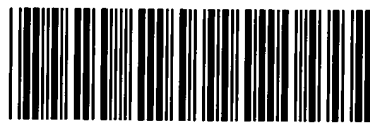


**STRATEGIC REPORT, DIRECTORS' REPORT AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**  
**FOR**  
**ARTHUR J. GALLAGHER (UK) LIMITED**

WEDNESDAY



LD4 \*L5GHX4EB\* #25  
COMPANIES HOUSE

**ARTHUR J. GALLAGHER (UK) LIMITED**

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FOR THE YEAR ENDED 31 DECEMBER 2015**

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**ARTHUR J. GALLAGHER (UK) LIMITED**

**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**DIRECTORS:**

J Drummond-Smith (Non-Executive)  
I G Story  
C Richmond  
M P Rea  
A Agnew  
S Matson  
L Patten (Non-Executive)

**SECRETARY:**

W McGowan

**REGISTERED OFFICE:**

The Walbrook Building  
25 Walbrook  
London  
EC4N 8AW

**REGISTERED NUMBER:**

01193013 (England and Wales)

**INDEPENDENT AUDITOR:**

Ernst & Young LLP  
Statutory Auditor  
25 Churchill Place  
Canary Wharf  
London  
E14 5EY

## **ARTHUR J. GALLAGHER (UK) LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

The Directors present their Strategic Report for the year ended 31 December 2015.

#### **REVIEW OF BUSINESS**

The principal activity of the Company in the period under review was that of insurance broking. It is expected that there will be no significant change to the nature of the Company's activities in the foreseeable future.

The Company is a wholly owned subsidiary of Arthur J. Gallagher & Co., a company incorporated in the United States of America and is included in the publicly available consolidated financial statements of Arthur J. Gallagher & Co. ("the Group"). The Group's strategic focus continues to be on the organic growth of existing core business and the acquisition of businesses to enhance future turnover and profitability.

The results of the Company for the year ended 31 December 2015 are set out in the financial statements on pages 7 to 23. During the year the Company hived the MRP & LMO aspects of its business to Arthur J. Gallagher Insurance Brokers Limited, a fellow group subsidiary.

2015 brought very difficult market conditions with the combination of softening price and significant falls in commodity prices. Despite this the Company saw the revenue in its continuing business grow to £100.8m, an increase of £5.8m (5.8%) over the previous year. The principle driver of this is the Company's ability to attract key producing talent to the organisation and its focus on extra-ordinary client service.

EBITDA on continuing operations before Integration costs at £15.9m was £8.3m lower than the prior year. We will continue to focus on cost efficiencies, particularly in our core technical processes and utilisation of technology to drive down costs and improve service.

Looking ahead, we continue on our strategy to become a clear market-leader in all our areas of chosen speciality. We will drive organic growth through high client retention, innovating new products and investing in talent. We will drive operational excellence through implementing best practice into our core processes, continue to drive e-enablement and utilise MI to drive insights that support our business. Culturally we will continue to focus on good customer outcomes by putting the customer first and create an environment that nurtures the individuals and provides structured development for all our colleagues.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's international operations and debt profile expose it to a variety of financial risks including the effects of change in foreign currency exchange rates, counterparty credit risks, price risk, compliance risks, liquidity and interest rates. The Group's Board of Directors are responsible for setting the Group's risk appetite and ensuring that it has an appropriate and effective risk management framework and monitors the ongoing process for identifying, evaluating, managing, and reporting significant risks faced. To facilitate this, the Group maintains a risk framework, through which the key risks affecting the Group are identified, assessed and monitored.

The Company has in place a risk management programme and policies in the context of the wider Group risk framework. This risk management programme seeks to manage any adverse impact upon the Company caused by the nature of its principal activity. The approach to the significant risks is noted below:

##### **Borrowing facilities and liquidity risk**

Operations for the Group are financed by a mixture of shareholders' funds, external borrowing facilities, inter-group borrowings and cash reserves. The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Company. Forward looking cash flow projections are prepared on a regular basis to assess funding requirements.

##### **Foreign currency risk**

The Company's major currency transaction exposure arises in respect of transactions with fellow Group undertakings and foreign currency revenue earned in the UK. As a consequence, the Company's results are sensitive to changes in foreign currency exchange rates.

In the management of its exchange rate exposures the Company utilises currency derivatives on a non-speculative basis to hedge future transactions and cash flows and is therefore party to a number of forward foreign currency contracts.

**ARTHUR J. GALLAGHER (UK) LIMITED**

**STRATEGIC REPORT - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**Interest rate risk**

Interest rates on the Company's formal intra-group loans are fixed in nature and set in accordance with the wider Group treasury and transfer pricing policies.

