Annual Report and
Accounts 2018

Brilliant People Bolder Decisions

Transforming the relationship business and government have with data.

Section one
Introduction

A few words...

2018 was a year of change in our core markets.

The technology support and services consulting market hasn't stood still. Global players increasingly offer attractive economies of scale and, in recruitment, employers can now automate many of the routine tasks which used to always need the help of advisors like Parity.

However, new opportunities are opening up for us. It's becoming plainer to many organisations what practical benefits a data strategy can bring in every area of their operations. What they lack is a partner who understands the relationships between people, data and technology; it's an area where Parity add value.

Parity has felt the impact of these shifts in our markets and has worked hard in 2018 to respond.

Our strength lies in our core competency as relationship experts. Our team are knowledgeable and are trusted by our clients; we help them find the talent they need in these changing times and we show them how to use data to make bold decisions.

Over the course of the year we have seen the mix of our consulting work change. We have been talking to clients about how they work with data and use it to drive their businesses; it's a strategy that's starting to bear fruit with two significant consulting assignments at a time when we have seen declining demand for our legacy work in systems development, delivery and management.

We're winning work across a better mix of private and public sector clients. Although our profit per head compares favourably with the rest of the sector, it is becoming harder to protect margins, so we have started out on some strategic changes which we explain in more detail in this report.

We are able to change how we approach the market and manage client relationships because of the improving health of our balance sheet. We are transforming at a time when our net debt continues to reduce and we have disposed of assets which didn't generate cash.

"We know that it's easy to forget that bold decision-making is a people process; technology matters, but trusted human insights matter more. When you understand that data is really about human behaviour you can clearly see the need to have the right people looking at it."

In the coming years we will draw on our core strength – trusted relationships. Client Relationship Managers will sit at the core of our business to talk to our clients about our full range of services and bring in consulting, recruitment, or learning and development help as needed. It's a model that is focused on the total value we can bring to clients and ensures a consistent focus on profitability as well as income.

Parity has come out of 2018 with a refocused strategy aligned to current client demand. As advisors who know people and know data, we provide expertise and skills that delivers positive growth for clients by realising the value of their data.

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About us

45 years of trusted relationships with our clients.

Parity helps organisations find the right people, skills and data to support confident data-led business decisions.

Specifically, we advise on data and we provide access to skills either as a managed service, through resourcing in the contract or permanent market or as part of a learning and development programme.

Our work comes from a mix of long-term contracts with public and private sector organisations as well as expanded projects with existing clients as a result of strong relationships and a track record of high client satisfaction.

Around 100 staff work in our offices in Belfast, Edinburgh, London and Manchester and we had, during 2018 over 1,000 associates supporting clients around the UK and Ireland.

Our strategic goal

To equip clients with the talent, skills and advice necessary to make bold data-led business decisions confidently.

Our financial goal

To grow margin and net profitability.

Our operating model

Applying an account management approach to ensure clients can choose the right mix of our support in managed services, resourcing, learning, development and advice.

Our Purpose

To transform the relationship business and government have with data.

Our Mission

We provide expertise that delivers positive growth for clients through realising the true value of their data.

Our Vision

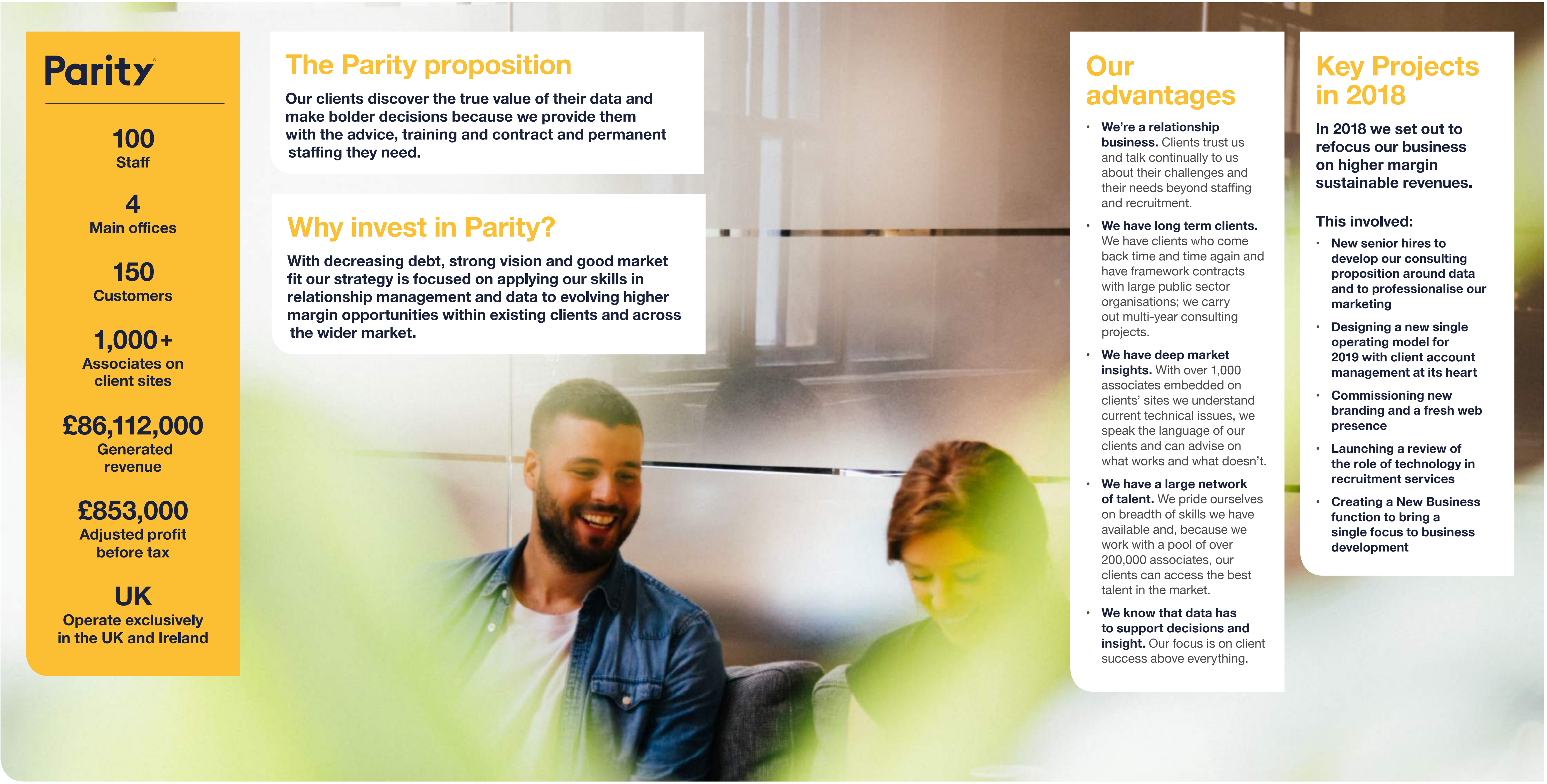
To build a data positive world.

How we measure our performance

- **Revenue** – Our income comes from contract and permanent recruitment, and IT and data consultancy.
- **Adjusted Profit before Tax** – Profit before tax excluding non-recurring items
- **Net Debt** – Cash and cash equivalents less the Group's borrowings

These indicators show if our strategy of focusing on client relationship management and developing where we can add most value is working. They also reflect our commitment to sound cash and working capital management and to net debt reduction in order to grow lasting shareholder value.

Parity Group at a glance



Parity

100
Staff

4
Main offices

150
Customers

1,000+
Associates on client sites

£86,112,000
Generated revenue

£853,000
Adjusted profit before tax

UK
Operate exclusively in the UK and Ireland

The Parity proposition

Our clients discover the true value of their data and make bolder decisions because we provide them with the advice, training and contract and permanent staffing they need.

Why invest in Parity?

With decreasing debt, strong vision and good market fit our strategy is focused on applying our skills in relationship management and data to evolving higher margin opportunities within existing clients and across the wider market.

Our advantages

- **We're a relationship business.** Clients trust us and talk continually to us about their challenges and their needs beyond staffing and recruitment.
- **We have long term clients.** We have clients who come back time and time again and have framework contracts with large public sector organisations; we carry out multi-year consulting projects.
- **We have deep market insights.** With over 1,000 associates embedded on clients' sites we understand current technical issues, we speak the language of our clients and can advise on what works and what doesn't.
- **We have a large network of talent.** We pride ourselves on breadth of skills we have available and, because we work with a pool of over 200,000 associates, our clients can access the best talent in the market.
- **We know that data has to support decisions and insight.** Our focus is on client success above everything.

Key Projects in 2018

In 2018 we set out to refocus our business on higher margin sustainable revenues.

This involved:

- **New senior hires to develop our consulting proposition around data and to professionalise our marketing**
- **Designing a new single operating model for 2019 with client account management at its heart**
- **Commissioning new branding and a fresh web presence**
- **Launching a review of the role of technology in recruitment services**
- **Creating a New Business function to bring a single focus to business development**

Our timeline

Creating a new operating model to enable us to focus on delivering growth

In 2018, the market told us that our strategy needed refreshing to match current client needs. We ended the year with a fresh approach which, will see us focus on relationship management and we're growing our team, processes and IP to become truly integrated across advisory services, learning and development and recruitment.

FY 2018 FY 2019 FY 2020

Transforming to deliver growth

GOAL Growing revenues and margins through added value and integrated client relationships

FY 2021 FY 2022

Accelerating growth

GOAL Delivering sector-leading sustainable growth

Consolidate

- Reduce debt
- Restructure advisory proposition

Change

- New BD and Account Management focus
- New internal focus on margin
- New market positioning

Capitalise

- Develop longer term pure advisory clients
- Launch new development and technology enabled recruitment services

Section two
Strategic report

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Chief Executive's letter

The story in brief

Since my appointment as Chief Executive two months ago I have spent considerable time with our clients. I have been seeking to better understand our clients' data and technology needs and to review our ability to fully service those needs. The explosion of data analytic software and the value potential that is created from a better understanding of customer behaviour is well known.

The new and ever-growing challenges facing corporates and government organisations in data have become:

- acquiring the human skills to interpret the vast quantity of data being generated;
- attracting the people who can adapt operating systems in light of learnings from that data; and
- inspire confident decision making based upon reliable data and advice.

Parity, as a specialist in the people who know and understand the value of data, is ideally placed to benefit from this next stage in the data growth story.

Parity has great strengths in recruitment and resourcing and in providing our clients with data and technology experts who are focused on delivery. Alongside our resourcing business we have built a smaller but higher margin consultancy business that delivers data and technology solutions to a small number of large clients.

However, we have not been as successful as we would like in leveraging our strengths and skills in resourcing to help us to grow our consultancy business. Our operating model is set up to support a relatively low margin recruitment business which is very focussed on delivery but is less well suited to selling higher margin consultancy; the business has operated within silos and has failed to transfer clients between the two service lines at scale.

The new Parity business model

In future the Parity business model will change, we will have three distinct propositions to take to clients; recruitment, learning and development and consultancy, all delivered through a single account management team working to deliver a single P&L. They will be supported by a single and enhanced sales and marketing function.

The three service lines will complement each other and encourage cross referrals and integrated solutions, delivering what our clients have asked for, being the support of a collaborative partner, that enables confident decision making based on reliable data.

Recruitment

Our recruitment proposition represents the heritage of our business, it has an enviable list of blue-chip clients in both the public and private sector. Clients like the excellent level of service we provide and its specialism in the field of data and technology. However, the market for these services operates on relatively low margins, is increasingly commoditised and is highly price sensitive. We will continue to be active in this field but will increasingly focus on the higher value recruitment that fits alongside our other service lines of learning and development and consultancy.

Consultancy

We are also in the market offering data and technology consulting and whilst we have enjoyed some successes, we have also had challenges and they have largely been of our own making. We have lacked sufficient account management skills and are failing to fully capitalise on our proven knowledge of the data and IT markets. We regard this as a significant opportunity and are investing in senior management to lead this effort. We announced today that Antonio Acuna MBE, formerly Head of the UK Government's open data initiative data.gov.uk, has joined us to lead our consultancy services. Working more closely with the established account management teams in recruitment we will be able to offer integrated recruitment and advisory packages to help solve clients' need for effective data management and analysis.

Learning & Development

We will launch a new service line in learning and development. Clients who engage with us and buy our recruitment and advice services are also looking to develop their existing people. With our proven knowledge of the skills required of people in data and technology we are ideally placed to diagnose clients' learning and development needs. We will design and deliver programs to upskill our clients' existing people resources in data management and analysis, whilst identifying gaps that can be filled through recruitment as well as data and IT projects that require our consultancy service.

One Parity business

All three service offerings will operate as one business reported as such without divisional breakdowns. We will be completely re-engineering our sales and marketing function and are in the process of recruiting a new leader for this critical function. In the past we have tended to rely on our existing relationships and been reactive to clients' requests; in the future we will be much more proactive in leading thinking in the area of data management and analysis. With three integrated market propositions that are relevant to companies across all sectors and almost regardless of size there is a huge addressable market.

We will be relaunching the Parity brand in the very near future with a new more modern identity and clearer messaging. We have a large network of employees, consultants and people who we have placed within organisations all of whom can become ambassadors and advocates for the new Parity way of working.

Parity is a professional services business with unrivalled skills and expertise in a hugely important and fast-growing market, which gives us great confidence in our future prospects.

> **"We will be relaunching the Parity brand in the very near future with a new more modern identity and clearer messaging."**

Chief Executive's letter

The full story

Parity is a changing business in an evolving market place. Throughout the year we experienced pressure on our margins and changes in client demand that saw the need to revisit our strategy. Looking at the table below you will see:

Increased revenue from our Professionals business driven by growing demand for lower value, lower margin associates.

Consultancy revenue and margin impacted by the loss of a major government contract (MoD) after a protracted period of negotiation and a decline in scope at another mature client.

Divisional contribution remained static for Professionals highlighting the direction of client demand toward lower value, lower margin work.

At a divisional level, the 2018 financial results looked like this:

Divisional performance

	2018 £000's	2017 £000's	Incr./(Decr.) %
Revenue			
Parity Professionals	84,025	80,036	5.0%
Parity Consultancy Services	8,496	9,543	(11.0%)
Less inter-segment revenue	(6,409)	(5,764)	-
Group revenue	86,112	83,815	2.7%
Divisional contribution			
Parity Professionals	2,314	2,307	0.3%
Parity Consultancy Services	320	1,148	(72.1%)
Total divisional contribution[1]	2,634	3,455	(23.8%)

1 Divisional contribution is defined as divisional revenue less attributable costs

Key drivers of performance in 2018

Revenue growth strongest in lower margin business

- Strong performance with our public sector framework contracts during 2018
- Increasing repeat business from long standing clients
- Wins in private sector complement historic government strengths

Changes to consulting business begin

- Appointment of Antonio Acuna to lead consulting division
- New projects in data analysis and management for private and public sector clients
- Restructuring of consulting team to optimise margin and reflect client demand

Cross-selling between divisions

- Clients buying support from both sides of the business – recruitment and consultancy

Disposal of Inition

- Exit from loss-making, non-core activity Inition

Our challenges in 2018

We had three major challenges in 2018.

A significant public sector client (MoD) took a long time to decide about the future of a long term consulting assignment and consequently a number of our experienced team were underutilised for several months; it particularly hit our revenues in the second half of the year. This came as our consulting business saw the run-down of another very long-standing client. We needed to reshape the consulting team to better reflect client demand.

We also experienced variations in the margins we earned from different recruitment clients. Although we grew volumes in some areas, we did it in the face of intense price pressure.

We have taken action to address these issues. Our consultancy operations have been restructured to reflect client demand at a non-recurring cost of £382,000 and we are introducing new account management disciplines across Parity. We need to grow revenue and focus on margin, longevity and cross-pollination across our services.

What has gone well?

Against a backdrop of change in our markets and uncertainty with some of our traditional clients, we've won new clients across the business and often in new sectors or new services.

We're a cash generative business and pay great attention to cash and credit control. This year we lowered debtor days to 18 days and we've maintained progress in reducing net debt. It means we will be able to renew our financing arrangements at better terms and have a good platform for the development of our strategy.

Wins in private sector complemented historic government strengths in 2018

What has changed?

After 3 years as CEO, during which time he has reduced the business' debt levels and grown our revenues, Alan Rommel stepped aside to take on special projects and subsequently left the Board on 8 April 2019 to pursue other interests.

We have been bringing our consulting and recruitment operations closer together. Our experience is that our clients are receptive to working with us in multiple areas and so we have started to lay the ground work for a unified management of the group.

At the same time as we began to implement our strategy of building on our competence in relationships, talent and technical advice, the Board disposed of the final legacy from the previous strategy, the Group's 3D VR and AR development business, Inition. No longer a core asset, Inition had no intra-company benefit and had little chance of future success within Parity.

Chief Executive's letter

What will we keep doing?

We're good at relationships and that's shown in our long-term contacts. We have clients with whom we have worked for many years.

Our focus is on developing those relationships and the skills and processes needed to manage accounts in a consistent and productive way by placing account management at the heart of the business. We will continue to generate revenue and cash but will also ensure that our business quality improves in terms of client fit, margin and sustainability.

What will we do better?

We have a number of priorities for the future.

We will invest in better marketing and, in 2018, we laid the groundwork for new branding and communications. We will be clearer in telling our story as business advisors who are interested in helping clients to find the right talent and make bold decisions.

And we will be talking to clients in a more integrated way. We saw in 2018 that revenues generated between the two parts of our business grew to £6.4 million; it's a development that is leading us to manage client accounts more holistically. Instead of growing our revenue in silos we will seize the opportunity to explore all of our clients' advisory, staffing and development needs. Already we are seeing the fruits of more joined-up thinking as we have landed projects which call for both advisory and recruitment expertise.

There is scope for the greater use of technology in the recruitment business. Increasingly, we are seeing clients turning to online tools as their first resort and we are interested in developments that support a lower cost service especially for generalist and less senior talent. We are currently assessing the technology landscape and will evaluate our options in 2019.

However, at our heart, we are a business that depends on our own talented people; we have a strong sales force supporting a group of knowledgeable experts. Our strategy of a more integrated offer across service lines requires a continuing investment in training and skills to ensure that we can deliver for our clients and our investors.

Conclusion

This has been a year of reflection and change for Parity.

As client and market needs changed, we experienced real challenges that questioned our approach. We responded with a roadmap for a new operating model that includes new service lines, a clearer emphasis on consistent and integrated relationship management and a stronger brand and communication to the market. Our strengths in financial management have enabled us to reduce debt and continue to generate cash and, together with a positive initial response from clients to our new offer, this gives us confidence for the future.

Matthew Bayfield
Chief Executive
15 April 2019

Looking Ahead

Our goal

To grow earnings and shareholder value sustainably based on excellent services, brilliant people and trusted relationships.

We'll do that by being...

