

**STRATEGIC REPORT, DIRECTORS' REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018
FOR
ARTHUR J. GALLAGHER (UK) LIMITED**



ARTHUR J. GALLAGHER (UK) LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2018**

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ARTHUR J. GALLAGHER (UK) LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018**

DIRECTORS:

J Drummond-Smith (Non-Executive)
L Patten (Non-Executive)
C Richmond
C Scott
J Thompson

SECRETARY:

A Peel

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 2018

The Directors present their Strategic Report for the year ended 31 December 2018.

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 2018 are set out in the financial statements on pages 8 to 21.

Turnover for the year ended 31 December 2018 was £145,483k (2017: £136,675k) representing an increase of 6.4%. This increase was driven by our continued ability to attract and hire the best individuals in the industry, allowing us to develop new specialisms and new services to our clients. The Company continues to receive a large percentage of its turnover in US Dollars and therefore benefited from favourable FX rates in 2018.

Profit before tax for the year was £22,162k (2017: £30,967k). The primary driver of this large decrease was due to unrealised losses on currency hedges compared to large gains in the prior year offset by an increase in revenue and reduced non-recurring costs.

Looking ahead, we aim to become a market leader in all our chosen areas of specialty and to drive organic growth through client retention, creation of new products and investment in talent. We will continue to incorporate best practices in processes and invest in technology solutions to provide industry leading levels of service for our clients. Culturally we aim to create a workplace environment that nurtures and provides structured development for all our colleagues, with a particular focus on Diversity and Inclusion initiatives.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's international operations and debt profile expose it to a variety of financial and operational 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 Group 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 Group 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 Group. Forward looking cash flow projections are prepared on a regular basis to assess funding requirements.

Foreign currency risk

The Group'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 Group's results are sensitive to changes in foreign currency exchange rates.

In the management of its exchange rate exposures the Group 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.

Interest rate risk

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

ARTHUR J. GALLAGHER (UK) LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Counterparty credit risk

The Group 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 arranging beneficial credit terms in accordance with the Group's investment and counterparty policy.

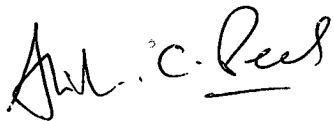
Compliance risk

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 a control framework that has been rolled out and embedded within the culture throughout the Group to reduce the risk of non-compliance. This includes regular assessment and monitoring of the compliance and regulatory requirements, with regular reporting to the UK Risk Committee and Board of Directors, and the Group has a proactive, open relationship with the regulator.

Operational Risk

The Group has identified the key operational risks to which it is exposed, principle among which are errors or omission leading to the incorrect placement of client insurances, the protection of client information, the prevention of cyber and financial crime, and compliance with regulations. An appropriate control framework has been deployed to manage and mitigate these key operational risks.

BY ORDER OF THE BOARD:



.....
A Peel - Secretary

Date: 23 September 2019

ARTHUR J. GALLAGHER (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their report with the audited financial statements of the Company for the year ended 31 December 2018. The results for the Company for the year ended 31 December 2018 and future developments are discussed in the Strategic Report.

DIRECTORS OF THE COMPANY

The Directors who have held office during the period from 1 January 2018 to the date of this report are as follows:

J Drummond-Smith (Non-Executive)
L Patten (Non-Executive)
C Richmond

Other changes in Directors holding office are as follows:

P Hanson - appointed 4 June 2018, resigned 9 September 2019
E Ibeson - appointed 17 April 2018, resigned 9 September 2019
S Matson - resigned 1 October 2018
M Rea - resigned 1 January 2019
C Scott - appointed 9 July 2018
I Story - resigned 30 June 2018
J Thompson - appointed 1 October 2018
J Wallers - appointed 1 October 2018, resigned 1 April 2019

DIVIDENDS

An interim dividend of £10,300k was distributed for the year ended 31 December 2018 in November 2018 (2017: £nil).

EVENTS AFTER THE REPORTING PERIOD

Information relating to events after the reporting period is given in the notes to the financial statements.

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 in place 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; 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 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.

