FAIRPOINT.

Fairpoint Group plc
Annual Report & Accounts 2011

Year ended 31 December 2011

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CHAIRMAN'S **STATEMENT**

Overview

The challenging market conditions experienced by the Group at the start of 2011 had an adverse impact on the results in the first half of the year. However I am pleased to report that the Group`s performance has improved significantly in the second half, due to both cost reduction and service diversification activities, and the results for the year as a whole are in line with market expectations.

Strategy

Our strategy is to be the first choice solutions provider for financially stressed consumers. We aim to:

- Maintain our leading position in our core individual voluntary arrangement ("IVA") market;
- Continue to grow our debt management plan ("DMP") activities, both organically and through acquisition opportunities presented by a consolidating market;
- Diversify into new, but related income streams.

Dividend

The board is committed to a long-term progressive dividend policy, which takes into account the underlying growth in earnings, 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 its future prospects, the board has recommended an increase in the final dividend of 10% to 2.75p (2010:2.5p), resulting in a total dividend for the year of 4.5p (2010:4.0p), an increase of 13%.

The final dividend, if approved, will be paid on 20 June 2012 to shareholders on the register on 25 May 2012, with an ex-dividend date of 23 May 2012.

Changes to the board

Andrew Heath, finance director, and Simon Gilbert, non-executive director, left the board during the year and I would like to thank both of them for their contribution to the Group. John Gittins has been appointed to the board as finance director and has over eighteen years experience in this type of role within service related businesses. Thomas Russell has also been appointed as non-executive director to replace Simon Gilbert. I look forward to their contribution to the Group in the coming years.

Outlook

We expect to continue the solid progress made in the second half of 2011 into this current year, and as a result of tight cost control in our core IVA activities, continued DMP back book acquisitions and development of claims management services, the Group is well placed for future growth.

Matthew Peacock
Chairman

CHIEF EXECUTIVE OFFICER'S **REVIEW**

Results

Group revenue from continuing operations in the year ended 31 December 2011 was £25.9m (2010: £29.4m), with non IVA revenues accounting for 30% of the Group result, compared to 17% in 2010. Adjusted profit before tax* was £4.0m (2010: £6.9m). Loss before tax was £1.0m (2010: profit of £5.8m). Basic earnings per share from continuing operations, adjusted for the net of tax impact of amortisation of acquired intangible assets and exceptional items, was 6.82p (2010: 11.29p). Basic loss per share was 2.20p (2010: earnings per share of 9.21p) and fully diluted loss per share was 2.20p (2010: earning per share of 9.15p). Exceptional items were £4.1m (2010: £0.5m).

Net borrowings at 31 December 2011 were £6.4m (2010: £5.4m).

Operational review

IVA services

Revenues from the Group's IVA activities decreased in the year to £18.2m (2010: £24.3m), with a corresponding reduction in segmental adjusted pre-tax profit to £2.2m (2010: £5.9m).

This segment has been impacted over the year by the reduction in IVA market volumes and average fees. The number of new IVAs written in the year fell by 30% to 5,840 (2010: 8,331). Fees per new customer also fell from £2,083 to £2,034. The total number of IVAs under management at 31 December 2011 was 20,961 (31 December 2010: 20,530).

As a result of the tough market conditions, we took action to reduce the direct costs of the IVA segment, which have fallen by £1.9m in the second half of 2011 when compared to the same period in 2010. This cost reduction activity will have a recurring benefit in future years.

During the year, we acquired one small back book of 597 IVAs, which has performed in line with our expectations. We continue to seek further acquisition opportunities to consolidate our leading position in the UK IVA market.

DMP services

Revenues in the DMP segment increased to £5.3m (2010: £4.1m) and the segmental adjusted pre-tax profit increased to £2.0m (2010: £1.5m).

The segment has benefited from the effect of four DMP back book acquisitions made during 2011 and the total number of DMPs under management at 31 December 2011 was 15,838 (31 December 2010: 12,541). We expect to continue to acquire DMP back books from sub scale operators seeking to exit this increasingly competitive and regulated market.

* *Loss before tax from continuing operations of £1.0m (2010: profit of £5.8m) plus amortisation of acquired intangible assets of £0.9m (2010: £0.5m) plus exceptional items of £4.1m (2010: £0.6m)*

Financial services

Revenues from our financial services activities were £2.4m (2010: £1.1m) and the segmental adjusted pre-tax profit was £0.1m (2010: loss of £0.3m).

In the second half of 2011 we commenced a programme of payment protection insurance (PPI) reclaim activity for our IVA portfolio. This has made a significant contribution to the segmental performance in the year and is expected to grow further in 2012. In addition, this segment includes the costs of our payday lending pilot, which we will continue to develop during 2012 as we test our proposition through the Loanextra brand.

Outlook

The acquisitions we made in 2011 will have a full year impact in 2012 and we see significant further opportunity to acquire back books at attractive rates and further consolidate our strong market position.

We will continue the programme of PPI claims management activities across our IVA and DMP portfolios, which we expect will have an additional positive impact on our results for 2012. Our payday lending pilot, if successful, will be rolled out later in the current year.

Although we do not anticipate any general improvement in our core markets as a result of relatively stable macro indicators of unemployment, interest rates and consumer debt levels, we have taken action to address our cost base, which should continue to deliver benefits in 2012.

As a result of the above factors, the board is optimistic about delivering a strong financial performance in the current year.

Christopher Moat
Chief Executive Officer

Financial highlights

The Group's revenue from continuing operations fell by 12% to £25.9m (2010: £29.4m). The reduction in IVA revenue of £6.1m, or 25%, was partially offset by growth in DMP revenues of £1.3m, or 31%, and growth in financial services revenues of £1.3m, or 119%.

Adjusted profit before tax* decreased to £4.0m (2010: £6.9m), all of which arose in the second half of the year. The reduction in revenue in the year of £3.5m was partially mitigated by cost reduction activities undertaken as a result of the deteriorating IVA market. Gross margin fell to 42% (2010: 46%). Bad debt charges fell by 12% to £3.4m (2010: £3.8m) as a result of lower levels of activity and our continued emphasis on customer contact. Finance income from the unwinding of discount on IVA revenue fell by 6% to £4.3m (2010: £4.5m) as a result of the fall in IVA revenues during the year. Finance costs increased by £0.1m to £0.3m (2010: £0.2m), due to the slightly larger level of borrowings compared to the previous year.

During the year, the Group incurred exceptional costs of £4.1m (2010: £0.5m). Of these costs, £3.6m related to the non-cash impairment of the Group's outgoing IVA systems (£1.6m) and brand and goodwill associated with the Moneyextra business (£2.0m), which has failed to perform in line with management's expectations. Further exceptional charges of £0.5m related to cost reduction activities undertaken in the year.

Amortisation of acquired intangible assets increased by £0.4m to £0.9m (2010: £0.5m) due to the acquisitions made during 2011.

Loss before tax was £1.0m (2010: profit of £5.8m).

The Group's tax credit was £0.1m (2010: £1.7m charge). The tax charge on adjusted profits was £1.1m (2010: £2.0m). This represents an effective rate of 26% (2010: 29%), the reduction largely resulting from the change in corporation tax rates during the year.

The total comprehensive loss for the year was £1.0m (2010: profit of £4.0m).

Earnings per share (EPS)

Adjusted basic EPS from continuing operations** was 6.82p (2010: 11.29p). Basic loss per share was 2.20p (2010: EPS of 9.21p). Diluted loss per share was 2.20p (2010: EPS of 9.15p).

Cash flows

Net cash generated from operating activities increased by £0.4m to £4.6m (2010: £4.2m). Lower levels of working capital absorption in the year offset the lower level of profitability.

Investing cash outflows increased by £0.5m to £3.7m (2010: £3.2m), due to an increase in acquisition activity, particularly DMP back books.

Financing cash outflows of £0.4m (2010: £0.8m) are due to a net drawdown on the Group's bank facilities of £1.4m (2010: £0.7m) and dividend payments of £1.8m (2010: £1.5m).

* *Loss before tax from continuing operations of £1.0m (2010: profit of £5.8m) plus amortisation of acquired intangible assets of £0.9m (2010: £0.5m) plus exceptional items of £4.1m (2010: £0.6m)*

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

Financing

Net borrowings at 31 December 2011 were £6.4m (2010: £5.4m). The Group has an existing facility with the Royal Bank of Scotland plc for £8.0m, which extends to 31 December 2012. The Group has credit approved terms to extend the maturity of its financing facilities and these are currently in legal documentation.

The arrangement costs associated with the refinancing, including legal and professional fees, are expected to amount to approximately £0.2m.

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 DMP market.

VAT

As noted in the trading update in January, the Group submitted a VAT refund claim to HMRC of £9m in August 2011, following the decision in Paymex Ltd v HMRC which found that fees relating to IVAs were exempt supplies. This claim relates to net VAT payments made by the Group since 1 June 2007.

The potential repayment of VAT by HMRC will result in cash being distributed to creditors through IVA cases as additional realisations and to the Group as fee income. From ongoing discussions with HMRC, management believe the claim will be successful and continues to expect that a material part of this claim will be retained by the Group as exceptional fee income during 2012, although there remains uncertainty as to the exact timing from HMRC of receipt and the value of the net benefit to the Group.

John Gittins
Group Finance Director

OFFICERS AND PROFESSIONAL **ADVISORS**

Directors	Matthew Peacock Chris Moat Derek Oakley John Gittins	John Allkins Perry Blacher Thomas Russell

BOARD OF DIRECTORS

Non-executive chairman
Matthew Peacock (50) •

Matthew Peacock is the chairman of Renold plc, Regenersis plc and a non-executive director of STV Group plc. He is also the founding partner of Hanover Investors Management LLP which is a significant shareholder of Fairpoint. Matthew was appointed to the Board on 10 June 2008 and as chairman on 5 September 2008. He is also chairman of Singer Capital Markets, a London stockbroking and corporate advisory firm.

Matthew has led investments for over twenty years in, amongst other sectors, manufacturing, outsourced business services, chemicals, financial services, textiles and logistics. Prior to this, he ran the international M&A team in London at BZW, having started his career at Credit Suisse First Boston, in New York. He holds a master's degree in law from Cambridge University.

Chief executive officer
Chris Moat (43) •

Chris Moat brings a wealth of experience from highly successful retail-focused, marketing led financial services businesses. Before joining Fairpoint, Chris held a variety of general management roles for RBS Insurance. These included managing director of Direct Line, managing director of Motoring and Directorships of Churchill Insurance and Green Flag. Prior to that, Chris was managing director of UKI Partnerships division, where he helped grow key partners such as Tesco Insurance and Virgin Money's insurance offering. Chris' previous roles also include director of lending at GUS Home Shopping and head of consumer direct at GE Capital Bank. Chris was appointed CEO on 6 May 2008.

Insolvency director
Derek Oakley, FCA, JIEB (46)

Derek Oakley qualified as a chartered accountant at Arthur Andersen & Co and later joined PricewaterhouseCoopers, where he qualified as an Insolvency Practitioner. He joined Lathams in 1994 and became a partner in 1995. Following the acquisition of Lathams by Tenon Group plc in 2001, he became head of Tenon's North West insolvency practice. Derek was appointed insolvency director in June 2005.

Finance director & company secretary
John Gittins, ACA (52)

John Gittins is a graduate of the London School of Economics and qualified as a chartered accountant with Arthur Andersen & co in 1985. He joined Fairpoint as finance director and company secretary in October 2011. His previous roles include finance director at Begbies Traynor Group Plc, Vertex Data Science Limited and Spring Group Plc.

Senior independent non-executive director
John Allkins, FCMA (62) * O •

John Allkins was previously group finance director for MyTravel Group plc and is also a non executive director of Renold plc, Albemarle and Bond Holdings plc and Linpac Group Ltd. He was chief financial officer at Equant NV and previously held a number of senior finance positions within BT, most recently as director of financial controls for its Worldwide Networks division. John is a fellow of the Chartered Institute of Management Accountants. John was appointed to the Board as non-executive director in September 2008.

