Fairpoint Group plc
Annual Report & Accounts 2010
Year ended 31 December 2010

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CHAIRMAN'S **STATEMENT**

Overview

I am pleased to report that Fairpoint has delivered a robust set of results in 2010 whilst laying the foundations for accelerated growth in 2011.

Strategy

Against the expected backdrop of a benign debt solutions market place we have strengthened the business over the last year, by operating more efficiently and by broadening our range of products and services. Our strategy over 2011 will add momentum to our mission of helping customers make their money go further. In particular we will:

- Maintain our leading position in the individual voluntary arrangement ("IVA") market.

- Continue to grow our share of the debt management plan ("DMP") market, both organically and through the consolidation opportunities presented at this stage in the market cycle.

- Develop our money savings offering, leveraging the Moneyextra platform.

- Further leverage our core competencies to launch a short term lending business.

Our strategy of strongly growing the number of customers to whom we provide services to, has proven fruitful with adjusted profit before tax growing by 13% with overall customer numbers more than doubling. With the acquisition of Moneyextra.com Limited we add to the Group a well established internet brand with the ability to reach beyond our core market.

Regulation

Fairpoint welcomes the current Ministry of Justice and Insolvency Service review of the DMP market. Our direct experience of the regulatory chances to the IVA market points to greater customer faith and improved creditor relationships through a well regulated industry. Strong, well funded and operationally efficient providers with already high standards, stand to benefit from higher standards for the whole industry and Fairpoint is well placed to take a leading role in this regard.

In 2010 the Office of Fair Trading rigorously enforced its standards and I am pleased that we have tested our compliance with these.

Your board

I would like to thank the Board for their support and contribution this year.

Charles Mindenhall retired from the Board during the year and I would like to thank him for his contribution to the Group. The remaining board members have been unchanged this year and in addition, it is with pleasure that I welcome Perry Blacher to the Board as an independent non-executive director. Perry's background provides him with a unique understanding of internet strategies having developed ventures as an entrepreneur in addition to working for significant international businesses.

Outlook

We anticipate that the macroeconomic environment will continue to fuel consumer demand for debt solutions. Against this backdrop the Group is well placed to grow; building on its operational efficiency, regulatory preparedness and broadening the product range.

Matthew Peacock
Chairman

Overview

The continued focus of Fairpoint Group is to remain a leading provider of debt solutions whilst broadening the business to offer a wider range of products to financially stressed consumers. Over the course of 2010 Fairpoint has made significant progress in this regard; product solutions provided to consumers are up strongly across all product lines which now range from providing debt solutions to consumers through to providing money savings solutions.

The focus for the Group in 2011 is to continue to broaden the range of products and services which can be provided to help financially stressed consumers to make their money go further.

Market Review

Fairpoints core consumer franchise is financially stressed consumers. Our consumers range from the over-indebted experiencing serious financial difficulty through to the financially stretched, typically carrying lower levels of indebtedness. Their requirements develop with changes in the macroeconomic environment and the broader range of products and services provided by the Group are geared to allow the business to perform strongly throughout the economic cycle.

The first half of 2010 saw continued momentum in demand for debt solutions from those in serious financial difficulties as the impact of growing unemployment during the later part of 2009 was felt. However the latter part of 2010 saw a relatively benign macroeconomic environment for these consumers, with a combination of stable unemployment rates and a low interest rate environment providing favourable conditions for consumers to manage their finances.

2011 has started in the same vein, but unemployment has more recently started to grow again as public sector spending cuts begin to take hold and above target inflation raises the spectre of interest rate increases. This would point to a resumption in demand for debt solutions.

In the near term such market conditions are a catalyst for consolidation and when combined with the increased regulatory hurdles and competitive intensity, present an opportunity to grow the Group's market share in the debt management sector. We are now trending quickly towards a top 5 position in the fee charging debt management sector and this is yielding benefits in terms of scale and operating efficiencies. The Group will continue to take a lead in consolidation activity which we expect to continue through 2011.

During 2010 and the early part of 2011 inflationary pressures have placed a disproportionate burden on the finances of financially stretched consumers. This has been particularly exacerbated by growth in costs associated with non discretionary expenditure, for example, energy and food prices. As consumer finances tighten, so does the requirement for a broader range of money savings services. Alert to this trend the Group began to scale its money savings offering, firstly by organically with the introduction of a "switching" service which offered consumers the opportunity to reduce their utility bills. Activity in this area has been further supplemented with the acquisition of Moneyextra.com which provides access to a much broader range of switching services and a technology platform to extend the reach of our offering.

The market place has also evidenced a continued reduction in the mainstream supply of credit, particularly to financially stretched consumers. The number of financially stretched consumers is growing at a significant rate and is expected to increase from around 7 million consumers in 2010 to 8.3 million by 2012. These consumers are actively seeking new ways of obtaining short term credit and this has been evidenced by explosive growth in product areas such as payday and guarantor loans. Both areas have been the subject of regulatory review and provide potential for a new entrant with a consumer-orientated product proposition. To this end the Group has recently decided to launch its own lending business. We have hired a seasoned business leader as managing director of lending to oversee the development of a market entry strategy for deployment in early 2011 subject to the implementation of a successful proof of concept. We expect this product line to become a substantial contributor to revenues in the medium term.

CHIEF EXECUTIVE OFFICER'S **REVIEW**

Our performance

The Group's financial performance was highly satisfactory given the market backdrop, in particular:

- Our adjusted profit before tax increased by 13% to £6.9 million from £6.1 million in 2009.
- Total comprehensive income for the year £4.0 million (2009: £4.0 million).
- Our sources of revenue are now much broader with 20% of revenue from non IVA business lines in the second half of the year.
- Despite lower average fee levels on IVAs, the impact on margins was limited.

In my report last year I outlined a series of focus areas for 2010 and can report strong progress on each of these areas:

- Continued emphasis on cash generation from the core business – we delivered further growth in profits and cash generation from debt solutions allowing the Group to invest over £3.0 million in acquisitions and £1.5 million in dividends whilst maintaining borrowing levels of £5m.
- Broader income streams - 20% of business achieved from Value Added Services and Debt Management in the second half of the year.
- Growth in customer numbers - roll out of Value Added Services with 26,266 solutions provided in 2010 compared to 4,706 in 2009.
- Growth for total consideration of £2.0 million from debt management acquisition – four books of debt management plans acquired in 2010 supporting growth from 5,539 to 12,541 by the year-end.
- Acquisition of MoneyExtra.com provides an extended platform to deliver a broad range of financial solutions whilst adding to the Group's marketing reach.

Outlook

The second half of 2010 and the early part of 2011 has seen a reduction in demand for debt solutions after the strong start to 2010. We expect this to change as we progress through 2011 as a consequence of:

- Growth in unemployment – as a consequence of public sector spending cuts. A resumption of growth in the levels of unemployment has been shown in recent national figures and is expected to continue.
- Interest rates are widely expected to increase in the second half of 2011.
- Alternative sources of credit will continue to be limited as home equity remains depressed and mainstream lender appetite for credit risk remains low.
- Continued regulatory pressure on the debt management sector in particular, as standards are raised and compliance enforced.

This backdrop provides a number of opportunities for the Group across 2011 as follows:

- The core business should benefit from a resumption in demand as pressure on household finances increases following periods of unemployment or interest rate increases.
- Further consolidation is likely in the debt management space as sub scale players struggle to compete and regulatory change introduces increased costs of operation to such companies.
- Budget conscious consumers will continue to seek support in reducing their household expenditure in order to keep their finances in check.
- A lack of credit supply provides an opportunity for a new player in the short term lending market.

These characteristics provide a continuing platform for Fairpoint Group to broaden its business.

Christopher Moat
Chief Executive Officer

FINANCE DIRECTOR'S **REVIEW**

Overview

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements of the parent company, Fairpoint Group plc, have been prepared under UK Generally Accepted Accounting Principles (UK GAAP) and are included on pages 54 to 60.

Continuing operations

Revenue

The revenue from continuing operations was £29.4 million (2009: £28.9 million).

Revenues from IVA operations were supported through a growing book of cases from prior years, although new volumes were down marginally compared to the prior year as we declined to pursue market share at the expense of margin.

Average fees per case continued the expected downward trend as the mix of cases altered to include higher numbers of consumers with lower initial debt levels.

Debt management revenues grew strongly as we benefited from continued organic growth supported by acquired portfolios. Revenue from financial services rose during the year as we found strong customer appetite for new switches solutions and we added the Moneyextra business from August onwards.

IVA services

Our IVA segment wrote 8,331 new cases during the year (2009: 8,520 cases) representing an estimated 16% market share. Revenue per new case fell from £2,104 to £2,083 as we continued to extend our product reach to consumers with lower debt levels. We have enjoyed a period of stability with creditors; fee and operating protocols remaining unchanged and average approval rates at meetings of creditors reaching 98% (2009: 95%).

The overall IVA market rose 6.5% in 2010 with individual voluntary arrangements exceeding 50,000 in one year for the first time ever. As we anticipated, the rate of growth declined as the year progressed and the UK economy benefitted from lower interest rates and a stable employment market.

