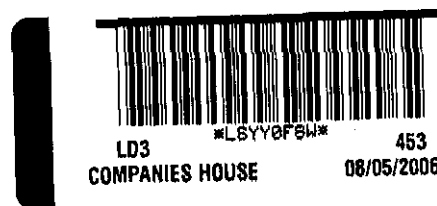


# **Arthur J. Gallagher (UK) Limited**

## **Annual Report and Financial Statements**

31 December 2005



**Company Number: 1193013**

**DIRECTORS**

D E McGurn	(USA) (Chairman)
J Patrick Gallagher	(USA)
D Ross	
W J Bushell	
M K Barton	(appointed 4 November 2005)
S Marsland Gander	(appointed 4 November 2005)
J A Leslie	(appointed 5 November 2005)
J Begley	(appointed 10 January 2006)
P A Nastri	
B A King	
G M Cavazzi	(resigned 18 January 2006)
D N Merry	(resigned 4 November 2005)

**SECRETARY**

G M Cavazzi	(resigned 18 January 2006)
P Nastri	
Emco (Nominees) Limited	(appointed 18 January 2006)

**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 financial statements for the year ended 31 December 2005.

### PRINCIPAL ACTIVITIES

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

### REVIEW OF THE BUSINESS AND FUTURE ACTIVITIES

For the year ended 31 December 2005, Arthur J Gallagher (UK) Limited recorded a loss before tax of £3.1m, compared to a loss in 2004 of £5.9m.

Goodwill relating to the acquisition of Morgan, Read & Sharman Ltd in 2001 was written off to the income statement, in 2004, due to impairment, resulting in a charge of £5.8m. In 2005 therefore, the loss on ordinary activities is more significant, for the reasons detailed below.

The result for 2005 is evidence of a growing company. Turnover increased by 21% to £54.2m compared to £44.6m in 2004, which is indicative of the growth in both new and renewing business in the Group.

The investment in human capital increased slightly more proportionately than turnover, as evidenced by the increase in staff numbers from 344 in 2004 to 376 in 2005. The amortisation of the intangible assets, necessary for this investment in human capital, increased in expense for the year in comparison to 2004.

The estimation of costs in respect of the recognition and legal nature of claims handling obligations arising from the company's insurance and reinsurance broking activities, increased in 2005, in part due to the use of more sophisticated estimation techniques, but also indicative of a growing book of business.

The results of Risk Management Partners (RMP), the principal trading subsidiary of the Company, for the year ended 31 December 2005, was a profit of £2,039m (2004: profit £2,239k).

The subsidiary Morgan, Read and Sharman was dormant in 2005 (2004 loss of £2,547k).

In 2006, the Directors expect benefits from areas of expansion and improved efficiencies, in addition to further top line revenue growth, in accordance with the Group's strategic plan and forecast.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 are set out in these financial statements on pages 7 to 23. The retained loss for the year of £2,380k (2004: loss £6,302k) was transferred to reserves. No interim dividend was paid during the year (2004: £ nil). The directors have not recommended the payment of a final dividend (2004: £ nil).

### DIRECTORS AND THEIR INTERESTS

The directors serving during the year ended 31 December 2005 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.

### FINANCIAL RISK MANAGEMENT

The nature of the Group's international operations and debt profile expose it to a variety of financial risks including the effects of changes in foreign currency exchange rates, counter party credit risks, liquidity and interest rates. The Group has in place a risk management programme and policies that seek to limit the adverse impact upon the Group by the use of financial instruments to fix currency rates.

REPORT OF THE DIRECTORS

***Borrowing Facilities and Liquidity Risk***

The Group maintains facilities to ensure that it has adequate available funds to finance operations and the growth of the business. The Group has a core uncommitted overdraft facility of £250k. The overdraft has not been drawn down upon in 2005.