Non-executive director
Perry Blacher, (38) * O •

Perry Blacher was appointed as an independent non executive director in February 2011. He previously held roles at McKinsey, Microsoft and Chase Capital Partners and is currently chief executive officer of Covestor, an online investment management platform which he cofounded in 2006. Prior to Covestor he was founder and CEO of Serum, a medical support service that was acquired by Tribal Group PLC.

Non-executive director
Thomas Russell, (34) * O •

Thomas Russell was appointed as a non executive director in December 2011. He is a partner at Hanover Investors Management LLP, which is a significant shareholder of Fairpoint Group plc. Prior to joining Hanover Investors Management LLP, he was a partner at Mercer Management Consulting (now Oliver Wyman). Thomas is also a non executive director of Regenersis Plc.

* Member of audit committee
O Member of remuneration committee
• Member of nomination committee

Auditors:
BDO LLP
3 Hardman Street
Spinningfields
Manchester
M3 3AT

Solicitors:
Eversheds
Eversheds House
70 Great Bridgewater Street
Manchester
M1 5ES

Nominated advisor and broker:
Shore Capital and Corporate Limited
Bond Street House
14 Clifford Street
London
W1S 4JU

Bankers:
The Royal Bank of Scotland Group
6th Floor
1 Spinningfield Square
Manchester
M3 3AP

Company number: 4425339

Registered office:
Eversheds House
70 Great Bridgewater Street
Manchester
M1 5ES

Principal place of business:
Fairclough House
Church Street
Adlington
Lancashire
PR7 4EX

DIRECTORS' **REPORT**

The directors present their report and the financial statements of the Group for the year ended 31 December 2011.

Principal activities
The principal activity of the Group during the year was the provision of financial advice and appropriate solutions to individuals experiencing personal debt problems.

Business review
A review of the business of the Group during the year ended 31 December 2011 and of the position of the Group at the year end can be found within the chief executive officer's review on pages 3 and 4 and the finance director's review on pages 5 and 6. A description of the principal risks and uncertainties facing the Group is set out on page 12.

Dividends
A final dividend of 2.75 pence per 1p ordinary share is proposed for approval at the forthcoming AGM. This, together with the interim dividend of 1.75 pence on 28 October 2011, makes a total dividend of 4.5 pence for the year (2010: 4.0 pence).

The directors and their interests in the shares of the parent company
The directors who served the Company during the year together with their interests in the shares of the Company were as follows:

	Ordinary Shares of £0.01 each	
	At 31 December 2011	**At 31 December 2010**
D J Oakley	817,324	817,324
C Moat	201,531	201,531
A J Heath (Resigned 01/10/11)	21,000	21,000
J Gittins (Appointed 01/10/11)	-	-
M R Peacock [1]	9,662,378	10,535,180
S Gilbert (Resigned 19/12/11)	-	11,082
J S Allkins	-	-
P Blacher (Appointed 02/02/11)	-	-
T Russell [1] (Appointed 19/12/11)	9,662,378	-

[1] M R Peacock and T Russell have an indirect interest in 9,662,378 shares through funds advised by Hanover Investors Management LLP.

Substantial shareholdings
Other than the directors' interests, on 31 December 2011, the Company was notified that the following were interested in 3% or more of the issued share capital of Company:

Name	**Number of ordinary shares**	**% of issued share capital**
Hanover Investors Management LLP	9,662,378	22.16%
Henderson Global Investors	4,990,565	11.44%
BSI Generali UK Ltd	2,849,500	6.53%
Fortelus Capital Management LLP	2,834,248	6.50%
A Redmond	2,799,255	6.42%
J Reynard	2,720,826	6.24%
P Latham	2,649,319	6.08%

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation
The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through informal discussions between management and other employees at a local level.

Financial instruments

Full details of the Group's financial instruments, including consideration of the main risks to the Group and the policies adopted by the directors to minimise their effects, are set out in note 19 to the financial statements.

Creditors' payment policy

In the absence of dispute, amounts due to trade and other suppliers are settled as expeditiously as possible, within their terms of payment. The net effect of the Group's payment policy is that its trade creditors at the financial year end represented 35 days purchases (2010: 34 days).

Charitable donations

	31 December 2011 **£**	31 December 2010 £
Charitable donations	971	600

Auditors

BDO LLP have expressed a willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Directors' responsibilities

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 the directors have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that year. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Information to auditors

So far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware and we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Signed by order of the directors on 14 March 2012.

J Gittins
Company Secretary

REPORT ON **REMUNERATION**

Directors' remuneration

The board submits its directors' remuneration report for the year ended 31 December 2011.

The policy of the board is to provide executive remuneration packages designed to attract, motivate and retain directors of the calibre necessary to maintain the Group's position as a market leader and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary.

The remuneration committee has responsibility for setting the Group's general policy on remuneration and also specific packages for individual directors. It carries out the policy on behalf of the board. No director has any involvement in setting their own remuneration.

The remuneration committee comprises J S Allkins, P Blacher and T Russell. None of them have any personal financial interest in the matters to be decided, potential conflicts of interest arising from cross-directorship, nor any day to day involvement in running the business.

The committee meets as required during the year. It takes into account the position of the Group relative to other companies and is aware of what these companies are paying, though comparisons are treated with caution to avoid an upward ratchet in remuneration. The committee has access to professional advice within the Group and has the right to obtain its own independent professional advice from outside the Group.

Main elements of remuneration

The main elements of the executive directors' remuneration package are basic annual salary, bonuses, defined contribution pensions, health and car insurance and share option incentives.

Basic annual salary

Each executive director's basic salary is reviewed by the committee. In deciding upon appropriate levels of remuneration, the committee believes that the Group should offer median levels of base pay reflecting individual responsibilities compared to similar jobs in comparable companies.

Bonuses

The performance related elements of remuneration form a significant proportion of total executive directors' potential remuneration. They are designed to align their interests with those of shareholders and to give executive directors keen incentives to perform at the highest levels.

Options

Options have been granted to directors and employees. The granting of options ensures that the holders are incentivised to concentrate on growing shareholder value. The exercise of options for directors, and since January 2008 the exercise of all new options issued to employees, except for those under approved SAYE schemes, are dependent upon performance criteria.

Summary of directors' remuneration

	Year to 31 December 2011 Fees/Basic Annual Salary £'000	Year to 31 December 2011 Bonus £'000	Year to 31 December 2011 Benefits £'000	Year to 31 December 2011 Compensation for loss of office £'000	Year to 31 December 2011 Pension £'000	Year to 31 December 2011 Total £'000	Year to 31 December 2010 Total £'000	Current basic annual salary Total £'000
Executive								
D J Oakley	213	25	2	-	-	**240**	232	215
C Moat	235	29	6	-	44	**314**	300	240
A J Heath (Resigned 01/10/11)	106	-	1	118	5	**230**	162	-
J Gittins (Appointed 01/10/11)	46	15	-	-	5	**66**	-	185
	600	69	9	118	54	**850**	694	640
Non-executive								
M Peacock [1]	73	-	-	-	-	**73**	66	79
T Russell [1] (Appointed 19/12/11)	-	-	-	-	-	**-**	-	39
J Allkins	32	-	-	-	-	**32**	32	32
C S Mindenhall (Resigned 13/05/10)	-	-	-	-	-	**-**	12	-
S Gilbert [1] (Resigned 19/12/11)	36	-	-	-	-	**36**	32	-
P Blacher (Appointed 02/02/11)	30	-	-	-	-	**30**	-	32
	171	-	-	-	-	**171**	142	182
Total	771	69	9	118	54	**1,021**	836	822

[1] Comprise fees paid to a third party, Hanover Investors Management LLP, and includes irrecoverable input VAT from 1 June 2011.

Non-executive directors

The remuneration of the non-executive directors is determined by the Board.

Directors' interests

The interests of the directors and their families in the ordinary shares of the Company are shown in the directors' report.

Directors' share options as at 31 December 2011

Director	Scheme	At 31 December 2010	At 31 December 2011	Option Price in pence	Date from which exercisable	Expiry Date
C Moat	2008 Unapproved	900,000	-	50	01.07.11	01.07.18
C Moat	2010 Joint Ownership	385,000	385,000	70	31.12.12	31.03.13
C Moat	2011 Unapproved	-	450,000	50	01.04.13	13.09.21
C Moat	2011 Unapproved	-	450,000	50	01.10.14	13.09.21
D Oakley	ESOS	360,000	360,000	146	01.07.11	01.07.18
D Oakley	PSP	52,500	-	1	31.12.11	31.12.11
D Oakley	2010 Joint Ownership	41,250	41,250	70	31.12.12	31.03.13

Details of performance criteria relating to share option schemes are disclosed in note 26 to the financial statements.

PRINCIPAL RISKS AND **UNCERTAINTIES**

Regulatory change

Since the Group's primary solution (IVAs) are delivered under the regulation of the Insolvency Act, there is some level of exposure to any change to this, or associated, regulation. Furthermore, the Group's debt management revenues, and in the future, lending activities, may have exposure to any change in regulation in these areas.

As one of the largest commercial personal insolvency practices in the UK, the Group has strong relationships with the Insolvency Service, and is actively involved in giving direction to the working parties as they arise. Derek Oakley, the Group's insolvency director, was a founding member of the IVA Standing Committee. Alastair Harnby, the Group's sales and marketing director, sits on the working party discussing the regulation of debt management plans.

The Group's principal debt solutions trading companies are members of the Debt Managers Standards Association (DEMSA). All DEMSA members are monitored in accordance with DEMSA's OFT approved code of conduct. Further details on DEMSA can be found at www.demsa.co.uk.

In June 2011 the Office of Fair Trading (OFT) released a debt management consultation document, the purpose of which is to update previous guidance on debt management, taking into account the reforms introduced by the Consumer Credit Act 2006. The consultation also reflects market developments, regulatory changes and takes account of the content of other recently issued OFT guidance. Responses were submitted by August 2011, and it is anticipated that OFT will issue updated debt management guidance by the middle of 2012. Both the Group and DEMSA have been actively involved during the consultation and the Group is confident that it will be able to operate in accordance with the new guidelines, when they are released.

The Group is currently piloting a payday lending proposition. In February 2012 the OFT launched an extensive review of the payday lending sector, which is expected to be concluded later in 2012.

Customers defaulting on plans

Since fees on new IVA cases are based upon a percentage of cash realisations, the Group's financial performance is sensitive to the rate of customers defaulting on their plans. The Group has budgeted for a level of defaults and arrears on IVAs based on its significant historical experience. There is a risk that, due to external factors, the rate of default is higher than planned. Key factors which may influence default rates include changes in unemployment levels and disposable incomes.

The Group continues to invest in its credit risk and credit control processes. It works with creditors and their representatives to negotiate variations and revised payment plans on behalf of IVA customers to allow them to successfully manage financial disruptions and complete their plans.

Cash requirements

Whereas the majority of the Group's operational costs are in acquiring customers and setting up their plans, the revenues are collected over a period of several years. This creates a considerable cash requirement.

Business forecasts identifying, in particular, liquidity requirements for the Group are produced frequently. These are reviewed regularly by the Board to ensure that sufficient headroom exists for at least the forthcoming 12 month period.

Creditor voting policy

It is possible that creditors could choose to vote to reject the Group's IVA proposals. There are a number of factors that mitigate this:
- Major banks are very aware of the requirement for them to Treat their Customers Fairly (TCF). They appreciate that there are valid circumstances for their customers to apply for voluntary insolvency, and they are careful not to deny their customers this right.
- The alternative to an IVA for a debtor is often bankruptcy. Since creditors generally receive a lower dividend in bankruptcy, they are careful not to force the customers in this direction unnecessarily.
- The Group has continued to invest in its strong relationships with creditors. Nurturing these relationships builds mutual trust, and also provides insight into the plans and intentions of the creditors.
- The Group is broadening its product range into adjacent solutions, such as debt management plans. This provides mitigation against minor movements in policy.

