PARITY GROUP PLC

(PTY.L) – LSE Ticker

Parity Group plc Report and Accounts
Year ended 31 December 2016

Headlines

Parity Group plc ("Parity" or the "Group"), the UK information and technology services group, announces its full year results for the year ended 31 December 2016.

Results Summary

- **Continuing Group[1] revenues increased by 11% to £91.8m from £82.6m**
- **Continuing Group adjusted EBITDA[2] increased by 47% to £2.2m from £1.5m (£2.5m including discontinued operations {2015: £1.6m})**
- **Operating profit before non-recurring items increased by 72% to £1.77m from £1.03m and replaces adjusted EBITDA as a key measure of performance**
- **Profit before tax of £0.96m (2015: loss before tax £3.27m)**
- **Earnings per share 0.87p (2015: loss per share 3.37p)**
- **Significant increase in cash inflow from operations to £3.4m (2015: £0.2m)**
- **Reduction in net debt to £4.4m (2015: £7.4m)**
- **Significant reduction in non-recurring items before tax to £0.4m (2015: £3.7m)**
- **£15m financing facility extended with PNC Bank on improved terms**

Parity Professionals – *Specialising in the sourcing and development of professional staff*

- **Revenue increased by over 10% to £86.4m (2015: £78.2m)**
- **Divisional contribution[3] increased by 17% to £2.66m (2015: £2.28m)**

Parity Consultancy Services – *Niche expertise and technology solutions*

- **Revenue increased by 20% to £5.3m (2015: £4.4m)**
- **Divisional contribution[3] increased by 30% to £0.91m (2015: £0.70m)**

Operational Headlines

- Delivering against new growth strategy
  - Continued progress following robust H1 performance. KPIs positive with improvement in revenues, profitability and cash in both businesses
- Aligned functions supporting further growth opportunity in higher margin services
  - Functions are maintaining expertise in their services with a shift in momentum to managed service projects
  - Parity Consultancy Services awarded two new significant long-term contracts with a total opportunity of £6.7m
- Development of Parity Consultancy Services ("PCS")
  - Strengthened sales focus on data driven technology solutions to deliver business intelligence and cost modelling applications
- Strong cost controls maintained whilst self-funding organic growth
- Inition business held for sale to allow greater focus on the core business, with the eventual sales proceeds to be used to support the development of PCS, and to further reduce debt
- Extension of significant contracts including £1.4m for Military Capability Output Costing System ("MCOCS") business intelligence solution for MoD in the Consultancy division and FastStream graduate recruitment programme into the Civil Service for Parity Professionals
- Reduced pensions contributions commenced in line with the improved payment terms on the legacy pension deficit
- Board of Directors enhanced with the appointment of David Firth as a Non-Executive Director, and the announcement that John Conoley will shortly replace Lord Freeman as Non-Executive Chairman

1 The Continuing Group excludes the Inition service offering, which has been classified as discontinuing operations
2 In prior years, the directors used a non-GAAP measure "Adjusted EBITDA" being the measure of EBITDA, prior to non-recurring items and share based compensation as detailed in note 4 to assess the performance of the business.
3 Divisional contribution in this narrative refers to the segment contribution before Group costs4, tax, interest, non-recurring items and share based payment charge.
4 Group costs include directors' salaries and costs relating to group activities and are not allocated to reporting segments.

Chairman's Statement
Lord Freeman – Non-Executive Chairman

Financials

The Group's financial performance in 2016 reflects the effectiveness of the changes initiated in the second half of 2015 and is underpinned by the operational performance through the year as the strategy has been executed. On a Continuing Group basis, revenues improved by 11.1% to £91.8m (2015: £82.6m), and operating profit before non-recurring items increased by 71.8% to £1.77m (2015: £1.03m).

The Parity Board has taken the decision to divest the Inition service offering as it is not in-line with our strategic direction. Inition's performance has improved as the focus has shifted to Virtual Reality and Augmented Reality installations and whilst an exciting and creative arena, it provides little opportunity for collaboration with the Continuing Group.

We have presented our results with Inition as a discontinued operation. The table below represents the impact of this decision on the Group's results for 2016.

Year Ended 31 December 2016	Group Continuing Operations £m	Inition £m	Group including Inition £m
Adjusted EBITDA	**2.19**	0.32	2.51
Depreciation and share based charges	**(0.42)**	(0.44)	(0.86)
Operating profit/(loss) before non-recurring charges	**1.77**	(0.12)	1.65

Parity Professionals revenues improved by 10.5% to £86.4m (2015: £78.2m) with a corresponding increase in Divisional Contribution of 16.7% to £2.66m (2015: £2.28m). The higher margin Parity Consultancy Services business is demonstrating good trading momentum with an improvement in revenue of 20.5% to £5.3m (2015: £4.4m) supporting a significant 30.0% increase in Divisional Contribution to £0.91m (2015: £0.70m).

Non-recurring costs and impairment have reduced significantly (from £3.7m in 2015 to £0.4m in 2016) and include the restructuring costs associated with the previous strategy.

As a result of the restructuring and new focus of the Group, the Directors have decided to use Operating Profit as the key measure to assess its performance, replacing adjusted EBITDA.

Cash, Dividend and Pension

The Group has been financially proactive, further strengthening the balance sheet with net debt at the year-end of £4.4m (2015: £7.4m) from the strong cash generation performance, extending the finance facility, and maintaining strong working capital controls. We have also improved the payment terms for our discontinued defined benefit pension scheme with the continued support of the trustees.

PNC Bank has provided Parity's banking arrangements since 2010 and the relationship remains strong. On 1 September 2016 Parity extended the £15 million finance facility to 31 December 2018 at an improved discount rate.

The Group has been restructured in line with the new strategy and as a result, in order to ensure funds remain available for further investment in Parity's growth, the Board is not recommending that a dividend is payable for 2016. We intend to keep this policy under review.

Board

I have very much enjoyed my involvement with the Parity Group for many years and as we have moved to a new strategic direction I have been happy to provide an element of stability and continuity. Nevertheless, as announced in October 2016, I intend to retire shortly and am pleased that John Conoley has agreed to join the Board as the Group's new Chairman, to help drive our future strategic ambitions.

On 22 April 2016, Mike Aspinall stepped down as Group Finance Director and was replaced by Roger Antony. Roger has been with Parity for over 18 years, holding the position of Group Financial Controller since 2006, and prior to that the role of Financial Controller for the International Resources Division. Roger joined the Group after qualifying as an accountant in 1997, and previously held managerial roles within a variety of listed entity finance departments. He has a thorough understanding, and experience, of the IT Services sector.

As first announced on 31 May 2016, David Firth joined the Parity Board as a Non-Executive Director. David was Finance Director of Penna Consulting plc and Finance Director of Parity Group in the 1990s and he has been able to make an immediate positive impact with his directly related industry experience. On 6 October 2016, Neal Ransome stepped down from the Board after three years' service.

On behalf of the Board, I would like to thank both Neal Ransome and Mike Aspinall for their respective contributions to the Board.

Current Trading and Outlook

The Group has made significant progress in delivering growth in all the KPIs for both Parity Professionals and Parity Consultancy Services. These improvements have been the result of organic growth in the specialist services of each business, and additionally the result of collaboration across the businesses. One of the opportunities we highlighted at the interim results was the ability and opportunity to cross-sell solutions to clients, supported by the consolidation of offices and unification onto a single CRM, which improved communication whilst also reducing costs. The divestment of Inition underwrites the ambition of the strong management team to focus on the core businesses as well as the significant opportunities for collaboration that have been demonstrated.

With early signs of success, the management team continues to work closely to identify opportunities for the wider business that will further consolidate our relationship with key clients as a multi-channel partner of choice with the flexibility to adjust the delivery model to suit specific needs.

The year has certainly seen the potential for wider market impact as we progress to a future outside of the EU and with a new President of the U.S.A. The UK Government is also closely reviewing the employment status and tax-structure of the contractors providing services into Government projects (IR35). Despite the UK proving resilient to the broader global macro-economic outlook, there has been an increased level of uncertainty due to Brexit with a potential for this to impact both client and candidate confidence.

With a UK focus we are somewhat de-risked on the flux impacting the global markets, and to date we have seen minimal impact as a result of Brexit. We do not anticipate significant supply side issues in relation to access to labour. At the time of writing it is too early to fully appreciate the potential impact due to the review of IR35 Intermediaries Legislation which will apply from April 2017, which is intended to reform off-payroll working practices within the Public Sector. This has the potential to impact supply into the Public Sector with engagements less attractive to contractors which may result in higher costs to the clients. There have been delays from HMRC in publishing final legislative guidance, including the tool to assess the tax status of our clients' roles which has created uncertainty, though we ensure regular communication to stakeholders on the latest updates. As a Group we are well positioned to be able to deliver both service based solutions and contingent recruitment to best meet client and market demand. The managed service propositions are an opportunity for growth in our Consultancy Services that we are exploring. We have formed working parties to closely monitor changes, risks and opportunities driven by Brexit and IR35.

Notwithstanding the market influences, Parity Professionals expects to maintain steady progress with the usual seasonality through 2017, whilst maintaining investment in new sales staff to target opportunities aligned with the wider Group, business transformation and leadership, and higher demand technology skills. This growth is being managed whilst adhering to our scalable structure enabling effective and efficient cost control underwritten by our inclusion in the Recruiter Hot 100 for 2016.

Parity Consultancy Services is an exciting growth opportunity as illustrated by the two recent awards of long-term managed service contracts for the delivery and support of IT solutions with a total opportunity of £6.7million which will be delivered by wrapping the very best of the wider Group services into packaged solutions. We have the ambition to develop this part of the Group with an increased focus on technical solutions to generate competitive advantage for our clients by transforming them into data guided organisations. We will also develop close ties in supporting clients with business transformation and project management solutions which are now being taken to market by our industry focussed consultants which will drive revenues for the wider Group.

Despite some elements of uncertainty in the market potentially delaying decision-making, Parity should continue to benefit from improvements in the underlying markets, the cross-sell ability, and the increasing potential in new consultancy based solutions. This is due to the Group's ability to adapt to market conditions due to its breadth of offerings, which enable it to react quickly and therefore, meet the evolving needs of our clients. With current trading in-line with our expectations, the Board remains confident in the future of the business with a clear strategy supporting its' commitment to increasing shareholder value through both organic growth and targeted strategic investment.

The Board is dedicated to driving profitability, cash flow and shareholder value and looks forward to 2017 with confidence.

N Freeman

Lord Freeman
Non-Executive Chairman
22 March 2017

Strategy
Alan Rommel – Chief Executive Officer

Parity Group is:
Driving Change, People Led, Technology Enabled
Parity has created a well-established, stable and robust business model. We provide managed IT services, supported by expertise and a depth of industry understanding, in order to align the skills that clients require in their market sector. We are now ideally placed to provide clients with the people they need and the technology that will enable them to drive change through two strongly defined and complementary business units.

Parity Professionals
This division provides targeted recruitment of temporary and permanent professionals and leadership development to support business change. We ensure our clients have both the capacity and capability to transform organisational performance in high growth and rapidly evolving markets.

Parity Consultancy Services
This division is focused on niche expertise driven by senior industry-experienced consultants, exploiting technology and generating competitive advantage for our clients by transforming them into data guided organisations.

We clarified a 3 year plan focused on growth, market leadership and future investment, to be achieved by organically expanding our established offerings and targeting strategic investment where we identify aligned opportunity in the higher margin consultancy proposition.

Growth
Whilst both businesses have grown independently, we have also identified the synergies between them and are now starting to deliver these benefits to our clients, which in turn is beneficial for the Group. This provides us with the opportunity to develop a much more balanced business through solutions that are of greater value to the client and can command higher margins. We expect this to lead to increased project revenue over longer durations and improves forward looking visibility for our business. Our flexible delivery structure also supports greater agility, with a rapidly scalable and cost-effective model.

Market Leadership
Each business has its own direct sales team to ensure the depth of understanding in their area of expertise and the quality of service, but we have aligned the structure to facilitate collaboration. Clients can benefit from the breadth of our capability to select the best solution to meet their exact needs at that time, be that individual services or an integrated solution. This is supported by the strengthening of our shared bids and marketing functions and scheduled further investment in our websites and social media presence.

Future Investment
Whilst we are investing internally in marketing, sales and new services to target the higher margin consultancy and managed service propositions, it should be expected that there is a lead-time to build momentum. The Parity Board is ambitious and whilst 2016 has been focussed on establishing the structure and organic growth, at the right point we will actively engage in reviewing bolt-on opportunities to enhance and accelerate the development of the higher margin consultancy offerings in aligned services and growing sectors.

Summary
Parity is a client-centric organisation, delivering a range of services and scale rapidly to meet existing and new client objectives. Our clients' need for change is driven by both advances in technology, and by the demands of their customers with the market changing ever-more rapidly. Parity Group, as both a people and technology provider, is ideally placed to service our clients' needs, enabling the changes which will drive their growth.

We have aligned the businesses and clarified the proposition to the market with proven capability to cross-sell. We have the ambition to further develop higher margin services whilst delivering improvements in all key metrics across both businesses.

The Parity Board remains confident that we are well positioned to become the clients' technology partner of choice where they seek efficiency and competitive advantage. We will leverage our established Parity Professionals business to build a strong and stable consultancy brand, which is intended to in turn increase revenues, generate further positive cash flows and improve shareholder value.

PARITY PROFESSIONALS

Overview

Parity Professionals has a clear 'people' focus – building capacity and capability for our clients to transform organisational performance. We provide targeted recruitment of temporary and permanent professionals and leadership development to support business change. This broader capability has elevated the proposition for the recruitment and placement services with the added benefit of differentiation through leadership and coaching services for our clients to support large change programmes. We make significant change programmes easier for our clients through our broad range of integrated HR services – from graduate recruitment and induction through to delivering high demand IT specialists and business transformation services.

We strive to provide a more consultative range of services to our clients, adding value and strengthening the relationship and securing repeat business.

Revenues in the year improved by 10.5% to £86.4m (2015: £78.2m) with divisional contribution increasing by 16.7% to £2.66m (2015: £2.28m) with all operating overheads allocated to the business.

The IT Resources Offering

Client side demand and recruitment activity levels remained strong through the year in both contract and permanent markets. The increased volumes in opportunity and in placements delivered consistent growth though the rate of growth softened in the fourth quarter where uncertainty on IR35 increased contractor churn and we identified a reduction in average order value with shorter durations. Despite the impact, the increased sales levels ensured the business delivered improvement in all the primary KPIs including volumes (average number of contractors on billing increased by 13% vs 2015), margins (average weekly gross profit improved by 19% against 2015), and permanent placement fees (improved by 34% vs 2015).

Demand for skills in the IT sector continues to outstrip supply and remains an opportunity for organic growth, especially in the contract market when combined with the demographic shift we are experiencing with younger workers looking for more flexible working as part of the 'Gig Economy'. Research from the UK Careers and Employability Service has predicted a 20% growth in employment for the IT sector to 2024 which is the highest growth in any of the main sectors of the UK economy, with a need for 518,000 additional workers within the highest skilled occupational groups in the digital arena by 2022.

We are afforded some protection against recruitment process outsourcing due to our focus in high demand IT skills, and close client relationships, through being able to offer a broad range of solutions, including collaborations with Parity Consultancy Services enabling managed service solutions. We also develop and maintain strong relationships with our contractor base, underwritten by good service and high levels of engagement – in 2016, 93% of candidates rated the responsiveness of our recruitment consultants to issues as "Excellent" or "Very Good".

The focus for our resourcing offering remains on contract placements with higher overall profitability over their full duration and the stability it provides to our forward-order book. It is important to balance this with an ability to provide a permanent recruitment service to lock-in client engagement, and further build our brand in the candidate and client community for niche skills. The growth in our permanent business has been primarily due to targeting skills verticals such as the digital sector, infrastructure and information security.

This is a resilient business and we need to maintain targeted strategic investment in new areas to support longer term organic growth. We have proven our resilience to adapt to market conditions, and through tough times we have by necessity applied appropriate close cost controls in the core business whilst ensuring sustained profitability as evidenced by our inclusion in the Recruiter Hot 100 which assesses profitability per head.

The Talent Management Offering

As a relatively small team, our Talent Management specialists have re-engineered their offering to be more streamlined and focussed upon 'Leadership Development' with the ability to apply this to different audiences from graduate level through to senior management. This more productised delivery solution has proven successful with our clients and simplifies scalability and replication. The focus for new sales activity has moved to mainland GB from Northern Ireland which has improved the average fee rates, average project value and reduced reliance on public sector spend.

PARITY CONSULTANCY SERVICES

Overview

Whilst still able to deliver broader technical solutions with some established contracts, the Technical Solutions team have refined their sales offering to target data solutions to assist clients in generating competitive advantage by transforming them into data guided organisations.

We have supplemented our clients' technical teams by recruiting Practice Heads with sector expertise to drive Business Consultancy opportunities in Health, Utilities and Defence where we have established relationships to leverage, and we have identified that there is significant change driven by legislative or industry evolution.

Growth in the Consultancy Services business creates much better balance with strong, higher margin and higher value sales linked with greater project and recurring revenue.

Technical Solutions Offering

At the core of the Parity Consultancy Services business, the Technical Solutions offering helps our clients by developing, delivering and supporting IT projects with niche expertise to provide efficiency gains and competitive advantage. This creates an important differentiator between the people-led Parity Professionals business and the solution driven Parity Consultancy Services though the two businesses complement each other as we supplement our in-house development teams with expertise provided by Parity Professionals.

Technical solutions to a rapidly evolving market have been at the core of Parity Group's services from the very beginning and we will build upon this reputation with an offer more directly related to the fast-growing data solutions software market. This is not new as 'Information technology' has always been about successful storage, interrogation and interpretation of information, but the volumes of data have increased exponentially whilst the sources multiply. 'Data' is a currency with real value, but to leverage that value, the data needs to be collated and interrogated to enable decision making and drive targeted campaigns.