***Foreign Currency Risk***

The Group's major currency transaction exposure arises in respect of US dollar revenue earned in the UK. As a consequence, the Group's results are sensitive to changes in the sterling/ US dollar exchange rate. Group policy is therefore to adopt a prudent approach to the management of these exposures by maintaining a rolling hedging programme based mainly on the use of forward foreign exchange contracts.

Where forward foreign exchange contracts have been entered into to manage currency risk, they are designated as hedges of currency risk on specific future cash flows, which qualify as highly probable transactions for which hedge accounting has been used.

***Interest Rate Risk***

The Group has interest bearing assets but no material interest bearing liabilities that would give rise to exposures to fluctuations in interest rates.

***Counterparty Credit Risk***

The Group manage its cash and investment balances in the form of deposits with prime banks and other short term money market instruments, in accordance with an investment and counterparty policy agreed by the Board of Directors, and, in respect of fiduciary funds, all relevant regulatory guidelines. Investment and bank counterparties are subject to pre-approval at Board level. All exposures to individual counterparties are subject to a limit to control undue concentrations of credit risk.

***Price Risk***

The Group does not have a material exposure to equity securities price risk or commodity price risk.

**EMPLOYMENT POLICIES**

The Group is an equal opportunities employer and bases all decisions on individual ability regardless of race, religion, gender, age or disability.

Applications for employment by disabled persons will always be fully considered, having regard to their particular aptitudes and abilities. Should employees become disabled, every effort will be made to ensure that their employment with the Group continues and, in the event that they are unable to continue to work, that their financial interests are safeguarded. It is the intention of the Group that opportunities for training, career development and promotion of disabled persons should, as far as possible, be identical with those for other employees.

**POLITICAL AND CHARITABLE CONTRIBUTIONS**

During the year the Company made charitable contributions totalling £4k (2004: £7k).

**SUPPLIER PAYMENT POLICY**

The Group agrees payment terms with suppliers when it enters into contracts for the purchase of goods and services and seeks to abide by those terms when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

REPORT OF THE DIRECTORS

**STATEMENT OF DIRECTORS' RESPONSIBILITIES WITH RESPECT TO THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements 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 these financial statements, 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

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 financial statements 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.

**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.



D Ross  
Director

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

We have audited the group and parent company financial statements (the "financial statements") of Arthur J. Gallagher (UK) Limited for the year ended 31 December 2005 which comprise Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses and the Group and Company Balance Sheets, and the related notes 1 to 22. These financial statements have been prepared under 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**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 Report of the Directors 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

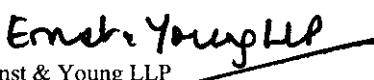
**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and the financial statements have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young LLP  
Registered auditor  
London  
Date 8 May 2006

# Arthur J. Gallagher (UK) Limited

Annual Report and Financial Statements  
GROUP PROFIT & LOSS ACCOUNT  
For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
<b>TURNOVER</b>	2	54,188	44,647
Other operating income	3	2,200	1,631
Operating charges		(59,468)	(43,984)
<b>OPERATING (LOSS)/ PROFIT</b>	4	(3,080)	2,294
Exceptional items	5	-	(8,210)
<b>LOSS AFTER EXCEPTIONAL ITEMS, BEFORE TAXATION</b>		(3,080)	(5,916)
Taxation credit/(charge) on loss after exceptional items	8	559	(658)
<b>LOSS AFTER EXCEPTIONAL ITEMS AND TAXATION</b>		(2,521)	(6,574)
Minority Interests		141	272
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS</b>		(2,380)	(6,302)
<b>RETAINED LOSS FOR THE YEAR</b>		(2,380)	(6,302)

The result attributable to the members of the parent company is a loss of £12,908k (2004: profit of £132k).

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005 £'000	2004 £'000
Loss for the year attributable to shareholders	(2,380)	(6,302)
Exchange differences on retranslation of net assets of subsidiary undertaking	(286)	11
Total recognised losses relating to the year	(2,666)	(6,291)

The notes on pages 10 to 23 are an integral part of these financial statements. The auditors' report is on page 6.