ARTHUR J. GALLAGHER (UK) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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:



.....
A Peel - Secretary

Date: 23 September 2019

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

Opinion

We have audited the financial statements of Arthur J. Gallagher (UK) Limited for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Directors' Report and the Strategic Report. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

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

Date: *25 September 2019*

ARTHUR J. GALLAGHER (UK) LIMITED**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 £'000	2017 £'000
TURNOVER	2	145,483	136,675
Administrative expenses		<u>(124,011)</u>	<u>(105,704)</u>
OPERATING PROFIT	5	21,472	30,971
Interest receivable and similar income	6	854	1,984
Interest payable and similar expenses	7	<u>(164)</u>	<u>(1,988)</u>
PROFIT BEFORE TAXATION		22,162	30,967
Tax on profit	8	<u>(799)</u>	<u>(5,929)</u>
PROFIT FOR THE FINANCIAL YEAR		<u><u>21,363</u></u>	<u><u>25,038</u></u>

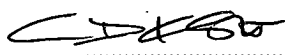
The notes form part of these financial statements

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

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2018

	Notes	£'000	2018 £'000	£'000	2017 £'000
FIXED ASSETS					
Intangible assets	10		4,773		875
Tangible assets	11		12,997		15,351
Investments	12		14,766		<u>14,766</u>
			32,536		30,992
CURRENT ASSETS					
Debtors	13	627,046		560,181	
Cash at bank	14	<u>274,822</u>		<u>240,274</u>	
		901,868		800,455	
CREDITORS					
Amounts falling due within one year	15	<u>815,508</u>		<u>720,800</u>	
NET CURRENT ASSETS			<u>86,360</u>		<u>79,655</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			118,896		110,647
CREDITORS					
Amounts falling due after more than one year	16		323		1,137
PROVISIONS FOR LIABILITIES	19		<u>8,994</u>		<u>10,994</u>
NET ASSETS			<u>109,579</u>		<u>98,516</u>
CAPITAL AND RESERVES					
Called up share capital	20		28,850		28,850
Share premium	21		3,606		3,606
Retained earnings	21		<u>77,123</u>		<u>66,060</u>
SHAREHOLDERS' FUNDS			<u>109,579</u>		<u>98,516</u>

The financial statements were approved and authorised for issue by the Board of Directors on 23 September 2019 and were signed on its behalf by:


C Scott - 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 2018**

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	28,850	3,606	41,022	73,478
Changes in equity				
Profit for the financial year	-	-	25,038	25,038
Balance at 31 December 2017	<u>28,850</u>	<u>3,606</u>	<u>66,060</u>	<u>98,516</u>
Changes in equity				
Dividends paid	-	-	(10,300)	(10,300)
Profit for the financial year	-	-	21,363	21,363
Balance at 31 December 2018	<u>28,850</u>	<u>3,606</u>	<u>77,123</u>	<u>109,579</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 2018

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.

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. Goodwill and intangible fixed assets

The Group establishes a reliable estimate of the useful lives 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.

ii 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.

iii. 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 committed 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.

iv. 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.

v. Supplemental commission accrual

The Group calculates an estimate at the year end to ascertain the 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.

vi. 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 19.

ARTHUR J. GALLAGHER (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

1. ACCOUNTING POLICIES - continued

Turnover

Turnover represents brokerage and fees associated with placing insurance and reinsurance contracts. It is recognised net of commission payable and allowable discounts. It is recognised at the later of inception date and the date the placement is completed and confirmed. Where there is an expectation of future servicing requirements, a proportion of income relating to the policy is deferred to cover the associated obligations under the policy contract.

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.

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.

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 a maximum of 10 years
Expiration lists	- over a maximum of 5 years
Computer software	- over 3 to 5 years

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	- over 3 to 10 years
Computer equipment	- over 3 to 5 years

Fixed asset investments

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

ARTHUR J. GALLAGHER (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

1. ACCOUNTING POLICIES - continued

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 clients 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 Statement of Comprehensive Income 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.

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 and that the economic benefit can be reliably measured.

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.