Our Data Consulting proposition supports the client transition to becoming a Data-guided organisation, clarifying its:

- Data Strategy
- Data Usage
- Data Governance
- Data Management

That leads into the technology solution and the development and implementation of applications to support all the above, including:

- Data Collection
- Storage
- Management
- Security
- Analysis
- Visualisation
- Monetisation

The development team have secured a further extension to the Military Capability Output Costing System (MCOCS), a major Business Intelligence programme for the MoD worth an additional £1.4 million over the next two years. This team is supplemented with interim technology skills resourced by Parity Professionals.

We have replicated this success with the award of two longer-term project based orders with an opportunity of £6.7m with two new clients for Parity Consultancy Services as we establish our managed service offering. The business has successfully tendered for the G-Cloud and the Digital Outcomes and Specialists frameworks which provide access to our specialist services to Public Sector clients.

We continue to benefit from a high level of repeat business with strong relationships developed through our customer centric approach. In 2016, we achieved greater efficiency, with an improvement in internal delivery staff utilisation to 80% (2015: 73%). The new projects and frameworks, provide additional opportunity in the future pipeline and generate continuing recurring revenue, giving enhanced forward visibility of our order-book and cashflow.

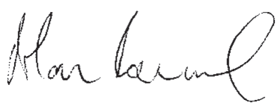
Business Consultancy Offering
The Practice Heads have been recruited, and are now raising their profile with propositions that support clients in the adoption of change, getting the most from both their people and technology. They offer initial diagnostics to facilitate and review business change programmes, clarify outcomes, and understand existing capabilities to then support clients through the transformation. The client solutions can range from contingent access to niche specialist knowledge and skills, through to project management, and creating a full development service with the benefit of being able to deliver all of this through the wider Parity Group.

Current sectors are complementary to the wider business in Health, Utilities and Defence, where we have experience and understand the opportunity due to market dynamics or legislation. We intend to diversify into additional sectors where we identify strong opportunity as the offering gains momentum.

SUMMARY
In an increasingly complex landscape, Parity is uniquely placed in being able to offer clients multi-channel access to the best solution to fit their needs – a consultancy that understands the challenges they face in their markets, supporting and developing their leadership team, plus flexible access to skills for the management and delivery of projects to give competitive advantage with data driven decision making.

We have strong visibility of skills that are in demand across different sectors through Parity Professionals and can use this to our benefit with the ability to redirect focus to new and emerging trends without recruitment and development start-up delays.

With increased clarity of a more aligned and targeted business strategy, and with an underlying strength in the business model, we have leveraged several cross-selling opportunities at higher values, leading to long-term orders. We are confident that the business provides further enhanced growth opportunities, positive cash flows and shareholder value.



Alan Rommel
Chief Executive Officer
22 March 2017

Financial Review
Roger Antony – Group Finance Director

Overview – Continuing Operations

	2016 £'000's	2015 £'000's	Incr./(Decr.) %
Revenue	**91,764**	82,607	11.1%
Adjusted EBITDA	**2,187**	1,531	42.8%
Operating Profit before non-recurring items	**1,766**	1,026	72.1%
Net Debt	**(4,386)**	(7,379)	(40.6%)
Operating Margin %	**1.9%**	1.2%	
Net Debt/Adjusted EBITDA ratio	**2.0**	4.8	

Group revenue in the year increased by 11% from £82.6m to £91.7m, with growth in both divisions. The revenue growth has translated to a 72% increase in Group operating profit before non-recurring items, with Group operating margins improving from 1.2% to 1.9%. During 2016 we have made significant progress towards strengthening the balance sheet, with the Net Debt/ Adjusted EBITDA ratio at the end of year improved to 2.0x (2015: 4.8x).

We have decided to sell the Inition subsidiary, as it is not aligned to the current Group strategy. Accordingly, the Inition service offering is presented as "Assets Held for Sale" and its financial results for 2016 and 2015 presented as "Discontinued Operations". Inition's results were previously included in the Parity Consultancy Services division.

Divisional performance

	2016 £000's	2015 £000's	Incr. %
Revenue			
Parity Professionals	**86,419**	78,190	10.5%
Parity Consultancy Services	**5,345**	4,417	21.0%
Group Revenue	**91,764**	82,607	11.1%
Divisional Contribution			
Parity Professionals	**2,660**	2,276	16.9%
Parity Consultancy Services	**910**	698	30.4%
Total Divisional Contribution	**3,570**	2,974	20.0%

Both divisions grew revenues and contribution during the year. The increase in Group revenues is mainly as a result of the 10.5% increase in revenues in the Professional's division. The growth was predominately driven by an increase in contractor volumes, with average contractor numbers on billing increasing to 1,009 (2015: 891).

Parity Consultancy Services revenues were enhanced by the ongoing work on the MCOCS contract for the MoD during the year, as well as continued work with BAT. The division invested in three new senior Practice Heads in H2 2016, to support the Group's strategic growth plans.

Reconciliation of divisional contribution to operating profit/(loss) from continuing operations

	2016 £'000	2015 £'000
Divisional contribution	**3,570**	2,974
Group costs	**(1,383)**	(1,443)
Depreciation and amortisation	**(365)**	(357)
Share-based payment charges	**(56)**	(148)
Operating profit before non-recurring items	**1,766**	1,026
Non-recurring items (continuing operations)	**(355)**	(1,731)
Impairment	**–**	(1,994)
Operating profit / (loss) from continuing operations	**1,411**	(2,699)

Group costs reduced to £1.38m (2015: £1.44m) as a result of the cost reduction programme implemented in 2015. Share based payment charges have fallen due to a one-off credit under "bad leaver" provisions.

Non-recurring items

Continuing operations	2016 £'000	2015 £'000
Write down of GPSeer	**267**	–
Impairment loss	**–**	1,994
Restructuring costs		
– Employee benefit costs	**260**	1,077
– Write down of tangible fixed assets	**–**	341
– Other operating costs	**36**	126
Transaction costs	**52**	125
Property provisions	**46**	62
Insolvency dividend	**(306)**	–
	355	3,725

Impairment

The £0.27m write down charge in 2016 relates to the full write down of GPSeer, an initiative under the previous Digital strategy to develop a cutting-edge internet search engine. No further development work has been performed by the Group since the change in strategy. In 2015, an impairment loss of £1.99m was recorded in respect of the Inition service offering.

Other non-recurring items

Employee benefit costs relate to compensation payments incurred in downsizing the Talent Management service offering in Northern Ireland, and Board changes aligned to the Group's strategy. The insolvency dividend relates to a one-off payment received in 2016 from the administrators of a legacy overseas subsidiary.

In 2015, employee benefit costs related to compensation payments incurred in exiting the digital acquisition strategy, the streamlining of the Board and the closure of the Golden Square Content service offering. The impairment of tangible fixed assets relates to the closure of Golden Square.

Earnings per share and dividend

The basic earnings per share from continuing operations was 0.87 pence (2015: loss per share 3.37 pence).

The Board does not propose a dividend for 2016 (2015: nil), but will continue to review this policy each year.

Statement of Financial Position

Intangible assets

Following the decision to sell the Inition service offering, the associated goodwill of £1.17m, and related other intangible assets of £0.15m, have been reclassified as "Assets held for sale" at the balance sheet date.

The intellectual property in relation to GPSeer of £0.12m was written down.

Trade receivables and accrued income

Trade and other receivables decreased by £1.2m to £14.4m (2015: £15.6m). Of this movement, £0.9m was due to the reclassification of Inition's assets, and £0.3m broadly due to an improvement in debtor days. At the end of the year, calculated on billings on a countback basis, debtor days decreased to 29 days (2015: 31 days).

Trade and other payables

Trade and other payables increased during the year to £9.1m (2015: £8.6m). The increase is after the reclassification of £0.5m of liabilities relating to Inition, and relates to an increase in fees in advance of £0.3m and timing differences in the Parity Professional's contractor payment cycle. At the end of the year, creditor days were 26 days (2015: 26 days).

Other financial liabilities

Other financial liabilities represent the Group's debt under the asset-based lending facility. This is a working capital facility and is consequently linked to the same cycle as the trade receivables. The asset-based lending facility with PNC provides for borrowing of up to £15m depending on the availability of appropriate assets as security. The current facility was renewed on 1 September 2016, and runs until the end of 2018. Upon renewal, the interest rate applied to borrowings improved to 2.35% from 2.50% over the prevailing base rate.

Cash flow and net debt

The Group generated positive net cash flows from operating activities of £3.4m (2015: £0.2m), helped by an increase in client fees received in advance of £0.6m (includes £0.2m from Inition), and a one-off receipt of £0.3m in respect of a legacy overseas subsidiary.

As a result of the positive cash flow, net debt reduced to £4.4m (2015: £7.4m).

Pension Fund

In March 2016, we reached agreement with the trustees of the defined benefit pension scheme to reduce deficit reduction contributions. Following a contribution holiday, the Group resumed payments in April 2016, commencing with a lump sum payment of £0.1m, and followed be reduced monthly amounts. The agreement will help the Group's interest cover ratio and cash generating capability.

At the end of the year the deficit increased to £1.85m (2015: £1.49m), primarily due to lower bond yields, which resulted in a lower discount rate used to calculate scheme liabilities. There was a good return on plan assets which partially offset the increase in scheme liabilities.

Principal risks and uncertainties

Specific present risks, such as Reform of the Intermediaries Legislation (IR35) are discussed in the Chairman's Report on pages 2 and 3.

Market

The Group continues to monitor its exposure to the public sector and while the Group's exposure has reduced over recent years, it still remains exposed to potential public sector budget reductions and changes to recruitment.

The Group trades almost exclusively in the UK, and is aware of the changing competitive environment that faces both its divisions. As a result, there is a major emphasis on addressing the lower volume but higher margin niche sectors and opportunities in the Parity Professionals division and the new growth areas for the Parity Consultancy Services division.

People

Our people are the most important part of our service and having appropriately trained and motivated staff helps us reduce the risk of poor service delivery. Share plans are used to incentivise and retain senior staff in the medium term. HR policies and procedures are reviewed regularly to ensure the business recruits and retains appropriately trained and experienced staff.

Financial

The Group actively monitors its liquidity position to ensure it has sufficient available funds and working capital in order to operate and meet its planned commitments and has a credit risk policy that requires appropriate status checks and or references as necessary.

Technology

As an IT services provider the Group relies on its IT, telecommunications and infrastructure systems to perform and manage the services we provide to clients. The Group reviews its own disaster recovery systems regularly in order to minimise the risk of prolonged disruption to systems.

Legal

The Board recognises that non-compliance with relevant laws and regulations can result in substantial fines or penalties. Suitable controls are built into our service delivery processes to reduce the risk of non-compliance.

Roger Antony
Group Finance Director
22 March 2017

Board of Directors

Lord Freeman[1, 2, 3]
Non-Executive Chairman
Roger Freeman, 74, was appointed Non-Executive Chairman in November 2015 and is Chairman of the Remuneration and Nominations Committees. Roger joined as a Non-Executive Director in 2007. After qualifying as a Chartered Accountant in 1969 he joined Lehman Brothers, the US Investment Bank, and was a Partner in the London Office until 1983 when he entered the House of Commons. He served as a Minister between 1986 and 1997 including Cabinet Minister for Public Service. He became a Life Peer in 1997 and also became a Partner with PricewaterhouseCoopers for whom he was chair of their UK Advisory Board. He is Chairman of the Trustees of the Thales UK Pension Fund.

David Firth[1, 2, 3]
Non-Executive Director
David Firth, 56, was appointed to the Board as a Non-Executive Director on the 14 September 2016, and is Chairman of the Audit Committee. David was previously the Finance Director of Penna Consulting plc for over 16 years and has a wealth of experience in the people management and consultancy markets. Prior to that, David has held senior finance positions in public companies across a number of sectors including financial markets, recruitment, IT services, motor retailing and advertising. He was a member of the finance team at Parity for the period 1993 to 1999 and served as its Group Finance Director from 1995.

Alan Rommel
Chief Executive Officer
Alan Rommel, 45, is the Chief Executive Officer of Parity and was appointed to the Board in August 2015. Alan joined Parity following completion of his degree in Economics and Business Studies from the University of Sheffield. Alan is a specialist in the sector with over 20 years' recruitment experience and a solid understanding of the industry. He spent 5 years as MD of Parity Resources before promotion in 2013 to CEO of Parity Professionals which was created by combining the recruitment and talent management services. In addition to holding a number of senior posts within the Parity Group, Alan was elected to the APSCo (The Association of Professional Staffing Companies) Executive Committee for 3 terms covering the period 2010 – 2014.

Roger Antony
Group Finance Director
Roger Antony, 49, is the Group Financial Director and was appointed to the Board on 22 April 2016. Roger had been with Parity for over 18 years prior to his appointment, holding the position of Group Financial Controller since 2006, and prior to that the role of Financial Controller for the International Resources Division. Roger joined the Group after qualifying as an accountant in 1997, and previously held managerial roles within a variety of listed entity finance departments. He has a thorough understanding, and experience, of the IT Services sector.

[1] Member of the nominations committee

[2] Member of the remuneration committee

[3] Member of the audit committee

Directors' Report

The Directors present their report and the audited accounts for the year ended 31 December 2016.

Principal activities
The Group delivers a range of recruitment and business and technology solutions to clients across the public and private sectors. During the period under review the Group operated through two divisions; Parity Professionals and Parity Consultancy Services.

The principal activity of the Parity Professionals division is to provide recruitment, predominately interim recruitment, and graduate placement services, to a diverse range of clients. In 2016 its clients' market sectors included central and local government within the public sector and Utilities, FMCG, Insurance, Oil, and Transport in the private sector.

The principal activities of the Parity Consultancy Services division comprise business intelligence solutions, technology solutions and business consultancy services. Parity Consultancy Services delivered its services during the year to central government departments in the public sector, and to FMCG and Legal clients in the private sector.

Review of business and future developments
A review of the business and its outlook, including commentary on the key performance indicators of turnover, gross margin, contribution, debtor days and net debt, and the principal risks and uncertainties facing the Group is included in the Chairman's Statement, Strategy, Operating Review and Financial Review on pages 2 to 9. The Group's social, environmental and ethical policies are set out on page 13. A statement on the application of the going concern principle is set out below. Details of financial instruments are set out in note 22 to the financial statements. Each of the above is incorporated in this report by reference.

Group results
The Group profit from continuing operations before taxation for the year was £959,000 (2015: loss of £3,265,000) after charging non-recurring items of £355,000 (2015: £3,725,000). After a tax expense of £75,000 (2015: £164,000) and a loss after tax from discontinued operations of £78,000 (2015: £490,000), the retained profit of £806,000 (2015: loss of £3,919,000) has been transferred to reserves. The results for the year are set out in the consolidated income statement on page 24.

Dividends
The Directors do not recommend a final dividend (2015: nil pence per ordinary share). The total dividends for the year were nil pence per ordinary share (2015: nil pence per ordinary share).

Pension
The Group operates a defined contribution pension scheme. There is also a defined benefit scheme which is closed both to new members and to future service accrual. Details of the defined benefit pension scheme are given in note 24.

Purchase of own shares
At the end of the year, the Company had authority, under the shareholders' resolution of 31 May 2016, to purchase in the market 10,182,402 of the Company's ordinary shares at prices ranging between two pence and an amount equal to 105% of the average of the middle market prices quoted in the five business days immediately preceding the day of purchase. No purchases were made during the year. The Directors intend to seek renewal of this authority at the forthcoming Annual General Meeting.

Board of Directors
Biographical information on each of the Directors as at 22 March 2017 is set out on page 10, together with details of membership of the Board committees.

In accordance with the Company's Articles of Association, David Firth, who was appointed after the announcement of the 2016 AGM, will retire and offer himself for re-election at the 2017 Annual General Meeting.

The Company's Articles of Association also require that each Director retire from office and seek reappointment at the third annual general meeting after the general meeting at which he was last appointed, or reappointed. Lord Freeman is due for re-election at the next AGM, however, as announced on 6 October 2016, he intends to retire from the Board and work is underway to appoint a successor.

Directors' interests
The Directors' beneficial interests in the ordinary share capital of the Company are set out within the remuneration report on page 22.

Principal shareholders
At the close of business on 8 March 2017 (being the latest practical date prior to the signing of the Directors' Report) the Company had received notification of the following substantial interests representing over 3% of the issued share capital:

	Number of Ordinary 2p shares	Percentage Held
Philip Swinstead	14,673,939	14.37
Hargreave Hale Limited	12,596,050	12.33
Timothy Watts	8,225,000	8.05
David Courtley	6,566,031	6.43
Citrine Investments	5,558,766	5.44
Dominion Holdings	4,950,000	4.85
Killik Asset Management	4,680,667	4.58
Barclays Wealth	3,634,673	3.56
Halifax Share Dealing	3,308,434	3.24
Brewin Dolphin	3,187,454	3.12

Capital structure
The Company has two classes of shares in issue, ordinary shares of 2p and deferred shares of 0.04p. The ordinary shares are listed on the London Stock Exchange and ordinary shareholders are entitled to vote at Company meetings, to receive dividends and to the return of their capital in the event of liquidation, with the exception of ordinary shares held by the Parity Group plc Employee Share Ownership Trust which are not entitled to receive dividends. The deferred shares are not listed, have no voting rights, no rights to dividends and the right only to a very limited return on capital in the event of liquidation.

The Directors are not aware of any restrictions on transfers of shares in the Company or on voting rights or of any agreements between holders of the Company's shares which may result in such restrictions.

Going concern
During 2016 a number of factors improved the Group's financial position. Firstly, the Group's strong cash performance resulted in a reduction of the Group's net debt, from £7.4m to £4.4m. Secondly, the Group's £15.0m asset-based facility, which is used to finance working capital requirements, was extended until 31 December 2018. Also in 2016, the Group reached agreement with the Trustees of the defined benefit plan to reduce the level of contributions.

The Directors have reviewed the Group's cash flow forecasts for the period to 31 December 2018, taking account of reasonably possible changes in trading performance. After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The Company is not party to any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, except for the finance facility agreement with PNC. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Payments to suppliers
The Group seeks to abide by the payment terms agreed with suppliers when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. In the United Kingdom and Ireland the Group agrees payment terms with its suppliers when it enters into binding purchase contracts.

Corporate social responsibility
The Group recognises its corporate social responsibilities and reports on these in a separate statement of social, environmental and ethical policies on page 13. This statement covers the Group's Employment Policies, Environmental Policy and Health and Safety Policy.