Revenue from ongoing cases fell on a unit basis as the effects of the 2007 fee protocol fed through to a higher proportion of the book but case numbers rose to offset this, leading to a small increase in revenue from the back book.

Marketing and other direct costs have been rigorously controlled and this has helped the IVA segment increase pre-tax profits to £5.4 million (2009: £5.2 million), despite overall revenue falling by £1.1 million.

Further opportunities to significantly improve our unit cost position have been identified in the early part of 2011 although the successful realisation of these is dependent on investment in a new IVA platform. Accordingly the Board have authorised the implementation of a new platform which in turn means that a non cash impairment charge of £1.5 million is expected in 2011.

Debt management

Competition and regulatory pressures in the debt management market have led to a number of sub scale enterprises seeking to exit the market and during the year we successfully purchased four different portfolios for a net investment of £2.0 million (2009: £nil). The portfolios have performed in line with management expectations at the time of purchase and, together with the cases organically acquired, contribute to a book of cases at year-end which stood at 12,541 (2009: 5,539). Profit before tax improved from £1.0 million to £1.3 million.

Financial Services

In 2010 the Group saw revenue from financial services recover and grow 50% organically to £0.6 million (2009: £0.4 million) as we successfully rolled out our utility switching services and customer numbers rise to 26,266 (2009: 4,706). In addition we made a significant step forward in extending our reach and product range with the acquisition of Moneyextra.com itself adding revenues of £0.5 million in the last five months of the year. Adjusted losses from the segment rose from £0.1 million to £0.3 million wholly through initial trading losses recognised in Moneyextra.com. The combined synergies of integrating Moneyextra.com with our existing business are expected to deliver strong gains in profitability in 2011.

Exceptional items

During the year the Group incurred £0.5 million in exceptional items relating to the acquisition of Moneyextra.com, WKD (UK) Limited and the subsequent reorganisation of the business and integration with the Group's existing brands.

Adjusted profit before tax

Profit before tax for the year from continuing activities, adjusted for brand and other intangibles amortisation of £0.5 million, and exceptional items of £0.5 million, was £6.9 million (2009: £6.1 million adjusted for brand amortisation of £0.4 million and exceptional items of £nil). Gross margin fell to 46% (2009: 47%) as lower IVA fee revenue reduced overall revenues, although strong marketing and operational efficiency minimised the full impact on margin.

Monthly overheads rose to £523,000 from £508,000 principally through the addition of overheads in acquired businesses.

Finance income on the unwinding of discount on IVA revenue rose 2% to £4.5 million (2009: £4.4 million) due to growth in the book of cases.

Bad debt charges fell 14% to £3.8 million (2009: £4.4 million) through a concentration on improvements in our ongoing customer contact and servicing and through a more benign UK employment market. The fall in the bad debt charge was in line with our expectations.

Financial costs

Interest costs fell to £0.2 million (2009: £0.4 million) reflecting lower levels of borrowing incurred by the Group. The Group benefits from a low cost debt facility sufficient to support its current strategy through 2012.

Taxation

The Group's expense for taxation was £1.7 million representing an effective tax rate of 29% (2009: £1.7 million). Further detail is provided in note 7 to the financial statements.

Total comprehensive income

The Group achieved a total comprehensive income for the year of £4.0 million (2009: £4.0 million).

Dividends

Dividends of 3.5 pence per ordinary 1p share were paid in the year. The Board has proposed a final dividend of 2.5 pence per ordinary 1p share to be approved at the annual general meeting on 24 May 2011.

Balance sheet

Net assets at 31 December 2010 were £38.8 million (2009: £36.3 million).

Discontinued activities

In September 2010 the Group decided to close down the activities of Your Debt Solved Limited, a subsidiary of Moneyextra.com Limited whose principal activity was the generation of debt leads. The Group incurred closure costs of £154,000. The process of closure was fully complete at year end.

Cashflow and borrowings

Operating cash inflows from continuing activities included £1.9 million of working capital movements arising from the acquisition of Moneyextra.com Limited. Adjusting for these the cash generated from operations was £8.0 million (2009: £6.0 million).

Payment for purchase of non-current assets was £3.2 million (2009: £0.6 million) with further payments under loan and earnouts of £0.9 million accrued at the balance sheet date.

Net borrowings at 31 December 2010 excluding finance lease liabilities were £5.0 million (2009: £4.5 million). The Group has a credit facility with the Royal Bank of Scotland plc for £16 million. The facility is the Group's principal borrowing facility and extends to 31 December 2012, with £8 million repayable at 31 December 2011 and £8 million repayable at 31 December 2012.

Our KPIs

	Year to 31 December 2010	Year to 31 December 2009
Lead volumes	101,389	101,351
IVA solutions sold	8,331	8,520
Average fee per new IVA	£2,083	£2,104
Non IVA revenues	20%	12%
Average fee per new DMP solution	£362	£375
Debt management cases under management	12,541	5,539
Average number of ongoing cases	30,953	23,743
Revenue per ongoing case per month	£28	£32
Value added solutions sold	26,266	4,706
Marketing as a % of revenue	20%	20%
Other cost of sales as a % of revenue	34%	33%
Monthly overheads	£523,000	£508,000

Regulatory compliance

Certain employees of the Group are regulated by the Institute of Chartered Accountants in England and Wales. The Group is regulated by the Office of Fair Trading and the Financial Services Authority. The Group maintains appropriate policies and procedures to ensure its compliance with regulatory frameworks.

Andrew Heath
Group Finance Director

OFFICERS AND PROFESSIONAL **ADVISORS**

Directors	Matthew Peacock	John Allkins
	Chris Moat	Simon Gilbert
	Derek Oakley	Perry Blacher
	Andrew Heath	

BOARD OF DIRECTORS

Non-executive Chairman
Matthew Peacock (49) •

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

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

Chief Executive Officer
Chris Moat (42) •

Chris Moat brings a wealth of experience from highly successful retail-focused, marketing led financial services businesses. Chris has held a number of senior general management positions and has experience across a wide range of leading financial services companies. Before joining Fairpoint, Chris held a variety of general management roles for RBS Insurance. These included Managing Director of Direct Line, Managing Director of Motoring and Directorships of Churchill Insurance and Green Flag. Prior to that, Chris was Managing Director of UKI Partnerships division, where he helped grow key partners such as Tesco Insurance and Virgin Money's insurance offering. Chris' previous roles also include Director of Lending at GUS Home Shopping and Head of Consumer Direct at GE Capital Bank.
Chris was appointed CEO on 6 May 2008.

Insolvency Director
Derek Oakley, FCA, JIEB (45)

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

Finance Director & Company Secretary
Andrew Heath, FCA (43)

Qualified as a Chartered Accountant with KPMG in 1991 and joined Clear Start UK Limited as Finance Director in April 2007. His previous roles include Vice President of Corporate Accounting at Capital One and senior positions at Vision Express, Nedbank and American Express South Africa. Andrew was appointed Company Secretary on 31 December 2007 and Finance Director in September 2008.

Senior Independent Non-executive Director
John Allkins, FCMA (61) * O •

John was previously Group Finance Director for MyTravel Group plc and is also a Non Executive Director of Renold plc, Intec Telecom Systems plc, Albemarle and Bond Holdings plc and Molins plc. He previously held a number of senior finance positions within BT, most recently as Director of Financial Controls for its Worldwide Networks Division. John is a fellow of the Chartered Institute of Management Accountants. John was appointed to the Board as Non-executive Director in September 2008.

Non-executive Director
Simon Gilbert, (40) * O •

An investment principal at Hanover Investors. A mergers and acquisition professional, he was previously a General Manager at Shell International and has a combination of transaction and operational experience in consumer, retail and marketing businesses. Simon was appointed to the Board as a Non-executive Director in September 2007.

Non-executive Director
Perry Blacher, (37)

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

* 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 Joint Broker:
Shore Capital and Corporate Limited
Bond Street House
14 Clifford Street
London
W1S 4JU

Joint Broker:
Oriel Securities Limited
125 Wood Street
London
EC2V 7AN

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

Company number: 4425339

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

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

DIRECTORS' **REPORT**

The directors present their report and the financial statements of the Group for the year ended 31 December 2010.

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.

Results and dividends
The trading results for the year and the Group's financial position at the end of the year are shown in the attached financial statements.

The Group made a profit after tax for the year of £4,012,000 (2009: £3,995,000). During the year dividends of £1.5 million were paid (2009: nil).

A final dividend of 2.5 pence per 1p ordinary share is proposed for the approval at the forthcoming AGM on 24 May 2011.

The directors are satisfied with the increase in profitability of the Group.

The requirement to prepare an enhanced review of the business has been incorporated within the Chief Executive Officer's Review and is also covered in the Finance Director's Review. The principal risks and uncertainties affecting the business are discussed in detail on page 12.

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 2010	**At 31 December 2009**
C S Mindenhall (Resigned 13 May 2010)	-	1,924,074
S Gilbert	11,082	11,082
D J Oakley	817,324	817,324
C Moat	201,531	184,864
M R Peacock [1]	10,535,180	10,535,180
A J Heath	21,000	21,000
J S Allkins	-	-

[1] M R Peacock has an indirect interest in 352,825 shares through Dauphin Capital LP in 296,720 shares through Dauphin Ventures Limited and in 9,885,635 shares through funds advised by Hanover Investors Management LLP.

