13 March 2014

PARITY GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR TO 31.12.13

Parity Group plc, the UK IT Services Company, announces its audited preliminary results for the year ended 31 December 2013.

Headlines

Parity Group plc reports another good year of growth, increased profitability and investment for the future

- Revenues up 7.1% at £91.95m (2012: £85.89m)
- Adjusted EBITDA[1] of £2.53m (2012: £1.39m)
- Operating profit before non-recurring items £1.06m (2012: £0.65m)
- Group profit before non-recurring items and tax £0.65m (2012: £0.28m)
- Cash and cash equivalents £7.38m (2012: £2.87m)
- Net debt £2.53m (2012: £5.41m)
- New divisional structure established during the year
    - **Parity Professionals** – Specialising in the sourcing, development and placing of professional staff
        - Revenue £83.7m (2012: £77.5m)
        - Divisional contribution[2] £4.2m (2012: £4.7m)
        - Contractor numbers up 12.8% to 993 at year end (2012: 880)
        - Alan Rommel promoted to divisional CEO
    - **Parity Digital Solutions** – Leading edge IT and digital marketing system development services
        - Revenue £8.2m (2012: £8.4m)
        - Margins improved to 23.4% (2012: 18.4%)
        - Divisional contribution[2] £1.93m (2012: £1.55m)
        - Andy Law appointed as divisional Chairman in March 2014
        - Mark Andrews appointed as divisional CEO in March 2014

1 In assessing the performance of the business, the directors use a non-GAAP measure "Adjusted EBITDA" being the measure of EBITDA, prior to non-recurring items, share based compensation and strategic initiative costs. Non-recurring items and share based compensation are detailed in note 3. Adjusted EBITDA is reconciled to operating loss in note 3.

2 Divisional contribution in this narrative refers to the segment contribution before central costs[3], tax, interest, non-recurring items and investment costs.

3 Central costs represent all centrally managed costs, and include Corporate, Finance, HR, IT and Property costs.

4 This announcement contains certain statements that are or may be forward-looking with respect to the financial condition, results or operations and business of Parity Group plc. By their nature forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to (i) adverse changes to the current outlook for the UK IT recruitment and solutions market, (ii) adverse changes in tax laws and regulations, (iii) the risks associated with the introduction of new products and services, (iv) pricing and product initiatives of competitors, (v) changes in technology or consumer demand, (vi) the termination or delay of key contracts, (vii) fluctuations in exchange rates and (viii) volatility in financial markets.

Philip Swinstead, Chairman of Parity, said:

“This was an important year for our Group as we completed the three year turn-round, created two autonomous divisions and put the management in place to lead their planned growth.

The IT services division showed good growth and is now seeing the early signs of increasing demand and improved margin.

Our smaller digital media division performed well and welcomes two experienced and successful directors to lead the way and take advantage of the growth in digital marketing and the many changes taking place in the advertising world. At this stage their strategy for the digital division is based round a combination of organic growth and small acquisitions to put specific skills in place.

Trading in the early months has been in line with expectations.

The Board expects a good performance from both divisions this year and further progress on our mission to substantially increase shareholder value”

For further information contact:

Philip Swinstead, Chairman Paul Davies, Chief Executive	Parity Group plc	0845 873 6942
John Olsen/Ian Payne	MHP Communications	020 3128 8100
Andrew Pinder Patrick Robb Dominic Emery Cara Griffiths	Investec	020 7597 4000

Chairman's Statement

2013 Results

I am pleased to report further progress in 2013 with an increase in both Group revenue, and profit before tax and non-recurring items. Revenues were up 7.1% at £91.95m (2012: £85.89m) and adjusted EBITDA increased to £2.53m (2012: £1.39m). Operating profit before non-recurring items was £1.06m (2012: £0.65m).

Central costs reduced to £4.68m (2012: £4.95m). In 2014 a large proportion of central costs will be delegated to the divisions which will be held directly accountable for those costs. As a result, it is anticipated that further operational efficiencies will be forthcoming.

We have completed the re-structuring of the Group into two independent divisions, Parity Professionals and Parity Digital Solutions, which we for the first time report separately in these accounts. We have invested substantially in people, systems and hardware to support our plans for growth under the new divisional structure.

Parity Professionals increased its revenues in an improving market in the second half of 2013; with margins starting to move upward in the past few months. The Talent Management business grew slowly in the second half due to delays in educational spending; but also with some encouraging signs late in the year.

Revenues in Parity Digital Solutions were stable. Good growth at Inition, the 3D experiential specialist business, was balanced by Systems revenues which reduced in an over-supplied market. Both, however, produced improved operating profits.

Before non-recurring items and tax the Group returned a profit of £0.65m (2012: £0.28m). Non-recurring items were £1.18m (2012: £1.22m) representing property provisions, restructuring and transaction costs. We expect a significant reduction in this area in 2014. Group loss for the year was £1.65m (2012: £1.39m) and was after non-recurring costs of £1.6m, strategic initiative costs of £1.1m, and a deferred tax charge of £0.7m all of which will significantly reduce in 2014.

Cash, Dividend and Investments

Cash at year end increased to £7.38m (2012: £2.87m). There was a share Placing to the net value of £6.5m at the time of the Group's move to AIM in July.

Banking arrangements with PNC, have been in place since 2010, and the asset backed lending facility of up to £15m has been extended until December 2016.

Due to the continuing financial improvement of the Group, it has been possible to re-negotiate with the trustees of the Parity Group Retirement Plan, improvements to the assumptions underlying the valuation of pension scheme liabilities. The outcome of these negotiations was a significant fall in the deficit on a technical provisions basis and as a consequence, a substantial reduction in future annual payments. On an annualised basis these payments have now fallen from £1.09m to £0.68m but will be subject to a 5% per annum increase each August.

No dividend is payable for this year but the Board will keep the policy under review.

