,

Fairpoint Group plc

Report and Financial Statements

Year ended

31 December 2013

Company Number: 4425339

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## Overview

In my first annual statement to shareholders, I am pleased to report a set of results for 2013 showing good progress in financial, operating and cash flow performance on an adjusted basis. The Group continues to diversify its income streams and has controlled costs in subdued market areas. Progress in the development of claims management services has been strong and additional products and opportunities are under development to ensure continuing momentum.

## Strategy

Our mission is to make money go further for our consumers. Our strategy of diversifying our income streams has four key aspects:

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

## Dividend

Our dividend policy takes into account the underlying adjusted growth in earnings and strong cash generation, whilst acknowledging the requirement for continued organic and acquisition led investment and short-term fluctuations in profits.

In light of the results for the year, and taking into account the requirements of the Group and the Board's confidence in its future prospects, the Board has recommended an increase in the final dividend of 8% to 3.85p (2012: 3.55p), resulting in a total dividend for the year of 6.00p (2012: 5.50p), an increase of 9%.

The final dividend will be paid on 19 June 2014 to shareholders on the register on 23 May 2014, with an ex-dividend date of 21 May 2014.

## Changes to the board and shareholders

As report previously, the sale by Hanover Investors of its shares in the Group in 2013 marked the end the of the turnaround phase for Fairpoint and the transition to a more expansionary growth agenda. This also gave rise to some Board changes; Mike Fletcher was appointed as an independent non executive director in August 2013, replacing Thomas Russell who resigned to pursue other business interests, and I was appointed in November 2013 on the resignation of Matthew Peacock, who had been Chairman for the previous 5 years. The Board wishes to acknowledge and thank Matthew Peacock and Thomas Russell for their significant contributions to the company.

## People

We are reliant on the experience and commitment of our people and I would like to thank the management and staff for all of their hard work and dedication during the year.

**Summary**

We expect to make continued progress in 2014 and beyond, building on our core skill in applying process to professional services, through continued tight cost control in our debt solutions activities, further expansion of our claims management services and moving into adjacent market areas with a current focus on legal services.

Given the acquisitions completed during 2013 and since the start of 2014, we expect to generate good returns from these new sources of revenue in the current year as well as continue to review further value-enhancing opportunities to consolidate our market position and diversify our income stream.

David Harrel
**Chairman**

## Results

Adjusted profit before tax* was £8.1m (2012: £7.6m), increasing by 7% despite Group revenue from continuing operations in the year ended 31 December 2013 recording a 5% decrease to £28.4m (2012: £29.9m). Momentum from our diversification agenda continued with debt management and claims management services accounting for 42% of the Group revenue (2012: 36%). Profit before tax was £5.9m (2012: £10.5m, including £4.3m of net exceptional revenue).

Adjusted basic earnings per share** was 15.03p (2012: 13.44p). Basic earnings per share was 11.08p (2012: 18.59p) and fully diluted earnings per share was 10.96p (2012: 18.43p). Exceptional costs were £0.6m (2012: exceptional net revenue of £4.3m).

Net cash*** at 31 December 2013 was £2.8m (31 December 2012: £1.6m).

## Operational review

*Market conditions and update*

The market conditions continue to present acquisition opportunities to the Group, however, at the same time they provide a headwind to the generation of organic income growth in our core debt solutions marketplace.

Against this backdrop the Group continues to take a disciplined approach to marketing expenditure, ensuring that uneconomic marketing activity is minimised. Whilst the volume of new IVA solutions in England and Wales increased to 48,967 in 2013 (2012: 46,694), (source: The Insolvency Service), in our experience, these volumes have been driven from consumers with lower disposable incomes (typically property tenants as opposed to home owners) and have resulted in reduced IVA fee levels. These market conditions, in our view, are likely to continue until bank base rate increases adversely impact the financial circumstances of home owners who typically have higher incomes.

The debt management protocol, to which we have previously referred in the prior year, was announced in February 2013. This is an industry initiative designed to improve standards and customer affordability within the DMP sector, which will be independently monitored. The Group signed up to this protocol, which involved an independent audit, in November 2013 and received accreditation. In addition, the newly formed Financial Conduct Authority (FCA) takes over responsibility for the regulation of, amongst others, debt management companies, from the Office of Fair Trading (OFT) with effect from 1 April 2014. The FCA has set higher standards in areas such as treating customers fairly and prudential requirements of firms operating in the DMP space. As one of the largest and well capitalised operators in the debt solutions market, we believe that this increased regulation, along with prevailing market conditions, will give rise to further consolidation in the sector, resulting in additional acquisition opportunities for Fairpoint.

*IVA services*

The segmental adjusted pre-tax profit was £4.1m (2012: £4.9m). In light of the market conditions outlined above, we have focused on cost control in the IVA segment as a result of which profit margins were broadly stable at 25% (2012: 26%), despite reduced revenues.

Revenues from the Group's IVA activities were £16.4m (2012: £19.0m). Revenues were lower than 2012, as a result of market conditions, driving lower average fees for new IVAs and lower income per IVA. Active management of the portfolio however, means that the total number of fee paying IVAs under management at 31 December 2013 was 19,337 (2012: 20,117). The number of new IVAs written in 2013 was 4,491 (2012: 5,391) and the average gross fee per new IVA was £3,239 (2012: £3,299).

The Group incurred exceptional costs of £0.5m in relation to restructuring activities as part of managing its IVA cost base, in light of the decline in revenue.

** Profit before tax of £5.9m (2012: £10.5m) plus amortisation of acquired intangible assets of £1.6m (2012: £1.3m) plus exceptional items of £0.6m (2012: less £4.3m)*
*** Adjusted for the net of tax effect of amortisation of acquired intangible assets and exceptional items*
**** Net cash is cash less finance lease liabilities*

*DMP services*

Revenues in the DMP segment were £5.5m (2012: £5.6m) and the segmental adjusted pre-tax profit was £2.1m (2012: £2.2m).

Our focus in the DMP segment is to provide the best DMP service to our clients and continue to pursue debt management acquisitions. Four DMP back books were acquired in 2013. Margins were held at 38% (2012: 38%), despite one off transition costs associated with these acquisitions. The total number of DMPs under management at 31 December 2013 was 15,688 (2012: 14,880). Further progress in our acquisition pipeline has been made following the acquisition in January 2014 of two further back books for an initial consideration of £4.0m. This has substantially expanded the DMP portfolio by adding a further c.9,000 plans, bringing the total to c.24,000 plans. Plans under management have increased by over 60% since the start of 2013, supporting a higher level of future activity.

*Claims management services*

Revenues from our claims management activities increased by 28% to £6.4m (2012: £5.0m) and the segmental adjusted pre-tax profit increased to £2.3m (2012: £1.6m). Claims management is an important growth area for the business and our emphasis is on developing a broader range of claims management offerings to consumers.

During 2013 we continued to benefit from payment protection insurance (PPI) reclaim activity from our IVA portfolio. Claims monies which are secured through this activity increase the contributions to IVAs and so are beneficial to creditors. PPI reclaim activity within our DMP portfolio, which is conducted through our "Writefully Yours" brand, continued to gain momentum and further progress in this area is expected in 2014. The acquisition of a small book of PPI claims in December could be the first of several potential deals of this nature, if the PPI sector experiences the same consolidation dynamics as the DMP sector.

**Outlook**

We continue to assess the market to identify good opportunities to acquire debt solutions' back books at attractive rates and further consolidate our strong market position, with the intention of delivering improving revenue growth in future years. The acquisition of two back books in January 2014, noted above, underpins this improvement for 2014. We will also continue our focus on cost control, given the challenging market conditions anticipated for IVA services.

Claims management services are expected to continue making a strong contribution to results in the near term with further product development underway to drive future growth, including legal services. As noted above, revenues in this segment have benefitted from PPI claims from both our IVA and DMP portfolios. The recent PPI back book acquisition supplements this with external portfolios.

As a result of the above factors, the Board expects to make good progress in 2014 and beyond.

Christopher Moat
**Chief Executive Officer**

## Financial highlights

The Group's revenue before exceptional items decreased by 5% to £28.4m (2012: £29.9m). The decrease was largely due to a reduction in the IVA segment, partly offset by growth within claims management.

Adjusted profit before tax* increased to £8.1m (2012: £7.6m) with a gross margin of 53% (2012: 50%). The increased revenue and margins from claims management services combined with a controlled cost base and the absence of pilot costs in non pursued business streams have led to the improved results.

During 2013, the Group incurred exceptional costs of £0.6m (2012: net exceptional revenue of £4.3m). This represented £0.5m of restructuring costs and £0.1m of abortive acquisition costs. In 2012, the Group generated £4.5m exceptional fee income relating to the VAT refund received that year. Also in 2012, the Group incurred £0.2m of exceptional costs associated with the refinancing completed in April 2012. Amortisation of acquired intangible assets increased to £1.6m (2012: £1.3m) as a result of the acquisitions made during 2012 and 2013.

Profit before tax was £5.9m (2012: £10.5m, including £4.3m of net exceptional revenue).

The Group's tax charge was £1.2m (2012: £2.5m). The tax charge on adjusted profits was £1.7m (2012: £1.8m). This represents an effective rate of 21% (2012: 24%), the reduction largely resulting from the change in corporation tax rates during the year, as well as a one-off reclaim of taxation relating to previous years.

