

Accident Sickness & Unemployment Cover Advertising Agencies Agricultural Combined Agricultural Vehicle & Fleet Agricultural Machinery Merchant
Force Personnel Amateur Photographers Amusement Arcades Amusement / Theme Parks Army Personnel Aviation Bingo Halls Boat Builders / Repairer
Brewers Bowling Alleys Builders Merchants Buy to Let Properties Cancellation, Abandonment & Non-Appearance Insurance Caravan Parks (Holiday, Touring
(Residential) Caravans Care Homes Charities Cherished Cars Chiropractors Clubs & Societies Commercial Combined Commercial Package Commercial Vehicle
Competition Cars Complementary & Alternative Medicine Practitioners Confidential Death & Disablement Contractors Counselling & Other Therapists Credit
Insurance Directors & Officers Doctors & Dentists Electrical Retailers & Wholesalers Equine Package Equipment Hirers Event Cancellation / Adverse Weather
Events Excess Layer Liability Exhibitions Farm Motor Farm Package Film Producers Combined Financial Failure for Tour Operators Fine Dining Restaurants
Fleets Fleet & Mini Fleet Fleet Risk Management Football Clubs Formula One Freight Liability Garden Centres Golf Clubs Golf Clubs (Personal) & Equipment
Goods in Transit Hardware Shops Haulage Health & Fitness Clubs High Net Worth Holiday Homes & Chalets Home Hospices Hotels & Guest Houses Inns &
Guest Houses Jetties Joiners Liability Kidnap, Extortion & Detention Legal Expenses (Commercial) Leisure Parks Let Properties Liability Listed Properties
Log Cabins Management Consultants Scheme Marine Cargo & Liability Marine Trades Marketing Specialists PI Material Damage Medical Professions
Military Home Military Kit Military PA & Travel Minibus Model Agencies & Model Management Mortgage Brokers PI Cover Mortgage Related Accident
Sickness & Unemployment Motor for Specialist Entertainment Risks Motor Homes / RVs Motor Sport Music Producers Combined Musical Instrument
Equipment Navy Personnel Netball Clubs Office Insurance Officers' Effects Overseas Holiday Homes Osteopaths Park Homes Performance Cars Performing
Arts Personal Accident & Sickness (Commercial & Personal) Photo Laboratories Photo Libraries Photographic Studios Post Production Facilities Professional
Indemnity Medical Malpractice Professional Indemnity Professional Photographers Professional Sportspeople Property Property Owners Property Owners
Investors Public Houses Quantity Surveyors Radio Contractors Removers Restaurants Retailers Risk Assessment Service Rugby Clubs & Players Schemes
Specialty Sports & Leisure Clubs Stock Throughput Storers Supply Teachers Surgeries (Locum) Taxis & Mini Buses Thatched Property Tour Operators
Unity Groups Combined Liability Travel Travel (Group Business) Travel (Tour Operators) Travel Indemnity Bonds Underpinned Properties Underwriting Bonds
Unoccupied Properties Veterinarians Village Halls Vintage Vehicles Weddings Insurance Yacht & Boating Clubs Yachts & Small Craft Zoos & Safari Parks

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Instrument Equipment Navy Personnel Netball Clubs Office Insurance Officers' Effects Overseas Holiday Homes Osteopaths Park Homes Performance Car
Performing Arts Personal Accident & Sickness (Commercial & Personal) Photo Laboratories Photo Libraries Photographic Studios Post Production Facilities

Annual Report 2008

Reach & Focus

Reach and Focus

Challenging times have more than validated the Towergate model. No other company can match our **reach**, in terms of both geographical spread and product diversity... and that, in turn, allows us to give our customers – companies, individuals and brokers alike – the progressive response to risk that they need.

Our businesses continue to set the pace within the industry. Their **focus** remains steadfastly on innovating within their markets, yet sticking firmly to what they are good at. In consistently bucking the trend to 'dumb down', they have concentrated on responding to clients' needs through times of opportunity and threat, and have been rewarded by sustained customer loyalty.

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The Chairman



In each year of reporting I have invariably felt moved to remark on how memorable the previous year has been and how exciting I find the year ahead. Well, the world is a very different place since my last report and the year was indeed remarkable for our industry but for unforeseeable and unwelcome reasons. The impact of a difficult and challenging year for the insurance sector has scarred many a company and has presented Towergate with the ultimate test of its trading model. It has proved more than equal to the challenge.

Our headline performance figures for 2008 are strong – Towergate Partnership premiums increased to £1.79bn and our income from this rose by 15% from £278m to £318m.

These results were, of course, achieved against the backdrop of the largely unanticipated, seismic banking crisis and the resultant shockwaves that have been felt throughout the industry, in particular the shocking impact on AIG. It would be unwise to predict the continued outcomes of these events throughout 2009 but it will undoubtedly be a year in which insurers will wrestle further with balance sheet and liquidity issues, whilst brokers face the real possibility of a proportion of their commercial customers disappearing.

Rates, which failed to increase and actually continued to slide downwards in many classes in 2008, exacerbate the problem – the paradox being that, just as pressure grows for rates to harden in response to depleted insurer reserves and low investment returns, our clients are vulnerable and at their most sensitive to budgetary increases. They, like insurance intermediaries, are also having to work harder just to stand still.

A true test for brokers

It is in these conditions, I believe, that brokers come into their own. They have a most important role to play to find the most effective and imaginative routes to help individual and commercial clients to protect their assets and guarantee the flow of capital.

Given our focus on specialist and local expertise it is no surprise that our retail broking businesses performed well in 2008, growing their income by 21%. The vast majority of our 60+ broking businesses improved their turnover in 2008. This is a tribute to both the entrepreneurial strength of individual companies and the ways in which they are increasingly working together and raising standards under the Towergate umbrella.

Predictably our underwriting division had a relatively flat year for premium turnover due to continued soft markets – although, pleasingly, our support from non-Towergate brokers continues to increase. We absorbed the anticipated impact of lost profit-share payments following the industry-wide 2007 storm claims. This resulted in a 4.7% decrease in income, which was very close to budget expectations.

Our network division performed excellently with Broker Network marking its first full year at Towergate in impressive fashion. They achieved exceptional levels of retention of their members despite a highly competitive network sector, and a very active market for small broker consolidation, which was driven partly by a desire of vendors to get ahead of a change in Capital Gains Tax rules. They also launched their first major new broker proposition with their Associate Member scheme, which widens the appeal. The prospects are very good for many of these to upgrade to full membership. Countrywide also extended its broker proposition aimed at brokers' commercial business, including a compliance service.

Underlying strength of the business Towergate Partnership's EBITDA – the technical measure by which banks judge underlying performance and ability to service loan interest – increased by 4% to £112m.

Our cash flow position also remained extremely strong. In the 4th quarter of 2008 we repaid early £20 million against our bank debt facilities using the cash we have generated from operations.

We have, of course, given close attention to our cash pipeline by negotiating additional headroom in our covenants with our principal banking partners, Lloyds TSB and Bank of Scotland. I am pleased to report that these relationships remain strong and robust with the new combined Lloyds Banking Group.

As a result of our healthy balance sheet we were able to make a total of 17 acquisitions of insurance intermediaries and business portfolios in 2008, although our primary focus was on maximising the opportunities afforded by previous deals, notably Towergate Partnership's acquisition of Broker Network, and our related company, Open International.

An excellent example of this strategy is seen in PowerPlace, a revolutionary new business borne out of the acquisition of our sister company, Open GI, in 2007. PowerPlace is set to revolutionise commercial insurance e-trading for insurance brokers by providing streamlined products and, through the Open Trader platform, single entry of data to gain comparative quotes, issue documentation and automatically populate accounting and sales & marketing databases.

Since the turn of the year we have concluded the long planned integration of Paymentshield into Towergate Partnership. Paymentshield is a market-leading business that has performed exceptionally well in hostile market conditions, in which their main channel, mortgage brokers, has suffered an unprecedented drop in business due to the property crash. Nevertheless, Paymentshield's relative market penetration has increased and they have worked hard to ensure they can continue to offer payment protection products at sensible rates to customers who now need them more than ever. There are also mutually beneficial linkages between our broking division and Paymentshield which we are increasingly exploiting.

