

Different Perspectives

towergate

Annual Report

2007

**Different Perspectives** This report tells the story of Towergate. At its heart is Towergate Partnership which in just 10 years has grown to become a major success story in the world of insurance. In addition, our principal shareholders also own Paymentsshield, leaders in insurance through mortgage advisers, and Open International, which is the UK's premier supplier of systems for insurance brokers. This report focuses in detail on Towergate Partnership's performance, while also giving an impression of the scale and activities of the combined operations of our related businesses\*.

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\* This report does not cover other companies that are aligned by common shareholders, most notably Cullum Capital Ventures (CCV), and Towergate Financial Services (TFS).



**Our numbers continue to provide great reassurance to shareholders, customers, intermediaries, insurers, employees, and the worthy causes we support.**

**Here are some of our 2007 headlines**

## Towergate Partnership

**No. 1**

we are Europe's largest independently owned insurance intermediary

**4.3 million**

individual and commercial insurance customers

**4,100+**

agencies and outlets distributing our products

**139**

acquisitions successfully made<sup>4</sup>

**200+**

insurance products – the widest range in the market

**110+**

offices across the UK

**£1.1 million**

raised for Help the Hospices and other good causes in 2006 & 2007

**£278 million**

total 2007 income

**14%**

growth in income 2007 v 2006

**£109 million**

2007 earnings (EBITDA)<sup>3</sup>

**15%**

growth in earnings (EBITDA) 2007 v 2006

## Towergate Family

**4,600+**

exceptional people

**£2.1 billion**

gross written premium in 2007<sup>1</sup>

**£394 million**

total 2007 income<sup>1</sup>

**19%**

growth in income 2007 v 2006<sup>2</sup>

**£166 million**

2007 earnings (EBITDA)<sup>3</sup>

**22%**

growth in earnings (EBITDA) 2007 v 2006<sup>2</sup>

*1. Aggregated full year results for Towergate Partnership, Broker Network, Paymentsshield and Open International*

*2. Comparison between 2007 and 2006 aggregated figures*

*3. Earnings before interest, tax, depreciation, amortisation, and other non-operating costs*

*4. As at 31st December 2007*



2007 marked the tenth anniversary of Towergate. It has been a time both to reflect on our achievements as well as to define our ambitions for the next decade. It certainly seems a very long way from our first acquisition – a niche business insuring holiday homes in France, Spain and Portugal.

However, it is the way Towergate has achieved its goals that is a source of pride to me. In particular I'd cite our pioneering work in restoring and building relationships of trust between insurers, brokers and clients. The 'value triangle', as we call it, will continue to play a major part in our forward thinking over the years to come.

Two of the most important acquisitions we made in 2007 clearly reflect this vision of the Towergate of tomorrow. Open International, the UK's leading insurance systems provider, and Broker Network, the leading network of its kind, have not only added significantly to the scale of the Towergate 'family', but they also represent key strategic planks in shaping our future.

## The Towergate brand is vested in value and we know there is a growing market consisting of individuals and businesses who reject the knock-down culture of the disposable society.

**A sharp focus** Gross written premium in Towergate Partnership increased by 11% from £1.08bn to £1.2bn. Income rose from £242.8m to £277.9m, an increase of 14.5%, and earnings (EBITDA) up 14.9% from £94.4m to £108.5m. Profit before interest and tax rose 20.2% from £39.2m to £47.1m. Against a backdrop of continued lowering of premium rates in the market throughout most of 2007, this is a pleasing result.

Looking at the wider picture, our intention is to consolidate our related companies, Paymentsshield and Open International, with Towergate Partnership. The combined gross written premium of these companies in 2007 was £2.12bn, with income of £394m and profit (EBITDA) of £166m.

**Wider reach** Whilst the growth and increased scope of Towergate has attracted understandable industry and media interest, it is important to emphasise

that we remain, at the very heart of our being, a specialist insurance intermediary. And as such we are consistently true to our core values, reflected in the relationships with clients and insurers that I touched upon earlier.

The Towergate brand is vested in value and we know there is a growing market consisting of individuals and businesses who reject the knock-down culture of the disposable society. They look instead for the essentials of the Towergate offer: competitively priced high quality products delivered by real people providing excellent advice, and a first-class claims service.

**Distribution network** On the acquisitions front, we have, for some time, been in a strong position to move for larger deals when they are appropriate. However, we remain very interested in smaller businesses and portfolio transfers, with the emphasis firmly on synergy and the constant enhancement of our distribution capabilities.

In reality, having reinforced our scale and successfully completed the acquisition of our key strategic target companies in 2007, we can afford to be circumspect when

it comes to further deals, particularly at a time when investors are willing to pay a significantly higher price for broking businesses than a year ago.

As mentioned above, the major acquisitions of both Broker Network and Open International reflect the broader strategy of the Towergate Partnership. Broker Network is at the top of its field and we are fully committed to their growth nationally through investment in infrastructure, product development and business support services. The acquisition of Open International was a big and innovative deal for us and it raised a few eyebrows in the market. The reliance on IT these days is enormous, so this deal helps us future-proof our systems platform. Also, as the largest supplier of broking and underwriting systems in the UK, it reinforces our distribution capability and enables us to further reduce the transactional friction between broker and underwriter in the distribution of an exceptionally wide range of products.

The acquisition of Haywards Aviation meant that we joined forces with the UK's largest general aviation broker.

We also bolstered our regional presence in some key areas, particularly the acquisition of the JW Group, which gives us a much bigger footprint north of the border.

**Consistent perspective** It is 'attention to detail' and execution skills that mark Towergate out in a market where the trend for insurers to acquire brokers continues apace. The motivation for this ever-changing landscape is, invariably, the need for insurers to secure wider distribution for their products. A similar scenario exists with the other current fad – for brokers to set up underwriting agencies. Our acquisition philosophy is based on a broader, win-win-win perspective. It is good for the intermediaries we purchase: giving them access to growth capital and quicker decision making; it is good for clients: affording them more choice. And it's good for us, too, in terms of scale and profitability.

In a world of new emerging risks, the need for high quality insurance and risk management skills for customers has never been greater. With our focus on product strength and knowledge combined with first class customer service, we are uniquely placed to meet these new and constantly changing demands.

**The place to be** We now employ over 4,600 people across the Towergate family. In the past year there have been many high-calibre management appointments, aimed at increasing our management capability and keeping Towergate at the cutting edge of performance.

The appeal of Towergate is not just about joining a winning team. We also believe in giving all our people the opportunity and space to express themselves and progress. The Towergate Academy, designed for the high fliers, has already made its mark. At the end of 2007, we added to our training capability with the creation of the Towergate Business School. This will enable a much wider cross-section of staff to fulfil their potential. We have also become the Chartered Insurance Institute's first Flagship Partner, reflecting the CII's belief that we have implemented a whole raft of exemplary initiatives and practices.

And there's a further feature that attracts people to Towergate. It springs from our evergreen mantra: make money, have fun, do good. Over the past two years we have raised over £1 million for charities – helped greatly by the generosity of our clients, and the efforts of staff who have risked exhaustion, injury and

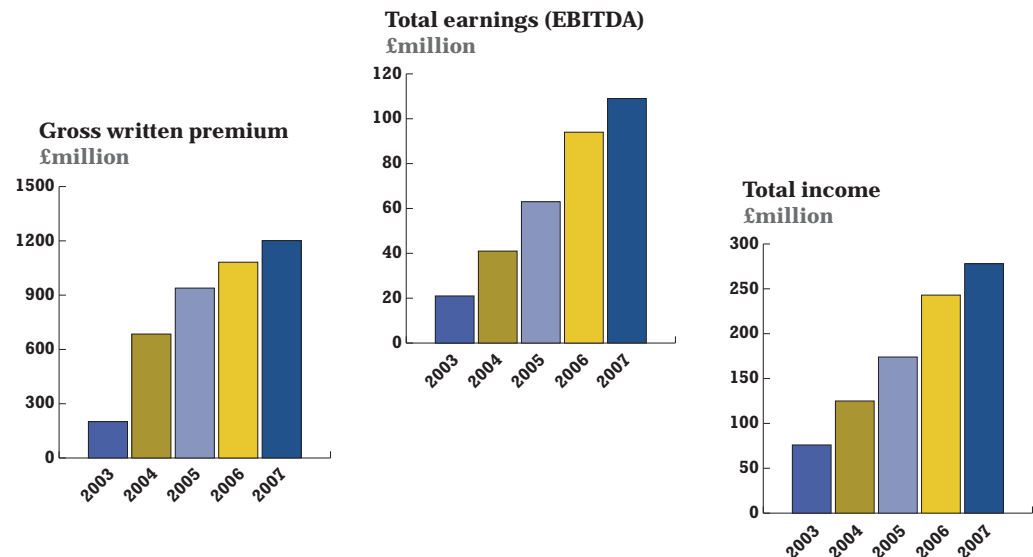
embarrassment to raise funds for the most worthy causes, including our special association with the hospice movement. The formation of the Towergate Foundation in 2007 reflects the scale of our charitable work. It provides a distinct entity through which we can benefit our chosen charities.

I mention this mainly as an illustration of the nature of the Towergate family, of which I'm proud to be a member. It's a family that works and plays together and takes its role in the community seriously. And I'd like to thank all my colleagues for the way they have performed in another exceptionally successful year, indeed decade.

I have always said that if you stand still you go backwards. So we will continue our ambitious growth strategy: we have exciting plans for 2008 as we look to further strengthen our position in the market through organic growth and new acquisitions.

**Peter Cullum**  
Executive Chairman

### Towergate Partnership 5 year progress







Towergate's response to a difficult year for the insurance industry was another outstanding set of results. We have again overcome the deadening effect of soft markets on our underlying profitability and produced pleasing growth in a number of areas.

We are, of course, ever aware of the trap of complacency. The chances of us falling into it, mind you, are drastically reduced by the way we do business and our unremitting focus on the needs of our customers. Plenty of companies talk about client focus: we achieve it. That may mean following the example of one of our managing directors and his team – who during last summer's floods spent his entire Sunday with the owner of an inundated factory as they toured the site to assess the damage and what could be done. It wasn't expected of them... but it was part of the service.

This wasn't a one-off either. While all around us the impact of the floods were delivering a wake-up call to the industry, Towergate Assist policyholders had the benefit of their

## **Our aim is that clients can deal with us online, by phone or face-to-face – the decision is theirs but the speed and accuracy of service is the same whatever channel they choose.**

own on-the-spot loss adjuster helping to drive through a fair and speedy resolution of their claim. At a time when the growing lake of claims could have easily spelt costly delays and ruin for their business, they had real experts fighting their corner.

**Happy customers are the key** In the face of persistently low premium rates, we have worked harder to win and, even more importantly, retain clients. We have the research<sup>1</sup> to prove that this client-centred approach is working and working well. Our customers tell us that 91% of clients planned to renew business with us at the end of their policy year. What's more, a similar number say that they'd recommend us to someone else, and like the comfort of personal advice and know-how to protect what is dear to them. We welcome the Financial Service Authority's focus on 'Treating Customers Fairly' as an industry issue, and the scrutiny it brings to ensure services and products are sold with openness and integrity across the diverse range of suppliers of insurance. Our view is that this is not just a box-ticking exercise. For us, it is

a way of thinking and should form the core of a successful business. If you don't treat your customers fairly, then you won't retain them. It's as simple as that.

**Wider choice** Our account executives and handlers are focused on ensuring our customers receive the levels of cover and service they need. In the main this 'human element', in a grotesquely over-commoditised marketplace, spells the difference that engenders client satisfaction and loyalty.

Direct insurers and comparison sites may be making some impact by selling on price, and driving down rates and profitability to the bargain, but the quality of the advice and service is only defined when you make a claim or check the small print.

Towergate is now the most significant insurance provider for small and medium sized enterprises (SME) in the UK and I am very confident that, despite attempts to sell SME business direct, the commercial-lines sector will continue to be channelled largely through high-class regional brokers. Direct insurers imply that, by 'cutting out the middleman', there is a saving, but this is of course largely offset by their huge

marketing costs. However, successful brokers will be those who provide the full choice of distribution routes. Our aim is that clients can deal with us online, by phone or face-to-face – the decision is theirs but the speed and accuracy of service is the same whatever channel they choose.

**Forward thinking** As well as being a Flagship Partner of the Chartered Insurance Institute, we are now the largest intermediary to have received their accreditation as a Chartered Broker. This status is awarded to companies in which a high proportion of the directors have attained Chartered qualifications and more than 90% of their client-facing staff are members of the CII. In reality, our entire team of insurance-related employees are now CII members and Towergate represents the second highest membership in the country.

The CII is working hard to dispose of the damaging image that insurance is not a serious professional option for bright young talent and we are thankfully returning

<sup>1</sup> Independent client interviews by Network Research during Autumn 2007

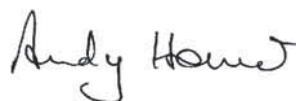
to an era where insurance qualifications are a mark of distinction. We have a comprehensive people development proposition for staff to help them stretch themselves and gain the level of learning they need for self-improvement – and to provide the best service they can for our customers.

Building on our successful Academy, the creation in 2007 of the Towergate Business School, with the backing of the world famous Ashridge Management Centre, takes our personal development capability to an even higher level. Its four faculties will enable a far wider cross-section of our staff to fulfil their potential and all can benefit from relevant training and qualifications, which will only further enhance our service.

**Positive outlook** When reading this annual report you will see some examples of the range of risks we cover, and a sense of the great value and practical help we give to our customers.

This is what sets us apart from so many companies, and is what will help us continue to retain clients and attract new ones. We are also seeking to maintain a consistent approach to rating, at a time when rates have been kept unnaturally low, despite pain being felt by most insurers. We do not believe in the ‘boom or bust’ approach for which this sector is known – our customers need controlled and rational price changes rather than swings from one extreme to another.

