs due to low interest rates, an improved economic outlook and increased risk appetite.

Markets have received a double boost from low interest rates and tax cuts this year, stimulating demand for shares. Global stock markets have ended 2017 at record highs and the MSCI all country world index gained 22% to finish the year at an all-time high. The US market was again the big winner. Investors continued to invest in US equities in the wake of the presidential election in the hope of getting fiscal stimulus on top of monetary stimulus, believing that the Federal Reserve has risk assets back-stopped.

The general bond markets were relatively calm in 2017 and US and European bonds traded horizontally. The Norwegian bond market, however, saw increasing activity. Last year, several companies took advantage of the low yields and strong bond market to issue approximately US$2bn of new bonds on Norwegian documentation. Many of the new issues have been secured debt at similar LTVs to bank financing, but without amortisation. Hence, offering reduced debt service and thus more cash flow flexibility for shipowners.

Metal and fuel prices were supported by stronger momentum in global demand as well as supply restraints in the energy sector, including hurricane-related stoppages in the US, financial disruptions in Venezuela and security problems in regions of Iraq.

At the same time, rapidly advancing technology allows companies and individuals to do business in new ways. Technology is redefining the financial markets in the EU’s goal of transparency, investor protection and reporting obligations, however it comes at a steep price.

During 2017, our industry has focused on implementing processes and technology in order to be at the forefront of all the new regulations. However, the financial markets in Norway went into shock when the Norwegian authorities, without warning, on 10 December 2017 announced that the EU regulations will come into force on 1 January 2018 in Norway, instead of late 2018 as earlier announced.

Clarksons Platou Securities has been very busy throughout 2017, however, at times the markets were difficult and windows short. Our strong pipeline resulted in approximately 35 equity and debt capital market transactions raising approximately US$4.3bn and the completion of nine M&A transactions/restructurings during 2017. We are also pleased to announce the addition of a convertible bond team in Oslo and New York, which will be fully operational during the second quarter of 2018, and which we expect will make a contribution from day one.

After a year like 2017, it is hard to predict how global equities in general, and US equities in particular, will perform during 2018. The backdrop for our core sectors (shipping, offshore and metals and mining) is however supported by some very interesting fundamentals. Since the commodity cycle turned negative in 2011, we have seen a continued disappointment and downward adjustment to world GDP growth forecasts. In 2017, however, we finally saw upward revisions. This has come on the back of broad and synchronised growth in Asia, the US and Europe. We are seeing healthy world GDP growth supported by rising commodity prices. Shipping order books are touching lows and fleet growth is slowing. Asset prices in both shipping and offshore are at very low levels from a historical perspective. Banks are reducing their exposure to the sector, limiting the capital available for more speculative orders, which is good for the industry longer-term. Internally, we will continue to add resources within support functions and front office personnel. We have a strong pipeline into 2018, but we need to remember that good times are most likely temporary and our priority is to remain focused in order to continue successfully adding revenue.

Project finance

Shipping

2017 has been an active year in the project finance market with increased activity from the different project houses. The flavour of the year in the Norwegian market has been dry cargo and containerships.

The dry cargo market has continued to improve, and a more stable charter market now generates a healthy cash flow to cover operating expenses, debt financing and a decent return on equity for secondhand acquisitions.

In the containership sector, the beginning of the year was an interesting period, when German banks were selling off assets at very low levels in order to clear their books. Many of the investors and funds were already in asset play mode from seeing recent opportunities in the dry cargo market, and this appetite spilled over on containerships which, at the time, were priced at scrap value or slightly above. Since then, the earnings and market values of the vessels have recovered significantly.

The total transaction volume in the Norwegian project finance market was approximately US$1.65bn. Clarksons Platou Project Finance completed eight transactions in 2017 involving five bulk carriers, three OSVs, two containerships, a chemical carrier and a cruise vessel, with a total project volume of US$164m.

We expect an active 2018 with both asset play and structured projects, as cash flows are starting to return in the various segments.

Real estate

The Nordic real estate market continued to perform strongly in 2017 with growth in all the Nordic countries. The final count for the Norwegian market is not yet complete, but consensus from the main analysts estimate a total transaction market of NOK85bn, an increase of 20% from 2016. The growth in the number of transactions in 2017 compared to 2016 is more than 30%. Across the entire Nordic market, yields on prime assets and long leases compressed as institutional funds, private equity funds, family offices and other investors sought yielding assets with stable dividends in stable macro-economies like the Nordic. At the beginning of 2018, prime yields in Stockholm and Oslo are almost the same as in major European cities. Foreign investors are still present in the Nordic markets, but their share of the transaction market in Norway dropped to an estimated 19% in 2017 from almost 40% in 2016. Even though yields on prime assets have declined, the yield gap (the difference between real estate yield and interest rate level) is still attractive. And, as long as the rates stay low, the consensus is that 2018 will at least be at the same levels as 2017. The vacancy rate in the Oslo office market is expected to decline over the coming years as a result of conversion and demolition of older office buildings to residential properties combined with few new office buildings. The growth in rent levels was 10.5% even though the CPI only reached 1.1% for 2017. Clarksons Platou Real Estate reached an all-time high turnover in 2017 with a growth of 27% compared to 2016. The transaction team completed 27 transactions with a total market value of NOK7.8bn. Seven of these were sales of older projects, giving our investors a weighted yearly internal rate of return of 62% based on all projects actually realised from 2010 until today.

