

PHS Group Limited (formerly PHS Group plc)

Annual report for the year ended 31 March 2014

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PHS Group Limited (formerly PHS Group plc)

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Directors and advisors

Directors

G Rhys Williams

S A Woods

S D Simpson (resigned 10 October 2014)

G Prestia (resigned 10 October 2014)

J S E Arnell (resigned 10 October 2014)

A E Peterson (appointed 25 April 2014 and resigned 18 July 2014)

Secretary and registered office

D Finlayson (appointed 17 March 2014)

S A Woods (resigned 17 March 2014)

PHS Group

Western Industrial Estate

CAERPHILLY

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Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

One Kingsway

CARDIFF

CF10 3PW

Solicitors

Blake Morgan LLP

Bradley Court

Park Place

CARDIFF

CF10 3DR

Directors and advisors (continued)

Directors

G Rhys Williams

Gareth Rhys Williams was appointed as Group Chief Executive on the 11th May 2012. Prior to this he was Chief Executive of Charter International, the FTSE 250 engineering Group until its sale to the Colfax Corporation earlier in 2012. Gareth is a Companion of the Chartered Management Institute, Fellow of the Institute of Mechanical Engineers and Fellow of the Institute of Engineering and Technology. He has a MBA from INSEAD and studied Engineering Science BSc at Durham University.

S A Woods

Simon Woods was appointed to the Board of PHS as Chief Financial Officer on 7th December 2012. He joined us from Centrica plc, a FTSE 100 company, where he was Interim Finance Director for British Gas Business. Before that he was Finance Director of Biffa's waste collection business, having previously been Biffa's Group Financial Controller and Finance Director of Reliance Security Services. Simon qualified as a Chartered Accountant at KPMG having studied International History at the London School of Economics.

**Strategic report
for the year ended 31 March 2014**

The Directors present their strategic report on the Group for the year ended 31 March 2014.

Business overview

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

Hygiene	Workplace	Data Solutions	Specialist Waste
£200.1m turnover (-0.9%)	£90.9m turnover (+0.8%)	£43.8m turnover (+14.4%)	£58.1m turnover (-2.2%)
£73.5m operating profit before central costs (-9.9%)	£16.3m operating profit before central costs (-23.8%)	£7.9m operating profit before central costs (+3.9%)	£6.3m operating profit before central costs (-33.6%)
<p>The hygiene division comprises the following businesses:</p>	<p>The workplace division comprises the following businesses:</p>	<p>The data solutions division comprises the following businesses:</p>	<p>The specialist waste division comprises the following businesses:</p>
<p>Washrooms – supply and service of washroom equipment in UK, Ireland and Spain (Serkonten);</p>	<p>Waterlogic – supply and service of point of use and bottled water drinking dispensers in the UK, Ireland and Netherlands;</p>	<p>Datashred - confidential paper waste disposal;</p>	<p>Wastemanagement – specialist waste collection and recycling;</p>
<p>PHS Direct – washroom consumables sales;</p>	<p>Teacrate - provision of crates, pallets and packing materials;</p>	<p>Records Management – provision of document storage and retrieval;</p>	<p>Orwak – supply and service of waste compactors and bailers.</p>
<p>Direct365 - supply and service of essential business products;</p>	<p>Greenleaf – supply and service of live and replica plants;</p>	<p>Capital Capture – intelligent document capture.</p>	
<p>Treadsmart – supply and service of standard and specialist mats;</p>	<p>Compliance – on-site electrical, fire and gas safety and medical device testing.</p>		
<p>Laundryserv – supply and service of Laundry equipment;</p>			
<p>Besafe – supply and service of technical workwear.</p>			
2,087 employees	1,153 employees	490 employees	714 employees

**Strategic report
for the year ended 31 March 2014 (continued)****Financial review***Overview*

Challenging economic conditions in the UK and Spain, as well as the disposal of certain businesses, meant the Group experienced a small reduction in turnover of 0.5% to £416.1m (2013: £418.4m) and saw a reduction in operating profit before central costs of 16.0% to £99.6m (2013: £118.6m). Central costs, which includes centralised warehousing and distribution, increased by 17.7% to £35.3m (2013: £30.0m), leading to an operating profit of £64.3m (£2013: 88.5m), before exceptional costs and impairment loss; a decrease of 27.3%. The margin earned before exceptional costs and impairment loss decreased to 15.5% (2013: 21.2%).

Exceptional central costs of £22.4m (2013: £18.9m) were incurred in the year, along with an impairment charge of £724.9m (2013: £69.6m), resulting in an operating loss of £683.0m (2013: £0.023m profit).

Net finance charges for the financial year were £34.6m (2013: £42.6m), resulting in a pre-tax loss of £718.6m (2013: £42.6m).

The tax charge for the year was £1.5m (2013: £6.0m), resulting in a loss for the financial year of £720.1m (2013: £48.6m).

Re-organisation costs and one-off items:

Exceptional central costs totalling £22.4m were incurred during the year (2013: £18.9m), as a result of an internal restructuring of the business, reassessment of a specific range of fixed assets, professional and legal fees associated with disputes and the refinancing of the Group, and expenditure on the integration of acquisitions into the Group's existing operations (including redundancy costs, payments for the termination of leases and other restructuring costs).

In accordance with FRS11, goodwill is tested for impairment annually using cash flow projections based on financial budgets. During the year, impairment losses of £724.9m have been recognised in respect of the UK, Spanish, Dutch and Irish subsidiaries. Further details are provided in note 7 to the financial statements.

Cash flow and net debt

Net cash inflow from operating activities decreased by 6.7% to £99.9m (2013: £107.1m). After capital expenditure of £35.4m (2013: £34.5m), the net cash inflow from operating activities decreased by 11.0% to £64.6m (2013: £72.6m) because of the additional capital expenditure and the lower net cash inflow from operating activities.

The operating profit cash conversion ratio at 154.1% (2013: 104.2%) has increased from 2013 and remains very strong due to tight working capital control.

Net debt decreased by £18.0m in the year to £889.0m at 31 March 2014 as a result of strong profits and low acquisition activity. Details of the borrowings facilities are provided in note 14 to the financial statements.

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

Acquisitions and capital expenditure

There was less acquisition activity during the year as the management team continued to tighten acquisition procedures and hurdle rates, whilst refocusing management efforts on growing the existing business. £4.4m was spent on 2 acquisitions in 2014 resulting in an additional £4.0m 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.

The Group's acquisition activity is focused on business areas characterised by low-technology, high margin growing markets, where there is fragmented competition and a large volume of customers requiring business services under long-term contracts. These businesses typically require low capital investment and are strongly cash generative.

Strategic report for the year ended 31 March 2014 (continued)

Post balance sheet events

The Group breached its financial covenant in relation to its debt to earnings ratio for the relevant testing periods ending on 5 January 2014, 30 March 2014 and 20 July 2014. Whilst the Group had outstanding covenant breaches as at 30 March 2014, it was at that date already well advanced in constructive discussions with its financial creditors, over one third of whom had agreed not to take any enforcement action. The Group has subsequently completed a successful restructuring of its debt facilities resulting in substantially reduced indebtedness being provided under its new facilities; the Group's total external debt decreased from £932.5m to £373.5m. No events of default have occurred or are anticipated under the new facilities

The balance sheet shown below has been restated to reflect the position at 31 March 2014 on the basis that the restructuring process had been completed before the balance sheet date.

	<u>Group</u>		<u>Company</u>	
	2014	Effect of	2014	Effect of
	£'000	restructuring	£'000	restructuring
		£'000		£'000
Fixed assets				
Intangible assets	366,597	366,597	-	-
Tangible assets	85,328	85,328	-	-
Investments	-	-	596,996	596,996
	<u>451,925</u>	<u>451,925</u>	<u>596,996</u>	<u>596,996</u>
Current assets				
Stocks	13,226	13,226	-	-
Debtors	367,112	94,162	750,696	477,746
Cash at bank and in hand	43,430	43,430	3,901	3,901
	<u>423,768</u>	<u>150,818</u>	<u>754,597</u>	<u>481,647</u>
Creditors: amounts falling due within one year	<u>(1,616,073)</u>	<u>(154,210)</u>	<u>(1,534,073)</u>	<u>(134,661)</u>
Net current (liabilities)/assets	<u>(1,192,305)</u>	<u>(3,392)</u>	<u>(779,476)</u>	<u>346,986</u>
Total assets less current liabilities	<u>(740,380)</u>	<u>448,533</u>	<u>(182,480)</u>	<u>943,982</u>
Creditors: amounts falling due after more than one year	<u>317</u>	<u>678,817</u>	<u>-</u>	<u>678,500</u>
Capital and reserves				
Called up share capital	50	50	50	50
Profit and loss account	(740,747)	(230,334)	(182,530)	265,432
Total shareholders' deficit	<u>(740,697)</u>	<u>(230,284)</u>	<u>(182,480)</u>	<u>265,482</u>
	<u>(740,380)</u>	<u>448,533</u>	<u>(182,480)</u>	<u>943,982</u>

**Strategic report
for the year ended 31 March 2014 (continued)****Business review***Hygiene*

Turnover for the division decreased by 0.9% to £200.1m (2013: £202.0m) and operating profit before central costs decreased by 9.9% to £73.5m (2013: £81.6m).