It is a tradition for CEOs to make platitudinous remarks in Annual Reports about how important “our people” are. May I simply say to my team, you know you are No1, you don’t need flowery language. Go for it in 2008. It will be a challenging year, but love our customers to death and we will continue with our success story for another decade.



**Andy Homer**  
Group Chief Executive Officer



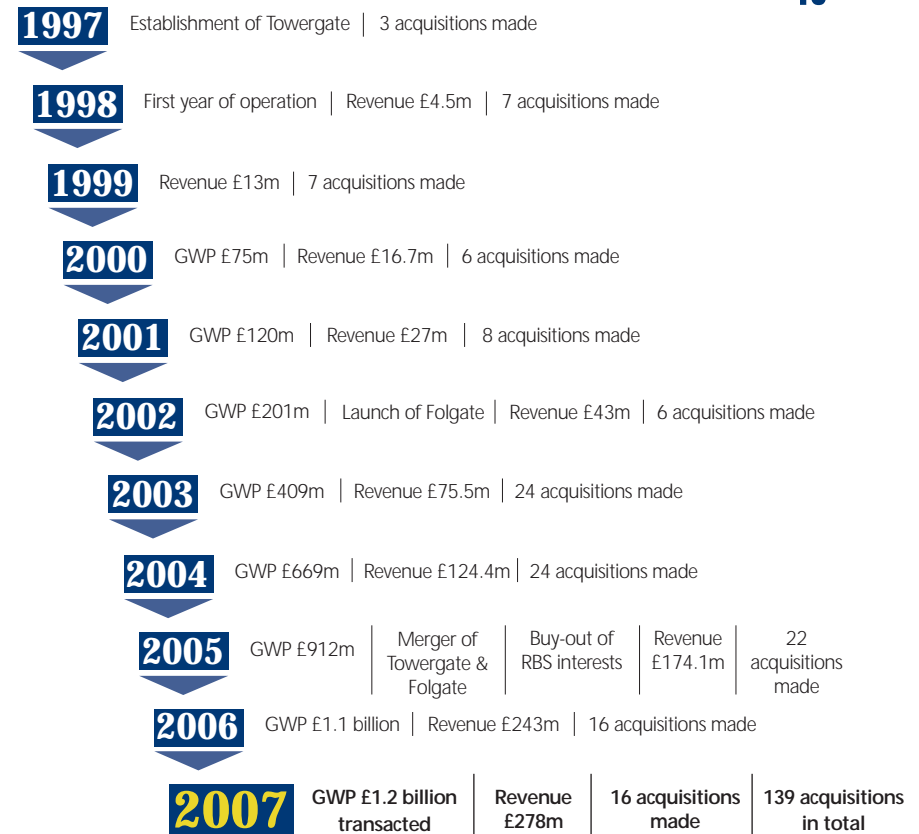
Great expertise in property  
from **buy-to-let** to  
**commercial**  
portfolios



It's just over 10 years since Towergate was launched into the insurance market with the creation of Towergate Underwriting. In that time we have grown successfully to become a leading light of UK business. We now offer customers a broad range of over 200 general and specialist products – the widest range of specialisms in the UK market.

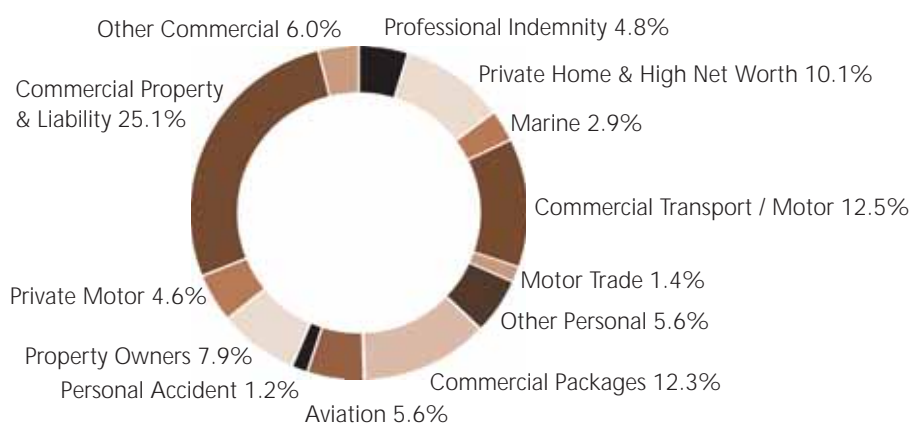
Towergate is an entrepreneurial company led by people with a reputation for innovation and dynamism. With over 4,000 committed staff based across more than 100 UK offices, we are well positioned to provide a local and personal service in virtually every corner of the UK.

## The Towergate Partnership Timeline

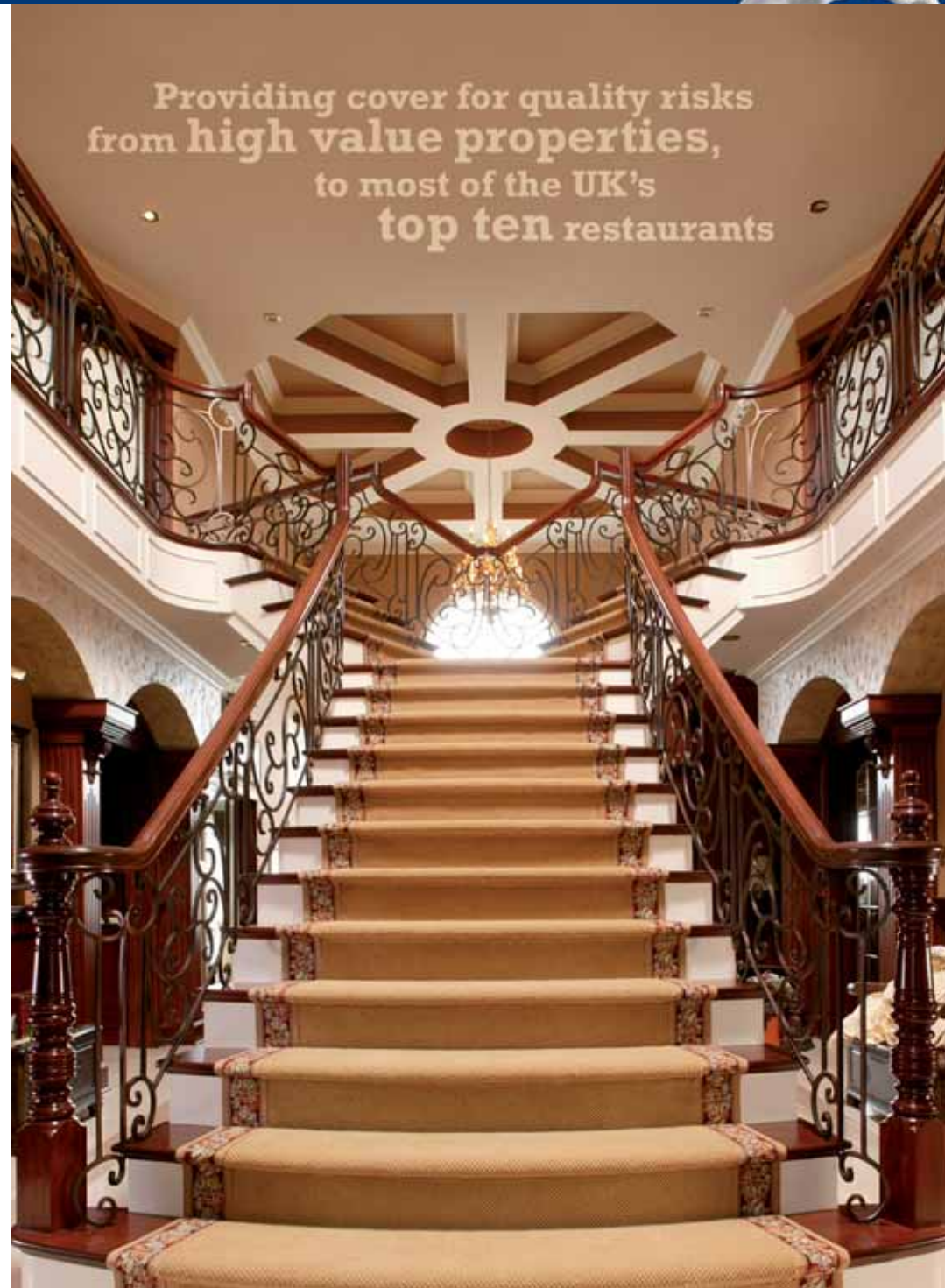




### Premium base by key product classes 2007



### Towergate business locations



**Our businesses** Towergate Partnership has three main areas of operation: Broking, Underwriting, and Networks for independent brokers.

Towergate's **Broking Division** has our customers' needs at the heart of everything we do and over many years our brokers have built long-term relationships based on integrity and openness. Key to our success has been local service and specialist expertise for our chosen communities and access to excellent advice, risk management, and a suite of leading insurance products.

Both small and large customers benefit from working with trusted and experienced brokers who not only fully understand their issues and concerns, but have the industry relationships to fight their corner. Our retail broking businesses either select from the leading underwriting products and facilities available from Towergate Underwriting or use alternative insurer markets – according to the best interests of the client.

Our **Underwriting Division** comprises a wide range of specialist businesses, each of which is focused on a particular industry or market sector. As 'virtual insurers' our

businesses carry out most or all of the functions of an insurance company – such as assessing and underwriting risks, administering the policies and handling claims and renewals.

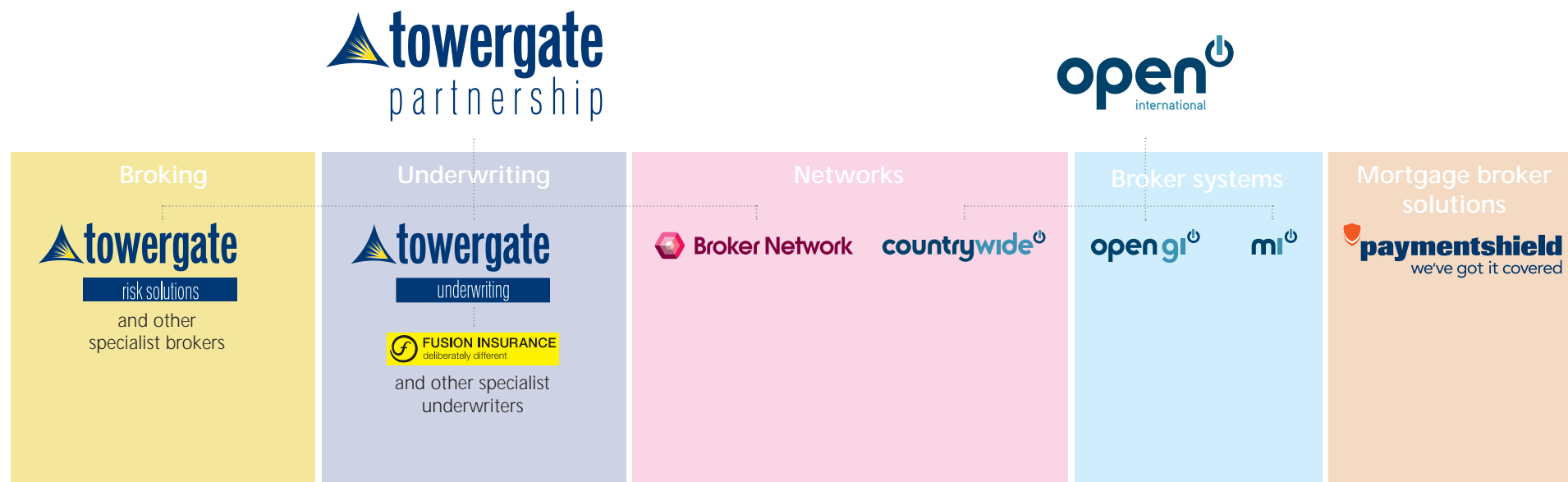
This underwriting service is offered to both Towergate-owned brokers and over 4,100 non-Towergate brokers across the UK, all of whom benefit from the fact that we are in control of the high service levels we set across the board.

Our **Network Division** provides independent brokers with a range of services and facilities to enhance their efficiency, competitiveness, and profitability. This may simply mean access to leading insurance products, or full business support, from regulatory compliance to marketing.

**Our model** Our business model enables us to deliver exceptional value to our customers through quality insurance products and service, underpinned by strong relationships with leading insurance companies. We call this our "Value Triangle" – a three way partnership where client, insurer and Towergate prosper.

## Main Towergate Partnership businesses and related companies

Towergate Partnership, Paymentsshield and Open International form what we often refer to as the 'Towergate Family'





**Recognition** Europe's largest independently owned insurance intermediary, Towergate is also recognised as one of the UK's most successful companies. In 2007 we appeared as a Sunday Times Profit Track 100 company and voted Private Company of the Year by ACQ Magazine. Our Executive Chairman Peter Cullum was also named Entrepreneur of the Year 2008 by the magazine Management Today.