IT systems

The Group continues to invest in IT, most notably the replacement of the IVA platform, which commenced during 2011. These investments are continually subject to implementation risks. Failure to implement such changes effectively could result in unplanned costs or inefficiencies which could adversely affect its operations.

The Group has utilised strong project management capabilities to direct the process of platform change, which is expected to fully complete in 2012.

Marketplace

The debt solutions marketplace continues to be highly susceptible to macroeconomic movements, such as unemployment and consumer indebtedness levels.

The Group tracks marketing performance at channel and campaign level on a daily basis with all marketing expenditure committed under strict investment criteria. The Group continues to test and develop new marketing channels to allow it to respond in timely fashion to marketplace changes.

The requirements of the combined code of the principles of corporate governance set out in the listing rules of the Financial Services Authority are not mandatory for companies traded on AIM. However, the directors are committed to complying with best practice in this area. The directors consider that they have adopted those elements of the combined code that are relevant and appropriate to the Company.

The board

The board comprises a non-executive chairman, three executive directors and three non-executive directors. The board recognises that M R Peacock and T Russell are not independent in view of their representation of Hanover Investors. However, as non-executive directors they bring significant experience to the board. The board considers that J S Allkins and P Blacher are independent.

J S Allkins is currently the senior independent director. The role of senior independent director is to be available to shareholders if they have concerns which contact through the chairman, chief executive or finance director have failed to resolve, or for which such contact is inappropriate. The non-executives will meet without the chairman at least once a year and the senior independent director will lead this meeting.

The board is scheduled to meet 12 times each year, with additional meetings called if required.

The board's main focus is on strategic and policy issues and also the regular review of objectives and performance. To enable them to carry out these responsibilities, all directors have full and timely access to all relevant information on matters before the board. The board has formally delegated specific responsibilities to board committees, including the audit, remuneration and nomination committees. Copies of the terms of reference of each of these committees can be accessed via the Company website at www.fairpoint.co.uk.

The posts of chairman and chief executive are held by different individuals. Broadly, the chairman is responsible for the effective working of the board and ensuring that all directors and, in particular, the non-executive directors, contribute effectively to the board. The chief executive has responsibility for all operational matters. The board considers that no one individual has unfettered power of decision.

The board does not currently consider that a full board evaluation is necessary but will review this matter periodically.

The attendance of directors at the board and board committees during the year are detailed below:

Name of director	Board (13 meetings)	Audit committee (3 meetings)	Remuneration committee (1 meeting)
M R Peacock	13	-	-
C Moat	13	-	-
D J Oakley	11	-	-
A J Heath (Resigned 1 October 2011)	9	-	-
J Gittins (Appointed 1 October 2011)	3	-	-
S Gilbert (Resigned 19 December 2011)	10	2	1
J S Allkins	13	3	1
P Blacher (Appointed 2 February 2011)	12	3	1
T Russell (Appointed 19 December 2011)	-	-	-

The board has adopted a procedure which allows for the directors to obtain independent professional advice, in certain circumstances at the expense of the Company. Further, the board will ensure that the Company provides sufficient resources to all the board committees in order to assist them in undertaking their duties. All directors have access to the advice and services of the company secretary.

All the directors are subject to election by shareholders at the first annual general meeting after their appointment. Thereafter, all directors are then subject to retirement by rotation at intervals of no more than three years. D Oakley, M R Peacock, J Gittins, J S Allkins and T Russell are subject to election at the 2012 annual general meeting. Biographical details of these directors are set out on page 7.

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors and this is reviewed annually.

Nominations committee

The nominations committee is chaired by M R Peacock and consists of J S Allkins, C Moat, T Russell and P Blacher. The committee evaluates the balance of skills, knowledge and experience on the board and is responsible for board appointments. Following such an evaluation, it will prepare a description of the role and capabilities required for a particular appointment.

There were two meetings of the nomination committee during the year.

It is a requirement of the combined code that a majority of the members of a nominations committee should be independent non-executive directors and the chairman of the committee should either be the chairman of the board or a non-executive director. It is acknowledged that the current membership is a deviation from the combined code but it is considered that the members of the committee are the most suitable members of the board to deal with the appointment of successors to the board.

Remuneration committee

The remuneration committee is chaired by P Blacher and consists of T Russell and J S Allkins.

The remuneration committee has delegated responsibility for setting the remuneration for all executive directors, including any compensation payments. Details of directors' remuneration are set out in the remuneration report. No director participates in the committee when their own remuneration is discussed.

Audit committee

The audit committee is chaired by J S Allkins and consists of T Russell and P Blacher.

The committee meets at least three times per year to discuss governance, financial reporting, internal control and risk management.
The audit committee also has responsibility for making recommendations on the appointment, reappointment and removal of the external auditors. There is no internal audit function due to the effectiveness of the internal control environment, but the audit committee will review this again during the forthcoming year.

Internal control

The board is responsible for the Company's internal control framework and for reviewing its effectiveness. The board regularly reviews controls, including financial, operational and compliance controls and risk management procedures. The directors are responsible for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control. On the basis that such a system can only provide reasonable but not absolute assurance against material misstatement or loss and that it relates only to the needs of the business at the time, the system as a whole was found by the directors at the time of approving the accounts to be appropriate to the size of the business.

The key features of the internal control system are :

- A control environment with clearly defined organisation structures. The management of the Company and its subsidiaries is delegated to the chief executive officer and authority is delegated to senior executives as appropriate.

- Comprehensive business planning, risk assessment and financial reporting procedures, including annual preparation of detailed budgets for the year ahead and projections for subsequent years.

- Comprehensive monthly financial reporting system, highlighting variances to budget and regularly updated forecasts.

- A review of financial and non-financial key performance indicators to assess progress towards objectives at each board meeting.

Whistleblowing policy

The Group operates a whistleblowing policy to allow all staff the opportunity to raise issues and concerns anonymously to the board directly.

Going concern

The Group's business activities together with the factors which may impact its activities are described on pages 4 to 5 and pages 16 to 17. The financial position of the Group is described in the finance director's review on pages 6 to 7. In addition notes 19 and 20 to the financial statements describe fully the Group's policies and processes for managing financial risk, including details of its financial assets, liabilities and hedging activity.

After making due enquiry, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they have therefore adopted a going concern basis in preparing the accounts. The basis on which this conclusion has been reached is set out in note 1 to the financial statements.

Relations with shareholders

The Company encourages a dialogue with both its institutional and private investors. The chief executive and finance director meet regularly with institutional shareholders and analysts. The results of these meetings and any analysts' reports are circulated to all directors.

The senior independent non-executive director and the other non-executive directors are available to shareholders if they have concerns that have not been resolved through the normal channels of chairman, chief executive or finance director or for which such contact is inappropriate.

The board intends to continue to use the annual general meeting to communicate with investors and to encourage their participation.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS

We have audited the financial statements of Fairpoint Group plc for the year ended 31 December 2011, which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flow, the consolidated statement of changes in equity, the related notes, the Company balance sheet and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Philip Storer (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester
United Kingdom

14 March 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME

	Notes	Year Ended 31 December 2011 Adjusted *	Year Ended 31 December 2011 Amortisation of acquired intangible assets and exceptional items	Year Ended 31 December 2011 Total	Year Ended 31 December 2010 Adjusted *	Year Ended 31 December 2010 Amortisation of acquired intangible assets and exceptional items	Year Ended 31 December 2010 Total
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
Continuing operations							
Revenue	**5**	25,890	-	25,890	29,404	-	29,404
Cost of sales		(14,888)	-	(14,888)	(15,776)	-	(15,776)
Gross profit		**11,002**	**-**	**11,002**	**13,628**	**-**	**13,628**
Amortisation of acquired intangibles		-	(946)	(946)	-	(515)	(515)
Other administrative expenses	**2**	(10,967)	(4,133)	(15,100)	(11,042)	(537)	(11,579)
Total administrative expenses		**(10,967)**	**(5,079)**	**(16,046)**	**(11,042)**	**(1,052)**	**(12,094)**
Finance income – unwinding of discount on IVA revenue	**6**	4,254	-	4,254	4,509	-	4,509
Finance income – other	**6**	6	-	6	30	-	30
Profit (loss) before finance costs	**2**	**4,295**	**(5,079)**	**(784)**	**7,125**	**(1,052)**	**6,073**
Finance costs	**6**	(259)	-	(259)	(227)	-	(227)
Profit (loss) before taxation		4,036	(5,079)	(1,043)	6,898	(1,052)	5,846
Tax (expense) credit	**7**	(1,063)	1,148	85	(1,975)	295	(1,680)
Profit (loss) for the year from continuing operations		**2,973**	**(3,931)**	**(958)**	**4,923**	**(757)**	**4,166**
Discontinued operations							
Loss for the year from discontinued operations	**18**	-	-	-	(154)	-	(154)
Profit (loss) for the year		**2,973**	**(3,931)**	**(958)**	**4,769**	**(757)**	**4,012**
Total comprehensive income (loss) for the year		2,973	(3,931)	(958)	4,769	(757)	4,012
Earnings per Share							
Basic							
From continuing operations	**8**			(2.20)			9.56
From discontinued operations							(0.35)
Total				(2.20)			9.21
Diluted							
From continuing operations	**8**			(2.20)			9.50
From discontinued operations							(0.35)
Total				(2.20)			9.15

All of the profit (loss) and comprehensive income (loss) for the year is attributable to equity holders of the parent.
* Before amortisation of acquired intangible assets and exceptional items.
The notes on pages 22 to 53 form part of these financial statements.

CONSOLIDATED STATEMENT OF
FINANCIAL POSITION

Company Number 4425339	Notes	As at 31 December 2011 £'000	As at 31 December 2010 £'000
ASSETS			
Non Current Assets			
Property, plant and equipment	10	1,397	1,604
Goodwill	11,12	11,972	13,882
Other intangible assets	11	7,253	7,839
Total Non Current Assets		**20,622**	**23,325**
Current Assets			
Trade receivables and amounts recoverable on IVA services	14	24,068	26,373
Other current assets	14	1,234	920
Cash and cash equivalents		1,468	978
Total Current Assets		**26,770**	**28,271**
Total Assets		**47,392**	**51,596**
EQUITY			
Share capital	22	436	436
Share premium account		528	528
ESOP share reserve		(517)	(517)
Merger reserve		11,842	11,842
Other reserves		254	254
Retained earnings		23,556	26,277
Total equity attributable to equity holders of the parent		**36,099**	**38,820**
LIABILITIES			
Non Current Liabilities			
Long-term financial liabilities	17	231	7,141
Deferred tax liabilities	21	366	1,316
Total Non Current Liabilities		**597**	**8,457**
Current Liabilities			
Trade and other payables	15	2,949	3,239
Short-term borrowings	16	7,627	103
Current tax liability		120	977
Total Current Liabilities		**10,696**	**4,319**
Total Liabilities		**11,293**	**12,776**
Total Equity and Liabilities		**47,392**	**51,596**

The financial statements were approved by the Board of directors on 14 March 2012 and were signed on its behalf by:

J Gittins
Director

The notes on pages 22 to 53 form part of these financial statements.