Move to AIM, Placing and Change of NOMAD

On 5th July 2013 the Group's shares commenced trading on the AIM market and their Official Listing was cancelled. The Board believes the AIM market is more suitable for the Company's current stage of development. At that time a Placing of 25,925,926 new Ordinary Shares was completed at a price of 27 pence raising £6.5m net.

On 23rd September the Group announced the appointment of Investec as its new Nominated Adviser and Broker.

Group Structure

The Group has implemented a new divisional structure in 2013 to better reflect, internally and externally, the different interests of the two parts of its business. This is now the reporting structure of the Group.

Parity Professionals, the largest division, contains the Parity Resources and Talent Management businesses.

Parity Digital Solutions contains the Group's systems integration business and its first acquisition, Inition, which has now earned its first year earn-out payment of £0.5m based on operating profit to 31 March 2013. Performance has continued to improve towards the likely achievement of its second year earn-out target.

Divisional results and current trading are discussed in the Operational Review.

Changes to the Main Board

On 26th September the Group announced a number of Board changes –

- Philip Swinstead became Executive Chairman from 1st October to drive the Group's digital strategy, now that the base business has achieved financial stability. Paul Davies remains as Group CEO and Alastair Woolley as Group FD.
- Mike Phillips, a non-executive director since 3rd November 2011 and Chairman of the Audit Committee since 22nd November 2011 has, as a result of other commitments, stepped down from the Board. The Board thanks him for his contribution and wishes him every success.
- Neal Ransome, MA FCA CF, aged 53, joined the Board as a Non-Executive Director and took over from Mike Phillips as Chairman of the Audit Committee. Neal had recently retired from PwC, where he was a Corporate Finance Partner and Chief Operating Officer of PwC's Advisory line of service.
- Due to the evolution of our strategic thinking, Stephen Whyte resigned as a director and executive in September 2013.
- Sir Peter Luff MP, FCIPR, aged 58, joined the Board as a Non-Executive Director. Peter was previously the Managing Director of a leading public affairs company, is currently a Member of Parliament and was Minister for Defence Equipment, Support and Technology from 2010-12.
- Suzanne Chase continued as our General Counsel but stepped down as a Director and took over the role of Company Secretary from Alastair Woolley.

Strategy

The Group has two distinct business divisions; with separate missions and strategies to achieve them.

Parity Professionals' mission is to be a premium supplier working closely with clients to source and develop talent, building capacity and capability to improve individual and organizational performance.

- The IT staffing business has broken down its offering into segments which are offered on a unique Resources as a Service basis.
- The Group has invested in expanding the training and career development offering of the Talent Management business across the UK from its traditional Northern Irish market.

Parity Digital Solutions is the base for the Group's technology systems offering, which has been retargeted to the digital marketing world. The IT services market is mature and one in which it is difficult for a small systems business to grow. However, the Board identified an opportunity to transfer the Group's experience of project management and business process to a marketing context as digital technology claims an increasing share of market spend.

- The Group has indicated since 2011 that it is looking to re-focus its systems integration capabilities into this new market by both acquisition of key skills and market position, and organic growth.
- With the successful acquisition and profit improvement of the 3D specialist Inition, the Group has demonstrated the relevance of its management skills to the new market.

- In a change of tactics the Board has decided that shareholder value can be best increased by further smaller acquisitions to create the skill base needed to grow a significant new style of technology services business in the digital marketing field; neither an advertising agency nor a digital agency.

The division has also been seeking to increase its own top management capabilities from the advertising and marketing world.

- Given his highly successful top level background in international marketing, the Board is pleased to announce the appointment of Andy Law as Chairman of the division on a three days a week basis. Andy has held senior positions at many of the top advertising agencies including Board Director at CDP, and led the buyout from Omnicom of Chiat/Day creating the ground-breaking agency St Lukes, which became one of London's leading agencies. He is also a successful writer and international speaker - including chairing sessions at Davos.
- I am also pleased to report today the appointment of Mark Andrews as CEO of this division. Mark is a highly experienced MD in the TV commercial and video production world. He started as a graphics designer and then commercial producer, becoming main board Head of TV at major award winning agency, CDP, and then MD at the world's largest video/commercial production company, Propaganda Films. In 1997 he founded Tsunami Films and then left in 2003 to become founder and proprietor of the MADE group.

The Group's TechLab joint venture with Royal Holloway and Bedford New College has now entered the commercialization phase. The Groupseer next-generation, patented, social media search engine now has a joint team working on ensuring that it has all the necessary functions, is fully tested and has a fluid interface. In parallel, early market feedback will be sought from selected potential users in a few target areas.

Current Trading and Future Prospects

The Group continues to trade in line with management expectations.

Parity Professionals is seeing the early signs of improvement in its market and margins, as hiring levels begin to rise. The Board is looking to this division to grow revenues and profits in future years, under the leadership of CEO Alan Rommel, who, along with other senior management, has experience of leading the business through a similar stage of the recovery cycle.

Parity Digital Solutions will be renamed in 2014 to reflect its new strategic direction. Inition is now operating with good margins and is investing in its marketing capabilities to build on the increased recognition of its augmented and virtual reality solutions. Under its strong management team, the division will seek to further extend its services into Digital Content Management and Content Production. We expect to make further small acquisitions this year to put the necessary skills in place and allow the expanded management team to grow the business offerings in a rapidly developing market.

2014 will see the end of nearly all of our unused property leases and the significant cash burden they impose. This together with reduced pension deficit payments, will significantly reduce our cash outflow and contribute towards the Group becoming cash generative.

After three tough years turning round the business, the good health, management and forecast market growth for both our divisions allows the Board to be confident about further improvement in shareholder value in 2014 and future years.

Philip Swinstead OBE, Chairman

Operating review

Overview

The three year turnaround programme set out by the new management team in 2010 has now been completed. This has seen the establishment of two separate, profitable and growing businesses in Parity Professionals (specialising in the sourcing, development and placing of professional staff) and Parity Digital Solutions (currently comprising Systems and Inition) forming a small but profitable platform focussed on the fast growing demand for technology solutions in digital marketing.

