

PHS Group Holdings Limited

**Annual report
for the year ended 31 March 2011**

Registered no: 05402951

PHS Group Holdings Limited

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Directors and advisors

Directors

P J Cohen
J F Skidmore
J S E Arnell
S D Simpson
G Prestia

Secretary and registered office

J F Skidmore
PHS Group
Western Industrial Estate
CAERPHILLY
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Statutory auditors

PricewaterhouseCoopers LLP
One Kingsway
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Solicitors

Morgan Cole
Bradley Court
Park Place
CARDIFF
CF10 3DP

Directors and advisors (continued)**Directors****P J Cohen**

Peter Cohen joined PHS as Chief Executive in April 1998. Prior to this, he held the position of Chief Executive of Holt Lloyd Group Limited, a manufacturer and marketer of consumer care products, from 1991 to 1998. Peter was President of Power Conversion Inc./Crompton Eternacell from 1989 to 1991 and before that was Managing Director of Crompton Vidor Limited and Hawker Siddeley Dynamics Engineering.

J F Skidmore

John Skidmore joined the Board of PHS as Finance Director in October 2002, having previously held the post of Group Financial Controller for six years. Before joining PHS, John was an audit manager with Deloitte & Touche, where he had previously qualified as a Chartered Accountant.

J S E Arnell

James Arnell joined Charterhouse in 1997 from Bain & Company where he worked as a consultant in Europe, the US and Australia for four years. Since joining Charterhouse, he has worked on a number of transactions, including PreCon, Cegelec, PHS, TDF, Saga, Elixor and most recently Groupe Fives-Lille. James is a non-executive director on the boards of TDF, Saga, PHS, Elixor and Fives-Lille. James is an honours graduate in Law from Downing College, Cambridge University and has qualified as a barrister.

S D Simpson

Stuart Simpson has been with Charterhouse since 1985, becoming a Director in 1988. A London Business School MBA graduate, he has extensive experience executing multi-jurisdictional transactions and focuses on the Firm's origination activities in the business services sector. Stuart led the CCP VIII purchase of ista and the CCP VII purchases of Autobar and the public-to-private buyout of PHS. Stuart is Chairman of both of these route-based support services companies. Earlier buyouts include Miracle Garden Care, now part of the Scotts group of garden products companies, and Intertek, now listed within the FTSE250 support services sector, where he chaired the audit and remuneration committees.

G Prestia

Giuseppe Prestia joined Charterhouse in 2004 having previously worked for McKinsey & Co in London and obtaining an MBA (with honours) from INSEAD. Since joining he has worked on a number of transactions including Tunstall, the PHS Group and Levantina Natural Stone. Giuseppe works on UK and Continental European investments, with particular focus on Southern Europe. In 2009, Giuseppe was elected Partner at Charterhouse.

**Group Directors' report
for the year ended 31 March 2011**

The Directors present their annual report and the audited financial statements for the year to 31 March 2011.

Business review and principal activities

The Company is a holding company for a group of companies that provide workplace services.

Business overview

An analysis of the Group's turnover and operating profit, by class of business, is set out below:

Hygiene	Waste Management	Other Office Services
<p>£194.3m turnover (+3.2%)</p> <p>£81.5m operating profit before central costs (+4.9%)</p> <p>The hygiene division comprises the following businesses:</p> <p>Washroom – supply and service of washroom equipment in UK, Ireland and Spain;</p> <p>PHS Direct – washroom consumables sales;</p> <p>Treadsmart – supply and service of standard and speciality mats.</p> <p>1,923 employees</p>	<p>£118.3m turnover (+15.9%)</p> <p>£27.9m operating profit before central costs (+31.1%)</p> <p>The waste management division comprises the following businesses:</p> <p>All Clear - clinical waste collection and disposal;</p> <p>Wastetech – collection and transfer of commercial waste;</p> <p>Datashred - confidential and non-confidential paper waste disposal;</p> <p>Orwak – supply and service of waste compactors and bailers;</p> <p>Wastemanagement – niche waste disposal business.</p> <p>791 employees</p>	<p>£82.0m turnover (+17.1%)</p> <p>£20.3m operating profit before central costs (-4.4%)</p> <p>The other office services division comprises the following businesses:</p> <p>Waterlogic – supply and service of point of use and bottled water drinking dispensers in the UK, Ireland and Netherlands;</p> <p>Greenleaf – supply and service of live and replica plants;</p> <p>Teacrate – provision of plastic crates & pallets and document storage & retrieval;</p> <p>Testing – on-site electrical safety and medical device testing.</p> <p>1,488 employees</p>

Key performance indicators

The key performance indicators of the group are summarised below.

	2011 £m	Change v 2010
Turnover	394.6	+9.5%
Operating profit before central costs	129.6	+7.9%
Operating profit before exceptional items	104.8	+6.2%
Operating profit margin before exceptional items	26.6%	-0.8%
Adjusted profit before taxation	49.0	+258.6%
Net cash inflow from operating activities less capital expenditure	98.8	-0.9%
Operating profit cash conversion ratio	119.2%	-2.8%

Group Directors' report for the year ended 31 March 2011 (continued)

Financial review

Results for the year

PHS has increased turnover by 9.5% to £394.6m (2010: £360.4m) and increased operating profit before central costs by 7.9% to £129.6m (2010: £120.1m). Central costs increased by 15.5% to £24.8m (2010: £21.5m), leading to an increase of 6.2% in operating profit before exceptional costs to £104.8m (2010: £98.6m). The margin earned before exceptional costs was 26.6% (2010: 27.4%).

Exceptional costs of £3.3m (2010: £2.1m) were incurred in the year, leading to an increase of 5.1% in operating profit to £101.5m (2010: £96.5m).