Structured asset finance

While we see renewed enthusiasm around the shipping markets as a result of an improved supply/demand balance across many sectors, the asset-based financing backdrop remains challenging with an overall reduction in the number of active debt and leasing providers.

Ship finance volumes continue to decline with 2017 syndicated marine finance volumes, which includes shipping and offshore, falling to US$45.9bn in 156 transactions compared to US$50.3bn a year earlier spread over 189 transactions according to statistics produced by Dealogic. Credit losses, coupled with tighter regulations, have hampered traditional banks' appetite for new business/risk and there is a clear focus among remaining active lenders to support top-tier, stronger credits while reducing exposure to weaker credits.

Activity levels amongst the alternative capital providers and leasing houses, particularly those in China and Japan, have increased and we have also seen increased support from the export credit agencies with respect to newbuilding orders and to a lesser extent modification costs.

Notwithstanding this, we expect that overall asset-based financing levels for 2017 will be below 2016, which itself was one of the lowest lending years in recent times.

In addition, access to asset-based finance is not universal, there is a real flight to quality and a two tier market exists. Top tier borrowers continue to enjoy attractive terms and pricing, but for others, options are far more limited with terms and pricing far more lender-friendly. For some, any offer of finance is a good offer.

With significant re-financing requirements over the next few years, in addition to the capital expenditure required to satisfy impending regulatory requirements, the outlook for 2018 is a continued lack of asset-based financing liquidity which we expect to continue to increase pressure on borrowers to commit/raise equity to fund the gap. Data from the Oslo Stock Exchange supports this view with equity issues in 2017 surpassing those of 2016 and with some large high profile new issues in the wings for 2018.

Support

Revenue: £18.5m (2016: £17.8m)
Segment underlying profit: £2.1m (2016: £2.1m)

Support has seen an upturn in general market activity over the last year, with a notable growth in confidence returning to the offshore and gas sectors.

Agency

Following a challenging grain harvest in 2017, both in quality and quantity, our agency operations experienced reduced export volumes across the UK. However, we did start to see some movement predominantly in the short sea market driven by increased malting barley shipments towards the end of 2017. This increase looks to continue into early 2018, and we anticipate starting to see some wheat exports as merchants look to clear storage prior to the 2018 harvest.

The flip side to the poor grain export has been an increase in milling wheat imports, most noticeably from the US and Canada, which has also benefited our short sea broking division. We hope this will continue in the spring of 2018 when the seasonal restrictions for shipping from the US and Canadian Great Lakes are past.

In 2017, we experienced a marked upturn in our aggregate business with significant contracts being awarded on the Thames, Humber, Tyne and Great Yarmouth. We anticipate this area of our business will grow into 2018 as tonnages are brought into the UK to meet the demand of major construction projects.

Throughout 2017, animal feed imports remained constant into the UK, with a slight uplift towards the end of the year. It is anticipated that this will remain one of our core businesses throughout 2018.

The offshore oil and gas industry has shown marked improvement during 2017, with increased activity in the second half. Although not nearly at the levels we were experiencing in 2014, confidence is definitely growing, and we expect to see this trend continue into 2018. We now have a much larger customer base in this sector which will give us the platform to take maximum advantage of the improving market. We have also been successful in handling major projects outside the UK and will continue to target this area using our dedicated project team.

Offshore wind became a major activity for us during 2017, with contracts awarded throughout the UK as the renewable energy industry continues to grow. We have become the preferred partner for many of the offshore installation and maintenance companies. We already have projects in place for 2018 and are confident that this will continue well into 2019.

Gibb Industrial Supplies

As with agency, our supply businesses in Aberdeen and Great Yarmouth are benefiting from a slight upturn in the oil and gas industry. The business performed better than expected in 2017 and again we anticipate this trend continuing into 2018.

We are encouraged to see many of our customers renewing agreements into 2018 and beyond, which reflects the confidence we are seeing in the offshore oil and gas market elsewhere.

We continue to explore markets away from oil and gas, with offshore wind being one of our key targets.

Stevedoring

Whilst our stevedoring business has suffered due to the reduced grain exports in 2017, we have markedly increased our import activity with the stores in Ipswich being almost at capacity for the majority of the year.

We continue to enjoy a large customer base, and remain one of the few operations in the UK not controlled by one of the major grain houses.

