

ARTHUR J. GALLAGHER (UK) LIMITED

Annual Report and Financial Statements

31 December 2006



Company Number. 1193013

Arthur J.Gallagher (UK) Limited

DIRECTORS

D E McGurn	(USA)	(Chairman)
J Patrick Gallagher	(USA)	
D C Ross		
W J Bushell		
M K Barton		
S M Gander		
S Dalgarno		
J Begley		
M Cooper-Mitchell	(Non-Executive Director)	
P T O'Neill	(Non-Executive Director)	

SECRETARY

A Pfitzner

AUDITORS

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

BANKERS

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

SOLICITORS

Clyde & Co
51 Eastcheap
London
EC3M 1JP

REGISTERED OFFICE

9 Alie Street
London
E1 8DE

Arthur J.Gallagher (UK) Limited

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the year ended 31 December 2006

PRINCIPAL ACTIVITIES

The Group's principal activities continue to be those 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 2006, Arthur J Gallagher (UK) Limited recorded a profit before tax of £5.1m, compared to a loss in 2005 of £3.1m.

The result for 2006 is evidence of a growing company. Turnover increased by 12% to £60.9m compared to £54.2m in 2005, 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 376 in 2005 to 390 in 2006.

The results of Risk Management Partners (RMP), the principal trading subsidiary of the Company, for the year ended 31 December 2006, was a profit before tax of £3.9m (2005: £3m).

In 2007, 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 2006 are set out in these financial statements on pages 7 to 24. The retained profit for the year of £3.2m (2005: loss £2.4m) was transferred to reserves. No interim dividend was paid during the year (2005: £nil). The directors have not recommended the payment of a final dividend (2005: £nil).

DIRECTORS AND THEIR INTERESTS

The directors serving during the year ended 31 December 2006 are shown below:

J Patrick Gallagher	S Dalgarno (appointed on 12 February 2007)
D E McGurn	S M Gander
M K Barton	B King (resigned on 26 March 2006)
J Begley (appointed on 27 January 2006)	A Leslie (resigned on 23 January 2007)
W Bushell	P Nasti (resigned on 22 June 2006)
G Cavazzi (resigned on 18 January 2006)	P T O'Neill (appointed on 16 March 2006)
M Cooper-Mitchell (appointed on 16 March 2006)	D C Ross

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

REPORT OF THE DIRECTORS

COMPANY SECRETARY

P Nastri resigned as Company Secretary on 18 January 2006. Emco (Nominees) Limited resigned as Company Secretary on 8 November 2006, and on the same day A Pfitzner was appointed Company Secretary.

DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and that the auditor is aware of that information.

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.

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 2006.

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 manages 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.

Arthur J.Gallagher (UK) Limited

REPORT OF THE DIRECTORS

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the Company made charitable contributions totalling £20k (2005 £4k) There were no political donations made during the year (2005 £nil)

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

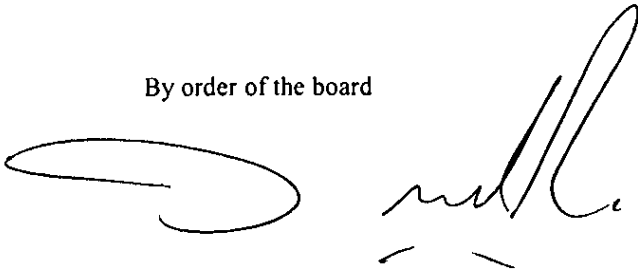
SUPPLIER PAYMENT POLICY

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

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

Date 27 September 2007

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

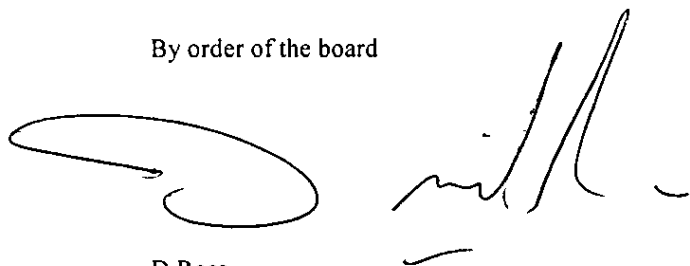
Company law requires the directors to prepare financial statements for each financial year. Under that law directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for the 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and the company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

A large, stylized handwritten signature in black ink, appearing to read 'D Ross', is written over the text 'By order of the board'.