Focused on client relationship management

- Offering support across all our offerings
- Applying consistent processes and disciplines to ensure quality, profitability and longevity

A strong team at every level

- Focused on client satisfaction
- Excited by cross fertilisation between our teams
- Motivated to grow our brand and business

Innovative and dependable

- A reputation for leading thinking
- Agile in our internal processes
- Unshakable where it matters in financial management and a commitment to client need
- Curious about new processes and tools

Famous and proud

- A strong brand cleverly marketed
- Disciplined business developers
- Trusted by clients

Why us

Our advantage

- We are relationship specialists – our clients keep coming back
- We're knowledgeable – we know our world better than anyone else
- We're innovative – we're proactive in a changing market and are responsive to clients' needs

Our plan

- Consistent and integrated relationship management
- Innovative marketing of an integrated offer
- Developing the team
- Strong financial and operational management
- Innovating in services and technology use

Key projects for 2019

Branding

- Refreshed branding to unify the full Parity offering
- A launch to market of the new brand identity and Parity offering to initiate the marketing strategy to support growth and targets

New website

- Creation of unified Parity web presence to reflect our integrated view of the world
- Increased candidate and client interaction with improved website functionalities
- A renewed focus on generating leads through the website

Content creation for thought leadership

- Publishing insights drawn from our community of associates, shaping understanding of the real issues facing organisations in the world of data
- Strategic content plan set in place for the year, to communicate key USPs to target markets
- Dissemination of content through digital and paid channels to generate leads

Operating model restructure

- New cross group operational executive
- Accountable for common client development and service growth
- Highest possible levels of market fit

New business department

- A strategic function
- Aligned to marketing
- Tasked with growth in new sectors and new service lines

Onboarding senior hires

Strategic hires in:

- Consulting Leadership
- Business Development
- Client Services
- Learning & Development

Technology review

- Assessing opportunity
- Identifying competitive advantage and operational efficiencies
- Seeking first mover advantage wherever possible

CEO Point of View

How we see our world

Data, on its own, is worthless, argues Parity's *Matthew Bayfield*. It becomes an asset because of the people who manage, interpret and apply it to decisions.

In the last few years the world has woken up to the power of data. We have the tools that show us patterns that were hidden to us before and we can access insights about how economies work, about how people live, love and consume. We can govern better and discover more in every branch of industry and science. The power of information can transform the choices available to us and the decisions we make.

In the last couple of years society has become focused on the risks of digital incompetence and increasingly, consumers are becoming less tolerant of service disruptions, data breaches, fraud and political manipulation. Yet this comes at a time when we're developing a healthier relationship with data in so many aspects of our lives.

The benefits that clever data insight brings us are an accepted and expected feature of modern life. We're excited by targeted offers from retailers, we look to government for security from terrorists and criminals and we're relieved when medicine anticipates our diseases or uncovers new cures. Almost every sphere of our world is influenced and improved by the insights and information that is available to us.

Many factors have made the advance of data into our lives possible. The falling cost of storage, the rising speed of processing, the innovation of hardware and the breadth of applications have all brought business intelligence within the grasp of ordinary organisations with modest budgets. However, these are only tools; the real catalyst is human.

It's people, with real personalities, with real hopes, real likes and real aversions who use these tools. No matter how objective we think our intelligence is, how dependable we believe our tech to be or robust our architecture, data still passes through human hands at every stage of its life. We rely on living, breathing people to collect the right data, to organise it, to protect it and ultimately to understand it and apply it to bold decisions. Even in the world of artificial intelligence there is growing evidence that a lack of diversity of the people working in the space is having serious implications for the types of artificial intelligence we are developing.

Increasingly our clients want to talk about this human side of the story and they're debating how to match data with decision. After all the hype about data being the new oil, we've become aware that just gathering, storing or processing data doesn't change anything. Without smart people, data is dumb and languishes in unexploitable bunkers. And insight alone matters little if it doesn't empower and prompt decisions in our businesses, governments and lives.

> **"We rely on living, breathing people to collect the right data, to organise it, to protect it and ultimately to understand it and apply it to bold decisions."**

The conversation we're having is about the democratisation of data. Organisations want to make insight available to people at every level because data driven decision making is no longer the preserve of the C-Suite. Right now, data is helping chefs to plan canteen menus, physiotherapists create individual treatment plans and soldiers decide on battlefield tactics. People are clamouring to apply data to routine planning and operations; there's an awareness that data doesn't only justify decisions, it suggests options that were previously unimagined even at the most granular levels of our organisations.

We have developed amazing tools and now we need to make sure that the people who use them have the willingness, skills and imagination to use them. Positive change will depend on us seeing data not as a technical problem of networks and reservoirs but as a human process. It will ultimately be our talent and wisdom that decides the pace of the data boom.

This is the conviction that is guiding the Parity strategy. Our business is based on this simple truth; without the right people doing the right things, the promise of data and transformation remains a dream. We're equipping organisations with the skills and knowhow to turn information into an effective and positive driver for change.

Chairman's report

2018 – a year of strategic realignment for Parity

This year has been very significant for Parity. After a period of consolidation and reflection we have embarked on a course for long term growth that will capitalise on our strengths and develop a proposition that meets client need.

Our experience has increasingly told us that we have two opportunities. We have a strong story to tell about how data is used by organisations which should bring us higher margin consulting projects. We are also seeing increasing success when introducing clients to the breadth of our services. The Board decided that it is time for a more co-ordinated offer and structure.

Results

Revenue grew at 2.7% across the Group increasing to £86.1m for the full year (2017: £83.8m). The Group continues to be cash generative and has maintained strong working capital management with debtor days reduced to 18 days (2017: 20 days), resulting in a further reduction of net debt to £1.1m (2017: £1.6m), underpinning our solid platform for future investment and development of the Group strategy.

Despite this, our strong first-half was followed by a significant delay and subsequent non-renewal of a major project for our Consultancy Services business. This reversed the trend of growing contribution from this side of the business and prompted us to accelerate a restructuring which we had planned to manage more progressively.

Board changes and people

The existing management team had made consistent progress in simplifying the structure of the business and aligning services better to support our clients in the growth markets we had identified. The recruitment of Matthew Bayfield in May 2018 was another significant step in ensuring the development of services to meet the demand for data driven solutions. Every company is investing to exploit the opportunities available to make better decisions through the mining and deciphering of information. With his recognised industry expertise, Matthew has quickly been able to develop services that have been well received by our clients and are leading to further opportunity.

As announced in February 2019, Matthew Bayfield joined the Board on 5 February as Chief Executive Officer, replacing Alan Rommel. Subsequently, on 8 April, we announced that Alan Rommel had stepped down from his Board role as Chief Operating Officer in order to pursue other interests. The Board acknowledges and thanks Alan for his significant contribution and commitment to the Group over the last 25 years.

We are lucky in being supported by a strong team of committed professionals at every level of the business and see investment in skills as a key plank of our future plans.

Strategy

Having been greatly encouraged by the opportunities identified in higher-margin data consultancy services, the Board has restructured the Consultancy Services division to focus more closely on this market. In addition to the promotion of Matthew, we are investing significantly in senior talent to drive thought leadership and engage with clients at the earliest stages of their data policy development leading on to delivering their data projects.

Better alignment between our consulting and talent businesses offers Parity a competitive advantage as we widen the client base to which we offer the full portfolio of our services. Our aim is to drive further operating margin improvement and deliver consistent growth in earnings and sustainable shareholder value in the medium and long-term.

This will be supported by the forthcoming developments in marketing and branding which we have initiated for roll-out in 2019. Additionally, changes to our internal operating model will assure consistent quality in our relationship and account management whilst maintaining our strength in financial management.

Financing and dividend

Banking arrangements with PNC have been in place since 2010. PNC has confirmed internal credit approval to extend the facility for a further two years on improved terms. The renewal will result in a £10m facility with interest charged at 2.00% above base (previously 2.35%).

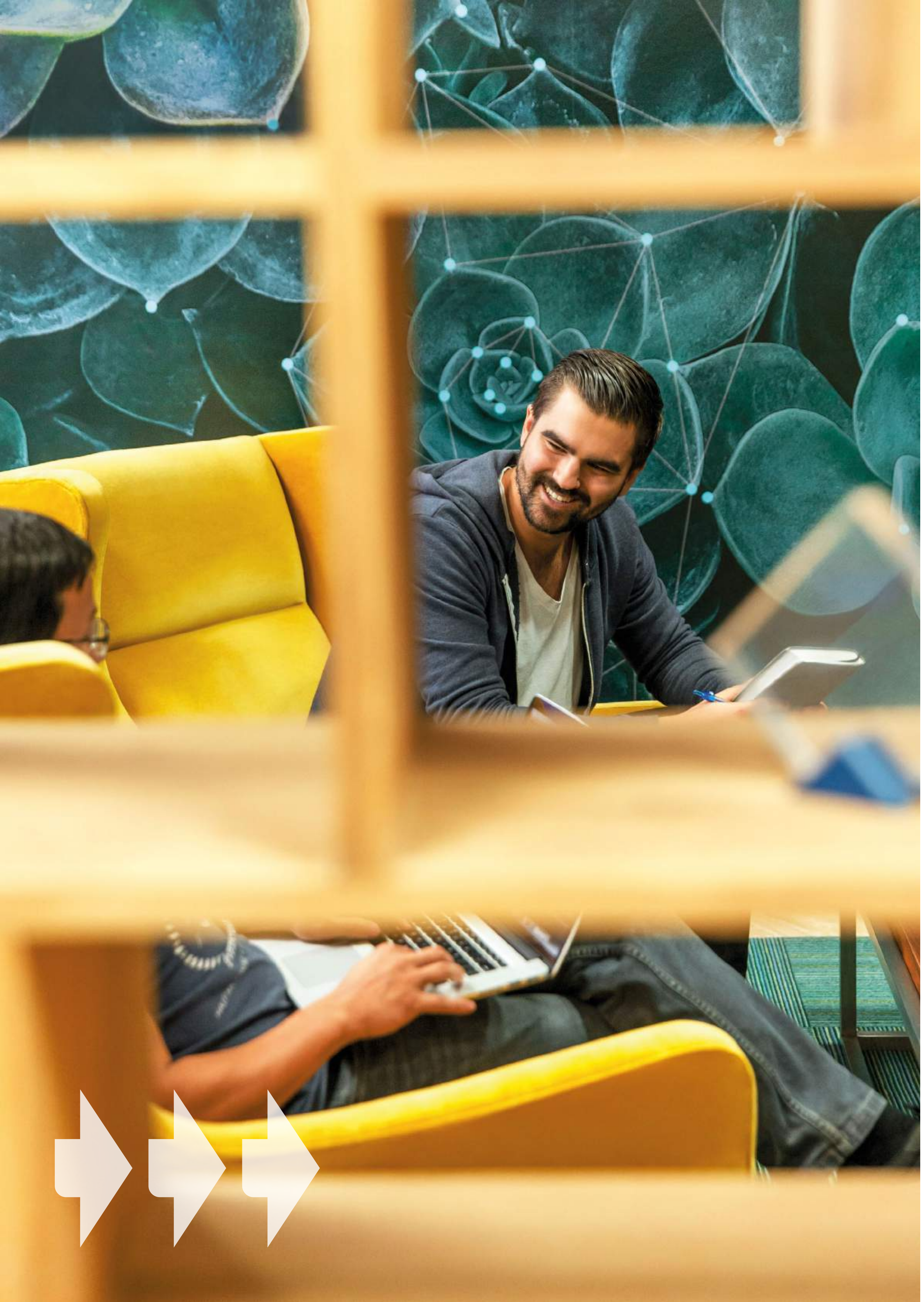
The Board is not proposing to declare a dividend at this time but will keep this policy under review.

Current trading and outlook

Trading in the current financial year remains in line with expectations. The Board remains confident in its strategy and continues to invest to improve the operational efficiencies in the core recruitment service offering, the alignment of the service offerings from both a sales and delivery capability, and the strengthening of the senior talent within the firm to deliver an improved trajectory through 2019 and beyond.

John Conoley
Non-Executive Chairman
15 April 2019

"The existing management team has made consistent progress in simplifying the structure of the business and aligning services better to support our clients in the growth markets we have identified.



Principal risks and uncertainties

The Board maintains a close watch on issues that affect our business, markets and the wider economy. Whilst the markets that we operate in can be cyclical in their nature, we take necessary action to mitigate the risk and potential impact profile. We have provided an overview below:

Macro-economic uncertainty

Client project decisions and recruitment activity can both be affected by confidence which can impact demand for the Group's services and therefore revenues. To mitigate exposure to wider macro-economic uncertainty, we operate a largely elastic cost base with flexible resourcing and costs (both staffing and commissions) related to activity levels, and managed offices on shorter-term contracts with options to exit. The Group is also exposed to market interest rates and potential expected increases in interest rates have been mitigated with a focus on significantly reducing debt, with our debtor days below market norms (18 days at 31 December 2018).

Brexit

Demand for the Group's services could reduce as an indirect result of the impact of Brexit on the UK economy including delays in client decisions due to the wider macro-economic uncertainty. The Group is not expected to suffer a direct long-term negative impact due to Brexit, as it is supported by the strong underlying UK economy and the Group operates predominately in the UK with a minor proportion of business in Ireland. Brexit has also driven additional opportunity to the Group with established Public Sector clients creating additional infrastructure in preparation.

Legislation – e.g. IR35, GDPR

IR35 Reforms have increased the churn rate of contractors in the Public Sector as they leave to work in roles which are not assessed to be within IR35, elsewhere in the Public Sector, or leave for roles in the Private Sector which are assessed differently. IR35 is set to be implemented to the Private Sector in 2020 which could impact revenues. In mitigation, the Group aims for a diversified client base and will make use of our Public Sector bias and implementation experience to limit the disruption. GDPR came into effect in May 2018 with increased penalties for serious data breaches. Due to the volume of personal data we hold in our recruiting business, an internal working group has put in place a number of measures, including staff training, to minimise risk.

Strategy fails to deliver anticipated growth

The Group's anticipated growth may not be achievable if the Group is unable to implement its strategy effectively. The Board seeks to mitigate this through a robust assessment of its opportunities, the feedback from its clients and potential clients, clear priorities and focus on delivering key objectives and incentivising its team to deliver against those objectives.

Loss of key client frameworks

A significant portion of the Group's revenues are dependent on the award of framework agreements as an approved supplier. It is possible that the Group will lose this status. We seek to mitigate this through closely monitoring our service level agreements and ensuring the quality of our delivery.

Staff

The risk is that staff do not have the development or the tools to perform at their best, and without a clear career path we experience increased staff turnover. Parity has invested in additional direct training and training resource for staff. We support staff to achieve expectations in their roles and there is clarity on the development required. We support staff by reviewing and acquiring new tools to help them perform at their best and provide competitive remuneration and incentives to support retention. In addition, the Group has various share plans at its disposal, to provide staff with the opportunity to benefit from the success of the Group with minimal financial risk.

We support staff to achieve expectations in their roles and there is clarity on the development required.

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 including those caused by cyber breaches and attacks.

Operational and Financial Review

A Brief Overview

- An increase in revenue but weighted towards lower margin recruitment work.
- Delay and subsequent loss of the MoD account impacted operating profit substantially.
- Continued strong working capital management resulted in a decrease in net debt.

Continuing Operations	2018 £'000	2017 £'000	Incr./(Decr.) %
Key Financials			
Revenue	**86,112**	83,815	2.7%
Adjusted profit before tax[1]	**853**	1,662	(48.7%)
Net debt	**(1,090)**	(1,632)	(33.2%)
Ratios			
Adjusted PBT margin %	***1.0%***	*2.0%*	
Net debt / Adjusted EBITDA ratio	***0.8***	*0.7*	

1 Adjusted profit before tax is defined as profit before tax and non-recurring items

Despite growth in its revenues, the Group experienced a reduction in adjusted profit before tax during the year ended 31 December 2018. The decline in profit derived mainly from the mix impact of revenue growth in the lower margin Professionals division, and a reduction in both revenue and contribution from the Consultancy Services division. The trading challenges in the Consultancy Services division prompted a restructure of the division with the associated one-off costs treated as non-recurring items in these accounts. The Group was cash generative during the year resulting in a further reduction to net debt.

Revenue for the year ended 31 December 2018 increased by 2.7% from £83.8m to £86.1m driven by growth in the Professionals division. The division's contractor volumes recovered from the impact of IR35 reforms introduced in the public sector in 2017. The trading issues in the Consultancy Services division are set out in the Divisional Performance section below and led to a weaker revenue mix. Consequently, adjusted profit before tax fell by 48.7% from £1.66m to £0.85m with the Group adjusted PBT margin tightening from 2.0% to 1.0%. Non-recurring items incurred in the year were predominately related to restructuring and totalled £495,000. Profit before tax after deducting non-recurring items was £358,000. Net cash generated from operations was £604,000 enabling us to reduce net debt from £1.6m to £1.1m at the end of 2018, with the Net Debt/ Adjusted EBITDA ratio at the end of year 0.8x (2017: 0.7x).

> **"Over the last few years Parity have provided RoS with a number of IT professionals. Parity provide a quick and efficient service to RoS with knowledgeable staff, who provide expert advice.**
>
> ***Registers of Scotland (client)***

Divisional performance

	2018 £'000	2017 £'000	Incr./(Decr.) %
Revenue			
Parity Professionals	**84,025**	80,036	5.0%
Parity Consultancy Services	**8,496**	9,543	(11.0%)
Less inter-segment revenue	**(6,409)**	(5,764)	-
Group revenue	**86,112**	83,815	2.7%
Divisional contribution			
Parity Professionals	**2,314**	2,307	0.3%
Parity Consultancy Services	**320**	1,148	(72.1%)
Total divisional contribution	**2,634**	3,455	(23.8%)

Reconciliation of divisional contribution and adjusted EBITDA to operating profit from continuing operations

	2018 £'000	2017 £'000
Divisional contribution	**2,634**	3,455
Group costs	**(1,093)**	(1,045)
Share-based payment charges	**(129)**	(68)
Adjusted EBITDA	**1,412**	2,342
Depreciation and amortisation	**(194)**	(286)
Operating profit before non-recurring items	**1,218**	2,056
Non-recurring items (continuing operations)	**(495)**	-
Operating profit from continuing operations	**723**	2,056

Divisional contribution is reconciled to the income statement as part of segmental information presented in note 2 on page 84.

Operational and Financial Review

Parity Consultancy Services

During 2018 the Consultancy Services business was focused on delivering data and technology solutions to its clients. Whilst trading was in line with our expectations in the first half of the year, the division was impacted by challenges in the second half which resulted in a 72% drop in full year divisional contribution to £0.3m (2017: £1.1m). Nevertheless, we remain convinced by the opportunity that the data consultancy market provides to the Group and have invested in senior management and marketing during the year. The difficult second half prompted a restructuring of the division, to align the cost base towards the more profitable opportunities available to the Group.

The most significant challenge related to the long-standing MCOCS contract with the MoD. Whilst the division maintained the quality of its delivery to the client during the year, an expected extension in Q3 to the contract was delayed due to a protracted client decision-making process, and subsequently not renewed. As a result of the delay the division incurred losses associated with its fixed cost delivery base. To a lesser extent the division was also impacted in H2 by a reduction in spend for our Application Management Support services in comparison to previous years.

In Q4 the division acted to address its losses, taking the decision to restructure its delivery function. We have excluded further work on the MCOCS project from our financial projections, and right-sized our delivery model for Application Management Support. Inevitably this resulted in some redundancies. The associated one-off costs have been treated as non-recurring items in these accounts.

Good progress has been made with other clients including the Education and Skills Funding Agency where we are supporting our client with its digital projects. Most pleasingly, we have seen early signs of success from the investments made to focus efforts on data consultancy services. These investments have been instrumental in winning work with a leading contract catering and facilities group.

Parity Professionals

Parity Professionals provides targeted recruitment of temporary and permanent professionals with the staff to deliver business change programmes. We supply a broad range of skills from project management through to the niche skills in digital, data and information security required to ensure our clients can deliver their projects.

