



**Creating a new future**

# Overview

## About us

We are an International Assistance business operating in the UK and overseas with more than 200 Business Partners worldwide. Through our Business Partner relationships and also through direct retail sales to consumers, we provide Life Assistance products to consumers. These include annually renewed and packaged products that provide assistance and insurance across a wide range of market sectors including financial services, telecommunications, travel and the home designed to make everyday life easier to manage.

## Our business model

We operate a business-to-business-to-consumer (B2B2C) business model. Our model operates in the UK and overseas, distributing and servicing Life Assistance products and packages with our Business Partners' customers and through direct retail sales to consumers in three formats: retail, wholesale and packages.

## 2012 Operational review

The Group faced another challenging year which, combined with a difficult operating environment, resulted in a modest operating performance. In the year, the FCA investigation was concluded and there is a substantial fine to pay. In addition, a strategic review resulted in the proposed disposal of the North American business alongside a short term extension to the revolving credit facility in April 2013. The financial highlights of the Group are detailed on page 1 opposite.

## Our vision

To protect and restore our customers' freedom.

## Our strategic roadmap

1. People
2. Customers
3. Products
4. Markets

## Contents

### Group overview

Financial highlights & Group Key Performance Indicators	1
Chairman's statement	2
Chief Executive Officer's review	3
<b>Operating review</b>	
Northern Europe	5
Southern Europe and Latin America	6
Asia Pacific	7
North America	8
Financial review	9

### Governance

Board of Directors	14
Corporate Governance statement	15
Principal risks and uncertainties	23
Directors' report	27
Statement of Directors' responsibilities	29
Remuneration report	30

### Financial statements

Independent Auditor's report	36
Consolidated income statement	37
Consolidated statement of comprehensive income	38
Consolidated balance sheet	39
Consolidated statement of changes in equity	40
Consolidated cash flow statement	41
Notes to the consolidated financial statements	42
Company balance sheet	76
Notes to the Company financial statements	77
Company offices	86

## Financial highlights &amp; Group Key Performance Indicators\*

Revenue  
(continuing and discontinued operations)

£319.7m -8%

(2011: £346.1m)

Revenue  
(continuing operations only)

£269.9m -10%

(2011: £300.4m restated)

Underlying operating profit<sup>1</sup>  
(continuing and discontinued operations)

£36.3m -24%

(2011: £47.7m)

Underlying operating profit<sup>1</sup>  
(continuing operations only)

£26.2m -36%

(2011: £40.9m restated)

Reported (loss)/profit after tax  
(continuing and discontinued operations)

£(17.2)m

(2011: £18.1m)

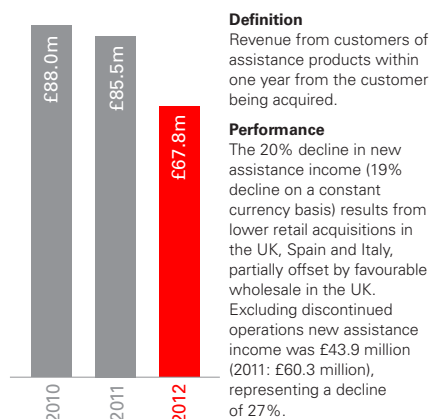
Reported operating (loss)/profit  
(continuing operations only)

£(17.7)m

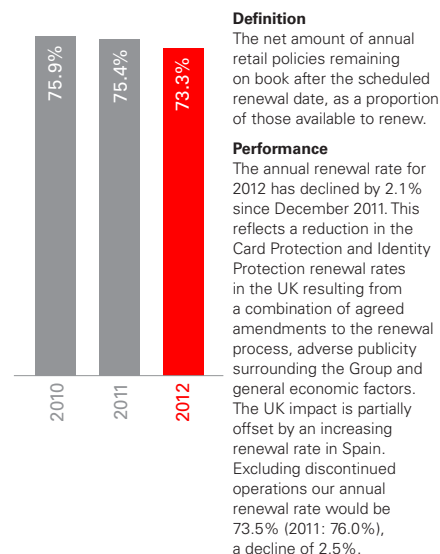
(2011: £22.9m restated)

1. Underlying operating profit excludes exceptional items.

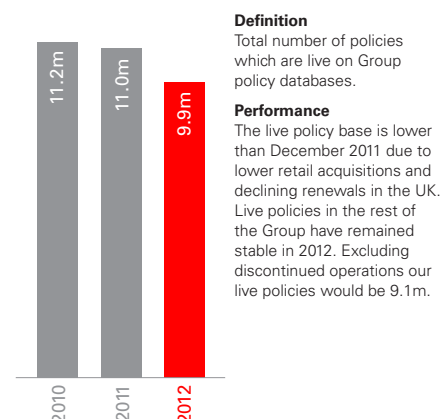
## New assistance income (KPI)\*



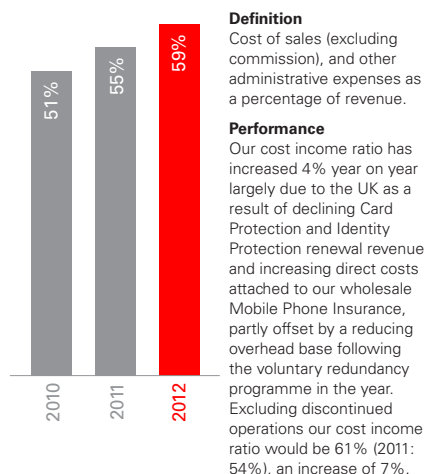
## Annual renewal rate (KPI)\*



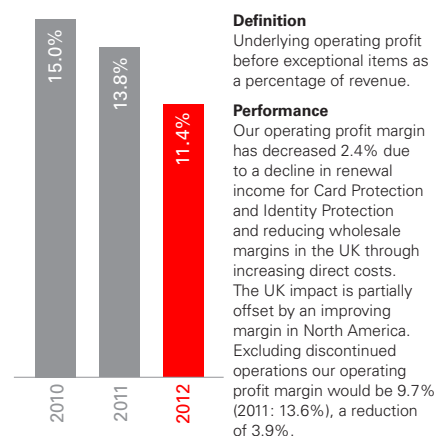
## Live policies (KPI)\*



## Cost/income ratio (KPI)\*



## Operating profit margin (KPI)\*



\* The KPI information provided includes continuing and discontinued operations.

# Chairman's statement

## Our performance

The Group faced another challenging year due to the uncertainties since the onset of the Financial Conduct Authority (FCA) investigation. During the year, the Company overcame a number of the challenges posed. The closure of the FCA's investigation on 15 November 2012 and the important steps made towards securing a financing solution for the Group, combined with the improvements to customer experience, governance, compliance and risk management capabilities and significant management changes, including strengthening the senior team of our UK business, provide the Group with a more stable position. Nonetheless, there remain many hurdles to overcome as we work towards creating a new future for the business.

These challenges, combined with a difficult operating environment, have resulted in a decline in our financial performance on a continuing and discontinued operations basis. Revenue reduced to £319.7 million (2011: £346.1 million) and underlying operating profit excluding exceptional items reduced to £36.3 million (2011: £47.7 million). The Group reported an operating loss on a continuing operations basis for 2012 of £17.7 million (2011: profit £22.9 million). Our people have been impacted as a result of cost-reduction initiatives implemented during the year. I would like to thank them for their unrelenting commitment and loyalty despite the many changes we have made, which have inevitably resulted in a headcount reduction, particularly in the UK.

The Board clearly recognises the past failings identified by the FCA in its investigation of historical practices in the UK business, and deeply regrets any customer detriment that may have occurred during that period. Although the investigation is now closed and we have effected much change, the Group has a substantial fine to pay and we need to complete the change initiatives and enhancements to governance and risk management systems and controls so that we can apply to the FCA for the restrictions agreed with the FCA in the form of Voluntary Variations of Permissions (VVOP) to be lifted. The business, therefore, continues to face further challenges; securing the financial future of the Group, providing redress to customers where appropriate, the required repositioning of the Group's business model and reducing our costs substantially. Each provides further uncertainty for the business as we move forward. I am in no doubt that we will work hard to secure the future viability of the Group through longer term financing. However, there remains uncertainty as to the amount of redress to be paid and, therefore, the longer term financing requirement. Consequently, the Group faces significant financial challenges in the short to medium term.

In order to stabilise the business, the Board announced on 17 April 2013 the conditional agreement to sell the North American business (CPPNA Holdings Inc. and its subsidiaries) for a total cash consideration of \$40 million (approximately £26.1 million) and a further extension of its existing bank facility until 30 September 2013. The disposal and facility extension will allow the Group to engage in further discussions with its existing lenders and the Company's major shareholder, Mr Hamish Macgregor Ogston CBE, with a view to securing the future viability of the Group.

In view of the challenges we have faced, the Company has not paid any dividends to shareholders since October 2011.

## Governance

During the year we strengthened the governance and control environment, which will continue throughout 2013. What encourages me most is that I can see the improvements we are making are working. Throughout the year, the Group complied with the relevant provisions of the Financial Reporting Council's UK Corporate Governance Code 2010, except those as described in the Corporate Governance statement on page 21.

## The Board

In October 2012 we announced that Patrick De Smedt, one of our Non-Executive Directors, would leave the organisation on 15 November 2012. Patrick has been an important member of our Board since August 2010 and I thank him for his valued contribution during his tenure.

We have a strong and experienced management team who are creating a new future for CPP, refocusing the business to better meet customers' needs. I am pleased with the progress being made to fulfil our objectives in a responsible and appropriate way.

## Looking ahead

Last year was a challenging one, reflected for our people in the organisational changes effected and for shareholders in the uncertainty that has surrounded our business. However, the significant changes we are making to reshape and reposition our business have the potential to deliver growth in the future, although many challenges remain.

Looking ahead, our focus on people, customers, products and markets will remain key priorities. Nonetheless, there remains much to be done against the background of our current operating environment in order for us to provide a much stronger, more stable position for the business. We need to place great focus on securing longer term financing for the Group beyond the expiry on 30 September 2013 of the recently agreed extension to the existing bank facility, repositioning our business model in the interests of all stakeholders alongside a substantial reduction in our cost base and implementing the customer redress exercise. The combination of these factors is expected to have an adverse cash flow impact on the Group and lead to further uncertainty. Furthermore, we need to maintain and strengthen current Business Partner relationships, secure new partnerships and generate revenue from alternative channels.

Therefore, as we announced at the end of 2012, the outlook for 2013 reflects the significant challenges and uncertainties ahead and as a result, our performance in 2013 and beyond will continue to be substantially impacted as we concentrate our efforts to rebuild the business.

The Board is grateful for the continued support of our stakeholders.

**Charles Gregson**  
Chairman



"Last year was a challenging one, reflected for our people in the organisational changes effected and for shareholders in the uncertainty that has surrounded our business. However, the significant changes we are making to reshape and reposition our business have the potential to deliver growth in the future, although many challenges remain."

**Charles Gregson**  
Chairman

# Chief Executive Officer's review

## Working together through challenging times

In my first review a year ago I outlined the journey ahead for CPP and how we planned to change things for the better. Since my appointment in October 2011 it has been a key priority to effect the significant changes required to provide long term stability and to realise the opportunities that will move the business forward.

In the last two years we have experienced a period of intense challenge and significant change. The FCA's investigation into historical issues identified in the period from January 2005 to March 2011 has had far-reaching consequences for a business of our size. The closure of the investigation in November 2012 was an important milestone, removing an element of the uncertainty facing the Group. Nonetheless, the fall-out from the investigation has been considerable; our reputation with Business Partners has been damaged, we have lost a number of important contracts in the UK, and our growth prospects have been impacted. Crucially, the uncertain and unknown ultimate cost of the redress programme planned for later this year to remediate those customers who may have suffered detriment as a result of past failings, has limited our ability to secure the longer term financing position for the Group.

We will continue to face significant financial challenges in the short to medium term, and certainly until the redress programme is behind us. We need to refinance the Group for the longer term and we need to continue the work of repositioning the business as a customer-led organisation whilst reshaping the business model to meet our new circumstances.

When I look back at 2012 and forward into 2013, I know that I can count on the expertise and professionalism of our people. Our success moving forward very much depends on the talent and enthusiasm of our people together with the enhanced experience they are providing to our customers. During a period of great stress and anxiety, our people have behaved impeccably, and great credit is due to them for their hard work, unfailing commitment and considerable achievements to date, particularly with regard to our transition to a customer-led organisation, a programme of work that is now well advanced.

## Financial performance

As expected, new and renewal retail revenue declined in the UK, impacting on the profitability of the Group, with revenue and underlying operating profit performance for the Group on a continuing and discontinued operations basis in the period reduced to £319.7 million (2011: £346.1 million) and £36.3 million (2011: £47.7 million) respectively. The Group reported an operating loss for 2012 on a continuing operations basis of £17.7 million (2011: profit £22.9 million).

Trading conditions and results have been mixed across the Group. Renewal rates have decreased by 2.1% to 73.3%, in large part because of changes effected to the renewals process, and live policies are 10% lower than reported at 31 December 2011 at 9.9 million, impacted by our performance in the UK. The restrictions on our ability to sell our full range of products in the UK impacted revenue and profitability, resulting in Northern Europe underlying operating profit declining to £19.7 million. Southern Europe continued to experience challenging trading conditions in large part because of the external economic environment, resulting in lower revenue for the region, which includes Latin America, and underlying operating profit reducing to £8.1 million. Asia Pacific reduced its underlying operating loss to £1.1 million, although challenging trading conditions mean this market is taking longer than expected to develop. In North America, revenue increased and underlying operating profit rose to £10.1 million.

Cost reduction has been, and remains, a key priority, and in view of the difficult trading conditions prevailing in the UK and in some of the Group's overseas operations, we implemented programmes to reshape the cost base with a view to mitigating some of the adverse profit impact caused by lower revenue and changes to the product mix.

During the year we were pleased to confirm new relationships with Business Partners in Turkey, Spain and Portugal. We also confirmed a contract extension in France and new agreements in Mexico, Brazil and India. In the UK, we were disappointed to lose the Everything Everywhere and RBS Mobile Phone Insurance (MPI) contracts, and by the likely decision by Santander (UK) not to renew the Group's contract for the provision of benefits and services relating to Packaged Accounts in the UK from October 2013, in line with a shift in their own product strategy.

## Refinancing

A key priority has been the management focus given to strengthening the Group's balance sheet and stabilising the business. The Board assessed and actively considered a range of financing

options and, as announced on 17 April 2013, the Group has agreed to the conditional sale of the North American business (CPPNA Holdings Inc. and its subsidiaries) to AMT Warranty Corp. for a total cash consideration of \$40 million (approximately £26.1 million). The conditional sale of the North American business has allowed us to amend and extend our existing bank facility until 30 September 2013, while a longer term refinancing is negotiated. This involves discussions with the existing lenders and the Company's major shareholder, and founder, Mr Hamish Macgregor Ogston CBE.

## Our strategy and key priorities

In last year's Annual Report, I set out an evolution of our strategy and the five key priorities to reshape our business. Our strategic objectives and the actions that we are taking to move the business forward involve four key elements – people, customers, products, and markets, which I expand on in more detail in this review.

We have made progress against our five priorities during 2012. The FCA investigation is now closed and we are well advanced in embedding a new culture based on greater customer focus, strengthened discipline and enhanced governance. We have advanced our product marketing to develop and launch new consumer products, and our investment in emerging markets to take advantage of growth opportunities continued during the year. Although we made appropriate changes in composition and resource to reflect our required structure, our effort to retain and recruit the talent we need to deliver our future success remains.

## A journey to rebuild our business

In 2012 we set about changing the way we do things at CPP. We recognise that historical practices prior to March 2011 were below the required standard, and these various failings have been reflected in the fine of £10.5 million imposed on us by the FCA. Whichever way you look at it, this fine is very substantial, particularly for a business of our size, representing as it does 40% of the continuing Group's underlying operating profit for the year.



"In the last two years we have experienced a period of intense challenge and significant change."

**Paul Stobart**  
Chief Executive Officer



**Chief Executive Officer's review continued**

"2013 is a year of transition, further challenge and significant change designed to deliver a more stable platform for the Group."

Recognising the failings of the past, and following an extensive review of the business, we have established a new customer-led strategy, launched an extensive business Transformation Programme, and established a more robust governance framework.

Changes on this scale do not happen overnight, and the work required to rebuild the Group is far from complete. It has been even more challenging to make progress on the Transformation Programme, launched in August 2012, so vital for the future of the business, when we have, in parallel, had to resolve the FCA investigation, prepare for the redress programme, and manage the impact of the restrictions on the Group's regulated UK entities in the form of the WOPs agreed with the FCA.

Under the WOP, restrictions on new retail sales of our regulated Card Protection and Identity Protection products continue, and were extended to encompass new retail sales of MPI and sales in other EEA jurisdictions where the Group trades through UK permissions. In addition, the restriction on asset dispositions has been extended to our regulated UK entities who will also not participate in future Group borrowing arrangements or offer their assets as security for Group borrowing. Once we have completed the initiatives and enhancements required by the FCA, the Group will apply to the FCA for the restrictions on sales and asset movements and borrowing arrangements to be lifted.

The redress programme to remediate customers that may have suffered detriment as a result of our past failings is currently expected to be effected through a Solvent Scheme of Arrangement (the Scheme). The Scheme is designed to provide a vehicle through which CPP and its Business Partners can review claims in relation to past failings and, where appropriate, pay redress. At present, the Group anticipates that the Scheme will become effective in the second half of 2013, although it is not certain that the Scheme will proceed.

Given the unique nature and complexity of the proposed redress programme, the total amount payable under the Scheme will not be finally determined until the fourth quarter of 2014 at the earliest. In association with our advisers, we have assessed the likely financial impact of the redress programme. This assessment, when added to the costs of the investigation, the Scheme, the FCA

fine, and the ancillary redress exercises we have carried out to address other past failings identified as part of the business process review instituted by the new management team, has resulted in total costs and provisions made in the Group's financial statements of £51.7 million.

In addition, shareholders should be aware that the Group's book of renewal business may experience a material decline as a result of the cancellation or non-renewal of live policies, which would have a significant adverse impact on the Group's revenue and profit going forward.

**Positioning the Group for the future**

The transformation to our new customer-led strategy is well advanced, and I am pleased to see many examples of progress in this regard right across the Group. We are confident that customers place value on the products and services we offer. In the UK for example, we are regularly seeing high levels of customer satisfaction and positive net promoter scores (which measure how likely CPP customers are to recommend us to others), demonstrating excellent quality in terms of customer engagement and experience. The core of our strategy depends on a simple, yet powerful philosophy: inspired people will delight customers, resulting in superior long term performance.

A critical first step is our people agenda; it is only through our people that we will move our culture to one that is centred on the customer. In 2012, and despite our various challenges, we chose to make some moderate investment in leadership development, customer experience training and education programmes, and a series of highly acclaimed beliefs workshops designed to re-set the bar on CPP's own values and beliefs.

**Delivering an improved customer experience**

We have nearly 10 million customers worldwide and will continue to focus on doing the right thing by them. Putting the customer at the heart of what we do is fundamental to our commitment to customer-centricity. Our aim is to improve the customer's end to end experience and to embed a customer focused culture.

Our efforts to improve the customer experience can only be successful if we have products that are relevant, compelling and affordable to customers. We know from our own customer research that our products are well liked and well adapted to the needs of consumers. Looking forward, though, we need to refresh and revitalise our product offerings, and to this end we have launched two new assistance products in the UK; one at the end of 2012 and one in the first quarter of 2013. In the medium term we will continue to introduce new digital and mobile assistance offerings, all designed to give customers enhanced quality of life.

Product innovation backed by an unparalleled approach to customer service, operating in the UK and overseas, with particular focus on emerging and developing markets where we see future potential, remains central to our growth prospects.

**Our people**

Our aim is to provide a working environment that supports and develops our people, helping us to meet our business objectives aligned with our Vision and their own personal goals. In 2012, we worked hard at understanding how we can fully engage our people with our business, services and products we offer our customers. Our key priorities comprised leadership, development and recognition.

During the year, we also completed the externally verified 'Best Companies' survey, which links to the Sunday Times Top 100 'Best Companies to Work For'. We were delighted that we achieved 'One to Watch' status, demonstrating that, despite the challenges we face, our people were and are engaged and committed.

**Our community and environment**

We aim to play an active role and make a positive contribution through our involvement in community projects and sponsorships in many of our markets. We also recognise the importance of our impact on the environment. To make sure that we protect the environment we are committed to managing our use of energy, water and paper to ensure that our impact is minimal.

**Looking ahead**

2013 is a year of transition, further challenge and significant change, designed to deliver a more stable platform for the Group. We are focused on working hard to deliver a differentiated product and service offering, and experience, to our customers. By delivering against this plan, we will seek to realise the future potential of our business.

In the year ahead we need to secure our longer term financing, manage our way through the Scheme, reposition the business and reshape our business model to reflect our changed circumstances. We do not underestimate the scale of the challenges ahead. In the longer term, I believe that the actions we are taking to rebuild our business and reputation, combined with the enhancements to governance and risk management we have put in place, will provide us with a stronger, more stable platform from which to move the business forward.

**Paul Stobart**  
Chief Executive Officer

# Operating review

## Northern Europe

### Revenue contribution

**£225.8m** -10% growth  
(2011: £249.5m) -9% constant currency

### Underlying operating profit

**£19.7m** -41% growth  
(2011: £33.6m) -41% constant currency

### Operating highlights

- FCA investigation concluded; redress programme to commence
- Reduced Card Protection and Identity Protection revenue
- UK product innovation advanced
- Embedding customer focused culture

Operating in the UK, Ireland, Germany and Turkey; Northern Europe, which accounts for 71% of Group full year revenue\*, has been impacted by a challenging operating environment primarily as a result of restricted sales and reduced Card Protection and Identity Protection renewal revenues in the UK.

\* Includes continuing and discontinued operations.

### Regional trends in 2012

	Revenue (£) <sup>1</sup>	Underlying operating profit/loss (£) <sup>1</sup>	New sales (£)	Renewal rates (%)	Margins (%)
UK	▼	▼	▼	▼	▼
Ireland	▼	▼	▼	▲	▼
Germany	▲	▲	▲	▲	▲
Turkey	▼	▼	▼	▼	►

▲ Increase ► Level ▼ Decrease

1. On a constant currency basis.

### Financial performance

Revenue has decreased 9% on a constant currency basis compared to the same period in 2011 to £225.8 million (2011: £249.5 million). Underlying operating profit has reduced for the full year to £19.7 million (2011: £33.6 million), 41% lower on a constant currency basis.

### UK

As expected, 2012 was a difficult year due to a challenging operating environment in the UK. Revenue decreased and the gross profit margin was lower as a result of reduced renewal revenue, impacted by changes in the renewal process and adverse external media attention combined with lower-margin MPI and Packaged Account activities.

A great deal of positive change took place in our UK business in 2012 and the closure of the FCA's investigation in November 2012 now provides clarity about what we can do. Our customer-focused Transformation Programme, supported by a strengthened management team, new operational structure, improvements made to enhance the skillset of our people and new product initiatives, provides a stronger platform to move forward.

Much work has gone into improving the relationship between the UK business and the FCA. Nonetheless, the restricted retail sales of Card Protection, Identity Protection and MPI Insurance, as a consequence of the agreed VVOPs for the regulated UK entities, has impacted performance. Until we gain agreement for the restrictions to be lifted and as a result of the redress programme expected to commence during 2013, performance will be further impacted.

MPI, Packaged Account and wholesale business performance together with cost-saving measures implemented throughout 2012 partially offset the impact of reduced Card Protection and Identity Protection revenue streams. Nonetheless, our MPI business has been impacted by a higher number of settled claims and higher average settlement costs, suspension of new retail sales and the decisions by Business Partners not to renew contracts, resulting in reduced revenue for 2012 as a whole and beyond. In addition, while our Packaged Account and wholesale business performed profitably in the first half of the year, revenue growth reduced in the second half of the year as a result of a major partner not actively marketing Packaged Accounts.

Our Airport Angel business increased revenue as a result of improved volumes, although made an underlying operating loss.

Following a strategic review at the end of 2012, we concluded that I-Deal Promotions Limited (I-Deal) and Concepts for Travel Limited (Concepts) had limited strategic fit and were subsequently disposed.

### Ireland

Ireland continued to be a difficult economy to operate in and, as a result, revenue decreased modestly and underlying operating profit is lower than 2011.

### Germany

Revenue increased and operating loss reduced in 2012. Customer numbers and renewal rates increased during the year.

This performance is reflective of increased new revenues with established Business Partners, combined with channel and product development.

We lost one Business Partner as an indirect result of the regulatory issues experienced by the Group in the UK.

### Turkey

Revenue and operating profit in Turkey declined in 2012 impacted by the loss of Akbank as a Business Partner in August 2011. New policy volumes and the renewal rate decreased in the year.

The loss of Akbank, resulting in lower renewals, has been partially offset by sales generated from a new call centre and new agreements with ING Bank, Anadolubank, Sekerbank and Turkey Finance Participation Bank. We were pleased to renew our contract for a further three years with Bank Asya.

Commercial Card Protection was launched in the year with Denizbank and Bank Asya and ID Safe was launched with Denizbank.

### Home 3

The investment in our joint venture with Mapfre Asistencia continues to develop, however, its progress is now likely to result in break-even being achieved towards the end of 2014.

## Looking ahead

We believe opportunities remain for us to develop further in the Northern European market, supported by product development initiatives, improvements to existing products and new Business Partnerships. Nonetheless, the challenging UK operating environment and regulatory restrictions, until lifted, will continue to have an adverse impact on the overall performance of the region in 2013. Performance will be further impacted by the UK redress exercise and will be challenging until new customer initiatives and future renewal revenue start to take effect.

## Operating review continued

## Southern Europe and Latin America

## Revenue contribution

**£37.5m** -15% growth  
(2011: £44.4m) -9% constant currency

## Underlying operating profit

**£8.1m** -24% growth  
(2011: £10.6m) -19% constant currency

## Operating highlights

- Customer base stable; renewal rates improved
- Continued growth in Mexico, revenue increased
- Major new Business Partners signed across the region

Operating in Spain, Italy, Portugal, France, Brazil and Mexico; Southern Europe & Latin America, which accounts for 12% of Group full year revenue\*, has seen mixed results impacted by a challenging operating environment, primarily as a result of the continued difficult economic situation and banking sector conditions in the Eurozone region. Our performance in Latin America has been encouraging, with revenue growth in Mexico and market entry activities continuing in Brazil.

\* Includes continuing and discontinued operations.

## Regional trends in 2012

	Revenue (£ <sup>1</sup> )	Underlying operating profit/loss (£ <sup>1</sup> )	New sales (£)	Renewal rates (%)	Margins (%)
Spain	▼	▼	▼	▲	▼
Italy	▼	▼	▼	▲	▼
Portugal	▼	▲	▼	▼	▲
France	▼	▼	▼	▲	▲
Mexico	▲	▲	▲	▼	▲
Brazil	▲	▼	▲	n/a	▲

▲ Increase ► Level ▼ Decrease

1. On a constant currency basis.

## Financial performance

Revenue has decreased 9% on a constant currency basis compared to the same period in 2011 to £37.5 million (2011: £44.4 million). Underlying operating profit has consequently reduced for the full year to £8.1 million (2011: £10.6 million), 19% lower on a constant currency basis. The region's customer base remained stable and the renewal rate improved year-on-year.

## Southern Europe

The adverse economic situation in Southern Europe continued in 2012, resulting in lower revenue and operating profit in Spain, Italy and France due to lower new volumes and lower renewal income. In Portugal, revenue declined at a lesser rate and moved from an operating loss to profit during the year. Retail policies fell during the year while wholesale policy numbers increased, most notably in Spain and Italy. We effected cost saving initiatives in Spain, France and Italy during the year. As a result of the WVOP restrictions agreed by certain of the Group's UK subsidiaries with the FCA new retail sales were impacted towards the end of the year in Italy, Portugal and Spain.

We were pleased to confirm new relationships with Business Partners, including Vodafone in Spain, which in addition to 20:20, a major distributor of Yoigo, provides us with a strong mobile platform. In Portugal we recommenced sales campaigns with Caixa Geral de Depositos. In France we secured a contract extension with our principal Business Partner until April 2014.

## Latin America

We have been encouraged by good revenue growth and improved financial performance in Latin America. In Mexico, revenue growth continued, albeit from a low base, and we expect to achieve break-even in 2013. We enhanced our Identity Protection product and launched a version of Card Protection aimed at consumers who have recently accessed the growing financial services market. In addition, we signed a new retail contract with Banco Invex and a wholesale contract with Banco Inbursa in Mexico during 2012.

Our newer market of Brazil continued to make progress with product propositions being discussed with a number of potential Business Partners and the continued development of new Card Protection services for retailers. We partnered with retailer Acontece Soluções, which provides a platform to support further growth during 2013.

## Looking ahead

The economic situation in Southern Europe is expected to continue in 2013 and adversely affect revenue as a result. We expect new Business Partner agreements and diversification into the telecoms market will support future opportunities in this region. In Latin America, the increasing access to financial services and penetration of Smartphone use provides further growth opportunities. We expect the region to contribute positive revenue growth during 2013.



## Asia Pacific

### Revenue contribution

**£6.5m** 0% growth  
(2011: £6.5m) +5% constant currency

### Underlying operating loss

**£1.1m** +48% growth  
(2011: £2.2m) +50% constant currency

### Operating highlights

- Renewal rates stable
- India moved into operating profit; revenue increased
- Business development resources strengthened

Operating in Hong Kong, Singapore, Malaysia, India and China; Asia Pacific, which represents 2% of Group full year revenue\*, reduced its operating losses on a constant currency basis by 50%, although challenging trading conditions has meant that the development of this region is at a slower rate of growth year-on-year.

\* Includes continuing and discontinued operations.

### Regional trends in 2012

	Revenue (£) <sup>1</sup>	Underlying operating profit/loss (£) <sup>1</sup>	New sales (£)	Renewal rates (%)	Margins (%)
Hong Kong	▼	▲	►	▲	▲
Singapore	▼	▲	▼	▲	▲
Malaysia	▼	▼	▼	▼	▼
India	▲	▲	▲	▼	▲
China	▼	▲	▼	▲	▲

▲ Increase ► Level ▼ Decrease

1. On a constant currency basis.

### Financial performance

Revenue is 5% higher on a constant currency basis compared to the same period in 2011 at £6.5 million (2011: £6.5 million). The operating loss has reduced for the full year to £1.1 million (2011: £2.2 million), an improvement of 50% on a constant currency basis.

Renewal rates have remained stable, partially offsetting the impact of lower new revenue growth. To support the region in the year, the business development teams in China and Malaysia have been strengthened and an enhanced business support structure implemented.

### Hong Kong

Renewal rates improved during the year however new business development has been restricted as a result of Business Partners remaining cautious towards sales activities, resulting in lower revenue year-on-year. Operating loss in the market is reduced.

### Singapore

During the year, revenue declined as a result of reduced new campaigns, although a small local profit was generated and our cost base reduced. We increased our business development resource with a view to support future growth.

Although Business Partners remained cautious towards new sales, during the year we partnered with HSBC to provide our Airport Angel product to their customers.

### Malaysia

In Malaysia, revenue was lower and operating profit performance reduced.

Business Partners continued to remain cautious towards sales activities although, encouragingly, our contract with Maybank was extended for three years until 2015.

### India

During the year revenue increased and India moved into profitability as a result of increased new and renewal income.

Despite the decisions by two of our Business Partners not to continue new business activities, we secured new Business Partners in the year that include Bajaj Finance Limited and Capital First Ltd, and in addition, renewed existing contracts with Kotak.

At the end of 2012 we launched a new product tailored for Indian consumers, OneCall SOS.

In 2013 we expect to launch Personal Identity Protection.

