FAIRPOINT.

Fairpoint Group plc
Annual Report & Accounts 2012

Year ended 31 December 2012

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CHAIRMAN'S **STATEMENT**

Overview

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

Strategy

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

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

Dividend

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

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

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

Changes to the board and shareholders

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

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

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

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

Outlook

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

Matthew Peacock
Chairman

Results

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

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

Operational review

Market conditions and update

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

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

IVA services

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

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

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

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

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

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

DMP services

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

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

Claims management services

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

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

Lending pilot

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

Outlook

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

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

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

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

Christopher Moat
Chief Executive Officer

FINANCE DIRECTOR'S **REVIEW**

Financial highlights

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

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

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

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

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

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

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

Earnings per share (EPS)

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

Share capital

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

Cash flows

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

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

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

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

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

FINANCE DIRECTOR'S **REVIEW**

Financing

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

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

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

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

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

VAT

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

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

John Gittins
Group Finance Director

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

OFFICERS AND PROFESSIONAL **ADVISORS**

Directors	Matthew Peacock	Chris Moat	John Gittins
	John Allkins	Thomas Russell	Amanda West

BOARD OF DIRECTORS

Non-executive chairman
Matthew Peacock (51) •

Matthew Peacock was appointed to the Board on 10 June 2008 and as chairman on 5 September 2008. Matthew is also the chairman of Regenersis plc and is the chairman and founding partner of Hanover Investors Management LLP which is a significant shareholder of Fairpoint.

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 (44) •

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.

Finance director & company secretary
John Gittins, ACA (53)

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 (63) * O •

John Allkins was previously group finance director for MyTravel Group plc and prior that was chief financial officer at Equant NV. He is also a non executive director of Renold plc, Linpac Group Ltd and Punch Taverns plc. John is a fellow of the Chartered Institute of Management Accountants and was appointed to the Board as non-executive director in September 2008.

Non-executive director
Thomas Russell, (35) * 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.

Non-executive director
Amanda West, (50)

Amanda West was appointed as a non executive director in November 2012. She is currently Senior Vice President, Transformation at Thomson Reuters, having held senior positions for over 20 years with Thomson Reuters and Reuters. She is also Deputy Chair of the Waterford School Charitable Trust and a mentor at Seedcamp, the micro-seed investment fund.

* 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

The directors present their report and the financial statements of the Group for the year ended 31 December 2012.

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 2012 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 3.55 pence per 1p ordinary share is proposed for approval at the forthcoming AGM. This, together with the interim dividend of 1.95 pence, makes a total dividend of 5.50 pence for the year (2011: 4.5 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 2012	**At 31 December 2011**
C Moat	201,531	201,531
J Gittins	16,667	-
M R Peacock [1]	9,983,578	9,662,378
J S Allkins	50,000	-
T Russell [1]	9,983,578	9,662,378
P Blacher (Resigned 16/11/12)	-	-
A West (Appointed 16/11/12)	-	-
D J Oakley (Resigned 15/05/12)	-	817,324

[1] M R Peacock and T Russell have an indirect interest in 9,983,578 shares through funds advised by Hanover Investors Management LLP.

Substantial shareholdings

Other than the directors' interests, on 31 December 2012, 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
Henderson Global Investors	10,401,261	24.80%
Hanover Investors Management LLP	9,983,578	23.80%
Midas Capital Partners Limited	3,011,760	7.18%
Fortelus Capital Management LLP	2,720,477	6.49%
BSI Generali UK Ltd	2,563,000	6.11%
Ispartners Investment Solutions Ag	1,835,000	4.38%
Majedie Asset Management	1,286,197	3.07%

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 28 days purchases (2011: 35 days).

Charitable donations	**Year ended 31 December 2012 £**	Year ended 31 December 2011 £
	8,120	971

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 13 March 2013.

J Gittins
Company Secretary

REPORT ON **REMUNERATION**

Directors' remuneration

The board submits its directors' remuneration report for the year ended 31 December 2012.

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 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

	Fees/Basic Annual Salary £'000	Bonus £'000	Benefits £'000	Compensation for loss of office £'000	Pension £'000	Year to 31 December 2012 Total £'000	Year to 31 December 2011 Total £'000	Current basic annual salary Total £'000
Executive								
C Moat	244	93	7	-	37	**381**	314	246
J Gittins	196	76	1	-	19	**292**	66	200
D J Oakley (Resigned 15/05/12)	192	-	1	-	-	**193**	240	-
A J Heath (Resigned 01/10/11)	-	-	-	-	-	**-**	230	-
	632	169	9	-	56	**866**	850	446
Non-executive								
M Peacock [1]	87	-	-	-	-	**87**	73	96
J Allkins	35	-	-	-	-	**35**	32	37
T Russell [1]	39	-	-	-	-	**39**	-	39
P Blacher (Resigned 16/11/12)	30	-	-	-	-	**30**	30	-
A West (Appointed 16/11/12)	6	-	-	-	-	**6**	-	35
S Gilbert (Resigned 19/12/11)	-	-	-	-	-	**-**	36	-
	197	-	-	-	-	**197**	171	207
Total	829	169	9	-	56	**1,063**	1,021	653