Parity Professionals generated revenue growth of 5% at £84.0m (2017: £80.0m), building on a well-established client base in the Public Sector with 15 framework wins and over 100 new clients in the year. Over 50% of the new client wins were in the Private Sector including household names such as Primark, not-for profit organisations such as the British Standards Institute and a number of housing associations.

Revenue growth was supported by a higher number of new interim candidate placements in the period. Contractor volumes recovered from the impact of the IR35 reforms which were introduced in April 2017 and applied to contractors working at our public sector clients. At the end of 2018 the number of contractors on billing was 995 (end 2017: 940). The total margin value on new sales in the period grew by 8% compared to 2017, and this momentum has improved through the year, resulting in a forward order book at year end of £32.7m (2017: £27.5m). Revenue from permanent recruitment was broadly flat at £638,000 (2017: £657,000) partly due to supply side shortages, though average fee rates per placement increased significantly as we targeted more senior roles and niche skills in the digital and cyber security markets.

One challenge created by the IR35 reforms and affecting the divisions contribution is a higher contractor churn rate, partly due to the lure of roles in the Private Sector, where the reforms will not apply until 2020. The divisional contribution margin was also affected by the managed service win at Primark, with lower than average contractor gross margins initially, but with the opportunity to improve profitability in the future, by placing contractors that we have sourced.

We continue to deliver the service-wrap for the Public Sector FastStream Graduate intake and this contract has been extended through to September 2019, though it is expected that the client will in-house the service provision, TUPEing Parity staff from this point with no stranded costs to the business. Parity Professionals successfully retendered for G-Cloud 10 framework with the Crown Commercial Service and has been awarded a managed service for the provision of project and programme management services for the Scottish Government Digital Superfast Broadband programme underwriting our dominant position for trusted delivery on key Public Sector contracts.

After the year end we were informed that a significant framework contract for the placement of staff with the Scottish Government would not be renewed. Our incumbent contractors placed through the framework will continue their contracts until their assignments end but we will not be able to make any new placements. This will result in revenues from the framework contract gradually winding down over the next two financial years. While this legacy type of contract has been significant in revenue terms it has provided relatively low levels of margin, the loss of which will be largely offset by costs savings mainly related to serving this specific contract during the period of contract run off.

In the longer term the end of this contract will improve the Group's net margin performance albeit from a lower level of revenue, consistent with the longer term direction of travel for Parity.

Non-recurring items

Non-recurring items of £0.50m (2017: £nil) were incurred during the year, primarily as a result of restructuring the Consultancy Services division, and are analysed in note 5 on page 87.

Taxation

The tax credit on continuing profit before tax was £63,000 (2017: tax credit of £534,000) mainly representing a deferred tax adjustment in respect of prior periods. Whilst the Consultancy Services division generated a lower contribution than the previous year, its outlook remains positive. Therefore, we continue to take a prudent view on the division's carried forward tax losses which remain unrecognised but will keep this under review.

The Group did not provide for corporation tax payable in 2018 due to the utilisation of Group relief and the availability of carried forward deductible timing differences and tax losses.

Discontinued operations

We disposed of the non-core Inition subsidiary in April 2018 for consideration of £0.2m and recorded a loss on disposal of £0.3m. Further details about the disposal can be found in note 8 on page 88. Inition was held for sale at the start of the year and accordingly its results to the point of disposal are presented as discontinued. During the portion of 2018 that Inition was owned by the Group, it incurred an operating loss before tax of £0.3m (2017: £1.1m).

> **The team at Parity have been a huge asset in finding and securing contract work since I've relocated to Scotland. Everyone I have dealt with has been friendly, helpful and professional and I would recommend your services without hesitation.**
>
> ***Candidate***

Earnings per share and dividend

The basic earnings per share from continuing operations were 0.41 pence (2017: 2.15 pence). The decrease stems from lower profitability and the deferred tax credit recognised in 2017.

The Board does not propose a dividend for 2018 (2017: nil). During the year the Board sought external advice in respect of the steps needed to restore a dividend. The Board suspended the exercise when it became clear that profits before tax would be lower than in 2017 but will keep the position under review.

Operational and Financial Review

Statement of Financial Position

Trade and other receivables

Trade and other receivables remained at a consistent level in comparison to the previous year at £12.0m (2017: £12.0m). Ordinarily we would expect the increased contractor volumes in the Professionals division to carry a higher working capital requirement. However, the working capital requirement has been offset by a further improvement in debtor collections in the Professionals division. Group debtor days, calculated on billings on a countback basis, decreased to a record low of 18 days (2017: 20 days).

Trade and other payables

Trade and other payables also remained at similar levels to the previous year at £8.3m (2017: £8.3m). At the year end, creditor days were 28 days (2017: 28 days).

Loans and borrowings

Loans and borrowings 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 Business Credit ("PNC"), a leading secured finance lender, allows for borrowing of up to £15m depending on the availability of appropriate assets as security. The current facility, which has been in place since 2010, is in the final stages of being renewed on improved terms including a reduction in the interest rate to 2.00% above base rate from 2.35% previously. The terms of the agreement have been sanctioned by PNC's credit committee with just the legal paperwork to tie up to complete the renewal.

Cash flow and net debt

The Group generated positive net cash flows from operating activities of £0.6m (2017: £3.0m), driven by EBITDA and a positive working capital swing with a reduction in debtor days to 18 (2017: 20 days). The £0.6m cash generated was after cash flows of £0.4m outflow and £0.1m inflow in respect of non-recurring items and discontinued operations respectively.

As a result of the positive cash flow, net debt reduced to £1.1m (2017: £1.6m).

Defined benefit pension deficit

During the year the pension scheme was subject to a triennial actuarial review, the outcome of which is in the process of being agreed between the Trustees and the Group.

At the year end the deficit had increased to £1.9m (2017: £1.1m), primarily due to a fall in the value of the scheme's investments, reflecting weaker global equity markets.

Assets and liabilities held for sale

The assets and liabilities held for sale on the 2017 balance sheet related entirely to the Inition subsidiary which was disposed of in April 2018. Further details of the disposal can be found in note 8 on page 88.

Roger Antony
Group Finance Director
15 April 2019

Section three Governance

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Corporate Governance Report

Introduction

Prior to 2018, the Company sought to model its corporate governance on the 2013 Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies, as far as was practicable and appropriate, having regard to the size and resources of the Company. On 8 March 2018, the London Stock Exchange issued revised rules for AIM-listed companies, within which was a requirement (Rule 26) for AIM companies to apply a recognised corporate governance code from 28 September 2018.

Accordingly, in September 2018, the Company decided to apply the 2018 QCA Corporate Governance Code (the Code) and this Corporate Governance Report for the year ended 31 December 2018 is based upon the Code. The principal means of communicating our application of the Code are this Annual Report and our website (www.parity.net).

Chairman's statement

As Non-Executive Chairman, I am responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role, including good governance in dealing with all of our stakeholders. 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. I am also responsible for effective communications with shareholders and relaying any shareholder concerns to the Directors.

Upon joining the Board as Non-executive Chairman in April 2017 it was evident that the Board had a strong focus on corporate governance. The Board is committed to maintaining and evolving high standards of corporate governance throughout the organisation and has adopted the Code. In the remainder of this report, I set out how the Group applies the ten key principles of the Code, which fall under three broad categories.

Deliver growth

Establish a strategy and business model which promote long term shareholder value for shareholders

The Group's strategy is to drive margin improvement to sustain growth in shareholder value. The Board will invest in measures to accelerate growth in the data consulting business whilst improving the operational alignment of our recruitment business. Data is now of greater importance than ever and Parity can empower and enable clients to take advantage of this. See the Group's strategy as set out in the Chief Executive's Letter on page 12 and Looking Ahead on page 18.

Challenges faced by the Group in executing its strategy include repositioning the business service offerings, changing the internal operating model, market competition and macro-economic factors. The principal risks and uncertainties faced by the Group and potential mitigation can be found on page 25.

Seek to understand and meet shareholder needs and expectations

The Board seeks to understand the needs of its shareholders through regular engagement with its major shareholders. At the same time the Board recognises the need to balance the interests of significant and minority shareholders.

The Group engages with major shareholders through presentations and meetings after the announcement of the Group's full year results and interim results. All shareholders are given the opportunity to communicate directly with the Board at the Annual General Meeting. From time to time the executive directors attend investor events which provides an opportunity to speak to both existing and prospective retail shareholders. The de facto Senior Independent Director acts as an additional contact point for shareholders if they have reason for concerns, when contact with the normal channels has failed to resolve their concerns.

The Group maintains an investor website which holds all relevant shareholder information.

Wider stakeholder and social responsibilities

As a professional services business, Parity's strength derives from the commitment, capability and cultural diversity of its employees. The Group encourages the participation of all employees in the operation and development of the business by offering access to senior management, including executive directors, and adopting a policy of regular communications through road shows and the intranet. The Group supports an Employee Voice forum which comprises volunteer staff members and provides opportunity for upward communication. The Group also encourages participation in an annual employee survey, which is completed anonymously and administered by an independent organisation.

The Group also recognises its responsibilities to other external stakeholders including its clients, contractors, suppliers, the trustees of the defined benefit pension plan and its asset-based lender.

It is Group policy to be a good corporate citizen wherever it operates. Encouragement and support is provided to employees who undertake charity or volunteer work.

The Group's Social, Environmental and Ethical policies can be found in the Corporate Social Responsibility Report on page 42.

Embed effective risk management

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. The Group maintains an internal risk register which is updated quarterly and reviewed periodically by the Audit Committee.

The Group does not consider it necessary to have a separate internal audit function due to the Group's size and its centralised administrative function but keeps this need under review. The Company receives regular feedback from its external auditors on the effectiveness of its internal controls and aims to implement any improvements identified.

The principal risks faced by the Group are presented on page 25. The Board is not aware of any significant failings or weaknesses in the system of internal control.

Maintain a dynamic management environment

Maintain a well-functioning, balanced board

At the date of this report, the Board comprises myself as Non-Executive Chairman, Non-Executive Director, David Firth, Chief Executive Officer, Matthew Bayfield, and Group Finance Director, Roger Antony. Matthew Bayfield was appointed Chief Executive Officer on 5 February 2019 replacing Alan Rommel who was appointed Chief Operating Officer on the same date and subsequently left the Board to pursue other interests on 8 April 2019. The table on page 49 sets out the dates of tenure of the current Directors on the Board.

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 Board considers both Non-Executive Directors to be independent, with neither having a length of service of greater than three years. The Non-Executive Directors ensure that independent judgement is brought to Board discussions and decisions. The Board considers that there are no relationships or circumstances which are likely to affect the independent judgement of the Non-Executive Directors.

The Board has meetings scheduled regularly throughout the year to review and approve the Group's strategy and to monitor progress against set objectives. Additional meetings are also held as business dictates. The Board has a formal schedule of matters reserved for its specific approval which includes a review of Group strategic, operational and financial matters such as proposed acquisitions and divestments. All members of the Board are normally

Corporate Governance Report

supplied in advance of meetings with the agenda and supporting papers covering the matters which are to be considered.

Whilst there is a clear division of responsibilities, the Non-Executive directors remain in regular contact with the Executive directors outside of board meeting. For example, I have a weekly catch up call with the CEO, and the Non-Executive directors are available to support on material matters as and when that support is required.

As Non-Executive Chairman, I am 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. I am also responsible for effective communications with shareholders and relaying any shareholder concerns to the Directors. During the year I met with the other Non-Executive Director without the Executive Directors being present.

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 57 and in the separate Notice of Annual General Meeting sent to all shareholders. I confirm that the performance of each Director continues to be effective and the individuals continue to demonstrate commitment to their role.

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.

The Board has meetings scheduled regularly throughout the year to review and approve the Group's strategy and to monitor progress against set 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 below.

During the year, 10 scheduled Board meetings and 4 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.

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. During 2018 the Board continued to regularly track potential risks associated with Brexit.

The Board delegates specific responsibilities to three Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The Audit, Remuneration and Nomination Committees of the Board each have formal written terms of reference. These terms of reference are available on the Group's website (www.parity.net).

The Audit Committee comprises the two Non-Executive Directors and is chaired by David Firth. The Audit Committee meets at least three times a year. Details of the responsibilities of the Audit Committee are set out in the Audit Committee Report on pages 54 to 55. Where necessary, specialist external consultants are used to assist the Committee.

	Board[1]	Audit	Nomination	Remuneration
Number held	**10**	**3**	**1**	**3**
Number attended[2]				
John Conoley	10/10	3/3	1/1	3/3
David Firth	10/10	3/3	1/1	3/3
Alan Rommel	10/10	-	-	-
Roger Antony	10/10	-	-	-

1 Scheduled Board meetings only – excludes ad-hoc Board meetings

2 All Directors who were members of the Board at the time attended the Group's Annual General Meeting on 24 May 2018

The Remuneration Committee comprises both Non-Executive Directors and is chaired by David Firth. Details of the responsibilities of the Remuneration Committee are set out in the Remuneration Report on pages 47 to 52. Where necessary, specialist external consultants are used to assist the Committee.

The Nomination Committee comprises both Non-Executive Directors and is chaired by myself. The Committee meets at least once a year and 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.

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.

Ensure the board has the necessary up-to-date experience, skills and capabilities

Directors who have been appointed to the Board have been chosen because of the skills and experience they offer. The Directors' biographies, which are set out on pages 40 to 41, illustrate the range of business backgrounds, skills, independence and experience contributed by each Board member. The Board are aware of the importance of attaining greater diversity amongst its members.

Each member of the Board takes responsibility for maintaining their skill sets, which includes roles and experience with other boards and organisations. The Group pays subscriptions to various professional organisations, for example the QCA, which provide the directors with access to regular market and regulatory updates. Some of the Directors have individual membership of professional organisations that require their members to evidence continual professional development on an annual basis. All Directors have the opportunity to undertake relevant training and attend relevant seminars and forums.

Where the Board considers specialist advice is required to address matters reserved for the Board, it will seek to engage competent external advisors. During the year the Board engaged with two such advisors. Firstly, a top 4 accounting firm that the Committee decided was best suited to provide advice on enabling a dividend was engaged, although the Board decided to defer this exercise due to trading challenges in the second half of the year. Secondly, pension scheme specialists were engaged to provide advice on the Trustees' triennial review of the defined benefit pension scheme.

David Firth acted as the de facto Senior Independent Director during 2018. 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.

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.

Evaluating board performance and development

The Board undertakes an annual evaluation of its own performance and that of its Committees and individual Directors.

> **The assistance provided by Parity, and solution to our recruiting needs, at such short notice was exceptionally helpful to us. I personally am very grateful to Parity's Regional Director for ensuring I had the correct level of information and advice which enabled me to bring the right person, with the right skills into our work area much quicker than I had anticipated.**
>
> ***Client***

The Board undertook an annual evaluation of its own performance and that of its Committees and individual Directors for the year. My own performance 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. The results of the evaluation performed in 2018 were satisfactory.

Promoting ethical values and behaviours

The 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. Further details are set out under the "Ethics" section of the Corporate Social Responsibility Report on page 43.

Corporate Governance Report

A critical aspect of the Group's strategy is to be perceived as a trusted partner of its clients. In order to achieve this objective, 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. The Board supports and promotes the principles of equal opportunities in employment and promotes a culture where every employee is treated fairly. The Board and management conduct themselves ethically at all times and promote a culture in line with the standards set out in the employee hand book.

Maintain governance structures and processes that are fit for purpose

The Audit, Remuneration and Nomination Committees of the Board each have formal written terms of reference. These terms of reference are available in the Corporate Governance section of the Group's website (www.parity.net).

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

Authority is delegated to senior operational management through Group authorisation limits on a structured basis, ensuring that proper management oversight exists at the appropriate level. During the year, the Group operated through two divisions, Parity Professionals and Parity Consultancy Services. Inition was held for sale as a non-core business offering and was wholly disposed of in April 2018. The operational board comprises the Chief Executive Officer, the Group Finance Director, and the divisional Managing Directors. The operational board meetings are held monthly and are attended by other senior management as appropriate. Regular updates are provided by the heads of shared service functions such as marketing, IT and HR. Any key issues from these meeting are reported to the main Board.

Build trust

Communicate how the company is governed and performing, maintaining a dialogue with shareholders and other relevant stakeholders

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. Details of all shareholder communications are provided on the Group's website (www.parity.net).

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.

The Annual Report is designed to present a fair, balanced and understandable view of the Group's activities and prospects. The Operational and Financial Review provides an assessment of the Group's affairs and position. The Annual Report is sent to all shareholders on the shareholder register. The Group's Annual and Interim Reports and Notices of the Annual General Meeting for the past 5 years are available on the Group's website.

The Group details how it is governed and performing both in this Annual Report and Financial Statements and on its website.

The reports to the shareholders of the Audit and Remuneration Committee can be found on pages 54 and 47 respectively.