We have continued to diversify in the products that we handle in order to meet customers' expectations.

Freight forwarding and logistics

In 2017 we recruited a new Head of Forwarding who is working to expand this area of our business, both by commodity and geographically. His experience in this area of our business is enabling us to challenge some of our larger competitors whilst still offering a bespoke service to our customers. Traditionally, our freight forwarding business has been very much linked to our agency activity and the business it has generated, but we are now able to offer freight forwarding as a standalone service, which we intend to expand.

Again we see the improvement in the oil and gas sector benefiting this area of our business.

Egypt agency

With seven offices in 2017 relative to three offices during 2016, Clarksons Shipping Agency is capable of providing full agency, husbandry and protective agency services around the clock for a fast and efficient vessels turnaround at all Egyptian ports.

Despite the decrease in the volume of port calls handled by agency all over Egypt due to current market conditions, 2017 was a good year in terms of Suez Canal transits, as the number of transits increased by about 16%, as well as serving new market segments such as LPG and LNG.

Clarksons Shipping Agency handled the Suez Canal transit of the world's largest towed crude oil floating storage BW Catcher, with no delay and by her own tugs for the first time in the history of the Suez Canal.

Research

Revenue: £14.6m (2016: £13.7m)
Segment underlying profit: £4.8m (2016: £4.9m)

Revenues continued to rise whilst we maintained our commitment to investing in growth, consolidating Clarksons Research's position as the market-leading provider of intelligence and data.

Research revenues continued their long-term growth projectory, with sales up 7% to £14.6m (2016: £13.7m). Clarksons Research is respected and trusted worldwide as the market-leading provider of authoritative intelligence and data across shipping, trade, offshore and energy. Research successfully enhances the Clarksons' profile across the global shipping and offshore industries and continues to be the core data provider to the broking, financial and support teams of Clarksons.

Research focuses on the collection, validation, management, processing and analysis of data about the shipping and offshore markets. Significant investments into our proprietary database and intelligence management tools have helped support the further enhancement of our integrated digital platform in 2017. Our fully relational database continues to expand in breadth and depth, with our shipping and trade database now providing coverage on over 140,000 vessels totalling 1.9bn dwt, over 40,000 companies, over 25,000 machinery models, over 600 active shipyards and fabricators, over 600,000 fixtures and over 100,000 commercial and trade time series, including coverage of 11.6bn tonnes of seaborne trade.

Our offshore and energy database provides comprehensive coverage of 7,000 offshore fields, over 2,000 projects, 8,000 production platforms, 8,000 subsea trees, 1,000 offshore rigs, 5,000 support vessels and construction vessels, all integrated within a Geographical Information System platform. Further data development has focused on the utilisation of AIS data, trade and commodity flows, the tracking of capital market activity and shipping loan data, machinery and environmental packages on board ships, offshore renewables, ports and terminals, ship repair yards and other shore side infrastructure relating to trade and energy, including refineries and LNG processing plants.

Research maintains a regionally broad and diversified client base, including good market penetration across the financial, shipowning, insurance, supplier, governmental, private equity, energy, commodity, shipyard, fabrication and oil service sectors. Over 75% of research sales are annuity-based and there is high customer retention. Total research headcount is now over 120, with expansion of global operations, including Asia Pacific, during 2017. Expansion has also focused on our IT development, data analytics and business development teams.

Digital

Sales from digital products across shipping and offshore grew by an encouraging 16% (2016: 19%). Our digital product range, consolidated within a single access portal, continues to expand and benefit from significant investment, utilising our growing proprietary database, in-house developed IT technology and our expanded data analytics team to remain market-leading. Further new digital products and product enhancements are expected to come on line in 2018.

Major shipping digital products include:

Shipping Intelligence Network. Sales from our flagship commercial shipping database continued to grow, consolidating our market-leading position, particularly within the financial sector. The scope of data and analysis available has expanded and further product enhancements are planned for 2018.

World Fleet Register. Our authoritative online vessel register benefited from a significant upgrade that focused on comprehensive fleet intelligence, environmental regulation, the tracking of new technology on board ships and market trends in the shipbuilding market. The register now offers a range of powerful functionality including owner and yard profiles, alert functions, customisation tools and interactive data visualisation.

SeaNet. Following its launch in late 2016, our vessel tracking system, SeaNet, successfully expanded its user base across 2017. SeaNet blends satellite and land-based AIS data with our proprietary database of vessels and ports, utilising latest technology developed in-house. It tracks global vessel movements for over 60,000 ships, with a combined fleet tonnage of 1.2bn gt, across over 5,000 ports and zones. The completion of a major data project to enhance our global port and infrastructure coverage will significantly enhance the SeaNet offer besides supporting a wide range of broking technology platforms. SeaNet is fully complementary to both the research digital offer and broader technology strategy across broking and financial. Further enhancements to SeaNet are planned for 2018.

