

CORPORATE GOVERNANCE REPORT

Introduction

The maintenance of high standards of corporate governance remains a key priority for the Board. UK Listing Rules require listed companies to disclose how they have applied the principles of the Combined Code on Corporate Governance and whether they have complied with the provisions set out in section 1 of the Combined Code throughout the year. If there are instances of non-compliance, companies must state which provisions they have not complied with, what period the non-compliance covered during the year and provide an explanation for the non-compliance.

The Board considers that, throughout the year ended 31 December 2010, the Group has complied with the provisions of the 2008 Combined Code, except in the following areas:

- Under the code, as Chairman, Philip Swinstead is not considered independent. However as the Board included at least two other Non-executive Directors, the Board believes that there was a sufficient degree of independence.
- No member of the audit committee has recent and relevant financial experience. The Board considers that the members of the audit committee have the financial experience and qualifications required and collectively the members have the requisite skills and attributes to enable the audit committee to properly discharge its responsibilities.
- Due to procedures outlined under internal control on page 15 of the Annual Report 2010, and after allowing for the internal checking procedures carried out under the Group's system of quality control, the Group did not consider it necessary to have a separate internal audit function.

The workings of the Board and its committees

The Board

The Board consists of the Chairman Philip Swinstead, the Deputy Chairman Roger Freeman, the Chief Executive Officer Paul Davies, the Group Finance Director Alastair Woolley and Non-executive Director Nigel Tose. The Directors' biographies, which are set out on page 8 of the Annual Report 2010, demonstrate a range of business backgrounds and experience.

Chairman

The Chairman, Philip Swinstead, is responsible for the leadership and efficient operation of the Board. He is also responsible for effective communications with shareholders.

Senior Independent Director

Nigel Tose acts as the senior independent Non-executive Director and his prime responsibility is to provide a communication channel between the Chairman and the Non-executive Directors and to ensure that the views of each Non-executive Director are given due consideration. He is also an additional contact point for Shareholders if they have reason for concern, when contact through the normal channels of the Executive Directors has failed to resolve their concerns or where such contact is inappropriate.

Re-election of Directors

All Directors submit themselves for reappointment at the next Annual General Meeting following their appointment and retire by rotation, offering themselves for re-election. The names of the Directors submitted for reappointment are set out in the Directors' report on pages 9 of the Annual

Report 2010 and in the separate Notice of Annual General Meeting sent to all Shareholders. The Chairman, and in the case of the Chairman himself, the Deputy Chairman confirms that the performance of each Director submitting themselves for reappointment continues to be effective and the individuals continue to demonstrate commitment to the role.

Company Secretary

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

The Board maintains close dialogue by email and telephone between formal meetings. The Board has a formal schedule of matters reserved for its specific approval including review of Group strategic, operational and financial matters including proposed acquisitions and divestments. It approves the annual accounts and interim report, the annual budget, significant transactions and major capital expenditure and reviews the effectiveness of the system of internal control and the risks faced by the Group. The review covers all controls, including financial, operational and compliance controls and risk management. Authority is delegated to management through Group authorisation limits on a structured basis, ensuring that proper management oversight exists at the appropriate level.

All members of the Board are supplied in advance of meetings with appropriate information covering the matters which are to be considered. A procedure exists for the Directors, in the furtherance of their duties, to take independent professional advice if required. If a Director has any concerns about a particular issue, such concerns are recorded in the minutes of the relevant Board meeting. In the event that a Director resigned over a matter that was of concern to him, such concerns would be communicated to the other Directors. All Directors have the opportunity to undertake relevant training.

The Managing Directors of each of the business units held regular meetings with the Chief Executive Officer and Group Finance Director during the year to discuss operating and financial performance and key issues arising from these meetings were reported to the Board.

Performance evaluation

Individual Board members' performance is evaluated through regular appraisals. The performance of the Chairman is evaluated annually by the Non-executive Directors.

Board balance and independence

The Combined Code requires a balance of Executive and Non-executive Directors such that no individual or small group of individuals can dominate the Board's decision making. The number and quality of the Non-executive Directors on the Board, with their combination of diverse backgrounds and expertise, ensures that this principle is met.