Despite the rate of economic growth in India slowing, we anticipate continued growth and improved renewal performance in 2013.

### China

Revenue in China was marginally lower whilst the operating loss reduced year-on-year due to mix effects. We worked with Business Partners to pilot a range of new channels to increase customer numbers and build product awareness and developed relationships with China Industrial Bank, China Ping An Bank and China CITIC Bank to increase our sales activities. Our wholesale contract with China Guangfa Bank was not renewed in July 2012.

### Looking ahead

Collectively, the region is expected to develop at a slower rate of growth in 2013 due to on-going, challenging trading conditions. The key markets of India and China are expected to provide future opportunities for the region.

## Operating review continued

## North America

## Revenue contribution

**£49.8m** +9% growth  
(2011: £45.8m) +8% constant currency

## Underlying operating profit

**£10.1m** +47% growth  
(2011: £6.8m) +45% constant currency

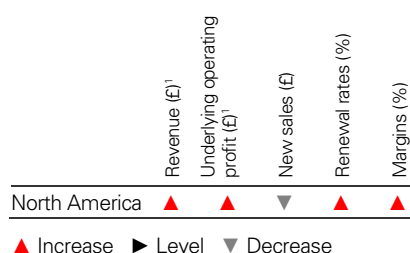
## Operating highlights

- Conditional agreement to sell North American business for total cash consideration of \$40 million (approximately £26.1 million), subject to shareholder approval
- Good renewals performance

The Group's North American business accounted for 16% of Group full year revenue\* in 2012. During the year, it performed well as a result of renewal growth with existing Business Partners, although new volume growth was lower.

\* Includes continuing and discontinued operations.

## Regional trends in 2012



1. On a constant currency basis.

## Financial performance

Revenue increased 8% on a constant currency basis compared to the same period in 2011 to £49.8 million (2011: £45.8 million). Underlying operating profit increased for the full year to £10.1 million (2011: £6.8 million), 45% higher on a constant currency basis.

Revenue and profit increased in the year as we expanded our sales primarily through our existing key Business Partner relationships, although growth was lower than achieved in the prior year. New revenue fell in the year as a result of reduced sales with a key Business Partner coupled with regulatory changes to improve customer service, partially offset by an increase in renewals.

Retail policy holder numbers were lower than the prior year, impacted by a lower rate of customer acquisition. Wholesale policy growth was positive and supported by a new Packaged Account programme as a result of a two year contract extension commencing June 2012.

During the year, the business focused on product innovation alongside managing and developing a number of our Business Partner relationships, which included extending a joint marketing agreement for a further three years alongside a three year credit card activation agreement with a key Business Partner.

## Sale of North American business

As a result of the maturity of the Group's bank facility and costs in relation to implementing customer redress in the UK, the Directors determined that strengthening the Group's capital structure was essential. Subsequently, the Board initiated a strategic review of the Group to analyse which of its operational units were easily separable from the Group and likely to be attractive to potential purchasers as a standalone business.

The Board concluded that the North American business, having its own range and mix of products and certain of its Business Partners having no relationship with the Group outside of the United States, was likely to be attractive to potential purchasers and achieve a valuation in a range that would assist the Group in repaying, in part, its bank facility.

On 17 April 2013 the Group announced that it had agreed to the sale of its North American business for a total cash consideration of \$40 million (approximately £26.1 million) to AMT Warranty Corp., a Delaware corporation and wholly owned subsidiary of AmTrust Financial Services, Inc.

The disposal is part of a series of related measures being pursued by the Board with a view to securing the future viability of the Group in the interests of all stakeholders.

At the time of writing, the disposal is conditional upon approval of shareholders which, if achieved, is expected to result in completion of the disposal in the second quarter of 2013. Following completion of the disposal, the Group will no longer receive the revenue and profit generated by the North American business and the Group's total consolidated revenue and operating profit are expected to decline.

Principal terms and retention arrangements of the disposal can be found in notes 37 and 38 to the financial statements.

# Financial review

## Overview

This financial review includes analysis of the underlying profit of the Group, which excludes exceptional items. We believe that the underlying figures aid comparison and understanding of the Group's financial performance.

As the Group approached the maturity of its existing debt facilities on 31 March 2013, it was necessary to raise new funding. Following a strategic review of a range of possible funding sources, the Group decided to pursue the disposal of its North American business, CPPNA Holdings Inc. and its subsidiaries. This disposal process commenced in the third quarter of 2012 and at the year end the Board was committed to the disposal, consequently the North American business is presented as discontinued in the consolidated financial statements and this review. At the time of publication the proposed disposal of the North American business to AMT Warranty Corp. (AmTrust) for \$40 million (approximately £26.1 million) will proceed subject to shareholder approval at a General Meeting scheduled for 3 May 2013. The majority shareholder in the Group, Mr Hamish Macgregor Ogston CBE, who owns approximately 57% of the ordinary share capital, has made an irrevocable commitment to vote his shares in favour of the disposal. As a result of these events, this review focuses on the performance of the continuing operations of the Group.

## Summary

2012	Continuing operations	Discontinued operations	Total
Revenue (£ millions)	269.9	49.8	319.7
Gross profit (£ millions)	107.6	23.2	130.8
Operating (loss)/profit (£ millions)			
– Reported <sup>1</sup>	(17.7)	7.4	(10.4)
– Underlying <sup>2</sup>	26.2	10.1	36.3
(Loss)/profit before tax (£ millions)			
– Reported <sup>1</sup>	(19.9)	7.4	(12.6)
– Underlying <sup>2</sup>	24.0	10.1	34.1
Reported (loss)/earnings per share (pence)			
– Basic	(12.42)	2.43	(9.98)
– Diluted	(12.13)	2.38	(9.75)
Cash generated by operations (£ millions)	10.4	7.0	17.4
Dividends (pence)	–	–	–

1. Reported figures which agree to the income statement are for continuing operations only. Discontinued operations are not reported in operating (loss)/profit or (loss)/profit before tax in the income statement. Further detail to the discontinued operations is provided in note 16 to the financial statements. Discontinued operations are included in this analysis to provide an indicative view of how the Group has performed in the year.
2. Excluding exceptional items from continuing operations of £43.9 million and discontinued operations of £2.7 million.

2011	Continuing operations	Discontinued operations	Total
Revenue (£ millions)	300.4	45.8	346.1
Gross profit (£ millions)	125.2	18.7	143.9
Operating profit (£ millions)			
– Reported <sup>1</sup>	22.9	6.8	29.7
– Underlying <sup>2</sup>	40.9	6.8	47.7
Profit before tax (£ millions)			
– Reported <sup>1</sup>	21.6	6.8	28.3
– Underlying <sup>2</sup>	39.6	6.8	46.4
Reported earnings per share (pence)			
– Basic	7.06	3.58	10.64
– Diluted	7.03	3.56	10.59
Cash generated by operations (£ millions)	50.3	4.9	55.2
Dividends (pence) <sup>3</sup>	2.42	–	2.42

1. Reported figures which agree to the income statement are for continuing operations only. Discontinued operations are not reported in operating profit or profit before tax in the income statement. Further detail to the discontinued operations is provided in note 16 to the financial statements. Discontinued operations are included in this analysis to provide an indicative view of how the Group has performed in the prior year.
2. Excluding exceptional items from continuing operations of £18.0 million and discontinued operations of £0.1 million.
3. Dividends announced and paid relating to the 2011 financial year.

Group revenue from continuing operations has declined by 10% to £269.9 million as a result of revenue reducing by 10% in Northern Europe and 15% in Southern Europe and Latin America, whilst revenue in Asia Pacific was flat. On a constant currency basis Group revenue declined by 9%, with notably 5% growth recognised in Asia Pacific.

Overall expenditure on Business Partner commissions reduced to 29% of revenue (2011: 32%) due to changes in mix. Despite this, cost of sales were 60% of revenue (2011: 58%) as the proportion of business from Packaged Accounts increased. As a result, gross profit declined by 14% to £107.6 million and was 40% of revenue (2011: 42%).

Underlying operating profit declined by 36% to £26.2 million (2011: £40.9 million) as a result of the impact of reduced sales and lower gross profit. Overheads, whilst lower than 2011, have not reduced in line with the reduction in gross profit. This reduction in overhead of 3% results from lower economies of scale together with the requirement to invest in UK overheads in order to improve processes and governance, only partially offset by reduced staff costs as we restructured our UK based operations, primarily through the voluntary redundancy programme.

This performance together with exceptional items of £43.9 million, (2011: £18.0 million) which mainly comprises customer redress and associated costs, regulatory penalties and restructuring costs, resulted in a reported operating loss for 2012 of £17.7 million (2011: operating profit of £22.9 million).



“The Group has agreed an extension to its revolving credit facility to 30 September 2013, with a reduction in the level of the facility to £25 million. Negotiations continue to refinance the Group for a three year term.”

**Shaun Parker**  
Chief Financial Officer

**Financial review continued**

Net interest and finance costs of £1.3 million (2011: £1.3 million) were in line with 2011 as the Group broadly maintained its level of gross debt and net funds. Other losses of £0.9 million (2011: £nil) arose on the disposal of minor subsidiaries that did not have a strategic fit with the continuing Group.

Reported loss before tax was £19.9 million (2011: reported profit before tax £21.6 million) whereas underlying profit before tax has reduced by 39% to £24.0 million (2011: £39.6 million).

Discontinued operations, which represents the Group's North American business, delivered profit after tax of £4.2 million (2011: £6.2 million). This is despite growth of profit before tax of 9% to £7.4 million (2011: £6.8 million) and results from increased tax due to costs associated with the disposal which are not tax deductible.

Underlying profit after tax from continuing operations excluding exceptional items was £16.9 million (2011: £26.0 million). Taking these one-off costs into account, reported results after tax from continuing operations reduced by £33.3 million to a loss of £21.4 million (2011: reported profit after tax £11.9 million).

Basic earnings per share has reduced from 7.06 pence in 2011 to a basic loss per share of 12.42 pence for 2012.

Whilst our operations continued to generate cash, net cash from operating activities (including continuing and discontinued operations) of £17.4 million (2011: £55.2 million) was substantially lower than the prior year, which is reflective of the Group's operating performance. Nevertheless, the Group's net funds position improved from £11.9 million at 31 December 2011 to £13.6 million at 31 December 2012.

The Group will not be paying a dividend for 2012 in line with the Group's performance and financial position (2011: 2.42 pence).

**Group revenue breakdown**

	2012 £'m	2011 £'m	Growth
<b>Continuing operations</b>			
Retail assistance policies	163.8	213.0	(23)%
Retail insurance policies	41.2	38.5	7%
Packaged and wholesale policies	56.6	41.9	35%
Non-policy revenue	8.3	7.1	17%
	269.9	300.4	(10)%
<b>Discontinued operations</b>	49.8	45.8	9%
<b>Total Group revenue</b>	<b>319.7</b>	<b>346.1</b>	<b>(8)%</b>

Revenue from retail assistance policies has materially declined compared to 2011. Revenue from retail insurance policies has increased and revenue from packaged and wholesale policies has grown significantly. The growth in revenue from retail insurance policies principally relates to the Group's UK MPI business during the first nine months of the year where the increasing sales of higher priced smartphone insurance policies more than compensated for a decline in the overall level of policy sales. This trend reduced in the last three months of the year following the cessation of the Group's contract with T-Mobile (Everything Everywhere) which resulted in no new sales and the remaining customer book starting to run-off. Growth in revenue from packaged and wholesale policies is due to growth in the Group's Packaged Account activities in the UK. This trend will not continue following the loss of the Group's main Packaged Account customer, RBS, in March 2013.

Non-policy revenue, principally from the Group's Airport Angel lounge access business, has grown as a result of increasing sales to our Business Partners and their customers resulting in more lounge visits.

**Underlying financial performance**

	2012 £'m	2011 £'m
Reported operating (loss)/profit	(17.7)	22.9
Exceptional items:		
Customer redress and associated costs	26.3	14.9
Regulatory penalties	8.5	2.0
Restructuring costs	4.9	–
Strategic project costs	0.4	–
Impairment of goodwill and intangible assets	3.7	–
Legacy scheme share based payments	0.2	1.1
<b>Underlying operating profit</b>	<b>26.2</b>	<b>40.9</b>
Reported (loss)/profit after tax	(21.4)	11.9
Exceptional items:		
Customer redress and associated costs	22.0	11.0
Regulatory penalties	8.5	2.0
Restructuring costs	3.8	–
Strategic project costs	0.4	–
Impairment of goodwill and intangible assets	3.4	–
Legacy scheme share based payments	0.2	1.1
<b>Underlying profit after tax</b>	<b>16.9</b>	<b>26.0</b>

The Group's statutory results are adjusted to arrive at measures which better reflect underlying performance. Adjustment has been made for exceptional items of £43.9 million (2011: £18.0 million). After making these adjustments, underlying operating profit was £26.2 million (2011: £40.9 million), which was 36% lower than 2011. On the same basis, underlying profit after tax was 35% lower than prior year at £16.9 million (2011: £26.0 million). Basic underlying earnings per share was 9.91 pence (2011: 15.28 pence) and diluted underlying earnings per share was 9.68 pence (2011: 15.21 pence).

**Quarterly performance**

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2012
Revenue growth <sup>1</sup>					
Group	(8)%	(11)%	(9)%	(13)%	(10)%
Northern Europe	(8)%	(10)%	(7)%	(13)%	(10)%
UK	(8)%	(10)%	(7)%	(14)%	(10)%
Southern Europe and Latin America	(10)%	(15)%	(19)%	(19)%	(15)%
Spain	(15)%	(19)%	(23)%	(19)%	(19)%
Asia Pacific	10%	2%	(8)%	(2)%	0%

1. Growth percentages stated on a year-on-year basis.

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2012
Underlying operating profit growth <sup>1,2</sup>					
Group	(43)%	(29)%	(23)%	(51)%	<b>(36)%</b>
Northern Europe	(49)%	(34)%	(26)%	(61)%	<b>(41)%</b>
UK	(53)%	(36)%	(21)%	(63)%	<b>(43)%</b>
Southern Europe and Latin America	(18)%	(25)%	(27)%	(25)%	<b>(24)%</b>
Spain	(18)%	(30)%	(26)%	(24)%	<b>(25)%</b>
Asia Pacific	33%	20%	49%	100%	<b>48%</b>

1. Growth percentages stated on a year-on-year basis.

2. Excluding exceptional items £43.9 million (2011: £18.0 million).

The continuing Group's performance in 2012 was impacted by reduced new and renewal retail revenue streams in the UK and Southern Europe. Quarter four has shown additional decline year-on-year as it is further impacted by lower new retail insurance revenue resulting from the loss of the T-Mobile (Everything Everywhere) contract, lower new retail revenue as a result of the WOPs in the UK and increasing MPI direct costs.

### Investment in developing markets

Despite continuing challenging circumstances in a number of its established markets, the Group has sought to maintain a level of investment in its new and developing markets. This investment comprises mainly start-up losses which are accounted for in the current year's income statement. For these purposes, the Group considers the following markets to be developing: Hong Kong, Home 3, Mexico, China and Brazil (2011 also included Singapore and India). In 2012, the total investment in start-up losses in the Group's developing markets was £3.1 million (2011: £4.9 million), the reduction is due to improved performance in India and Mexico and reduced year-on-year overheads in Hong Kong.

### Investment in Home 3 joint venture

Our Home 3 joint venture with Mapfre Asistencia grew revenue with existing Business Partners and the Group's share of operating losses for 2012 reduced to £0.5 million (2011: £1.2 million).

### Exceptional items

	2012 £'m	2011 £'m
Customer redress and associated costs	<b>26.3</b>	14.9
Regulatory penalties	<b>8.5</b>	2.0
Restructuring costs	<b>4.9</b>	–
Strategic project costs	<b>0.4</b>	–
Impairment of goodwill and intangible assets	<b>3.7</b>	–
Legacy scheme share based payments	<b>0.2</b>	1.1
<b>Total</b>	<b>43.9</b>	18.0

Exceptional items of £43.9 million comprise the following main areas:

- £26.3 million customer redress and associated costs (2011: £14.9 million) includes the estimated costs of compensating UK customers who were mis-sold the Group's Card Protection and Identity Protection products or where the products were in some way defective. This also includes the costs of contacting the customers and delivering this compensation, including the Group's share of the costs of implementation and operation of the anticipated solvent scheme of arrangement jointly with its Business Partners. Professional fees incurred during and as a consequence of the FCA investigation are also included.
- £8.5 million relates to the net fine of £10.5 million which the FCA imposed on Card Protection Plan Limited in November 2012. In anticipation of a fine, £2.0 million was provided in the Group's accounts in the prior period. The fine is payable in instalments, with £2.0 million paid in 2012 and further instalments due in 2013 and 2014.
- £4.9 million of restructuring costs (2011: £nil) relate to redundancy programmes and associated costs, mainly in the UK.

Other exceptional items include strategic project costs, goodwill and intangible asset impairment and legacy scheme share based payment costs which total £4.3 million (2011: £1.1 million).

### Total customer redress and associated costs

	2012 £'m	2011 £'m	Total £'m
Redress of CPP direct sales	<b>8.4</b>	7.7	16.1
Other redress	<b>5.8</b>	2.1	7.9
Complaints redress	<b>2.7</b>	–	2.7
Regulatory penalties	<b>8.5</b>	2.0	10.5
Advisor fees	<b>9.4</b>	5.1	14.5
<b>Total</b>	<b>34.8</b>	16.9	51.7

The Group has incurred expenditure on, and provided for, customer redress and associated costs and regulatory penalties in 2011 and 2012. The total cost is currently estimated to be £51.7 million, of which £16.9 million was incurred in the prior year, £14.2 million of the provision within the balance sheet has already been utilised. The provision does not include an amount for the outstanding element of the regulatory penalties which is disclosed under current and non-current payables. The remaining provision at 31 December 2012 is therefore £29.0 million. £22.0 million has been estimated as the remaining cost of the customer redress element of the overall provision.

### Tax

The tax charge of £1.5 million was substantially lower than prior year (2011: £9.6 million) reflecting the operating performance of the Group. The Group's overall loss before tax did not result in a tax credit due to a number of factors: including regulatory penalties not being deductible against UK tax, movements in deferred tax, movements in overseas tax and losses in start-up entities not recognised. In the current circumstances, the effective tax rate for the Group is not a representative measure. In 2011, the effective tax rate was 44.7%, reducing to 36.2% when including discontinued operations.



**Financial review continued****Discontinued operations**

The Group has agreed to sell its North American business to AmTrust subject to shareholder approval. The North American business has therefore been classified as a discontinued operation and consequently its results are disclosed separately to those of the continuing operations.

	2012 £'m	2011 £'m
Revenue	<b>49.8</b>	45.8
Underlying operating profit <sup>1</sup>	<b>10.1</b>	6.8
Exceptional items	<b>2.7</b>	0.1
Profit after tax	<b>4.2</b>	6.2
Net assets held for sale	<b>12.9</b>	–

1. Excluding exceptional items of £2.7 million (2011: £0.1 million).

Revenue and underlying operating profit grew in 2012 as a result of continuing growth in sales to the customers of our Business Partners. Exceptional items are costs associated with the disposal of the business during the period to 31 December 2012.

The consideration agreed with the buyer is \$40 million and has been hedged to Sterling by way of a foreign currency option at a rate of £1:\$1.5334, which will result in minimum converted proceeds of £26.1 million. The majority of costs associated with the disposal have already been incurred.

**Cash flow<sup>1</sup>**

	2012 £'m	2011 £'m
Underlying operating profit <sup>2</sup>	<b>36.3</b>	47.7
Share of loss of joint venture	<b>0.5</b>	1.2
Exceptional items	<b>(46.7)</b>	(18.1)
Depreciation, amortisation and other non-cash items	<b>18.3</b>	14.2
Increase in provisions	<b>14.2</b>	14.9
Working capital	<b>(5.2)</b>	(4.7)
Cash generated by operations	<b>17.4</b>	55.2
Legacy scheme share option exercises	<b>–</b>	(0.2)
Tax	<b>(5.4)</b>	(12.6)
Operating cash flow <sup>3</sup>	<b>12.0</b>	42.4
Capital expenditure (including intangibles)	<b>(6.3)</b>	(12.6)
Investment in subsidiary and joint venture	<b>(0.5)</b>	(1.0)
Costs associated with disposal of discontinued operations	<b>(0.9)</b>	–
Net finance costs	<b>(0.9)</b>	(1.0)
Dividends	<b>–</b>	(12.9)
Loan note repayments and share issues <sup>4</sup>	<b>(0.9)</b>	0.2
Net movement in cash/borrowings <sup>5</sup>	<b>2.5</b>	15.0
Net funds <sup>6</sup>	<b>13.6</b>	11.9

1. Cash flows from continuing and discontinued operations.

2. Excluding exceptional items.

3. Excluding repayment of loan notes.

4. Comprises repayment of loan notes and proceeds from the exercise of share options.

5. Excluding effect of exchange rates and amortisation of debt issue costs.

6. Includes unamortised debt issue costs.

Cash generated by operations amounted to £17.4 million (2011: £55.2 million) representing a cash conversion ratio (cash generated by operations as a percentage of underlying operating profit) of 48% (2011: 116%).

The working capital requirement (excluding the movement in provisions) has increased by £5.2 million reflecting an increase in insurance balances from increased activity with Business Partners and the extended period customer payments are withheld by our UK merchant acquirer.

**Capital expenditure**

	2012 £'m	2011 £'m
Property, plant and equipment	<b>2.5</b>	3.3
Software	<b>3.5</b>	5.0
Acquisition of business partner intangibles	<b>0.3</b>	4.3
Intangible assets	<b>3.8</b>	9.3
Total capital expenditure <sup>1</sup>	<b>6.3</b>	12.6
% of revenue <sup>2</sup>	<b>2%</b>	4%

1. Capital expenditure in continuing and discontinued operations (cash basis).

2. Revenue from continuing and discontinued operations.

We have continued to invest in our business although at reduced levels pursuant to the cash constraints facing the Group. Investment in tangible and intangible assets in the year is £6.3 million (2011: £12.6 million) which represents 2% of revenue. Tangible asset investment of £2.5 million (2011: £3.3 million) was mainly computer hardware and leasehold improvements. Computer hardware included continuing upgrades to our disaster recovery and core infrastructure. Intangible asset investment comprised mainly computer software and systems. Computer software and systems expenditure was £3.5 million as we further developed our online services and e-commerce capabilities, expanded our developing markets and launched new products in the UK and overseas.

Investment in Business Partner intangibles was significantly lower in 2012 at £0.3 million (2011: £4.3 million). This results from the cessation of all retail sales of our Card Protection and Identity Protection products with the single Business Partner with whom we have this arrangement. The net book value of our Business Partner intangible at 31 December 2012 was £6.6 million (31 December 2011: £10.4 million) and is stated after an impairment of £0.6m in the year.

**Dividend**

The Group's dividend policy is to distribute approximately 40% of underlying profit after tax to its shareholders. As a result of the Group making a loss after tax in 2012, the Directors have decided not to recommend that a dividend is paid, which is in line with this policy. Furthermore, in light of the Group's current performance, financial situation and prospects, it is unlikely that a dividend will be paid in the medium term.

**Balance sheet and financing**

	2012 £'m	2011 £'m
Goodwill and intangibles	16.9	39.1
Property, plant and equipment	13.3	14.5
Net assets held for sale	12.9	–
Other net assets	46.2	32.9
	89.3	86.5
Provisions	(29.0)	(15.7)
Bank loans	(43.4)	(43.0)
Non-current liabilities	(7.2)	(0.6)
<b>Total net assets</b>	<b>9.7</b>	<b>27.2</b>

Provisions of £29.0 million (2011: £15.7 million) are mainly for customer redress and associated costs. It is anticipated this provision will be fully utilised in 2013. The remaining instalments of the fine levied by the FCA are reported in other net assets (£2.0 million due in 2013) and non-current liabilities (£6.5 million due in 2014).

Goodwill and intangibles of £16.9 million has decreased by £22.2 million from the prior year. The significant movements are associated with the transfer of goodwill associated with the North American business to net assets held for sale of £11.9 million, the full impairment of goodwill and intangibles associated with CPP Travel Services Limited of £3.1 million and the continued amortisation of the intangible balances against reduced levels of additions.

Net funds at 31 December 2012 were £13.6 million, an improvement of £1.7 million compared to prior year, as a result of positive operating cash flow. The Group maintains cash deposits for solvency purposes which were £22.9 million at 31 December 2012. Allowing for these deposits results in an adjusted Group net debt position of £9.3 million.

The Group had in place an £80 million guaranteed revolving credit facility provided by Barclays, RBS and Santander which expired on 31 March 2013. The drawn balance on this facility at 31 December 2012 was £43.5 million (excluding unamortised debt issues costs) reported in current liabilities (2011: £43.5 million, reported in non-current liabilities). Following a two week extension, which was subsequently extended for a further week, the Group agreed on 16 April 2013 an extension to the facility to 30 September 2013. The agreement results in a reduction in the level of facility to £25.0 million, once £16.5 million from the disposal proceeds of CPPNA Holdings Inc. has been used to prepay part of the current loan balance. The extended facility includes certain additional covenants including covenants in respect of cancellation rates and a requirement for the Group to maintain a minimum balance of £12 million in a blocked account that is secured in favour of the lenders. At the time of publication, the Group continues to engage in discussions with Barclays, RBS and Santander, and its majority shareholder to refinance the Group for a three year term.

**Contingent liabilities**

There remains material uncertainty in some of the Group's operations and the industry in which it operates in the UK. The uncertainties include possible industry-wide action by the FCA with regard to products that the UK business sells together with an industry-wide thematic review by the FCA into MPI products, which could result in claims or other matters being raised against the Group.

The Directors have considered the above matters and have decided no definitive conclusions can be formed at this stage, leading to the disclosure of the contingent liabilities. Further detail is provided in note 35 to the financial statements.

**Shaun Parker**

Chief Financial Officer

## Board of Directors



### Charles Gregson

Non-Executive Chairman, Chairman of the Governance and Nomination Committees and Member of the Remuneration, Audit and Risk & Compliance Committees

Charles Gregson was appointed Non-Executive Chairman of CPP in January 2010. He has also been Non-Executive Chairman of ICAP plc since 2001 and had been Executive Chairman since 1998. Between 1978 and 1998 he was responsible for the Garban businesses that demerged from United Business Media in 1998 and merged with Intercapital in 1999 to become ICAP. He was a Director of United Business Media plc and its predecessor companies from 1986 until 2007. He is currently a Non-Executive Director of Caledonia Investments plc and Chairman of St James's Place plc.



### Paul Stobart

Chief Executive Officer and Member of the Nomination Committee

As Chief Executive Officer, Paul Stobart is responsible for developing and executing the Group's business strategy. Appointed CEO in October 2011, Paul was, until 31 May 2011, Executive Director and Chief Executive Officer of Sage Northern Europe, part of Sage Group plc. He qualified as a chartered accountant with Price Waterhouse and spent five years in corporate finance with Hill Samuel before joining Interbrand, an international marketing services consultancy, in 1988. He joined Sage in 1996 as Business Development Director, to then become Managing Director of UK & Ireland in June 2003 before being appointed Chief Executive Officer of Sage Northern Europe.



### Shaun Parker

Chief Financial Officer and Member of the Risk & Compliance Committee

Shaun Parker is responsible for the Group's Finance, Tax, Treasury, IT, Risk and Audit functions. Shaun joined the Group in 2003 from Diageo where he was Chief Financial Officer of Guinness North America prior to leading the cross-functional team that completed the integration of the acquired Seagram Wines and Spirits business. Previously, Shaun worked for ICI Plc, and then Mars Inc. (Pedigree Petfoods) where he held a number of senior finance roles in Germany and the UK. Shaun has extensive international experience gained through a number of regional roles, and through working and living in Germany and the US.



### Hamish Macgregor Ogston, CBE

Founder and Non-Executive Director

Hamish Ogston founded the Group in 1980, before becoming Non-Executive Chairman in 1999. He acted in that capacity until Charles Gregson's appointment in January 2010. Hamish continues to contribute to the Group's strategic thinking as a Non-Executive Director and acts in an ambassadorial role helping to introduce CPP to industry organisations and other influential stakeholders. He was awarded a CBE in the 2011 New Year Honours for his services to business and to the community in York.



### Les Owen

Non-Executive Director, Chairman of the Audit Committee, Member of the Nomination, Remuneration and Risk & Compliance Committees

Les Owen was appointed to the Board of CPP in September 2010. He worked for 35 years in retail financial services including 11 years as CEO of companies listed in the UK and Australia. Les is a qualified actuary and serves as Non-Executive Director on the boards of a number of national and international companies.



### Duncan McIntyre

Non-Executive Director, Chairman of the Risk & Compliance and Remuneration Committees and Member of the Audit and Governance Committees

Duncan McIntyre was appointed in January 2011. Duncan has substantial experience of developing and growing businesses, having previously led Morse plc as Chief Executive, taking it from a small private company to a main market listing and being a key architect in the building of Monitise plc, the global leader in Mobile Money solutions listed on AIM. A qualified accountant, he is also Chairman of Monitise plc, Profero Limited, Climate Risk Management Limited and Technetix Group Limited.

# Corporate Governance statement

## Introduction

The Board recognises the governance failings highlighted by the FCA investigation and significant investment has subsequently been made during the course of 2012 to review and improve this aspect of the business. Working with external consultants, we implemented a new Governance framework and strengthened the Compliance function in the UK. During 2013 we continue to work towards embedding these changes throughout the Group.

## The Board

The Board is responsible to shareholders for strategic direction, management and control of the Company's activities, and is committed to the highest standards of corporate governance in delivering in these areas.

The Board comprises:

**Charles Gregson** as Non-Executive Chairman;

**Paul Stobart** as Chief Executive Officer;

**Shaun Parker** as Chief Financial Officer;

**Hamish Ogston, Les Owen, and Duncan McIntyre** as Non-Executive Directors.

All of the above served on the Board throughout the year.

Patrick De Smedt resigned as a Non-Executive Director on 15 November 2012.

The Board met 34 times during the year, which included a number of meetings to address the FCA investigation and the consequences for the Group, the sale of the North American business and the refinancing of the Group.

The Board operates within a formal schedule of matters reserved to it. This schedule is reviewed and updated on a regular basis. Other powers are delegated to the various Board committees and senior management. Details of Board and committee attendance during the year are set out in the table under the section headed "Directors' attendance at Board and committee meetings" on page 17. Details of the various roles and responsibilities of the Board committees are set out on pages 16 to 20. Papers for Board and committee meetings are circulated in advance of the relevant meeting and where a Director is unable to attend he continues to be provided with a full copy of the papers and has the opportunity to comment on the matters to be discussed.

The Board considers that its primary role is to provide leadership to the Group, to set the Group's long term strategic objectives and to develop robust corporate governance and risk management practices.

The Board comprises individuals with wide ranging business skills and experience and considers that the balance of skills and experience is appropriate to the requirements of the business. The Board considers that the balance between Executive and Non-Executive Directors allows it to exercise objectivity in decision making and proper control of the Company's business. Each member of the Board has had access to all information relating to the Group, the advice and services of the Company Secretary (who is responsible for ensuring that Board procedures are followed) and, as required, external advice at the expense of the Group.

## Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are separate, clearly defined in writing and have been agreed by the Board.

The Chairman, Charles Gregson, is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group.

The Chief Executive Officer, Paul Stobart, is the executive responsible for the day-to-day running of the business and is accountable to the Board for its operational and financial performance.

On his appointment as Chairman, Charles Gregson did satisfy the independence criteria as set out in the Code. However, following his appointment as Chairman he is assumed, in accordance with the Code, not to be independent. The Board, whilst recognising the reasoning in the Code behind this assumption, has concluded that Charles Gregson is independent, being independent in character and judgement and being free from any relationships or circumstances which are likely to affect, or could appear to affect, his judgement.

