FAIRPOINT.

Fairpoint Group plc

Final results for the year ended 31 December 2012

Fairpoint Group plc ("Fairpoint" or "the Group"), the leading provider of advice and solutions to financially stressed consumers, today announces its final results for the year ended 31 December 2012.

Financial Highlights

- Profits and earnings have improved significantly
  - Adjusted profit before tax* of £7.6m (2011: £4.0m) up 87%
  - Adjusted basic earnings per share** of 13.44p (2011: 6.82p) up 97%
  - Statutory profit before tax of £10.5m (2011: loss of £1.0m)

- Strong revenue growth
  - Increase in adjusted revenue of 15% to £29.9m (2011: £25.9m)
  - £2.7m increase in claims management revenues
  - Revenues from IVA activities before exceptional items grew by 4% to £19.0m (2011: £18.2m)
  - Debt management plan ("DMP") revenues grew by 5% to £5.6m (2011: £5.3m)

- Strong cash generation
  - Net cash generated from operating activities of £12.6m (2011: £4.6m)
  - Net surplus of cash*** of £1.6m at 31 December 2012 (2011: net borrowings of £6.4m)
  - Further positive cash impact of £1.5m in 2013 as the final element of the £9.0m VAT refund processed through the open IVA cases, with £1.2m received to date

- Progressive dividend policy reflecting strong financial position and Board's confidence
  - Final dividend proposed of 3.55p (2011: 2.75p) making a total dividend for the year of 5.50p (2011: 4.50p), an overall increase of 22%

Operating Highlights

- Product diversification continues
  - Revenues from diversified activities, comprising mainly of our DMP and claims management services segments, rose to 36% of total revenue (2011: 30%)
  - Acquisition, out of cash flows, of 915 DMP cases
  - Significant growth experienced in claims management services revenue

- Continuing to strengthen and invest in our platform for future growth
  - £13m financing facility provides the funding to secure growth from both organic and acquisition activity
  - Strong cost control across IVA and debt management segments
  - Further development of claims management services proposition anticipated

- Acquisitions announced today:
  - Acquisition of two books of DMPs totalling more than 2,000 plans, for up to £0.9m consideration, with encouraging pipeline of further acquisition opportunities

** Profit before tax of £10.5m (2011: loss of £1.0m) plus amortisation of acquired intangible assets of £1.3m (2011: £0.9m) less exceptional items of £4.2m (2011: plus £4.1m)*
*** Adjusted for the net of tax effect of amortisation of acquired intangible assets and exceptional items*
**** Net surplus / borrowings is cash at bank less bank borrowings and finance lease liabilities*

Chris Moat, chief executive officer, said:

“I am pleased to report a strong set of results for 2012, with a marked improvement in financial, operating and cash flow performance. Fairpoint has continued its strategy of diversifying its income streams and has grown its revenues and profitability in what continue to be subdued market conditions.”

“We expect to make continued progress in 2013 and beyond, from a strengthened financial position, through further development of our claims management services offering, tight cost control and back book acquisition activity. The Board’s expectations for the current year, therefore, remain unchanged.''

Enquiries please contact:

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There will be an analyst presentation to discuss the results at 10.00am on 14 March 2013 at the offices of MHP Communications, 60 Great Portland Street, London, W1W 7RT

Notes to editors:

Fairpoint Group plc is an AIM quoted consumer financial services business focused on serving financially stressed consumers. Its mission is to become the leader in money management solutions to the financially stressed consumer. Its business is structured into the following primary business lines in order to serve the needs of this consumer group:

1. Individual Voluntary Arrangements (IVAs)
2. Debt Management Plans (DMPs)
3. Claims Management Services

Chairman`s statement

Overview

I am pleased to report a strong set of results for 2012, with a marked improvement in financial, operating and cash flow performance. Fairpoint has continued its strategy of diversifying its income streams and has grown its revenues and profitability in what continue to be subdued market conditions. In particular we made excellent progress in the development of claims management services and additional products are under development to ensure continuing momentum in this area.

