

ARTHUR J. GALLAGHER (UK) LIMITED

Annual Report and Financial Statements

31 December 2010

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COMPANIES HOUSE

Company Number 1193013

Arthur J. Gallagher (UK) Limited

DIRECTORS

J Patrick Gallagher	(USA)
T Gallagher	(USA)
D C Ross	
M S Mugge	
S Dalgarno	
C R Bowen	
M Pike	
M W 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

REGISTERED OFFICE

9 Abie Street
London
E1 8DE

COMPANY NUMBER

1193013

Arthur J. Gallagher (UK) Limited**REPORT OF THE DIRECTORS**

The directors present their report and the financial statements for the year ended 31 December 2010

PRINCIPAL ACTIVITIES

The Group's principal activities continue to be that of insurance 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 2010, Arthur J. Gallagher (UK) Limited recorded a consolidated profit before tax of £6.2m, compared to a profit of £8.4m for the year ended 31 December 2009. The operating profit decreased from a profit of £8.2m in 2009 to a profit of £6.4m in 2010.

Turnover increased by 27% to £68.4m compared to £53.7m in 2009.

The results of the principal trading subsidiaries of the Company, for the year ended 31 December 2010, were a profit before tax of £3.3m (2009: £3.3m) for Risk Management Partners (RMP) and a loss before tax of £717,000 (2009: loss of £72,000) for Alesco Risk Management Services (ARMS).

In 2011, the Directors expect benefits from areas of expansion and improved efficiencies, in addition to further top line revenue growth in the continuing operations, in accordance with the Group's strategic plan and forecast.

On 29 March 2010, Arthur J. Gallagher (UK) Limited entered into an Asset Purchase Agreement with FirstCity Insurance Group Limited for the sale and purchase of certain business and assets of the group. The results of this acquired business was revenue of £13.2m, and after integration and amortisation costs a loss before tax of £2.7m.

On 12 May 2011, a sister company, Arthur J. Gallagher Holdings Two (UK) Limited entered into a share purchase agreement relating to the sale and purchase of the entire issued share capital of HLG Holdings Limited. Where appropriate certain business lines of HLG Holdings Limited will be integrated into the similar businesses within Arthur J. Gallagher (UK) Limited.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in these financial statements on pages 7 to 23. The total recognised gain for the year of £3.6m (2009: £6.3m) was transferred to reserves. No interim dividend was paid during the year (2009: £nil). The directors have not recommended the payment of a final dividend (2009: £nil).

Arthur J. Gallagher (UK) Limited

REPORT OF THE DIRECTORS

DIRECTORS AND THEIR INTERESTS

The directors serving during the year ended 31 December 2010 are shown below

D E McGurn (resigned on 11 January 2011)
J Patrick Gallagher
D C Ross
M K Barton (resigned on 31 August 2011)
C R Bowen
M Pike

S Dalgarno
M W Cooper-Mitchell (Non-executive director)
P T O'Neill (Non-executive director)

T Gallagher and M S Mugge were appointed on 11 January 2011 and 31 August 2011 respectively

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.

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 2010.

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.

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 £29,000 (2009 £34,000) There were no political donations made during the year (2009 £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

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 is obliged to take as a director in order to make himself aware of any relevant audit information and that the auditor is aware of that information

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



M S Mugge

Director

Date 28 September 2011

Arthur J. Gallagher (UK) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 2006. 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



M S Mugge

Director

Date 28 September 2011

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

We have audited the group and parent company financial statements of Arthur J. Gallagher (UK) Limited for the year ended 31 December 2010 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognized Gains and Losses, the Group and Company Balance Sheets and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the group's and parent company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practices, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Kevin Senior (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
London

Date 29 September 2011

Arthur J. Gallagher (UK) Limited

Annual Report and Financial Statements
GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
TURNOVER	2	68,410	53,684
Other operating income	3	241	1,574
Other operating charges		(62,238)	(47,019)
OPERATING PROFIT	4	6,413	8,239
Exceptional items	5	24	111
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		6,437	8,350
Interest charges		(260)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6,177	8,350
Tax charge on profit on ordinary activities	8	(2,105)	(2,785)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		4,072	5,565
Minority interest		181	18
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS		4,253	5,583