John Conoley
Non-Executive Chairman
15 April 2019

The Board

John Conoley (58)
Non-Executive Director

Appointment Date:
April 2017

Experience:
Previously Chief Executive of London listed Psion plc and Non-Executive Director of NetDimensions, the talent management technology platform

Committees:
Chairman of the Nominations Committee and Member of the Remuneration and Audit Committees

External Appointments:
Executive Chairman at eServGlobal UK Ltd and Non-Executive Chairman at FireAngel Safety Technology plc

Skills brought to the board:
Over 30 years IT industry knowledge and significant executive and non-executive Board level experience of AIM listed businesses

Number of Board meetings attended in 2018:
10/10

Sector experience:
Technology software and services

David Firth (58)
Non-Executive Director

Appointment Date:
September 2016

Experience: Previously Finance Director of Penna Consulting for 16 years and Group Finance Director of Parity for 4 years

Committees:
Member of the Nominations Committee and Chairman of the Remuneration and Audit Committees

External Appointments:
Non-Executive Director at Best of the Best plc and Non-Executive Director at Summerway Capital plc

Skills brought to the board:
A wealth of experience in the people management and consultancy markets. Has held senior finance positions in public companies across a number of sectors

Number of Board meetings attended in 2018:
10/10

Sector experience:
People management, consultancy, finance, recruitment, IT services, motor retailing and advertising

Matthew Bayfield (44)
Chief Executive Officer

Appointment Date:
February 2019

Experience:
Matthew joined the senior management team of Parity in May 2018. Prior to this Matthew has held positions as CEO of Field London, Head of Data for Ogilvy and Mather, and Managing Director and Founder of Tree London

Skills brought to the board:
Having a wealth of experience in the IT and Data sector, Matthew has successfully founded five start-up businesses with three taken through to trade sale, as well as held a senior position on the board of Ogilvy and Mather, the world's largest advertising agency

Number of Board meetings attended in 2018:
N/A

Sector experience:
IT services, management consulting and data consultancy

Roger Antony (52)
Group Finance Director

Appointment Date:
April 2016

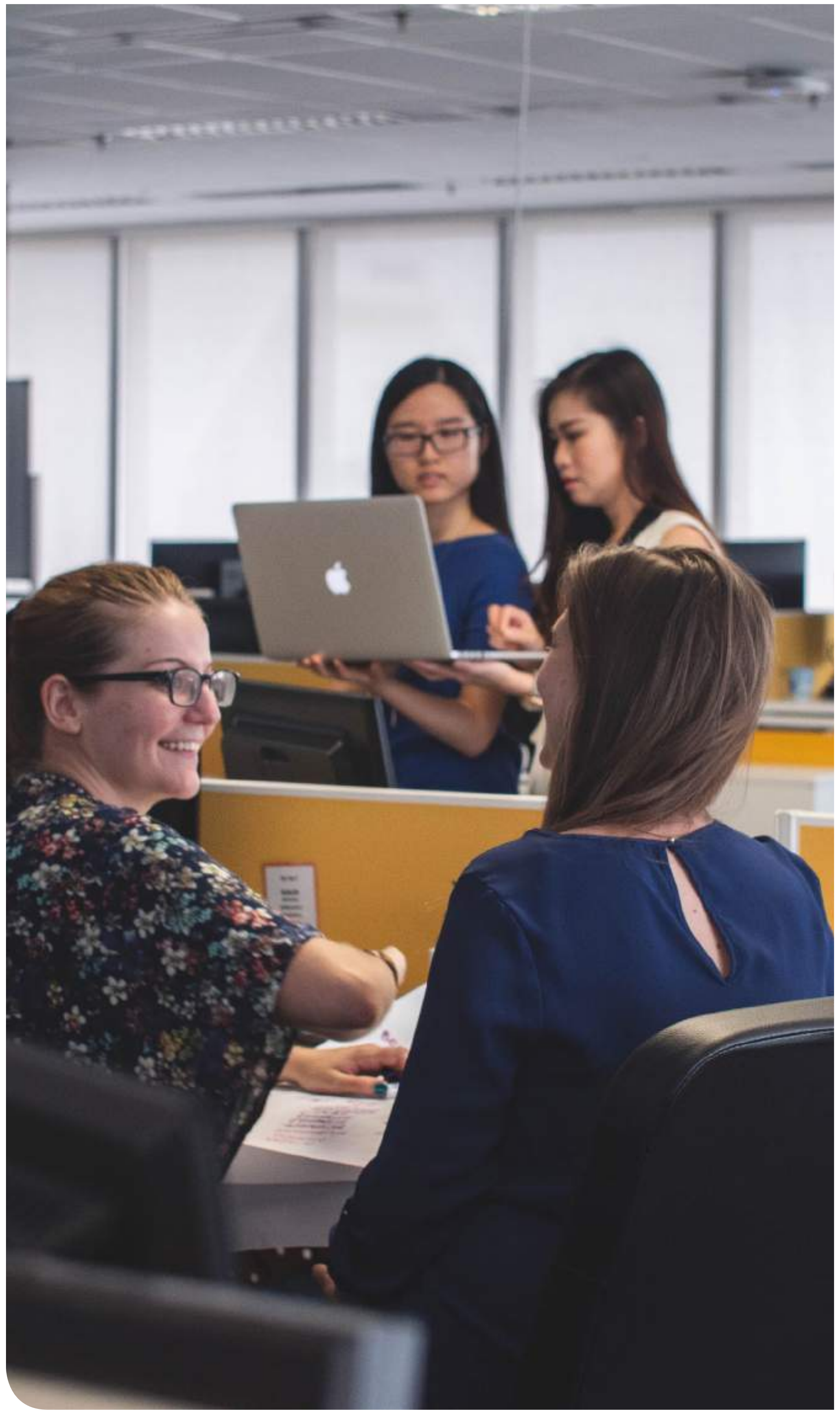
Experience:
Prior to his appointment, Roger held the position of Group Financial Controller since 2006, and prior to that the role of Financial Controller for the International Resources Division

Skills brought to the board:
Roger joined the Parity Group after qualifying as an accountant in 1997, and previously held managerial roles within a variety of listed entity finance departments

Number of Board meetings attended in 2018:
10/10

Sector experience:
IT services, recruitment and retail

Corporate Social Responsibility Report



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. An Employee Voice forum was introduced during 2017 in order to create more opportunities for upward communication and generation of ideas from all employees. The forum comprises volunteer staff members from different office locations.

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 results from the 2018 survey reflected broadly average staff engagement, with slightly lower satisfaction levels in comparison to the previous year. It was noted that the less positive scoring was localised, and that the timing of the survey was such that it coincided with a period of divisional restructuring.

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. Following the recent Board changes the Group is currently reviewing its approach to performance appraisal and career progression, with a view to implementing an improved talent development programme.

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.

In order to support any employees suffering from mental health issues, the Group has rolled out a Stress and Wellbeing Course across all of its locations with the aim of enabling managers to identify any early signs of concern and provide initial support to individuals.

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 fundraising events. For example, during 2018, members of staff in the Group's London office participated in a charity fund raising event for the NSPCC that successfully met the £15,000 target.

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 the 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 devices 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

Corporate Social Responsibility Report

and values which sets out the standards of behaviour we expect from all our employees.

Anti-Bribery Act

Parity's Anti-Bribery and Corruption policy is written to follow the UK regulatory requirements in relation to the Anti-Bribery Act. The policy has Executive Director ownership and is available on the Group's intranet. Client and supplier arrangements are regularly reviewed and guidance forms part of each employee's induction.

During the year under review the policy was updated, with amendments including incorporation of the Company's responsibilities in respect of tax evasion under the Criminal Finance Act 2017. The Parity Professionals division maintains a preferred supplier list (PSL) for payroll companies used by its contractors and undertakes tax due diligence before allowing companies on to its PSL.

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. The following actions have been taken during 2018:

- Supply Chain Review – we continue to take positive steps to improve supply chain transparency. Following the annual review of our policy and supply chain, we continue to believe that we operate a supply chain with a very low inherent risk of slave and human trafficking potential. Our supply chain is mainly made up of UK based suppliers of professional services, computer software and equipment, office supplies and our contractor and associate workers.

  Nevertheless, this assessment is kept under continual review and due diligence is conducted with any new suppliers.
- Staff Training – during 2018 we have continued to provide training to all new employees on the Modern Slavery Act 2015 and our Modern Slavery Policy as part of our onboarding programme to ensure all employees are aware of their responsibilities.

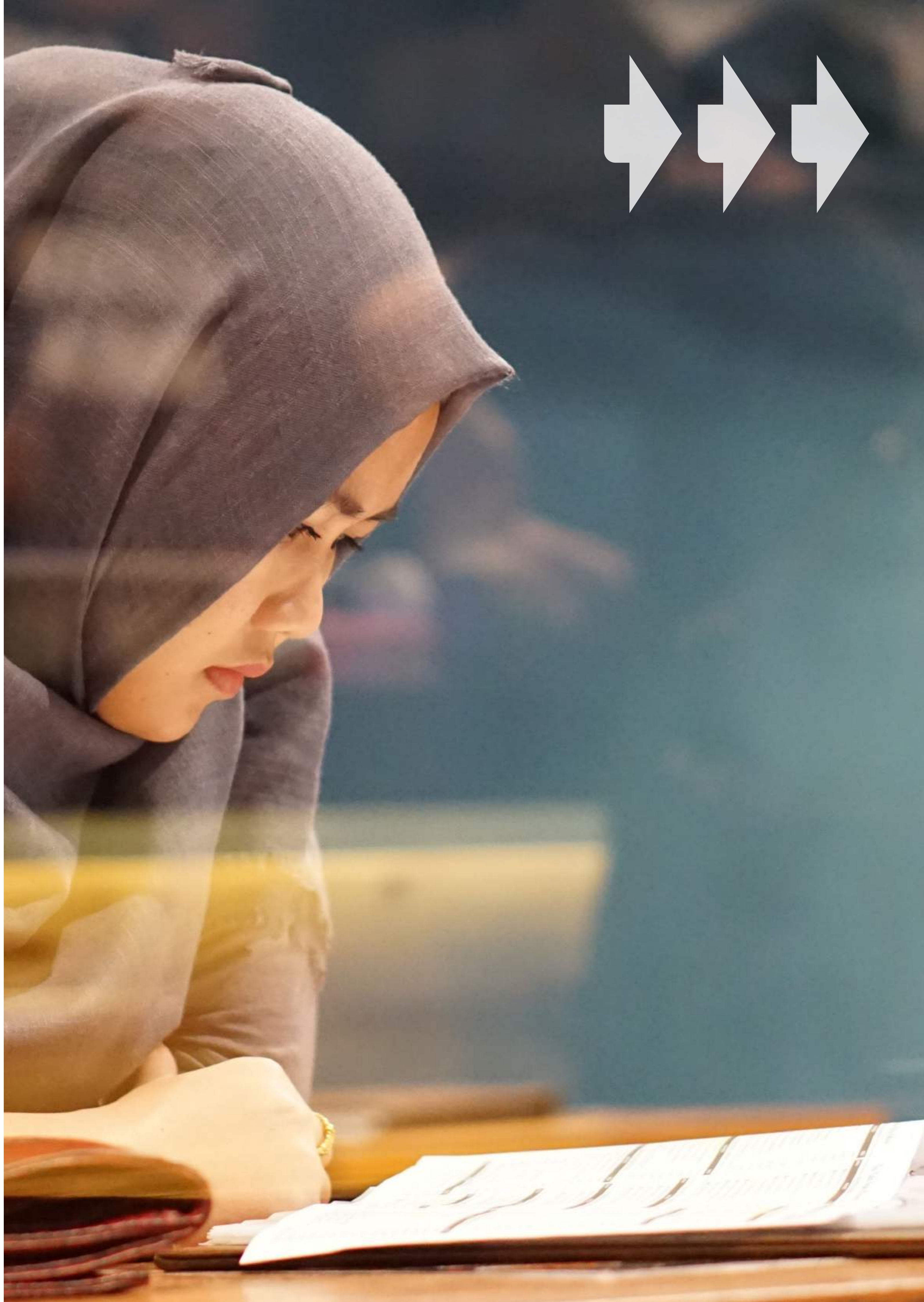
During 2018 no instances of modern slavery were reported or identified.

General Data Protection Regulations (GDPR)

The Company takes its data protection obligations seriously and commenced preparations for GDPR in 2017, establishing a working party with Executive Director sponsorship in order to ensure compliance. We have also worked with external, specialist data protection lawyers to ensure we are fully compliant within the spirit of the law, whilst ensuring we make commercially appropriate decisions.

During the year under review we have updated our Data Protection, Privacy, Information Security, Cookies and Data Breach policies to comply with the new regulations. We have also undertaken a review of the internal processing of personal data and have implemented a number of measures including a purge of obsolete data and a tightening of our IT security. We have provided training and guidance on the new regulations to all staff and the guidance will form part of each new employee's induction.

> **"I had a very satisfactory experience with Parity in relation to securing a role in the company I currently work for. Once I was offered the role, on boarding was completed efficiently and everything was explained really well. Parity are always very responsive whenever I have a question and are always available in person to meet on a regular basis.**
>
> ***Candidate***



Remuneration Committee Report

Remuneration Committee

The Remuneration Committee comprises David Firth as Chairman and John Conoley. At the invitation of the Committee, other Directors may attend meetings however individual 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 benefits packages are competitive and appropriate. In addition, committee members keep themselves fully informed of all relevant developments and best practice by reference to the QCA's Remuneration Committee guide. 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 2018 are set out in the table on page 50.

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 four key elements of the remuneration package of senior executives, including Executive Directors, in the Group in 2018 were basic annual salary and benefits in kind, performance bonuses, 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 2018, performance targets were set, but were not met, and no performance bonuses were earned by, or paid to, Executive Directors in 2018.

Share option schemes

During 2018 the Group operated two types of share option scheme: An Executive Share Option Plan, and a Savings Related Share Option Scheme (Sharesave Scheme).

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 through shares issued by the Company. In the event that an employee resigns, the options that they hold will lapse. Options are granted at nil cost. The

Remuneration Committee Report

option exercise price is set at the closing mid-market share price on date of grant without any discount.

Share options awarded to the Executive Directors are disclosed in the table under the section Directors' Remuneration within the Remuneration Report on page 51. All of the options awarded to the Executive Directors have vested or lapsed, with the exception of the following grants:

On 19 September 2016 1,500,000 share options were awarded under this scheme to Alan Rommel and 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.

On 18 May 2018 1,600,000 share options were awarded under this scheme to Alan Rommel and 1,000,000 share options were awarded to Roger Antony. The exercise price of the options is 12.8 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 16.00 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 19.20 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 22.40 pence for 5 consecutive days.

On 5 February 2019 Matthew Bayfield was appointed as an Executive Director. Prior to this appointment, 500,000 share options were awarded under this scheme to Matthew Bayfield on 3 May 2018 as a member of senior management. The exercise price of the options is 13.25 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 16.56 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 19.88 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 23.19 pence for 5 consecutive days.

All of the share options awarded to the Executive Directors vest in 3 years from the grant date, and lapse in 10 years from the grant date if not exercised.

Sharesave Scheme

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.

In May 2018, the Group made a grant of options under the Sharesave Scheme. Options were granted in conjunction with a three year savings contract, up to a monthly limit of £250. Options were granted at a discount of less than 10% to the market price. None of the Directors held options under the Sharesave Scheme at 31 December 2018.

> **"I love what I do because we're involved in supporting change in one form or another. For example, we supply services to the public sector, we need to match people with programmes to architect and implement change that impacts citizen's lives – the impact is real and tangible.**
>
> ***Gillian Wilkinson, Regional Director, Edinburgh Office***

Share price

The Parity Group plc mid-market share price on 31 December 2018 was 7.95 pence. During the period 1 January 2018 to 31 December 2018 shares traded at market prices between 6.95 pence and 15.75 pence.

Directors' pension information

Executive Directors are entitled to a contributory company pension contribution of 5% of basic salary.

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
John Conoley[1]	27 April 2017	3 months	3 months rolling
David Firth[1]	31 May 2016	n/a	n/a
Roger Antony	22 April 2016	6 months	6 months rolling
Matthew Bayfield[2]	5 February 2019	12 months	12 months rolling

1. Unless otherwise specified, the appointment of Non-Executive Directors is terminable at the will of the parties

2. Matthew Bayfield was appointed as a Board Director on 5 February 2019

Remuneration Committee Report

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 2018 £000's	Benefits 2018 £000's	Total emoluments 2018 £000's	Company pension contributions[3] 2018 £000's	Share-based payments 2018 £000's
Executive Directors					
Alan Rommel	200	13	213	10	33
Roger Antony	150	12	162	8	19
Non-Executive Directors					
John Conoley	60	-	60	-	-
David Firth	45	-	45	-	-
Total emoluments	455	25	480	18	52

	Salary/fees 2017 £000's	Benefits 2017 £000's	Total emoluments 2017 £000's	Company pension contributions[3] 2017 £000's	Share-based payments 2017 £000's
Executive Directors					
Alan Rommel	200	13	213	10	20
Roger Antony	150	12	162	8	10
Non-Executive Directors					
John Conoley[1]	41	-	41	-	-
Lord Freeman[2]	13	-	13	-	-
David Firth	41	-	41	-	-
Total emoluments	445	25	470	18	30

1. John Conoley was appointed as a Board Director on 27 April 2017
2. Lord Freeman resigned as a Board Director on 27 April 2017
3. 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 2018	Lapsed/ surrendered in the year	Exercised in the year	Awarded in the year	As at 31 December 2018	Exercise period	Exercise price per share
Alan Rommel[1]							
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
2016	1,500,000	-	-	-	**1,500,000**	2019-2026	£0.0862
2018	-	-	-	1,600,000	**1,600,000**	2021-2028	£0.1280
Sub-total	2,060,000	-	-	1,600,000	**3,660,000**		
Roger Antony							
Executive share option plan							
2010	100,000	-	-	-	**100,000**	2013-2020	£0.0875
2013	20,000	-	-	-	**20,000**	2016-2023	£0.2650
2016	800,000	-	-	-	**800,000**	2019-2026	£0.0862
2018	-	-	-	1,000,000	**1,000,000**	2021-2028	£0.1280
Sub-total	920,000	-	-	1,000,000	**1,920,000**		
Matthew Bayfield[2]							
Executive share option plan							
2018	-	-	-	500,000	**500,000**	2021-2028	£0.1325
Sub-total	-	-	-	500,000	**500,000**		
Total	2,980,000	-	-	3,100,000	**6,080,000**		

1. Alan Rommel resigned as a Board Director on 8 April 2019. Under the terms of the scheme, share options may be exercised up to 12 months from his leaving date
2. Matthew Bayfield was appointed as a Board Director on 5 February 2019

Remuneration Committee Report

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:

	Shareholding at 31 December 2017	% issued share capital	Shareholding at 31 December 2018	% issued share capital
John Conoley	-	-	-	-
David Firth	100,000	0.10	200,000	0.19
Alan Rommel	410,632	0.40	410,632	0.40
Roger Antony	100,000	0.10	100,000	0.10

For and on behalf of the Board

David Firth
Chairman of The Remuneration Committee
15 April 2019

Audit Committee Report

Audit Committee

The Audit Committee is a sub-committee of the Board, and comprises David Firth as Chairman, and John Conoley who joined on 27 April 2017. Both David Firth and John Conoley are Non-Executive Directors and are considered to be independent by the Board. Their biographies can be found on page 40.

The Audit Committee meets at least three times a year. Audit Committee meetings are attended by the external auditors and 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.

Meetings

There were three meetings held during the year. Attendance at the meetings can be found in the table on page 36.

Matters considered

During the year, the Committee:

- reviewed the annual and interim report and financial statements of the Group, and the clarity of disclosures made;
- oversaw the relationship with the external auditor, including a review of the external auditor's findings during the audit in relation to the year ended 31 December 2017;
- reviewed the Group's Risk Register and considered changes to the Group's risk profile;
- reviewed the Group Authority Levels; and
- reviewed the external auditor's Audit Plan in relation to the year ended 31 December 2018.

External Auditor

In order to ensure an appropriate balance between audit quality, objectivity and independence, and cost-effectiveness the Audit Committee reviews the nature of all services, including non-audit work, provided by the external auditor each year. During they year the Audit Committee decided to run a comprehensive competitive audit tender process, noting that KPMG had been in post for seven years. A balanced scorecard was used to compare tenders, based on several factors including audit quality and third party references. As a result of the process KPMG resigned as the Group's external auditor and Grant Thornton were appointed to the post. 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 2018, details of which are set out in note 4 to the accounts.

Internal audit

The Group does not consider it necessary to have a separate internal audit function due to the Group's size and its centralised administrative function but keeps this need under review. The Company receives regular feedback from its external auditors on the effectiveness of its internal controls and aims to implement any improvements identified.

Significant issues relating to the Financial Statements

The Audit Committee reviewed the following issues in relation to the financial statements for the year under review:

Judgements and estimates

The Committee reviewed the executive management's assessments and noted that:

- a clear distinction had been made between judgements and estimates;
- the only significant areas of judgement were revenue recognition and deferred tax asset recognition;
- there were no other judgements made that had a significant effect on amounts recognised in the accounts; and
- estimates were limited to those assumptions that carried a significant risk of a material adjustment to the carrying values of asset and liabilities within the next financial year.

Valuation of goodwill

The Committee reviewed the executive management's support of the carrying value of Goodwill in the Groups two cash generating units (CGUs). The Committee noted that:

- the discounts rates applied were commensurate with rates used within the Group's peer group;
- cash flow projections were based upon prudent growth projections; and
- the sensitivity analysis demonstrated that both CGUs had sufficient headroom to absorb the possible impact of key sensitivities.

Retirement benefit liability

The Committee reviewed the assumptions made in relation to the accounting for the Group's defined benefit pension scheme and were satisfied that these were in line with recognised market practice.

Going concern

The Committee reviewed a paper prepared by executive management in support of the going concern statement. It was noted that PNC were in the final stages of renewing the agreement for a further two years following approval of improved terms by their credit committee and that the Group's financial projections for the period to 31 December 2020 demonstrated ample facility headroom.