**“In an industry traditionally perceived as grey and unexciting, Towergate have been a breath of fresh air. They lead by example...”**

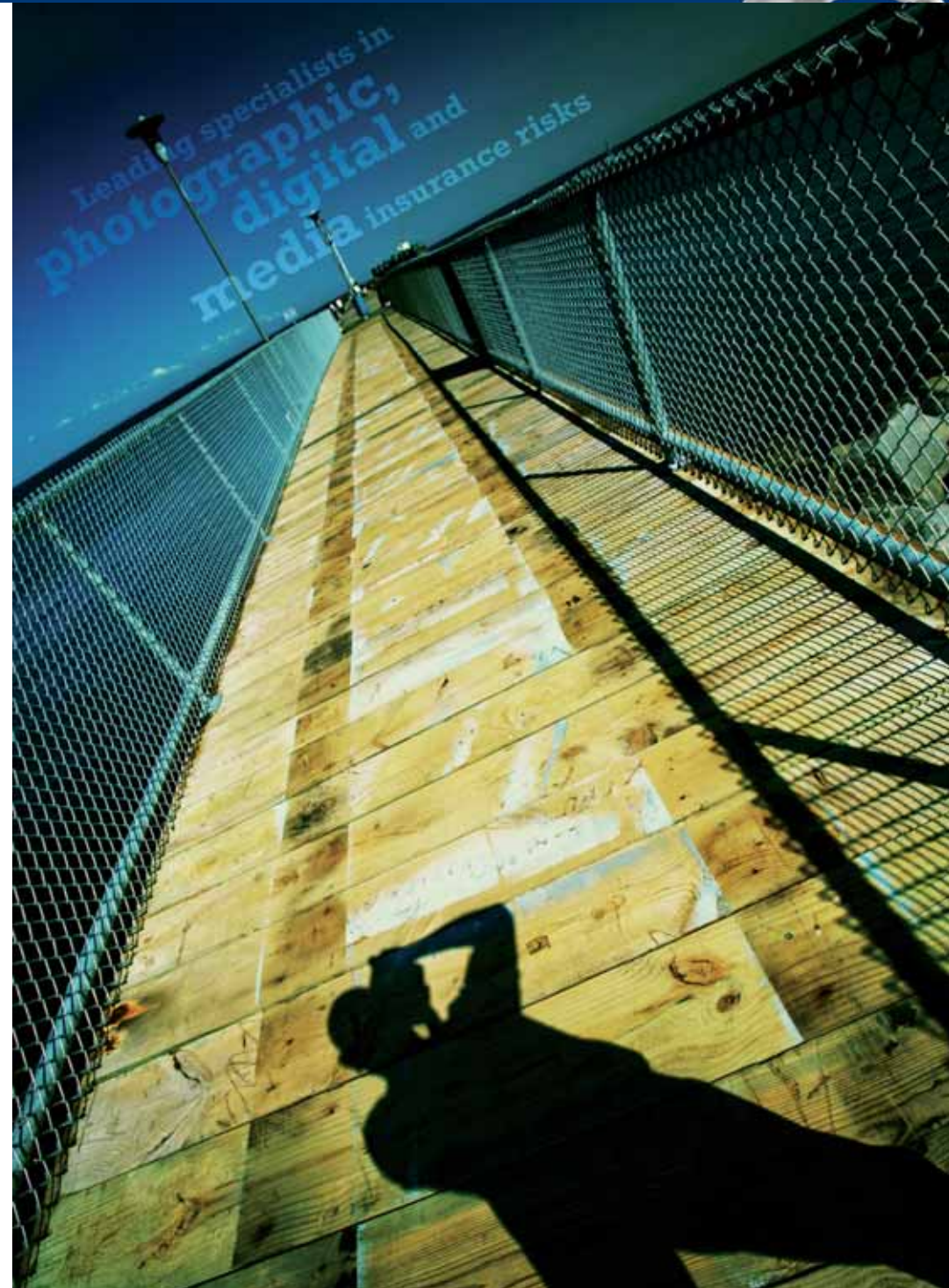
**Dr. Sandy Scott**  
CEO, Chartered Insurance Institute

At the end of 2007, Towergate's broking division became the largest company to be granted the status of Chartered Insurance Brokers – having satisfied strict criteria regarding the quality of management, a commitment to professional qualifications and membership of the Chartered Insurance Institute.

CII's Chief Executive Sandy Scott said “In an industry traditionally perceived as grey and unexciting, Towergate have been a breath of fresh air. They lead by example in their approach to, and investment in, developing their people and the service they give customers - we are proud to have them as a flagship partner.”



**Management style** Towergate's growth by acquisition of specialist insurance businesses inevitably means that a high proportion of our management are entrepreneurial and need a dynamic and conducive structure. A key feature of Towergate is its federal structure – which gives each business MD responsibility for their own profit & loss, with flexibility to express themselves and bring their considerable skills to bear.







Leaders in **farm & agricultural risks**

**Towergate Partnership - Underwriting** Value in insurance and risk management is derived from two factors: the experience to assess the ever changing risks that people and businesses face, and the ability to provide excellent advice and protection at a competitive price. To create value therefore, we believe it is essential to build long-term relationships between customers, intermediaries and insurers.

At Towergate we are dedicated to making this happen across our entire underwriting business, which boasts some of the leading specialists in the industry. They bring great expertise and knowledge – and consequently peace of mind – to our clients, especially in writing risks for UK business and in niche markets, ranging from agriculture to vintage cars.

**19 underwriting businesses act as ‘virtual insurers’, carrying out most or all the functions of a traditional insurance company – including assessing and underwriting risks, administering the policies and handling claims.**

In 2007 we completed the formation of our underwriting businesses, or ‘zones’ as we call them, each one providing sector expertise in niche markets. These zones act as ‘virtual insurers’, carrying out most or all of the functions of a traditional insurance company – including assessing and underwriting risks, administering the policies and handling claims and renewals.

We also remain fully committed to providing over 4,100 non-Towergate brokers with access to our market-leading underwriting capability. This spells good news for brokers, because their customers benefit from the widest range of specialist products combined with first-class customer service. Furthermore their peace of mind is assured because we place business with a panel of leading insurers including household names such as AXA, Allianz, Norwich Union, RSA and Royal Bank of Scotland each carefully chosen for the appropriate product area.



Our commitment to outstanding customer service was fully tested by last summer's floods and we emerged equal to the task. This was the first major UK event covering such a wide geographic area since the 2000/01 storms and triggered the emergency claims plan of all insurers. Overall Towergate handled more than 1,500 flood claims during the worst of the weather. Our geographical network enabled us to deal with claims quickly and our staff pulled out all the stops to meet the needs of our customers. As 'virtual insurers' we do not, of course, carry the financial risk on our balance sheet.

Our loss-adjusting service, Towergate Assist, gave us access to local and bespoke loss adjusters enabling us to reduce settlement times dramatically. Our commitment, that no Towergate customer should go out of business as a result of the floods, was achieved by progressing claims quickly and fairly. The feedback from customers to this service has been overwhelmingly positive.

## Underwriting Division Businesses

Agriculture	Entertainment	Marine
Aviation	Financial Risks	Motor
Binder Management	Fusion – Commercial (SME)	PA & Travel
Care Homes	Fusion – Marine Cargo	Transit & Cargo
Cherished Cars	Household	Transportation
Commercial Property Owners	Let Property	Travel
Commercial Underwriting	Liability and Construction	

**Towergate Partnership - Networks** Our acquisition of Broker Network provided us with the UK's leading network for brokers looking to benefit from economies of scale and various types of high quality business support, but without losing their independence. This forms the core of our strategy to expand our proposition to brokers looking for a competitive edge through efficiency, leading products and the ability to focus on what they do best.





Protecting over  
one million  
travellers a year

**Towergate Partnership - Broking** Towergate delivers insurance and risk management solutions through Towergate Risk Solutions (TRS), and Towergate's other owned UK broking businesses, who each maintain a high degree of personal commitment. Both our individual and commercial customers benefit from working with trusted and experienced brokers who are really talking their language, and have a full understanding of their issues and concerns. This is combined with the market clout and industry relationships to handle virtually all classes of business.

Our brokers are able to offer clients incomparable choice in selecting from over 200 leading underwriting products and facilities within Towergate Underwriting or, alternatively, by accessing the open insurance market according to customer needs.

Towergate completed some significant acquisitions in the broking market in 2007. We strengthened our presence in Scotland through the acquisition of J W Group Insurance & Risk Management Ltd, a strong commercial and personal lines business with specialist niches, including bed & breakfast and housing facility schemes. We have significant plans for further growth in the Scottish market through acquisitions and organic growth.

**Both our individual and commercial customers benefit from working with trusted and experienced brokers who are really talking their language.**

Bury St Edmunds based Alliance Management Ltd also joined Towergate in the year, giving us a strong commercial business and specialist niches, including a fine-dining scheme which boasts most of the UK's top ten restaurants as clients.

Haywards Aviation, one of the larger insurance intermediaries we acquired in 2007, is a prime example of the type of market-leading company that fits well with the Towergate profile and expands our specialist reach. Haywards, directly or indirectly, insures the vast majority of the UK's helicopters and private aircraft.

At the other end of the scale, a further example of our attention to detail in extending our distribution capability came with the acquisition of Insurance 4 Car Hire. This is a relatively small business but it gives us an internet-only product that fulfils a real need:

an annual policy to replace the high costs of damage waiver cover applied by car hire firms in the UK and abroad.

We remain the most significant insurance provider for the SME market, and we are proud of our long term partnership with the Federation of Small Businesses (FSB). We have developed an initiative with FSB to provide their members with improved access to our local Towergate offices. To improve awareness of the emerging risks facing UK business, FSB and Towergate also organised a national and regional radio campaign, which provided useful information on business continuity planning.

Many of our broking offices were themselves physically affected by last year's floods. However, across the country, companies such as TRS Hull, Bakers in Cheltenham and TRS Gloucester showed outstanding resilience and managed to remain on call to help customers get quickly back on their feet.

2007 saw Towergate become the largest insurance broker to gain corporate Chartered Broker status. Achieving Chartered status demonstrates Towergate's commitment to the highest professional standards and it is part of our overall strategy to have the largest number of qualified people in the insurance business.

### Retail Broking Business locations:

Aberdeen	Falmouth	Hinckley	Newton Abbot	Southgate
Birmingham	Fareham	Hull	New Malden	Southwark
Bournemouth	Glasgow	Ilkley	Northampton	Stafford
Braintree	Great Yarmouth	Kettering	North Walsham	Stockton-on-Tees
Bristol	Guildford	Leeds	Nottingham	Stoke
Bury St Edmunds	Halifax	Leicester	Oxford	Sutton Coldfield
Byfleet	Harpenden	Leominster	Paisley	Taunton
Colchester	Harrogate	London	Poole	Telford
Didcot	Harrow	Maidstone	Romford	Warwick
Dumfries	Haywards Heath	Milton Keynes	Sevenoaks	Whitstable
East Kilbride	Hemel Hempstead	Newcastle	Sheffield	Wokingham
Edinburgh	Henley	Newquay	Shrewsbury	Worcester

as at 30th June 2008

### Specialist Niche Broking Businesses include:

Agriculture	Education	Military
Archaeology	Entertainment	Photography
Aviation	Federation of Small Businesses	Professional Indemnity
Caravans & Park homes	Insurance for mortgage brokers and their clients	Towergate London Market
Care and nursing homes	Marine	Travel
Cherished cars	Medical Professions	Truck & road haulage
Consultants & therapists		

Specialists in sports risks from  
professional rugby players  
to motor racing





The Towergate Partnership and related companies combined controlled in excess of £2.1 billion of gross written premium in 2007, generating earnings of £166m on a pro forma basis. While Towergate Partnership showed strong growth during the year, Broker Network, Open International and Paymentsshield also made significant contributions to the Towergate story.

	Towergate Partnership	Broker Network	Open International	Paymentsshield	Total
	£m	£m	£m	£m	£m
<b>GWP</b>	<b>1,201</b>	<b>396</b>	<b>287</b>	<b>241</b>	<b>2,125</b>
<b>Turnover</b>					
Commission and fees	269	30	34	49	382
Investment income	9	1	1	1	12
	<b>278</b>	<b>31</b>	<b>35</b>	<b>50</b>	<b>394</b>
<b>Administrative expenses</b>					
Management and staff costs	(122)	(15)	(13)	(16)	(166)
Premises and other costs	(47)	(7)	(3)	(5)	(62)
	<b>(169)</b>	<b>(22)</b>	<b>(16)</b>	<b>(21)</b>	<b>(228)</b>
<b>EBITDA</b>	<b>109</b>	<b>9</b>	<b>19</b>	<b>29</b>	<b>166</b>

## Paymentsshield

In November 2006, Towergate's shareholders acquired Southport-based Paymentsshield, the UK's leading supplier of mortgage protection and household insurance products to the UK mortgage intermediary market. The acquisition was of strategic importance, giving Towergate unrivalled access to the vast mortgage-insurance sector.

With products underwritten by Norwich Union and RSA, the company has a strong reputation in the market for expertise and product knowledge. Broker research in 2007 revealed that nine out of ten mortgage intermediaries would recommend a Paymentsshield product to their clients. And, according to the Council of Mortgage Lenders and the company's own statistics, one in seven mortgage applicants in the UK becomes a Paymentsshield policyholder.

Already, since becoming part of the Towergate family, Paymentsshield has shown its considerable potential. In 2007 the company boasted a record 860,000 buildings, contents and mortgage payment protection policyholders, together with a healthy expansion of their product range.

Future strategies will focus on increasing new business and retention rates, widening the product range further, introducing a new broker commission structure and growing through an active acquisition strategy.



## Open International

In September 2007 Towergate's shareholders acquired Open International Limited, the UK and Ireland's leading supplier of IT solutions to insurance brokers. This was our largest acquisition to date, encompassing all the members of the Open International Group, including Open GI, the Countrywide Network, and global Market technology provider, MI Limited.

With over 25,000 users of its system and a presence in around 2,000 commercial and personal lines broking sites, Open GI has around 40% of the UK broker market and has built strong partnerships with all major insurers.

Towergate has always shown a long-term commitment to reducing transactional friction between brokers and underwriters, especially in the elimination of double handling of data and processes. We therefore aim to maintain a strong focus on the continued improvement of efficiency for broker customers through further investment in Open GI's systems. The successful roll-out of the Powerplace proposition will further enhance Open GI's offering by providing a new electronic sales platform for commercial lines business. This will give brokers improved access to products and better processes, whilst also increasing organic growth opportunities across the Towergate family.

Open International will continue to operate under its own brand identity, focusing on further developing the current Open GI and MI platforms and progressing new electronic trading solutions for commercial and personal lines products.