The total comprehensive income for the year was £4.7m (2012: £8.0m).

## Earnings per share (EPS)

Adjusted basic EPS** was 15.03p (2012: 13.44p). Basic EPS was 11.08p (2012: 18.59p). Diluted EPS was 10.96p (2012: 18.43p).

## Cash flows

Cash generated from operations was 108% of profit before finance costs at £9.1m (2012: £13.7m). Prior period cash flows included a £3.0m cash contribution from exceptional VAT related revenue. Income tax payments increased to £2.8m (2012: £0.5m) due to increased reported earnings in the previous year.

Investing cash outflows increased by £1.1m to £2.7m (2012: £1.6m), due to an increase in expenditure on back book acquisitions.

Financing cash outflows decreased to £2.3m (2012: £10.6m), as the Group has not utilised its financing facility in the year. This decrease was despite a 20% increase in dividend cash outflows of £2.4m (2012: £2.0m).

** Profit before tax of £5.9m (2012: £10.5m) plus amortisation of acquired intangible assets of £1.6m (2012: £1.3m) plus exceptional items of £0.6m (2012: less £4.3m)*
*** Adjusted for the net of tax effect of amortisation of acquired intangible assets and exceptional items*

## Financing

The Group's net cash* position as at 31 December 2013 was £2.8m (31 December 2012: £1.6m).

Along with the Group's £13m asset based revolving credit facility with PNC Financial Services UK Limited, this positive cash balance puts the Group in a strong position to continue its strategy of investment and diversification. The Group continues to assess the market for opportunities to acquire back books in the IVA and DMP markets, as well as to identify other opportunities which support the Group's strategy of growth and diversification.

John Gittins
**Group Finance Director**

** Net cash is cash less finance lease liabilities*

This report has been prepared by the directors in accordance with the requirements of Section 414 of the Companies Act 2006. The company's independent auditor is required by law to report on whether the information given in the Strategic Report is consistent with the financial statements. The auditor's report is set on page 24.

## Principal objectives, strategy and outlook

The principal activity of Fairpoint Group during the year was the provision of financial advice and appropriate solutions to individuals with personal debt issues through the group's 3 core segments: IVA services, DMP services and claims management.

The IVA services and DMP services segments provide financial advice and appropriate solutions (IVAs or DMPs) to individuals experiencing personal debt problems.

The claims management segment receives third party referral commissions and, through the "Writefully Yours" brand, undertakes PPI reclaim activity on behalf of DMP clients.

Our mission is to make money go further for our consumers. Our strategy of diversifying our income streams has four key aspects:

- Focus on our cost agenda in the individual voluntary agreement ("IVA") segment during a period of subdued market demand;
- Continue to grow our debt management plan ("DMP") activities, both organically and through acquisition opportunities presented by a consolidating market;
- Continue to expand our claims management services segment with new products; and
- Look to leverage core competencies into adjacent markets as we pursue our growth and diversification strategy with Legal Services being a candidate product/market.

## Overview for the year

Management use the following key performance indicators (KPIs) to assess the performance of the Group:

- Total number of fee paying IVAs
- Number of new IVAs acquired
- Average gross fees per new IVA
- Total number of DMPs under management
- Revenue
- Adjusted profit before tax
- Profit margins
- Profit before tax
- Earnings per share (EPS)
- Cash generation

The total number of fee paying IVAs under management at 31 December 2013 was 19,337 (2012: 20,117). The number of new IVAs written in 2013 was 4,491 (2012: 5,391) and the average gross fee per new IVA was £3,239 (2012: £3,299).

The total number of DMPs under management at 31 December 2013 was 15,688 (2012: 14,880).

The Group's revenue before exceptional items decreased by 5% to £28.4m (2012: £29.9m). The decrease was due to a decline in the IVA segment, partly offset by growth within claims management.

Adjusted profit before tax* increased to £8.1m (2012: £7.6m) with a gross margin of 53% (2012: 50%). The increased revenue and margins from claims management services combined with a controlled cost base have led to the improved results.

During 2013, the Group incurred exceptional costs of £0.6m (2012: net exceptional revenue of £4.3m). This represented £0.5m of restructuring costs and £0.1m of abortive acquisition costs. In 2012, the Group generated £4.5m exceptional fee income relating to the VAT refund received that year. Also in 2012, the Group incurred £0.2m of exceptional costs associated with the refinancing completed in April 2012. Amortisation of acquired intangible assets increased to £1.6m (2012: £1.3m) as a result of the acquisitions made during 2012 and 2013.

Profit before tax was £5.9m (2012: £10.5m, including £4.3m of net exceptional revenue).

The Group's tax charge was £1.2m (2012: £2.5m). The tax charge on adjusted profits was £1.7m (2012: £1.8m). This represents an effective rate of 21% (2012: 24%), the reduction largely resulting from the change in corporation tax rates during the year, as well as a once off reclaim of taxation relating to previous years.

The total comprehensive income for the year was £4.7m (2012: £8.0m).

An overview of market conditions is contained in the chief executive officer's report, together with an operating review of the performance of each segment.

*Earnings per share (EPS)*

Adjusted basic EPS** was 15.03p (2012: 13.44p). Basic EPS was 11.08p (2012: 18.59p). Diluted EPS was 10.96p (2012: 18.43p).

*Cash flows*

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*Financing*

The Group's net cash* position as at 31 December 2013 was £2.8m (31 December 2012: £1.6m).

Along with the Group's £13m asset based revolving credit facility with PNC Financial Services UK Limited, this positive cash balance puts the Group in a strong position to continue its strategy of investment and diversification. The Group continues to assess the market for opportunities to acquire back books in the IVA and DMP markets, as well as to identify other opportunities which support the Group's strategy of growth and diversification.

**Principle risks and uncertainties**

*Regulatory change*

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

As one of the largest commercial personal insolvency practices in the UK, the Group has strong relationships with the insolvency regulatory bodies, the Insolvency Service and the Institute of Chartered Accountants in England and Wales (ICAEW), and seeks to provide input to the working parties as they arise.

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

The debt management protocol was launched in 2013. This is a joint initiative involving The Insolvency Service and certain industry bodies, and is designed to make debt management plans more affordable and sustainable for consumers, spreading the recovery of initial set up fees, as well as applying some further minimum standards. Compliance with the protocol will be independently monitored. The Group has signed up to this voluntary protocol, having successfully completed an independent audit by the ICAEW, and actively incorporates it into its business model.

From 1 April 2014 The Financial Conduct Authority (FCA) assumes responsibility for the regulation of, amongst others, debt management companies, from the Office of Fair Trading (OFT). The FCA has set higher standards than the OFT in areas such as treating customers fairly and prudential requirements of firms operating in the DMP space. The Group is well progressed in its preparation for this important change. This development will give rise, in our view, to further consolidation in the sector, resulting in additional back book acquisition opportunities.

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

*Customers defaulting on plans*

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

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

*Cash requirements*

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

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

*Creditor voting policy*

It is possible that creditors could choose to vote to reject the Group's IVA proposals. There are a number of factors that mitigate this:

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

*IT systems*

The Group continues to invest in IT, most notably the development of the IVA platform which has improved the efficiency with which IVAs are managed. These investments are continually subject to implementation risks. Failure to implement such changes effectively could result in unplanned costs or inefficiencies which could adversely affect its operations.

The Group has utilised strong project management capabilities to implement the new IVA platform and will continue to invest in IT systems and infrastructure.

*Marketplace*

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

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

John Gittins
**Group Finance Director**

| **Directors** | **David Harrel** | **Chris Moat** | **John Gittins** |
|---|---|---|---|
| | **John Allkins** | **Amanda West** | **Michael Fletcher** |

**Board of Directors**

**Non-executive chairman** – David Harrel (66) •

David Harrel was one of the founding partners of the law firm SJ Berwin LLP and was made senior partner in 1992. He relinquished this role in 2006 but remains a consultant to the firm. David has been a nonexecutive director or chairman of a number of public and private companies since 2006. He is currently the senior independent non executive director of Rathbone Brothers PLC, a member of the Board of English National Opera and a trustee/ director of a number of not for profit organisations.

**Chief executive officer** - Chris Moat (45) •

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

**Finance director & company secretary** – John Gittins, ACA (54)

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

**Senior independent non-executive director** – John Allkins, FCMA (64) * O •

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

**Non-executive director** – Amanda West, (51)

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

**Non-executive director** – Michael Fletcher, (39) * O

Appointed 1 August 2013. Mike, is a founding director of Praetura Capital, a specialist venture and advisory business established in 2011. Mike holds a variety of board positions and has extensive capital markets experience. Mike is currently a non-executive director of AIM listed Inspired Energy (INSE.L), which he helped to successfully bring to market in November 2011.