Strategy

Our mission is to make consumers' money go further. We also aim to be the first choice solutions provider for financially stressed consumers. Our strategy of diversifying our income streams has three key aspects:

- Focus on our cost agenda in the individual voluntary agreement ("IVA") segment during a period of subdued market demand;
- Continue to grow our debt management plan ("DMP") activities, both organically and through acquisition opportunities presented by a consolidating market; and
- Continue to expand our newly established claims management services segment with new products.

Dividend

The Board is committed to a long-term progressive dividend policy, which takes into account the underlying growth in earnings and strong cash generation, whilst acknowledging the requirement for continued investment and short-term fluctuations in profits.

In light of the results for the year, and taking into account the requirements of the Group and the Board's confidence in its future prospects, the Board has recommended an increase in the final dividend of 29% to 3.55p (2011: 2.75p), resulting in a total dividend for the year of 5.50p (2011: 4.50p), an increase of 22%.

The final dividend will be paid on 20 June 2013 to shareholders on the register on 24 May 2013, with an ex-dividend date of 22 May 2013.

Changes to the board and shareholders

In May 2012 Derek Oakley resigned his position as insolvency director, and accordingly stepped down from the Board. He left the business in November 2012 to pursue other interests and I would like to thank him for his contribution to the Group.

In November 2012 Amanda West, currently Senior Vice President, Transformation, at Thomson Reuters, was appointed as independent non-executive director. Amanda brings a wealth of blue-chip strategic marketing expertise in global financial services that will support our strategy of diversifying our income streams. She replaced Perry Blacher who resigned as a non-executive board member to concentrate on his other business interests and I would like to thank him for his contribution.

In July 2012, the entire stake previously held by Andrew Redmond, John Reynard, Paul Latham, Derek Oakley and Peter Byrne and his family (the founder shareholders of Fairpoint), comprising 9,826,027 ordinary shares (approximately 22.53% of the Company's issued share capital) was placed with a number of institutional and other investors at a price of 60 pence per share. As part of this transaction, and in order to enhance shareholder value, around £1m worth of these shares were acquired by the Company to be held in treasury.

This was a positive outcome for the Group; it recognises the strength of Fairpoint as an investment proposition and should increase the overall liquidity of our shares.

Outlook

We expect to make continued progress in 2013 and beyond, from a strengthened financial position, through further development of our claims management services offering, tight cost control and back book acquisition activity. The Board's expectations for the current year, therefore, remain unchanged.

Matthew Peacock
Chairman

Chief Executive Officer's review

Results

Group revenue from continuing operations in the year ended 31 December 2012 increased by 15% to £29.9m (2011: £25.9m), with diversified activities accounting for 36% of the Group revenue (2011: 30%). Adjusted profit before tax* was £7.6m (2011: £4.0m). Profit before tax was £10.5m (2011: loss of £1.0m). Adjusted basic earnings per share** was 13.44p (2011: 6.82p). Basic earnings per share was 18.59p (2011: loss per share of 2.20p) and fully diluted earnings per share was 18.43p (2011: loss per share of 2.20p). Exceptional net revenue was £4.2m (2011: exceptional costs of £4.1m).

Net surplus of cash*** at 31 December 2012 was £1.6m (31 December 2011: net borrowings of £6.4m).

Operational review

Market conditions and update

Market conditions for the Group's services in 2012 continued to be subdued. The total number of IVAs originated in 2012 in England and Wales was 46,694 (2011: 49,056), a reduction of 4.8% (source: The Insolvency Service). This was despite the lack of recovery in the economy and reflected a combination of relatively benign creditor attitudes and the benefit of low interest rates enabling the easier servicing of debt by consumers.

The recently announced debt management protocol, which is a joint initiative involving The Insolvency Service and certain industry bodies, is designed to make debt management plans more affordable and sustainable for consumers, spreading the recovery of initial set up fees, as well as applying some further minimum standards which will be independently monitored. The Group intends to sign up to this voluntary protocol and actively incorporate it into its business model. This development removes regulatory uncertainty within the sector and, in addition, will give rise, in our view, to further consolidation in the sector, resulting in additional back book acquisition opportunities.

IVA services

Revenues from the Group's IVA activities before exceptional items were £19.0m (2011: £18.2m). The segmental adjusted pre-tax profit rose to £4.9m (2011: profit of £2.2m).