Major offshore digital products include:

Offshore Intelligence Network. Significant product enhancements have been rolled out. This includes database-driven intelligence alerts, rig availability charting, enhanced commercial data and life cycle project tracking.

World Offshore Register. Our comprehensive offshore register provides detailed intelligence on all offshore oil and gas fields, the infrastructure involved and related support vessels. During 2017, the platform benefited from expanded data coverage and functionality, including data on the renewables sector, dynamic utilisation analysis, enhanced data visualisation tools and improved mapping functionality.

Sales across our combined offshore digital product range grew by 25% as we continued to gain traction with the client base and the quality and breadth of our offering increased. We have retained our market-leading position in the insurance market while expanding further into the financial and oil service sector.

Services

Clarksons Valuations performed well in 2017, consolidating its position as the leading provider of valuation services to the ship finance sector. A project to digitalise workflows, supported by significant investment into the team's operating platform, has improved workflow efficiency. The valuations team work closely with all major ship finance banks, leasing companies and asset owners, and are recognised as the market leader in the provision of authoritative valuations.

Our services business continues to grow, with underlying sales up 16%. We have added further headcount to our specialist team which concentrates on managing retainers and providing bespoke data, consultancy and seminars for a range of corporate clients including banks, shipyards, fabricators, engineering companies, insurers, governments, asset owners and other corporates. These bespoke services often become embedded within our clients' workflows, supporting client retention.

Reports

Market intelligence reports remain an important aspect of the Clarksons Research overall offering, generating provenance and profile across the industry. Our flagship shipping reports, including Shipping Intelligence Weekly and Shipping Review and Outlook, are well established across the industry while our comprehensive offshore offering, including Offshore Review and Outlook, Offshore Drilling Rig Monthly and Offshore Support Vessel Monthly, continue to expand their footprint. We publish weekly, monthly, quarterly and annual reports, registers and maps, available individually and embedded within our digital offering, continuing a 50-year heritage.

Financial review

Dividend per share: 73p (2016: 65p)
Underlying profit before taxation*: £50.2m (2016: £44.8m)
Underlying earnings per share*: 116.8p (2016: 105.2p)
* Before acquisition related costs (2016: before exceptional items and acquisition related costs)

Results

The Group made revenue of £324.0m (2016: £306.1m) and incurred administrative expenses of £264.8m (2016: £253.0m). The majority of revenue and a significant proportion of expenses are earned in foreign currency.

Underlying profit before taxation was £50.2m (2016: £44.8m). The term 'underlying' excludes the impact of exceptional items and acquisition related costs, which are shown separately on the face of the income statement. Management separates these items due to their nature and size and believe this provides further useful information, in addition to statutory measures, to assist users of the annual report to understand the results for the year.

	2017 £m	2016 £m
Underlying profit before taxation	**50.2**	44.8
Exceptional items	**–**	11.1
Acquisition related costs	**(4.8)**	(8.6)
Reported profit before taxation	**45.4**	47.3

Exceptional items

There were no exceptional items in 2017. In 2016, both the gain on the sale of The Baltic Exchange shares and a special final dividend closely linked to that sale were included as exceptional items.

Acquisition related costs

Acquisition related costs includes £3.6m of amortisation of intangibles, £0.9m of cash and share-based payments spread over employee service periods and £0.3m of interest on the remaining loan notes, which were repaid in full in June 2017. Estimated acquisition related costs for 2018, assuming no other acquisitions are made, would be £2.5m.

Taxation

The Group's effective tax rate, before acquisition related costs, was 24.0% (2016: 25.0% before exceptional items and acquisition related costs), reflecting the broad international operations of the Group and the disallowable nature of many incurred costs, particularly entertaining. After acquisition related costs, the rate was 24.3% (2016: 19.8% after exceptional items and acquisition related costs).

Earnings per share (EPS)

Underlying basic EPS was 116.8p (2016: 105.2p), calculated as underlying profit after taxation divided by the weighted average number of ordinary shares in issue during the year. The reported basic EPS was 104.4p (2016: 119.7p).

Forward order book (FOB)

The Group earns some of its commissions on contracts where the duration extends beyond the current year. Where this is the case, amounts that are able to be invoiced and collected during the current financial year are recognised as revenue accordingly. However, those amounts which are not yet invoiced and recognised as revenue are held in the FOB. In challenging markets, such amounts may be cancelled or deferred into later periods. Consequently, the Directors review the FOB at the end of the year, and only publish the total of those items that are in the FOB which will, in their view, be invoiced in the following 12 months. At 31 December 2017, this estimate was US$93m (at 31 December 2016: US$112m). The reduction in forward visibility of earnings reflects the low levels of newbuilding contracting for delivery in 2018 and the prevalence of spot business arising from the still challenging rate environment, as highlighted in the interim statement.