D Ross
Director

Date 27 September 2007

**INDEPENDENT AUDITORS' REPORT
to the shareholders of Arthur J.Gallagher (UK) Limited**

We have audited the group and parent company's financial statements ("the financial statements") of Arthur J Gallagher (UK) Limited for the year ended 31 December 2006 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognized 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 the preparation of 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 whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. In addition we report to you if, in our opinion, 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 the Report of the Directors' 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 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 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 parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Report of the Directors is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

Date *27 September 2007*

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements
GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
TURNOVER	2	60,925	54,188
Other operating income	3	3,800	2,200
Other operating charges		(59,663)	(59,468)
OPERATING PROFIT / (LOSS)	4	5,062	(3,080)
Profit on disposal of fixed assets	5	10	-
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		5,072	(3,080)
Tax (charge) / credit on profit / (loss) on ordinary activities	8	(1,886)	559
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		3,186	(2,521)
Minority interests		54	141
RETAINED PROFIT / (LOSS) TRANSFERRED TO RESERVES		3,240	(2,380)

The result attributable to the members of the parent company is a profit of £4,006k (2005 loss of £12,908k)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006 £'000	2005 £'000
Profit/(loss) for the year to shareholders	3,240	(2,380)
Exchange differences on retranslation of net assets of subsidiary undertaking	288	(286)
	3,528	(2,666)

The notes on pages 10 to 24 are an integral part of these financial statements The auditors' report is on page 6

Arthur J.Gallagher (UK) Limited

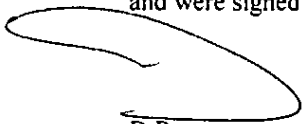
Annual Report and Financial Statements

GROUP BALANCE SHEET

as at 31 December 2006

	Notes	2006 £'000	2005 £'000
NON CURRENT ASSETS			
Intangible assets	9	6,812	8,722
Tangible assets	10	3,891	4,273
Investments	11	-	100
		<u>10,703</u>	<u>13,095</u>
CURRENT ASSETS			
Debtors	12	149,588	201,050
Cash at bank and in hand		67,049	72,544
		<u>216,637</u>	<u>273,594</u>
CREDITORS: amounts falling due within one year	13	<u>(201,048)</u>	<u>(263,107)</u>
NET CURRENT ASSETS		15,589	10,487
TOTAL ASSETS LESS CURRENT LIABILITIES		26,292	23,582
PROVISIONS FOR LIABILITIES AND CHARGES	14	(6,632)	(7,361)
MINORITY INTERESTS		113	24
NET ASSETS		<u>19,773</u>	<u>16,245</u>
CAPITAL RESERVES			
Called-up share capital	16	5,000	5,000
Share premium account	16	3,606	3,606
Profit and loss account	16	11,167	7,639
SHAREHOLDERS' FUNDS	16	<u>19,773</u>	<u>16,245</u>

The financial statements on pages 7 to 24 were approved by the board of directors on 27 September 2007 and were signed on its behalf by


D Ross
Director

The notes on pages 10 to 24 are an integral part of these financial statements. The auditor's report is on page 6

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

COMPANY BALANCE SHEET

as at 31 December 2006

	Notes	2006 £'000	2005 £'000
NON CURRENT ASSETS			
Intangible assets	9	4,498	6,271
Tangible assets	10	3,426	3,760
Investments	11	3,440	3,540
		<u>11,364</u>	<u>13,571</u>
CURRENT ASSETS			
Debtors	12	148,101	198,402
Cash at bank and in hand		58,790	67,127
		<u>206,891</u>	<u>265,529</u>
CREDITORS amounts falling due within one year	13	<u>(194,484)</u>	<u>(258,847)</u>
NET CURRENT ASSETS		<u>12,407</u>	<u>6,682</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>23,771</u>	<u>20,253</u>
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(6,632)</u>	<u>(7,361)</u>
NET ASSETS		<u><u>17,139</u></u>	<u><u>12,892</u></u>
CAPITAL RESERVES			
Called-up share capital	16	5,000	5,000
Share premium account	16	3,606	3,606
Profit and loss account	16	8,533	4,286
SHAREHOLDERS' FUNDS	16	<u><u>17,139</u></u>	<u><u>12,892</u></u>

The notes on pages 10 to 24 are an integral part of these financial statements The auditor's report is on page 6

Arthur J.Gallagher (UK) Limited

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 2006. 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.