The result attributable to the members of the parent company is a gain of £4.3m (2009 gain of £5.6m)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2010 £'000	2009 £'000
Profit for the financial year attributable to shareholders	4,253	5,583
Exchange differences on retranslation of net assets of subsidiary undertaking	1	(2)
Unrealised (loss) / gain on hedge options	(697)	756
	3,557	6,337

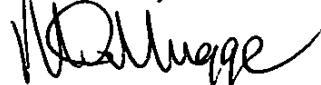
The notes on pages 10 to 23 are an integral part of these financial statements. The auditors' report is on page 6.

Arthur J. Gallagher (UK) Limited

Annual Report and Financial Statements
GROUP BALANCE SHEET
as at 31 December 2010

	Notes	2010 £'000	2009 £'000
NON CURRENT ASSETS			
Intangible assets	9	16,010	4,223
Tangible assets	10	3,255	3,284
		<u>19,265</u>	<u>7,507</u>
CURRENT ASSETS			
Debtors	12	137,831	106,842
Cash at bank and in hand		61,006	52,912
		<u>198,837</u>	<u>159,754</u>
CREDITORS: amounts falling due within one year	13	<u>(175,201)</u>	<u>(128,143)</u>
NET CURRENT ASSETS		23,636	31,611
TOTAL ASSETS LESS CURRENT LIABILITIES		42,901	39,118
PROVISIONS FOR LIABILITIES AND CHARGES	14	(10,683)	(10,275)
MINORITY INTEREST		341	159
NET ASSETS		<u>32,559</u>	<u>29,002</u>
CAPITAL AND RESERVES			
Called-up share capital	17	5,000	5,000
Share premium account	16	3,606	3,606
Profit and loss account	16	23,953	20,396
SHAREHOLDERS' FUNDS	16	<u>32,559</u>	<u>29,002</u>

The financial statements on pages 7 to 23 were approved by the board of directors on 28 September 2011 and were signed on its behalf by



M S Mugge
Director

The notes on pages 10 to 23 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 2010

	Notes	2010 £'000	2009 £'000
NON CURRENT ASSETS			
Intangible assets	9	14,294	2,375
Tangible assets	10	3,031	2,912
Investments	11	2,681	2,681
		<u>20,006</u>	<u>7,968</u>
CURRENT ASSETS			
Debtors	12	135,768	104,463
Cash at bank and in hand		56,812	49,501
		<u>192,580</u>	<u>153,964</u>
CREDITORS amounts falling due within one year	13	<u>(171,808)</u>	<u>(125,440)</u>
NET CURRENT ASSETS		20,772	28,524
TOTAL ASSETS LESS CURRENT LIABILITIES		40,778	36,492
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(10,683)</u>	<u>(10,275)</u>
NET ASSETS		<u>30,095</u>	<u>26,217</u>
CAPITAL AND RESERVES			
Called-up share capital	17	5,000	5,000
Share premium account	16	3,606	3,606
Profit and loss account	16	21,489	17,611
SHAREHOLDERS' FUNDS	16	<u>30,095</u>	<u>26,217</u>

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

Arthur J. Gallagher (UK) Limited

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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 2006 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 2010. No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

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 years
Purchased goodwill	- over 20 years

Arthur J. Gallagher (UK) Limited

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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.

Arthur J. Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

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.

2 TURNOVER

All operating activities of the group are attributable to insurance broking. The group had operations in the United Kingdom and Hong Kong.

	2010 £'000	2009 £'000
Turnover		
UK & Europe	32,783	27,239
North America	19,582	13,115
Other countries	16,045	13,330
	<u>68,410</u>	<u>53,684</u>
 Profit on ordinary activities before taxation	 6,177	 8,350
 Net assets	 <u>32,559</u>	 <u>29,002</u>

Arthur J. Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

	2010 £'000	2009 £'000
2 TURNOVER (continued)		
Turnover		
Continuing operations	68,410	53,684
	<u>68,410</u>	<u>53,684</u>
 Profit on ordinary activities before taxation		
Continuing operations	6,177	8,350
	<u>6,177</u>	<u>8,350</u>
 3 OTHER OPERATING INCOME		
Investment income	188	316
Other income	53	40
Credit write backs	-	1,218
	<u>241</u>	<u>1,574</u>

During 2009 the company, in conjunction with an independent accountancy firm, reviewed certain balances within its insurance ledger and identified credit balances related to unclaimed client money. The company, having notified the FSA, took credits totalling £1,218,000 to the profit and loss account. No credit write backs were taken in 2010.