Dividend

The Board is recommending a final dividend of 50p (2016: 43p), which, subject to shareholder approval, will be paid on 1 June 2018 to shareholders on the register at the close of business on 18 May 2018. Together with the interim dividend of 23p (2016: 22p), this would give a total dividend of 73p (2016: 65p). In taking its decision, the Board took into consideration the 2017 performance, the repayment of all outstanding loan notes during the year, the strength of the Group's balance sheet and its ability to generate cash and the FOB. The dividend is covered 1.4 times by basic EPS (2016: 1.8 times). This increased dividend represents the 15th consecutive year that the Board has raised the dividend.

Foreign exchange

The average sterling exchange rate during 2017 was US$1.30 (2016: US$1.35). At 31 December 2017 the spot rate was US$1.35 (2016: US$1.24).

Cash and borrowings

The Group continues to be cash-generative, ending the year with cash balances of £161.7m (2016: £154.0m) and a further £5.5m (2016: £29.4m) held in short-term deposit accounts, classified as current investments on the balance sheet.

The Board has previously used net cash and available funds, being cash balances after the deduction of accrued bonuses and all loans outstanding, as a better representation of the net cash available to the business, since bonuses are typically only paid once a year after the year-end, and thus an element of the cash held at the year-end is earmarked for this purpose. On this basis, net cash and available funds ended the year at £79.1m (2016: £74.8m).

Given the increasing regulatory nature of our business however, an alternative measure used by the Board in taking decisions over capital allocation is free cash resources, which deducts both monies held by regulated entities and Board-approved future capital commitments from the net cash and available funds figure. Free cash resources, as defined, at 31 December 2017 were £54.1m (2016: £47.3m).

Following the repayment of the final tranche of loan notes amounting to £23.9m in June 2017, the Group is now debt-free.

Balance sheet

Net assets at 31 December 2017 were £423.4m (2016: £406.7m). The balance sheet remains strong, with net current assets and investments exceeding non-current liabilities (excluding pension provisions) by £77.1m (2016: £58.1m). The overall provision for impairment of trade receivables was £13.3m (2016: £15.5m). The Group's pension schemes have a combined surplus before deferred tax of £12.3m (2016: £2.3m). In light of this surplus, the pension trustees have been taking advice on de-risking schemes, where appropriate.

Key performance indicators (KPIs)

1. Financial KPIs used in the management of the business include revenue, profit before taxation, earnings per share and the FOB.
2. The business also aims to generate long-term shareholder value, as reflected by a review of total shareholder return.

Jeff Woyda
Chief Financial Officer and Chief Operating Officer
9 March 2018

Risk management

Full details of our principal risks and how we manage them are included in the risk management section of the 2017 annual report, together with our viability and going concern statements.

Our principal risks are:

- Failure to achieve strategic objectives
- Changes in the broking industry
- Employee misuse of confidential information
- Cyber risk and data security
- Economic factors
- Loss of key personnel
- Adverse movements in foreign exchange
- Financial loss arising from failure of a client to meet its obligations

Directors’ remuneration

The following is an extract from the remuneration committee (the committee) Chair’s statement, which will be included in the 2017 annual report.

2017 AGM vote

Although the resolutions to approve the Directors’ remuneration report and the remuneration policy were passed with the requisite majority, around 26% of votes were cast against both resolutions, which clearly needed to be addressed.

Shareholder feedback

At the time of the 2017 AGM and later in autumn 2017, we engaged with the Company’s major shareholders covering approximately 52% of our shareholder register and the major UK proxy voting agencies in order to fully understand their concerns.

Undertakings over the life of the remuneration policy

The committee takes shareholder views and developments in corporate governance seriously and, following the feedback received last year and taking account of good practice developments, we undertake to operate the 2017 remuneration policy within the following additional parameters for any new Executive Director appointments:

- a capped annual bonus scheme will apply and, furthermore, any bonus would only be payable to the extent there is sufficient value to do so in the profit-based bonus pool;
- bonus measures will depend on the strategic priorities at the time but it is expected that profit performance and strategic objectives will apply. The inclusion of strategic measures will result in a more rounded assessment of performance;
- a greater proportion of any bonus payable will be deferred in shares; and
- any pay in lieu of notice and change of control provisions will conform to good practice.

In addition, the committee has made the following changes with immediate effect for current and future Directors:

- a 200% of salary share ownership guideline will apply (increased from 150% of salary for Executive Directors other than the Chief Executive Officer); and
- a two-year post-vesting holding period will apply to long-term incentive plan (LTIP) awards granted from 2018.

The committee recognises the current remuneration structure does not accord with best market practice for existing Directors but has actively taken steps to pave the way for a more typical structure as and when new Directors join the Board.

Directors’ responsibilities statement

The statement of Directors' responsibilities below has been prepared in connection with the Group's full annual report for the year ended 31 December 2017. Certain parts of the annual report have not been included in this announcement as set out in note 1 of the financial information.