Deferred taxation

The Committee reviewed a paper prepared by the Finance team and noted that:

- the assumptions used around recoverability of the assets were the same assumptions used for the valuation of goodwill; and
- brought forward tax losses in the Parity Consultancy Services division were unrecognised, consistent with the prior year, which was considered appropriate in view of current trading in the division.

IFRS 15

The Committee reviewed a paper prepared by the Finance team and noted that:

- the new standard would have minimal impact on the timing of the Group's revenue recognition, which was consistent with the disclosure made in the Group's previous financial statements;
- the Group was acting as agent rather than principal in respect of a portion of the revenue from the managed service contract with Primark, which commenced in 2018. Accordingly, the revenues were stated net of the contractor costs, in adherence to the standard.

> **"I joined Parity in 2018 and I like the fact that there is so much emphasis on repeat business. I like that we have time to talk to people and can chat about the wider context of what they are doing and their future plans. People are happy to talk to us about more than single projects and they often call up when they want to think something through. You can't have that sort of relationship if you see everyone as a sales target all the time.**
>
> ***Jamie Haycock, Recruitment Consultant, Manchester Office***

David Firth
Chairman of The Audit Committee
15 April 2019

Directors' Report

The Directors present their report and the audited accounts for the year ended 31 December 2018.

Principal activities

The Group delivers a range of recruitment and data 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 2018 its clients' market sectors included central and local government within the public sector and utilities, retail, insurance, oil and housing in the private sector.

The principal activities of the Parity Consultancy Services division comprise data consultancy services and business intelligence solutions. Parity Consultancy Services delivered its services during the year to central government departments in the public sector and to FMCG and food services 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 revenue, gross margin, contribution, debtor days and net debt, and the principal risks and uncertainties facing the Group is included in the Chairman's Report, Chief Executive's Letter and the Operational and Financial Review on pages 12 to 30. The Group's social, environmental and ethical policies are set out on pages 42 to 44. A statement on the application of the going concern principle is set out below. Details of financial instruments are set out in note 21 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 £0.36m (2017: £1.66m). After a tax credit of £0.06m (2017: tax credit of £0.53m) and a loss after tax from discontinued operations of £0.38m (2017: £2.18m), the retained profit of £0.04m (2017: retained profit of £0.01m) has been transferred to reserves. The results for the year are set out in the consolidated income statement on page 70.

Dividends

The Directors do not recommend a final dividend (2017: nil pence per ordinary share). The total dividends for the year were nil pence per ordinary share (2017: 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 23.

Purchase of own shares

At the end of the year, the Company had authority, under the shareholders' resolution of 24 May 2018, to purchase in the market 10,262,402 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 15 April 2019 is set out on pages 40 to 41, together with details of membership of the Board committees.

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. Roger Antony is due for re-election at the next AGM.

In accordance with the Company's Articles of Association, Matthew Bayfield, who was appointed after the announcement of the 2018 Annual General Meeting, will retire and offer himself for re-election at the 2019 Annual General Meeting.

Directors' interests

The Directors' beneficial interests in the ordinary share capital of the Company are set out within the remuneration report on page 52.

Principal shareholders

As at 12 April 2019 (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
Helium Rising Stars Fund	19,512,851	19.01%
Timothy Watts	9,933,000	9.68%
Barclays Wealth	7,523,518	7.33%
David Courtley	6,566,031	6.40%
Citrine Investments	5,558,766	5.42%
Interactive Investors	5,046,991	4.92%
Dominion Holdings	4,400,000	4.29%
Hargreaves Landsdown Asset Management	4,093,303	3.99%
Brewin Dolphin	3,661,459	3.57%
Equiniti Financial Services	3,606,704	3.51%
Killik Asset Management	3,483,479	3.39%
John Cawthorne	3,223,310	3.14%
Redmayne Bentley Stockbrokers	3,141,097	3.06%

Capital structure

The Company has one class of share in issue, ordinary shares of 2p. The shares are listed on the London Stock Exchange and shareholders are entitled to vote at Company meetings, to receive dividends and to the return of their 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

The Directors have reviewed the Group's cash flow forecasts for the period to 31 December 2020, taking account of reasonably possible changes in trading performance. The financing facility provided by PNC was due for renewal on 31 December 2018 and PNC are in the final stages of renewing the agreement for a further two years following approval of improved terms by their credit committee.

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

Directors' Report

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 pages 42 to 44. 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 (2017: none).

Corporate Governance

The Corporate Governance Report on pages 34 to 38 forms part of the Directors' Report.

Auditor

KPMG LLP resigned as auditor of the Company on 4 October 2018 and Grant Thornton UK LLP were appointed.

Pursuant to section 489 of the Companies Act 2006, resolutions will be proposed at the 2019 Annual General Meeting to reappoint Grant Thornton UK LLP as auditor to the Company and to authorise the Directors to determine their remuneration.

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
15 April 2019

"Parity Consultants are excellent in keeping you informed of any opportunities that you may consider. They are very knowledgeable of my industry Social Housing and they make you feel confident and motivated. The roles Parity have offered me have been some of the best placements in my 25-year career.

Candidate

Statement of Directors' Responsibilities

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. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 Strategic Report and 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 ongoing 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 21 to the financial statements. Other risks and uncertainties are discussed on page 25.

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.

John Conoley
Non-Executive Chairman
15 April 2019

Independent Auditor's Report

Independent auditor's report to the members of Parity Group plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Parity Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Statements of changes in equity, Statements of financial position, Statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Grant Thornton

Overview of our audit approach

- Overall materiality: £432,000 which represents 0.5% of the groups' revenue.
- Key audit matter identified was revenue recognition.
- This was the first year audit for Grant Thornton UK LLP. To gain a better understanding of the group, we carried out advanced audit procedures, focussing on revenue and payroll testing.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Revenue recognition Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Revenue is recognised in accordance with the group's accounting policy and International Financial Reporting Standard IFRS 15 "Revenue from contracts with customers". The group has two operating segments with separate revenue streams: • Parity Professionals – provides targeted recruitment of temporary and permanent professionals to support IT and business change programmes. Parity Professionals provides 90% (2017: 89%) of the continuing group's revenues. • Parity Consultancy Services – provides business and IT consultancy services focusing on the provision of data solutions and delivery of IT projects. Parity Consultancy Services provides 10% (2017: 11%) of the continuing group's revenues. Due to the size of the balance and volume of transactions, we identified the occurrence of revenue recognition as a significant risk.	Our audit work included, but was not restricted to: • Considering the stated accounting policies in respect of revenue recognition policies and whether these are consistent with IFRS 15. For Parity Professionals revenue: • Testing the operating effectiveness of the key control for temporary professionals revenue recognition. The key control tested being authorisation of the contractor timesheet by the customer • Substantively testing a sample of permanent revenue transactions by agreeing a sample of sales invoices to evidence of commencement of employment and bank receipts. For Parity Consultancy Services revenue: • Obtaining key contracts and performing analytical review procedures • Substantively testing a sample of revenue transactions by agreeing a sample of sales invoices to bank receipt or alternative evidence where the invoice was not paid during the year. Further to the above, we also focused our testing on accrued income by carrying out the following tests: • Obtaining and reconciling the accrued income listing to the trial balance • Gaining an understanding of the systems and controls in place for recognising accrued income • Statistically testing a sample of transactions by agreeing revenue recognised to authorised timesheets or alternative supporting documentation, and sales invoices post year end. The group's accounting policy on revenue recognition is shown in note 1 to the financial statements. The Audit Committee identified revenue recognition as a significant issue in its report on page 55, where the Audit Committee also described the action that it has taken to address this issue. **Key observations** Based on our audit work we did not identify any material instances of revenue not being recognised in accordance with stated accounting policies.

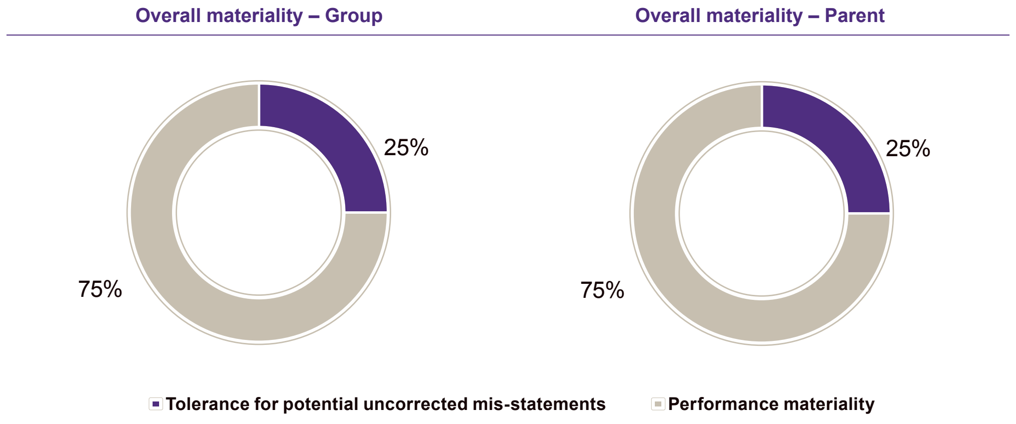
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£432,000 which is 0.5% of revenue. This benchmark is considered the most appropriate because revenue is the key driver of the business and is less volatile than group profit before tax. Materiality for the current year is lower than the level determined for the year ended 31 December 2017 to reflect the change in auditor during the year.	£411,000 which is 2% of investments in subsidiaries. This benchmark is considered the most appropriate because the parent company is a holding company. Materiality for the current year is lower than the level determined for the year ended 31 December 2017 to reflect the change in auditor during the year.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£21,650 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£20,650 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- we determined that 2 of the trading subsidiaries (Parity Professionals Limited and Parity Consultancy Services Limited) required full scope audits for group purposes;
- the group team approved the component materialities, which ranged from £243,000 to £292,000, having regard to the mix of size and risk profile of the group across the components;
- work carried out by the group engagement team at the group's London head office only;
- advanced audit procedures, focussing on revenue and payroll testing; and
- full scope procedures on 100% of revenue generated by the group.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Grant Thornton UK LLP

Marc Summers FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
LONDON

15 April 2019

Section four
Accounts, notes and other information

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Consolidated Income Statement for the year ended 31 December 2018

	Notes	Before non-recurring items 2018 £'000	Non-recurring items (note 5) 2018 £'000	**Total 2018 £'000**	Total 2017 £'000
Continuing operations					
Revenue	2,3	86,112	-	**86,112**	83,815
Employee benefit costs	4	(5,976)	(299)	**(6,275)**	(5,939)
Depreciation and amortisation	4	(194)	-	**(194)**	(286)
All other operating expenses	4	(78,724)	(196)	**(78,920)**	(75,534)
Total operating expenses		(84,894)	(495)	**(85,389)**	(81,759)
Operating profit/(loss)		1,218	(495)	**723**	2,056
Finance costs	7	(365)	-	**(365)**	(394)
Profit/(loss) before tax		853	(495)	**358**	1,662
Tax (charge)/credit	10	(16)	79	**63**	534
Profit/(loss) for the year from continuing operations		837	(416)	**421**	2,196
Discontinued operations					
Loss from discontinued operations after tax	8	(381)	-	**(381)**	(2,182)
Profit/(loss) for the year attributable to owners of the parent		456	(416)	**40**	14
Earnings per share – Continuing operations					
Basic earnings per share	11			**0.41p**	2.15p
Diluted earnings per share	11			**0.41p**	2.12p
Earnings per share – Continuing and discontinued operations					
Basic earnings per share	11			**0.04p**	0.01p
Diluted earnings per share	11			**0.04p**	0.01p

The notes on pages 78 to 111 form part of the financial statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

	Notes	**2018 £'000**	2017 £'000
Profit for the year		**40**	14
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(3)**	(39)
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit pension scheme	23	**(1,005)**	800
Deferred taxation on remeasurement of defined pension scheme	15	**171**	(136)
Other comprehensive (expense)/income for the year after tax		**(837)**	625
Total comprehensive (expense)/income for the year attributable to owners of the parent		**(797)**	639

The notes on pages 78 to 111 form part of the financial statements.

Statements of Changes in Equity for the year ended 31 December 2018

Consolidated	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2018	2,043	-	33,211	14,319	44,160	(86,544)	7,189
Issue of new ordinary shares	10	-	33	-	-	-	43
Share options – value of employee services	-	-	-	-	-	129	129
Transactions with owners	10	-	33	-	-	129	172
Profit for the year	-	-	-	-	-	40	40
Exchange differences on translation of foreign operations	-	-	-	-	-	(3)	(3)
Remeasurement of defined benefit pension scheme	-	-	-	-	-	(1,005)	(1,005)
Deferred taxation on remeasurement of defined pension scheme taken directly to equity	-	-	-	-	-	171	171
Reallocation of impairment charge (note 22)	-	-	-	-	(9,600)	9,600	-
At 31 December 2018	2,053	-	33,244	14,319	34,560	(77,612)	6,564

Consolidated	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2017	2,037	14,319	33,195	-	44,160	(87,251)	6,460
Issue of new ordinary shares	6	-	16	-	-	-	22
Share options – value of employee services	-	-	-	-	-	68	68
Cancellation of deferred shares	-	(14,319)	-	14,319	-	-	-
Transactions with owners	6	(14,319)	16	14,319	-	68	90
Profit for the year	-	-	-	-	-	14	14
Exchange differences on translation of foreign operations	-	-	-	-	-	(39)	(39)
Remeasurement of defined benefit pension scheme	-	-	-	-	-	800	800
Deferred taxation on remeasurement of defined pension scheme taken directly to equity	-	-	-	-	-	(136)	(136)
At 31 December 2017	2,043	-	33,211	14,319	44,160	(86,544)	7,189

Statements of Changes in Equity for the year ended 31 December 2018 (continued)

Company	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2018	2,043	-	33,211	14,319	22,729	(59,812)	12,490
Issue of new ordinary shares	10	-	33	-	-	-	43
Share options – value of employee services	-	-	-	-	-	52	52
Transactions with owners	10	-	33	-	-	52	95
Loss for the year	-	-	-	-	-	(1,887)	(1,887)
Reallocation of impairment charge (note 22)	-	-	-	-	(9,600)	9,600	-
At 31 December 2018	2,053	-	33,244	14,319	13,129	(52,047)	10,698

Company	Share capital £'000	Deferred shares £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2017	2,037	14,319	33,195	-	22,729	(57,709)	14,571
Issue of new ordinary shares	6	-	16	-	-	-	22
Share options – value of employee services	-	-	-	-	-	46	46
Cancellation of deferred shares	-	(14,319)	-	14,319	-	-	-
Transactions with owners	6	(14,319)	16	14,319	-	46	68
Loss for the year	-	-	-	-	-	(2,149)	(2,149)
At 31 December 2017	2,043	-	33,211	14,319	22,729	(59,812)	12,490

The notes on pages 78 to 111 form part of the financial statements.

Statements of Financial Position as at 31 December 2018

Company number 3539413

	Notes	Consolidated 2018 £'000	Consolidated 2017 £'000	Company 2018 £'000	Company 2017 £'000
Assets					
Non-current assets					
Goodwill	12	**4,594**	4,594	**-**	-
Other intangible assets	13	**86**	227	**-**	-
Property, plant and equipment	14	**69**	78	**-**	-
Trade and other receivables	16	**-**	-	**123,510**	122,170
Investments in subsidiaries	29	**-**	-	**20,527**	20,527
Deferred tax assets	15	**1,153**	919	**-**	-
Total non-current assets		**5,902**	5,818	**144,037**	142,697
Current assets					
Trade and other receivables	16	**12,018**	12,033	**2,304**	2,202
Cash and cash equivalents		**5,829**	4,968	**387**	116
Assets classified as held for sale	17	**-**	791	**-**	-
Total current assets		**17,847**	17,792	**2,691**	2,318
Total assets		**23,749**	23,610	**146,728**	145,015
Liabilities					
Current liabilities					
Loans and borrowings	18	**(6,919)**	(6,592)	**-**	-
Trade and other payables	19	**(8,261)**	(8,349)	**(12,917)**	(11,141)
Provisions	20	**(43)**	-	**-**	-
Liabilities classified as held for sale	17	**-**	(395)	**-**	-
Total current liabilities		**(15,223)**	(15,336)	**(12,917)**	(11,141)
Non-current liabilities					
Loans and borrowings	18	**-**	(8)	**-**	-
Trade and other payables	19	**-**	-	**(123,113)**	(121,384)
Provisions	20	**(20)**	(18)	**-**	-
Retirement benefit liability	23	**(1,942)**	(1,059)	**-**	-
Total non-current liabilities		**(1,962)**	(1,085)	**(123,113)**	(121,384)
Total liabilities		**(17,185)**	(16,421)	**(136,030)**	(132,525)
Net assets		**6,564**	7,189	**10,698**	12,490

Statements of Financial Position as at 31 December 2018 (continued)

	Notes	Consolidated 2018 £'000	Consolidated 2017 £'000	Company 2018 £'000	Company 2017 £'000
Shareholders' equity					
Called up share capital	24	**2,053**	2,043	**2,053**	2,043
Share premium reserve	22	**33,244**	33,211	**33,244**	33,211
Capital redemption reserve	22	**14,319**	14,319	**14,319**	14,319
Other reserves	22	**34,560**	44,160	**13,129**	22,729
Retained earnings	22	**(77,612)**	(86,544)	**(52,047)**	(59,812)
Total shareholders' equity		**6,564**	7,189	**10,698**	12,490

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 £1,887,000 (2017: £2,149,000).

The notes on pages 78 to 111 form part of the financial statements.

Approved by the Directors and authorised for issue on 15 April 2019.

Matthew Bayfield
Chief Executive Officer

Roger Antony
Group Finance Director

Statements of Cash Flows for the year ended 31 December 2018

		Consolidated		Company	
	Notes	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Cash flows from/(used in) operating activities					
Profit/(loss) for the year		**40**	14	**(1,887)**	(2,149)
Adjustments for:					
Net finance expense	7	**365**	394	**625**	1,457
Share-based payment expense	9	**129**	68	**52**	46
Income tax credit	8,10	**(236)**	(619)	**(239)**	(244)
Intercompany loans written off	28	**-**	-	**(395)**	327
Amortisation of intangible assets	8,13	**165**	341	**-**	-
Depreciation of property, plant and equipment	8,14	**53**	106	**1**	1
Impairment of goodwill	8	**-**	1,165	**-**	-
Loss on write down of intangible assets	8	**-**	3	**-**	-
Loss on disposal of subsidiary	8	**306**	-	**-**	-
		822	1,472	**(1,843)**	(562)
Working capital movements					
Decrease in work in progress		**-**	3	**-**	-
Decrease in trade and other receivables		**204**	2,619	**-**	2
Decrease in trade and other payables		**(141)**	(910)	**(53)**	(21)
Increase in provisions		**45**	1	**-**	-
Payments to retirement benefit plan	23	**(326)**	(184)	**-**	-
Net cash flows from/(used in) operating activities		**604**	3,001	**(1,896)**	(581)
Investing activities					
Purchase of intangible assets	13	**(14)**	(5)	**-**	-
Purchase of property, plant and equipment	8,14	**(35)**	(91)	**-**	-
Net proceeds from disposal of subsidiary	8	**114**	-	**-**	-
Net cash flows from/(used in) investing activities		**65**	(96)	**-**	-

Statements of Cash Flows for the year ended 31 December 2018 (continued)

		Consolidated		Company	
	Notes	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Financing activities					
Issue of ordinary shares		**43**	22	**43**	22
Drawdown/(repayment) of finance facility		**330**	(2,032)	**-**	-
Net movements on intercompany funding		**-**	-	**2,305**	759
Interest paid	7	**(181)**	(199)	**(181)**	(195)
Net cash flows from/(used in) financing activities		**192**	(2,209)	**2,167**	586
Net increase in cash and cash equivalents		**861**	696	**271**	5
Cash and cash equivalents at the beginning of the year		**4,968**	4,272	**116**	111
Cash and cash equivalents at the end of the year		**5,829**	4,968	**387**	116

The notes on pages 78 to 111 form part of the financial statements.