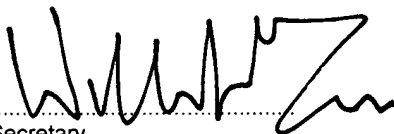
**Counterparty credit risk**

The Company is exposed to credit related losses in the event of non-performance by counterparties to financial assets but mitigates such risk through its policy of selecting only counterparties with high credit ratings or ranging beneficial credit terms in accordance with the Group's investment and counterparty policy.

**Compliance risk**

The Group is exposed to regulatory risk from the potential failure to comply with the relevant laws and regulations for insurance intermediaries. To mitigate this the Group has a risk and compliance function and has designed a control framework to reduce the risk of non-compliance. This includes regular assessment and monitoring of the compliance and regulatory requirements, with regular reporting to the Risk Committee and Board of Directors, and the Group has a proactive, open relationship with the regulator.

**BY ORDER OF THE BOARD:**



W McGowan - Secretary

Date: 26 September 2016

## **ARTHUR J. GALLAGHER (UK) LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

The Directors present their report with the audited financial statements of the Company for the year ended 31 December 2015. The results for the Company for the year ended 31 December 2015 and future developments are discussed in the Strategic Report.

#### **DIRECTORS OF THE COMPANY**

J Drummond-Smith (Non-Executive), held office during the period from 1 January 2015 to the date of this report.

Other changes in Directors holding office are as follows:

M Mugge - resigned 26 January 2015  
D Ross - resigned 9 February 2015  
S Dalgarno - resigned 17 March 2015  
I G Story - appointed 29 April 2015  
G D Chilton - appointed 1 May 2015 and resigned 12 April 2016  
N D Eckert (Non-Executive) - resigned 8 September 2015  
T Gallagher - resigned 12 November 2015  
M Pike - resigned 12 November 2015  
M P Rea - appointed 12 November 2015  
C Richmond - appointed 12 November 2015  
A Agnew - appointed 9 February 2016  
S Matson - appointed 9 February 2016  
L Patten - appointed 12 April 2016

#### **DIVIDENDS**

No final dividend will be distributed for the year ended 31 December 2015 (2014: £nil). No interim dividend was distributed for the year ended 31 December 2015 (2014: £19,000k).

#### **EMPLOYEES**

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

#### **DIRECTORS' INDEMNITY PROVISIONS**

The Directors have benefited from qualifying third party indemnity provisions during the financial year and to the date of this report.

#### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

**ARTHUR J. GALLAGHER (UK) LIMITED**

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**DIRECTORS' RESPONSIBILITIES STATEMENT - continued**

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

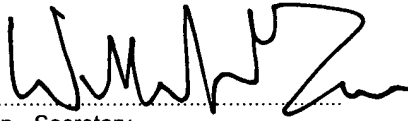
**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**AUDITOR**

The auditor, Ernst & Young LLP, will be proposed for re-appointment in accordance with section 487(2) of the Companies Act 2006.

**BY ORDER OF THE BOARD:**



W McGowan - Secretary

Date: 26 September 2016

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTHUR J. GALLAGHER (UK) LIMITED**

We have audited the financial statements of Arthur J. Gallagher (UK) Limited for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 25. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 auditor's 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 auditor**

As explained more fully in the Directors' Responsibilities Statement set out on pages 4 and 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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 Strategic Report and 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 account 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.

*Ernst & Young LLP*

John Headley (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP  
Statutory Auditor  
London

Date: *27 September 2016*

**ARTHUR J. GALLAGHER (UK) LIMITED****STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 Continuing £'000	2015 Discontinued £'000	2015 Total £'000
<b>TURNOVER</b>	2	100,818	11,123	111,941
Administrative expenses		<u>(101,487)</u>	<u>(9,936)</u>	<u>(111,423)</u>
<b>OPERATING (LOSS) / PROFIT</b>	5	(669)	1,187	518
Interest receivable and similar income	6	1,684	-	1,684
Interest payable and similar charges	7	<u>(1,096)</u>	<u>-</u>	<u>(1,096)</u>
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(81)	1,187	1,106
Tax on (loss)/profit on ordinary activities	8	<u>150</u>	<u>(2,230)</u>	<u>(2,080)</u>
<b>PROFIT / (LOSS) FOR THE FINANCIAL YEAR</b>		69	(1,043)	(974)
<b>OTHER COMPREHENSIVE INCOME</b>		-	-	-
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>		<u>69</u>	<u>(1,043)</u>	<u>(974)</u>

**DISCONTINUED OPERATIONS**

The Company hived the MRP & LMO aspects of its business to Arthur J. Gallagher Insurance Brokers Limited, a fellow Group subsidiary, during the year ended 31 December 2015. The prior year Statement of Comprehensive Income has been restated for comparative purposes on page 8.

