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Parity Group PLC
07 March 2013

7 March 2013

PARITY GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR TO 31.12.12

Parity Group plc, the UK IT Services Company, announces its audited preliminary results for the year ended 31 December 2012.

Headlines

Parity Group plc reports good growth and a return to underlying profitability

- Revenues up 7.2% at £85.9m (2011: £80.1m)
- Adjusted EBITDA[1] of £1.27m (2011: £0.36m)
- Group Profit before non-recurring items and tax £0.28m (2011: £0.71m loss)
- Group loss for the year reduced to £1.39m (2011: £2.30m)
- Divisional results for 2012 -
    - **Resources**
        - £4.0m divisional contribution[2] (2011: £3.5m)
        - Contractor numbers up 15% to 880 at year end (2011: up 10% to 772)
        - Expanded portfolio now more balanced towards private sector
    - **Systems**
        - £1.29m divisional contribution[2] (2011: £1.86 m)
        - Margins remained stable at 20%
        - First TechLab IP initiative announced
    - **Talent Management**
        - £0.67m divisional contribution[2] (2011: £0.46m)
        - 14 clients gained following entry in GB market during 2012
        - Wins included Sheffield Hallam University, the Welsh Assembly and the National Skills Academy
    - **Inition** (acquired May 2012)
        - £0.26m divisional contribution[2]
        - Trading well with first earnout target achieved 3 months early
        - Clients in 2012 included Jaguar Land Rover, Gadget Show and Castrol

1 In assessing the performance of the business, the directors use a non-GAAP measure "Adjusted EBITDA" being the statutory measure, prior to non-recurring items and share based compensation. 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 costs3, 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:

"The Group's revenues have increased during 2012 and the Board is particularly encouraged by the steady improvement in profitability, which we expect to continue into 2013. In a quiet IT Services market our early moves away from slowing IT sectors have been successful; we will continue to review our position in this competitive market carefully.

This is a pivotal year for our Group as we press ahead with our digital media strategy; in relation to which the strong performance of Inition and positive market feedback received to date gives the Board increasing confidence. We are delighted to announce today that Stephen Whyte with his 25 years' experience in marketing communications has joined the Board to lead our digital media initiative.

Trading in the early weeks of the current year has been in line with expectations.

The Board remains confident in its ability to significantly increase shareholder value through a combination of the growth of the current businesses and its new strategic initiative in digital media."

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Chairman's Statement

2012 Results
I am pleased to report that we made further good progress in 2012, returning to a Group profit before tax and non-recurring items for the first time since 2009. New growth-oriented strategies have been implemented by the Board across, all divisions and the results are apparent.

Revenues increased to £85.9m in 2012 from £80.1m in 2011; and in a challenging market for IT services Resources increased its divisional contribution as did Talent Management which won 14 clients following its GB marketing initiative. In addition the Group made its first move into the digital media market with the acquisition of Inition Limited in May 2012, which has performed well achieving its first earn-out profit target three months early.

The Group's Techlab initiative agreed in principle in January 2013, a joint venture with Royal Holloway, University of London to develop their innovative social media search algorithm.

Before non-recurring items and tax the Group returned a profit of £0.28m compared to a loss of £0.71m in 2011. A Group loss for the year of £1.39m attributable to shareholders compares to £2.30m loss in 2011.

Non-recurring items in the year were £1.22m including transaction costs of £0.84m relating to the acquisition of Inition, and other on-going and aborted acquisition costs.

During the year we sublet 8,430 sq. ft. of unused office space in Wimbledon. The Group now holds no empty office space. Divisional results and current trading are discussed in the CEO's Report.

Cash, Dividend and Investments
Cash at year end was £2.87m (2011: £5.24m) following an outlay of £1.5m cash for the Inition first stage payment, pension deficit payments of £1.0m and transaction costs. There were £0.46m of investment costs in 2012 (2011: £0.69m) which completed the two year investment programme intended to reduce costs, transition the Group into profitable work and initiate its digital media strategy. The Board decided to place shares to the value of £0.6m (net) in January 2013 to provide funding for the Inition payment and on-going transaction costs.

Banking arrangements with PNC have been in place since late 2010 with a maximum facility of £15m, which the Board believes is adequate for the Group's current and future requirements. Recently this facility was extended to December 2014.

The Board has decided not to pay a dividend for the 2012 financial year; but will continue to reconsider this policy each year.

Strategy
Having returned the Group to profitability the Board can concentrate on growing its Resources, Talent Management, Systems and Inition divisions; whilst making strategic moves in the digital media market towards its ambition of becoming a significant early mover in the new Creative Technology sector of this market. This will be underpinned by a strong technology edge; particularly in areas such as 3D, augmented and virtual reality, interactive applications and mobile App developments.

In the last quarter of 2012 we set in motion an internal de-centralisation to separate our technology businesses (Systems and Inition) from our human resources businesses (Resources and Talent management) so that they could own the central functions and services they each need to carry out their business.. The former as our embryo digital division will in future be known as Parity Digital Solutions and the latter as Parity Professionals. We expect this new structure to be more efficient and to enable further cost savings, as well as allowing a clearer focused strategy for each division.