The division continues to consolidate the Group's brand as washroom market leaders by delivering new and innovative products to market, as well as making improvements in service levels both operationally and in the customer contact centre. In addition, the development of a product testing protocol for the hand dryer category has been established to strengthen the Group's position as market leader. The new products and services launched during the financial year include:

- the unique 'Designer Collection' product range introduced to drive innovation and consumer satisfaction;
- the new 'Airstream' hand dryer allowing PHS Washrooms to offer a range of dryers to suit all customers' budgets and expectations, driving new business opportunities;
- contracted consumables where existing customers are offered the opportunity to buy their consumables within a convenient contract. This will drive new business and incremental sales; and
- the 'Flush-active' WC sanitiser, designed to reduce the build-up of limescale and eliminate bacteria and viruses.

Workplace

Turnover for the division increased by 0.8% to £90.9m (2013: £90.2m) and operating profit before central costs decreased by 23.8% to £16.3m (2013: £21.4m).

PHS Waterlogic expanded the 'Firewall' range of products, including 'Waterlogic 3', adding a price competitive product within the 'Pure' range in order to maximise market opportunity. In addition, the 'VI Tap' has been launched in 3 variations: hot and cold; hot only; hot, cold and sparkling; this delivers a high volume, high end product suitable for offices, kitchens and breakout areas.

PHS Greenleaf continues with its innovative range of products and services to help meet customer demands including tree surveys and 'Elho' pots – a new and more contemporary pot range. In addition, a gritting service was trialed with selected customers in order to analyse the market potential.

Data Solutions

Turnover for the division increased by 14.4% to £43.8m (2013: £38.3m) and operating profit before central costs increased by 3.9% to £7.9m (2013: £7.6m). The operating profit margin earned by the division reduced to 18.1% (2013: 19.9%). This reflects difficult trading conditions in the economy, pricing pressures, and a reduction in the price obtained for selling recycled paper.

Specialist Waste

Turnover for the division decreased by 2.2% to £58.1m (2013: £59.4m) whilst operating profit before central costs has decreased by 33.6% to £6.3m (2013: £9.5m).

Strategy

The Group will continue to focus on its vision: "To be the best Workplace Services Provider in Europe, offering quality and value to our customers, and a challenging, rewarding career for everyone in the Company".

It is the Directors' intention to grow the business profitably through:

- further differentiating the service offering through seamless and perfect service;
- cross-selling of its products and services; and
- exploiting best practice across the whole Group, whether internally generated or brought in from outside the Group.

Strategic report for the year ended 31 March 2014 (continued)

Strategy (continued)

These three initiatives have been communicated internally under the banner ‘Together We are Stronger’, and include a number of detailed programs, including:

- investing in IT to improve processes and systems;
- continued innovation in products and services;
- leveraging the existing infrastructure, for example by sharing sites where possible; and
- making bolt-on acquisitions only in selected markets or for complementary service offerings.

Principal risks and uncertainties

The principal risks and uncertainties that are felt to impact the Group relate to competition for new and existing customers and therefore the price at which contracts are entered into, and retention of key employees.

To mitigate these risks, the Group strives to maximise the quality of customer service it offers, providing the best products and services seamlessly to improve internal efficiency so as to deliver best value to its customers. In addition, the Group provides competitive remuneration packages for its employees as well as significant training and development initiatives, backed up by improvement plans based on the annual employee survey.

Key performance indicators

The following financial and non-financial key performance indicators are used to judge performance towards those strategic objectives listed above.

	2014	2013
Financial KPIs		
Change in turnover	-0.5%	-0.2%
Operating profit before central costs	£99.6m	£118.6m
EBITA before exceptional items	£64.3m	£88.5m
EBITA margin before exceptional items	15.5%	21.2%
EBITDA before exceptional items	£90.3m	£112.9m
Net cash inflow from operating activities less capital expenditure	£64.5m	£72.6m
Operating profit cash conversion ratio	154.1%	104.2%
Non-financial KPIs		
Customer churn	13.9%	14.9%
Employee turnover	24.5%	23.5%
Number of RIDDOR accidents per 100,000 employees	1,108	781

“Change in turnover” is calculated as the increase or decrease in turnover in the year expressed as a proportion of prior year turnover.

“Operating profit before central costs” is calculated in note 2 to these financial statements.

“EBITA before exceptional items” is earnings before interest, tax, amortisation and exceptional items.

“EBITDA before exceptional items” is earnings before interest, tax, depreciation, amortisation and exceptional items.

“Net cash inflow from operating activities less capital expenditure” is calculated as net cash inflow from operating activities less capital expenditure as shown in the consolidated cash flow statement.

“Operating profit cash conversion ratio” is calculated as net cash inflow from operating activities less capital expenditure (as above) as a proportion of operating profit before impairment loss.

“Customer churn” is calculated as the number of cancellations for the year divided by the average opening contractual business pool.

**Strategic report
for the year ended 31 March 2014 (continued)**

Key performance indicators (continued)

“Employee turnover” is calculated as the number of leavers during the year divided by the number of employees at the start of the year.

“Number of RIDDOR accidents per 100,000 employees” is calculated as the number of Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) accidents in the year divided by the number of employees at the start of the year multiplied by 100,000.

Tough market conditions resulted in a reduction in turnover of 0.5% from 2013, with larger reductions in operating profit before taking account of exceptional items and an impairment loss, due primarily to poor results in the Group’s waste business and investments in service levels and information systems.

Outlook and future development

Economic uncertainty in the UK and other European markets has resulted in governments and businesses seeking cost efficiencies, increasing price pressures in the workplace service industry. Such pressures are expected to continue. However, the Group enters the new financial year in a strong position, with a large sales pipeline, and a well-developed operating infrastructure providing national coverage for its customers.

The Group has strong relationships with its customers in both the public and private sectors and a commitment to provide quality and value through investment in its people and technology. New product and service launches planned for the new financial year will further differentiate the Group’s customer offering.

In the short-to-medium term, the Group is principally focused on three interlocking projects: cross-selling products and services to existing customers; providing seamless and perfect service to those customers; and exploiting best practice across the Group. The Board is confident that the Group’s strategic priorities will deliver growth in the business.

Approved and signed on behalf of the board

A handwritten signature in black ink, appearing to read 'G Rhys Williams', with a stylized flourish at the end.

G Rhys Williams
Director
17 October 2014

Directors' report for the year ended 31 March 2014

The Directors present their annual report and the audited consolidated financial statements for the year to 31 March 2014.

Principal activities

The Company acts as an intermediate holding company for a group of companies providing workplace services. It is anticipated that the role of the company within the group will remain unchanged into the foreseeable future.

Ownership

The ultimate controlling party at the balance sheet date, funds managed by Charterhouse General Partners (VII), owned 82.9% of the ordinary share capital of the ultimate parent company, PHS Group Holdings Limited, with the balance being owned by a combination of former and current employees. The deferred shares were wholly owned by funds managed by Charterhouse General Partners (VII).

On 16 September 2005, the Group was de-listed from the London Stock Exchange, reverting to private ownership under Norfolk Acquisition plc (now named PHS Group Limited (formerly PHS Group plc) that was formed at the direction of Charterhouse General Partners (VII)). Charterhouse General Partners (VII) is an international firm advising private equity funds raised from a diverse group of investors in public and corporate pension funds, insurance companies, banks and Governments.

Post year end, the Group has restructured its debt facilities (see note 26) and, as a result, the ultimate parent and controlling party has changed (see note 27).

Political and charitable donations

Charitable donations totalling £0.02m were made both to the Group's charity partner, "Together for Short Lives" (by way of a fundraising match) and community impact awards to various other charities. These donations are channelled through the PHS Foundation, an employee led forum.

Financial risk management

The Group's operations expose it to a variety of financial risks that include financing and treasury exposures relating to the management of debt servicing, the financing of acquisitions and tangible fixed assets, working capital management and foreign exchange movements.

The Group has assessed the risk of increasing interest rates in the short term to be low and, as such, there are no interest rates hedge instruments currently in place.

The Board have assessed the risk of exchange rate movements having significant effect on the trading profits and cash flows of the Group to be low due to the size of its overseas operations in relation to the Group as a whole and the relative stability of the currencies involved.

The Group has previously acquired overseas subsidiaries where the consideration has been paid in Euros. The majority of these acquisitions were funded by euro bank borrowings to provide a hedge against the carrying value of the investments and associated goodwill.