[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 2012

Director	Scheme	At 31 December 2011	At 31 December 2012	Option Price in pence	Date from which exercisable	Expiry Date
C Moat	2008 Unapproved	450,000	450,000	50	01.04.13	13.09.21
C Moat	2008 Unapproved	450,000	450,000	50	01.10.14	13.09.21
J Gittins	2008 Unapproved	-	300,000	50	27.04.15	27.04.22

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, claims management revenues 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 regulatory bodies, the Insolvency Service and the Institute of Chartered Accountants in England and Wales, and seeks to provide input to the working parties as they arise.

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 March 2012 the Office of Fair Trading (OFT) published revised guidance on the standards it expects from businesses offering debt management advice or credit repair services to consumers. The Group has been able to operate within this revised guidance and continues to work closely with all regulators.

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

Certain of the Group's claims management activities are also regulated, and the Group is appropriately authorised for these activities by the Ministry of Justice.

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 was largely completed during 2012. 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 implement the new IVA platform and will continue to invest in IT systems and infrastructure.

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, two 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 A West 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 10 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 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)
C Moat	13	-	-
J Gittins	13	-	-
D J Oakley (Resigned 15 May 2012)	5	-	-
M R Peacock	13	-	-
J S Allkins	13	3	1
T Russell	13	2	1
P Blacher (Resigned 16 November 2012)	10	2	1
A West (Appointed 16 November 2012)	1	-	-

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. A West is subject to election at the 2013 annual general meeting. Biographical details of all 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. 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.

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 consists of J S Allkins and T Russell and is chaired by T Russell.

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 consists of J S Allkins and T Russell and is chaired by J S Allkins.

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 reviews this regularly.

Internal control

The board is responsible for the Company's internal control framework and for reviewing its effectiveness. On behalf of the board, the audit committee annually 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 3 to 4 and page 12. The financial position of the Group is described in the finance director's review on pages 5 to 6. 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 2012, 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 2012 and of the Group's profit 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

13 March 2013

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 2012			Year Ended 31 December 2011		
		Adjusted *	**Amortisation of acquired intangible assets and exceptional items**	**Total**	Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	**2 & 5**	29,857	4,507	34,364	25,890	-	25,890
Cost of sales		(14,837)	-	(14,837)	(14,888)	-	(14,888)
Gross profit		**15,020**	**4,507**	**19,527**	**11,002**	**-**	**11,002**
Amortisation of acquired intangibles		-	(1,331)	(1,331)	-	(946)	(946)
Other administrative expenses	**2**	(10,915)	(248)	(11,163)	(10,967)	(4,133)	(15,100)
Total administrative expenses		**(10,915)**	**(1,579)**	**(12,494)**	**(10,967)**	**(5,079)**	**(16,046)**
Finance income – unwinding of discount on IVA revenue	**6**	3,817	-	3,817	4,254	-	4,254
Finance income – other	**6**	10	-	10	6	-	6
Profit (loss) before finance costs	**2**	**7,932**	**2,928**	**10,860**	**4,295**	**(5,079)**	**(784)**
Finance costs	**6**	(380)	-	(380)	(259)	-	(259)
Profit (loss) before taxation		7,552	2,928	10,480	4,036	(5,079)	(1,043)
Tax (expense) credit	**7**	(1,794)	(717)	(2,511)	(1,063)	1,148	85
Profit (loss) for the year		**5,758**	**2,211**	**7,969**	**2,973**	**(3,931)**	**(958)**
Total comprehensive income (loss) for the year		5,758	2,211	7,969	2,973	(3,931)	(958)
Earnings per Share							
Basic	**8**			18.59			(2.20)
Diluted	**8**			18.43			(2.20)

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

* Before amortisation of acquired intangible assets and exceptional items.

