

# **Arthur J. Gallagher (UK) Limited**

## **Report and Accounts**

31 December 2003



Company Number: 1193013

**DIRECTORS**

|                     |  |
|---------------------|--|
| D E McGurn          | (USA) (Chairman)                                       |
| B A King            |  |
| G M Cavazzi         |  |
| W J Bushell         |  |
| J Patrick Gallagher | (USA)  |
| J D Stancik         | (resigned 8 March 2004) (USA)                          |
| J A Leslie          | (resigned 8 March 2004)                                |
| P A Nastri          |  |
| G Lashmar           | (appointed 1 June 2002) / (resigned 8 March 2004)      |
| J E Sparkes         | (resigned 8 March 2004)                                |
| K J Hubbard         | (resigned 7 November 2003)                             |
| D J R Sibree        | (resigned 8 March 2004)                                |
| D C Ross            |  |
| A Wham              | (resigned 7 November 2003)                             |
| D Merry             |  |
| G Barden            | (resigned 31 March 2003)                               |
| P Greig             | (appointed 1 April 2003) / (resigned 12 May 2004)      |
| H Croft-Baker       | (appointed 11 November 2003) / (resigned 8 March 2004) |

**SECRETARY**

|             |                              |
|-------------|------------------------------|
| G M Cavazzi |                              |
| P Nastri    | (appointed 1 September 2003) |

**AUDITORS**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

**BANKERS**

Barclays Bank PLC  
54 Lombard Street  
London  
EC3V 9EX

**SOLICITORS**

Clyde & Co.  
51 Eastcheap  
London  
EC3M 1JP

**REGISTERED OFFICE**

9 Alie Street  
London  
E1 8DE

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2003.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES WITH RESPECT TO THE ACCOUNTS**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the accounts.

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

**PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

The Group's principal activities continue to be that of insurance and reinsurance broking. The directors aim to continue to extend the servicing capabilities of the Company through the acquisition of professional businesses and personnel.

The results of Morgan Read & Sharman Ltd, the principal trading subsidiary of the Company, for the year ended 31 December 2003 was a loss of £329,080 (2002: restated profit £553,101).

The results of the Group's joint venture, Risk Management Partners Ltd (RMP), are discussed in detail in Note 11. Effective 1 January 2004 the remaining 50% of RMP was acquired by the company from American Re for total consideration of \$5,000,000. Goodwill arising on acquisition of £2,640,000 will be included in the 2004 group financial statements.

**RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31 December 2003 are set out in the accounts on pages 6 to 21. The retained profit for the year of £1,632,609 (2002: restated profit £2,750,633) was transferred to reserves. No interim dividend was paid during the year (2002: £1,379,310). The directors have not recommended the payment of a final dividend (2002: £ nil).

**DIRECTORS AND THEIR INTERESTS**

The directors serving during the year ended 31 December 2003 are shown on page 2. No director had any interest in the shares of the Company. The interests of the directors in the shares of the ultimate holding company, Arthur J Gallagher & Co. are not required to be disclosed in this report.

# Arthur J. Gallagher (UK) Limited

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## REPORT OF THE DIRECTORS

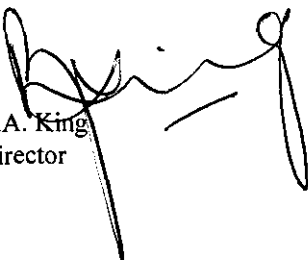
### POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the Company made charitable contributions totalling £6,073 (2002: £9,693).

### AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board.

  
B.A. King  
Director

**INDEPENDENT AUDITOR'S REPORT**  
to the members of Arthur J Gallagher (UK) Limited

We have audited the group's financial statements for the year ended 31 December 2003 which comprise Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Total Recognised Gains and Losses, and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

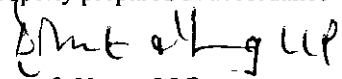
**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2003 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young LLP  
Registered Auditor  
London

14 October 2004

# Arthur J. Gallagher (UK) Limited

## GROUP PROFIT & LOSS ACCOUNT

as at 31 December 2003

(In Pounds Sterling)

|   | Notes | 2003             | 2002<br>(as restated) |
|---|-------|------------------|-----------------------|
| <b>TURNOVER</b>   | 2     | 41,668,498       | 41,301,160            |
| Other operating income  | 3     | 885,172          | 1,321,788             |
| Other operating charges   |       | (40,895,008)     | (37,332,092)          |
| Share of after tax profits of associated undertakings                               | 11    | 959,305          | 816,510               |
| <b>OPERATING PROFIT AND PROFIT ON ORDINARY<br/>ACTIVITIES BEFORE TAXATION</b>       | 4     | 2,617,967        | 6,107,366             |
| Tax on profit on ordinary activities  | 7     | (1,086,179)      | (1,983,230)           |
| <b>PROFIT ON ORDINARY ACTIVITIES AFTER<br/>TAXATION</b>                             |       | 1,531,788        | 4,124,136             |
| Minority Interests  |       | 100,821          | 5,807                 |
| <b>PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE<br/>TO THE MEMBERS OF THE COMPANY</b> |       | 1,632,609        | 4,129,943             |
| Dividends   |       | -                | (1,379,310)           |
| <b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>                                       |       | <u>1,632,609</u> | <u>2,750,633</u>      |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