Effective working capital management forms an important part of maximising the amount of internally generated cash available. Control of trade debtors is a key element in this area, with comprehensive credit control procedures and regular debt monitoring by the Board helping efficient conversion of turnover to cash. During the current year the Group has continued to improve its credit control and cash collection processes.

This has contributed towards a working capital improvement during the current year.

Cash is retained as long as is consistent with negotiated payment terms to suppliers. Stock levels are closely monitored to strike a balance between meeting customer demand and cash retention.

**Directors' report
for the year ended 31 March 2014 (continued)****Significant contractual and other relationships**

The Group has a number of important relationships with its customers, suppliers and bankers. Key management of the individual businesses manage these relationships. The Group does not consider itself to be materially exposed to any single key customer or supplier relationship.

Directors

All Directors of the Company who served at any time during the year and up to the date of signing the financial statements are listed on page 1. Biographical information on the current Directors of the Company is shown on page 2. No other Director served at any time during the year.

As permitted by the Articles of Association, the Directors have the benefit of an indemnity, which is a qualifying third party indemnity provision, as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Policy on the payment of creditors

It is Group policy to comply with terms of payment negotiated with suppliers. The Group's average payment period was 44 days (2013: 49 days).

Corporate and social responsibility

The Board recognises the importance of its corporate and social responsibilities and devotes significant resources towards monitoring both compliance and improving existing standards and opportunities. The Group Chief Executive has responsibility for these areas at Board level, ensuring that the Group's policies are upheld and appropriately resourced. The Group's Corporate Responsibility Report highlights its strategic approach to this area and describes its responsibilities, targets and objectives in the areas of Health and Safety, People and Community and Environment.

Health & Safety

The effective management of health and safety is fundamental and an integral part of the Group's business. The Group continues to strive for continuous improvement in all areas of health and safety, considering the pursuit and maintenance of the highest standards to be of equal importance to the quality of its products, services and financial performance.

Every effort is made to ensure that the requirements of the Health and Safety at Work Act 1974 and all other relevant regulations and codes of practice are complied with at all times. The Group's health and safety policy is displayed prominently in the Group Document Centre and is available to stakeholders on request. Local health and safety performance data is collated and reviewed centrally, and widely distributed to drive improved awareness.

The Group has well-established health and safety systems. Training in health and safety issues is a routine part of employee and management development; there is a comprehensive audit process covering safety management and risk control. The Group also has mandatory health and safety training standards for managers and safety representatives involving IOSH accredited courses.

During recent years, there has been an encouraging reduction in the number of motor accidents stemming from an initiative originally launched in 2004. This initiative established guidelines on minimum recruitment standards, individual driver assessment, comprehensive training, improved accident reporting and investigation, and ensured compliance with the new Driver CPC Regulations for drivers of LGV vehicles (which became effective from September 2009).

**Directors' report
for the year ended 31 March 2014 (continued)****Corporate and social responsibility (continued)***Health & Safety (continued)*

The Group employs a number of staff with responsibility for health and safety and environmental matters whose primary responsibility is to monitor the Group's performance in these areas. Two senior members of the team are Chartered Members of the Institute of Occupational Safety and Health; the departmental manager is a Chartered Environmentalist and a member of the Chartered Institute of Waste Management. Two members of the team are dangerous goods safety advisors. Due diligence on potential acquisitions is carried out and surveys of new acquisitions made in order to identify areas where improvement is required to meet the Group's standards.

During the year, the impact of enacted or forthcoming legislation has been assessed to ensure the Group's working practices remain in line with the latest legislative requirements. Specific items of legislation considered included: the changes to RIDDOR and those brought in via The Health and Safety (Miscellaneous Repeals, Revocations and Amendments) Regulations 2013.

The Group has good links with organisations such as the Freight Transport Association ("FTA"), Chartered Institute of Waste Management ("CIWM"), Scottish Qualifications Authority ("SQA") and Sanitary & Medical Disposal Services Association ("SMDSA"). These links help to ensure that the Group is consulted over changes affecting its operations whilst also enabling it to offer constructive advice and opinions on behalf of its sector of the waste industry. The Group is involved with the CIWM & IOSH Healthcare Special Interest Group and the IOSH Transport & Distribution Special Interest Group.

Environmental

The Group's focus on providing assured, efficient products to help its customers manage their environmental impact drives the Group's product development and its commitment to gaining the highest levels of recognition and certification for its services.

As well as being the world's first company to hold the Carbon Trust's Carbon Reduction Label for sanitary disposal and drinking water dispensers, a number of the Group's products also hold valuable industry-relevant environmental accreditations such as Waterwise and the Energy Technology List approval. This commitment to providing demonstrably better environmental choices is key to the Group's market strength and future growth.

As a significant supplier to many of the world's leading companies, the Group recognises its critical role as a service provider and is committed to managing its own impact better within these broad supply chains. The Group's Resource Management programme has been designed to support greater engagement and environmental awareness throughout its businesses and ensures that efficient measures are adopted at a local level. Each of the Group's operating divisions has a senior Environmental Champion to drive this programme and there are one hundred and twenty nominated 'Footsteps Leaders' at Group locations across the country. These people are tasked with monitoring and understanding the unique environmental impacts of their site and to aide them in this task, every representative has undertaken an IEMA (Institute of Environmental Management and Assessment) accredited training course.

The Group also continues to work hard to manage better the financial and environmental impacts associated with its energy and fuel use. For example, over £600,000 has been invested in route optimisation software to ensure efficient service planning and the Group is currently reviewing its top-line approach to fuel management via its 'Drive Well' Programme.

The 'Drive Well' programme brings a co-ordinated and consistent approach to driver management across the Group. Every employee within the business is asked to sign the 'Drive Well' Pledge which aims to reduce accidents, improve fuel efficiency and safeguard driver welfare by establishing 4 key areas of good driving:

- Always be fit to drive;
- Check your vehicle regularly;
- Avoid distractions; and
- Drive safely and fuel efficiently.

**Directors' report
for the year ended 31 March 2014 (continued)****Corporate and social responsibility (continued)***Environmental (continued)*

To reinforce and support the key actions outlined in the Pledge, the 'Drive Well' Programme provides an ongoing focus on training and efficiency. Every new driver will be asked to undertake a 'Drive Well' Workshop and the Groups' two in-house driving instructors offer 1:2:1 behavioural coaching to those drivers who need additional support. With an estimated 40% difference between the Group's best and worst drivers, this programme aims to reduce the Group's fuel usage significantly, limit vehicle emissions and tackle the risks that driving poses to the Group's people.

People

The Group employs over 5,000 people throughout the UK and Europe and its provision of permanent, local positions contributes over £80 million to the UK economy. The Group recognises that it is the quality and commitment of its people that differentiates what it does from its competitors. The Group brand and its business depend upon how committed and engaged its people are with the Group. The Group has a responsibility therefore to provide first class training and organisational development solutions that communicate its strategy and values to people at all levels. The Group also strives to create an environment where ideas and contributions are welcomed and where its people understand that it also takes its broader responsibilities toward community and the environment seriously. The Group's Investors in People (IIP) standard underpins its focused approach to development and ensures that it supports and develops its people in line with core business objectives.

The Group is committed to achieving equal opportunities and to complying with the Race Relations, Sex Discrimination, Disability Discrimination and Rehabilitation of Offenders Acts.

The PHS Academy demonstrates the Group's focussed approach to employee development and recognition. The Academy incorporates four key activities: Learning and Development; Employee Engagement; Talent and Succession; and Corporate Responsibility. Each business and department is required to give careful consideration to employee development. Each has an agreed training matrix and organisational development plan which is reviewed against job roles and is updated annually. Additionally, all Group employees are entitled to receive an annual appraisal and managers can submit individual requests for training arising from these reviews or throughout the year.

Twenty-eight training courses, over five hundred events and six thousand training days delivered in 2013 demonstrate the Group's commitment to training and development. The Group's training academy further demonstrates its intent to develop excellence in its people. More than a hundred programmes are advertised to the Group's employees in its internal directory covering operations, customer service, sales and management. On average, employees rate The Group's courses very highly for quality, effectiveness and knowledge, and their skills increase by an average of 30% following the training.

It is the Group's policy to ensure that employees play an active role in the business and are provided with information on all matters of concern to them. All new employees are required to undertake corporate induction, and new or promoted managers are invited to attend a comprehensive management induction programme. Appropriate steps are taken to ensure that employees are aware of the financial and economic factors affecting the Group's performance, are consulted wherever necessary and encouraged to be involved in contributing to the Group's overall performance.

The Group Document Centre is a valuable tool that is used to communicate with the Group's employees. This is regularly updated with latest developments and encourages the use of forums through which issues can be debated and communicated upwards to senior management and Directors, as well as to each other. Employees are also encouraged to contribute to the growth of the Group by communicating all sales leads to a dedicated team and are remunerated accordingly where their leads are converted into sales.