Notes to the Financial Statements for the year ended 31 December 2018

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 Operational and Financial Review on pages 26 to 30 and in note 21 to the financial statements. Note 21 also includes the Group's objectives for managing capital.

As outlined in note 21, 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 current facility, which has been in place since 2010, is in the final stages of being renewed on improved terms. The facility is currently subject to six months' notice from either party.

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 Financial Statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. 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.

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 £1,887,000 (2017: £2,149,000).

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 IFRS 3 (2008) 'Business Combinations' are recognised at their fair value at the acquisition date.

Accounting policies: new standards, amendments and interpretations effective and adopted by the Group

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts and Customers' (hereinafter "IFRS 15") replaces IAS 18 'Revenue' and several interpretations. The Group has adopted the new standard effective 1 January 2018 and applied it retrospectively. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that were incomplete as at 1 January 2018 or commenced thereafter. The Group has identified no retrospective adjustments required to periods prior to 2018 and therefore there is no restatement or impact to brought forward retained earnings of the Group. Areas in which the adoption of IFRS 15 has affected the Group's results is set out below.

Principal vs agent considerations

The Group derives revenue from the provision of temporary workers to customers and the recognition of revenue depends on whether the Group has an obligation to provide services itself (acting as principal) whereby revenue is recognised gross (inclusive of costs of temporary workers), or whether the obligation is to arrange for services to be provided by a third party (acting as agent) whereby revenue is recognised net (exclusive of costs of temporary workers). IFRS 15 requires a determination of control rather than IAS 18's consideration of risks and rewards. Under IFRS 15, to determine the nature of the relationship, the Group assesses whether it controls the service before it is transferred to the customer.

The Group has assessed its contracts against these considerations and determines that revenue of £2,049,000 (2017: £nil), relating to contracts where the Group acts as a managed service provider, falls under recognition as agent under IFRS 15 that would have fallen under recognition as principal under IAS 18. Accordingly, if IAS 18 still applied, revenue and operating expenses would both be higher by £2,049,000 (2017: £nil) compared to IFRS 15. These affected contracts however were not in place prior to 2018 therefore there is no impact to periods prior to 2018.

The implementation of IFRS 15 did not have an impact on the timing or amount of revenue recognised by the Group on its other contracts.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement', making changes to guidance on the classification and measurement of financial assets and introducing an expected loss model for the impairment of financial assets. The Group has adopted the new standard effective 1 January 2018 and applied transitional relief and opted not to restate prior periods.

For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses where these assets do not contain a significant financing component.

The implementation of IFRS 9 did not have a significant impact on the value or classification of the Group's financial assets and liabilities.

Accounting policies: new standards, amendments and interpretations that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, several new, but not yet effective, standards, amendments to existing standards and interpretations have been published. None of these have been adopted early by the Group. Those expected to have an effect on the Group's financial statements are listed below. Those not listed below are not disclosed as they are not expected to have a significant impact on the Group.

IFRS 16 'Leases'

IFRS 16 replaces IAS 17 'Leases' and related interpretations. This will result in operating leases previously treated solely through profit and loss being recorded in the statement of financial position in the form of a right-of-use asset and a lease liability, subject to exemptions for low value and short-term leases. IFRS 16 is effective from periods beginning on or after 1 January 2019. The Group is planning to adopt IFRS 16 on 1 January 2019 using a full retrospective approach with restated comparative information.

Management are in the process of assessing the full impact of the new standard but expects impacts in the following areas:

- The Group will recognise right-of-use assets and lease liabilities for leases of property which are treated as operating leases under IAS 17. At 31 December 2018, minimum future lease payments on these properties total approximately £1.1m.
- The nature of the expense of the above cost will change from being an operating expense to predominantly depreciation with an interest expense on the lease liability.
- The Group expects that operating costs would be lower by approximately £0.7m and depreciation would be higher by approximately £0.7m in both 2018 and 2019 when applying IFRS 16 compared to IAS 17.

Measurement convention

The financial statements are prepared on the historical cost basis. 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 consultancy services.

The determine whether to recognise revenue, the Group follows a five-step process:

1. Identifying the contract with the customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when and as performance obligations are satisfied.

Revenue is recognised either at a point in time or over time, when the group satisfies performance obligations by transferring promised services to its customers. Revenue is measured at the transaction price, being the amount of consideration expected to be entitled in exchange for services to a customer, net of refund liabilities and value added tax.

Revenue for the provision of recruitment services

The performance obligation is the provision of temporary or permanent workers to customers. For temporary workers, the performance obligations are satisfied over time as the customer receives the benefit of the temporary worker, in line with time worked by the temporary worker at pre-determined rates. For permanent workers, the performance obligation is measured at a point in time, which is at the point that the permanent worker commences employment, as before this time the Group does not create or enhance an asset for the customer and there is no enforceable right to payment until then. Refund liabilities related to permanent workers are calculated based on a probabilistic estimate using historic refund levels.

The Group presents revenues gross of the costs of the temporary workers where it acts as principal under IFRS 15 and net of the costs of temporary workers where it acts as agent. The Group acts as principal in the large majority of its contracts, where it has the primary responsibility for fulfilling the promise to supply a worker to a customer and has control over that supply. The Group acts as agent where it does not have such control.

Revenue for the provision of consultancy services

Performance obligations on consultancy services contracts are satisfied over time if the service creates an asset that the customer controls and the Group has an enforceable right to payment. Revenue is measured using an input measure, such as days worked as a proportion of total days to be worked, towards the satisfaction of an obligation.

In obtaining some contracts, the Group incurs a number of incremental costs, such as commissions paid to sales staff. As the amortisation period of these costs, if capitalised, would be less than one year, the Group makes use of the practical expedient in IFRS 15 and expenses them as incurred.

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 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.

Financing income and expenses

Financing expenses comprise interest payable 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 currencies 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 balance sheet date 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 for deductible temporary differences is not recognised unless it probable that there will be taxable profits in the foreseeable future against which the deferred tax asset can be utilised. A deferred tax asset for unused tax losses carried forward is recognised on the same basis as for deductible temporary differences. However, the existence of the unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses only to the extent that there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses 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 remeasurement 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.

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 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 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" or CGU). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units. 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.

Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows expire or when substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs. Financial assets, other than those designated and effective as hedging instruments, are classified as either amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). In the periods presented, the Group has no financial assets categorised as FVTPL or FVOCI.

The Group's financial assets include cash and cash equivalents and trade and other receivables. After initial recognition, these are measured at amortised cost using the effective interest method. All income and expenses relating to financial assets that are recognised in profit and loss are presented within finance costs, except for impairment of trade receivables which is presented within operating expenses. Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

Impairment provisions are recognised using the expected credit loss model. Measurement of expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. The Group makes use of a simplified approach for trade and other receivables and contract assets and records impairment as a lifetime expected credit loss, being the expected shortfalls in contractual cash flows, considering the potential for default. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

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 statement of cash flows, cash and cash equivalents comprise cash and cash equivalents as defined above, net of bank overdrafts.

The Group's financial liabilities include bank borrowings, finance leases and trade and other payables. Financial liabilities are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. All interest related charges that are reported in profit and loss are presented within net finance expenses. In the periods presented, the Group has no financial liabilities categorised as FVTPL. Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to work in progress, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

Amounts recoverable on contracts and accrued income

Amounts 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 within trade and other receivables and charged to the income statement over the life of the contract so as to match costs with revenues.

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.

Accrued income primarily arises where temporary workers have provided their services but approved timesheets are outstanding. As such, the amount incurred and margin earned thereon has yet to be invoiced onto the client. In making an accrual for time worked by contractors at the balance sheet date, management make an estimate of the time worked based on knowledge of the contracts in place, the number of working days outstanding and experience adjustments from prior periods.

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 when the Group A provision is recognised 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 small 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

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 21, 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 does not recognise liabilities under the contracts until it becomes probable that any Group company will be required to make a payment under the guarantee.

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 management judgements in applying accounting policies and estimation uncertainty

When preparing the financial statements, management make a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The following are the judgements made by management in applying the accounting policies of the Group and the estimates that have the most significant effect on the financial statements.

Significant management judgements

Recognition of deferred tax asset

No deferred tax asset has been recognised for unused tax losses carried forward within Parity Consultancy Services as management believes that their recovery is too uncertain. As discussed in note 15, management's review concluded that given the division's history of relatively recent tax losses and the requirement to provide convincing evidence that sufficient taxable profit will be available, a deferred tax asset would not be recognised for tax losses carried forward. If it had been determined that utilisation of the losses was more certain then full or partial recognition of a deferred tax asset would have taken place, in the range of £0-£0.7m.

Revenue recognition

The main area of judgement in revenue recognition relate to the determination of whether the Group acts as principal or agent in its contractual arrangements for the provision of temporary workers to customers. The factors considered by management to result in recognition of revenue as principal include that the Group:

- has a direct relationship with the worker and is responsible for paying the worker;
- has the primary responsibility for organising the service engagements and fulfilling the promise to supply a worker to a customer; and
- the Group has control over the supply of the worker.

Estimation uncertainty

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 and sensitivities on those assumptions are set out in note 23. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions. Changes in the assumptions used may have a material effect on the income statement and the statement of financial position within the next year.

Investments in subsidiaries

The Company reviews its investment in subsidiaries to test for impairment. The recoverable amounts are determined using discounted future cash flows of the relevant subsidiaries. In performing these tests, assumptions are made in respect of future growth rates and the discount rate to be applied to the future cash flows, as set out in note 29. Changes in the assumptions used may have a material effect on the income statement and statement of financial position within the next year.

Goodwill impairment

The Group is required to test annually whether goodwill is impaired. Details of the key assumptions are set out in note 12. Although management have assessed that changes in key assumptions are unlikely to cause a material effect in the carrying value of goodwill within the next year given the level of headroom at the balance sheet date, estimates of future cash flows and discount rates could change in the longer term such that an impairment arises.

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 12) 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.

Segment contribution, defined as divisional revenue less attributable costs, profit before tax, and assets and liabilities are internally reported at a Group level.

(continues on the next page)

Description of the types of services from which each reportable segment derives its revenues

The Group has two segments:

- Parity Professionals – provides targeted recruitment of temporary and permanent professionals to support IT and business change programmes. Parity Professionals provides 90% (2017: 89%) of the continuing Group's revenues.
- Parity Consultancy Services – provides business and IT consultancy services focusing on the provision of data solutions and delivery of IT projects. Parity Consultancy Services provides 10% (2017: 11%) 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. Inter-segment revenue in the year is a result of Parity Professionals selling IT recruitment services to Parity Consultancy Services.

Continuing operations	**Parity Professionals 2018 £'000**	**Parity Consultancy Services 2018 £'000**	**Before non-recurring Items 2018 £'000**	**Non-recurring Items 2018 £'000**	**Total 2018 £'000**
Revenue from external customers	77,616	8,496	86,112	-	86,112
Inter-segment revenue	6,409	-	6,409	-	6,409
Segment revenue	84,025	8,496	92,521	-	92,521
Attributable costs	(81,711)	(8,176)	(89,887)	-	(89,887)
Segment contribution	2,314	320	2,634	-	2,634
Group costs			(1,093)	-	(1,093)
Depreciation and amortisation			(194)	-	(194)
Share-based payment			(129)	-	(129)
Non-recurring items			-	(495)	(495)
Operating profit/(loss)			1,218	(495)	723
Finance costs			(365)	-	(365)
Profit/(loss) before tax			853	(495)	358

Continuing operations	Parity Professionals 2017 £'000	Parity Consultancy Services 2017 £'000	Before non-recurring Items 2017 £'000	Non-recurring Items 2017 £'000	Total 2017 £'000
Revenue from external customers	74,272	9,543	83,815	-	83,815
Inter-segment revenue	5,764	-	5,764	-	5,764
Segment revenue	80,036	9,543	89,579	-	89,579
Attributable costs	(77,729)	(8,395)	(86,124)	-	(86,124)
Segment contribution	2,307	1,148	3,455	-	3,455
Group costs			(1,045)	-	(1,045)
Depreciation and amortisation			(286)	-	(286)
Share-based payment			(68)	-	(68)
Non-recurring items			-	-	-
Operating profit			2,056	-	2,056
Finance costs			(394)	-	(394)
Profit before tax			1,662	-	1,662

All segment assets and liabilities are based in the UK.

3 Revenue

All of the Group's revenue derives from contracts with customers. Trade receivables, amounts recoverable on contracts and accrued income as presented in note 16 arise from contracts with customers. Changes to the Group's contract assets are attributable solely to the satisfaction of performance obligations.

The Group's revenue from external customers disaggregated by pattern of revenue recognition is as follows:

Continuing operations	**Parity Professionals 2018 £'000**	**Parity Consultancy Services 2018 £'000**	Parity Professionals 2017 £'000	Parity Consultancy Services 2017 £'000
Services transferred over time	76,978	8,496	73,615	9,543
Services transferred at a point in time	638	-	657	-
Revenue from external customers	77,616	8,496	74,272	9,543

The Group's revenue from external customers disaggregated by primary geographical market is as follows:

Continuing operations	**Parity Professionals 2018 £'000**	**Parity Consultancy Services 2018 £'000**	Parity Professionals 2017 £'000	Parity Consultancy Services 2017 £'000
UK	76,033	8,496	74,272	9,543
Rest of EU	1,583	-	-	-
Revenue from external customers	77,616	8,496	74,272	9,543

72% (2017: 68%) or £56.0m (2017: £50.4m) of the Parity Professionals revenue from external customers was generated in the public sector. 83% (2017: 82%) or £7.0m (2017: £7.8m) of the Parity Consultancy Services revenue was generated in the public sector.

The largest single customer in Parity Professionals contributed revenue of 14% or £11.7m and was in the public sector (2017: 11% or £8.8m and in the public sector). The largest single customer in Parity Consultancy Services contributed revenue of 64% or £5.4m and was in the public sector (2017: 46% or £4.4m and in the public sector).

4 Operating expenses

	Consolidated	
Continuing operations	2018 £'000	2017 £'000
Employee benefit costs		
- wages and salaries	5,478	5,138
- social security costs	623	609
- other pension costs	174	192
	6,275	5,939
Depreciation and amortisation		
Amortisation of intangible assets - software	155	239
Depreciation of leased property, plant and equipment	11	9
Depreciation of owned property, plant and equipment	28	38
	194	286
All other operating expenses		
Contractor costs	76,067	73,088
Sub-contracted direct costs	363	228
Operating lease rentals – plant and machinery	8	17
– land and buildings	661	659
Other occupancy costs	156	98
IT costs	326	278
Net exchange gain	(6)	-
Equity settled share-based payment charge	129	68
Other operating costs	1,216	1,098
	78,920	75,534
Total operating expenses	85,389	81,759

Disclosures relating to the remuneration of Directors are set out on page 50.

During the year the Group obtained the following services from the Group's auditors:

	Grant Thornton UK LLP		KPMG LLP	
Consolidated	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Audit of the Group, Company and subsidiary financial statements	65	-		77
Interim review	-	-	-	6
Tax compliance	14	-	-	27
Other	-	-	20	26
Other services	14	-	20	59
Total fees	79	-	20	136

All other services have been performed in the UK. 'Other' refers to services provided in relation to advice relating to the Retirement Benefit Plan, transaction costs and assistance provided with research and development tax credit applications.

5 Non-recurring items

Continuing operations	2018 £'000	2017 £'000
Restructuring		
- Employee benefit costs	279	-
- Other operating costs	122	-
Legal costs	74	-
Past service cost for defined benefit pension scheme	20	-
	495	-

Non-recurring items during 2018 in respect of continuing operations included:

- Costs related to restructuring of Parity Consultancy Services to align to the Group's strategy of focusing on the data consultancy market. Costs include employee termination payments, fees for professional services and costs of changes in management structure
- Legal costs for professional services fees in respect of one-off cases with no significant further related costs anticipated
- Past service cost for the Group's defined benefit pension scheme in respect of GMP equalisation as discussed in note 23

There were no non-recurring items during 2017.

6 Average staff numbers

	2018 £'000	2017 £'000
Continuing operations		
Professionals – United Kingdom[1]	86	85
Consultancy Services – United Kingdom, including corporate office[2]	23	25
	109	110
Discontinued operations		
Consultancy Services[3]	15	22

1 Includes 20 (2017: 22) employees providing shared services across the Group

2 Includes 4 (2017: 4) employees of the Company

3 Average for 4 months (2017: 12 months)

At 31 December 2018, the Group had 101 continuing employees (2017: 105).

7 Finance costs

	2018 £'000	2017 £'000
Finance costs		
Interest expense on financial liabilities	181	199
Net finance costs in respect of post-retirement benefits	184	195
	365	394

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 have increased annual borrowing costs by approximately £37,000 (2017: £53,000).

8 Discontinued operations

In April 2018 the Group sold Inition Limited following the strategic decision made to place greater focus on the Group's core business. As such, Inition Limited's operating result for the current and comparative year, the loss on disposal and the impairment of goodwill associated with the Inition cash generating unit is presented as discontinued.

The loss on disposal of Inition Limited was determined as follows:

	2018 £'000	2017 £'000
Consideration	200	-
Net assets disposed of		
Intangible assets	33	-
Property, plant and equipment	62	-
Cash and cash equivalents	86	-
Trade and other receivables	695	-
Trade and other payables	(485)	-
Total net assets disposed of	391	-
Loss on disposal before disposal expenses	(191)	-
Disposal expenses	(115)	-
Loss on disposal of Inition Limited	(306)	-

Net proceeds received on disposal of Inition Limited were as follows:

	2018 £'000	2017 £'000
Cash consideration received	200	-
Cash disposed of	(86)	-
Net proceeds from disposal of Inition Limited	114	-

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

	Notes	2018 £'000	2017 £'000
Revenue		523	2,324
Depreciation and amortisation		(24)	(161)
Loss on write down of intangible assets		-	(3)
All other operating expenses		(787)	(3,262)
Operating loss		(288)	(1,102)
Impairment of goodwill		-	(1,165)
Loss on disposal of Inition Limited		(306)	-
Debtor insolvency dividend		40	-
Loss from discontinued operations before tax		(554)	(2,267)
Tax credit		173	85
Loss from discontinued operations after tax		(381)	(2,182)
Basic loss per share	11	(0.37p)	(2.14p)
Diluted loss per share	11	(0.37p)	(2.14p)

8 Discontinued operations (continued)

The loss from the discontinued operations of £381,000 (2017: £2,182,000) is attributable entirely to the owners of the Company.

The discontinued operations operating loss relates entirely to Inition Limited. The debtor insolvency dividend of £40,000 (2017: £nil) represents a one-off payment received from the administrators of Atraxis AG and relates to a bad debt previously written off by a former Group subsidiary registered in Switzerland. The discontinued operations tax credit of £173,000 in 2018 relates to a research and development tax credit claimed by Inition Limited.