Appointments to the Main Board

I am pleased to announce today that Stephen Whyte has been appointed a director of Parity Group plc. As CEO of Parity Digital Solutions he will lead the Group's digital media strategy. With over twenty five years management experience in marketing communications, including CEO at Acxiom Europe and McCann Erickson, he brings great experience and knowledge to our Board.

On 1st February 2013 I was also pleased to report that Suzanne Chase, a qualified lawyer and a senior executive with extensive legal and commercial experience, joined our Board as our part-time general counsel. Suzanne had previously worked with us for twelve months and her skills are very relevant to the acquisitive nature of our digital strategy..

Current Trading and Future Prospects

The Group's revenues have increased during 2012 and the Board is particularly encouraged by the steady improvements in profitability, which we expect to continue into 2013. In a quiet IT Services market our early moves away from slowing IT sectors and towards specific niche sectors have been successful; but we will continue to review our position in this competitive market carefully.

This is a pivotal year for our Group as we press ahead with our digital media strategy; in relation to which the performance of Inition and positive market feedback received to date gives the Board increasing confidence. With the strong management put in place over the last two years the Group is now well positioned to move forward with its plans. Trading in the early weeks of the current year has been in line with expectations.

The Board remains confident in its ability to significantly increase shareholder value through a combination of the growth of the current businesses and its new strategic initiative in digital media.

Philip Swinstead OBE, Chairman

Operating review

Overview

Over the past two years Parity has created a solid base from which to execute its expansion plans including further development of its digital marketing strategy. All divisions now return healthy margins and the cost base has been reduced.

Several new initiatives announced last year are progressing well including expansion of our Talent Management business, evolution of a Parity Technology Laboratory and our first acquisition for a number of years.

We are also consolidating our businesses into two distinct divisions. The first is focused on developing and placing skilled people (getting professional people into work). The second is focused on addressing the exciting and emerging digital media market (using new technologies for marketing purposes) as identified in our corporate strategy two years ago. From the second quarter of 2013 these two divisions will report separately to the Board under the headings of 'Parity Professionals' and 'Parity Digital Solutions'. Future reporting will be on this basis.

Adjusted EBITDA at £1.27m (2011: £0.36m) from a £1.98m loss in 2010 demonstrates the continued turnaround and improved profitability of the Group.

Group Operations

Parity continued to operate during the year in the IT Services market and traded exclusively in the UK from offices in Wimbledon, Shoreditch, Camberley, Sale, Edinburgh and Belfast.

In May 2012 we announced the acquisition of Inition Ltd, a specialist in 3D scanning and printing, advanced augmented reality systems and virtual reality installations operating in the UK from their offices in Shoreditch.

Much of Parity's work remains short term in nature although several 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 spending, the breadth of our private sector portfolio continues to increase and it is expected that this trend will continue.

Our entry into the GB graduate development market with our Talent Management business and into the digital marketing arena with our Inition acquisition has broadened our customer base and is moving us into new and exciting sectors.

Parity Resources

Our main objective for this division in 2012 was to reverse the decline in recent years of both revenues and contribution by extending services, increasing contractor numbers, improving conversion rates and maintaining overall margins. This was accomplished against a backcloth of a depressed employment market which responded to continued economic pressures by seeking to reduce headcount, margins and utilisation wherever possible.

During the period we invested in additional sales and support staff, built upon our reputation as a value-add provider, sought new business opportunities and extended our services beyond our traditional IT base.

As a result we have increased our contractor numbers by 14% to 880 at year end (2011 - 772) and improved conversion rates to 30% (2011 26%). We have also seen increased activity with permanent recruitment and have newly established teams to focus on the engineering and digital skills markets.

The investment in staff to fuel our growth ambitions had a minor impact on second half contributions but was considered essential to reinforce team size, particularly in our London office which was established in 2011, became self funding during 2012 and is now making a positive contribution.

In total, revenues in the year increased by 10% to £75.3m (2011: £68.7m) with divisional contribution increasing by 14% to £4.0m (2011: £3.5m).

At the year end the ratio of Private/Government-Public Sector placings was 63/37 (end 2011: 48/52) reflecting our ambitions to develop a more balanced portfolio whilst continuing to recognise the importance of the Government and Public Sector markets to our overall business.

A number of existing contracts were extended and 67 new clients were signed up during the year (2011: 60). Along with our investment in new staff and sectors, these will maintain our impetus for 2013 in what remains a competitive market. This business will sit within our new Parity Professionals division going forward.

Parity Talent Management

This business was originally established 16 years ago around the successful graduate development programme for the Northern Ireland Government. It was later extended to include the prestigious Faststream graduate recruitment programme run on behalf of HMRC. Both contracts were renewed in 2012 for a further 3 years and 1 year respectively although delays in the Northern Ireland contract resulted in deferrals of expected revenues to later years.