Knowing that managers can significantly influence the commitment of their teams, PHS Positive provides information and tools to support managers. It asks managers to recognise and celebrate good practice and behaviours at regular events such as team meetings. In turn, managers are supported via structured Institute of Leadership and Management (ILM) programmes, Legal Essentials training and succession planning reviews undertaken with each business and function.

**Directors' report
for the year ended 31 March 2014 (continued)****Corporate and social responsibility (continued)**

The Group also runs a suggestion scheme where all employees are encouraged to put forward their views and ideas on any subject where they believe there will be a benefit. These suggestions are reviewed by senior management and the Group Chief Executive on a regular basis and implemented where appropriate. These measures are designed to motivate employees to play an active role in the success and development of the Group and keep them fully updated on the latest developments. A visible example of this is the increasing adoption around the Group of local 'Good, Better, Best' ideas boards.

It is established Group policy to offer the same opportunities to all employees, irrespective of race, colour, nationality, ethnic or national origin, religion or belief, sex, sexual orientation, marital status, pregnancy, maternity, disability or age. This policy applies to the advertising of jobs, recruitment and selection, training and development, opportunities for promotion, conditions of service, benefits, facilities and pay, health and safety, conduct at work, grievance and disciplinary procedures, and termination of employment.

In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Group understands that effective training and development encourages high levels of commitment and motivation, and recognises that clear, simple communications are essential. The 'PHS People' initiative asks all employees to 'make the difference' by supporting the following core values:

- Professionalism – '...operating to the highest standards';
- Teamwork – '...working towards shared values and goals';
- Trust – '...being loyal to our colleagues and customers'; and
- Honesty – '...demonstrating our openness'.

Ongoing internal communications, a reward and recognition scheme (called 'PHS Stars'), and a new Group appraisal scheme, are all designed to ensure that the Group's people are fully engaged with the business and understand the values that are important to help deliver growth and success.

The Group is committed to tackling any form of bribery within the organisation whether involving employees or associated persons, including agents, subsidiaries, intermediaries, consultants and contractors. Procedures to ensure that all employees and those working for, or on behalf of, the Group are aware of their legal obligations when conducting company business have been introduced. All employees, workers and agents acting for, or on behalf of, the Group are required to act in accordance with the terms of this policy.

It is important to the business that any fraud, misconduct or wrongdoing is reported and properly dealt with. This applies to all employees, including senior managers, officers, directors, full and part time employees of the organisation. It also applies to other individuals performing functions with or on behalf of the Group, such as agency workers, casual staff, consultants and contractors. The organisation encourages any individuals to raise any genuine concerns that they may have about the conduct of others in the business or the way in which the business is run with a nominated person. The Group's Whistle Blowing policy outlines the way in which individuals may raise any concerns that they have and how those concerns will be dealt with.

Community Engagement

The Group recognises that it has a responsibility to the wider communities in which we live and work. To ensure that its efforts in this area are focused and productive, the Group launched its own charitable Foundation in 2013. The PHS Foundation allows the Group to co-ordinate and promote its aim of being a business that brings quantifiable value to the wider community and recognise the many and varied ways in which its business can support the local community.

The PHS Foundation has a number of clearly defined objectives designed to actively support employee engagement, skills development and business growth. Operating under the PHS Foundation banner, its community engagement initiatives are tailored to meet these objectives:

Directors' report for the year ended 31 March 2014 (continued)

Corporate and social responsibility (continued)

Partner Charity

The Group has chosen the children's hospice charity 'Together for Short Lives' to be its first national charity partner. This partnership allows the Group to maximise its impact at a national level whilst at the same time generating regional opportunities for employees from across all areas and divisions to work together to see the very local impact of their efforts.

The Group is delighted to announce that in the first year of its partnership, its people raised £50,000 for Together for Short Lives.

Community Impact Awards

The Community Impact Awards are how the Group recognises the activities of its people who are already having a positive influence on their local community. This scheme allows any permanent member of staff who works with a local community group to apply for an award of up to £500. The Group's first round of Awards resulted in forty four applications being submitted by the its staff, and saw schemes as diverse as junior football teams, bereavement support groups and community choirs being recognised for their positive contribution.

Supporting Social Enterprise

The Group has learnt that sharing its expertise, time and skills through volunteering work within the wider community is a mutually beneficial arrangement. Not only is the Group able to contribute to organisations with social aims, it is also an opportunity for its people to learn new skills, feel valued, and be exposed to very different challenges and ways of working. The Group strongly believes that as a service organisation, this opportunity to help develop an engaged, rewarded and resilient workforce, is an investment in the future profitability of its business.

The Group's ongoing partnership with the Social Enterprise charity "UnLtd" has led to a highly-successful partnership at the Hay Festival and seen a number of its senior managers continue to volunteer as mentors to local social entrepreneurs. As well as proving of value to both the Group volunteer and mentee, this contact has alerted the Group's organisation to the opportunities to utilise not-for-profit organisations as trusted and valuable suppliers. The Group's spend with the social enterprise sector has risen from £nil in 2011 to over £35,000 last year.

Research and development

Technical development is considered an important part of the Group's ongoing advancement. Resources are employed in the development of new products or enhancing existing products to improve continuously the range and quality that the Group offers its customers.

All such expenditure is charged to the profit and loss account as incurred.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

**Directors' report
for the year ended 31 March 2014 (continued)**

Statement of Directors' responsibilities (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Dividends and transfers to reserves

The Directors do not recommend the payment of a dividend for the year (2013: £nil). Dividends paid during the year amounted to £nil (2013: £nil). The loss for the year is to be transferred to reserves.

Going concern

As described in the Post Balance Sheet Events note in the Strategic Report, the Group has completed a successful restructuring of its debt facilities resulting in substantially reduced indebtedness being provided under its new facilities. The Directors have concluded with regard to the most recent projections available, that the Company and Group will have in place sufficient funding to enable it to continue trading and meet its liabilities to third parties as they fall due for the foreseeable future.

Substantial interests and share capital

At the balance sheet date, the Company was wholly owned by PHS Group Holdings Limited, which was majority owned and controlled by funds managed by Charterhouse General Partners (VII) who acquired the Group in September 2005.

Statement of disclosure of information to auditors

Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information, and to establish that the Company's auditors are aware of that information.

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware.

Independent Auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved and signed on behalf of the board



G Rhys Williams
Director
17 October 2014

Independent auditors' report to the members of PHS Group Limited (formerly PHS Group plc)

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Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2014 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and company financial statements (the "financial statements"), which are prepared by PHS Group Limited (formerly PHS Group plc), comprise:

- balance sheets as at 31 March 2014;
- consolidated profit and loss and statement of total recognised gains and losses for the year then ended;
- consolidated cash flow statement for the year then ended;
- reconciliation of movements in shareholders' funds/(deficit) for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of PHS Group Limited (formerly PHS Group plc) (continued)

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Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Jason Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

17 October 2014

PHS Group Limited (formerly PHS Group plc)
(Company number 05384799)

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Consolidated profit and loss account
for the year ended 31 March 2014

	Note	Discontinued 2014 £'000	Continuing 2014 £'000	Total 2014 £'000	Total 2013 £'000
Turnover	2	23,193	392,954	416,147	418,376
EBITDA before exceptional items		(3,736)	94,064	90,328	112,924
Depreciation (excluding exceptional items)	3	(691)	(25,341)	(26,032)	(24,386)
EBITA before exceptional items		(4,427)	68,723	64,296	88,538
Impairment of goodwill	3, 7	-	(724,866)	(724,866)	(69,645)
Exceptional costs - other	2, 3	(4,535)	(16,093)	(20,628)	(12,868)
Exceptional costs - depreciation	2, 3	(24)	(1,747)	(1,771)	(6,002)
Operating (loss)/profit	2, 3	(8,986)	(673,983)	(682,969)	23
Loss on sale of an operation		(1,007)	-	(1,007)	-
Interest receivable and similar income		-	12,512	12,512	9,216
Interest payable and similar charges	5	-	(47,104)	(47,104)	(51,863)
Loss on ordinary activities before taxation		(9,993)	(708,575)	(718,568)	(42,624)
Tax on loss on ordinary activities	6	-	(1,488)	(1,488)	(6,012)
Loss for the financial year	17	(9,993)	(710,063)	(720,056)	(48,636)

The Group's businesses that were sold during the year are shown separately above as discontinued operations. All results in respect of continuing operations include the results of acquisitions made during the year. It is not practicable to determine the post-acquisition turnover and operating profit of businesses acquired during the year because the trade and assets of the companies or businesses acquired are incorporated into the existing trade and assets of the Group and their post-acquisition results are not separately identifiable. An indication of post-acquisition turnover is given in note 2.