# Arthur J. Gallagher (UK) Limited

Annual Report and Financial Statements  
GROUP BALANCE SHEET  
as at 31 December 2005

	Notes	2005 £'000	2004 £'000
<b>NON CURRENT ASSETS</b>			
Intangible assets	9	8,722	6,152
Tangible assets	10	4,273	4,447
Investments	11	100	111
		<u>13,095</u>	<u>10,710</u>
<b>CURRENT ASSETS</b>			
Debtors	12	201,050	168,863
Cash at bank and in hand		<u>72,544</u>	<u>56,907</u>
		273,594	225,770
<b>CREDITORS:</b> Amounts falling due within one year	13	(263,107)	(213,804)
		<u>10,487</u>	<u>11,966</u>
<b>NET CURRENT ASSETS</b>			
		23,582	22,676
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	14	(7,361)	(3,685)
<b>MINORITY INTERESTS</b>		<u>24</u>	<u>(80)</u>
<b>NET ASSETS</b>		<u>16,245</u>	<u>18,911</u>
<b>CAPITAL AND RESERVES</b>			
Called up shared capital	16	5,000	5,000
Share premium account	16	3,606	3,606
Profit and loss account	16	7,639	10,305
		<u>16,245</u>	<u>18,911</u>
<b>SHAREHOLDERS' FUNDS</b>			
		<u>16,245</u>	<u>18,911</u>

The financial statements on pages 7 to 23 were approved by the board of directors on 5 May 2006 and were signed on its behalf by:

  
D Ross  
Director

The notes on pages 10 to 23 are an integral part of these financial statements. The auditors' report is on page 6.



# Arthur J. Gallagher (UK) Limited

Annual Report and Financial Statements  
COMPANY BALANCE SHEET  
As at 31 December 2005

	Notes	2005 £'000	2004 £'000
<b>NON CURRENT ASSETS</b>			
Intangible assets	9	6,272	3,564
Tangible assets	10	3,760	3,985
Investments	11	3,540	11,807
		<u>13,572</u>	<u>19,356</u>
<b>CURRENT ASSETS</b>			
Debtors	12	198,401	166,228
Cash at bank and in hand		67,127	54,745
		<u>265,528</u>	<u>220,973</u>
<b>CREDITORS: Amounts falling due within one year</b>	13	<u>(258,847)</u>	<u>(210,585)</u>
<b>NET CURRENT ASSETS</b>		<u>6,681</u>	<u>10,388</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		20,253	29,744
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	14	(7,361)	(3,703)
		<u>12,892</u>	<u>26,041</u>
<b>NET ASSETS</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	5,000	5,000
Share premium account	16	3,606	3,606
Profit and loss account	16	4,286	17,435
		<u>12,892</u>	<u>26,041</u>
<b>SHAREHOLDERS' FUNDS</b>		<u>12,892</u>	<u>26,041</u>

The notes on pages 10 to 23 are an integral part of these financial statements. The auditors' report is on page 6.

# Arthur J. Gallagher (UK) Limited

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## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### *Accounting convention*

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and comply with accounting standards applicable in the United Kingdom.

The company is a wholly-owned subsidiary of Arthur J Gallagher & Co. and is included in the consolidated financial statements of Arthur J Gallagher & Co. which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Arthur J Gallagher & Co. group or investees of the Arthur J Gallagher & Co. group.

#### *Basis of consolidation*

The group financial statements consolidate the financial statements of Arthur J. Gallagher (UK) Limited and all its subsidiary undertakings as at 31 December 2005. 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 consolidation of all subsidiary undertakings. Consequently, the group financial statements include the appropriate share of these undertakings' results from the date of acquisition.

