



# CLARKSONS

## Preliminary results

Clarkson PLC ('Clarksons'), the holding company for Clarksons, the world's largest shipbroker and shipping services group, today announces unaudited preliminary results for the twelve months ended 31 December 2005.

## Results for 2005

	Year ended 31 December 2005	Year ended 31 December 2004
Revenue – continuing operations	<b>£115.9m</b>	£82.4m
Profit before taxation – continuing operations	<b>£26.8m</b>	£23.1m
Earnings per share – continuing operations	<b>108.9p</b>	98.0p
Dividends per share	<b>32.0p</b>	25.0p

The figures for 2004 have been restated following the adoption of International Financial Reporting Standards.

## FINANCIAL HIGHLIGHTS

- **Record results**

16% increase in profit before taxation.

- **Increased earnings per share**

11% increase in earnings per share.

- **Increased dividend**

Dividend of 32.0 pence per share (2004: 25.0 pence per share), an increase of 28%.

- **Profit on discontinued operations**

£5.7 million profit after taxation and before minority interests.

- **Strong cash flow**

Cash and short-term deposits of £55.1 million against £44.1 million last year.

- **Continued global expansion**

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### Notes to editors

#### Background to Clarkson PLC

Clarkson PLC (which is listed on the London Stock Exchange) is acknowledged as the world's leading shipping services group. Through its unrivalled and extensive global network of offices it is able to give its clients unique access to a wide range of shipping services. Clarksons covers shipbroking, research, publications, derivatives and logistics. Clarksons' strategy is to expand and develop the group around these key activities.

For further information on Clarkson PLC, please visit the company's website at [www.clarksons.com](http://www.clarksons.com)

## Chairman's statement

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

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

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

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

### Strategy

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

As part of this strategy we announced in 2005 our intention to set up a shipping hedge fund to enable a greater investment participation in a major global industry for which there are currently few such investment opportunities. At present we are testing our systems and procedures prior to the public launch of the fund.

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

### 2005: a summary

2005 was a busy and successful year. January saw the group make a special contribution into our defined

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

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

### Dividend

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

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

### The board and staff

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

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

## Chairman's statement

### Outlook

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

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

Tim Harris CHAIRMAN

29 March 2006

## Chief executive's review of operations

### Introduction

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

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

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

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

We are retained by a wide-ranging group of industry users including large publicly-owned utilities, energy groups and shipowners of differing sizes. We offer a global service with representation in the major industry centres, almost without exception, with offices in 17 different locations.

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

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

### Dry bulk chartering

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

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

**Forward order book for 2006: US\$24 million**

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

We deploy people in many offices globally as this is a relatively fragmented business particularly as we move down the vessel size categories. This activity is principally organised around the three size categories of capesize, panamax and handymax.

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

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

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

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

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

### Container chartering

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

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

**Forward order book for 2006: US\$3 million**

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

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

Clarksons has invested significantly in its research capability which provides a valuable platform from which our container brokers can provide clients with independent market-leading data and analysis. Given the need for greater transparency amid legislation to limit the influence of the conference lines, Clarksons will seek to promote new products to assist industry users and liner companies to optimise planning.

Our operations have been based in London and Shanghai but we are expanding into Singapore. We have

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

### Deep sea chartering

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

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

**Forward order book for 2006: US\$7 million**

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

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

Crude oil is the largest seaborne commodity trade, most of which is handled by VLCCs, suezmaxes or aframax tankers. A significant part of this business is conducted on behalf of oil majors some of whom still use panels of shipbrokers who need to pre-qualify for inclusion. Clarksons' transparency of accounting and significant investment in providing support services places the company in a pre-eminent position to pre-qualify ahead of its shipbroking competitors.

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

We anticipate that the energy groups and oil traders will now further seek to selectively secure their longer term equity oil returns through increasingly securing outsourced high quality freight coverage in a managed financial environment. This should mean that the oil companies (and oil traders) may increasingly turn to COA and timecharter cover. This will increase the ability of ownership groups to better manage their exposure

## Chief executive's review of operations

to residual value risk and freight market volatility. This should add to our term forward order book and we are equipping our teams to offer a high quality service in conjunction with our sale and purchase, derivatives broking and newly recruited financial services team.