Cash flows from/(used in) discontinued operations are as follows:

	2018 £'000	2017 £'000
Net cash from/(used in) operating activities	105	(674)
Net cash used in investing activities	(5)	(38)
Net cash flows for the year from/(used in) discontinued operations	100	(712)

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; and
- a Save As You Earn Scheme for all employees.

Under the approved and unapproved schemes, 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.

All employee options have a maximum term of ten years from the date of grant. The total share-based remuneration recognised in the income statement was £129,000 (2017: £68,000). Share-based remuneration relating to key management personnel is disclosed in note 27.

Consolidated	2018 Weighted average exercise price (p)	2018 Number	2017 Weighted average exercise price (p)	2017 Number
Outstanding at beginning of the year	11	4,555,000	15	8,420,851
Granted during the year	12	6,371,240	-	-
Exercised during the year	9	(500,000)	8	(300,000)
Lapsed during the year	17	(806,800)	22	(3,565,851)
Outstanding at the end of the year	11	9,619,440	11	4,555,000

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

2018 Exercise price (p)	2018 Weighted average contractual life (years)	2018 Numberr	2017 Exercise price (p)	2017 Weighted average contractual life (years)	2017 Number
7.5-11	7	5,234,440	7.5-11	7	3,900,000
11-17	9	4,100,000	11-17	-	-
17-28	4	285,000	17-28	5	655,000
		9,619,440			4,555,000

9 Share-based payments (continued)

Of the total number of options outstanding at the end of the year 1,085,000 (2017: 1,455,000) had vested and were exercisable at the end of the year. The weighted average exercise price of those options was 13 pence (2017: 17 pence).

500,000 options were exercised during the year (2017: 300,000) at an average exercise price of 9 pence (2017: 8 pence).

6,371,240 options were granted during the year (2017: nil) at a weighted average fair value of 6 pence (2017: nil).

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.

	2018	**2018**	2017	2017
Option valuation model	**Stochastic**	**Black-Scholes**	Stochastic	Black-Scholes
Weighted average share price at grant date (p)	**13**	**14**	-	-
Weighted average exercise price (p)	**13**	**10**	-	-
Weighted average contractual life (years)	**10**	**10**	-	-
Weighted average expected life (years)	**5**	**3**	-	-
Expected volatility	**47.0-51.7%**	**47.5%**	-	-
Weighted average risk-free rate	**1.18%**	**0.93%**	-	-
Expected dividend growth rate	**0%**	**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

	2018 £'000	2017 £'000
Current tax expense		
Current tax on profit for the year	**-**	112
Total current tax expense	**-**	112
Deferred tax credit		
Accelerated capital allowances	**15**	68
Origination and reversal of other temporary differences	**72**	-
Recognition of deferred tax previously unprovided	**-**	(675)
Adjustments in respect of prior periods	**(150)**	(39)
Total deferred tax credit	**(63)**	(646)
Tax credit on continuing operations	**(63)**	(534)

10 Taxation (continued)

The tax credit on continuing operations excludes the tax credit from discontinued operations of £173,000 (2017: £85,000). This comprises a current tax credit of £173,000 (2017: £112,000) and a deferred tax expense of £nil (2017: £27,000). This has been included in loss from discontinued operations after tax (see note 8). The adjustment in respect of prior periods of £150,000 (2017: £39,000) largely relates to capital allowances that had been expected to be claimed that were subsequently not claimed.

There is no current tax payable by the Group for 2018 (2017: £nil).

The standard rate of corporation tax in the United Kingdom changed from 20% to 19% with effect from 1 April 2017 and remained at 19% during 2018. Accordingly, the Group's profits for this accounting period are subject to tax at a rate of 19% (2017: 19.25%). A reduction to 17% effective 1 April 2020 was substantively enacted on 15 September 2016. As such, the tax rate of 17% (2017: 17%) has been applied in calculating the UK deferred tax position of the Group.

The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the UK applied to profit for the year are as follows:

	2018 £'000	2017 £'000
Profit before tax from continuing operations	**358**	1,662
Expected tax charge based on the standard rate of UK corporation tax of 19% (2017: 19.25%)	**68**	320
Expenses not allowable for tax purposes	**29**	10
Adjustments in respect of prior periods	**(150)**	(39)
Utilisation of unprovided tax losses carried forward	**-**	(141)
Recognition of deferred tax asset previously unprovided	**-**	(675)
Other	**(10)**	(9)
Tax credit on continuing operations	**(63)**	(534)

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

	2018			2017		
	Before tax £'000	**Tax £'000**	**After tax £'000**	Before tax £'000	Tax £'000	After tax £'000
Exchange differences on translation of foreign operations	**(3)**	**-**	**(3)**	(39)	-	(39)
Remeasurement of defined benefit pension scheme	**(1,005)**	**171**	**(834)**	800	(136)	664
	(1,008)	**171**	**(837)**	761	(136)	625

11 Earnings per ordinary share

Basic earnings per share is calculated by dividing the basic earnings 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.

	Earnings/ (loss) 2018 £'000	Weighted average number of shares 2018 '000	Earnings/ (loss) per share 2018 Pence	Earnings/ (loss) 2017 £'000	Weighted average number of shares 2017 '000	Earnings/ (loss) per share 2017 Pence
Continuing operations						
Basic earnings per share	421	102,464	0.41	2,196	102,087	2.15
Effect of dilutive options	-	1,126	-	-	1,292	-
Diluted earnings per share	421	103,590	0.41	2,196	103,379	2.12
Discontinued operations						
Basic loss per share	(381)	102,464	(0.37)	(2,182)	102,087	(2.14)
Effect of dilutive options	-	-	-	-	-	-
Diluted loss per share	(381)	102,464	(0.37)	(2,182)	102,087	(2.14)
Continuing and discontinued operations						
Basic earnings per share	40	102,464	0.04	14	102,087	0.01
Effect of dilutive options	-	1,126	-	-	1,292	-
Diluted earnings per share	40	103,590	0.04	14	103,379	0.01

As at 31 December 2018 the number of ordinary shares in issue was 102,624,020 (2017: 102,124,020).

12 Goodwill

The carrying amount of goodwill is allocated to the Group's two separate continuing cash generating units (CGUs), being Parity Professionals and Parity Consultancy Services.

Carrying amounts are as follows:

	Parity Professionals £'000	Parity Consultancy Services £'00	Total £'000
Carrying value			
Balance at 1 January 2017 and 31 December 2017	2,642	1,952	4,594
Balance at 1 January 2018 and 31 December 2018	**2,642**	**1,952**	**4,594**

Goodwill was tested for impairment in accordance with IAS 36 at the year end and no impairment charge was recognised.

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 2019. Years from 2020 to 2022 are based on the budget for 2019 projected forward at expected growth rates. Years from 2023 onward assume no further growth. This approach is considered prudent based on current expectations of the 2019 long-term growth rate.

12 Goodwill (continued)

Major assumptions are as follows:

	Parity Professionals %	Parity Consultancy Services %
2018		
Discount rate	13.0	11.5
Forecast revenue growth (years 1 to 4)	2.0	10.0
Operating margin 2019	1.9	6.1
Operating margin 2020 onward	2.0-2.3	7.8-10.5
2017		
Discount rate	13.0	11.5
Forecast revenue growth (years 1 to 4)	5.0	10.0
Operating margin 2018	2.6	10.0
Operating margin 2019 onward	3.0-3.6	10.7-12.9

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 from 2019 to 2022. Growth for the Parity Professionals CGU is based upon the long-term growth rate for the UK economy. Growth for the Parity Consultancy Services is assumed to be higher than the long-term growth rate due to the following factors:

- The CGU is the focal point of the Group's strategy and growth plans;
- The CGU is relatively small so higher rates of growth are achievable from a small base. For instance, the CGU achieved an average growth of 47% in the financial years 2016 and 2017;
- In 2018 the CGU was hit by issues on a significant contract resulting in reduced year on year revenue for the CGU. The Directors expect this to be a one-off rather than a trend; and
- New client wins in 2018 and an extension to the ESFA contract in 2019 help to underwrite the growth forecasts.

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.

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.

13 Other intangible assets

	Software 2018 £'000	Software 2017 £'000	Intellectual property 2018 £'000	Intellectual property 2017 £'000	Total 2018 £'000	Total 2017 £'000
Consolidated						
Cost						
At 1 January	**1,088**	1,083	**109**	109	**1,197**	1,192
Additions	**14**	5	**-**	-	**14**	5
Disposals	**(662)**	-	**-**	-	**(662)**	-
At 31 December	**440**	1,088	**109**	109	**549**	1,197
Accumulated amortisation						
At 1 January	**861**	637	**109**	94	**970**	731
Charge for the year	**155**	224	**-**	15	**155**	239
Disposals	**(662)**	-	**-**	-	**(662)**	-
At 31 December	**354**	861	**109**	109	**463**	970
Net book amount	**86**	227	**-**	-	**86**	227

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.

During the year, a review of the Group's fixed asset registers was undertaken. The review identified fully depreciated items, with a cost value of £662,000 (2017: £nil), that were no longer used by the Group. As such, the Group recognised a £662,000 (2017: £nil) disposal for software at cost and accumulated depreciation.

14 Property, plant and equipment

	Leasehold improvements £'000	Office equipment £'000	Total £'000
Consolidated			
Cost			
Balance at 1 January 2017	16	3,064	3,080
Additions	-	53	53
Disposals	-	(1,976)	(1,976)
Balance at 31 December 2017 and 1 January 2018	16	1,141	1,157
Additions	-	30	30
Disposals	(14)	(959)	(973)
Balance at 31 December 2018	**2**	**212**	**214**
Accumulated depreciation			
Balance at 1 January 2017	16	2,992	3,008
Depreciation charge for the year	-	47	47
Disposals	-	(1,976)	(1,976)
Balance at 31 December 2017 and 1 January 2018	16	1,063	1,079
Depreciation charge for the year	-	39	39
Disposals	(14)	(959)	(973)
Balance at 31 December 2018	**2**	**143**	**145**
Net book value			
At 1 January 2017	-	72	72
At 31 December 2017 and 1 January 2018	-	78	78
At 31 December 2018	**-**	**69**	**69**

During the year, a review of the Group's fixed asset registers was undertaken. The review identified fully depreciated items, with a cost value of £973,000 (2017: £1,976,000), that were no longer used by the Group. As such, the Group recognised a £973,000 (2017: £1,976,000) disposal for leasehold improvements and office equipment at cost and accumulated depreciation.

14 Property, plant and equipment (continued)

	Leasehold improvements £'000	Office equipment £'000	Total £'000
Company			
Cost			
Balance at 1 January 2017	1	3	4
Balance at 31 December 2017 and 1 January 2018	1	3	4
Balance at 31 December 2018	**1**	**3**	**4**
Accumulated depreciation			
Balance at 1 January 2017	1	2	3
Depreciation charge for the year	-	1	1
Balance at 31 December 2017 and 1 January 2018	1	3	4
Balance at 31 December 2018	**1**	**3**	**4**
Net book value			
At 1 January 2017	-	1	1
At 31 December 2017 and 1 January 2018	-	-	-
At 31 December 2018	**-**	**-**	**-**

As at 31 December 2018, neither the Group nor the Company had any capital commitments contracted for but not provided for the purchase of tangible assets (2017: £nil).

Leased plant and equipment

At 31 December 2018 the net carrying value of leased equipment in the Group was £7,000 (2017: £18,000).

15 Deferred tax

	Consolidated	
	2018 £'000	2017 £'000
At 1 January	**919**	409
Recognised in other comprehensive income		
Remeasurement of defined benefit pension scheme	**171**	(136)
Recognised in the income statement		
Adjustments in relation to prior periods	**150**	39
Capital allowances in excess of depreciation	**(15)**	(68)
Other short-term timing differences	**(72)**	-
Recognition of deferred tax previously unprovided	**-**	675
At 31 December	**1,153**	919

The deferred tax asset of £1,153,000 (2017: £919,000) comprises:

	Consolidated	
	2018 £'000	2017 £'000
Depreciation in excess of capital allowances	**820**	685
Short term and other timing differences	**3**	54
Retirement benefit liability	**330**	180
	1,153	919

A deferred tax asset for deductible temporary differences 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 utilised. At the balance sheet date, the Directors assessed the probability of future taxable profits being available against which Parity Consultancy Services could recognise a deferred tax asset for previously unrecognised deductible temporary differences. The review concluded that it is probable that future taxable profits will be available. As such, the Directors have recognised a deferred tax asset for all deductible temporary differences available to Parity Consultancy Services.

A deferred tax asset for unused tax losses carried forward is normally recognised on the same basis as for deductible temporary differences. However, the existence of the unused tax losses is itself strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses only to the extent that there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses can be utilised. At the balance sheet date, the Directors considered recognising a deferred tax asset for previously unrecognised unused tax losses carried forward by Parity Consultancy Services. The review concluded that given the division's history of relatively recent tax losses and the additional requirement of providing convincing evidence that sufficient taxable profit will be available, a prudent approach would be taken and deferred tax would remain unrecognised for tax losses carried forward by the division.

The Directors believe that the deferred tax asset recognised is recoverable based on the future earning potential of the Group and the individual cash generating divisions. The forecasts for Parity Professionals comfortably support the unwinding of the deferred tax asset held by this division of £404,000 (2017: £380,000) and the forecasts for Parity Consultancy Services comfortably support the unwinding of the deferred tax asset held by this division of £749,000 (2017: £539,000).

The deferred tax asset at 31 December 2018 has been calculated on the rate of 17% substantively enacted at the balance sheet date.

15 Deferred tax (continued)

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

	Asset 2018 £'000	**(Charge)/ credit to income statement 2018 £'000**	**Credit to other comprehensive income 2018 £'000**
Depreciation in excess of capital allowances	**820**	**135**	**-**
Other short-term timing differences	**3**	**(51)**	**-**
Retirement benefit liability	**330**	**(21)**	**171**
At 31 December 2018	**1,153**	**63**	**171**

	Asset 2017 £'000	(Charge)/ credit to income statement 2017 £'000	Credit to other comprehensive income 2017 £'000
Depreciation in excess of capital allowances	685	330	-
Other short-term timing differences	54	-	-
Retirement benefit liability	180	316	(136)
At 31 December 2017	919	646	(136)

The Group has unrecognised carried forward tax losses of £30,187,000 (2017: £29,485,000). The Group has unrecognised capital losses carried forward of £282,068,000 (2017: £281,937,000). These losses may be carried forward indefinitely.

The Company has unrecognised carried forward tax losses of £24,979,000 (2017: £24,538,000). The Company has unrecognised capital losses carried forward of £281,875,000 (2017: £281,875,000). These losses may be carried forward indefinitely.

16 Trade and other receivables

	Consolidated		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Amounts falling due within one year:				
Trade receivables	6,455	5,812	-	-
Accrued income	3,265	3,250	-	-
Amounts recoverable on contracts	1,994	2,541	-	-
Amounts owed by subsidiary undertakings	-	-	2,302	2,200
Other receivables	27	136	-	-
Prepayments	277	294	2	2
	12,018	12,033	2,304	2,202
Amounts falling due after one year:				
Amounts owed by subsidiary undertakings	-	-	123,510	122,170
Total	12,018	12,033	125,814	124,372

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

£6,455,000 (2017: £5,812,000) of the Group's trade receivables and £4,674,000 (2017: £4,941,000) 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 31 December 2018 totalled £6,911,000 (2017: £6,581,000).

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 balance of impaired losses for the continuing Group at 31 December 2018 was £nil (2017: nil). All debts at 31 December 2018 are considered to be recoverable.

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. The Company's receivables due from subsidiary undertakings were reviewed for impairment at the balance sheet date based on the performance of 2018 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 11.5% and 13.0% (2017: between 11.5% and 13.0%) and the other parameters used in the goodwill impairment review, as outlined in note 12.

As at 31 December 2018 trade receivables of £1,155,000 (2017: £737,000) 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:

	2018			2017		
	Gross £'000	Impaired £'000	Total £'000	Gross £'000	Impaired £'000	Total £'000
Not past due	5,300	-	5,300	5,075	-	5,075
31-60 days and past due	820	-	820	588	-	588
61-90 days	288	-	288	112	-	112
>90 days	47	-	47	37	-	37
Total	6,455	-	6,455	5,812	-	5,812

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.

17 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:

	Consolidated	
	2018 £'000	2017 £'000
Intangible assets - software	-	44
Property, plant and equipment - office equipment	-	69
Trade and other receivables	-	637
Work in progress	-	14
Deferred tax asset	-	27
Total assets classified as held for sale	-	791
Trade and other payables	-	(365)
Provisions	-	(30)
Total liabilities associated with assets classified as held for sale	-	(395)
Net assets of disposal group	-	396

In 2017 the assets classified as held for sale related to Inition Limited, which was disposed of during the year as discussed in note 8. Trade and other receivables of £nil (2017: £637,000) is net of a provision for doubtful debts of £nil (2017: £134,000).

18 Loans & borrowings

	Consolidated	
	2018 £'000	2017 £'000
Non-current	-	44
Finance lease liabilities	-	8
	-	8
Current		
Bank and other borrowings due within one year or on demand:		
Asset-based financing facility	6,911	6,581
Finance lease liabilities	8	11
	6,919	6,592

Finance lease liabilities

	Future minimum lease payments 2018 £'000	Interest 2018 £'000	Present value of minimum lease Payments 2018 £'000	Future minimum lease payments 2017 £'000	Interest 2017 £'000	Present value of minimum lease payments 2017 £'000
Less than one year	8	-	8	11	-	11
Between one and two years	-	-	-	8	-	8
	8	-	8	19	-	19

18 Loans & borrowings (continued)

Changes in liabilities from financing activities

	Loans and borrowings £000	Finance lease liabilities £000
Balance at 1 January 2018	6,581	19
Drawdown of borrowings	330	-
Payment of finance lease liabilities	-	(11)
Balance at 31 December 2018	**6,911**	**8**

Further details of the Group's banking facilities are given in note 21.

19 Trade and other payables

	Consolidated		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Amounts falling due within one year:				
Payments in advance	**30**	16	**-**	-
Trade payables	**5,919**	5,318	**1**	14
Amounts due to subsidiary undertakings	**-**	-	**12,796**	10,967
Other tax and social security payables	**1,486**	1,450	**23**	21
Other payables and accruals	**826**	1,565	**97**	139
	8,261	8,349	**12,917**	11,141
Amounts falling due after one year:				
Amounts due to subsidiary undertakings	**-**	-	**123,113**	121,384
Total	**8,261**	8,349	**136,030**	132,525

20 Provisions

Consolidated	Leasehold dilapidations £'000	Restructuring £'000	Total £'000
At 1 January 2018	18	-	18
Created in year	2	43	45
At 31 December 2018	20	43	63
Due within one year	-	43	43
Due after one year	20	-	20
Total	20	43	63

The Company had no provisions at 31 December 2018 (2017: £nil).

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 three to five years. The main uncertainty relates to the estimation of the costs that will be incurred at the end of the lease.

Restructuring

Restructuring costs relate to estimated remaining amounts to be settled in relation to the restructuring of Parity Consultancy Services. These provisions are expected to be settled within one year. The main uncertainty relates to the estimation of costs that will be incurred.

21 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.