As a guide to the united scale of Towergate Partnership going forward, the combined income would have been £379m in 2008 and EBITDA £153m.

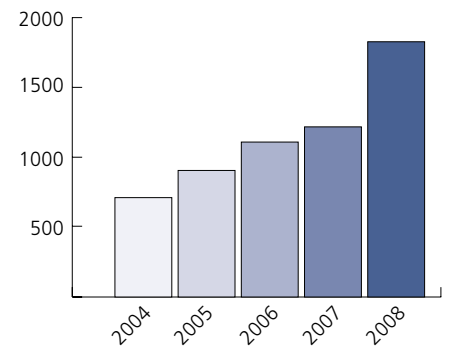
Robust response to new challenges

The year ahead will clearly throw up a host of challenges for the economy and more specifically for the insurance industry. Like others, I would not anticipate an economic upturn before the end of 2010 but it is very rewarding to witness the ways in which the Towergate model is responding, just as we said it would in difficult times. At the time of writing, we have had a tough but successful first quarter with pleasing sales and client retention levels. That said, industry rate increases are often offset by commercial customers downsizing in response to economic turmoil and declining demand. However our current client retention levels show how robust we are and how prepared we are to stand alongside our customers and face together the fierce challenges the recession presents to them.

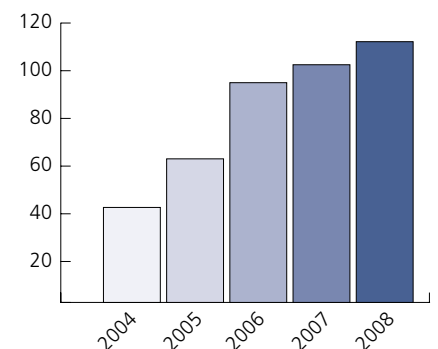
Balance sheet strength and customer loyalty, as outlined above, are undoubtedly two of the key supports of Towergate Partnership. But it is the third pillar of the business that gives me heart for the future. We are a company that has nurtured and encouraged many of the best people in the insurance world. Our federal structure means that we are able to take local decisions based on performance and potential and a number of these businesses would have endured some sort of pain to reflect prudence and tighter budgeting. Although we have been affected far less than many others in the market, any loss of a colleague is a painful experience. Nevertheless the team spirit at Towergate remains exceptional. I am proud of my colleagues' attitude and aptitude in facing new challenges. And, as every year, I pay tribute to their flair, expertise and character.



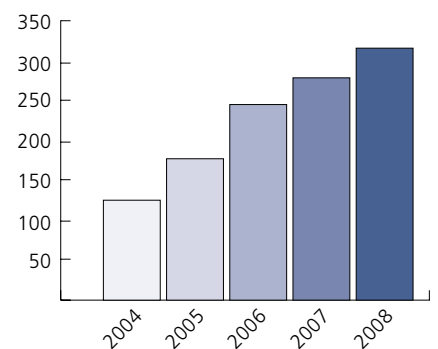
Gross written premium
£million



Total Earnings (EBITDA)
£million



Total Income
£million



The Chief Executive Officer



Towergate's 2008 results and performance over the first six months of 2009 underline our determination to work even harder in tough economic conditions. We have seen our best period ever for attracting new business across both our Retail and Underwriting operations. And the renewal of our contract with the Federation of Small Businesses for a further three years is just one of many positive achievements reflecting our focus on customers, especially during difficult times for them.

One reason for this success is the value our customers place on the service we offer them. In the current climate, having the right protection in place is fundamental to the survival of any business and a trusted adviser has a pivotal role to play in drawing up a risk management plan and finding the solutions. All customers must have the peace of mind by having high quality and good value protection for their businesses, their staff and their families.

We have stepped up to the plate in recent months in developing the products our customers need to respond to the downturn – including trade credit insurance – and fighting our customers' corner in maintaining sensibly priced Payment Protection cover at a time when insurers are naturally concerned by unprecedented unemployment trends.

We have always recognised that our reputation is constructed around the talented people we have. Our federal structure means we make decisions at a local level to respond to opportunities and threats, but we are also alert to the need to have top quality people in our small central support team at Group level. We remain well represented in local communities but lean at the centre.

That's why, at a time when many other companies are clawing back their spend on training, we have maintained our people-development budget and our Flagship Partnership with the Chartered Insurance Institute (CII). We have also increased the emphasis on employee qualifications through the work of our leading management development programme at the Towergate Business School. We also have a market-leading proportion of insurance staff progressing with appropriate

qualifications. Equally we have invested more in research – it is only by listening to our brokers, customers and staff that we can continue to excel and develop.

Our robust and flexible model is designed to see us through the best and worst of times by reacting swiftly to change. Our business performance shows clearly that the model is working. We have strong foundations for our future growth and we are now supported by long-term banking arrangements, with the increased financial stability they bring. That puts us in pole position to drive the business forward – by playing to our strengths and creating value for our customers and brokers.

My thanks to the staff of Towergate Group, who I continue to believe are the best in our business. It is an honour to be their CEO.

A handwritten signature in black ink that reads "Andy Homer".

Andy Homer
Group Chief Executive Officer

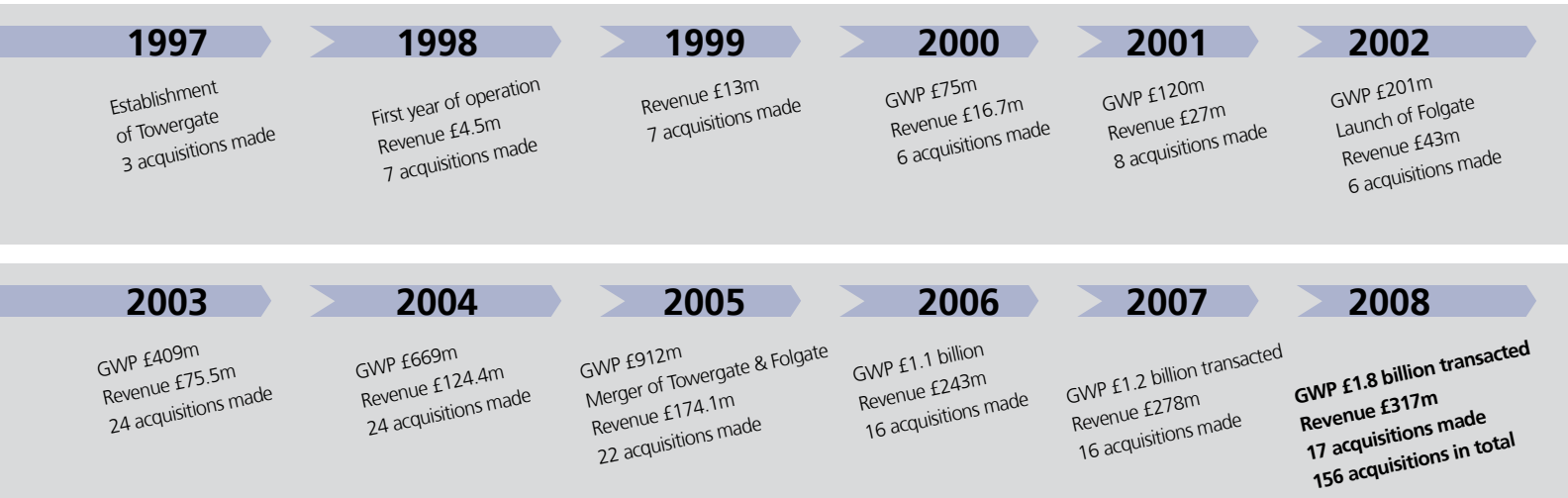
A Look at Towergate Partnership

Overview

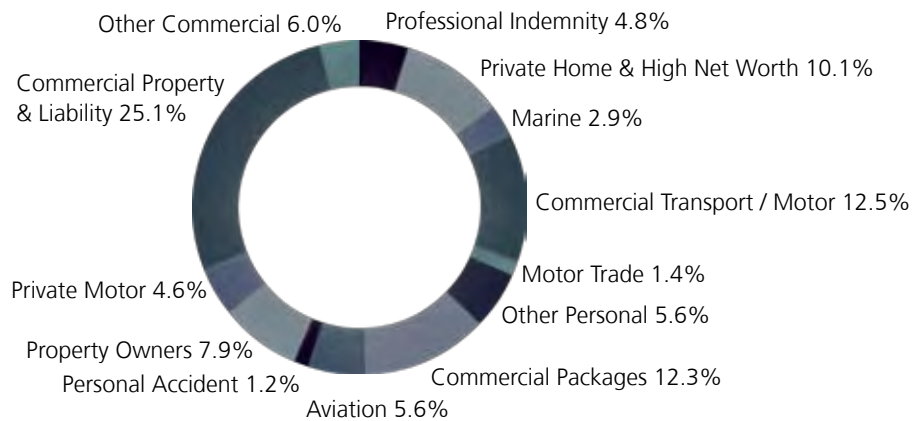
It's nearly 12 years since Towergate was launched into the insurance market with the creation of Towergate Underwriting. In that time we have grown successfully to become a leading light of UK business. We now offer customers a broad range of over 200 general and specialist products – the widest range 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 2008



Our Recognition

Towergate has received a number of accolades in recent years, but 2008 brought significant recognition in the form of ACQ magazine, who voted us 'Private Company of the Year' for the second year running. In addition, the Sunday Times Fast Track awarded us the title of 'Management Team of the Year' – a strong testament to the talent across the Group.