We confirm that:

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

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

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

This responsibility statement was approved by the Board of Directors on 9 March 2018 and is signed on its behalf by:

James Hughes-Hallett
Chair
9 March 2018

Consolidated income statement

for the year ended 31 December

	2017 Before acquisition related costs £m	2017 Acquisition related costs £m	2017 After acquisition related costs £m	2016 Before exceptional items and acquisition related costs £m	2016 Exceptional items £m	2016 Acquisition related costs £m	2016 After exceptional items and acquisition related costs £m
Revenue	324.0	–	324.0	306.1	–	–	306.1
Cost of sales	(9.7)	–	(9.7)	(8.9)	–	–	(8.9)
Trading profit	314.3	–	314.3	297.2	–	–	297.2
Other income	–	–	–	–	9.7	–	9.7
Administrative expenses	(264.8)	(4.5)	(269.3)	(253.0)	–	(7.7)	(260.7)
Operating profit	49.5	(4.5)	45.0	44.2	9.7	(7.7)	46.2
Finance revenue	1.0	–	1.0	0.8	1.4	–	2.2
Finance costs	(0.3)	(0.3)	(0.6)	(0.1)	–	(0.9)	(1.0)
Other finance costs – pensions	–	–	–	(0.1)	–	–	(0.1)
Profit before taxation	50.2	(4.8)	45.4	44.8	11.1	(8.6)	47.3
Taxation	(12.0)	1.0	(11.0)	(11.2)	–	1.8	(9.4)
Profit for the year	38.2	(3.8)	34.4	33.6	11.1	(6.8)	37.9
Attributable to:							
Equity holders of the Parent Company	35.2	(3.8)	31.4	31.4	11.1	(6.8)	35.7
Non-controlling interests	3.0	–	3.0	2.2	–	–	2.2
Profit for the year	38.2	(3.8)	34.4	33.6	11.1	(6.8)	37.9
Earnings per share							
Basic	116.8p		104.4p	105.2p			119.7p
Diluted	116.4p		104.0p	104.2p			118.6p

Consolidated statement of comprehensive income

for the year ended 31 December

	2017 £m	2016 £m
Profit for the year	34.4	37.9
Other comprehensive (loss)/income:		
Items that will not be reclassified to profit or loss:		
Actuarial gain on employee benefit schemes – net of tax	7.6	4.0
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange differences on retranslation of foreign operations	(14.0)	50.5
Foreign currency hedge – net of tax	6.0	(3.9)
Other comprehensive (loss)/income	(0.4)	50.6
Total comprehensive income for the year	34.0	88.5
Attributable to:		
Equity holders of the Parent Company	31.1	85.8
Non-controlling interests	2.9	2.7
Total comprehensive income for the year	34.0	88.5

Consolidated balance sheet
as at 31 December

	2017 £m	2016 £m
Non-current assets		
Property, plant and equipment	**29.7**	30.0
Investment property	**1.1**	1.2
Intangible assets	**289.6**	300.5
Trade and other receivables	**2.5**	1.8
Investments	**4.9**	4.1
Employee benefits	**16.7**	7.5
Deferred tax asset	**11.1**	12.8
	355.6	357.9
Current assets		
Inventories	**0.7**	0.7
Trade and other receivables	**60.2**	56.7
Income tax receivable	**1.3**	2.3
Investments	**5.8**	29.8
Cash and cash equivalents	**161.7**	154.0
	229.7	243.5
Current liabilities		
Interest-bearing loans and borrowings	**–**	(23.6)
Trade and other payables	**(132.0)**	(142.3)
Income tax payable	**(8.2)**	(6.5)
Provisions	**(0.1)**	–
	(140.3)	(172.4)
Net current assets	**89.4**	71.1
Non-current liabilities		
Trade and other payables	**(10.6)**	(11.3)
Provisions	**(0.1)**	(0.1)
Employee benefits	**(4.4)**	(5.2)
Deferred tax liability	**(6.5)**	(5.7)
	(21.6)	(22.3)
Net assets	**423.4**	406.7
Capital and reserves		
Share capital	**7.6**	7.6
Other reserves	**234.7**	240.1
Retained earnings	**177.4**	155.8
Equity attributable to shareholders of the Parent Company	**419.7**	403.5
Non-controlling interests	**3.7**	3.2
Total equity	**423.4**	406.7