|   | 2003             | 2002<br>(as restated) |
|---|------------------|-----------------------|
| Profit for the financial year attributable to shareholders                    | 1,632,609        | 4,129,943             |
| Exchange differences on retranslation of net assets of subsidiary undertaking | (49,196)         | (36,810)              |
| Total recognised gains and losses relating to the year                        | <u>1,583,413</u> | <u>4,093,133</u>      |
| Prior year adjustment   | (1,250,237)      |                       |
| Total recognised gains and losses since last annual report                    | <u>333,176</u>   |                       |

# Arthur J. Gallagher (UK) Limited

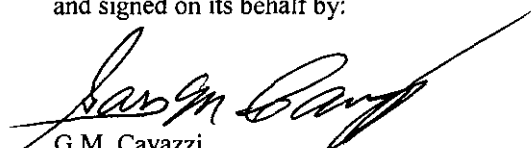
## GROUP BALANCE SHEET

as at 31 December 2003

(In Pounds Sterling)

|   | Notes | 2003                 | 2002<br>(as restated) |
|---|-------|----------------------|-----------------------|
| <b>FIXED ASSETS</b>                                   |       |                      |                       |
| Intangible assets                                     | 9     | 8,697,866            | 8,476,399             |
| Tangible assets                                       | 10    | 4,585,008            | 4,681,864             |
| Investments   | 11    | <u>127,312</u>       | <u>1,283,007</u>      |
|   |       | 13,410,186           | 14,441,270            |
| <b>CURRENT ASSETS</b>                                 |       |                      |                       |
| Debtors   | 12    | 177,196,580          | 175,780,879           |
| Cash at bank and in hand                              |       | <u>50,818,902</u>    | <u>69,076,806</u>     |
|   |       | 228,015,482          | 244,857,685           |
| <b>CREDITORS: Amounts falling due within one year</b> | 13    | <u>(215,375,618)</u> | <u>(234,888,720)</u>  |
| <b>NET CURRENT ASSETS</b>                             |       | <u>12,639,864</u>    | <u>9,968,965</u>      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       | 26,050,050           | 24,410,235            |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>         | 14    | (495,511)            | (651,511)             |
| <b>MINORITY INTERESTS</b>                             |       | <u>(352,208)</u>     | <u>(139,806)</u>      |
|   |       | 25,202,331           | 23,618,918            |
| <b>CAPITAL AND RESERVES</b>                           |       |                      |                       |
| Called up shared capital                              | 16    | 5,000,000            | 5,000,000             |
| Share premium account                                 | 16    | 3,605,994            | 3,605,994             |
| Profit and loss account                               | 16    | <u>16,596,337</u>    | <u>15,012,924</u>     |
|   |       | 25,202,331           | 23,618,918            |

Approved by the board  
and signed on its behalf by:

  
G.M. Cavazzi  
Director

# Arthur J. Gallagher (UK) Limited

## COMPANY BALANCE SHEET

as at 31 December 2003

(In Pounds Sterling)

|   | Notes | 2003                 | 2002<br>(as restated) |
|---|-------|----------------------|-----------------------|
| <b>FIXED ASSETS</b>                                   |       |                      |                       |
| Intangible assets                                     | 9     | 2,810,901            | 2,259,202             |
| Tangible Assets                                       | 10    | 4,438,644            | 4,569,804             |
| Investments   | 11    | <u>9,152,296</u>     | <u>9,152,296</u>      |
|   |       | 16,401,841           | 15,981,302            |
| <b>CURRENT ASSETS</b>                                 |       |                      |                       |
| Debtors   | 12    | 175,281,703          | 172,707,654           |
| Cash at bank and in hand                              |       | <u>49,358,256</u>    | <u>66,056,117</u>     |
|   |       | 224,639,959          | 238,763,771           |
| <b>CREDITORS: Amounts falling due within one year</b> | 13    | <u>(214,637,562)</u> | <u>(231,724,602)</u>  |
| <b>NET CURRENT ASSETS</b>                             |       | <u>10,002,397</u>    | <u>7,039,169</u>      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       | 26,404,238           | 23,020,471            |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>         | 14    | <u>(495,511)</u>     | <u>(651,511)</u>      |
|   |       | <u>25,908,727</u>    | <u>22,368,960</u>     |
| <b>CAPITAL AND RESERVES</b>                           |       |                      |                       |
| Called up share capital                               | 16    | 5,000,000            | 5,000,000             |
| Share premium account                                 | 16    | 3,605,994            | 3,605,994             |
| Profit and loss account                               | 16    | <u>17,302,733</u>    | <u>13,762,966</u>     |
|   |       | 25,908,727           | 22,368,960            |

Approved by the board on  
and signed on its behalf by:



G.M. Cavazzi  
Director



# Arthur J. Gallagher (UK) Limited

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## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 1. ACCOUNTING POLICIES

#### *Accounting convention*

The accounts are prepared on the going concern basis under the historical cost convention and comply with accounting standards applicable in the United Kingdom. As permitted by Financial Reporting Standard 1 (revised) the Company, being a wholly owned subsidiary of another company, is not required to prepare a cash flow statement.