The continued expansion of Open's network for brokers, Countrywide, will be built on developing the proposition of enhanced products and services to the broker market.





## Broker Network

The Broker Network Group is the parent company of four trading operations: Broker Network Limited, Broker Network Insurance Brokers (BNIB), Broker Network London Markets (BNLM) and TL Risk Solutions. The Broker Network group of companies, which joined the Towergate Partnership in December 2007, employs over 400 people across 20 locations, with an annual gross written premium of over £400 million.

Broker Network, formed in 1994, is the UK's largest network of independent commercial insurance brokers, with a membership of more than 170 brokers. It provides Members with an extensive and market leading range of business support services including marketing, compliance, IT, training and human resource management.

Established in 2004, BNIB is the retail arm, made up of community-based insurance brokers, acquired from both within and outside the Membership. The purpose of BNIB is to support Broker Network's proposition for Members contemplating retirement and wishing to sell their business.

BNLM was established to provide Members with access to Lloyd's and London markets for clients involved in specialist or high-risk activities. Through BNLM, Broker Network became the first network to receive full accreditation as a Lloyd's broker.

TL Risk Solutions is a leading provider of risk management, healthcare and insurance advice to businesses and private individuals across the UK. The business currently has some 4,000 corporate clients and over 18,000 private clients. Its principal focus is on mid-sized corporate businesses in the UK and mid-to-high-net-worth individuals.

Broker Network will play a significant part in Towergate's strategy to give brokers the widest possible range of options for taking their businesses forward – whether it be simply access to leading products, or providing full support as part of a robust and influential network or organisation.



**Our performance** 2007 saw continued challenging market conditions. Rates remained soft and insurers' underwriting results were hit by not one but two major UK flood events. Despite this backdrop Towergate Partnership produced another strong performance. Net income increased 14.5% to £278 million up from £243 million in 2006. This increase reflects our success in growing income organically as well as through acquisition.

	2007 £m	2006 £m
<b>Turnover</b>		
Commission and fees	268.9	237.6
Investment income	9.0	5.2
	<u>277.9</u>	<u>242.8</u>
<b>Administrative Expenses</b>		
Management and staff costs	(122.1)	(105.3)
Premises and other costs	(47.3)	(43.1)
	<u>(169.4)</u>	<u>(148.4)</u>
<b>EBITDA<sup>1</sup></b>	<b>108.5</b>	<b>94.4</b>
Depreciation	(9.0)	(6.7)
<b>EBITA<sup>2</sup></b>	<b>99.5</b>	<b>87.7</b>

<sup>1</sup> Earnings before interest, tax, depreciation, amortisation, directors' bonuses and other non-operating costs.

<sup>2</sup> Earnings before interest, tax, amortisation, directors' bonuses and other non-operating costs.

During the year we continued with our strategy of strengthening our sales resources, while increasing our focus on service delivery and client retention. As a result we have seen increased organic growth in 2007. We will accelerate this process in 2008 with increased investment in additional sales staff, training and retention.

2007 EBITDA increased by 15% from £94.4 million to £108.5 million by virtue of higher turnover, improved margin and tight cost control.

The key indicators against which we measure our performance are set out in the table below.

	2007	2006
Net commission and fees / GWP	22.4%	22.0%
Staff costs / Income	43.9%	43.4%
EBITDA / Income	39.0%	38.9%
EBITDA / GWP	9.0%	8.7%
PBIT / Income	17.5%	16.5%

**Reconciliation to statutory accounts** The results set out above reconcile to the consolidated profit and loss account of Towergate as follows:

	2007 £m	2006 £m
<b>EBITA<sup>2</sup></b>	<b>99.5</b>	<b>87.7</b>
Goodwill amortisation	(27.3)	(22.6)
Other non-operating costs	(12.1)	(11.7)
Executive bonus costs	(13.0)	(14.2)
<b>Profit Before Interest and Tax</b>	<b>47.1</b>	<b>39.2</b>
Interest payable and similar charges	(38.7)	(26.8)
Finance costs on preference shares	(20.4)	(2.0)
<b>(Loss) / Profit on ordinary activities before tax</b>	<b>(12.0)</b>	<b>10.4</b>

Note: Other non-operating costs comprise (a) bank and other fees connected with refinancing and the equity release (b) office restructure costs (c) provisions required by Application Note G of FRS5 (d) provisions required by FRS20 relating to long term incentive plans.

**Financial strength** For all our stakeholders, including clients (direct and brokers), insurers, banks, FSA (Financial Services Authority), employees and shareholders, the financial strength of Towergate is of particular importance.

Our principal FSA regulated entity, Towergate Underwriting Group Limited (TUGL), has seen its net assets grow from £414 million to £438 million during 2007. In January 2008, the FSA changed the rules by which assets are admissible for the purposes of meeting capital requirements. Intangible assets such as goodwill will no longer be admissible. Allowing for the change of rules TUGL has solvency capital which is still 350% higher than the adjusted requirement.

**Cash flow** The Group's cashflows were robust in 2007, since most of our operating profits convert into cash. In 2007 our EBITDA of £108.5 million was more than 2.5 times interest payable. This substantial cashflow is reinvested in the business both by way of acquisition and the development of our people and systems for the future.

The table below sets out the Group's profit before non-cash charges:

	2007 £m	2006 £m
<b>EBITDA</b>	<b>108.5</b>	<b>94.4</b>
Other non-operating costs	(12.1)	(11.7)
Executive bonus costs	(13.0)	(14.2)
<b>Profit available to service debt</b>	<b>83.4</b>	<b>68.5</b>
Interest payable and similar charges	(34.8)	(26.2)
<b>Profit before non-cash charges and tax</b>	<b>48.6</b>	<b>42.3</b>

Reconciling items to our profit before tax:

<b>Profit before non-cash charges and tax</b>	<b>48.6</b>	<b>42.3</b>
Depreciation	(9.0)	(6.7)
Goodwill amortisation	(27.3)	(22.6)
Interest (non-cash)	(3.9)	(0.6)
Finance costs on preference shares	(20.4)	(2.0)
<b>(Loss) / Profit before tax</b>	<b>(12.0)</b>	<b>10.4</b>

**Bank Facilities** The 2007 'credit crunch' saw the worst conditions in the debt markets for decades with many banks effectively closed for business. We are very appreciative of the support received from our banking syndicate during this difficult time, led by Bank of Scotland plc, which allowed Towergate to complete 16 acquisitions during 2007, including our first public to private transaction – Broker Network plc.

In addition with the support of Bank of Scotland Towergate shareholders successfully acquired Open International, the UK's biggest insurance broker software provider, which will operate as part of the Towergate family of companies pending consolidation.

At 31 December 2007, Towergate had unused bank facilities and cash totalling over £100m available for further acquisitions.

**Risks and uncertainties** The Group runs an embedded risk management culture that endeavours to identify and manage all business risks. This is documented in the Group risk register which is considered by the Risk and Compliance Committee and the Board on a quarterly basis. The principal risks to the Group and their mitigation are discussed below.

**Market** The insurance market is cyclical and the rates charged for cover may rise or fall through the cycle. An extended period of flat or falling rates may impact the Group's income. The Group mitigates this risk by having a very wide range of insurance products distributed through a number of different channels.

**Underwriting capacity** The Group is reliant on insurers providing underwriting capacity and products. A withdrawal of capacity and products may impact the Group's income. The Group manages this risk by maintaining a close relationship with a number of different insurance partners. The Group has a long track record of generating profitable returns to its insurers from underwriting and broking activities.

**Recruitment and retention of talent** Our people are our most important asset. An important aspect of our competitiveness is our ability to attract and retain high quality people. We believe that our owner-manager culture, competitive remuneration packages and offer to all employees of an opportunity to share in the value of Towergate provides the necessary tools to enable us to attract and retain key staff.

**Regulatory environment** Towergate's insurance intermediary activities are regulated by the Financial Services Authority (FSA). Changes to regulations, interpretations of existing regulations or failure to obtain required regulatory approvals could restrict our ability to operate. We maintain a strong relationship with the FSA and participate in early consultations to ensure that we are proactive in responding to changes in regulations. The Group compliance function exists to ensure that all relevant regulations are complied with.

**Financial** The Group is exposed to interest rate risk arising from its banking facilities, which it monitors closely and manages through the use of derivatives. As almost all of the Group's trading is transacted in sterling, the Group has negligible foreign exchange exposure.

**In conclusion, 2007 has been another great year for Towergate. It was our biggest year yet for acquisitions and the move into networks represents a key strategy for the future.**

**Ian Patrick**  
Group Finance Director



**Enjoying Success** Having fun and doing good are the two mainstays of the Towergate culture. This is shown frequently by our employees, who give their time and effort to raise money for worthwhile causes.

A great example of this were the successful Towergate Family Fun Days at Alton Towers, Thorpe Park and Blackpool Pleasure Beach. Despite the great British weather, 1,600 staff and their families from over 70 businesses had a great time.

Towards the end of 2007, in celebration of our 10 year anniversary, each business in the group organised their own special birthday celebrations. These included themed parties, with styles ranging from James Bond to Wizard of Oz evenings.

## Towergate's fundraising efforts increased to such a scale that we established the Towergate Charitable Foundation.



**And making a real difference** Parties and fun days are a big part of the Towergate culture, but there is a serious benefit. In the last two years staff and clients have raised over £1million for hospices and other great causes. As our Executive Chairman, Peter Cullum always says, "It's about having a heart and soul".

Our staff have run, walked, bought, baked, flown, sky-dived and even gambled for charity. They have sung carols to unreceptive audiences, donned commando gear, got very tired, bruised, dirty, and blistered and dressed up in ridiculous costumes... and all to raise money. We applaud everyone who took part.

Towergate's fundraising efforts increased to such a scale that we established the Towergate Charitable Foundation. This is a transparent registered charity vehicle which supplies 100% of funds raised to our chosen charities. These are primarily: Help the Hospices, Childline, Great Ormond Street Hospital and Cancer Research. In addition Towergate Wilsons supports a range of military related charities. We also launched a new website that provides details of our charitable work. This can be found by going to [www.towergate.org.uk](http://www.towergate.org.uk)

Wherever possible, we like to know that the money raised is being put to tangible use. Donations in 2007 included a life changing £500,000 to an under funded hospice, Tapping House, which secured its immediate future and gave a spring board for further fund raising and improved facilities. At the other end of the scale, we enabled a Sussex hospice to buy much-needed TV/DVD sets for their residents.



As well as providing charity support for national projects, we are also committed to a number of specific programmes of a more direct nature. These see us acting as enablers in projects such as: research programmes for Help the Hospices; funding much-needed isolation rooms at Great Ormond Street hospital; providing training and development for the Childline counsellors. It brings the added excitement of being involved in innovation and seeing where our efforts are going.

## “It’s about having a heart and soul.”

We continue to support our British troops serving in Afghanistan, many of whom are operating in uncomfortable conditions. We acknowledge the sacrifice they are making for us. Amongst other contributions Towergate staff organised 300 boxes of goods to be sent over for the troops – including sweets, cakes, toiletries and books. These were well received and help demonstrate that our troops are not forgotten back home.



# Experts in a wide range of entertainment risks



#### 1. Peter Cullum, PhD, MBA, FCII, ACII, ACIM, Executive Chairman

Peter began his insurance career in 1969 with the Royal Insurance Group and progressed to sales and marketing positions within Commercial Union and ITT London and Edinburgh where he became marketing director in 1988. At the age of 21, he became the youngest person to pass the Chartered Insurance Institute fellowship examinations. In 1991, Peter joined Economic Insurance and led their return to profitability in 1993. In December 1993, Peter led the management buyout of the Economic that was sold in 1995 to Hiscox plc. He joined Hiscox as group marketing director, a role he held until he left in 1997 to create Towergate Underwriting Group. He was awarded an honorary doctorate of Science in Entrepreneurship by Cass Business School in 2007.

#### 2. Andy Homer, FCII, Group Chief Executive Officer

Andy was appointed Chief Executive Officer of Towergate Partnership in 2005. He joined Towergate in 2002 as Chief Executive Officer of the Folgate Partnership. Andy has worked in the insurance business since 1971. His career includes appointments as General Manager of Commercial Union UK (now part of Norwich Union) and CEO of Axa Insurance UK. Between 1998 and 2001 he was Chairman of the Motor Insurance Bureau and was President of the Chartered Insurance Institute in 2002/3.

#### 3. Kenny Maciver, CA, ACII, Group Acquisitions Director

Kenny joined Towergate in 2000 and a year later worked with Peter Cullum in creating Folgate Partnership where he was Managing Director. Following the merger of Folgate and Towergate in 2005 he assumed responsibility for acquisitions. Prior to joining Towergate he was Managing Director of Groupama following the merger of Lombard General Insurance and Gan in 1999.

#### 4. Tony Proverbs, FCII, Executive Director

Tony was part of the team that created Towergate in 1997. He began his career with Guardian Royal Exchange and Black Sea and Baltic, where he held a variety of senior sales roles. In 1985, he moved to Economic Insurance to focus on scheme development. Tony subsequently became Sales Director of Hiscox before joining the management team of Towergate from its inception. Currently, Tony Proverbs is Executive Director responsible for the relationship between Towergate Partnership and its key associated companies – PaymentShield, Towergate Healthcare and Cullum Capital Ventures.

#### 5. Amanda Blanc, MBA, ACII, Chief Executive Officer - UK Broking

Amanda was appointed as Chief Executive Officer UK Broking in 2006. She was formerly Distribution and Customer Services Director of Groupama Insurances. Before joining Groupama, Amanda held senior sales and distribution positions at AXA Insurance and Commercial Union.