Segmental revenues before exceptional items grew by £0.8m to £19.0m (2011: £18.2m). Despite subdued market demand and reduced average fees for new IVAs, active management of the portfolio meant that the total number of fee paying IVAs under management at 31 December 2012 was 20,117 (31 December 2011: 20,961). The number of new IVAs written in 2012 was 5,391 (2011: 5,840) and the average gross fee per new IVA was £3,299 (2011: £3,642).

The improved profitability in the year was due to both the reduction in the IVA cost base, which took effect from the second half of 2011, and to the increased impact on IVA revenues of our claims management activities. This increased returns to creditors and in turn increased IVA supervisory fees from the existing portfolio.

DMP services

Revenues in the DMP segment increased by 5% to £5.6m (2011: £5.3m) and the segmental adjusted pre-tax profit increased to £2.2m (2011: £2.0m).

The segment has benefited from the back book acquisition of 915 cases in May 2012. The total number of DMPs under management at 31 December 2012 was 14,880 (31 December 2011: 15,838). Further progress in our back book acquisition pipeline has been made in recent months and we also announce today the acquisition of two further books totalling more than 2,000 DMPs for a potential consideration of £0.9m. We anticipate further DMP back book purchases in the coming months from sub scale operators seeking to exit this increasingly competitive and regulated market. These acquisitions, which will be financed from our existing resources, will benefit DMP activity in 2013 and beyond.

Claims management services

Revenues from our claims management services were £5.0m (2011: £2.3m) and the segmental adjusted pre-tax profit was £1.6m (2011: £0.3m).

During 2012 we have continued to make significant headway in a programme of payment protection insurance (PPI) reclaim activity from our IVA portfolio. This has made a significant contribution to the segmental performance in the year. Claims monies which are secured through this activity increase the contributions to IVAs and so are beneficial to creditors. Our experience is that the majority of creditors are accepting our claims and make payments directly to us in line with the terms of the IVA agreement.

Lending pilot

We decided in late 2012 to suspend short term lending activities following a review of the market and regulatory framework. The Group continues to assess the lending market and evolving regulatory framework for opportunities which complement the Group's strategy and current activities. Lending pilot investment costs are included in the unallocated segment of the segmental analysis.

Outlook

We continue to assess the market for good opportunities to acquire back books at attractive rates and further consolidate our strong market position. As noted above, we also announce today the acquisition of two books of DMPs totalling more than 2,000 plans.

Claims management services are expected to continue making an important contribution to results in the near term with further product development underway to drive future growth. Revenues from this business in 2012 benefitted from PPI claims from our IVA portfolio. We expect to further develop this business for our DMP customers from our in house claims management business, Writefully Yours.

We anticipate that the continued focus on our cost base will lead to further improvements in 2013, particularly in the areas of back office costs and lower cost routes to market.

As a result of the above factors, the Board expects to make good progress in 2013 and beyond.

Christopher Moat
Chief Executive Officer

** Profit before tax of £10.5m (2011: loss of £1.0m) plus amortisation of acquired intangible assets of £1.3m (2011: £0.9m) less exceptional items of £4.2m (2011: plus £4.1m)*
*** Adjusted for the net of tax effect of amortisation of acquired intangible assets and exceptional items*
**** Net surplus/borrowings is cash at bank less bank borrowings and finance lease liabilities*

Finance Director's review

Financial highlights

The Group's revenue before exceptional items increased by 15% to £29.9m (2011: £25.9m). All segments reported revenue increases in the year, with the largest in Claims Management Services (£2.7m) and IVAs (£0.8m).

Adjusted profit before tax* increased to £7.6m (2011: £4.0m). Adjusted gross margin rose to 50% (2011: 42%), reflecting increased revenues across all segments whilst direct costs where tightly controlled. Administrative expenses were broadly unchanged in the year at £10.9m (2011: £11.0m).

During 2012, the Group generated net exceptional revenue of £4.2m (2011: exceptional costs of £4.1m). This represented £4.5m exceptional fee income following the £9.0m VAT refund received in April 2012 from HMRC as a result of the decision in Paymex Ltd v HMRC. Against this, the Group incurred £0.3m of costs related to legal and professional fees associated with the refinancing completed in April 2012. In 2011, the Group incurred exceptional charges in relation to the non-cash impairment of the outgoing IVA systems (£1.6m), brand and goodwill impairment associated with the Moneyextra business (£2.0m) and cost reduction activities (£0.5m).