Substantial shareholdings
Other than the directors' interests, on 31 December 2010, the Company was notified that the following were interested in 3% or more of the issued share capital of Company:

Name	**Number of ordinary shares**	**% of issued share capital**
Hanover Investors [1]	10,535,180	24.16%
Fortelus Capital Management LLP	2,999,287	6.88%
A Redmond	2,774,255	6.36%
J Reynard	2,720,876	6.24%
P Latham	2,649,319	6.08%
BSI Generali UK Ltd	2,575,500	5.91%
Gartmore Investment Management	2,396,556	5.50%
Invesco Asset Management	1,401,859	3.21%

[1] 352,825 shares held by Dauphin Capital LP, 296,720 shares held by Dauphin Ventures Limited and 9,885,635 shares held in funds advised by Hanover Investors Management LLP.

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 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 34 days purchases (2009: 11 days).

Charitable donations

	31 December 2010 **£**	31 December 2009 £
Charitable donations	600	600

Auditors

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

Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

Website publication

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

Information to auditors

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

Signed by order of the directors on 14 March 2011.

A J Heath
Company Secretary

REPORT ON **REMUNERATION**

Directors' remuneration

The Board submits its directors' remuneration report for the year ended 31 December 2010.

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

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

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

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

Main elements of remuneration

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

Basic annual salary

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

Bonuses

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

Options

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

Summary of directors' remuneration

	Year to 31 December 2010 Basic Annual Salary £'000	Year to 31 December 2010 Bonus £'000	Year to 31 December 2010 Benefits £'000	Year to 31 December 2010 Pension £'000	Year to 31 December 2010 Total £'000	Year to 31 December 2009 Total £'000	Current basic annual salary Total £'000
Executive							
D J Oakley	210	20	2	-	232	306	210
C Moat	230	22	7	41	300	376	230
A J Heath	140	13	2	7	162	203	140
	580	55	11	48	694	885	580
Non-executive							
M Peacock	66	-	-	-	66	66	66
A Redmond (Resigned 28/04/09)	-	-	-	-	-	12	-
J Allkins	32	-	-	-	32	32	32
C S Mindenhall	12	-	-	-	12	32	-
S Gilbert	32	-	-	-	32	32	32
P Blacher (Appointed 02/02/11)	-	-	-	-	-	-	32
	142	-	-	-	142	174	162
Total	722	55	11	48	836	1,059	742

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 2010

Director	Scheme	At 31 December 2009	At 31 December 2010	Option Price in pence	Date from which exercisable	Expiry Date
C Moat	2008 Unapproved	900,000	900,000	50	01.07.11	01.07.18
C Moat	2010 Joint Ownership	-	385,000	84	11.02.10	31.12.12
A J Heath	2008 Unapproved	150,000	150,000	50	01.07.11	01.07.18
A J Heath	2010 Joint Ownership	-	110,000	84	11.02.10	31.12.12
D Oakley	ESOS	360,000	360,000	146	01.07.11	01.07.18
D Oakley	PSP	52,500	52,500	1	31.12.11	31.12.11
D Oakley	2010 Joint Ownership	-	41,250	84	11.02.10	31.12.12

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 our primary solution (IVA) is delivered under the regulation of the Insolvency Act, there is some level of exposure to any change to this, or associated, regulation. Furthermore our debt management revenues may have exposure to any change in regulation in this area.

As the largest commercial personal insolvency practice in the UK we have unrivalled relationships with the Insolvency Service, and we are actively involved in giving direction to the working parties as they arise. Derek Oakley is one of two insolvency practitioners elected to the IVA Working Committee.

The Group's principal debt solutions trading companies are member of the Debt Managers Standards Association (DEMSA). All DEMSA members are monitored in accordance with DEMSA's OFT approved code of conduct. For further details on DEMSA please visit www.demsa.co.uk.

During 2010 the Ministry of Justice released its findings following its consultation on the future of regulation in the debt management plan market place. The consultation concluded that it was not possible to consider debt management in isolation and referred its findings to the Department for Business Innovation and Skills (BIS) who announced a further consultation on consumer credit and personal insolvency. Responses to the consultation were submitted by 10 December 2010 and at the current time no conclusions have been publicly released. The debt solutions market operates within the wider consumer credit regime. HM Treasury is currently consulting on "A new approach to financial regulation: consultation on reforming the consumer credit regime" with submissions required by March 2011.

Customers defaulting on plans

Since fees on new IVA cases are based upon a percentage of cash realisations, our financial performance is sensitive to the rate of customers defaulting on their plans. We have budgeted for a level of defaults and arrears on our IVAs. 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.

We have invested in, and continue to invest in our credit risk and credit control processes. We continue to work 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 our 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. The Board maintains a close working relationship with its bankers and maintains long term financing arrangements through to 2012 (for further details see note 20).

Creditor voting policy

It is possible that creditors could choose to vote to reject our 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 receive a distinctly lower dividend in bankruptcy, they are careful not to force the customers in this direction.
- We have invested in our relationships with creditors, and they are at a stronger point than they have ever been in the history of the group. Nurturing these relationships builds mutual trust, and also gives us insight into their plans or intentions.
- We are broadening our product range into adjacent solutions, such as debt management plans. This gives us a mitigation against minor movements in policy.

IT systems

The Group continues to invest in IT, most notably the ongoing upgrades of our Best Advice Model (BAM) and the planned 2011 replacement of existing IVA platforms. These upgrades are continually subject to implementation risks. Failure to implement such changes effectively could result in unplanned costs or inefficiencies which could adversely affect our operations.

We have developed strong project management capabilities in our IT department and during the year have appointed experienced risk managers to direct this process.

Marketplace

The level and profile of consumer indebtedness has risen considerably over the past year. This has made the debt solutions marketplace potentially more volatile and subject to change caused by further macroeconomic movements and specific media attention. Interventions by, or sponsored by, government may cause rapid shifts in the performance of our existing marketing channels.

We track marketing performance at channel and campaign level on a daily basis with all marketing expenditure committed under strict investment criteria. We continue to test and develop new marketing channels to allow us to respond in timely fashion to marketplace changes.

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

The Board

The Board comprises a non-executive Chairman, three executive directors and three non-executive directors. The Board recognises that M R Peacock and S Gilbert are not independent in view of their representation of Hanover Investors. However, as non-executive directors they bring experience to the Board. The Board consider that J S Allkins and P Blacher are independent.

J S Allkins was appointed as the senior independent director. The role of senior independent director is to be available to shareholders if they have concerns which contact through the Chairman, Chief Executive or Finance Director have failed to resolve, or for which such contact is inappropriate. The non-executives will meet without the Chairman at least once a year and the senior independent director will lead this meeting.

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

There is a schedule of matters reserved to the Board, which was adopted during the year, and this will be reviewed periodically. The Board's main focus is on strategic and policy issues and also the regular review of objectives and performance. To enable them to carry out these responsibilities, all directors have full and timely access to all relevant information on matters before the Board. The Board has formally delegated specific responsibilities to Board committees, including the audit, remuneration and nomination committees. Copies of the terms of reference of each of these committees can be accessed via the company website at www.fairpoint.co.uk.

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

The Board does not currently consider that a full Board evaluation is necessary but will review this matter on an annual basis.

The attendance of directors at the Board and Board Committees during the year are detailed below:

Name of director	Board (13 meetings)	Audit Committee (3 meetings)	Remuneration Committee (1 meeting)
M R Peacock	10	-	-
C Moat	13	-	-
D J Oakley	11	-	-
A J Heath	13	-	-
C S Mindenhall (Resigned 13 May 2010)	3	1	1
S Gilbert	12	3	1
J S Allkins	12	3	1

P Blacher was appointed as a director on 2 February 2011

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

All the directors are subject to election by shareholders at the first annual general meeting after their appointment. Thereafter all directors are then subject to retirement by rotation at intervals of no more than three years. C Moat, S Gilbert and P Blacher are subject to election. Biographical details of these directors are set out on page 7.

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

Nominations committee

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

There were no meetings of the Nomination Committee during the year and its responsibilities were assumed by the Board as a whole.

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

Remuneration committee

The Remuneration Committee is chaired by S Gilbert and consists of P Blacher and J S Allkins.

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

Audit committee

The Audit Committee is chaired by J S Allkins and consists of S Gilbert and P Blacher.

The committee reviews the Company's accounting policies and regular reports from senior management. In addition, it reviews the interim and full year financial statements and results announcements relating to the Company's financial statements, together with any formal announcements relating to the Company's financial performance.

The Audit Committee also has responsibility for making recommendations on the appointment, reappointment and removal of the external auditors, which the Board then puts to the shareholders for approval in a general meeting. The committee also reviews the annual and interim financial statements before they are submitted to the Board and reviews the scope and effectiveness of the Group's internal control functions.

There is currently no internal audit function, however, the Audit Committee review this on an annual basis and the current recommendation to the Board is that such a function is not necessary, as the internal controls are currently effectively monitored. This will be reviewed again in the forthcoming year.