Arthur J. Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

	2010 £'000	2009 £'000
4 OPERATING PROFIT		
This is stated after charging		
Staff costs (note 7)	45,917	35,497
Auditors' remuneration *	185	175
Amortisation of intangible assets (note 9)	2,998	1,242
Loss on disposal of intangible assets	-	93
Depreciation of fixed assets (note 10)	1,563	1,729
Operating lease rentals	1,921	1,226
Provision for doubtful debts release	(251)	(822)
Lease abandonment provision release (note 14)	(1,327)	-
Gain on foreign exchange	(748)	(23)

	2010 £'000	2009 £'000
Auditor's remuneration		
Group audit	175	165
AJGUK - services under other regulations	10	10
	<u>185</u>	<u>175</u>

	2010 £'000	2009 £'000
5 EXCEPTIONAL ITEMS		
Profit on disposal of fixed assets	24	8
Proceeds from disposal of book of business	-	103
	<u>24</u>	<u>111</u>

The Company disposed of fixed assets resulting in a realised gain of £24,000 (2009 gain of £8,000) which has been disclosed in accordance with Financial Reporting Standard 3 'Reporting Financial Performance' as an exceptional item in the profit and loss account

	2010 £'000	2009 £'000
6 DIRECTORS' EMOLUMENTS		
Aggregate Emoluments	2,315	2,343
Company contributions paid to money purchase schemes	63	58
	<u>3</u>	<u>4</u>
Members of money purchase schemes		
The amounts in respect of the highest paid director are		
Aggregate Emoluments	962	881
Company Contributions paid to money purchase schemes	39	32

Arthur J. Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

	2010 £'000	2009 £'000
7 STAFF COSTS		
Wages and salaries	38,690	30,257
Social Security costs	5,111	3,576
Pension costs (note 18)	2,116	1,664
	45,917	35,497
The average number of employees during the year was		
Broking and technical	278	240
Administration	108	80
	386	320
8 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES	2010 £'000	2009 £'000
The charge for taxation comprises		
<i>Current tax</i>		
UK Corporation tax	2,157	2,333
Prior year adjustments	(2,487)	192
Total current tax	(330)	2,525
<i>Deferred tax</i>		
Origination and reversal of timing differences (note 15)	(5)	450
Effect of change in tax rate	37	-
Prior year adjustments	2,403	(190)
Tax charge on profit on ordinary activities	2,105	2,785
Effective Tax Rate		
The effective tax rate for the year is lower than the standard rate of tax in the UK (28%) The differences are explained below		
Profit on ordinary activities before tax	6,177	8,350
Corporation tax at standard rate of 28% (2009 28%)	1,730	2,338
<i>Effect of</i>		
Depreciation in excess of capital allowances	99	169
Origination of timing differences	(40)	-
Profit on disposal of fixed assets	(7)	(2)
Non deductible goodwill amortisation	141	37
Non deductible interest expenses	11	11
Expenses not deductible for tax purposes	223	(129)
Group relief surrendered	-	(91)
Prior year adjustments	(2,487)	192
Current tax charge for the year	(330)	2,525