Directors' and officers' liability insurance and indemnity
The Company has purchased insurance to cover its Directors and officers against their costs in defending themselves in any legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings.

Political donations
There were no political donations made by the Group during the year (2015: none).

Corporate Governance
The Corporate Governance Report on pages 14 to 17 forms part of the Directors' Report.

Auditor
Resolutions will be proposed at the Annual General Meeting to reappoint KPMG LLP as auditor to the Company and to authorise the Directors to determine their remuneration.

Post Balance Sheet Events
There were no material post balance sheet events.

Annual General Meeting
The resolutions to be proposed at the Annual General Meeting, together with the explanatory notes, will appear in the Notice of the Annual General Meeting which will be circulated with the annual report when sent to all Shareholders.

By order of the Board

Roger Antony
Director
22 March 2017

Social, Environmental and Ethical Policies

Employment policies
As a professional services business, Parity's strength derives from the commitment, capability and cultural diversity of its employees. The Group aims to adopt a policy of diversity at all levels including selection, role assignment, teamwork and individual career development. The Group encourages the participation of all employees in the operation and development of the business by offering open access to senior management, including the Executive Directors, and adopting a policy of regular communications through road shows and the intranet. The Group also encourages all employees to participate in an annual employee survey. The survey is administered by an independent organisation and responses are anonymous. Results are communicated to staff with proposed actions to address any identified issues.

The Group incentivises employees through share-based incentives and the payment of bonuses and commissions linked to performance objectives. Where appropriate these objectives are linked to profitability. The Group also has a structured approach to performance appraisal and career development and ensures that every employee has an annual performance review and has clear objectives and performance standards.

Health & safety
The health and safety of Parity's employees is paramount. Group policy is to provide and maintain safe and healthy working conditions, equipment and systems of work for all employees and to provide such information, training and supervision as is needed for this purpose.

Appropriate written health and safety information outlining the Group's policy in each area is issued to all new employees. This includes:

- First aid — Each office has a person qualified in first aid. First aid boxes are readily accessible and records kept of all accidents and injuries.
- Fire safety — Each office has an evacuation marshal who will liaise with building management or local emergency authorities, as appropriate. Evacuation assembly points are agreed for every location and a full evacuation carried out every six months. Fire alarms are tested regularly.
- Employees' health — Any employee who believes he/she is suffering from an illness or condition related to their working environment is encouraged to report this to his/her manager for investigation.

Annual Health and Safety audits are carried out at every Parity office to ensure high standards are maintained.

As part of its benefits package Parity offers a number of benefits to support the health and well being of its staff, as well as an Employee Assistance helpline.

Social responsibilities
It is Group policy to be a good corporate citizen wherever it operates. As part of the Group's social responsibility, employees are encouraged to support national charities and also become involved in their local communities and fund raising events.

The Group encourages employees who undertake volunteer work and firmly believes that the experience gained contributes to the individual's personal development. Where possible, the Group provides flexibility with working hours to accommodate such commitments outside of work.

Environmental policy
While Parity Group's operations by their very nature have minimal environmental impact, the Group recognises its responsibilities to protect and sustain the environment and its resources. The Group's policy is to meet or exceed the statutory requirements in this area and it has adopted a code of good environmental practice, particularly in its main areas of environmental impact, namely energy efficiency, use and recycling of resources and transport.

Transport
Public transport is used whenever possible. Interest-free season ticket loans are made to staff as part of the benefits package. Teleconference facilities are extended to main office locations to minimise business travel and increase efficiency. PCs (portable or desktop) are made available to staff where needed to facilitate home working and minimise the need to travel to offices where this is appropriate for their role.

Energy
Only energy-efficient computers and peripherals are acquired and they are turned off at the end of each day. As a normal part of its operations the Group seeks to occupy offices which have efficient building management systems and, ideally, low energy lighting. Office lighting is turned off at the end of each day.

Whenever economically justifiable, the paper and other consumables used are made from environmentally-friendly or recycled material or from renewable resources.

Recycling
The Group makes every effort to recycle office paper and envelopes. Appropriate containers are provided at all offices and all paper collected is sent to recycling plants. The Group also recycles as much other material, such as toner cartridges, as is economically viable. When replaced, computers and peripherals are offered to employees at market value, local schools or charities, or sent to recycling plants.

Paper usage
The Group constantly strives to implement paper-saving practices to reduce wastage. Examples include: electronic timesheets, E-invoicing, E-payslips, and electronic expense claims.

Ethics
Parity Group is committed to maintaining the highest standards of ethics, professionalism and business conduct as well as ensuring that we act in accordance with the law at all times. The Group supports and promotes the principles of equal opportunities in employment and promotes a culture where every employee is treated fairly. A culture of teamwork, openness, integrity and professionalism forms a key element of our company principles and values which sets out the standards of behaviour we expect from all our employees.

Modern Slavery Policy
Parity Group has a zero-tolerance approach to modern slavery, and is committed to acting ethically and with integrity in all its business dealings and relationships, and to implement and enforce effective systems and controls to ensure modern slavery is not taking place anywhere in its own business, or its supply chain.

In accordance with the requirements of the Modern Slavery Act 2015, the Group has published its anti-slavery statement on its website.

Corporate Governance Report

Introduction
As the Company is AIM listed, it is not required to follow the provisions of The UK Corporate Governance Code published by the Financial Reporting Council in September 2014 (the Code). However, the Board continues to maintain that high standards of corporate governance remain a key priority and that it will seek to continue to follow the Code as far as is practicable and appropriate, having regard to the size and resources of the Company and to the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies. Accordingly, this report sets out how the Company applies elements of the Code that are deemed appropriate.

Going concern
The Board confirms that, after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts. Further details are outlined in the Directors' Report on pages 11 and 12.

The workings of the Board and its Committees
The Board
At the date of this report, the Board comprises the Non-Executive Chairman, Lord Freeman, Non-Executive Director, David Firth, Group Chief Executive, Alan Rommel and Group Finance Director, Roger Antony. During the year Mike Aspinall stepped down as Group Finance Director on 22 April 2016, and Neal Ransome stepped down as a Non-Executive Director on 6 October 2016. Roger Antony joined the Board on 22 April 2016 as Group Financial Director, and David Firth joined the board as Non-Executive Director on 14 September 2016. The table on page 20 sets out the dates of tenure of the current Directors on the Board. The Directors' biographies, which are set out on page 10, illustrate the range of business backgrounds, skills, independence and experience contributed by each Board member.

Non-Executive Chairman
The Non-Executive Chairman, Lord Freeman, is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role. This includes ensuring that Board meetings are held in an open manner, that the Directors receive accurate, timely and clear information and allowing sufficient time for agenda items to be discussed. Annual appraisals are held of each Director, providing feedback and reviewing any training or development needs. The Chairman is also responsible for effective communications with shareholders, and relaying any shareholder concerns to the Directors. During the year the Non-Executive Chairman met the Non-Executive Directors without the Executive Directors present.

Senior Independent Director
Neal Ransome acted as Senior Independent Directors until he stepped down on 6 October 2016. He was an additional contact point for shareholders if they had reason for concern, when contact through the normal channels of the Executive Directors and Chairman had failed to resolve their concerns, or where such contact was inappropriate. David Firth became the de facto Senior Independent Director when Neal Ransome stepped down.

Re-election of Directors
Directors appointed since the last annual General Meeting, and those retiring by rotation will submit themselves for election or re-election at the next Annual General Meeting, as set out in the Directors' report on page 11 and in the separate Notice of Annual General Meeting sent to all Shareholders. The Non-Executive Chairman confirms that the performance of each Director continues to be effective and the individuals continue to demonstrate commitment to their role.

Company Secretary
All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures, applicable rules and regulations are observed. There is an agreed procedure for Directors to obtain independent professional advice, if necessary, at the Company's expense.

New Directors receive a comprehensive, formal and tailored induction to the Group's operations including corporate governance, the legislative framework and visits to Group premises.

Board meetings
The Board has meetings scheduled regularly throughout the year to set long term objectives and to monitor progress against those objectives. Additional meetings are also held as business dictates. A table showing the number of meetings of the Board and its Committees held during the year, and attendance at those meetings by each Board member, is set out on page 15. The Board maintains close dialogue by email, telephone and conference calls between scheduled meetings. The Board has a formal schedule of matters reserved for its specific approval which was reviewed during the year and includes a review of Group strategic, operational and financial matters such as proposed acquisitions and divestments. It approves the annual accounts and interim report, the annual budget, significant transactions, major capital expenditure and reviews the effectiveness of the system of internal control and the risks faced by the Group. It covers all controls, including financial, operational, compliance and risk management. Authority is delegated to management through Group authorisation limits on a structured basis, ensuring that proper management oversight exists at the appropriate level. The Group authorisation levels were reviewed by the Board in November 2015.

All members of the Board are normally supplied in advance of meetings with the agenda and supporting papers covering the matters which are to be considered. If unable to attend a meeting the Director is able to provide feedback to the Chairman, the Chair of the Committee or the Company Secretary and their comments are then communicated at the meeting. A procedure exists for the Directors, in the furtherance of their duties, to take independent professional advice if required. If a Director has any concerns about a particular issue, such concerns are recorded in the minutes of the relevant Board meeting. In the event that a Director resigned over a matter that was of concern to him, such concerns would be communicated to the other Directors. All Directors have the opportunity to undertake relevant training.

The operational businesses are divided into two separate divisions, Parity Professionals comprising Parity Resources and Talent Management and Parity Consultancy Services comprising Parity Solutions and Inition. Each business has a Managing

Director. The operational boards of each business meet monthly. The meetings are attended by the Group Chief Executive and/or the Group Finance Director and relevant members of their finance and operational teams. Any key issues arising from these meetings are reported to the Board. Non-executive Directors are invited to visit the Group's premises and are encouraged to have an informal dialogue with the divisions.

Performance evaluation
The Board undertook an annual evaluation of its own performance and that of its Committees and individual Directors in the year. The performance of the Non-Executive Chairman was reviewed by the other Non-Executive Director. The outcome of the evaluation of the Board is reviewed by the Board as a whole and the results are used to assist the Board in developing its approach going forward.

Board balance and independence
The Board has a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision making. The Board has a range of backgrounds and skills. The Non-Executive Directors ensure that independent judgement is brought to Board discussions and decisions. The Board are aware of the importance of attaining greater diversity amongst its members.

The Board considers that there are no relationships or circumstances which are likely to affect the independent judgement of the Non-Executive Directors.

Attendance at board and committee meetings
During the year 11 scheduled Board meetings and 6 ad hoc Board meetings were convened as necessary to deal with various matters. Details of attendance at Board meetings is summarised below. Committee attendance is shown for Committee members only.

	Board	Audit	Nomination	Remuneration
Number held	17	3	4	4
Number attended[1]				
Lord Freeman	14/17	3/3	4/4	4/4
David Firth[2]	4/4	1/1	2/2	1/1
Alan Rommel	17/17	–	–	–
Roger Antony[3]	12/12	–	–	–
Neal Ransome[4]	13/14	2/2	2/2	3/3
Mike Aspinall[5]	4/5	–	–	–

1 All Directors who were members of the Board at the time attended the Group's Annual General Meeting on 31 May 2016

2 Appointed to the Board 14 September 2016

3 Appointed to the Board 22 April 2016

4 Stepped down from the Board 6 October 2016

5 Stepped down from the Board 22 April 2016

Committees
The Audit, Remuneration and Nomination Committees of the Board each have formal written terms of reference. These terms of reference are made available on request to the Company Secretary, can be inspected at the Company's head office and are also available in the Corporate Governance section of the Group's website.

Audit Committee
David Firth was appointed Chair of the Audit Committee after Neal Ransome stepped down on 6 October 2016. Details of Davids's recent and relevant financial experience are set out in his biography on page 10. The Audit Committee meets three times a year. Lord Freeman is the other member of the Audit Committee.

Audit committee meetings are attended by the external auditors and all of the Executive Directors, at the invitation of the Committee. The external auditors meet separately with the Audit Committee on request, without the presence of the Executive Directors, to ensure open communication.

The Audit Committee reviews and, as appropriate, actively engages in the processes for financial reporting, internal control, risk assessment, audit, compliance assurance and considers the independence of the Group's external auditor as well as the effectiveness of the Group's system of accounting, its internal financial controls, external audit process and risk management. The Audit Committee's principal terms of reference include:

- the oversight responsibilities described in the foregoing paragraph;
- reviewing compliance with laws, regulations and the Group's code of conduct and policies;
- monitoring the integrity of the Group's financial statements and announcements relating to the Group's financial performance and reviewing significant financial reporting judgements, changes in accounting policies and practices, significant adjustments resulting from the audit and the application of the going concern assumption;
- reviewing the findings of the external audit with the external auditor;
- making recommendations to the Board, for it to put to the shareholders for their approval, regarding the appointment, re-appointment and removal of the external auditor and

approving the remuneration and terms of engagement of the external auditor;

- monitoring and reviewing the external auditor's independence and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services;
- reviewing the risk management framework and risk assessments;
- reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters; and
- reviewing and monitoring the adequacy and effectiveness of the Company's internal financial controls, internal control, and risk management systems.

In order to ensure an appropriate balance between cost effectiveness, objectivity and independence, the Audit Committee reviews the nature of all services, including non-audit work, provided by the external auditor each year. The Group normally expects to retain the external auditor to provide non-audit related services, including work in relation to shareholder circulars and similar services. The external auditor provided non-audit related services during 2016, details of which are set out in note 3 to the accounts.

Remuneration Committee
The Remuneration Committee comprises both Non-Executive Directors and is chaired by Lord Freeman. Details of the responsibilities of the Remuneration Committee are set out in the remuneration report on pages 18 to 22. Where necessary, specialist external consultants are used to assist the Committee. David Firth became a member after Neal Ransome stepped down on 6 October 2016.

Nomination Committee
The Nomination Committee comprises both Non-Executive Directors and is chaired by Lord Freeman. David Firth became a member after Neal Ransome stepped down on 6 October 2016. The Committee is responsible for proposing candidates for appointment to the Board, having due regard to the balance and structure of the Board, as well as succession planning. During the year the Committee considered the size, composition, skills, experience and independence of the Board having regard to the requirements of the business.

The process for new Board appointments includes an initial search, preliminary interviews and discussions. Following this process, recommendations are then made by the Committee to the Board on merit against objective criteria. Where necessary external recruitment consultants are used to assist the process.

Investor relations
The Company engages where possible in regular dialogue with its major Shareholders through presentations and meetings after the announcement of the Group's full year and interim results. Private and institutional shareholders are given an opportunity to communicate directly with the Board at the Annual General Meeting. Shareholders' queries received via the Company Secretary's email address at cosec@parity.net or by telephone to the Group's head office are responded to in person by the Company Secretary or by another appropriate employee.

All members of the Board usually attend the Annual General Meeting. The chairmen of the Audit, Remuneration and Nomination Committees will normally be available to answer Shareholders' questions at that meeting. Notice of the Meeting is posted to Shareholders with the report and accounts no fewer than 21 clear days prior to the date of the Annual General Meeting. The information sent to Shareholders includes a summary of the business to be covered at the Annual General Meeting, where a separate resolution is proposed for each substantive matter. The Group's annual report and accounts, interim report and other stock exchange announcements are published on the Group's website at www.parity.net.

Annual Report
The Annual Report is designed to present a fair, balanced and understandable view of the Group's activities and prospects. The Operating & Financial Review provides an assessment of the Group's affairs and position. The Annual Report and Interim Report are sent to all Shareholders on the Register.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements
The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report that complies with that law and those regulations.

Website publication
The Directors are responsible for ensuring the annual report and the financial statements are made available on the Parity Group website. Financial statements are published on the Company's website in accordance with AIM company requirements governing the preparation and dissemination of financial statements. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

Internal control
The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness and is assisted in this respect by the Audit Committee. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group's system of internal control, which materially complies with the Financial Reporting Council's Risk Management, Internal Control and Related Financial and Business Reporting September 2014 guidance has been in place throughout the year and up to the date of this report. The Directors confirm that they have reviewed the effectiveness of the Group's system of internal controls during the year.

The Group did not consider it necessary to have a separate internal audit function, but will continue to keep the need under review.

Risk management
The Group is exposed through its operations to the following financial risks:

- Interest rate risk;
- Foreign currency risk;
- Liquidity risk; and
- Credit risk

The policies for managing these risks are set by the Board following recommendations from the Group Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policies for each of the above risks, and the nature and extent of those risks, are described in detail in note 22 to the financial statements. Other risks and uncertainties are discussed in the Financial Review on page 9.

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Roger Antony
Company Secretary
22 March 2017

Remuneration committee
The Remuneration Committee comprises Lord Freeman as Chairman, and David Firth who joined on 14 September 2016. Neal Ransome was a member in the year until 6 October 2016. Directors are excluded from discussions about their personal remuneration.

The committee is responsible for reviewing the Group's remuneration policy, the emoluments of the Executive Directors and other senior management and the Group's pension arrangements and for making recommendations thereon to the Board. The committee also makes recommendations to the Board in respect of awards of options under the Senior Executive Share Option Plan, Executive Share Option Plan and Sharesave Schemes and in respect of employees who should be invited to participate in the Co-investment Scheme. It also reviews the terms of service contracts with senior employees and Executive Directors and any compensation arrangements resulting from the termination by the Company of such contracts.

The committee has access to external advisors to assist it with ensuring that salary and benefit packages are competitive and appropriate. In addition, committee members keep themselves fully informed of all relevant developments and best practice by reading the circulars on remuneration and related matters that the Company receives from its advisers and, if appropriate, by attending seminars. Pension advice is provided by Cartwright Group Limited in relation to the defined benefit scheme and advice is taken on an ad hoc basis in relation to the defined contribution scheme. Advice on share options and Co-investment Plans is provided by Pinsent Masons, who also provide other legal services to the Group.

The Board determines the remuneration of all Non-Executive Directors within the limits set out in the Company's Articles of Association. Non-executive Directors are not involved in any decisions about their own remuneration. Details of Directors' remuneration for the year ended 31 December 2016 are set out in the table on page 21.