Accountability and audit

The respective responsibilities of the directors and auditors in connection with the financial statements are explained in the statement of directors' responsibilities and the auditors' report. The Board also seeks to present a clear and balanced assessment of the company's position and prospects through the Chairman's statement and the Chief Executive's report.

Internal control

The Board is responsible for the company's internal control framework and for reviewing its effectiveness. Each year the Board reviews all 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 to the Board directly.

Going concern

The Group's business activities together with the factors which may impact its activities are described on pages 2 to 4 and pages 12 to 13. 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.

The Group has committed borrowing facilities until 2012 and long term receivables from IVA cases. 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.

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.

Annual general meeting

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

The annual and interim reports to shareholders are published on the investor relations section of the company's website, together with the proxy voting figures.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS

We have audited the financial statements of Fairpoint Group plc for the year ended 31 December 2010, 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 2010 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

14 March 2011

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 2010 £'000**	Year ended 31 December 2009 £'000
Continuing operations			
Revenue	**5**	29,404	28,900
Cost of sales		(15,776)	(15,446)
Gross profit		13,628	13,454
Administrative expenses		(12,094)	(11,777)
Finance income – unwinding of discount on IVA revenue	**6**	4,509	4,415
Finance income – other	**6**	30	10
Profit before finance costs	**2**	**6,073**	6,102
Finance costs	**6**	(227)	(379)
Adjusted profit before taxation		6,898	6,101
Amortisation of brand and other intangibles		(515)	(378)
Exceptional restructuring costs	**2**	(537)	-
Profit before taxation		5,846	5,723
Tax expense	**7**	(1,680)	(1,662)
Profit for the year from continuing operations		**4,166**	4,061
Discontinued operations			
Loss for the year from discontinued operations	**18**	(154)	(66)
Profit for the year		**4,012**	**3,995**
Total comprehensive income for the Year		**4,012**	**3,995**

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

Earnings per ordinary share			
Profit from continuing operations	**8**	9.56	9.47
Loss from discontinued operations		(0.35)	(0.15)
Total profit from operations		9.21	9.32
Diluted earnings per ordinary share			
Profit from continuing operations	**8**	9.50	9.45
Loss from discontinued operations		(0.35)	(0.15)
Total profit from operations		9.15	9.30

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

CONSOLIDATED STATEMENT OF
FINANCIAL POSITION

Company Number 4425339	Notes	As at 31 December 2010 £'000	As at 31 December 2009 £'000
ASSETS			
Non Current Assets			
Property, plant and equipment	**10**	1,604	1,603
Goodwill	**11,12**	13,882	11,343
Other intangible assets	**11**	7,839	5,352
Total Non Current Assets		**23,325**	**18,298**
Current Assets			
Trade receivables and amounts recoverable on IVA services	**14**	26,373	25,595
Other current assets	**14**	920	787
Cash and cash equivalents		978	832
Total Current Assets		**28,271**	**27,214**
Total Assets		**51,596**	**45,512**
EQUITY			
Share capital	**22**	436	429
Share premium account		528	18
ESOP share reserve		(517)	-
Merger reserve		11,842	11,842
Other reserves		254	254
Retained earnings		26,277	23,709
Total equity attributable to equity holders of the parent		**38,820**	**36,252**
LIABILITIES			
Non Current Liabilities			
Long-term borrowings	**17**	7,141	5,563
Deferred tax liabilities	**21**	1,316	1,030
Total Non Current Liabilities		**8,457**	**6,593**
Current Liabilities			
Trade and other payables	**15**	3,239	1,848
Short-term borrowings	**16**	103	53
Current tax liability		977	766
Total Current Liabilities		**4,319**	**2,667**
Total Liabilities		**12,776**	**9,260**
Total Equity and Liabilities		**51,596**	**45,512**

The financial statements were approved by the Board of directors on 14 March 2011 and were signed on its behalf by:

A J Heath
Director

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Cash flows from continuing operating activities			
Profit on continuing operations before tax		5,846	5,723
Share based payments charge		68	49
Depreciation of property, plant and equipment		421	424
Amortisation of intangible assets and development expenditure		997	822
Loss on sale of non current assets		31	34
Interest received		(30)	(10)
Interest expense		227	379
(Increase)/Decrease in trade and other receivables		(911)	(1,600)
(Decrease)/Increase in trade and other payables		(548)	225
Cash flows from discontinued operations		(154)	-
Cash generated from operations		5,947	6,046
Interest paid		(198)	(530)
Income taxes paid		(1,551)	(846)
Net cash generated from operating activities		4,198	4,670
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(453)	(123)
Proceeds from sale of non current assets		-	26
Interest received		30	10
Purchase of software development		(799)	(473)
Purchase of debt management books		(693)	-
Acquisition of subsidiaries		(1,308)	-
Net cash absorbed by investing activities		(3,223)	(560)
Cash flows from financing activities			
Equity dividends paid		(1,512)	-
Proceeds from long-term borrowings		733	-
Payment of short-term borrowings		(50)	(243)
Payment of long-term borrowings		-	(3,600)
Net cash (absorbed by)/generated from financing activities		(829)	(3,843)
Net change in cash and cash equivalents		146	267
Cash and cash equivalents at start of year		832	565
Cash and cash equivalents at end of year	**30**	978	832

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

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

	Share Capital £'000	Share Premium Account £'000	Merger Reserve £'000	Other Reserves £'000	ESOP Share Reserve £'000	Retained Earnings £'000
Balance at 1 January 2009	429	18	11,842	254	-	19,599
Changes in equity for the year ended 31 December 2009:						
Total comprehensive income for the year	-	-	-	-	-	3,995
Share based payment expense	-	-	-	-	-	49
Realisation on disposal	-	-	-	-	-	66
Balance at 31 December 2009	429	18	11,842	254	-	23,709
Changes in equity for the year ended 31 December 2010:						
Share Issues	7	510	-	-	(517)	-
Total comprehensive income for the year	-	-	-	-	-	4,012
Share based payment expense	-	-	-	-	-	68
Dividends of 3.5 pence per share	-	-	-	-	-	(1,512)
Balance at 31 December 2010	436	528	11,842	254	(517)	26,277

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

NOTES FORMING PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies

Basis of preparation

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

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except as follows:

In preparing the Group financial statements for the current year, the Group has adopted the following new International Financial Reporting Standards (IFRS), amendments to IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations, which have not had a significant effect on the results or net assets of the group:

- Improvements to IFRSs (2009)
- IFRS 3 (Revised) Business Combinations
- Group cash-settled share- based payment transactions (Amendments to IFRS2)
- At the date of authorisation of these Group financial statements, the following standards and interpretations, which have not been applied in these Group financial statements, were in issue but not yet effective:
- Improvement to IFRSs (2010)
- Disclosures – Transfers of financial assets (Amendments to IFRS7)
- Deferred tax: Recovery of underlying assets (Amendments to IAS12)
- Revised IAS 24 Related Party Disclosures
- IFRS 9 Financial Instruments

Amendments to IAS 27 Consolidated and Separate Financial Statements

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.

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.

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 the related product;
- sale 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 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
Exclusivity arrangement	2 years	Cost
Other intangibles	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. Revenue is largely derived from IVA fees which result from individual voluntary arrangements (IVAs). These fees are 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.

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.

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

1 Accounting policies (continued)

Property, plant and equipment

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

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

- Fixtures and fittings 4 years
- Computer equipment 4 years

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

Leased assets

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

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

Segment reporting

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

Financial instruments

No financial instruments are recorded at fair value through the consolidated statement of comprehensive income. Financial assets and financial liabilities are recognised at fair value on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

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

Financial liabilities and equity

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

Bank borrowings

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

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

Trade payables

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

Equity instruments

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

Employee Benefit Trust

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit 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.

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.

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.

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.

Non-current assets held for sale and disposal groups

Non-current assets and disposal Groups are classified as held for sale when:

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

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

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

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

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

Provisions

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

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

1 Accounting policies (continued)

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 £24,528,000 at the year end (2009: £23,989,000). The discount rate considered appropriate to the IVA clients is 20% (2009: 20%). The appropriate allowance for estimated irrecoverable amounts is based on historic 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.

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.

Contingent consideration

The liability for contingent consideration under earnout arrangements for Moneyextra.com Limited is calculated using estimates of future profitability within Moneyextra and the share price and future earnings of Fairpoint Group plc. The value of contingent consideration is calculated using forecasts also used to review intangibles for impairment. The key assumptions on these are detailed in note 12.

Legal proceedings

In accordance with IFRSs the Group recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements (note 28). Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements, could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

2 Profit before finance costs from continuing operations

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
This has been arrived at after charging:		
Staff costs (see note 3)	**10,594**	10,369
Marketing costs	**5,947**	5,745
Depreciation of property, plant and equipment	**421**	424
Amortisation of intangible assets	**997**	822
Operating lease expense		
- Plant and machinery	**8**	299
- Property	**510**	514
Audit fees		
- Parent	**54**	112
- Subsidiary	**29**	12
Fees paid to the company's auditors for non-audit services		
- Tax services	**28**	18
- Corporate finance	**20**	-
- Other services	**1**	42
Loss on disposal of property, plant and equipment	**31**	34
Credit impairment of IVA revenues	**3,839**	4,404
Exceptional items		
Restructuring costs	**537**	-
	537	-

Exceptional restructuring costs consist of legal and staff expenses in connection with the acquisitions of WKD UK Limited and Moneyextra.com Limited.