CONSOLIDATED STATEMENT OF **CASH FLOWS**

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Cash flows from continuing operating activities			
(Loss) profit on continuing operations before tax		(1,043)	5,846
Share based payments charge		42	68
Depreciation of property, plant and equipment		402	421
Amortisation of intangible assets and development expenditure		1,300	997
Impairment of Moneyextra.com goodwill and brand	2	2,876	-
Loss on disposal of non current assets		1,519	31
Interest received		(6)	(30)
Interest expense		259	227
Decrease (increase) in trade and other receivables		1,991	(911)
(Decrease) in trade and other payables		(1,135)	(548)
Cash flows from discontinued operations		-	(154)
Cash generated from operations		6,205	5,947
Interest paid		(259)	(198)
Income taxes paid		(1,362)	(1,551)
Net cash generated from operating activities		4,584	4,198
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(134)	(453)
Interest received		6	30
Purchase of trademarks		(5)	-
Purchase of software development		(582)	(799)
Purchase of debt management and IVA books		(2,960)	(693)
Acquisition of subsidiaries		-	(1,308)
Net cash absorbed by investing activities		(3,675)	(3,223)
Cash flows from financing activities			
Equity dividends paid		(1,805)	(1,512)
Proceeds from long-term borrowings		1,500	733
Payment of short-term borrowings		(114)	(50)
Payment of long-term borrowings		-	-
Net cash absorbed by financing activities		(419)	(829)
Net change in cash and cash equivalents		490	146
Cash and cash equivalents at start of year		978	832
Cash and cash equivalents at end of year	29	1,468	978

The notes on pages 22 to 53 form part of these financial statements.

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY

	Share Capital £'000	Share Premium Account £'000	Merger Reserve £'000	Other Reserves £'000	ESOP Share Reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2010	**429**	**18**	**11,842**	**254**	**-**	**23,709**	**36,252**
Changes in equity for the year ended 31 December 2010:							
Share Issues	7	510	-	-	(517)	-	-
Total comprehensive income for the year	-	-	-	-	-	4,012	4,012
Share based payment expense	-	-	-	-	-	68	68
Dividends of 3.5 pence per share	-	-	-	-	-	(1,512)	(1,512)
Balance at 31 December 2010	**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**

The notes on pages 22 to 53 form part of these financial statements.

NOTES FORMING PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("adopted IFRSs"). Also, those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 54 to 60.

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 on pages 2 to 4. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the finance director`s review on pages 5 to 6. In addition, notes 19 and 20 to the financial statements include details of the Group`s borrowings, in addition to the Group`s objectives and policies for managing its capital, its financial risk management objectives and its exposure to credit, interest rate and liquidity risk.

The financial statements have been prepared on a going concern basis. The group's existing facility with Royal Bank of Scotland plc extends to 31 December 2012. For the purpose of considering going concern the board has considered a period of at least 12 months from the date of signing these financial statements. The Group's existing facility expires within this 12 month period, as noted in the finance director's review, and the directors are currently in the process of extending the maturity of the Group's financing facilities and have received credit approved terms. These terms provide adequate comfort to the board of the facilities available to the Group for the purpose of considering going concern.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except as follows:
In preparing the Group financial statements for the current year, the Group has adopted the following new International Financial Reporting Standards (IFRS), amendments to IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations, which have not had a significant effect on the results or net assets of the Group:

- Revised IAS 24 Related Party Disclosures
- Improvement to IFRSs (2010)

At the date of authorisation of these Group financial statements, the following standards and interpretations, which have not been applied in these Group financial statements, were in issue but not yet effective:

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements
- Deferred tax: Recovery of underlying assets (Amendments to IAS12)
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date that control ceases.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Other intangibles

Externally acquired intangible assets are initially recognised at cost and subsequently amortised over their useful economic lives.
The amortisation expense is included within the administrative expenses line in the consolidated statement of comprehensive income.

Expenditure on internally developed projects is capitalised if it can be demonstrated that:

- it is technically feasible to develop the project;
- adequate resources are available to complete the development;
- there is an intention to complete the project;
- the Group is able to sell or use the related product;
- sale or use of the product will generate future economic benefits; and
- expenditure can be measured reliably.

Expenditure not satisfying the above criteria is recognised in the statement of comprehensive income as incurred.

Capitalised software costs represent development expenditure on IT infrastructure and operating systems.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques. Included in other intangibles is the value ascribed to customer contracts arising from the purchase of IVA and debt management books of cases. All intangible assets are amortised on a straight line basis over their useful economic lives.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Trademarks	10 years	Cost
Brands	8-12 years	Discounted cash flow
Capitalised software	4 years	Cost
Acquired back books	5 years	Cost

Impairment of non financial assets (excluding deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite lives are undertaken annually at the financial year end.

The Group considers at each reporting date whether there is any indication that other non-current assets are impaired. If there is such an indication, the Group carries out an impairment test by measuring an asset's recoverable amount, which is the higher of its fair value less costs to sell and its value in use (effectively the expected cash to be generated from using the asset in the business). The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is less than the carrying amount an impairment loss is recognised, and the asset is written down to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. An impairment loss for goodwill is not reversed.

Revenue

Revenue represents amounts in respect of the provision of financial solutions to individuals experiencing personal debt problems and is recognised as follows:

IVA fees

Fees are recognised following approval at the meeting of creditors. Revenue is recorded to recognise gross income during the life of the IVA based on the cost of the work to date as a percentage of the total cost of services to be performed.

IVA revenues are discounted to reflect the fair value of cash flows recoverable. Over the life of an IVA the actual cash flows of the case in excess of fair value at recognition are recognised through finance income using an effective interest rate which reflects a rate appropriate to its clients.

Within the statement of cash flows, the gross cash flows arising from IVAs either as revenue or as finance income are reflected as cash flow from continuing operations, as over time they will equate to all cash received under the IVA.

Fees and commission

The Group also receives fee income from work performed for both Scottish and self employed clients who require trust deeds or IVAs from other IVA providers and commissions in respect of clients who wish to re-mortgage their property from specialised mortgage providers. The income is recognised as follows:

- IVA fees: IVA fee income is recognised once a contractual obligation is incurred by the IVA provider accepting the referral.

- Re-mortgaging commission: Re-mortgage commission is recorded at the date on which the mortgage contract is completed.

Claims management

The Group receives income in relation to claims management activity, principally for refunds of payment protection insurance in relation to its current client base. These fees and commissions are accounted for when the claim has been settled by the creditor.

Debt management

Revenue is recognised on a cash receipt basis reflecting the proportion of work performed. Initial fees are recognised when a customer makes their first contribution to the plan. Subsequent fees are recognised on receipt of funds into the plan.

Bad debt expense

Revenues and finance income relating to IVA cases are recognised gross in the statement of comprehensive income. Impairment provisions against trade receivables arising from the breakage of IVA payment plans are recognised through administrative expense when there is objective evidence (such as significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable. The Group uses a portfolio approach with reference to historic data for the purpose of calculating bad debts.

1 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The Group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management system are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Property, plant and equipment

The cost of items of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off, on a reducing balance basis over the expected useful economic lives of the asset concerned, the cost of property, plant and equipment, less estimated residual values, which are adjusted, if appropriate, at each reporting date. The principal economic lives used for this purpose are:

- Fixtures and fittings 4 years
- Computer equipment 4 years

Provision is made against the carrying value of items of property, plant and equipment where impairment in value is deemed to have occurred.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the statement of financial position and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability.

All other leases are regarded as operating leases and the payments made under them are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team including the directors. The segmental reporting is included within note 5.

Financial instruments

Financial assets and financial liabilities are recognised at fair value on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as adjusted to reflect discounting for the time value of cash flows recoverable and are reduced by appropriate allowances for irrecoverable amounts, which are recorded as losses are incurred. Amounts receivable for services provided are split between trade receivables, where amounts due on cases have been invoiced, and amounts recoverable on IVA services where revenue has been recognised but amounts due on cases have not yet been billed. IVA cases are invoiced at the point that funds, which are receivable in instalments, are remitted to the Group.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs.

Finance charges are accounted for on an accrual basis to the statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Employee Benefit Trust

The Group operates an Employee Benefit Trust ("EBT"). Under the structure of the Performance Share Plan and Joint Ownership Share Plan, ordinary shares have been issued and are held by the EBT and are treated as treasury shares and are added to the ESOP Share Reserve.

Contingent consideration

Contingent consideration is recognised at fair value at the date of acquisition with subsequent changes in fair value being recognised through profit or loss.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit (loss) for the year. Taxable profit (loss) differs from net profit (loss) as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when they are declared and paid to shareholders. In the case of final dividends this is when approved by the shareholders at the AGM.

Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that actually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Pension contributions

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated statement of comprehensive income as incurred. The Group has no defined benefit arrangements in place.

Investment income

Investment income relates to interest income, which is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Marketing costs

Marketing costs are recognised when service is received. If there is a payment in advance of service delivery this will be included within prepayments.

Exceptional items

The Group presents certain items separately as 'exceptional' within the statement of comprehensive income. These are items which in management's judgement should be disclosed separately by virtue of their size or nature to enable a better understanding of the Group's financial performance.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:
- They are available for immediate sale;
- Management is committed to a plan to sell;
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- An active programme to locate a buyer has been initiated;
- The asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- A sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- Their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- less costs to sell.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or its subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statement of comprehensive income (including the comparative year) as a single line which comprises the post tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets/disposal groups constituting discontinued operations.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Provisions are reviewed on a regular basis and released to the consolidation statement of comprehensive income where changes in circumstances indicate that a provision is no longer required.

Critical accounting judgements and key sources of estimation uncertainty

The Group makes certain judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are continually evaluated based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. An impairment review for goodwill has been performed at the year end resulting in an impairment loss being recognised (note 12). Any change in estimates could result in an adjustment to recorded amounts.

Carrying value of IVA trade receivables

IVA trade receivables are stated at their nominal value, as adjusted to reflect discounting for the time value of cash flows recoverable and are reduced by appropriate allowances to £21,926,000 at the year end (2010: £24,528,000). The discount rate considered appropriate to the IVA clients is 20% (2010: 20%). The appropriate allowance for estimated irrecoverable amounts is based on analysis of historic cancellation and termination trends in the portfolio of cases. The carrying value of IVA trade receivables is sensitive to the discount rate selected, the actual timing of subsequent cash flows and the risk that the portfolio impairment trend does not capture impairments which have arisen at the balance sheet date but have not yet been observed in the portfolio.

IVA revenue recognition

Revenue is recorded to recognise income during the life of the IVA based on the cost of the work to date as a percentage of the total cost of services to be performed. This is based on a detailed analysis of the costs incurred in attaining and administering an IVA.

Useful economic lives of intangible assets

The Group has estimated the useful economic lives of brands and customer contracts held under other intangibles on an individual asset basis. Brand useful economic lives are between eight and twelve years whilst customer contracts are valued at five years. The estimate of lives will affect the charge for amortisation within the consolidated statement of comprehensive income and the carrying value of the assets. An impairment review has been performed at the year end resulting in an impairment loss being recognised (note 11). Any change in estimates could result in an adjustment to recorded accounts.

Contingent consideration

The liability for contingent consideration under earnout arrangements for Moneyextra.com Limited is calculated using estimates of future profitability within Moneyextra and the share price and future earnings of Fairpoint Group plc. The amount payable is recognised at fair value based on a probability-weighted expectation of amounts payable at each year end. The value of contingent consideration is calculated using forecasts also used to review intangible assets for impairment, the key assumptions for which are set out in note 12.

2 Profit before finance costs from continuing operations

Profit before finance costs from continuing operations has been arrived at after charging:	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Staff costs (see note 3)	**10,318**	10,594
Marketing costs	**5,636**	5,947
Depreciation of property, plant and equipment	**402**	421
Amortisation of intangible assets	**1,300**	997
Operating lease expense		
- Plant and machinery	**16**	8
- Property	**613**	510
Audit fees		
- Parent	**58**	54
- Subsidiary	**23**	29
Fees paid to the Company's auditors for non-audit services		
- Tax services	**11**	28
- Corporate finance	**13**	20
- Other services	**-**	1
Loss on disposal of property, plant and equipment	**9**	31
Credit impairment of IVA revenues	**3,366**	3,839

During the year the Group incurred exceptional costs as detailed below:	**Notes**	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Impairment of IVA platform and related costs	**11**	**1,576**	-
Impairment of Moneyextra.com goodwill and brand *	**12**	**2,876**	-
Change in fair value of liability for contingent consideration	**17**	**(845)**	-
Restructuring costs in respect of staff and legal expenses		**526**	537
Total exceptional items		**4,133**	537

* The impairment of Moneyextra.com goodwill and brand assets includes a credit of £357,000 which is the release of a deferred tax liability in relation to the Moneyextra.com brand.