During 2011 a strategic decision was taken to invest in this business so as to extend the portfolio and introduce a number of graduate development programmes across the UK, focussing initially on Higher Education establishments and industry. As a result we entered 2012 with an increased cost base, a unique and proven proposition, but only the two contracts referred to above.

Our mission therefore was to address this new market and build upon our established capabilities and reputation.
In the first quarter we won our first contract in the education sector with a range of graduate employability programmes for Sheffield Hallam University (SHU). This initial 18 month contract has led to a further partnership with SHU to win a graduate programme for the National Skills Academy Food Engineering Degree.
On the back of this success the division has since won similar contracts with a further 3 English Universities together with a 3 year contract for the Welsh Assembly involving initially 4 Welsh Universities.

As momentum built during the year operating margins improved from 21% in the first half to 33% in the second half, as our earlier investments began to pay off. During the year 14 new contracts were signed across GB from this standing start with £3.7m of new business achieved.

Having established a solid base in this market we are now seeking to invest further to extend our propositions and seek to address the equally attractive apprentice development market. Whilst investment and a contract delay resulted in a slow start to the year, subsequent successes resulted in revenues of £2.2m (2011: £2.3m) and contributions of £0.67m (2011: £0.46m). Overall divisional operating margins were also increased to 30.6% (2011: 20.25%). This business will sit within our new Parity Professionals division going forward.

Parity Systems

Over the past two years the division has been transformed from loss making to a stable operation with creditable operating margins. This has been achieved by the removal of loss making business (primarily associated with legacy fixed price contracts), reductions in operating costs and a focus on established clients. These actions, as anticipated, have resulted in revenue reductions whilst creating a stable and profitable platform with appropriate skill sets to operate within the new Digital Solutions division.

Long standing contractual arrangements with our 3 major clients continue although we anticipate work with the Charity Commission to decline as they redirect their budgets. Our close relationship with BAT has resulted in them extending their contract with us for a further year. Similarly, we continue to provide services to the MOD and are currently introducing some potentially exciting 3D and augmented reality capabilities from our Inition Ltd acquisition to them.
We have also had some success with our Business Intelligence initiative, announced last year, signing a consultancy and subsequent implementation contract with a major legal firm.

During the year Parity maintained it's Gold partner status with Microsoft and Oracle.
The Parity R&D Technology Laboratory initiative (Tech Lab) announced in January its first contract with the Northern Ireland Government to research emerging digital technologies. More recently Tech Lab has agreed in principle a joint venture with Royal Holloway, University of London to develop their innovative social media search algorithm. We will continue to use Tech Lab to establish potential sources of IP and to develop digital technology partnerships.
Our planned exit from loss making and largely fixed price systems integration work has resulted in a decline in revenues to £6.5m (2011: £9.2m). Margins, however, have been stabilised for 2 years at around 20% (2011: 20%) with a resultant contribution of £1.3m (2011: £1.9m). This business will sit within our new Parity Digital Solutions division going forward.

Inition

On 29th May the Group announced its first step in implementing the stated strategy to move into the expanding digital media market with the acquisition of London based Inition a leading 3D specialist. Inition's founders have remained with the business and have achieved their first year profit based earn out 3 months early thereby demonstrating the commercial potential of this acquisition.

The business can boast having worked on projects for a number of major corporations, including for example: Jaguar Land Rover, Gadget Show, Castrol, Guardian and Edrington Group. Project work during the period has included medical applications, augmented reality visualisation at a car launch, an immersive wing suit experience for a major manufacturer, holographic animation for advertising purposes and crowd gaming experiences for shows and exhibitions. The list goes on and on, but is specialised and addresses the emerging new digital marketing space.
Revenues for the 7 months from May were £1.9m with a contribution of £0.26m. Inition has continued to run for earn out purposes with it's separately defined overhead structure. It is anticipated that during 2013 some sharing of overheads with the remainder of the Group will occur with associated cost savings. The business will sit within our new Parity Digital Solutions division going forward.

Group Cost Savings

We continue to seek ways in which to improve operational efficiencies and in particular identified three areas for further savings:

New Finance System

The company has for some time utilised a custom built bespoke finance reporting system based on Microsoft AX. This system is expensive to maintain, difficult to modify and will increasingly become unsuitable as we extend our operations. For this reason the decision has been made to move onto a more flexible and cost effective finance platform with a roll out programme having commenced in December.

Initially our Systems and Inition businesses will be migrated onto a SAP Business By Design Cloud based solution with our Resources and Talent Management business migrating off AX during the course of 2013.
As a result of this we have written off £0.7m which relates to the net book value of the Micro soft AX system as at 31st December 2012. The effect of this write off will be to reduce the annual depreciation charge from the 2012 level by £0.2m.