ARTHUR J. GALLAGHER (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2018****2. TURNOVER**

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

	2018 £'000	2017 £'000
An analysis of turnover by class of business is given below:		
Net Brokerage	123,889	118,131
Fees	8,598	7,569
Commission	<u>12,996</u>	<u>10,975</u>
	<u>145,483</u>	<u>136,675</u>

	2018 £'000	2017 £'000
An analysis of turnover by geographical market is given below:		
United Kingdom	59,615	50,728
Europe	22,352	24,041
United States of America	29,730	31,838
Other countries	<u>33,786</u>	<u>30,068</u>
	<u>145,483</u>	<u>136,675</u>

3. STAFF COSTS

The amounts relating to staff costs were incurred by Arthur J. Gallagher Services (UK) Limited. An amount of £83,317k (2017: £71,630k) was recharged back to the Company, and is accounted for in administrative expenses.

4. DIRECTORS' REMUNERATION

	2018 £'000	2017 £'000
Directors' remuneration	6,641	2,842
Directors' pension contributions to money purchase schemes	<u>15</u>	<u>5</u>
	<u>6,656</u>	<u>2,847</u>

The number of Directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>3</u>	<u>1</u>
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Information regarding the highest paid Director is as follows:

	2018 £'000	2017 £'000
Director's remuneration	<u>3,791</u>	<u>1,255</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 remunerations are recharged to the Company and accounted for in administrative expenses.

ARTHUR J. GALLAGHER (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2018	2017
	£'000	£'000
Goodwill amortisation	79	78
Expiration lists amortisation	288	190
Computer software amortisation	70	153
Depreciation - owned assets	1,783	2,422
Impairment of fixed assets	-	4,039
Auditors' remuneration		
- statutory audit	182	171
- audit related assurance services	131	147
Land and building operating leases	4,427	5,144
Foreign exchange differences	196	(168)
Unrealised (gain)/loss on derivatives	<u>1,509</u>	<u>(12,585)</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018	2017
	£'000	£'000
Bank interest	854	301
Interest on loans to group undertakings	-	<u>1,683</u>
	<u>854</u>	<u>1,984</u>

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	2018	2017
	£'000	£'000
Interest on loans from group undertakings	<u>164</u>	<u>1,988</u>

8. TAXATION

Analysis of the tax charge

The tax charge on the Statement of Comprehensive Income for the year was as follows:

	2018	2017
	£'000	£'000
Current tax:		
UK corporation tax	740	4,011
Adjustments in respect of previous periods	<u>14</u>	<u>(595)</u>
Total current tax	<u>754</u>	<u>3,416</u>
Deferred tax:		
Origination and reversal of timing differences	110	2,581
Adjustments in respect of previous periods	(15)	(64)
Effects of changes in tax rates	<u>(50)</u>	<u>(4)</u>
Total deferred tax	<u>45</u>	<u>2,513</u>
Tax on profit	<u>799</u>	<u>5,929</u>

ARTHUR J. GALLAGHER (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

8. TAXATION - continued

The tax charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2018 £'000	2017 £'000
Profit before tax	<u>22,162</u>	<u>30,967</u>
Tax on profit at the standard UK rate of corporation tax of 19% (2017 - 19.25%)	4,211	5,961
Effects of:		
Expenses not deductible for tax purposes	614	892
Adjustments to tax charge in respect of previous periods	-	(659)
Transfer pricing adjustments	755	681
Tax rate changes	(51)	(4)
Effects of group relief/other reliefs	(4,730)	(942)
	<u>799</u>	<u>5,929</u>
Total tax charge	<u>799</u>	<u>5,929</u>

The Company profits are taxable in the UK under the standard rate of corporation tax being 19% (2017: 19.25%). The Company is expected to continue to attract the standard rate of UK corporation tax. The UK government has legislated to reduce the main rate of corporation tax to 17% to apply from 1 April 2020. This reduction has been reflected in the closing deferred tax asset, as it was enacted at the date of the Statement of Financial Position.

9. DIVIDENDS

	2018 £'000	2017 £'000
Ordinary shares of £1 each		
Interim dividends paid of £0.36 per share (2017: £nil)	<u>10,300</u>	<u>-</u>

10. INTANGIBLE FIXED ASSETS

	Goodwill £'000	Expiration lists £'000	Computer software £'000	Totals £'000
COST				
At 1 January 2018	504	27,529	2,700	30,733
Additions	-	4,335	-	4,335
Disposals	-	-	(587)	(587)
At 31 December 2018	<u>504</u>	<u>31,864</u>	<u>2,113</u>	<u>34,481</u>
AMORTISATION				
At 1 January 2018	235	27,176	2,447	29,858
Amortisation for year	79	288	70	437
Eliminated on disposal	-	-	(587)	(587)
At 31 December 2018	<u>314</u>	<u>27,464</u>	<u>1,930</u>	<u>29,708</u>
NET BOOK VALUE				
At 31 December 2018	<u>190</u>	<u>4,400</u>	<u>183</u>	<u>4,773</u>
At 31 December 2017	<u>269</u>	<u>353</u>	<u>253</u>	<u>875</u>