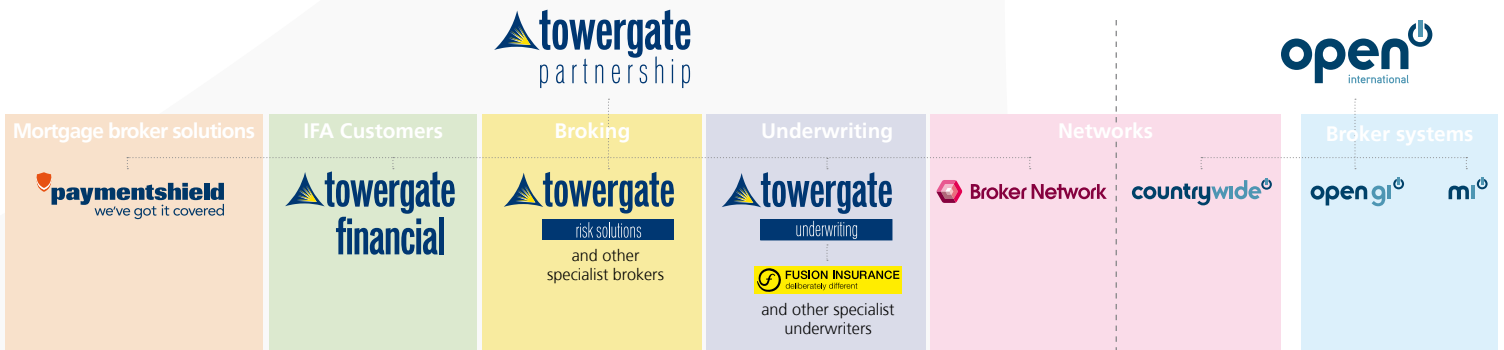
Our broking division was one of the first intermediaries to be awarded CII Chartered Broker status when it was first launched, and our membership is the largest of any intermediary. We are also proud to be a Partner of the British Insurance Brokers Association.



The Towergate Family Structure

At the heart of the Towergate 'family' is Towergate Partnership - originally founded in 1997, and now Europe's largest independently-owned intermediary.

In addition, we have companies related by common shareholders. They include Open International, incorporating Open GI, the largest supplier of insurance systems and software to the broking industry.



Towergate Partnership has five main areas of operation: Broking, Underwriting, Networks for independent brokers, Towergate Financial Services and Paymentsshield.

Towergate's **Broking Division** has our customers' needs at the heart of everything it does 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 many or all of the functions of an insurance company such as assessing and underwriting risks, administering the policies and handling claims & renewals.

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

At the heart of the network is Broker Network who were pioneers in the mid 1990s and have long been the leading general insurance network.

Towergate Financial has already grown into one of the leading financial advisor businesses in the UK. Since its inception in 2008 the business has made ten acquisitions and has established a strong presence in the IFA market, providing independent financial advice to high net worth customers and SMEs.

In 2009 Towergate Financial became a new division of the Towergate Partnership providing the business a stronger financial footing to help build its regional base of IFA businesses whilst continuing to provide excellent ongoing financial advice service to

customers. This move also means customers now have access to a wider range of professional advice to cover their personal finance through to general insurance needs.

Paymentsshield is the UK's leading supplier of mortgage protection and household insurance products to the UK intermediary market.

Since joining the Towergate family in 2006, Paymentsshield has had a very impressive growth track record building upon its 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.

Under the leadership of a strong management team, the business has exciting plans to expand over the next three to five years through the development of new products and new distribution channels.

Towergate Partnership Business Locations



Retail Broking Business locations:

Aberdeen	Colchester	Glasgow	Hinckley	Leominster	Newton Abbot	Sevenoaks	Sutton Coldfield
Berwick-upon-Tweed	Didcot	Great Yarmouth	Hull	London	New Malden	Sheffield	Taunton
Birmingham	Driffield	Guildford	Jedburgh	Maidstone	Northampton	Shrewsbury	Telford
Braintree	Dumfries	Halifax	Kettering	Manchester	Nottingham	Southgate	Warwick
Bristol	Edinburgh	Harpenden	Kirkcaldy	Milton Keynes	Oxford	Stevenage	Whitstable
Bury St Edmunds	Falmouth	Hemel Hempstead	Leeds	Newcastle	Poole	Stockton-on-Tees	Wokingham
Byfleet	Fareham	Henley-on-Thames	Leicester	Newquay	Romford	Stoke on Trent	Worcester
Cheltenham	Galashiels						

Specialist Niche Broking Businesses include:

Agriculture - Somerset	Cherished cars - Middlesex	Insurance for mortgage brokers and their clients - Sheffield	Photography - Fareham
Archaeology - Fareham	Consultants & therapists - Surrey	Marine - Shrewsbury	Professional Indemnity - Manchester
Aviation - London	Education - Leeds	Medical Professions - Stevenage	Towergate London Market - London
Caravans & park homes - Cheltenham	Entertainment - London	Military - Leicester	Travel - Surrey
Care and nursing homes - Surrey	Federation of Small Businesses - Oxted		Truck & road haulage - Telford

Broker Network Owned Broker (BNIB) Locations

Altrincham	Bury	Denbigh	Garstang	Kelso	Leeds	Perth	Shepton Mallet	Stirling	Todmorden
Bishops Cleeve	Coventry	Dumfries & Galloway	Glasgow	Lancaster	Lowestoft	Reading	Shrewsbury	Swindon	Wilmslow

Specialist Underwriting Areas

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

Towergate Financial

North	South	East	West	Scotland
Leeds	London	Grantham	Warwick	Edinburgh
Huddersfield	Maidstone	Hinckley	Henley	Glasgow
Newcastle	Colchester	Nottingham	Bristol	Perth
		Teesside		Aberdeen

Having fun, doing good

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

Enjoying success

Having fun and doing good are the two mainstays of the Towergate culture. A major factor in creating this is our focus on charity and community support. Thanks to the efforts of employees, clients and partner donations, in 2008 Towergate achieved a major milestone when we hit the £1 million mark for hospices and other charities. Our employees have run, swam, walked, bought, waxed, flown, sky-dived and even gambled for charity and we applaud everyone who has taken part.

Making a real difference

The majority of fundraising is directed through the Towergate Charitable Foundation, a transparent registered charity vehicle, to channel funds raised effectively to our chosen causes.

These are primarily: Help the Hospices, Childline, Great Ormond Street Hospital and Cancer Research UK. In addition Towergate Wilsons supports military-related charities.

Wherever possible, we like to know that the money raised is being put to tangible use whether it be ground breaking cancer research, or simply DVD players.

The place to be

In 2008, our newly launched Towergate Business School came of age with the help of partners including Ashridge and Chartered Insurance Institute. The school gives every one of our colleagues a chance to help reach their potential and we have maintained our investment in 2009 at a time when many companies are scaling back. We remain the largest intermediary accredited as 'Chartered Insurance Brokers' by the CII, whose CEO, Dr. Sandy Scott, remarked: "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".