#### *Changes in accounting policy*

The company has adopted FRS 21, "Events after the balance sheet date" in these financial statements. There was no impact on the current or prior year financial statements as a result of this change in accounting policy as no final dividends were proposed in either year.

#### *Turnover*

Turnover represents brokerage and fees associated with placing insurance and reinsurance contracts. It is net of commission payable and is recognised at the later of inception date and the date the placement is completed and confirmed.

#### *Claims Handling Obligations*

The company provides for the expected cost of providing future claims handling services in respect of its insurance and reinsurance broking activities by reference to the estimated number of claims and expected costs. The provision is made in accordance with the requirements of FRS12 "Provisions, contingent liabilities and contingent assets".

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

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### ACCOUNTING POLICIES (CONTINUED)

Purchased goodwill - over 20 years

#### *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
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 currency transactions*

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.

The assets and liabilities 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.

#### 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. FRS 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.

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 2. TURNOVER

All operating activities of the group are attributable to insurance broking. The company has operations in the United Kingdom, Malaysia, Singapore and Hong Kong.

	United Kingdom		Asia		Total	
	2005	2004	2005	2004	2005	2004
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover						
United Kingdom & Europe	26,536	18,391	-	-	26,536	18,391
North America	17,289	18,259	-	-	17,289	18,259
Other Countries	8,792	6,596	1,571	1,401	10,363	7,997
	<u>52,617</u>	<u>43,246</u>	<u>1,571</u>	<u>1,401</u>	<u>54,188</u>	<u>44,647</u>
(Loss) Before Tax	(2,791)	(5,360)	(289)	(556)	(3,080)	(5,916)
Net Assets/ (Liabilities)	16,304	18,828	(59)	83	16,245	18,911

### 3. OTHER OPERATING INCOME

	2005	2004
	£'000	£'000
Investment income	2,131	1,061
Other Income	69	570
	<u>2,200</u>	<u>1,631</u>

### 4. OPERATING (LOSS) / PROFIT

This is stated after charging:

	2005	2004
	£'000	£'000
Staff costs (note 7)	38,309	28,522
Auditors' remuneration*	242	89
Amortisation of intangible assets	2,608	1,478
Depreciation of fixed assets	1,047	1,503
Operating lease rentals	2,321	2,089
Provision for doubtful debts	1,455	20
Profit on foreign exchange	<u>411</u>	<u>660</u>

\* £200k (2004: £74,500) of this relates to the parent company

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 5. EXCEPTIONAL ITEMS

In the comparative period, year ended 31 December 2004, an impairment review was carried out in accordance with FRS 10 'Goodwill and intangible assets' on the Company's investment in Morgan, Read & Sharman Ltd. Following the review the directors of the Company deemed it appropriate to write-off the Company's goodwill asset in Morgan, Read & Sharman Ltd. This resulted in an impairment charge of £5,802k.

The Company disposed of fixed assets resulting in a realised gain of £24k and the Company amended its estimation of future claims handling costs and included a provision of £2,431k, in this respect.

The net effect on the consolidated profit and loss account of these items for the year is a charge of £8.2m. Due to the nature and size of the items described above they have been disclosed in accordance with FRS 3 'Reporting Financial Performance' as an exceptional item on the face of the profit and loss account.

### 6. DIRECTOR'S EMOLUMENTS

	2005 £'000	2004 £'000
Aggregate Emoluments	3,473	1,764
Company contributions paid to money purchase schemes	190	112
Members of money purchase schemes	9	5
The amounts in respect of the highest paid director are:		
Aggregate Emoluments	1,425	573
Company contributions paid to money purchase schemes	31	25

### 7. STAFF COSTS

	2005 £'000	2004 £'000
Salaries	32,227	23,778
Social security costs	3,763	2,912
Pension costs	2,319	1,832
	38,309	28,522

The average number of employees during the year was as follows:

Broking and technical	305	278
Administration	71	66
	376	344

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 8. TAXATION ON LOSS AFTER EXCEPTIONAL ITEMS