Amortisation of acquired intangible assets increased by £0.4m to £1.3m (2011: £0.9m), as a result of the acquisitions made during 2011 and 2012.

Profit before tax was £10.5m (2011: loss of £1.0m).

The Group's tax charge was £2.5m (2011: £0.1m credit). The tax charge on adjusted profits was £1.8m (2011: £1.1m). This represents an effective rate of 24% (2011: 26%), the reduction largely resulting from the change in corporation tax rates during the year.

The total comprehensive income for the year was £8.0m (2011: loss of £1.0m).

Earnings per share (EPS)

Adjusted basic EPS** was 13.44p (2011: 6.82p). Basic EPS was 18.59p (2011: loss per share of 2.20p). Diluted EPS was 18.43p (2011: loss per share of 2.20p).

Share capital

In July 2012, the Company acquired 1,666,667 shares at 60 pence per share to be held in treasury as part of a sale of shares by its founding shareholders.

Cash flows

Net cash generated from operating activities increased significantly in 2012 compared to the previous year, to £12.6m (2011: £4.6m). This resulted from the increase in adjusted profit before tax* of £3.5m in the year, together with a £3.0m cash contribution from exceptional VAT revenue. Income tax payments also reduced by £0.9m in 2012 compared to the prior year, due to the reduced profits generated in 2011.

Investing cash outflows decreased by £2.1m to £1.6m (2011: £3.7m), due to a decline in expenditure on back book acquisitions.

Financing cash outflows of £10.6m (2011: £0.4m) were due to a net repayment of Group bank facilities of £7.6m (2011: net drawdown of £1.4m), dividend payments of £2.0m (2011: £1.8m) and the acquisition of own shares held in treasury £1.0m (2011: £nil).

** Profit before tax of £10.5m (2011: loss of £1.0m) plus amortisation of acquired intangible assets of £1.3m (2011: £0.9m) less exceptional items of £4.2m (2011: plus £4.1m*

*** Adjusted for the net of tax effect of amortisation of acquired intangible assets and exceptional items*

Financing

In April 2012, the Group signed a new enlarged £13m asset based revolving credit facility with PNC Financial Services UK Limited (“PNC”). This facility replaced the Group’s previous £8m committed facility, which was due to expire in December 2012.

The new facility, which has a four year maturity, is secured against the Group’s book of IVAs and DMPs.

The exceptional legal and professional costs associated with the refinancing were £0.3m.

This facility will enable the Group to continue its strategy of investment to diversify its activities and in particular, to acquire back books in the IVA and DMP markets.

Net surplus of cash* at 31 December 2012 was £1.6m (31 December 2011: net borrowings of £6.4m).

VAT

In April 2012, the Group received a VAT refund of £9.0m from HMRC following the decision in Paymex Ltd v HMRC, which found that fees relating to IVAs were exempt supplies. This refund related to net VAT payments made by the Group since 1 June 2007.

The amount was deposited in a client account and since then, the Group has embarked on a programme of processing the refund through open and closed IVA cases. This exercise has now completed, resulting in the recognition in 2012 of exceptional fee income to the Group of £4.5m. As at 31 December 2012, £3.0m of this fee income had been received in cash by the Group, and the majority of the remainder has been received in cash during early 2013.