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

## Officers and professional advisors

| | |
|---|---|
| **Auditors:** | BDO LLP<br>3 Hardman Street<br>Spinningfields<br>Manchester<br>M3 3AT |
| **Solicitors:** | Eversheds<br>Eversheds House<br>70 Great Bridgewater Street<br>Manchester<br>M1 5ES |
| **Nominated advisor and broker:** | Shore Capital and Corporate Limited<br>Bond Street House<br>14 Clifford Street<br>London<br>W1S 4JU |
| **Bankers:** | PNC Business Credit<br>8-14 The Broadway<br>Haywards Heath<br>RH16 3AP |
| | The Royal Bank of Scotland Group<br>6th Floor<br>1 Spinningfield Square<br>Manchester<br>M3 3AP |
| **Company number:** | 4425339 |
| **Registered office:** | Eversheds House<br>70 Great Bridgewater Street<br>Manchester<br>M1 5ES |
| **Principal place of business:** | Fairclough House<br>Church Street<br>Adlington<br>Lancashire<br>PR7 4EX |

The directors present their report and the financial statements of the Group for the year ended 31 December 2013.

**Principal activities**

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

**Business review**

A review of the business of the Group during the year ended 31 December 2013 and of the position of the Group at the year end can be found within the chief executive officer's review on pages 5 and 6 and the finance director's review on pages 7 and 8. A description of the principal risks and uncertainties facing the Group is set out on pages 10 and 11.

**Dividends**

A final dividend of 3.85 pence per 1p ordinary share is proposed for approval at the forthcoming AGM. This, together with the interim dividend of 2.15 pence, makes a total dividend of 6.00 pence for the year (2012: 5.50 pence).

**The directors and their interests in the shares of the parent company**

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

| | Ordinary Shares of £0.01 each | |
|---|---|---|
| | At 31 December 2013 | At 31 December 2012 |
| C Moat | 201,531 | 201,531 |
| J Gittins | 16,667 | 16,667 |
| J S Allkins | 50,000 | 50,000 |
| A West | - | - |
| M J Fletcher (Appointed 01/08/13) | - | - |
| D T Harrel (Appointed 14/11/13) | - | - |
| M R Peacock [1] (Resigned 13/11/13) | - | 9,983,578 |
| T Russell [1] (Resigned 01/08/13) | - | 10,022,087 |

[1] M R Peacock and T Russell had an indirect interest in 9,983,578 shares through funds advised by Hanover Investors Management LLP. In addition, T Russell held an additional 38,509 shares as at 31 December 2012.

**Substantial shareholdings**

Other than the directors' interests, on 31 December 2013, 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 |
|---|---|---|
| Miton Capital Partners Limited | 8,264,060 | 19.48% |
| Schroders plc | 7,725,000 | 18.21% |
| Hargreave Hale Limited | 6,895,000 | 16.26% |
| Bsi Generali UK Limited | 2,550,678 | 6.01% |
| Invesco Advisers Inc | 1,852,500 | 4.37% |
| Fortelus Capital Management LLP | 1,733,656 | 4.09% |
| Henerson Global Investors | 1,636,175 | 3.86% |
| Majedie Asset Management | 1,371,197 | 3.23% |

### Disabled employees

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

### Employee consultation

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

### Financial instruments

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

### Charitable donations

| | Year ended 31 December 2013 £ | Year ended 31 December 2012 £ |
|---|---|---|
| Charitable donations | 12,163 | 8,120 |

### 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.

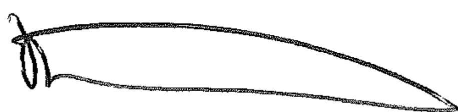
### Website publication

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 board on 12 March 2014.



**J Gittins**
Company Secretary

## Directors' remuneration

The board submits its directors' remuneration report for the year ended 31 December 2013.

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

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

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

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

## Main elements of remuneration

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

## Basic annual salary

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

## Bonuses

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

## Options

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

## Summary of directors' remuneration

| | Fees / Basic Annual Salary £'000 | Bonus £'000 | Benefits £'000 | Gain on Exercise of Share Options £'000 | Pension £'000 | Year to 31 December 2013 Total £'000 | Year to 31 December 2012 Total £'000 | Current basic annual salary Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | | |
| C Moat | 249 | 95 | 1 | 252 | 37 | **634** | 381 | 251 |
| J Gittins | 203 | 77 | 2 | - | 20 | **302** | 292 | 204 |
| D J Oakley (Resigned 15/05/2) | - | - | - | - | - | **-** | 193 | - |
| | 452 | 172 | 3 | 252 | 57 | **936** | 866 | 455 |
| **Non-executive** | | | | | | | | |
| D Harrel (Appointed 14/11/13) | 12 | - | - | - | - | **12** | - | 72 |
| J Allkins | 37 | - | - | - | - | **37** | 35 | 37 |
| A West | 35 | - | - | - | - | **35** | 6 | 35 |
| M Fletcher (Appointed 01/08/13) | 15 | - | - | - | - | **15** | - | 35 |
| M Peacock [1] (Resigned 13/11/13) | 96 | - | - | - | - | **96** | 87 | - |
| T Russell [1] (Resigned 01/08/13) | 26 | - | - | - | - | **26** | 39 | - |
| P Blacher (Resigned 16/11/12) | - | - | - | - | - | **-** | 30 | - |
| | 221 | - | - | - | - | **221** | 197 | 179 |
| Total | 673 | 172 | 3 | 252 | 57 | **1,157** | 1,063 | 634 |

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

### Non-executive directors

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

### Directors' interests

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

### Directors' share options as at 31 December 2013

| Director | Scheme | At 31 December 2013 | At 31 December 2012 | Option Price in pence | Date from which exercisable | Expiry Date |
|---|---|---|---|---|---|---|
| C Moat | 2008 Unapproved | - | 450,000 | 50 | 01.04.13 | 13.09.21 |
| C Moat | 2008 Unapproved | 450,000 | 450,000 | 50 | 01.10.14 | 13.09.21 |
| J Gittins | 2008 Unapproved | 300,000 | 300,000 | 50 | 27.04.15 | 27.04.22 |

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

As an AIM listed company, the Company is not required to comply with the provisions of the UK Corporate Governance Code ("The Code"). The Company does not intend to fully comply with the Code and does not give a statement of compliance with the Code. However, the Board of Directors recognises the importance of, and is committed to, ensuring that effective corporate governance procedures relevant to smaller listed companies are in place.

## The Board

The board comprises a non-executive chairman, two executive directors and three non-executive directors. The board considers that D Harrel, J S Allkins, A West and M Fletcher are independent.

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

The board is scheduled to meet 10 times each year, with additional meetings called if required.

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

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

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

| *Name of director* | *Board (10 meetings)* | *Audit Committee (2 meetings)* | *Remuneration Committee (1 meeting)* |
|---|---|---|---|
| C Moat | 10 | - | - |
| J Gittins | 10 | - | - |
| M R Peacock (Resigned 13 November 2013) | 7 | - | - |
| J S Allkins | 10 | 2 | 1 |
| T Russell (Resigned 1 August 2013) | 7 | 1 | 1 |
| A West | 8 | - | - |
| D Harrel (Appointed 14 November 2013) | 1 | - | - |
| M Fletcher (Appointed 1 August 2013) | 3 | 1 | - |

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

All the directors are subject to election by shareholders at the first annual general meeting after their appointment. Thereafter, all directors are then subject to retirement by rotation at intervals of no more than three years. D Harrel and M Fletcher are subject to election at the 2014 annual general meeting. Biographical details of all directors are set out on page 13.

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 D Harrel and consists of J S Allkins and C Moat. 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.

**Remuneration committee**

The remuneration committee consists of J S Allkins and M Fletcher and is chaired by M Fletcher.

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

## Audit committee

The audit committee consists of J S Allkins and M Fletcher and is chaired by J S Allkins.

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

## Internal control

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

The key features of the internal control system are:

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

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

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

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

## Whistleblowing policy

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

## Going concern

The Group`s business activities, together with the factors likely to affect its future development, performance and position are set out in the chairman`s statement and chief executive officer`s review on pages 5 and 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the finance director`s review on pages 7 to 8 and in the strategic report on pages 9 and 11. In addition, notes 19 and 20 to the financial statements include details of the Group`s borrowings, in addition to the Group`s objectives and policies for managing its capital, its financial risk management objectives and its exposure to credit, interest rate and liquidity risk.

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

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

## Relations with shareholders

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

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

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

## Independent auditor's report to the members of Fairpoint Group plc

We have audited the financial statements of Fairpoint Group plc for the year ended 31 December 2013, 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 Financial Reporting Council's (FRC'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/auditscopeukprivate.

### 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 2013 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 strategic report and 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.

BDO LLP.