3 Staff costs

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Staff costs (including directors) comprise:		
Wages and salaries	**9,414**	9,297
Defined contribution pension cost	**117**	102
Short term non-monetary benefits	**102**	73
Share based payment expense (see note 26)	**68**	49
Employer's national insurance contributions and similar taxes	**893**	848
	10,594	10,369

	Year ended 31 December 2010	Year ended 31 December 2009
The average number of employees during the year was:		
Directors	**6**	7
Management and administration	**63**	62
IVA processing team	**314**	311
Financial Services Team	**16**	5
DMP Processing Team	**59**	40
	458	425

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 2010 £'000	Year ended 31 December 2009 £'000
Directors' remuneration consists of:		
Directors' emoluments	**788**	1,016
Company contributions to money purchase pension schemes	**48**	43
	836	1,059

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Remuneration in respect of the highest paid director:		
Salary and bonuses	**259**	338
Pensions	**41**	38
	300	376

There were two directors in the Group's defined contribution pension scheme (2009; 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 4.

Of the share based payment charge (see note 26) £35,095 relates to share based payment to directors (2009: £21,220).

No directors exercised share options in the year (2009: none).

5 Segment analysis

Reportable segments

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

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

Measurement of operating segment profit and assets

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

The Group evaluates performance on the basis of adjusted (for brand amortisation and exceptional restructuring costs) profit/(loss) before taxation from continuing operations.

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

The Chief Operating Decision Maker has organised the Group into three operating divisions; Individual Voluntary Arrangements (IVA), Debt Management and Financial Services. These divisions are the basis on which the Group is structured and managed, based on its principal services provided. These are summarised as follows:

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

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

- Financial Services that we provide fall into three distinct categories:

• Refinancing Solutions – We provide a range of secured finance solutions, from mortgages through to loans that are appropriate for consumers who have an ability to meet their debt obligations, subject to reorganising their finances.
• Value Added Services – A wide range of solutions fall under this category. All of them have the primary objective of making the core debt solution work smoothly. Examples include products such as prepaid bank accounts and utility switching services.
• Moneyextra.com – internet portal providing a wide range of products and comparison services.

Segment information about these reportable segments is presented over the page.

5 Segment analysis (continued)

Year ended 31 December 2010

	Continuing and Discontinued Operations				
	IVA	**Debt Management**	**Financial Services**	**Unallocated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Total external revenue	24,270	4,062	1,072	-	29,404
Total revenue	24,270	4,062	1,072	-	29,404
Total operating profit/(loss)	856	1,295	(617)	-	1,534
Finance income – unwinding of discount on IVA revenue	4,509	-	-	-	4,509
Finance expense	-	-	-	(227)	(227)
Finance income – other	-	-	-	30	30
Adjusted profit/(loss) before taxation from continuing operations	**5,878**	**1,505**	**(288)**	**(197)**	**6,898**
Amortisation of brand and other intangibles	**(378)**	**(137)**	**-**	**-**	**(515)**
Exceptional restructuring costs	**(135)**	**(73)**	**(329)**	**-**	**(537)**
Profit/(loss) before taxation from continuing operations	**5,365**	**1,295**	**(617)**	**(197)**	**5,846**
Taxation	-	-	-	(1,680)	(1,680)
Profit/(loss) for the year from continuing operations	5,365	1,295	(617)	(1,877)	4,166
Loss for the year from discontinued operations	-	-	(154)	-	(154)
Total comprehensive income for the year	5,365	1,295	(771)	(1,877)	4,012
Reportable segment assets	40,847	6,456	4,293	-	51,596
Capital additions	995	2,214	3,267	-	6,476
Depreciation and amortisation	(1,259)	(182)	(7)	-	(1,448)

5 Segment analysis (continued)

Year ended 31 December 2009

	Continuing and Discontinued Operations				
	IVA	**Debt Management**	**Financial Services**	**Unallocated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Total external revenue	25,403	3,105	392	-	28,900
Total revenue	25,403	3,105	392	-	28,900
Total operating profit/(loss)	806	973	(102)	-	1,677
Finance income – unwinding of discount on IVA revenue	4,415	-	-	-	4,415
Finance expense	-	-	-	(379)	(379)
Finance income – other	-	-	-	10	10
Adjusted profit/(loss) before taxation from continuing operations	**5,599**	**973**	**(102)**	**(369)**	**6,101**
Brand amortisation	**(378)**	**-**	**-**	**-**	**(378)**
Exceptional restructuring costs	**-**	**-**	**-**	**-**	**-**
Profit/(loss) before taxation from continuing operations	**5,221**	**973**	**(102)**	**(369)**	**5,723**
Taxation	-	-	-	(1,662)	(1,662)
Profit/(loss) for the year from continuing operations	5,221	973	(102)	(2,031)	4,061
Loss for the year from discontinued operations	(66)	-	-	-	(66)
Total comprehensive income for the year	5,155	973	(102)	(2,031)	3,995
Reportable segment assets	45,413	59	40	-	45,512
Capital additions	735	18	-	-	753
Depreciation and amortisation	1,220	16	10	-	1,246

5 Segment information (continued)

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.

Unallocated expenses comprise finance costs and finance income – other.

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

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

6 Finance income and expense

	Year ended 31 December 2010 £'000	**Year ended 31 December 2010 £'000**	Year ended 31 December 2009 £'000	Year ended 31 December 2009 £'000
Finance income				
– unwinding of discount on IVA revenues	**4,509**		4,415	
Finance income – other				
Bank interest received	**30**		10	
		4,539		4,425
Finance expense				
Bank borrowings	**(190)**		(349)	
Finance leases	**(9)**		(2)	
Other	**(28)**		(28)	
		(227)		(379)
		4,312		4,046

7 Tax expense

	Year ended 31 December 2010 £'000	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000	Year ended 31 December 2009 £'000
Current tax expense				
UK corporation tax and income tax of overseas operations on profits for the year	**1,763**		1,482	
Adjustment for (over)/under provision	**(12)**		4	
		1,751		1,486
Deferred tax expense				
Origination and reversal of temporary differences	**(48)**		195	
Adjustment for over provision in prior periods	**(23)**		(19)	
		(71)		176
Total tax charge		**1,680**		1,662

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 2010 £'000	Year ended 31 December 2009 £'000
Profit before tax from continuing and discontinued operations	**5,692**	5,723
Expected tax charge based on the standard rate of corporation tax in the UK of 28% (2009 – 28%)	**1,594**	1,602
Expenses not deductible for tax purposes	**117**	58
Prior year deferred tax	**(23)**	(19)
Prior year current tax	**(12)**	4
Future year tax rate change impact on deferred tax	**(4)**	-
Non-qualifying depreciation	**18**	17
Unrecognised deferred tax	**(10)**	-
Total tax charge	**1,680**	1,662

8 Earnings per share

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Numerator		
Continuing operations		
Profit for the year – used in basic and diluted EPS	**4,166**	4,061
Discontinuing operations		
Loss for the year – used in basic and diluted EPS	**(154)**	(66)
Total operations		
Profit for the year – used in basic and diluted EPS	**4,012**	3,995
Denominator		
Weighted average number of shares used in basic EPS	**43,585,058**	42,870,578
Effects of:		
- employee share options	**250,132**	84,498
Weighted average number of shares used in diluted EPS	**43,835,190**	42,955,076

Certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (i.e. they are out of the money) and therefore would not be advantageous for the holders to exercise those options.

9 Dividends

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Dividend of 2 pence (2009: nil) per 1p ordinary share paid during the year relating to the previous year's results	**864**	-
Dividend of 1.5 pence (2009: nil) per 1p ordinary share paid during the year relating to the current year's results	**648**	-
	1,512	-

Note that dividends were waived on 390,850 of the 43,609,346 ordinary shares.