There are no material differences between the loss for the financial years stated above and their historical cost equivalents.

**Statement of Group total recognised gains and losses
for the year ended 31 March 2014**

	Note	2014 £'000	2013 £'000
Loss for the financial year		(720,056)	(48,636)
Currency translation differences		173	428
Total recognised gains and losses since previous Annual report	18	<u>(719,883)</u>	<u>(48,208)</u>

Balance sheets
as at 31 March 2014

	Note	<u>Group</u>		<u>Company</u>	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Fixed assets					
Intangible assets	7	366,597	1,086,731	-	-
Tangible assets	8	85,328	82,685	-	-
Investments	9	-	-	596,996	596,996
		<u>451,925</u>	<u>1,169,416</u>	<u>596,996</u>	<u>596,996</u>
Current assets					
Stocks	10	13,226	12,501	-	-
Debtors	11	367,112	336,026	750,696	690,576
Cash at bank and in hand		43,430	23,253	3,901	182
		<u>423,768</u>	<u>371,780</u>	<u>754,597</u>	<u>690,758</u>
Creditors: amounts falling due within one year	12	<u>(1,616,073)</u>	<u>(632,022)</u>	<u>(1,534,073)</u>	<u>(524,870)</u>
Net current (liabilities)/assets		<u>(1,192,305)</u>	<u>(260,242)</u>	<u>(779,476)</u>	<u>165,888</u>
Total assets less current liabilities		<u>(740,380)</u>	<u>909,174</u>	<u>(182,480)</u>	<u>762,884</u>
Creditors: amounts falling due after more than one year	13	<u>317</u>	<u>929,988</u>	<u>-</u>	<u>929,554</u>
Capital and reserves					
Called up share capital	16	50	50	50	50
Profit and loss account	17	(740,747)	(20,864)	(182,530)	(166,720)
Total shareholders' deficit	2, 18	<u>(740,697)</u>	<u>(20,814)</u>	<u>(182,480)</u>	<u>(166,670)</u>
		<u>(740,380)</u>	<u>909,174</u>	<u>(182,480)</u>	<u>762,884</u>

The financial statements on pages 18 to 44 were approved by the Board of Directors on 17 October 2014 and were signed on its behalf by:



G Rhys Williams
Director

**Consolidated cash flow statement
for the year ended 31 March 2014**

Consolidated cash flow statement:

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities		99,934	107,110
Returns on investments and servicing of finance	19	(43,817)	(50,812)
Taxation		(1,170)	(4,948)
Capital expenditure	19	(35,384)	(34,504)
Acquisitions and disposals	19	(1,792)	(22,005)
Cash inflow/(outflow) before financing		17,771	(5,159)
Financing	19	2,600	(1,283)
Increase/(Decrease) in cash	20, 21	20,371	(6,442)

**Notes to the financial statements
for the year ended 31 March 2014****1. Principal accounting policies****Basis of preparation**

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and accounting standards currently applicable in the United Kingdom, except for the treatment of the amortisation of goodwill described below. An explanation for this departure from the requirements of the Companies Act is given below.

Going concern

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty, particularly over the level of demand for the Group's products. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in note 26.

Accounting policies

All accounting policies have been reviewed in the year and are considered to be the most appropriate to both the Company and Group.

A summary of the more significant accounting policies, which have been consistently applied, is set out below.

Basis of consolidation

The financial statements have been consolidated under the acquisition accounting method.

The Directors have taken advantage of the exemption conferred by section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company alone.

Income recognition

Turnover comprises the invoiced value of goods sold (which is recognised on despatch) and the rentals receivable on operating leases (as described further below), exclusive of value added tax.

Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

Operating leases**i) As lessor**

Assets on rental and service contracts are capitalised and depreciated as noted below. Rentals receivable are credited to the profit and loss account over the lease term, on a straight-line basis from the date of inception. Amounts received in advance are shown in the balance sheet as deferred income.

ii) As lessee

Lease payments are charged to the profit and loss account on a straight-line basis over the lease term.

Notes to the financial statements for the year ended 31 March 2014 (continued)

1. Principal accounting policies (continued)

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any directly attributable incidental expenses.

Depreciation is calculated to write-off the cost of each tangible fixed asset on a straight-line basis, over its expected useful economic life. The principal depreciable lives of assets are:

Freehold land	-	Not depreciated
Freehold property	-	50 years
Short leasehold property	-	Lease term
Equipment at customers' premises	-	1 to 12.5 years
Other equipment and vehicles	-	3 to 10 years
Tooling	-	4 years

The Directors undertake reviews of the carrying value of fixed assets when trigger events occur and make such provisions for impairments, as they consider necessary.

Goodwill

Purchased goodwill represents the excess of the fair value of consideration payable over the fair value of the identifiable assets and liabilities acquired.

Goodwill in respect of acquisitions made is shown as an asset and, in accordance with FRS 10 "Intangible assets and goodwill", each acquisition is assessed to determine the useful economic life of the business and goodwill. Where it is considered that the value of the business or goodwill has a measurable economic life, any related goodwill would be amortised through the profit and loss account by equal instalments over such life. In this context, the useful economic life of the businesses and goodwill are reviewed annually and revised where appropriate. In the event that the useful economic life does not exceed 20 years, goodwill would be subject to an impairment review at the end of the year of acquisition and at any other time when the Directors believe that impairment may have occurred.

FRS10 permits goodwill to be assigned an indefinite life and consequently not be amortised, provided that the durability of the related businesses can be demonstrated to justify such a life. The Board believes the businesses acquired to date meet the durability criteria set out in the standard.

The durability of the Group's business and the businesses that it has acquired is characterised by factors such as the stability of the sector, low technology, long lifespan of services and products, high sustainable demand and high barriers to entry.

The nature of the Group's acquired businesses, the markets in which they and the Group operate and the synergy benefits that occur from adding the acquired business' coverage to those of the existing Group mean that the consolidated goodwill should have an indefinite economic life providing that the Group run the business effectively.

In these special circumstances, it is the economic consequences of acquisition that drive value rather than individually what has been acquired. As a result, there is no individual aspect of the acquisition that will diminish over time, and arbitrarily amortising goodwill would not reflect the economics of the business.

Where the goodwill is assigned a useful economic life that is in excess of 20 years, or is indefinite, the value of the relevant businesses and goodwill is assessed for impairment against carrying values on an annual basis in accordance with FRS 11 "Impairment of fixed assets and goodwill". Provision for impairment is recognised where the carrying value of goodwill is lower than the value in use. The value in use is calculated using cash flow projections based on financial budgets approved by the Board covering a one-year period. Cash flows are extrapolated using an estimated long-term growth rate. The growth rate is based on the average long-term growth rate predicted across the relevant sectors and countries in which the business operates. Any impairment is charged to the profit and loss account in the financial year of which it arises.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)****1. Principal accounting policies (continued)****Goodwill (continued)**

The Group has acquired a number of businesses in the year as detailed in note 23. The Directors have reviewed these acquisitions and consider that the businesses and associated goodwill have an indefinite useful economic life and the goodwill is therefore not being amortised.

This treatment represents a departure from the requirements of the Companies Act 2006, which does not permit an indefinite useful economic life. The departure is, however, in the opinion of the Directors, necessary for the financial statements to give a true and fair view in accordance with applicable accounting standards. If the goodwill were amortised over a 20-year period, there would be no difference between the loss before tax for the year ended 31 March 2014 (2013: £12,004,000), due to the goodwill being impaired during the year. There would be no difference between the cumulative amount written off against reserves.

Fixed assets investments

Investments held as fixed assets are stated at cost less provision for any impairment in value. Provision for impairment is recognised where the carrying value of the investment is lower than the higher of the net realisable value and value in use. The value in use is calculated using cash flow projections based on financial budgets approved by the Board covering a one-year period. Cash flows are extrapolated using an estimated long-term growth rate. The growth rate is based on the average long-term growth rate predicted across the relevant sectors and countries in which the business operates.

Stocks

Stocks are stated at the lower of cost and net realisable value, which takes account of any provision necessary to recognise damage and obsolescence. Cost is based on a FIFO measure and includes labour, materials, transport and directly attributable overheads.

Financial liabilities and issue costs

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs are charged as finance costs to the profit and loss account together with the coupon on a constant yield basis over the term of the borrowings (or over a shorter period where the lender can require earlier payment).

Finance leases

Leasing agreements (including equivalent hire purchase or finance agreements) which transfer substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The asset is included in fixed assets and the capital element of the leasing commitments shown within obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital outstanding. Assets held under finance leases are depreciated over the useful economic lives of the equivalent owned assets, or period of lease if shorter.