Remuneration policy
Parity aims to recruit, motivate and retain high calibre executives capable of achieving the objectives of the Group and to encourage and reward appropriately superior performance in a manner which enhances shareholder value. Accordingly, the Group operates a remuneration policy which ensures that there is a clear link to business strategy and a close alignment with shareholder interests and current best practice, and aims to ensure that senior executives are rewarded fairly for their respective individual contributions to the Group's performance.

The three key elements of the remuneration package of senior executives, including Executive Directors, in the Group in 2016 were basic annual salary and benefits in kind; long term incentives including share options; and pension arrangements.

Salaries and benefits are reviewed annually. In order to assess the competitiveness of the pay and benefits packages offered by the Group, comparisons are made to those offered by similar companies. These are chosen with regard to the size of the company (turnover, profits and employee numbers); the diversity and complexity of their businesses; the geographical spread of their businesses; and their growth, expansion and change profile.

Performance bonus
The terms of an incentive bonus for Executive Directors are agreed annually. For 2016 no target was set and no performance bonuses were earned by, or paid to, Executive Directors in 2016.

Long-term incentive arrangements
The long-term incentive arrangements operated by the Company for Executive Directors comprise Share Option Schemes including a Co-investment Scheme.

Share option schemes
During 2016 the Group operated two types of share option scheme: An Executive Share Option Plan, and a Savings Related Share Option Scheme (Sharesave Scheme). There are currently no live options under the Senior Executive Share Option Plan.

Executive share option plans
The Group operates both an HMRC Approved Share Option Plan and an Unapproved Share Option Plan for options awarded to UK employees in excess of the HMRC limit of £30,000. Share options are granted to Executive Directors and other senior employees over a period of time and according to performance.

The rules of the Executive Share Option Plans allow for annual grants to be awarded equivalent to a value of up to one times salary or up to two times salary in exceptional circumstances. A limit of 15% of the issued share capital of the Company in a ten year period, on a rolling basis, is applicable to the headroom available to award options over the life of the Schemes. Rules of the current Plans expire in May 2019. The terms and conditions of existing share options have not been varied in the year.

Executive Share Options granted after 2004 are exercisable in normal circumstances between three and ten years after the date of grant. The exercise of the options is conditional upon the share price either outperforming the average Total Shareholder Return performance of a comparator group comprising a basket of companies in the IT services sector, or outperforming a target price.

The exercise of share options is satisfied either through shares issued by the Company or through purchases in the market via the Employee Benefit Trust. In the event that an employee resigns, the options that they hold will lapse. Options are granted at nil cost. The option exercise price is set at the closing mid-market share price on date of grant without any discount.

On 15 April 2009 150,000 share options were awarded under this scheme to Alan Rommel. The exercise price of the options is 9 pence, and the options are subject to a performance condition based upon the Group's share price outperforming the average total shareholder return of a comparator group of IT companies. The options vested after 3 years and the performance condition was met. The options lapse in 10 years from the grant date if not exercised.

On 19 May 2010 a further 150,000 share options were awarded under this scheme to Alan Rommel and 100,000 share options were awarded under this scheme to Roger Antony. The exercise price of the options is 8.75 pence, and the options are subject to a performance condition based upon the

Group's share price outperforming the average total shareholder return of a comparator group of IT companies. The options vested after 3 years and the performance condition was met. The options lapse in 10 years from the grant date if not exercised.

On 28 September 2010 a further 100,000 share options were awarded under this scheme to Alan Rommel. The exercise price of the options is 7.5 pence, and the options are subject to a performance condition based upon the Group's share price outperforming the average total shareholder return of a comparator group of IT companies. The options vested after 3 years and the performance condition was met. The options lapse in 10 years from the grant date if not exercised.

On 8 March 2013 a further 160,000 share options were awarded under this scheme to Alan Rommel and a further 20,000 share options were awarded to Roger Antony. The exercise price of the options is 26.5 pence, and the options are subject to a performance condition being that the share price must be greater than or equal to 33.125 pence for 5 consecutive days. The options vested after 3 years and the performance condition was met. The options lapse in 10 years from the grant date if not exercised.

On 18 March 2014 a further 600,000 share options were awarded under this scheme to Alan Rommel and a further 160,000 share options were awarded to Roger Antony. The exercise price of the options is 21.12 pence, and the options are subject to a performance condition being that the share price must be greater than or equal to 26.4 pence for 5 consecutive days. The options will vest in 3 years and lapse in 10 years from the grant date if not exercised.

On 27 November 2014 2,000,000 share options were awarded under this scheme to Andy Law. The exercise price of the options was 16.75 pence, and the options were subject to a performance condition being that the share price must be greater than or equal to 20.94 pence for 5 consecutive days. The options would have vested in 3 years and lapse in 10 years from the grant date if not exercised. However, Andy Law stepped down from the Board on 13 August 2015, and his options lapsed on his termination date 1 March 2016.

On 19 September 2016 a further 1,500,000 share options were awarded under this scheme to Alan Rommel and a further 800,000 share options were awarded to Roger Antony. The exercise price of the options is 8.62 pence and the share options granted have been divided into thirds with each third being subject to the following performance condition:

i) To exercise the first third (1/3 in total) of the share options awarded, the share price must be greater than or equal to 10.74 pence for 5 consecutive days.

ii) To exercise the second third (2/3 in total) of the share options awarded the share price must be greater than or equal to 12.93 pence for 5 consecutive days.

iii) To exercise the final third (100% in total) of the share options awarded the share price must be greater than or equal to 15.08 pence for 5 consecutive days.

The options will vest in 3 years and lapse in 10 years from the grant date if not exercised.

Sharesave schemes

All UK employees, including the Executive Directors, are eligible to participate in the Group's savings related option scheme (Sharesave Scheme) which enables them to subscribe for ordinary shares in the Company. Options granted under the Sharesave Scheme do not have performance related conditions attached to them.

There were no grants made under the Sharesave scheme in 2016.

Co-investment scheme

The Co-investment Scheme was approved by shareholders in 2004. Members are invited to join by the Board, having regard to the recommendations of the remuneration committee. At present the scheme is open to the Chief Executive Officer, Group Finance Director and the Managing Directors of the business units. Under the rules of the scheme, members are entitled to invest up to 50% of the bonus that they earn under the Annual Performance Bonus Scheme in Parity shares. The shares are held on behalf of the employee and, providing the employee remains in Parity's employment, any bonuses invested will be matched in number by the Company on a sliding scale of up to 1.5 for 1 at the end of a defined period of up to three years following the date of purchase.

The award of matching shares is subject to the share price outperforming the average Total Shareholder Return performance of a comparator group comprising a basket of companies in the IT services sector and the period during which the employee has to hold shares before they are matched by the Company increases from one year to three years. Depending on the Group's performance over those three years, the shares purchased by the employee will be matched on a sliding scale up to a maximum of 1.5-to-1 for outstanding performance.

None of the Directors have awards outstanding under the Co-investment Scheme.

Share price
The Parity Group plc mid-market share price on 31 December 2016 was 9.75 pence. During the period 1 January to 31 December 2016 shares traded at market prices between 6.88 pence and 14.50 pence.

Directors' pension information
Alan Rommel and Roger Antony are entitled to a contributory company pension contribution of 5% of basic salary. Up until 30 June 2014, Paul Davies was entitled to a non-contributory company pension contribution of 11% of basic salary. As from 1 July 2014, Paul Davies has received an amount equal to 11% of his basic salary as an additional payment which is paid as part of his monthly salary as a director, up to the date he stepped down from the board. Mike Aspinall and Alastair Woolley were entitled to a contributory company pension contribution of 5% of basic salary up to their dates of resignation. Andy Law was entitled to a contributory company pension contribution of 2% of basic salary up to his resignation.

Non-executive Directors' remuneration
The Board determines the remuneration of the Non-executive Directors with the benefit of independent advice when required. The fees are set at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group and are benchmarked against those fees paid by other UK listed companies.

The Non-executive Directors do not receive bonuses or pension contributions and are not eligible for grants under any of the Group's share incentive schemes. They are entitled to be reimbursed for reasonable expenses incurred by them in carrying out their duties as Directors of the Company.

Service contracts and letters of appointment
The Group's policy is that no Director has a service contract with a notice period of greater than one year or has provision for pre-determined compensation on termination which exceeds one year's salary, bonus and benefits in kind. Non-executive Directors have letters of appointment which set out the terms of their appointments. All Board appointments are subject to the Company's articles of association.

Contractual arrangements for current Directors are summarised below:

Director	Contract date	Notice period	Contractual termination payment
Lord Freeman[1]	1 July 2007	n/a	n/a
Alan Rommel	12 August 2015	12 months	12 months rolling
Roger Antony	22 April 2016	6 months	6 months rolling
David Firth[1]	31 May 2016	n/a	n/a

[1] The appointment of Non-executive Directors is terminable at the will of the parties.

Other non-executive posts
Subject to the approval of the Board, the Executive Directors may hold external non-executive appointments. The Group believes that such appointments provide a valuable opportunity in terms of personal and professional development. Fees derived from such appointments may be retained by the Executive Director concerned.

Directors' remuneration

The remuneration of the Directors who served during the year is set out below:

	Salary/ fees 2016 £'000	Benefits 2016 £'000	Compensation for loss of office 2016 £'000	Total emoluments 2016 £'000	Company pension contributions[11] 2016 £'000	Share Based Payment 2016 £'000
Executive Directors						
A Rommel	**200**	**14**	**–**	**214**	**10**	**25**
R Antony[1]	**96**	**8**	**–**	**104**	**5**	**8**
M Aspinall[2]	**48**	**3**	**87**	**138**	**2**	**–**
Non-executive Directors						
Lord Freeman	**40**	**–**	**–**	**40**	**–**	**–**
D Firth[3]	**13**	**–**	**–**	**13**	**–**	**–**
N Ransome[4]	**31**	**–**	**–**	**31**	**–**	**–**
Total emoluments	**428**	**25**	**87**	**540**	**17**	**33**

	Salary/ fees 2015 £'000	Benefits 2015 £'000	Compensation for loss of office 2015 £'000	Total emoluments 2015 £'000	Company pension contributions[11] 2015 £'000	Share Based Payment 2015 £'000
Executive Directors						
A Rommel	56	5	–	61	3	10
M Aspinall[2]	41	4	–	45	2	–
P Swinstead[5,8]	228	–	–	228	–	–
P Davies[6,8]	114	16	–	130	–	–
A Law[7,8]	125	3	–	128	3	46
A Woolley[9]	65	5	43	113	3	(38)
Non-executive Directors						
Lord Freeman	40	–	–	40	–	–
N Ransome[4]	40	–	–	40	–	–
D Courtley[10]	17	–	–	17	–	–
Total emoluments	732	33	43	808	11	18

Notes

1. R Antony was appointed as a Board director on 22 April 2016
2. M Aspinall resigned as a Board director on 22 April 2016
3. D Firth was appointed as a Board director on 14 September 2016
4. N Ransome resigned as a Board director on 6 October 2016
5. P Swinstead resigned as a Board director on 4 November 2015
6. P Davies resigned as a Board director on 4 November 2015
7. A Law resigned as a Board director on 13 August 2015
8. Following their respective resignations from the Board, P Swinstead, P Davies and A Law served their notice periods on gardening leave.
9. A Woolley resigned on 27 May 2015
10. D Courtley resigned on 13 August 2015
11. Company pension contributions disclosed in the table above represent the contractual pension entitlements due to the Directors of the company.

Executive Directors' share options

	As at 1 January 2016	Lapsed/ Surrendered in the year	Exercised in the year	Awarded in the year	**As at 31 December 2016**	Exercise period	Exercise price per share
Alan Rommel							
Executive share option plan							
2009	150,000	–	–	–	**150,000**	2012-2019	£0.0900
2010	150,000	–	–	–	**150,000**	2013-2020	£0.0875
2010	100,000	–	–	–	**100,000**	2013-2020	£0.0750
2013	160,000	–	–	–	**160,000**	2016-2023	£0.2650
2014	600,000	–	–	–	**600,000**	2017-2024	£0.2112
2016	–	–	–	1,500,000	**1,500,000**	2019-2026	£0.0862
Sub-total	1,160,000	–	–	1,500,000	**2,660,000**		
Roger Antony							
Executive share option plan							
2010	100,000	–	–	–	**100,000**	2013-2020	£0.0875
2013	20,000	–	–	–	**20,000**	2016-2023	£0.2650
2014	160,000	–	–	–	**160,000**	2017-2024	£0.2112
2016	–	–		800,000	**800,000**	2019-2026	£0.0862
Sub-total	280,000	–	–	800,000	**1,080,000**		
Andy Law							
Executive share option plan							
2014	2,000,000	(2,000,000)	–	–	–	2017-2024	£0.1675
Total	3,440,000	(2,000,000)	–	2,300,000	**3,740,000**		

Directors' interests in shares

The beneficial interests of the Directors who served during the year and their families in the ordinary share capital of the Company are shown below.

	At 31 December 2015 (or date of appointment if later)	% issued share capital	**Shareholding as at 31 December 2016 (or date of resignation)**	**% issued share capital**
Lord Freeman	6,250	0.01	**6,250**	**0.01**
Neal Ransome	33,000	0.03	**33,000**	**0.03**
David Firth	–	–	**100,000**	**0.10**
Alan Rommel	3,128	–	**203,128**	**0.20**
Roger Antony	–	–	**100,000**	**0.10**
Mike Aspinall	–	–	**–**	**–**

Lord Freeman
Chairman of the remuneration committee
22 March 2017

Independent Auditor's Report to the Members of Parity Group Plc

We have audited the financial statements of Parity Group plc for the year ended 31 December 2016 set out on pages 24 to 61. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 Directors' Responsibilities Statement set out on page 16, 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
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and 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 where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

K A Dunn

Kelly Dunn (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
United Kingdom
22 March 2017

Consolidated Income Statement

for the year ended 31 December 2016

	Notes	Before non-recurring items 2016 £'000	Non-recurring items 2016 (note 5) £'000	Total 2016 £'000	Before non-recurring items (Restated) 2015 £'000	Non-recurring Items (Restated) 2015 (note 5) £'000	Total (Restated) 2015 £'000
Continuing operations							
Revenue	2	**91,764**	**–**	**91,764**	82,607	–	82,607
Employee benefit costs	3	**(6,245)**	**(260)**	**(6,505)**	(6,765)	(1,077)	(7,842)
Depreciation, amortisation & impairment	3	**(365)**	**(115)**	**(480)**	(357)	(2,335)	(2,692)
All other operating expenses	3	**(83,388)**	**20**	**(83,368)**	(74,459)	(313)	(74,772)
Total operating expenses		**(89,998)**	**(355)**	**(90,353)**	(81,581)	(3,725)	(85,306)
Operating profit/(loss)		**1,766**	**(355)**	**1,411**	1,026	(3,725)	(2,699)
Finance income	7	**611**	**–**	**611**	506	–	506
Finance costs	7	**(1,063)**	**–**	**(1,063)**	(1,072)	–	(1,072)
Profit/(loss) before tax		**1,314**	**(355)**	**959**	460	(3,725)	(3,265)
Tax (charge)/credit	10	**(154)**	**79**	**(75)**	(353)	189	(164)
Profit/(loss) for the year from continuing operations		**1,160**	**(276)**	**884**	107	(3,536)	(3,429)
Discontinued operations							
Loss from discontinued operations, net of tax	8	**(78)**	**–**	**(78)**	(226)	(264)	(490)
Profit/(loss) for the year attributable to owners of the parent		**1,082**	**(276)**	**806**	(119)	(3,800)	(3,919)
Basic earnings/(loss) per share	11			**0.87p**			(3.37p)
Diluted earnings/(loss) per share	11			**0.83p**			(3.37p)

The notes on pages 29 to 61 form part of the financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	Consolidated 2016 £'000	2015 £'000
Profit/(loss) for the year		**806**	(3,919)
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(13)**	42
		(13)	42
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit pension scheme	24	**(413)**	848
		(413)	848
Other comprehensive income for the year net of tax		**(426)**	890
Total comprehensive income for the year attributable to equity holders of the parent		**380**	(3,029)

The notes on pages 29 to 61 form part of the financial statements.

Statements of Changes in Equity

for the year ended 31 December 2016

Consolidated	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2016	**2,037**	**14,319**	**33,195**	**44,160**	**(87,689)**	**6,022**
Profit for the year	**–**	**–**	**–**	**–**	**806**	**806**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**(13)**	**(13)**
Remeasurement of defined benefit pension scheme	**–**	**–**	**–**	**–**	**(413)**	**(413)**
Share options – value of employee services	**–**	**–**	**–**	**–**	**58**	**58**
At 31 December 2016	**2,037**	**14,319**	**33,195**	**44,160**	**(87,251)**	**6,460**

Consolidated	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2015	2,035	14,319	33,189	44,160	(84,812)	8,891
Loss for the year	–	–	–	–	(3,919)	(3,919)
Exchange differences on translation of foreign operations	–	–	–	–	42	42
Remeasurement of defined benefit pension scheme	–	–	–	–	848	848
Issue of new ordinary shares	2	–	6	–	–	8
Share options – value of employee services	–	–	–	–	152	152
At 31 December 2015	**2,037**	**14,319**	**33,195**	**44,160**	**(87,689)**	**6,022**

Company	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2016	**2,037**	**14,319**	**33,195**	**22,729**	**(53,177)**	**19,103**
Loss for the year	**–**	**–**	**–**	**–**	**(4,531)**	**(4,531)**
Share options – value of employee services	**–**	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2016	**2,037**	**14,319**	**33,195**	**22,729**	**(57,709)**	**14,571**

Company	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2015	2,035	14,319	33,189	22,729	(51,657)	20,615
Loss for the year	–	–	–	–	(1,558)	(1,558)
Issue of new ordinary shares	2	–	6	–	–	8
Share options – value of employee services	–	–	–	–	38	38
At 31 December 2015	**2,037**	**14,319**	**33,195**	**22,729**	**(53,177)**	**19,103**

The notes on pages 29 to 61 form part of the financial statements.