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

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

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

### Specialised products chartering

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

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

**Forward order book for 2006: US\$5 million**

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

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

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

The structure of our organisation and our ability to provide full analytical and logistic support makes us a logical outsourcer for major energy and chemical groups who wish to take advantage of our global spread. Although London is by far our biggest centre, with over 40 people, we also have teams in Houston and Singapore. Through the Plowrights acquisition, we have also inherited a 25% interest in Panasia which has a presence in both Singapore and Shanghai.

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

### Gas chartering

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

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

**Forward order book for 2006: US\$4 million**

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

2005 was also a significant year for Clarksons in the LPG, ammonia and petrochemical gas markets. We brought together a dedicated team of LPG specialists to work with our existing team who had previously been particularly strong in ammonia and petrochemical gases. This LPG activity is focused in London which remains the principal business centre for this product. Eventually we shall seek to grow overseas, particularly in Asia and the USA.

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

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

The team's coverage of the spot markets is exceptional and they are assisted by sitting alongside product brokers. This is a first for Clarksons and from this lesson we are encouraged to consider expanding into other energy commodities brokerage at the appropriate time. A record number of negotiations have been concluded and considering that the new team arrived without forward order book coverage their overall result was an exceptional achievement.

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

### Sale and purchase broking

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

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

**Forward order book for 2006: US\$16 million**

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

### Private client broking

The private client broking desk covers secondhand and demolition business. This business can be highly rewarding, particularly in strong buying markets such as we have

witnessed in 2004 and 2005. Revenue has been significant and the normal 1% brokerage charge has not come under any significant pressure.

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

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

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

### Newbuilding

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

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

2005 was another good year for the newbuilding desk with both the volume and value of business remaining high. We have been supported by the strongest newbuilding market in years with prices reaching all time record levels

## Chief executive's review of operations

in the middle of the year before falling off slightly in the second half. Whilst we have recently seen newbuilding prices in some sectors edging up again, it will be a significant challenge for us to maintain the same volume of business in 2006 due to record shipyard orderbooks creating tight availability across the board – although we have had a very strong start to the current year. Values should remain strong throughout the year so, even though we would expect to see the volume of new business across the market declining in 2006 compared to 2005, we would expect the value of our forward order book to continue to grow. We will also see the benefit in 2006 of the more expensive vessels in our forward order book delivering this year – rather than the cheaper vessels contracted in 2002/2003 which delivered through 2005 – so we would expect to be able to deliver another strong set of newbuilding figures in 2006.

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

### Futures broking

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

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

**Forward order book for 2006: US\$6 million**

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

Clarksons was the original creator of the forward freight agreement (FFA) some 20 years ago which evolved from the period charter market. An FFA is a principal-to-principal cash-settled contract for difference based upon standardised cargoes, routes or timecharter indices. Settlements use, amongst other prices, indices generated by The Baltic Exchange. Much of this business is still undertaken over-the-counter, with the

principals bearing all the counterparty risk. Several institutions, including the London Clearing House, now offer clearing facilities to this particular market. Commissions are earned on the gross value of the original FFA contract. The market can be divided into two elements: dry (for dry bulk related contracts) and wet (for oil related products). The primary difference is that commissions earned on dry bulk contracts are spread over the life of that contract as they expire, whereas the wet commissions (which require minimal post deal support) are increasingly paid up front.

Clarksons remains the world's foremost arranger of FFA trades. Arranging FFAs is a regulated activity and Clarkson Securities Limited (CSL) is authorised and regulated by the UK Financial Services Authority (FSA) to provide such a service to market counterparties and intermediate customers. CSL also provides extensive market information, including indicative forward prices such as those referred to elsewhere in this review.

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

CSL wishes to maintain its primary position in the FFA market place. It is seeking, in conjunction with a number of other brokers, to introduce screen trading to its clients in a format which will provide a wide range of participants with substantial liquidity and reduced credit risk. This will primarily benefit the dry sector of the business. In the wet sector, CSL will focus on providing more specialised derivative solutions to its clients where there is currently far less competition: the introduction of the LPG FFA is an example of this.

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### Research services

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

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

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

As an example of the scope of this information, in any given copy of Shipping Intelligence Weekly, it is possible to find information on tanker spot market rates, product tanker spot rates, the liquid bulk carrier market, the large bulk carrier market, timecharter rates, the gas and chemicals market, the container and offshore markets, the secondhand market and vessel prices, ship sales, changes in the bulk fleet, shipbuilding orders and prices, the demolition market, general economic indicators and a shipping insight. Research also produces detailed ship registers, both hard copy and digitally, other specialised periodicals, books, maps and consultancy. Much of this information is also available on subscription over the internet on Shipping Intelligence Network (SIN).