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
Purchased goodwill	- over 20

Annual Report and Financial Statements
NOTES TO THE FINANCIAL STATEMENTS

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 improvements	- to lease expiration
Furniture and equipment	- over 10 years
Computer equipment and software	- over 3 years
Motor vehicles	- between 2 and 4 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.

1. ACCOUNTING POLICIES (continued)

Insurance broking debtors and creditors (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	
	2006	2005	2006	2005	2006	2005
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover						
UK & Europe	30,079	26,536	-	-	30,079	26,536
North America	19,191	17,289	-	-	19,191	17,289
Other countries	10,066	8,792	1,589	1,571	11,655	10,363
	59,336	52,617	1,589	1,571	60,925	54,188
Profit / (loss) before tax	5,180	(2,791)	(108)	(289)	5,072	(3,080)
Net assets / (liabilities)	19,931	16,304	(158)	(59)	19,773	16,245

3. OTHER OPERATING INCOME

	2006	2005
	£'000	£'000
Investment income	3,506	2,131
Other income	294	69
	3,800	2,200

4 OPERATING PROFIT / (LOSS)

This is stated after charging

	2006	2005
	£'000	£'000
Staff costs (note 7)	39,955	38,309
Auditors' remuneration - audit services*	242	242
Amortisation of intangible assets (note 9)	1,986	2,608
Depreciation of fixed assets (note 10)	1,649	1,047
Operating lease rentals	2,242	2,321
Provision for doubtful debts	586	1,455
Loss on foreign exchange	1,200	411

* £190k (2005 £200k) of this relates to the parent company

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

5. DISPOSAL OF FIXED ASSETS

The Company disposed of fixed assets resulting in a realised gain of £10k (2005 £nil) which has been disclosed in accordance with Financial Reporting Standard 3 'Reporting Financial Performance' as a separate line item in the group profit and loss account

6. DIRECTORS' EMOLUMENTS	2006 £'000	2005 £'000
Aggregate Emoluments	2,010	3,473
Company contributions paid to money purchase schemes	162	190
Compensation for loss of office	203	-
	<hr/>	<hr/>
Members of money purchase schemes	9	9
	<hr/>	<hr/>
The amounts in respect of the highest paid director are		
Aggregate Emoluments	650	1,425
Company Contributions paid to money purchase schemes	30	31
	<hr/>	<hr/>

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

	2006 £'000	2005 £'000
7. STAFF COSTS		
Wages and salaries	33,898	32,227
Social Security costs	3,924	3,763
Pension costs (note 18)	2,133	2,319
	<u>39,955</u>	<u>38,309</u>

The average number of employees during the year was

Broking and technical	297	305
Administration	93	71
	<u>390</u>	<u>376</u>

8. TAX CHARGE / (CREDIT) ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES	2006 £'000	2005 £'000
The charge / (credit) for taxation comprises		
<i>Current tax</i>		
UK Corporation tax	1,850	1,029
Prior year adjustments	(2)	(79)
Total current tax	<u>1,848</u>	<u>950</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences (note 15)	38	(1,509)
Tax charge / (credit) on profit / (loss) on ordinary activities	<u>1,886</u>	<u>(559)</u>

Effective Tax Rate

The tax rate for the year is higher than the standard rate of tax in the UK (30%) The differences are explained below