Statements of Financial Position

As at 31 December 2016

Company number 3539413

Assets	Notes	Consolidated 2016 £'000	Consolidated 2015 £'000	Company 2016 £'000	Company 2015 £'000
Non-current assets					
Intangible assets and goodwill	12,13	**5,055**	7,113	**–**	–
Property, plant and equipment	14	**72**	180	**1**	2
Trade and other receivables	17	**–**	–	**122,736**	113,332
Investment in subsidiaries	30	**–**	–	**20,527**	20,527
Deferred tax assets	15	**409**	507	**–**	–
		5,536	7,800	**143,264**	133,861
Current assets					
Stocks and work in progress	16	**–**	61	**–**	–
Trade and other receivables	17	**14,373**	15,619	**3,370**	3,350
Cash and cash equivalents		**4,272**	2,648	**111**	18
		18,645	18,328	**3,481**	3,368
Assets classified as held for sale and included in disposal groups	18	**2,389**	–	**–**	–
Total assets		**26,570**	26,128	**146,745**	137,229
Liabilities					
Current liabilities					
Loans and borrowings	19	**(8,636)**	(10,016)	**–**	–
Trade and other payables	20	**(9,104)**	(8,574)	**(10,919)**	(9,561)
		(17,740)	(18,590)	**(10,919)**	(9,561)
Non-current liabilities					
Loans and borrowings	19	**(22)**	(11)	**–**	–
Trade and other payables	20	**–**	–	**(121,255)**	(108,565)
Provisions	21	**(17)**	(14)	**–**	–
Retirement benefit liability	24	**(1,848)**	(1,491)	**–**	–
		(1,887)	(1,516)	**(121,255)**	(108,565)
Liabilities associated with assets classified as held for sale and included in disposal groups	18	**(483)**	–	**–**	–
Total liabilities		**(20,110)**	(20,106)	**(132,174)**	(118,126)
Net assets		**6,460**	6,022	**14,571**	19,103
Shareholders' equity					
Called up share capital	25	**16,356**	16,356	**16,356**	16,356
Share premium account	23	**33,195**	33,195	**33,195**	33,195
Other reserves	23	**44,160**	44,160	**22,729**	22,729
Retained earnings	23	**(87,251)**	(87,689)	**(57,709)**	(53,177)
Total shareholders' equity		**6,460**	6,022	**14,571**	19,103

Approved by the Directors and authorised for issue on 22 March 2017.

The notes on pages 29 to 61 form part of the financial statements.

Alan Rommel
Chief Executive Officer

Roger Antony
Finance Director

Statements of Cash Flows

for the year ended 31 December 2016

	Notes	Consolidated 2016 £'000	Consolidated 2015 £'000	Company 2016 £'000	Company 2015 £'000
Cash flows from operating activities					
Profit/(loss) for year		**806**	(3,919)	**(4,531)**	(1,558)
Adjustments for:					
Finance income	7	**(611)**	(506)	**(1,272)**	(2,077)
Finance expense	7	**1,063**	1,072	**4,937**	1,568
Share-based payment expense	9	**58**	152	**(1)**	38
Income tax expense/(credit)	8,10	**44**	6	**(362)**	(249)
Amortisation of intangible assets	12	**652**	546	**–**	–
Depreciation of property, plant and equipment	14	**147**	173	**1**	1
Impairment of goodwill	12,13	**–**	1,994	**–**	–
Loss on write down of intangible assets	12	**115**	3	–	–
Loss on write down of property, plant and equipment	5	**–**	341	**–**	–
		2,274	(138)	**(1,228)**	(2,277)
Working Capital					
Decrease/(increase) in work in progress		**44**	(34)	**–**	–
Decrease/(increase) in trade and other receivables		**330**	(96)	**(1,185)**	(1,374)
Increase/(decrease) in trade and other payables		**962**	522	**1,848**	1,536
Increase/(decrease) in provisions		**33**	(68)	**–**	(68)
Payments to retirement benefit plan	24	**(231)**	(28)	**–**	–
Cash generated from operations		**3,412**	158	**(565)**	(2,183)
Income taxes received		**–**	23	**–**	–
Net cash flows from operating activities		**3,412**	181	**(565)**	(2,183)
Investing activities					
Acquisition of subsidiaries		**–**	(250)	**–**	–
Purchase of intangible assets	12	**(22)**	(349)	**–**	–
Purchase of property, plant and equipment	14	**(129)**	(92)	**–**	(1)
Net cash used in investing activities		**(151)**	(691)	**–**	(1)
Financing activities					
Issue of ordinary shares	25	**–**	8	**–**	8
(Repayment of)/proceeds from finance facility		**(1,360)**	476	**–**	–
Net movements on intercompany funding		**–**	–	**931**	2,391
Interest paid	7	**(277)**	(300)	**(273)**	(299)
Net cash from financing activities		**(1,637)**	184	**658**	2,100
Net increase/(decrease) in cash and cash equivalents		**1,624**	(326)	**93**	(84)
Cash and cash equivalents at the beginning of the year		**2,648**	2,974	**18**	102
Cash and cash equivalents at the end of the year		**4,272**	2,648	**111**	18

The notes on pages 29 to 61 form part of the financial statements.

1 Accounting policies

Basis of preparation
Parity Group plc (the "Company") is a company incorporated and domiciled in the UK.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report (Review of business and future developments). The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 7 to 9 and in note 22 to the financial statements. Note 22 also includes the Group's objectives for managing capital.

As outlined in note 22, the Group meets its day to day working capital requirements through an asset-based finance facility. The facility contains certain financial covenants which have been met throughout the period. The facility was renewed during 2016, on favourable terms, and is currently subject to a minimum period up to 31st December 2018, at which point the facility becomes evergreen rolling over on the same terms, with six months' notice from either party. The bank has not drawn to the attention of the Group any matters to suggest that this facility will not be continued.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facility for the foreseeable future.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016. Subsidiaries are entities controlled by the Group. Control exists when the Group has:

- existing rights that give it the ability to direct the relevant activities that significantly affect the subsidiary's returns; and
- exposure, or rights, to variable returns from its involvement with the subsidiary; and
- the ability to use its power over the subsidiary to affect the amount of the Group's returns.

The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

In accordance with Section 408 of the Companies Act 2006, the Company has not presented its own Income Statement or Statement of Comprehensive Income. The loss for the year dealt with in the accounts of the Company was £4,531,000 (2015: £1,558,00).

Business Combinations
The acquisition of subsidiaries is accounted for using the purchase method. The related costs of acquisition other than those associated with the issue of debt or equity securities, are recognised in the profit and loss as incurred. The acquiree's identifiable assets and liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 (2008) "Business combinations" are recognised at their fair value at the acquisition date.

1 Accounting policies continued

Changes in accounting policies: new standards, interpretations and amendments effective in 2016 adopted by the Group and published standards not yet effective
No new standards, amendments to published standards or interpretations of existing standards effective in 2016 had a material impact on the Group's 2016 financial statements. The following new standards and interpretations to existing standards have been published that are mandatory for the Group's future accounting, which the Group does not expect to have significant impact on its accounting policies or disclosures:

- IFRS 2 'Classification and Measurement of Share-based Payment Transactions' (not yet effective) – amendment
- IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' (not yet effective) – amendment
- IFRS 9 'Financial Instruments' (not yet effective)
- IFRS 15 'Revenue from Contracts with customers' (not yet effective)
- IFRS 16 'Leases' (not yet effective)
- IAS 7 'Disclosure Initiative' (not yet effective)
- IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses' (not yet effective) – amendment

Measurement convention
The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as fair value through the profit or loss or as available-for-sale. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

Revenue recognition
The Group generates revenue principally through the provision of recruitment and technology services.

The Group recognises revenue when certain criteria are met: there is clear evidence that a contract exists, the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the Group, and the stage of completion can be measured reliably where services are delivered. Revenue is measured at the fair value of the consideration received or receivable, net of discounts, volume rebates and value added tax.

Revenue on contracts for the supply of professional services at pre-determined rates is recognised as and when the work is performed, irrespective of the duration of the contract. Permanent placement staffing revenue is recognised when candidates commence employment. Rebates may be applicable on a sliding scale where the candidate's employment is terminated within 9 weeks. Rebate provisions are created based on the experience of claims.

The Group presents interim recruitment revenues, and the related direct costs of services, in accordance with IAS 18's guidance – Principal versus Agency Considerations. The Group acts as principal in all of its interim recruiting transactions in that it carries the risks and rewards of ownership e.g. it has the obligation to pay the contractor, and it carries the risks of non-payment due to insolvency or poor performance, and also the risk of pricing reductions. Accordingly, in respect of interim recruitment, the Group reports gross revenues and gross direct costs.

Revenue is recognised on fixed price contracts while the contract is in progress, using the percentage of completion method, having regard to the proportion of the total contract costs which have been incurred at the reporting date. Provision is made for all foreseeable future losses.

Revenue from systems integration and consulting services under time and material arrangements is recognised as the services are rendered.

Non-recurring items
Items which are both material and non-recurring are presented as non-recurring items within the relevant Income Statement category. The separate reporting of non-recurring items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as non-recurring, if of a significantly material value, include gains or losses on the disposal of a business, restructuring of a business, transaction costs, litigation and similar settlements, asset impairments, onerous contracts, and gains on bargain purchases.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1 Accounting policies continued

Financing income and expenses
Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on the retirement benefit scheme liabilities, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprises the expected return on the retirement benefit scheme assets, interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Dividends
Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends, which do not require shareholder approval, are recognised when paid.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Foreign currencies
Company
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Income Statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Group
On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in Other Comprehensive Income. On disposal of a foreign operation, the cumulative exchange differences recognised in Other Comprehensive Income relating to that operation up to the date of disposal are transferred to the consolidated Income Statement as part of the profit or loss on disposal.

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

Discontinued operations are presented in the Income Statement (including in the comparative period) as a single line which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker is the Group Board.

1 Accounting policies continued

Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets of the business acquired.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold in determining the gain or loss on disposal, except for goodwill arising on business combinations on or before 31 December 1997 which has been deducted from Shareholders' equity and remains indefinitely in Shareholders' equity.

Software

The carrying amount of software is its cost less any accumulated amortisation and any provision for impairment. Software is amortised on a straight line basis over its expected useful economic life of three to seven years.

Intellectual Property

Intellectual property represents the expenditure incurred on developing new, innovative products/services that are expected to generate future economic benefits. The carrying amount of intellectual property is its cost less any accumulated amortisation and any provision for impairment. Intellectual property is amortised on a straight line basis over two years, with amortisation commencing from the date that the products/services are available for sale.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected useful economic life, as follows:

Leasehold improvements	The lesser of the asset life and the remaining length of the lease
Office equipment	Between 3 and 5 years

The carrying value of property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, the latter being the higher of the fair value less costs to sell associated with the CGU and its value in use. Value in use calculations are performed using cash flow projections for the CGU to which the goodwill relates, discounted at a pre-tax rate which reflects the asset specific risks and the time value of money.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Goodwill is tested for impairment at each reporting date. The carrying value of other intangible assets and property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1 Accounting policies continued

Financial assets
The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired.

Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables: these assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables). They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue, less provision for impairment.

The effect of discounting on these financial instruments is not considered to be material.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognised within other operating expenses in the Income Statement.

On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Investments: investments in subsidiary undertakings are recorded at cost. The carrying values of investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Cash and cash equivalents: cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand, short term deposits and other short-term liquid investments. In the Cash Flow Statement, cash and cash equivalents comprise cash and cash equivalents as defined above, net of bank overdrafts.

Stocks and work in progress
Stocks are stated at the lower of cost and net realisable value. Cost comprises equipment for resale. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Costs recoverable on contracts which are expected to benefit performance and be recoverable over the life of the contracts are recognised in the Statement of Financial Position as work in progress and charged to the Income Statement over the life of the contract so as to match costs with revenues.

Work in progress is stated at the lower of cost and net realisable amount and represents that element of start-up costs which, at the reporting date, has not been charged to the Income Statement. Cost includes materials, direct labour and an attributable portion of overheads based on normal levels of activity. Net realisable amount is based on estimated selling price, less further costs expected to be incurred to completion and disposal including provision for contingencies and anticipated future losses.

Amounts recoverable on contracts and payments in advance
Amounts recoverable on contracts are stated at the net sales value of work done less amounts received as progress payments on account. Where progress payments exceed the sales value of work done, they are included in payables as payments in advance.

Financial liabilities
All of the Group's financial liabilities are classified as financial liabilities carried at amortised cost. The Group does not use derivative financial instruments or hedge account for any transactions.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values.

Financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.
- Finance leases which are initially measured at fair value and subsequently carried at amortised cost using the effective interest method.
- Bank borrowings, which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated Statement of Financial Position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

1 Accounting policies continued

Operating Leases

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

From time to time the Group faces the potential of legal action in respect of employment or other contracts. In such situations, where it is probable that a payment will be required to settle the action, provision is made for the Group's best estimate of the outcome.

Where leasehold properties are surplus to requirements, provisions are made for the best estimates of the unavoidable net future costs.

Provisions for dilapidation charges that will crystallise at the end of the period of occupancy are provided for in full on non-serviced properties.

Pensions

The Group operates a number of retirement benefit schemes. With the exception of the 'Parity Retirement Benefit Plan', all of the schemes are defined contribution plans and the assets are held in separate, independently administered funds. The Group's contributions to defined contribution plans are charged to the Income Statement in the period to which the services are rendered by the employees, and the Group has no further obligation to pay further amounts.

The 'Parity Retirement Benefit Plan' is a defined benefit pension fund with assets held separately from the Group. This fund has been closed to new members since 1995 and with effect from 1 January 2005 was also closed to future service accrual.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets at bid price, and any unrecognised past service costs are deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to, the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements.

Share capital

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group); and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

For the purposes of the disclosures given in note 22, the Group considers its capital to comprise its cash and cash equivalents, its asset-based bank borrowings, and its equity attributable to equity holders, comprising issued capital, reserves and retained earnings, as disclosed in the statement of changes in equity.

Financial guarantee contracts

Where Group companies enter into financial guarantee contracts and guarantee the indebtedness of other companies within the Group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time that it becomes probable that any Group company will be required to make a payment under the guarantee.

1 Accounting policies continued

Employee Share Ownership Plan (ESOP)
As the Company is deemed to have control of its ESOP trust, it is treated as an agent and consolidated for the purposes of the consolidated financial statements. The ESOP's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements. The ESOP's investment in the Company's shares is deducted from shareholders' equity in the Consolidated Statement of Financial Position as if they were treasury shares.

Share-based payment transactions
Share-based payment arrangements in which the Group and Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group and Company.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

Significant accounting estimates and judgements
The preparation of financial statements under IFRS requires the Group to make estimates and assumptions regarding the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Retirement benefit liability
The costs, assets and liabilities of the defined benefit scheme operated by the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in note 24. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a significant effect on the Income Statement and the Statement of Financial Position.

Recoverability of deferred tax assets
The deferred tax assets are reviewed for recoverability and recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. This is determined based on management estimates and assumptions as to the future profitability of the related business units. The forecasts for the business used in this review were the same as those used in the review of impairment of goodwill (see note 13). The deferred tax asset would not require writing down if the forecast future profitability of Parity Professionals Limited was 10% lower.

Intangible assets – intellectual property
The Group capitalises costs incurred in developing its range of technologies and services where management believe that future economic benefits will flow from the Group's intellectual property. In assessing the carrying value of the intellectual property, management estimate future related revenues, by analysing its order book and qualified sales pipeline. Management are also required to make a judgement on the useful life of the Group's intellectual property, which they base on the useful lives of previously developed technologies and services, and the current pace of change within the industry.

Impairment of goodwill
The Group is required to test whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit and the choice of a suitable discount rate in order to calculate the present value (see note 13).

Investments in subsidiaries
The Company reviews its investment in subsidiaries to test whether any impairment has been suffered. The recoverable amounts are determined using discounted future cash flows.

Intercompany receivables
The Company reviews receivables due from subsidiary undertakings to test whether they are recoverable. Provision is made for where there is uncertainty as to full recovery.

2 Segmental information

Factors that management used to identify the Group's reporting segments
In accordance with IFRS 8 'Operating Segments' the Group's management structure, and the reporting of financial information to the Chief Operating Decision Maker (the Group Board), have been used as the basis to define reporting segments. The Group has two continuing defined cash generating units (see note 13) which form the basis of each operating segment. The components of each segment are described below.

The internal financial information prepared for the Group Board includes contribution at a segmental level, and the Group Board allocates resources on the basis of this information.

Segmental contribution, defined as divisional revenues less attributable overheads, profit before tax, and assets and liabilities are internally reported at a Group level.

Description of the types of services from which each reportable segment derives its revenues
The Group has two segments:

- Parity Professionals – this segment provides IT recruitment services across all UK markets. It also provides graduate selection, training, placement and career development services. Parity Professionals provides 94% (2015: 95%) of the continuing Group's revenues.
- Parity Consultancy Services – this segment delivers business intelligence solutions designed around client problems. Parity Consultancy Services provides 6% (2015: 5%) of the continuing Group's revenues.

Group costs include directors' salaries and costs relating to Group activities and are not allocated to reporting segments for internal reporting purposes.

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

The Group evaluates performance on the basis of contribution from operations before tax not including non-recurring items, such as restructuring costs.

Inter-segment sales are priced on the same basis as sales to external customers, with a discount applied to encourage the use of group resources at a rate acceptable to the tax authorities.