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

12 March 2014

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

**Fairpoint Group plc**

**Consolidated statement of comprehensive income – year ended 31 December 2013**

| | Notes | Year ended 31 December 2013 | | | Year ended 31 December 2012 | | |
|---|---|---|---|---|---|---|---|
| | | Adjusted * | Amortisation of acquired intangible assets and exceptional items | Total | Adjusted * | Amortisation of acquired intangible assets and exceptional items | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Revenue | 2 & 5 | 28,357 | - | 28,357 | 29,857 | 4,507 | 34,364 |
| Cost of sales | | (13,245) | - | (13,245) | (14,837) | - | (14,837) |
| **Gross profit** | | **15,112** | **-** | **15,112** | **15,020** | **4,507** | **19,527** |
| Amortisation of acquired intangibles | | - | (1,585) | (1,585) | - | (1,331) | (1,331) |
| Other administrative expenses | 2 | (9,828) | (592) | (10,420) | (10,915) | (248) | (11,163) |
| **Total administrative expenses** | | **(9,828)** | **(2,177)** | **(12,005)** | **(10,915)** | **(1,579)** | **(12,494)** |
| Finance income – unwinding of discount on IVA revenue | 6 | 3,092 | - | 3,092 | 3,817 | - | 3,817 |
| Finance income – other | 6 | 7 | - | 7 | 10 | - | 10 |
| **Profit (loss) before finance costs** | 2 | **8,383** | **(2,177)** | **6,206** | **7,932** | **2,928** | **10,860** |
| Finance costs | 6 | (332) | - | (332) | (380) | - | (380) |
| **Profit (loss) before taxation** | | **8,051** | **(2,177)** | **5,874** | **7,552** | **2,928** | **10,480** |
| Tax (expense) credit | 7 | (1,694) | 506 | (1,188) | (1,794) | (717) | (2,511) |
| **Profit (loss) for the year** | | **6,357** | **(1,671)** | **4,686** | **5,758** | **2,211** | **7,969** |
| **Total comprehensive income (loss) for the year** | | 6,357 | (1,671) | 4,686 | 5,758 | 2,211 | 7,969 |
| **Earnings per Share** | | | | | | | |
| Basic | 8 | | | 11.08 | | | 18.59 |
| Diluted | 8 | | | 10.96 | | | 18.43 |

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

* Before amortisation of acquired intangible assets and exceptional items.

The notes on pages 30 to 66 form part of these financial statements.

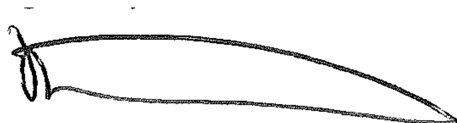
**Fairpoint Group plc**

**Consolidated statement of financial position as at 31 December 2013**

**Company Number 4425339**

| | Notes | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|---|
| | | **£'000** | **£'000** |
| **ASSETS** | | | |
| **Non Current Assets** | | | |
| Property, plant and equipment | **10** | 1,048 | 1,406 |
| Goodwill | **11,12** | 11,972 | 11,972 |
| Other intangible assets | **11** | 7,346 | 6,943 |
| **Total Non Current Assets** | | **20,366** | **20,321** |
| **Current Assets** | | | |
| Trade receivables and amounts recoverable on IVA services | **14** | 23,685 | 24,984 |
| Other current assets | **14** | 2,196 | 4,743 |
| Cash and cash equivalents | | 2,861 | 1,850 |
| **Total Current Assets** | | **28,742** | **31,577** |
| **Total Assets** | | **49,108** | **51,898** |
| **EQUITY** | | | |
| Share capital | **22** | 436 | 436 |
| Share premium account | | 528 | 528 |
| Treasury shares | **22** | (727) | (1,015) |
| ESOP share reserve | | (517) | (517) |
| Merger reserve | | 11,842 | 11,842 |
| Other reserves | | 254 | 254 |
| Retained earnings | | 32,001 | 29,654 |
| **Total equity attributable to equity holders of the parent** | | **43,817** | **41,182** |
| **LIABILITIES** | | | |
| **Non Current Liabilities** | | | |
| Long-term financial liabilities | **17** | - | 100 |
| Deferred tax liabilities | **21** | 226 | 200 |
| **Total Non Current Liabilities** | | **226** | **300** |
| **Current Liabilities** | | | |
| Trade and other payables | **15** | 4,226 | 7,942 |
| Short-term borrowings | **16** | 100 | 130 |
| Current tax liability | | 739 | 2,344 |
| **Total Current Liabilities** | | **5,065** | **10,416** |
| **Total Liabilities** | | **5,291** | **10,716** |
| **Total Equity and Liabilities** | | **49,108** | **51,898** |

The financial statements were approved by the Board of directors on 12 March 2014 and were signed on its behalf by:



J Gittins
**Director**
The notes on pages 30 to 66 form part of these financial statements.

## Fairpoint Group plc

### Consolidated statement of cash flows for the year ended 31 December 2013

| | Notes | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 5,874 | 10,480 |
| Share based payments charge | | 72 | 94 |
| Depreciation of property, plant and equipment | | 462 | 373 |
| Amortisation of intangible assets and development expenditure | | 2,046 | 1,570 |
| Loss (profit) on disposal of non current assets | | 148 | (50) |
| Interest received | | (7) | (10) |
| Interest expense | | 332 | 380 |
| Decrease (increase) in trade and other receivables | | 3,846 | (4,098) |
| (Decrease) increase in trade and other payables | | (3,716) | 4,973 |
| **Cash generated from operations** | | 9,057 | 13,712 |
| Interest paid | | (332) | (690) |
| Income taxes paid | | (2,743) | (472) |
| Net cash generated from operating activities | | 5,982 | 12,550 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of non current assets | | - | 229 |
| Purchase of property, plant and equipment (PPE) | | (123) | (435) |
| Interest received | | 7 | 10 |
| Software development | | (711) | (704) |
| Purchase of debt management and IVA books | | (1,891) | (660) |
| Net cash absorbed by investing activities | | (2,718) | (1,560) |
| **Cash flows from financing activities** | | | |
| Equity dividends paid | **9** | (2,360) | (1,965) |
| Sale (Purchase) of treasury shares | **22** | 237 | (1,015) |
| Payment of short-term borrowings | | (30) | (7,497) |
| Payment of long-term borrowings | | (100) | (131) |
| Net cash absorbed by financing activities | | (2,253) | (10,608) |
| **Net change in cash and cash equivalents** | **18** | 1,011 | 382 |
| Cash and cash equivalents at start of year | | 1,850 | 1,468 |
| **Cash and cash equivalents at end of year** | **28** | 2,861 | 1,850 |

The notes on pages 30 to 66 form part of these financial statements.

**Fairpoint Group plc**

**Consolidated statement of changes in equity - year ended 31 December 2013**

| | Share Capital £'000 | Share Premium Account £'000 | Treasury Shares £'000 | Merger Reserve £'000 | Other Reserves £'000 | ESOP Share Reserve £'000 | Retained Earnings £'000 | **Total Equity £'000** |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2012 | 436 | 528 | - | 11,842 | 254 | (517) | 23,556 | **36,099** |
| Changes in equity for the year ended 31 December 2012: | | | | | | | | |
| Total comprehensive income for the year | - | - | - | - | - | - | 7,969 | **7,969** |
| Share based payment expense | - | - | - | - | - | - | 94 | **94** |
| Purchase of treasury shares | - | - | (1,015) | - | - | - | - | **(1,015)** |
| Dividends of 4.70 pence per share | - | - | - | - | - | - | (1,965) | **(1,965)** |
| Balance at 31 December 2012 | 436 | 528 | (1,015) | 11,842 | 254 | (517) | 29,654 | **41,182** |
| Changes in equity for the year ended 31 December 2013: | | | | | | | | |
| Total comprehensive income for the year | - | - | - | - | - | - | 4,686 | **4,686** |
| Share based payment expense | - | - | - | - | - | - | 72 | **72** |
| Sale of treasury shares | - | - | 288 | - | - | - | (51) | **237** |
| Dividends of 5.70 pence per share | - | - | - | - | - | - | (2,360) | **(2,360)** |
| Balance at 31 December 2013 | 436 | 528 | (727) | 11,842 | 254 | (517) | 32,001 | **43,817** |

The notes on pages 30 to 66 form part of these financial statements.

## 1 Accounting policies

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

### Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("adopted IFRSs") and 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 68 to 74.

### Basis of consolidation

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

### Changes in accounting policies

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

IFRS 13 Fair Value Measurement

Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities;

Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities; Transition Guidance

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

### New standards and interpretations not yet adopted

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

IFRS 9 Financial Instruments

IFRS 10 Consolidated Financial Statements

IAS 36 Recoverable Amounts Disclosures for Non-Financial Assets

## 1 Accounting policies (continued)

### Business combinations

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

### Goodwill

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

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

### Other intangibles

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

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

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

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

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

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

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

| Intangible asset | Useful economic life | Valuation method |
|---|---|---|
| Trademarks | 10 years | Cost |
| Brands | 8-12 years | Discounted cash flow |
| Capitalised software | 4 years | Cost |
| Acquired IVA/DMP back books | 5 years | Cost |
| Acquired PPI back books | 2 years | Cost |

## 1 Accounting policies (continued)

### Impairment of non financial assets (excluding deferred tax assets)

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

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

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

### Revenue

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

***IVA fees***

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 our 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. The IVA income is recognised once a contractual obligation is incurred by the IVA provider accepting the referral.

## 1 Accounting policies (continued)

***Claims management***

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

***Debt management***

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

**Bad debt expense**

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

**Cash and cash equivalents**

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

**Property, plant and equipment**

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

Depreciation is calculated so as to reduce the balance of assets by a fixed percentage each year. The principal depreciation rates used for this purpose are:

- Fixtures and fittings 25%
- Computer equipment 25%

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

**Leased assets**

Leases on 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.

## 1 Accounting policies (continued)

### Segment reporting

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

### Financial instruments

Financial assets and financial liabilities are recognised at fair value on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. At 31 December 2013, the Group has no financial instruments carried at fair value through profit and loss.