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	Total £'000
As at 31 December 2018		
Financial assets		
Net cash and cash equivalents	**5,829**	**5,829**
Trade and other short term receivables	**11,741**	**11,741**
	17,570	**17,570**
Financial liabilities		
Asset-based financing facility	**6,911**	**6,911**
Finance lease liabilities	**8**	**8**
Trade and other short term payables	**8,231**	**8,231**
	15,150	**15,150**
As at 31 December 2017		
Financial assets		
Net cash and cash equivalents	4,968	4,968
Trade and other short term receivables	11,739	11,739
	16,707	16,707
Financial liabilities		
Asset-based financing facility	6,581	6,581
Finance lease liabilities	19	19
Trade and other short term payables	8,333	8,333
	14,933	14,933

21 Financial instruments – risk management (continued)

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

Company	Amortised cost £'000	Total £'000
As at 31 December 2018		
Financial assets		
Non-current trade and other receivables	123,510	123,510
Net cash and cash equivalents	387	387
Trade and other short term receivables	2,302	2,302
	126,199	126,199
Financial liabilities		
Non-current trade and other payables	123,113	123,113
Trade and other short term payables	12,917	12,917
	136,030	136,030
As at 31 December 2017		
Financial assets		
Non-current trade and other receivables	122,170	122,170
Net cash and cash equivalents	116	116
Trade and other short term receivables	2,200	2,200
	124,486	124,486
Financial liabilities		
Non-current trade and other payables	121,384	121,384
Trade and other short term payables	11,141	11,141
	132,525	132,525

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 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 primarily in the UK with 98% of generated revenues from the UK (2017: 100%). Approximately 73% (2017: 69%) of the Group's turnover is derived from the public sector. The largest customer balance represents 12% (2017: 29%) of the trade receivables balance.

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 16.

21 Financial instruments – risk management (continued)

	2018 Carrying value £'000	2018 Maximum exposure £'000	2017 Carrying value £'000	2017 Maximum exposure £'000
Financial assets				
Cash and cash equivalents	5,829	5,829	4,968	4,968
Trade and other receivables	11,741	11,741	11,739	11,739
	17,570	17,570	16,707	16,707

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 2018 and 2017 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 2.35% above base rate throughout 2018 and 2017. 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 £37,000 higher/lower (2017: £53,000) and net assets £37,000 lower/higher (2017: £53,000). 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 2017, the loan balance due by the Company to Parity International BV, translated into Sterling, was £28,307,000 (2017: £27,463,000).

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. 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 2018 or 2017.

During 2014, the underlying denomination of a large intercompany balance between the Company and one of the Group's inactive overseas subsidiaries was revised, whereby the denomination of the loan was revised from Sterling to Euros and thus subject to exchange rate fluctuations in the books of the Company. In 2018 the Company recorded a translation loss of £352,000 (2017: £1,092,000). As at 31 December 2018, the loan balance due by the Company, translated into Sterling, was £28,307,000 (2017: £27,463,000).

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

Net foreign currency financial assets	Sterling 2018 £'000	Sterling 2017 £'000	Euro 2018 £'000	Euro 2017 £'000	US Dollar 2018 £'000	US Dollar 2017 £'000	Total 2018 £'000	Total 2017 £'000
Sterling	-	-	(2,296)	(2,236)	-	-	(2,296)	(2,236)
Euro	(27,782)	(27,455)	-	-	-	-	(27,782)	(27,455)
US Dollar	5	5	-	-	-	-	5	5
Total net exposure	(27,777)	(27,450)	(2,296)	(2,236)	-	-	(30,073)	(29,686)

21 Financial instruments – risk management (continued)

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

	Functional currency: Sterling	
Net foreign currency financial assets	2018 £'000	2017 £'000
Euro	(28,032)	(27,455)
US Dollar	5	5
Total net exposure	(28,027)	(27,450)

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 £2,778,000 higher/lower (2017: £2,746,300). 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 2018	Up to 1 month £'000	Over 1 month £'000	Total £'000
Trade and other payables	8,231	-	8,231
Borrowings	6,911	8	6,919
Total	15,142	8	15,150

At 31 December 2017	Up to 1 month £'000	Over 1 month £'000	Total £'000
Trade and other payables	8,333	-	8,333
Borrowings	6,581	19	6,600
Total	14,914	19	14,933

Company At 31 December 2018	Up to 1 month £'000	Between 1 and 12 months £'000	Over 1 year £'000	Total £'000
Trade and other payables	12,917	-	123,113	136,030
Total	12,917	-	123,113	136,030

At 31 December 2017	Up to 1 month £'000	Between 1 and 12 months £'000	Over 1 year £'000	Total £'000
Trade and other payables	11,141	-	121,384	132,525
Total	11,141	-	121,384	132,525

More detail on trade and other payables is given in note 19.

21 Financial instruments – risk management (continued)

Capital disclosures

The capital structure of the Group consists of cash and cash equivalents, equity attributable to equity holders, and asset-based financing. There is no long-term external debt, except for a small number of finance leases. The leases represent a liability of £8,000 (2017: £19,000) and are repayable within one year. The Company is funded through equity and intercompany loans.

The Group uses an asset-based financing 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.

The Group's net debt is as follows:

Consolidated	2018 £'000	2017 £'000
Cash and cash equivalents	5,829	4,968
Asset-based borrowings	(6,911)	(6,581)
Finance lease liabilities	(8)	(19)
Net debt	(1,090)	(1,632)

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 currently have distributable reserves available for dividend payments. A capital reconstruction will be necessary to create reserves available for distribution. The Board plan to review possible capital reconstruction options in the near future.

22 Reserves

The Board is not proposing a dividend for the year (2017: nil pence per share).

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

Share capital

Share capital consists of ordinary share capital and previously consisted of deferred share capital.

Ordinary share capital

Share capital is the amount subscribed for ordinary shares at nominal value.

During 2018, 500,000 share options were exercised, increasing the Group's ordinary share capital from £2,043,000 to £2,053,000 (2017: 300,000 share options exercised, increasing from £2,037,000 to £2,043,000).

Deferred share capital

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

In May 2017 the Directors resolved to compulsorily reacquire and cancel the deferred shares of Parity Group plc. As such, the deferred share capital at year end was £nil (2017: £nil).

Share premium reserve

Share premium is the amount subscribed for share capital in excess of nominal value.

Following the exercise of share options in 2018, the share premium reserve increased from £33,211,000 to £33,244,000 (2017: increase from £33,195,000 to £33,211,000).

Capital redemption reserve

A capital redemption reserve of £14,319,000 was created during 2017 when the Directors resolved to cancel the deferred shares of Parity Group plc.

Other reserves

Other reserves of the Group relate principally to a reserve created following a change of the Group's ultimate parent and a corresponding Scheme of Arrangement in July 1999, and a reserve created following the reorganisation of the Group's capital structure in 2002 that resulted in the Company increasing its investment in subsidiary undertakings.

During the year a reallocation was made in respect of an impairment of Parity Group plc's investment in Parity Holdings Limited. The impairment charge of £9,600,000 was recorded as a loss in retained earnings in 2010. Given that this other reserve is represented by Parity Group plc's investment in Parity Holdings Limited, the reserve can be used in order to absorb impairments in the related investment. On this basis the impairment previously recorded in retained earnings is now reallocated to other reserves in the Group and Company.

Retained earnings

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 (2017: £351,000).

23 Pension commitments

The Group operates a small number of pension schemes. With the exception of the Parity Group Retirement Benefits 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 during the year were £172,000 (2017: £192,000).

Defined benefit plan

In March 1995, the Group established the Parity Retirement Benefits Plan, renamed as the Parity Group Retirement Benefits Plan ("the 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. The Plan is governed by the Trustees of the plan and is administered by Cartwright Group Limited in accordance with the Trust Deed and Rules, solely for the benefit of its members and other beneficiaries. The Trustees comprise an independent Chairman, one 'member' representative and one 'employer' representative. It 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.

The weighted average liability duration is approximately 13 years (2017: 14 years) and can be attributed to the scheme members as follows:

	Number of members	Weighted average liability duration (years)
Pensioner members	61	13
Deferred members	7	18
Total	68	13

There was one retirement during the year (2017: none). There was no change in total members during the year (2017: one deferred member elected to transfer out of the Plan).

The Plan is funded by the Group based on the triennial actuarial valuation of the scheme's technical provisions. The actuarial valuation is subject to more prudent assumptions than the accounting valuation under IAS 19. The next triennial actuarial valuation is due as at April 2018 and is in progress at the date of this report. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the Trustees and the Group.

In March 2016, agreement was reached with the Trustees to link 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 until March 2035, with conditional annual bonus payments predicated on the Group's financial performance and the divestment of non-core assets. The contributions increase each year in line with RPI with the first increase applied on 1 January 2017. The balance of the deficit is expected to be met by asset outperformance. The core contributions in 2018 were £16,700 per month (2017: £15,300 per month) to allow for increased scheme expenses in addition to the inflationary increase. Pursuant to the agreement, during 2018, a bonus payment of £25,600 was paid based upon the Group's 2017 financial results, in addition to a lump sum contribution of £100,000 following the disposal of Inition Limited. No additional payments were made in 2017.

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.

In 2017 the Trustees changed the investment strategy and fund choices in order to reduce the volatility of the deficit whilst increasing the longer term expected investment return. This was achieved by using liability driven investment, which provides leveraged exposure to bond-like assets. The leverage was used to reduce deficit volatility and has allowed a greater share of the assets to be invested in growth assets, as set out in the Composition of Plan Assets table on page 107. The liability driven investments significantly reduced both interest rate and inflation risk so that, using a stochastic 'value at risk' model, the overall investment risk reduced by approximately one third. The main funding risks are as follows:

- Investment return risk – if the assets underperform the assumed returns in setting the funding targets then additional contributions may be required;
- Longevity risk – if the future improvements in mortality exceed the assumptions then additional contributions may be required;
- Foreign currency exchange rate risk – the diversified growth funds have the option to use foreign currency as an asset class. The diversified growth funds are actively managed and, consequently, any foreign currency exposure is constantly monitored and addressed where the risk/reward balance is not appropriate.

The valuation for IAS 19 has been provided by Cartwright Group Limited, a company that specialises in providing actuarial services, as at 31 December 2018.

Principal actuarial assumptions

	2018	2017
Rate of increase of pensions in payment	3.7-4.0%	3.7-3.9%
Discount rate	2.80%	2.45%
Retail price inflation	3.4%	3.3%
Consumer price inflation	2.4%	2.3%

23 Pension commitments (continued)

In accordance with the revised IAS 19, the assumption for future investment returns is the same discount rate of 2.80% (2017: 2.45%) used in calculating the pension liabilities.

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. (2017: 1.25% p.a.). This results in the following life expectancies:

- Male aged 65 at 31 December 2018 has a life expectancy of 87 years (2017: 87 years)
- Female aged 65 at 31 December 2018 has a life expectancy of 89 years (2017: 89 years)

Guaranteed Minimum Payment ("GMP") equalisation

During the year the High Court of Justice in England made judgement in a case relating to GMP equalisation. The court held that pensions earned between 1990 and 1997 must be equalised between men and women for the effect of GMPs. Most sections of the Group's scheme were unaffected since they were opted in to the Second State Pension, with just one section opted out. The actuary estimates that the impact to the scheme will be to increase liabilities by between £10,000 and £30,000. Accordingly, an adjustment has been recorded in these accounts to increase the scheme deficit by £20,000 as at 31 December 2018. The increase in liability has been treated as a past service cost recognised in the income statement for the year ended 31 December 2018 as a non-recurring item (see note 5).

Reconciliation to consolidated statement of financial position

	2018 £'000	2017 £'000
Fair value of plan assets	20,099	21,880
Present value of funded obligations	(22,041)	(22,939)
At the end of the year	(1,942)	(1,059)

Reconciliation of plan assets

	2018 £'000	2017 £'000
At the beginning of the year	21,880	22,465
Expected return	525	559
Contribution by Group	326	184
Benefits paid	(888)	(1,792)
Expenses met by scheme	(158)	(145)
Actuarial (loss)/gain	(1,586)	609
Plan assets at the end of the year	20,099	21,880

Contributions to the scheme included £125,600 of additional payments (2017: £nil). Details of these payments are set out on page 106. Benefits paid during 2017 included a lump sum payment to one member who opted to transfer out of the Plan. The actuarial loss on plan assets relates to the fall in value of the scheme's investments reflecting weak performances in global equity markets experienced in 2018.

Composition of plan assets

	2018 £'000	2017 £'000
Diversified growth funds – Quoted	11,343	12,881
Liability driven investment funds – Quoted	8,589	8,829
Options in Parity Group plc	96	96
Cash	71	74
Total plan assets	20,099	21,880

23 Pension commitments (continued)

Reconciliation of plan liabilities

	2018 £'000	2017 £'000
At the beginning of the year	22,939	24,313
Interest cost	551	609
Past service cost	20	-
Benefits paid	(888)	(1,792)
Actuarial gain	(581)	(191)
Plan liabilities at the end of the year	22,041	22,939

Amounts recognised in the consolidated income statement

	2018 £'000	2017 £'000
Included in finance costs		
Expected return on plan assets, net of expenses	367	414
Unwinding of discount on plan liabilities (interest cost)	(551)	(609)
Net finance costs in respect of post-retirement benefits	(184)	(195)

Amounts recognised in the consolidated statement of comprehensive income

	2018 £'000	2017 £'000
Actuarial (loss)/gain on plan assets	(1,586)	609
Actuarial gain on plan liabilities	581	191
Remeasurement of defined benefit pension scheme	(1,005)	800

Defined benefit obligation trends

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Plan assets	20,099	21,880	22,465	19,703	20,356
Plan liabilities	(22,041)	(22,939)	(24,313)	(21,194)	(22,457)
Deficit	(1,942)	(1,059)	(1,848)	(1,491)	(2,101)
Experience adjustments on assets	(1,586)	609	2,926	(401)	2,251
	(7.3%)	2.9%	15.0%	(2.0%)	12.4%
Experience adjustments on liabilities	581	(191)	3,339	(1,249)	2,900
	2.6%	(0.8%)	15.9%	(5.6%)	14.8%

Sensitivity analysis

	Liabilities £'000	Assets £'000	Deficit £'000	Increase/ (decrease) in deficit £'000
No change	22,041	20,099	(1,942)	-
0.25% rise in discount rate	21,342	20,099	(1,243)	(699)
0.25% fall in discount rate	22,777	20,099	(2,678)	736
0.25% rise in inflation	22,057	20,099	(1,958)	16
0.25% fall in inflation	21,935	20,099	(1,836)	(106)

24 Share capital

Authorised share capital

	Ordinary shares 2p each 2018 Number	Ordinary shares 2p each 2018 £'000
Authorised at 1 January and 31 December	409,044,603	8,181

Issued share capital

	Ordinary shares 2p each 2018 Number	Ordinary shares 2p each 2018 £'000
Issued and fully paid at 1 January	102,124,020	2,043
Issue of new ordinary shares	500,000	10
Issued and fully paid at 31 December	102,624,020	2,053

In May 2017, the Directors resolved to cancel the deferred shares of Parity Group plc. Upon cancellation, the value of the deferred shares transferred to a capital redemption reserve within shareholders' equity. The deferred shares were not listed on the London Stock Exchange, had 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

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

	2018 Number	2017 £'000
Ordinary shares held by the ESOP	-	43,143

The ESOP was wound up in November 2018 and its shares were sold as a result.

25 Operating lease commitments

Operating leases – lessee

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

	Land and buildings 2018 £'000	Plant and machinery 2018 £'000	Land and buildings 2017 £'000	Plant and machinery 2017 £'000
Continuing operations				
Amounts payable:				
Within one year	717	8	650	8
Between two and five years	404	3	349	11
Over five years	-	-	34	-
	1,121	11	1,033	19

26 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.

27 Key management remuneration

Key management comprises the Group's Board of Directors and the Managing Directors of Parity Professionals and Parity Consultancy Services. The total remuneration received by key management for 2018 was £1,059,000 (2017: £803,000). During the year a new Managing Director of Parity Consultancy Services was employed with the aim of focusing on the Group's data consultancy strategy and an existing Managing Director left the division. Remuneration comprises emoluments received, pension contributions, share-based payment charges and, in 2018, compensation for loss of office. Remuneration of the Board of Directors, including that of the highest paid Director A Rommel, is disclosed in detail within the remuneration report on page 50.

	2018 £'000	2017 £'000
Short-term employee benefits	918	741
Post-employment benefits	35	28
Compensation for loss of office	10	-
Share-based payments (note 9)	96	34
	1,059	803

28 Related party transactions

Consolidated

There were no related party transactions during the year (2017: none).

Company

Details of the Company's holdings in Group undertakings are given in note 29. The Company entered into transactions with Group undertakings as shown in the table below:

	Operating expenses 2018 £'000	Finance Income 2018 £'000	Finance expense 2018 £'000	Loans written off 2018 £'000	Operating expenses 2017 £'000	Finance Income 2017 £'000	Finance expense 2017 £'000	Loans written off 2017 £'000
Expenses incurred from Group subsidiaries	(558)	-	(1,911)	(395)	(490)	-	(1,609)	(1,341)
Income generated from Group subsidiaries	54	1,818	-	-	30	1,441	-	1,668

28 Related party transactions (continued)

The Company had the following amounts payable to and recoverable from Group undertakings:

	2018 £'000	2017 £'000
Amounts owed by subsidiary undertakings (note 16):		
Falling due within one year	2,302	2,200
Falling due after one year	123,510	122,170
Amounts due to subsidiary undertakings (note 19):		
Falling due within one year	(12,796)	(10,967)
Falling due after one year	(123,113)	(121,384)

29 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 and Inition Limited. Parity Professionals Limited and Parity Consultancy Services 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 with trading results included to the date of disposal in April 2018. Inition Limited was wholly owned by Parity Solutions Limited until April 2018 and is incorporated in the United Kingdom. Parity Solutions Limited is a direct subsidiary of Parity Holdings Limited and is incorporated in the United Kingdom. Parity Holdings Limited is a direct subsidiary of Parity Group plc and is incorporated in the United Kingdom.

Parity Professionals Limited is a specialist IT recruitment services company. Parity Consultancy Services Limited provides business and IT consultancy services focusing on the provision of data solutions and delivery of IT projects. Inition Limited specialises in virtual reality, augmented reality and 3D solutions.

The Company's investment in continuing subsidiaries was reviewed for impairment at the balance sheet date based on the performance of 2018 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 (2017: £20,527,000). The assessment was performed on a value in use basis using discount rates of between 11.5% and 13.0% (2017: between 11.5% and 13.0%) and the other parameters used in the goodwill impairment review, as outlined in note 12.

The remaining Group subsidiaries are listed below. These 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.

Parity Eurosoft Limited

Parity International BV
(registered at Keizersgracht 62-64,
1015 CS Amsterdam, Netherlands)

Parity Limited

Parity Resources Limited

Parity Solutions (Dublin 1999) Limited
(registered at Molyneux House,
Bride Street, Dublin 8, Ireland)

Parity Solutions (Ireland) Limited
(registered at Northern Ireland Science
Park, Queens Road, Belfast BT3 9DT)

Personnel Solutions Inc. (registered at
39 Broadway, New York, NY10006, USA)

Teltech International Corp. (registered at
39 Broadway, New York, NY10006, USA)

During 2017 a Group simplification project was undertaken which resulted in 35 previously discontinued or dormant Group subsidiaries being dissolved.

Corporate information

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Registered in England & Wales
No. 3539413

Registrars

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Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA

Tel: 037 1384 2382

Equiniti offer a range of information online. 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

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Donhead Consultants

Tel: +44 7836 293 383

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 plc website at www.parity.net

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