23 May 2011

FAIRPOINT GROUP PLC

TRADING UPDATE

Fairpoint Group plc ("Fairpoint" or the "Group") today releases an update on trading in the year to date.

The macro environment in the UK has remained benign during the last three months. While unemployment levels are expected by leading commentators [i] to increase by an average of 6.2% during 2011, figures released by the Office for National Statistics on 18 May 2011 showed unemployment levels falling for the second consecutive month as at the end of March, effectively reversing the trend seen in the last months of 2010 and January 2011.

Against this backdrop, recent first quarter UK Insolvency Statistics showed a year on year reduction of 15.5% in overall personal insolvencies with an 8% decline in IVAs, compared with management expectations at the beginning of the year of a 5% increase in market volumes over the year.

The average value of new IVAs has also fallen and is attributed to a widening of IVA acceptance criteria. Creditors are now accepting proposals from customers with lower debt levels and lower monthly contributions.

We anticipated a slow start to the year given recent unemployment trends. However, the decline in unemployment rates over the last two months means that we now expect personal insolvency statistics to fall over the next two quarters of 2011. This is borne out by lower than expected response rates to our IVA marketing in April and May. Consequently we have reduced our expectations on contribution from our IVA business segment for the remainder of 2011 and now expect:

- The IVA market to decline by 11.5% year on year, or 16.5% against our previous expectation
- The average fee from IVA cases to deteriorate by 16% year on year as a consequence of criteria widening, against our previous expectations of 11%

The pressures on volume are expected to recede in the latter part of 2011 driven by the eventual rise in UK unemployment and forecast interest rate rises. In the meantime, management is taking mitigating actions, in particular:

- Removal of non viable marketing expenditure (c10%). This leads to a further reduction in volume, but ensures all marketing expenditure is profitable
- Work is underway to reduce the Group's cost base which is now expected to be more than £1 million lower than previous expectations
- We continue to drive growth through our Debt Management business segment supported by the consolidation opportunities presented by market conditions
- To grow the Group's Financial Services segment profitably with our multi product money savings services
- Launch our short term lending business in the second half of the year in order for it to benefit 2012

Notwithstanding the mitigating actions being taken across the Group, the Board now expects that profit before tax for the current financial year will be substantially lower than market expectations.
Looking towards 2012, we expect to deliver a strong improvement from:

- The annualised benefit of cost savings actions taken in 2011

- Growth in Debt Management income from the acquisitions undertaken in 2011

- A resumption in growth in the personal insolvency market driven by:

- Unemployment forecasts remain unaltered with growth predicted of 6.2%[i] for 2011

- At the end of 2010, the consumer debt burden was within 5% of the peak level in 2007 (Source: Bank of England), indicating a large population of consumers who are vulnerable to changes in their disposable income

- Growth in Interest Rates is expected during Q3-Q4 of 2011 (Source: Bank of England Inflation Report May 2011)

- A contribution from our new lending business following the proof of concept which will be implemented in the second half of 2011

The Board believes that the Group's operating cash flow and existing bank facilities enable it to continue with its dividend policy and strategic diversification plans. As a consequence we expect a strong recovery next year despite the prevailing market conditions. This is further supported by a significantly reduced dependence on IVAs as the benefits of our diversification strategy lead to an expected doubling of our non-IVA income streams in 2012.

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[i] CIPD: +8.9% to 2.7m; CBI: +4.03% to 2.58m: British Chambers of Commerce: +6.85% to 2.65m: OBR: unemployment forecast of +5% on Claimant forecast