Consolidated statement of changes in equity

for the year ended 31 December

	Attributable to equity holders of the Parent Company					
	Share capital £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2017	**7.6**	**240.1**	**155.8**	**403.5**	**3.2**	**406.7**
Profit for the year	–	–	31.4	31.4	3.0	34.4
Other comprehensive (loss)/income:						
Actuarial gain on employee benefit schemes – net of tax	–	–	7.6	7.6	–	7.6
Foreign exchange differences on retranslation of foreign operations	–	(13.9)	–	(13.9)	(0.1)	(14.0)
Foreign currency hedge – net of tax	–	6.0	–	6.0	–	6.0
Total comprehensive (loss)/income for the year	–	(7.9)	39.0	31.1	2.9	34.0
Transactions with owners:						
Employee share schemes	–	2.5	1.4	3.9	–	3.9
Tax on other employee benefits	–	–	1.0	1.0	–	1.0
Tax on other items in equity	–	–	0.3	0.3	–	0.3
Dividend paid	–	–	(20.1)	(20.1)	(2.4)	(22.5)
	–	2.5	(17.4)	(14.9)	(2.4)	(17.3)
Balance at 31 December 2017	**7.6**	**234.7**	**177.4**	**419.7**	**3.7**	**423.4**

	Attributable to equity holders of the Parent Company					
	Share capital £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2016	7.6	194.2	136.2	338.0	2.9	340.9
Profit for the year	–	–	35.7	35.7	2.2	37.9
Other comprehensive income:						
Actuarial gain on employee benefit schemes – net of tax	–	–	4.0	4.0	–	4.0
Foreign exchange differences on retranslation of foreign operations	–	50.0	–	50.0	0.5	50.5
Foreign currency hedge – net of tax	–	(3.9)	–	(3.9)	–	(3.9)
Total comprehensive income for the year	–	46.1	39.7	85.8	2.7	88.5
Transactions with owners:						
Share issues	–	0.1	–	0.1	–	0.1
Employee share schemes	–	(0.3)	(1.8)	(2.1)	–	(2.1)
Tax on other employee benefits	–	–	0.3	0.3	–	0.3
Tax on other items in equity	–	–	(0.1)	(0.1)	–	(0.1)
Dividend paid	–	–	(18.5)	(18.5)	(2.4)	(20.9)
	–	(0.2)	(20.1)	(20.3)	(2.4)	(22.7)
Balance at 31 December 2016	7.6	240.1	155.8	403.5	3.2	406.7

Consolidated cash flow statement
for the year ended 31 December

	2017 £m	2016 £m
Cash flows from operating activities		
Profit before taxation	45.4	47.3
Adjustments for:		
Foreign exchange differences	7.3	(3.6)
Depreciation of property, plant and equipment	5.0	5.0
Share-based payment expense	1.4	1.3
Gain on sale of property, plant and equipment	(0.1)	(0.1)
Gain on sale of investments	–	(9.6)
Amortisation of intangibles	3.6	6.6
Difference between pension contributions paid and amount recognised in the income statement	(0.9)	(1.9)
Finance revenue	(1.0)	(2.2)
Finance costs	0.6	1.0
Other finance costs – pensions	–	0.1
Decrease in inventories	–	0.2
(Increase)/decrease in trade and other receivables	(7.2)	13.9
Increase/(decrease) in bonus accrual	4.6	(3.0)
Decrease in trade and other payables	(3.9)	(1.9)
Increase/(decrease) in provisions	0.1	(0.1)
Cash generated from operations	54.9	53.0
Income tax paid	(6.9)	(7.4)
Net cash flow from operating activities	48.0	45.6
Cash flows from investing activities		
Interest received	0.6	0.6
Purchase of property, plant and equipment	(5.3)	(3.1)
Purchase of intangible assets	(1.5)	–
Proceeds from sale of investments	0.1	11.3
Proceeds from sale of property, plant and equipment	0.2	0.4
Purchase of investments	(0.9)	(3.8)
Transfer from/(to) current investments (funds on deposit)	24.1	(24.0)
Acquisition of subsidiaries, including settlement of deferred consideration	(24.7)	(23.7)
Dividends received from investments	0.3	1.5
Net cash flow from investing activities	(7.1)	(40.8)
Cash flows from financing activities		
Interest paid	(0.3)	(0.1)
Dividend paid	(20.1)	(18.5)
Dividend paid to non-controlling interests	(2.4)	(2.4)
ESOP shares acquired	(0.5)	(6.0)
Net cash flow from financing activities	(23.3)	(27.0)
Net increase/(decrease) in cash and cash equivalents	17.6	(22.2)
Cash and cash equivalents at 1 January	154.0	168.4
Net foreign exchange differences	(9.9)	7.8
Cash and cash equivalents at 31 December	161.7	154.0

Notes to the preliminary financial statements

1 General information

The preliminary financial information (financial information) set out in this announcement does not constitute the consolidated statutory financial statements for the years ended 31 December 2016 and 2017, but is derived from those financial statements. Statutory financial statements for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's Annual General Meeting. External Auditors have reported on the financial statements for 2016 and 2017; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

2 Accounting policies and basis of preparation

The financial information set out in this announcement is based on the consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the European Union, and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. The financial information is in accordance with the accounting policies set out in the 2017 financial statements and have been prepared on a going concern basis.