The notes form part of these financial statements

**ARTHUR J. GALLAGHER (UK) LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

		<b>2014</b>	<b>2014</b>	<b>(Restated)</b>
	<b>Notes</b>	<b>Continuing</b>	<b>Discontinued</b>	<b>2014</b>
		<b>£'000</b>	<b>£'000</b>	<b>Total</b>
				<b>£'000</b>
<b>TURNOVER</b>	2	94,967	10,766	105,733
Administrative expenses		(86,219)	(9,458)	(95,677)
<b>OPERATING PROFIT</b>	5	8,748	1,308	10,056
Interest receivable and similar income	6	1,928	-	1,928
Interest payable and similar charges	7	(805)	-	(805)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		9,871	1,308	11,179
Tax on profit on ordinary activities	8	(1,489)	(197)	(1,686)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		8,382	1,111	9,493
<b>OTHER COMPREHENSIVE INCOME</b>		-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>8,382</u>	<u>1,111</u>	<u>9,493</u>

**DISCONTINUED OPERATIONS**

The Company hived the MRP & LMO aspects of its business to Arthur J. Gallagher Insurance Brokers Limited, a fellow Group subsidiary, during the year ended 31 December 2015.

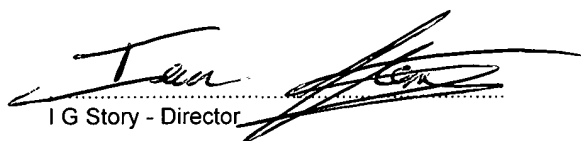
The notes form part of these financial statements

ARTHUR J. GALLAGHER (UK) LIMITED (REGISTERED NUMBER: 01193013)

STATEMENT OF FINANCIAL POSITION  
31 DECEMBER 2015

			2015		(Restated) 2014
	Notes	£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Intangible assets	10		4,873		5,175
Tangible assets	11		20,950		18,803
Investments	12		<u>15,542</u>		<u>15,542</u>
			41,365		39,520
<b>CURRENT ASSETS</b>					
Debtors	13	431,401		330,541	
Cash at bank	14	<u>162,587</u>		<u>154,155</u>	
		593,988		484,696	
<b>CREDITORS</b>					
Amounts falling due within one year	15	<u>552,252</u>		<u>458,521</u>	
<b>NET CURRENT ASSETS</b>			<u>41,736</u>		<u>26,175</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			83,101		65,695
<b>CREDITORS</b>					
Amounts falling due after more than one year	16		17,912		-
<b>PROVISIONS FOR LIABILITIES</b>	18		<u>4,938</u>		<u>4,470</u>
<b>NET ASSETS</b>			<u>60,251</u>		<u>61,225</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	19		28,850		28,850
Share premium	20		3,606		3,606
Retained earnings	20		<u>27,795</u>		<u>28,769</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>60,251</u>		<u>61,225</u>

The financial statements were approved and authorised for issue by the Board of Directors on 26/9/16 and were signed on its behalf by:

  
I G Story - Director

The notes form part of these financial statements

**ARTHUR J. GALLAGHER (UK) LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	<b>Called up share capital £'000</b>	<b>Share premium £'000</b>	<b>(Restated) Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 January 2014</b>	14,850	3,606	38,276	56,732
<b>Changes in equity</b>				
Shares issued	14,000	-	-	14,000
Interim dividends	-	-	(19,000)	(19,000)
Total comprehensive income	-	-	9,493	9,493
<b>Balance at 31 December 2014</b>	<u>28,850</u>	<u>3,606</u>	<u>28,769</u>	<u>61,225</u>
<b>Changes in equity</b>				
Total comprehensive loss	-	-	(974)	(974)
<b>Balance at 31 December 2015</b>	<u>28,850</u>	<u>3,606</u>	<u>27,795</u>	<u>60,251</u>

The notes form part of these financial statements

## ARTHUR J. GALLAGHER (UK) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 1. ACCOUNTING POLICIES

##### **Accounting convention**

These financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", and with the Companies Act 2006. The financial statements have been prepared on a going concern basis, under the historical cost convention.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. This is the first year in which the financial statements have been prepared under FRS 102. Refer to note 25 for an explanation of the transition.

##### **Basis of preparation**

The Company has taken advantage of Section 401 of the Companies Act 2006 in not preparing consolidated financial statements on the basis that the results of the Company are included within the consolidated financial statements of Arthur J. Gallagher & Co., a company incorporated in the United States of America and for which results are publicly available from the Company's registered office.