*Trade receivables*

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

*Financial liabilities and equity*

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

*Bank borrowings*

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

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

*Trade payables*

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

*Equity instruments*

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

*Employee Benefit Trust*

The Group operates an Employee Benefit Trust (“EBT”) under which ordinary shares have been issued and are held by the EBT. These are treated as treasury shares and are added to the ESOP Share Reserve.

*Contingent consideration*

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

## 1 Accounting policies (continued)

### Taxation

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

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

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

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

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

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

### Dividends

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

### Share based payments

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

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

**1 Accounting policies (continued)**

**Pension contributions**

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

**Investment income**

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

**Marketing costs**

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

**Exceptional items**

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

**Provisions**

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

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

## 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 £21,423,000 at the year end (2012: £22,402,000). The discount rate considered appropriate to the IVA clients is 20% (2012: 20%). The appropriate allowance for estimated irrecoverable amounts is based on analysis of historic cancellation and termination trends in the portfolio of cases. The carrying value of IVA trade receivables is sensitive to the discount rate selected, the actual timing of subsequent cash flows and the risk that the portfolio impairment trend does not capture impairments which have arisen at the balance sheet date but have not yet been observed in the portfolio.

*IVA revenue recognition*

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

*Useful economic lives of intangible assets*

The Group has estimated the useful economic lives of brands and customer contracts held under other intangibles on an individual asset basis. Brand useful economic lives are between eight and twelve years whilst customer contracts are valued at five years. The estimate of lives will affect the charge for amortisation within the consolidated statement of comprehensive income and the carrying value of the assets. An impairment review has been performed at the year end and no impairment has been identified. Any change in estimates could result in an adjustment to recorded accounts.

## 2 Profit (loss) before finance costs

| Profit before finance costs has been arrived at after charging: | **Year ended 31 December 2013 £'000** | **Year ended 31 December 2012 £'000** |
|---|---|---|
| Staff costs (see note 3) | 10,901 | 10,688 |
| Marketing costs | 4,430 | 5,452 |
| Depreciation of property, plant and equipment | 462 | 373 |
| Amortisation of intangible assets | 2,046 | 1,570 |
| Operating lease expense | | |
| - Plant and machinery | 3 | 3 |
| - Property | 736 | 748 |
| Audit fees | | |
| - Parent | 50 | 48 |
| - Subsidiary | 21 | 20 |
| Fees paid to the Company's auditors for non-audit services | | |
| - Tax services | 21 | 24 |
| - Other services | 28 | 18 |
| Loss on disposal of property, plant and equipment | - | 26 |
| Loss on disposal of intangibles | 148 | - |
| Credit impairment of IVA revenues | 1,709 | 2,429 |

| During the year the Group had exceptional (revenues) and costs as detailed below: | **Year ended 31 December 2013 £'000** | **Year ended 31 December 2012 £'000** |
|---|---|---|
| Restructuring costs [1] | 498 | - |
| Abortive acquisition costs | 94 | - |
| Fee income resulting from Paymex VAT refund [2] | - | (4,507) |
| Costs associated with refinancing | - | 248 |
| **Total exceptional expense (income)** | **592** | **(4,259)** |

[1] The restructuring costs primarily relate to headcount reductions as a result of system efficiencies.

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

## 3 Staff costs

| Staff costs (including directors) comprise: | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Wages and salaries | 9,604 | 9,503 |
| Defined contribution pension cost | 199 | 161 |
| Short term non-monetary benefits | 114 | 103 |
| Share based payment expense (see note 26) | 72 | 94 |
| Employer's national insurance contributions and similar taxes | 912 | 827 |
| | 10,901 | 10,688 |

| The average number of employees during the year was: | Year ended 31 December 2013 Number | Year ended 31 December 2012 Number |
|---|---|---|
| Directors | 6 | 7 |
| Management and administration | 60 | 59 |
| IVA processing team | 248 | 250 |
| Claims management team | 22 | 18 |
| DMP processing team | 77 | 76 |
| | 413 | 410 |

## 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 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Directors' remuneration consists of: | | |
| Directors' emoluments | 848 | 1,007 |
| Company contributions to money purchase pension schemes | 57 | 56 |
| Gain on exercise of share options | 252 | - |
| Share based payment expense relating to directors | 63 | 81 |
| Employers' national insurance expense on directors' remuneration | 95 | 113 |
| **Total directors' remuneration expense** | **1,315** | **1,257** |

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Remuneration in respect of the highest paid director: | | |
| Salary and bonuses | 344 | 337 |
| Pensions | 37 | 37 |
| Benefits | 1 | 7 |
| Gain on exercise of share options | 252 | - |
| | 634 | 381 |

There were two directors who received contributions into their defined contribution pension scheme (2012: two). The Company does not operate a defined benefit scheme.

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

One director exercised share options in the year (2012: none).

## 5 Segment analysis

### *Reportable segments*

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

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

*Measurement of operating segment profit and assets*

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

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

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

The chief operating decision maker has organised the Group into three operating segments - Individual Voluntary Arrangements (IVA), Debt Management Plans (DMP) and Claims Management. These segments are the basis on which the Group is structured and managed, based on its principal services provided. Some wind-down costs were incurred in 2013 in relation to the payday lending pilot and these are reported within the unallocated category.

The segments are summarised as follows:

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

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

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

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

## 5 Segment analysis (continued)

### Year ended 31 December 2013

| | IVA<br>£'000 | Debt Management<br>£'000 | Claims Management<br>£'000 | Unallocated<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|---|
| Total external revenue | 16,445 | 5,511 | 6,401 | - | 28,357 |
| Total operating profit (loss) | 967 | 2,069 | 2,298 | (50) | 5,284 |
| Finance income – unwinding of discount on IVA revenue | 3,092 | - | - | - | 3,092 |
| Finance income – other | - | - | - | 7 | 7 |
| **Adjusted profit (loss) before finance costs** | **4,059** | **2,069** | **2,298** | **(43)** | **8,383** |
| Finance expense | - | - | - | (332) | (332) |
| **Adjusted profit (loss) before taxation** | **4,059** | **2,069** | **2,298** | **(375)** | **8,051** |
| Amortisation of acquired intangible assets | (475) | (1,110) | - | - | (1,585) |
| Exceptional items (note 2) | - | - | - | (592) | (592) |
| **Profit (loss) before taxation** | **3,584** | **959** | **2,298** | **(967)** | **5,874** |
| Tax | | | | | (1,188) |
| **Profit for the year** | | | | | **4,686** |
| | | | | | |
| **Balance sheet assets** | | | | | |
| Reportable segment assets | 37,368 | 4,670 | 1,437 | 5,633 | 49,108 |
| Capital additions | 793 | 1,450 | 458 | - | 2,701 |
| Depreciation and amortisation | (863) | (1,147) | (11) | (487) | (2,508) |

## 5 Segment analysis (continued)

**Year ended 31 December 2012**

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

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

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

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

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

## 6 Finance income and expense

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Finance income – unwinding of discount on IVA revenues | 3,092 | 3,817 |
| *Finance income – other* | | |
| Bank interest received | 7 | 10 |
| | 3,099 | 3,827 |
| *Finance expense* | | |
| Bank borrowings | (327) | (372) |
| Finance leases | (5) | (8) |
| | (332) | (380) |
| | **2,767** | **3,447** |

## 7 Tax expense

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| *Current tax expense* | | |
| UK corporation tax and income tax of overseas operations on profits for the year | 1,458 | 2,653 |
| Adjustment for (over) under provision | (296) | 24 |
| | 1,162 | 2,677 |
| *Deferred tax expense* | | |
| Origination and reversal of temporary differences | (122) | (53) |
| Adjustment for under (over) provision in prior periods | 148 | (113) |
| | 26 | (166) |
| **Total tax charge** | **1,188** | **2,511** |

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 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Profit before tax | 5,874 | 10,480 |
| Expected tax charge based on the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%) | 1,366 | 2,568 |
| Use of brought forward losses | (10) | (12) |
| Marginal relief adjustment | - | (2) |
| Expenses not deductible for tax purposes | 27 | 19 |
| Prior year deferred tax | 148 | (113) |
| Prior year current tax | (296) | 24 |
| Future year tax rate change impact on deferred tax | (47) | 27 |
| **Total tax charge** | **1,188** | **2,511** |

## 8 Earnings per share (EPS)

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| | **£'000** | **£'000** |
| *Numerator* | | |
| Profit for the year – used in basic and diluted EPS | 4,686 | 7,969 |
| *Denominator* | | |
| Weighted average number of shares used in basic EPS | 42,282,208 | 42,860,487 |
| Effects of: | | |
| - employee share options | 472,065 | 368,705 |
| Weighted average number of shares used in diluted EPS | 42,754,273 | 43,229,192 |

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

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

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

| | Year ended 31 December 2013 | | | Year ended 31 December 2012 | | |
|---|---|---|---|---|---|---|
| | Adjusted * | Amortisation of acquired intangible assets and exceptional items | Total | Adjusted * | Amortisation of acquired intangible assets and exceptional items | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Total comprehensive income (loss) for the year** | 6,357 | (1,671) | 4,686 | 5,758 | 2,211 | 7,969 |
| **Adjusted earnings per share *** | | | | | | |
| Basic | 15.03 | | 11.08 | 13.44 | | 18.59 |
| Diluted | 14.87 | | 10.96 | 13.32 | | 18.43 |

* Before amortisation of acquired intangible assets and exceptional items.