Deferred taxation

A deferred tax liability is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. A deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates expected to apply in the periods over which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

1. Principal accounting policies (continued)

Foreign exchange

i) Overseas subsidiaries

The results of overseas subsidiaries are translated at the average exchange rate for the year. The assets and liabilities of such undertakings are translated at the exchange rate prevailing at the balance sheet date. Exchange differences arising on the results for the year and retranslation of opening net assets are recorded as movements on reserves.

ii) Foreign currency transactions

Transactions expressed in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at exchange rates prevailing at the balance sheet date. Any differences are taken to the profit and loss account.

Pension costs

The Group operates defined contribution pension schemes for eligible employees. Pension costs represent contributions payable to the schemes for the year.

Along with the acquisition of Warner Howard Group Limited on 31 October 2005, the Group acquired a pension plan with both a defined benefit and money purchase element.

Contributions to the defined benefit section of the Warner Howard Limited Pension and Life Assurance Plan are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. Future accrual in respect of the defined benefit section ceased on 31 December 2002.

Financial instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest rates on bank borrowings. Instruments accounted for as hedges are designated as such at the inception of the contracts. Receipts and payments on these instruments are recognised on an accruals basis over their life.

2. Turnover and segmental reporting

An analysis of the Group's turnover, by type, is set out below:

	2014 £'000	2013 £'000
Contractual	289,045	299,711
Non-contractual	127,102	118,665
	<u>416,147</u>	<u>418,376</u>

Notes to the financial statements for the year ended 31 March 2014 (continued)

2. Turnover and segmental reporting (continued)

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

	<u>2014</u>			<u>2013</u>		
	Turnover £'000	Operating profit £'000	Profit margin	Turnover £'000	Operating profit £'000	Profit margin
Hygiene	200,114	73,518	36.7%	201,965	81,621	40.4%
Workplace	90,893	16,259	17.9%	90,211	21,394	23.7%
Data Solutions	43,810	7,949	18.1%	38,317	7,606	19.9%
Specialist Waste	58,137	6,300	10.8%	59,399	9,488	16.0%
	392,954	104,026	26.5%	389,892	120,109	30.8%
Discontinued operations	23,193	(4,427)	-19.1%	28,484	(1,529)	-5.4%
	416,147	99,599	23.9%	418,376	118,580	28.3%
Ongoing central costs	-	(35,303)		-	(30,042)	
	416,147	64,296	15.5%	418,376	88,538	21.2%
Exceptional central costs	-	(22,399)		-	(18,870)	
Impairment loss	-	(724,866)		-	(69,645)	
	416,147	(682,969)	-164.1%	418,376	23	0.0%

Exceptional central costs include expenditure on the integration of acquisitions into the Group's existing operations (including redundancy costs, payments for termination of leases and other restructuring costs), professional and legal fees associated with disputes and the refinancing of the Group, reassessment of the valuation of a specific range of fixed assets, accelerated depreciation of equipment for a large customer specific project where there is uncertainty about the level of profit that the contract will generate and costs associated with internal restructuring of certain businesses.

As explained on the face of the profit and loss account, continuing operations include the results of acquisitions made in the year because it is not practicable to determine their post-acquisition turnover and operating. However, in respect of turnover alone, the Directors believe that an indication of the contribution from acquisitions in the year can be given, based upon pre-acquisition turnover. Acquisitions in the year have contributed approximately £2,100,000 (2013: £5,500,000).

An analysis of the Group's net liabilities at 31 March, by class of business, is set out below:

	<u>2014</u> £'000	<u>2013</u> £'000
Hygiene	286,256	701,809
Workplace	44,508	224,262
Data Solutions	58,124	126,209
Specialist Waste	13,572	87,054
	402,460	1,139,334
Less: Group net debt (note 20)	(889,047)	(907,020)
Less: Intercompany	(256,909)	(253,579)
Add: Taxation	2,799	451
	(740,697)	(20,814)

Turnover and operating profit are principally earned and sourced, and net liabilities principally located, in Europe.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

3. Operating (loss)/profit

An analysis of the Group's net operating expenses is set out below:

	Discontinued £'000	Continuing £'000	2014 £'000	2013 £'000
Change in stocks	-	(731)	(731)	768
Own work capitalised	-	(9,899)	(9,899)	(9,670)
Raw materials and consumables	635	50,851	51,486	47,893
Employee costs (note 4)	6,147	140,723	146,870	140,695
Depreciation (excluding exceptional items)	691	25,341	26,032	24,386
Impairment losses (note 7)	-	724,866	724,866	69,645
Other exceptional costs	4,535	16,093	20,628	12,868
Exceptional accelerated depreciation	24	1,747	1,771	6,002
Other operating charges	20,147	117,946	138,093	125,766
	<u>32,179</u>	<u>1,066,937</u>	<u>1,099,116</u>	<u>418,353</u>

Included within depreciation above is £145,000 (2013: £299,000) of depreciation on assets held under hire purchase agreements.

Operating profit before exceptional central costs and impairment loss is stated after charging/(crediting):

	2014 £'000	2013 £'000
Rentals under operating leases:		
Land and buildings	10,286	10,186
Plant and machinery	16,724	17,777
Property rents receivable	(198)	(182)
Exchange rate (loss)/gain	446	(287)
Loss on disposal of tangible fixed assets	979	1,071

Amounts paid to auditors in the year are set out below:

	2014 £'000	2013 £'000
Fees payable to the Company's auditor and its associates for the audit of the Company's financial statements	7	7
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	107	106
- Tax advisory services	23	15
- Tax compliance services	44	43
- Corporate finance services	430	199
- All other services	147	248
	<u>758</u>	<u>618</u>
Fees capitalised within goodwill relating to financial due diligence	71	113
	<u>829</u>	<u>731</u>

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

4. Directors and employees

Directors' emoluments for the financial year comprise:	2014	2013
	£'000	£'000
Salaries for management services	1,025	974
Compensation for loss of office	-	100
Other emoluments (including benefits in kind)	108	98
	1,133	1,172
Contributions to money purchase pension schemes	39	48
	1,172	1,220

Retirement benefits are accruing under a money purchase pension scheme to 1 (2013: 1) current Director.

Amount above includes emoluments to the highest paid Director of:	2014	2013
	£'000	£'000
Salaries for management services	676	549
Other emoluments (including benefits in kind)	98	80
Aggregate emoluments	774	629

The average monthly number of people (including executive directors) employed by the Group in the year is shown below.

	2014	2013
	Number	Number
Administration	1,001	898
Sales	723	708
Service	3,479	3,470
	5,203	5,076

Employee costs for the above people were:	2014	2013
	£'000	£'000
Wages and salaries	130,622	126,197
Social security costs	13,613	13,011
Other pension costs	2,635	1,487
	146,870	140,695

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

5. Interest payable and similar charges

	2014 £'000	2013 £'000
On bank loans and overdrafts	46,909	39,937
Amortisation of issue costs	124	11,837
On hire purchase agreements	71	89
	<u>47,104</u>	<u>51,863</u>

Amortisation of issue costs for the year includes £nil (2013: £11,024,000) in relation to fees associated with the amendments to the Group's banking commitments that have been charged the profit and loss account as incurred. Details of the amendments made to the Group's borrowing facilities are provided in note 14 to the financial statements.

Bank interest payable and receivable have been netted off to reflect the substance of the Group's banking arrangements.

6. Tax on loss on ordinary activities

(a) Analysis of charge in the financial year

The taxation charge is made up as follows:

	2014 £'000	2013 £'000
Current tax		
Adjustments in respect of prior years	(8)	(3,150)
Group relief	2,894	7,149
Overseas tax	404	391
	<u>3,290</u>	<u>4,390</u>
Deferred tax		
UK in respect of current year	(1,689)	(1,115)
UK in respect of current year change in rate	127	-
Adjustments in respect of prior years	(60)	2,674
Overseas tax current year	(180)	63
	<u>(1,802)</u>	<u>1,622</u>
	<u>1,488</u>	<u>6,012</u>

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

6. Tax on loss on ordinary activities (continued)

(b) Factors affecting the current tax charge for the financial year

The tax assessed for both years varies from than the standard rate of corporation tax in the UK. The differences are explained below:

	2014	2013
	£'000	£'000
Loss before taxation	(718,568)	(42,624)
Loss multiplied by the standard rate of corporation tax in the UK of 23% (2013: 24%)	(165,271)	(10,230)
Effects of:		
Temporary differences between taxable and accounting profit:		
Accelerated capital allowances	2,516	1,709
Losses	(14)	(192)
Other short-term timing differences	(633)	(414)
Lower tax rates on overseas profits	(2,713)	(92)
Adjustments in respect of prior years	(8)	(3,150)
Permanent differences	169,413	16,759
Current tax charge (note 6(a))	3,290	4,390

(c) Deferred tax

The deferred tax asset is made up as follows:

	Group	
	2014	2013
	£'000	£'000
Accelerated depreciation over capital allowances	5,686	3,881
Short-term timing differences	(2,385)	(2,390)
Tax losses carried forward	266	283
Total deferred tax asset (note 11)	3,567	1,774

The movement on the deferred tax asset is as follows:

	Group	
	2014	2013
	£'000	£'000
Opening asset	1,774	3,549
Transferred from acquired companies	-	(159)
Profit and loss account	1,802	(1,622)
Foreign exchange differences	(9)	6
Closing asset	3,567	1,774

Notes to the financial statements for the year ended 31 March 2014 (continued)

6. Tax on loss on ordinary activities (continued)

Changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2013 on 2 July 2013. These include reductions to the corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015. The Group's deferred tax has been calculated at a rate of 20%. The changes in tax rates and laws have not had a material impact on the results.