The Company has also taken advantage of the exemptions, under FRS 102 paragraph 1.12(b), (c), & (e) respectively, from preparing a Statement of Cash Flows, extended disclosure relating to derivatives and disclosure of key management compensation, on the basis that it is a qualifying entity and its ultimate parent company, Arthur J. Gallagher & Co., includes such disclosures in its own consolidated financial statements.

##### **Significant judgements and estimates**

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include:

##### **i. Useful economic lives of tangible fixed assets**

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

##### **ii. Impairment of debtors**

The Group makes an estimate of the recoverable value of trade debtors. When assessing impairment of trade debtors, management have considered an appropriate formula for calculating the bad debt provision based on the ageing of the trade debtors.

##### **iii. Goodwill and intangible fixed assets**

The Group establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

##### **iv. Impairment of investments**

Where there are indicators of impairment of individual assets, the Group performs impairment tests based on a value in use calculation. The value in use calculation is based on a net asset or revenue multiple basis. Both methods are derived from the financial statements and do not include restructuring activities that the Group is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The multiple rate used is in line with recent acquisitions.

##### **v. Provisions**

Where a provision is required the Group will perform calculations based on a policy regarding each individual category of provision. Each of these policies will be based on a degree of estimate and judgements. These policies are included within note 18.

## **ARTHUR J. GALLAGHER (UK) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **1. ACCOUNTING POLICIES - continued**

##### **vi. Supplemental commission**

The Group performs an estimation in ascertaining the year end accrued supplemental commission income not yet billed. Supplemental commission is recognised when an agreement is in place with a panel of insurance carriers. Management have considered appropriate formulae for calculating the year end accrual based on analysis of transactions subject to the insurance service agreements, which are amended when necessary to reflect previous experience with the estimate.

##### **Turnover**

Turnover represents brokerage and fees associated with placing insurance and reinsurance contracts. It is recognised net of commission payable and allowable discounts.

##### **Interest receivable/payable**

Interest receivable/payable is recognised in the Statement of Comprehensive Income on an accruals basis based on the terms of the underlying contracts or agreements.

##### **Operating leases**

Rentals under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Benefits received and receivable as an incentive to sign an operating lease are also recognised on a straight line basis over the period of the lease.

##### **Taxation**

Provision is made at current enacted rates for taxation. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position 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 or to receive more, tax in future periods.

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 difference can be deducted.

Deferred tax assets and liabilities are not discounted.

##### **Discontinued operations**

The Group recognises as discontinued operations components which have been disposed of which represented a separate major line of business or geographical area of operation, which were part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation, or a subsidiary which was acquired exclusively for resale.

##### **Goodwill and intangible fixed assets**

Intangible fixed assets arising on the acquisition of teams, other business and software have been capitalised, classified as assets in the Statement of Financial Position and amortised over their useful economic lives. They are reviewed for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable.

Assets under construction are software development costs which meet the recognition criteria defined in FRS 102 section 18. These assets are included at cost. Once the assets become usable they are amortised over their useful economic lives. They are reviewed for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable.

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

Goodwill	- over 10 years
Expiration lists	- over 5 years
Computer software	- over 3 years

## ARTHUR J. GALLAGHER (UK) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

#### 1. ACCOUNTING POLICIES – continued

##### **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated using the straight-line method based on the assets' useful lives.

The useful lives of the following tangible fixed assets are:

Leasehold improvements	- to lease expiration
Furniture and equipment	- up to 10 years
Motor vehicles	- up to 4 years
Computer equipment	- over 3 years

##### **Fixed asset investments**

Fixed asset investments in the financial statements are stated at cost less provision for any impairment in value.

##### **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, respectively.

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.

*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 Statement of Financial Position 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 insolvency it is generally abandoned. 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.

##### **Short term debtors and creditors**

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

##### **Loans to/from group undertakings**

Loans to/from other group undertakings are initially recognised at transaction price, less any transactional costs unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future payments discounted at a market rate of interest. In subsequent years the loans are carried at amortised cost, using the effective interest rate method.

Where loans are repayable on demand they are classified as short term debtors/creditors and recognised at the full amount payable. The loans are derecognised when the liability is extinguished, that is when the contractual obligation is discharged or cancelled.

##### **Financial derivatives**

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. Derivative financial instruments are initially measured at fair value on the date at which a derivative contract is entered into and are subsequently measured at fair value through the Statement of Comprehensive Income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

# ARTHUR J. GALLAGHER (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. ACCOUNTING POLICIES - continued

#### Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation.

#### Pensions

Until the 6<sup>th</sup> April 2014, the Company participated in a defined contribution pension scheme covering the pension arrangements of all eligible employees. The assets of the scheme are invested with an insurance company. The pension cost charged in the Statement of Comprehensive Income represents the contributions payable and is disclosed in note 3.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the date of the Statement of Financial Position. All exchange rate differences are taken to the Statement of Comprehensive Income.