## 9 Dividends

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Dividend of 3.55 pence (2012: 2.75 pence) per 1p ordinary share paid during the year relating to the previous year's results [1] | 1,469 | 1,168 |
| Dividend of 2.55 pence (2012: 1.95 pence) per 1p ordinary share paid during the year relating to the current year's results [2] | 891 | 797 |
| | 2,360 | 1,965 |

[1] Dividends were waived on 2,239,197 (2012: 1,129,618) of the 43,609,346 ordinary shares.

[2] Dividends were waived on 2,158,565 (2012: 1,067,479) of the 43,609,346 (2012: 41,942,679) ordinary shares.

## 10 Property, plant and equipment

| | Fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|
| *At 31 December 2012* | | | |
| Cost | 1,665 | 2,627 | 4,292 |
| Accumulated depreciation | (1,222) | (1,664) | (2,886) |
| Net book value | 443 | 963 | 1,406 |
| *At 31 December 2013* | | | |
| Cost | 1,716 | 2,552 | 4,268 |
| Accumulated depreciation | (1,386) | (1,834) | (3,220) |
| Net book value | 330 | 718 | 1,048 |
| *Year ended 31 December 2012* | | | |
| Opening net book value | 513 | 884 | 1,397 |
| Additions | 58 | 350 | 408 |
| Disposals | (6) | (20) | (26) |
| Depreciation charge for year | (122) | (251) | (373) |
| Closing net book value | 443 | 963 | 1,406 |
| *Year ended 31 December 2013* | | | |
| Opening net book value | 443 | 963 | 1,406 |
| Additions | 51 | 53 | 104 |
| Disposals | - | - | - |
| Depreciation charge for year | (164) | (298) | (462) |
| Closing net book value | 330 | 718 | 1,048 |

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 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Computer equipment | 78 | 105 |

## 11 Intangible assets

| | Goodwill £'000 | Brands £'000 | Software development £'000 | Trademarks £'000 | Acquired back books £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| *At 31 December 2012* | | | | | | |
| Cost | 11,972 | 4,530 | 1,725 | 54 | 4,982 | 23,263 |
| Amortisation | - | (2,076) | (583) | (30) | (1,660) | (4,349) |
| Net book value | 11,972 | 2,454 | 1,142 | 24 | 3,322 | 18,914 |
| *At 31 December 2013* | | | | | | |
| Cost | 11,972 | 4,530 | 1,955 | 54 | 6,873 | 25,384 |
| Amortisation | - | (2,454) | (708) | (35) | (2,869) | (6,066) |
| Net book value | 11,972 | 2,076 | 1,247 | 19 | 4,004 | 19,318 |
| *Year ended 31 December 2012* | | | | | | |
| Opening net book value | 11,972 | 2,831 | 777 | 29 | 3,616 | 19,225 |
| Additions | | | | | | |
| - Internally developed | - | - | 501 | - | - | 501 |
| - Externally acquired | - | - | 259 | - | 660 | 919 |
| Disposals | - | - | (161) | - | - | (161) |
| Amortisation charge | - | (377) | (234) | (5) | (954) | (1,570) |
| Closing net book value | 11,972 | 2,454 | 1,142 | 24 | 3,322 | 18,914 |
| *Year ended 31 December 2013* | | | | | | |
| Opening net book value | 11,972 | 2,454 | 1,142 | 24 | 3,322 | 18,914 |
| Additions | | | | | | |
| - Internally developed | - | - | 709 | - | - | 709 |
| - Externally acquired | - | - | - | - | 1,890 | 1,890 |
| Disposals | - | - | (148) | - | - | (148) |
| Amortisation charge | - | (378) | (456) | (5) | (1,208) | (2,047) |
| Closing net book value | 11,972 | 2,076 | 1,247 | 19 | 4,004 | 19,318 |

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

The opening balance of brands comprises the capitalised Clear Start brand acquired on the acquisition of Clear Start UK Limited.

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

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

For details on goodwill see note 12.

## 12 Goodwill and impairment

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

| Subsidiary | Operating Segment | Goodwill carrying amount As at 31 December 2013 £'000 | As at 31 December 2012 £'000 |
|---|---|---|---|
| Debt Free Direct Limited | IVA | 1,934 | 1,934 |
| Clear Start UK Limited | IVA | 9,409 | 9,409 |
| WKD UK Limited | Debt management | 629 | 629 |
| | | 11,972 | 11,972 |

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

Goodwill has been tested for impairment at 31 December 2013 by reference to the recoverable amount of the relevant CGU. There have been no impairments of goodwill in the year.

The recoverable amounts of the CGU, including goodwill, other intangibles and non-current assets, have been determined from value in use calculations based on cash flows from forecasts covering a five year period to 31 December 2018. Beyond 2018, a residual value has been estimated based on six times the forecast 2018 profit before tax. Major assumptions are as follows:

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

| | Year ended 31 December 2013 % |
|---|---|
| Discount rate | 11 |
| Conversion rate - IVA | 2.4 |
| Average monthly attrition rate – DMP | 2.0 |
| Average annual growth rate – IVA | 2.5 |
| Average annual growth rate - DMP | 2.5 |

### Sensitivity to changes in the assumptions

The recoverable amount for the IVA segment exceeds the carrying value of total net assets by £10.7 million.

A 1% change in the discount rate or similar change in the annual growth rate would change the recoverable amount by approximately £1.4 million and £4.5 million respectively.

A 5% change in the forecast conversion rate or in the forecast pre tax earnings would change the recoverable amount by approximately £2.6 million and £2.3 million respectively.

The recoverable amount for the debt management segment exceeds the carrying value of total net assets by £22.9 million.

## 12 Goodwill and impairment (continued)

A 1% change in the discount rate or similar change in the annual growth rate would change the recoverable amount by approximately £1.0 million and £0.6 million respectively.

A 5% change in the forecast attrition rate or in the forecast pre tax earnings would change the recoverable amount by approximately £1.5 million and £1.7 million respectively.

## 13 Subsidiaries

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

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

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

## 14 Trade and other receivables

| | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|
| Trade receivables | 2,262 | 2,582 |
| Amounts recoverable on IVA services | 21,423 | 22,402 |
| | 23,685 | 24,984 |
| Other receivables | 507 | 2,797 |
| Prepayments and accrued income | 1,689 | 1,946 |
| | 2,196 | 4,743 |
| Total | 25,881 | 29,727 |

Of which the following amounts are receivable after one year:

| | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|
| Amounts recoverable on IVA services | 11,111 | 11,848 |

## 15 Trade and other payables – current

| | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|
| Trade payables | 1,408 | 3,120 |
| Other tax and social security taxes | 957 | 844 |
| Other payables | 423 | 2,169 |
| Accruals and deferred income | 1,438 | 1,809 |
| Total | 4,226 | 7,942 |

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

## 16 Short-term borrowings

| | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|
| Finance lease creditor (note 24) | 100 | 130 |

Maturity analysis and an analysis of interest rates payable for bank borrowings is set out in note 19. A maturity analysis for finance leases is set out in note 24.

## 17 Non-current financial liabilities

| | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|
| Finance lease creditor (note 24) | - | 100 |

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

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

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| Net increase in cash and cash equivalents | 1,011 | 382 |
| Net decrease in short term borrowings | 30 | 7,497 |
| Net decrease in long term borrowings | 100 | 131 |
| **Net change in cash and borrowings** | **1,141** | **8,010** |
| Net surplus (borrowings) at start of year | 1,620 | (6,390) |
| Net surplus at end of year | 2,761 | 1,620 |

Net surplus (borrowings) comprises:

| | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|
| Cash and cash equivalents | 2,861 | 1,850 |
| Short term borrowings (note 16) | (100) | (130) |
| Long term borrowings (note 17) | - | (100) |
| Net surplus | 2,761 | 1,620 |

## 19 Financial instruments – risk exposure and management

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

- Interest rate risk
- Liquidity risk
- Credit risk

The board reviews and agrees policies for managing each of these risks and they are summarised below.

*Interest rate risk*

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

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

At 31 December 2013, if interest rates on floating rate loans had been 0.5% higher/lower with all other variables held constant, profit after tax for the year would have been approximately £1,000 lower/higher, mainly as a result of higher/lower interest rate expense on floating rate borrowings.

*Liquidity risk*

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

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

All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the Group's forecast cash requirements. The Group is able to draw down on its asset based revolving credit facility at any time, allowing flexibility to deal with unexpected cash requirements.

## 19 Financial instruments – risk exposure and management (continued)

*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 amounts recoverable on IVA services. Counterparties are generally low quality, but credit risk is reduced as the debtor is diversified across a large number of small balances. The maximum credit risk is £23,685,000, comprising £2,262,000 of trade receivables, where counterparties have been invoiced but funds not received, and £21,423,000 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 initial income discounted to its fair value. Bad debt is taken to the income statement through administrative expenses, when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of the receivable. In addition, the Group considers its impairment provisions using a portfolio approach with reference to historic data, to identify cases where an impairment may have arisen but objective evidence has yet to emerge. The charge for bad debt in the year amounted to £1,709,000 (2012: £2,429,000).