John Gittins
Group Finance Director

** Net surplus / borrowings is cash at bank less bank borrowings and finance lease liabilities*

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Notes	Year Ended 31 December 2012 Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total	Year Ended 31 December 2011 Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	**5 & 6**	29,857	4,507	34,364	25,890	-	25,890
Cost of sales		(14,837)	-	(14,837)	(14,888)	-	(14,888)
Gross profit		**15,020**	**4,507**	**19,527**	**11,002**	**-**	**11,002**
Amortisation of acquired intangibles		-	(1,331)	(1,331)	-	(946)	(946)
Other administrative expenses	**6**	(10,915)	(248)	(11,163)	(10,967)	(4,133)	(15,100)
Total administrative expenses		**(10,915)**	**(1,579)**	**(12,494)**	**(10,967)**	**(5,079)**	**(16,046)**
Finance income – unwinding of discount on IVA revenue		3,817	-	3,817	4,254	-	4,254
Finance income – other		10	-	10	6	-	6
Profit (loss) before finance costs		**7,932**	**2,928**	**10,860**	**4,295**	**(5,079)**	**(784)**
Finance costs		(380)	-	(380)	(259)	-	(259)
Profit (loss) before taxation		7,552	2,928	10,480	4,036	(5,079)	(1,043)
Tax (expense) credit	**2**	(1,794)	(717)	(2,511)	(1,063)	1,148	85
Profit (loss) for the year		**5,758**	**2,211**	**7,969**	**2,973**	**(3,931)**	**(958)**
Total comprehensive income (loss) for the year		5,758	2,211	7,969	2,973	(3,931)	(958)
Earnings per Share							
Basic	**3**			18.59			(2.20)
Diluted	**3**			18.43			(2.20)

All of the profit and comprehensive income for the year is attributable to equity holders of the parent.

***** Before amortisation of acquired intangible assets and exceptional items.

Consolidated statement of financial position as at 31 December 2012

Company Number 4425339

	As at 31 December 2012	As at 31 December 2011
	£'000	**£'000**
ASSETS		
Non Current Assets		
Property, plant and equipment	1,406	1,397
Goodwill	11,972	11,972
Other intangible assets	6,943	7,253
Total Non Current Assets	**20,321**	**20,622**
Current Assets		
Trade receivables and amounts recoverable on IVA services	24,984	24,068
Other current assets	4,743	1,234
Cash and cash equivalents	1,850	1,468
Total Current Assets	**31,577**	**26,770**
Total Assets	**51,898**	**47,392**
EQUITY		
Share capital	436	436
Share premium account	528	528
Treasury shares	(1,015)	-
ESOP share reserve	(517)	(517)
Merger reserve	11,842	11,842
Other reserves	254	254
Retained earnings	29,654	23,556
Total equity attributable to equity holders of the parent	**41,182**	**36,099**
LIABILITIES		
Non Current Liabilities		
Long-term financial liabilities	100	231
Deferred tax liabilities	200	366
Total Non Current Liabilities	**300**	**597**
Current Liabilities		
Trade and other payables	7,942	2,949
Short-term borrowings	130	7,627
Current tax liability	2,344	120
Total Current Liabilities	**10,416**	**10,696**
Total Liabilities	**10,716**	**11,293**
Total Equity and Liabilities	**51,898**	**47,392**

Consolidated statement of cash flows for the year ended 31 December 2012

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
Cash flows from operating activities		
Profit (loss) before tax	10,480	(1,043)
Share based payments charge	94	42
Depreciation of property, plant and equipment	373	402
Amortisation of intangible assets and development expenditure	1,570	1,300
Impairment of Moneyextra.com goodwill and brand	-	2,876
(Profit) loss on disposal of non current assets	(50)	1,519
Interest received	(10)	(6)
Interest expense	380	259
(Increase) decrease in trade and other receivables	(4,098)	1,991
Increase (decrease) in trade and other payables	4,973	(1,135)
Cash generated from operations	13,712	6,205
Interest paid	(690)	(259)
Income taxes paid	(472)	(1,362)
Net cash generated from operating activities	12,550	4,584
Cash flows from investing activities		
Proceeds from sale of non current assets	229	-
Purchase of property, plant and equipment (PPE)	(435)	(134)
Interest received	10	6
Purchase of trademarks	-	(5)
Purchase of software development	(704)	(582)
Purchase of debt management and IVA books	(660)	(2,960)
Net cash absorbed by investing activities	(1,560)	(3,675)
Cash flows from financing activities		
Equity dividends paid	(1,965)	(1,805)
Purchase of treasury shares	(1,015)	-
Proceeds from long-term borrowings	-	1,500
Payment of short-term borrowings	(7,497)	(114)
Payment of long-term borrowings	(131)	-
Net cash absorbed by financing activities	(10,608)	(419)
Net change in cash and cash equivalents	382	490
Cash and cash equivalents at start of year	1,468	978
Cash and cash equivalents at end of year	1,850	1,468