	Parity Professionals 2016 £'000	Parity Consultancy Services 2016 £'000	Before non-recurring Items 2016 £'000	Non-recurring items 2016 £'000	Total 2016 £'000
Revenue from external customers	**86,419**	**5,345**	**91,764**	**–**	**91,764**
Inter-segment revenue	**481**	**–**	**481**	**–**	**481**
Segment revenue	**86,900**	**5,345**	**92,245**	**–**	**92,245**
Attributable costs	**(84,240)**	**(4,435)**	**(88,675)**	**–**	**(88,675)**
Segmental contribution	**2,660**	**910**	**3,570**	**–**	**3,570**
Group costs			**(1,383)**	**–**	**(1,383)**
Depreciation and amortisation			**(365)**	**(115)**	**(480)**
Share based payment			**(56)**	**–**	**(56)**
Other non-recurring items			**–**	**(240)**	**(240)**
Operating Profit			**1,766**	**(355)**	**1,411**
Finance income			**611**	**–**	**611**
Finance costs			**(1,063)**	**–**	**(1,063)**
Profit/(loss) before tax (continuing activities)			**1,314**	**(355)**	**959**

2 Segmental information continued

	Parity Professionals 2015 £'000	Parity Consultancy Services 2015 £'000	Before non-recurring Items 2015 £'000	Non-recurring items 2015 £'000	Total 2015 £'000
Revenue from external customers	78,190	4,417	82,607	–	82,607
Inter-segment revenue	118	–	118	–	118
Segment revenue	78,308	4,417	82,725	–	82,725
Attributable costs	(76,032)	(3,719)	(79,751)	–	(79,751)
Segmental contribution	2,276	698	2,974	–	2,974
Group costs			(1,443)	–	(1,443)
Depreciation and amortisation			(357)	(341)	(698)
Share based payment			(148)	–	(148)
Impairment of goodwill			–	(1,994)	(1,994)
Other non-recurring items			–	(1,390)	(1,390)
Operating Profit			1,026	(3,725)	(2,699)
Finance income			506	–	506
Finance costs			(1,072)	–	(1,072)
Profit/(loss) before tax (continuing activities)	–	–	460	(3,725)	(3,265)

The continuing Group operates exclusively in the UK. All revenues are generated and all segment assets are located in the UK. All revenues are generated and all segment assets are located in the UK. Inter-segment revenue in the year is a result of Parity Professionals selling IT recruitment services to Parity Consultancy Services.

61% (2015: 57%) or £52.7m (2015: £44.8m) of the Parity Professionals revenue was generated in the public sector. 57% (2015: 32%) or £3.0m (2015: £1.4m) of the Parity Consultancy Services revenue was generated in the Public Sector.

The largest single customer in Parity Professionals contributed revenue of £10.8m or 12% and was in the public sector (2015: £11.8m or 15% and in the private sector). The largest single customer in Parity Consultancy Services contributed revenue of £2.9m or 54% and was in the public sector (2015: £2.4m or 53% and in the private sector).

3 Operating costs

Continuing operations	Consolidated 2016 £'000	2015 (restated) £'000
Employee benefit costs		
– wages and salaries	**5,688**	6,997
– social security costs	**639**	660
– other pension costs	**178**	185
	6,505	7,842
Depreciation and amortisation		
Amortisation of intangible assets – software	**294**	254
Depreciation of leased property, plant and equipment	**35**	27
Depreciation of owned property, plant and equipment	**36**	76
Write down of property, plant and equipment	**–**	341
Write down of intangible assets	**115**	–
Impairment of goodwill	**–**	1,994
	480	2,692
All other operating expenses		
Contractor costs	**80,409**	72,014
Sub-contracted direct costs	**350**	366
Operating lease rentals – plant and machinery	**27**	37
– land and buildings	**775**	1,003
Sub-let income – land and buildings	**–**	(150)
Other occupancy costs	**147**	263
IT costs	**348**	249
Equity settled share based payment charge	**56**	148
Other operating costs	**1,256**	842
	83,368	74,772
Total operating expenses	**90,353**	85,306

Disclosures relating to the remuneration of Directors are set out on page 21.

During the year the Group obtained the following services from the Group's auditor, KPMG LLP:

	Consolidated 2016 £'000	2015 £'000
Audit of the Parent Company and consolidated financial statements	**11**	11
Other services:		
Audit of the Company's subsidiaries	**65**	65
Interim review	**6**	6
Tax compliance	**27**	27
Other	**17**	33
	115	131
	126	142

All other services have been performed in the United Kingdom.

Other refers to services provided in relation to advice relating to the Retirement Benefit Plan and transaction costs.

4 Reconciliation of operating profit/(loss) to adjusted EBITDA

	Note	2016 £'000	2015 (restated) £'000
Operating profit/(loss) from continuing operations		**1,411**	(2,699)
Non-recurring items	5	**355**	3,725
Share-based payment charges	3	**56**	148
Depreciation and amortisation	3	**365**	357
Adjusted EBITDA		**2,187**	1,531

The directors previously used EBITDA before non-recurring items and share-based payment charges ('Adjusted EBITDA') as a key performance measure of the business.

5 Non-recurring items

	Note	2016 £'000	2015 (restated) £'000
Continuing Operations			
Write down of GPSeer			
– Write down of intangible assets		**115**	–
– Other operating costs		**152**	–
Total write down of GPSeer		**267**	–
Impairment of goodwill	12,13	**–**	1,994
Restructuring			
– Employee benefit costs		**260**	1,077
– Write down of property, plant and equipment		**–**	341
– Other operating costs		**36**	126
Transaction costs		**52**	125
Property provisions		**46**	62
Insolvency dividend		**(306)**	–
		355	3,725

The continuing operations non-recurring charge for 2016 includes:

- The write down of assets in the GPSeer joint venture. GPSeer is an initiative under the previous digital strategy to develop a cutting-edge internet search engine. Since the change in strategy, no further development work has been performed by the Group.
- Restructuring costs including compensation payments incurred to downsize the Talent Management service offering in Northern Ireland, the cost of Board changes aligned to the Group's strategy, and residual expenses incurred to close the Golden Square service offering.
- Transaction costs relating to professional services incurred to implement the Board's strategy to focus on core business.
- Property provisions represent empty property costs incurred as a result of centralising the London office.
- The insolvency dividend relates to a one-off payment received in 2016 from the administrators of a legacy overseas subsidiary.

The continuing operations non-recurring charge for 2015 includes:

- A goodwill impairment charge relating solely to the Group's investment in Inition Limited (see note 13).
- Restructuring costs of £737,000 relating to the closure of the Golden Square business (including a £341,000 write down of tangible fixed assets) and £787,000 of compensation payments made in respect of redundancies and Board changes following the Group's decision to discontinue its digital acquisition initiative.
- Transaction costs for professional services incurred in the Group's acquisition programme which was discontinued during the year.

6 Average staff numbers

	2016 Number	2015 Number
Continuing operations		
Professionals – United Kingdom[1]	**89**	92
Consultancy Services – United Kingdom, including corporate office[2]	**28**	32
	117	124
Discontinued Operations		
Consultancy Services	**22**	25

1 Includes 22 (2015: 19) employees providing shared services across the Group.
2 Includes 7 (2015: 8) employees of the Company.

At 31 December 2016, the Group had 112 continuing employees (2015: 110).

7 Finance income and costs

	2016 £'000	2015 £'000
Finance income		
Finance income in respect of post-retirement benefits	**611**	506
	611	506
Finance costs		
Interest expense on financial liabilities	**277**	300
Finance costs in respect of post-retirement benefits	**786**	772
	1,063	1,072

The interest expense on financial liabilities represents interest paid on the Group's asset-based financing facilities. A 1% increase in the base rate would increase annual borrowing costs by approximately £100,000.

8 Discontinued operations

In December 2016 the Group Board committed to a plan to sell the Inition cash generating unit following the strategic decision made in May 2015 to place greater focus on the Group's core business.

Inition was not previously classified as held-for-sale or as a discontinued operation. As such, the comparative consolidated income statement has been restated to show the discontinued operation separately from continuing operations.

The results of discontinued operations also include the results of other statutory entities still owned by the Group which sold their businesses in 2005 and 2006. These entities are not held for sale.

The post-tax result of discontinued operations was determined as follows:

	Note	2016 £'000	2015 £'000
Revenue		**3,263**	2,235
Expenses		**(3,372)**	(2,883)
Pre-tax loss		**(109)**	(648)
Taxation credit		**31**	158
Loss for the year		**(78)**	(490)
Basic loss per share	11	**0.08p**	0.48p
Diluted loss per share	11	**0.07p**	0.48p

The loss from the discontinued operation of £78,000 (2015: £490,000) is attributable entirely to the owners of the Company.

Cash flows from (used in) discontinued operations:

	2016 £'000	2015 £'000
Net cash from operating activities	**45**	208
Net cash used in investing activities	**(88)**	(156)
Net cash flows for the year	**(43)**	52

9 Share based payments

The Group operates several share based reward schemes for employees:

- A United Kingdom tax authority approved scheme for executive directors and senior staff;
- An unapproved scheme for executive directors and senior staff;
- A Co-Investment Scheme for senior management;
- A Save As You Earn Scheme for all employees; and
- A Senior Executive Share Option Plan for Executive Directors.

Under the approved and unapproved schemes and the Co-Investment Scheme, options vest if the share price averages a target price for 5 consecutive days over a three year period from the date of grant. Options lapse if the individual leaves the Group, except under certain circumstances such as leaving by reason of redundancy, when the options lapse 12 months after the leaving date.

Save As You Earn options lapse if not exercised within six months after the vesting date. They are also subject to continued employment within the Group.

Options under the Senior Executive Share Option Plan have no performance conditions other than continued employment within the Group and must be exercised within five years of the date of grant.

All employee options other than those issued under the Senior Executive Share Option Plan have a maximum term of ten years from the date of grant. The total share-based remuneration recognised in the Income Statement was £58,000 (2015: £152,000).

	2016 Weighted average exercise price (p)	**2016 Number**	2015 Weighted average exercise price (p)	2015 Number
Outstanding at beginning of the year	**19**	**8,452,583**	18	13,536,921
Granted during the year	**9**	**3,100,000**	–	–
Exercised during the year	**–**	**–**	8	(97,500)
Lapsed during the year	**19**	**(3,131,732)**	16	(4,986,838)
Outstanding at the end of the year	**15**	**8,420,851**	19	8,452,583

The exercise price of options outstanding at the end of the year and their weighted average contractual life fell within the following ranges:

2016 Exercise price (p)	**2016 Weighted average contractual life (years)**	**2016 Number**	2015 Exercise price (p)	2015 Weighted average contractual life (years)	2015 Number
7.5 - 10	**8**	**4,200,000**	7.5 - 10	4	1,250,000
17 - 28	**7**	**4,220,851**	17 - 28	8	7,202,583
		8,420,851			8,452,583

Of the total number of options outstanding at the end of the year 2,030,000 (2015: 1,782,500) had vested and were exercisable at the end of the year. The weighted average exercise price of those options was 17 pence (2015: 14 pence).

There were no options exercised during the year (2015: 97,500 options were exercised at an average exercise price of 8 pence).

There were 3,100,000 (2015: nil) options granted during the year. The weighted average fair value of option granted was 9 pence.

9 Share based payments continued

The following information is relevant in determining the fair value of options granted during the year under equity–settled share-based remuneration schemes operated by the Group. There are no cash-settled schemes.

	2016 Stochastic	2015 Stochastic
Option pricing model		
Weighted average share price at grant date (p)	**9**	–
Weighted average exercise price (p)	**9**	–
Weighted average contractual life (years)	**10**	–
Weighted average expected life (years)	**5**	–
Expected volatility	**43 – 50%**	–
Weighted average risk free rate	**0.27%**	–
Expected dividend growth rate	**0%**	–

The volatility assumption is calculated as the historic volatility of the share price over a 3 and 5 year period prior to grant date.

Share options issued to defined benefit pension scheme

In December 2010 the Group issued 1,000,000 share options in Parity Group plc to the pension scheme at an exercise price of 9 pence per share. These options may be exercised at the discretion of the Trustees; they vested on grant and have no expiry date. Any gain on exercise is to be used to reduce the scheme deficit. These options were valued using the stochastic method. The share price on the grant date was 15.75 pence. Whilst the options do not have an expiry date, for valuation purposes it is assumed that the expected life of the options is 8 years. The expected volatility is 64.2% and the average risk free rate assumed was 3.4%.

10 Taxation

	2016 £'000	2015 (Restated) £'000
Current tax expense		
Current tax on profit for the year	**5**	125
Total current tax expense	**5**	125
Deferred tax expense		
Accelerated capital allowances	**39**	(7)
Origination and reversal of other temporary differences	**3**	(7)
Change in corporation tax rate	**20**	53
Adjustments in respect of prior periods	**8**	–
Total tax expense	**70**	39
Tax expense on continuing operations	**75**	164

Tax expense on continuing operations excludes the tax income from the discontinued operation of £31,000 (2015: £158,000). This has been included in 'profit/(loss) from discontinued operation, net of tax' (see Note 8).

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Group's profits for this accounting period are subject to tax at a rate of 20% (2015: 20.25%). In his Autumn Statement, the Chancellor confirmed there will be a reduction in the corporate tax rate from 1 April 2017 to 19%, and then a further reduction from 1 April 2020 to 17%. As such, the tax rate of 17% has been applied in calculating the UK deferred tax position of the Group at 31 December 2016.

The 2016 tax expense is after a tax credit of £79,000 (2015: £189,000) in respect of non-recurring items.

10 Taxation continued

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to losses for the year are as follows:

	2016 £'000	2015 (Restated) £'000
Profit/(loss) before tax from continuing operations	**959**	(3,265)
Expected tax charge/(credit) based on the standard rate of United Kingdom corporation tax of 20% (2015: 20.25 %)	**192**	(661)
Expenses/(income) not allowable for tax purposes	**5**	445
Adjustment for under provision in prior years	**8**	2
Reduction in deferred tax asset due to change in enacted rate	**20**	53
Tax losses not recognised	**–**	272
Deferred tax not provided	**(150)**	53
	75	164

Tax on each component of other comprehensive income is as follows:

	2016 Before tax £'000	2016 Tax £'000	2016 After tax £'000	2015 Before tax £'000	2015 Tax £'000	2015 After tax £'000
Exchange differences on translation of foreign operations	**(13)**	**–**	**(13)**	42	–	42
Actuarial (loss)/gain on defined benefit pension scheme	**(413)**	**–**	**(413)**	848	–	848
	(426)	**–**	**(426)**	890	–	890

11 Earnings per ordinary share

Basic earnings per share is calculated by dividing the basic earnings from continuing operations for the year by the weighted average number of fully paid ordinary shares in issue during the year.

Diluted earnings per share is calculated on the same basis as the basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares. In 2015, none of the potential ordinary shares are dilutive, as the Group made a loss on continuing activities during the year.

	Earnings 2016 £'000	Weighted average number of shares 2016 000's	Earnings per share 2016 Pence	Earnings 2015 £'000	Weighted average number of shares 2015 000's	Earnings per share 2015 Pence
Basic earnings/(loss) per share	**884**	**101,824**	**0.87**	(3,429)	101,731	(3.37)
Effect of dilutive options	**–**	**4,691**	**–**	–	–	–
Diluted earnings/(loss) per share	**884**	**106,515**	**0.83**	(3,429)	101,731	(3.37)

As at 31 December 2016 the number of ordinary shares in issue was 101,824,020 (2015: 101,824,020).

Basic loss per share from discontinued operations was 0.08p (2015: 0.48p). Diluted loss per share from discontinued operations was 0.07p (2015: 0.48p).

12 Intangible assets

	Software		Intellectual Property		Goodwill		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Cost								
At 1 January	**1,285**	1,219	**852**	572	**5,759**	7,753	**7,896**	9,544
Additions	**22**	66	**–**	283	**–**	–	**22**	349
Disposals	**(51)**	–	**–**	(3)	**–**	–	**(51)**	(3)
Impairment	**–**	–	**(115)**	–	**–**	(1,994)	**(115)**	(1,994)
Transferred to assets held for sale	**(173)**	–	**(628)**	–	**(1,165)**	–	**(1,966)**	–
At 31 December	**1,083**	1,285	**109**	852	**4,594**	5,759	**5,786**	7,896
Accumulated amortisation								
At 1 January	**495**	233	**288**	4	**–**	–	**783**	237
Charge for the year	**287**	262	**365**	284	**–**	–	**652**	546
Disposals	**(51)**	–	**–**	–	**–**	–	**(51)**	–
Transferred to assets held for sale	**(94)**	–	**(559)**	–	**–**	–	**(653)**	–
At 31 December	**637**	495	**94**	288	**–**	–	**731**	783
Net book amount	**446**	790	**15**	564	**4,594**	5,759	**5,055**	7,113

During 2016, the Inition business reduced its spending on developing new and existing technologies and utilised the intellectual property developed in prior years. At balance date, the intangible assets held in the Inition business unit have been reclassified as held for sale (see notes 8 and 18). Intellectual property held in the GPSeer joint arrangement has been written down to £nil due to uncertainty surrounding the future of the project (see note 5).

During 2015, the Inition business invested in enhancing certain of its existing technologies in addition to developing new technologies. This resulted in additional intellectual property of £157,000. Other additions to IP included content development for the Talent Management business.

The Company does not hold any intangible assets.

Neither the Group nor the Company had any additional capital commitments for the purchase of intangible assets as at the balance sheet date.

13 Goodwill

The carrying amount of goodwill is allocated to the Group's three separate cash generating units (CGUs) being; Parity Professionals, Parity Solutions and Inition. At balance date, the goodwill associated with the Inition CGU has been reclassified as held for sale (see notes 8 and 18).

Carrying amounts are as follows:

	Professionals	Solutions	Inition	Total
	£'000	£'000	£'000	£'000
Carrying value				
Balance at 1 January 2016	2,642	1,952	1,165	5,759
Transferred to assets held for sale	–	–	(1,165)	(1,165)
Balance at 31 December 2016	2,642	1,952	–	4,594
Balance at 1 January 2015	2,642	1,952	3,159	7,753
Impairment losses	–	–	(1,994)	(1,994)
Balance at 31 December 2015	2,642	1,952	1,165	5,759

13 Goodwill continued

Goodwill was tested for impairment in accordance with IAS 36 at the year end and no impairment charge was recognised (2015: An impairment charge of £1,994,000 was recorded in respect of the Group's investment in Inition Limited).

The recoverable amounts of the CGUs are based on value in use calculations using the pre-tax cash flows based on budgets approved by management for 2017. Years from 2018 onward are based on the budget for 2017 projected forward at expected growth rates. This is considered prudent based on current expectations of the 2017 long-term growth rate.

Major assumptions are as follows:

	Professionals %	Solutions %	Inition %
2016			
Discount rate	**5.5**	**3.1**	**–**
Forecast revenue growth	**5.5**	**9.9**	**–**
Operating margin 2017	**3.5**	**18.4**	**–**
Operating margin 2018 onward	**3.4 – 3.9**	**19.0 – 19.9**	**–**
2015			
Discount rate	6.9	4.5	15.6
Forecast revenue growth	4.8	9.2	9.9
Operating margin 2016	3.1	15.8	5.4
Operating margin 2017 onward	3.0 – 3.5	16.1 – 16.9	9.5 – 10.0

Discount rates are based on the Group's weighted average cost of capital adjusted for the specific risks of each cash generating unit.