3 Staff costs

Staff costs (including directors) comprise:	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Wages and salaries	**9,148**	9,414
Defined contribution pension cost	**186**	117
Short term non-monetary benefits	**95**	102
Share based payment expense (see note 26)	**42**	68
Employer's national insurance contributions and similar taxes	**847**	893
	10,318	10,594

The average number of employees during the year was:	**Year ended 31 December 2011 Number**	Year ended 31 December 2010 Number
Directors	**7**	6
Management and administration	**66**	63
IVA processing team	**281**	314
Financial services team	**10**	16
DMP processing team	**75**	59
	439	458

4 Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. This has been deemed to be the directors.

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Directors' remuneration consists of:		
Directors' emoluments	**849**	788
Compensation for loss of office	**118**	-
Company contributions to money purchase pension schemes	**54**	48
	1,021	836

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Remuneration in respect of the highest paid director:		
Salary and bonuses	**270**	259
Pensions	**44**	41
	314	300

There were two directors in the Group's defined contribution pension scheme (2010: two). The Company does not operate a defined benefit scheme.

Directors' emoluments may include amounts attributed to benefits in kind on which directors are assessed for tax purposes. This may differ to the cost to the Group of providing those benefits included in note 3.

The employers' national insurance expense on directors' emoluments totalled £97,886 (2010: £104,566)

Of the share based payment charge (see note 26), £16,576 relates to share based payment to directors (2010: £35,095).

No directors exercised share options in the year (2010: none).

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 strategies.

Measurement of operating segment profit and assets

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The Group evaluates performance on the basis of adjusted (for brand amortisation and exceptional items) 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 divisions; Individual Voluntary Arrangements (IVA), Debt Management and Financial Services. These divisions are the basis on which the Group is structured and managed, based on its principal services provided. These 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.

- Debt Management consists primarily of the Group company Lawrence Charlton Limited, the trading brand used to provide Debt Management Plans (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.

- Financial Services fall into four distinct categories:

• refinancing solutions – a range of secured finance solutions, from mortgages through to loans that are appropriate for consumers who have an ability to meet their debt obligations, subject to reorganising their finances.
• value added services – a wide range of solutions fall under this category. All of them have the primary objective of making the core debt solution work smoothly. Examples include products such as prepaid bank accounts, claims management, including payment protection insurance reclaims, and utility switching services.
• Moneyextra.com – internet portal providing a wide range of products and comparison services.
• payday lending – consumer loans.

5 Segment analysis (continued)

Year ended 31 December 2011

	IVA	Debt Management	Financial Services	Unallocated	Total
	£'000	£'000	£'000	£'000	£'000
Total external revenue	18,208	5,330	2,352	-	25,890
Total operating (loss) profit	**(2,097)**	**2,041**	**91**	**-**	**35**
Finance income – unwinding of discount on IVA revenue	4,254	-	-	-	4,254
Finance income – other	-	-	-	6	6
Adjusted profit before finance costs	**2,157**	**2,041**	**91**	**6**	**4,295**
Finance expense	-	-	-	(259)	(259)
Adjusted profit (loss) before taxation	**2,157**	**2,041**	**91**	**(253)**	**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**	**(2,048)**	**(253)**	**(1,043)**
Tax					85
Loss for the year from continuing operations					**(958)**
Balance sheet assets					
Reportable segment assets	42,531	4,818	43	-	47,392
Capital additions	1,082	2,609	60	-	3,751
Depreciation and amortisation	(1,078)	(609)	(15)	-	(1,702)

5 Segment analysis (continued)

Year ended 31 December 2010

	IVA	Debt Management	Financial Services	Unallocated	Total
	£'000	£'000	£'000	£'000	£'000
Total external revenue	24,270	4,062	1,072		29,404
Total operating profit (loss)	**1,369**	**1,505**	**(288)**	**-**	**2,586**
Finance income – unwinding of discount on IVA revenue	4,509	-	-	-	4,509
Finance income – other	-	-	-	30	30
Adjusted profit (loss) before finance costs	**5,878**	**1,505**	**(288)**	**30**	**7,125**
Finance expense	-	-	-	(227)	(227)
Adjusted profit (loss) before taxation	**5,878**	**1,505**	**(288)**	**(197)**	**6,898**
Amortisation of acquired intangible assets	(378)	(137)	-	-	(515)
Exceptional items	(135)	(73)	(329)	-	(537)
Profit (loss) before taxation	**5,365**	**1,295**	**(617)**	**(197)**	**5,846**
Tax					(1,680)
Profit for the year from continuing operations					**4,166**
Balance sheet assets					
Reportable segment assets	40,847	6,456	4,293		51,596
Capital additions	995	2,214	3,267		6,476
Depreciation and amortisation	(1,259)	(182)	(7)		(1,448)

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.

As set out within note 18, the discontinued operations in 2010 are attributable to the Financial Services operating segment. The discontinued operations had no assets to disclose in either year.

6 Finance income and expense

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Finance income		
– unwinding of discount on IVA revenues	**4,254**	4,509
Finance income – *other*		
Bank interest received	**6**	30
	4,260	4,539
Finance expense		
Bank borrowings	**(221)**	(190)
Finance leases	**(10)**	(9)
Other	**(28)**	(28)
	(259)	(227)
	4,001	4,312

7 Tax expense

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Current tax expense		
UK corporation tax and income tax of overseas operations on profits for the year	**489**	1,763
Adjustment for under (over) provision	**19**	(12)
	508	1,751
Deferred tax expense		
Origination and reversal of temporary differences	**(531)**	(48)
Adjustment for over provision in prior periods	**(62)**	(23)
	(593)	(71)
Total tax (credit) charge	**(85)**	1,680

7 Tax expense (continued)

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 2011 £'000	Year ended 31 December 2010 £'000
(Loss) profit before tax from continuing and discontinued operations	**(1,043)**	5,692
Expected tax charge based on the standard rate of corporation tax in the UK of 26.5% (2010 – 28%)	**(276)**	1,594
Expenses not deductible for tax purposes	**207**	117
Prior year deferred tax	**(63)**	(23)
Prior year current tax	**19**	(12)
Future year tax rate change impact on deferred tax	**15**	(4)
Non-qualifying depreciation	**13**	18
Unrecognised deferred tax	**-**	(10)
Total tax (credit) charge	**(85)**	1,680

8 Earnings per share (EPS)

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Numerator		
Continuing operations		
(Loss) profit for the year – used in basic and diluted EPS	**(958)**	4,166
Discontinuing operations		
Loss for the year – used in basic and diluted EPS	-	(154)
Total operations		
(Loss) profit for the year – used in basic and diluted EPS	**(958)**	4,012
Denominator		
Weighted average number of shares used in basic EPS	**43,609,346**	43,585,058
Effects of:		
- employee share options	**202,450**	250,132
Weighted average number of shares used in diluted EPS *	**43,811,796**	43,835,190

* 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.

Certain employee options have also 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.

8 Earnings per share (EPS) (continued)

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 2011			Year Ended 31 December 2010		
	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
Profit (loss) after tax for the year from continuing operations	**2,973**	**(3,931)**	**(958)**	4,923	(757)	4,166
Loss for the year from discontinued operations	-	-	-	(154)	-	(154)
Total comprehensive income (loss) for the year	**2,973**	**(3,931)**	**(958)**	4,769	(757)	4,012
Basic EPS						
From continuing operations	**6.82**			11.29		
From discontinued operations				(0.35)		
Total	**6.82**			10.94		
Diluted EPS						
From continuing operation	**6.79**			11.23		
From discontinued operations				(0.35)		
Total	**6.79**			10.88		

* Before amortisation of acquired intangible assets and exceptional items.

9 Dividends

	Year ended 31 December 2011	Year ended 31 December 2010
	£'000	£'000
Dividend of 2.5 pence (2010: 2 pence) per 1p ordinary share paid during the year relating to the previous year's results	**1,062**	864
Dividend of 1.75 pence (2010: 1.5 pence) per 1p ordinary share paid during the year relating to the current year's results	**743**	648
	1,805	1,512

Dividends were waived on 1,129,618 (2010: 390,850) of the 43,609,346 ordinary shares.

10 Property, plant and equipment

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
At 31 December 2010			
Cost	1,543	2,224	3,767
Accumulated depreciation	(965)	(1,198)	(2,163)
Net book value	**578**	**1,026**	**1,604**
At 31 December 2011			
Cost	1,619	2,321	3,940
Accumulated depreciation	(1,106)	(1,437)	(2,543)
Net book value	**513**	**884**	**1,397**
Year ended 31 December 2010			
Opening net book value	641	962	1,603
Additions	94	326	420
Transfers in	-	33	33
Disposals	-	(31)	(31)
Depreciation charge for year	(157)	(264)	(421)
Closing net book value	**578**	**1,026**	**1,604**
Year ended 31 December 2011			
Opening net book value	578	1,026	1,604
Additions	76	128	204
Transfers in	-	-	-
Disposals	-	(9)	(9)
Depreciation charge for year	(141)	(261)	(402)
Closing net book value	**513**	**884**	**1,397**

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases (see note 24):

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Computer equipment	**160**	139

11 Intangible assets

	Goodwill	Brands	Software Development & Trademarks	Acquired back books	Total
	£'000	£'000	£'000	£'000	£'000
At 31 December 2010					
Cost	13,882	5,853	3,651	1,362	24,748
Amortisation	-	(1,322)	(1,568)	(137)	(3,027)
Net book value	**13,882**	**4,531**	**2,083**	**1,225**	**21,721**
At 31 December 2011					
Cost	11,972	4,530	1,256	4,323	22,081
Amortisation	-	(1,699)	(450)	(707)	(2,856)
Net book value	**11,972**	**2,831**	**806**	**3,616**	**19,225**
Year ended 31 December 2010					
Opening net book value	11,343	3,586	1,766	-	16,695
Additions					
- Internally developed	-	-	70	-	70
- Externally acquired	2,539	1,323	729	1,362	5,953
Amortisation charge	-	(378)	(482)	(137)	(997)
Closing net book value	**13,882**	**4,531**	**2,083**	**1,225**	**21,721**
Year ended 31 December 2011					
Opening net book value	13,882	4,531	2,083	1,225	21,721
Additions					
- Internally developed	-	-	89	-	89
- Externally acquired	-	-	498	2,960	3,458
Impairment charge	(1,910)	(1,323)	(1,510)	-	(4,743)
Amortisation charge		-	(377)	(354)	(569)
(1,300)					
Closing net book value	**11,972**	**2,831**	**806**	**3,616**	**19,225**

Trademarks are estimated to have a useful life of ten years, brands eight to twelve years and software development four years. Acquired back books are amounts relating to acquired customer contracts with estimated useful lives of five years. No intangible assets were held under finance leases.

The opening balance of brands comprises the capitalised Clear Start brand acquired on the acquisition of Clear Start UK Limited and the capitalised Moneyextra.com brand acquired on the acquisition of Moneyextra.com Limited, both acquired during previous periods.

At 31 December 2011 the carrying value of the Moneyextra.com Limited cash generating unit (CGU) was found to be greater than its recoverable amount, and the carrying value has been reduced through recognition of an impairment loss against goodwill and the Moneyextra.com brand. This loss has been included as an exceptional item in the income statement.

Software development relates to external and internal costs relating to the development of systems used by the Group. During 2011 the development of a new IVA platform was initiated resulting in an impairment loss against the software development intangible assets relating to the outgoing IVA platform. This loss has been included as an exceptional item in the income statement.

Trademarks are capitalised costs incurred developing and protecting Group registered trademarks.

For details on goodwill see note 12.