The notes on pages 22 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

Company Number 4425339	Notes	As at 31 December 2012 £'000	As at 31 December 2011 £'000
ASSETS			
Non Current Assets			
Property, plant and equipment	10	1,406	1,397
Goodwill	11,12	11,972	11,972
Other intangible assets	11	6,943	7,253
Total Non Current Assets		**20,321**	**20,622**
Current Assets			
Trade receivables and amounts recoverable on IVA services	14	24,984	24,068
Other current assets	14	4,743	1,234
Cash and cash equivalents		1,850	1,468
Total Current Assets		**31,577**	**26,770**
Total Assets		**51,898**	**47,392**
EQUITY			
Share capital	22	436	436
Share premium account		528	528
Treasury shares	22	(1,015)	-
ESOP share reserve		(517)	(517)
Merger reserve		11,842	11,842
Other reserves		254	254
Retained earnings		29,654	23,556
Total equity attributable to equity holders of the parent		**41,182**	**36,099**
LIABILITIES			
Non Current Liabilities			
Long-term financial liabilities	17	100	231
Deferred tax liabilities	21	200	366
Total Non Current Liabilities		**300**	**597**
Current Liabilities			
Trade and other payables	15	7,942	2,949
Short-term borrowings	16	130	7,627
Current tax liability		2,344	120
Total Current Liabilities		**10,416**	**10,696**
Total Liabilities		**10,716**	**11,293**
Total Equity and Liabilities		**51,898**	**47,392**

The financial statements were approved by the Board of directors on 13 March 2013 and were signed on its behalf by:

J Gittins
Director

The notes on pages 22 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF
CASH FLOWS

	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cash flows from operating activities			
Profit (loss) before tax		**10,480**	(1,043)
Share based payments charge		**94**	42
Depreciation of property, plant and equipment		**373**	402
Amortisation of intangible assets and development expenditure		**1,570**	1,300
Impairment of Moneyextra.com goodwill and brand		**-**	2,876
(Profit) loss on disposal of non current assets		**(50)**	1,519
Interest received		**(10)**	(6)
Interest expense		**380**	259
(Increase) decrease in trade and other receivables		**(4,098)**	1,991
Increase (decrease) in trade and other payables		**4,973**	(1,135)
Cash generated from operations		**13,712**	6,205
Interest paid		**(690)**	(259)
Income taxes paid		**(472)**	(1,362)
Net cash generated from operating activities		**12,550**	4,584
Cash flows from investing activities			
Proceeds from sale of non current assets		**229**	-
Purchase of property, plant and equipment (PPE)		**(435)**	(134)
Interest received		**10**	6
Purchase of trademarks		**-**	(5)
Purchase of software development		**(704)**	(582)
Purchase of debt management and IVA books		**(660)**	(2,960)
Net cash absorbed by investing activities		**(1,560)**	(3,675)
Cash flows from financing activities			
Equity dividends paid	**9**	**(1,965)**	(1,805)
Purchase of treasury shares	**22**	**(1,015)**	-
Proceeds from long-term borrowings		**-**	1,500
Payment of short-term borrowings		**(7,497)**	(114)
Payment of long-term borrowings		**(131)**	-
Net cash absorbed by financing activities		**(10,608)**	(419)
Net change in cash and cash equivalents	**18**	**382**	490
Cash and cash equivalents at start of year		**1,468**	978
Cash and cash equivalents at end of year	**28**	**1,850**	1,468

The notes on pages 22 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY

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

The notes on pages 22 to 51 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 52 to 56.

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 PNC Financial Services UK Ltd extends to 2016 and provides a facility of £13m. For the purpose of considering going concern the board has considered a period of at least 12 months from the date of signing these financial statements.

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 following new standards and interpretations have been adopted in the current year but have not impacted the reported results or the financial position:

- Amendments to IFRS 7 Financial Instruments: Disclosures;
- Amendments to IAS 1 Presentation of Financial Statements;
- Amendments to IAS 24 Related Party Disclosures.

The adoption of these new standards and interpretations has not changed any previously reported figures.

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IAS 12, IAS 19, IAS 27, IAS 28 and IFRIC 20;
- IFRS 9 Financial Instruments – Classification and Measurement;
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 13 Fair Value Measurement.

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 reduce the balance of assets by a fixed percentage each year. The principal depreciation rates used for this purpose are:

- Fixtures and fittings 25%
- Computer equipment 25%

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 which ordinary shares have been issued and are held by the EBT. These 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.

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 and no impairment has been identified (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 £22,402,000 at the year end (2011: £21,926,000). The discount rate considered appropriate to the IVA clients is 20% (2011: 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 and no impairment has been identified. Any change in estimates could result in an adjustment to recorded accounts.