Throughout the year the Chairman has held regular informal meetings with Non-Executive Directors without the Executive Directors being present.

## Board balance, independence and appointments

During the year the Board has considered the structure, size and composition of the Board (together with an evaluation of the Board's balance of skills, knowledge and experience), the membership of the various Board committees and the expected time commitment; and the policy for Board appointments for Executive and Non-Executive Directors.

The Directors' aim is to ensure that the balance between Non-Executive Directors and Executive Directors of the Board reflects the changing needs of the Group's business.

The Board has reviewed the independence of each of the Non-Executive Directors that have served on the Board throughout the year and concluded that Duncan McIntyre and Les Owen are independent. Hamish Ogston, founder and largest shareholder, is not considered independent.

Until the resignation of Patrick De Smedt (who also was considered to be independent) on 15 November 2012, the Board satisfied the Code requirement that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent.

Following the resignation of Patrick De Smedt the Board is actively seeking to recruit a further independent Non-Executive Director. In the meantime, the Board still meets the Code requirement for smaller companies that at least two members of the Board should be Independent Non-Executive Directors.

The Non-Executive Directors are considered to be of sufficient calibre and experience to bring significant influence to bear on the decision making process.

On joining the Board, Non-Executive Directors receive a formal appointment letter, which identifies the time commitment expected of them. A potential director candidate is required to disclose all significant outside commitments prior to appointment and the Board has approved a policy requiring disclosure and approval by the Board of all additional appointments for Executive or Non-Executive Directors. The terms and conditions of appointment of Non-Executive Directors and service contracts of Executive Directors are available to shareholders for inspection at the Group's registered office during normal business hours.

Biographical details of all Directors are given on page 14.

**Corporate Governance statement continued****Information and professional development**

The Board receives at its meetings detailed reports from executive management on the performance of the Group and other information as necessary. Regular updates are provided on relevant legal, corporate governance and financial reporting developments and Directors are encouraged to attend external seminars on areas of relevance to their role.

Appropriate training and induction are made available to any newly appointed Director, having regard to any previous experience they may have as a Director of a public company or otherwise. An on-going programme of training is in place in the Group and members of the Board are encouraged to participate in this programme. Directors are also encouraged to devote an element of their time to self-development through available training. This is in addition to any guidance that may be given from time to time by the Company Secretary.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary or his nominee is the secretary for all the Board committees. The removal and appointment of the Company Secretary is a matter reserved for Board approval. The Board also obtains advice from professional advisers as and when required.

**Performance evaluation**

As previously reported, in 2011, the Board, led by the Chairman, carried out a Board effectiveness review through an independent third party. The evaluation was based on written questionnaires completed by current Directors and some face to face interviews. These were used to create a written report with recommendations. The overall results of the evaluation were presented to, and discussed by, the Board in December 2011. The performance of the Chairman was included in the above process, and took into account the views of the Executive and Non-Executive Directors. Following this review, the Directors agreed to implement the actions in respect of certain processes identified for improvement and to review this implementation regularly.

**Re-election**

All Directors are subject to election at the first Annual General Meeting following their appointment by the Board. The Company's Articles of Association state that at every Annual General Meeting any Director who has been a Director at each of the two preceding Annual General Meetings, and who was not appointed or re-appointed by the Company in general meeting at, or since, such meeting, shall retire as Director. A retiring Director shall be eligible for re-appointment. In practice this means that every Director stands for re-election at least once every three years.

The Code recommends that all Directors of FTSE 350 companies retire and are put up for re-election at the Annual General Meeting. Although not currently a FTSE 350 company, the Company considers this to be best practice and, accordingly, all the Directors offer themselves for re-election at the 2013 Annual General Meeting.

The Board explains the reasons why it believes each Director should be elected or re-elected in the Notice of Meeting for the next Annual General Meeting. The Board believes that its performance continues to be effective and that the election of Directors is consistent with the Board's evaluation of the size, structure and composition of the Board.

**Relations with shareholders**

The Board remains committed to maintaining good relationships with shareholders. There is a good dialogue with institutional shareholders, although care is exercised to ensure that any price-sensitive information is released at the same time to all shareholders, in accordance with the

requirements of the UK Listing Authority. The Chief Executive Officer and the Chief Financial Officer meet with institutional shareholders on a regular basis and are available for additional meetings where requested. Institutional shareholders are given the opportunity to meet with the Chairman and/or other Non-Executive Directors if they have concerns that have not, or cannot, be addressed through the Chief Executive Officer or the Chief Financial Officer. Irrespective of the size of their shareholding, shareholders have the opportunity to convey their views and make enquiries via e-mail or telephone contact with the Head of Investor Communications.

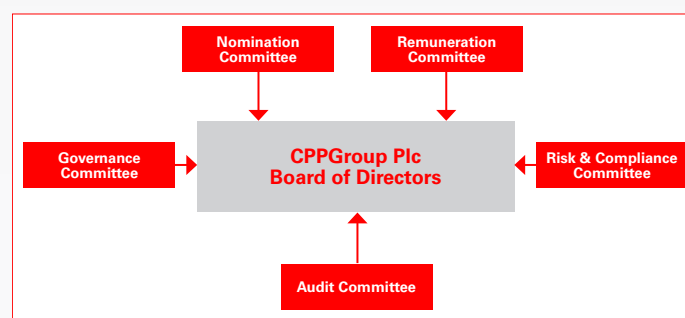
The Chairman is responsible for ensuring that appropriate channels of communication are established between the Chief Executive Officer (and other Executive Directors) and shareholders and ensuring that the views of shareholders are made known to the Board. This includes feedback prepared by the Group's brokers on meetings held with institutional shareholders and, in addition, the Board is provided with an investor relations report at each Board meeting. The Company recognises the importance of ensuring effective communication with all of its shareholders. The Board seeks to present the Company's position and prospects clearly. An annual financial report is distributed to all shareholders and to other parties who may have an interest in the Group's performance. This report, together with a wide range of other information, including the half-yearly financial report, interim management statements, regulatory announcements and current details of the Company's share price, is made available on the Company's website at [www.cppgroupplc.com](http://www.cppgroupplc.com).

**Insurance**

The Company has arranged appropriate insurance cover in respect of any potential litigation against Directors.

**Conflicts of Interest**

A register of conflicts of interest is maintained by the Company Secretary. Entries in the register are discussed by the Board as required.

**Governance structure****Board committees**

The Audit Committee, the Risk & Compliance Committee, the Nomination Committee, the Remuneration Committee and the Governance Committee are standing committees of the Board. The Company Secretary acts as Secretary to all of the Board Committees. The written terms of reference of the committees, including their objectives and the authority delegated to them by the Board, are available upon request from the Company Secretary or via the Group's website at [www.cppgroupplc.com](http://www.cppgroupplc.com) and are reviewed at least annually by the relevant committee and the Board. All committees have access to independent expert advice. The chairman of each committee reports to the Board.



### Directors' attendance at Board and committee meetings

The Directors' attendance record for the year at the Board and committee meetings was as follows:

		Board	Audit Committee	Risk & Compliance Committee	Remuneration Committee	Nomination Committee	Governance Committee
Charles Gregson	Non-Executive Chairman	<b>34 (34)</b>	7 (7)	6 (7)	6 (6)	2 (2)	7 (7)
Paul Stobart	Chief Executive Officer	<b>34 (34)</b>					
Shaun Parker	Chief Financial Officer	<b>33 (34)</b>		7 (7)			
Duncan McIntyre*	Non-Executive Director	<b>29 (34)</b>	7 (7)	6 (7)	2 (2)		7 (7)
Hamish Ogston	Non-Executive Director	<b>34 (34)</b>					
Les Owen	Non-Executive Director	<b>30 (34)</b>	7 (7)	6 (7)	6 (6)	2 (2)	
Patrick De Smedt**	Non-Executive Director	<b>23 (30)</b>			4 (4)	1 (1)	

\* Appointed as Chair of the Remuneration Committee 15 November 2012.

\*\* Resigned from the Board, the Remuneration Committee and the Nomination Committee 15 November 2012.

The figures in brackets represent the maximum number of meetings for which the individual was a Board or committee member.

### Audit Committee

#### Chairman:

**Les Owen** (Independent Non-Executive Director)

#### Members:

**Charles Gregson** (Company Chairman)

**Duncan McIntyre** (Independent Non-Executive Director)

#### Key objective

Assist the Board in discharging its duties and responsibilities for financial reporting, corporate governance and internal control, to include monitoring the integrity of financial reporting systems and providing an interface between management and the external auditors.

#### Key responsibilities

- Review financial statements and any financial information contained in certain other documents;
- Keep under review the effectiveness of the Group's internal financial controls and risk management systems;
- Review the Group's procedures for preventing and detecting fraud and bribery and the arrangements for employees to raise concerns, in confidence, about possible wrongdoing in these or other financial reporting matters;
- Monitor and review the effectiveness of the Company's Internal Audit function in the context of the Company's overall assurance system;
- Oversee the relationship with the external Auditor, including recommendations to the Board in relation to the appointment, re-appointment and removal of the external Auditor;
- Approve the Auditor's remuneration and terms of engagement, keep under review the scope and results of the audit work, its cost effectiveness and the independence and objectivity of the Auditor, together with the volume and nature of non-audit services provided by the Auditor; and
- Consideration of accounting policies.

#### Membership and meetings

It is a requirement of the Code that at least one member of the Audit Committee has recent and relevant financial experience. The Board considers that Duncan McIntyre meets this requirement.

In addition to Committee members, other individuals attend at the request of the Committee Chairman and during the year the external Auditor, senior management, Chief Executive Officer, Chief Financial Officer and Head of Internal Audit would usually attend meetings to report to the Audit Committee and provide clarification and explanations where appropriate. The Audit Committee also meets with the Head of Internal Audit and the external Auditor without executive management present on a regular basis.

#### Main activities of the Committee during the year:

During the year the Audit Committee discharged its responsibilities by performing the following activities:

#### Financial statements

During the financial year and up to the date of this report, the Audit Committee reviewed and discussed the financial disclosures made in the annual results announcement, the Annual Report and Accounts, and the half-yearly financial report, together with any related management letters, letters of representation and reports from the external Auditor. Significant financial reporting issues and judgements were considered, together with any significant accounting policies and changes proposed to them.

#### External Auditor

The Audit Committee has responsibility for overseeing the relationship with the external Auditor and approves the external Auditor's engagement letter, audit fee and audit and client services plan (including the planned levels of materiality). The external Auditor attends the Audit Committee meetings as appropriate and meets at least annually with the Audit Committee without executive management. The Chairman of the Audit Committee also meets privately with the external Auditor.

During the year, the Audit Committee received regular detailed reports from the external Auditor including a formal written report dealing with the audit objectives, the Auditor's qualifications, expertise and resources, effectiveness of the audit process, procedures and policies for maintaining independence and compliance with the ethical standards issued by the Auditing Practices Board. The external Auditor's management letter is reviewed, as is management's response to issues raised. The Audit Committee monitors the latest ethical guidance regarding rotation of audit partners. Non-audit services provided by the external Auditor are monitored by the Audit Committee.

**Corporate Governance statement continued**

During the year the Audit Committee has reviewed detailed reports covering the planning and results of external audit work, which included challenge to management's assumptions. In addition, the Audit Committee considered a review of the external Auditor's client service provision and arrangements for partner rotation. In line with ethical standards, having completed the maximum term allowed under the regulations, Stephen Williams stepped down as lead audit partner following completion of the 2011 audit report, and the role was taken up by Chris Powell. The Audit Committee is satisfied with the performance of the external Auditor during the year and the policies and procedures in place to maintain their objectivity and independence. Having considered the quality, objectivity and independence of the audit teams and their work completed across the Group, the external Auditor's reporting and the levels of communication and service, the Audit Committee has recommended that Deloitte be re-appointed at the forthcoming Annual General Meeting.

**Auditor's independence and objectivity**

The external Auditor provides some non-audit services, primarily in the provision of taxation and in relation to corporate transactions that may arise from time to time. The level of non-audit fees as a proportion of the total fees paid to Deloitte was higher in 2012 due to an unusual level of non-recurring reporting, regulatory and corporate activity, all of which is work that would normally fall to the Company's auditors.

In order to ensure that Auditor objectivity and independence are safeguarded the following controls have been implemented:

- Formal guidance on the use of the Auditor for non-audit work has been agreed by the Audit Committee. In summary, this ensures that work would usually only be awarded when, by virtue of the Auditor's knowledge, skills or experience, the Auditor is clearly to be preferred over alternative suppliers;
- The Audit Committee receives and reviews each year an analysis of all non-audit work awarded to the Auditor over the financial period; and
- The Audit Committee receives each year a report from the external Auditor as to any matters that the Auditor considers bear on its independence and which need to be disclosed to the Audit Committee.

**Internal Audit**

The Audit Committee approves the annual internal audit plan and methodology, monitors progress against the plan and receives reports after each audit. Progress against actions identified in these reports and the external Auditor's management letter, as well as other control related actions raised by third parties, are monitored by the Audit Committee at quarterly intervals.

The current Head of Internal Audit is an interim manager who has worked in internal audit in the financial services sector for 22 years and the team comprises a further two auditors. The Audit Committee has assessed the resources the department has to complete its remit and has approved the use of external consultants to supplement it, particularly in areas requiring specialist skills, including Information Technology, Remuneration Policy and Prudential Regulation.

The appointment and removal of the Head of Internal Audit is the responsibility of the Audit Committee. The Internal Audit Department continues to have unrestricted access to all Group documentation, premises, functions and employees, as required. The Head of Internal Audit has direct access to the Board and the Audit Committee Chairman and is accountable to the Audit Committee, meeting regularly with it, without executive management present.

Following the separation of Internal Audit from Risk Management on 30 June 2012 an internal audit methodology was field tested, then revised by 31 October 2012.

**Other activities**

During the year other significant activities addressed by the Audit Committee were as follows:

- Review of Internal Audit terms of reference;
- Review of regular reports from the Head of Internal Audit;
- Review of the Audit Committee's own terms of reference;
- Review of the Group's Going concern status;
- Renewal of the Group's lending arrangements; and
- FCA interactions.

Regular updates are provided to the Audit Committee on developments in financial reporting, and related legal and corporate governance matters.

The Audit Committee is charged with ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence.

A formalised whistle-blowing policy and procedure for staff to raise issues regarding possible improprieties in matters of financial reporting or other matters has been established and was reviewed during the year. An alternative reporting channel also exists whereby perceived wrongdoing may be reported via telephone to an external third party.

The Committee is also responsible for monitoring the effectiveness of the Group's whistle-blowing procedures and any notifications made.

The Audit Committee has access to the services of the Internal Audit and Company Secretarial departments and is authorised to obtain independent professional advice if it considers it necessary.

**Risk & Compliance Committee****Chairman:**

**Duncan McIntyre** (Independent Non-Executive Director)

**Members:**

**Charles Gregson** (Company Chairman)

**Les Owen** (Independent Non-Executive Director)

**Shaun Parker** (Chief Financial Officer)

**Key objective:**

To assist and advise the Board in identifying the Group's overall appetite for risk, to review and monitor the Group's risk profile, risk concentrations and exposures as well as emerging and future risks and to oversee the effectiveness and timeliness of management actions.

**Key responsibilities:**

- Review reports and recommendations regarding the Group's overall strategy, appetite, policies, capacity and tolerances and make recommendations to the Board;
- Review the appropriateness and effectiveness of the Group's management systems and controls;
- Review appropriateness of the governance functions' policies and procedures;
- Review reports from each governance function, including those on adherence to the Group's policies and standards and the maintenance of a risk & compliance culture;
- Review any significant new business partners; sectors or channels; and new products or material variation to existing products to ensure that appropriate assessment of the risk impact has been undertaken alongside commercial aspects and capital requirements;

- Keep under review the Group's Information Security Policy, and appropriate accreditations; and
- Keep under review the adequacy and effectiveness of the Group's Control functions and the timeliness and effectiveness of management actions.

### Membership and meetings

The Risk & Compliance Committee met for the first time on 22 March 2012 and a total of six meetings were held during the year.

In addition to Committee members, other individuals attend at the request of the Committee Chairman and during the year, senior management, the Head of Risk, Head of Compliance and Head of Information Security have attended meetings to report to the Committee and provide clarification and explanations where appropriate.

### Main activities of the Committee during the year:

Specific matters dealt with during the year include:

- Approval of the Committee's terms of reference;
- A review of the Group's internal control and risk management systems;
- Review and update of the Group's Risk Strategy and Risk Appetite statements to reflect the current operating environment of the Group;
- Appointment of a dedicated Head of Risk;
- Oversight of re-structuring of QA and Compliance functions; and
- Oversight of a project to review UK governance and compliance arrangements.

## Nomination Committee

### Chairman:

**Charles Gregson** (Company Chairman)

### Members:

**Les Owen** (Independent Non-Executive Director)

**Paul Stobart** (Chief Executive Officer)

### Key objective:

To assist the Board in ensuring that the Board and its Committees comprise individuals with the requisite skills, knowledge and experience to ensure they are effective in discharging their responsibilities.

### Key responsibilities:

- Carry out a formal selection process for Executive and Non-Executive Directors and propose to the Board any new appointments (including recommending Directors appointed during the year for election by shareholders at the Annual General Meeting after their appointment). Ultimate responsibility for the appointment of Directors resides with the Board;
- Oversee succession planning for Directors and senior managers below Board level;
- Regularly review the structure, size and composition (including the skills, knowledge experience and diversity) required of the Board and make recommendations to the Board with regard to any change;
- Make recommendations to the Board in respect of membership of the Audit, Risk & Compliance, Remuneration and Governance Committees in consultation with the Chairmen of those Committees; and
- Make recommendations to the Board on the reappointment of any Non-Executive Director at the conclusion of their specified term of office, with due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.

### Membership and meetings

Patrick De Smedt was a member of the Committee during the year until his resignation on 15 November 2012, Paul Stobart was appointed to the Committee with effect from 30 January 2013, and Charles Gregson and Les Owen served as members throughout the year. In addition to Committee members, other individuals and external advisers attend at the request of the Committee Chairman. During the year, the Chief Financial Officer, Chief Executive Officer (prior to his appointment to the Committee) and the Group HR Director, have attended meetings to report to the Committee and provide clarification and explanations where appropriate.

### Main activities of the Committee during the year:

During the year the Nomination Committee considered the following principal items:

- A review of the current structure, size and composition of the UK Regulated Companies' Boards; and
- Leadership and succession planning.

### Diversity

The Board considers itself diverse in terms of the background and experience each individual member brings to the Board, although recognises the benefits that greater diversity at the most senior levels of the Company may bring. With this in mind, the Terms of Reference of the Nomination Committee require that in each appointment to the Board, the Nomination Committee must "consider candidates on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender" in identifying and recommending candidates.

## Governance Committee

### Chairman:

**Charles Gregson** (Company Chairman)

### Members:

**Duncan McIntyre** (Independent Non-Executive Director)

**John Titchener** (Group General Counsel and Company Secretary)

### Key objective:

To review governance procedures in the Group to ensure they are fit for purpose and consistent with current best practice and to make recommendations to the Board about governance procedures.

### Key responsibilities:

- Recommend governance arrangements to the Board that enable the Group to have sound and effective systems and controls for governance and oversight, comply with relevant legislation and regulations, and adopt proportionality in recommended best practice in corporate governance;
- Consider, determine and review governance policies with regard to corporate governance, ethics, business principles, international trading regulation issues and data preservation and protection in the UK and other territories;
- Receive regular reports on the effectiveness of, and compliance with, governance policies by the legal entities, committees, lines of business, management, employees and agents;
- Review the governance structure within lines of business, including the approval of the terms of reference of any committee or forum; and
- Manage conflicts of interest.

**Corporate Governance statement continued****Membership and meetings**

In addition to Committee members, other individuals and external advisers attend at the request of the Committee Chairman. During the year, senior management, the Chief Financial Officer, and the Group Legal Director, have attended meetings to report to the Committee and provide clarification and explanations where appropriate.

**Main activities of the Committee during the year**

During the year the Committee has dealt with the following matters:

- Composition of Regulated Company Boards and Conflicts of Interest management;
- The Group's compliance procedures and controls;
- The form and content of Board reporting and management information;
- Oversight of a project to review the UK compliance and governance framework;
- Review of governance of the overseas businesses; and
- FCA interactions.

**Remuneration Committee**

The full details of the composition and work of the Remuneration Committee are provided in the Remuneration Report set out on pages 30 to 35.

**Internal control**

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The Audit Committee has been in operation throughout the year and the Risk & Compliance Committee since March 2012. These Committees oversee the Group's system of internal control. Material risk or control matters, together with the appropriate remedial action, are reported to the Board by the Risk & Compliance Committee and/or the Audit Committee. The Board monitors the on-going process by which critical risks to the business are identified, evaluated and managed. This process is consistent with the Turnbull Guidance on Internal Control and the revised guidance issued by the Financial Reporting Council in October 2005, and has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. The key elements of the Group's system of internal control include regular meetings of the subsidiary company boards, together with annual budgeting, monthly financial reporting, key performance indicators and operational reporting for all businesses within the Group.

Compliance is monitored by management, the Group's Compliance and Risk Management departments, Internal Audit and, to the extent it considers necessary to support its audit report, the external Auditor. Included in the description of Regulatory risk on page 25 are the actions and initiatives taken by the Board to improve the effectiveness of its regulatory compliance, some of which are currently in train.

The Board assesses the effectiveness of the Group's system of internal control (including financial, operational and compliance controls and risk management systems) on the basis of:

- Established procedures, including those already described, which are in place to manage perceived risks;
- Reports by management to the Board on specific aspects of the Group system of internal control and significant control issues;
- The continuous Group-wide process for formally identifying, evaluating and managing the significant risks to the achievement of the Group's objectives; and

- Reports to the Audit Committee and the Risk & Compliance Committee on the results of internal audit reviews and work undertaken by other departments including Risk Management, Compliance and Information Security.

The Group's system of internal control is designed to manage rather than eliminate risk of failure to achieve the Group's objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board considers the materiality of financial and non-financial risks and the relationship between the cost of and benefit from the system of internal control.

The Board regularly reviews the actual and forecast performance of the business compared with the annual plan, as well as other key performance indicators.

Lines of responsibility and delegated authorities are clearly defined.

The Group's policies and procedures are regularly updated and distributed throughout the Group. The Audit Committee and the Risk & Compliance Committee receive reports on a regular basis on compliance with the Group's policies and procedures.

On behalf of the Board, the Audit Committee and the Risk & Compliance Committee confirm that through discharging their responsibilities under their terms of reference as described on pages 17 to 19, they have reviewed the effectiveness of the Group's system of internal controls and are able to confirm that necessary actions have been or are being taken to remedy any identified failings or weaknesses. In response to some of the findings of the FCA investigation, significant investment was made during 2012 to review and improve the Governance of the business. Working with external consultants, we implemented a new Governance framework and strengthened the Compliance function in the UK. During 2013 we continue to work towards embedding these changes throughout the Group.

Homecare Insurance Limited and Card Protection Plan Limited (insurance and insurance intermediary companies of the Group respectively) are subject to regulation by the FCA and as such undertake a solvency/capital adequacy assessment process on a regular basis. Outputs from these assessments are subject to review and approved by the individual Boards of these companies and are reviewed by the FCA from time to time. The assessments include consideration of the risks that the Group's business faces in its operating environment, the assessment of the likelihood of the risks crystallising and their potential materiality and the effectiveness of the control framework in mitigating each risk.

The purpose of each assessment is to establish the level of capital resources that the business should maintain, both under current market conditions and under a range of scenarios, in order to ensure that financial resources are sufficient to successfully manage the effects of any risks that may crystallise.

Homecare Insurance Limited is subject to the European Commission's Solvency II Directive. The Directive is aimed at producing a more consistent solvency standard for insurers across Europe, ensuring that capital requirements are more reflective of the risks being accepted. The implementation date for the Directive is uncertain.

During the year Homecare Insurance Limited entered into a three year outsourcing contract with a reputable third party to secure operational capability independent from other Group companies. This investment significantly reduces the operational risk that Homecare Insurance Limited faced in relying entirely on other Group operations. The outsourcing contract also gives Homecare Insurance Limited independent Business Continuity Protection in case its existing operations are disrupted.

The Risk Management and Internal Audit departments' review the extent to which the system of internal control is effective, is adequate to manage the Group's significant risks and safeguard the Group's assets and, in conjunction with the Company Secretary and the Group's Legal and Compliance teams, ensure compliance with legal and regulatory requirements. It provides independent and objective assurance on risks and controls to the Board and senior management.

Internal Audit's work is focused on areas of greatest risk to the Group, as determined by a structured risk assessment process involving Executive Directors and senior management. The output from the process is summarised in an annual audit plan, which is approved by the Audit Committee. The Head of Internal Audit reports regularly to the Audit Committee and Chief Financial Officer.

The role of Internal Audit and the scope of its work continue to evolve to take account of changes within the business and emerging best practice.

In June 2012 the FCA presented a Risk Mitigation Plan (RMP) to the Boards of Card Protection Plan Limited and Homecare Insurance which identified certain weaknesses in the internal control systems of those companies. Specific actions taken to address those perceived weaknesses include:

- A full review of the Group's Governance and Compliance functions, resulting in the implementation of a new governance framework and a re-structuring of the Group's Compliance and Quality Assurance teams, to ensure greater independence and objectivity;
- Implementation of new Board reporting packs with improved management information ensuring greater transparency;
- Separation of Risk and Internal Audit functions and appointment of dedicated heads of each of those teams;
- Appointment of an independent third party to provide a Business Continuing Plan for Homecare Insurance Limited (described in more detail on page 20);
- Group Risk & Compliance and Audit Committees separated and a UK-specific Risk Committee appointed;
- New Business Incident Management system implemented in the UK; and
- A detailed transition plan, including these and other actions, agreed with the FCA and progress reviewed with them on a regular basis.

### Compliance with the UK Corporate Governance Code 2010

The Directors consider that the Company has been in full compliance throughout the year with the provisions set out in the UK Corporate Governance Code (the Code), as published by the Financial Reporting Council in May 2010 and available on its website [www.frc.org.uk](http://www.frc.org.uk) except as described below:

The Board has not appointed a Senior Independent Non-Executive Director. A decision as to who should take up the role of Senior Independent Non-Executive Director remains under consideration by the Board.

Following the resignation of Patrick De Smedt the Board does not meet the requirement that at least half of the Board members should be independent, non-executive directors, although it continues to meet the Code requirement for smaller companies that at least two members of the Board are independent non-executive directors.

The Directors are not subject to annual re-election. The Articles of Association of the Company require a Director appointed during the year to be reappointed at the next annual general meeting of the Company. In addition, all Directors are reappointed no less frequently than every third annual general meeting. The Board, however, has agreed to be subject to annual election at this year's Annual General Meeting as referred to on page 16.

### Going concern

In reaching their view on the preparation of the Group's financial statements on a going concern basis, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. Having taken external advice in this regard, the Directors have considered the risks and uncertainties facing the Group, which include trading, customer redress, liquidity and the ability to finance and repay debt together with actions taken by the Directors to address them. In this assessment the Directors have inter alia taken the following into consideration:

#### Operational and trading matters

- The Group's business activities, together with the factors likely to affect its future development, performance and position which are set out in pages 1 to 13. The trading results, particularly in the UK, have been and will continue to be adversely affected by the agreement of the Group's subsidiaries Card Protection Plan Ltd (CPPL) and Homecare Insurance Limited (HIL) with the FCA to the WVOPs in November 2012. Amongst other requirements, the WVOPs do not permit CPPL or HIL to make new sales of regulated retail products. CPPL and HIL make up the majority of the Group's sales in the UK and in certain EEA countries specifically, Italy, Ireland and Portugal. In addition, the CPPL customer redress exercise agreed with the FCA and scheduled to be implemented later in 2013, together with the associated publicity, will have an adverse impact on the Group's ability to generate new business and renew business with existing customers.
- Actions taken by the Group to right-size operations including the closure of the Chesterfield site in the UK, redundancy programmes in the UK, some streamlining of the Group's organisational structure to remove redundant management roles and reductions in planned capital expenditure, all of which have reduced costs. The Group expects to carry out a number of further cost reduction initiatives and there is a risk that following these initiatives, operational resources may be impacted adversely in the short term, preventing the business from continuing to operate effectively.

#### Regulatory issues and customer redress uncertainties

- The potential impact of customer redress on the continued resources which may be required by the business, including a number of assumptions around the size of population and customer response rates within a redress exercise. There is a risk that the response rates and the size of population may reach a level which cannot be funded under the revised funding arrangements. Although it is anticipated that the Scheme will become effective in the second half of 2013, it is not certain that the Scheme will proceed.
- The Directors have identified and disclosed contingent liabilities which are detailed in note 35 of the financial statements. These contingencies relate to uncertainty in some of the Group's operations and the industry in which it operates in the UK. These include possible industry-wide action by the FCA with regard to products that the UK business sells together with an industry-wide thematic review by the FCA into MPI products which could result in other claims or matters being raised against the Group. However, at present the FCA has not expressed any final view and as a result the Directors have determined that no definitive conclusions can be formed at this stage.



**Corporate Governance statement continued**

## Uncertainties relating to liquidity and funding

- The financial position of the Group, its cash flows, liquidity position and existing borrowing facilities which are described on pages 9 to 13. The Group's liquidity has been impacted by the maturity of the revolving credit facility, the requirement to fund redress, and the CPPL and HIL WOPs which restrict the disposition of their assets, which has resulted in significant cash balances being held and maintained in these entities. The Group's liquidity is further restricted by the terms of the extended short term financing facility by an undertaking to maintain £12 million in a blocked account within CPPL. It is anticipated that this restriction will be removed as part of any longer term financing and the Directors have a reasonable expectation that liquidity will be sufficient, noting that if negotiations relating to the longer term financing become protracted beyond the expected timetable it will become more difficult to meet the undertaking in relation to the aforementioned £12 million.
- Following the maturity of the existing debt facility at 31 March 2013, the Group has agreed to an extension of its borrowing facilities to 30 September 2013. The extension of the funding agreement is dependent on the completion of the disposal of the North American business as a condition subsequent, this disposal is subject to shareholder approval at a General Meeting scheduled for 3 May 2013. The gross cash consideration of the disposal of \$40 million (approximately £26.1 million) will be utilised in part to reduce the Group's borrowings from £43.5 million at 31 December 2012 to £25 million. The majority of costs associated with the disposal have already been incurred. Although the Group's majority shareholder, Mr Hamish Macgregor Ogston CBE, has made an irrevocable commitment to vote in favour of the disposal, there remains a residual risk that circumstances prevent the completion of the disposal, for example due to a material adverse change to the North American business. However, the Directors consider this is unlikely. The Directors believe that there is a reasonable prospect that they will be able to secure longer term funding during the extended debt facility and before the date of its expiry on 30 September 2013. The Group continues to engage in discussions with Barclays, RBS and Santander, together with its major shareholder to refinance the Group for a three year term. There is a risk that the lenders or Mr Hamish Macgregor Ogston CBE cannot agree to the conditions of the three year financing.

Given the possible impact of the operational and trading uncertainties, regulatory issues and customer redress uncertainties, and uncertainties relating to liquidity and funding as noted above, there is material uncertainty that casts significant doubt as to the Group and Company's ability to continue as a going concern, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. As a result of this material uncertainty the Audit report on page 36, whilst unqualified, includes an emphasis of matter in this regard.

However, having considered the above uncertainties and all the available information, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly the Directors have continued to adopt the going concern basis in preparing the financial statements.

## Principal risks and uncertainties

The Group's risk management framework is designed to identify and assess the likelihood and consequences of risk and to manage the actions necessary to mitigate their impact.