#### *Basis of consolidation*

The group accounts consolidate the accounts of Arthur J. Gallagher (UK) Limited and all its subsidiary and joint venture undertakings drawn up to 31 December each year. No profit and loss account is presented for the company as permitted by section 230 of the Companies Act 1985.

The acquisition method of accounting is used for the inclusion of all subsidiary undertakings into the group accounts. Consequently, the group accounts include the appropriate share of these undertakings' results from the date of acquisition.

Joint venture undertakings are treated using the equity method of accounting. The group accounts include the appropriate share of these undertakings' results and reserves based on audited accounts to 31 December 2003.

#### *Turnover*

Turnover represents brokerage and fees for related services net of commission payable. Turnover is recognised at the billing date of the policy with an amount to be deferred to match future administration costs.

This represents a change in accounting policy in the current financial year in order to apply the requirements of Application Note G to Financial reporting Standard ('FRS') 5 "Reporting the Substance of Transactions", which is effective for periods ending on or after 23 December 2003. Previously brokerage was recognised in revenue based on policy inception date, except for instalment business which was credited on the instalment due date.

The effects of this change in accounting policy are set out in notes 16 and 17 to the accounts. Comparative amounts have been restated, where necessary.

#### *Goodwill*

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life as shown below. It is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Amortisation is provided on all intangible assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

|                    |   |               |
|--------------------|---|---------------|
| Expiration lists   | - | over 5 years  |
| Purchased goodwill | - | over 20 years |

See note 9 for additional information.

# Arthur J. Gallagher (UK) Limited

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## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### *Depreciation*

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

|                                 |   |                          |
|---------------------------------|---|--------------------------|
| Leasehold property              | - | to lease expiration      |
| Furniture and equipment         | - | over 10 years            |
| Computer equipment and software | - | over 3 years or 10 years |
| Motor vehicles                  | - | over 5 years             |

#### *Taxation*

Provision is made at current rates for taxation. In accordance with FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All rate of exchange differences are taken to the profit and loss account.

Net assets brought forward of overseas subsidiary undertakings have been translated at rates of exchange ruling at the balance sheet date and resulting exchange differences taken directly to the statement of total recognised gains and losses.

#### *Pensions*

All group employees may become members of the Gallagher (UK) Pension Plan, a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

#### *Insurance broking debtors and creditors*

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers. As such they are generally not liable as principals for the amounts arising from these transactions. Notwithstanding these legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities.

Debtors and creditors arising from a transaction between client and insurers (e.g. premiums, claims etc) are recorded simultaneously. Consequently, there is a high level of correlation between the totals reported in respect of insurance broking debtors and creditors.

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 1. ACCOUNTING POLICIES (CONTINUED)

The position of the insurance broker as agent means that generally the credit risk is borne by the principals. However there may be circumstances where the insurance broker acquires credit risk, through statute, or through the act or omission of the insurance broker or one of the principals. There is much legal uncertainty surrounding the circumstances and the extent of such exposure which, consequently, cannot be evaluated. The total of insurance broking debtors and creditors appearing in the balance sheet is therefore not an indication of credit risk.

It is normal practice for insurance brokers to settle accounts with other intermediaries, clients, insurers and market settlement bureaux on a net basis. Thus, large changes in insurance broking debtors and creditors can result from comparatively small cash settlements. For this reason, the totals of insurance broking debtors and creditors give no indication of future cash flows.

The legal status of this practice of net settlement is uncertain and in the event of an insolvency it is generally abandoned. Financial Reporting Standard 5, 'Reporting the substance of transactions', requires that offset of assets and liabilities should be recognised in financial statements where, and only where, the offset would survive the insolvency of the other party. Accordingly, only such offsets have been recognised in calculating insurance broking debtors and creditors.

### 2. TURNOVER

Turnover is attributable to insurance broking. An analysis by geographical market is given below:

|                           | 2003              | 2002<br>(as restated) |
|---------------------------|-------------------|-----------------------|
| United Kingdom and Europe | 17,429,862        | 17,346,487            |
| North America             | 16,747,841        | 16,520,464            |
| Other Countries           | 7,490,795         | 7,434,209             |
|                           | <u>41,668,498</u> | <u>41,301,160</u>     |

### 3. OTHER OPERATING INCOME

|                                       | 2003           | 2002             |
|---------------------------------------|----------------|------------------|
| Investment income                     | 856,925        | 1,307,104        |
| Profit/(Loss) on sale of fixed assets | 19,357         | (199,333)        |
| Other Income                          | 8,890          | 214,017          |
|                                       | <u>885,172</u> | <u>1,321,788</u> |