2 Profit before finance costs

Profit before finance costs has been arrived at after charging:	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Staff costs (see note 3)	**10,688**	10,318
Marketing costs	**5,452**	5,636
Depreciation of property, plant and equipment	**373**	402
Amortisation of intangible assets	**1,570**	1,300
Operating lease expense		
- Plant and machinery	**3**	16
- Property	**748**	613
Audit fees		
- Parent	**48**	58
- Subsidiary	**20**	23
Fees paid to the Company's auditors for non-audit services		
- Tax services	**24**	11
- Corporate finance	**-**	13
- Other services	**18**	-
Loss on disposal of property, plant and equipment	**26**	9
Credit impairment of IVA revenues	**2,429**	3,366

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

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

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

3 Staff costs

Staff costs (including directors) comprise:	**Year ended 31 December 2012 £'000**	Year ended 31 December 2011 £'000
Wages and salaries	**9,503**	9,148
Defined contribution pension cost	**161**	186
Short term non-monetary benefits	**103**	95
Share based payment expense (see note 26)	**94**	42
Employer's national insurance contributions and similar taxes	**827**	847
	10,688	10,318

The average number of employees during the year was:	**Year ended 31 December 2012 Number**	Year ended 31 December 2011 Number
Directors	**7**	7
Management and administration	**59**	66
IVA processing team	**250**	281
Claims management team	**18**	10
DMP processing team	**76**	75
	410	439

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 2012 £'000	Year ended 31 December 2011 £'000
Directors' remuneration consists of:		
Directors' emoluments	**1,007**	849
Compensation for loss of office	**-**	118
Company contributions to money purchase pension schemes	**56**	54
Total directors' remuneration	**1,063**	1,021
Share based payment expense relating to directors	**81**	17
Employers' national insurance expense on directors' remuneration	**113**	98
Total directors' remuneration expense	**1,257**	1,136

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Remuneration in respect of the highest paid director:		
Salary and bonuses	**337**	264
Pensions	**37**	44
Benefits	**7**	6
	381	314

There were two directors who received contributions into their defined contribution pension scheme (2011: 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.

No directors exercised share options in the year (2011: 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 and operational strategies.

Measurement of operating segment profit and assets

The accounting policies of the operating segments are consistent with those described in the summary of accounting policies.

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

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

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

The segments are summarised as follows:

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

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

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

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

5 Segment analysis (continued)

Year ended 31 December 2012

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

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

5 Segment analysis (continued)

Year ended 31 December 2011 - restated *

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

* Segmental analysis has been restated to report under the revised segments as described in the notes on page 30.

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

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

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

6 Finance income and expense

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Finance income		
– unwinding of discount on IVA revenues	**3,817**	4,254
Finance income – other		
Bank interest received	**10**	6
	3,827	4,260
Finance expense		
Bank borrowings	**(372)**	(221)
Finance leases	**(8)**	(10)
Other	**-**	(28)
	(380)	(259)
	3,447	4,001

7 Tax expense

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

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

8 Earnings per share (EPS)

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

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

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

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

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

* Before amortisation of acquired intangible assets and exceptional items.

9 Dividends

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

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

10 Property, plant and equipment

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
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**
At 31 December 2012			
Cost	1,665	2,627	4,292
Accumulated depreciation	(1,222)	(1,664)	(2,886)
Net book value	**443**	**963**	**1,406**
Year ended 31 December 2011			
Opening net book value	578	1,026	1,604
Additions	76	128	204
Disposals	-	(9)	(9)
Depreciation charge for year	(141)	(261)	(402)
Closing net book value	**513**	**884**	**1,397**
Year ended 31 December 2012			
Opening net book value	513	884	1,397
Additions	58	350	408
Disposals	(6)	(20)	(26)
Depreciation charge for year	(122)	(251)	(373)
Closing net book value	**443**	**963**	**1,406**

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 2012 £'000	Year ended 31 December 2011 £'000
Computer equipment	**105**	160

11 Intangible assets

	Goodwill	Brands	Software Development & Trademarks	Acquired back books	Total
	£'000	£'000	£'000	£'000	£'000
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**
At 31 December 2012					
Cost	11,972	4,530	1,779	4,982	23,263
Amortisation	-	(2,076)	(613)	(1,660)	(4,349)
Net book value	**11,972**	**2,454**	**1,166**	**3,322**	**18,914**
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**
Year ended 31 December 2012					
Opening net book value	11,972	2,831	806	3,616	19,225
Additions					
- Internally developed	-	-	501	-	501
- Externally acquired	-	-	259	660	919
Disposals	-	-	(161)	-	(161)
Amortisation charge	-	(377)	(239)	(954)	(1,570)
Closing net book value	**11,972**	**2,454**	**1,166**	**3,322**	**18,914**

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.

Software development relates to external and internal costs relating to the development of systems used by the Group.

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 2012 £'000	At 31 December 2011 £'000
Subsidiary			
Debt Free Direct Limited	IVA	**1,934**	1,934
Clear Start UK Limited	IVA	**9,409**	9,409
WKD UK Limited	Debt management	**629**	629
		11,972	11,972

Goodwill is allocated to internal cash generating units (CGUs) consistent with the operating segments as disclosed in note 5.