12 Goodwill and impairment

Goodwill arises from the acquisition of trading subsidiaries as detailed below:

	Operating Segment	Goodwill carrying amount At 31 December 2011 £'000	At 31 December 2010 £'000
Subsidiary			
Debt Free Direct Limited	IVA	**1,934**	1,934
Clear Start UK Limited	IVA	**9,409**	9,409
Moneyextra.com Limited	Financial services	**-**	1,910
WKD UK Limited	Debt management	**11,972**	13,882
		11,972	13,882

Goodwill is allocated to internal cash generating units (CGUs) consistent with the operating segments as disclosed in note 5, with the exception of Moneyextra.com Limited, which has been treated as a distinct CGU within the Financial Services segment.

Goodwill has been tested for impairment at 31 December 2011 by reference to the recoverable amount of the relevant CGU. The carrying value of the Moneyextra.com Limited CGU was found to be greater than its recoverable amount, and the carrying value has been reduced through recognition of an impairment loss against goodwill and the intangible asset relating to the Moneyextra.com brand. This loss has been included in exceptional items in the income statement. There have been no other impairments of goodwill in the year.

The recoverable amounts of the CGU, including goodwill, other intangibles and non-current assets, have been determined from value in use calculations based on cash flows from detailed forecasts covering a four year period to 31 December 2015 and then extrapolated to 2016. Beyond 2016, a residual value has been estimated based upon six times the forecast 2016 profit before tax. Other major assumptions are as follows:

- conversion rate is the expected conversion from lead to meeting of creditors (MOC) pass and is based on past experience;
- attrition rates represent the expected monthly decline in the number of debt management customers paying into their plan;
- discount rates are based on the Group's cost of funding adjusted to reflect management's assessment of specific risks related to the CGU;
- growth rates are based on economic data pertaining to the industry concerned.

	Year ended 31 December 2011 %	Year ended 31 December 2010 %
Discount rate	**10**	10
Conversion rate - IVA	**4.9**	5.5
Attrition rate – DMP	**2.0**	2.0
Average annual growth rate – IVA	**2.0**	2.5
Average annual growth rate - DMP	**6.3**	2.5

Sensitivity to changes in the assumptions

The recoverable amount for the IVA segment exceeds its carrying value by £5.8 million. A 1% change in the discount rate or similar change in the terminal growth rate would change the recoverable amount by approximately £1.3 million and £1.8 million respectively. In addition a 5% change in the forecast conversion rate or in the forecast pre tax earnings would change the recoverable amount by approximately £4.5 million and £2.2 million respectively.

The recoverable amount for the debt management segment exceeds its carrying value by £11.3 million. A 1% change in the discount rate or similar change in the terminal growth rate would change the recoverable amount by approximately £0.6 million and £0.4 million respectively. In addition a 5% change in the forecast attrition rate or in the forecast pre tax earnings would change the recoverable amount by approximately £1.4 million and £1.2 million respectively.

13 Subsidiaries

The principal subsidiaries of the Group, all of which have been included in these consolidated financial statements and all of which operate wholly in the country of incorporation, are as follows:

Name	Country of incorporation	Proportion of ownership interest and ordinary share capital held	Principal Activity
Debt Free Direct Limited	England	100%	Provision of financial advice and appropriate solutions
Clear Start UK Limited	England	100%	Provision of financial advice and appropriate solutions
Lawrence Charlton Limited	England	100%	Debt management
DFD Mortgages Limited	England	100%	Provision of financial advice and appropriate solutions
The Debt Advice and Money Solutions Group Limited	England	100%	Dormant
IVA Insurance Limited	Guernsey	100%	Offshore insurance company
Debt Free Direct (Australia) Limited	England	75%	Dormant
Adlington House Limited	England	100%	Provision of financial advice and appropriate solutions
Up and Up Group plc	England	100%	Dormant
Clear Start Partnerships Limited	England	100%	Provision of leads and value added services to the Group
Allixium Limited	England	100%	Provision of financial advice and appropriate solutions
Clear Start Money Management Limited	England	100%	Provision of financial advice and appropriate solutions
Debt Advice Trust Limited	England	1	Provision of financial advice and appropriate solutions
WKD UK Limited	England	100%	Debt management
Money Tailor Limited	England	100%	Dormant
Moneyextra.com Limited	England	100%	Financial intermediary
STL Innovations Limited	England	100%	Dormant
Your Debt Solved Limited	England	100%	Dormant

[1] Debt Advice Trust Limited, a company limited by guarantee and incorporated in England, is consolidated as the Group exercises control over the composition and voting powers of its board. The principal activity of this business was the provision of financial advice and appropriate solutions to individuals experiencing personal debt problems. The entity was originally founded by the Group.

14 Trade and other receivables

	At 31 December 2011 £'000	At 31 December 2010 £'000
Trade receivables	**2,142**	1,845
Amounts recoverable on IVA services	**21,926**	24,528
	24,068	26,373
Other receivables	**76**	238
Prepayments	**1,158**	682
	25,302	27,293

Of which the following amounts are receivable after one year:	At 31 December 2011 £'000	At 31 December 2010 £'000
Trade receivables	**118**	419
Amounts recoverable on IVA services	**10,344**	9,944
	10,462	10,363

During the year the Group reviewed the method used to calculate the non-current element of amounts recoverable on IVA services. The Group now considers that the method previously used did not fully take into account the effect of discounting applied to this balance, and the 31 December 2010 balance presented above has been restated (2010 financial statements: £5,464,000). The Group considers that restating the prior year balance provides users of the accounts with a better understanding of the Group's financial position at 31 December 2010.

15 Trade and other payables – current

	At 31 December 2011 £'000	At 31 December 2010 £'000
Trade payables	**1,426**	1,493
Other tax and social security taxes	**193**	583
Other payables	**191**	174
Accruals	**1,139**	989
	2,949	3,239

Trade payables are non-interest bearing and are normally settled on terms agreed with suppliers. The directors consider that the carrying amount of trade payables approximates to their fair value.

16 Short-term borrowings

	At 31 December 2011 £'000	At 31 December 2010 £'000
Bank loans		
- secured	**7,500**	-
Finance lease creditor (note 24)	**127**	103
	7,627	103

Maturity analysis and an analysis of interest rates payable for bank borrowings is set out in note 20. A maturity analysis for finance leases is set out in note 24. The bank loan is secured by a fixed and floating charge over certain assets of Fairpoint Group plc and its subsidiaries.

17 Non-current financial liabilities

	At 31 December 2011 £'000	At 31 December 2010 £'000
Bank loans		
- secured	**-**	6,000
Finance lease creditor (note 24)	**231**	296
Contingent consideration	**-**	845
	231	7,141

An analysis of the interest rate payable on financial liabilities and information about fair values is given in note 20.

Contingent consideration relates to amounts payable to the vendors of Moneyextra.com Limited. Any contingent consideration is payable in March 2014 based on the earnings of Moneyextra.com Limited and its subsidiaries in the year to 31 December 2013. The contingent consideration is payable on a proportion of Moneyextra business valuation of between 0% and 20%. The business valuation will be calculated by multiplying Moneyextra earnings before interest, tax, depreciation and amortisation ("EBITDA") by Fairpoint Group plc's EBITDA multiple calculated as market capitalisation divided by Fairpoint Group plc's total EBITDA. The consideration may not exceed £15 million and if the amount payable exceeds a total of 2.5 times Moneyextra EBITDA for 2013, then the excess may be payable in shares at the discretion of Fairpoint Group plc. The consideration is valued based on estimates of future profitability and is discounted at a rate of 10% per annum to present value.

At 31 December 2011 an impairment review was performed over the Moneyextra.com goodwill and brand intangible asset resulting in an impairment loss. Based on forecast operating results for Moneyextra.com Limited, it is not anticipated that any contingent consideration will be payable to the vendors of the business under the agreement outlined above.

18 Non-current assets held for sale and discontinued operations

	At 31 December 2011 £'000	At 31 December 2010 £'000
Discontinued operations		
Revenue	**-**	38
Cost of Sales	**-**	(88)
Gross loss	**-**	(50)
Administrative expenses	**-**	(104)
Reclassification of exchange differences on the disposal of discontinued operations	**-**	-
Loss before taxation	**-**	(154)
Tax expense	**-**	-
Loss for the year from discontinued operations	**-**	(154)

The loss for the year ended 31 December 2010 represents that incurred on the discontinuance of Your Debt Solved Limited operations, a subsidiary acquired with Moneyextra.com Limited and held exclusively for disposal at 31 December 2010.

19 Financial instruments - risk exposure and management

The Group is exposed through its operations to one or more of the following financial risks that arise from its use of financial instruments:

- Interest rate risk
- Liquidity risk
- Credit risk

The board reviews and agrees policies for managing each of these risks and they are summarised below. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre.

Interest rate risk

Interest rate risk arises from the Group's use of interest bearing tradable financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Group's external borrowings at the balance sheet date comprise of loan facilities and finance lease payables. All principal borrowings are on floating interest rates. The Group does not seek to fix interest rates on these borrowings as the board currently considers the exposure to interest rate risk acceptable.

At 31 December 2011, if interest rates on floating rate loans had been 0.5% higher/lower with all other variables held constant, profit after tax for the year would have been approximately £37,500 lower/higher, mainly as a result of higher/lower interest rate expense on floating rate borrowings.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Details of the Group's borrowing facilities are given in note 20.

The Group monitors its risk to a shortage of funds through regular cash management and forecasting. The Group's objective is to maintain a balance between continuity of funds and flexibility through the use of bank loans, finance leases and hire purchase contracts.

All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the Group's forecast cash requirements. The Group maintains a draw down facility with a major banking corporation to manage any unexpected short-term cash shortfalls.

Credit risk

The Group is mainly exposed to credit risk from IVA case revenues. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. Counterparties are generally low quality, but credit risk is reduced as the debtor is diversified across a large number of small balances. The maximum credit risk is £24,068,000, comprising £2,142,000 of trade receivables, where counterparties have been invoiced but funds not received, and £21,926,000 of accrued income, where revenue has been recognised but the case has not yet been billed.

On inception of an IVA case, the Group recognises income discounted to its fair value. Bad debt is taken to the income statement through administrative expenses, when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of the receivable. In addition, the Group considers its impairment provisions using a portfolio approach with reference to historic data, to identify cases where an impairment may have arisen but objective evidence has yet to emerge. The charge for bad debt in the year amounted to £3,366,000 (2010: £3,839,000).

The Group considers all IVA cases to exhibit a similar level of risk, with the exception of acquired portfolios, which are separately assessed.

The Group manages credit risk through its IVA nominee processes where incomes, expenditures and assets are verified in accordance with industry protocol.

Non-IVA receivables are assessed individually and impairments raised where necessary.

The Group does not enter into complex derivatives to manage credit risk.

19 Financial instruments - risk exposure and management (continued)

	As at 31 December 2011 Gross receivables £'000	As at 31 December 2011 Provision against future recovery £'000	As at 31 December 2011 Carrying value £'000	As at 31 December 2010 Gross receivables £'000	As at 31 December 2010 Provision against future recovery £'000	As at 31 December 2010 Carrying value £'000
Trade receivables	**2,874**	**732**	**2,142**	2,502	657	1,845
Other receivables	**76**	**-**	**76**	238	-	238
Prepayments	**1,158**	**-**	**1,158**	682	-	682
Amounts recoverable on IVA services	**21,926**	**-**	**21,926**	24,528	-	24,528
	26,034	**732**	**25,302**	27,950	657	27,293

The Group does not hold any collateral as security.

Analysis of the ageing of trade receivables is as follows:

	As at 31 December 2011 Trade receivables £'000	As at 31 December 2010 Trade receivables £'000
Neither impaired nor past due	**2,113**	1,746
Past due but not impaired:		
0-60 days	**23**	52
61-90 days	**-**	1
More than 90 days	**6**	46
Carrying amount	**2,142**	1,845

An analysis of movements in provisions against future recovery is as follows:

	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Balance at beginning of year	**657**	689
Amounts charged to the provision	**234**	191
Amounts written off	**(159)**	(223)
Balance at end of year	**732**	657

19 Financial instruments - risk exposure and management (continued)

Capital disclosures
The Group's objectives when maintaining capital are:
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders commensurate with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Total capital is categorised as follows;	**As at 31 December 2011 £'000**	As at 31 December 2010 £'000
Share capital	**436**	436
Share premium	**528**	528
ESOP share reserve	**(517)**	(517)
Retained earnings	**23,556**	26,277
	24,003	26,724

20 Financial assets and liabilities – numerical information

Bank borrowings

The Group has undrawn committed borrowing facilities available at 31 December 2011 in which all conditions have been met. The borrowings are secured by a floating charge in favour of the Group's bankers.