A look across Towergate related companies

The Towergate Partnership, together with related companies, controlled in excess of £2.3 billion of gross written premium in 2008, generating earnings of £175m on a pro forma basis. Paymentsshield and Open International made significant contributions to the Towergate story. Paymentsshield will be reported as part of Towergate Partnership's accounts from 2009 report onwards.

	2008 Towergate Partnership £m	2008 Paymentsshield £m	2008 Open International £m	2008 Total £m
GWP	1,900	236	182	2,380
Turnover				
Commission and fees	309	60	37	406
Investment income	9	1	1	11
	318	61	38	417
Administrative expenses				
Management and staff costs	(145)	(14)	(13)	(172)
Premises and other costs	(61)	(6)	(3)	(70)
	(206)	(20)	(16)	(242)
EBITDA	112	41	22	175

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, while 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.



PowerPlace

One of the significant benefits of the Open acquisition was PowerPlace, the new commercial insurance electronic trading business launched in 2009. Developed from a broker's point of view, PowerPlace distributes insurer products electronically via the Open GI 'Open Trader' platform.

In today's competitive environment brokers seek a commercial EDI proposition that can offer them greater competitiveness. PowerPlace has therefore been built with this in mind by providing joined up documentation,

accounts and back-room functionality combined with comprehensive comparisons to insurer product cover and excesses – saving on the high level of re-keying of information for which the insurance industry is known. Typically brokers can now achieve up to a 30% reduction in their operating costs through using PowerPlace.

Since its inception PowerPlace has experienced remarkable growth and industry support. More than 300 brokers now use the PowerPlace software to access more than 30 live insurer products. Crucially the business is supported by an

increasing number of insurance providers who see PowerPlace as an integral part of their distribution strategy.

PowerPlace has ambitious plans and is now well positioned to focus more on a steep growth curve to fulfil its enormous potential. Undoubtedly this will mean more insurer and new products combined with a significant investment in new technology enhancements and on-site technical support.



Towergate Partnership executive team as at 31 July 2009

Peter Cullum, PhD, MBA, FCII, 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.



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.



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 – Paymentsshield, Towergate Healthcare and Cullum Capital Ventures.



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.



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.



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.



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.



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.



**Darryl Clark, ACIS, MSc, MA, PIIA
Company Secretary & Risk Management Director**

Darryl was appointed to the Board in September 2008. As well as Secretariat, he is responsible for Legal, Compliance, Internal Audit, Risk Management and Corporate Governance. Darryl joined Folgate Insurance Company in 1996 as Financial Director and was Deputy Managing Director prior to its acquisition by Towergate. He has a strong background of senior positions in risk management and internal audit and is a Chartered Company Secretary as well as holding other professional memberships and qualifications.



Towergate Partnership non-executive team

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.



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.



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.



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.



Andrew Land Non-executive Director

Andrew was appointed as a non-executive Director of Towergate in 2009. He is a Managing Director of Och-Ziff Capital Management in the European Private Investments team, focusing on European private debt and equity investments. Prior to joining Och-Ziff in 2005, Andrew spent six years at DLJ Merchant Banking Partners, where he was a Principal, and four years in the European Investment Banking Group of Credit Suisse First Boston, both in London. He is currently a director of Peacocks Group and Nautilus Holdings and was previously a director of Grifols SA and Palladian Investments. Andrew graduated from Edinburgh University with an LLB (Hons) in Law and holds an MBA from INSEAD.



Operating and Financial Review

2008 will be remembered in the insurance sector as a challenging year where for once the challenges were largely not of its own making. The economy at large saw unprecedented turmoil as a result of the banking sector being taken to the very brink of collapse before governmental intervention brought some much needed stability. Famous names went bust while many others survive only through rapid mergers or nationalisation. Within our own sector AIG was the biggest casualty albeit driven close to collapse by activities other than general insurance. 2008 has ended to the tune of global recession, corporate downsizing and rising unemployment.

Within the insurance sector the picture was a little rosier. While rates continued to be soft for much of 2008, signs of strengthening were evident by year end. After the floods of the previous year, 2008 was a benign year for claims.

Against this backdrop Towergate produced another strong performance. Net income increased 14.5% to £318 million up from £278 million in 2007. This increase reflects our success in growing income organically as well as through acquisition. EBITDA increased by 4% to £112.4 million by virtue of higher turnover, improved margin and tight cost control.

	2008	2007
	£m	£m
Turnover		
Commission and fees	308.6	268.9
Investment income	9.5	9.0
	<u>318.1</u>	<u>277.9</u>
Administrative Expenses		
Management and staff costs	(145.0)	(122.1)
Premises and other costs	(60.7)	(47.3)
	<u>(205.7)</u>	<u>(169.4)</u>
EBITDA¹	112.4	108.5
Depreciation	(11.1)	(9.0)
EBITA²	<u>101.3</u>	<u>99.5</u>

¹ Earnings before interest, tax, depreciation, amortisation, directors' bonuses and non-operating costs

² Earnings before interest, tax, amortisation, directors' bonuses and non-operating costs

Our focus on organic growth strengthened during the year with an aggressive programme of account executive recruitment which has yielded almost 100 joiners to date. The strategy proved itself with record new business in Q1 2009.

Having made major strategic acquisitions such as Broker Network in 2007, the focus for this year was always going to be on taking these businesses to the next stage. That said, a further 17 businesses chose to join Towergate during 2008. Notable among them were McAra Associates and MacDonald Reid Scott – which adds further to our presence in Scotland – and British Insurance, which joined our growing portfolio of e-businesses.

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

	2008	2007
Net commissions and fees / GWP	21.6%	22.4%
Staff costs / income	45.6%	43.9%
EBITDA / income	35.3%	39.0%
EBITDA / GWP	7.6%	9.0%

³ Ratios to GWP are stated excluding network business which was not part of the group in 2007 and which distorts the ratio analysis.

Reconciliation to Statutory Accounts

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

	2008	2007
	£m	£m
EBITA	101.3	99.5
Goodwill amortisation	(32.8)	(27.3)
Other non-operating costs	(10.3)	(12.1)
Interest payable and similar charges	(44.6)	(38.7)
Finance costs on preference shares	(19.0)	(20.4)
Executive bonus costs	(1.2)	(13.0)
	<u>(107.9)</u>	<u>(111.5)</u>
Loss on ordinary activities before tax	(6.6)	(12.0)

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) charge for 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 £438 million to £458 million during 2008. In January 2008 the FSA changed its rules on which assets are admissible for the purposes of meeting its 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 2008 as most of our operating profits convert into cash. In 2008 our EBITDA of £112.4 million was over 2.7 times interest payable. This substantial cashflow is reinvested in the business both by way of acquisition and developing our people and systems for the future. In the 4th quarter of 2008 the group used £20 million of the cash generated to make an early repayment of part of the Group's debt facilities, further reducing the interest cost.

Bank Facilities

The liquidity squeeze that began in 2007 continued throughout 2008 with many banks effectively closed for business. In what became an extended process Towergate renegotiated its long term facilities with our banking syndicate. We are appreciative of the support received from the syndicate at this difficult time and are pleased to have put in place arrangements which will support Towergate's next phase of growth.

At the time of writing Towergate has unused bank facilities and cash totalling over £50m available for further acquisitions.

Operating and Financial Review (continued)

Risks and Uncertainties

The Group runs an embedded risk management culture which 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 a 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.

2008 will be remembered by many as a year of economic disaster. At Towergate we can be proud of having continued to grow our business through these difficult times.

Ian Patrick

Group Finance Director



Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The consolidated profit and loss account for the year is set out on page 19. The principal activity of the Group is insurance broking, underwriting and the provision of insurance network services. 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 (2007: £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 (resigned 2 July 2008)

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. Donations to UK charities amounted to £233,179 (2007: £93,246). In addition, we have funded the staffing and promotion of staff fund-raising and client donations which helped Towergate raise in excess of £1m in 2008.

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 directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the board



Peter Cullum
Executive Chairman
26th June 2009

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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.