### 4. OPERATING PROFIT

This is stated after charging/(crediting):

|                                   | 2003             | 2002           |
|-----------------------------------|------------------|----------------|
| Staff costs (note 6)              | 25,249,152       | 22,600,423     |
| Auditors' remuneration            | 71,341           | 64,643         |
| Amortisation of intangible assets | 1,290,850        | 1,534,547      |
| Depreciation of fixed assets      | 1,008,867        | 892,358        |
| Operating lease rentals           | 1,874,103        | 1,429,169      |
| Provision for doubtful debts      | 170,000          | (23,000)       |
| Profit on foreign exchange        | <u>1,057,321</u> | <u>922,732</u> |

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 5. DIRECTORS' REMUNERATION AND LOANS

|  | 2003      | 2002      |
|--|-----------|-----------|
| Emoluments   | 3,757,222 | 3,107,240 |
| Company contributions paid to money purchase schemes     | 202,836   | 264,890   |
| Members of money purchase schemes                        | 14        | 13        |
| The amounts in respect of the highest paid director are: |           |           |
| Emoluments   | 622,083   | 508,546   |
| Company contributions paid to money purchase schemes     | 17,500    | 44,167    |

### 6. STAFF COSTS

|   | 2003       | 2002       |
|---|------------|------------|
| Salaries  | 20,690,238 | 18,031,570 |
| Social security costs   | 2,924,883  | 2,582,287  |
| Other pension costs   | 1,634,031  | 1,986,566  |
|   | 25,249,152 | 22,600,423 |
| The average monthly number of employees during the year was as follows: |            |            |
| Broking and technical   | 264        | 253        |
| Administration  | 76         | 60         |
|   | 340        | 313        |

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

|   | 2003      | 2002<br>(as restated) |
|---|-----------|-----------------------|
| The charge for taxation comprises:  |           |                       |
| Current tax charge for the period   | 1,131,847 | 1,785,230             |
| Prior year adjustments  | 110,332   | -                     |
| Deferred taxation   | (156,000) | 198,000               |
| Tax on profit on ordinary activities  | 1,086,179 | 1,983,230             |
| Effective Tax Rate  |           |                       |
| The tax rate is higher than the standard 30% UK rate for the reasons given below: |           |                       |
| Profit on ordinary activities before tax  | 2,617,967 | 6,107,366             |
| Result of joint venture accounted on equity basis                                 | (959,305) | (816,510)             |
| Profit on ordinary activities before tax  | 1,658,662 | 5,290,856             |
| Corporation tax at standard rate of 30% (2002: 30%)                               | 497,599   | 1,587,257             |
| Utilisation of losses brought forward   | -         | (152,622)             |
| Non-taxable goodwill amortisation   | -         | 172,344               |
| Deferred taxation   | 156,000   | (198,000)             |
| Other disallowed expenses   | 478,248   | 376,251               |
| Current tax charge for the period   | 1,131,847 | 1,785,230             |

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS as at 31 December 2003 (In Pounds Sterling)

### 8. PROFIT ATTRIBUTABLE TO THE MEMBERS OF THE PARENT COMPANY

The profit attributable to the members of the parent company is £3,539,767 (2002 restated: £3,423,485).

### 9. INTANGIBLE FIXED ASSETS

| Group                     | Expiration<br>Lists         | Goodwill         | Total             |
|---------------------------|-----------------------------|------------------|-------------------|
| <b>Cost:</b>              |                             |                  |                   |
| At 1 January 2003         | 3,471,768                   | 6,851,673        | 10,323,441        |
| Additions during the year | 1,512,317                   | -                | 1,512,317         |
| Disposals during the year | -                           | -                | -                 |
| At 31 December 2003       | <u>4,984,085</u>            | <u>6,851,673</u> | <u>11,835,758</u> |
| <b>Amortisation:</b>      |                             |                  |                   |
| At 1 January 2003         | 1,212,566                   | 634,476          | 1,847,042         |
| Charge for the year       | 960,618                     | 330,232          | 1,290,850         |
| Disposal during the year  | -                           | -                | -                 |
| At 31 December 2003       | <u>2,173,184</u>            | <u>964,708</u>   | <u>3,137,892</u>  |
| <b>Net book value:</b>    |                             |                  |                   |
| At 31 December 2003       | <u>2,810,901</u>            | <u>5,886,965</u> | <u>8,697,866</u>  |
| At 1 January 2003         | <u>2,259,202</u>            | <u>6,217,197</u> | <u>8,476,399</u>  |
| <b>Company</b>            | <b>Expiration<br/>Lists</b> | <b>Total</b>     |                   |
| <b>Cost:</b>              |                             |                  |                   |
| At 1 January 2003         | 3,471,768                   | 3,471,768        |                   |
| Additions during the year | 1,512,317                   | 1,512,317        |                   |
| Disposals during the year | -                           | -                |                   |
| At 31 December 2003       | <u>4,984,085</u>            | <u>4,984,085</u> |                   |
| <b>Amortisation:</b>      |                             |                  |                   |
| At 1 January 2003         | 1,212,566                   | 1,212,566        |                   |
| Charge for the year       | (960,618)                   | 960,618          |                   |
| Disposals during the year | -                           | -                |                   |
| At 31 December 2003       | <u>2,173,184</u>            | <u>2,173,184</u> |                   |
| <b>Net book value:</b>    |                             |                  |                   |
| At 31 December 2003       | <u>2,810,901</u>            | <u>2,810,901</u> |                   |
| At 1 January 2003         | <u>2,259,202</u>            | <u>2,259,202</u> |                   |

Expiration lists represent payments contracted to teams and individuals joining the Company. They are amortised on a straight-line basis over 5 years starting on joining.