ARTHUR J. GALLAGHER (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2018**

11. TANGIBLE FIXED ASSETS

	Leasehold improvements £'000	Furniture and equipment £'000	Motor vehicles £'000	Computer equipment £'000	Totals £'000
COST					
At 1 January 2018	23,784	3,225	65	1,513	28,587
Additions	105	4	-	45	154
Disposals	(118)	-	-	(63)	(181)
Transfer	-	(1,354)	-	(134)	(1,488)
At 31 December 2018	<u>23,771</u>	<u>1,875</u>	<u>65</u>	<u>1,361</u>	<u>27,072</u>
DEPRECIATION					
At 1 January 2018	9,910	1,973	65	1,288	13,236
Charge for year	1,558	92	-	133	1,783
Eliminated on disposal	(118)	-	-	(63)	(181)
Transfer	-	(666)	-	(97)	(763)
At 31 December 2018	<u>11,350</u>	<u>1,399</u>	<u>65</u>	<u>1,261</u>	<u>14,075</u>
NET BOOK VALUE					
At 31 December 2018	<u>12,421</u>	<u>476</u>	<u>-</u>	<u>100</u>	<u>12,997</u>
At 31 December 2017	<u>13,874</u>	<u>1,252</u>	<u>-</u>	<u>225</u>	<u>15,351</u>

12. FIXED ASSET INVESTMENTS

	Shares in group undertakings £'000
COST	
At 1 January 2018 and 31 December 2018	<u>14,766</u>
NET BOOK VALUE	
At 31 December 2018	<u>14,766</u>
At 31 December 2017	<u>14,766</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	Registered Address	Holding	Proportion of shares held
Alesco Risk Management Services Limited	The Walbrook Building	Ordinary Shares	100.00%
Risk Management Partners Limited	The Walbrook Building	Ordinary Shares	100.00%
Registered Address	Street Address		
The Walbrook Building	25, Walbrook, London EC4N 8AW		

ARTHUR J. GALLAGHER (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. DEBTORS

	2018	2017
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	502,222	453,450
Amounts owed by group undertakings	113,258	86,710
Other debtors	6,521	5,248
Deferred tax asset	2,687	2,726
Prepayments and accrued income	<u>2,358</u>	<u>2,303</u>
	<u>627,046</u>	<u>549,446</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	<u>-</u>	<u>10,735</u>
Aggregate amounts	<u>627,046</u>	<u>560,181</u>

Contained within trade debtors is £63,144k (2017: £45,906k) relating to trading with group entities.

Amounts owed by 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
£11,420k	0%	Compounded annually	Repayable on demand	£15,251k
£10,093k	0%	Non-compounding	Repayable on demand	£10,735k

	Deferred tax
	£'000
Balance at 1 January 2018	2,726
Adjustments in respect of prior years	15
Deferred tax charge for the year	(60)
Movement arising from the transfer of trade	<u>6</u>
Balance at 31 December 2018	<u>2,687</u>

Deferred tax

The above deferred tax net asset represents £2,076k in relation to fixed asset timing differences (2017: £2,463k) and short term trading timing differences of £611k (2017: £263k). The amount of deferred tax that will unwind in the following accounting period is uncertain at this stage and therefore not quantifiable.