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

Consolidated profit & loss account for the year ended 31 December 2008

	Note	Continuing Operations 2008 £	Acquisitions 2008 £	Total 2008 £	Total 2007 £
Group turnover	2	298,817,899	9,767,028	308,584,927	268,931,012
Administrative expenses		(227,270,716)	(6,303,639)	(233,574,355)	(203,488,799)
Amortisation of intangibles		(32,711,816)	(59,105)	(32,770,921)	(27,332,199)
Group operating profit		38,835,367	3,404,284	42,239,651	38,110,014
Profit / (loss) on disposal of portfolio	17			4,587,962	(118,255)
Profit on disposal of subsidiaries	17			1,129,309	73,539
Profit on ordinary activities before interest				47,956,922	38,065,298
Other interest receivable and similar income				9,461,118	8,992,282
Interest payable and similar charges	5			(45,036,696)	(38,692,880)
Finance costs on preference shares classified as liabilities	5			(19,023,148)	(20,405,480)
Loss on ordinary activities before taxation	3			(6,641,804)	(12,040,780)
Tax on profit on ordinary activities	6			(12,242,834)	(2,695,690)
Loss on ordinary activities for the year				(18,884,638)	(14,736,470)

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 21-40 form part of these financial statements.

Consolidated balance sheet

for the year ended 31 December 2008

	Note	2008 £	2008 £	2007 £	2007 £
Assets					
Fixed assets					
Intangible assets	7	584,702,994		597,802,607	
Tangible assets	8	32,836,007		27,460,379	
Investments	9	106,780		1,105,167	
			617,645,781		626,368,153
Current assets					
Debtors	10	222,158,932		251,167,907	
Cash at bank and in hand		158,818,419		199,948,819	
			380,977,351		451,116,726
Total assets			998,623,132		1,077,484,879
Liabilities					
Capital and reserves					
Shareholders funds					
Called up share capital	18	100,098,953		96,687	
Share premium	19	30,293,173		-	
Profit and loss account	19	32,551,978		51,181,027	
Other reserves	19	(40,130,629)		(40,130,629)	
			122,813,475		11,147,085
Minority interests	20		(34,970)		(34,970)
Total capital and reserves			122,778,505		11,112,115
Memorandum					
Total capital, reserves and preferences shares			122,778,505		108,805,198
Provisions for liabilities and charges	15		10,489,286		34,904,022
Creditors					
Amounts falling due within one year	11	803,605,164		494,767,292	
Amounts falling due after more than one year					
Other	12	61,750,177		439,008,367	
Preference shares	13	-		97,693,083	
			865,355,341		1,031,468,742
Total liabilities			998,623,132		1,077,484,879

The notes on pages 21-40 form part of these financial statements.

These financial statements were approved by the board of directors on 26 June 2009 and were signed on its behalf by:



Peter Cullum
Executive Chairman

Consolidated cash flow forecast for the year ended 31 December 2008

	Note	2008 £	2007 £
Cash flow statement			
Net cash inflow from operating activities	24	51,898,000	62,174,203
Returns on investments and servicing of finance	25	(31,785,108)	(28,304,006)
Taxation		(13,149,367)	4,609,803
Capital expenditure and financial investment	25	(16,508,613)	(13,379,324)
Acquisitions and disposals	25	(106,013,282)	(13,201,567)
Cash (outflow)/inflow before management of liquid resources and financing		(115,558,370)	11,899,109
Financing	25	74,427,970	28,902,746
(Decrease) / increase in cash in the year		(41,130,400)	40,801,855
Reconciliation of net cash flow to movement in net debt			
(Decrease) / increase in cash in the year	26	(41,130,400)	40,801,855
Cash inflow from increase in debt and lease financing		(74,427,970)	(28,902,746)
Change in net debt resulting from cash flows		(115,558,370)	11,899,109
New deferred consideration		10,372,532	(22,892,359)
New loan notes		-	(2,410,466)
Finance leases acquired with acquisitions	26	(13,946)	(390,174)
Other loans acquired with acquisitions		(491,789)	(16,960,120)
Capitalisation of interest		(4,073,243)	(3,827,201)
Reclassification of preference shares from debt to equity	13	100,000,000	-
Other loan movements		1,000,000	-
Movement in net debt in the year	26	(8,764,816)	(34,581,211)
Net debt at the start of the year	26	(388,577,123)	(353,995,912)
Net debt at the end of the year	26	(397,341,939)	(388,577,123)

Reconciliation of movements in shareholders' funds for the year ended 31 December 2008

	2008 £	2007 £
Loss for the financial year	(18,884,638)	(14,736,470)
	(18,884,638)	(14,736,470)
Increase in share capital	100,002,266	-
Premium on share issue	30,293,173	-
Issue of deferred shares	-	96,687,440
Cancellation of deferred shares	-	(96,687,440)
Share incentive plan (note 23)	255,589	223,445
Net increase/(decrease) in shareholders' funds	111,666,390	(14,513,025)
Opening shareholders' funds	11,147,085	25,660,110
Closing shareholders' funds	122,813,475	11,147,085

Consolidated statement of total recognised gains and losses for the year ended 31 December 2008

	2008 £	2007 £
Loss for the financial year	(18,884,638)	(14,736,470)
Share incentive plan (note 23)	255,589	223,445
Total recognised losses since last financial report	18,629,049	(14,513,025)

1. Accounting policies

The following 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 2008. 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.

The group holds put and call options over the minority interest holdings in certain of the subsidiaries. The group has accounted for these options as if they have already been exercised, and included the anticipated settlement value as part of the cost of acquisition of the relevant subsidiary. A liability is recognised in respect of the anticipated settlement in deferred consideration. The anticipated settlement values are estimated on an annual basis and any resultant remeasurements are recorded in the cost of acquisition and liabilities – deferred consideration.

The company recognises the anticipated settlement value in the cost of investment in the relevant subsidiary with an associated deferred consideration liability. Remeasurement of the settlement value is recognised in the cost of investment.

(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% pa
Fixtures and fittings	15% pa or over 6 years	Furniture and equipment	20% pa
Motor vehicles	25% pa	Foreign freehold land and buildings	2% pa

No depreciation is provided on other freehold land and buildings.

Classification of preference shares

In accordance with FRS 25, in 2007 the preference shares, net of transactions costs, were classified as creditors due after more than one year. Dividends associated with the preference shares were included within the profit and loss account as a financing cost. Unpaid dividends were accrued at the year end.

On 14 October 2008 amendments made to the Company's Memorandum and Articles and to the terms of the preference shares changed the accounting treatment as required by FRS25 and the preference shares are now included in equity in the balance sheet. Unpaid dividends to 14 October 2008 have been accrued and charged to the profit and loss account. Post 14 October 2008 preference share dividends will be accrued and charged to the profit and loss account when declared and paid.

1. Accounting policies (continued)

Employee share incentive plans

The company's employee share incentive plans entitle certain directors and employees to benefit upon 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. Loss on ordinary activities before taxation

(Loss) / profit on ordinary activities before taxation is stated after charging:	2008	2007
	£	£
Auditors' remuneration:		
- Audit of these financial statements	112,930	98,700
- Audit of financial statements of subsidiaries	989,857	871,233
- Other services relating to taxation	11,040	120,943
- All other services	147,446	54,786
Depreciation and other amounts written off tangible fixed assets:		
- Owned	10,605,143	8,599,769
- Leased	480,687	561,934
Operating leases		
- Land and buildings	9,955,824	6,835,512
- Other assets	1,623,564	1,357,857
Loss on disposal of fixed assets	247,573	232,728

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	
	2008	2007
Administration	3,314	3,299

The aggregate payroll costs of these persons were as follows:

	2008	2007
Wages and salaries	119,953,547	96,920,193
Social security costs	12,439,462	9,924,635
Other pension costs	5,992,011	5,305,808
	138,385,020	112,150,636

5. Interest payable and similar charges

	2008	2007
	£	£
On bank loans and overdrafts	44,396,355	37,918,334
On directors' loans	575,597	436,159
Finance charges payable in respect of finance leases and hire purchase contracts	19,302	47,806
On overdue tax	1,052	64,486
Other	44,390	226,095
	45,036,696	38,692,880
Finance costs on preference shares classified as liabilities until 14 October 2008 (note 13)	19,023,148	20,405,480

6. Taxation

Analysis of charge in period:

	2008	2007
	£	£
UK corporation tax		
Current tax on income for the period	11,880,261	6,657,588
Deferred tax	1,977,326	776,416
Adjustments in respect of prior periods	(1,614,753)	(4,738,314)
	<hr/>	<hr/>
Total current tax	12,242,834	2,695,690
	<hr/> <hr/>	<hr/> <hr/>

The current tax charge for the period is higher (2007: higher) than the standard rate of corporation tax in the UK 28% (2007: 30%). The differences are explained below.