#### 6. Max Carruthers, BSc, ACII, Group Operations Director

Max was appointed as Group Operations Director in 2005. He is a computer science graduate and started his career as a loss adjuster. He has subsequently held a variety of senior roles within the insurance industry. He was Deputy Managing Director at Economic Insurance until Hiscox bought the firm in 1996. He then became Managing Director of Hiscox Insurance. In 1998, Max was appointed Chief Executive of Eastgate Assistance. He became Joint Chief Executive of Rubicon Corporation in 2001.

#### 7. Clive Nathan, BA, ACII, Chief Executive Officer - Underwriting

Clive was appointed as Chief Executive Officer Underwriting early 2006 having joined Towergate in 2003. He has held senior positions in Commercial Union and Axa Insurance, where he was Southern Regional Director.







**8. Ian Patrick, BA, CA, Group Finance Director**

Ian was appointed Group Finance Director of Towergate in 2006. Ian trained as a chartered accountant with BDO Binder Hamlyn, qualifying in 1991. He has since held a number of senior finance positions with Croft Oil & Gas Plc and Mitsui Bussan Commodities before joining Highway Insurance Holdings plc in 1999 and becoming Group Finance Director in 2002. Following the successful turnaround of the business Ian was promoted to Group Finance & Operations Director in 2005.



**9. Tim Philip, B. Comm. ACA, Finance Director**

Tim joined The Folgate Partnership as Group Finance Director at the time of Folgate's launch in 2002 and became Finance Director of Towergate when the two groups merged in 2005. He joined Coopers and Lybrand in 1985 spending six years with Coopers in Australia, before transferring to the UK in January 1991. In 1999 Tim joined Heath Group and in 2000 he joined Benfield Group as Finance Director of a newly formed subsidiary company. Tim is a qualified chartered accountant.



**10. Paul Dyer, BA, ACII, Non-executive Director**

Paul was one of the founders that created Towergate in 1997. He started his career with Royal Insurance before moving to TSB with responsibilities for non-life insurance development. In 1983, he became marketing manager for ITT London & Edinburgh. In 1992 he joined Economic Insurance and was part of the management buyout team, leaving Hiscox to create Towergate. Paul was Group Communications Director before becoming a non-executive director in 2005.



**11. Mel Sims, LL.B (Hons) Law, Non-executive Director**

Mel was appointed as a non-executive Director of Towergate in 1999. He is a private equity corporate lawyer at DLA Piper specialising in mergers and acquisitions and has particular experience in the insurance sector. He has been involved in the establishment and development of insurance brokers and third party administrators to the insurance industry including Towergate Partnership Limited and Folgate Partnership Limited.



**12. David Torrance, CA, MCT, LL.B, Non-executive Director**

David Torrance joined Towergate Underwriting Group in 2002 as Finance Director. He then became Group Finance Director for Towergate Partnership before taking up a non-executive director role in 2006. David was formerly Finance Director of the general insurance operations of Axa in the UK and also spent 11 years with PPP healthcare where he became Chief Financial Officer and Deputy Chief Executive.



**13. Ken Wallace, FCII, Non-executive Director**

Ken was appointed as a non-executive Director of Towergate in 2005. He has held senior roles with Norwich Union for more than 40 years. He is a Fellow of the Chartered Insurance Institute (CII) and was Chairman of the Association of British Insurers (ABI) Distribution Committee for five years.



**14. John Reddi, Company Secretary**

John Reddi is a Solicitor of the Supreme Court. He joined Towergate Partnership in 2001. He trained at DMH Solicitors before joining Naunton Lynch Hall where he was Managing Partner and Head of Corporate. John is a member of the Commerce and Industry Group (London region).





The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

**Principal activities** The consolidated profit and loss account for the year is set out on page 24. The principal activity of the Group is insurance broking and underwriting. Reviews of the trading activities of the Group and the financial performance during the year are set out in the report from the Chairman and the Operating and Finance Review earlier in these financial statements.

**Dividends** The directors have proposed a dividend of £nil to equity shareholders (2006: £nil).

**Market value of land and buildings** In the opinion of the directors, the market value of the land and buildings of the Group is stated at current open market value.

**Directors** The directors who held office during the year were as follows:

PG Cullum	MSJ Sims
PF Dyer	KJ Wallace
DWW Torrance	IWJ Patrick
AC Homer	PJR Snowball (appointed 2 July 2007)

All directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Details of movements in share capital are set out in notes 18 and 19.

**Employees** The Group actively encourages all employees to become involved in Group affairs. This is achieved through regular staff meetings and presentations by the directors. Employees are regarded as being key to the Group's success, so an appropriate remuneration package is offered which rewards an individual's performance.

The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. Once employed, a career plan is developed to ensure that suitable opportunities exist for each disabled person. Employees who become disabled during their working life will be retrained in employment wherever possible and will be given help with any necessary rehabilitation and training. The Group is prepared to modify procedures or equipment, wherever practicable, so that full use can be made of an individual's abilities.

**Political and charitable contributions** The Group made no political contributions during the year. Towergate Partnership raised over £1m for UK charities through Towergate staff fundraising, client donations and direct contributions. Excluding the costs of staffing and enabling cause-related activities, Towergate Partnership's direct donations totalled £93,246 in 2007 (2006: £118,333).

**Disclosure of information to auditors** The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Auditors** In accordance with Section 379A and 386 of the Companies Act 1985, the Company has dispensed with the resolution to appoint auditors annually.

By order of the board

**A C Homer**

Director

13 May 2008

The directors are responsible for preparing the 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

		2007	2006
		£	£
<b>Group turnover</b>	2	268,931,012	237,586,600
Administrative expenses		(203,488,799)	(181,013,340)
Amortisation of goodwill		(27,332,199)	(22,574,770)
<b>Group operating profit</b>		<b>38,110,014</b>	33,998,490
(Loss) / profit on disposal of portfolio	17	(118,255)	21,031
Profit on disposal of subsidiaries	17	73,539	-
<b>Profit on ordinary activities before interest</b>		<b>38,065,298</b>	34,019,521
Other interest receivable and similar income		8,992,282	5,181,103
Interest payable and similar charges	5	(38,692,880)	(26,767,742)
Finance costs on preference shares classified as liabilities	5	(20,405,480)	(2,027,397)
<b>(Loss)/profit on ordinary activities before taxation</b>	3	<b>(12,040,780)</b>	10,405,485
Tax on profit on ordinary activities	6	(2,695,690)	(6,212,173)
<b>(Loss)/profit on ordinary activities for the year</b>		<b>(14,736,470)</b>	4,193,312

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 28 to 50 form part of these financial statements.



	Note	2007 £	2007 £	2006 £	2006 £
<b>Assets</b>					
<b>Fixed assets</b>					
Intangible assets	7	597,802,607		447,401,141	
Tangible assets	8	27,460,379		20,451,193	
Investments	9	1,105,167		1,455,650	
			626,368,153		469,307,984
<b>Current assets</b>					
Debtors	10	251,167,907		161,181,559	
Cash at bank and in hand		199,948,819		159,146,964	
			451,116,726		320,328,523
<b>Total assets</b>			<b>1,077,484,879</b>		<b>789,636,507</b>
<b>Liabilities</b>					
<b>Capital and reserves</b>					
<b>Shareholders funds</b>					
Called up share capital	18	96,687		96,687	
Profit and loss account	19	51,181,027		(30,993,388)	
Other reserves	19	(40,130,629)		56,556,811	
			11,147,085		25,660,110
Minority interests	20		(34,970)		(34,970)
<b>Total capital and reserves</b>			<b>11,112,115</b>		<b>25,625,140</b>
<b>Memorandum</b>					
<b>Total capital, reserves and preferences shares</b>			<b>108,805,198</b>		<b>122,953,973</b>
Provisions for liabilities and charges	15		34,904,022		29,218,862
<b>Creditors</b>					
<b>Amounts falling due within one year</b>	11	494,767,292		255,995,324	
<b>Amounts falling due after more than one year</b>					
Other	12	439,008,367		381,468,348	
Preference shares	13	97,693,083		97,328,833	
			1,031,468,742		734,792,505
<b>Total liabilities</b>			<b>1,077,484,879</b>		<b>789,636,507</b>

The notes on pages 28 to 50 form part of these financial statements.

These financial statements were approved by the board of directors on 13 May 2008 and were signed on its behalf by: **A C Homer**, Director

		2007	2006
		£	£
<b>Cash flow statement</b>			
Net cash inflow from operating activities	25	62,174,203	67,131,765
Returns on investments and servicing of finance	26	(28,304,006)	(36,277,529)
Taxation		4,609,803	(14,792,432)
Capital expenditure and financial investment	26	(13,379,324)	(9,754,781)
Acquisitions and disposals	26	<u>(13,201,567)</u>	<u>(33,370,282)</u>
Cash outflow/(inflow) before management of liquid resources and financing		11,899,109	(27,063,259)
<b>Financing</b>	26	<u>28,902,746</u>	<u>79,036,733</u>
<b>Increase in cash in the year</b>		<u>40,801,855</u>	<u>51,973,474</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
<b>Increase in cash in the year</b>	27	40,801,855	51,973,474
<b>Cash inflow from increase in debt and lease financing</b>		<u>(28,902,746)</u>	<u>(79,991,421)</u>
Change in net debt resulting from cash flows	27	11,899,109	(28,017,947)
New deferred consideration		(22,892,359)	(29,313,152)
New loan notes		(2,410,466)	(2,079,102)
Finance leases acquired with acquisitions	27	(390,174)	(245,387)
Other loans acquired with acquisitions		(16,960,120)	-
Capitalisation of interest		(3,827,201)	(485,990)
Bonus issue of £100m preference shares	13	-	(100,000,000)
<b>Movement in net debt in the year</b>		<u>(34,581,211)</u>	<u>(160,141,578)</u>
<b>Net debt at the start of the year</b>	27	<u>(353,995,912)</u>	<u>(193,854,334)</u>
<b>Net debt at the end of the year</b>	27	<u>(388,577,123)</u>	<u>(353,995,912)</u>

	2007 £	2006 £
<b>(Loss)/profit for the financial year</b>	<b>(14,736,470)</b>	<b>4,193,312</b>
	<b>(14,736,470)</b>	<b>4,193,312</b>
Increase in share capital	-	125
Premium on share issue	-	661,000
Acquisition of own shares held in trust	-	(954,687)
Capitalisation of reserves on bonus issue of preference shares	-	(100,000,000)
Issue of deferred shares	<b>96,687,440</b>	-
Cancellation of deferred shares	<b>(96,687,440)</b>	-
Share incentive plan (note 23)	<b>223,445</b>	<b>424,307</b>
<b>Net decrease in shareholder funds</b>	<b>(14,513,025)</b>	<b>(95,675,943)</b>
<b>Opening shareholder funds as originally stated</b>	<b>26,924,536</b>	<b>121,699,980</b>
<b>Prior period adjustments (see notes 20 and 23)</b>	<b>(1,264,426)</b>	<b>(363,927)</b>
<b>Opening shareholder funds – as restated</b>	<b>25,660,110</b>	<b>121,336,053</b>
<b>Closing shareholder funds</b>	<b>11,147,085</b>	<b>25,660,110</b>

## Consolidated statement of total recognised gains and losses for the year ended 31 December 2007

	2007 £	2006 £
(Loss) / profit for the financial year	<b>(14,736,470)</b>	5,093,811
Share incentive plan (note 23)	<b>223,445</b>	<b>424,307</b>
<b>Total recognised (losses) / gains relating to the year</b>	<b>(14,513,025)</b>	<b>5,518,118</b>
Prior year adjustments (see notes 20, 23 and 24)	<b>(1,264,426)</b>	
<b>Total recognised (losses) since last financial report</b>	<b>(15,777,451)</b>	



## 1. Accounting Policies

The company has adopted Financial Reporting Standard 20 Share-based payments in these financial statements in respect of certain share appreciation rights granted to employees. Comparatives have been restated to reflect the adoption of this accounting standard. The impact of the adoption of the standard is set out in note 23.

In addition, the company has changed its accounting for minority interests with put and call options over the minority interest shareholding. Where such options exist, the company has included their anticipated settlement value in the cost of investment in the relevant subsidiary rather than account for the minority interest's share of attributable net equity and results. Comparatives have been restated to reflect the adoption of this accounting policy. The impact of the new policy is set out in note 20.

In other respects, the company's accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

**Basis of preparation** The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, and under historical cost accounting rules.

**Basis of consolidation** The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2007. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

**Goodwill** Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. This is generally taken as twenty years.

The fair value of the consideration includes: deferred consideration; estimates of amounts which are expected to become payable as a result of the exercise of put and call options over minorities; and amounts payable to employees under share based payment arrangements assumed by the company under the terms of acquisition agreements.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

## Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost. Intangible assets acquired as part of an acquisition are capitalised at their fair value.

**Tangible fixed assets and depreciation** Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments on a straight line basis over their estimated useful economic lives as follows:

Leasehold improvements	–	Over the remaining life of the lease
Computer equipment	–	25% per annum
Fixtures and fittings	–	15% per annum or over 6 years
Furniture and equipment	–	20% per annum
Motor vehicles	–	25% per annum
Foreign freehold land and buildings	–	2% per annum

No depreciation is provided on other freehold land and buildings.

**Classification of preference shares** In accordance with FRS 25, the preference shares, net of transactions costs, have been classified as creditors due after more than one year. Dividends associated with the preference shares are included within the profit and loss account as a financing cost. Unpaid dividends are accrued at the year end.

**Employee share incentive plans** The company's employee share incentive plans entitle certain directors and employees to benefit on the sale or a listing of the company.

The share option plan allows employees to acquire shares of the Company. The fair value of share entitlements granted is recognised as an employee expense with a corresponding increase in equity. The fair value of the share entitlements is measured at grant date and spread over the period during which the employees become unconditionally entitled to them. The fair value of the share entitlements granted is measured taking into account the terms and conditions upon which they were granted. The amount recognised as an expense is adjusted to reflect the actual number of share entitlements that vest.