After an initial period of cost cutting and market realignment the Company has returned to solid revenue and Adjusted EBITDA growth of over 7% and 82% respectively.

The initiative to consolidate our operations into two separate divisions will allow us to report them on a separate basis going forward enabling clearer analysis of each as 'independent' businesses with only Group costs being shared.

To facilitate this two Divisional Boards have been established under separate CEO's with detailed Terms of Reference and Authority Levels and reporting to the Group Board on a monthly basis.

Group Operations

Much of Parity's work remains short term in nature although several client and contract relationships have extended over a number of years. No individual client accounts for more than 14% of Group turnover. Whilst the Group maintains a degree of exposure to Government and Public Sector spending the breadth of our private sector portfolio and growing business in the Digital Marketing arena continues to increase and it is expected that this trend will continue.

New Finance and CRM Systems

In order to improve reporting and operating efficiencies the custom built, expensive and difficult to modify older finance system based on Microsoft AX has now been replaced.

The Parity Digital Solutions business has been successfully migrated onto a SAP By Design cloud based solution and we are in the final stages of migrating the Parity Professionals business onto a SAFE finance system specifically designed for a Resources style business. In parallel we are replacing our existing outdated CRM systems with a package by Bullhorn that has dedicated applications for staff resourcing which is expected to improve efficiency and data sharing between Parity Resources and Talent Management.

PARITY PROFESSIONALS

Reporting separately to the Board this newly formed division comprising Parity Resources and Talent Management was launched under the Parity Professionals banner earlier in the year and now has its own staff, infrastructure, offices, web presence and senior management team under CEO Alan Rommel.

Whilst the two component divisions currently address different market sectors (staff recruitment and graduate placement/talent development respectively) they have a common theme of sourcing, recruitment and development of professional staff at all stages of their career, providing consultancy skills to improve individual and organisational performance.

A number of opportunities have been identified as a result of combining these two business units, including cross selling to existing clients, collaboration of databases, and an enhanced overall proposition to the market.

Parity Resources' continued focus on increasing contractor numbers, improving conversion rates and seeking out opportunities to increase margin (against a continued market pressure for rate reduction) has sustained the return to growth established in 2012.

This has required the further investment in sales and support staff, expansion of our offerings and improved systems. We have launched our unique Resources as a Service (RaaS), a segmented, menu driven procurement methodology proposition, and are seeking to expand our limited presence in the permanent recruitment market.

As a result we have increased our contractor numbers by 13% to 993 (2012: 880) and improved conversions rates to 33% (2012: 30%). In addition a number of existing contracts were extended and 70 new clients were signed up during the year (2012: 67) with improved average margins of 8.39% (2012: 7.95%).

In total, revenues in the year increased by 8.1% to £81.4m (2012: £75.3m) with a slightly reduced divisional contribution of £3.7m (2012: £4m) due to the continued investment in staff, training and offices.

Whilst the UK market remains challenging, with continued pressures on recruitment levels and margins, the last few months of the year saw a slight upturn in demand which we anticipate continuing into the first part of 2014.
The Talent Management business which has almost 20 years success in the sourcing, development and placing of graduates in Northern Ireland led to a strategic decision to invest in the business to extend the service across the UK. Addressing this new market by building upon our established capabilities and reputation has resulted in a number of successes and the business is committed to establishing its foothold in Great Britain.

A traditional seasonal slow first half to the year was followed by an anticipated upturn resulting from the higher levels of graduate development and recruitment post mid year graduation. We continued our success in the ongoing prestigious Faststream graduate recruitment programme which we run on behalf of HMRC. This has again been renewed for a further year and won the Association of Graduate Recruiters annual award for Graduate Selection and Assessment.

Continued success in Northern Ireland resulted in the number of graduates sponsored by the Department of Employment and Learning for the Intro programme increasing to 160 (2012: 100) and the Management and Leadership Development Programme numbers increasing to 196 (2012: 24).

The number of new corporate clients across the UK also increased to 19 (2012: 16).

Despite market conditions in Higher Education remaining a challenge, we have maintained the foothold established in Great Britain during 2011 with revenues of £2.3m (2012: £2.2m) and a contribution of £0.54m (2012: £0.67m). During this period we have further invested in sales and marketing, extended our offerings in order to build upon the platform established in our first two years in the GB higher education marketplace.

Having established a solid UK presence over the past two years the priority for 2014 is to take advantage of the sales opportunities identified and grow both revenue and profit within higher education and corporate clients.

PARITY DIGITAL SOLUTIONS

Reporting separately to the Board, this division currently comprises Parity Systems and Inition. The division has its own staff, infrastructure, offices, web presence and senior management team under CEO, Mark Andrews.

Parity Systems is a small systems integration business with all the functions necessary to deliver custom IT systems at a profit. It has been difficult for all such small systems businesses to win new customers in a recession. However, the business processes and SI systems have been invaluable in allowing the Inition experiential systems business to make good profits from the excellent business it has been doing for some years. As has been said before, the Board believe that the future for new growth in technology services is in the marketing arena; not in automating business systems. Therefore, the systems integration base that exists is the perfect platform for such an initiative as has been proved by the much improved performance of Inition.

In the year we further extended our long term relationship with BAT to include a framework for applications support, development and consultancy services and have also benefited from the return of previous clients purchasing this type of service. Our similarly long term relationship with the UK's Ministry of Defence continues with the provision of specialist technical support despite defence spending constraints, and our business with a large international legal firm started two years ago has led to further project work.

Together with Parity Resources, Parity Systems was successful in securing a place on the G-Cloud 3 UK Government procurement framework. This was followed up later in the year with further success on G-Cloud 4.

Parity Systems' exit from loss-making fixed price contracts, which was completed in 2012, has allowed the business to enhance margins and consolidate long term client relationships whilst focussing skill sets particularly aligned to the emerging digital market (web portals, business intelligence, and project management) in expectation of future business from the Group's strategic initiative in this area.