Goodwill represents the difference between the purchase cost and the net assets acquired in the subsidiaries MRS Holdings Ltd, Morgan Read & Sharman Ltd and Arthur J Gallagher Asia Pte Ltd. It is being written off over 20 years from date of purchase or initial investment.

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 10. TANGIBLE FIXED ASSETS

|                           | Computers<br>& Software | Leasehold<br>Property | Furniture &<br>Equipment | Motor<br>Vehicles | Total            |
|---------------------------|-------------------------|-----------------------|--------------------------|-------------------|------------------|
| <b>Group</b>              |                         |                       |                          |                   |                  |
| <b>Cost or valuation:</b> |                         |                       |                          |                   |                  |
| At 1 January 2003         | 2,823,799               | 2,419,716             | 1,047,964                | 1,451,259         | 7,742,738        |
| Additions                 | 582,599                 | 97,803                | 113,389                  | 336,095           | 1,129,886        |
| Disposals                 | -                       | -                     | -                        | (563,610)         | (563,610)        |
| At 31 December 2003       | <u>3,406,398</u>        | <u>2,517,519</u>      | <u>1,161,353</u>         | <u>1,223,744</u>  | <u>8,309,014</u> |
| <b>Depreciation:</b>      |                         |                       |                          |                   |                  |
| At 1 January 2003         | 1,650,408               | 548,421               | 277,255                  | 584,790           | 3,060,874        |
| Charge for the year       | 353,526                 | 229,224               | 160,857                  | 265,260           | 1,008,867        |
| Disposals                 | -                       | -                     | -                        | (345,735)         | (345,735)        |
| At 31 December 2003       | <u>2,003,934</u>        | <u>777,645</u>        | <u>438,112</u>           | <u>504,315</u>    | <u>3,724,006</u> |
| <b>Net book value:</b>    |                         |                       |                          |                   |                  |
| At 31 December 2003       | <u>1,402,464</u>        | <u>1,739,874</u>      | <u>723,241</u>           | <u>719,429</u>    | <u>4,585,008</u> |
| At 1 January 2003         | <u>1,173,391</u>        | <u>1,871,295</u>      | <u>770,709</u>           | <u>866,469</u>    | <u>4,681,864</u> |
| <b>Company</b>            |                         |                       |                          |                   |                  |
| <b>Cost or valuation:</b> |                         |                       |                          |                   |                  |
| At 1 January 2003         | 2,758,586               | 2,357,081             | 1,047,890                | 1,400,531         | 7,564,088        |
| Additions                 | 549,973                 | 77,957                | 108,132                  | 311,349           | 1,047,411        |
| Disposals                 | -                       | -                     | -                        | (563,610)         | (563,610)        |
| At 31 December 2003       | <u>3,308,559</u>        | <u>2,435,038</u>      | <u>1,156,022</u>         | <u>1,148,270</u>  | <u>8,047,889</u> |
| <b>Depreciation:</b>      |                         |                       |                          |                   |                  |
| At 1 January 2003         | 1,617,911               | 536,841               | 277,219                  | 562,313           | 2,994,284        |
| Charge for the year       | 328,710                 | 215,751               | 160,322                  | 255,913           | 960,696          |
| Disposals                 | -                       | -                     | -                        | (345,735)         | (345,735)        |
| At 31 December 2003       | <u>1,946,621</u>        | <u>752,592</u>        | <u>437,541</u>           | <u>472,491</u>    | <u>3,609,245</u> |
| <b>Net book value:</b>    |                         |                       |                          |                   |                  |
| At 31 December 2003       | <u>1,361,938</u>        | <u>1,682,446</u>      | <u>718,481</u>           | <u>675,779</u>    | <u>4,438,644</u> |
| At 1 January 2003         | <u>1,140,675</u>        | <u>1,820,240</u>      | <u>770,671</u>           | <u>838,218</u>    | <u>4,569,804</u> |

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 11. INVESTMENTS

#### Group

|                   | 2003           | 2002             |
|-------------------|----------------|------------------|
| Joint venture     | 15,815         | 1,171,510        |
| Other investments | 111,497        | 111,497          |
|                   | <u>127,312</u> | <u>1,283,007</u> |

The Group has a 50% share in a joint venture, Risk Management Partners Ltd (RMP). Effective 1<sup>st</sup> January 2004 the company acquired the remaining 50% share of its joint venture, Risk Management Partners Ltd, from American Reinsurance Holdings Limited.