Transactions of the company-sponsored employee share ownership company and trust are treated as being those of the company and are therefore reflected in the parent company and group financial statements. In particular, the employee share ownership company and trust's purchases and sales of shares in the company are debited and credited directly to equity.

For cash-settled share appreciation rights, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities.

The fair value is initially measured at grant date and spread over the period during which employees become unconditionally entitled to payment. The fair value is measured based on prices achieved for the sale of the company's shares in recent transactions. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

**Foreign currencies** Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

**Leases** Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

**Post retirement benefits** The Group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting year.

**Taxation** Deferred tax is recognised, without discounting, in respect of all material timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

**Turnover** Turnover comprises net commission receivable on business incepting up to the year end. To the extent that the Company is contractually obliged to provide services after this date, a suitable proportion of income is deferred and recognised over the life of the relevant contracts to ensure that revenue appropriately reflects the cost of fulfilment of these obligations. Profit commission is recognised when notified which is the earlier of receipt or confirmation. Management charges are recognised when invoiced.

**Cash and liquid resources** Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

**Insurance transactions, client money and insurer money** The company records on its balance sheet amounts due to and from clients and insurers, and money held on behalf of clients and insurers in relation to the insurance transactions that the company handles on behalf of those parties. In accordance with the requirements of the Financial Services Authority, client money is held in bank accounts governed by Trust Deeds established for the benefit of such clients. Insurer money is held in accordance with the agreements in place between the insurer and the company. Amounts held in trust cannot be called upon on insolvency of the company, however interest received on all of these cash balances is recognised and reflected as revenue in these financial statements as the company has the right to such interest in accordance with the terms of business agreed with clients and insurers. The cash at bank balances presented in these financial statements represents the aggregation of the money held for the benefit of the company, clients and insurers.

## 2. Turnover

Turnover consists entirely of sales made in the United Kingdom.

## 3. Profit / (loss) on ordinary activities before taxation

Profit / (loss) on ordinary activities before taxation is stated after charging:	2007 £	2006 £
Auditors' remuneration:		
Group		
- Audit of these financial statements	98,700	199,750
- Audit of financial statements of subsidiaries	871,233	808,400
- Other services relating to taxation	120,943	284,603
- All other services	54,786	225,943
Depreciation and other amounts written off tangible fixed assets:		
- Owned	8,599,769	6,639,315
- Leased	561,934	56,316
Operating leases - Land and buildings	6,835,512	5,146,337
- Other assets	1,357,857	522,546
Loss on disposal of fixed assets	232,728	202,247

In addition to the above £1,049,608 (2006: £986,509) has been paid to the auditors for non-audit services the cost of which has been capitalised.

#### 4. Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2007	2006
Administration	<u>3,299</u>	<u>2,545</u>

The aggregate payroll costs of these persons were as follows:

	2007	2006
	£	£
Wages and salaries	96,920,193	97,240,182
Social security costs	9,924,635	9,029,528
Other pension costs	5,305,808	4,419,563
	<u>112,150,636</u>	<u>110,689,273</u>

#### 5. Interest payable and similar charges

	2007	2006
	£	£
On bank loans and overdrafts	37,918,334	24,896,100
On directors' loans	436,159	189,966
Finance charges payable in respect of finance leases and hire purchase contracts	47,806	10,558
On overdue tax	64,486	-
Other	226,095	1,671,118
	<u>38,692,880</u>	<u>26,767,742</u>
Finance costs on preference shares classified as liabilities <sup>1</sup>	<u>20,405,480</u>	<u>2,027,397</u>



## 6. Taxation

Analysis of charge in period:

	2007	2006
	£	£
UK corporation tax		
Current tax on income for the period	6,657,588	6,353,871
Deferred tax	776,416	398,473
Adjustments in respect of prior periods	(4,738,314)	(540,171)
	<u>2,695,690</u>	<u>6,212,173</u>
Total current tax	<u>2,695,690</u>	<u>6,212,173</u>

The current tax charge for the period is higher (2006: higher) than the standard rate of corporation tax in the UK 30% (2006: 30%).

The differences are explained below.

	2007	2006
	£	£
Current tax reconciliation		
(Loss) / profit on ordinary activities before tax	(12,040,780)	10,405,485
	<u>(3,612,234)</u>	<u>3,121,645</u>
Current tax at 30% (2006: 30%)	(3,612,234)	3,121,645
Effects of:		
Expenses not deductible for tax purposes	6,250,561	166,149
Amortisation	8,199,660	2,669,727
Depreciation for period in excess of capital allowances	-	402,659
Capital allowances for period in excess of depreciation	(95,894)	-
Utilisation of losses brought forward	(4,089,767)	-
Loss / (profit) on disposal of subsidiaries	5,262	(6,309)
	<u>6,657,588</u>	<u>6,353,871</u>
Total current tax charge (see above)	<u>6,657,588</u>	<u>6,353,871</u>

### Factors affecting future tax charges:

The deferred tax liability has been calculated at 28% in accordance with FRS 19.

Future tax charges will be affected by the degree to which amortisation of goodwill is not allowable for tax purposes and entertaining is disallowed.

## 7. Intangible fixed assets

	<b>Goodwill</b>
	£
<b>Cost</b>	
At beginning of year – as restated	488,684,058
Additions	178,592,417
Disposals	(898,255)
	<hr/>
At end of year	666,378,220
	<hr/>
<b>Amortisation</b>	
At beginning of year – as restated	41,282,917
Charge for year	27,332,199
Disposals	(39,503)
	<hr/>
At end of year	68,575,613
	<hr/>
<b>Net book value</b>	
<b>At 31 December 2007</b>	<b>597,802,607</b>
	<hr/> <hr/>
At 31 December 2006 – as restated	447,401,141
	<hr/> <hr/>

All goodwill arising on acquisition is amortised over a twenty year period.  
Further details regarding the restatements are given in notes 20, 23 and 24.

## 8. Tangible fixed assets

	Land and buildings £	Leasehold improvements £	Furniture & equipment £	Fixtures & fittings £	Computer equipment £	Motor vehicles £	Total £
<b>Cost or valuation</b>							
At beginning of year	931,000	3,454,091	6,594,200	4,368,684	31,511,901	1,070,157	47,930,033
Transfers	-	(410,653)	350,156	(144,703)	205,200	-	-
Grossing up adjustment	-	-	12	-	2,824	-	2,836
On acquisitions in year	7,500	232,451	942,454	120,504	3,078,327	756,650	5,137,886
Additions	-	510,685	913,399	1,114,263	12,641,040	19,685	15,199,072
On disposals in year	-	-	-	(1,957)	(19,466)	-	(21,423)
Disposals	(938,500)	(232,451)	(1,824,609)	(52,281)	(1,479,359)	(486,188)	(5,013,388)
At end of year	-	3,554,123	6,975,612	5,404,510	45,940,467	1,360,304	63,235,016
<b>Depreciation</b>							
At beginning of year	75,000	1,188,055	4,641,337	2,419,776	18,463,880	690,792	27,478,840
Transfers	-	(396,438)	396,502	(170,986)	170,922	-	-
Grossing up adjustment	-	-	12	-	2,824	-	2,836
On acquisitions in year	-	2,451	402,397	99,953	1,990,151	151,613	2,646,565
Charge for year	14,000	338,637	715,158	822,543	7,048,161	223,204	9,161,703
On disposals in year	-	-	-	(1,012)	(14,244)	-	(15,256)
Disposals	(89,000)	(2,451)	(1,771,452)	(38,446)	(1,287,311)	(311,391)	(3,500,051)
At end of year	-	1,130,254	4,383,954	3,131,828	26,374,383	754,218	35,774,637
<b>Net book value</b>							
At 31 December 2007	-	2,423,869	2,591,658	2,272,682	19,566,084	606,086	27,460,379
At 31 December 2006	856,000	2,266,036	1,952,863	1,948,908	13,408,021	379,365	20,451,193

Included in previous table are assets held under finance leases and hire purchase contracts as follows:

	2007	2006
	£	£
<b>Net book value</b>		
Motor vehicles	423,429	123,656
Furniture & equipment	193,162	175,559
Computer equipment	938,962	1,679
Fixtures & fittings	44,506	-
	<u>1,600,059</u>	<u>300,894</u>
<b>Depreciation charged during year</b>		
Motor vehicles	194,542	32,576
Furniture & equipment	41,891	12,860
Computer equipment	318,940	10,880
Fixtures & fittings	6,561	-
	<u>561,934</u>	<u>56,316</u>

## 9. Investments

	2007
	£
<b>Cost</b>	
At beginning of year	1,467,653
On acquisitions in year	50,337
Disposals	(400,820)
	<u>1,117,170</u>
<b>Provisions</b>	
At beginning and end of year	<u>12,003</u>
<b>Net book value</b>	
<b>At 31 December 2007</b>	<u>1,105,167</u>
At 31 December 2006	<u>1,455,650</u>

Further details regarding the restatements are given in notes 20 and 24.



**10. Debtors: amounts falling due within one year**

	2007	2006
	£	£
Insurance debtors	211,248,807	133,160,312
Amounts owed by Group undertakings	-	-
Other debtors	18,894,704	5,126,495
Prepayments and accrued income	12,745,473	8,263,353
Corporation tax	7,475,850	13,490,826
Deferred consideration receivable	803,073	1,140,573
	<hr/>	<hr/>
	<b>251,167,907</b>	<b>161,181,559</b>
	<hr/> <hr/>	<hr/> <hr/>

**11. Creditors: amounts falling due within one year**

	2007	2006
	£	£
Bank loans and overdrafts* ^	2,800,000	-
Other loans*	4,688,705	2,416,663
Obligations under finance leases and hire purchase contracts	542,313	115,852
Insurance creditors	269,996,637	178,494,726
Amounts owed to Group undertakings	-	-
Corporation tax	8,905,155	6,240,633
Taxation and social security	3,890,362	5,746,665
Other creditors	15,042,797	11,456,567
Other creditors – Broker Network	95,010,555	-
Accruals and deferred income	40,619,218	32,531,812
Deferred consideration*	53,271,550	18,992,406
	<hr/>	<hr/>
	<b>494,767,292</b>	<b>255,995,324</b>
	<hr/> <hr/>	<hr/> <hr/>

**12. Creditors: amounts falling due after more than one year**

	2007	2006
	£	£
Loan notes*^	2,282,771	3,838,712
Bank loans and overdrafts*^	401,628,829	339,711,726
Other loans*	36,200	36,200
Obligations under finance leases and hire purchase contracts	792,800	147,063
Other creditors	22,432,875	2,277,397
Deferred consideration*	11,834,892	35,457,250
	<u>439,008,367</u>	<u>381,468,348</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2007	2006
	£	£
Within one year	250,577	125,120
In the second to fifth years	<u>1,107,213</u>	<u>155,887</u>
	1,357,790	281,007
Less future finance charges	<u>(22,677)</u>	<u>(18,092)</u>
	<u>1,335,113</u>	<u>262,915</u>

## 12. Creditors: amounts falling due after more than one year (continued)

^A term loan of £130,000,000 (2006: £130,000,000) secured on the assets of Group companies, from a syndicate of banks, is repayable in over 5 years. Interest is charged at Libor +2.5%.

^A term loan of £130,000,000 (2006: £130,000,000) secured on the assets of Group companies, from a syndicate of banks, is repayable in over 5 years. Interest is charged at Libor + 3%.

^A term loan of £79,475,931 (2006: £75,648,730) secured on the assets of Group companies, from a syndicate of banks, is repayable in over 5 years. Interest is charged at Libor + 9.75%.

^A term loan of £61,590,000 (2006: £16,490,000) secured on the assets of Group companies, from a syndicate of banks, is repayable in over 5 years. Interest is charged at Libor + 2.375%.

^The term loan of £61,590,000 has been drawn from a facility of £235,000,000 which is to be used for future acquisitions. Interest is charged on the unused balance at a rate of 0.75%.

^Loan notes of £295,000 (2006: £295,000) were issued in consideration of the acquisition of Fusion Insurance Services Limited. The loan notes were redeemed on 25 March 2008. Interest was charged at 4.5%.

^Loan notes of £1,987,772 (2006: £2,868,712) were issued in consideration of the acquisition of Fusion Insurance Services Limited. The loan notes can be redeemed from 10 November 2006. Loan notes of £1,718,399 were redeemed on 25 March 2008. Outstanding loan notes will be redeemed in full on 31 December 2015. Interest is charged at Base Rate.

\* see note 14

## 13. Preference shares

	2007 £	2006 £
Preference shares*	<u>97,693,083</u>	<u>97,328,833</u>

On 6 November 2006 the Company made a bonus issue of 100 million preference shares. The preference shares fall due for redemption on the earlier of the eighth anniversary of the date of issue, the sale of the majority of the equity share capital of the Company to a third party, or a flotation of all or any part of the share capital of Towergate.

The holders of the preference shares are entitled to a fixed non-cumulative dividend of 20% per annum in priority to any payment or dividend to the holders of the equity shares. The Company has the option to defer the payment of dividends. If deferment extends after 2009, the preference share holders are entitled to exercise a range of protective rights.

In accordance with FRS 25, the preference shares are classified as creditors due after more than one year.