	2005 £'000	2004 £'000
<i>The charge for taxation comprises:</i>		
Tax on loss after exceptional items	1,029	491
Prior year adjustments	(79)	116
Total current tax	950	607
Deferred tax (credit) /charge	(1,509)	51
Total tax (credit) /charge	(559)	658

The tax rate is higher than the standard 30% UK rate for the reasons given below:

Loss after exceptional items, before taxation	(3,081)	(5,916)
Corporation tax at standard rate of 30% (2004: 30%)	(924)	(1,775)
Depreciation in excess of capital allowances	51	66
Tax on result of minority interest	(42)	82
Non deductible goodwill amortisation	(12)	1,782
Expenses not deductible for tax purposes	302	315
Timing differences in respect of pension payments	-	29
Unrelieved losses and other timing differences	1,654	(8)
Prior year adjustments	(79)	116
Current tax charge for the period	950	607

### 9. INTANGIBLE ASSETS

Group	Expiration Lists	Goodwill	Total
	£'000	£'000	£'000
<b>Cost:</b>			
At 1 January 2005	7,079	9,492	16,571
Additions during the year	5,688	-	5,688
Disposals during the year	(510)	-	(510)
At 31 December 2005	12,257	9,492	21,749
<b>Amortisation:</b>			
At 1 January 2005	3,515	6,904	10,419
Charge for the year	2,471	137	2,608
Disposal during the year	-	-	-
At 31 December 2005	5,986	7,041	13,027
<b>Net book value:</b>			
At 31 December 2005	6,271	2,451	8,722
At 1 January 2005	3,564	2,588	6,152

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

<b>Company</b>	<b>Expiration Lists £'000</b>	<b>Total £'000</b>
<b>Cost:</b>		
At 1 January 2005	7,079	7,079
Additions during the year	5,688	5,688
Disposals during the year	(510)	(510)
At 31 December 2005	<u>12,258</u>	<u>12,258</u>
<b>Amortisation:</b>		
At 1 January 2005	3,515	3,515
Charge for the year	2,471	2,471
Disposals during the year	-	-
At 31 December 2005	<u>5,986</u>	<u>5,986</u>
<b>Net book value:</b>		
At 31 December 2005	<u>6,272</u>	<u>6,272</u>
At 1 January 2005	<u>3,564</u>	<u>3,564</u>

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

Goodwill represents the difference between the purchase cost and the net assets acquired in the subsidiaries Arthur J Gallagher Asia Pte Ltd and Risk Management Partners Ltd. Goodwill is being written off over 20 years from date of purchase or initial investment. The goodwill in MRS Holdings Ltd and Morgan Read & Sharman Ltd was fully amortised in 2004, to reflect the impairment. The cost of the goodwill has been written off during 2005.



# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 10. TANGIBLE ASSETS

	Computers & Software £'000	Leasehold Property £'000	Furniture & Equipment £'000	Motor Vehicles £'000	Total £'000
<b>Group</b>					
<b>Cost or valuation:</b>					
At 1 January 2005	3,656	2,834	1,282	489	8,261
Additions	1,073	15	74	108	1,270
Disposals	(411)	-	(6)	(133)	(550)
At 31 December 2005	<u>4,318</u>	<u>2,849</u>	<u>1,350</u>	<u>464</u>	<u>8,981</u>
<b>Depreciation:</b>					
At 1 January 2005	2,049	1,069	462	235	3,815
Charge for the year	472	275	129	171	1,047
Disposals	(25)	-	(7)	(122)	(154)
At 31 December 2005	<u>2,496</u>	<u>1,344</u>	<u>584</u>	<u>284</u>	<u>4,708</u>
<b>Net book value:</b>					
At 31 December 2005	<u>1,822</u>	<u>1,505</u>	<u>766</u>	<u>180</u>	<u>4,273</u>
At 1 January 2005	<u>1,607</u>	<u>1,765</u>	<u>820</u>	<u>254</u>	<u>4,447</u>
<b>Company</b>					
<b>Cost or valuation:</b>					
At 1 January 2005	3,294	2,685	1,221	134	7,334
Additions	849	14	56	-	919
Disposals	(311)	-	-	(103)	(414)
At 31 December 2005	<u>3,832</u>	<u>2,699</u>	<u>1,277</u>	<u>31</u>	<u>7,839</u>
<b>Depreciation:</b>					
At 1 January 2005	1,843	994	409	102	3,348
Charge for the year	367	250	126	9	752
Disposals	73	-	-	(96)	(23)
At 31 December 2005	<u>2,283</u>	<u>1,244</u>	<u>535</u>	<u>15</u>	<u>4,077</u>
<b>Net book value:</b>					
At 31 December 2005	<u>1,548</u>	<u>1,454</u>	<u>743</u>	<u>16</u>	<u>3,760</u>
At 1 January 2005	<u>1,451</u>	<u>1,691</u>	<u>812</u>	<u>32</u>	<u>3,985</u>

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 11. INVESTMENTS

#### Group

	2005 £'000	2004 £'000
Other investments	100	111

Other investments relate to the company's 20% shareholding in Marine Aviation and General (London) Limited, which is accounted for at cost.

#### Company

	Other investments £'000	Subsidiary undertakings £'000	Total £'000
<i>Cost:</i>			
At 1 January 2005	111	11,695	11,807
Additions / (Disposals)	(11)	-	(11)
	100	11,695	11,796
Permanent diminution in value	-	(8,255)	(8,255)
At 31 December 2005	100	3,440	3,540

All investments in subsidiaries are stated at cost less any permanent diminution in value. The disposals shown above relate to the write off of the company's investments in Heathley Limited, which was disposed of during the year, and the subsidiaries, John Plumer & Co, MRS Holdings, Morgan Read and Sharman, which are dormant

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>				
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
Risk Management Partners Limited	England & Wales	Ordinary	100%	Risk Management
MRS Holdings Limited	England & Wales	Ordinary	100%	Dormant
Morgan Read & Sharman Limited	England & Wales	Ordinary	100%	Dormant
Morgan Insurance Services Limited	England & Wales	Ordinary	100%	Dormant
John Plumer & Company Limited	England & Wales	Ordinary	100%	Dormant

\* Held indirectly through Arthur J. Gallagher Asia Pte Ltd

\*\* The Managing Directors of Arthur J Gallagher Asia Pte Limited have been granted an interest free loan facility by Arthur J Gallagher (UK) Limited, to be applied for the subscription of shares in Arthur J Gallagher Asia Pte Ltd, subject to repayment terms.

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### Other investments

Marine, Aviation & General (London)  
Limited

England & Wales    Ordinary    20%    Insurance Broker

### 12. DEBTORS

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Insurance debtors	196,167	166,358	192,729	163,200
Amounts owed by fellow group undertakings	285	26	907	354
Amounts owed by associated undertakings	9	44	9	89
Errors & omissions claims recoverable (note 21)	537	328	537	328
Other claims recoverable	372	82	372	82
Current corporation tax	629	85	1,029	461
Deferred corporation tax	1,392	-	1,375	-
Other debtors	1,040	1,077	896	957
Other prepayments	619	863	547	757
	<u>201,050</u>	<u>168,863</u>	<u>198,401</u>	<u>166,228</u>

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

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Insurance creditors	250,731	207,087	247,155	205,086
Amounts owed to fellow group undertakings	1,036	-	1,036	-
Amounts owed to parent	3,486	687	3,486	687
Amounts owed to subsidiaries	-	-	-	(519)
Other taxes and social security costs	1,220	665	1,105	586
Other creditors	3,347	3,104	3,229	2,989
Accruals and deferred income	3,287	2,261	2,836	1,756
	<u>263,107</u>	<u>213,804</u>	<u>258,847</u>	<u>210,585</u>