10 Property, plant and equipment

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
At 31 December 2009			
Cost	1,449	2,028	3,477
Accumulated depreciation	(808)	(1,066)	(1,874)
Net book value	641	962	1,603
At 31 December 2010			
Cost	1,543	2,224	3,767
Accumulated depreciation	(965)	(1,198)	(2,163)
Net book value	578	1,026	1,604
At 31 December 2009			
Opening net book value	764	1,043	1,807
Additions	83	197	280
Disposals	(23)	(37)	(60)
Depreciation charge for year	(183)	(241)	(424)
Closing net book value	641	962	1,603
Year ended 31 December 2010			
Opening net book value	641	962	1,603
Additions	94	326	420
Transfers in	-	33	33
Disposals	-	(31)	(31)
Depreciation charge for year	(157)	(264)	(421)
Closing net book value	578	1,026	1,604

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 2010 £'000	Year ended 31 December 2009 £'000
Fixtures and fittings	**-**	-
Computer equipment	**139**	154
	139	154

11 Intangible assets

	Goodwill	Brands	Software Development & Trademarks	Other Intangibles	Total
	£'000	£'000	£'000	£'000	£'000
At 31 December 2009					
Cost	11,343	4,530	2,852	-	18,725
Amortisation	-	(944)	(1,086)	-	(2,030)
Net book value	11,343	3,586	1,766	-	16,695
At 31 December 2010					
Cost	13,882	5,853	3,651	1,362	24,748
Amortisation	-	(1,322)	(1,568)	(137)	(3,027)
Net book value	13,882	4,531	2,083	1,225	21,721
Year ended 31 December 2009					
Opening net book value	11,343	3,964	1,737	-	17,044
Additions					
- Internally developed	-	-	75	-	75
- Externally acquired	-	-	398	-	398
Amortisation	-	(378)	(444)	-	(822)
Closing net book value	11,343	3,586	1,766	-	16,695
Year ended 31 December 2010					
Opening net book value	11,343	3,586	1,766	-	16,695
Additions					
- Internally developed	-	-	70	-	70
- Externally acquired	2,539	1,323	729	1,362	5,953
Amortisation	-	(378)	(482)	(137)	(997)
Closing net book value	13,882	4,531	2,083	1,225	21,721

Trademarks are estimated to have a useful life of ten years, brands eight to twelve years and software development four years. The asset Groups have the following amortisation periods remaining; trademarks, two years; brands, eight years and software development between two and three years. Included within other intangible assets are amounts relating to acquired customer contracts with estimated useful lives of five years.

The opening balance of brands comprise the capitalised Clear Start brand acquired on the acquisition of Clear Start UK Limited during a previous period.

During 2010, Moneyextra.com Limited was acquired with a brand value of £1.3 million. A further £1.9 million was capitalised in respect of goodwill (see note 12). As part of the acquisition of WKD UK Limited an amount of £0.7 million has been capitalised in respect of customer contracts.

Details of the acquisitions are provided in note 31 to the financial statements.
In addition £0.7 million was capitalised in relation to the acquisition of debt management plans from external parties.

Software development
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.
No intangible assets were held under finance leases.

12 Goodwill and impairment

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

	Operating Segment	Goodwill carrying amount At 31 December 2010 £'000	At 31 December 2009 £'000
Subsidiary			
Debt Free Direct Limited	IVA	**1,934**	1,934
Clear Start UK Limited	IVA	**9,409**	9,409
Moneyextra.com Limited	Financial services	**1,910**	-
WKD UK Limited	Debt management	**629**	-
		13,882	11,343

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

Goodwill has been tested for impairment at 31 December 2010 by reference to the recoverable amount of the CGU. There has been no impairment 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 from the formally approved 2011 budget and from detailed forecasts covering a three year period to 31 December 2013 then extrapolated to 2015. Other major assumptions are as follows:

Conversion rate is the expected conversion from lead to Meeting of Creditors (MOC) pass and is based on past experience. Attrition rates represent the expected monthly decline in the number of debt management customers paying into their plan. Discount rates are based on the Group's cost of funding adjusted to reflect management's assessment of specific risks related to the CGU. Growth rates beyond the first three years are based on economic data pertaining to the industry concerned.

Wage inflation has been based on independent economic data published by the OECD.

	Year ended 31 December 2010 %	Year ended 31 December 2009 %
Discount rate	**10**	7
Conversion rate - IVA	**5.5**	6.3
Attrition rate – DMP	**2.0**	2.0
Growth rate	**2.5**	2.5

After reviewing the current market conditions, the Board have concluded that a discount rate of 10% is more appropriate.

Sensitivity to changes in the assumptions
The recoverable amount for the IVA segment exceeds its carrying value by £9.2 million. A 1% change in the discount rate or similar change in the terminal growth rate would change the recoverable amount by approximately £1.6 million and £1.4 million respectively. In addition a 5% change in the forecast conversion rate or in the forecast pre tax earnings would change the recoverable amount by approximately £4.5 million and £2.6 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 £0.6 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 £0.2 million and £1.1 million respectively.

The recoverable amount for the financial services segment exceeds its carrying value by £6.7 million. A 1% change in the discount rate or similar change in the terminal growth rate would change the recoverable amount by approximately £0.3 million and £0.1 million respectively. In addition a 5% change in the forecast pre tax earnings would change the recoverable amount by approximately £0.5 million.

13 Subsidiaries

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

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

[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 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. Activity within the company ceased after the balance sheet date.

14 Trade and other receivables

	At 31 December 2010 £'000	At 31 December 2009 £'000
Trade receivables	1,845	1,606
Amounts recoverable on IVA services	24,528	23,989
	26,373	25,595
Other receivables	238	289
Prepayments	682	498
	27,293	26,382

Of which the following amounts are receivable after one year

	At 31 December 2010 £'000	At 31 December 2009 £'000
Trade receivables	419	589
Amounts recoverable on IVA services	5,464	8,712
	5,883	9,301

15 Trade and other payables – current

	At 31 December 2010 £'000	At 31 December 2009 £'000
Trade payables	1,493	374
Other tax and social security taxes	583	335
Other payables	174	92
Accruals	989	1,047
	3,239	1,848

16 Short-term borrowings

	At 31 December 2010 £'000	At 31 December 2009 £'000
Finance lease creditor (note 24)	103	53

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

17 Non-current financial liabilities

	At 31 December 2010 £'000	At 31 December 2009 £'000
Bank loans		
-secured	6,000	5,300
Finance lease creditor (note 24)	296	263
Deferred consideration	845	-
	7,141	5,563

An analysis of the interest rate payable on financial liabilities and information about fair values is given in note 20. The bank loan is secured by a fixed and floating charge over certain assets of Fairpoint Group plc and its subsidiaries.

18 Non-current assets held for sale and discontinued operations

	At 31 December 2009 £'000	At 31 December 2008 £'000
Discontinued operations		
Revenue	38	-
Cost of Sales	(88)	-
Gross loss	(50)	-
Administrative expenses	(104)	-
Reclassification of exchange differences on the disposal of discontinued operations	-	(66)
Loss before taxation	(154)	(66)
Tax expense	-	-
Loss for the year from discontinued operations	(154)	(66)

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

The loss of the year ended 31 December 2009 represents losses incurred on the discontinuance of the Group’s Australian operation.

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:

- market risk
- liquidity risk
- credit risk

Policy for managing these risks is set by the Board following recommendations from the Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below.

Market Risk

Market 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 (interest rate risk).

Interest rate risk

The Group's external borrowings at the balance sheet date comprise of loan facilities and finance lease payables.

At 31 December 2010, 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 £22,500 higher/lower, 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 facilities are given in note 20.

The liquidity risk of each Group entity is managed centrally by the Group finance function. Each operation has a facility with Group treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the Board annually in advance, enabling the Group's cash requirements to be anticipated. Where facilities of Group entities need to be increased, approval must be sought from the Group Finance Director. Where the amount of the facility is above a certain level agreement of the Board is needed.

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

Credit risk

The Group is mainly exposed to credit risk from IVA case revenues. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. Counterparties are low quality, however credit risk is reduced as the debtor is diversified across a large number of small balances. Maximum credit risk is £26,373,000, £1,845,000 of trade receivables, where counterparties have been invoiced but funds not received, and £24,528,000 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 amounted to £3,839,000 (2009: £4,404,000).

The Group consider 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.

19 Financial instruments - Risk exposure and management (continued)

The group does not enter into complex derivatives to manage credit risk

	As at 31 December 2010			As at 31 December 2009		
	Gross receivables	**Provision against future recovery**	**Carrying value**	Gross receivables	Provision against future recovery	Carrying value
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Trade receivables	2,502	657	1,845	2,295	689	1,606
Other receivables	238	-	238	289	-	289
Prepayments	682	-	682	498	-	498
Amounts recoverable on IVA services	24,528	-	24,528	23,989	-	23,989
	27,950	657	27,293	27,071	689	26,382

The Group does not hold any collateral as security

Analysis of the ageing of trade receivables

	As at 31 December 2010 Trade receivables £'000	As at 31 December 2009 Trade receivables £'000
Neither impaired nor past due	**1,746**	1,563
Past due but not impaired:		
0-60 days	**52**	11
61-90 days	**1**	25
More than 90 days	**46**	7
Carrying amount	**1,845**	1,606

Analysis of movements in provision against future recovery

	As at 31 December 2010 £'000	As at 31 December 2009 £'000
Balance at beginning of year	**689**	577
Amounts charged to the provision	**191**	112
Amounts written off	**(223)**	-
Balance at end of year	**657**	689

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 2010 £'000	As at 31 December 2009 £'000
Share capital	**436**	429
Share premium	**528**	18
ESOP share reserve	**(517)**	-
Retained earnings	**26,277**	23,709
	26,724	24,156

20 Financial assets and liabilities – Numerical information

Maturity of financial liabilities
The following table illustrates the contractual maturity of the Group's financial liabilities excluding bank borrowing and finance leases that must be settled gross based, where relevant, on balance sheet interest rates and exchange rates prevailing at the balance sheet date.

In less than one year	**As at 31 December 2010 £'000**	As at 31 December 2009 £'000
Trade payables	**1,493**	374
Other payables	**174**	92
Accruals	**989**	1,047
	2,656	1,513

Maturity analysis of bank borrowings is shown below and for finance leases see note 24.