	2008	2007
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	(6,641,804)	(12,040,780)
	<hr/>	<hr/>
Current tax at 28.5% (2007: 30%)	(1,892,914)	(3,612,234)
Effects of:		
Expenses not deductible for tax purposes	6,323,153	6,250,561
Amortisation	9,260,868	8,199,660
Investment write off	761	-
Depreciation for period in excess of capital allowances	427,534	-
Capital allowances for period in excess of depreciation	-	(95,894)
Utilisation of losses brought forward	-	(4,089,767)
Loss / (profit) on disposal of subsidiaries	(451,239)	5,262
Movement on provisions	(1,973,676)	-
Dividend income	66,489	-
Prior period adjustment / group relief	(7,984)	-
Losses surrendered to fellow group companies	127,269	-
	<hr/>	<hr/>
Total current tax charge (see above)	11,880,261	6,657,588
	<hr/> <hr/>	<hr/> <hr/>

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

	Goodwill £	Trademarks £	Total £
Cost			
At beginning of year	666,378,220	-	666,378,220
Additions	24,289,864	27,594	24,317,458
On acquisitions in the year	-	275,879	275,879
Disposals	(5,126,882)	(21,525)	(5,148,407)
	<hr/>	<hr/>	<hr/>
At end of year	685,541,202	281,948	685,823,150
	<hr/>	<hr/>	<hr/>
Amortisation			
At beginning of year	68,575,613	-	68,575,613
Charge for year	32,711,816	59,105	32,770,921
On acquisitions in the year	-	218,068	218,068
Disposals	(422,921)	(21,525)	(444,446)
	<hr/>	<hr/>	<hr/>
At end of year	100,864,508	255,648	101,120,156
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2008	584,676,694	26,300	584,702,994
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2007	597,802,607	-	597,802,607
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

All goodwill arising on acquisition is amortised over a twenty year period.

8. Tangible fixed assets

	Leasehold improvements £	Furniture & equipment £	Fixtures & fittings £	Computer equipment £	Motor vehicles £	Total £
Cost or valuation						
At beginning of year	3,554,123	6,975,612	5,404,510	45,940,467	1,360,304	63,235,016
Transfers	-	(211,626)	167,032	44,594	-	-
On acquisitions in year	68,541	183,667	27,708	545,031	162,256	987,203
Additions	1,146,584	487,166	3,012,671	11,890,683	44,478	16,581,582
On disposals in year	(27,990)	(65,634)	(31,635)	(150,595)	(22,190)	(298,044)
Disposals	(60,453)	(320,730)	(165,853)	(3,836,132)	(419,228)	(4,802,396)
At end of year	4,680,805	7,048,455	8,414,433	54,434,048	1,125,620	75,703,361
Depreciation						
At beginning of year	1,130,254	4,383,954	3,131,828	26,374,383	754,218	35,774,637
Transfers	-	(94,651)	(38)	31,100	63,589	-
On acquisitions in year	23,466	135,153	19,019	436,948	30,992	645,578
Charge for year	391,181	739,324	950,500	8,722,323	282,502	11,085,830
On disposals in year	(8,499)	(37,087)	(6,956)	(93,617)	(9,291)	(155,450)
Disposals	(29,217)	(262,510)	(71,633)	(3,740,931)	(378,950)	(4,483,241)
At end of year	1,507,185	4,864,183	4,022,720	31,730,206	743,060	42,867,354
Net book value						
At 31 December 2008	3,173,620	2,184,272	4,391,713	22,703,842	382,560	32,836,007
At 31 December 2007	2,423,869	2,591,658	2,272,682	19,566,084	606,086	27,460,379

Included above are assets held under finance leases and hire purchase contracts as follows:

	2008 £	2007 £
Net book value		
Motor vehicles	194,851	423,429
Furniture & equipment	137	193,162
Computer equipment	641,871	938,962
Fixtures & fittings	-	44,506
	836,859	1,600,059
Depreciation charged during year		
Motor vehicles	160,928	194,542
Furniture & equipment	4,948	41,891
Computer equipment	314,811	318,940
Fixtures & fittings	-	6,561
	480,687	561,934

9. Investments

	Unlisted investments	Investment properties overseas	Total
	£	£	£
Cost			
At beginning of year	1,099,967	17,203	1,117,170
On acquisitions in year	3,500	-	3,500
Reclassification from tangible fixed assets	500	-	500
Disposals	(1,002,387)	-	(1,002,387)
	<hr/>	<hr/>	<hr/>
At end of year	101,580	17,203	118,783
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Provisions			
At beginning and end of year	-	12,003	12,003
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 31 December 2008	101,580	5,200	106,780
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2007	1,099,967	5,200	1,105,167
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10. Debtors: amounts falling due within one year

	2008 £	2007 £
Insurance debtors	178,128,870	211,248,807
Amounts owed by Group undertakings	-	-
Other debtors	15,521,198	18,894,704
Prepayments and accrued income	20,465,346	12,745,473
Corporation tax	7,409,456	7,475,850
Deferred consideration receivable	634,062	803,073
	<hr/>	<hr/>
	222,158,932	251,167,907
	<hr/> <hr/>	<hr/> <hr/>

11. Creditors: amounts falling due within one year

	2008 £	2007 £
Bank loans and overdrafts*^	506,539,444	2,800,000
Other loans*	2,554	4,688,705
Obligations under finance leases and hire purchase contracts	357,302	542,313
Insurance creditors	226,823,253	269,996,637
Amounts owed to Group undertakings	-	-
Corporation tax	6,729,754	8,905,155
Taxation and social security	3,539,473	3,890,362
Other creditors	12,929,337	15,042,797
Other creditors – Broker Network	-	95,010,555
Accruals and deferred income	26,624,518	40,619,218
Deferred consideration*	20,059,529	53,271,550
	803,605,164	494,767,292

^A term loan of £130,000,000 (2007: £130,000,000) from a syndicate of banks which is secured on the assets of Group companies has interest charged at Libor +2.5%.

^A term loan of £130,000,000 (2007: £130,000,000) from a syndicate of banks which is secured on the assets of Group companies has interest charged at Libor + 3%.

^A term loan of £83,549,173 (2007: £79,475,931) from a syndicate of banks which is secured on the assets of Group companies has interest charged at Libor + 9.75%.

^A term loan of £171,863,927 (2007: £61,590,000) from a syndicate of banks which is secured on the assets of Group companies has interest charged at Libor + 2.375%.

^The term loan of £171,863,927 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 £167,129 (2007: £1,987,772) were issued in consideration for the acquisition of Fusion Insurance Services Limited. The loan notes can be redeemed from 10 November 2006. Loan notes of £97,776 were redeemed on 25 March 2009. Outstanding loan notes will be redeemed in full on 31 December 2015. Interest is charged at Base Rate.

The various term bank loans held at 31 December 2008 have been classified entirely as payable within one year. This disclosure is required by UK accounting standards to reflect the fact that discussions to agree amended bank facilities and a covenant reset were ongoing at year end. The amended facilities agreement was completed on 16 April 2009. The interest charged on the term loans of £130,000,000, £130,000,000, £83,549,183 and £171,863,927 has been increased by an addition margin of between 1% - 2% dependent on leverage of the group. The interest charged on the unused balance of the £235,000,000 facility has increased to 1.5%.