Goodwill has been tested for impairment at 31 December 2012 by reference to the recoverable amount of the relevant CGU. There have been no 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 forecasts covering a five year period to 31 December 2017. Beyond 2017, a residual value has been estimated based on six times the forecast 2017 profit before tax. 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 2012 %
Discount rate	**11**
Conversion rate - IVA	**2.4**
Attrition rate – DMP	**2.0**
Average annual growth rate – IVA	**2.5**
Average annual growth rate - DMP	**2.5**

Sensitivity to changes in the assumptions

The recoverable amount for the IVA segment exceeds its carrying value by £27.5 million. A 1% change in the discount rate or similar change in the terminal growth rate would change the recoverable amount by approximately £2.4 million and £4.8 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 £4.1 million and £3.2 million respectively.

The recoverable amount for the debt management segment exceeds its carrying value by £12.0 million. A 1% change in the discount rate or similar change in the terminal growth rate would change the recoverable amount by approximately £0.5 million and £0.3 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 £0.8 million and £0.9 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%	Dormant
Lawrence Charlton Limited	England	100%	Debt management
DFD Mortgages Limited	England	100%	Dormant
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%	Dormant
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 2012 £'000	At 31 December 2011 £'000
Trade receivables	**2,582**	2,142
Amounts recoverable on IVA services	**22,402**	21,926
	24,984	24,068
Other receivables	**2,797**	76
Prepayments and accrued income	**1,946**	1,158
	4,743	1,234
Total	**29,727**	25,302

Of which the following amounts are receivable after one year:	At 31 December 2012 £'000	At 31 December 2011 £'000
Trade receivables	**-**	118
Amounts recoverable on IVA services	**11,848**	10,344
	11,848	10,462

15 Trade and other payables – current

	At 31 December 2012 £'000	At 31 December 2011 £'000
Trade payables	**3,120**	1,426
Other tax and social security taxes	**844**	193
Other payables	**2,169**	191
Accruals and deferred income	**1,809**	1,139
	7,942	2,949

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 2012 £'000	At 31 December 2011 £'000
Bank loans		
- secured	**-**	7,500
Finance lease creditor (note 24)	**130**	127
	130	7,627

Maturity analysis and an analysis of interest rates payable for bank borrowings is set out in note 19. A maturity analysis for finance leases is set out in note 24. The bank loan is secured against the Group's book of Individual Voluntary Arrangements and Debt Management Plans.

17 Non-current financial liabilities

	At 31 December 2012 £'000	At 31 December 2011 £'000
Finance lease creditor (note 24)	**100**	231

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

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

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

Net surplus (borrowings) comprises:	At 31 December 2012 £'000	At 31 December 2011 £'000
Cash and cash equivalents	**1,850**	1,468
Short term borrowings (note 16)	**(130)**	(7,627)
Long term borrowings (note 17)	**(100)**	(231)
Net surplus (borrowings)	**1,620**	(6,390)

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.

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 2012, 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 £18,000 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 is able to draw down on its asset based revolving credit facility at any time, allowing flexibility to deal with unexpected cash requirements.

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 £24,984,000, comprising £2,582,000 of trade receivables, where counterparties have been invoiced but funds not received, and £22,402,000 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 £2,429,000 (2011: £3,366,000).

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 2012			As at 31 December 2011		
	Gross receivables	Provision against future recovery	Carrying value	Gross receivables	Provision against future recovery	Carrying value
	£'000	£'000	£'000	£'000	£'000	£'000
Trade receivables	2,926	344	2,582	2,874	732	2,142
Other receivables	2,797	-	2,797	76	-	76
Prepayments	1,946	-	1,946	1,158	-	1,158
Amounts recoverable on IVA services *	22,402	-	22,402	21,926	-	21,926
	30,071	344	29,727	26,034	732	25,302

* The "Amounts recoverable on IVA services" balance represents expected fee revenue on IVA cases net of discounts for time value of money and bad debt, based on an analysis of the Group's historic IVA portfolio. It is accounted for and held on a cohort basis as a net balance, with bad debt expense and finance income arising from unwinding of the discount being recognised in the Group's statement of comprehensive income.
The charge for bad debt in the year relating to amounts recoverable on IVA services amounted to £2,429,000 (2011: £3,366,000).

The Group does not hold any collateral as security.