Property

In June 2010 Parity Training, which was sold in February 2009, was placed in administration. The Group remained guarantor on certain leases held by Parity Training and since had to bear significant costs on those leases. During 2012, the final lease was disposed of and we no longer hold any legacy property formerly owned by Parity Training.
In our head office in Wimbledon we had just under 9,000 sq ft of unused office space which due to the economic climate and short lease term remaining we felt would be very difficult to obtain a tenant for and therefore in 2011 provided for in full the lease costs on the vacant space to the end of the term. We are pleased to report though that during 2012 we have managed to secure a sub-tenant for the remainder of the lease which will generate additional cash of £0.2m per year.

Parity Professionals and Parity Digital Solutions

As a result of the internal de-centralisation to separate out our technology businesses (Systems and Inition) from our human resources businesses (Resources and Talent Management), we expect that this new structure will more efficient and enable further cost savings to be made.

Investment in New Initiatives

In accordance with statements made during our May 2011 placing we have continued to invest in certain aspects of the business. In particular we have established Talent Management across the UK, expanded our Resources portfolio, created Tech Lab, and achieved our first entry into the digital media market with the part cash acquisition of Inition.
Additionally we have continued to invest in staff and advisors to research the digital technology arena and further enhance our corporate strategy in this respect.
As a result some £0.46m has been spent in the year which brings to and end this investment programme.

Management and Staff

Once again our team has responded to the considerable challenges involved in positioning the company for profitable growth both in its existing markets and those identified in the Group strategy, particularly relating to the digital media market. They continue to be responsive and embrace the challenges brought by change. Without their skills and commitment we could not have set a solid base for future growth and this within a continued difficult economic climate. The Board is again proud and grateful to them and wishes to express its thanks for their on-going support and loyalty.

Paul Davies, Chief Executive Officer

Financial review

Revenue

Continuing operations	**2012 £'000**	2011 £'000
Resources	**75,289**	68,662
Systems	**6,504**	9,209
Talent Management	**2,202**	2,271
Inition	**1,892**	-
	85,887	80,142

Revenue in total has increased by 7.2% to £85.9m (2011: £80.1m). The Resources division has continued to see good growth from 2011, increasing its revenues by £6.6m (9.6%) from £68.7m to £75.3m. Systems revenue has fallen by £2.7m since 2011 to £6.5m as the removal of loss making contracts (mainly associated with earlier fixed price contracts) has now been completed. In Talent Management, government spending was cut back in the second half of 2011and this had a knock on affect into the first half of 2012. However, revenues during 2012 have steadily grown with revenue in the first half of £0.94m increasing to £1.27m in the second half. Revenue for Inition of £1.89m represented the first 7 months since acquisition and on an annualised basis based on its results to 31st March 2012, showed growth of 22.8%.

Divisional contribution

Continuing operations	**2012 £'000**	2011 £'000
Resources	**4,000**	3,506
Systems	**1,288**	1,862
Talent Management	**674**	461

Inition	**258**	-
Divisional contribution before central costs, non-recurring items and investment costs	**6,220**	5,829

Divisional contribution has increased by £0.39m to £6.22m (2011: £5.83m). Divisional contribution has increased in Resources and Talent Management both in absolute terms and as a percentage of revenue. Divisional contribution in Resources has increased to 5.3% (2011: 5.1%) and in Talent Management to 30.6% (2011: 20.3%). In Systems, margins have been gradually improving from 16% in the first half to 23.5% in the second half. Note, however, that margins in the second half of 2011 were improved by a release of provisions on fixed price contracts, this not being the case in 2012 . Inition, which was acquired on 29th May 2012 has made a divisional contribution in its first 7 months of £0.26m at a margin of 13.6% representing a significant improvement in profitability compared to the full year prior to acquisition, (Year to 31st March 2012) of £0.06m.

Reconciliation of divisional contribution to operating loss from continuing operations

	2012 £'000	2011 £'000
Divisional contribution before central costs, non-recurring items and investment costs	**6,220**	5,829
Central costs	**(4,488)**	(4,785)
Depreciation and amortisation	**(497)**	(537)
Share-based payment charges	**(124)**	(177)
Investment costs	**(461)**	(688)
Operating profit/(loss) before non-recurring items	**650**	(358)
Non-recurring items (continuing operations)	**(1,350)**	(1,437)
Operating (loss) from continuing operations	**(700)**	(1,795)

Central costs continue to be a focus of management's attention, as evidenced by the £0.30m reduction from £4.8m in 2011 to £4.5m in 2012. Investment costs refer to costs associated with new initiatives which were outlined in the Group's prospectus, issued in respect of the Firm Placing, and

Placing and Open Offer of new ordinary shares in May 2011. The investment programme has now been completed. The combination of improved divisional performance and further reduction in central costs has contributed to an improvement of £1m in operating profit turning the loss of £0.36m in 2011 into a profit of £0.65m in 2012.

Non-recurring items

Continuing operations	**2012 £'000**	2011 £'000
Restructuring	**961**	491
Transaction costs	**840**	-
Property provisions	**(451)**	946
	1,350	1,437

Non-recurring items in the year include the writing off of the remaining investment in our Microsoft Dynamics AX ERP system of £0.72m. The heavily customised system was installed 4 years ago and has shown itself to be inflexible, expensive to maintain, and will not provide the correct platform for the company as we extend our operations. Initially our Systems and Inition businesses will be migrated onto SAP by Design, with the Resources and Talent Management businesses migrating off of AX during the course of 2013.