3 Segmental information

Business segments		**Revenue**		**Results**
	2017 £m	2016 £m	**2017 £m**	2016 £m
Broking	**238.9**	233.6	**43.9**	40.2
Financial	**52.0**	41.0	**10.1**	6.8
Support	**18.5**	17.8	**2.1**	2.1
Research	**14.6**	13.7	**4.8**	4.9
Segment revenue/underlying profit	**324.0**	306.1	**60.9**	54.0
Head office costs			**(11.4)**	(9.8)
Operating profit before exceptional items and acquisition related costs			**49.5**	44.2
Exceptional items			**–**	9.7
Acquisition related costs			**(4.5)**	(7.7)
Operating profit after exceptional items and acquisition related costs			**45.0**	46.2
Finance revenue			**1.0**	2.2
Finance costs			**(0.6)**	(1.0)
Other finance costs – pensions			**–**	(0.1)
Profit before taxation			**45.4**	47.3
Taxation			**(11.0)**	(9.4)
Profit for the year			**34.4**	37.9

4 Exceptional items

2017
There are no exceptional items in 2017.

2016
Exceptional items included a gain of £9.7m on the sale of shares in The Baltic Exchange to SGX. A special final dividend from The Baltic Exchange of £1.4m, which was closely linked to the sale, was also treated as an exceptional item in 2016.

5 Acquisition related costs

Included in acquisition related costs are cash and share-based payment charges of £0.3m (2016: £0.4m) relating to previous acquisitions. These are contingent on employees remaining in service and are therefore spread over the service period. Also included is £0.6m (2016: £0.7m) relating to the acquisition of the remaining non-controlling interest in Clarksons Platou Tankers AS. The charge consists of cash and share-based payment charges which are linked to future service of the employees and are therefore spread over a four year period.

Also included is £3.6m (2016: £6.6m) relating to amortisation of intangibles acquired as part of the Platou and other prior acquisitions. Interest on the loan notes issued as part of the Platou acquisition totalled £0.3m (2016: £0.9m).

6 Taxation

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

	2017 £m	2016 £m
Profit at UK average standard rate of corporation tax of 19.25% (2016: 20.00%)	8.7	9.5
Expenses not deductible for tax purposes	1.5	1.6
Non-taxable income	–	(2.3)
Tax losses not recognised	0.7	1.3
Other adjustments	0.1	(0.7)
Total tax charge in the income statement	11.0	9.4

7 Earnings per share

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

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

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

	2017 £m	2016 £m
Profit for the year attributable to ordinary equity holders of the Parent Company	31.4	35.7

	2017 Millions	2016 Millions
Weighted average number of ordinary shares - basic	30.1	29.9
Weighted average number of ordinary shares - diluted	30.2	30.1

8 Dividends

The Board is recommending a final dividend of 50p (2016: 43p), giving a total dividend of 73p (2016: 65p). This final dividend will be payable on 1 June 2018 to shareholders on the register at the close of business on 18 May 2018, subject to shareholder approval.

9 Intangible assets

Additions of £1.5m in the year relate to development costs. Goodwill and other intangible assets are held in the currency of the businesses acquired and are subject to foreign exchange retranslations to the closing rate at each year-end, amounting to a decrease of £8.7m in the carrying value of goodwill and £0.1m in the carrying value of other intangible assets in the year.

10 Current investments

The Group held £5.5m (2016: £19.4m) in a deposit with a 95 day notice period. At 31 December 2016, the Group also held £10.0m in a deposit with a maturity of six months. These deposits are held with an A-rated financial institution.

Other current investments amount to £0.3m (2016: £0.4m).

11 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	159.6	147.7
Short-term deposits	2.1	6.3
	161.7	154.0

12 Interest-bearing loans and borrowings

Interest-bearing loans and borrowings comprised the vendor loan notes issued as part of the consideration for the Platou acquisition. Interest was charged at 12 month sterling LIBOR plus 1.25%. Half the loan notes were repaid on 30 June 2016, the balance was repaid on 30 June 2017.

13 Employee benefits

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

As at 31 December 2017, the combined schemes had a surplus of £12.3m (2016: £2.3m). This was after an asset ceiling/minimum funding commitment adjustment of £5.3m (2016: £4.1m) in relation to the Plowrights scheme. As there is no right of set-off between the schemes, the benefit asset of £16.7m (2016: £7.5m) is disclosed separately on the balance sheet from the benefit liability of £4.4m (2016: £5.2m). The Group has recognised a deferred tax asset on the benefit liability amounting to £0.8m (2016: £0.8m) and a deferred tax liability on the benefit asset of £2.8m (2016: £1.2m). The market value of the assets was £202.7m (2016: £200.5m) and independent actuaries have assessed the present value of funded obligations at £185.1m (2016: £194.1m).

14 Share capital

		2017		2016
	Million	**£m**	Million	£m
Ordinary shares of 25p each, issued and fully paid	**30.2**	**7.6**	30.2	7.6

15 Contingencies

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