### 2. TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the Company.

An analysis of turnover by class of business is given below:

	2015	(Restated) 2014
	£'000	£'000
Net Brokerage	95,676	87,675
Fees	7,247	10,298
Commission	9,018	7,760
	<u>111,941</u>	<u>105,733</u>

	2015	(Restated) 2014
	£'000	£'000
UK & Europe	56,150	64,927
North America	35,868	22,420
Other countries	19,923	18,386
	<u>111,941</u>	<u>105,733</u>

### 3. STAFF COSTS

	2015	2014
	£'000	£'000
Wages and salaries	-	16,006
Social security costs	-	1,289
Other pension costs	-	618
	<u>-</u>	<u>17,913</u>

# ARTHUR J. GALLAGHER (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

### 3. STAFF COSTS - continued

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

	2015	2014
Broking and technical	-	344
Administration	-	205
	<u>-</u>	<u>549</u>

The amounts relating to staff costs were incurred by the Company to 6 April 2014 after which the costs were incurred by Arthur J. Gallagher Services (UK) Limited. An amount of £72,969k (2014:£64,599k) was recharged back to the Company, and is accounted for in administrative expenses.

### 4. DIRECTORS' EMOLUMENTS

	(Restated)	
	2015	2014
	£'000	£'000
Aggregate emoluments	2,007	1,405
Company contributions paid to money purchase schemes	11	30
	<u>2,018</u>	<u>1,435</u>
Members of money purchase schemes	<u>6</u>	<u>3</u>

The amounts in respect of the highest paid Director are:

	2015	2014
	£'000	£'000
Emoluments	768	712
Company contributions paid to money purchase schemes	-	16
	<u>768</u>	<u>728</u>

The above amounts represent remuneration allocated to the Directors based on their directorships of entities within the Group. This is on a different basis to which Directors emoluments are recharged to the Company and accounted for in administrative expenses.

### 5. OPERATING PROFIT

The operating profit is stated after charging:

	(Restated)	
	2015	2014
	£'000	£'000
Operating leases - land and buildings	9,035	6,516
Depreciation - owned assets	3,777	2,546
Loss on disposal of fixed assets	-	28
Goodwill amortisation	78	-
Expiration lists amortisation	1,351	4,030
Computer software amortisation	1,759	2,508
Auditor's remuneration		
- statutory audit	166	125
- audit related assurance services	15	15
	<u>15</u>	<u>15</u>

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	(Restated)	
	2015	2014
	£'000	£'000
Bank interest	317	495
Interest on loans to group undertakings	1,367	1,433
	<u>1,684</u>	<u>1,928</u>

**ARTHUR J. GALLAGHER (UK) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**7. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Interest on loans from group undertakings	<u>1,096</u>	<u>805</u>

**8. TAXATION**

**Analysis of the tax charge**

The tax charge on the profit on ordinary activities for the year was as follows:

	<b>2015</b>	<b>(Restated) 2014</b>
	<b>£'000</b>	<b>£'000</b>
Current tax:		
UK corporation tax on profits for the period	1,827	2,123
Adjustments in respect of previous periods	<u>537</u>	<u>(160)</u>
Total current tax	<u>2,364</u>	<u>1,963</u>
Deferred tax:		
Origination and reversal of timing differences	(408)	(48)
Adjustments in respect of prior periods	(113)	(232)
Effects of changes in tax rates	<u>237</u>	<u>3</u>
Total deferred tax	<u>(284)</u>	<u>(277)</u>
Total tax per income statement	<u>2,080</u>	<u>1,686</u>

The charge for the year can be reconciled to the profit per the income statement as follows:

	<b>2015</b>	<b>(Restated) 2014</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the period	<u>1,106</u>	<u>11,179</u>
Tax on profit at standard UK tax rate of 20.25% (2014: 21.50%)	224	2,403
Effects of:		
Expenses not deductible	1,253	1,093
Income not taxable	-	3
Effects of group relief / other reliefs	-	(1,735)
Transfer pricing adjustments	(58)	310
Adjustments from previous periods	424	(391)
Tax rate changes	<u>237</u>	<u>3</u>
Tax charge for the period	<u>2,080</u>	<u>1,686</u>

# ARTHUR J. GALLAGHER (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

### 8. TAXATION - continued

The Company profits are taxable in the UK under the standard rate of corporation tax being 20.25% (2014:21.50%). The Company is expected to continue to attract the standard rate of UK corporation tax. The UK government legislated during 2015 to reduce the main rate of corporation tax to 19%, applicable from 1 April 2017 with a further reduction of 1% to 18% to apply from 1 April 2020. These reductions have been reflected in the closing deferred tax asset, as they were enacted at the Statement of Financial Position date.