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 14. PROVISIONS FOR LIABILITIES AND CHARGES

#### Group

	Deferred taxation provision (note 8 and 15) £'000	Error and omission claims (note 21) £'000	Future servicing and claims handling costs £000	Total £'000
At 1 January 2005	(220)	(328)	(3,138)	(3,686)
Amounts incurred during period	-	-	1,442	1,386
Interest cost of unwinding of discount	-	-	(35)	(35)
Additional movements in provision	220	(209)	(5,093)	(5,288)
At 31 December 2005	-	(537)	(6,824)	(7,361)

#### Company

	Deferred taxation provision (note 8 and 15) £'000	Error and omission claims (note 21) £'000	Future servicing and claims handling costs £000	Total £'000
At 1 January 2005	(237)	(328)	(3,138)	(3,703)
Amounts incurred during period	-	-	1,442	1,386
Interest cost of unwinding of discount	-	-	(35)	(35)
Additional movements in provision	237	(209)	(5,093)	(5,288)
At 31 December 2005	-	(537)	(6,824)	(7,361)

The provision for future servicing and claims handling costs is an estimate of the cost to run-off claims on policies previously placed by the Company. The provision is based on a projection of future claims applying a trend extrapolated from historical claims data. The provision is then discounted at the risk free interest rate of 5%.

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 15. DEFERRED TAXATION

Included in debtors shown in Note 8 in 2005, and in provisions for liabilities and charges shown in Note 14 for 2004, are the following in respect of deferred taxation:

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening deferred tax liability	(220)	(168)	(237)	(168)
Amount charged to profit and loss account including:				
Accelerated capital allowances	(145)	(39)	(145)	(56)
Pension payments	-	(13)	-	(13)
Hedge assets	103	-	103	-
Unrelieved losses and other timing differences	1,654	-	1,654	-
Closing deferred tax asset /(liability)	<u>1,392</u>	<u>(220)</u>	<u>1,375</u>	<u>(237)</u>

There is no unprovided deferred taxation.

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

	<b>Called up share capital £'000</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>Group</b>				
At 1 January 2005	5,000	3,606	10,305	18,911
Exchange difference	-	-	(286)	(286)
Transfer to reserves	-	-	(2,380)	(2,380)
At 31 December 2005	<u>5,000</u>	<u>3,606</u>	<u>7,639</u>	<u>16,245</u>
<b>Company</b>				
At 1 January 2005	5,000	3,606	17,435	26,041
Exchange difference	-	-	(241)	(241)
Transfer to reserves	-	-	(12,908)	(12,908)
At 31 December 2005	<u>5,000</u>	<u>3,606</u>	<u>4,286</u>	<u>12,892</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 (2004: £ nil). At 31 December 2005 the allotted, called up and fully paid share capital of the company amounted to £5,000k (2004: £5,000k).

# Arthur J. Gallagher (UK) Limited

## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

### 17. POST BALANCE SHEET EVENTS

The directors are not aware of any significant events arising after the balance sheet date that require disclosure or adjustment to amounts included within the financial statements.

### 18. 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 pension cost for the year was £2,319k (2004: £1,832k).

### 19. 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.

### 20. OTHER FINANCIAL COMMITMENTS

At 31 December 2005 the group had annual commitments under non-cancellable operating leases comprising:

	2005 £'000	2004 £'000
<i>Land and buildings</i>		
- Expiring within 1 year	-	-
- Expiring between 2 to 5 years	25	-
- Expiring after more than 5 years	2,183	2,166
<i>Other assets</i>		
- Expiring within 1 year	-	10
- Expiring between 2 to 5 years	-	-

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.

### 21. 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

# Arthur J. Gallagher (UK) Limited

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## Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

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 "Provisions, contingent liabilities and contingent assets" 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 £537k (2004: £328k). 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

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