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

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

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

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

**19 Financial instruments – risk exposure and management (continued)**

| | As at 31 December 2013 | | | As at 31 December 2012 | | |
|---|---|---|---|---|---|---|
| | **Gross receivables £'000** | **Provision against future recovery £'000** | **Carrying value £'000** | **Gross receivables £'000** | **Provision against future recovery £'000** | **Carrying value £'000** |
| Trade receivables | 2,401 | 139 | 2,262 | 2,926 | 344 | 2,582 |
| Other receivables | 507 | - | 507 | 2,797 | - | 2,797 |
| Prepayments | 1,689 | - | 1,689 | 1,946 | - | 1,946 |
| Amounts recoverable on IVA services * | 21,423 | - | 21,423 | 22,402 | - | 22,402 |
| Total | 26,020 | 139 | 25,881 | 30,071 | 344 | 29,727 |

* The "Amounts recoverable on IVA services" balance represents expected fee revenue on IVA cases net of discounts for time value of money and bad debt, based on an analysis of the Group's historic IVA portfolio. It is accounted for and held on a cohort basis as a net balance, with bad debt expense and finance income arising from unwinding of the discount being recognised in the Group's statement of comprehensive income. The charge for bad debt in the year relating to amounts recoverable on IVA services amounted to £1,709,000 (2012: £2,249,000).

The Group does not hold any collateral as security.

An analysis of the ageing of trade receivables is as follows:

| | **As at 31 December 2013 Trade receivables £'000** | **As at 31 December 2012 Trade receivables £'000** |
|---|---|---|
| Neither impaired nor past due | 2,136 | 2,002 |
| Past due but not impaired: | | |
| 0-60 days | 74 | 514 |
| 61-90 days | 38 | 27 |
| More than 90 days | 14 | 39 |
| Carrying amount | 2,262 | 2,582 |

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

| | **As at 31 December 2013 £'000** | **As at 31 December 2012 £'000** |
|---|---|---|
| Balance at beginning of year | 344 | 732 |
| Amounts charged to the provision ** | 63 | 209 |
| Amounts written off | (268) | (597) |
| Balance at end of year | 139 | 344 |

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

## 19 Financial instruments - risk exposure and management (continued)

*Capital disclosures*

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- to provide an adequate return to shareholders commensurate with the level of risk.

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

Total capital is categorised as follows;

| | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---:|---:|
| Share capital | 436 | 436 |
| Share premium | 528 | 528 |
| Treasury shares | (727) | (1,015) |
| ESOP share reserve | (517) | (517) |
| Retained earnings | 32,001 | 29,654 |
| Total | 31,721 | 29,086 |

## 20 Financial assets and liabilities – numerical information

*Bank borrowings*

In April 2012 the Group entered an asset based revolving credit facility with PNC Financial Services UK Limited ("PNC") which expires in April 2016.

At 31 December 2013 the Group has undrawn committed borrowing facilities available with PNC in which all conditions have been met. The borrowings are secured against the Group's book of Individual Voluntary Arrangements ("IVAs") and Debt Management Plans ("DMPs").

Under the terms of the facility borrowings up to a maximum of £13m are made available to the Group based on a valuation of its IVA and DMP book. The Group is required to pay fees collected on its book of IVAs and DMPs to PNC, and the Group can draw down on the facility at any time up to the full amount of borrowings available to the Group. Whilst the conditions of the facility have been met, these borrowings may be rolled over until the expiry of the facility. At 31 December 2013 the Group was not utilising any of its available borrowings under the facility.

Interest is charged daily based on the outstanding capital balance at a floating rate dependent on the Bank of England base rate. Based on the interest rates charged at the year end on the outstanding balance, the interest charge would be approximately £nil per annum (2012: £nil).

*Interest rate risk*

All financial assets and liabilities are denominated in sterling.

The rate at which sterling floating liabilities are payable is 3.75% (2012 – 3.75%) above the Bank of England base rate.

Sterling floating rate assets attracted interest of 0.25% at the year-end (2012 – 0.25%).

*Fair values*

To the extent financial assets and liabilities are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 31 December 2013 and 2012.

## 21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2012: 23%).

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

| | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 £'000 |
|---|---|---|
| At beginning of the year | 200 | 366 |
| Charge (Credit) to income | 26 | (166) |
| At end of the year | 226 | 200 |

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

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

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

**Year ended 31 December 2013**

| | (Asset) liability £'000 | (Credited) charged to income £'000 |
|---|---|---|
| Accelerated capital allowances | (248) | 116 |
| Available losses | - | - |
| Intangible asset (brand) | 474 | (90) |
| Total | 226 | 26 |

**Year ended 31 December 2012**

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

## 22 Share capital

| | Authorised | | | |
|---|---|---|---|---|
| | 31 December 2013 Number | 31 December 2013 £'000 | 31 December 2012 Number | 31 December 2012 £'000 |
| Ordinary shares of 1p each | 60,000,000 | 600 | 60,000,000 | 600 |

| | Issued and fully paid | | | |
|---|---|---|---|---|
| | Year ended 31 December 2013 Number | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 Number | Year ended 31 December 2012 £'000 |
| *Ordinary shares of 1p each* | | | | |
| At beginning of the year | 43,609,346 | 436 | 43,609,346 | 436 |

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

On 12 April 2013 the Group sold 472,500 of its own ordinary shares held in treasury. As a consequence, the total number of Shares held in treasury at 31 December 2013 is 1,194,167. Treasury shares are treated as cancelled, so for the purposes of EPS calculations, the number of shares in issue at 31 December 2013 is 42,415,179. Treasury shares carry no voting rights and are not entitled to dividends.

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. |
| Treasury shares | Shares in the Group purchased and held by the Group at the cost of acquisition. |
| Retained earnings | Cumulative net gains and losses recognised in the consolidated income statement. |
| Merger reserve | Amount subscribed for share capital in excess of nominal value on acquisition of another company. |
| Other reserves | Payments in relation to share options. |
| ESOP share reserve | Amount subscribed for share capital held by the Employee Benefit Trust. |

## 24 Leases

*Finance leases*

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

Future lease payments are due as follows:

**At 31 December 2013**

| | Minimum lease payments £'000 | Interest £'000 | Present value £'000 |
|---|---|---|---|
| Not later than one year | 101 | 1 | 100 |

**At 31 December 2012**

| | Minimum lease payments £'000 | Interest £'000 | Present value £'000 |
|---|---|---|---|
| Not later than one year | 135 | 5 | 130 |
| Later than one year and not later than five years | 101 | 1 | 100 |
| Total | 236 | 6 | 230 |

Present value of future lease payments are analysed as

| | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|
| Current liabilities | 100 | 130 |
| Non current liabilities | - | 100 |
| Total | 100 | 230 |

## 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 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|
| Not later than one year | 751 | 732 |
| Later than one year and not later than five years | 3,212 | 3,077 |
| Later than five years | 2,273 | 3,126 |
| Total | 6,236 | 6,935 |

## 25 Bank balances held on behalf of individuals

Total bank balances of £78,939,501 (2012: £87,416,019) were held by the Group in trustee accounts on behalf of individuals who have entered into IVAs and DMPs at 31 December 2013. These bank balances are not recognised on the Group or Company balance sheets as the Group does not have control of the risks and rewards to these assets.

## 26 Share based payment

The Group operates four (2012: four) share schemes for employees, as follows:

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

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

### Movements on share option schemes

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Outstanding at the beginning of year | 1,955,184 | £0.83 | 3,461,511 | £0.86 |
| Lapsed | (399,016) | £0.88 | (2,001,687) | £0.82 |
| Exercised | (478,671) | £0.50 | (62,139) | - |
| Granted | 100,307 | £1.00 | 557,499 | £0.57 |
| Outstanding at the end of the year | 1,177,804 | £0.89 | 1,955,184 | £0.83 |
| Exercisable at the end of the year | 245,484 | £2.46 | 328,124 | £2.25 |

## 26 Share based payment (continued)

### Year to 31 December 2013

| | Outstanding at start of year | Granted | Exercised | Lapsed | Outstanding at end of year | Weighted Average Exercise Price | Weighted Average Contractual Life |
|---|---|---|---|---|---|---|---|
| EMI | 189,524 | - | (6,171) | (58,869) | 124,484 | £2.32 | 1.83 |
| CSOP | 138,600 | - | - | (17,600) | 121,000 | £2.61 | 3.17 |
| SAYE | 196,651 | 100,307 | - | (163,368) | 133,590 | £0.86 | 1.71 |
| 2008 * | 1,430,409 | - | (472,500) | (159,179) | 798,730 | £0.51 | 7.99 |
| Total | 1,955,184 | 100,307 | (478,671) | (399,016) | 1,177,804 | £0.96 | 6.13 |

### Year to 31 December 2012

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

* 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 2013, the following conditions applied to the following shares outstanding under each scheme:

| Scheme | Condition | Target | Expiry | Options Outstanding |
|---|---|---|---|---|
| 2008 Unapproved | Share Price | 100p | 01/10/2014 | 450,000 |
| 2008 Unapproved | Share Price | 70p | 27/04/2015 | 150,000 |
| 2008 Unapproved | Share Price | 100p | 27/04/2015 | 150,000 |
| 2008 Unapproved | Adjusted PBT | £9,000,000 | 31/12/2014 | 48,730 |

As at 31 December 2013 the share price performance conditions covering 750,000 share options under the 2008 unapproved scheme have been met. Subject to the rules of the scheme these options become exercisable at the performance condition expiry dates shown above.