Further legislation has been announced to reduce the corporation tax rate to 17% from 1 April 2020. The impact of this change is not quantifiable at this time.

### 9. DIVIDENDS

	2015 £'000	2014 £'000
Ordinary shares of £1 each		
Interim	<u>-</u>	<u>19,000</u>

### 10. INTANGIBLE FIXED ASSETS

	Goodwill £'000	Expiration lists £'000	Computer Software £'000	Assets under construction £'000	Totals £'000
<b>COST</b>					
At 1 January 2015	-	27,017	12,492	301	39,810
Additions	-	512	893	977	2,382
Transfers	<u>504</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>504</u>
At 31 December 2015	<u>504</u>	<u>27,529</u>	<u>13,385</u>	<u>1,278</u>	<u>42,696</u>
<b>AMORTISATION</b>					
At 1 January 2015	-	25,257	9,378	-	34,635
Amortisation for year	<u>78</u>	<u>1,351</u>	<u>1,759</u>	<u>-</u>	<u>3,188</u>
At 31 December 2015	<u>78</u>	<u>26,608</u>	<u>11,137</u>	<u>-</u>	<u>37,823</u>
<b>NET BOOK VALUE</b>					
At 31 December 2015	<u>426</u>	<u>921</u>	<u>2,248</u>	<u>1,278</u>	<u>4,873</u>
At 31 December 2014	<u>-</u>	<u>1,760</u>	<u>3,114</u>	<u>301</u>	<u>5,175</u>

**ARTHUR J. GALLAGHER (UK) LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**
**11. TANGIBLE FIXED ASSETS**

	Leasehold improvements £'000	Furniture and equipment £'000	Motor vehicles £'000	Computer equipment £'000	Totals £'000
<b>COST</b>					
At 1 January 2015	14,799	3,181	118	7,188	25,286
Additions	2,568	452	-	2,904	5,924
Disposals	-	-	-	(9)	(9)
At 31 December 2015	<u>17,367</u>	<u>3,633</u>	<u>118</u>	<u>10,083</u>	<u>31,201</u>
<b>DEPRECIATION</b>					
At 1 January 2015	1,708	796	99	3,880	6,483
Charge for year	1,064	447	18	2,248	3,777
Eliminated on disposal	-	-	-	(9)	(9)
At 31 December 2015	<u>2,772</u>	<u>1,243</u>	<u>117</u>	<u>6,119</u>	<u>10,251</u>
<b>NET BOOK VALUE</b>					
At 31 December 2015	<u>14,595</u>	<u>2,390</u>	<u>1</u>	<u>3,964</u>	<u>20,950</u>
At 31 December 2014	<u>13,091</u>	<u>2,385</u>	<u>19</u>	<u>3,308</u>	<u>18,803</u>

**12. FIXED ASSET INVESTMENTS**

	(Restated) Shares in group undertakings £'000
<b>COST</b>	
At 1 January 2015	15,542
Additions	-
At 31 December 2015	<u>15,542</u>
<b>PROVISIONS</b>	
Provision for year	-
At 31 December 2015	-
<b>NET BOOK VALUE</b>	
At 31 December 2015	<u>15,542</u>
At 31 December 2014	<u>15,542</u>

The Company's investments at the Statement of Financial Position date, in the share capital of group undertakings, comprise the following:

Name of Company	Country of registration	Holding	Proportion of shares held
Alesco Risk Management Services Limited	England & Wales	Ordinary Shares A & B	100.00%
Gallagher International Reinsurance Broking Limited	England & Wales	Ordinary Shares A Ordinary Shares B Ordinary Shares C	100.00% 50.00% 30.00%
Risk Management Partners Limited	England & Wales	Ordinary Shares	100.00%

# ARTHUR J. GALLAGHER (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

### 13. DEBTORS

	2015 £'000	(Restated) 2014 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	277,792	203,994
Amounts owed by group undertakings	129,346	91,222
Other debtors	11,038	16,173
Corporation tax	-	1,899
Deferred tax asset	2,364	2,047
Prepayments and accrued income	5,291	14,105
	<u>425,831</u>	<u>329,440</u>
<b>Amounts falling due after more than one year:</b>		
Prepayments and accrued income	<u>5,570</u>	<u>1,101</u>
Aggregate amounts	<u>431,401</u>	<u>330,541</u>

Contained within trade debtors is £17,749k relating to trading with group entities.