7. Intangible fixed assets

<u>Group</u>	Purchased Goodwill £'000
Cost and net book value	
On 1 April 2013	1,086,731
Adjustments to prior year provisional fair values	851
Additions	3,999
Impairment loss	(724,866)
Foreign exchange differences	(118)
At 31 March 2014	366,597

Additions represent the purchase of goodwill associated with the Group's acquisition of subsidiary undertakings and unincorporated businesses during the year, as detailed in note 23.

Goodwill arising on a number of the acquisitions made in the year can be determined only on a provisional basis because the fair values of the consideration payable and net assets acquired cannot yet be finally determined.

Adjustments to prior year provisional fair values comprise revisions to the fair values of both the net assets acquired and consideration payable recognised at 31 March 2014. The revisions to the fair values of the net assets relate to alignment of accounting policies (including fixed asset recognition, depreciation, stock recognition, provision against irrecoverable debtor balances, lessor accounting on operating leases, accounting for deferred income, recognition of liabilities and deferred tax) for acquisitions undertaken in the period to 31 March 2014 where final information was not available at the time of preparing the financial statements for that year.

During the year ended 31 March 2014, the Group acquired 2 businesses. The Directors have reviewed these acquisitions along with the Group's underlying business and, in accordance with the policy described in note 1, consider that these businesses and associated goodwill have an indefinite useful economic life. Consequently the goodwill is not being amortised.

Goodwill is tested annually for impairment. During the year, impairment losses have been recognised in relation to the UK, Spanish and Irish subsidiaries. The Group has instigated plans to improve the performance of these businesses and believes that they will return to an acceptable level of growth in future. The impairment is measured with reference to value in use, calculated using cash flow projections based on financial budgets approved by the Board covering a one-year period. Cash flows are extrapolated using an estimated long-term growth rate of 2.5% (2.0% for the Spanish subsidiaries) and a pre tax discount rate of 9.6%. The growth rate is based on the average long-term growth rate predicted across the relevant sectors and countries in which the business operates. All impairment losses have been recorded in the profit and loss account within operating expenses.

The Company has no intangible fixed assets.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

8. Tangible fixed assets

<u>Group</u>	Freehold land & property £'000	Short leasehold property £'000	Equipment at customers' premises £'000	Other equipment & vehicles £'000	Tooling £'000	Total £'000
Cost						
At 1 April 2013	348	4,594	116,210	50,593	1,306	173,051
Acquisitions	-	-	-	87	-	87
Business disposals	-	-	(8,491)	-	-	(8,491)
Additions	-	914	21,844	12,650	254	35,662
Disposals	-	(299)	(10,922)	(7,666)	-	(18,887)
Transfers	-	40	-	(40)	-	-
Foreign exchange	-	-	(146)	(73)	-	(219)
At 31 March 2014	348	5,249	118,495	55,551	1,560	181,203
Accumulated depreciation						
At 1 April 2013	58	1,347	60,901	27,070	990	90,366
Acquisitions	-	-	-	-	-	-
Business disposals	-	-	(4,690)	-	-	(4,690)
Charge for year	6	628	18,993	7,957	219	27,803
Disposals	-	(299)	(9,998)	(7,150)	-	(17,447)
Transfers	-	3	-	(3)	-	-
Foreign exchange	-	-	(105)	(52)	-	(157)
At 31 March 2014	64	1,679	65,101	27,822	1,209	95,875
Net book value						
At 31 March 2014	284	3,570	53,394	27,729	351	85,328
At 31 March 2013	290	3,247	55,309	23,523	316	82,685

Included within other equipment & vehicles are assets held under hire purchase agreements with a net book value of £384,000 (2013: £394,000).

The Company has no tangible fixed assets.

9. Investments

<u>Company</u>	Shares in subsidiary undertakings £'000
Cost and net book value	
At 1 April 2013 and 31 March 2014	596,996

The principal subsidiary undertakings of the Company are set out below. The Company owns, either directly or indirectly, 100% of the shares in each subsidiary listed. The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings at 31 March 2014 will be annexed to the Company's next Annual Return.

The Group has no third party investments.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

9. Investments (continued)

The following subsidiary companies all act as intermediate holding companies. All are registered in England and Wales, with the exception of Watercompany International BV and Mulberry Invest SA, which are registered in the Netherlands and Spain respectively.

Company name	Class of capital
PHS Services Limited	10p ordinary shares
PHS Holdings Limited	£1 ordinary shares
PHS Western Limited	£1 ordinary shares
PHS Investments Limited	10p deferred share
	\$0.05 ordinary shares
Teacrate Limited	£1 ordinary shares
Epsilon Test Services Limited	1p 'A' ordinary shares
	1p 'B' non-voting convertible ordinary shares
	£1 irredeemable 'A' preference shares
CLM Safety Limited	£1 ordinary shares
Warner Howard Group Limited	1p ordinary shares
Watercompany International BV	€1 ordinary shares
Mulberry Invest SA	€1 ordinary shares

A list of the principal trading subsidiary companies is given below.

Company name	Class of capital	Country	Principal activity
Personnel Hygiene Services Limited	£1 ordinary shares	England & Wales	Provision of workplace services at customers' premises
	€1 redeemable preference shares		
Teacrate Rentals Limited	10p ordinary shares	England & Wales	Rental, sale and management of specialist crates
PHS Compliance Limited	£1 ordinary shares	England & Wales	Services to assess compliance of electrical and similar equipment, as well as remedial repairs
Direct365online Limited	£1 ordinary shares	England & Wales	Provision of workplace services at customers' premises
All Water Systems Limited	€1.269738 ordinary shares	Ireland	Sale, rental and maintenance of point of use water dispensers
Karmarton Limited	€1.269738 ordinary shares	Ireland	Provision of workplace services at customers' premises
Watercompany BV	€1 ordinary shares	Netherlands	Sale, rental and maintenance of point of use water dispensers
Ultraspring BV	€1 ordinary shares	Netherlands	Sale, rental and maintenance of point of use water dispensers
Servicios de Contenedores Higienicos Sanitarios S.A	€1 ordinary shares	Spain	Provision of workplace services at customers' premises

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

The UK subsidiaries, PHS All Clear Limited, Capital Capture Limited and Epsilon Test Services Limited, are exempt from the requirement to file audited accounts by virtue of section 479A of Companies Act 2006. In adopting the exemption PHS Group Limited (formerly PHS Group plc) will provide a statutory guarantee to these subsidiaries in accordance with section 479C of the Companies Act 2006.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

10. Stocks

<u>Group</u>	2014 £'000	2013 £'000
Raw materials and consumables	2,326	1,902
Finished goods	10,900	10,599
	13,226	12,501

The Company has no stocks.

11. Debtors

	<u>Group</u>		<u>Company</u>	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade debtors	73,244	84,402	-	-
Amounts owed by group undertakings	-	-	477,746	454,212
Other debtors	1,672	1,004	-	75
Deferred taxation (note 6(c))	3,567	1,774	-	-
Prepayments and accrued income	15,679	12,557	-	-
	94,162	99,737	477,746	454,287
Amounts falling due after more than one year:				
Loan notes due from parent undertaking	272,950	236,289	272,950	236,289
	367,112	336,026	750,696	690,576

The Company owns loan notes in its immediate parent company with a par value of £94,554,000. During the year interest of £36,660,000 (2013: £31,736,000) accrued on these loan notes.

The loan notes are unsecured, are repayable at par and can only be repaid when all committed bank borrowings have been discharged in full. Interest accrues at 15% per annum but is payable only on redemption of the notes.

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. An interest rate of 5% is charged on non-trading balances with group undertakings that are not dormant.