Bank borrowing
The Group has undrawn committed borrowing facilities available at 31 December 2010 in which all conditions have been met. The borrowings are secured by a floating charge in favour of the Group's bankers.

The Group maintains a long term revolving credit facility with the Royal Bank of Scotland. Under the terms of the facility the Group may borrow up to a maximum of £16,000,000. The facility expires over £8,000,000 on 31 December 2011 and over the remaining £8,000,000 on 31 December 2012.

The facility is utilised by the drawing down of fixed tranches of borrowings over short term periods typically one to three months. Whilst the conditions of the facility have been met, these borrowings may be rolled over until the expiry of the facility. Accordingly the borrowings have been shown in the financial statements as long term.

20 Financial assets and liabilities – Numerical information (continued)

	Floating rate £'000	Fixed rate £'000	At 31 December 2010 £'000	At 31 December 2009 £'000
Expiry within 1 and 2 years	3,000	3,000	6,000	-
Expiry in more than 2 years	-	-	-	5,300
	3,000	3,000	6,000	5,300

Interest will be payable on the outstanding capital balance at a mix of floating and fixed rates dependent on LIBOR borrowing rates. Based on the interest rates charged at the year end on the outstanding balance, the interest charge would be approximately £125,000 per annum.

The fixed rate borrowings of £3,000,000 revert to a floating rate in June 2011.

Interest rate risk
All financial assets and liabilities are denominated in sterling.

The rate at which sterling floating liabilities are payable is 1.50% (2009 – 1.50%) above LIBOR.
Sterling floating rate assets attracted interest of 0.50% at the year-end (2009– 0.5%).

Fair values
To the extent financial assets and liabilities are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 31 December 2010 and 2009.

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27% (2009: 28%).

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

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
At beginning of the year	**1,030**	854
(Loss)/profit for the year	**(71)**	176
Intangible fixed asset (Brand)	**357**	-
At end of the year	**1,316**	1,030

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

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

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

21 Deferred tax (continued)

Year ended 31 December 2010	**(Asset)/ Liability £'000**	**Charged/ (credited) to income £'000**
Accelerated capital allowances	**96**	-
Available losses	**(19)**	56
Intangible fixed asset (Brand)	**1,239**	(127)
	1,316	(71)

Year ended 31 December 2009	**(Asset)/ Liability £'000**	**Charged/ (credited) to income £'000**
Accelerated capital allowances	96	24
Available losses	(75)	199
Intangible fixed asset (Brand)	1,009	(114)
Provisions	-	67
	1,030	176

22 Share capital

Authorised

	At 31 December 2010 Number	**At 31 December 2010 £'000**	**At 31 December 2009 Number**	At 31 December 2009 £'000
Ordinary shares of 1p each	60,000,000	600	60,000,000	600

Issued and fully paid

	At 31 December 2010 Number	**At 31 December 2010 £'000**	**At 31 December 2009 Number**	At 31 December 2009 £'000
Ordinary shares of 1p each				
At beginning of the year	42,870,578	429	42,870,578	429
Employee share options exercised	-	-	-	-
Issued to the Employee Benefit Trust	738,768	7	-	-
At end of the year	43,609,346	436	42,870,578	429

All shares have equal voting rights and there are no restrictions on the distribution of dividends or repayment of capital.
See note 6 of the Fairpoint Group plc company financial statements for a complete disclosure of shares and share options issued.

23 Reserves

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

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

24 Leases

Finance leases

The Group leases certain fixtures and fittings and computer equipment (net carrying value see page 36). 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 2010	**Minimum lease payments**	**Interest**	**Present value**
	£'000	**£'000**	**£'000**
Not later than one year	112	9	103
Later than one year and not later than five years	308	12	296
	420	21	399

At 31 December 2009	**Minimum lease payments**	**Interest**	**Present value**
	£'000	**£'000**	**£'000**
Not later than one year	92	39	53
Later than one year and not later than five years	340	77	263
	432	116	316

Present value of future lease payments are analysed as:	**At 31 December 2010**	At 31 December 2009
	£'000	£'000
Current liabilities	**103**	53
Non current liabilities	**296**	263
	399	316

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 2010 £'000**	At 31 December 2009 £'000
Not later than one year	**533**	516
Later than one year and not later than five years	**2,347**	2,039
Later than five years	**3,326**	3,863
	6,206	6,418

25 Bank balances held on behalf of individuals

Total bank balances of £55,524,733 (2009; £67,025,328) were held by the Group in trustee accounts on behalf of individuals who have entered into IVAs at 31 December 2010. 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. During 2010 the Group invested significant resources to increase the frequency of distributions to creditors reducing the value held on average per case by 24%.

26 Share based payment

The group operates eight share schemes for employees.

- Executive Share Option Scheme (ESOS)
- Enterprise Management Scheme (EMI)
- Company Share Option Plan (CSOP)
- Unapproved 2005 Plan (2005)
- Unapproved 2008 Plan (2008)
- Performance Share Plan (PSP)
- Save as your Earn Scheme (SAYE)
- Joint Ownership

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

26 Share based payment (continued)

Movements on Share Option Schemes

Year to 31 December 2010	Outstanding at start of year	Granted	Lapsed	Outstanding at end of year	Weighted Average Exercise Price	Weighted Average Contractual Life
ESOS	1,860,000	-	(300,000)	1,560,000	£1.23	5.1
EMI	286,696	-	(60,908)	225,788	£2.01	4.5
CSOP	219,200	-	(32,800)	186,400	£2.61	6.3
2008 *	253,797	-	(25,877)	227,920	£0.54	1.0
2008 *	900,000	-	-	900,000	£0.50	1.0
Joint ownership *	-	738,768	(19,643)	719,125	£0.84	2.0
PSP *	390,850	-	(191,200)	199,650	£0.01	1.5
SAYE	105,225	182,019	(33,476)	253,768	£0.62	1.8
Warrants *	-	1,000,000	-	1,000,000	£0.61	2.0
	4,015,768	1,920,787	(663,904)	5,272,651	£0.96	4.09

Year to 31 December 2009	Outstanding at start of year	Granted	Lapsed	Outstanding at end of year	Weighted Average Exercise Price	Weighted Average Contractual Life
ESOS	1,867,143	-	(7,143)	1,860,000	£1.28	6.1
EMI	405,848	-	(119,152)	286,696	£1.88	5.5
CSOP	260,200	-	(41,000)	219,200	£2.60	7.3
2008 *	270,331	-	(16,534)	253,797	£0.53	2.0
2008 *	900,000	-	-	900,000	£0.50	2.0
PSP *	390,850	-	-	390,850	£0.01	2.0
SAYE	-	120,475	(15,250)	105,225	£0.48	2.3
	4,094,372	120,475	(199,079)	4,015,768	£1.03	5.36

* 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 2010 the following conditions applied to the following shares under each scheme;

			Shares Vesting			
Condition	Target	Expiry	2008	PSP	Joint Ownership	Warrants
Annual EBITDA	£10,000,000	31/12/2011	113,960	99,825	-	-
	£12,000,000	31/12/2012	-	-	91,438	-
	£15,000,000	31/12/2011	113,960	99,825	-	-
	£16,000,000	31/12/2012	-	-	91,437	-
Share Price	85p	01/07/2011	450,000	-	-	-
	122p	31/12/2012	-	-	75,625	500,000
	183p	31/12/2012	-	-	460,625	500,000
	298p	01/07/2011	250,000	-	-	-
	404p	01/07/2011	200,000	-	-	-

As at 31 December 2010 and 31 December 2009 no performance conditions had been met.

26 Share based payment (continued)

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

Range	As at 31 December 2010 Number	Average life Years	As at 31 December 2009 Number	Average life Years
1-100p	3,920,340	2.12	2,391,974	3.18
101-200p	1,097,111	4.52	1,327,332	5.52
Greater than 200p	255,200	5.78	296,462	6.78
	5,272,651	**4.09**	**4,015,768**	**5.36**

Of the total number of options outstanding at the end of the year, 1,972,188 (2009; 2,365,896) had vested and were exercisable at the end of the year.

No share options were exercised in the year to 31 December 2010 or the year to 31 December 2009.

The weighted average fair value of each option granted during the year was 65p (2009; 34p).

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

	2010 £'000	2009 £'000
Equity-settled		
Option pricing model used	**Black Scholes**	Black Scholes
Weighted average share price at grant date	**0.65**	0.48
Weighted average exercise price	**0.89**	1.03
Weighted average contractual life	**4.09**	5.36
Weighted average expected volatility	**36%**	37%
Weighted average expected dividend growth	**5.36%**	0.00%
Weighted risk free interest rate	**2.98%**	2.59%

The volatility is based on an average weekly share price over the last year.

	2010 £'000	2009 £'000
The share based remuneration expense (note 3) comprises:		
Equity-settled schemes	**68**	49

The Group did not enter into any share based payment transactions with parties other than employees during the current or previous year, other than disclosed in note 27 of the financial statements.

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.