Transaction costs refer to the professional fees incurred in our acquisition programme and relate to the acquisition of Inition Limited, an aborted acquisition and on-going acquisition activity.

The Board believed last year that due to the economic climate and because such a short period of lease remained on the vacant offices at Wimbledon, a provision should be made against the remaining previously un-provided costs to the end of the lease. However, the Board is pleased to report that despite the difficulties, this unoccupied area has now been sublet and the release in provision reflects the contracted sub-let income to the end of the lease.

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 2.00 pence (2011: 3.99 pence).

The Board does not propose a dividend for 2012 (2011: nil), but will continue to review this policy each year.

Statement of Financial Position

The most significant movements in the balance sheet were in the recognition of goodwill on the acquisition of Inition, the increase in the defined benefit scheme liability as a result of an actuarial loss, the write off of the investment in Microsoft AX ERP and the increase in net debt caused by acquisition activity and legacy payments. The net impact of these movements was to reduce the Group's net assets by £1.84m.

Trade receivables and accrued income
Trade receivables increased by £0.5m to £13.0m (2011: £12.5m) during the year, reflecting mainly the increase in group revenue and acquisition of Inition Limited. Due to continued focus on working capital management, debtor days at the end of the year, calculated on billings on a countback basis, improved to 26 (2011: 27).

Trade and other payables
Trade and other payables increased slightly during the year to £9.4m (2011: £8.8m). As with trade receivables this is mainly due to the increase in trading volumes and the acquisition of Inition Limited.

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 increase in revenues and the improvements in working capital management had the impact of reducing borrowing requirements; however this was offset by the various acquisition and legacy payments made during the year. The asset-based lending facility provides for borrowing of up to £15.0m depending on the availability of appropriate assets as security. Interest on borrowings is charged at 2.5% over the prevailing base rate.

Cash flow and net debt
Before working capital movements, the Group generated cash during 2012 of £0.67m compared to an outflow in 2011 of £1.13m but once working capital movements are taken into consideration there was a net outflow in 2012 of £2.6m (2011: £1.46m). Cash and cash equivalents fells by £2.37m during the year and coupled with an increase in loans and borrowings of £1.78m, net debt increased during the year by £4.1m. This increase can be broken down into two types. Firstly, acquisition based activity. £1.2m represented the net acquisition costs of Inition Limited and £0.7m represented transaction costs on Inition and an aborted transaction. The second type can be described as legacy payments and include £1m paid in deficit reduction contributions to the retirement benefit fund; £0.5m paid for the cancellation of the Group's outsourced contract for its internal IT system; and £0.43m in payments in respect of unused property.

Provisions
The net reduction in provisions of £1.18m includes the release of excess empty property provisions in respect of the vacant offices in the Wimbledon of £0.45m, and a cash outflow against existing provisions of £0.43m.

Pension Fund
During 2012 the Group paid deficit reduction payments of £1m into the defined benefit scheme but despite this and following the triennial valuation that took place in 2012, the liability increased by £0.58m to £3.05m (2011: £2.47m). At the year end an actuarial loss of £1.55m was recorded, mainly as a result of a reduction to the discount rate used in valuing the scheme liabilities.

Principal risks and uncertainties
Market

The Group continues to reduce its exposure to the public sector with 2012 revenues from public sector clients falling from 63% to 54% of total revenue during the year. However, the Group 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 on-going 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.

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 2012

	Notes	**Before non-recurring items 2012 £'000**	**Non-recurring items 2012 (note 4) £'000**	**Total 2012 £'000**	Before non-recurring items 2011 £'000	Non-recurring items 2011 (note 4) £'000	Total 2011 £'000
Continuing operations							
Revenue	2	**85,887**	**-**	**85,887**	80,142	-	80,142
Employee benefit costs		**(8,032)**	**(226)**	**(8,258)**	(7,989)	-	(7,989)
Depreciation & amortisation		**(497)**	**-**	**(497)**	(537)	-	(537)
All other operating expenses		**(76,708)**	**(1,124)**	**(77,832)**	(71,974)	(1,437)	(73,411)
Total operating expenses		**(85,237)**	**(1,350)**	**(86,587)**	(80,500)	(1,437)	(81,937)
Operating profit/(loss)		**650**	**(1,350)**	**(700)**	(358)	(1,437)	(1,795)
Finance income	5	**695**	**-**	**695**	770	-	770
Finance costs	5	**(1,061)**	**-**	**(1,061)**	(1,124)	-	(1,124)
Profit/(loss) before tax		**284**	**(1,350)**	**(1,066)**	(712)	(1,437)	(2,149)
Taxation	7	**(497)**	**148**	**(349)**	(208)	116	(92)
Loss for the year from continuing operations		**(213)**	**(1,202)**	**(1,415)**	(920)	(1,321)	(2,241)
Discontinued operations							
Profit/(loss) for the year from discontinued operations	6	**45**	**(19)**	**26**	(22)	(36)	(58)
Loss for the year attributable to owners of the parent		**(168)**	**(1,221)**	**(1,389)**	(942)	(1,357)	(2,299)
Basic and diluted loss per share	8			**(2.00p)**			(3.99p)