Our planned exit from these bad projects resulted in a decline in revenues but an increase in margins and contribution, as overheads were reduced. Focus on our traditional client base, together with some new business intelligence clients, has driven further margin improvement to 24% (2012: 20%) thereby stabilising contribution at £1.3m (2012: £1.3m) on a reduced revenue of £5.38m (2012: £6.5m).

The previously announced Parity R&D Technology Laboratory initiative with Royal Holloway and Bedford College of the University of London, to develop their innovative social media search algorithm, has resulted in a formal joint venture in which Parity has a 60% stake. A team is being assembled in Parity offices to complete the production of the software to market standards in parallel with further market research to define the most suitable applications for this patented technology.

Inition, which was acquired in May 2012, continues to be run for earn-out purposes with its separate overhead structure. It has benefitted during the year from the new reporting system referred to above and improved operational and project management assistance from Parity Systems. The second and final earn- out period completes in March 2014 and it seems likely at this time that the full earn- out amount will again become payable. This follows an excellent performance by the founding management, helped by our experience in delivering custom technology systems. Revenues for the first full year were £2.85m (7 months 2012: £1.9m) with a contribution of £588k (7 months 2012: £260k).

Following the acquisition and integration into Parity Digital Solutions in 2012, Inition is a successful first move into project based professional services in marketing technology services. The performance would not have been possible without the Group's extensive experience in project based services in information technology. It was a successful test of management's belief that IT systems experience and processes are very pertinent in the digital marketing world.

Inition is now increasing its account management function to take its exciting capabilities to new market sectors and to extend its business in areas where it has already proved successful (e.g. automotive, property, retail and higher education sectors). A number of high profile installations have been launched in major London stores including Selfridges, John Lewis and Topshop. We are also introducing these new technologies to existing Parity clients such as the MOD, which includes working with Defence Science and Technology Laboratory (via a partnership with QinetiQ) to utilise emerging technologies for armed forces training.

Property

We have relocated the Parity Professionals finance and support team from Wimbledon to our existing sales office in Bath Place, Shoreditch. This had the duel effect of improving communications and increasing efficiency between the two teams. As a result only our Parity Digital Systems division currently has a presence in Wimbledon.
The Wimbledon office's lease expires in the second half of 2014. In the near future we expect further improvements in efficiency as the Group HQ and Systems divisions move into a further floor in Curtain Road, (where Inition are based) thus vacating the Wimbledon and Chancery Lane facilities.
To accommodate additional sales staff necessary to fuel further growth within Parity Professionals we have also in the year expanded both our Sale and Edinburgh offices.
As a result, with the exception of shared offices in Belfast, the two divisions operate from separate offices; Parity Professionals in Camberley, Shoreditch (Bath Place), Sale, Edinburgh and Parity Digital in Wimbledon, Shoreditch (Curtain Road).

Management and Staff

2013 was another period of positive development for Parity. During the year we made the necessary organisation changes to establish two distinct divisions both positioned to take advantage of the growth opportunities which now present themselves.

In what continued to be challenging end markets we have returned the company to stable growth whilst absorbing the inevitable disruption of implementing the new business systems which will provide us with improved operating efficiencies in future.

We have additionally invested in training, increased our sales capacity and relocated a number of offices to accommodate increased headcount and continue the programme of vacating unsuitable legacy offices.
None of this could have been accomplished without the support of management and staff who repeatedly go the extra mile to ensure objectives are achieved.

On behalf of the Board I wish to offer them all our sincere thanks for their continued loyalty and commitment to Parity.

Paul Davies, Chief Executive Officer

Financial review

Revenue

Continuing operations	**2013** **£’000**	2012 £’000
Parity Professionals	**83,711**	77,491
Parity Digital	**8,238**	8,396
Group	**91,949**	85,887

Revenue for the group has increased by 7.1% to £91.95m (2012: £85.89m). The Parity Professional division has continued to see good growth particularly in its Resources business unit with divisional revenue increasing by £6.2m (8.0%) from £77.5m to £83.7m.

Parity Digital revenue has fallen by £0.16m to £8.24m (2012: £8.40m). The Systems business has experienced pressure from the spending constraints within the MOD, but has concentrated on consolidating its position with existing clients and maintaining margins. The objective in 2013 within the Inition business unit, the first full year post acquisition, was to improve internal systems and processes and further improve margins. This objective has been successfully achieved.

Divisional contribution

Continuing operations	**2013** **£’000**	2012 £’000
Parity Professional	**4,206**	4,674
Parity Digital	**1,930**	1,546
Divisional contribution before central costs, non-recurring items and strategic initiative & acquisition costs	**6,136**	6,220

Divisional contribution has decreased slightly by £0.1m to £6.1m (2012: £6.2m). In Parity Professionals emphasis has been placed within the Resources business unit on gaining contractor numbers and seeking out opportunities to increase margin. However, this has required investment during the year in sales and support staff and improved systems which has diluted the year end contribution.

In Parity Digital, margins grew strongly, improving from 18.4% in 2012 to 23.4% in 2013. The Systems business continues to maintain good margins and the focus at Inition, of improving internal processes as a result of experience from the Systems business unit, has resulted in significantly improved margins.

Reconciliation of divisional contribution to operating loss from continuing operations

		2013 £'000		2012 £'000
Divisional contribution before central costs, non-recurring items and strategic initiative and acquisition costs		**6,136**		6,220
Central costs	**(3,607)**		(4,364)	
Strategic initiative costs	**(1,076)**		(124)	
Investment costs	**-**		(461)	
Total central costs		**(4,683)**		(4,949)
Depreciation and amortisation		**(271)**		(497)
Share-based payment charges		**(120)**		(124)
Operating profit/(loss) before non-recurring items		**1,062**		650
Non-recurring items (continuing operations)		**(1,600)**		(1,350)
Operating (loss) from continuing operations		**(538)**		(700)

Total central costs have continued the trend from previous years and have decreased £0.2m to £4.7m (2012: £4.9m) despite the significant spend on strategic initiative costs. It is anticipated that in 2014 strategic initiative costs will be significantly lower. Depreciation has fallen by £0.2m in 2013 mainly due to the fact that the costs associated with the Microsoft Dynamic AX ERP system (discussed later under intangible fixed assets) are no longer having to be written off. The result of this is that operating profit has increased by £0.41m to £1.06m (2012: £0.65m).