An analysis of the ageing of trade receivables is as follows:	As at 31 December 2012	As at 31 December 2011
	Trade receivables £'000	Trade receivables £'000
Neither impaired nor past due	2,002	2,113
Past due but not impaired:		
0-60 days	514	23
61-90 days	27	-
More than 90 days	39	6
Carrying amount	2,582	2,142

An analysis of movements in provisions against future recovery is as follows:	As at 31 December 2012	As at 31 December 2011
	£'000	£'000
Balance at beginning of year	732	657
Amounts charged to the provision **	209	234
Amounts written off	(597)	(159)
Balance at end of year	344	732

** Excluding charges in respect of amounts recoverable on IVA services. See * above.

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 2012 £'000**	As at 31 December 2011 £'000
Share capital	**436**	436
Share premium	**528**	528
Treasury shares	**(1,015)**	-
ESOP share reserve	**(517)**	(517)
Retained earnings	**29,654**	23,556
	29,086	24,003

20 Financial assets and liabilities – numerical information

Bank borrowings

In April 2012 the Group entered an asset based revolving credit facility with PNC Financial Services UK Limited ("PNC") which expires in April 2016. This replaced the revolving credit facility with Royal Bank of Scotland which was due to expire on 31 December 2012.

At 31 December 2012 the Group has undrawn committed borrowing facilities available with PNC in which all conditions have been met. The borrowings are secured against the Group's book of Individual Voluntary Arrangements ("IVAs") and Debt Management Plans ("DMPs").

Under the terms of the facility borrowings up to a maximum of £13m are made available to the Group based on a valuation of its IVA and DMP book. The Group is required to pay fees collected on its book of IVAs and DMPs to PNC, and the Group can draw down on the facility at any time up to the full amount of borrowings available to the Group. Whilst the conditions of the facility have been met, these borrowings may be rolled over until the expiry of the facility. At 31 December 2012 the Group was not utilising any of its available borrowings under the facility.

	As at 31 December 2012 £'000	As at 31 December 2011 £'000
Expiry within 1 and 2 years	**-**	7,500
Expiry in more than 2 years	**-**	-
	-	7,500

Interest is charged daily based on the outstanding capital balance at a floating rate dependent on the Bank of England base rate. Based on the interest rates charged at the year end on the outstanding balance, the interest charge would be approximately £nil per annum (2011: £159,000).

Interest rate risk

All financial assets and liabilities are denominated in sterling.
The rate at which sterling floating liabilities are payable is 3.75% (2011 – 1.5%) above the Bank of England base rate.
Sterling floating rate assets attracted interest of 0.25% at the year-end (2011 – 0.25%).

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 2012 and 2011.

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 25%).

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
At beginning of the year	**366**	1,316
Credit to income	**(166)**	(593)
Arising on impairment of intangible asset	**-**	(357)
At end of the year	**200**	366

With the exception of the losses in Moneyextra.com Limited, deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets. As there is uncertainty over the recovery of deferred tax assets relating to losses in Moneyextra.com Limited, these deferred tax assets have not been recognised.

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 2012

	(Asset) liability £'000	**(Credited) charged to income** £'000
Accelerated capital allowances	**(364)**	(92)
Available losses	**-**	39
Intangible asset (brand)	**564**	(113)
	200	(166)

Year ended 31 December 2011

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

22 Share capital

Authorised

	At 31 December 2012 Number	**At 31 December 2012 £'000**	At 31 December 2011 Number	At 31 December 2011 £'000
Ordinary shares of 1p each	**60,000,000**	**600**	60,000,000	600

Issued and fully paid

	At 31 December 2012 Number	**At 31 December 2012 £'000**	At 31 December 2011 Number	At 31 December 2011 £'000
Ordinary shares of 1p each				
At beginning of the year	**43,609,346**	**436**	43,609,346	436
Purchase of treasury shares	**(1,666,667)**	**(17)**	-	-
Shares issued at end of year (excluding treasury shares)	**41,942,679**	**419**	43,609,346	436

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

On 20 July 2012 the Group acquired 1,666,667 of its own ordinary shares to be held in treasury. Treasury shares carry no voting rights and are not entitled to dividends. As a consequence, the total number of ordinary Shares in issue from 20 July 2012 is 41,942,679.

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.
Treasury shares	Shares in the Group purchased and held by the Group at the cost of acquisition.
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 2012	**Minimum lease payments**	**Interest**	**Present value**
	£'000	**£'000**	**£'000**
Not later than one year	135	5	130
Later than one year and not later than five years	101	1	100
	236	**6**	**230**

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**

Present value of future lease payments are analysed as	**At 31 December 2012**	At 31 December 2011
	£'000	£'000
Current liabilities	**130**	127
Non current liabilities	**100**	231
	230	358

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 2012 £'000**	At 31 December 2011 £'000
Not later than one year	**732**	771
Later than one year and not later than five years	**3,077**	3,051
Later than five years	**3,126**	3,978
	6,935	7,800

25 Bank balances held on behalf of individuals

Total bank balances of £87,416,019 (2011: £60,589,956) were held by the Group in trustee accounts on behalf of individuals who have entered into IVAs and DMPs at 31 December 2012. 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 four (2011: eight) share schemes for employees, as follows:

- Enterprise Management Scheme (EMI)
- Company Share Option Plan (CSOP)
- Unapproved 2008 Plan (2008)
- Save as your Earn Scheme (SAYE)

The SAYE scheme was introduced in 2009 and is open to all employees. The EMI and CSOP schemes are currently closed to further entrants and the 2008 Unapproved Plan is open to the executives and senior management team.