Related party transactions are as follows:

Trading transactions

		Transaction amount		Balance owed/(owing)	
Related party relationship	**Type of transaction**	**31 December 2010**	31 December 2009	**31 December 2010**	31 December 2009
		£'000	£'000	**£'000**	£'000
Companies in which directors or their immediate family have an interest	Sales to group	**-**	-	**-**	-

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, Non-executive director. Under the terms of the services agreement Hanover will provide advisory services related to business and strategic planning including advice and analysis in relation to acquisitions and strategic investment opportunities.

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

28 Contingent liabilities

During 2009, the five former holders of "B" Preference Shares in Debt Free Direct Limited, a subsidiary of the company, initiated legal proceedings against the Group alleging that further consideration was owed to them under the terms of the Debt Free Direct Limited articles of association.

The legal proceedings concluded in favour of Debt Free Direct Limited in 2010.

No amounts were deemed payable by Debt Free Direct Limited and the five former shareholders were instructed to pay costs to Debt Free Direct Limited.

29 Events after the balance sheet date

On 28 February 2011 the Board approved the expenditure in relation to a new IVA platform for implementation during 2011.

It is expected this will create an exceptional charge in the 2011 financial statements of approximately £1.5 million in relation to the disposal of software development intangible assets.

30 Notes supporting cash flow statement

Cash and cash equivalents comprises:	**31 December 2010 £'000**	31 December 2009 £'000
Cash available on demand	**978**	832
Net increase in cash and cash equivalents	**146**	267
Cash and cash equivalents at beginning of year	**832**	565
Cash and cash equivalents at end of year	**978**	832

31 Acquisitions during the year

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

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

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

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

The goodwill is attributable to the significant synergies which are expected to arise from the integration of the business with that of the Group and those intangibles such as the workforce which are not recognised separately. Since the acquisition date, WKD UK Limited has contributed £223,338 to Group profit. This is incorporated within the debt management segment in note 5.

If the acquisition of WKD UK Limited had taken place on 1 January 2010, the contribution to Group profit would have been £381,542, resulting in a revised adjusted profit before taxation of £7,056,204.

Customer contracts have been capitalised as other intangibles.

On 27 July 2010 the company acquired the entire issued share capital of Moneyextra.com Limited. The consideration of £1,087,000 was satisfied on completion by the issue of £242,000 in loan notes with a further £845,000 of earnout consideration payable, contingent on future earnings. Full details of the earnout consideration are provided on page 58 of the financial statements.

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

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

31 Acquisitions during the year (continued)

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

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

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

Since the acquisition date Moneyextra.com Limited has contributed £(342,650) to Group profit. This is incorporated within the Financial Services segment in note 5.

If the acquisition of Moneyextra.com Limited had taken place on 1 January 2010, the contribution to Group profit would have been £(803,182), resulting in a revised adjusted profit before taxation of £6,437,468.

Both these values are prior to any taxes, exceptional and discontinued activity.

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

COMPANY **BALANCE SHEET**

Company Number 4425339	**Note**	**At 31 December 2010 £'000**	At 31 December 2009 £'000
FIXED ASSETS			
Investments	**3**	**17,237**	16,015
CURRENT ASSETS			
Debtors (all due after more than one year)	**4**	**8,600**	10,357
Cash at bank		**237**	263
		8,837	10,620
CREDITORS: amounts falling due within one year	**4**	**(89)**	-
NET CURRENT ASSETS		**8,748**	10,620
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,985**	26,635
CREDITORS: amounts falling due after one year	**5**	**(845)**	-
NET ASSETS		**25,140**	26,635
CAPITAL AND RESERVES			
Called-up share capital	**6**	**436**	429
Share premium account	**7**	**528**	18
Other reserve	**7**	**254**	254
ESOP share reserve	**7**	**(517)**	-
Merger reserve	**7**	**11,842**	11,842
Profit and loss account	**7**	**12,597**	14,092
SHAREHOLDERS' FUNDS		**25,140**	26,635

These financial statements were approved and authorised for issue by the directors on 14 March 2011 and are signed on their behalf by:

C Moat
Director

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

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.
The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The Group profit for the year includes a company profit after tax of £17,000 (2009: Loss of £3,000)

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 (2009: £nil) and the company employed no staff during the year (2009: nil).

3. INVESTMENTS

Company	2010 £'000
COST:	
At 1 January 2010	16,015
Additions	1,222
At 31 December 2010	17,237
NET BOOK VALUE:	
At 31 December 2010	17,237
At 31 December 2009	16,015

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

Name of company	Country of incorporation	Class of share	Nature of business	Proportion of voting rights
Debt Free Direct Limited	England	100% Ordinary 100% "A" Preference 100% "B" Preference 100% "C" Preference 100% "D" Preference	Provision of financial advice and appropriate solutions	100%
Lawrence Charlton Limited	England	100% Ordinary	Debt management	100%
DFD Mortgages Limited	England	100% Ordinary	Provision of financial advice and appropriate solutions	100%
IVA Insurance Limited	Guernsey	100% Ordinary	Offshore insurance company	100%
Debt Free Direct (Australia) Limited	England	100% Ordinary	Dormant	100%
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%
Allixium Limited	England	100% Ordinary	Dormant	100%

3. INVESTMENTS (continued)

Name of company	Country of incorporation	Class of share	Nature of business	Proportion of voting rights
Clear Start UK Limited	England	100% Ordinary	Provision of financial advice and appropriate solutions	100%
Up and Up Limited	England	100% Ordinary	Dormant	100%
Up and Up Group PLC	England	100% Ordinary	Dormant	100%
Clear Start Money Management Limited	England	100% Ordinary	Debt Management	100%
Debt Advice Trust Limited	England	1	Provision of financial advice and appropriate solutions	100%
WKD UK Limited	England	100% Ordinary	Debt management	100%
Money Tailor Limited	England	100% Ordinary	Dormant	100%
Moneyextra.com Limited	England	100% Ordinary	Financial intermediary	100%
STL Innovations Limited	England	100% Ordinary	Financial intermediary	100%
Your Debt Solved Limited	England	100% Ordinary	Discontinued in the year	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. The entity ceased to trade during the year.

In July 2010 the company purchased Moneyextra.com Limited, a provider of financial intermediary services and its subsidiary companies. Consideration was provided through the issue of £242,000 in loan notes to the vendor of which £160,000 was repaid during the year and earnout consideration as detailed in note 5.

4. NET CURRENT ASSETS

DEBTORS	**31 December 2010 £'000**	31 December 2009 £'000
Amounts owed by Group undertakings	8,600	10,357

Amounts owed by Group undertakings include £8,600,000 (2009: £10,357,000) due after more than one year.

CREDIT: amounts falling due within one year	**31 December 2010 £'000**	31 December 2009 £'000
Other liabilities	82	-
Corporation tax	7	-
	89	-

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

	31 December 2010	31 December 2009
	£'000	£'000
Earnout consideration	845	-

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

6. SHARE CAPITAL

Authorised share capital:	31 December 2010 £'000	31 December 2009 £'000
60,000,000 (2009: 60,000,000) ordinary shares of 1p each	**600**	600

Allotted, called up and fully paid:	31 December 2010 £'000	31 December 2009 £'000
Ordinary shares of 1p each	**436**	429

During the year to 31st December 2010 the company issued 738,768 shares (2009: nil). The aggregate nominal value was £7,388 (2009: £nil) and the total consideration received was £517,138 (2009: £nil).

Share option scheme

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

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

Scheme	Year	Number of share options under option	Price per share	Exercise period
EMI	2004	11,855	£0.68	Between 2007 and 2017
EMI	2004	8,022	£0.81	Between 2007 and 2017
Exec	2004	600,000	£0.72	Between 2011 and 2021
EMI	2005	22,601	£1.32	Between 2008 and 2018
EMI	2005	54,794	£1.46	Between 2008 and 2018
EMI	2005	9,211	£1.89	Between 2008 and 2018
EMI	2005	50,505	£1.98	Between 2008 and 2018
Exec	2005	360,000	£1.46	Between 2008 and 2018
Exec	2005	600,000	£1.60	Between 2008 and 2018
EMI	2006	68,800	£3.09	Between 2009 and 2019
CSOP	2007	146,400	£2.67	Between 2010 and 2020
CSOP	2007	40,000	£2.37	Between 2010 and 2020
EBT	2008	199,650	£0.01	3 Years
Unapp 2008	2008	1,101,651	£0.50	Between 2011 and 2021
Unapp 2008	2008	26,269	£0.81	Between 2011 and 2021
SAYE	2009	93,788	£0.48	3 Years
SAYE	2010	159,980	£0.70	3 Years
Joint ownership	2010	719,125	£0.70	3 Years
Warrants	2010	1,000,000	£0.61	3 Years

7. RESERVES

Company	Share premium account	Shares to be issued	ESOP share reserve	Merger reserve	Profit and loss account	Total
	£'000	£,000	£,000	£'000	£'000	£'000
At beginning of year	18	254	-	11,842	14,092	26,206
Share issues	510	-	(517)	-	-	(7)
Share options exercised	-	-	-	-	-	-
Profit for the year	-	-	-	-	17	17
Dividends paid	-	-	-	-	(1,512)	(1,512)
	528	254	(517)	11,842	12,597	24,704

During the year the company paid £1,512,447 in dividends (2009: £nil).

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