14. CASH AT BANK

	2018	2017
	£'000	£'000
Restricted cash	239,751	210,092
Other cash and cash equivalents	<u>35,071</u>	<u>30,182</u>
	<u>274,822</u>	<u>240,274</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 2018**

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2017
	£'000	£'000
Trade creditors	742,725	625,214
Amounts owed to group undertakings	50,332	71,282
Corporation tax	740	3,894
Other creditors	6,621	3,300
Accruals and deferred income	<u>15,090</u>	<u>17,110</u>
	<u>815,508</u>	<u>720,800</u>

Contained within trade creditors is £7,605k (2017:£8,478k) 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
£3,000k	0%	Compounded annually	Repayable on demand	£3,775k
£1,000k	0%	Non-compounding	Repayable on demand	£1,137k

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

	2018	2017
	£'000	£'000
Amounts owed to group undertakings	-	1,137
Accruals and deferred income	<u>323</u>	<u>-</u>
	<u>323</u>	<u>1,137</u>

17. OPERATING LEASE COMMITMENTS

Minimum lease payments under non-cancellable operating leases in the name of the Company fall due as follows:

	2018	2017
	£'000	£'000
Within one year	8,649	9,947
Between one and five years	33,542	39,084
In more than five years	<u>30,447</u>	<u>44,934</u>
	<u>72,638</u>	<u>93,965</u>

ARTHUR J. GALLAGHER (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

18. FINANCIAL INSTRUMENTS

The Company has the following financial instruments:

Financial liabilities measured at fair value through the Statement of Comprehensive Income:

	2018 £'000	2017 £'000
Derivative financial instruments	<u>1,584</u>	<u>121</u>

Fair value through the Statement of Comprehensive Income has been calculated by comparing the USD:GBP equivalent option rate at the period end to the rate as set out in the option contract.

The Company entered into forward foreign currency options to mitigate the exchange rate risk for certain foreign currency revenues. The Group is committed to and has the option to buy Pound Sterling and pay a fixed US Dollar amount. As at 31 December 2018 the outstanding contracts all mature within 36 months of the period end.

The forward foreign currency options are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the option exchange rates for USD:GBP. The fair value of the forward foreign currency options is £1,584k (2017: £121k), both of which are contained in other creditors within note 15.

19. PROVISIONS FOR LIABILITIES

	2018 £'000	2017 £'000
Other provisions	<u>8,994</u>	<u>10,994</u>

	Errors and omissions provision £'000	Future servicing and claims handling costs £'000	Onerous lease provision £'000	Property dilapidation provision £'000	Purchase price obligation provision £'000	Total £'000
At 1 January 2018	682	4,610	4,202	1,500	-	10,994
Incurred during year	631	1,944	247	416	1,050	4,288
Released during the year	(49)	-	-	-	-	(49)
Utilised during the year	<u>(107)</u>	<u>(1,683)</u>	<u>(4,449)</u>	<u>-</u>	<u>-</u>	<u>(6,239)</u>
At 31 December 2018	<u>1,157</u>	<u>4,871</u>	<u>-</u>	<u>1,916</u>	<u>1,050</u>	<u>8,994</u>

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.

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.

Onerous lease provision

The Company has provided for a provision based on the remaining costs of the leases for the unoccupied space on its leased properties. The unoccupied space is not generating any economic benefit and it is deemed to be prudent to make a provision for this.

ARTHUR J. GALLAGHER (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2018

19. PROVISIONS FOR LIABILITIES - continued

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.

Purchase price obligation provision

In 2018 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 purchase price obligation provision is in relation to the estimated future amounts to be paid in respect of these contracts.

20. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2018 £'000	2017 £'000
28,850,000	Ordinary	£1	<u>28,850</u>	<u>28,850</u>

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.

21. RESERVES

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

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

Retained Earnings - includes all current and prior period profits and losses less dividends paid.

22. PARENT COMPANY AND ULTIMATE HOLDING COMPANY

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 holding company. The registered address of Arthur J. Gallagher & Co. is 2850, W. Golf Rd., Rolling Meadows, IL 60008. A copy of these consolidated financial statements is available from the registered office of the Company.

23. RELATED PARTY DISCLOSURES

During the year the following transactions took place within the Group on behalf of the Company.

	Amounts paid on behalf of related party £'000	Amounts received on behalf of related party £'000	Balance at 31 December 2018 £'000
Other related parties	89,180	(89,126)	(8,494)*

*The individual balances within this net balance are included within amounts owed by group undertakings and amounts owed to group undertakings in notes 13 and 15 respectively.

24. EVENTS AFTER THE REPORTING PERIOD

The Company issued new share capital in (May 2019) whereby 113,411,500 shares (£142m) were issued at the value of c.£1.2543 per share (par value of £1 per share).

The Company acquired a book of business for the global aerospace division from JLT in June 2019.

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