## 14. Analysis of net debt

### Analysis of debt:

(Being those items in notes 11, 12 and 13 marked by \*)

	2007	2006
	£	£
Debt can be analysed as falling due:		
In one year or less, or on demand	60,760,255	21,409,069
Between one and two years	5,034,743	10,525,366
Between two and five years	18,305,929	25,901,884
Over 5 years	503,089,902	455,043,642
	<hr/>	<hr/>
Total debt	587,190,829	512,879,961
Less: capitalised loan costs	(12,954,799)	(15,098,171)
	<hr/>	<hr/>
	<b>574,236,030</b>	<b>497,781,790</b>

## 15. Provisions for liabilities and charges

	Share based payment provision (note 23)	Deferred tax provision	E&O provision	FRS 5 provision	Claims provision	Pension provisions (note 22)	Total
	£	£	£	£	£	£	£
At beginning of year	28,387,961	(9,606,866)	1,000,000	5,590,534	1,847,233	2,000,000	29,218,862
On acquisitions in the year	-	(1,399,146)	-	286,383	-	-	(1,112,763)
Revaluation during the year	5,223,670	-	-	-	-	-	5,223,670
Charge / (credit) to the profit and loss for the year:	3,092,937	776,416	-	278,552	(573,652)	-	3,574,253
Utilised during the year	-	-	-	-	-	(2,000,000)	(2,000,000)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At end of year</b>	<b>36,704,568</b>	<b>(10,229,596)</b>	<b>1,000,000</b>	<b>6,155,469</b>	<b>1,273,581</b>	<b>-</b>	<b>34,904,022</b>

In the normal course of business, the company may receive claims in respect of errors and omissions. A provision has been made in respect of outstanding errors and omissions claims.

The FRS 5 provision has been made in line with the recommendations made in Application Note G in order to defer sufficient income to meet post placement and claims handling costs of business.

Claims provision of £708,190 (2006: £1,641,597) arises from the underwriting business of Folgate Insurance Company Limited, which is in run off. A claims provision of £415,391 (2006: £nil) arises from Towergate Insurance (Guernsey) Limited. The balance of the group provision of £150,000 (2006: £205,636) relates to Lorega claims.

Further details regarding the restatements are given in note 23.



## 16. Acquisitions

The following material acquisitions were made in the year:

	<b>Date of acquisition</b>
Alliance Insurance Management Limited	09 February 2007
Henderson & Co (Insurance Brokers) Limited	28 February 2007
JW Group Limited	10 April 2007
Marrs Insurance Brokers Limited	11 April 2007
Cobwards Insurance Brokers Limited	23 May 2007
Hayward Holding Group Limited	03 August 2007
Ashby Thompson Insurance Services Limited	09 August 2007
Sayer Powell & Co Limited	31 August 2007
HMG Online Limited	06 December 2007
Broker Network Holdings Plc	21 December 2007

The resulting goodwill of £162,532,342 was capitalised and will be written off over 20 years.

Deferred consideration, where applicable, is payable based upon the performance of the acquired business for the 24 month period subsequent to acquisition. These sums have been provided for in full.

The fair value of the assets acquired during the year was equal to their book value so no fair value adjustments were considered necessary by the directors.

**16. Acquisitions (continued)**

	Broker Network Plc	Hayward Holding Group Limited	HMG Online Limited	Other Companies	Other Portfolios & adjustments to prior year acquisitions	Total
	£	£	£	£	£	£
<b>Fixed assets</b>						
Tangible assets	1,232,687	694,232	102,455	510,799	(48,852)	2,491,321
Investments	-	46,619	-	41,223	100	87,942
<b>Debtors</b>	23,275,748	75,087,788	132,551	4,134,689	24,597	102,655,373
Cash	15,152,604	12,234,205	673,075	3,511,201	(108)	31,570,977
<b>Total assets</b>	<b>39,661,039</b>	<b>88,062,844</b>	<b>908,081</b>	<b>8,197,912</b>	<b>(24,263)</b>	<b>136,805,613</b>
<b>Creditors</b>	<b>(52,221,152)</b>	<b>(86,810,196)</b>	<b>(332,448)</b>	<b>(6,736,516)</b>	<b>(376,554)</b>	<b>(146,476,866)</b>
<b>Provisions for liabilities and charges</b>	<b>(91,429)</b>	<b>(234,853)</b>	<b>(11,888)</b>	<b>(11,694)</b>	<b>(3,761,043)</b>	<b>(4,110,907)</b>
<b>Net (liabilities) / assets</b>	<b>(12,651,542)</b>	<b>1,017,795</b>	<b>563,745</b>	<b>1,449,702</b>	<b>(4,161,860)</b>	<b>(13,782,160)</b>
<b>Goodwill</b>	<b>107,867,389</b>	<b>35,499,547</b>	<b>9,825,211</b>	<b>13,121,929</b>	<b>12,278,341</b>	<b>178,592,417</b>
Satisfied by:						
Initial consideration	-	25,700,000	7,388,956	9,885,531	1,692,620	44,667,107
Deferred consideration	-	10,451,734	3,000,000	4,611,623	4,010,406	22,073,763
Other creditors	95,010,555	-	-	-	-	95,010,555
Loan notes	-	-	-	-	2,410,466	2,410,466
	<b>95,010,555</b>	<b>36,151,734</b>	<b>10,388,956</b>	<b>14,497,154</b>	<b>8,113,492</b>	<b>164,161,891</b>
Expenses of acquisition	205,292	365,608	-	74,477	2,989	648,366
	<b>95,215,847</b>	<b>36,517,342</b>	<b>10,388,956</b>	<b>14,571,631</b>	<b>8,116,481</b>	<b>164,810,257</b>

Other portfolios and adjustments to prior year acquisitions include:

- The acquisition of the right to renew the business portfolio of Salmo (£200,000)
- The acquisition of the right to renew the business portfolio of MJ Mac (£256,250)
- Additional consideration paid in relation to the acquisition of Fusion Insurance Services Limited (£3,094,453)

## 16. Acquisitions (continued)

Prior to acquisition, the financial period of Broker Network Holdings Limited commenced on 1 May 2007. The results for the period 1 May 2007 to 21 December 2007 were turnover of £19.3m, operating profit of £1.8m, profit before taxation (and minority interest) of £0.6m, tax charge of £1.4m and a loss after taxation of £0.8m (of which £nil was attributable to minority interests). The result for the year ended 30 April 2007 was a profit after taxation (and minority interests) of £3.2m.

Prior to acquisition, the financial period of Hayward Holding Group Limited commenced on 1 January 2007. The result for the period 1 January 2007 to 3 August 2007 were turnover of £6,599,773, operating profit of £2,270,387, profit before taxation (and minority interest) of £2,154,181, tax charge of £645,302 and a profit after taxation of £858,879. The result for the year ended 31 December 2006 was a profit after taxation (and minority interests) of £2,975,276.

## 17. Disposals

The following portfolios / companies were disposed of during the year:

	Proceeds £	Date of disposal
Beckett Eastward Limited (company)	927,169	08 January 2007
North Walsham (portfolio)	212,859	1 October 2007

The net assets disposed of with these portfolios/companies were as follows:

	£		£
<b>Fixed assets</b>		<b>Satisfied by:</b>	
Tangible assets	6,167	Cash - Initial consideration	819,337
Investments	-	- Deferred consideration	320,691
<b>Debtors</b>	119,983	<b>Loss on disposal</b>	44,716
<b>Cash</b>	613,908		<u>1,184,744</u>
<b>Total assets</b>	<u>740,058</u>		
<b>Creditors</b>	(414,066)		
<b>Provisions for liabilities and charges</b>	-		
<b>Net assets</b>	325,992		
<b>Net book value of goodwill</b>	858,752		
	<u>1,184,744</u>		

In addition to the initial consideration received for North Walsham, a further £141,906 in deferred consideration is payable dependent on the performance of the business. As a contingent asset this amount has not been reflected in the consideration recognised in these financial statements.

**18. Called up share capital**

	2007 number	2006 number
<b>Authorised</b>		
Equity: Ordinary shares of £0.01 each	5,596,580	5,596,580
Equity: Ordinary A shares of £0.01 each	4,126,370	4,126,370
Equity: Ordinary B shares of £0.01 each	15,000	15,000
	<hr/>	<hr/>
Total Equity: Ordinary shares	9,737,950	9,737,950
	<hr/>	<hr/>
Non equity: 20% cumulative preference shares of £1 each	100,000,000	100,000,000
	<hr/>	<hr/>
Total Equity and non-equity shares	109,737,950	109,737,950
	<hr/> <hr/>	<hr/> <hr/>
<b>Allotted, called up and fully paid</b>	£	£
Equity: 5,548,021 Ordinary shares of £0.01 each	55,480	55,480
Equity: 4,105,738 Ordinary A shares of £0.01 each	41,057	41,057
Equity: 14,985 Ordinary B shares of £0.01 each	150	150
Non equity: 20% cumulative preference shares of £1 each	100,000,000	100,000,000
	<hr/>	<hr/>
Total	100,096,687	100,096,687
	<hr/> <hr/>	<hr/> <hr/>
Shares classified in shareholders funds	96,687	96,687
	<hr/> <hr/>	<hr/> <hr/>
Shares classified as liability	100,000,000	100,000,000
	<hr/> <hr/>	<hr/> <hr/>

As stated in Note 13, the preference shares are included in creditors due in more than one year.

Ordinary shares carry all voting rights and are entitled to a distribution of profits.

Ordinary A shares carry all voting rights and are entitled to a distribution of profits.

Ordinary B shares carry no voting rights and are entitled to a distribution of profits.

During the year there was an issue and cancellation of deferred shares. (see Note 19)



**19. Reserves**

	Profit and loss account £	Other reserves £
At beginning of year as previously stated	(29,728,962)	56,556,811
Prior period adjustment	(1,264,426)	-
	<hr/>	<hr/>
As beginning of year as restated	(30,993,388)	56,556,811
Loss for the year	(14,736,470)	-
Transfer between reserves	96,687,440	(96,687,440)
Share incentive plan (note 23)	223,445	-
	<hr/>	<hr/>
At end of year	<u>51,181,027</u>	<u>(40,130,629)</u>

The parent company's loss for the financial year was £4,187,910 (2006 : £7,797,094).

On 4 April 2007, a special resolution was passed by the eligible shareholders approving the following actions:

An increase in the authorised share capital of the Company from £100,097,380 to £196,784,820;

The creation of new 96,687,440 £1 Deferred shares with limited rights;

The award of a bonus issue to all equity shareholders of ordinary £0.01, "A" ordinary shares of £0.01 and "B" ordinary shares of £1, together ("equity shares") in a ratio of ten Deferred shares for every equity share held;

The immediate cancellation of the deferred shares on allotment upon obtaining a Court order approving the action.

On 2 May 2007, a court order was made approving the cancellation of the 96,687,440 £1 Deferred shares. A deficit on the profit and loss account of £43,935,498 was eliminated on the cancellation of the Deferred shares. The court order was filed with Companies House on 3 May 2007 and became effective on this date. The remaining amount of £52,751,942 was held in a non distributable reserve until the Company was able to obtain the consent of creditors to the cancellation.

On 19 October 2007, it was confirmed that no creditors had not consented to reduction of capital and a court order was made approving the special resolution and the classification of £52,751,942 as a distributable reserve. The Company established a blocked bank account as security as a condition of the court order.

## 20. Minority interests

	2007 £
At beginning of year – as previously stated	124,571
Prior period adjustment	(159,541)
	<hr/>
At beginning and end of year	<u>(34,970)</u>

The Company has changed its accounting for minority interests with put and call options over the minority interest shareholding to include the effect of the anticipated exercise of these options. The companies in which such minority interests exit are:

GHBC Limited	5%
Alliance Insurance Management Limited	4%
Hayward Holding Group Limited	10%
Fusion Insurance Services Holdings Limited ("Fusion")	10%

In each case the settlement terms, which are in shares of the Company, are variable. The total settlement value attributed to these minority interests at 31 December 2007 is £32,462,349 (2006: £23,506,884) which is included in deferred consideration (refer notes 11 and 12) and goodwill (note 7) within the group financial statements and cost of investment (note 9) within the company financial statements.

On 2 April 2008, the company exercised its option to purchase the whole of the minority interest in Fusion in exchange for the issuance of 249,820 A Ordinary shares in the company. Accordingly the provision established for this purchase of £28.4m will be transferred directly to equity.

## 21. Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2007 land & buildings £	2006 land & buildings £	2007 Other £	2006 Other £
Operating leases which expire:				
Within one year	668,927	857,807	510,401	220,107
In the second to fifth years inclusive	1,966,310	1,376,199	766,154	658,928
Over five years	5,011,264	6,045,370	12,304	3,960
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>7,646,501</u>	<u>8,279,376</u>	<u>1,288,859</u>	<u>882,995</u>

## 22. Pension scheme

The Group operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the fund and amounted to £5,305,808 (2006: £4,419,563). At the year end outstanding pension contributions due were £429,457 (2006: £433,397).

In 2005, the Group acquired The Folgate Partnership Limited including a subsidiary company Folgate Insurance Company Limited (FICL). FICL operated a pension scheme in respect of qualifying staff which provided both benefits based on final pensionable salary and benefits based on the value of contributions. During 2002, FICL gave notice of cessation of contributions to the scheme (effective 4 August 2002) and accordingly, the Scheme was put into wind-up by the Trustees. The assets of the scheme are held in a separate trust fund called the Folgate Insurance Company Limited Pension and Life Assurance Scheme. The principal assets of the scheme were transferred to Legal & General Assurance Society Limited during 2003 to secure benefits on wind-up. The Trust retains a beneficial interest in some of these assets until the wind-up has been completed and benefits are fully assigned to members.

The assets of the defined contribution section of the Scheme are held separately from those of FICL in an independently administered fund and the assets are managed by Baring Asset Management under Trustee guidelines. The pension cost attributable to FICL in respect of members of this fund represents allocated contributions payable by FICL to the fund and amounted to £nil (2006: Nil). During 2004, an agreement was made with Scottish Equitable plc to transfer the assets and liabilities of the defined contribution section of the Scheme. This transfer was effected during March 2005.

Although the Scheme Actuary calculated the deficit at 31 December 2003 at an amount of £1,950,000, in December 2005 the Trustees to the Scheme submitted a request for payment of amounts due under S75 of the Pensions Act 1995 amounting to approximately £4,600,000. Following negotiation, a payment of £2,000,000 was made to the Scheme on 24 January 2007 in full and final settlement. This was fully provided for in the financial statements.