### 26 Share based payment (continued)

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

| Range | As at 31 December 2013 Number | Average life Years | As at 31 December 2012 Number | Average life Years |
|---|---|---|---|---|
| 1-100p | 932,937 | 7.09 | 1,637,923 | 7.96 |
| 101-200p | 74,095 | 1.68 | 128,889 | 2.53 |
| Greater than 200p | 170,772 | 2.85 | 188,372 | 3.88 |
| **Total** | **1,177,804** | **6.13** | **1,955,184** | **7.20** |

Of the total number of options outstanding at 31 December 2013, 245,484 (2012: 328,124) had vested and were exercisable at the end of the year.

478,671 share options were exercised in the year to 31 December 2013 (2012: 62,139).

The weighted average fair value of each option granted during the year was 100.0p (2012: 26.8p).

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

| *Equity-settled* | **2013** | **2012** |
|---|---|---|
| Option pricing model used | Black Scholes | Black Scholes |
| Weighted average share price at grant date | £1.11 | £0.69 |
| Weighted average exercise price | £1.00 | £0.57 |
| Weighted average contractual life (years) | 3.00 | 9.71 |
| Weighted average expected volatility | 27% | 48% |
| Weighted risk free interest rate | 0.31% | 0.38% |

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

| | **2013 £'000** | **2012 £'000** |
|---|---|---|
| The share based remuneration expense (note 3) comprises: | | |
| Equity-settled schemes | 72 | 94 |

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

## 27 Related party transactions

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

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

There were no related party transactions during the year ended 31 December 2013 or the year ended 31 December 2012.

## 28 Notes supporting cash flow statement

Cash and cash equivalents comprises:

| | 31 December 2013<br>£'000 | 31 December 2012<br>£'000 |
|---|---|---|
| Cash available on demand | 2,861 | 1,850 |
| Net increase in cash and cash equivalents | 1,011 | 382 |
| Cash and cash equivalents at beginning of year | 1,850 | 1,468 |
| Cash and cash equivalents at end of year | 2,861 | 1,850 |

**Fairpoint Group plc**

**Company balance sheet**

**Company Number 4425339**

| | Note | At 31 December 2013 £'000 | At 31 December 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | **4** | 16,016 | 16,016 |
| **Current assets** | | | |
| Debtors (all due after more than one year) | **5** | - | 4,006 |
| Cash at bank | | 6 | 5 |
| **Total current assets** | | **6** | **4,011** |
| Creditors: amounts falling due within one year | **5** | (922) | (68) |
| **Net current assets** | | **(916)** | **3,943** |
| **Total assets less current liabilities** | | **15,100** | **19,959** |
| **Net assets** | | **15,100** | **19,959** |
| **Capital and reserves** | | | |
| Called-up share capital | **6** | 436 | 436 |
| Share premium account | **7** | 528 | 528 |
| Treasury shares | | (727) | (1,015) |
| Other reserve | **7** | 254 | 254 |
| ESOP share reserve | **7** | (517) | (517) |
| Merger reserve | **7** | 11,842 | 11,842 |
| Profit and loss account | **7** | 3,284 | 8,431 |
| **Total shareholders' funds** | | **15,100** | **19,959** |

These financial statements were approved and authorised for issue by the directors on 12 March 2014 and are signed on their behalf by:

**C Moat**
***Director***

The notes on pages 68 to 72 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. For the year ended 31 December 2013, the Company made a loss after tax of £2,736,000, which included a £300,000 dividend received from subsidiary company, IVA Insurance Limited. For the year ended 31 December 2012, the Group profit for the year includes a Company profit after tax of £182,000.

### 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.

### Staff Costs

During the year, all central staff costs were reallocated to Fairpoint Group plc.

## 2. Staff costs

In the year ended 31 December 2012, staff costs were allocated to other Group companies.

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Staff costs (including directors) comprise: | £'000 | £'000 |
| Wages and salaries | 2,996 | - |
| Defined contribution pension cost | 131 | - |
| Share based payment expense | 61 | - |
| Employer's national insurance contributions and similar taxes | 345 | - |
| | 3,533 | - |

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| The average number of employees during the year was: | Number | Number |
| Directors | 6 | - |
| Management and administration | 60 | - |
| | 66 | - |

## 3. Directors' remuneration

Directors' remuneration is disclosed in note 4 'Key management personnel compensation' within the Group accounts.

## 4. Investments

| | £'000 |
|---|---|
| **Cost** | |
| At 1 January 2013 | 16,016 |
| At 31 December 2013 | 16,016 |
| **Net book value** | |
| At 31 December 2013 | 16,016 |
| At 31 December 2012 | 16,016 |

**4. Investments (continued)**

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<br>100% "A" Preference<br>100% "B" Preference<br>100% "C" Preference<br>100% "D" Preference | Provision of financial advice and appropriate solutions | 100% |
| Lawrence Charlton Limited | England | 100% Ordinary | Debt management | 100% |
| DFD Mortgages Limited | England | 100% Ordinary | Dormant | 100% |
| IVA Insurance Limited | Guernsey | 100% Ordinary | Offshore insurance company | 100% |
| Clear Start Partnerships Limited | England | 100% Ordinary | Provision of leads to the Fairpoint Group plc | 100% |
| Allixium Limited | England | 100% Ordinary | Provision of financial advice and appropriate solutions | 100% |
| Clear Start UK Limited | England | 100% Ordinary | Dormant | 100% |
| Adlington House Limited | England | 100% Ordinary | Provision of financial advice and appropriate solutions | 100% |
| Clear Start Money Management Limited | England | 100% Ordinary | Debt Management | 100% |
| Debt Advice Trust Limited | England | [1] | Provision of financial advice and appropriate solutions | 100% |
| WKD UK Limited | England | 100% Ordinary | Dormant | 100% |
| Money Tailor Limited | England | 100% Ordinary | Dormant | 100% |
| Moneyextra.com Limited | England | 100% Ordinary | Financial intermediary | 100% |
| STL Innovations Limited | England | 100% Ordinary | Dormant | 100% |
| Your Debt Solved Limited | England | 100% Ordinary | Dormant | 100% |

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

## 5. Net current assets

| **Debtors** | **31 December 2013 £'000** | **31 December 2012 £'000** |
|---|---|---|
| Amounts owed by Group undertakings | - | 4,006 |

| **Creditors: amounts falling due within one year** | **31 December 2013 £'000** | **31 December 2012 £'000** |
|---|---|---|
| Amounts owed to Group undertakings | 917 | - |
| Other liabilities | 5 | - |
| Corporation tax | - | 68 |
| | 922 | 68 |

Amounts owed by Group undertakings include £984,000 (2012: £4,006,000) due after more than one year.

## 6. Share capital

**Authorised share capital:**

| | **31 December 2013 £'000** | **31 December 2012 £'000** |
|---|---|---|
| 60,000,000 (2012: 60,000,000) ordinary shares of 1p each | 600 | 600 |

**Allotted, called up and fully paid:**

| | **31 December 2013 £'000** | **31 December 2012 £'000** |
|---|---|---|
| Ordinary shares of 1p each | 436 | 436 |

### Share option scheme

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

## 6. Share capital (continued)

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 | 617 | £0.81 | Between 2007 and 2017 |
| EMI | 2005 | 17,628 | £1.32 | Between 2008 and 2018 |
| EMI | 2005 | 5,962 | £1.89 | Between 2008 and 2018 |
| EMI | 2005 | 50,505 | £1.98 | Between 2008 and 2018 |
| EMI | 2006 | 49,772 | £3.09 | Between 2009 and 2019 |
| CSOP | 2007 | 95,000 | £2.67 | Between 2010 and 2020 |
| CSOP | 2007 | 26,000 | £2.37 | Between 2010 and 2020 |
| Unapp 2008 | 2011 | 450,000 | £0.50 | Between 2013 and 2021 |
| SAYE | 2011 | 22,555 | £0.73 | 3 Years from issue |
| Unapp 2008 | 2012 | 300,000 | £0.50 | Between 2014 and 2022 |
| SAYE | 2012 | 32,225 | £0.62 | 3 Years from issue |
| Unapp 2008 | 2012 | 48,730 | £0.67 | Between 2014 and 2022 |
| SAYE | 2013 | 78,810 | £1.00 | 3 Years from issue |

## 7. Reserves

| Company | Share premium account £'000 | Treasury Shares £'000 | Shares to be issued £,000 | ESOP share reserve £,000 | Merger reserve £'000 | Profit and loss account £'000 | **Total £'000** |
|---|---|---|---|---|---|---|---|
| At beginning of year | 528 | (1,015) | 254 | (517) | 11,842 | 8,431 | **19,523** |
| Loss for the year | - | - | - | - | - | (2,736) | **(2,736)** |
| Sale of treasury shares | - | 288 | - | - | - | (51) | **237** |
| Dividends paid | - | - | - | - | - | (2,360) | **(2,360)** |
| Total | 528 | (727) | 254 | (517) | 11,842 | 3,284 | **14,664** |

During the year the Company paid £2,359,832 in dividends (2012: £1,965,259).