Non-recurring items

Continuing operations	2013 £'000	2012 £'000
Restructuring	**173**	961
Strategic initiative costs	**695**	840
Property provisions	**732**	(451)
	1,600	1,350

Strategic Initiative costs refer to the professional fees incurred in the Group's acquisition programme.

The main element of the property provision charge is in relation to Wimbledon Bridge House. The lease on the property comes to an end in September 2014. In preparation for this and as part of the process of creating the two divisions of Parity Professionals and Parity Digital, support and finance staff have been moved out of Wimbledon Bridge House and transferred to locations where sales and client service staff already operate from. This has further improved communications between the teams and will also lead to reduced occupancy costs. As a result of the termination of the Wimbledon office lease in September 2014, a further provision has been made for dilapidation costs. The total charge this year therefore comprises a mixture of onerous lease costs and an increase to the dilapidations provision.

Further details of the non-recurring costs are given in note 4.

Earnings per share and dividend

The basic loss per share from continuing operations was 1.88 pence (2012: 2.00 pence).

The Board does not propose a dividend for 2013 (2012: nil), but will continue to review this policy each year.

Statement of Financial Position

The balance sheet has strengthened since last year with net assets increasing to £9.7m (2012: £3.9m). This improvement was mainly as a result of the Placing that took place in July 2013 which raised net proceeds of £6.5m, but also due to the reduction in the retirement benefit liability of £0.9m. These improvements to the net assets position have, however, been partially offset by the required increase in working capital to fund the continued growth of the group.

Intangible fixed assets

As reported last year, the Board decided to write off the remaining cost of the Microsoft Dynamics AX ERP system. This was a heavily customised system which had been installed 5 years ago at cost of over £1.7m and was inflexible, expensive to maintain and would not provide the correct platform for the company as we extended operations and split into the two distinct divisions. During the course of 2013 the company has invested in new systems for both of its divisions. The systems have been selected to specifically address the business needs of each division rather than applying one generic solution that falls short of the operational benefits we are striving to achieve. Parity Digital successfully migrated its business units onto SAP by Design and the Inition business unit has been developing intellectual property for their augmented reality product lines. Parity Professionals has selected and is in the process of implementing fully integrated solutions to replace its back, middle and front of office systems and these are due to go live early in 2014. It has also launched in the year a sophisticated and dedicated Parity Professionals website. At a group level, a new HR system has also been implemented which will improve efficiency and allow for the administration of the new auto enrolment requirements due to impact the company in 2014. The cost of these investments was £0.7m.

Trade receivables and accrued income

Trade receivables increased by £3.4m to £16.4m (2012: £13.0m) during the year, reflecting the increase in group revenue and to some extent the change in public/private sector mix. However, due to continued focus on working capital management, debtor days at the end of the year, calculated on billings on a countback basis, has only increased by 1 day to 27 (2012: 26).

Trade and other payables

Trade and other payables increased slightly during the year to £10.4m (2012: £8.9m). As with trade receivables this is mainly due to the increase in trading volumes.

Other financial liabilities

Other financial liabilities represent the Group's debt under the asset-based lending facility. This is a working capital facility and is consequently linked to the same cycle as the trade receivables. The asset-based lending facility provides for borrowing of up to £15m depending on the availability of appropriate assets as security. Interest on borrowings is charged at 2.5% over the prevailing base rate. The company has recently extended its facility until December 2016.

Cash flow and net debt

Cash generated from operations improved slightly compared to 2012, although there was still an outflow of £2.61m (2012: £2.64m). However, a substantial part of the outflow of funds in 2013 was as a result of the increased investment in working capital required to fund the continuing growth of the company and the payments to the retirement benefit plan.

Cash used in investing activities in 2013 was £1.39m. £0.5m of this was the first of the earn-out payments following the acquisition of Inition. The terms of the acquisition included an earn-out target of generating £0.3m operating profit for the year ended 31 March 2013. This was achieved and triggered the £0.5m payment. Investment of £0.7m has been made in substantially improving the systems in both Parity Professionals and Parity Digital. A programme was also undertaken during 2013 to replace most of the ageing PC's and laptops used by the company's staff.

Provisions

The net increase in provisions of £0.2m includes an increase to the empty property provision of £0.53m which mainly related to the Wimbledon office and an increase to the dilapidations provision of £0.19m also in respect of the Wimbledon office. Utilised in the year were £0.5m of empty property provisions in respect of the Wimbledon and Fleet offices.

Pension Fund

During 2013 the Group paid deficit reduction payments of £0.83m compared to £1.09m in 2012. As a result of the improving financial position, the Company was able to negotiate with the Trustees a revised actuarial position of the Plan. As a consequence the deficit on a technical provisions basis has been reduced by £2.33m to £6.33m and on-going payments to the Plan will reduce from an annualised basis of £1.09m to £0.68m and then only increasing as from 1 August 2013 at the rate of 5% per annum.

Principal risks and uncertainties

Market

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

The Group trades exclusively in the UK, and is very aware of the ongoing tough economic conditions that prevail. As a result there is a major emphasis on addressing growth technologies in order to diversify the Group's offerings.