Consolidated statement of changes in equity for the year ended 31 December 2012

	Share Capital £'000	Share Premium Account £'000	Treasury Shares £'000	Merger Reserve £'000	Other Reserves £'000	ESOP Share Reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2011	436	528	-	11,842	254	(517)	26,277	**38,820**
Changes in equity for the year ended 31 December 2011:								
Total comprehensive loss for the year	-	-	-	-	-	-	(958)	**(958)**
Share based payment expense	-	-	-	-	-	-	42	**42**
Dividends of 4.25 pence per share	-	-	-	-	-	-	(1,805)	**(1,805)**
Balance at 31 December 2011	436	528	-	11,842	254	(517)	23,556	**36,099**
Changes in equity for the year ended 31 December 2012:								
Total comprehensive income for the year	-	-	-	-	-	-	7,969	**7,969**
Share based payment expense	-	-	-	-	-	-	94	**94**
Purchase of treasury shares	-	-	(1,015)	-	-	-	-	**(1,015)**
Dividends of 4.70 pence per share	-	-	-	-	-	-	(1,965)	**(1,965)**
Balance at 31 December 2012	436	528	(1,015)	11,842	254	(517)	29,654	**41,182**

1 Status of financial information

The financial information set out in this report does not constitute the Company's statutory accounts for the years ended 31 December 2012 or 31 December 2011. Statutory accounts for 31 December 2011 have been delivered to the Registrar of Companies. Those for 31 December 2012 are available on the Company's website (www.fairpoint.co.uk) and will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on those accounts; their report was unqualified, did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for both 2012 and 2011.

Going concern

The Group`s business activities, together with the factors likely to affect its future development, performance and position are set out in the chairman`s statement and chief executive officer`s review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the finance director`s review.

The financial statements have been prepared on a going concern basis. The Group's existing facility with PNC Financial Services UK Ltd extends to 2016 and provides a facility of £13m. For the purpose of considering going concern the board has considered a period of at least 12 months from the date of this report.

2 Tax expense

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Current tax expense		
UK corporation tax and income tax of overseas operations on profits for the year	2,653	489
Adjustment for under provision	24	19
	2,677	508
Deferred tax expense		
Origination and reversal of temporary differences	(53)	(531)
Adjustment for under (over) provision in prior periods	(113)	(62)
	(166)	(593)
Total tax charge (credit)	**2,511**	**(85)**

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit (loss) before tax	10,480	(1,043)
Expected tax charge based on the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%)	2,568	(276)
Use of brought forward losses	(12)	-
Marginal relief adjustment	(2)	-
Expenses not deductible for tax purposes	19	207
Prior year deferred tax	(113)	(63)
Prior year current tax	24	19
Future year tax rate change impact on deferred tax	27	15
Non-qualifying depreciation	-	13
Total tax charge (credit)	**2,511**	**(85)**

3 Earnings per share (EPS)

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	**£'000**
Numerator		
Profit (loss) for the year – used in basic and diluted EPS	7,969	(958)
Denominator		
Weighted average number of shares used in basic EPS	42,860,487	43,609,346
Effects of:		
- employee share options	368,705	-
Weighted average number of shares used in diluted EPS *	43,229,192	43,609,346

* In respect of year ended 31 December 2011, the employee share options have been excluded from the calculation of diluted earnings per share as they would have an anti–dilutive effect.

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue during the year is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Certain employee options have been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year and therefore it would not be advantageous for the holders to exercise those options.