Arthur J. Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

9 INTANGIBLE ASSETS	Expiration Lists	Goodwill	Total
	£'000	£'000	£'000
Group			
Cost			
At 1 January 2010	6,566	2,640	9,206
Additions during the year	14,785	-	14,785
At 31 December 2010	<u>21,351</u>	<u>2,640</u>	<u>23,991</u>
Amortisation			
At 1 January 2010	4,191	792	4,983
Charge for the year	2,866	132	2,998
At 31 December 2010	<u>7,057</u>	<u>924</u>	<u>7,981</u>
Net book value			
At 31 December 2010	<u>14,294</u>	<u>1,716</u>	<u>16,010</u>
At 1 January 2010	<u>2,375</u>	<u>1,848</u>	<u>4,223</u>
Company			
Cost			
At 1 January 2010			6,566
Additions during the year			14,785
At 31 December 2010			<u>21,351</u>
Amortisation.			
At 1 January 2010			4,191
Charge for the year			2,866
At 31 December 2010			<u>7,057</u>
Net book value			
At 31 December 2010			<u>14,294</u>
At 1 January 2010			<u>2,375</u>

Arthur J. Gallagher (UK) Limited

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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 a maximum of 5 years based on the joining date.

Goodwill represents the difference between the purchase cost and the net assets acquired in the subsidiaries Arthur J Gallagher Asia Pte Limited and Risk Management Partners Limited. Goodwill is being written off over 20 years from date of purchase or initial investment.

10 TANGIBLE ASSETS	Leasehold improvements £'000	Computer equipment £'000	Furniture & equipment £'000	Motor vehicles £'000	Total £'000
Group					
Cost or valuation					
At 1 January 2010	1,832	5,510	935	582	8,859
Additions	48	867	77	224	1,216
Additions on acquisition of business	-	1,767	17	-	1,784
Disposals	-	(52)	(3)	(204)	(259)
At 31 December 2010	1,880	8,092	1,026	602	11,600
Depreciation					
At 1 January 2010	980	3,567	604	424	5,575
Charge for the year	247	1,043	96	177	1,563
Additions on acquisition of business	-	1,414	12	-	1,426
Disposals	-	(29)	(14)	(176)	(219)
At 31 December 2010	1,227	5,995	698	425	8,345
Net Book Value:					
At 31 December 2010	653	2,097	328	177	3,255
At 1 January 2010	852	1,943	331	158	3,284

Arthur J. Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

10 TANGIBLE ASSETS (Continued)	Leasehold improvements £'000	Computer equipment £'000	Furniture & equipment £'000	Motor vehicles £'000	Total £'000
Company					
Cost or valuation:					
At 1 January 2010	1,832	4,821	920	151	7,724
Additions	48	865	77	-	990
Additions on acquisition of business	-	1,767	17	-	1,784
Disposals	-	(50)	(2)	(22)	(74)
At 31 December 2010	1,880	7,403	1,012	129	10,424
Depreciation					
At 1 January 2010	980	3,171	590	71	4,812
Charge for the year	247	840	97	25	1,209
Additions on acquisition of business	-	1,414	12	-	1,426
Disposals	-	(28)	(14)	(12)	(54)
At 31 December 2010	1,227	5,397	685	84	7,393
Net Book Value:					
At 31 December 2010	653	2,006	327	45	3,031
At 1 January 2010	852	1,650	330	80	2,912

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		Subsidiary undertakings 2010 £'000
11 INVESTMENTS		
Company		
Cost		
At 1 January 2010		2,681
Additions		-
At 31 December 2010		<u>2,681</u>
Permanent diminution in value		
At 1 January 2010		-
Charge for the year		-
At 31 December 2010		<u>-</u>
Net Book Value:		
At 31 December 2010		<u>2,681</u>
At 1 January 2010		<u>2,681</u>

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 Limited	Hong Kong	Ordinary	100%	Non-Trading
Risk Management Partners Limited	England & Wales	Ordinary	100%	Risk Management
Alesco Risk Management Services Limited	England & Wales	Ordinary	65%	Insurance Broking