People

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

Financial

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

Technology

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

Legal

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

Alastair Woolley, Finance Director

Parity Group plc
Consolidated income statement
for the year ended 31 December 2013

	Notes	**Before non-recurring items 2013 £'000**	**Non-recurring items 2013 (note 4) £'000**	**Total 2013 £'000**	Before non-recurring items 2012 £'000	Non-recurring items 2012 (note 4) £'000	Total 2012 £'000
Continuing operations							
Revenue	2	**91,949**	**-**	**91,949**	85,887	-	85,887
Employee benefit costs		**(8,163)**	**(173)**	**(8,336)**	(8,032)	(226)	(8,258)
Depreciation & amortisation		**(271)**	**-**	**(271)**	(497)	-	(497)
All other operating expenses		**(82,453)**	**(1,427)**	**(83,880)**	(76,708)	(1,124)	(77,832)
Total operating expenses		**(90,887)**	**(1,600)**	**(92,487)**	(85,237)	(1,350)	(86,587)
Operating profit/(loss)		**1,062**	**(1,600)**	**(538)**	650	(1,350)	(700)
Finance income	5	**655**	**-**	**655**	695	-	695
Finance costs	5	**(1,066)**	**-**	**(1,066)**	(1,061)	-	(1,061)
Profit/(loss) before tax		**651**	**(1,600)**	**(949)**	284	(1,350)	(1,066)
Tax (charge)/credit	7	**(1,115)**	**372**	**(743)**	(497)	148	(349)
Loss for the year from continuing operations		**(464)**	**(1,228)**	**(1,692)**	(213)	(1,202)	(1,415)
Discontinued operations Profit/(loss) for the year from Discontinued operations	6	**(5)**	**46**	**41**	45	(19)	26
Loss for the year Attributable of owners of the parent		**(469)**	**(1,182)**	**(1,651)**	(168)	(1,221)	(1,389)
Basic and diluted loss per share	8			**(1.88p)**			(2.00p)

Parity Group plc
Statements of comprehensive income and statements of changes in equity
for the year ended 31 December 2013

Statement of comprehensive income
for the year ended 31 December 2013

	Consolidated	
	2013	2012
	£'000	£'000
Loss for the year	**(1,651)**	(1,389)
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(25)**	(64)
	(25)	(64)
Items that will never be reclassified to profit or loss		
Actuarial gain/(loss) on defined benefit pension scheme	**220**	(1,554)
Deferred taxation on actuarial gains/(losses) on pension scheme taken directly to equity	**(23)**	287
	197	(1,267)
Other comprehensive income for the year net of tax	**172**	(1,331)
Total comprehensive income for the year attributable to equity holders of the parent	**(1,479)**	(2,720)

Statements of changes in equity
for the year ended 31 December 2013

Consolidated	**Share capital £'000**	**Deferred shares £'000**	**Share premium reserve £'000**	**Other reserves £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2013	1,437	14,319	26,637	44,160	(82,675)	3,878
Loss for the year	-	-	-	-	(1,651)	(1,651)
Exchange differences on translation of foreign operations	-	-	-	-	(25)	(25)
Actuarial gain on defined benefit pension scheme	-	-	-	-	220	220
Deferred taxation on actuarial gain on pension scheme taken directly to equity	-	-	-	-	(23)	(23)
Issue of new ordinary shares	596	-	6,546	-	-	7,142
Share options – value of employee services	-	-	-	-	120	120
At 31 December 2013	**2,033**	**14,319**	**33,183**	**44,160**	**(84,034)**	**9,661**

Consolidated	**Share capital £'000**	**Deferred shares £'000**	**Share premium reserve £'000**	**Other reserves £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2012	1,375	14,319	25,944	44,160	(80,079)	5,719
Loss for the year	-	-	-	-	(1,389)	(1,389)
Exchange differences on translation of foreign operations	-	-	-	-	(64)	(64)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(1,554)	(1,554)
Deferred taxation on actuarial loss on pension scheme taken directly to equity	-	-	-	-	287	287
Issue of new ordinary shares	62	-	693	-	-	755
Share options – value of employee services	-	-	-	-	124	124
At 31 December 2012	1,437	14,319	26,637	44,160	(82,675)	3,878

Parity Group plc
Statements of financial position
As at 31 December 2013

	Consolidated	
	2013	2012
	£'000	£'000
Assets		
Non-current assets		
Intangible assets and goodwill	**8,459**	7,756
Property, plant and equipment	**334**	415
Trade and other receivables	**-**	-
Investment in subsidiaries	**-**	-
Deferred tax assets	**552**	1,318
	9,345	9,489
Current assets		
Stocks and work in progress	**19**	20
Trade and other receivables	**16,360**	13,044
Cash and cash equivalents	**7,376**	2,871
	23,755	15,935
Total assets	**33,100**	25,424
Liabilities		
Current liabilities		
Loans and borrowings	**(9,909)**	(8,283)
Trade and other payables	**(10,387)**	(8,938)
Provisions	**(895)**	(308)
	(21,191)	(17,529)
Non-current liabilities		
Loans and borrowings	**-**	(8)
Trade and other payables	**-**	(500)
Provisions	**(78)**	(462)
Retirement benefit liability	**(2,170)**	(3,047)
	(2,248)	(4,017)
Total liabilities	**(23,439)**	(21,546)
Net assets	**9,661**	3,878
Shareholders' equity		
Called up share capital	**16,352**	15,756
Share premium account	**33,183**	26,637
Other reserves	**44,160**	44,160
Retained earnings	**(84,034)**	(82,675)
Total shareholders' equity	**9,661**	3,878