Forecast revenue growth is expressed as the compound growth rate over the next 4 years. For all CGUs the rates are based on past experience of growth in revenues and future expectations of economic conditions.

Operating margins are based on past experience adjusted for investments.

A 10% change in any of the underlying assumptions used in the discounted cash flow forecasts would not lead to the carrying value of goodwill being in excess of their recoverable amount.

14 Property, plant and equipment

Consolidated	Leasehold improvements £'000	Office equipment £'000	Total £'000
At cost			
Balance at 1 January 2015	16	3,856	3,872
Additions	–	92	92
Disposals	–	(445)	(445)
Balance at 31 December 2015 and 1 January 2016	**16**	**3,503**	**3,519**
Additions	–	129	129
Disposals	–	(375)	(375)
Transferred to assets held for sale	–	(193)	(193)
Balance at 31 December 2016	**16**	**3,064**	**3,080**
Accumulated depreciation			
Balance at 1 January 2015	16	3,254	3,270
Depreciation charge for the year	–	173	173
Disposals	–	(104)	(104)
Balance at 31 December 2015 and 1 January 2016	**16**	**3,323**	**3,339**
Depreciation charge for the year	–	147	147
Disposals	–	(375)	(375)
Transferred to assets held for sale		(103)	(103)
Balance at 31 December 2016	**16**	**2,992**	**3,008**
Net book value			
At 1 January 2015	–	602	602
At 31 December 2015	–	180	180
At 31 December 2016	**–**	**72**	**72**

14 Property, plant and equipment continued

Company	Leasehold improvements £'000	Office equipment £'000	Total £'000
At Cost			
Balance at 1 January 2015	1	3	4
Balance at 31 December 2015 and 1 January 2016	1	3	4
Balance at 31 December 2016	**1**	**3**	**4**
Accumulated amortisation			
Balance at 1 January 2015	1	1	2
Depreciation charge for the year	–	–	–
Balance at 31 December 2015 and 1 January 2016	**1**	**1**	**2**
Depreciation charge for the year	–	1	1
Balance at 31 December 2016	**1**	**2**	**3**
Net book value			
At 1 January 2015	–	2	2
At 31 December 2015	–	2	2
At 31 December 2016	**–**	**1**	**1**

At balance date, the property plant and equipment held in the Inition business unit has been reclassified as held for sale (see notes 8 and 18).

In 2015, following the closure of the Golden Square business, its tangible fixed assets were written down resulting in a loss on disposal of £341,000.

As at 31 December 2016, neither the Group nor the Company had any capital commitments contracted for but not provided, for the purchase of tangible assets (2015: £nil).

Leased plant and equipment
At 31 December 2016 the total net carrying value of the leased equipment was £27,000 (2015: £28,000).

15 Deferred tax

	Consolidated	
	2016 £'000	2015 £'000
At 1 January	**507**	536
Recognised in the income statement		
Change in enacted tax rate	**(24)**	(56)
Adjustments in relation to prior periods	**6**	(1)
Depreciation in excess of capital allowances	**(23)**	21
Other short term timing differences	**(3)**	7
Transferred to assets held for sale	**(54)**	–
At 31 December	**409**	507

The deferred tax asset of £409,000 (2015: £507,000) comprises:

	Consolidated	
	2016 £'000	2015 £'000
Depreciation in excess of capital allowances	**355**	447
Short term and other timing differences	**54**	60
	409	507

15 Deferred tax continued

A deferred tax asset on tax losses brought forward is not recognised unless it is more likely than not that there will be taxable profits in the foreseeable future against which the deferred tax asset can be offset. The Directors believe that the deferred tax asset recognised is recoverable based on the future earning potential of the Group.

The forecasts for the business used in this review were the same as those used in the review of the impairment of goodwill (see note 13). The forecasts for Parity Professionals comfortably support the unwinding of the deferred tax asset held by this division of £409,000 (2015: £479,000).

The deferred tax asset at 31 December 2016 has been calculated on the rate of 17% substantively enacted at the balance sheet date.

The movements in deferred tax assets during the period are shown below:

	Asset 2016 £'000	**(Charged)/ credited to income statement 2016 £'000**	**Transferred to assets held for sale 2016 £'000**
Depreciation in excess of capital allowances	**355**	**(59)**	**(33)**
Other short-term timing differences	**54**	**(6)**	**–**
Trading losses	**–**	**21**	**(21)**
	409	**(44)**	**(54)**

	Asset 2015 £'000	(Charged)/ credited to income statement 2015 £'000	Transferred to assets held for sale 2015 £'000
Depreciation in excess of capital allowances	447	(16)	–
Other short-term timing differences	60	(13)	–
	507	(29)	–

The Group has unrecognised carried forward tax losses of £30,078,882 (2015: £30,611,584). The Company has unrecognised carried forward tax losses of £24,301,882 (2015: £24,229,376). The Group has unrecognised capital losses carried forward of £281,875,386 (2015: £281,875,386). These losses may be carried forward indefinitely.

16 Work in progress

	Consolidated	
	2016 £'000	2015 £'000
Work in progress:		
Net costs less foreseeable losses	**–**	61

Work in progress comprises stock on hand. At balance date, work in progress held by the Inition business has been reclassified as held for sale (see notes 8 and 18).

17 Trade and other receivables

	Consolidated		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Amounts falling due within one year:				
Trade receivables	**7,577**	9,365	**–**	–
Accrued income	**2,588**	4,707	**–**	–
Amounts recoverable on contracts	**3,771**	946	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**3,367**	3,346
Other receivables	**84**	259	**–**	–
Prepayments	**353**	342	**3**	4
	14,373	15,619	**3,370**	3,350
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	**–**	–	**122,736**	113,332
Total	**14,373**	15,619	**126,106**	116,682

17 Trade and other receivables continued

The fair values of trade and other receivables are not considered to differ from the values set out above.

£7,430,000 (2015: £8,998,000) of the Group's trade receivables, and £5,748,000 (2015: £4,262,000) of the total of the Group's accrued income and amounts recoverable on contracts, are pledged as collateral for the asset-based borrowings. These borrowings fluctuate daily and at the year end totalled £8,613,000 (2015: £9,973,000).

The Group records impairment losses on its trade receivables separately from gross receivables. Factors considered in making provisions for receivables include the ability of the customer to settle the debt, the age of the debt and any other circumstance particular to the transaction that may impact recoverability. The movements on the allowance account during the year are included within operating costs in the consolidated income statement and are summarised below:

	Consolidated	
	2016 £'000	2015 £'000
Opening balance	**7**	–
Increases in provisions	**4**	7
Written off against provisions	**(2)**	–
Recovered amounts reversed	**(9)**	–
Closing balance	**–**	7

The balance of impaired losses at 31 December 2016 was £nil (2015: the balance was greater than 60 days old and the allowance account represents full provision against specific gross debts). All other debts at 31 December 2016 are considered to be recoverable.

As at 31 December 2016 trade receivables of £1,335,000 (2015: £1,532,000) were past due, but not impaired. These relate to customers where there is no evidence of unwillingness or of an inability to settle the debt. The ageing of Group trade receivables is as follows:

		2016			2015	
	Gross £'000	**Impaired £'000**	**Total £'000**	Gross £'000	Impaired £'000	Total £'000
Not past due	**6,242**	**–**	**6,242**	7,833	–	7,833
31-60 days, and past due	**957**	**–**	**957**	922	–	922
61-90 days	**250**	**–**	**250**	393	–	393
>90 days	**128**	**–**	**128**	224	(7)	217
Total	**7,577**	**–**	**7,577**	9,372	(7)	9,365

The Company had no provisions for trade receivables, as it has no trade receivables. Other receivables in the Group and the Company were not past due and not impaired.

The Company's receivables due from subsidiary undertakings were reviewed for impairment at the year end based on the performance of 2016 and on subsequent years forecast projections. A discounted future cash flow method was employed for the review. As a result of this review, no provision was deemed necessary. The assessment was performed on a value in use basis using discount rates of between 3.1% and 5.5% (2015: between 4.5% and 15.6%) and the other parameters used in the goodwill impairment review, as outlined in note 13.

18 Assets and liabilities classified as held for sale and included in disposal groups

The major classes of assets and liabilities comprising the operations classified as held for sale are set out below.

	31 December 2016 £'000
Goodwill	1,165
Intangible assets – software	79
Intangible assets – intellectual property	69
Property, plant and equipment – office equipment	90
Trade and other receivables	915
Work in progress	17
Deferred tax asset	54
Total assets classified as held for sale	**2,389**
Trade and other payables	(453)
Provisions	(30)
Total liabilities associated with assets classified as held for sale	**(483)**
Net assets of disposal group	**1,906**

19 Loans & Borrowings

	Consolidated	
	2016 £'000	2015 £'000
Non-current		
Finance lease liabilities	**22**	11
	22	11
Current		
Bank and other borrowings due within one year or on demand:		
Asset-based financing facility	**8,613**	9,973
Current portion of finance lease liabilities	**23**	43
	8,636	10,016

Finance lease liabilities

	Future minimum lease payments 2016 £'000	**Interest 2016 £'000**	**Present value of minimum lease Payments 2016 £'000**	Future minimum lease payments 2015 £'000	Interest 2015 £'000	Present value of minimum lease payments 2015 £'000
Less than one year	**25**	**2**	**23**	47	4	43
Between one and two years	**22**	**–**	**22**	11	–	11
	47	**2**	**45**	58	4	54

Further details of the Group's banking facilities are given in note 22.

20 Trade and other payables

	Consolidated 2016 £'000	Consolidated 2015 £'000	Company 2016 £'000	Company 2015 £'000
Amounts falling due within one year:				
Payments in advance	**594**	439	**–**	–
Trade payables	**6,018**	5,424	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**10,724**	9,149
Other tax and social security payables	**1,126**	1,377	**21**	32
Other payables and accruals	**1,366**	1,514	**174**	380
	9,104	8,574	**10,919**	9,561
Amounts falling due after one year:				
Amounts due to subsidiary undertakings	**–**	–	**121,255**	108,565
Total	**9,104**	8,574	**132,174**	118,126

21 Provisions

Consolidated	**Leasehold dilapidations £'000**	**Total £'000**
At 1 January 2016	**14**	**14**
Created in year	3	3
Utilised in year	–	–
At 31 December 2016	**17**	**17**
Due within one year or less	–	–
Due after more than one year	17	17
Total	**17**	**17**

At balance sheet date the Company had no provisions (2015: no provisions).

Leasehold dilapidations
Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. Dilapidation charges that will crystallise at the end of the period of occupancy are provided for in full on all non-serviced properties. Based on current lease expiry dates it is estimated these provisions will be settled over a period of two to three years. The main uncertainty relates to the estimation of the costs that will be incurred at the end of the lease.

22 Financial instruments – risk management

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks and the methods used to measure them from previous periods unless otherwise stated in this note.

22 Financial instruments – risk management continued

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash and cash equivalents, trade and other payables and bank borrowings.

A summary by category of the financial instruments held by the Group is provided below:

Consolidated	Amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 December 2016			
Financial assets			
Net cash and cash equivalents	**–**	**4,272**	**4,272**
Trade and other short term receivables	**–**	**14,020**	**14,020**
	–	**18,292**	**18,292**
Financial liabilities			
Asset-based financing facility	**8,613**	**–**	**8,613**
Finance lease liabilities	**45**	**–**	**45**
Trade and other short term payables	**8,510**	**–**	**8,510**
	17,168	**–**	**17,168**
As at 31 December 2015			
Financial assets			
Net cash and cash equivalents	–	2,648	2,648
Trade and other short term receivables	–	15,277	15,277
	–	17,925	17,925
Financial liabilities			
Asset-based financing facility	9,973	–	9,973
Finance lease liabilities	54	–	54
Trade and other short term payables	8,315	–	8,315
	18,342	–	18,342

22 Financial instruments – risk management continued

Principal financial instruments continued

A summary by category of the financial instruments held by the Company is provided below:

Company	Amortised cost £'000	Loans and receivables £'000	Total £'000
As at 31 December 2016			
Financial assets			
Non-current trade and other receivables	**–**	**122,736**	**122,736**
Net cash and cash equivalents	**–**	**111**	**111**
Trade and other short term receivables	**–**	**3,367**	**3,367**
	–	**126,214**	**126,214**
Financial liabilities			
Trade and other short term payables	**10,919**	**–**	**10,919**
Non-current trade and other payables	**121,255**	**–**	**121,255**
	132,174	**–**	**132,174**
As at 31 December 2015			
Financial assets			
Non-current trade and other receivables	–	113,332	113,332
Net cash and cash equivalents	–	18	18
Trade and other short term receivables	–	3,346	3,346
	–	116,696	116,696
Financial liabilities			
Trade and other short term payables	9,561	–	9,561
Non-current trade and other payables	108,565	–	108,565
	118,126	–	118,126

Non-current amounts due to subsidiary undertakings have no specific repayment terms but are subject to notice periods of at least one year.

Fair values of financial instruments

The fair values of all of the Group's, and of the Company's, financial instruments are the same as their carrying values.

General objectives, policies and processes – risk management

The Group is exposed through its operations to the following financial instrument risks: credit risk; liquidity risk; interest rate risk; and foreign currency risk.

The policy for managing these risks is set by the Board following recommendations from the Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The policy for each of the above risks is described in more detail below.

Credit risk

Credit risk arises from the Group's trade and other receivables. It is the risk that the counterparty fails to discharge their obligation in respect of the instrument.

The Group is mainly exposed to credit risk from credit sales. It is Group policy to assess the credit risk of new customers before entering contracts. Such credit ratings are then factored into the credit assessment process to determine the appropriate credit limit for each customer. The Group does not collect collateral to mitigate credit risk.

The Group operates exclusively in the UK. Approximately 61% (2015: 56%) of the Group's turnover is derived from the public sector. The largest customer balance represents 19% (2015: 22%) of the trade receivable balance.

22 Financial instruments – risk management continued

Credit risk continued

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 17.

	2016 Carrying value £'000	**2016** Maximum exposure £'000	2015 Carrying value £'000	2015 Maximum exposure £'000
Financial assets				
Cash and cash equivalents	**4,272**	**4,272**	2,648	2,648
Trade and other receivables	**14,020**	**14,020**	15,277	15,277
Total financial assets	**18,292**	**18,292**	17,925	17,925

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

It is Group policy that all external Group borrowings are drawn down on the asset-based financing facilities arranged with our bankers which bear a floating rate of interest based on the PNC base rate. Borrowings against the asset-based financing facilities are typically drawn or repaid on a daily basis in order to minimise borrowings and interest costs and transaction charges. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates, nor eliminates the cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of these risks.

Throughout 2016 and 2015 the Group's variable rate borrowings were denominated in Sterling. Interest costs on borrowings from the asset-based financing facility with PNC was charged at 2.5% above base rate until 1 September 2016, and at 2.35% above base rate subsequently. Amounts under this facility are repayable upon demand.

If interest rates on borrowings had been 1% higher/lower throughout the year with all other variables held constant, the loss after tax for the year would have been approximately £100,000 higher/lower and net assets £100,000 higher/lower. The Directors consider a 1% change in base rates is the maximum likely change over the next year, being the period to the next point at which these disclosures are expected to be made.

The Company holds interest bearing loan agreements with some of its subsidiary undertakings. Interest on all loans is charged at 2.0% above the prevailing Bank of England base rate, except for one loan with Parity International B.V. which is charged at 2.0% above the prevailing European Central Bank base rate. As at 31 December 2016, the loan balance due by the Company to Parity International BV, translated into Sterling, was £26,696,000 (2015: £22,993,000 payable).

Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group no longer has any active overseas operations, but does retain certain overseas subsidiaries that are not trading and are in the process of being closed down. The Group's net assets arising from overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. The asset exposure is mainly in respect of intercompany balances.

The Group does not hedge its net investment in overseas operations as it does not consider that the potential financial impact of such hedging techniques warrants the reduction in volatility in consolidated net assets.

The continuing business has few transactions in foreign currency. The hedging of individual contracts is considered on a case by case basis. Owing to the small value and volume of such contracts no hedging transactions were entered in 2016 or 2015.

During 2014, the underlying denomination of a large intercompany balance between the Company and one of the Group's inactive overseas subsidiaries was revised. As at 31 December 2013, the Company held a loan balance due to the relevant subsidiary of £24,471,000 which was denominated in Sterling. The base currency of the Company is Sterling and the overseas subsidiary's base currency is Euros. In 2014, the denomination of the loan was revised to Euros, and thus subject to exchange rate fluctuations in the books of the Company. As a result, in 2016 the Company recorded a translation loss of £3,212,000 (2015: gain of £965,000). As at the 31 December 2016, the loan balance due by the Company, translated into Sterling, was £26,696,000 (2015: £22,993,000).