In 2012, the Group split the responsibilities for risk management and internal audit and set up the new Group Risk & Compliance Committee (GR&C). In addition the risk management function has spent considerable time working with the business, particularly in the UK, to embed a robust risk management culture and approach. The result of this has been greater focus on root cause analysis and greater transparency of the risks reported to and considered by the GR&C.

Set out below are the known principal risks and uncertainties which could have a material impact on the Group, together with the corresponding mitigating actions that have been taken. Additional risks not currently known, or which are currently regarded as immaterial, could also affect future performance.


### Going concern

Status	Risk	Nature of risk and potential impact	Mitigation
▲	Financial, Regulatory, Operational	<b>Nature of risk and potential impact</b> The Group has faced, and continues to face, a number of significant financing, operational, regulatory and strategic challenges. The Group faces these challenges at the same time, increasing the risk that the Group at some point in the future, may not be able to continue to operate as a going concern. The risks described below detail the matters that the Directors are seeking to resolve. If one or a combination of these risks fully crystallises, this will challenge the going concern status of the Group. The refinancing arrangements currently in place are subject to conditions, the meeting of which would be threatened by the risks below increasing or crystallising.	<b>Mitigation</b> Improvements already made and planned for the future in the Group's governance, operations and relationships with regulators in the UK, reduce the likelihood of the risks materialising. The possible de-listing of the Group and the potential to secure a longer term refinancing may provide solutions to the on-going issues faced by the Group.



▲	Risk profile increased year-on-year
▬	Risk profile no change year-on-year
▼	Risk profile decreased year-on-year

## Principal risks and uncertainties continued

## Financial risks

Status	Risk	Nature of risk and potential impact	Mitigation
	Liquidity/Capital	<b>Nature of risk and potential impact</b> Details of the Group's arrangements to address its working capital requirements are included in the publicly available shareholder circular dated 17 April 2013. Details of the risks associated with the re-financing of the Group are incorporated in this document, which include the risk to liquidity resulting from any possible de-listing and the relatively short term nature of the Group's financing arrangements. The revised arrangement provides short term financing for the Group, although there can be no longer term certainty that the Group will remain a going concern. At the same time there can be no absolute certainty that the potential agreements tabled in the circular will be satisfactorily concluded. The Group may face additional risk from reputational damage as a result of adverse publicity which may impact on the revised business model being capable of generating sufficient revenue. The on-going uncertainty increases the likelihood that other risks highlighted in this report will crystallise during 2013 with the likelihood of reduced revenue, a less diversified business and reduced operating costs leading to the possible loss of key personnel.	<b>Mitigation</b> Leading up to the expiry of its existing credit facility on 31 March 2013 the Group was in lengthy discussion with its lenders and potential investors. As reported elsewhere, this resulted in the sale of the North American business and the agreement of an extended facility to 30 September 2013. The Group is discussing a potential three year refinancing arrangement with its lenders and with Mr Hamish Macgregor Ogston CBE, who has also made an approach and is considering buying the shares not already owned by him and returning the firm to private ownership. The extended facility will allow the Group time to reduce its cost base and reposition the business model in order to achieve this longer term strategic financing solution.

## Market risks





Status	Risk	Nature of risk and potential impact	Mitigation
	Economic and political	<b>Nature of risk and potential impact</b> The Group operates in a number of countries including some in the Eurozone. This means that the Group is exposed to economic, political and business risks such as global recession, sudden regulatory change, currency controls and volatility of taxes.	<b>Mitigation</b> The Group Executive Committee (GEC) and Group Operations Committee (GOC) monitor macro-economic trends, industry specific and internal indicators.  Operating in diversified geographic markets mitigates the risk of over-exposure to any one country.  As part of its business planning process the Board reviews contingency planning and scenario modelling.
	Competitive markets	<b>Nature of risk and potential impact</b> The Group operates in a very competitive market place where customer decisions are typically based on quality, price and service. New entrants or consolidation of existing competitors could restrict the Group's ability to meet its strategic objectives. There is a risk going forward that the Group may place reliance on operating with new products in new, untested markets which may not prove successful.	<b>Mitigation</b> The GEC keep a close watch on market activity.  The Group's strategy is to place the customer at the heart of its consideration of any potential developments  The Group constantly seeks new distribution partners and conducts research and strategy planning towards innovative product development.  The UK business is developing a suite of assistance products to sell through a range of distribution channels.

## Operational risks

Status	Risk Regulatory	<p><b>Nature of risk and potential impact</b></p> <p><b>FCA fine and VVOP restrictions:</b> As reported in updates through the year, 2012 saw the conclusion to the FCA investigation. As publicised, this has resulted in a significant fine of £10.5 million, an extensive customer redress programme, yet to commence, and the restriction on the Group's UK based regulated subsidiaries preventing the sale of their retail products in the UK and EEA European Economic Area) jurisdictions. There are still a number of outstanding matters to be addressed with the FCA before the UK can be confident that the VVOP restrictions will be lifted and there will be no further intervention from FCA in respect of regulatory breaches. The new sales restrictions on the UK business continue to have a significant negative impact on revenue.</p> <p><b>Customer redress:</b> Current work on the Scheme of Arrangement to manage the redress programme for the mis-selling of Card Protection and Identity Protection products in the UK has made certain assumptions around the size of the population and the anticipated customer response rates. There is a risk that these assumptions will be materially exceeded and result in the Group not being able to meet its liabilities for customer redress with an associated impact on the Group's going concern status.</p> <p><b>Future FCA action:</b> Although the Group has worked closely to address issues identified by the regulator, there can be no certainty the FCA will not seek to pursue further action against parts of the Group. There is still a risk that the FCA's thematic review of the sale of MPI could result in new action against HIL and that this action could impair HIL's regulatory capital position.</p> <p><b>Licence to trade:</b> The Group has a legal obligation to have sufficient insurance arrangements in place to cover the potential risks associated with the nature of the business. There is a risk that, as a direct result of the legacy issues currently being managed in the UK, the Group will be unable to acquire the Professional Indemnity insurance required for it to continue to carry out business.</p> <p><b>Operations outside the UK:</b> Given that the Group operates in a number of different regions across the world, there is the risk that an operating unit may not be in compliance with local regulations and that it may suffer an investigation from local regulators.</p>	<p><b>Mitigation</b></p> <p>The Group Board and senior management are in constant communication with the FCA with a view to concluding the necessary outstanding actions.</p> <p>A separately managed team, led by an experienced senior executive, has been established to work closely with the administrators of the Scheme of Arrangement to ensure a properly managed conclusion to the redress programme and to manage the impacts of any variation in anticipated claims.</p> <p>The UK business has worked closely with the FCA on a series of agreed improvement activities and to date has delivered in excess of 90% of the agreed improvements.</p> <p>The Group Board is committed to providing customers with value for money products and services. As such, during 2012, a complete review of the product development and sales process has been conducted in the UK. In addition the Group has strengthened its internal governance processes, increasing the resources in Compliance, separated Risk Management and Internal Audit, employed experienced interim resources to manage the risk and audit functions and restructured reward packages across the Group to reflect the importance of risk and compliance.</p> <p>New processes have been introduced in the UK to support the identification and addressing of systemic weaknesses to ensure that the UK business is positioned to operate in a fully compliant manner.</p> <p>At the same time the Board recognises the need to further improve its oversight of activities in the territories outside the UK and has already taken steps to ensure that it has improved management information.</p>
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## Principal risks and uncertainties continued

## Operational risks continued

<b>Status</b>          	<b>Risk</b> Key Supplier Contracts	<b>Nature of risk and potential impact</b> The business model remains as previously reported and as such the Group places considerable reliance on suppliers external to the Group for the fulfilment of services. Due to the nature of the operations there are occasions where the Group has an exposure to a single supplier and is at risk from the failure of that supplier. This risk is currently crystallising in the UK where suppliers are expressing concerns about the financial stability of the Group. There remains the risk that on-going uncertainty could result in key suppliers withdrawing services or materially altering credit terms. Such changes could also impact on the liquidity of the Group.	<b>Mitigation</b> The Group has taken the opportunity, as part of the operational review above, to improve its controls over suppliers and where possible consider ways to mitigate the risks posed by exposure to a single supplier. This has included identifying and contracting with alternative suppliers.
<b>Status</b>          	<b>Risk</b> Business Partner Retention/Attraction	<b>Nature of risk and potential impact</b> The reputational damage arising from the publicity of the regulatory actions in the UK and, in addition, the sales restrictions on the Group in the UK and EEA jurisdictions may result in increased difficulty to retain commercial relationships or create new partnerships. Clearly this may have a detrimental impact on anticipated future revenue.	<b>Mitigation</b> The Board and senior management team are working on a new strategy for the UK that includes the development of new innovative products, new market sectors and diversified channels to market.
<b>Status</b>          	<b>Risk</b> Data Security	<b>Nature of risk and potential impact</b> The nature of the Group's business means that either the Group or its key Business Partners retain a considerable amount of sensitive data on behalf of its customers. Any breach of data security may result in a significant adverse impact on customers and damage to the reputation of the Group.	<b>Mitigation</b> As previously reported, the Group continues to invest considerable time and resources into the protection of customer data. The Group has a dedicated information security team that support the design and implementation of solutions which meet PCI DSS standards.  The Group continues to progress recommendations to further improve the security of business and customer data and to address recently identified areas for improvement.
<b>Status</b>          	<b>Risk</b> People & Resources	<b>Nature of risk and potential impact</b> There is a risk that the repositioning and subsequent restructuring of the Group required to address its on-going running costs may result in key resources leaving the Group. The potential significant restructuring of the Group will inevitably result in a significant loss of capability and business knowledge as changes are made at all levels within the Group. Furthermore, the on-going uncertainty surrounding the future of the Group may make it difficult to attract and retain the skilled employees required to take the Group forward.	<b>Mitigation</b> Any organisational restructure will go through a rigorous risk assessment to ensure that the Group is positioned to deliver both its short and longer term objectives. The announced loss of Business Partners, particularly in the UK, provides the Group with the opportunity to re-evaluate the resource requirements and the skills required for the business. These will be matched against new products being developed by the business.



## Directors' report

The Directors present their Annual Report and audited financial statements of the Group for the year ended 31 December 2012.

### Principal activities

The principal activities of the Group during the year were the provision of Life Assistance products with operations in the UK and overseas. CPP's products and services are designed to meet a range of consumer needs, in particular relating to credit and debit card ownership, personal identity, mobile telephones, travel and the home. CPP is also active in the provision of Packaged Accounts where products and services are sourced to create a tailored package for bank account customers. The activities of the Group primarily focus on providing customer assistance during stressful life events such as loss or theft of a wallet, purse, mobile telephone or keys, as well as support in the event of identity theft.

Further details of the Group's activities and a review of the business are set out in the Group overview and Operating review sections of the Annual Report on pages 1 to 13.

Details of the key performance indicators used by the Directors to assist in management of the business and to provide evidence of the achievement of its strategies are included on page 1.

A description of the principal risks and uncertainties facing the Group is included in the Principal Risks section of the Annual Report on pages 23 to 26.

Information relating to the environment and employees is included in the Chief Executive Officer's review on pages 3 and 4.

These sections are by reference part of the Directors' report.

### Dividends

The Directors recommend that no final dividend be paid in respect of 2012. The total dividend paid for the year is nil (2011: 2.42 pence per ordinary share).

### Directors

In accordance with the Company's Articles of Association, Paul Stobart, who was in his first year in office, retired from the Board at the Company's Annual General Meeting on 16 May 2012. Being eligible, he offered himself for re-election and was re-appointed on 16 May 2012. All other serving Directors also retired from the Board at the Annual General Meeting on 16 May 2012 and, being eligible, all offered themselves for re-election and were re-appointed on 16 May 2012.

The Directors who served throughout the year except as noted were as follows:

Charles Gregson	Chairman	
Paul Stobart	Chief Executive Officer	
Shaun Parker	Chief Financial Officer	
Hamish Ogston	Non-Executive Director	
Les Owen	Non-Executive Director	
Patrick De Smedt	Non-Executive Director	(resigned 15 November 2012)
Duncan McIntyre	Non-Executive Director	

Details of powers of Directors, procedures for appointment and re-election of Directors, Directors' indemnity insurance and procedures for managing Directors' conflicts of interest are included in the Corporate Governance statement on pages 15 to 22.

Biographical details for each Director are set out on page 14. Details of committee memberships are set out on pages 15 to 21 of the Corporate Governance statement.

Details of Directors' beneficial interests in and options over the Company's shares are set out in the Remuneration report on pages 30 to 35.

These sections are by reference part of the Directors' report.

### AGM

The Annual General Meeting of the Company is to be held on 17 June 2013. The notice of the Annual General Meeting and an explanation of the non-routine business are set out in the explanatory circular that accompanies this Annual Report. The notice of the Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting.

### Capital structure

Details of the issued share capital, together with movements in the Company's issued share capital for the period, can be found in note 32 to the financial statements. The Company has one class of capital, ordinary shares, which carry no right to fixed income. Each fully paid share carries the right to one vote at a general meeting of the Company.

Details of the Group's employee share schemes are set out in note 33.

A special resolution was passed at the Company's Annual General Meeting on 16 May 2012 which allows the Directors to allot shares up to an aggregate amount equal to one third of the Company's existing issued ordinary share capital.

Pursuant to Article 5 of the Company's Articles of Association and subject to the provisions of the applicable regulations, statutes and subordinate legislation, the Company is entitled to purchase its own shares.

The Company did not purchase any of its own shares during the year.

### Change of control provisions

Some agreements to which the Company or its subsidiaries are a party may be at risk of termination by counterparties in certain restricted circumstances in the event of a change of control of the Company. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

### Supplier payment policy

The Group's policy is to agree terms of payment with all suppliers, ensure that these terms are understood, and abide by the agreed terms of payment. At 31 December 2012 invoiced trade creditors were equivalent to 20 days' purchases (2011: 18 days), based on the average daily amount invoiced by suppliers during the year.

**Directors' report continued****Charitable and political donations**

During the year donations to local charities made by the Group amounted to £21,000 (2011: £31,000).

No political donations were made during the year (2011: £nil).

**Substantial shareholdings**

On 29 April 2013, the Company had been notified, in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, of the notifiable interests in the ordinary share capital of the Company set out in the table below. As far as the Directors are aware, as at 29 April 2013 no person had a beneficial interest in 3% or more of the voting share capital except for the following:

Name	Ordinary shares (thousands)	%
Hamish Ogston	98,021	57%
Schroder Investment Management Ltd	26,502	15%

Hamish Ogston holds 57% of the issued shares of the Company. Under the terms of a Relationship Agreement between Hamish Ogston and the Company dated 18 March 2010, for so long as Hamish Ogston (or any person connected to him) holds, in aggregate, 30 per cent. or more of the ordinary shares in the capital of the Company (or the attached voting rights in these shares) Hamish Ogston (and each person connected to him) shall not:

- Vote in favour of, or propose, any resolution to amend the Company's Articles of Association which would be contrary to the principle of the independence of the Company from Hamish Ogston (and each person connected to him);
- Take any action which precludes any member of the Group from carrying on its business independently of Hamish Ogston (and each person connected to him); and
- Take any action (or omit to take any action) to prejudice the Company's status as a listed company or its suitability for listing, or the Company's compliance with the Listing Rules and Disclosure Rules, save in circumstances of a takeover or merger of the Company.

**Going concern**

The Directors have prepared the financial statements on a going concern basis consistent with their views, formed after making appropriate enquiries, as outlined in the Corporate Governance statement on pages 21 and 22, which is by reference part of the Directors' report.

**Auditor**

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as Auditor. Accordingly, a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

**John Titchener**

Group General Counsel and Company Secretary

29 April 2013

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts 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 are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and Article 4 of the IAS Regulation and have elected to prepare 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 accounts until they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing the consolidated financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

In preparing the Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the Company 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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- The business review, which is incorporated into the Directors' report and the Group overview and Operating review sections of the Annual Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

**Paul Stobart**  
Chief Executive Officer  
29 April 2013

**Shaun Parker**  
Chief Financial Officer  
29 April 2013

## Remuneration report

This report has been prepared on behalf of the Board by the Remuneration Committee and is in accordance with the provisions of the Companies Act 2006 (the Act) and schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report also meets the relevant requirements of the Listing Rules. In accordance with the Act, a resolution will be proposed at the forthcoming Annual General Meeting of the Company to approve this report.

The Act requires the independent Auditor to report to the members of the Company on certain information contained in the report and to state whether, in the Auditor's opinion, that information has been properly prepared in accordance with the Act. The report has, therefore, been divided into two sections, showing the audited and unaudited information separately.

Throughout the year, the Remuneration Committee has complied with the UK Corporate Governance Code 2010. This report sets out the policy for the financial year just ended, for the forthcoming year and, subject to on-going review, for subsequent years.

### Remuneration Committee

#### Chairman:

**Duncan McIntyre** (Independent Non-Executive Director)

#### Members:

**Charles Gregson** (Company Chairman)

**Les Owen** (Independent Non-Executive Director)

### Unaudited information

#### Key objective

The Remuneration Committee (the Committee) has responsibility for, on behalf of the Board, determining the remuneration policies and practices for the Executive Directors, the Group Operations Committee, the Company Chairman and the Group-wide remuneration policy more broadly. In implementing these policies and practices the Company aims to support the implementation of a business strategy which creates value for shareholders over time.

The Committee's terms of reference are available from the Company Secretary on request or on the Company's website [www.cppgroupplc.com](http://www.cppgroupplc.com).

#### Membership and meetings

Patrick De Smedt was a member and Chairman of the Committee until his resignation on 15 November 2012, at which time Duncan McIntyre was appointed as a member and Chairman of the Committee in his place. The Chief Executive Officer, the Group HR Director and the Director of Tax & Treasury assisted both the Board and the Committee as required, albeit taking no part in discussions directly relating to their own remuneration. The Company Chairman absents himself from discussions with respect to his own pay.

### Advisers

New Bridge Street (NBS) has served as independent adviser to the Committee throughout the year (NBS being a brand of Aon Hewitt Limited). In addition to advising the Committee, NBS also provides advice to the Company on implementing decisions made by the Committee. Neither NBS nor any other part of the Aon Corporation Group provides any other services to the Group.

The Committee met six times in the year and is scheduled to meet four times in the forthcoming financial year. Additional meetings may be held should any matters arise that require the consideration of the Committee.

### Remuneration policy

The remuneration of Executive Directors comprises both fixed and variable elements. Fixed remuneration is basic salary, pension and flexible benefits, and variable performance-related remuneration is in the form of an annual cash bonus (partly paid in cash and partly deferred in shares) and long term incentive arrangements. Significant weighting is given to the variable element of pay which will be derived from the Company's performance, which is strongly aligned to shareholder value creation.

Both the Board and the Committee recognise the importance of an effective remuneration policy in the achievement of the Group's successful financial performance. The aim of the remuneration policy is to:

- Provide overall remuneration to Executive Directors that is competitive and sufficient to attract, motivate and retain individuals of the quality required to deliver successful performance; and
- Align rewards with the Group's performance.

It is the intention of the Committee to ensure the remuneration policy strongly aligns the interests of the Executive Directors with those of shareholders and the Company. For example, this is demonstrated by the payment of no annual bonus for the 2012 financial year and the absence of any base salary increase for the Executive Directors for the forthcoming year.

It is the Remuneration Committee's view that the current executive remuneration policies are in line with best practice.

In determining executive remuneration, the Committee has regard to pay levels and structures elsewhere in the Group in ensuring that pay is coherent overall. Regular interaction between the Chairman of the Remuneration Committee and the Company's HR function ensures that this is the case.

The Company's approach to non-executive remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for the Executive Directors and senior management will not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking account of ESG matters.

### Key activities

Key activities of the Committee are to:

- Carry out an annual strategic review of the remuneration framework for Executive Directors and the Group Operations Committee to ensure that the remuneration policy supports the Company's strategic goals as explained in the Group overview section of the Annual Report & Accounts;
- Determine the remuneration and benefits packages of individual Executive Directors and senior executives within the framework of the Group's agreed remuneration policy;
- Determine the remuneration of the Chairman;
- Review remuneration arrangements for the Group;
- Set and review performance targets for Executive Directors and the Group Operations Committee;
- Assess annually the Company's and individuals' performance against targets to determine the level of executive bonus;
- Approve and grant awards under the Company's long term incentive plans;
- Determine and review the contractual terms of Executive Directors; and
- Review the governance arrangements for global remuneration.

### Remuneration for Executive Directors

The main components of the remuneration package for Executive Directors are:

#### Basic salary

Basic salary for each Executive Director is determined by the Committee taking into account the roles, responsibilities, performance and experience of the individual and pay levels elsewhere in the Group. The Committee's policy is to adopt a broadly median base salary positioning vis à vis appropriate comparable benchmark companies.

Salaries were reviewed in January 2013, following which, the Committee decided there should be no increase in Executive Directors' salary (as per the table below) or for senior management. Across the Group as a whole, no basic pay increases are planned, except in certain of our overseas operations where there is a market requirement or a contractual or statutory obligation.

	Salary to 31 December 2012 £'000	Current salary effective from 1 January 2013 £'000	%
P Stobart	450	450	0%
S Parker	268	268	0%

#### Pension arrangements

An employer contribution of up to 15% of base salary is paid into a private pension scheme of the Executive Director's choice. Where it is not tax efficient to receive a pension payment, the Executive may request a cash payment in lieu. The Committee does not compensate for changes in the tax consequences of the payment.

#### Benefits

Each Executive Director is a member of the Company's flexible benefits fund. Paul Stobart is entitled to an allowance of £20,000 per annum and Shaun Parker to a £15,000 allowance per annum. In addition Paul Stobart is entitled to a sum, after the deduction of income tax and employees' National Insurance Contributions, equal to £1,500 per month to cover travel expenses. Each Executive Director is entitled to 30 days' holiday per annum.

### Executive Bonus Scheme

The Company's senior executives, including the Executive Directors, participate in the Executive Bonus Scheme. For the 2012 financial year, the maximum bonus award that could be achieved was 100% of basic salary, with the on-target amount 50% of basic salary. The Executive Bonus Scheme payment was dependent upon the overall Group performance and individual performance measures. For the 2012 financial year, 70% of an executive's bonus was based on Group performance and 30% was based on the achievement of personal objectives and KPIs set for the role.

Group performance, which determined 70% of an Executive Director's maximum bonus, was based upon the Group's underlying operating profit against stretching targets set at the start of the year. This element could also be subject to a quality of earnings adjustment as determined by the Committee.

The criteria used to determine the remaining 30% were based on personal objectives such as customer satisfaction and retention, product development and international expansion.

In light of the Group's financial performance in 2012, no Executive Director, and no member of the Group Executive Committee, received a bonus in relation to the 2012 financial year.

Whilst all Group Operations Committee members contribute to the overall Group performance, the performance of the relevant region is also taken into consideration for those below Board Executives with regional responsibilities. Regional performance is assessed following a review of the regional growth, delivery of regional objectives and a judgement of the financials against a quality of earnings assessment. The exact percentage award is agreed by the Committee and approved by the Board on an individual basis.

The concept of annual bonus clawback applies to bonuses, which permits the Company to reclaim or reduce payments if it subsequently comes to light that the performance upon which bonuses were paid was incorrect or is required to be restated.

The Company intends that the senior executives, including the Executive Directors, will participate in an Executive Bonus Scheme for the 2013 financial year. This Scheme will be structured on the same basis as the Scheme for the 2012 financial year in terms of maximum bonus opportunity and the use of financial and personal objectives.

Part of the 2013 bonus will reward achievement of milestones relating to the Group's recovery. It is hoped that these milestones will be achieved during the course of the year and, if so, the Committee envisages that it may be appropriate to make payment of elements of the bonus relating to such achievements as and when they occur.

The Committee acknowledges that the Executive Directors have performed very well under difficult conditions, achieving many of their personal objectives.

#### Deferred Share Bonus Plan

The Committee supports the principle that the payment of a proportion of any annual bonuses paid in future periods should be deferred and paid in Company shares as it further aligns executives with shareholders.

Accordingly, annual bonuses awarded under the Executive Bonus Scheme are also subject to the Deferred Share Bonus Plan (DSBP) arrangements. Any bonuses awarded up to 50% of maximum potential (i.e. up to target bonus) will be paid as cash. Where the bonus exceeds 50% of maximum potential (i.e. is above target), half of the additional bonus above target will be paid as cash and half will be deferred into awards over shares under the DSBP. Deferred shares will vest on the third anniversary of grant subject to continued employment at the Company.

As under the Executive Bonus Plan, the concept of clawback applies to DSBP awards.



**Remuneration report continued****Long term incentive schemes**

For Executive Directors, only one long term incentive plan operates, which can be summarised as follows:

**2010 Long Term Incentive Plan (LTIP)**

Under this plan, Executive Directors and key individuals may each year be issued awards over ordinary shares in the Company up to a maximum of 200% of salary. However, the Committee's normal policy is to grant LTIP awards not exceeding a face value of 125% of salary and 100% of salary to the Chief Executive Officer and Chief Financial Officer respectively. Lower levels of awards are made to less senior executives.

The normal policy prior to 2012 has been for awards to have a three year vesting period and be subject to performance conditions relating to adjusted Earnings Per Share (EPS) and Total Shareholder Return (TSR) as follows:

- 75% of the award has been dependent on the satisfaction of an EPS performance target. EPS is measured over the three years following grant and vesting will occur on the following basis:

EPS growth over the performance period	Vesting percentage of 75% of the total award
Less than 12% p.a.	0%
Equal to 12% p.a.	25%
Equal to or greater than 17% p.a.	100%
Between 12% p.a. and 17% p.a.	On a straight-line basis

The above EPS targets, at the discretion of the Committee, may be amended if RPI over the performance period is negative or greater than 4% p.a. The EPS calculation is based on a fully diluted basis, adjusted for taxation and other items to reflect underlying financial performance.

25% of the award has been dependent upon the Company's TSR performance over a single three year period against the constituents of the FTSE 250 (excluding any Investment Trusts). Vesting for this portion of the award will occur on the following basis:

TSR ranking against the comparator group	Vesting percentage of 25% of the total award
Below median	0%
Median	25%
Upper quintile	100%
Between median and upper quintile	On a straight-line basis

In addition, and notwithstanding the Company's TSR performance, this part of the award subject to the TSR condition will only vest to the extent that the Committee is satisfied that the underlying financial performance over the vesting period warrants the level of vesting under the TSR performance condition.

The Committee considered that this combination of performance conditions was the most appropriate way of rewarding Executive Directors because it took into account both the long term returns to shareholders and the Group's financial growth. The TSR performance condition is monitored on the Committee's behalf by NBS whilst the Group's EPS growth is derived from the audited financial statements.

LTIP Awards made in 2012 were subject to different performance conditions to the above. At its meeting on 16 May 2012, the Committee agreed that the following two interdependent performance conditions would apply to the Award:

- The Award would be subject to a performance condition under the terms of which the Company's TSR performance would be ranked against the TSR of a comparator group comprising the companies constituting the FTSE SmallCap (excluding investment trusts) on the date of grant of the Award.

- The TSR based performance condition would normally be measured over a three year period starting on the date of grant of the Award and would be satisfied if the Company's TSR was at least at the median of a ranking of the TSR of each of the members of the comparator group over the same period.

If the TSR condition is not satisfied then no part of the Award would be capable of vesting and the Award would lapse. If the TSR condition is satisfied, then the number of shares capable of vesting under the Award shall be determined by reference to a performance condition based on the achievement of absolute average share price targets measured at the end of a three-year performance period commencing on the date of grant of the Award.

As soon as reasonably practicable after the end of the performance period, the Committee shall determine the highest average share price and the number of shares (if any) in respect of which the Award may vest in accordance with the following table:

Highest Average Share Price	Percentage of Award Vesting
Below 75 pence	0%
75 pence (the "Threshold Target")	25%
150 pence or higher (the "Maximum Target")	100%
Between 75 pence and 150 pence	Between 25% and 100% on a straight-line basis

It is anticipated that any future LTIP Awards will be subject to the same performance conditions as the 2012 awards.

Paul Stobart's 2011 LTIP Award was granted subject to whatever performance conditions would apply to 2012 grants, so long as he was made a further award in 2012 prior to the end of six weeks from the day after the announcement of the Company's 30 June 2012 half year results. If no award was made to him in this time period, the performance conditions which would apply to his 2011 grant would be those subject to all other 2011 LTIP awards. Since he was granted an award in 2012 in the stated time period, his 2011 award became subject to the 2012 performance conditions.

**Other share plans****2010 Restricted Stock Plan (RSP)**

The RSP is a non-performance based share plan aimed at incentivising the second level of management across the Group and Executive Directors are not eligible to participate. Employment is the only performance condition attached to this plan.

**UK Save As You Earn Scheme (SAYE)**

The Company launched a Save As You Earn scheme (ShareSAVE Plan) in September 2010 and made an additional offer in September 2011. All employees in the UK, including Executive Directors, are eligible to participate in the SAYE scheme. Options were granted under this scheme in September 2010 at an option price of 198 pence and in September 2011 at an option price of 125 pence, in each case representing a discount of 20% to the market value applicable at the time of grant. Consistent with HMRC rules, the scheme is not subject to any performance criteria other than employment. No offer was made under this scheme in 2012.

### Dilution limits

In line with the ABI guidelines the rules of the above incentive schemes provide that:

Commitments to issue new shares or re-issue treasury shares, when aggregated with awards under all of the Company's other schemes, must not exceed 10% of the issued ordinary share capital in any rolling 10 year period commencing on Admission of the Group's shares to the London Stock Exchange (Admission); and

Commitments to issue new shares or re-issue treasury shares under executive (discretionary) schemes should not exceed 5% of the issued ordinary share capital of the Company in any rolling 10 year period commencing on Admission.

Current headroom under these limits is 5.7% and 0.9% respectively.

### Service contracts

Shaun Parker is employed under a service agreement with CPPGroup Plc dated 1 January 2010 which is subject to a notice period to and from the Company of six months.

Paul Stobart is employed under a service agreement with CPPGroup Plc dated 16 September 2011 which is subject to a notice period to and from the Company of 12 months.

The Company may terminate the employment of Executive Directors by making a payment in lieu of notice equivalent to basic salary and fixed benefits only.

Currently neither of the Executive Directors holds a non-executive director role elsewhere.

The Articles of Association require a Director to stand for election by shareholders at the first Annual General Meeting following their appointment and by rotation every three years thereafter.

### Non-Executive Directors

Non-Executive Directors receive a fixed fee for their services to the Group. These fees are set for each individual Non-Executive Director by the Board on an annual basis. Fee levels for the Chairman and Non-Executive Directors reflect the time commitment in preparing for and attending meetings and the responsibility and duties of the positions. The policy is to pay a market rate against other companies of a similar size and complexity. Non-Executive Directors are not entitled to any other benefits, pension arrangements or to participate in the Group's share incentive schemes.

Details of annual fees for 2012 are provided in the table below:

		Basic annual fee £'000	Audit Committee Chairman £'000	Remuneration Committee Chairman £'000	Risk & Compliance Committee Chairman £'000
Charles Gregson	Non-Executive Chairman	125			
Duncan McIntyre*	Non-Executive Director	40			10
Hamish Ogston	Non-Executive Director	40			
Les Owen	Non-Executive Director	40	10		
Patrick De Smedt*	Non-Executive Director	40		10	

\* Patrick De Smedt was the Chairman of the Remuneration Committee until his resignation from the Board on 15 November 2012 at which time Duncan McIntyre was appointed as Chairman of the Remuneration Committee.

There are no service agreements for Non-Executive Directors. However, a formal letter of appointment is issued to all Non-Executive Directors to confirm the terms of their appointment. Non-Executive appointment terms provide for an initial period of appointment of three years (which may be

extended at the liberty of the Board) normally terminable on one month's notice by either party. Non-Executive Directors are included in the requirement for all Directors to stand for election by the shareholders at the Annual General Meeting following their initial appointment and to stand for re-election on a three year rolling basis thereafter.