The summarised Group's share of the results of this entity are:

|                               | 2003               | 2002             |
|-------------------------------|--------------------|------------------|
| Turnover                      | <u>2,245,379</u>   | <u>1,994,383</u> |
| Profit for the financial year | 959,305            | 816,510          |
| Dividend                      | (2,115,000)        | -                |
| Movement on Reserves          | <u>(1,155,695)</u> | <u>816,510</u>   |

The Group's profit for the financial year in RMP is included within share of after tax profits of associated undertakings.

The summarised Group's share of the net assets of this entity are:

|                   | 2003               | 2002             |
|-------------------|--------------------|------------------|
| Total assets      | 2,670,100          | 1,520,076        |
| Total liabilities | <u>(2,654,285)</u> | <u>(348,566)</u> |
| Net assets        | <u>15,815</u>      | <u>1,171,510</u> |

The Group's share of retained profits in RMP amounted to £5,815 at 31 December 2003 (2002: £1,161,510) and is included within net current assets.

#### Company

|                     | Other investments | Subsidiary undertakings | Joint venture | Total            |
|---------------------|-------------------|-------------------------|---------------|------------------|
| <b>Cost:</b>        |                   |                         |               |                  |
| At 1 January 2003   | 111,497           | 9,030,799               | 10,000        | 9,152,296        |
| At 31 December 2003 | <u>111,497</u>    | <u>9,030,799</u>        | <u>10,000</u> | <u>9,152,296</u> |

All investments in subsidiaries are stated at cost less any permanent diminution in value.

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

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### 11. INVESTMENTS (continued)

Details of the investments in which the Group or the Company holds more than 10% of the nominal value of any class of share capital are as follows (all held by the Company unless indicated):

| Name of company                             | Country of registration (or incorporation) and operation | Holding  | Proportion of voting rights and shares held | Nature of Business |
|---|--|----------|---|--------------------|
| <b>Subsidiary undertakings</b>              |  |          |   |                    |
| Morgan Insurance Services Limited           | England & Wales  | Ordinary | 100%  | Dormant            |
| John Plumer & Company Limited               | England & Wales  | Ordinary | 100%  | Dormant            |
| Arthur J. Gallagher Asia Pte Limited        | Singapore  | Ordinary | 51%   | Insurance Broking  |
| Arthur J. Gallagher Asia Limited            | Hong Kong  | Ordinary | 51%   | Insurance Broking  |
| Arthur J. Gallagher Asia (L) BHD            | Malaysia   | Ordinary | 51%   | Insurance Broking  |
| MRS Holdings Limited                        | England & Wales  | Ordinary | 100%  | Dormant            |
| Morgan Read & Sharman Limited               | England & Wales  | Ordinary | 100%  | Insurance Broking  |
| <b>Associated undertakings</b>              |  |          |   |                    |
| Risk Management Partners Limited            | England & Wales  | Ordinary | 50%   | Risk Management    |
| <b>Other investments</b>                    |  |          |   |                    |
| Marine, Aviation & General (London) Limited | England & Wales  | Ordinary | 20%   | Insurance Broker   |

### 12. DEBTORS

|   | Group              |                    | Company            |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2003               | 2002<br>(restated) | 2003               | 2002<br>(restated) |
| Insurance debtors                       | 171,653,017        | 173,071,076        | 169,716,483        | 171,965,138        |
| Amounts owed by parent company          | 730,574            | -                  | 730,574            | -                  |
| Amounts owed by subsidiary undertakings | 289,707            | 602,798            | 414,638            | 658,754            |
| Amounts owed by associated undertakings | 2,160,767          | 45,989             | 2,160,767          | 45,989             |
| Errors & omissions claims recoverable   | 327,511            | 327,950            | 327,511            | 327,950            |
| Other claims recoverable                | 50,471             | -                  | 50,471             | -                  |
| Other debtors*                          | 1,018,652          | 894,592            | 977,491            | (1,141,887)        |
| Prepaid pension                         | 2,000              | 2,026              | 2,000              | 2,026              |
| Other prepayments                       | 963,881            | 836,448            | 901,768            | 849,684            |
|   | <u>177,196,580</u> | <u>175,780,879</u> | <u>175,281,703</u> | <u>172,707,654</u> |

\* In 2002 other debtors included an amount due from the company's subsidiary undertaking, Morgan Read & Sharman Ltd. This balance has been restated to apply the requirements of Application Note G to FRS 5 "Reporting the Substance of Transactions." The balance previously reported under other debtors was £(939,793).



# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                                       | Group              |                    | Company            |                    |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                       | 2003               | 2002<br>(restated) | 2003               | 2002<br>(restated) |
| Insurance creditors                   | 207,983,362        | 226,551,287        | 205,359,967        | 223,482,882        |
| Parent and fellow subsidiaries        | -                  | 355,223            | 2,027,799          | 355,223            |
| Current corporation tax               | 719,306            | 607,127            | 719,306            | 607,127            |
| Other taxes and social security costs | 954,384            | 842,270            | 939,381            | 823,259            |
| Other creditors                       | 1,570,630          | 2,313,502          | 1,515,649          | 2,287,912          |
| Accruals and deferred income          | 4,147,936          | 4,219,311          | 4,075,460          | 4,168,199          |
|                                       | <u>215,375,618</u> | <u>234,888,720</u> | <u>214,637,562</u> | <u>231,724,602</u> |