Parity Group plc

Statements of comprehensive income and statements of changes in equity

for the year ended 31 December 2012

Statement of comprehensive income

for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Loss for the year		**(1,389)**	(2,299)
Other comprehensive income:			
Exchange differences on translation of foreign operations		**(64)**	24
Actuarial (loss)/gain on defined benefit pension scheme		**(1,554)**	81
Deferred taxation on actuarial losses/gains on pension scheme taken directly to equity		**287**	(22)
Other comprehensive income for the year net of tax		**(1,331)**	83
Total comprehensive income for the year attributable to equity holders of the parent		**(2,720)**	(2,216)

Statements of changes in equity

for the year ended 31 December 2012

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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**

Consolidated	**Share capital £'000**	**Deferred shares £'000**	**Share premium reserve £'000**	**Other reserves £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2011	760	14,319	20,134	44,160	(78,040)	1,333
Loss for the year	-	-	-	-	(2,299)	(2,299)
Exchange differences on translation of foreign operations	-	-	-	-	24	24
Actuarial gain on defined benefit pension scheme	-	-	-	-	81	81
Deferred taxation on actuarial gains on pension scheme taken directly to equity	-	-	-	-	(22)	(22)
Issue of new ordinary shares	615	-	5,810	-	-	6,425

Share options - value of employee services	-	-	-	-	177	177
At 31 December 2011	1,375	14,319	25,944	44,160	(80,079)	5,719

Parity Group plc
Statement of financial position
As at 31 December 2012

	2012	2011
	£'000	£'000
Assets		
Non-current assets		
Intangible assets	**7,756**	5,547
Property, plant and equipment	**415**	593
Deferred tax assets	**1,318**	1,384
	9,489	7,524
Current assets		
Stocks and work in progress	**20**	116
Trade and other receivables	**13,044**	12,539
Cash and cash equivalents	**2,871**	5,241
	15,935	17,896
Total assets	**25,424**	25,420
Liabilities		
Current liabilities		
Loans and borrowings	**(8,283)**	(6,504)
Trade and other payables	**(8,938)**	(8,783)
Provisions	**(308)**	(881)
	(17,529)	(16,168)
Non-current liabilities		
Loans and borrowings	**(8)**	-
Trade and other payables	**(500)**	-
Provisions	**(462)**	(1,066)
Retirement benefit liability	**(3,047)**	(2,467)
	(4,017)	(3,533)
Total liabilities	**(21,546)**	(19,701)
Net assets	**3,878**	5,719
Shareholders' equity		
Called up share capital	**15,756**	15,694
Share premium account	**26,637**	25,944
Other reserves	**44,160**	44,160
Retained earnings	**(82,675)**	(80,079)
Total shareholders' equity	**3,878**	5,719

Parity Group plc
Statement of cash flows
for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Loss for year:		**(1,389)**	(2,299)
Adjustments for:			
Finance income	5	**(695)**	(770)
Finance expense	5	**1,061**	1,124
Share-based payment expense		**124**	177
Income tax expense/(credit)	7	**349**	95
Amortisation of intangible fixed assets		**233**	249
Depreciation of property plant and equipment		**264**	288
Loss on disposal of intangible assets		**721**	-
Change in fair value of available-for-sale investment		**-**	7
		668	(1,129)
Working Capital			
Decrease in work in progress		**117**	121
(Increase)/decrease in trade and other receivables		**(229)**	2,260
(Decrease)/increase in trade and other payables		**(925)**	(2,570)
(Decrease)/increase in provisions		**(1,178)**	(139)
Payments to retirement benefit plan		**(1,090)**	-
Cash generated from operations		**(2,637)**	(1,457)
Income taxes paid		**-**	(3)
Net cash flows from operating activities		**(2,637)**	(1,460)
Investing activities			
Acquisitions (net of cash received)		**(1,138)**	-
Purchase of property, plant and equipment		**(113)**	(11)
Purchase of intangible assets		**(3)**	-
Proceeds from disposal of available for sale assets		**-**	123
Net cash used in investing activities		**(1,254)**	112
Financing activities			
Issue of ordinary shares		**5**	6,425
Proceeds from finance facility		**1,766**	150
Interest paid		**(250)**	(231)
Net cash (used in)/ from financing activities		**1,521**	6,344
Net increase in cash and cash equivalents		**(2,370)**	4,996
Cash and cash equivalents at the beginning of the year		**5,241**	245
Cash and cash equivalents at the end of the year		**2,871**	5,241

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 2012 and 2011. The notes in this preliminary announcement have been extracted from the audited accounts for the year ended 31 December 2012.