The bank loans in the above table would be reclassified as below if the amended facility were reflected in the balance sheet presentation at 31 December 2008:

	2008 £
In one year or less, or on demand	-
Between one and two years	73,740,508
Between two and five years	358,123,419
Over 5 years	83,549,173
	515,413,100
Total debt	(8,873,656)
Less: capitalised loan costs	506,539,444

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

	2008 £	2007 £
Loan notes*^	167,128	2,282,771
Bank loans and overdrafts*^	-	401,628,829
Other loans*	36,200	36,200
Obligations under finance leases and hire purchase contracts	520,859	792,800
Other creditors	41,422,304	22,432,875
Deferred consideration*	19,603,686	11,834,892
	<u>61,750,177</u>	<u>439,008,367</u>

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

	2008 £	2007 £
Within one year	380,527	250,577
In the second to fifth years	554,714	1,107,213
	<u>935,241</u>	<u>1,357,790</u>
Less future finance charges	(57,080)	(22,677)
	<u>878,161</u>	<u>1,335,113</u>

13. Preference shares

	2008 £	2007 £
Preference shares*	-	97,693,083
	<u>-</u>	<u>97,693,083</u>

In accordance with FRS 25, in 2007 the preference shares, net of transactions costs, were classified as creditors due after more than one year. On 14 October 2008 amendments made to the Company's Memorandum and Articles and to the terms of the preference shares changed the accounting treatment as required by FRS25 and the preference shares are now included in equity in the balance sheet.

14. Analysis of debt

Analysis of debt:

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

	2008	2007
Debt can be analysed as falling due:		
In one year or less, or on demand	535,475,183	60,760,255
Between one and two years	8,188,441	5,034,743
Between two and five years	11,415,245	18,305,929
Over five years	203,328	503,089,902
	<hr/>	<hr/>
Total debt	555,282,197	587,190,829
Less: capitalised loan costs	(8,873,656)	(12,954,799)
	<hr/>	<hr/>
	<u>546,408,541</u>	<u>574,236,030</u>

15. Provisions for liabilities and charges

	Share based payment provision (Note 23) £	Deferred tax provision £	E&O provision £	FRS 5 provision £	Claims provision £	Total provisions £
At beginning of year	36,704,568	(10,229,596)	1,000,000	6,155,469	1,273,581	34,904,022
On acquisitions in the year	-	2,122	-	-	-	2,122
Revaluation during the year	(30,012,986)	7,458,601	-	-	-	(22,554,385)
Charge / (credit) to the profit and loss for the year	82,101	872,975	-	108,204	64,006	1,127,286
Utilised during the year	(3,944,110)	1,104,351	-	-	(150,000)	(2,989,759)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2,829,573	(791,547)	1,000,000	6,263,673	1,187,587	10,489,286
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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 £337,587 (2007: £708,190) arises from the underwriting business of Folgate Insurance Company Limited, which is in run off. A claims provision of £850,000 (2007: £415,391) arises from Towergate Insurance (Guernsey) Limited. The balance of the group provision of £nil (2007: £150,000) relates to Lorega claims.

16. Acquisitions

The following acquisitions were made in the year:

	Date of acquisition
	£
British Insurance Limited	15 January 2008
McAra Associates Limited	21 January 2008
Woodgate & Partners Limited	05 February 2008
The TF Bell Group Limited	22 February 2008
Macdonald Reid Scott Insurance Brokers	30 April 2008

The resulting goodwill of £21,439,301 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.

	Other Companies & portfolios	Adjustments to prior year acquisitions - Broker Network & FPL	Total
	£	£	£
Fixed assets			
Tangible assets	312,476	29,148	341,624
Intangible assets	57,811	-	57,811
Investments	3,500	-	3,500
Debtors	3,973,391	(303,364)	3,670,027
Cash	2,983,019	-	2,983,019
Total assets	7,330,197	(274,216)	7,055,981
Creditors	(5,920,115)	(6,890,412)	(12,810,527)
Provisions for liabilities and charges	(2,122)	19,179,260	19,177,138
Net (liabilities) / assets	1,407,960	12,014,632	13,422,592
Goodwill	28,871,953	(8,761,761)	20,110,192
Satisfied by:			
Initial consideration	18,656,024	1,067,303	19,723,327
Deferred consideration	9,470,790	732,000	10,202,790
Other creditors	-	-	-
Shares allotted	1,873,974	-	1,873,974
	30,000,788	1,799,303	31,800,091
Expenses of acquisition	279,125	1,453,568	1,732,693
	30,279,913	3,252,871	33,532,784

17. Disposals

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

	Proceeds £	Date of disposal
Towergate Underwriting Sports & Leisure (portfolio)	8,714,430	01 January 2008
Towergate Risk Solutions Cardiff (portfolio)	1,462,892	31 March 2008
TF Bell Group Financial Services (portfolio)	75,000	1 July 2008
MacDonald Reid Scott Financial Services Limited (company)	1,946,220	15 August 2008
Towergate Financial Services Limited (company)	3,335,331	15 August 2008
Woodgate & Partners Financial Services (portfolio)	2	15 August 2008

During the period there was a reduction in the previously recognised proceeds of prior year disposals of £460,870, which reduced the current year profit on disposals to £5,717,271.

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

	Total £
Fixed assets	
Tangible assets	142,594
Investments	-
Debtors	2,099,809
Cash	4,631,343
Total assets	6,873,746
Creditors	(2,216,916)
Provisions for liabilities and charges	-
Net assets	4,656,830
Net book value of Goodwill	4,698,902
	9,355,732
Satisfied by:	
Cash - Initial consideration	15,533,875
- Deferred consideration	-
(Profit) on disposal	(6,178,141)
	9,355,732

In addition to the initial consideration received in respect of these disposals deferred consideration is payable dependent on the performance of the businesses as detailed below. As a contingent asset this amount has not been reflected in the consideration recognised in these financial statements.

	Deferred consideration £
MacDonald Reid Scott Financial Services Limited (company)	765,000
Woodgate & Partners Financial Services (portfolio)	74,998

18. Called up share capital

	2008 number	2007 number
Authorised		
Equity: Ordinary shares of £0.009 each (2007: £0.01 each)	5,596,580	5,596,580
Equity: Ordinary A shares of £0.009 (2007: £0.01 each)	4,376,370	4,126,370
Equity: Ordinary B shares of £0.009 (2007: £0.01 each)	15,000	15,000
Equity: Junior preferred ordinary A shares of £0.001 each	5,596,580	-
Equity: Junior preferred ordinary B shares of £0.001 each	4,376,370	-
Equity: Junior preferred ordinary C shares of £0.001 each	15,000	-
	<hr/>	<hr/>
Total Equity: Ordinary shares	19,975,900	9,737,950
	<hr/>	<hr/>
20% cumulative preference shares of £1 each	100,000,000	100,000,000
	<hr/>	<hr/>
Total Equity shares	119,975,900	109,737,950
	<hr/> <hr/>	<hr/> <hr/>
Allotted, called up and fully paid	£	£
Equity: 5,545,411 Ordinary shares of £0.009 each (2007: 5,548,021 Ordinary shares of £0.01 each)	49,909	55,480
Equity: 4,334,926 Ordinary A shares of £0.009 each (2007: 4,105,738 Ordinary A shares of £0.01 each)	39,013	41,057
Equity: 14,985 Ordinary B shares of £0.009 each (2007: 14,985 Ordinary B shares of £0.01 each)	135	150
Equity: 5,545,411 Junior preferred ordinary A shares of £0.001 each	5,545	-
Equity: 4,334,926 Junior preferred ordinary B shares of £0.001 each	4,335	-
Equity: 14,985 Junior preferred ordinary C shares of £0.001 each	15	-
20% cumulative preference shares of £1 each	100,000,000	100,000,000
	<hr/>	<hr/>
Total	100,098,953	100,096,687
	<hr/> <hr/>	<hr/> <hr/>
Shares classified in shareholders funds	100,098,953	96,687
	<hr/> <hr/>	<hr/> <hr/>
Shares classified as liability	-	100,000,000
	<hr/> <hr/>	<hr/> <hr/>

On 3 April 2008 the following written resolution of the company was passed:

- Each of the issued and unissued ordinary shares of £0.01 each were subdivided into one ordinary share of £0.009 each and one junior A preferred ordinary share of £0.001 each;
- Each of the issued and unissued ordinary A shares of £0.01 each were subdivided into one A ordinary share of £0.009 each and one junior B preferred ordinary share of £0.001 each;
- Each of the issued and unissued ordinary B shares of £0.01 each in were subdivided into one ordinary B share of £0.009 each and one junior C preferred ordinary share of £0.001 each.