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	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
12 DEBTORS				
Insurance debtors	126,489	98,781	124,549	96,738
Corporation tax	674	-	1,111	-
Deferred corporation tax (note 15)	944	3,134	436	2,843
Other debtors	2,521	3,278	2,491	3,278
Other prepayments	7,203	1,649	7,181	1,604
	137,831	106,842	135,768	104,463
	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
13 CREDITORS amounts falling due within one year				
Insurance creditors	153,196	115,680	153,196	115,680
Amounts owed to fellow group undertakings	11,084	407	9,906	453
Other taxes and social security costs	1,293	1,042	1,218	973
Other creditors	2,447	2,184	848	603
Accruals and deferred income	7,181	6,062	6,640	5,567
Corporation tax	-	2,768	-	2,164
	175,201	128,143	171,808	125,440
	Purchase price obligation £'000	Vacant Property provision £'000	Future servicing and claims handling costs £'000	Total £'000
14 PROVISIONS FOR LIABILITIES AND CHARGES				
Group				
At 1 January 2010	-	3,711	6,564	10,275
Amounts incurred during period	2,000	(874)	609	1,735
Release of provision	-	(1,327)	-	(1,327)
At 31 December 2010	2,000	1,510	7,173	10,683
Company				
At 1 January 2010	-	3,711	6,564	10,275
Amounts incurred during period	2,000	(874)	609	1,735
Release of provision	-	(1,327)	-	(1,327)
At 31 December 2010	2,000	1,510	7,173	10,683

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14 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

In 2010 the company entered into certain contracts for the acquisition of teams and individuals. These contracts included certain future payments in relation to the performance of that business acquired. The provision is in relation to the estimated future amounts to be paid in respect of these contracts.

During 2007 the company moved some of its employees from an office in Grays, Essex to London. This office space is no longer used by the company. During 2008 the company reviewed its London property portfolio and established that certain office space was surplus to requirement. A provision was made in respect of the costs to the end of the lease for space it does not utilise. In 2010 the company decided that it would utilise the vacant space in its London office and therefore released the provision for these future costs.

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	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Opening deferred tax asset	3,134	3,670	2,843	3,611
<i>Amounts charged to profit and loss account including</i>				
Accelerated capital allowances	99	169	65	119
Other adjustments	(93)	(607)	(294)	(626)
Unrealised gain on hedge options	242	(288)	242	(288)
Effect of change in tax rate	(35)	-	(16)	-
Prior year adjustments	(2,403)	190	(2,404)	27
Closing deferred tax asset	944	3,134	436	2,843

There is no unprovided deferred taxation.

Deferred tax has been recognised at 27% (2009: 28%). Legislation was introduced in Finance Bill 2010 to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. It is also intended to reduce the rate further by 1% per annum falling to 24% with effect from 1 April 2014.

The directors estimate that the maximum effect of these changes will be to reduce the Group's deferred tax asset by approximately £130,000 and the company's deferred tax asset by approximately £73,000 over the 3 years.

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16 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	2010 Total £'000	2009 Total £'000
Group					
At 1 January	5,000	3,606	20,396	29,002	22,665
Exchange differences	-	-	1	1	(2)
Unrealised gain on hedge options	-	-	(697)	(697)	756
Transfer to reserves	-	-	4,253	4,253	5,583
At 31 December	5,000	3,606	23,953	32,559	29,002
Company					
At 1 January	5,000	3,606	17,611	26,217	19,449
Unrealised gain on hedge options	-	-	(697)	(697)	756
Transfer to reserves	-	-	4,575	4,575	6,012
At 31 December	5,000	3,606	21,489	30,095	26,217

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 (2009 £ nil) At 31 December 2010 the allotted, called up and fully paid share capital of the company amounted to £5m (2009 £5m)

17 SHARE CAPITAL	2010 Number	2009 Number	2010 £'000	2009 £'000
Authorised				
Ordinary shares of £1 each	5,000,000	5,000,000	5,000	5,000
Allotted, issued and fully paid				
Ordinary shares of £1 each	5,000,000	5,000,000	5,000	5,000

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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 £2,116,000 (2009: £1,664,000).

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 2006.

	2010	2009
20 OTHER FINANCIAL COMMITMENTS	£'000	£'000

At 31 December 2010 the group had annual commitments under non-cancellable operating leases comprising

Land and Buildings

- Expiring within 1 year	7	9
- Expiring between 1 and 4 years	2,138	990
- Expiring after more than 5 years	-	1,148

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 ULTIMATE PARENT UNDERTAKING

The immediate parent company is Gallagher Holding (UK) Limited, a company registered in England and Wales.

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.