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 2011.

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 Executive Committee), have been used as the basis to define reporting segments.

Each reporting segment is headed up by a dedicated managing director, 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 Executive Committee allocates resources on the basis of this information.
Adjusted EBITDA as defined in note 4, 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 four segments:

- Resources - this segment provides contract, interim and permanent IT recruitment services across all markets. Resources provides 88% (2011: 86%) of the continuing Group's revenues.
- Systems - this segment delivers innovative technology solutions designed around client problems, including Cloud solutions, database solutions and collaborative information management. Systems provides 8% (2011: 11%) of the continuing Group's revenues.
- Talent Management - this segment works with clients to recruit, develop and grow their talent through improving skills and capability early in employees' careers. Talent Management provides 3% (2011: 3%) of the continuing Group's revenues.
- Inition - this segment was acquired by the Group on 29 May 2012. Inition specialises in leading-edge 3D technology consultancy, systems integration and equipment. Inition provided 3% (2011: nil%) of the continuing Group's revenues, for the 7 months that it was part of the Group.

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.

	Resources 2012 £'000	Systems 2012 £'000	TMS 2012 £'000	Inition 2012 £'000	Total 2012 £'000
Revenue					
Total revenue	75,492	6,517	2,202	1,892	86,103
Inter-segment revenue	(203)	(13)	-	-	(216)
Revenue from external customers	75,289	6,504	2,202	1,892	85,887
Attributable costs	(71,289)	(5,216)	(1,528)	(1,634)	(79,667)
Segmental Contribution	**4,000**	**1,288**	**674**	**258**	**6,220**
Central costs					(4,488)
Adjusted EBITDA before investment costs					**1,732**
Investment costs*					(461)
Adjusted EBITDA					**1,271**
Depreciation and amortisation					(497)
Share based charges					(124)
Non-recurring items					(1,350)
Finance income					695
Finance costs					(1,061)
Loss before tax (continuing activities)					**(1,066)**

	Resources 2011 £'000	Systems 2011 £'000	TMS 2011 £'000	Inition 2011 £'000	Total 2011 £'000
Revenue					
Total revenue	68,959	9,222	2,271	-	80,452
Inter-segment revenue	(297)	(13)	-	-	(310)
Revenue from external customers	68,662	9,209	2,271	-	80,142
Attributable costs	(65,156)	(7,347)	(1,810)	-	(74,313)
Segmental contribution	3,506	1,862	461	-	5,829

Central costs	(4,785)
Adjusted EBITDA before investment costs	1,044
Investment costs*	(688)
Adjusted EBITDA	356
Depreciation and amortisation	(537)
Share based charges	(177)
Non-recurring items	(1,437)
Finance income	770
Finance costs	(1,124)
Loss before tax (continuing activities)	(2,149)

* Investment costs refer to costs associated with new initiatives which were outlined in the Group's prospectus, issued in respect of the Firm Placing, and Placing and Open Offer of new ordinary shares.

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

51% (2011: 62%) or £38.5m (2011:£42.5m) of the Resources revenue was generated in the Public Sector. 52% (2011: 63%) or £3.4m (2011: £5.8m) of the Systems revenue was generated in the Public Sector. 76% (2011: 86%) or £1.7m (2011: £2.0m) of the Talent Management revenue was generated in the Public Sector. Inition's revenues are exclusively generated in the Private Sector.
The largest single customer in Resources contributed revenue of £11.7m or 16% and was in the private sector (2011: of £9.9m or 14% and in the private sector). The largest single customer in Systems contributed revenue of £2.7m or 41% and was in the public sector (2011: £3.3m or 36% a in the public sector). The largest single customer in TMS contributed revenue of £0.9m or 40% and was in the public sector (2011: £1.2m or 51% in the public sector). The largest single customer in Inition contributed revenue of £0.2m or 11% and was in the private sector (2011: Inition not part of the Group).

62% (2010: 71%) or £42.5m (2010: £55.6m) of the Resources revenue was generated in the Public Sector. 63% (2010: 73%) or £5.8m (2010: £8.9m) of the Systems revenue was generated in the Public Sector. 86% (2010: 90%) or £2.0m (2010: £2.5m) of the Talent Management revenue was generated in the Public Sector. The largest single customer in Resources contributed revenue of £9.9m or 14% and was in the private sector (2010: £6.6m or 8% and in the private sector). The largest single customer in Systems contributed revenue of £3.3m or 36% and was in the public sector (2010: £4.0m or 33% in the public sector). The largest single customer in TMS contributed revenue of £1.2m or 51% and was in the public sector (2010: £1.4m or 52% in the public sector).