Amounts owed by group undertakings are unsecured, repayable on demand and are on an interest free basis, with the exception of the following loans. These loans are unsecured and have the following terms and conditions:

Aggregate loan value	Interest rate	Interest terms	Repayment period	Aggregate carrying value
£18,129k	6.75%	Compounded annually	10 years from commencement (2022-2024) but the Company can recall on demand.	£21,153k
£1,500k	2% above base	Non-compounding	7 to 9 years from commencement (2015-2017)	£1,785k

	Deferred tax £'000
Balance at 1 January 2015	2,047
Adjustments in respect of prior years	113
Deferred tax charge to income statement for the year	171
Deferred tax charge in equity for the year	<u>33</u>
Balance at 31 December 2015	<u>2,364</u>

The above deferred tax net asset represents: £174k in relation to short term timings differences (2014: £331k); timing differences on losses of £nil (2014: £78k); intangible asset timing differences £2,413k (2014: £1,671k); and a deferred tax liability in respect of hedge options £223k (2014: £33k). The amount of deferred tax that will unwind in the following accounting period is uncertain at this stage and is not quantifiable at this time.

### 14. CASH AT BANK

	2015 £'000	2014 £'000
Other cash and cash equivalents	14,692	7,770
Restricted cash	<u>147,895</u>	<u>146,385</u>
	<u>162,587</u>	<u>154,155</u>

The Company holds restricted cash balances in respect of its insurance activities, held principally in respect of insurance trade creditors. This cash is held in client money bank accounts and cannot be used for general corporate purposes.

**ARTHUR J. GALLAGHER (UK) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2015	(Restated) 2014
	£'000	£'000
Trade creditors	408,416	331,855
Amounts owed to group undertakings	108,546	102,625
Other creditors	4,228	1,510
Corporation tax	1,442	-
Accruals and deferred income	29,620	22,531
	<u>552,252</u>	<u>458,521</u>

Contained within trade creditors is £6,300k relating to trading with group entities.

Amounts owed to group undertakings are unsecured and repayable on demand. All loans are interest free with the exception of:

Aggregate loan value	Interest rate	Interest terms	Repayment period	Aggregate carrying value
£7,075k	6.75%	Compounded annually	10 years from commencement (2024) but can be recalled on demand of the lender.	£7,769k
£6,500k	6.00%	Compounded annually	19 years from commencement (2029) but can be recalled on demand of the lender.	£9,040k

**16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2015	2014
	£'000	£'000
Amounts owed to group undertakings	<u>17,912</u>	<u>-</u>

Amounts owed to group undertakings are unsecured and have the following terms and conditions:

Aggregate loan value	Interest rate	Interest terms	Repayment period	Aggregate carrying value
£17,800k	6.75%	Non-compounding	10 years from commencement (2025)	£17,912k

**17. LEASING AGREEMENTS**

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2015	(Restated) 2014
	£'000	£'000
Within one year	8,995	5,653
Between one and five years	35,405	22,177
In more than five years	59,791	42,625
	<u>104,191</u>	<u>70,455</u>

**18. PROVISIONS FOR LIABILITIES**

	2015	2014
	£'000	£'000
Other provisions	<u>4,938</u>	<u>4,470</u>

# ARTHUR J. GALLAGHER (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

### 18. PROVISIONS FOR LIABILITIES - continued

#### Other provisions:

	E&O provision £'000	Property dilapidation provision £'000	Future servicing and claims handling costs £'000	Total £'000
At 1 January 2015	-	774	3,696	4,470
Utilised during the year	-	(391)	-	(391)
Incurred during the year	19	631	209	859
At 31 December 2015	19	1,014	3,905	4,938

#### **Errors and omissions provision**

The Company faces a number of litigation and other claims, the resolution of which is uncertain, which have arisen in the ordinary course of business. Having taken appropriate legal advice and having regards to the Group's errors and omissions insurance arrangements, the Directors have provided amounts which they consider to be a realistic appraisal of the ultimate likely cost of these various claims against the Company. The provision is subject to regular review by the Group's legal department, external legal advisers and the Directors. The timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

#### **Property dilapidation provision**

The provision for dilapidation is based on a calculation supplied by an external property management consultant, and applies to the current leases that the Company holds. The timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

#### **Future servicing and claims handling 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 timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

### 19. CALLED UP SHARE CAPITAL

#### **Allotted, issued and fully paid:**

Number:	Class:	Nominal value:	2015 £'000	2014 £'000
28,850,000	Ordinary	£1	28,850	28,850

The ordinary shares rank equally in terms of voting rights, one vote for each share, and in the rights to participate in all approved dividend distribution for that class of share.

### 20. RESERVES

Retained Earnings - includes all current and prior period retained profits and losses.

Called Up Share Capital - represents the nominal value of shares that have been issued.