The Group maintains a revolving credit facility with the Royal Bank of Scotland. Under the terms of the facility the Group may borrow up to a maximum of £8,000,000. The facility expires on 31 December 2012.

The facility is utilised by the drawing down of fixed tranches of borrowings over short term periods of less than three months. Whilst the conditions of the facility have been met, these borrowings may be rolled over until the expiry of the facility.

	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Expiry within 1 and 2 years	**7,500**	6,000
Expiry in more than 2 years	**-**	-
	7,500	6,000

Interest will be payable on the outstanding capital balance at a floating rate dependent on LIBOR borrowing rates. Based on the interest rates charged at the year end on the outstanding balance, the interest charge would be approximately £159,000 per annum.

Interest rate risk
All financial assets and liabilities are denominated in sterling.
The rate at which sterling floating liabilities are payable is 1.5% (2010 – 1.5%) above LIBOR.
Sterling floating rate assets attracted interest of 0.25% at the year-end (2010 – 0.5%).

Fair values
To the extent financial assets and liabilities are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 31 December 2011 and 2010.

Contingent consideration
Contingent consideration is classified as a level 3 financial liability and is recognised at fair value at the date of acquisition with subsequent changes in fair value being recognised through profit or loss.

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2010: 27%).

The movement on the deferred tax account is as shown below:

	Year ended 31 December 2011	Year ended 31 December 2010
	£'000	£'000
At beginning of the year	**1,316**	1,030
Credit to income	**(593)**	(71)
Arising on acquisition of intangible asset	**-**	357
Arising on impairment of intangible asset	**(357)**	-
At end of the year	**366**	1,316

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below.

Details of the deferred tax liability, amounts charged (credited) to the consolidated income statement and amounts charged (credited) to reserves, are as follows:

Year ended 31 December 2011

	(Asset) liability	**(Credited) charged to income**
	£'000	£'000
Accelerated capital allowances	**(272)**	(368)
Available losses	**(39)**	(20)
Intangible asset (brand)	**677**	(205)
	366	(593)

Year ended 31 December 2010

	Liability (asset)	**Charged (credited) to income**
	£'000	£'000
Accelerated capital allowances	**96**	-
Available losses	**(19)**	56
Intangible asset (brand)	**1,239**	(127)
	1,316	(71)

22 Share capital

Authorised

	At 31 December 2011 Number	At 31 December 2011 £'000	At 31 December 2010 Number	At 31 December 2010 £'000
Ordinary shares of 1p each	**60,000,000**	**600**	60,000,000	600

Issued and fully paid

	At 31 December 2011 Number	At 31 December 2011 £'000	At 31 December 2010 Number	At 31 December 2010 £'000
Ordinary shares of 1p each				
At beginning of the year	**43,609,346**	**436**	42,870,578	429
Employee share options exercised	**-**	**-**	-	-
Issued to the Employee Benefit Trust	**-**	**-**	738,768	7
At end of the year	**43,609,346**	**436**	43,609,346	436

All shares have equal voting rights and there are no restrictions on the distribution of dividends or repayment of capital.

See note 6 of the Fairpoint Group plc company financial statements for a complete disclosure of shares and share options issued.

23 Reserves

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value. On 11 October 2007 the Company applied to the High Court to cancel the share premium account. On cancellation the balance of this account was transferred to distributable reserves.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.
Merger reserve	Amount subscribed for share capital in excess of nominal value on acquisition of another company.
Other reserves	Payments in relation to share options.
ESOP share reserve	Amount subscribed for share capital held by the Employee Benefit Trust.

24 Leases

Finance leases

The Group leases certain fixtures and fittings and computer equipment. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

At 31 December 2011	Minimum lease payments	Interest	Present value
	£'000	£'000	£'000
Not later than one year	135	8	127
Later than one year and not later than five years	237	6	231
	372	**14**	**358**

At 31 December 2010	Minimum lease payments	Interest	Present value
	£'000	£'000	£'000
Not later than one year	112	9	103
Later than one year and not later than five years	308	12	296
	420	**21**	**399**

Present value of future lease payments are analysed as	At 31 December 2011	At 31 December 2010
	£'000	£'000
Current liabilities	**127**	103
Non current liabilities	**231**	296
	358	399

24 Leases (continued)

Operating leases – lessee

The Group leases its properties. The terms of property leases vary from location to location, although they all tend to be tenant repairing with rent reviews every 2 to 5 years and many have break clauses.

The total future payments are due as follows:	**At 31 December 2011 £'000**	At 31 December 2010 £'000
Not later than one year	**771**	533
Later than one year and not later than five years	**3,051**	2,347
Later than five years	**3,978**	3,326
	7,800	6,206

25 Bank balances held on behalf of individuals

Total bank balances of £60,589,956 (2010; £55,524,733) were held by the Group in trustee accounts on behalf of individuals who have entered into IVAs and DMPs at 31 December 2011. These bank balances are not recognised on the Group or Company balance sheets as the Group does not have control of the risks and rewards to these assets.

26 Share based payment

The Group operates eight share schemes for employees, as follows:

- Executive Share Option Scheme (ESOS)
- Enterprise Management Scheme (EMI)
- Company Share Option Plan (CSOP)
- Unapproved 2008 Plan (2008)
- Performance Share Plan (PSP)
- Save as your Earn Scheme (SAYE)
- Joint ownership scheme
- Unapproved 2011 Plan (2011)

The SAYE scheme was introduced in 2009 and is open to all employees. The PSP is restricted to senior management.
All other schemes are currently closed to further entrants.

Movements on share option schemes

	2011		2010	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at the beginning of year	**5,272,651**	**£0.96**	4,015,768	£1.03
Cancelled	**(2,756,140)**	**£0.80**	(663,904)	£1.03
Lapsed	**-**	**-**	-	-
Exercised	**-**	**-**	- -	
Granted	**945,000**	**£0.50**	1,920,787	£0.65
Outstanding at the end of the year	**3,461,511**	**£0.86**	5,272,651	£0.96
Exercisable at the end of the year	**676,714**	**£1.79**	1,652,259	£1.35

26 Share based payment (continued)

Year to 31 December 2011	Outstanding at start of year	Granted	Exercised	Lapsed/ Cancelled	Outstanding at end of year	Weighted Average Exercise Price	Weighted Average Contractual Life
ESOS	1,560,000	-	-	(1,200,000)	360,000	£1.46	3.3
EMI	225,788	-	-	(8,274)	217,514	£1.97	3.6
CSOP	186,400	-	-	(31,200)	155,200	£2.61	5.2
2008 *	227,920	-	-	(227,920)	-	£0.54	-
2008 *	900,000	-	-	(900,000)	-	£0.50	-
Joint ownership*	719,125	-	-	(150,661)	568,464	£0.70	1.1
PSP *	199,650	-	-	(199,650)	-	£0.01	-
SAYE	253,768	-	-	(38,435)	215,333	£0.61	0.9
Warrants *	1,000,000	-	-	-	1,000,000	£0.61	1.0
2011 *	-	945,000	-	-	945,000	£0.50	9.7
	5,272,651	945,000	-	(2,756,140)	3,461,511	£0.86	4.0

Year to 31 December 2010	Outstanding at start of year	Granted	Exercised	Lapsed/ Cancelled	Outstanding at end of year	Weighted Average Exercise Price	Weighted Average Contractual Life
ESOS	1,860,000	-	-	(300,000)	1,560,000	£1.23	5.1
EMI	286,696	-	-	(60,908)	225,788	£2.01	4.5
CSOP	219,200	-	-	(32,800)	186,400	£2.61	6.3
2008 *	253,797	-	-	(25,877)	227,920	£0.54	1.0
2008 *	900,000	-	-	-	900,000	£0.50	1.0
Joint ownership*	-	738,768	-	(19,643)	719,125	£0.84	2.0
PSP *	390,850	-	-	(191,200)	199,650	£0.01	1.5
SAYE	105,225	182,019	-	(33,476)	253,768	£0.62	1.8
Warrants *	-	1,000,000	-	-	1,000,000	£0.61	2.0
	4,015,768	1,920,787	-	(663,904)	5,272,651	£0.96	4.1

* subject to performance conditions

Summary of performance conditions

The satisfaction of all performance conditions is subject to the discretion of the remuneration committee. At 31 December 2011, the following conditions applied to the following shares outstanding under each scheme:

Condition	Target	Expiry	2011	Joint Ownership	Warrants
Annual EBITDA	£12,000,000	31/12/2012	-	71,107	-
	£15,000,000	31/12/2012	-	71,107	-
Share Price	70p	30/09/2014	472,500	-	-
	100p	30/09/2014	472,500	-	-
	122p	31/12/2012	-	213,125	500,000
	183p	31/12/2012	-	213,125	500,000

As at 31 December 2011 and 31 December 2010 no performance conditions had been met.

26 Share based payment (continued)

The range of exercise prices of options outstanding is summarised as:

Range	As at 31 December 2011 Number	Average life Years	As at 31 December 2010 Number	Average life Years
1-100p	**2,748,674**	**4.02**	3,920,340	2.12
101-200p	**497,111**	**3.38**	1,097,111	4.52
Greater than 200p	**215,726**	**4.86**	255,200	5.78
	3,461,511	**3.98**	5,272,651	4.09

Of the total number of options outstanding at the end of the year 732,714 (2010: 1,972,188) had vested and were exercisable at the end of the year.

No share options were exercised in the year to 31 December 2011 or the year to 31 December 2010.

The weighted average fair value of each option granted during the year was 14.2p (2010: 23.1p).

The following information is relevant in the determination of the fair value of options granted under the equity schemes operated by the Group.

Equity-settled	2011 £'000	2010 £'000
Option pricing model used	**Black Scholes**	Black Scholes
Weighted average share price at grant date	**£0.51**	£0.65
Weighted average exercise price	**£0.50**	£0.89
Weighted average contractual life (years)	**9.71**	4.09
Weighted average expected volatility	**61%**	36%
Weighted average expected dividend yield	**7.82%**	5.36%
Weighted risk free interest rate	**4.84%**	2.98%

Expected volatility is based on the standard deviation of the Group's share price for the 12 months preceding the grant of share options.

	2011 £'000	2010 £'000
The share based remuneration expense (note 3) comprises:		
Equity-settled schemes	**42**	68

The Group did not enter into any share based payment transactions with parties other than employees during the current or previous year, other than disclosed in note 28 of the financial statements.

27 Contingent asset

The Group submitted a VAT refund claim to HMRC of £9.0m in August 2011, following the decision in Paymex Ltd v HMRC which found that fees relating to IVAs were exempt supplies. This claim relates to net VAT payments made by the Group since 1 June 2007.

The potential repayment of VAT by HMRC will result in cash being distributed to creditors through IVA cases as additional realisations and to the Group as fee income. From ongoing discussions with HMRC, management believe the claim will be successful and continues to expect that a material part of this claim will be retained by the Group as exceptional fee income during the 2012, although there remains uncertainty as to the exact timing from HMRC of receipt and the value of the net benefit to the Group.

28 Related party transactions

Details of directors' remuneration are given in note 4. The directors are considered to be the only key management personnel.

The directors do not consider any one party to exercise ultimate control over the Group.

There were no related party transactions during the year.

On 4 January 2010 the Company issued warrants in consideration for services to be provided under an agreement with Hanover Investors ("Hanover"), a substantial shareholder in the Company and related party to Matthew Peacock, non-executive chairman and Simon Gilbert, a non-executive director at that time. Under the terms of the services agreement, Hanover will provide advisory services related to business and strategic planning including advice and analysis in relation to acquisitions and strategic investment opportunities.