3 Reconciliation of operating loss to adjusted EBITDA

	Note	**2012 £'000**	2011 £'000
Operating loss from continuing operations		**(700)**	(1,795)
Non-recurring items	4	**1,350**	1,437
Share-based payment charges		**124**	177
Depreciation and amortisation		**497**	537
Adjusted EBITDA		**1,271**	356

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

4 Non-recurring items

	2012 £'000	2011 £'000
Continuing Operations		
Transaction costs	**840**	-
Restructuring		
- Employee benefit costs	**226**	-
- Other operating costs	**735**	491
Property provisions (other operating costs)	**(451)**	946
	1,350	1,437
Discontinued Operations		
Property provisions	**19**	36
	19	36

The continuing operations non-recurring charge for 2012 includes transaction costs, restructuring costs and a credit relating to surplus property. Transaction costs refer to the professional services rendered in the Group's acquisition programme, and mainly relate to the acquisition of Inition Limited and an aborted acquisition. Restructuring costs refer to the employee costs incurred in relation to the re-organisation of Parity Systems. Other operating costs refers 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. New financial systems will be implemented across the Group, commencing with the Systems division, which plans to go-live in Q1 2013. The credit for surplus properties relates to the sublet of an unoccupied area of the Wimbledon head office, for which the lease costs had been previously provided for, and reflects the contracted sub-let income to the end of the sub-lease.

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

In 2011 the IT outsource contract was terminated early, with the IT infrastructure support service now being provided in-house. The early termination payment incurred was £0.44m. Secondly, it was decided that the Belfast office would relocate to a more suitable location, incurring costs of £0.12m. Both of these decisions have resulted in cost savings to the Group. In addition, the directors took the prudent view that the vacant office of the Wimbledon property was unlikely to be sub-let before the head lease expired, and therefore the previously unprovided costs to the end of the lease in 2014 of £0.95m were provided for.

Discontinued operations in 2011 relates to the unwinding of the provision discount, and a small top-up of the provision for an ex Parity Training building.

5 Finance income and costs

	2012 £'000	2011 £'000
Finance income		
Expected return on pension scheme assets	**695**	770

	695	770
Finance costs		
Interest expense on financial liabilities	**250**	231
Notional interest on post retirement benefits	**811**	893
	1,061	1,124

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 £83,000.

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. Their assets and liabilities will be reversed and eliminated in due course.

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

	2012	2011
	£'000	£'000
Income / (expenses) other than finance costs	**45**	(19)
Non-recurring costs (note 5)	**(19)**	(36)
Pre-tax profit (loss)	**26**	(55)
Taxation	**-**	(3)
Profit / (loss) for the year	**26**	(58)

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.

For 2011 the pre-tax loss relates to legacy overseas subsidiaries of the Group, and comprises company secretarial and accounting fees.

The Statement of Cash Flows includes a £274,000 (2011: £67,000) cash outflow from operating activities in respect of discontinued operations.

7 Taxation

	2012	2011
	£'000	£'000
Current tax expense		
Current tax on loss for the year	**-**	-
Total current tax	**-**	-
Deferred tax expense/(credit)		
Accelerated capital allowances	**(33)**	**-**
Origination and reversal of other temporary differences	**1**	(5)
Change in corporation tax rate	**118**	137
Retirement benefit liability	**245**	(33)
Trading losses	**18**	-

Adjustments in respect of prior periods	**-**	(7)
Total tax expense/(credit)	**349**	92

Income tax expense from continuing operations	**349**	92
Income tax expense from discontinued operations	**-**	3
	349	95

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2011) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

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 2012 tax expense is after a tax credit of £148,000 (2011: £116,000) 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:

	2012	2011
	£'000	£'000
Loss for the year	**(1,389)**	(2,299)
Income tax expense / (credit) (including discontinued operations)	**349**	95
Loss before income tax	**(1,040)**	(2,204)
Expected tax credit based on the standard rate of United Kingdom corporation tax of 24.5% (2011 26.5%)	**(256)**	(584)
Expenses not allowable for tax purposes	**264**	105
Adjustment for under/(over) provision in prior years	**3**	8
Reduction in deferred tax asset due to change in enacted rate	**118**	137
Tax losses not recognised	**220**	429
	349	95

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

	2012 Before tax £'000	2012 Tax £'000	2012 After tax £'000	2011 Before tax £'000	2011 Tax £'000	2011 After tax £'000
Exchange differences on translation of foreign operations	**(64)**	**-**	**(64)**	24	-	24
Actuarial gain on defined benefit pension scheme	**(1,554)**	**287**	**(1,267)**	81	(22)	59
	(1,618)	**287**	**(1,331)**	105	(22)	83

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 2012 £'000	**Weighted average number of shares 2012 000's**	**Earnings per share 2012 Pence**	Earnings 2011 £'000	Weighted average number of shares 2011 000's	Earnings per share 2011 Pence
Basic loss per share	**(1,415)**	**70,578**	**(2.00)**	(2,241)	56,155	(3.99)
Effect of dilutive options					-	-
Diluted loss per share	**(1,415)**	**70,578**	**(2.00)**	(2,241)	56,155	(3.99)

As at 31 December 2012 the number of ordinary shares in issue was 71,835,594 (2011: 68,741,567). Basic and diluted earnings per share from discontinued operations was 0.04p (2011: basic and diluted loss 1.10p).