Movements on share option schemes	**2012**		2011	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at the beginning of year	**3,461,511**	**£0.86**	5,272,651	£0.96
Lapsed	**(2,001,687)**	**£0.82**	(2,756,140)	£0.80
Exercised	**(62,139)**	**-**	-	-
Granted	**557,499**	**£0.57**	945,000	£0.50
Outstanding at the end of the year	**1,955,184**	**£0.83**	3,461,511	£0.86
Exercisable at the end of the year	**328,124**	**£2.25**	676,714	£1.79

26 Share based payment (continued)

Year to 31 December 2012	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Weighted Average Exercise Price	Weighted Average Contractual Life
ESOS	360,000	-	-	(360,000)	-	£1.46	-
EMI	217,514	-	-	(27,990)	189,524	£1.99	2.6
CSOP	155,200	-	-	(16,600)	138,600	£2.61	4.2
Joint ownership*	568,464	-	-	(568,464)	-	£0.70	-
SAYE	215,333	72,090	(62,139)	(28,633)	196,651	£0.68	1.2
Warrants *	1,000,000	-	-	(1,000,000)	-	£0.61	-
2008 *	945,000	485,409	-	-	1,430,409	£0.50	8.7
Total	**3,461,511**	**557,499**	**(62,139)**	**(2,001,687)**	**1,955,184**	**£0.83**	**7.2**

Year to 31 December 2011	Outstanding at start of year	Granted	Exercised	Lapsed	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
2008 *	-	945,000	-	-	945,000	£0.50	9.7
Total	**5,272,651**	**945,000**	**-**	**(2,756,140)**	**3,461,511**	**£0.86**	**4.0**

* 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 2012, the following conditions applied to the following shares outstanding under each scheme:

Condition	Target	Expiry	2008
Share Price	70p	30/09/2014	472,500
	100p	30/09/2014	472,500
Share Price	70p	27/04/2015	150,000
	100p	27/04/2015	150,000
Adjusted PBT	£9,000,000	31/12/2014	185,409

As at 31 December 2012 the share price performance conditions covering 622,500 share options under the 2008 unapproved scheme have been met. Subject to the rules of the scheme these options become exercisable at the performance condition expiry dates shown above.

At 31 December 2011 no performance conditions for share schemes had been met.

26 Share based payment (continued)

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

	As at 31 December 2012		As at 31 December 2011	
Range	Number	Average life Years	Number	Average life Years
1-100p	**1,637,923**	**7.96**	2,748,674	4.02
101-200p	**128,889**	**2.53**	497,111	3.38
Greater than 200p	**188,372**	**3.88**	215,726	4.86
Total	**1,955,184**	**7.2**	3,461,511	3.98

Of the total number of options outstanding at 31 December 2012, 328,124 (2011: 732,714) had vested and were exercisable at the end of the year.

62,139 share options were exercised in the year to 31 December 2012 (2011: nil).

The weighted average fair value of each option granted during the year was 26.8p (2011: 14.2p).

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	2012	2011
Option pricing model used	**Black Scholes**	Black Scholes
Weighted average share price at grant date	**£0.69**	£0.51
Weighted average exercise price	**£0.57**	£0.50
Weighted average contractual life (years)	**9.71**	9.71
Weighted average expected volatility	**48%**	61%
Weighted risk free interest rate	**0.38%**	0.48%

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

	2012 £'000	2011 £'000
The share based remuneration expense (note 3) comprises:		
Equity-settled schemes	**94**	42

The Group did not enter into any share based payment transactions with parties other than employees during the current or previous year.

27 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 ended 31 December 2012 or the year ended 31 December 2011.

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 provided 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 Group granted Hanover 1,000,000 warrants over ordinary shares of 1p each in the capital of the Fairpoint Group plc. The warrants had a strike price of 61p and were exercisable between 5 January 2010 and 30 June 2013. Vesting was 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 the share price over a thirty day period averages 183p or greater. At 31 December 2012, these warrants lapsed as the share price performance criteria had not been met.