### 14. PROVISIONS FOR LIABILITIES AND CHARGES

The movements are as follows:

|  | Company & Group  |                |
|--|------------------|----------------|
|  | 2003             | 2002           |
| At 1 January                             | 651,511          | 1,099,812      |
| Errors & omissions claims (note 23)      | -                | (34,557)       |
| Onerous lease provision                  | -                | (611,744)      |
| Deferred taxation provision for the year | <u>(156,000)</u> | <u>198,000</u> |
| At 31 December                           | <u>495,511</u>   | <u>651,511</u> |

### 15. DEFERRED TAXATION

|   | Company & Group |                 |
|---|-----------------|-----------------|
|   | 2003            | 2002            |
| Capital allowances in advance of depreciation | 245,448         | 399,996         |
| Timing differences on pension payments        | <u>(77,448)</u> | <u>(75,996)</u> |
|   | <u>168,000</u>  | <u>324,000</u>  |

There is no unprovided deferred taxation

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

|                                       | Called up<br>share<br>capital | Share<br>premium<br>account | Profit and<br>loss account | Total             |
|---------------------------------------|-------------------------------|-----------------------------|----------------------------|-------------------|
| <b>Group</b>                          |                               |                             |                            |                   |
| At 1 January 2002 previously stated   | 5,000,000                     | 3,605,994                   | 11,883,144                 | 20,489,138        |
| Prior Year Adjustment (Note 17)       | -                             | -                           | 415,957                    | 415,957           |
| At 1 January 2002 restated            | 5,000,000                     | 3,605,994                   | 12,299,101                 | 20,905,095        |
| Profit for the year previously stated | -                             | -                           | 2,879,706                  | 2,879,706         |
| Dividend paid as previously stated    | -                             | -                           | (1,379,310)                | (1,379,310)       |
| Exchange difference                   | -                             | -                           | (36,810)                   | (36,810)          |
| At 31 December 2002                   | 5,000,000                     | 3,605,994                   | 13,762,687                 | 22,368,681        |
| Prior Year Adjustment (Note 17)       | -                             | -                           | 1,250,237                  | 1,250,237         |
| At 31 December 2002 restated          | 5,000,000                     | 3,605,994                   | 15,012,924                 | 23,618,918        |
| Exchange difference                   | -                             | -                           | (49,196)                   | (49,196)          |
| Transfer to reserves                  | -                             | -                           | 1,632,609                  | 1,632,609         |
| At 31 December 2003                   | <u>5,000,000</u>              | <u>3,605,994</u>            | <u>16,596,337</u>          | <u>25,202,331</u> |
| <b>Company</b>                        |                               |                             |                            |                   |
| At 1 January 2002 previously stated   | 5,000,000                     | 3,605,994                   | 11,460,568                 | 20,066,562        |
| Prior Year Adjustment (Note 17)       | -                             | -                           | 258,223                    | 258,223           |
| At 1 January 2002 restated            | 5,000,000                     | 3,605,994                   | 11,718,791                 | 20,324,785        |
| Profit for the year previously stated | -                             | -                           | 2,217,608                  | 2,217,608         |
| Dividend paid as previously stated    | -                             | -                           | (1,379,310)                | (1,379,310)       |
| Exchange difference                   | -                             | -                           | -                          | -                 |
| At 31 December 2002                   | 5,000,000                     | 3,605,994                   | 12,557,089                 | 21,163,083        |
| Prior Year Adjustment (Note 17)       | -                             | -                           | 1,205,877                  | 1,205,877         |
| At 31 December 2002 restated          | 5,000,000                     | 3,605,994                   | 13,762,966                 | 22,368,960        |
| Transfer to reserves                  | -                             | -                           | 3,539,767                  | 3,539,767         |
| At 31 December 2003                   | <u>5,000,000</u>              | <u>3,605,994</u>            | <u>17,302,733</u>          | <u>25,908,727</u> |

The Group exchange differences arise from re-translation of net assets of overseas subsidiary undertakings.

No interim or final dividend was paid during the year (2002: £1,379,310). At 31 December 2003 the allotted, called up and fully paid share capital of the company amounted to £5,000,000 (2002: £5,000,000).

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 17. RESTATEMENT

The group has applied the provisions of the application note to FRS 5 during 2003. This change has resulted in certain figures in both the profit and loss account and balance sheet being restated.