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

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

### Logistics – continuing

**Revenue: £1.1 million** (2004: nil)

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

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

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

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

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

### Logistics – discontinued

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

**Results: £5.4 million** (2004: loss £2.7 million)

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

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

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

### Fund management

**Revenue: nil** (2004: nil)

**Loss: £0.4 million** (2004: nil)

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

## Chief executive's review of operations

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

### Property services

**Revenue: £3.7 million** (2004: £0.1 million)

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

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

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

### Financial services

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

CFS will concentrate on three major areas of business:

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

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

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

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

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

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

### Key business issues

#### Forward order book

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

#### Remuneration

We compete for talented people primarily with unregulated, unlisted private companies who remunerate their staff in a perhaps less accountable environment than a public company. It is essential that we offer competitive remuneration packages so as to retain our key employees who remain eminently poachable. In 2005 we reviewed the structure of remuneration to ensure we remained competitive and increased the percentage returned to staff as bonus from 45% to 50% of relevant net profit which has caused a reduction in our global operating margins. We do not anticipate any significant further changes to this new remuneration structure, but we may need to revisit the issue should the competitive threat re-emerge.

Richard Fulford-Smith CHIEF EXECUTIVE

29 March 2006

## Finance director's review

### Results

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

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

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

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

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

### Taxation

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

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

### Dividends

The directors are recommending that the total dividend for the year increases to 32.0 pence per share (2004: 25.0 pence per share); this dividend represents a 28% increase on last year. The final dividend of 22.0 pence per share will be paid to shareholders on 16 June 2006. Under the new accounting standards the cost of this dividend will be charged to equity in 2006.

### Foreign exchange

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

profit of £1.5 million (2004: loss £0.9 million).

### Property

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

### Cash flow

Cash generation remains a key strength of the group.

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

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

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

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

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

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

### Acquisitions

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

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

In January 2006 the group acquired Plowrights for a consideration of £8.1 million, payable as to £7.4 million in cash and £0.7 million in shares. Deferred consideration

## Finance director's review

of up to £1.0 million may be payable over the next two years dependent on the achievement of performance targets over that period.

### Discontinued operations

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

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

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

### Segmental reporting

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

### Pensions

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

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

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

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

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

### Risk management

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

### Compliance and regulation

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

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

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

### International Financial Reporting Standards

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

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

Rob Ward FINANCE DIRECTOR

29 March 2006

## Consolidated income statement

for the year ended 31 December 2005

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

Comparatives have been restated where necessary to reflect the requirements of International Financial Reporting Standards.

## Consolidated statement of recognised income and expense

for the year ended 31 December 2005

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

Comparatives have been restated where necessary to reflect the requirements of International Financial Reporting Standards.

## Consolidated balance sheet

as at 31 December 2005

	2005 £m	2004 £m
<b>Non-current assets</b>		
Property, plant and equipment	21.3	6.2
Investment property	0.4	–
Intangible assets	17.7	5.6
Investments in associates and joint venture	1.0	0.8
Trade and other receivables	0.5	0.7
Available-for-sale financial assets	2.1	0.7
Deferred tax asset	3.3	3.1
	<b>46.3</b>	17.1
<b>Current assets</b>		
Trade and other receivables	25.7	17.0
Cash and short-term deposits	55.1	44.1
	<b>80.8</b>	61.1
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	(3.4)	(1.5)
Trade and other payables	(56.8)	(34.5)
Provisions	(3.9)	–
Income tax payable	(4.8)	(4.7)
	<b>(68.9)</b>	(40.7)
<b>Net current assets</b>	<b>11.9</b>	20.4
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	(4.8)	(0.3)
Trade and other payables	(3.2)	(0.1)
Provisions	(0.2)	(0.9)
Employee benefits	(0.4)	(7.9)
Deferred tax liability	(1.8)	(0.2)
	<b>(10.4)</b>	(9.4)
<b>Net assets</b>	<b>47.8</b>	28.1
<b>Capital and reserves</b>		
Issued capital	4.3	4.1
Share premium	11.1	4.5
ESOP reserve	(0.5)	(0.4)
Deferred share consideration	1.9	–
Capital redemption reserve	2.0	2.0
Profit and loss	27.9	17.1
Currency translation reserve	1.1	(0.4)
<b>Clarkson PLC group shareholders' equity</b>	<b>47.8</b>	26.9
<b>Minority interests</b>	–	1.2
<b>Total equity</b>	<b>47.8</b>	28.1

Comparatives have been restated where necessary to reflect the requirements of International Financial Reporting Standards.