Following the implementation of Financial Reporting Standard 17 'Retirement benefits' (FRS17) on 1 January 2005, companies were required to adjust their opening reserves to reflect the actuarial surplus or deficit in a defined benefit scheme operated for employees. No adjustment has been made in respect of this requirement on the grounds that the financial statements of the Group already included a full provision for the estimated financial obligations due to the defined benefit scheme.

At 31 December 2007, it was the opinion of the directors that the disclosure requirements of FRS 17 are not appropriate in respect of the FICL pension scheme. The trustees to the scheme have delivered to FICL the final contribution demand under Section 75 of the Pensions Act 1995. As such, the final liability in respect of the pension scheme relates to the S75 contribution demand and not to the scheme deficit as determined under FRS 17.

## 23. Share-based payments

### Share plans

In March 2004, the Company established an employee share plan whereby certain directors and employees are entitled to benefit from approximately 3% of the proceeds of an "exit" or takeover of the Towergate group if it occurs prior to August 2008. For this purpose, approximately 3% of the capital of the company was transferred to an independent company in which the employees hold restricted shares. In accordance with the requirements of FRS 20 for equity-settled share-based payment transactions, the cost of the restricted shares granted to employees is measured at fair value at the granted date and spread over the period to August 2008, matched by a credit directly to equity (profit and loss account reserve).

## 23. Share-based payments (continued)

The number of shares awarded on this basis were as follows:

	2007	2006
Outstanding at the beginning of the year	242,267	261,607
Granted during the year	-	905
Exercised during the year	(30,371)	(20,245)
	<hr/>	<hr/>
Outstanding at the end of the year	<u>211,896</u>	<u>242,267</u>

### Share appreciation rights

The Company also operates a long term incentive plan which is restricted to employees and directors of Towergate. Participants are selected on a discretionary basis and upon vesting receive a benefit based on the sales price of shares in the Company. The vesting conditions of the award are an exit, defined as a 90% sale of shares, or a listing of Towergate. The timing of such an event is uncertain, but for the purposes of accounting for the plan, the awards have been deemed to vest in 2017.

In accordance with the requirements of FRS 20 for cash-settled share-based payment transactions, the cost of the awards granted to the employees and directors is initially measured at fair value at the grant date and spread over the vesting period. The fair value of the amount payable, including the company's liability to related social security costs, is recognised as an expense with a corresponding increase in liabilities. The liability is revalued at each balance sheet date, with any change to fair value being recognised in the profit and loss account.

The total expense recognised for the year and the total liabilities recognised at the end of the year arising from employee share schemes are as follows in the Group and the Company:

	2007	2006
	£	£
Charge for the year:		
Equity-settled share plan	223,445	424,307
Cash-settled share appreciation rights	1,295,128	666,063
Provision for social security costs	1,797,809	924,542
	<hr/>	<hr/>
	<u>3,316,382</u>	<u>2,014,912</u>

### Share-based deferred consideration

Similar share appreciation rights were granted to certain individuals formerly employed by Folgate Partnership Limited, which the company acquired in October 2005. These rights were rolled over into similar rights in Towergate and have been deemed to have vested at acquisition. Accordingly any liability in respect of the awards arising from growth in the value of Towergate has been recognised as an adjustment to goodwill arising on acquisition.



**23. Share-based payments (continued)**

	Share appreciation rights	Share-based deferred consideration	Total	Total
	2007	2007	2007	2006
	£	£	£	£
Liability at the beginning of the year	1,352,081	27,035,881	28,387,962	15,551,485
Granted and charged to profit and loss during the year	80,333	-	80,333	244,244
Revaluation and charged to profit and loss during the year	1,214,796	-	1,214,796	421,790
Revaluation debited to goodwill	-	5,223,670	5,223,670	14,955,699
Settled during the year	-	-	-	(3,709,798)
Increase in provision for social security costs	1,797,809	-	1,797,809	924,542
<b>Liability at the end of the year</b>	<b>4,445,019</b>	<b>32,259,551</b>	<b>36,704,570</b>	<b>28,387,962</b>

The fair value of rights granted under the equity-settled share plan and of share appreciation rights is determined based on prices achieved for the sale of the company's shares in recent transactions.

The total fair value of equity settled share awards at 31 December 2007 (based on the same valuation assumptions) was £23.1m (2006:£21.7m). Shares held by the plan to satisfy these awards, together with further shares held by the Company's Employee Benefit Trust, amount to £55.2m (2006: £45.2m).

**24. Prior year adjustments**

As referred to in note 1, the Group and Company have adopted FRS 20 Share-based payments in respect of certain cash-settled share appreciation rights granted to employees. This is to reflect the expectation that the vesting of these rights on exit, although uncertain as to timing, will occur at some stage in the future. The directors current estimate of exit is 2017, however if the actual exit is earlier or later, this would have a corresponding effect on the charge to the profit and loss account.

In respect of The Folgate Partnership Limited share based deferred consideration (note 23) which was deemed to have vested on acquisition in 2005, the company has restated its prior year balance sheet to recognise the fair value upon acquisition of these awards in goodwill, with a corresponding amount included within deferred consideration.

The overall adjustment to the opening balance sheet at 1 January 2007 resulting from the accounting policy changes outlined above and in note 20 is summarised below:

	2007 £
Goodwill	42,522,250
Investments	-
<b>Effect of adjustments on Total Assets</b>	<b>42,522,250</b>
Deferred consideration	23,506,884
Provision for liabilities - Share based payment provision	28,387,961
- Deferred tax provision	(7,948,628)
Minority Interests	(159,541)
Profit and loss reserves	(1,264,426)
<b>Effect of adjustments on Total Liabilities</b>	<b>42,522,250</b>

## 25. Reconciliation of operating profit to operating cash flows

	2007 £	2006 £
Operating profit	38,110,014	33,998,490
Depreciation and amortisation charges	36,493,902	29,270,401
Loss on sale of fixed assets	232,728	202,247
(Profit) on sale of investment	(100,715)	(7,000)
Decrease / (increase) in debtors	7,051,017	(151,297)
(Decrease) / increase in creditors	(22,777,397)	7,073,107
Decrease in capitalised loan costs	2,143,372	373,079
Increase / (decrease) in provisions	797,837	(4,051,569)
Increase in share incentive plan provision (note 23)	223,445	424,307
	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>	<b>62,174,203</b>	<b>67,131,765</b>
	<hr/> <hr/>	<hr/> <hr/>

## 26. Analysis of cash flows

	2007 £	2006 £		2007 £	2006 £
<b>Returns on investment and servicing of finance</b>			<b>Acquisitions and disposals</b>		
Interest received	8,613,043	5,181,103	Purchase of subsidiary undertakings	(45,315,473)	(60,343,766)
Interest paid	(36,869,243)	(25,976,824)	Sale of businesses	819,337	1,957,061
Interest element of finance lease rental payments	(47,806)	(10,558)	Receipt of deferred consideration	337,500	-
Fees paid in relation to refinancing	-	(12,739,375)	Net cash received on acquisitions of subsidiaries	31,570,977	26,192,998
Fees paid in relation to bonus issue of preference shares	-	(2,731,875)	Net cash disposed of with subsidiaries	(613,908)	(1,176,575)
	<hr/>	<hr/>		<hr/>	<hr/>
	<b>(28,304,006)</b>	<b>(36,277,529)</b>		<b>(13,201,567)</b>	<b>(33,370,282)</b>
	<hr/> <hr/>	<hr/> <hr/>		<hr/> <hr/>	<hr/> <hr/>
<b>Capital expenditure and financial investment</b>			<b>Financing</b>		
Purchase of tangible fixed assets	(13,918,463)	(9,817,884)	Net receipt of loans	42,397,767	108,490,000
Sale of investment	539,139	63,103	Net receipt/(repayment) of other loans	2,024,935	(2,822,217)
	<hr/>	<hr/>	Repayment of deferred consideration	(12,235,573)	(24,268,103)
	<b>(13,379,324)</b>	<b>(9,754,781)</b>	Repayment of loan notes	(3,966,407)	(1,258,855)
	<hr/> <hr/>	<hr/> <hr/>	Capital element of finance lease rental payments	682,024	(149,405)
			Buy back of share premium	-	(954,687)
				<hr/>	<hr/>
				<b>28,902,746</b>	<b>79,036,733</b>
				<hr/> <hr/>	<hr/> <hr/>

**27. Analysis of net debt**

	At beginning of year	Cash flow	Acquisitions	Disposals	Other non-cash changes	At end of year
	£	£	£	£	£	£
Debt due within one year	(21,409,069)	7,267,546	(4,007,775)	-	(42,610,957)	<b>(60,760,255)</b>
Debt due after one year	(491,470,892)	(35,488,268)	(12,952,345)	-	13,480,931	<b>(526,430,574)</b>
Total debt	<u>(512,879,961)</u>	<u>(28,220,722)</u>	<u>(16,960,120)</u>	<u>-</u>	<u>(29,130,026)</u>	<u><b>(587,190,829)</b></u>
Finance leases	(262,915)	(682,024)	(390,174)	-	-	<b>(1,335,113)</b>
Total debt and finance leases	<u>(513,142,876)</u>	<u>(28,902,746)</u>	<u>(17,350,294)</u>	<u>-</u>	<u>(29,130,026)</u>	<u><b>(588,525,942)</b></u>
Cash at bank and in hand	159,146,964	9,844,783	31,570,980	(613,908)	-	<b>199,948,819</b>
<b>Net debt</b>	<u><b>(353,995,912)</b></u>	<u><b>(19,057,963)</b></u>	<u><b>14,220,686</b></u>	<u><b>(613,908)</b></u>	<u><b>(29,130,026)</b></u>	<u><b>(388,577,123)</b></u>

Cash at bank includes £107,134,814 (2006: £86,616,102) which constitutes client money and £19,133,666 (2006: £nil) in blocked office accounts which is not available to pay the general debts of the group.

## 28. Purchase of subsidiary undertakings

	2007	2006
	£	£
<b>Net assets acquired</b>		
Tangible fixed assets	2,491,321	2,058,183
Investments	87,942	11,237
Debtors	102,655,373	20,894,555
Cash at bank and in hand	31,570,977	26,192,998
Creditors	(146,476,866)	(40,672,356)
Provisions for liabilities and charges	(4,110,907)	(11,244,025)
	<u>(13,782,160)</u>	<u>(2,759,408)</u>
Goodwill	178,592,417	91,858,861
	<u>164,810,257</u>	<u>89,099,453</u>
<b>Satisfied by:</b>		
Cash - Initial consideration	44,667,107	59,069,172
- Acquisition costs	648,366	1,274,591
Deferred consideration	22,073,763	26,015,463
Other creditors	95,010,555	-
Loan notes	2,410,466	2,079,102
Shares allotted	-	125
Share premium	-	661,000
	<u>164,810,257</u>	<u>89,099,453</u>

## 29. Controlling party

Mr PG Cullum, the Chairman, is the controlling party, by virtue of his controlling interest in the share capital of Towergate Partnership Limited.

## 30. Contingent liabilities

On 1 November 2006 the parent company refinanced its borrowings with a syndicate of banks, led by the Bank of Scotland and Lloyds TSB ('the Banks'). A guarantee and debenture have been granted over the shares and the assets of the Company in favour of the Banks, under the terms of which all monies due or which may become due from the Company, or other group companies listed below, to the Banks, are guaranteed. The amount due by group companies at 31 December 2007 was £401,065,931 (2006: £352,138,730).

The group companies involved include principally:

Towergate Partnership Limited  
 Towergate Underwriting Group Limited  
 Fusion Insurance Holdings Limited  
 Fusion Insurance Services Limited  
 GHBC Limited

In the normal course of business, the company may receive claims in respect of errors and omissions. No material adverse financial impact is expected to arise from these claims.

## 31. Officers and professional advisers

### Directors

PG Cullum  
 AC Homer  
 IWJ Patrick  
 PJR Snowball (non-executive)  
 PF Dyer (non-executive)  
 DWW Torrance (non-executive)  
 MSJ Sims (non-executive)  
 KJ Wallace (non-executive)

### Registered office

2 County Gate  
 Staceys Street  
 Maidstone  
 Kent  
 ME14 1ST

### Auditors

KPMG Audit Plc  
 8 Salisbury Square  
 London  
 EC4Y 8BB

### Legal advisers

DLA Piper UK LLP  
 3 Noble Street  
 London  
 EC2V 7EE

### Secretary

J Reddi



Towergate Agency Management  
 Towergate AIUA  
 Towergate Bakers  
 Towergate Camerasure  
 Towergate Chapman Stevens  
 Towergate Chase Parkinson  
 Towergate Commercial Underwriting  
 Towergate Connect  
 Towergate Credit Risk Solutions  
 Towergate Financial Services  
 Towergate ghbc  
 Towergate Hall & Clarke  
 Towergate Home & Protect  
 Towergate Lifestyle  
 Towergate Lloyd & Whyte Farm Insurance  
 Towergate London Market  
 Towergate Mardon  
 Towergate MIA  
 Towergate Partnership Limited  
 Towergate Patrick  
 Towergate Professional Indemnity  
 Towergate Professional Risks  
 Towergate Riskline Oxted  
 Towergate Risk Solutions Berwick-upon-Tweed  
 Towergate Risk Solutions Bournemouth  
 Towergate Risk Solutions Bristol  
 Towergate Risk Solutions Bury St Edmunds  
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 Towergate Underwriting Transportation  
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 Alliance Insurance Management Limited  
 Competition Car Insurance  
 Foreman Bassett  
 Fusion Insurance Services Limited  
 Hayward Aviation Limited  
 Insurance 4 Car Hire  
 McAra Associates Limited  
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 RHA Insurance  
 T F Bell Group Limited  
 Woodgate & Partners Limited  
 Your Insurance Group

**Towergate Underwriting Group Limited**

**Authorised and regulated by the Financial Services Authority**

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