22 Financial instruments – risk management continued

Foreign exchange risk continued

The currency profile of the Group's net financial assets was as follows:

	Functional currency of individual entity							
	Sterling		Euro		US Dollar		Total	
Net foreign currency financial assets	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Sterling	**–**	–	**219**	131	**966**	966	**1,185**	1,097
Euro	**(26,694)**	(22,988)	**–**	–	**–**	–	**(26,694)**	(22,988)
US Dollar	**4**	18	**1,350**	1,150	**–**	–	**1,354**	1,168
Total net exposure	**(26,690)**	(22,970)	**1,569**	1,281	**966**	966	**(24,155)**	(20,723)

The profile of the Company's net financial assets was as follows:

	Functional currency: Sterling	
Net foreign currency financial assets	2016 £'000	2015 £'000
Sterling	–	–
Euro	(26,694)	(22,988)
US Dollar	4	18
Total net exposure	(26,690)	(22,970)

Sensitivity analysis – Group and Company

If the exchange rate between Sterling and the Euro had been 10% higher/lower at the balance sheet date, with all other variables held constant, the effect on equity for the year would have been approximately £2,669,600 higher/lower. A 10% fluctuation in any other currency exchange rate would not have a significant impact on profit and loss, nor equity.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges on its borrowings under its asset-based financing arrangements. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The liquidity of each Group entity is managed centrally, with daily transfers to operating entities to maintain a pre-determined cash balance. Normal supplier terms range from 2 weeks to 30 days. The level of the Group facility is approved periodically by the Board and negotiated with the Group's current bankers. At the reporting date, cash flow projections were considered by the Board and the Group is forecast to have sufficient funds and available funding facilities to meet its obligations as they fall due.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

Consolidated At 31 December 2016	**Up to 1 month £'000**	**Over 1 month £'000**	**Total £'000**
Trade and other payables	**8,510**	**–**	**8,510**
Borrowings	**8,613**	**45**	**8,658**
Total	**17,123**	**45**	**17,168**

Consolidated At 31 December 2015	Up to 1 month £'000	Over 1 month £'000	Total £'000
Trade and other payables	8,574	–	8,574
Borrowings	9,984	43	10,027
Total	18,558	43	18,601

22 Financial instruments – risk management continued

Liquidity risk continued

Company

At 31 December 2016	Up to 1 month £'000	Between 1 and 12 months £'000	Over 1 year £'000	Total £'000
Trade and other payables	**10,919**	**–**	**121,255**	**132,174**
Total	**10,919**	**–**	**121,255**	**132,174**

Company

At 31 December 2015	Up to 1 month £'000	Between 1 and 12 months £'000	Over 1 year £'000	Total £'000
Trade and other payables	9,561	–	108,565	118,126
Total	9,561	–	108,565	118,126

More detail on trade and other payables is given in note 20.

Capital disclosures

The capital structure of the Group consists of cash and cash equivalents, equity attributable to equity holders, and asset-based finance. There is no long-term external debt, except for a small number of finance leases. The leases represent a liability of £45,000 (2015: £54,000) and are repayable within two years. The Company is funded through equity and intercompany loans.

The Group uses an asset-based finance facility with PNC Business Credit, a member of The PNC Financial Services Group, Inc. The facility, which enables the Group to borrow against both trade debt and accrued income and provides for borrowing of up to £15.0m depending on the availability of appropriate assets as security.

The Group's and Company's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

	2016 £'000	2015 £'000
Cash and cash equivalents	**4,272**	2,648
Asset-based borrowings	**(8,613)**	(9,973)
Finance lease liabilities	**(45)**	(54)
Net debt	**(4,386)**	(7,379)

The Board regularly reviews the adequacy of resources available and considers the options available to increase them. The asset-based borrowing facility contains certain externally imposed financial covenants which have been met throughout the period.

The Company does not have distributable reserves available for dividend payments. A capital reconstruction would be necessary to create reserves available for distribution.

23 Reserves

The Board is not proposing a dividend for the year (2015: nil pence per share).

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

Share capital is the amount subscribed for ordinary share capital at nominal value. There was no change to share capital during 2016 (2015: 97,500 share options were exercised, increasing the Group's share capital from £16,353,638 to £16,355,588).

Deferred share capital is the nominal value assigned to the deferred share capital.

Share premium is the amount subscribed for share capital in excess of nominal value. There was no change to share premium in 2016 (2015: Following the exercise of share options, the share premium increased from £33,189,314 to £33,195,689).

Other Reserves of the Group of £44,160,000 relate principally to a reserve created following a change of the Group's ultimate parent, and a corresponding Scheme of Arrangement in July 1999.

Other Reserves of the Company of £22,729,000 relate to a reorganisation of the Group's capital structure in 2002, which resulted in the Company increasing its investment in subsidiary undertakings.

Retained earnings represent the cumulative net gains and losses recognised in the Income Statement.
Consolidated retained earnings are stated after adjustment for the ESOP's investment in the Company's shares of £351,000 (2015: £351,000).

24 Pension commitments

The Group operates a number of pension schemes. With the exception of the Parity Group Retirement Benefit Plan, all of the schemes are defined contribution plans and the assets are held in separately administered funds. Contributions to defined contribution schemes from continuing operations were £178,000 (2015: £185,000).

Defined benefit plan

In March 1995, the Group established the Parity Retirement Benefit Plan, renamed as the Parity Group Retirement Benefit Plan, following a Scheme of Arrangement in 1999, in order to facilitate the continuance of pension entitlements for staff transferring from other schemes following acquisitions in 1994. This is a funded defined benefit scheme and has been closed to new members since 1995. With effect from 1 January 2005 this scheme was also closed to future service accrual and future contributions paid into money purchase arrangements.

Principal actuarial assumptions

	2016 %	2015 %
Rate of increase of pensions in payment	**3.7% – 4.0%**	3.6% – 3.9%
Discount rate	**2.6%**	3.8%
Retail price inflation	**3.4%**	3.1%
Consumer price inflation	**2.4%**	2.1%

Note: the rate of increase in pensionable salaries is no longer applicable as the scheme is closed for future service.

In accordance with the revised IAS19, the assumption for future investment returns is the same discount rate (2.6%) used in calculating the pension liabilities. The scheme's assets are invested in equities, gilts and bonds in approximately equal proportions.

The underlying mortality assumption used is in accordance with the standard table known as S1PA_H, S1PA or S1PA_L mortality, dependent on the size of each member's pension, using the CMI_2015 projection based on year of birth with a long term rate of improvement of 1.25% p.a. (2015: 1.25% p.a.).

Contributions

In 2015, contributions were initially at a rate of £711,000 per annum. During March 2015 the Trustees agreed to a temporary suspension of contributions, and subsequently extended this agreement until July 2016. In February 2016, a lump sum contribution of £100,000 was made by the Group. In March 2016, agreement was reached with the trustees of the defined benefit pension scheme to reduce deficit reduction contributions, linking amounts payable to company performance and affordability on a sliding scale as part of the 2015 triennial valuation review. As a result, monthly contributions of £15,000 resumed from May 2016, with conditional annual bonus payments predicated on the Groups financial performance.

Other contributions include payments made to the Pension Protection Fund.

In 2012 an issue was made to the Plan of 1,000,000 share options in Parity Group plc at an exercise price of 9 pence per share to be exercised at the discretion of the Trustees and any gain to be used for the benefit of the Plan. These options vested on grant and have no expiry date.

Reconciliation to consolidated statement of financial position

	2016 £'000	2015 £'000
Fair value of plan assets	**22,465**	19,703
Present value of funded obligations	**(24,313)**	(21,194)
At the end of the year	**(1,848)**	(1,491)

Reconciliation of plan assets

	2016 £'000	2015 £'000
At the beginning of the year	**19,703**	20,356
Expected return	**728**	693
Contribution by Group	**231**	28
Benefits paid	**(1,006)**	(786)
Expenses met by scheme	**(117)**	(187)
Actuarial (loss)/gain	**2,926**	(401)
At the end of the year	**22,465**	19,703

24 Pension commitments continued

Composition of plan assets

	2016 £'000	2015 £'000
Equities – Quoted	**7,993**	6,722
Gilts	**7,114**	6,436
Bonds	**7,087**	6,404
Options in Parity Group plc	**96**	96
Cash	**175**	45
Total	**22,465**	19,703

Reconciliation of plan liabilities

	2016 £'000	2015 £'000
At the beginning of the year	**21,194**	22,457
Interest cost	**786**	772
Benefits paid	**(1,006)**	(786)
Actuarial (gain)/loss	**3,339**	(1,249)
At the end of the year	**24,313**	21,194

The actuarial loss for the year of £3,339,000 (2015: Gain of £1,249,000) in respect of plan liabilities is mainly as a result of the change in the discount rate assumption. The assumption is based upon the yield on AA rated corporate bonds, and these decreased during 2016. The gain in 2015 was as a result of a rise in the yield on AA rated corporate bonds.

The cumulative amount of actuarial losses recognised since 1 January 2002 in other comprehensive income is £6,383,000 (2015: £5,970,000). The Group is unable to disclose how much of the pension scheme deficit recognised on 1 January 2002 and taken directly to equity is attributable to actuarial gains and losses since inception of the pension scheme because that information is not available.

Amounts recognised in the consolidated income statement

	2016 £'000	2015 £'000
Included in Finance Income		
Expected return on plan assets	**611**	506
Included in Finance Costs		
Unwinding of discount on plan liabilities (interest cost)	**786**	772

The actual return on plan assets was £3,654,000 (2015: £292,000). This represents the sum of the expected return on assets and the actuarial gain.

Defined benefit obligation trends

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Plan assets	**22,465**	19,703	20,356	17,421	16,260
Plan liabilities	**(24,313)**	(21,194)	(22,457)	(19,591)	(19,667)
Deficit	**(1,848)**	(1,491)	(2,101)	(2,170)	(3,407)
Experience adjustments on assets	**2,926**	(401)	2,251	(34)	441
	15.0%	(2.0%)	12.4%	(0.2%)	2.7%
Experience adjustments on liabilities	**3,339**	(1,249)	2,900	(255)	2,016
	15.9%	(5.6%)	14.8%	(1.3%)	11.4%

24 Pension commitments continued

Sensitivity Analysis

Effect of change in assumptions	Liabilities £'000's	Assets £'000's	Surplus/ (Deficit) £'000's	Increase/ (Decrease) in deficit £'000's
No change	24,313	22,465	(1,848)	–
0.25% rise in discount rate	23,454	22,465	(989)	(859)
0.25% fall in discount rate	25,222	22,465	(2,757)	909
0.25% rise in inflation	24,331	22,465	(1,866)	18
0.25% fall in inflation	24,177	22,465	(1,712)	(136)

25 Share capital

Authorised share capital

	Ordinary shares 2p each		Deferred shares of 0.04p each		Total
	2016 number	2016 £'000	2016 number	2016 £'000	2016 £'000
Authorised at 1 January	**409,044,603**	**8,181**	**35,797,769,808**	**14,319**	**22,500**
Authorised at 31 December	**409,044,603**	**8,181**	**35,797,769,808**	**14,319**	**22,500**

Issued share capital

	Ordinary shares 2p each		Deferred shares of 0.04p each		Total
	2016 number	2016 £'000	2016 number	2016 £'000	2016 £'000
Issued and fully paid at 1 January	**101,824,020**	**2,037**	**35,797,769,808**	**14,319**	**16,356**
Issued and fully paid at 31 December	**101,824,020**	**2,037**	**35,797,769,808**	**14,319**	**16,356**

The deferred shares are not listed on the London Stock Exchange, have no voting rights, no rights to dividends and the right only to a very limited return on capital in the event of liquidation.

Shares held by ESOP/Treasury Shares

	2016 Number	2015 Number
Ordinary shares held by the ESOP	**43,143**	43,143

The shares held by the ESOP are expected to be issued under share option contracts.

26 Operating lease commitments

Operating leases – lessee

The total future minimum rents payable under non-cancellable operating leases are as follows:

	Land and buildings 2016 £'000	Plant and machinery 2016 £'000	Land and buildings 2015 £'000	Plant and machinery 2015 £'000
Continuing operations				
Amounts payable:				
Within one year	**854**	**17**	508	27
Between two and five years	**518**	**18**	90	35
	1,372	**35**	598	62

27 Contingencies

In the normal course of business, the Group is exposed to the risk of claims in respect of contracts where the customer or supplier is dissatisfied with the performance, pricing and/or completion of the contracted service or product. Such claims are normally resolved by a combination of negotiation, further work by Parity or the supplier, and/or monetary settlement without formal legal process being necessary. Occasionally, such claims progress into legal action. At the present time, Group management believes the resolution of any known claims or legal proceedings will not have a material further impact on the financial position of the Group.

28 Key management remuneration

Key management comprises the Board of Directors. The total remuneration received by key management for 2016 was £590,000 (2015: £837,000). This comprises emoluments received, pension contributions, compensation for loss of office and share based payment charges. Key management remuneration, including that of the highest paid director A Rommel, is disclosed in detail within the remuneration report on page 21.

	2016 £'000	2015 £'000
Salary and fees	**428**	732
Other short term benefits	**25**	33
Post employment benefits	**17**	11
Compensation for loss of office	**87**	43
Share-based payments	**33**	18
	590	837

29 Related party transactions

Consolidated

There were no related party director transactions during the year. During the year to 31 December 2015 the Group transacted with one entity over which one of the Groups directors, at the time, had control or significant influence, as follows:

		Transaction value		Balance outstanding	
Director	Transaction	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
D. Courtley	IT interim recruitment	**–**	81	**–**	–

During the comparative year, the Group provided IT contractors to Mozaic Services Limited, a company that is significantly influenced by Mr D Courtley. Mr Courtley was a non-executive director of the Group during 2015 until he stepped down on 13 August 2015. Amounts were billed at normal market rates for such services, and were due and payable under standard client payment terms.

Company

Details of the Company's holding in Group undertakings are given in note 30. The Company entered into transactions with other Group undertakings as shown in the table below.

	Operating costs 2016 £'000	**Finance income 2016 £'000**	**Finance expense 2016 £'000**	Operating costs 2015 £'000	Finance income 2015 £'000	Finance expense 2015 £'000
Amounts incurred from Group subsidiaries	**(528)**	**–**	**1,451**	(457)	–	(1,269)
Amounts charged to Group subsidiaries	**–**	**1,272**	**–**	–	1,112	–

At 31 December, the Company had the following amounts payable to/recoverable from Group undertakings.

	2016 £'000	2015 £'000
Amounts owed by subsidiary undertakings		
Falling due within one year (note 17)	**3,367**	3,346
Falling due after one year (note 17)	**122,736**	113,332
Amounts due to subsidiary undertakings		
Falling due within one year (note 20)	**(10,724)**	(9,149)
Falling due after one year (note 20)	**(121,255)**	(108,565)

30 Subsidiaries

The principal subsidiaries of Parity Group plc, which have been included in these consolidated financial statements, are Parity Professionals Limited, Parity Consultancy Services Limited (formally Parity Solutions Limited), and Inition Limited. Parity Professionals Limited and Parity Consultancy Services Limited (formally Parity Solutions Limited) are wholly owned by Parity Holdings Limited and incorporated in the United Kingdom. Inition Limited has been included in these Consolidated financial statements as a discontinued operation and as assets and associated liabilities held for sale. Inition Limited is wholly owned by Parity Solutions Limited (formally Parity Consultancy Services Limited) and is incorporated in the United Kingdom. Parity Solutions Limited (formally Parity Consultancy Services Limited) is a direct subsidiary of Parity Holdings Limited, and Parity Holdings Limited is a direct subsidiary of Parity Group plc.

Parity Professionals Limited is a specialist IT recruitment and talent management services company. Parity Consultancy Services Limited (formally Parity Solutions Limited) delivers technology solutions. Inition Limited specialises in virtual reality, augmented reality and 3D solutions.

The Company's investment in subsidiaries was reviewed for impairment at the year end based on the performance of 2016 and on subsequent years forecast projections. A discounted future cash flow method was employed for the review. As a result of this review, no provision was deemed necessary, leaving a carrying value of £20,527,000 (2015: £20,527,000). The assessment was performed on a value in use basis using discount rates of between 3.1% and 5.5% (2015: between 4.5% and 15.6%) and the other parameters used in the goodwill impairment review, as outlined in note 13.

The remaining Group subsidiaries are either discontinued or dormant, are wholly owned by the Group ultimate parent Parity Group plc, and are registered in the UK (at Dawson House, 5 Jewry Street, London EC3N 2EX) unless stated otherwise in the list below:

Class Limited
Comtec Computer Training Limited
Comtec International Limited
CSS Software Solutions Limited
Disqo Limited
ESP (Europe) Limited
Eurosoft Germany Limited
Eurosoft Solutions (France) Limited
Eurosoft Solutions Limited
Golden Square Content Limited
GPSeer Limited
IC Software Limited
Information Mapping Limited
Inition LLC (registered at 10100 Santa Monica Blvd., 7th Floor, Los Angeles, CA 90067, USA)
Interactive Developments (Scotland) Limited
Interactive Developments Limited
Intercity Consultants Limited
Integer79 Limited
Made Content Limited
Online Personnel Services Limited
Parity Computing Limited
Parity Eurosoft BV (registered at Keizersgracht 62-64, 1015 CS Amsterdam, Netherlands)
Parity Eurosoft Limited
Parity Group Quest Trustee Limited
Parity International BV (registered at Keizersgracht 62-64, 1015 CS Amsterdam, Netherlands)
Parity International plc
Parity Limited
Parity Management Limited
Parity Permanent Investments Limited
Parity Selection Limited
Parity Solutions (Ireland) Limited
Parity Technology Laboratories Limited
Performance Agency Limited
Prime Selection Limited
Readypatch Limited
Scene Systems Limited
Software 92 Limited
Systems Support Services
Technology Media Limited
TMS Information Solutions Limited
Tobruk Limited
Trident Computer Services plc

Corporate information

Registered office
Dawson House
5 Jewry Street
London, EC3N 2EX
Tel: 020 8543 5353
Registered in England & Wales No. 3539413

Registrars
Equiniti Limited,
Aspect House, Spencer Road, Lancing,
West Sussex, BN99 6DA
Tel: 037 1384 2382

Equiniti offer a range of information on-line. You can access information on your shareholding, indicative share prices and dividend details and find practical help on transferring shares or updating your details at **www.shareview.co.uk**

Enquiries concerning shareholdings in Parity Group plc should be directed, in the first instance, to the Registrars, Equiniti, as above.

Investor relations
MHP Communications
60 Great Portland Street
London
W1W 7RT
Tel: 020 3128 8100

Further information for shareholders including copies of the Annual and Interim Reports can be obtained from the company secretary's office at the registered office address below or from the Parity Group website at **www.parity.net**

The Company Secretary
Parity Group plc
Dawson House
5 Jewry Street
London, EC3N 2EX
Or by email to: **cosec@parity.net**

Advisors

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

Bankers
RBS Group
9th Floor
280 Bishopsgate
London
EC2M 4RB

PNC Business Credit
8-14 The Broadway
Hayward's Heath
West Sussex
RH16 3AP

Nominated advisors & brokers
Investec
2 Gresham Street
London
EC2V 7QP

Solicitors
Pinsent Masons
30 Crown Place
London
EC2A 4ES

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Tel: 020 8543 5353

www.parity.net

stock code: PTY

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