With regard to the current Non-Executive Directors, Charles Gregson entered into a Non-Executive appointment letter with CPPGroup Plc on 14 January 2010. It had been agreed that from Admission the terms of his engagement be transferred to the Company. Hamish Ogston entered into a Non-Executive appointment letter with the Company which was conditional on and effective from Admission on 24 March 2010, although he was appointed as a Non-Executive Director of the new holding Company at the date of incorporation on 9 February 2010. Les Owen was appointed on 21 September 2010 and Duncan McIntyre was appointed on 1 January 2011.

### Share ownership guidelines

Pursuant to a letter agreement with Hamish Ogston dated 18 March 2010, Charles Gregson has agreed, from Admission, to apply all of the net fees he receives from his position as Chairman of the Company to making on-market purchases of shares in the Company, until he has committed, in total, at least £250,000 in purchasing shares.

Paul Stobart, the Chief Executive Officer, agreed to commit 50% of the post-tax gain from any vested shares in the form of shares held until the qualifying holding of the equivalent of one and a half year's salary is met.

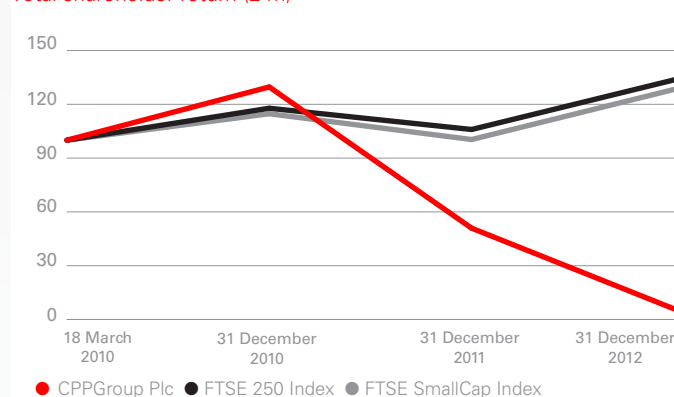
Shaun Parker, the Chief Financial Officer, agreed to commit 50% of the post-tax gain from any vested shares in the form of shares held, until the qualifying holding of the equivalent of one year's salary is met. These arrangements only apply to share awards made on or after Admission and not to any awards under the legacy plans.

Each Non-Executive Director has agreed to commit to making on-market purchases of shares in the Company, within a two year period from the date of their appointment, until they have committed in total to at least £50,000 in the purchasing of such shares.

Although it remains their intention, the Directors have been limited in their ability to fulfil the above commitments by the restrictions on insider share-dealing imposed by the Listing Rules.

### Performance graph

Total shareholder return (£'m)



This graph shows the value, by 31 December 2012, of £100 invested in CPPGroup Plc at the Offer Price as stated in the Prospectus, compared with the value of £100 invested in the FTSE 250 and the FTSE Small Cap Indices from the start of trading.

Source: Thomson Reuters

The graph illustrates the TSR performance on a cumulative basis with dividends reinvested as at the end of the financial year compared with the FTSE 250 and FTSE SmallCap Index, being the equity market indexes in which CPPGroup Plc has been a member since Admission.

## Remuneration report continued

## Audited information

The remuneration and benefits payable to each Director in respect of their services for the year ended 31 December 2012 are set out in the following table.

	2012 Basic annual salary £'000	2012 Annual Benefits £'000	2012 Annual Bonus** £'000	2012 Annual pension contribution £'000	2012 Total £'000	2011 Total £'000
<b>Executive Directors</b>						
Paul Stobart	450	58	–	68	576	144
Shaun Parker	268	15	–	40	323	323
<b>Non-Executive Directors</b>						
Charles Gregson	125	–	–	–	125	125
Duncan McIntyre	50	–	–	–	50	40
Hamish Ogston	40	–	–	–	40	40
Les Owen	50	–	–	–	50	50
Patrick De Smedt*	44	–	–	–	44	50
Aggregate emoluments	1,027	73	–	108	1,208	772

\* Patrick De Smedt resigned from the Board on 15 November 2012.

\*\* Annual bonus awards are subject to the provisions of the Deferred Share Bonus Plan.

Note: Eric Woolley resigned from the Board on 1 October 2011 and his employment ceased on 22 March 2012. During the period from 1 January 2012 until 22 March 2012 he received a salary of £94,000, pension contributions of £15,000 and other benefits of £5,000.

## Share options, long term incentives and potential future awards and entitlements to shares

## Long Term Incentive Plans

Details of awards held, granted and exercised in respect of the LTIPs are detailed below.

Director	As at 1 January 2012	Granted in year	Exercised in year	Lapsed in year	As at 31 December 2012
Paul Stobart	566,794	801,862	–	–	1,368,656
Shaun Parker	190,978	381,758	–	–	572,736

The 2012 LTIP awards for Paul Stobart and Shaun Parker were granted as nil cost options on 16 May 2012 and vest on 16 May 2015 subject to performance conditions. When awards were granted the market value of shares was £0.48. Awards vest subject to continued employment and the satisfaction of performance conditions as set out on page 32.

The market price of ordinary shares of the Company as at 31 December 2012 was 13p and the range during the year was 5.5p to 119p.

## Deferred Share Bonus Plan

Director	As at 1 January 2012	Granted in year	Exercised in year	Lapsed in year	As at 31 December 2012
Shaun Parker	9,967	–	–	–	9,967

The market price of ordinary shares of the Company as at 31 December 2012 was 13p and the range during the year was 5.5p to 119p.

## SAYE Share Option Plan

Details of options held, granted and exercised in respect of the SAYE scheme are detailed below.

Director	As at 1 January 2012	Granted in year	Exercised in year	Lapsed in year	As at 31 December 2012	Exercise Price £
Shaun Parker	4,545	–	–	–	4,545	1.98

There were no additional grants to Executive Directors under the SAYE scheme during the year.

The market price of ordinary shares of the Company as at 31 December 2012 was 13p and the range during the year was 5.5p to 119p.

### Legacy Plans

Prior to Admission, the Company operated the CPP Executive Share Option Plan 2005 (the 2005 Plan) and the CPP Group Holdings Exit Plan 2008 (the 2008 Plan) for which options were outstanding. Conditional upon Admission, all outstanding options under the Legacy Plans (the Old Options) were automatically surrendered in consideration for the grant of an equivalent new option over Ordinary Shares (the New Options). The exchange was determined on the basis that for every one share in CPPGroup Plc held under the Old Options immediately prior to the Share for Share Exchange, the holder of that Old Option was granted a New Option over 16 Ordinary Shares in CPPGroup Plc. The exercise price per share of the New Options was equal to the exercise price per share of the Old Options reduced by a factor of 16, so that immediately following the surrender and exchange of Old Options for New Options the aggregate exercise cost of the New Option is the same as the aggregate exercise cost of the Old Option. The rules of the Legacy Plans were applied to the New Options save that references in the rules to the "Company" and "Shares" are construed as meaning the Company and Ordinary Shares.

The options in the Legacy Plans were exercisable as follows: 50% on 24 March 2010, 25% on 24 March 2011 and 25% on 24 March 2012. There are no performance conditions attached to these shares other than those relating to employment.

The following options are held by Shaun Parker under the 2005 Plan and the 2008 Plan.

Director	Legacy Plan	Option price	As at 1 January 2012	Granted in year	Exercised in year	Lapsed in year	As at 31 December 2012	Expiry date
Shaun Parker	2005	£2.28	415,648	–	–	–	415,648	21/12/19
	2008	£1.79	352,000	–	–	–	352,000	19/06/18
	Loan note <sup>1</sup>	n/a	117,613	–	117,613	–	–	n/a

Certain option holders in the 2005 Plan hold loan notes which have similar vesting conditions to the options under the 2005 Plan. The above table shows the value of these loan notes.

The market price of ordinary shares of the Company as at 31 December 2012 was 13p and the range during the year was 5.5p to 119p.

### Directors' shareholdings

The Directors of the Company have beneficial interests in the Company's ordinary shares as follows:

Interest in ordinary shares of 10 pence each	31 December 2012 Beneficial	31 December 2012 Non-beneficial	Total
<b>Executive Directors</b>			
Paul Stobart	–	–	–
Shaun Parker	9,600	–	9,600
<b>Non-Executive Directors</b>			
Charles Gregson	157,873	–	157,873
Duncan McIntyre	13,340	–	13,340
Hamish Ogston	98,021,288	–	98,021,288
Les Owen	22,984	–	22,984

There have been no purchases of shares by Directors since 31 December 2012 to the date of this report.

### Approval of report

The Committee considers that the various components of the Directors' remuneration set out above combined to produce an overall package that achieves an appropriate alignment between the interests of the Directors and those of the shareholders and the Company.

The Directors' Remuneration report was approved by the Board on 29 April 2013 and signed on behalf of the Board by

### Duncan McIntyre

Chairman of the Remuneration Committee

29 April 2013

# Independent Auditor's report to the members of CPPGroup Plc

We have audited the financial statements of CPPGroup Plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 52. 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 Auditor

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material mis-statements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company 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 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

## Emphasis of matter

- In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the following disclosures:
- Pages 21 and 22 of the Annual Report and Accounts concerning operational and trading uncertainties; regulatory issues and customer redress uncertainties; uncertainties relating to liquidity and funding; and the Group's ability to continue as a going concern in the light of these factors; and

- Page 22 and note 35 regarding material uncertainties in relation to the quantification of the provision in relation to customer redress and possible future contingent expenditures.
- The total financial impact in relation to these issues is subject to significant uncertainty, in particular the regulatory and redress issues which are dependent on certain factors outside of the control of the Group. In addition, the Group's ability to remain a going concern relies upon its compliance with the terms of the extension to the revolving credit facility and the securing of longer term funding on expiry of that facility on 30 September 2013, both of which eventualities are open to significant uncertainty relating to the successful implementation of certain strategic and financing options. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.
- Having considered these matters, the Directors have concluded that it is appropriate to prepare these financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group or the Company were unable to continue as a going concern. Our opinion is not modified in respect of these matters.

## Opinion on other matters prescribed by the Companies Act 2006

- In our opinion:
- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Remuneration report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement, contained within the Corporate Governance statement, in relation to going concern;
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

## Chris Powell

(Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Leeds, United Kingdom

29 April 2013



# Consolidated income statement

For the year ended 31 December 2012

	Note	2012 £'000	2011 restated (note 3) £'000
<b>Continuing operations</b>			
Revenue		269,869	300,384
Cost of sales		(162,295)	(175,146)
<b>Gross profit</b>		<b>107,574</b>	125,238
<b>Administrative expenses</b>			
Exceptional items	6	(43,942)	(17,990)
Other administrative expenses		(80,902)	(83,151)
<b>Total administrative expenses</b>		<b>(124,844)</b>	(101,141)
Share of loss of joint venture	20	(477)	(1,181)
<b>Operating (loss)/profit</b>			
<b>Operating profit before exceptional items</b>		<b>26,195</b>	40,906
<b>Operating (loss)/profit after exceptional items</b>		<b>(17,747)</b>	22,916
Investment revenues	10	580	407
Other gains and losses	11	(891)	–
Finance costs – non-derivative instruments	12	(1,869)	(1,749)
<b>(Loss)/profit before taxation</b>		<b>(19,927)</b>	21,574
Taxation	13	(1,474)	(9,647)
<b>(Loss)/profit for the year from continuing operations</b>	7	<b>(21,401)</b>	11,927
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	16	4,171	6,124
<b>(Loss)/profit for the year</b>		<b>(17,230)</b>	18,051
<b>Attributable to:</b>			
Equity holders of the Company		(17,118)	18,215
Non-controlling interests		(112)	(164)
		(17,230)	18,051
<b>Basic (loss)/earnings per share</b>		<b>Pence</b>	Pence
Continuing operations	15	(12.42)	7.06
Discontinued operations	15	2.43	3.58
Total		(9.98)	10.64
<b>Diluted (loss)/earnings per share</b>		<b>Pence</b>	Pence
Continuing operations	15	(12.13)	7.03
Discontinued operations	15	2.38	3.56
Total		(9.75)	10.59

## Consolidated statement of comprehensive income

For the year ended 31 December 2012

	2012 £'000	2011 £'000
(Loss)/profit for the year	(17,230)	18,051
<b>Other comprehensive income and expenses</b>		
Exchange differences on translation of foreign operations	(616)	120
<b>Other comprehensive (expense)/income for the year net of taxation</b>	<b>(616)</b>	<b>120</b>
<b>Total comprehensive income for the year</b>	<b>(17,846)</b>	<b>18,171</b>
<b>Attributable to:</b>		
Equity holders of the Company	(17,734)	18,335
Non-controlling interests	(112)	(164)
	<b>(17,846)</b>	<b>18,171</b>

# Consolidated balance sheet

As at 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Non-current assets</b>			
Goodwill	17	1,478	16,521
Other intangible assets	18	15,458	22,626
Property, plant and equipment	19	13,316	14,473
Investment in joint venture	20	–	–
Deferred tax asset	29	2,902	1,987
		<b>33,154</b>	<b>55,607</b>
<b>Current assets</b>			
Insurance assets	21	27,241	24,552
Inventories	22	299	329
Trade and other receivables	23	29,034	30,667
Cash and cash equivalents	24	53,198	54,924
		<b>109,772</b>	<b>110,472</b>
Assets classified as held for sale	16	20,007	–
		<b>129,779</b>	<b>110,472</b>
<b>Total assets</b>		<b>162,933</b>	<b>166,079</b>
<b>Current liabilities</b>			
Insurance liabilities	25	(7,525)	(8,878)
Income tax liabilities		(2,379)	(2,818)
Trade and other payables	26	(56,587)	(67,884)
Bank loans	27	(43,408)	–
Provisions	28	(28,967)	(11,393)
		<b>(138,866)</b>	<b>(90,973)</b>
Liabilities directly associated with assets held for sale	16	(7,130)	–
		<b>(145,996)</b>	<b>(90,973)</b>
<b>Net current (liabilities)/assets</b>		<b>(16,217)</b>	<b>19,499</b>
<b>Non-current liabilities</b>			
Bank loans	27	–	(43,041)
Deferred tax liabilities	29	(716)	(634)
Trade and other payables	26	(6,500)	–
Provisions	28	–	(4,279)
		<b>(7,216)</b>	<b>(47,954)</b>
<b>Total liabilities</b>		<b>(153,212)</b>	<b>(138,927)</b>
<b>Net assets</b>		<b>9,721</b>	<b>27,152</b>
<b>Equity</b>			
Share capital	32	17,111	17,106
Share premium account		33,297	33,300
Merger reserve		(100,399)	(100,399)
Translation reserve		1,840	2,456
Equalisation reserve	25	7,984	6,423
ESOP reserve		11,638	11,606
Retained earnings		38,250	56,824
<b>Equity attributable to equity holders of the Company</b>		<b>9,721</b>	<b>27,316</b>
Non-controlling interest		–	(164)
<b>Total equity</b>		<b>9,721</b>	<b>27,152</b>

Approved by the Board of Directors and authorised for issue on 29 April 2013 and signed on its behalf by:

**Paul Stobart**  
Chief Executive Officer

**Shaun Parker**  
Chief Financial Officer

Company registration number: 07151159

## Consolidated statement of changes in equity

For the year ended 31 December 2012

	Note	Share capital £'000	Share premium account £'000	Merger reserve £'000	Translation reserve £'000	Equalisation reserve £'000	ESOP reserve £'000	Retained earnings £'000	Total £'000	Non- controlling interest £'000	Total Equity £'000
At 1 January 2011		17,024	32,301	(100,399)	2,336	6,196	9,599	52,728	19,785	–	19,785
Total comprehensive income		–	–	–	120	–	–	18,215	18,335	(164)	18,171
Movement on equalisation reserve	25	–	–	–	–	227	–	(227)	–	–	–
Current tax credit on equalisation reserve movement	13	–	–	–	–	–	–	60	60	–	60
Equity settled share based payment charge		–	–	–	–	–	2,169	–	2,169	–	2,169
Deferred tax on share based payment charge	13	–	–	–	–	–	–	(1,027)	(1,027)	–	(1,027)
Exercise of share options	32	82	999	–	–	–	(162)	–	919	–	919
Dividends	14	–	–	–	–	–	–	(12,925)	(12,925)	–	(12,925)
<b>At 31 December 2011</b>		<b>17,106</b>	<b>33,300</b>	<b>(100,399)</b>	<b>2,456</b>	<b>6,423</b>	<b>11,606</b>	<b>56,824</b>	<b>27,316</b>	<b>(164)</b>	<b>27,152</b>
Total comprehensive income		–	–	–	(616)	–	–	(17,118)	(17,734)	(112)	(17,846)
Movement on equalisation reserve	25	–	–	–	–	1,561	–	(1,561)	–	–	–
Current tax credit on equalisation reserve movement	13	–	–	–	–	–	–	382	382	–	382
Equity settled share based payment charge		–	–	–	–	–	34	–	34	–	34
Deferred tax on share based payment charge	13	–	–	–	–	–	–	(1)	(1)	–	(1)
Exercise of share options	32	5	(3)	–	–	–	(2)	–	–	–	–
Adjustment arising from change in non-controlling interest		–	–	–	–	–	–	(276)	(276)	276	–
<b>At 31 December 2012</b>		<b>17,111</b>	<b>33,297</b>	<b>(100,399)</b>	<b>1,840</b>	<b>7,984</b>	<b>11,638</b>	<b>38,250</b>	<b>9,721</b>	<b>–</b>	<b>9,721</b>

# Consolidated cash flow statement

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Net cash from operating activities</b>	34	<b>11,086</b>	41,547
<b>Investing activities</b>			
Interest received		589	423
Purchases of property, plant and equipment		(2,485)	(3,297)
Purchases of intangible assets		(3,807)	(9,334)
Costs associated with disposal of discontinued operations		(905)	–
Investment in joint venture		(477)	(997)
<b>Net cash used in investing activities</b>		<b>(7,085)</b>	(13,205)
<b>Financing activities</b>			
Dividends paid		–	(12,925)
Repayment of bank loans		–	(1,500)
Proceeds from new bank loans		–	17,000
Interest paid		(1,520)	(1,452)
Issue of ordinary share capital		2	1,081
<b>Net cash (used in)/from financing activities</b>		<b>(1,518)</b>	2,204
<b>Net increase in cash and cash equivalents</b>		<b>2,483</b>	30,546
Effect of foreign exchange rate changes		(372)	(662)
Cash and cash equivalents at 1 January		54,924	25,040
<b>Cash and cash equivalents at 31 December</b>		<b>57,035</b>	54,924
Analysed as:			
Continuing operations	24	53,198	48,682
Discontinued operations	16	3,837	6,242
		<b>57,035</b>	54,924



# Notes to the consolidated financial statements

## 1. General information

CPPGroup Plc is a company incorporated in England and Wales under the Companies Act 2006 and domiciled in the United Kingdom. Its registered office is Holgate Park, York, YO26 4GA. The Group comprises CPPGroup Plc and its subsidiaries. The Group's principal activity during the year was the provision of Life Assistance products.

The consolidated financial statements are presented in Pounds Sterling, the functional currency of the Company. Foreign operations are included in accordance with the policies set out in note 3.

## 2. Adoption of new Standards

### New Standards adopted

The following Standards and Interpretations have become effective and have been adopted in these financial statements. Their adoption has not had any material impact on the Group. No Standards or Interpretations have been adopted early in these financial statements.

Standard/Interpretation	Subject
Amendments to IFRS 7 (October 2010)	Disclosures – Transfers of Financial Assets
Amendments to IFRS 1 (December 2010)	Severe Hyper-inflation and Removal of Fixed Dates for First-time Adopters
Amendments to IAS 12 (December 2010)	Deferred Tax: Recovery of Underlying Assets

### Standards not yet applied

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 have not yet been adopted by the EU):

Standard/Interpretation	Subject	Period first applies (Year ended)
IAS 27 (revised May 2011)	Separate Financial Statements	31 December 2013
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures	31 December 2013
IFRS 10	Consolidated Financial Statements	31 December 2013
IFRS 11	Joint Arrangements	31 December 2013
IFRS 12	Disclosure of Interests in Other Entities	31 December 2013
IFRS 13	Fair Value Measurement	31 December 2013
IAS 19 (revised June 2011)	Employee Benefits	31 December 2013
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income	31 December 2013
Amendments to IFRS 1 (March 2012)	Government Loans	31 December 2013
Amendments to IFRS 7 (December 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities	31 December 2013
Annual improvements to IFRSs	(2009-2011) Cycle	31 December 2013
Amendments to IAS 32 (December 2011)	Offsetting Financial Assets and Financial Liabilities	31 December 2014
IFRS 9	Financial Instruments	31 December 2015

The Directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the Group.

## 3. Significant accounting policies

### Basis of preparation

These consolidated financial statements on pages 37 to 75 present the performance of the Group for the year ended 31 December 2012. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and therefore comply with Article 4 of the EU IAS Regulation. The consolidated financial statements have also been prepared under the historical cost basis.

In preparing the consolidated financial statements the comparative amounts have been restated to reflect the North American operation as discontinued.

### 3. Significant accounting policies continued

#### Going concern

The Board of Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements. Further details of the Directors' assessment are set out in the Corporate Governance statement on pages 21 and 22.

#### Basis of consolidation

The consolidated financial statements include the results, cash flows and assets and liabilities of the Company and the entities under its control. Control is defined as the ability to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. Adjustments are made, where necessary, to the financial statements of subsidiaries to bring their accounting policies into line with Group policies. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

#### Joint ventures

Investments in joint ventures are accounted for using the equity method of accounting. The Group share of the net assets of joint ventures, including associated goodwill, is included in the consolidated balance sheet.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

#### Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separately from the Company's equity holders.

#### Exceptional items

Items which are exceptional, being material in terms of size and/or nature, are presented separately from underlying business performance in the consolidated income statement. The separate reporting of exceptional items helps provide an indication of the Group's underlying business performance.

#### Government grants

Grants receivable from government bodies are recognised to the extent that the Group has substantively met the conditions of the grant. Grants received in respect of which Group obligations are on-going are deferred and recognised over the period in which the conditions are fulfilled. Government grants are presented as a reduction in applicable expenses.

#### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Share based payments

Prior to the Company's shares being listed on the London Stock Exchange on 24 March 2010, the Group issued share options to certain of its employees through the Executive Share Option Plan (ESOP). Costs in relation to the ESOP are presented within exceptional items in the consolidated income statement.

Subsequent to its listing, the Group has issued share options to certain of its employees under the Long Term Incentive Plan (LTIP), the Restricted Stock Plan (RSP), the Deferred Share Bonus Plan (DSBP) and the ShareSAVE Plan. Costs in relation to these plans are presented within other administrative expenses in the consolidated income statement.

Share options are treated as equity settled if the Group has the ability to determine whether to settle exercises in cash or by the issue of shares. Share options are measured at fair value at the date of grant, based on the Group's estimate of shares that will eventually vest, and adjusted for the effect of non-market based vesting conditions each year. Non-market vesting conditions include a change in control of the Group and are considered by the Directors at each year end. The fair value of equity settled share based payments is expensed in the consolidated income statement on a straight line basis over the vesting period, with a corresponding increase in equity, subject to adjustment for forfeited options.

Share options are treated as cash settled if the terms of the scheme require or the Directors intend to settle share options with a cash payment. Cash settled options are measured at fair value at date of grant and then subsequently revalued at each year end. For cash settled share based payments, a liability is recognised for a proportion, based on the vesting period, of the fair value as calculated at the balance sheet date. Movements in the provision are charged to the consolidated income statement.

The fair value of share options is measured by use of the Black Scholes option pricing model and Monte Carlo simulation model.

**Notes to the consolidated financial statements continued****3. Significant accounting policies continued****Assistance products****Recognition of revenue**

Revenue attributable to the Group's assistance products is generally comprised of the prices paid by customers for the assistance products net of underwriting fees and exclusive of any sales taxes.

Revenue is generally split into two categories: introduction fees and claims management fees. Introduction fees are recognised on inception of the arrangement. Claims management fees are recognised over the period of the underlying contract and, where revenue is deferred to match the Group's future servicing obligations under assistance product contracts, the amount deferred corresponds to the relevant fair values of the un-provided services. The amount deferred is sufficient to cover future claims handling costs and an appropriate profit margin, and is calculated by reference to historical experience of claims handling costs and incidence. Provisions for cancellations are made at the time revenue is recorded and are deducted from revenue.

In the US, and for certain other of the Group's assistance products, there are no introduction fees. In these arrangements, revenue is comprised of the subscriptions received from members, net of underwriting fees and exclusive of any sales taxes. These subscriptions are recognised over the life of the service provided.

Wholesale, Packaged Accounts and other revenue is generally comprised of fees billed directly to Business Partners, exclusive of any sales taxes, and is recognised as those fees are earned.

Non-policy revenue is comprised of fees billed directly to customers or Business Partners for services provided under separate non-policy based arrangements. Such revenue is recognised, exclusive of any sales taxes, as those fees are earned.

**Cost of sales**

Cost of sales attributable to the Group's assistance products represents the costs of acquiring customers and includes marketing costs and commissions paid to Business Partners. Commissions are recognised in line with the revenue to which they relate. Marketing costs include all telemarketing, direct mail and fulfilment costs. These costs are expensed as incurred.

Cost of sales attributable to the assistance elements of the Group's Packaged Account and wholesale products represents the costs of providing those services including third party costs. This includes all mailing and fulfilment costs which are expensed as incurred. Third party costs relate to relationships with suppliers who provide elements of the service and are expensed as incurred.

**Insurance contracts**

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Group agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder.

**Recognition of revenue**

Revenue attributable to the Group's insurance contracts comprises premiums paid by customers and is exclusive of any sales taxes and similar duties. Premiums from insurance policies are recognised as revenue on a straight line basis over the life of the policy.

Provisions for unearned premiums are made, representing the part of gross premiums written that is estimated to be earned in the following or subsequent financial periods, on a straight line basis for each policy. The provision for unearned premiums is recorded under insurance liabilities on the consolidated balance sheet.

**Cost of sales**

Cost of sales attributable to the Group's insurance contracts consists of the costs, both direct and indirect, of acquiring insurance policies, commissions, reinsurance premiums payable to third parties and insurance claims incurred (net of reinsurance recoveries).

Acquisition costs are amortised over the life of the average policy. Acquisition costs which are expensed in the following or subsequent accounting periods are recorded in the balance sheet as deferred acquisition costs and include a proportionate allowance for commissions and post sale set up costs incurred in respect of unearned premium not amortised at the balance sheet date.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the related business.

**Insurance claims provisions**

Claims incurred comprise the Group's claims payments and internal settlement expenses during the period together with the movement in the Group's provision for outstanding claims over the period, including an estimate for claims incurred but not reported. Differences between the estimated cost and subsequent settlement of claims are recognised in the consolidated income statement in the year in which they are settled.

Reinsurance recoveries are accounted for in the same accounting period as the related claims.

**Equalisation reserve**

An equalisation reserve has been established in accordance with the requirements of the Equalisation Reserve Rules contained within the Prudential Sourcebook for Insurers and the General Prudential Sourcebook. Movements on the reserve are shown as a movement between retained earnings and the equalisation reserve.

**Assets and liabilities classified as held for sale and discontinued operations**

Assets and liabilities are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and the sale is highly probable. Assets and liabilities classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell. They are not depreciated or amortised from the point they are recognised as held for sale. Operations are classified as discontinued when they are either disposed or are part of a single co-ordinated plan to dispose, and represent a major line of business or geographical area of operation.

### 3. Significant accounting policies continued

#### Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not subject to amortisation but is tested for impairment annually.

On disposal of a subsidiary or joint venture operation, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

#### Impairment

For the purpose of impairment testing, goodwill is allocated to cash generating units. If the recoverable amount of a cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

#### Intangible assets

##### Externally acquired software

Externally acquired software is measured at purchase cost and is amortised on a straight line basis over its estimated useful life of four years.

##### Internally generated software

Internally generated intangible assets arising from the Group's software development programs are recognised from the point at which the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated software is amortised on a straight line basis over its estimated useful life of four years.

##### Contractual arrangements with third parties

Some of the Group's contractual arrangements give rise to intangible assets. Where a contractual payment gives access to and control of future economic benefits, in the form of future renewal income streams, this amount is recognised as an asset and then amortised in line with the forecast benefits over the shorter of the contractual arrangement and the period when benefits are expected to arise.

##### Intangible assets arising on business combinations

Intangible assets arising from business combinations are initially stated at their fair values and amortised over their useful economic lives as follows:

Business Partner relationships:	In line with projected related revenues
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Business Partner relationships represent the present value of net revenues and costs expected to arise from contractual arrangements and non-contractual relationships with existing and pipeline Business Partners at the date of acquisition.

Amortisation of contractual arrangements with third parties is charged to cost of sales, amortisation of all other intangible assets is charged to other administrative expenses.

#### Impairment

Annually the Group reviews the carrying amounts of its intangible assets to determine whether there is indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at 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 assets for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit may be 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 or cash-generating unit in prior years.

**Notes to the consolidated financial statements continued****3. Significant accounting policies continued****Property, plant and equipment**

Property, plant and equipment are shown at purchase cost, net of accumulated depreciation.

Depreciation is provided at rates calculated to write off the costs, less estimated residual value, of each asset over its expected useful life as follows:

Freehold property:	40 years straight line
Computer systems:	4 years straight line
Furniture and equipment:	4 years straight line
Leasehold improvements:	Over the shorter of the life of the lease and the asset

Freehold land is not depreciated.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and bank deposits with a term from inception of three months or less, less bank overdrafts where there is a right to offset. Bank overdrafts are presented as current liabilities to the extent that there is no right to offset with cash balances in the same currency.

**Leases**

Operating lease rentals are charged to the consolidated income statement on a straight line basis over the term of the lease.

**Taxation**

The current tax payable is based on the taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet 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. Deferred tax assets are regarded as recoverable and therefore recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary undertakings and jointly controlled entities 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.

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 consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Pension costs**

Pension costs represent contributions made by the Group to defined contribution pension schemes. These are expensed as incurred.

**Foreign currencies**

In preparing the financial information of the individual entities that comprise the Group, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences are classified as equity and transferred to the Group's translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

On disposal of foreign operations, the cumulative amount of exchange differences previously recognised directly in equity for that foreign operation are to be transferred to the consolidated income statement as part of the profit or loss on disposal. Cumulative retranslation differences have been reset to zero at 1 January 2007, the date of transition to IFRS.



### 3. Significant accounting policies continued

#### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### Financial assets

Trade receivables, loans, other receivables, cash, and cash equivalents that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less allowance for any estimated irrecoverable accounts.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

#### Financial liabilities

Financial liabilities, including borrowings, are initially measured at the proceeds received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

#### Derivative financial instruments

The Group's activities expose it to the financial risks of changes in interest rates. For material risks the Group evaluates and considers the use of derivative financial instruments, principally interest rate swaps, to reduce its exposure to interest rate movements.

When derivatives are used they are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument.

### 4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements in accordance with IFRS requires the use of assumptions, estimates and judgements about future conditions. The use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported. The key estimates and assumptions used in these consolidated financial statements are set out below.

#### Critical judgements in applying accounting policies

##### Going concern

The financial statements have been prepared on a going concern basis, as the Board of Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The going concern assessment considered the risks and uncertainties facing the Group, which include trading, customer redress and liquidity and the ability to finance and repay debt. Further details of the assessment are provided in the Corporate Governance statement on pages 21 and 22.

##### Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Recognition, therefore, involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

#### Key sources of estimation uncertainty

##### Amortisation of deferred insurance acquisition costs

Determining the amortisation period for deferred acquisition costs of insurance revenues requires estimation of the lives of insurance policies and cancellation profiles based on historical information, taking account of known events impacting on forecast lives and cancellations. Details of assumptions made are given in note 8.