28 Notes supporting cash flow statement

Cash and cash equivalents comprises:	**31 December 2012 £'000**	31 December 2011 £'000
Cash available on demand	**1,850**	1,468
Net increase in cash and cash equivalents	**382**	490
Cash and cash equivalents at beginning of year	**1,468**	978
Cash and cash equivalents at end of year	**1,850**	1,468

COMPANY **BALANCE SHEET**

Company Number 4425339	Note	At 31 December 2012 £'000	At 31 December 2011 £'000
Fixed assets			
Investments	3	16,016	16,016
Current assets			
Debtors (all due after more than one year)	4	4,006	6,512
Cash at bank		5	316
Total current assets		**4,011**	**6,828**
Creditors: amounts falling due within one year	4	(68)	(87)
Net current assets		**3,943**	**6,741**
Total assets less current liabilities		**19,959**	**22,757**
Creditors: amounts falling due after one year		**-**	-
Net assets		**19,959**	**22,757**
Capital and reserves			
Called-up share capital	5	436	436
Share premium account	6	528	528
Treasury shares		(1,015)	-
Other reserve	6	254	254
ESOP share reserve	6	(517)	(517)
Merger reserve	6	11,842	11,842
Profit and loss account	6	8,431	10,214
Total shareholders' funds		**19,959**	**22,757**

These financial statements were approved and authorised for issue by the directors on 13 March 2013 and are signed on their behalf by:

C Moat
Director

The notes on pages 53 to 56 form part of these financial statements.

NOTES FORMING PART OF THE
COMPANY 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. For the year ended 31 December 2012, the Group profit after tax for the year includes a £68,000 expense in relation to the Company's corporation tax charge. The Company made a profit after tax of £182,000 resulting from a £250,000 dividend received from subsidiary company, IVA Insurance Limited. For the year ended 31 December 2011, the Group profit for the year includes a Company loss after tax of £578,000.

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 (2011: £nil) and the Company employed no staff during the year (2011: no staff).

3. INVESTMENTS

Company

	£'000
Cost	
At 1 January 2012	16,016
At 31 December 2012	16,016
Net book value	
At 31 December 2012	16,016
At 31 December 2011	16,016

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	Dormant	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	Dormant	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	Dormant	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 2012 £'000	31 December 2011 £'000
Amounts owed by Group undertakings	4,006	6,512

Amounts owed by Group undertakings include £4,006,000 (2011: £6,512,000) due after more than one year.

CREDITORS: amounts falling due within one year	31 December 2012 £'000	31 December 2011 £'000
Other liabilities	-	-
Corporation tax	68	87
	68	87

5. SHARE CAPITAL

Authorised share capital:

	31 December 2012 £'000	31 December 2011 £'000
60,000,000 (2011: 60,000,000) ordinary shares of 1p each	**600**	600

Allotted, called up and fully paid:

	31 December 2012 £'000	31 December 2011 £'000
Ordinary shares of 1p each	**436**	436

Share option schemes

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	4,075	£0.68	Between 2007 and 2017
EMI	2004	6,788	£0.81	Between 2007 and 2017
EMI	2005	17,628	£1.32	Between 2008 and 2018
EMI	2005	54,794	£1.46	Between 2008 and 2018
EMI	2005	5,962	£1.89	Between 2008 and 2018
EMI	2005	50,505	£1.98	Between 2008 and 2018
EMI	2006	49,772	£3.09	Between 2009 and 2019
CSOP	2007	110,600	£2.67	Between 2010 and 2020
CSOP	2007	28,000	£2.37	Between 2010 and 2020
SAYE	2010	95,417	£0.70	3 Years from issue
Unapp 2008	2011	945,000	£0.50	Between 2013 and 2021
SAYE	2011	29,144	£0.73	3 Years from issue
Unapp 2008	2012	300,000	£0.50	Between 2014 and 2022
SAYE	2012	72,090	£0.62	3 Years from issue

6. RESERVES

Company	Share premium account £'000	Treasury Shares £'000	Shares to be issued £,000	ESOP share reserve £,000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At beginning of year	**528**	**-**	**254**	**(517)**	**11,842**	**10,214**	**22,321**
Profit for the year	-	-	-	-	-	182	182
Purchase of treasury shares	-	(1,015)	-	-	-	-	(1,015)
Dividends paid	-	-	-	-	-	(1,965)	(1,965)
Total	**528**	**(1,015)**	**254**	**(517)**	**11,842**	**8,431**	**19,523**

During the year the Company paid £1,965,259 in dividends (2011: £1,805,388).

FAIRPOINT.

Fairclough House, Church Street, Adlington, Lancashire PR7 4EX
Telephone: 0844 826 1209 **Fax:** 0844 826 1176 **E-mail:** info@fairpoint.co.uk

www.fairpoint.co.uk