Profit / (loss) on ordinary activities before tax	5,072	(3,080)
Corporation tax at standard rate of 30% (2005 30%)	1,522	(924)
<i>Effect of</i>		
Depreciation in excess of capital allowances	144	51
Profit on disposal of fixed assets	(3)	-
Tax on result of minority interest	-	(42)
Non deductible goodwill amortisation	82	(12)
Expenses not deductible for tax purposes	334	302
Unrelieved losses and other timing differences	(229)	1,654
Prior year adjustments	(2)	(79)
Current tax charge for the year	<u>1,848</u>	<u>950</u>

Deferred tax has been recognised at 30% (2005 30%) being the UK corporation tax rate at the balance sheet date As of 1 April 2008 the UK corporation tax rate will become 28% The impact of the rate change on the deferred tax asset expected to reverse in greater than one year would be a reduction of £83k

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS	Expiration Lists	Goodwill	Total
	£'000	£'000	£'000
Group			
Cost:			
At 1 January 2006	12,257	9,492	21,749
Additions during the year	278	-	278
Disposals during the year	(482)	-	(482)
At 31 December 2006	<u>12,053</u>	<u>9,492</u>	<u>21,545</u>
Amortisation:			
At 1 January 2006	5,986	7,041	13,027
Charge for the year	1,849	137	1,986
Disposals during the year	(280)	-	(280)
At 31 December 2006	<u>7,555</u>	<u>7,178</u>	<u>14,733</u>
Net book value:			
At 31 December 2006	<u>4,498</u>	<u>2,314</u>	<u>6,812</u>
At 1 January 2006	<u>6,271</u>	<u>2,451</u>	<u>8,722</u>
Company			Expiration Lists £'000
Cost:			
At 1 January 2006			12,257
Additions during the year			278
Disposals during the year			(482)
At 31 December 2006			<u>12,053</u>
Amortisation:			
At 1 January 2006			5,986
Charge for the year			1,849
Disposals during the year			(280)
At 31 December 2006			<u>7,555</u>
Net book value:			
At 31 December 2006			<u>4,498</u>
At 1 January 2006			<u>6,271</u>

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS (continued)

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.

10. TANGIBLE ASSETS	Leasehold improvements £'000	Computer equipment £'000	Furniture & equipment £'000	Motor vehicles £'000	Total £'000
Group					
Cost or valuation:					
At 1 January 2006	2,849	4,318	1,350	464	8,981
Additions	148	813	104	249	1,314
Disposals	-	(1,064)	-	(148)	(1,212)
At 31 December 2006	2,997	4,067	1,454	565	9,083
Depreciation:					
At 1 January 2006	1,344	2,496	584	284	4,708
Charge for the year	579	760	154	156	1,649
Disposals	-	(1,028)	-	(137)	(1,165)
At 31 December 2006	1,923	2,228	738	303	5,192
Net Book Value:					
At 31st December 2006	1,074	1,839	716	262	3,891
At 1 January 2006	1,505	1,822	766	180	4,273

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

	Leasehold improvements £'000	Computer equipment £'000	Furniture & equipment £'000	Motor vehicles £'000	Total £'000
10. TANGIBLE ASSETS (Continued)					
Company					
Cost or valuation:					
At 1 January 2006	2,699	3,832	1,277	31	7,839
Additions	148	708	102	69	1,027
Disposals	-	(1,064)	-	(14)	(1,078)
At 31 December 2006	2,847	3,476	1,379	86	7,788
Depreciation:					
At 1 January 2006	1,245	2,284	535	15	4,079
Charge for the year	558	610	146	8	1,322
Disposals	-	(1,029)	-	(10)	(1,039)
At 31 December 2006	1,803	1,865	681	13	4,362
Net Book Value:					
At 31st December 2006	1,044	1,611	698	73	3,426
At 1 January 2006	1,454	1,548	742	16	3,760

11. INVESTMENTS	2006 £'000	2005 £'000
Group		
Other investments	-	100

Other investments relate to the company's 20% shareholding in Marine Aviation and General (London) Limited, which was accounted for at cost. The investment was disposed of at cost during 2006.