Changes to assumed policy lives or cancellation profiles would change the periods in which the acquisition costs are charged to the consolidated income statement.

##### Goodwill impairment reviews

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 the Group 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. Details of key assumptions made are given in note 17.

Any shortfall between the carrying amount of goodwill and its fair value is recognised as an impairment charge in the consolidated income statement.

##### Customer redress and associated costs

A customer redress and associated costs provision was established in 2011 for costs associated with the FCA investigation into the Group's sales processes in the UK. At 31 December 2012 the remaining balance of the provision is £29.0 million. The provision includes anticipated compensation payable to customers through a customer redress exercise together with professional fees associated with the customer redress exercise.

Approximately 75% of the remaining provision relates to an estimate for the agreed redress, this element of the provision could vary depending upon assumptions regarding customer response rates or size of populations.

##### Contingent liabilities

The Group has recognised contingent liabilities in respect of uncertainty in some of the Group's operations and the industry in which it operates in the UK. These include possible industry wide action by the FCA with regard to products that the UK business sells together with an industry wide thematic review by the FCA into MPI products which could result in claims or other matters being raised against the Group, as detailed in note 35. Should the FCA seek to require redress for customers in relation to these matters the cost would be charged to the consolidated income statement.

**Notes to the consolidated financial statements continued****4. Critical accounting judgements and key sources of estimation uncertainty continued****Intangible assets arising from contractual arrangements with third parties**

Where contractual payments have given rise to future economic benefits, these amounts are carried in intangible assets and amortised over the contract terms. The amortisation profile is calculated in line with the forecast future benefits over the shorter of the contractual arrangement and the period when benefits are expected to arise. The future economic benefits are estimated by reference to future renewal performance, taking into account historical renewal performance and the latest assumption of response rates in a customer redress exercise.

Changes to the estimates of renewal performance or the response rates in a customer redress exercise would change the periods in which the contractual payments are charged to the consolidated income statement.

**Current tax**

The Group is required to estimate the corporation tax payable for the year in each of the territories in which it operates. Applicable tax regulations are complex and require that judgement be exercised in calculating the taxable profit. In many countries in which the Group operates, filed tax positions remain open to challenge by local tax authorities for several years. Corporation tax is therefore accrued based on the Directors' assessment of territory specific tax law and likelihood of settlement.

Any changes to estimates of uncertain tax positions would be reflected in the consolidated income statement.

**5. Segmental analysis**

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors to allocate resources to the segments and to assess their performance.

The Group is managed on the basis of three broad geographical regions:

- Northern Europe (UK, Ireland, Germany and Turkey);
- Southern Europe and Latin America (Spain, Portugal, France, Italy, Mexico and Brazil);
- Asia Pacific (Hong Kong, Singapore, Malaysia, India and China).

Segment revenues and performance have been as follows:

	Northern Europe 2012 £'000	Southern Europe and Latin America 2012 £'000	Asia Pacific 2012 £'000	Total 2012 £'000
<b>Year ended 31 December 2012</b>				
<b>Continuing operations</b>				
Revenue – external sales	225,775	37,550	6,544	269,869
Cost of sales	(140,503)	(18,654)	(3,138)	(162,295)
<b>Gross profit</b>	<b>85,272</b>	<b>18,896</b>	<b>3,406</b>	<b>107,574</b>
Depreciation and amortisation	(7,436)	(316)	(35)	(7,787)
Other administrative expenses	(58,167)	(10,470)	(4,478)	(73,115)
<b>Regional operating profit/(loss) before exceptional items and joint ventures</b>	<b>19,669</b>	<b>8,110</b>	<b>(1,107)</b>	<b>26,672</b>
Share of loss of joint venture				(477)
Exceptional items (note 6)				(43,942)
<b>Operating loss after exceptional items and joint ventures</b>				<b>(17,747)</b>
Investment revenues				580
Other gains and losses				(891)
Finance costs – non-derivative instruments				(1,869)
<b>Loss before taxation</b>				<b>(19,927)</b>
Taxation				(1,474)
Loss for the year from continuing operations				(21,401)
<b>Discontinued operations</b>				
Profit for the year from discontinued operations (note 16)				4,171
<b>Loss for the year</b>				<b>(17,230)</b>

## 5. Segmental analysis continued

	Northern Europe 2011 £'000	Southern Europe and Latin America 2011 £'000	Asia Pacific 2011 £'000	Total 2011 £'000
<b>Year ended 31 December 2011 – restated (note 3)</b>				
<b>Continuing operations</b>				
Revenue – external sales	249,487	44,356	6,541	300,384
Cost of sales	(149,051)	(22,411)	(3,684)	(175,146)
<b>Gross profit</b>	100,436	21,945	2,857	125,238
Depreciation and amortisation	(7,884)	(304)	(33)	(8,221)
Other administrative expenses	(58,945)	(11,011)	(4,974)	(74,930)
<b>Regional operating profit/(loss) before exceptional items and joint ventures</b>	33,607	10,630	(2,150)	42,087
Share of loss of joint venture				(1,181)
Exceptional items (note 6)				(17,990)
<b>Operating profit after exceptional items and joint ventures</b>				22,916
Investment revenues				407
Finance costs – non-derivative instruments				(1,749)
<b>Profit before taxation</b>				21,574
Taxation				(9,647)
Profit for the year from continuing operations				11,927
<b>Discontinued operations</b>				
Profit for the year from discontinued operations (note 16)				6,124
<b>Profit for the year</b>				18,051

For the purposes of resource allocation and assessing performance, operating costs and revenues are allocated to the regions in which they are earned or incurred. The above does not reflect additional net charges of central costs of £1,542,000 (2011: £1,185,000) presented within Northern Europe in the tables above which have been charged to other regions for statutory purposes.

**Segment assets**

	2012 £'000	2011 restated (note 3) £'000
Northern Europe	127,732	124,740
Southern Europe and Latin America	8,244	9,348
Asia Pacific	2,570	2,346
<b>Total segment assets</b>	138,546	136,434
Assets relating to discontinued operations	7,783	11,137
Unallocated assets	16,604	18,508
<b>Consolidated total assets</b>	162,933	166,079

Goodwill, deferred tax and investments in joint ventures are not allocated to segments.

## Notes to the consolidated financial statements continued

## 5. Segmental analysis continued

## Capital expenditure

	Intangible assets		Property, plant and equipment	
	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 restated (note 3) £'000
<b>Continuing operations</b>				
Northern Europe	3,309	8,992	1,767	1,994
Southern Europe and Latin America	142	8	122	322
Asia Pacific	55	21	42	20
Additions from continuing operations	3,506	9,021	1,931	2,336
<b>Discontinued operations</b>				
Additions for discontinued operations	43	396	246	99
<b>Consolidated total additions</b>	<b>3,549</b>	<b>9,417</b>	<b>2,177</b>	<b>2,435</b>

## Revenues from major products

	2012 £'000	2011 restated (note 3) £'000
<b>Continuing operations</b>		
Retail assistance policies	163,766	212,982
Retail insurance policies	41,174	38,454
Packaged and wholesale policies	56,649	41,867
Non-policy revenue	8,280	7,081
<b>Revenue from continuing operations</b>	<b>269,869</b>	<b>300,384</b>
<b>Discontinued operations</b>	<b>49,802</b>	<b>45,752</b>
	<b>319,671</b>	<b>346,136</b>

Major product streams are disclosed on the basis monitored by the Board of Directors. For the purpose of this product analysis, "retail assistance policies" are those which may be insurance backed but contain a bundle of assistance and other benefits; "retail insurance policies" are those which protect against a single insurance risk; "packaged and wholesale policies" are those which are provided by Business Partners to their customers in relation to an on-going product or service which is provided for a specified period of time; "non-policy revenues" are those which are not in connection with providing an on-going service to policyholders for a specified period of time.

Disclosures in notes 8, 21 and 25 regarding accounting for insurance contracts provide information relating to all contracts within the scope of IFRS 4, and therefore include both retail insurance policies and the insurance components of retail assistance and packaged and wholesale policies.

## Geographical information

The Group operates across a wide number of territories, of which the UK and Spain are considered individually material. Revenue from external customers and non-current assets (excluding investments in joint ventures and deferred tax) by geographical location are detailed below:

	External revenues		Non-current assets	
	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 restated (note 3) £'000
<b>Continuing operations</b>				
UK	211,186	233,859	28,159	38,698
Spain	21,620	26,717	529	551
Other	37,063	39,808	1,564	1,084
Total continuing operations	269,869	300,384	30,252	40,333
<b>Discontinued operations</b>	<b>49,802</b>	<b>45,752</b>	<b>12,481</b>	<b>13,287</b>
	<b>319,671</b>	<b>346,136</b>	<b>42,733</b>	<b>53,620</b>

## Information about major customers

Included in revenue arising from Northern Europe is revenue of approximately £28.8 million (2011: £13.3 million) which arose from sales to the Group's largest customer.

## 6. Exceptional items

	Note	2012 £'000	2011 £'000
Customer redress and associated costs	28	26,273	14,892
Regulatory penalties		8,500	2,000
Restructuring costs	9	4,874	–
Strategic project costs		388	–
Impairment of goodwill and intangible assets	17,18	3,711	–
Legacy scheme share based payments	33	196	1,098
<b>Exceptional items included in operating (loss)/profit</b>		<b>43,942</b>	<b>17,990</b>
Tax on exceptional items		(5,663)	(3,916)
<b>Total exceptional items after tax</b>		<b>38,279</b>	<b>14,074</b>

The customer redress and associated costs of £26,273,000 (2011: £14,892,000) relates to the further costs required to compensate customers and professional fees associated with the customer redress exercise.

Regulatory penalties of £8,500,000 (2011: £2,000,000) represents the fine imposed by the FCA as a result of its investigation into the Group's sales processes in the UK.

The restructuring costs of £4,874,000 (2011: £nil) relate to redundancy programmes and associated costs across the Group, the majority of which were located in the UK.

Strategic project costs of £388,000 (2011: £nil) relate to professional costs incurred in relation to the evaluation of options available as the Group considered its refinancing.

Impairment of goodwill and intangible assets of £3,711,000 (2011: £nil) relates to the write down of the CPP Travel Services Limited goodwill and business relationship intangible asset balances of £3,120,000 in total, a decision taken by the Directors as a result of the historical trading performance of the company. £591,000 impairment relates to the contractual arrangement intangible, which reflects the impact the expected response rates in a customer redress exercise would have on the discounted forecast cash flows of the arrangement.

## 7. (Loss)/profit for the year

	Note	Continuing operations		Discontinued operations		Total	
		2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 £'000
(Loss)/profit for the year has been arrived at after charging/(crediting):							
Operating lease charges		2,318	2,407	202	216	2,520	2,623
Net foreign exchange gains		(41)	(203)	–	(2)	(41)	(205)
Depreciation of property, plant and equipment	19	2,652	3,119	246	121	2,898	3,240
Amortisation of intangible assets	18	8,648	8,766	102	84	8,750	8,850
Loss/(profit) on disposal of property, plant and equipment		135	(14)	–	1	135	(13)
Customer redress and associated costs	6	26,273	14,892	–	–	26,273	14,892
Regulatory penalties	6	8,500	2,000	–	–	8,500	2,000
Strategic project costs	6	388	–	2,715	–	3,103	–
Impairment of goodwill and intangible assets	6	3,711	–	–	–	3,711	–
Share based payments	33	37	2,190	–	69	37	2,259
Restructuring costs	6	4,874	–	–	–	4,874	–
Other staff costs		49,294	54,505	8,920	8,867	58,214	63,372
<b>Total staff costs</b>	<b>9</b>	<b>54,205</b>	<b>56,695</b>	<b>8,920</b>	<b>8,936</b>	<b>63,125</b>	<b>65,631</b>
Movement on allowance for doubtful insurance receivables	21	–	(125)	–	–	–	(125)
Government grant income		–	(325)	–	–	–	(325)

**Notes to the consolidated financial statements continued****7. (Loss)/profit for the year continued**

Fees payable to Deloitte LLP and their associates for audit and non-audit services are as follows:

	2012 £'000	2011 £'000
Payable to the Company's Auditor for the audit of the Company and consolidated financial statements	65	58
Fees payable to the Company's Auditor and their associates for other services to the Group:		
– Audit of the Company's subsidiaries, pursuant to legislation	349	429
<b>Total audit services</b>	<b>414</b>	<b>487</b>
Audit related assurance services	242	59
Taxation compliance services	52	39
Other taxation advisory services	28	9
Corporate finance services	246	–
Other services	37	64
<b>Total non-audit services</b>	<b>605</b>	<b>171</b>
	<b>1,019</b>	<b>658</b>

Included in fees payable to Deloitte LLP and their associates is £289,000 (2011: £111,000) in relation to discontinued operations. This includes £226,000 of audit related assurance services which was for the audit of the US GAAP accounts of CPPNA Holdings Inc. and its subsidiaries for the period to 30 September 2012. This audit was associated with preparing the Group's North American business for disposal.

Corporate finance services of £246,000 (2011: £nil) relates to the preparation of a working capital report on the Group to support the issue of the circular seeking approval of the disposal of CPPNA Holdings Inc. which is a Class 1 transaction for the Group.

**8. Insurance revenues and costs**

Revenues and costs arising from all of the Group's insurance contracts as defined by IFRS 4 are set out below. An analysis of the Group's retail insurance only policies is set out in note 5.

**Revenue earned from insurance activities**

	2012 £'000	2011 £'000
Gross premiums written	86,625	77,044
Change in provision for unearned premiums	2,242	1,425
<b>Earned premiums</b>	<b>88,867</b>	<b>78,469</b>

**Costs incurred from insurance activities**

	2012 £'000	2011 £'000
Reinsurance premiums incurred	7,299	6,289
<b>Claims paid</b>		
– Gross amount	38,331	25,824
– Reinsurer's share	(5,155)	(3,572)
– Increase/(decrease) in provision for gross claims	960	(180)
– Decrease in provision for reinsurance claims	(225)	(607)
	<b>33,911</b>	<b>21,465</b>
<b>Acquisition costs</b>		
– Costs incurred	15,782	20,707
– Movement in deferred acquisition costs	5,085	(139)
	<b>20,867</b>	<b>20,568</b>
Other expenses	18,602	15,773
	<b>80,679</b>	<b>64,095</b>

The following assumptions have a significant impact on insurance revenues and costs:

- Unearned premiums on prepaid insurance policies are recognised as revenue on a straight line basis over the life of the policy.
- Deferral of acquisition costs: Post sale set up costs are recognised on a straight line basis over the expected life of the policy. Commission costs are recognised on a straight line basis from the end of the initial acceptance period over the expected life of the relevant policies, taking account of the expected levels of cancellations.

Changes to the expected life of classes of policies will therefore impact the period in which these items are recognised.



## 9. Staff costs

### Staff costs during the year (including Executive Directors)

	Continuing operations		Discontinued operations		Total	
	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 £'000
Wages and salaries	42,934	47,312	8,019	8,032	50,953	55,344
Social security costs	5,102	5,803	643	661	5,745	6,464
Restructuring costs	4,874	–	–	–	4,874	–
Share based payments (see note 33)	37	2,190	–	69	37	2,259
Pension costs	1,258	1,390	258	174	1,516	1,564
	54,205	56,695	8,920	8,936	63,125	65,631

### Average number of employees

	2012	2011 restated (note 3)
<b>Continuing operations</b>		
Northern Europe	1,218	1,577
Southern Europe and Latin America	263	275
Asia Pacific	51	48
Total continuing operations	1,532	1,900
<b>Discontinued operations</b>	179	191
	1,711	2,091

Details of remuneration of Directors are included in the Remuneration report on pages 30 to 35.

## 10. Investment revenues

	Continuing operations		Discontinued operations		Total	
	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 £'000
Interest on bank deposits	580	407	9	16	589	423

## 11. Other gains and losses

	2012 £'000	2011 £'000
Loss on disposal of subsidiaries	891	–

On 31 December 2012 the Group disposed of I-Deal Promotions Limited and Concepts for Travel Limited which resulted in a loss on disposal of £891,000. Further details are provided in note 31.

## 12. Finance costs – non-derivative instruments

	Continuing operations		Discontinued operations		Total	
	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 £'000
Bank loan interest	1,458	1,316	–	–	1,458	1,316
Amortisation of capitalised loan issue costs	367	366	–	–	367	366
Other	44	67	18	46	62	113
	1,869	1,749	18	46	1,887	1,795

## Notes to the consolidated financial statements continued

## 13. Taxation

	2012 £'000	2011 restated (note 3) £'000
<b>Continuing operations</b>		
<b>Current tax charge:</b>		
UK corporation tax	610	5,370
Foreign tax	2,211	3,435
Adjustments in respect of prior years	(1,019)	(82)
<b>Total current tax</b>	<b>1,802</b>	<b>8,723</b>
<b>Deferred tax (credit)/charge:</b>		
Origination and reversal of timing differences	(788)	1,169
Impact of change in UK tax rates	306	164
Adjustments in respect of prior years	154	(409)
<b>Total deferred tax</b>	<b>(328)</b>	<b>924</b>
<b>Total continuing operations</b>	<b>1,474</b>	<b>9,647</b>
<b>Discontinued operations</b>	<b>3,191</b>	<b>608</b>
	<b>4,665</b>	<b>10,255</b>

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Finance Act 2012, which provides for a reduction in the main rate of UK corporation tax to 23% effective from 1 April 2013 was enacted on 17 July 2012. As this rate was substantively enacted prior to 31 December 2012, it has been reflected in the UK deferred tax balance at 31 December 2012.

The UK Government has indicated that it intends to enact further reductions in the main tax rate to 21% from 1 April 2014 and 20% from 1 April 2015. These changes to the main tax rate have not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The charge for the year can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	2012 £'000	2011 restated (note 3) £'000
<b>(Loss)/profit before tax on continuing operations</b>	<b>(19,927)</b>	<b>21,574</b>
<b>Effects of:</b>		
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	(4,882)	5,717
Regulatory penalties	2,083	530
Movement in unprovided deferred tax	843	–
Derecognition of deferred tax asset previously provided	1,436	–
Net expenses not deductible for tax purposes	1,156	741
Overseas tax losses not recognised	463	705
Higher tax rates on overseas earnings	418	315
Joint venture results presented net of taxation	117	313
Adjustments in respect of prior years	(865)	(491)
Impact of change in future tax rates on deferred tax	306	164
Shortfall of share option charge compared to tax allowable amount	399	1,653
<b>Total tax charged to income statement</b>	<b>1,474</b>	<b>9,647</b>

### 13. Taxation continued

Income tax (credited)/charged to reserves during the year was as follows:

	2012 £'000	2011 £'000
<b>Current tax credit:</b>		
Movement on equalisation reserve	(382)	(60)
<b>Total current tax</b>	<b>(382)</b>	<b>(60)</b>
<b>Deferred tax charge/(credit):</b>		
Timing differences on equity settled share based charge	4	1,027
Other short term timing differences	(3)	–
<b>Total deferred tax</b>	<b>1</b>	<b>1,027</b>
<b>Total tax (credited)/charged to reserves</b>	<b>(381)</b>	<b>967</b>

### 14. Dividends

Amounts recognised as distributions to equity holders in the year are as follows:

	2012 £'000	2011 £'000
Final dividend paid for the year ended 31 December 2011 of nil pence per share (2010: 5.12 pence per share)	–	8,776
Interim dividend paid for the year ended 31 December 2012 of nil pence per share (2011: 2.42 pence per share)	–	4,149
<b>Amounts recognised as distributions to equity holders in the period</b>	<b>–</b>	<b>12,925</b>

The Directors have not proposed a final dividend for the year ended 31 December 2012.

### 15. (Loss)/earnings per share

Basic and diluted (loss)/earnings per share have been calculated in accordance with IAS 33 “Earnings per Share”. Underlying earnings per share have also been presented in order to give a better understanding of the performance of the business.

#### (Loss)/earnings

	Continuing operations		Discontinued operations		Total	
	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 restated (note 3) £'000	2012 £'000	2011 £'000
(Loss)/earnings for the purposes of basic and diluted earnings per share	(21,289)	12,091	4,171	6,124	(17,118)	18,215
Exceptional items (net of tax)	38,279	14,074	2,608	69	40,887	14,143
<b>Earnings for the purposes of underlying basic and diluted earnings per share</b>	<b>16,990</b>	<b>26,165</b>	<b>6,779</b>	<b>6,193</b>	<b>23,769</b>	<b>32,358</b>

#### Number of shares

	Number (thousands)	Number (thousands)
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	171,457	171,210
Effect of dilutive potential ordinary shares: share options	4,095	787
<b>Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share</b>	<b>175,552</b>	<b>171,997</b>

## Notes to the consolidated financial statements continued

## 15. (Loss)/earnings per share

	Continuing operations		Discontinued operations		Total	
	2012 Pence	2011 restated (note 3) Pence	2012 Pence	2011 restated (note 3) Pence	2012 Pence	2011 Pence
Basic and diluted (loss)/earnings per share:						
Basic	(12.42)	7.06	2.43	3.58	(9.98)	10.64
Diluted	(12.13)	7.03	2.38	3.56	(9.75)	10.59
Basic and diluted underlying earnings per share:						
Basic	9.91	15.28	3.95	3.62	13.86	18.90
Diluted	9.68	15.21	3.86	3.60	13.54	18.81

## 16. Discontinued operations

As at 31 December 2012 the Board was committed to the disposal of CPPNA Holdings Inc. and its subsidiaries, which carried out all of the Group's North American operations, and had initiated a sale process with reasonable expectation of shareholder approval. Subsequent to the year end the Group announced that it had reached agreement to sell CPPNA Holdings Inc. and its subsidiaries, subject to shareholder approval. The disposal is expected to complete in the second quarter of 2013 for gross consideration of \$40 million (approximately £26.1 million), further details are provided in notes 37 and 38.

In accordance with IFRS5 'Non-Current Assets Held for Sale and Discontinued Operations' the business has been classified in the consolidated balance sheet within assets and associated liabilities classified as held for sale, and presented as discontinued operations.

The consolidated income statement, analysis of exceptional items, summary of cash flows and assets and liabilities of this business are set out below:

## (i) Consolidated income statement

	2012 £'000	2011 £'000
Revenue	49,802	45,752
Cost of sales	(26,578)	(27,084)
<b>Gross profit</b>	<b>23,224</b>	<b>18,668</b>
<b>Administrative expenses</b>		
Exceptional items	(2,715)	(69)
Other administrative expenses	(13,138)	(11,837)
<b>Total administrative expenses</b>	<b>(15,853)</b>	<b>(11,906)</b>
<b>Operating profit</b>		
<b>Operating profit before exceptional items</b>	<b>10,086</b>	<b>6,831</b>
<b>Operating profit after exceptional items</b>	<b>7,371</b>	<b>6,762</b>
Investment revenues	9	16
Finance costs – non-derivative instruments	(18)	(46)
<b>Profit before taxation</b>	<b>7,362</b>	<b>6,732</b>
Taxation	(3,191)	(608)
<b>Profit for the year</b>	<b>4,171</b>	<b>6,124</b>

## (ii) Exceptional items

	2012 £'000	2011 £'000
Costs associated with disposal	(2,715)	–
Legacy scheme share based payments	–	(69)
<b>Exceptional items included in operating profit</b>	<b>(2,715)</b>	<b>(69)</b>
Tax on exceptional items	107	–
<b>Total exceptional items after tax</b>	<b>(2,608)</b>	<b>(69)</b>

## (iii) Summary of cash flows

	2012 £'000	2011 £'000
Net cash flows from operating activities	3,703	4,468
Net cash flows from investing activities	320	(647)
Net cash flows from financing activities	(6,973)	(3,003)
<b>Net cash (outflow)/inflow</b>	<b>(2,950)</b>	<b>819</b>

**16. Discontinued operations continued****(iv) Assets and liabilities**

	2012 £'000
<b>Assets</b>	
<b>Non-current assets</b>	
Goodwill	11,934
Other intangible assets	204
Property, plant and equipment	343
Deferred tax asset	290
	12,771
<b>Current assets</b>	
Trade and other receivables	3,399
Cash and cash equivalents	3,837
	7,236
<b>Total assets held for sale</b>	<b>20,007</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Trade and other payables	(6,530)
Income tax liabilities	(469)
	(6,999)
<b>Non-current liabilities</b>	
Other creditors	(131)
	(131)
<b>Total liabilities held for sale</b>	<b>(7,130)</b>
<b>Net assets held for sale</b>	<b>12,877</b>

**17. Goodwill**

	2012 £'000	2011 £'000
<b>Cost and carrying value:</b>		
At 1 January	16,521	16,536
Exchange adjustments	(539)	(15)
Impairment	(2,570)	–
Transfer to assets classified as held for sale	(11,934)	–
<b>At 31 December</b>	<b>1,478</b>	16,521

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2012 £'000	2011 £'000
Homecare (Holdings) Limited	1,478	1,478
CPP North America LLC	–	12,473
CPP Travel Services Limited	–	2,570
	<b>1,478</b>	16,521

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

## Notes to the consolidated financial statements continued

**17. Goodwill continued**

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on detailed business plans, and do not take account of any long term growth after this plan period of up to three years. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The pre-tax rate used to discount the forecast cash flows from the relevant CGUs at 31 December 2012 is 16% (2011: 14%).

At 31 December 2012, the Directors decided to recognise a full impairment of the CPP Travel Services Limited goodwill balance and associated intangible assets as shown in note 18. This reflected the historical trading performance of the company. The resulting impairment loss of £3,120,000 in total has been recognised as an exceptional item in the consolidated income statement.

**18. Other intangible assets**

	Contractual arrangements with third parties £'000	Business relationships £'000	Internally generated software £'000	Externally acquired software £'000	Total £'000
<b>Cost:</b>					
At 1 January 2011	12,853	2,118	14,509	16,199	45,679
Additions	4,275	–	2,397	2,745	9,417
Disposals	–	–	–	(107)	(107)
Exchange adjustments	–	–	–	(16)	(16)
<b>At 1 January 2012</b>	<b>17,128</b>	<b>2,118</b>	<b>16,906</b>	<b>18,821</b>	<b>54,973</b>
Additions	<b>292</b>	<b>–</b>	<b>1,571</b>	<b>1,686</b>	<b>3,549</b>
Disposals	<b>–</b>	<b>(907)</b>	<b>–</b>	<b>(112)</b>	<b>(1,019)</b>
Exchange adjustments	<b>–</b>	<b>–</b>	<b>(10)</b>	<b>(129)</b>	<b>(139)</b>
Transfer to assets classified as held for sale	<b>–</b>	<b>–</b>	<b>(237)</b>	<b>(1,027)</b>	<b>(1,264)</b>
<b>At 31 December 2012</b>	<b>17,420</b>	<b>1,211</b>	<b>18,230</b>	<b>19,239</b>	<b>56,100</b>
<b>Accumulated amortisation:</b>					
At 1 January 2011	3,069	158	9,876	10,521	23,624
Provided during the year	3,663	478	2,425	2,284	8,850
Disposals	–	–	–	(107)	(107)
Exchange adjustments	–	–	–	(20)	(20)
<b>At 1 January 2012</b>	<b>6,732</b>	<b>636</b>	<b>12,301</b>	<b>12,678</b>	<b>32,347</b>
Provided during the year	<b>3,490</b>	<b>525</b>	<b>2,400</b>	<b>2,335</b>	<b>8,750</b>
Disposals	<b>–</b>	<b>(500)</b>	<b>–</b>	<b>–</b>	<b>(500)</b>
Exchange adjustments	<b>–</b>	<b>–</b>	<b>(11)</b>	<b>(25)</b>	<b>(36)</b>
Impairment	<b>591</b>	<b>550</b>	<b>–</b>	<b>–</b>	<b>1,141</b>
Transfer to assets classified as held for sale	<b>–</b>	<b>–</b>	<b>(233)</b>	<b>(827)</b>	<b>(1,060)</b>
<b>At 31 December 2012</b>	<b>10,813</b>	<b>1,211</b>	<b>14,457</b>	<b>14,161</b>	<b>40,642</b>
<b>Carrying amount:</b>					
<b>At 31 December 2011</b>	<b>10,396</b>	<b>1,482</b>	<b>4,605</b>	<b>6,143</b>	<b>22,626</b>
<b>At 31 December 2012</b>	<b>6,607</b>	<b>–</b>	<b>3,773</b>	<b>5,078</b>	<b>15,458</b>



**19. Property, plant and equipment**

	Freehold land & property £'000	Leasehold improvements £'000	Computer systems £'000	Furniture & equipment £'000	Total £'000
<b>Cost:</b>					
At 1 January 2011	7,278	5,434	30,766	7,288	50,766
Additions	–	235	1,771	429	2,435
Disposals	–	(1)	(1,969)	(38)	(2,008)
Exchange adjustments	–	(18)	(69)	(52)	(139)
<b>At 1 January 2012</b>	<b>7,278</b>	<b>5,650</b>	<b>30,499</b>	<b>7,627</b>	<b>51,054</b>
Additions	–	<b>553</b>	<b>1,386</b>	<b>238</b>	<b>2,177</b>
Disposals	–	<b>(60)</b>	<b>(234)</b>	<b>(41)</b>	<b>(335)</b>
Exchange adjustments	–	<b>(19)</b>	<b>(159)</b>	<b>(70)</b>	<b>(248)</b>
Transfer to assets classified as held for sale	–	<b>(240)</b>	<b>(1,912)</b>	<b>(585)</b>	<b>(2,737)</b>
<b>At 31 December 2012</b>	<b>7,278</b>	<b>5,884</b>	<b>29,580</b>	<b>7,169</b>	<b>49,911</b>
<b>Accumulated depreciation:</b>					
At 1 January 2011	1,622	3,842	23,663	6,250	35,377
Provided during the year	165	230	2,449	396	3,240
Disposals	–	–	(1,957)	(38)	(1,995)
Exchange adjustments	–	(15)	(18)	(8)	(41)
<b>At 1 January 2012</b>	<b>1,787</b>	<b>4,057</b>	<b>24,137</b>	<b>6,600</b>	<b>36,581</b>
Provided during the year	<b>165</b>	<b>326</b>	<b>2,057</b>	<b>350</b>	<b>2,898</b>
Disposals	–	<b>(52)</b>	<b>(223)</b>	<b>(32)</b>	<b>(307)</b>
Exchange adjustments	–	<b>(20)</b>	<b>(115)</b>	<b>(48)</b>	<b>(183)</b>
Transfer to assets classified as held for sale	–	<b>(174)</b>	<b>(1,718)</b>	<b>(502)</b>	<b>(2,394)</b>
<b>At 31 December 2012</b>	<b>1,952</b>	<b>4,137</b>	<b>24,138</b>	<b>6,368</b>	<b>36,595</b>
<b>Carrying amount</b>					
<b>At 31 December 2011</b>	<b>5,491</b>	<b>1,593</b>	<b>6,362</b>	<b>1,027</b>	<b>14,473</b>
<b>At 31 December 2012</b>	<b>5,326</b>	<b>1,747</b>	<b>5,442</b>	<b>801</b>	<b>13,316</b>

Included in freehold land and property is freehold land at its cost value of £759,000 (2011: £759,000), which is not depreciated.

**20. Investment in joint venture**

Movements in the Group's share in its joint venture are as follows:

	2012 £'000	2011 £'000
Carrying amount at 1 January	–	184
Increase in investment	<b>477</b>	997
Share of losses for the year	<b>(477)</b>	(1,181)
<b>Carrying amount at 31 December</b>	<b>–</b>	–

The Group has a 50% economic interest in Home 3 Assistance Limited (Home 3), with 49% of the issued ordinary share capital being allotted to the Group. The Group has provided Home 3 with a subordinated loan facility of £1,700,000 during the year. This has been accounted for as an investment in Home 3 to the extent that losses have been incurred in the current year.