Parity Group plc
Statements of cash flows
for the year ended 31 December 2013

	Consolidated	
	2013	2012
	£'000	£'000
Cash flows from operating activities		
Loss for year	**(1,651)**	(1,389)
Adjustments for:		
Finance income	**(655)**	(695)
Finance expense	**1,066**	1,061
Share-based payment expense	**120**	124
Income tax expense/(credit)	**743**	349
Amortisation of intangible assets	**21**	233
Depreciation of property plant and equipment	**250**	264
Impairment of intangible assets	-	721
	(106)	668
Working Capital		
Decrease in stocks and work in progress	**1**	117
(Increase)/decrease in trade and other receivables	**(3,324)**	(229)
Increase/(decrease) in trade and other payables	**1,454**	(925)
Increase/(decrease) in provisions	**203**	(1,178)
Payments to retirement benefit plan	**(833)**	(1,090)
Cash generated from operations	**(2,605)**	(2,637)
Income taxes received	**8**	-
Net cash flows from operating activities	**(2,597)**	(2,637)
Investing activities		
Acquisitions (net of cash received)	**(500)**	(1,138)
Purchase of intangible assets	**(724)**	(3)
Purchase of property, plant and equipment	**(169)**	(113)
Net cash used in investing activities	**(1,393)**	(1,254)
Financing activities		
Issue of ordinary shares	**7,142**	5
Proceeds from finance facility	**1,633**	1,766
Net movements on intercompany funding	**-**	-
Repayment of loans acquired through business combinations	**(46)**	-
Interest paid	**(234)**	(250)
Net cash from financing activities	**8,495**	1,521
Net increase/(decrease) in cash and cash equivalents	**4,505**	(2,370)
Cash and cash equivalents at the beginning of the year	**2,871**	5,241
Cash and cash equivalents at the end of the year	**7,376**	2,871

Notes to the Preliminary Announcement

1 Accounting Policies

Basis of preparation
The financial information set out in these audited preliminary results constitute the company's statutory accounts for 2013 and 2012. The notes in this preliminary announcement have been extracted from the audited accounts for the year ended 31 December 2013.

The financial information set out in these audited preliminary results has been prepared using recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in European Union (collectively Adopted IFRS). The accounting policies adopted in this preliminary results announcement have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the statutory accounts for the period ended 31 December 2012. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the period ended 31 December 2012.

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.

Each reporting segment is headed up by a dedicated CEO, with direct responsibility for delivering the segmental contribution budget. The internal financial information prepared for the Executive Committee includes contribution at a segmental level, and the Group Board allocates resources on the basis of this information.
Adjusted EBITDA as defined in note 3, profit before tax, and assets and liabilities are internally reported at a Group level.

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

The Group has two segments:

- Parity Professionals – this segment provides IT recruitment services across all UK markets. It also provides graduate selection, training, placement and career development services. 91% (2012: 90%) of the continuing Group's revenues.
- Parity Digital – this segment delivers unique 3D creative technology and business intelligence solutions designed around client problems. Digital provides 9% (2012: 10%) of the continuing Group's revenues.

Central costs include Corporate, Finance, HR, IT and Property costs, and are all managed centrally, 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.

2 Segmental information (continued)

	Parity Professionals 2013 £'000	Parity Digital 2013 £'000	Before non-recurring items £'000	Non-recurring items £'000	Total 2013 £'000
Revenue from external customers	**83,711**	**8,238**	**91,949**	**-**	**91,949**
Attributable costs	**79,505**	**6,308**	**85,813**	**-**	**85,813**
Segmental contribution	**4,206**	**1,930**	**6,136**	**-**	**6,136**
Central costs			**(3,607)**	**-**	**(3,607)**
Adjusted EBITDA			**2,529**	**-**	**2,529**
Strategic initiative costs*			**(1,076)**	**(695)**	**(1,771)**
Depreciation and amortisation			**(271)**	**-**	**(271)**
Share based payment			**(120)**	**-**	**(120)**
Other non-recurring items			**-**	**(905)**	**(905)**
Finance income			**655**	**-**	**655**
Finance costs			**(1,066)**	**-**	**(1,066)**
Profit/(loss) before tax (continuing activities)	**-**	**-**	**651**	**(1,600)**	**(949)**

	Parity Professionals 2012 £'000	Parity Digital 2012 £'000	Before non-recurring items £'000	Non-recurring items £'000	Total 2012 £'000
Revenue from external customers	77,491	8,396	85,887	-	85,887
Attributable costs	72,817	6,850	79,667	-	79,667
Segmental contribution	4,674	1,546	6,220	-	6,220
Central costs			(4,825)	-	(4,825)
Adjusted EBITDA			1,395	-	1,395
Strategic initiative costs*			(124)	(840)	(964)
Depreciation and amortisation			(497)	-	(497)
Share based payment			(124)	-	(124)
Other non-recurring items			-	(510)	(510)
Finance income			695	-	695
Finance costs			(1,061)	-	(1,061)
Profit/(loss) before tax	-	-	284	(1,350)	(1,066)

* Strategic initiative costs refer to costs associated with reviewing potential acquisition targets and other costs incurred as a result of pursuing the digital strategy.

The continuing Group operates exclusively in the UK. All revenues are generated and all segment assets are located in the UK.

55% (2012: 52%) or £45.8m (2012: £40.2m) of the Parity Professionals revenue was generated in the Public Sector. 32% (2012: 40%) or £2.7m (2012: £3.4m) of the Parity Digital revenue was generated in the Public Sector.
The largest single customer in Parity Professionals contributed revenue of £12.5m or 15% and was in the private sector (2012: £11.7m or 15% and in the private sector). The largest single customer in Parity Digital contributed revenue of £2.7m or 33% and was in the private sector (2012: £2.7m or 33% and in the private sector).

3 Reconciliation of operating loss to adjusted EBITDA

	2013	2012
	£'000	£'000
Operating loss from continuing operations	**(538)**	(700)
Strategic initiative costs	**1,076**	124
Non-recurring items	**1,600**	1,350
Share-based payment charges	**120**	124
Depreciation and amortisation	**271**	497
Adjusted EBITDA	**2,529**	1,395

The directors use EBITDA before strategic initiative costs, non-recurring items and share-based payment charges ('Adjusted EBITDA') as a key performance measure of the business.