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENTS (continued)	Other Investments £'000	Subsidiary undertakings £'000	Total £'000
Company			
Cost:			
At 1 January 2006	100	11,695	11,795
Disposal	(100)	-	(100)
At 31 December 2006	-	11,695	11,695
Permanent diminution in value:			
At 1 January 2006 and 31 December 2006	-	(8,255)	(8,255)
Net Book Value:			
At 31 December 2006	-	3,440	3,440
At 1 January 2006	100	3,440	3,540

All investments in subsidiaries are stated at cost less any permanent diminution in value. The disposal shown above relates to the disposal of the company's investment in Marine Aviation & General (London) Limited.

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
Subsidiary undertakings				
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

* 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

12. DEBTORS	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Insurance debtors	145,339	196,167	141,967	192,729
Amounts owed by fellow group undertakings	171	285	1,040	907
Amounts owed by associated undertakings	-	9	-	9
Errors & omissions claims recoverable (note 21)	-	537	-	537
Other claims recoverable	-	372	-	372
Current corporation tax	-	629	1,268	1,029
Deferred corporation tax (note 15)	1,251	1,392	1,197	1,375
Other debtors	1,404	1,040	1,312	897
Other prepayments	1,423	619	1,317	547
	149,588	201,050	148,101	198,402

13. CREDITORS: amounts falling due within one year	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Insurance creditors	185,651	250,731	180,062	247,155
Amounts owed to fellow group undertakings	109	1,036	109	1,036
Amounts owed to parent company	5,925	3,486	5,925	3,486
Other taxes and social security costs	1,156	1,220	1,094	1,105
Other creditors	2,095	3,347	1,859	3,229
Accruals and deferred income	5,824	3,287	5,435	2,836
Corporation tax	288	-	-	-
	201,048	263,107	194,484	258,847

14. PROVISION FOR LIABILITIES AND CHARGES	Group	Error and omissions claims (note 21) £'000	Future servicing and claims handling costs £'000	Total £'000
At 1 January 2006		537	6,824	7,361
Movements in provision		(537)	(192)	(729)
At 31 December 2006		-	6,632	6,632

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

14. PROVISION FOR LIABILITIES AND CHARGES (continued)	Error and omissions claims (note 21) £'000	Future servicing and claims handling costs £'000	Total £'000
Company			
At 1 January 2006	537	6,824	7,361
Movements in provision	(537)	(192)	(729)
At 31 December 2006	-	6,632	6,632

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%.

15. DEFERRED TAXATION

Included in debtors shown in Note 12 are the following in respect of deferred taxation

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Opening deferred tax asset/(liability)	1,392	(220)	1,375	(237)
<i>Amounts charged to profit and loss account including</i>				
Accelerated capital allowances	(38)	(145)	(75)	(145)
Hedge assets	(103)	103	(103)	103
Unrelieved losses and other timing differences	-	1,654	-	1,654
Closing deferred tax asset	1,251	1,392	1,197	1,375

There is no unprovided deferred taxation

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	2006 Total £'000	2005 Total £'000
Group					
At 1 January 2006	5,000	3,606	7,639	16,245	18,911
Exchange differences	-	-	288	288	(286)
Transfer to reserves	-	-	3,240	3,240	(2,380)
At 31 December 2006	5,000	3,606	11,167	19,773	16,245
Company					
At 1 January 2006	5,000	3,606	4,286	12,892	26,041
Exchange differences	-	-	241	241	(241)
Transfer to reserves	-	-	4,006	4,006	(12,908)
At 31 December 2006	5,000	3,606	8,533	17,139	12,892

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 (2005 £ nil) At 31 December 2006 the allotted, called up and fully paid share capital of the company amounted to £5,000k (2005 £5,000k)

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 £2,133k (2005 £2,319k)

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

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.

	2006	2005
	£'000	£'000

20 OTHER FINANCIAL COMMITMENTS

At 31 December 2006 the group had annual commitments under non-cancellable operating leases comprising

Land and Buildings

- Expiring within 1 year	25	-
- Expiring between 2 to 5 years	-	25
- Expiring after more than 5 years	2,138	2,183

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.

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

21. ERRORS & OMISSIONS CLAIMS

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 "Provisions, contingent liabilities and contingent assets" the directors' current best estimate of the amount required to settle certain claims was included within provisions for liabilities and charges in the balance sheet. The gross amount of this estimate is £nil (2005 £537k). 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.