In consideration for the services provided, the Company granted Hanover 1,000,000 warrants over ordinary shares of 1p each in the capital of the Company. The warrants have a strike price of 61p each and are exercisable between 5 January 2010 and 30 June 2013. Vesting is subject to the following performance criteria: 50% of the warrants become exercisable if in the three year period to 31 December 2012 Fairpoint Group plc's share price over a thirty day period averages 122p or greater and 50% if Fairpoint's share price over a thirty day period averages 183p or greater. The warrants have been valued based on the value of the option. The Board consider the option value to be the approximate fair value of the service to be delivered. At 31 December 2011 none of the warrants had vested.

29 Notes supporting cash flow statement

Cash and cash equivalents comprises:	**31 December 2011 £'000**	31 December 2010 £'000
Cash available on demand	**1,468**	978
Net increase in cash and cash equivalents	**490**	146
Cash and cash equivalents at beginning of year	**978**	832
Cash and cash equivalents at end of year	**1,468**	978

30 Prior year acquisitions

On 2 June 2010 the Company acquired the entire issued share capital of WKD UK Limited. The consideration was £1,282,000 satisfied on completion by £1,148,000 in cash with deferred consideration of £134,000 paid on 24 February 2011.

In addition to the consideration paid above, a further £72,539 of acquisition-related costs were incurred which were expensed through administrative expenses in 2010, in line with the requirements of IFRS 3 (revised).

The following table sets out the book value of the identifiable assets and liabilities acquired and their value to the Group:

	Book value £'000	Fair value adjustments £'000	Fair value to the group £'000
Liabilities excluding intangibles	(16)	-	(16)
Goodwill valuation	-	-	629
Customer contracts	-	-	669
Total acquired	**(16)**	**-**	**1,282**
Consideration satisfied by:			
Cash			1,148
Deferred consideration			134
			1,282

The goodwill is attributable to the significant synergies which are expected to arise from the integration of the business with that of the Group, and those intangibles such as the workforce which are not recognised separately.

Customer contracts were capitalised as other intangible assets.

30 Prior year acquisitions (continued)

On 27 July 2010 the Company acquired the entire issued share capital of Moneyextra.com Limited. The consideration of £1,087,000 was satisfied on completion by the issue of £242,000 in loan notes with a further £845,000 of contingent consideration payable, contingent on future earnings. Full details of the contingent consideration are provided on page 41 of the financial statements.

In addition to the consideration payable above, a further £133,747 of acquisition-related costs were incurred which were expensed through administration expenses in 2010, in line with the requirements of IFRS 3 (revised).

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the Group.

	Book value £'000	Fair value adjustments £'000	Provisional fair value to the group £'000
Liabilities excluding intangibles	(1,331)	(458)	(1,789)
Goodwill valuation	-	-	1,910
Brand valuation	-	-	1,323
Deferred taxation on brand valuation	-	-	(357)
Total acquired	**(1,331)**	**(458)**	**1,087**
Consideration satisfied by:			
Cash			242
Deferred consideration			845
			1,087

The goodwill is attributable to the significant synergies which are expected to arise from the integration of the business with that of the Group and those intangibles such as the workforce which are not recognised separately.

The brand asset identified on acquisition relates to Moneyextra.com and was capitalised as brand intangibles.

Other intangible assets comprise the Moneyextra.com brand identified on acquisition.

COMPANY **BALANCE SHEET**

Company Number 4425339	Note	At 31 December 2011 £'000	At 31 December 2010 £'000
FIXED ASSETS			
Investments	3	16,016	17,237
CURRENT ASSETS			
Debtors (all due after more than one year)	4	6,512	8,600
Cash at bank		316	237
Total current assets		**6,828**	**8,837**
CREDITORS: amounts falling due within one year	4	(87)	(89)
NET CURRENT ASSETS		**6,741**	**8,748**
TOTAL ASSETS LESS CURRENT LIABILITIES		**22,757**	**25,985**
CREDITORS: amounts falling due after one year	5	-	(845)
NET ASSETS		**22,757**	**25,140**
CAPITAL AND RESERVES			
Called-up share capital	6	436	436
Share premium account	7	528	528
Other reserve	7	254	254
ESOP share reserve	7	(517)	(517)
Merger reserve	7	11,842	11,842
Profit and loss account	7	10,214	12,597
TOTAL SHAREHOLDERS' FUNDS		**22,757**	**25,140**

These financial statements were approved and authorised for issue by the directors on 14 March 2012 and are signed on their behalf by:

C Moat
Director

The notes on pages 55 to 60 form part of these financial statements.

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The Group profit for the year includes a Company loss after tax of £578,000 (2010: Profit of £17,000)

Cash flow statement

As permitted by FRS1 the financial statements do not contain a cashflow statement as the financial statements of the Group, which are publicly available, contain a cashflow statement.

Investments and impairment

Fixed asset investments are stated at cost except where in the opinion of the directors, there has been a permanent diminution in the value of the investments, in which case an appropriate adjustment is made.

The need for any fixed asset impairment write down is assessed by comparison of the carrying value of the assets against the higher of realisable value and value in use.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial Instruments

Financial instruments are measured initially and subsequently at cost.

ESOP share reserve

Represents the amount subscribed for share capital held by the Employee Benefit Trust.

2. STAFF COSTS

Staff costs were nil (2010: £nil) and the Company employed no staff during the year (2010: nil).

3. INVESTMENTS

Company

	£'000
COST:	
At 1 January 2011	17,237
Impairments	(1,221)
At 31 December 2011	**16,016**
NET BOOK VALUE:	
At 31 December 2011	16,016
At 31 December 2010	**17,237**

At 31 December 2011 an impairment review was performed over the Moneyextra.com Limited investment resulting in an impairment loss being recognised. Following this impairment loss the net book value of the Moneyextra.com investment is nil.

Details of subsidiary undertakings at the balance sheet date are as follows:

Name of company	**Country of incorporation**	**Class of share**	**Nature of business**	**Proportion of voting rights**
Debt Free Direct Limited	England	100% Ordinary 100% "A" Preference 100% "B" Preference 100% "C" Preference 100% "D" Preference	Provision of financial advice and appropriate solutions	100%
Lawrence Charlton Limited	England	100% Ordinary	Debt management	100%
DFD Mortgages Limited	England	100% Ordinary	Provision of financial advice and appropriate solutions	100%
IVA Insurance Limited	Guernsey	100% Ordinary	Offshore insurance company	100%
Debt Free Direct (Australia) Limited	England	100% Ordinary	Dormant	75%
The Debt Advice and Money Solutions Group	England	100% Ordinary	Dormant	100%
Clear Start Partnerships Limited	England	100% Ordinary	Provision of leads to the Fairpoint Group plc	100%

3. INVESTMENTS (continued)

Name of company	Country of incorporation	Class of share	Nature of business	Proportion of voting rights
Allixium Limited	England	100% Ordinary	Provision of financial advice and appropriate solutions	100%
Clear Start UK Limited	England	100% Ordinary	Provision of financial advice and appropriate solutions	100%
Adlington House Limited	England	100% Ordinary	Provision of financial advice and appropriate solutions	100%
Up and Up Group plc	England	100% Ordinary	Dormant	100%
Clear Start Money				
Management Limited	England	100% Ordinary	Debt Management	100%
Debt Advice Trust Limited	England	[1]	Provision of financial advice and appropriate solutions	100%
WKD UK Limited	England	100% Ordinary	Debt management	100%
Money Tailor Limited	England	100% Ordinary	Dormant	100%
Moneyextra.com Limited	England	100% Ordinary	Financial intermediary	100%
STL Innovations Limited	England	100% Ordinary	Dormant	100%
Your Debt Solved Limited	England	100% Ordinary	Dormant	100%

[1] Debt Advice Trust Limited, a company limited by guarantee and incorporated in England, is consolidated as the Group exercises control over the composition and voting power of the board. The principal activity of this business was the provision of financial advice and appropriate solutions to individuals experiencing personal debt problems. The entity was originally founded by the Group.

4. NET CURRENT ASSETS

DEBTORS	31 December 2011 £'000	31 December 2010 £'000
Amounts owed by Group undertakings	**6,512**	8,600

Amounts owed by Group undertakings include £6,512,000 (2010: £8,600,000) due after more than one year.

CREDIT: amounts falling due within one year	31 December 2011 £'000	31 December 2010 £'000
Other liabilities	**-**	82
Corporation tax	**87**	7
	87	89

5. CREDITORS: amounts falling due after more than one year

	31 December 2011 £'000	31 December 2010 £'000
Contingent consideration	-	845

Contingent consideration relates to amounts payable to the vendors of Moneyextra.com Limited. Any contingent consideration is payable in March 2014 based on the earnings of Moneyextra.com Limited and its subsidiaries in the year to 31 December 2013. The consideration is payable on a proportion of Moneyextra business valuation of between 0% and 20%. The business valuation will be calculated by multiplying Moneyextra earnings before interest, tax, depreciation and amortisation ("EBITDA") by Fairpoint Group plc's EBITDA multiple calculated as market capitalisation divided by Fairpoint Group plc's total EBITDA. The consideration may not exceed £15 million and if the amount payable exceeds a total of 2.5 times Moneyextra EBITDA for 2013, then the excess may be payable in shares at the discretion of Fairpoint Group plc. The contingent consideration is valued based on estimates of future profitability and is discounted at a rate of 10% per annum to present value.

At 31 December 2011 an impairment review was performed over the Moneyextra.com Limited investment resulting in an impairment loss. Based on forecast operating results for Moneyextra.com Limited, it is not anticipated that any contingent consideration will be payable to the vendors of the business under the agreement outlined above.

6. SHARE CAPITAL

Authorised share capital:

	31 December 2011 £'000	31 December 2010 £'000
60,000,000 (2010: 60,000,000) ordinary shares of 1p each	**600**	600

Allotted, called up and fully paid:

	31 December 2011 £'000	31 December 2010 £'000
Ordinary shares of 1p each	**436**	436

Share option scheme

Details of options issued under the Company's share option schemes are given in note 26 to the Group financial statements.

Options have been granted to subscribe for ordinary shares of the Company under various share option and award schemes as shown below:

Scheme	**Year**	**Number of share options under option**	**Price per share**	**Exercise period**
EMI	2004	11,855	£0.68	Between 2007 and 2017
EMI	2004	8,022	£0.81	Between 2007 and 2017
EMI	2005	22,601	£1.32	Between 2008 and 2018
EMI	2005	54,794	£1.46	Between 2008 and 2018
EMI	2005	9,211	£1.89	Between 2008 and 2018
EMI	2005	50,505	£1.98	Between 2008 and 2018
Exec	2005	360,000	£1.46	Between 2008 and 2018
EMI	2006	60,526	£3.09	Between 2009 and 2019
CSOP	2007	123,200	£2.67	Between 2010 and 2020
CSOP	2007	32,000	£2.37	Between 2010 and 2020
SAYE	2009	83,875	£0.48	3 Years
SAYE	2010	131,458	£0.70	3 Years
Joint ownership	2010	568,464	£0.70	3 Years
Warrants	2010	1,000,000	£0.61	3 Years
Unapp 2011	2011	945,000	£0.50	Between 2013 and 2021

7. RESERVES

Company	Share premium account	Shares to be issued	ESOP share reserve	Merger reserve	Profit and loss account	Total
	£'000	£,000	£,000	£'000	£'000	£'000
At beginning of year	**528**	**254**	**(517)**	**11,842**	**12,597**	**24,704**
Loss for the year	-	-	-	-	(578)	(368)
Dividends paid	-	-	-	-	(1,805)	(1,805)
	528	**254**	**(517)**	**11,842**	**10,214**	**22,531**

During the year the Company paid £1,805,388 in dividends (2010: £1,512,447).

FAIRPOINT.

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