The adjusted pre-tax result for the financial year before interest payable on shareholder loan notes has increased by 258.6% to £49.0m (2010: £13.7m). Net interest payable for the financial year is £105.8m (2010: £126.2m), resulting in a pre-tax loss of £4.3m (2010: £29.7m). Included in the interest charge, are amounts payable on shareholder loan notes of £53.2m (2010: £43.4m). The reduction in the interest charge is attributable to lower financing costs on bank loans since the expiry of an interest swap agreement on 31 July 2010 which had fixed LIBOR at 6.274% on £800m of the bank borrowings.

The result after taxation, prior to taking into account interest payable on shareholder loan notes, is a profit of £44.3m (2010: £14.3m). The tax charge for the year was £4.6m (2010 credit of £0.6m), resulting in a loss for the financial year after taxation of £8.9m (2010: £29.1m).

Cash flow and net debt

Net cash inflow from operating activities has increased by 2.7% to £121.0m (2010: £117.8m). The operating profit cash conversion ratio has fallen to 119.2% (2010: 122.0%) due to a lower profit on disposal of tangible fixed assets and a smaller improvement in working capital than achieved in 2010. After capital expenditure, the net cash inflow from operating activities has decreased by 0.9% to £98.8m (2010: £99.7m) because the additional capital expenditure in the year is slightly in excess of the increased net cash inflow from operating activities.

Net debt has increased by £73.6m in the year to £1,299.8m at 31 March 2011, largely due to the rolled up interest on the shareholder loan notes and because the Group has utilised some of its cash to fund acquisition activity in the year. Details of the borrowings facilities are provided in note 14 to the financial statements. Of this debt £401.5m is shareholder loan notes, which do not attract a cash payment of interest.

The operating cash flows have been used to service the existing debt and fund the Group's acquisitions and other capital expenditure.

Acquisitions and capital expenditure

PHS spent £53.7m on 15 acquisitions in 2011 resulting in an additional £53.5m goodwill being capitalised. A full list of acquisitions is given in note 23 to the financial statements with none considered to be individually material to the Group.

Acquisition activity has continued to focus on business areas characterised by low-technology, high margin growing markets where there is fragmented competition and a large volume of customers requiring rental, service and maintenance on long-term contracts, spending relatively low sums of money. These businesses typically require low capital investment and are strongly cash generative.

The acquisition of several Spanish businesses has increased the size of our Spanish washrooms business whilst the acquisition of Churchill Filestore Limited has added additional geographies to our records management business that we are currently growing into a national business. The acquisitions of Shred Easy Limited and Shredsecure Limited, both bolt-ons to our Datashred business, towards the end of the financial year are expected to contribute towards the growth in that business in the coming year.

Group Directors' report for the year ended 31 March 2011 (continued)

Business review

Hygiene

Turnover for the division has increased by 3.2% to £194.3m (2010: £188.3m) and operating profit before central costs by 4.9% to £81.5m (2010: £77.7m).

PHS continued to build on its reputation for delivering new products to market and responding to market opportunities and customer needs. Some of the main innovations launched during the year are listed below.

- “Smartdri” is the very latest high-speed, low-energy hand dryer that was launched in the first quarter of the year. This adds a premium hand dryer to our existing product range and complements the Airforce unit.
- A new in-house designed “Autosan” surface sanitiser was launched.
- Two new paper towel dispensers were launched, a new “Versatwin” toilet tissue dispenser and an automatic hand-towel dispenser.
- Our own-branded “Biozone” air-care unit was launched. This product acts as prevention against infections in the workplace.
- An award-winning “Flow-saver” water management system was launched along with a new and improved Mk111 version of the eco-shield urinal sleeve.
- A new range of circular and outdoor logo-mats were launched in our PHS Treadsmart business, which offers total floor protection.

In our Spanish business, a number of new products were introduced to the market, namely the “Airscent” air-freshener, “Versatwin” toilet-roll dispenser, automatic hand-towel dispenser, circular logo-mats and a new in-house designed Bacteriostatico unit. In addition, “SK Directo” was launched with a focus on direct selling of washroom and workplace consumables in Spain.

Waste Management

Turnover for the division has increased by 15.9% to £118.3m (2010: £102.1m) and operating profit before central costs by 31.1% to £27.9m (2010: £21.2m).

The benefits of the actions taken during the prior year to address the reduced profitability in 2010 as a result of higher levels of customer churn, increased price pressures and lower volumes have brought the significant improvements in the performance of this business.

Datashred, our UK national business dealing in waste paper collection and recycling, continued to perform well during 2011 with significant organic growth contributing towards the improvements. The acquisitions of Shred Easy Limited and Shredsecure Limited towards the end of the financial year will further strengthen this business and once fully integrated should help the continued profitable growth of this business.

PHS Waste Management launched a new website and product catalogue, branded “PHS Dynamics”, which specialises in spillage and containment products.

Our Orwak division that supplies and services waste compactors and bailers was re-branded to “PHS Wastekit”. This business now offers an increased range of balers and compactors including an Orwak 1030 compactor and “BigBelly” solar-powered compactor.

Other office services

Turnover for the division has increased by 17.1% to £82.0m (2010: £70.0m) whereas operating profit before central costs has reduced by 4.4% to £20.3m (2010: £21.2m).

PHS entered the UK safety compliance market in 2008 and then acquired CLM Limited at the end of March 2010 to establish a market leading position in this sector. The existing business and CLM Limited were successfully integrated during the year and given a complete re-brand as “PHS Compliance”; this involved new corporate identity, new vehicle livery, website and literature. The combined business now offers a range of compliance testing services across the UK. We expect to see significant growth in this business in the coming year with the first full year of operation as a fully integrated nationwide business.