Home 3 is incorporated in England and Wales. Its principal activity is provision of services in connection with assistance and insurance. This investment is considered to be jointly controlled based on the incorporation documents, shareholder agreement and the composition of the Board of Directors of Home 3.

**Notes to the consolidated financial statements continued****20. Investment in joint venture continued**

The Group has a 50% interest in the assets of Home 3, as follows:

	2012 £'000	2011 £'000
Non-current assets	91	168
Current assets	3,873	1,556
Current liabilities	(6,911)	(3,718)
<b>Net liabilities</b>	<b>(2,947)</b>	<b>(1,994)</b>
<b>Group's share of net liabilities</b>	<b>(1,474)</b>	<b>(997)</b>

The Group has a 50% interest in the revenue and expenses of Home 3 as follows:

	2012 £'000	2011 £'000
Revenue	9,901	1,774
Expenses	(12,038)	(4,726)
<b>Loss before taxation</b>	<b>(2,137)</b>	<b>(2,952)</b>
Taxation	1,208	596
<b>Loss after taxation</b>	<b>(929)</b>	<b>(2,356)</b>
<b>Group's share of loss after taxation</b>	<b>(477)</b>	<b>(1,181)</b>

**21. Insurance assets**

	2012 £'000	2011 £'000
Amounts due from policyholders and intermediaries	15,642	8,093
Deferred acquisition costs	10,291	15,376
Amounts recoverable from reinsurers in respect of outstanding claims	1,308	1,083
	<b>27,241</b>	<b>24,552</b>

**Reconciliation of movement in deferred acquisition costs**

	2012 £'000	2011 £'000
At 1 January	15,376	15,237
Incurred during the year	15,623	10,702
Amortised during the year	(20,708)	(10,563)
<b>At 31 December</b>	<b>10,291</b>	<b>15,376</b>

Of the above balance, £2,104,000 (2011: £3,675,000) relates to a period greater than 12 months from 31 December 2012.

Amounts due from policyholders and intermediaries and amounts recoverable from reinsurers represent the total exposure to credit risk in respect of insurance activities.

Credit is not generally offered to retail customers on insurance premiums. Where credit is offered to wholesale insurance customers, the average credit period on insurance premiums is 45 days. The average credit period on amounts recoverable from reinsurers is 90 days. No interest is charged on insurance receivables at any time.

Individually or collectively material insurance receivables are reviewed for recoverability when an adverse change in credit quality is identified or when they become overdue. Credit risk is reduced as insurance receivables are dispersed amongst a broad customer base and where concentration exists the Group's main counterparties are typically large companies with established credit records. Credit risk is mitigated through maintaining and managing the customer base.

Included in the Group's insurance receivable balance are debtors with a carrying amount of £1,782,000 (2011: £1,329,000) which are past due at the balance sheet date, for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still considered recoverable.

The average age of overdue but un-provided debts is 65 days (2011: 67 days).

**21. Insurance assets continued****Ageing of past due but not impaired insurance receivables**

	2012 £'000	2011 £'000
Days outstanding since date of sales invoice:		
45 – 90 days	1,694	1,260
91 – 120 days	6	7
Over 120 days	82	62
	1,782	1,329

**Movement in the allowance for doubtful insurance receivables**

	2012 £'000	2011 £'000
Balance as at 1 January	–	125
Decrease in allowance recognised in income statement	–	(125)
<b>Balance as at 31 December</b>	<b>–</b>	<b>–</b>

**22. Inventories**

	2012 £'000	2011 £'000
Consumables and supplies	299	329

**23. Trade and other receivables**

	2012 £'000	2011 £'000
Trade receivables	14,842	13,587
Prepayments and accrued income	12,358	15,614
Other debtors	1,834	1,466
	29,034	30,667

Trade and other receivables are predominantly non-interest bearing.

An element of the Group's trade receivables continue to relate to retail customer payments awaiting collection. Since the timing of collection is controlled by the Group and is received within a specified period of processing the transaction, credit risk is considered low for these items.

Where credit is offered to customers, the average credit period offered is 37 days (2011: 34 days). No interest is charged on trade receivables at any time. Disclosures regarding credit risk below relate only to counterparties or customers offered credit.

The credit profile of the business has changed in recent years, with wholesale counterparties becoming a larger proportion of the trade receivable base. Individually or collectively material trade receivables are reviewed for recoverability when an adverse change in credit quality is identified or when they become overdue. The Group has low historical levels of customer and counterparty credit defaults, due in part to the quality of relationship it has with its counterparties and their credit ratings.

Overall exposure continues to be mainly spread over a large number of customers but where concentration exists this is with highly rated counterparties.

Included in the Group's trade receivable balance are debtors with a carrying amount of £1,045,000 (2011: £1,368,000) which are past due at the reporting date, for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable.

The average age of overdue but un-provided debts is 83 days (2011: 89 days).

**Notes to the consolidated financial statements continued****23. Trade and other receivables continued****Ageing of past due but not impaired receivables**

	2012 £'000	2011 £'000
Days outstanding since date of invoice:		
Up to 90 days	620	812
91 – 120 days	236	221
Over 120 days	189	335
	<b>1,045</b>	1,368

**Movement in the allowance for doubtful receivables**

	2012 £'000	2011 £'000
Balance as at 1 January and 31 December	–	–

**24. Cash and cash equivalents**

	2012 £'000	2011 £'000
Cash on demand	31,470	37,081
Short term deposits	21,728	17,843
	<b>53,198</b>	54,924

Short term deposits of £21,728,000 (2011: £17,843,000) represents cash deposits maintained by the Group's insurance businesses for solvency purposes.

Concentration of credit risk is reduced by placing cash on deposit across a number of institutions with high credit ratings. Credit quality of counterparties are as follows:

	2012 £'000	2011 £'000
AA	6,570	11,219
A	42,782	41,851
BBB	3,480	1,657
BB	294	–
B	63	78
Rating information not available	9	119
	<b>53,198</b>	54,924

Ratings are measured using Fitch's long term ratings, which are defined such that ratings "AAA" to "B-" denote investment grade counterparties, offering low to moderate credit risk. "AAA" represents the highest credit quality, indicating that the counterparty's ability to meet financial commitments is highly unlikely to be adversely affected by foreseeable events.

**25. Insurance liabilities**

	2012 £'000	2011 £'000
Claims reported	3,291	2,450
Claims incurred but not reported	323	203
Total claims	3,614	2,653
Unearned premium	3,773	6,015
Amounts payable to reinsurers	138	210
<b>Total insurance liabilities</b>	<b>7,525</b>	<b>8,878</b>

Provisions for claims reported and processed are based on estimated costs from third party suppliers. Provisions for claims incurred but not reported are an estimate of costs for the small number of claims not yet processed at the year end. Claims outstanding at the year end are expected to be settled within the following 12 months.

Amounts payable to reinsurers fall due for payment within one month.

**Provision for unearned premiums**

	2012 £'000	2011 £'000
At 1 January	6,015	7,440
Written in the year	86,625	77,044
Earned in the year	(88,867)	(78,469)
<b>At 31 December</b>	<b>3,773</b>	<b>6,015</b>

Unearned premiums are released as revenue on a straight line basis over the life of the relevant policy.

**Reinsurance cover**

The Group reinsures certain of its insurance contracts. Claims provisions are stated gross of reinsurance in the consolidated balance sheet. The impact of reinsurance on the year end claims provision is as follows:

	Gross £'000	Reinsurance £'000	Net £'000
Notified claims	2,450	(1,066)	1,384
Incurred but not reported claims	203	(17)	186
<b>As at 31 December 2011</b>	<b>2,653</b>	<b>(1,083)</b>	<b>1,570</b>
Notified claims	3,291	(1,294)	1,997
Incurred but not reported claims	323	(14)	309
<b>As at 31 December 2012</b>	<b>3,614</b>	<b>(1,308)</b>	<b>2,306</b>

Movements in the claims provision, gross and net of reinsurance, are as follows. There have been no significant differences between year end claims provisions and the amounts settled in the subsequent year.

	Gross £'000	Reinsurance £'000	Net £'000
As at 1 January 2011	2,833	(476)	2,357
Cash (paid)/received for claims settled in the year	(25,825)	3,572	(22,253)
Increase/(reduction) in liabilities arising from current year claims	25,645	(4,179)	21,466
<b>As at 1 January 2012</b>	<b>2,653</b>	<b>(1,083)</b>	<b>1,570</b>
Cash (paid)/received for claims settled in the year	(38,330)	5,155	(33,175)
Increase/(reduction) in liabilities arising from current year claims	39,291	(5,380)	33,911
<b>As at 31 December 2012</b>	<b>3,614</b>	<b>(1,308)</b>	<b>2,306</b>

## Notes to the consolidated financial statements continued

**25. Insurance liabilities continued****Equalisation reserve**

	2012 £'000	2011 £'000
At 1 January	6,423	6,196
Transfer from retained earnings	1,561	227
<b>At 31 December</b>	<b>7,984</b>	<b>6,423</b>

Equalisation reserves are established in accordance with Chapter 7.5 of the Integrated Prudential Sourcebook (PRU) and are in addition to the provisions required to meet the anticipated ultimate cost of settlement at the balance sheet date. As no actual liability exists at the balance sheet date, no provision is made in relation to movements in the claims equalisation reserve. However, as a claims equalisation reserve is still a requirement of PRU, an amount equal to the claims equalisation reserve is transferred from retained earnings to other reserves in the shareholders' funds. Deferred tax is not included in this transfer.

**26. Trade and other payables**

	2012 £'000	2011 £'000
<b>Current liabilities</b>		
Trade creditors and accruals	35,533	44,438
Other tax and social security	6,305	5,711
Other payables	7,016	5,050
Deferred income	7,733	12,685
	<b>56,587</b>	<b>67,884</b>
<b>Non-current liabilities</b>		
Other payables	6,500	–
	<b>6,500</b>	<b>–</b>
<b>Total trade and other payables</b>	<b>63,087</b>	<b>67,884</b>

Trade creditors and accruals comprise amounts outstanding for trade purchases and on-going costs. The average credit period for trade purchases is 20 days (2011: 18 days). Interest is not suffered on trade payables. The Group has financial management policies in place to ensure that all payables are settled within the pre-agreed credit terms.

**27. Bank loans**

The carrying value of the Group's financial liabilities, for short term borrowings and long term borrowings, are as follows:

	2012 £'000	2011 £'000
Repayments due within one year	43,500	–
Less: unamortised issue costs	(92)	–
<b>Bank loans due within one year</b>	<b>43,408</b>	<b>–</b>
Repayments due outside of one year	–	43,500
Less: unamortised issue costs	–	(459)
<b>Bank loans due outside of one year</b>	<b>–</b>	<b>43,041</b>

Analysis of repayments:

	2012 £'000	2011 £'000
Within one year	43,500	–
In the second year	–	43,500
In the third to fifth years	–	–
<b>Total repayments</b>	<b>43,500</b>	<b>43,500</b>
Less: unamortised issue costs	(92)	(459)
<b>Total carrying value</b>	<b>43,408</b>	<b>43,041</b>

The Group's bank debt is in the form of a revolving credit facility (RCF). The Group is entitled to roll over repayment of amounts drawn down, subject to all amounts outstanding falling due for repayment on expiry of the facility on 31 March 2013. The Group has extended the term of the existing bank facility to 30 September 2013, further details are provided in note 37.



## 27. Bank loans continued

The RCF bears interest at a variable rate of LIBOR plus a variable margin dependant on the net debt to EBITDA ratio of the Group. It is secured by fixed and floating charges on certain assets of the Group. The financial covenants of the RCF are based on the interest cover and leverage of the Group. The Group has been in compliance with these covenants since inception of the RCF.

The weighted average interest rates paid during the year were as follows:

	2012 %	2011 %
Bank loans	3.4	3.3
Weighted average	3.4	3.3

At 31 December 2012 the Group had available £35.6 million (2011: £35.6 million) of undrawn committed borrowing facilities which expire on 31 March 2013 and on which all conditions precedent had been met.

## 28. Provisions

	Cash settled share based payments 2012 £'000	Customer redress and associated costs 2012 £'000	Total 2012 £'000	Cash settled share based payments 2011 £'000	Customer redress and associated costs 2011 £'000	Total 2011 £'000
At 1 January	894	14,778	15,672	1,719	–	1,719
Charged to the income statement	3	26,273	26,276	72	16,892	16,964
Customer redress and associated costs paid in the year	–	(12,084)	(12,084)	–	(2,114)	(2,114)
Loan notes repaid in the year	(897)	–	(897)	(897)	–	(897)
<b>At 31 December</b>	<b>–</b>	<b>28,967</b>	<b>28,967</b>	<b>894</b>	<b>14,778</b>	<b>15,672</b>

Provisions in respect of cash settled share based payments represent loan notes issued by employees to the Group. Further details are provided in note 33.

The loan notes became fully vested in March 2012 and were redeemed in full at that time.

The customer redress and associated cost provision comprises anticipated compensation payable to customers through a customer redress exercise and professional fees associated with the customer redress exercise.

Customer redress and associated costs are expected to be settled within one year of the balance sheet date.

Provisions are expected to be settled in the following periods:

	Cash settled share based payments 2012 £'000	Customer redress and associated costs 2012 £'000	Total 2012 £'000	Cash settled share based payments 2011 £'000	Customer redress and associated costs 2011 £'000	Total 2011 £'000
Within one year	–	28,967	28,967	894	10,499	11,393
Outside of one year	–	–	–	–	4,279	4,279
<b>At 31 December</b>	<b>–</b>	<b>28,967</b>	<b>28,967</b>	<b>894</b>	<b>14,778</b>	<b>15,672</b>

**Notes to the consolidated financial statements continued****29. Deferred tax**

The following are the major deferred tax assets/(liabilities) recognised by the Group and the movements thereon during the current and prior years:

	Accelerated capital allowances £'000	Tax losses £'000	Share based payments £'000	Other short term timing differences £'000	Total £'000
At 1 January 2011	663	46	3,503	(862)	3,350
Credited/(charged) to income statement	368	(46)	(1,846)	554	(970)
Credited to equity	–	–	(1,027)	–	(1,027)
<b>At 1 January 2012</b>	1,031	–	630	(308)	1,353
Credited/(charged) to income statement	<b>1,507</b>	–	<b>(626)</b>	<b>243</b>	<b>1,124</b>
(Charged)/(credited) to equity	–	–	<b>(4)</b>	<b>3</b>	<b>(1)</b>
Transfer to assets classified as held for sale	<b>(135)</b>	–	–	<b>(155)</b>	<b>(290)</b>
<b>At 31 December 2012</b>	<b>2,403</b>	–	–	<b>(217)</b>	<b>2,186</b>

Deferred tax assets and liabilities are stated at tax rates expected to apply on the forecast date of reversal, based on tax laws substantively enacted at the balance sheet date.

Certain deferred tax assets and liabilities have been offset where the Group is entitled to and intends to settle tax liabilities on a net basis. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2012 £'000	2011 £'000
Deferred tax assets	<b>2,902</b>	1,987
Deferred tax liabilities	<b>(716)</b>	(634)
	<b>2,186</b>	1,353

At the balance sheet date the Group has unused tax losses of £11,349,000 (2011: £9,245,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams in the underlying companies and restrictions on offset of taxable profits and losses between Group companies. Included in unrecognised deferred tax assets are losses of £463,000 (2011: £457,000) that will expire in 2015, £969,000 (2011: £969,000) that will expire in 2016, £61,000 that will expire in 2017 (2011: £nil) and £3,525,000 (2011: £2,629,000) that will expire in 2020. Other losses will be carried forward indefinitely.

The Group's share of tax losses carried forward in the Home 3 joint venture amount to £45,000 (2011: £1,495,000).

There is no deferred tax liability on unremitted foreign earnings.

**30. Financial instruments****Capital risk management**

The Group manages its capital to safeguard its ability to continue as a going concern.

The Group does not have a target level of gearing but seeks to maintain an appropriate balance of debt and equity while providing returns for shareholders and benefits for other stakeholders. During 2012 the Group maintained sufficient debt facilities to ensure its objectives were met. The Group's principal debt facility during the year was its £80 million revolving credit facility, which was due to expire on 31 March 2013 and was extended for a period to 30 September 2013, further details are provided in note 37.

The Group makes adjustments to its capital structure in light of economic conditions. To maintain or adjust the capital structure the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Directors' have considered the capital requirements of the Group, including as a result of the customer redress obligations, the availability of cash reserves and its debt facilities and have not proposed a final dividend in respect of the current year.

**Externally imposed capital requirement**

Two of the Group's principal subsidiaries, Card Protection Plan Limited and Homecare Insurance Limited, have capital requirements imposed by the FCA in the UK. Both subsidiaries have complied with their respective imposed capital requirements throughout the current and previous year.

### 30. Financial instruments continued

#### Card Protection Plan Limited

Card Protection Plan Limited is regulated by the FCA as an insurance intermediary, and is required to hold a minimum level of capital resources relative to regulated business revenue.

The ratio of current and future capital resources to regulated business revenue is reported monthly to management to ensure compliance. There have been no instances of non-compliance in either the current or previous years.

The Group has agreed with the FCA, as part of the WVOP, to additional restrictions on the disposition of assets by Card Protection Plan Limited.

#### Homecare Insurance Limited

Homecare Insurance Limited is regulated by the FCA as an insurance underwriter, and therefore maintains its capital resources in accordance with the FCA's risk-based solvency regime, Individual Capital Adequacy Standards (ICAS).

The current and future capital levels are reviewed each month and reported to the FCA to ensure on-going compliance and to support the quarterly FCA returns. There have been no instances of non-compliance in either the current or previous years.

The Group has agreed with the FCA, as part of the WVOP, to additional restrictions on the disposition of assets by Homecare Insurance Limited.

#### Fair value of financial instruments

The fair value of non-derivative financial instruments is determined using pricing models based on discounted cash flow analysis using prices from observable current market transactions. Financial assets and liabilities are carried at the following amounts:

#### Financial assets

	2012 £'000	2011 £'000
Loans and receivables	69,874	69,977

Loans and receivables comprise cash and cash equivalents, trade receivables and other receivables and taxes receivable.

There is no significant difference between the fair value and carrying amount of any financial asset.

#### Financial liabilities

	2012 £'000	2011 £'000
Financial liabilities at amortised cost	(130,200)	(116,295)

Financial liabilities at amortised cost comprise bank loans, trade creditors, accruals, taxes payable and provision for customer redress and associated costs.

There is no significant difference between the fair value and carrying amount of any financial liability, since liabilities are either short term in nature or bear interest at variable rates.

#### Financial risk management objectives

The Group's activities expose it primarily to the risks of changes in foreign exchange rates and interest rates. The Board of Directors determines the Treasury Policy of the Group and delegates the authority for execution of the policy to the Director of Tax & Treasury. Any changes to the Treasury Policy are authorised by the Board of Directors. The limited use of financial derivatives is governed by the Treasury Policy and derivatives are not entered into for speculative purposes.

#### Interest rate risk

The Group is exposed to interest rate risk to the extent that short and medium term interest rates fluctuate. The Group manages this risk through the use of interest rate swaps when appropriate, in accordance with its Treasury Policy. The interest cover (being defined as the ratio of EBITDA to interest paid) at 31 December 2012 is 2 (2011: 29), which is reflective of the exceptional items recognised in the year.

#### Interest rate sensitivity analysis

The Group is mainly exposed to movements in LIBOR. The following table details the Group's sensitivity to a 2% increase in LIBOR rates throughout the year. 2% represents the Directors' assessment of a reasonably possible change in LIBOR rates. The sensitivity analysis includes the impact of changes in LIBOR on yearly average cash and bank loans.

	2012 £'000	2011 £'000
Decrease in loss/increase in profit before tax	236	21
Increase in shareholders' equity	236	21

**Notes to the consolidated financial statements continued****30. Financial instruments continued****Foreign currency risk**

The Group has exposure to foreign currency risk where it has investments in overseas operations which have functional currencies other than Sterling and are affected by foreign exchange movements. The carrying amounts of the Group's principal foreign currency denominated assets and liabilities are as follows:

	Liabilities		Assets	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Euro	8,673	9,487	8,647	9,684
US Dollar	3,719	4,398	6,454	9,005

The Group's US Dollar operations have been classified as discontinued in the current period with agreement to sell the operation having been reached, pending shareholder approval, further detail is provided in note 37. The Group's exposure to US Dollar foreign currency movements are therefore expected to significantly reduce.

**Foreign currency sensitivity analysis**

The following table details the Group's sensitivity to a 20% decrease in Euro against Sterling and 15% decrease in US Dollars against Sterling exchange rates. These represent the Directors' assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the year end for a change in foreign currency rates.

	Euro currency impact		US Dollar currency impact	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
(Loss)/profit before tax	(139)	(50)	(51)	(7)
Shareholders' equity	4	(33)	(357)	(601)

**Eurozone sensitivity analysis**

The Group operates in countries with Euro denominated currencies, and the potential for the Eurozone to break up represents a risk to the Group. Eurozone operations are in Germany, Ireland, Italy, France, Portugal and Spain. The total carrying amount of the Group's net assets and profit before tax originating in the Eurozone are as follows:

	2012 £'000	2011 £'000
Net liabilities	(4,764)	(4,510)
Profit before tax	8,006	10,758

A 20% deterioration in the Sterling: Euro exchange rate throughout the year would have increased Group operating loss by £1,334,000 (2011: profit reduction of £1,793,000).

**Credit risk**

Credit risk refers to the risk that a counterparty defaults on its contractual obligations resulting in financial loss to the Group. The Group does not actively hedge its credit risk. The credit profile of the business has changed in recent years; whilst retail trade and retail insurance receivables continue to represent a high proportion of the receivable base, the increase of Packaged Account and Wholesale activities has increased the Group's credit risk.

The Group's retail trade and insurance receivables are mainly with a broad base of individual customers and are therefore not generally exposed to any one customer, resulting in low credit risk.

The Group's Packaged Account and Wholesale activities can result in material balances existing with a small number of counterparties and therefore increased credit risk exists. The Group considers that it mitigates this increased credit risk through good quality relationships with counterparties and only partnering with counterparties with established credit ratings.

Counterparty credit limits are determined in accordance with the Treasury Policy for cash and cash equivalents and the Counterparty and Credit Risk Policy for receivables. Any balance that falls into an overdue status is monitored. Further details of the monitoring of and provision for overdue debts is outlined for insurance receivables in note 21 and other receivables in note 23.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

### 30. Financial instruments continued

#### Liquidity risk

The Group has a policy of repatriation and pooling of funding where possible in order to maximise the return on surplus cash or minimise the level of debt required. Group Treasury continuously monitors the level of short term funding requirements and balances the need for short term funding with the long term funding needs of the Group. Additional undrawn facilities that the Group had at its disposal through the period to further reduce the liquidity risk are included in note 27. The terms of the extension of the RCF to 30 September 2013, have led to the amount committed being reduced to £25 million which is fully drawn (refer to note 37), liquidity risk will therefore increase in future periods.

Compliance with financial ratios and other covenant obligations of the Group's bank loans is monitored on a monthly basis by the Board of Directors.

#### Liquidity and interest risk tables

##### Liabilities

The following table details the Group's remaining contractual maturity for its financial liabilities, based on the undiscounted cash flows of financial liabilities and the earliest date at which the Group can be required to pay. The table includes both interest and principal cash flows and assumes no changes in future LIBOR rates.

	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
<b>2011</b>						
Non-interest bearing liabilities	26,625	19,389	16,487	9,875	419	72,795
Variable rate instruments	99	298	795	43,566	–	44,758
	26,724	19,687	17,282	53,441	419	117,553
<b>2012</b>						
Non-interest bearing liabilities	23,698	14,990	37,452	10,289	271	86,700
Variable rate instruments	83	43,666	–	–	–	43,749
	23,781	58,656	37,452	10,289	271	130,449

##### Assets

The following table details the Group's expected maturity for its non-derivative financial assets, based on the undiscounted contractual maturities of the financial assets.

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
<b>2011</b>							
Non-interest bearing assets	n/a	11,876	2,744	187	246	–	15,053
Variable interest rate instruments	1.0%	54,738	23	163	–	–	54,924
		66,614	2,767	350	246	–	69,977
<b>2012</b>							
Non-interest bearing assets	n/a	11,546	2,294	2,006	830	–	16,676
Variable interest rate instruments	1.0%	36,345	16,713	140	–	–	53,198
		47,891	19,007	2,146	830	–	69,874

#### Insurance risk

The Group applies a prudent approach to its management of potential exposure to risks arising from its insurance contracts.

The lines of policies underwritten are limited to General Insurance Classes underwritten by an entity within the Group which is authorised by the FCA. The lines of risk underwritten are restricted by the Group to those lines where the Group either has substantial experience or lines where the Group wishes to move into where it can enter such a line of business in a risk-controlled manner after appropriate Board consideration.

The Group's lines of insurance business and thus its insurance risk portfolio are primarily focused on high volume, low transaction value, short term individual lines.

The Group has in place reinsurance arrangements to transfer a level of claims risk to third parties. The level reinsured is determined by periodic, and at least annual reviews.

The Group's policy is to establish a specific claims reserve at any point in time on each line of business, based on claims reported up to and including the last day of each accounting period including an element to represent claims incurred but not yet reported. Details of claims reserves carried are provided in note 25.

**Notes to the consolidated financial statements continued****30. Financial instruments continued**

The Directors consider the following to be the principal insurance risks and actions taken reducing risk to an acceptable level:

**Changes in rates of claims**

Trends in claim rates and other market data are reviewed on a regular basis and premiums for new contracts adjusted accordingly. Each class of contract has a large population of homogeneous policyholders and no insurance contracts are subject to concentration risk.

A 10% deterioration in the loss ratio during the year would have resulted in a £2,809,000 increase in loss before tax and reduction in shareholders' equity (2011: reduction in profit and shareholders' equity of £1,568,000), 10% representing the Directors' assessment of the reasonably possible change in the loss ratio.

**Changes in settlement cost per claim**

The quantum or nature of settlement amounts is specified in policy documentation and the Group is not exposed to significant open ended commitments. Although settlement costs are not capped they generally vary within a small range, limiting the Group exposure.

**Reliance on key suppliers**

The Group makes use of third party suppliers to settle the majority of claims. The performance and financial position of key suppliers is regularly monitored and alternative lines of supply sourced as necessary.

The Group therefore considers its exposure to risk arising from its insurance contracts to be appropriately managed.

**31. Disposal of a subsidiary**

On 31 December 2012 the Group disposed of I-Deal Promotions Limited and Concepts for Travel Limited for consideration of £1 each. The disposals resulted in a loss to the Group of £891,000 in total.

There were no disposals of subsidiaries made in 2011.

**32. Share capital**

	2012 Number (thousands)	2012 £'000	2011 Number (thousands)	2011 £'000
<b>Called-up and allotted: Ordinary Shares of 10 pence each</b>				
At 1 January	171,430	17,106	170,616	17,024
Issue of shares in connection with:				
Exercise of share options	57	5	814	82
<b>At 31 December</b>	<b>171,487</b>	<b>17,111</b>	171,430	17,106

During the year the Company issued 57,387 shares to option holders for total consideration of £2,000. Further details relating to share options are provided in note 33.

Of the 171,486,890 ordinary shares issued at 31 December 2012, 170,986,891 are fully paid and 499,999 are partly paid.

The ordinary shares are entitled to the profits of the Company which it may from time to time determine to distribute in respect of any financial year or period.

All holders of ordinary shares shall have the right to attend and vote at all general meetings of the Company. On a return of assets on liquidation the assets (if any) remaining, after the debts and liabilities of the Company and the costs of winding up have been paid or allowed for, shall belong to, and be distributed amongst, the holders of all the ordinary shares in proportion to the number of such ordinary shares held by them respectively.



### 33. Share based payment

#### Legacy schemes

Legacy scheme share based payment charges in the income statement of £196,000 (2011: £1,167,000) arise from the Group's 2005 and 2008 ESOP Schemes and share based loan notes, which had been implemented in previous years to incentivise certain employees. Options in these schemes are exercisable at a price determined by the Board of Directors on the date of grant. The vesting conditions of the loan notes were broadly consistent with the options they replaced. The loan notes have been accounted for as cash settled share based payments.

The IPO during 2010 represented a trigger event for the 2005 and 2008 ESOP Schemes. On the date of the IPO, 50% of the options outstanding vested, with 25% vesting in 2011 and 25% in 2012. Options lapse if not exercised within ten years of original grant and may lapse if the employee leaves the Group. The loan notes became fully vested in March 2012 and were redeemed in full at that time.

Details of share options outstanding during the year under the legacy schemes are as follows:

	2012		2011	
	Number of share options (thousands)	Weighted average exercise price (£)	Number of share options (thousands)	Weighted average exercise price (£)
<b>2005 ESOP Scheme</b>				
Outstanding at 1 January	3,135	2.03	3,619	1.93
Forfeited during the year	(773)	2.22	(38)	1.22
Exercised during the year	(4)	0.82	(446)	1.24
<b>Outstanding at 31 December</b>	<b>2,358</b>	<b>1.97</b>	3,135	2.03
Exercisable at 31 December	2,358	1.97	1,016	2.08
<b>2008 ESOP Scheme</b>				
Outstanding at 1 January	3,866	1.79	4,504	1.79
Forfeited during the year	(2,501)	1.79	(270)	1.79
Exercised during the year	–	–	(368)	1.79
<b>Outstanding at 31 December</b>	<b>1,365</b>	<b>1.79</b>	3,866	1.79
Exercisable at 31 December	1,365	1.79	2,820	1.79

The weighted average share price at the date of exercise during the year was £1.12 (2011: £2.84).

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of nil years (2011: nil years) in the 2008 Scheme and nil years (2011: nil years) in the 2005 Scheme.

No options were granted in the year under the legacy schemes (2011: nil).

## Notes to the consolidated financial statements continued

## 33. Share based payment continued

## Post IPO plans

Other administrative expenses include a credit of £159,000 (2011: £1,092,000 charge) arising from the Long Term Incentive Plan, the Restricted Stock Plan, the Deferred Share Bonus Plan and the ShareSAVE Plan. Options have been granted during the year under the LTIP and RSP to incentivise certain employees.

Details of share options outstanding during the period under these plans are as follows:

	2012		2011	
	Number of share options (thousands)	Weighted average exercise price (£)	Number of share options (thousands)	Weighted average exercise price (£)
<b>LTIP</b>				
Outstanding at 1 January	2,904	–	1,271	–
Granted during the year	4,542	–	1,809	–
Forfeited during the year	(1,535)	–	(176)	–
<b>Outstanding at 31 December</b>	<b>5,911</b>	<b>–</b>	<b>2,904</b>	<b>–</b>
<b>RSP</b>				
Outstanding at 1 January	200	–	135	–
Granted during the year	588	–	106	–
Forfeited during the year	(106)	–	(41)	–
Exercised during the year	(39)	–	–	–
<b>Outstanding at 31 December</b>	<b>643</b>	<b>–</b>	<b>200</b>	<b>–</b>
Exercisable at 31 December	57	–	–	–
<b>DSBP</b>				
Outstanding at 1 January	61	–	–	–
Granted during the year	–	–	61	–
Forfeited during the year	(18)	–	–	–
Exercised during the year	(14)	–	–	–
<b>Outstanding at 31 December</b>	<b>29</b>	<b>–</b>	<b>61</b>	<b>–</b>
Exercisable at 31 December	9	–	–	–
<b>ShareSAVE Plan</b>				
Outstanding at 1 January	1,235	1.35	800	1.98
Granted during the year	–	–	1,073	1.25
Forfeited / cancelled during the year	(901)	1.35	(638)	1.98
<b>Outstanding at 31 December</b>	<b>334</b>	<b>1.34</b>	<b>1,235</b>	<b>1.35</b>

Nil-cost options and conditional shares granted during the year under the LTIP normally vest after three years, lapse if not exercised within 10 years of grant and may lapse if option holders cease to be employed by the Group. Vesting of LTIP options and shares are also subject to achievement of performance criteria including total shareholder return and an absolute share price measure over a three year period.