4 Non-recurring items

	2013	2012
	£'000	£'000
Continuing Operations		
Strategic initiative costs	**695**	840
Restructuring		
- Employee benefit costs	**173**	226
- Other operating costs	-	735
Property provisions (other operating costs)	**732**	(451)
	1,600	1,350
Discontinued Operations		
Property provisions	**(46)**	19
	(46)	19

The continuing operations non-recurring charge for 2013 includes strategic initiative costs, restructuring costs and a charge relating to surplus property. Strategic initiative costs refer to the professional services incurred in the Group's acquisition programme. Restructuring costs refer mainly to the compensation payment for loss of office paid to Stephen Whyte who resigned from the Board on 26 September 2013. Of the charge for surplus properties, £471,000 relates to onerous lease costs in respect of additional unoccupied space at the Wimbledon head office, following the relocation of staff to offices in Chancery Lane and Shoreditch. The charge also includes a top up of £162,000 to the dilapidations provision for the Wimbledon office. The lease expires in September 2014. £60,671 of the property charge relates to onerous lease costs in respect of unoccupied floors of the Camberley office. The remainder of the property charge (£38,000) relates to onerous lease cost for empty properties which were exited during 2013 and for which the lease had expired by the end of 2013.

The discontinued operations non-recurring credit for 2013 relates to a payment received from the administrators of Parity Training Limited. The administration dividend related to a claim made by the Group in respect of costs it incurred under its obligation as guarantor on two Parity Training Limited properties, subsequent to the divestment of Parity Training Limited.

The continuing operations non-recurring charge for 2012 included strategic initiative costs, restructuring costs and a credit relating to surplus property. Strategic initiative costs referred to the professional services incurred in the Group's acquisition programme and included the costs relating to the acquisition of Inition Limited. Restructuring costs referred to the employee costs incurred in relation to the re-organisation of Parity Systems. Other operating costs referred to the write off of the net book value of the Group's financial system (£721,000), and professional fees of £14,000 in relation to employees affected by the reorganisation. The credit for surplus properties related to the sublet of an unoccupied area of the Wimbledon head office, for which the lease costs had been previously provided for, and reflected the contracted sub-let income to the end of the sub-lease.

The discontinued operations non-recurring charge for 2012 related to the costs payable for an ex-Parity Training Limited office, and the unwind of the provision discount in respect of discontinued properties.

5 Finance income and costs

	2013	2012
	£'000	£'000
Finance income		
Finance income in respect of post-retirement benefits	**655**	695
	655	695
Finance costs		
Interest expense on financial liabilities	**234**	250
Finance costs in respect of post-retirement benefits	**832**	811
	1,066	1,061

The interest expense on financial liabilities represents interest paid on the Group's asset-based financing facilities. A 1% increase in the base rate would increase annual borrowing costs by approximately £78,000.

6 Discontinued operations

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

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

	2013	2012
	£'000	£'000
(Expenses) / income other than finance costs	**(5)**	45
Non-recurring income/(expenses) (note 4)	**46**	(19)
Pre-tax profit	**41**	26
Taxation	**-**	-
Profit for the year	**41**	26

For 2013 the pre-tax profit before non-recurring items relates to legacy overseas subsidiaries of the Group, and comprises company secretarial and accounting fees.

For 2012 the pre-tax profit represents the write back of various accruals where the directors consider there to be no liability, offset by company secretarial and accounting fees.

The Statement of Cash Flows includes a £32,000 cash inflow (2012: £274,000 cash outflow) from operating activities in respect of discontinued operations.

7 Taxation

	2013	2012
	£'000	£'000
Current tax expense		
Current tax on loss for the year	**-**	-
Total current tax	**-**	-
Deferred tax expense/(credit)		
Accelerated capital allowances	**(25)**	(33)

Origination and reversal of other temporary differences	**(28)**	1
Change in corporation tax rate	**157**	118
Retirement benefit liability	**65**	245
Write down of deferred tax asset	**545**	
Trading losses	**-**	18
Adjustments in respect of prior periods	**29**	-
Total tax expense	**743**	349
Tax expense on continuing operations	**743**	349

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce from 23% to 21% from 1 April 2014 and, further, reduce to 20% from 1 April 2015. These changes were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

The 2013 tax expense is after a tax credit of £372,000 (2012: £148,000) in respect of exceptional items.

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

	2013 £'000	2012 £'000
Loss for the year	**(1,651)**	(1,389)
Income tax expense	**743**	349
Loss before income tax	**(908)**	(1,040)
Expected tax credit based on the standard rate of United Kingdom corporation tax of 23.25% (2012: 24.5%)	**(211)**	(256)
(Income)/expenses not allowable for tax purposes	**(20)**	264
Adjustment for under provision in prior years	**29**	3
Reduction in deferred tax asset due to change in enacted rate	**157**	118
Tax losses not recognised	**243**	220
Write down of deferred tax asset	**545**	-
	743	349

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

	2013			2012		
	Before tax £'000	**Tax £'000**	**After tax £'000**	Before tax £'000	Tax £'000	After tax £'000
Exchange differences on translation of foreign operations	**(25)**	**-**	**(25)**	(64)	-	(64)
Actuarial gain/(loss) on defined benefit pension scheme	**220**	**(23)**	**197**	(1,554)	287	(1,267)
	195	**(23)**	**172**	(1,618)	287	(1,331)

8 Earnings per ordinary share

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

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

	Earnings 2013 £'000	**Weighted average number of shares 2013 000's**	**Earnings per share 2013 Pence**	Earnings 2012 £'000	Weighted average number of shares 2012 000's	Earnings per share 2012 Pence
Basic loss per share	**(1,651)**	**87,905**	**(1.88)**	(1,415)	70,578	(2.00)
Effect of dilutive options		**-**	**-**		-	-
Diluted loss per share	**(1,651)**	**87,905**	**(1.88)**	(1,415)	70,578	(2.00)

As at 31 December 2013 the number of ordinary shares in issue was 101,624,020 (2012: 71,835,594).
Basic and diluted earnings per share from discontinued operations was 0.05p (2012: basic and diluted loss per share 0.04p).