## Consolidated cash flow statement

for the year ended 31 December 2005

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

Cash and cash equivalents at 31 December 2004 include a £0.1 million overdraft reported in current liabilities.

Comparatives have been restated where necessary to reflect the requirements of International Financial Reporting Standards.

## Notes to the preliminary accounts

### 1 General information

The Preliminary Announcement of results for the year ended 31 December 2005 is an extract from the forthcoming 2005 Annual Report and Accounts and does not constitute the group's statutory accounts of 2005 nor 2004. Statutory accounts for 2004 (reported under UK GAAP) have been delivered to the Registrar of Companies, and those for 2005 will be delivered following the company's Annual General Meeting. The auditors have reported on the 2004 accounts; their report was unqualified and did not contain statements under Sections 237(2) or (3) of the Companies Act 1985.

### 2 Accounting policies

Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union, this announcement does not itself contain sufficient information to comply with IFRSs. The company expects to publish full accounts that comply with IFRSs on 19 April 2006.

### 3 Segmental analysis

Segmental information on continuing operations for revenue and results is as follows:

Business segments	Revenue		Results	
	2005 £m	2004 £m	2005 £m	2004 £m
Continuing operations				
Dry bulk chartering	<b>31.9</b>	25.4	<b>7.1</b>	7.1
Container chartering	<b>2.4</b>	1.7	<b>0.5</b>	0.3
Deep sea chartering	<b>20.2</b>	18.3	<b>4.8</b>	5.3
Specialised products chartering	<b>4.0</b>	3.3	<b>0.6</b>	0.4
Gas chartering	<b>3.4</b>	2.0	<b>0.2</b>	0.4
Sale and purchase broking	<b>32.4</b>	16.8	<b>9.4</b>	4.9
Futures broking	<b>12.3</b>	12.4	<b>3.6</b>	4.2
Research services	<b>4.5</b>	2.4	<b>0.8</b>	0.5
Logistics	<b>1.1</b>	–	<b>(0.4)</b>	(0.5)
Fund management	<b>–</b>	–	<b>(0.4)</b>	–
Property services	<b>3.7</b>	0.1	<b>0.3</b>	(0.2)
Segment revenue/results	<b>115.9</b>	82.4	<b>26.5</b>	22.4
Unallocated			<b>(2.8)</b>	(2.2)
Share of profits of associates and joint venture			<b>0.5</b>	0.6
Finance revenue			<b>1.6</b>	2.1
Finance costs			<b>(0.1)</b>	(0.1)
Other finance revenue – pensions			<b>1.1</b>	0.3
Profit before taxation			<b>26.8</b>	23.1
Taxation			<b>(8.9)</b>	(7.4)
Profit after taxation			<b>17.9</b>	15.7

### 4 Discontinued operations

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

In December 2005 the board agreed to cease the operations of Channel Freight Ferries ('CFF').

Both Pasir and CFF are treated as discontinued logistics operations.

## Notes to the preliminary accounts

### 5 Earnings per share

The earnings per ordinary share is based on profit after tax for the financial period of £19.1 million (2004: £13.7 million) and 16,451,505 shares (2004: 16,011,931 shares) in issue throughout the period.

### 6 Dividends

The directors will be recommending a final dividend of 22.0 pence per share, payable on 16 June 2006 to shareholders on the register at the close of business on 2 June 2006, making a total dividend for the year of 32.0 pence per share (2004: 25.0 pence per share).

### 7 Post balance sheet event

In January 2006 the group completed the acquisition of J O Plowright & Co (Holdings) Limited. The initial consideration for the acquisition of £8.1 million was satisfied as to £7.4 million in cash and £0.7 million by the issue of 79,918 new ordinary shares in Clarksons. Deferred consideration of up to £1.0 million may be payable over the next two years, dependent upon the achievement of performance targets over that period.