Ordinary and 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. The preferred shares have the right to a preferential dividend in certain circumstances and are entitled to attend general meetings but are not entitled to vote unless a specific set of circumstances has occurred. The junior preferred shares have a principle redemption value of £100 million and the right to a preferential dividend in certain circumstances and are entitled to attend general meetings but are not entitled to vote unless a specific set of circumstances has occurred.

19. Reserves

	Share premium £	Profit and loss account £	Other reserves £
As beginning of year	-	51,181,027	(40,130,629)
Premium arising on issue of new shares	30,293,173	-	-
Loss for the year	-	(18,884,638)	-
Share incentive plan (note 23)	-	255,589	-
	<hr/>	<hr/>	<hr/>
At end of year	30,293,173	32,551,978	(40,130,629)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

During the year deferred consideration of £30,295,671 was settled by issue of shares of the company.

20. Minority interest

	£
At beginning and end of year	(34,970)
	<hr/> <hr/>

The Company includes the effect of anticipated exercise of put and call options in its accounting for minority interests. The companies in which such minority interests exist are:

Alliance Insurance Management Limited	4%
Hayward Holding Group Limited	10%
British Insurance Limited	10%
The TF Bell Group Limited	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 2008 is £7,336,430 (2007: £32,462,349) which is included in deferred consideration (refer notes 11 and 12) and goodwill (note 7) within the group financial statements.

21. Operating lease commitments

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

	2008 Land and buildings £	2007 Land and buildings £	2008 Other £	2007 Other £
Operating leases which expire:				
Within one year	1,191,513	668,927	760,802	510,401
In the second to fifth years inclusive	4,788,955	1,966,310	1,077,626	766,154
Over five years	6,312,898	5,011,264	-	12,304
	<hr/>	<hr/>	<hr/>	<hr/>
	12,293,366	7,646,501	1,838,428	1,288,859
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 £5,992,011 (2007: £5,305,808). At the year end outstanding pension contributions due were £451,127 (2007: £429,457).

23. Share-based payments

Share plans

In March 2004, the Company established an employee share plan whereby certain directors and employees were entitled to benefit from approximately 3% of the proceeds of an "exit" or takeover of the Towergate group if it occurred 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 held 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 was 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). Since no exit event was anticipated prior to August 2008, the directors had confirmed their intention to transfer the rights and obligations to a new scheme such that the entitlements of the relevant employees continues beyond the originally estimated vesting period. Accordingly the provisions of modification accounting as prescribed under FRS 20 have been applied to the equity settled scheme. The application of modification accounting did not result in a material effect on the spreading of the fair value of the equity settled scheme.

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

	2008	2007
Outstanding at the beginning of the year	211,896	242,267
Granted during the year	-	-
Exercised during the year	(14,782)	(30,371)
Outstanding at the end of the year	197,114	211,896

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:

	2008	2007
	£	£
(Credit)/charge for the year:		
Equity-settled share plan	255,589	223,445
Cash-settled share appreciation rights	(904,091)	1,295,128
Provision for social security costs	(2,389,252)	1,797,809
	(3,037,754)	3,316,382

23. Share-based payments (continued)

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.

The movement in provisions for cash-settled share-based payments was as follows:

	Share appreciation rights 2008 £	Share-based deferred consideration 2008 £	Total 2008 £	Total 2007 £
Liability at the beginning of the year	4,445,018	32,259,550	36,704,568	28,387,962
Granted and (credited)/charged to profit and loss during the year	82,101	-	82,101	80,333
Revaluation and (credited)/charged to profit and loss during the year	(986,192)	-	(986,192)	1,214,796
Revaluation (credited)/debited to goodwill	-	(26,637,861)	(26,637,861)	5,223,670
Settled during the year	-	(3,944,110)	(3,944,110)	-
(Decrease)/increase in provision for social security costs	(2,388,933)	-	(2,388,933)	1,797,809
Liability at the end of the year	1,151,994	1,677,579	2,829,573	36,704,570

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.

24. Reconciliation of operating profit to operating cash flows

	Total 2008 £	Total 2007 £
Operating profit	42,239,651	38,110,014
Depreciation and amortisation charges	43,856,744	36,493,902
Loss on sale of fixed assets	220,938	232,728
(Profit) on sale of investment	(453)	(100,715)
(Increase) / decrease in debtors	26,019,955	7,051,017
(Decrease) / increase in creditors	(62,127,010)	(22,777,397)
Decrease in capitalised loan costs	8,647,829	2,143,372
(Decrease) / increase in provisions	(7,214,924)	797,837
Increase in share incentive plan provision (note 23)	255,270	223,445
Net cash inflow from operating activities	51,898,000	62,174,203

25. Analysis of cash flows

	2008 £	2008 £	2007 £	2007 £
Returns on investment and servicing of finance				
Interest received	9,517,892		8,613,043	
Interest paid	(41,303,000)		(36,869,243)	
Interest element of finance lease rental payments	-		(47,806)	
Fees paid in relation to refinancing	-		-	
Fees paid in relation to bonus issue of preference shares	-		-	
	<hr/>	(31,785,108)	<hr/>	(28,304,006)
		<hr/> <hr/>		<hr/> <hr/>
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(16,510,960)		(13,918,463)	
Sale of investment	2,347		539,139	
	<hr/>	(16,508,613)	<hr/>	(13,379,324)
		<hr/> <hr/>		<hr/> <hr/>
Acquisitions and disposals				
Purchase of subsidiary undertakings	(24,596,419)		(45,315,473)	
Sale of businesses	15,242,016		819,337	
Receipt of deferred consideration	-		337,500	
Net cash received on acquisitions of subsidiaries	2,983,019		31,570,977	
Net cash disposed of with subsidiaries	(4,631,343)		(613,908)	
Repayment of other creditors – Broker Network	(95,010,555)		-	
	<hr/>	(106,013,282)	<hr/>	(13,201,567)
		<hr/> <hr/>		<hr/> <hr/>
Financing				
Net receipt of loans	95,773,912		42,397,767	
Net receipt/(repayment) of other loans	(3,688,705)		2,024,935	
Repayment of deferred consideration	(15,070,696)		(12,235,573)	
Repayment of loan notes	(2,115,643)		(3,966,407)	
Capital element of finance lease rental payments	(470,898)		682,024	
	<hr/>	74,427,970	<hr/>	28,902,746
		<hr/> <hr/>		<hr/> <hr/>

26. Analysis of net debt

	At beginning of year	Cash flow	Acquisitions	Disposals	Other non-cash changes	At end of year
	£	£	£	£	£	£
Cash at bank and in hand	199,948,819	(39,482,076)	2,983,019	(4,631,343)	-	158,818,419
Finance leases	(1,335,113)	470,898	(13,946)	-	-	(878,161)
Debt due within one year	(60,760,255)	(52,105,992)	(491,789)	-	(422,117,147)	(535,475,183)
Debt due after one year	(526,430,574)	(22,792,876)	-	-	529,416,436	(19,807,014)
Total debt	(587,190,829)	(74,898,868)	(491,789)	-	107,299,289	(555,282,197)
Total debt and finance leases	(588,525,942)	(74,427,970)	(505,735)	-	107,299,289	(556,160,358)
Total	(388,577,123)	(113,910,046)	2,477,284	(4,631,343)	107,299,289	(397,341,939)

Cash at bank includes £96,808,991 (2007: £107,134,814) which constitutes client money and £19,448,321 (2007: £19,133,666) in blocked office accounts which is not available to pay the general debts of the group.

Other non-cash changes includes the reclassification of £100,000,000 preference shares from debt into equity as explained in the accounting policy "Classification of preference shares" and the reclassification of bank loans of £506,539,444 to due within one year as described in note 11.

27. 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.

28. 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 2008 was £515,413,100 (2007: £401,065,931). The group companies involved include principally:

Towergate Partnership Limited
Towergate Underwriting Group Limited
Fusion Insurance Holdings Limited
Fusion Insurance Services Limited
Broker Network Holdings Limited
The Broker Network 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.

Officers and professional advisors

Directors

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

Secretary

D Clark

Registered office

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Maidstone
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ME14 3EN

Auditors

KPMG Audit plc
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EC4Y 8BB

Legal advisors

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3 Noble Street
London
EC2V 7EE

Financial advisors

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Towergate Underwriting Group Limited

Authorised and regulated by the Financial Services Authority

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Registered in England No: 4043759

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