Adjusted EPS figures are also presented in the financial statements as the directors believe they provide a better understanding of the financial performance of the Group. The calculations for these are shown below:

	Year Ended 31 December 2012			Year Ended 31 December 2011		
	Adjusted *	**Amortisation of acquired intangible assets and exceptional items**	**Total**	**Adjusted ***	**Amortisation of acquired intangible assets and exceptional items**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Total comprehensive income (loss) for the year	5,758	2,211	7,969	2,973	(3,931)	(958)
Adjusted earnings per share *						
Basic	13.44		18.59	6.82		(2.20)
Diluted	13.32		18.43	6.79		(2.20)

***** Before amortisation of acquired intangible assets and exceptional items.

4 Dividends

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Dividend of 2.75 pence (2011: 2.5 pence) per 1p ordinary share paid during the year relating to the previous year's results [1]	1,168	1,062
Dividend of 1.95 pence (2011: 1.75 pence) per 1p ordinary share paid during the year relating to the current year's results [2]	797	743
	1,965	1,805

[1] Dividends were waived on 1,129,618 (2011: 1,129,618) of the 43,609,346 ordinary shares.
[2] Dividends were waived on 1,067,479 (2011: 1,129,618) of the 41,942,679 (2011: 43,609,346) ordinary shares.

5 Segment analysis

Reportable segments

Factors that management used to identify the Group's reportable segments

The Group's reportable segments are operating divisions that offer different products and services. They are managed separately because each business requires different marketing and operational strategies.

Measurement of operating segment profit and assets

The accounting policies of the operating segments are consistent with those set out in the Group's statutory accounts for the year ended 31 December 2011.

The Group evaluates performance on the basis of adjusted (for exceptional items and amortisation of goodwill, brands and acquired intangible assets) profit before taxation from continuing operations.

Segment assets exclude tax assets and assets used primarily for corporate purposes.

The chief operating decision maker has organised the Group into three operating segments - Individual Voluntary Arrangements (IVA), Debt Management Plans (DMP) and Claims Management. These segments are the basis on which the Group is structured and managed, based on its principal services provided. This represents a change from the financial statements for the year ended 31 December 2011, when the three operating segments were IVAs, DMPs and Financial Services. The change in reportable segments reflects the Group's current and future strategic focus on IVAs, DMPs and Claims Management activities, which each contribute a significant proportion of the Group's revenue. Activities previously reported within Financial Services are now reported within Claims Management, with the exception of the payday lending pilot, which is reported within the Unallocated category. The segmental analysis for the year ended 31 December 2011 has been restated under the new segments.

The segments are summarised as follows:

- IVA consists primarily of Group companies Debt Free Direct Limited and Clear Start UK Limited, the core debt solution brands. The primary product offering of these brands is an IVA which consists of a managed payment plan providing both interest and capital forgiveness and results in a consumer being debt free within five years of the agreement commencing.

- DMP consists primarily of the Group company Lawrence Charlton Limited, the trading brand used to provide DMPs for consumers. DMPs are generally suitable for consumers who can repay their debts in full, if they are provided with some relief on the rate at which interest accrues on their debts. They could take 15 years to complete and offer consumers a fixed repayment discipline as well as third party management of creditors.

- Claims Management activities involve enhancing the financial position of our customers and fall into the following areas:

    - financial claims services – managing claims on behalf of consumers. In the year ended 31 December 2012 and the year ended 31 December 2011 this activity related to Payment Protection Insurance (PPI) claims. The Group is looking at a number of other claims management opportunities which would allow it to build upon its experience in this area.
    - value added services – a wide range of solutions fall under this category, all of which have the primary objective of making the consumers' money go further. Examples include utility and bank account switching and refinancing solutions.
    - web comparison services – offering a range of comparison activities through the Group's internet portal, Moneyextra.com.

5 Segment analysis (continued)

Year ended 31 December 2012

	IVA £'000	Debt Mgmt. £'000	Claims Mgmt. £'000	Unallocated £'000	Sub-Total £'000	IVA Exceptional Revenue [1] £'000	Total £'000
Total external revenue	18,995	5,619	4,995	248	29,857	4,507	34,364
Total operating profit (loss)	1,085	2,154	1,596	(730)	4,105	-	-
Finance income – unwinding of discount on IVA revenue	3,817	-	-	-	3,817	-	-
Finance income – other	-	-	-	10	10	-	-
Adjusted profit (loss) before finance costs	**4,902**	**2,154**	**1,596**	**(720)**	**7,932**	**-**	**7,932**
Finance expense	-	-	-	(380)	(380)	-	(380)
Adjusted profit (loss) before taxation	**4,902**	**2,154**	**1,596**	**(1,100)**	**7,552**	**-**	**7,552**
Amortisation of acquired intangible assets	(472)	(859)	-	-	(1,331)	-	(1,331)
Exceptional items	-	-	-	(248)	(248)	-	(248)
Profit (loss) before taxation	**4,430**	**1,295**	**1,596**	**(1,348)**	**5,973**	**4,507**	**10,480**
Tax							(2,511)
Profit for the year							**7,969**
Balance sheet assets							
Reportable segment assets	40,448	4,039	1,289	6,122	51,898	-	51,898
Capital additions	640	718	44	426	1,828	-	1,828
Depreciation and amortisation	(586)	(943)	(19)	(395)	(1,943)	-	(1,943)