Nil-cost options and conditional shares granted during the year under the RSP normally vest after three years, lapse if not exercised within 10 years of grant, and may lapse if option holders cease to be employed by the Group.

Nil-cost options and conditional shares granted during 2011 under the DSBP normally vest after three years, lapse if not exercised within 10 years of grant and may lapse if option holders cease to be employed by the Group. The DSBP is a scheme to retain and further incentivise senior management by awarding a portion of their annual bonus in the form of share options.

Options granted during 2011 under the ShareSAVE Plan entitle option holders to contribute up to £250 per month to the plan. At the vesting date of either three or five years, option holders choose between return of their contributions in cash or purchase of shares at a discount to the market price on the date of grant. Options normally lapse and cash deposited is returned to option holders who cease to be employed by the Group during the vesting period.

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of two years (2011: two years) in the LTIP, two years (2011: two years) in the RSP, one year in the DSBP (2011: two years) and two years (2011: three years) in the ShareSAVE Plan.

### 33. Share based payment continued

The principal assumptions underlying the valuation of the options granted during the year at the date of grant are as follows:

	ShareSAVE		LTIP		RSP		DSBP	
	2012	2011	2012	2011	2012	2011	2012	2011
Weighted average share price	–	£1.33	<b>£0.48</b>	£2.17	<b>£0.45</b>	£2.79	–	£3.00
Weighted average exercise price	–	£1.25	<b>£nil</b>	£nil	<b>£nil</b>	£nil	–	£nil
Expected volatility	–	35.72%	<b>75.19%</b>	36.95%	<b>n/a</b>	n/a	–	n/a
Expected life	–	3 years	<b>3 years</b>	3 years	<b>3 years</b>	3 years	–	3 years
Risk free rate	–	1.16%	<b>0.47%</b>	1.49%	<b>n/a</b>	n/a	–	n/a
Dividend yield	–	5.68%	<b>n/a</b>	n/a	<b>n/a</b>	n/a	–	n/a

The aggregate estimated fair value of the options and shares granted in the year under the LTIP, RSP, DSBP and ShareSAVE is £329,000 (2011: £4,230,000).

Expected volatility for the 2011 awards was determined by calculating the historical volatility of comparable quoted companies' share prices.

### 34. Reconciliation of operating cash flows

	2012 £'000	2011 £'000
(Loss)/profit for the year	<b>(17,230)</b>	18,051
<b>Adjustment for:</b>		
Depreciation and amortisation	<b>11,648</b>	12,090
Equity settled share based payment expense	<b>34</b>	2,169
Impairment loss on goodwill and intangible assets	<b>3,711</b>	–
Loss on disposal of property, plant and equipment	<b>135</b>	13
Costs associated with disposal of discontinued operation	<b>2,715</b>	–
Share of loss of joint venture	<b>477</b>	1,181
Investment revenues	<b>(589)</b>	(423)
Other gains and losses	<b>891</b>	–
Finance costs – non-derivative instruments	<b>1,887</b>	1,795
Income tax expense	<b>4,665</b>	10,255
<b>Operating cash flows before movements in working capital</b>	<b>8,344</b>	45,131
Decrease/(increase) in inventories	<b>30</b>	(40)
Increase in receivables	<b>(2,063)</b>	(770)
Increase in insurance assets	<b>(2,689)</b>	(3,059)
Increase in payables	<b>916</b>	605
Decrease in insurance liabilities	<b>(1,353)</b>	(1,539)
Increase in provisions	<b>14,192</b>	14,850
<b>Cash generated by operations</b>	<b>17,377</b>	55,178
Exercise of share options	<b>(899)</b>	(1,059)
Income taxes paid	<b>(5,392)</b>	(12,572)
<b>Net cash from operating activities</b>	<b>11,086</b>	41,547

**Notes to the consolidated financial statements continued****35. Contingent liabilities**

Having regard to the disclosure in note 28, although agreement has been reached with the FCA it remains unclear what further steps the FCA may wish to take, if any, and against whom in relation to UK sales of the Group's Card Protection and Identity Protection products that are not within the scope of the Group's past business review, or in respect of any similar products available to the market from other providers. There can be no guarantee that the FCA will not seek to take action on a wider industry basis. Until such time as the FCA makes a determination on these issues, and the repercussions are understood for the industry as a whole, it is possible that other claims or matters may arise against the Group which could take a number of forms and therefore have a financial effect that cannot presently be estimated.

The FCA is currently conducting a thematic review in relation to the sale of MPI products and the Group has been co-operating with the FCA as part of this project in relation to sales of MPI products by one of its companies. The thematic review is being conducted on an industry wide basis and is looking at whether MPI is designed with consumers' interests in mind, and evaluating the sales, administration and claims handling processes across a population of firms who have a significant market share. The FCA has not at present expressed any final view in relation to matters arising from the Group's involvement in the thematic review and has not indicated that it will seek to take regulatory action against the Group. Given that the thematic review is being conducted, the Directors cannot be certain that the FCA may not seek to take steps against the Group in the future relating to sales of MPI products and seek to require redress for customers who purchased MPI products. However, at this time it is unclear whether any present obligation exists, and as such no provision has been recognised.

In addition the Group commissioned an independent report on the process used by one of its companies to sell MPI policies through voice channels. This report identified some potential compliance failings in the sales process and further work is being conducted to determine if there has been any customer detriment which may require redress. The Group is in discussions with the FCA on this matter but no conclusion can yet be formed and at this time it is unclear that any present obligation exists. As such no provision has been recognised.

The Directors have considered the probability of such claims or matters crystallising, and as a result do not deem them probable enough to recognise a provision.

**36. Commitments****Operating lease commitments**

The Group has entered into commercial leases on certain properties, motor vehicles and items of machinery. The leases have normal terms, escalation clauses and renewal rights.

Future minimum lease payments under non-cancellable operating leases expiring:

	2012 £'000	2011 £'000
Within one year	681	351
In the second to fifth years inclusive	4,931	4,163
After five years	4,422	6,093
	<b>10,034</b>	10,607

**37. Events after the balance sheet date**

On 17 April 2013 the Group announced that it had entered into an agreement to dispose of the entire issued and outstanding share capital of CPPNA Holdings Inc. and its subsidiaries, which carried out all of the Group's North American operations. The gross cash consideration for the disposal is \$40 million (approximately £26.1 million). Completion of the disposal remains conditional on the passing of a resolution by the shareholders at a General Meeting. Details of the retention arrangements entered into with key employees in contemplation of the disposal are included in note 38.

On 17 April 2013 the Group announced that it had agreed to extend the term of its existing bank facility to 30 September 2013. The amended facility contains certain undertakings and covenants that are customary for a facility of this nature. In particular this includes covenants relating to CPPNA Holdings Inc. and its subsidiaries which required the Group to enter into a disposal agreement on or before 16 April 2013 and to ensure that disposal is completed on or before 31 May 2013 (or such later date as agreed with the lenders). It was also agreed that £16.5 million of the disposal proceeds will be used to repay the current borrowings, reducing the total commitment under the amended facility to £25 million. The amended facility contains certain additional financial covenants which include covenants in respect of cancellation rates and a requirement for the Group to maintain a minimum balance of £12 million in a blocked account that is secured in favour of the lenders.

Following the announcement in February 2013 that RBS would be ending its MPI contract with the Group, it was decided that the lease on the Chesterfield office would not be renewed upon expiry in May 2013 leading to the controlled closure of the office in 2013. Under the terms of the lease the Group is liable for dilapidation works to the building. Employees at the Chesterfield office have been given the opportunity to transfer to the new RBS provider, where employees have not accepted this transfer redundancy costs will be incurred. The cost for dilapidations and redundancy are currently estimated at £0.4 million in total. In addition, certain grant funding received may be subject to re-negotiation.

### 38. Related party transactions and control

#### Ultimate controlling party

The Group is controlled by the Company's majority shareholder, Mr Hamish Macgregor Ogston CBE.

#### Transactions with associated undertakings

Transactions between the Group and its joint venture represent related party transactions.

The Group has undertaken the following transactions with its joint venture entity, Home 3:

	2012 £'000	2011 £'000
Costs rechargeable to Home 3 incurred by the Group	743	361
Balance receivable from Home 3 at 31 December	2,565	1,090

Amounts receivable from Home 3 include £1,700,000 (2011: £1,200,000) of subordinated loan notes, £1,200,000 of which fall due for repayment on 30 December 2013 and £500,000 falls due for repayment on 31 May 2014.

#### Transactions with related parties

On 31 December 2012, the Group disposed of its 51% interest in I-Deal Promotions Limited (I-Deal) and its 100% interest in Concepts for Travel Limited (Concepts) to Mark Koch. Mr Koch was, and continues to be, a director and shareholder of I-Deal. The consideration under the sale and purchase agreement was nominal, being £1 for the 51 shares held by the Group in I-Deal and £1 for the 30,000 shares held by Group in Concepts.

As part of the transaction, the Group has also extended a loan of £350,000 to I-Deal to meet the working capital requirements of I-Deal, secured by a debenture granted in favour of the Group. The loan will be written off by the Group provided I-Deal meets pre-existing contractual commitments to its customers (which are also Business Partners of the Group). This loan has been provided in full by the Group and forms part of the loss on disposal recognised by the Group, included in note 11.

On 23 March 2013 the Group entered into an agreement with Mr Hamish Macgregor Ogston CBE to reimburse on demand any legal fees, costs and expenses which Mr Hamish Macgregor Ogston CBE has incurred or may be incurred on his behalf in relation to the refinancing activities of the Group. The aggregate amount of costs to be reimbursed by the Group is limited to £470,000, although it is acknowledged in the agreement that should costs exceed the limit, revised arrangements will be required.

In contemplation of the disposal of CPPNA Holdings Inc., and in order to incentivise and retain certain key employees of the North American companies, agreements were entered into with certain key employees in October 2012 (the Arrangements). The key employees who entered into the Arrangements included David Pearce and Gregory Mazza who are directors of CPP North America LLC, a subsidiary of CPPNA Holdings Inc.

The Arrangements provide (amongst other things) for the payment of a "sale" retention bonus of approximately 1.5 times annual salary in the event the disposal is consummated prior to 1 July 2013. The Arrangements also provide for a success bonus payable in the event the total purchase price for the disposal exceeds certain parameters. This success bonus is capped at an upper limit and has not become payable.

Under the terms of the Arrangements, the aggregate amount payable is \$465,000 in the case of David Pearce and \$312,000 in the case of Gregory Mazza.

#### Remuneration of key management personnel

The remuneration of the Directors and senior management team, who are the key management personnel of the Group, is set out below:

	2012 £'000	2011 £'000
Short term employee benefits	3,782	3,436
Post employment benefits	229	231
Termination benefits	684	142
Share based payments	(91)	1,153
	4,603	4,962

Required disclosures regarding remuneration of the Directors are included in the Remuneration Report on pages 30 to 35.

# Company balance sheet

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Tangible fixed assets	42	5	5
Investment in subsidiaries	43	15,717	15,787
		<b>15,722</b>	15,792
<b>Current assets</b>			
Debtors	44	49,322	59,477
Cash and cash equivalents		14,454	9,901
		<b>63,776</b>	69,378
Creditors: amounts falling due within one year	46	(15,010)	(12,128)
<b>Net current assets</b>		<b>48,766</b>	57,250
<b>Total assets less current liabilities</b>		<b>64,488</b>	73,042
Provisions	47	(408)	(2,176)
<b>Net assets</b>		<b>64,080</b>	70,866
<b>Capital and reserves</b>			
Called up share capital	48	17,111	17,106
Share premium account	49	33,297	33,300
Share based payment reserve	49	5,012	4,980
Profit and loss reserve	49	8,660	15,480
<b>Equity shareholders' funds</b>		<b>64,080</b>	70,866

Approved by the Board of Directors and authorised for issue on 29 April 2013 and signed on its behalf by:

**Paul Stobart**

Chief Executive Officer

**Shaun Parker**

Chief Financial Officer

Company registration number: 07151159

# Notes to the Company financial statements

## 39. Parent company profit and loss account

The Company has taken advantage of the exemption in the Companies Act 2006, Section 408, not to present its own profit and loss account. The Company reported a loss after tax for the year of £6,820,000 (2011: £23,543,000 profit) including dividends received from subsidiary undertakings of £nil (2011: £30,000,000) during the year.

## 40. Significant accounting policies

### Basis of preparation

The Directors have chosen to present these Company financial statements under the historical cost basis in accordance with applicable law and accounting standards generally accepted in the United Kingdom (UK GAAP).

### Cash flow statement

Under FRS 1 (revised) "Cash Flow Statements" the Company is not required to include a cash flow statement within these Company financial statements, since a consolidated cash flow statement for the Group is publicly available.

### Dividend income

Dividend income from investments is recognised when the Company's right to receive payment has been established.

### Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Share based payments

Prior to the Company's shares being listed on the London Stock Exchange on 24 March 2010, the Company issued share options to certain of the Group's employees through the ESOP. Subsequent to its listing, the Company has issued share options to certain of the Group's employees under the LTIP, the RSP, the DSBP and the ShareSAVE Plan.

Share options are treated as equity settled if the Company has the ability to determine whether to settle exercises in cash or by the issue of shares. Share options are measured at fair value at the date of grant, based on the Company's estimate of shares that will eventually vest, and adjusted for the effect of non-market based vesting conditions each period. The fair value of equity settled share based payments is charged to the profit and loss account on a straight line basis over the vesting period, with a corresponding increase in reserves, subject to adjustment for forfeited options.

Share options are treated as cash settled, if the terms of the scheme require or the Directors intend to settle share options with a cash payment. Cash settled options are measured at fair value at date of grant and subsequently revalued at each period end. For cash settled share based payments, a liability is recognised for a proportion, based on the vesting period, of the fair value as calculated at the balance sheet date. Movements in the provision are charged to the profit and loss account.

The fair value of the options are measured by use of the Black Scholes option pricing model and Monte Carlo simulation model.

### Pension costs

Pension costs represent contributions made by the Company to defined contribution pension schemes. These are expensed as incurred.



**Notes to the Company financial statements continued****40. Significant accounting policies continued****Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Computer systems: 4 years straight line

**Investment in subsidiaries**

Investments in subsidiaries are stated at cost less provision for impairment. As permitted by Section 615 of the Companies Act 2006, shares issued as consideration for acquisition of a subsidiary already under common control are deemed to have been issued at their par value.

**Cash at bank and in hand**

Cash at bank and in hand comprises cash in hand and bank deposits with a term from inception of three months or less, less bank overdrafts where there is a right to offset. Bank overdrafts are presented as current liabilities to the extent that there is no right to offset with cash balances in the same currency.

**Financial assets**

Financial assets of the Company are classified according to their nature and purpose which is determined at the time of initial recognition. All of the financial assets held by the Company are classified as "loans and receivables".

**Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. All financial liabilities of the Company are classified as "other financial liabilities".

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**41. Dividends**

Amounts recognised as distributions to equity holders in the year are as follows:

	2012 £'000	2011 £'000
Final dividend paid for the period ended 31 December 2011 of nil pence per share (2010: 5.12 pence per share)	–	8,776
Interim dividend paid for the year ending 31 December 2012 of nil pence per share (2011: 2.42 pence per share)	–	4,149
<b>Amounts recognised as distributions to equity holders in the year</b>	<b>–</b>	<b>12,925</b>

The Directors have not proposed a final dividend for the year ended 31 December 2012.

**42. Tangible fixed assets**

	Computer systems £'000
<b>Cost:</b>	
At 1 January 2012	6
Additions	2
<b>At 31 December 2012</b>	<b>8</b>
<b>Accumulated Depreciation:</b>	
At 1 January 2012	1
Provided during the year	2
<b>At 31 December 2012</b>	<b>3</b>
<b>Carrying amount:</b>	
<b>At 31 December 2011</b>	5
<b>At 31 December 2012</b>	<b>5</b>

**43. Investment in subsidiaries**

	2012 £'000	2011 £'000
<b>Cost and carrying value:</b>		
At 1 January	15,787	15,321
Acquisitions	–	466
Disposals	(70)	–
<b>At 31 December</b>	<b>15,717</b>	15,787

The disposal of £70,000 during the year (2011: £466,000 acquisition) relates to the reversal of share based payment charges in relation to share options held by overseas employees. This is treated as a reduction to the capital contribution reserve of the employing subsidiaries and therefore recognised as a reduction in the investments in subsidiary companies.

**Notes to the Company financial statements continued****43. Investment in subsidiaries continued**

Investments in Group entities at 31 December 2012 are as follows:

	Country of incorporation/registration	Class of shares held	Percentage of share capital held
<b>Investments in subsidiary undertakings held directly</b>			
CPP Group Plc	England & Wales	Ordinary Shares	100%
CPP Worldwide Holdings Limited	England & Wales	Ordinary Shares	100%
<b>Investments in subsidiary undertakings held through an intermediate subsidiary</b>			
Airport Angel Limited	England & Wales	Ordinary Shares	100%
Card Protection Plan Limited	England & Wales	Ordinary Shares	100%
CPP Assistance Limited	England & Wales	Ordinary Shares	100%
CPP Assistance Services Limited	England & Wales	Ordinary Shares	100%
CPP European Holdings Limited	England & Wales	Ordinary Shares	100%
CPP Group Finance Limited	England & Wales	Ordinary Shares	100%
CPP Holdings Limited	England & Wales	Ordinary Shares	100%
CPP Insurance Administration Limited	England & Wales	Ordinary Shares	100%
CPP International Holdings Limited	England & Wales	Ordinary Shares	100%
CPP Services Limited	England & Wales	Ordinary Shares	100%
Detailregion Limited	England & Wales	Ordinary Shares	100%
Green Suite Limited	England & Wales	Ordinary Shares	100%
Homecare Assistance Limited	England & Wales	Ordinary Shares	100%
Homecare (Holdings) Limited	England & Wales	Ordinary Shares	100%
Homecare Insurance Limited	England & Wales	Ordinary Shares	100%
CPP Travel Services Limited	England & Wales	Ordinary Shares	100%
CPP Brasil Servicos de Assistencia Pessoal LTDA	Brazil	Ordinary Shares	100%
CPP Commercial Consulting Services (Shanghai) Co Limited	China	Ordinary Shares	100%
CPP France SA	France	Ordinary Shares	100%
CPP Creating Profitable Partnerships GmbH	Germany	Ordinary Shares	100%
one call GmbH	Germany	Ordinary Shares	100%
White Rock Limited	Guernsey	*	
CPP Asia Limited	Hong Kong	Ordinary Shares	100%
CPP Assistance Services Private Limited	India	Ordinary Shares	100%
CPP Italia Srl	Italy	Ordinary Shares	100%
Servicios de Asistencia a Tarjetahabientes CPP Mexico, S.de R.L.de C.V	Mexico	Ordinary Shares	100%
Profesionales en Proteccion Individual, S.de R.L de C.V	Mexico	Ordinary Shares	100%
CPP Mediacion Y Proteccion SL	Spain	Ordinary Shares	100%
CPP Proteccion Y Servicios de Asistencia SAU	Spain	Ordinary Shares	100%
Key Line Auxiliar SL	Spain	Ordinary Shares	100%
CPP Real Life Services Support SL	Spain	Ordinary Shares	100%
CPP Sigorta Aracilik Hizmetleri Anonim Sirketi	Turkey	Ordinary Shares	99.99%
CPP Yardim ve Destek Hizmetleri Anonim Sirketi	Turkey	Ordinary Shares	99.99%
CPP Direct LLC	United States	Ordinary Shares	100%
CPP Florida LLC	United States	Ordinary Shares	100%
CPP Insurance Agency LLC	United States	Ordinary Shares	100%

**43. Investment in subsidiaries continued**

	Country of incorporation/registration	Class of shares held	Percentage of share capital held
CPPNA Holdings Inc	United States	Ordinary Shares	100%
CPP North America LLC	United States	Ordinary Shares	100%
CPP Travel LLC	United States	Ordinary Shares	100%
CPP Warranties LLC	United States	Ordinary Shares	100%

**Investments in joint venture undertakings held via an intermediate subsidiary**

Home 3 Assistance Limited	England & Wales	Ordinary Shares	49%
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\* Quasi-subsiidiary Protected Cell Company

The principal activity of all of the subsidiaries is to provide services in connection with the Group's major product streams.

**44. Debtors**

	2012 £'000	2011 £'000
Amounts due from Group entities	49,142	58,532
Prepayments	119	69
Deferred tax asset	–	745
Other debtors	61	131
	49,322	59,477

Amounts receivable from Group entities are unsecured, have no fixed date of repayment and bear interest at LIBOR plus a variable margin.

**45. Deferred tax**

Movements in deferred tax assets recognised by the Company are as follows:

	Share based payments 2012 £'000	Share based payments 2011 £'000
At 1 January	745	894
Charged to profit and loss account	(745)	(149)
<b>At 31 December</b>	<b>–</b>	<b>745</b>

Deferred tax assets are stated at the UK corporation tax rate of 23% expected to apply on the forecast date of reversal, based on tax laws substantively enacted at 31 December 2012.

**46. Creditors: amounts falling due within one year**

	2012 £'000	2011 £'000
Trade creditors	542	140
Amounts payable to Group entities	12,757	10,702
Accruals	1,711	1,286
	15,010	12,128

Amounts payable to Group companies are unsecured, have no fixed date of repayment and suffer interest at a rate of LIBOR plus a variable margin.

## Notes to the Company financial statements continued

## 47. Provisions

	Cash settled share based payments 2012 £'000	Customer redress and associated costs 2012 £'000	Total 2012 £'000	Cash settled share based payments 2011 £'000	Customer redress and associated costs 2011 £'000	Total 2011 £'000
At 1 January	894	1,282	2,176	1,719	–	1,719
Charged to the profit and loss account	3	973	976	72	2,109	2,181
Customer redress and associated costs paid in the year	–	(1,847)	(1,847)	–	(827)	(827)
Repayment of loan notes	(897)	–	(897)	(897)	–	(897)
<b>At 31 December</b>	<b>–</b>	<b>408</b>	<b>408</b>	<b>894</b>	<b>1,282</b>	<b>2,176</b>

Cash settled share based payments represent loan notes issued to employees of Group entities. Further details are provided in note 51.

As a consequence of the IPO, 50% of the loan notes fell due for repayment during 2010, 25% fell due for repayment in 2011 and 25% fell due in 2012.

The customer redress and associated costs provision comprises other costs and professional fees associated with the customer redress exercise.

Customer redress and associated costs are anticipated to be settled within one year of the balance sheet date.

## 48. Share capital

	2012 Number (thousands)	2012 £'000	2011 Number (thousands)	2011 £'000
<b>Issued:</b>				
At 1 January	171,430	17,106	170,616	17,024
Issue of shares:				
Exercise of share options	57	5	814	82
<b>At 31 December</b>	<b>171,487</b>	<b>17,111</b>	<b>171,430</b>	<b>17,106</b>

During the year 57,387 10 pence ordinary shares have been issued to option holders for total consideration of £2,000. Further details relating to share options are provided in note 51.

Of the 171,486,890 ordinary shares issued at 31 December 2012, 170,986,891 are fully paid and 499,999 are partly paid.

## 49. Reserves

	Share premium account £'000	Share based payment reserve £'000	Profit and loss reserve £'000	Total £'000
At 1 January 2012	33,300	4,980	15,480	53,760
Loss for the year	–	–	(6,820)	(6,820)
Equity settled share based payment charge	–	32	–	32
Exercise of share options	(3)	–	–	(3)
<b>At 31 December 2012</b>	<b>33,297</b>	<b>5,012</b>	<b>8,660</b>	<b>46,969</b>

**50. Reconciliation of movement in equity shareholders' funds**

	2012 £'000	2011 £'000
(Loss)/profit for the year	(6,820)	23,543
Dividends paid	–	(12,925)
Equity settled share based payment charge	32	2,007
Exercise of share options	2	1,081
<b>Movement in equity shareholders' funds</b>	<b>(6,786)</b>	<b>13,706</b>
<b>Equity shareholders' funds at 1 January</b>	<b>70,866</b>	<b>57,160</b>
<b>Equity shareholders' funds at 31 December</b>	<b>64,080</b>	<b>70,866</b>

**51. Share based payment****Legacy schemes**

Legacy schemes comprise the 2005 and the 2008 ESOP Schemes, including the related loan notes (see note 47), which had been implemented in previous years, to incentivise certain employees. Details of options outstanding held by the Company's employees under these schemes are as follows:

	2012		2011	
	Number of share options (thousands)	Weighted average exercise price £	Number of share options (thousands)	Weighted average exercise price £
<b>2005 ESOP Scheme</b>				
Outstanding at 1 January	2,373	2.02	2,253	1.84
Forfeited in the year	(406)	2.28	(16)	0.82
Exercised during the year	–	–	(299)	1.12
Transferred in from other Group companies	20	2.28	435	2.28
<b>Outstanding at 31 December</b>	<b>1,987</b>	<b>1.98</b>	<b>2,373</b>	<b>2.02</b>
<b>Exercisable at 31 December</b>	<b>1,987</b>	<b>1.98</b>	<b>633</b>	<b>2.05</b>

	2012		2011	
	Number of share options (thousands)	Weighted average exercise price £	Number of share options (thousands)	Weighted average exercise price £
<b>2008 ESOP Scheme</b>				
Outstanding at 1 January	3,022	1.79	3,216	1.79
Forfeited in the year	(2,103)	1.79	(116)	1.79
Exercised during the year	–	–	(162)	1.79
Transferred in from other Group companies	126	1.79	84	1.79
<b>Outstanding at 31 December</b>	<b>1,045</b>	<b>1.79</b>	<b>3,022</b>	<b>1.79</b>
<b>Exercisable at 31 December</b>	<b>1,045</b>	<b>1.79</b>	<b>2,356</b>	<b>1.79</b>

The IPO during 2010 represented a trigger event for the 2005 and 2008 ESOP Schemes. On the date of the IPO 50% of the options outstanding vested, with 25% vesting in 2011 and 25% in 2012. Options lapse if not exercised within 10 years of original grant and may lapse if the employee leaves the Group.

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of nil years (2011: nil years) in the 2008 Scheme and nil years (2011: nil years) in the 2005 Scheme.

The weighted average share price at the dates of exercise during the year was £nil (2011: £2.81).

## Notes to the Company financial statements continued

## 51. Share based payment continued

## Post IPO plans

Options have been granted by the Company to Group employees during the year under the LTIP and RSP to incentivise certain employees.

Details of share options outstanding during the year held by the Company's employees under the plans are as follows:

	2012		2011	
	Number of share options (thousands)	Weighted average exercise price £	Number of share options (thousands)	Weighted average exercise price £
<b>LTIP</b>				
Outstanding at 1 January	2,152	–	848	–
Granted during the year	3,414	–	1,373	–
Forfeited during the year	(1,063)	–	(120)	–
Transferred in from other Group companies	80	–	51	–
<b>Outstanding at 31 December</b>	<b>4,583</b>	<b>–</b>	<b>2,152</b>	<b>–</b>
<b>RSP</b>				
Outstanding at 1 January	72	–	45	–
Granted during the year	228	–	45	–
Forfeited during the year	(32)	–	(18)	–
Exercised during the year	(18)	–	–	–
Transferred in from other Group companies	12	–	–	–
<b>Outstanding at 31 December</b>	<b>262</b>	<b>–</b>	<b>72</b>	<b>–</b>
<b>Exercisable at 31 December</b>	<b>7</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>DSBP</b>				
Outstanding at 1 January	46	–	–	–
Granted during the year	–	–	46	–
Forfeited during the year	(13)	–	–	–
Exercised during the year	(14)	–	–	–
Transferred in from other Group companies	5	–	–	–
<b>Outstanding at 31 December</b>	<b>24</b>	<b>–</b>	<b>46</b>	<b>–</b>
<b>Exercisable at 31 December</b>	<b>9</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>ShareSAVE Plan</b>				
Outstanding at 1 January	114	1.31	57	1.98
Granted during the year	–	–	105	1.25
Forfeited / cancelled during the year	(52)	1.31	(48)	1.98
<b>Outstanding at 31 December</b>	<b>62</b>	<b>1.30</b>	<b>114</b>	<b>1.31</b>

Nil-cost options and conditional shares granted during the year under the LTIP normally vest after three years, lapse if not exercised within 10 years of grant and may lapse if option holders cease to be employed by the Group. Vesting of LTIP options and shares are also subject to achievement of performance criteria including total shareholder return and an absolute share price measure over a three year period.

Nil-cost options and conditional shares granted during the year under the RSP normally vest after three years, lapse if not exercised within 10 years of grant and may lapse if option holders cease to be employed by the Group.

Nil-cost options and conditional shares granted during 2011 under the DSBP normally vest after three years, lapse if not exercised within 10 years of grant and may lapse if option holders cease to be employed by the Group. The DSBP is a scheme to retain and further incentivise senior management by awarding a portion of their annual bonus in the form of share options.

Options granted in 2011 under the ShareSAVE Plan entitle option holders to contribute up to £250 per month. At the vesting date of either three or five years, option holders choose between return of their contributions in cash or purchase of shares at a discount to the market price on the date of grant. Options normally lapse and cash deposited is returned to option holders who cease to be employed by the Group during the vesting period.

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of two years (2011: two years) in the LTIP, two years (2011: two years) in the RSP, one year in the DSBP (2011: two years) and two years (2011: three years) in the ShareSAVE Plan.



## 51. Share based payment continued

The principal assumptions underlying the valuation of the options granted during the year at the date of grant are as follows:

	ShareSAVE		LTIP		RSP		DSBP	
	2012	2011	2012	2011	2012	2011	2012	2011
Weighted average share price	–	£1.33	<b>£0.48</b>	£2.08	<b>£0.45</b>	£2.70	–	£3.00
Weighted average exercise price	–	£1.25	<b>£nil</b>	£nil	<b>£nil</b>	£nil	–	£nil
Expected volatility	–	35.75%	<b>75.19%</b>	36.88%	<b>n/a</b>	n/a	–	n/a
Expected life	–	3 years	<b>3 years</b>	3 years	<b>3 years</b>	3 years	–	3 years
Risk free rate	–	1.15%	<b>0.47%</b>	1.45%	<b>n/a</b>	n/a	–	n/a
Dividend yield	–	5.68%	<b>n/a</b>	n/a	<b>n/a</b>	n/a	–	n/a

The aggregate estimated fair value of the options and shares granted in 2012 under the LTIP, RSP, DSBP and ShareSAVE is £152,000 (2011: £2,837,000).

Expected volatility for the 2011 awards was determined by calculating the historical volatility of comparable quoted companies' share prices.

## 52. Related parties and control

Certain bank loans taken out by Group entities are secured against the assets of the Company. The total amount outstanding on these loans at 31 December 2012 amounted to £43,500,000 (2011: £43,500,000). The Company is party to a cross-guarantee in respect of a bank account netting arrangement in which it is a participant alongside certain other Group companies. Cash and cash equivalents of £8,400,000 (2011: £2,200,000) are held in bank accounts subject to this arrangement.

The Company has taken the exemption available under FRS 8 "Related Party Transactions" not to disclose transactions with subsidiaries all of whose shares are held within the Group.

The Company's ultimate controlling party is set out in note 38 to the consolidated financial statements. Emoluments of the Company's Directors are set out in the Remuneration Report on pages 30 to 35.

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The Forest Stewardship Council® (FSC) is an international network which promotes responsible management of the world's forests. Forest certification is combined with a system of product labelling that allows consumers to readily identify timber-based products from certified forests.

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