Share Premium Account - This reserve records the amount above the nominal value received for shares issued, less transaction costs.

### 21. ULTIMATE PARENT UNDERTAKING

The immediate parent company is Gallagher Holdings (UK) Limited, a company registered in England and Wales. The largest group of undertakings of which the Company is a member and for which financial statements are prepared, is headed up by Arthur J. Gallagher & Co., a company incorporated in the United States of America, which is the ultimate parent undertaking. A copy of these consolidated financial statements is available from the registered office of the Company.

# ARTHUR J. GALLAGHER (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. 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.

In 2012, the Company issued loans totalling £1,503k to a Director of the Company for general purposes. These loans were repaid in 2015.

In 2012, the Company became a Guarantor for a mortgage issued to a Director for the sum of £5,800k. This guarantee has now been released and the Company is no longer liable for this amount.

### 23. RELATED PARTY DISCLOSURES

During the year, the Company has acted as the broker for insurance policies placed with underwriters on behalf of Capsicum Motorsports Holdings Limited, a company with a common Director. The total commission received in regards to these transactions was £15k (2014:£nil) and £nil (2014:£nil) was outstanding at the year end.

During the year Capsicum Reinsurance Brokers LLP owed the Company £28k (2014:£463k) for expenses paid on behalf of Capsicum Reinsurance Brokers LLP. Additionally, the subsidiary LLPs of Capsicum Reinsurance Brokers LLP are appointed representatives of the Company, therefore the Company held the trade debtors, trade creditors and insurance bank balances of the Capsicum Reinsurance Brokers Group flowing through the LLP's during the year, amounting to a net total of £4,042k (2014:£1,214k) as at 31 December 2015. The amount owed by the Company at the end of the year is £4,014k (2014:£326k debtor), held within amounts owed to group undertakings within note 15.

### 24. EVENTS SINCE THE END OF THE YEAR

The Directors confirm that there are no events after the reporting period that are required to be disclosed.

### 25. TRANSITION TO FRS102

The Company transitioned to FRS 102 from previously extant UK Accounting Standards as at 1 January 2014.

	Note	Equity as at 1 Jan 2014 £'000	Total changes in equity for the year ended 31 Dec 2014 £'000	Equity as at 31 Dec 2014 £'000
<b>As previously stated under former UK GAAP</b>		63,965	3,294	67,259
<b>Prior year adjustments</b>				
MRP	a	(7,233)	(6,958)	(14,191)
Overseas entities' costs	b	-	6,371	6,371
Directors' emoluments	c	-	2,115	2,115
Corporation tax	d	-	(329)	(329)
<b>As restated under former UK GAAP and as stated in accordance with FRS 102</b>		<b>56,732</b>	<b>4,493</b>	<b>61,225</b>

**ARTHUR J. GALLAGHER (UK) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**25. TRANSITION TO FRS102 - continued**

**Prior year adjustments**

**a. MRP**

Relates to a correction to the historical transfer of a business unit from Heath Lambert Limited, a fellow Group undertaking.

**b. Overseas entities' costs**

Relates to the recharge of costs of overseas entities to group companies in 2014 which has been reallocated to Arthur J. Gallagher Services (UK) Limited.

**c. Directors' emoluments**

Relates to a correction of Directors' emoluments after consideration of Directors' roles and responsibilities.

**d. Corporation tax**

Increased corporation tax liability relating to prior year adjustments as stated above.

Investments, note 12, have been restated to incorporate a historical difference regarding the purchase of shares in a fellow group undertaking. The opening balance has been adjusted by £729k from amounts owed by group undertakings (£446k) and other debtors (£283k). This adjustment has no impact on prior year equity.

The insurance business balances of the Appointed Representative Gallagher International Reinsurance Broking Limited, which is within the Group, have been accounted for in the Company's Statement of Financial Position for the year ended 31 December 2014. Gallagher International Reinsurance Broking Limited ceased to be an Appointed Representative of the Company on 8 October 2015. Trade debtors of £2,979k, restricted cash of £616k and trade creditors of £2,604k have been included in the Statement of Financial Position for the year ended 31 December 2014, with the balancing figure reflected through restated intercompany with the respective Appointed Representative. These adjustments therefore have no impact on prior year equity.

**Adjustments arising on transition to FRS 102**

Additionally, under FRS 102 computer software has been reallocated from tangible fixed assets to intangible fixed assets and assets under construction have been capitalised from other debtors. The net book value of these assets at 31 December 2015 is £2,248k (2014:£3,114k) and £1,278k (2014:£301k) respectively. Also the total lease obligation for the term must be shown within the operating lease commitments note, note 17, under FRS 102. Previously, only the obligation for the following 12 months was required. These adjustments have no impact on prior year equity.