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

Attendance at board meetings

The Board had 11 scheduled Board meetings in 2010 and ad hoc meetings (not included below) were convened as necessary to deal with urgent matters. Detail of attendance at scheduled Board meetings

is summarised below. Committee attendance is shown for Committee members only.

	Board	Audit	Nominations	Remuneration
Number held	11	2	1	3
Number attended ¹				
Philip Swinstead ²	7	1*		
Roger Freeman	10	*	1	3
Paul Davies ²	7			
Ian Ketchin ⁴	11			
Nigel Tose	11	2	1	3
Alwyn Welch ³	4			
John Hughes ³	4	1		1

*Philip Swinstead attended a meeting of the Audit Committee as Roger Freeman's alternate when he was unable to attend.

- 1 All Directors who were members of the Board at the time attended the Group's Annual General Meeting on 2 June 2010
- 2 Appointed 1 June 2010
- 3 Resigned 30 May 2010
- 4 Stepped down as Director with effect from 31st March 2011
- 5 Alastair Woolley was appointed as Group Finance Director 1st April 2011

Committees

Each of the Board's three Committees has formal written terms of reference, which were reviewed in 2010. These terms of reference are made available for inspection by Shareholders at the Annual General Meeting or, on request to the Company Secretary, can be inspected at the Company's head office and are also available in the Corporate Governance section of the Group's website.

Audit committee

The audit committee which is chaired by Nigel Tose, meets at least twice annually. Roger Freeman is the other member of the audit committee.

The audit committee reviews and, as appropriate, actively engages in the processes for financial reporting, internal control, risk assessment, audit and compliance assurance, the consideration of the independence of the Group's external auditors and the effectiveness of the Group's system of accounting, its internal financial controls and external audit function.

The committee's principal terms of reference include:

- the oversight responsibilities described in the above paragraph;
- reviewing compliance with laws, regulations and the Group's code of conduct and policies;
- monitoring the integrity of the Group's financial statements and any announcements relating to the Group's financial performance and reviewing significant financial reporting judgements, changes in accounting policies and practices, significant adjustments resulting from the audit and the application of the going concern assumption;

- reviewing the findings of the external audit with the external auditors;
- making recommendations to the Board, for it to put to the shareholders for their approval, regarding the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- monitoring and reviewing the external auditors' independence and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services; and
- reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters.

In order to ensure an appropriate balance between cost effectiveness, objectivity and independence, the audit committee reviews the nature of all services, including non-audit work, provided by the external auditor each year. The Group normally expects to retain the external auditor to provide audit-related services, including work in relation to shareholder circulars and similar services. The external auditor provided audit-related services during 2010, details of which are set out in note 3 to the Annual Report 2010.

Audit committee meetings are attended by the external auditors and by the Finance Director at the invitation of the committee. The external auditors meet separately with the audit committee on request, without the presence of the Finance Director, to ensure open communication.

Remuneration committee

Roger Freeman is chairman of the Remuneration Committee and the committee also comprises Nigel Tose. The report of the directors on remuneration appears on pages 16 to 20 of the Annual Report 2010.

Nominations committee

The nominations committee comprises the Non-executive Directors and is chaired by Philip Swinstead. It is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. Where necessary, recruitment consultants are used to assist the process.

Investor relations

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

All members of the Board usually attend the Annual General Meeting. The chairmen of the audit, remuneration and nominations committees will normally be available to answer Shareholders' questions at that meeting. Notice of the Meeting is posted to Shareholders with the report and accounts not fewer than 21 working days prior to the date of the Annual General Meeting. The package sent to Shareholders includes a summary of the business to be covered at the Annual General

Meeting, where a separate resolution is proposed for each substantive matter. The Group's annual report and accounts, interim report and other stock exchange announcements are published on the Group's website at www.parity.net.

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness and is assisted in this respect by the audit committee. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group's system of internal control, which complies with the Turnbull Guidance, has been in place throughout the year and up to the date of this report. The Directors confirm that they have reviewed the effectiveness of the Group's system of internal controls during the year.

Following a review of internal controls during 2010, new authority limits have been set and this has resulted in bid reviews and project reviews by the CEO for all projects.