| Profit and Loss Account      | 2002<br>(as previously<br>reported)              | 2002<br>(as restated)             | Effect of<br>Restatement             |
|------------------------------|--|-----------------------------------|--------------------------------------|
| <b>Group</b>                 |  |                                   |                                      |
| Turnover                     | 39,445,693                                       | 41,301,160                        | 1,855,467                            |
| Taxation                     | 1,378,000  | 1,983,230                         | 605,230                              |
| Profit for the year          | <u>1,500,396</u>                                 | <u>2,750,633</u>                  | <u>1,250,237</u>                     |
| <br><b>Balance Sheet</b>     | <br><b>2002<br/>(as previously<br/>reported)</b> | <br><b>2002<br/>(as restated)</b> | <br><b>Effect of<br/>Restatement</b> |
| <b>Group</b>                 |  |                                   |                                      |
| Debtors                      | 170,019,553                                      | 173,071,076                       | 3,051,523                            |
| Corporation Tax              | (106,956)  | 607,127                           | 714,083                              |
| Accruals and deferred income | 3,548,065  | 4,219,311                         | 671,246                              |
| Reserves brought forward     | 11,883,144                                       | 12,299,101                        | 415,957                              |
| Profit for the year          | <u>1,463,586</u>                                 | <u>2,713,823</u>                  | <u>1,250,237</u>                     |
| <br><b>Company</b>           |  |                                   |                                      |
| Debtors *                    | 167,973,822                                      | 170,823,251                       | 2,849,429                            |
| Corporation Tax              | (106,956)  | 607,127                           | 714,083                              |
| Accruals and deferred income | 3,496,953  | 4,168,199                         | 671,246                              |
| Reserves brought forward     | 11,460,568                                       | 11,718,791                        | 258,223                              |
| Profit for the year          | <u>838,298</u>                                   | <u>2,044,175</u>                  | <u>1,205,877</u>                     |

\* Includes an adjustment to other debtors in order to reflect the effect of Application Note G to FRS 5 on the amount due from the company's subsidiary undertaking, Morgan Read & Sharman Ltd.

### 18. POST BALANCE SHEET EVENTS

A final dividend of £2,115,000 was proposed by the company's joint venture company, Risk Management Partners Limited. This is included within the movement on the company's reserves and amounts due from associated undertakings as at 31 December 2003.

Effective 1 January 2004 the remaining 50% of the company's joint venture company was acquired from American Re for total consideration of \$5,000,000. Goodwill arising on acquisition of £2,640,000 will be included in the 2004 group financial statements.

### 19. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The amount of prepaid pension at the balance sheet date is shown within debtors and detailed in Note 12.

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

### 20. TRANSACTIONS WITH DIRECTORS

All of the directors who are underwriting members of Lloyd's participate in syndicates on similar terms which govern all other members of the syndicates in which they participate. In the normal course of business, the Company may place risks with the syndicates at Lloyd's in which the directors participate as members. Any such business is placed on a normal commercial basis. Other than as noted above, no director is connected with any insurance underwriter other than as an insignificant shareholder in an insurance company listed on a recognised stock exchange.

As far as the directors are aware, other than as discussed above, no transaction or arrangement involving a director of the Company requires disclosure in these accounts under the Companies Act 1985.

### 21. OTHER FINANCIAL COMMITMENTS

At 31 December 2003 the group had annual commitments under non-cancellable operating leases comprising:

|                                    | 2003      | 2002      |
|------------------------------------|-----------|-----------|
| Land and buildings                 |           |           |
| - Expiring within 1 year           | 25,000    | -         |
| - Expiring between 2 to 5 years    | -         | 25,000    |
| - Expiring after more than 5 years | 2,666,390 | 1,555,310 |
| Other assets                       |           |           |
| - Expiring within 1 year           | -         | 1,617     |
| - Expiring between 2 to 5 years    | 9,556     | 9,556     |

Whilst the above is the annual commitment, the Group has entered into arrangements with other occupants of the office premises as to rent payable. Note 4 sets out the charge for the year.

The Company has agreed to provide financial support for the foreseeable future to Risk Management Partners Ltd, a joint venture in which the Company has a 50% stake.

### 22. RELATED PARTY TRANSACTIONS

Financial Reporting Standard 8 "Related Party Disclosures" exempts the reporting of transactions between group companies. The Company has taken advantage of this exemption.

### 23. ERRORS & OMISSIONS CLAIMS

As a normal consequence of the Company's operations, a number of errors and omissions claims have been made against the Company. Most of the claims are covered by professional indemnity insurance with many of the defences of these claims being conducted by the Company's insurers. The directors do not expect the outcome of these claims, either individually or in aggregate, to have a material effect upon the Company's operations or financial position.

In accordance with FRS 12, the directors' current best estimate of the amount required to settle certain claims has been included within provisions for liabilities and charges in the balance sheet. The gross amount of this estimate is £327,511 (2002: £327,950). The related amount recoverable from the Company's professional indemnity insurers of £327,511 (2002: £327,950) has been included within debtors. As allowed by FRS 12, further detailed disclosure has not been given as to do so may seriously prejudice the outcome of any legal proceedings.

## Arthur J. Gallagher (UK) Limited

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### NOTES TO THE ACCOUNTS

as at 31 December 2003

(In Pounds Sterling)

#### 24. ULTIMATE PARENT UNDERTAKING

The Company is itself, the parent of the smallest group of undertakings for which consolidated financial statements are prepared.

The largest group of undertakings of which the company is a member, and for which group Financial Statements are prepared, is headed up by Arthur J Gallagher Co, Limited, a company incorporated in the United States of America, which is the ultimate parent undertaking. A copy of the consolidated financial statements is available from the Registered Office of the Company