[1] In April 2012, the Group received a VAT refund of £9.0m from HMRC following the decision in Paymex Ltd v HMRC, which found that fees relating to IVAs were exempt supplies. This refund related to net VAT payments made by the Group since 1 June 2007 and has resulted in exceptional fee income for the Group as well as increased distributions to creditors.

5 Segment analysis (continued)

Year ended 31 December 2011 - restated *

	IVA £'000	Debt Management £'000	Claims Management £'000	Unallocated £'000	Total £'000
Total external revenue	18,208	5,330	2,345	7	25,890
Total operating (loss) profit	(2,097)	2,041	254	(163)	35
Finance income – unwinding of discount on IVA revenue	4,254	-	-	-	4,254
Finance income – other	-	-	-	6	6
Adjusted profit (loss) before finance costs	**2,157**	**2,041**	**254**	**(157)**	**4,295**
Finance expense	-	-	-	(259)	(259)
Adjusted profit (loss) before taxation	**2,157**	**2,041**	**254**	**(416)**	**4,036**
Amortisation of acquired intangible assets	(419)	(527)	-	-	(946)
Exceptional items	(1,994)	-	(2,139)	-	(4,133)
(Loss) profit before taxation	**(256)**	**1,514**	**(1,885)**	**(416)**	**(1,043)**
Tax					85
Loss for the year					**(958)**
Balance sheet assets					
Reportable segment assets	37,222	4,020	548	5,602	47,392
Capital additions	711	2,609	95	336	3,751
Depreciation and amortisation	(592)	(609)	(12)	(489)	(1,702)

***** Segmental analysis has been restated to report under the revised segments as described in the notes on page 17.

The Group's operations are located wholly within the United Kingdom.

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables and cash.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

6 Exceptional items

During the year the Group had exceptional revenues and costs as detailed below:	Year Ended 31 December 2012 £'000	Year Ended 31 December 2011 £'000
Fee income resulting from Paymex VAT refund [1]	(4,507)	-
Costs associated with refinancing	248	-
Impairment of IVA platform and related costs	-	1,576
Impairment of Moneyextra.com goodwill and brand [2]	-	2,876
Change in fair value of liability for contingent consideration	-	(845)
Restructuring costs in respect of staff and legal expenses	-	526
Total exceptional (income) / expense	**(4,259)**	**4,133**

[1] In April 2012, the Group received a VAT refund of £9.0m from HMRC following the decision in Paymex Ltd v HMRC, which found that fees relating to IVAs were exempt supplies. This refund related to net VAT payments made by the Group since 1 June 2007 and has resulted in exceptional fee income for the Group as well as increased distributions to creditors.

[2] The impairment of Moneyextra.com goodwill and brand assets in the year ended 31 December 2011 includes a credit of £357,000 which is the release of a deferred tax liability in relation to the Moneyextra.com brand.

7 Reconciliation of net change in cash and cash equivalents to movement in net surplus / borrowings

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Net increase in cash and cash equivalents	382	490
Net decrease in short term borrowings	7,497	114
Net decrease (increase) in long term borrowings	131	(1,500)
Net change in cash and borrowings	**8,010**	**(896)**
Net borrowings at start of year	(6,390)	(5,494)
Net surplus (borrowings) at end of year	1,620	(6,390)

Net surplus (borrowings) comprises:

	At 31 December 2012 £'000	At 31 December 2011 £'000
Cash and cash equivalents	1,850	1,468
Short term borrowings	(130)	(7,627)
Long term borrowings	(100)	(231)
Net surplus (borrowings)	1,620	(6,390)