12. Creditors: amounts falling due within one year

	<u>Group</u>		<u>Company</u>	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Bank loans and overdrafts (note 14)	932,160	285	932,004	-
Trade creditors	27,104	28,554	-	-
Amounts owed to group undertakings	529,859	489,868	593,312	523,821
Other creditors	20,265	14,762	4,244	831
Corporation tax	768	1,323	45	93
Other taxation and social security	11,302	12,456	-	-
Accruals and deferred income	94,615	84,774	4,468	125
	1,616,073	632,022	1,534,073	524,870

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

13. Creditors: amounts falling due after more than one year

	<u>Group</u>		<u>Company</u>	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 14)	317	929,988	-	929,554

14. Bank and other borrowings

	<u>Group</u>		<u>Company</u>	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Bank loans	932,004	-	932,004	-
Obligations under hire purchase agreements	156	285	-	-
	<u>932,160</u>	<u>285</u>	<u>932,004</u>	<u>-</u>
Amounts falling due after more than one year:				
Bank loans	-	929,554	-	929,554
Obligations under hire purchase agreements	317	434	-	-
	<u>317</u>	<u>929,988</u>	<u>-</u>	<u>929,554</u>

The maturity profile of the carrying amount of the Group's bank and other borrowings at 31 March 2014 and 31 March 2013 is set out below:

	<u>2014</u>				
	<u>Within 1 year or on demand £'000</u>	<u>Between 1 and 2 years £'000</u>	<u>Between 2 and 5 years £'000</u>	<u>More than 5 years £'000</u>	<u>Total £'000</u>
Bank loans:					
Term "B"	338,353	-	-	-	338,353
Term "C"	340,000	-	-	-	340,000
Second lien	125,000	-	-	-	125,000
Acquisition / Capex	128,651	-	-	-	128,651
Obligations under hire purchase agreements	156	86	175	56	473
	<u>932,160</u>	<u>86</u>	<u>175</u>	<u>56</u>	<u>932,477</u>

Notes to the financial statements for the year ended 31 March 2014 (continued)

14. Bank and other borrowings (continued)

	2013				
	Within 1 year or on demand £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	More than 5 years £'000	Total £'000
Bank loans:					
Term "B"	-	-	338,353	-	338,353
Term "C"	-	-	340,001	-	340,001
Second lien	-	-	125,000	-	125,000
Acquisition / Capex	-	26,639	99,561	-	126,200
Obligations under hire purchase agreements	285	132	188	114	719
	<u>285</u>	<u>26,771</u>	<u>903,103</u>	<u>114</u>	<u>930,273</u>

On 3 October 2012 the Group's bank commitments were amended and the repayment date of certain commitments was extended to 2 August 2016.

The unextended and extended Term "B" loans bear interest at LIBOR plus a margin, which may vary from 2.25% to 2.5% and 4.25% to 4.5%, respectively. The unextended and extended debts are repayable in full on 31 July 2015 and 2 August 2016, respectively. All outstanding amounts must be prepaid immediately on the sale or listing of the Company.

The unextended and extend Term "C" loans bear interest at LIBOR plus a margin, which may vary from 2.75% to 3.0% and 4.25% to 4.5%, respectively. The unextended and extended debts are repayable in full on 31 July 2016 and 2 August 2016, respectively. All outstanding amounts must be prepaid immediately on the sale or listing of the Company.

The Second lien loan bears interest at LIBOR plus a margin of 5.75%. The debt is repayable in full on 2 February 2017. All outstanding amounts must be prepaid immediately on the sale or listing of the Company.

The unextended and extended acquisition/capex loans bear interest at LIBOR plus a margin, which may vary from 2.0% to 2.5% and 4.25% to 4.5%, respectively. The unextended and extended debts are repayable in full on 31 July 2014 and 2 August 2016, respectively. All outstanding amounts must be prepaid immediately on the sale or listing of the Company.

The bank borrowings are secured by way of the following:

- First legal mortgage over all freehold and leasehold property together with all buildings and fixtures;
- First fixed charge regarding:
 - all other interests in any freehold or leasehold property, the buildings and fixtures and all proceeds of sale derived there from;
 - all investments and all corresponding distribution rights;
 - all plant, machinery, vehicles, computers, office and other equipment and the benefit of all contracts, licences and warranties relating thereto;
 - all book debts and all rights and claims against third parties and against any security in respect of book debts;
 - all other debts and monetary debts and all rights against third parties in respect of such debts and claims;
 - all monies standing to the credit of accounts with any bank, financial institution or other person and all rights related to these accounts;
 - all intellectual property rights;
 - the benefit of all consents and agreements held in connection with the use of any assets;
 - the goodwill and any uncalled capital;
- First floating charge over all present and future assets not effectively charged by way of the first fixed charge.

The Group had undrawn committed borrowing facilities at 31 March 2014, consisting of £5,464,000 under the revolving credit facility.

Each hire purchase agreement is secured on the assets under lease and bears interest at an implicit fixed rate that range between 5% and 10% per annum.

Notes to the financial statements for the year ended 31 March 2014 (continued)

15. Pensions

The Group operates a defined contribution scheme for eligible employees. Contributions by the Group are charged to the profit and loss account as incurred. The pension creditor at 31 March 2014 is £540,000 (2013: £184,000). The total pensions cost for the year is shown in note 4.

Along with the acquisition of Warner Howard Group Limited on 31 October 2005, the Group acquired a pension plan with both a defined benefit and money purchase element.

The defined benefit section of the pension scheme was established under an irrevocable Deed of Trust by Warner Howard (UK) Limited. With effect from 1 January 2003 all active members of the defined benefit section ceased to accrue further benefits and became deferred pensioners. A Corporate Trustee accountable to the pension scheme members manages the scheme.

The scheme is valued every three years by independent consulting actuaries using the Defined accrued benefit method. The most recent valuation at 1 May 2013 indicated that the assets exceeded the value of the technical provisions by £532,000. It was assumed that the pre-retirement investment return would be 6.25% per annum, the post-retirement return would be 4.5% per annum and the price inflation would be 3.0% per annum.

The latest audited financial statements of the scheme are made up to 30 April 2013 at which date the scheme, which is contracted out of the state scheme, had net assets of £10,187,000.

Immediately following the acquisition of Warner Howard Group Limited, the Group made a one-off contribution of £2,255,000 in respect of the final salary section, which was equivalent to the FRS 17 deficit at 30 June 2005. In accordance with the schedule of contributions based on the valuation as at 1 May 2005, contributions of £54,000 were made until March 2006, at which time it was agreed with the Trustees that no further contributions are required.

The employer pays contributions at the rate of 6% of pensionable salary in respect of members of the money purchase section of the plan, which amounted to £nil in the year ended 31 March 2014 (2013: £8,000).

The actuarial valuation of the plan was updated to 31 March 2014 and 31 March 2013 using the principal actuarial assumptions shown below:

	2014 % per annum	2013 % per annum
Discount rate	4.3	4.3
Expected return on invested assets	4.7	4.3
Salary increases	N/A	N/A
Increase to pension payments:		
pre-1997 accrued pension above GMP	-	-
post-1997 accrued pension above GMP	3.0	2.8
pre-1988 GMP	-	-
post-1988 GMP	2.2	2.0
Inflation	3.0	2.8

No amounts have been charged to operating profit in either financial year. A finance charge of £nil (2013: £nil) and a credit through the Statement of total recognised gains and losses of £nil (2013: £nil) have been recognised in the financial statements as the fund shows an unrecognised surplus of £984,000. The net pension asset at 31 March 2014 is not recognised in the financial statements, as it does not meet the FRS17 criteria that permit recognition only where the asset is recoverable.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

15. Pensions (continued)

The asset and liabilities of the Warner Howard Group Pension Plan at 31 March, along with the expected rates of return on the Plan's assets, are shown below:

	<u>2014</u>		<u>2013</u>	
	Long-term expected rate of return % per annum	Value £'000	Long-term expected rate of return % per annum	Value £'000
Equity-type investments	6.4	3,279	6.0	3,267
Bonds	3.9	6,626	3.5	7,237
Total market value of assets		9,905		10,504
Present value of scheme liabilities		(8,921)		(8,619)
Unrecognised surplus in scheme		984		1,885
Reconciliation of present value of scheme liabilities and asset:				
		2014		2013
		£'000		£'000
Opening value of plan liabilities		8,619		7,893
Interest costs		362		385
Actuarial (gains) / losses		345		718
Benefits paid		(405)		(377)
Closing value of plan liabilities		8,921		8,619
Change in fair value of plan assets:				
		2014		2013
		£'000		£'000
Opening fair value of plan assets		10,504		9,341
Expected return		362		385
Actuarial gains / (losses)		(556)		1,155
Benefits paid		(405)		(377)
Closing value of plan assets		9,905		10,504
The amounts listed below are included in profit before taxation:				
		2014		2013
		£'000		£'000
Expected return on pension scheme assets		362		385
Interest on pension scheme liabilities		(362)		(385)
		-		-

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

15. Pensions (continued)

The actuarial result recognised in the Consolidated statement of total recognised gains and losses is analysed below:

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Actual less expected return on pension scheme assets	(556)	1,085	621	234	1,276
Experience losses arising on the scheme liabilities	(16)	-	(26)	609	(428)
Change in assumptions	(259)	(718)	219	120	(1,420)
Unrecognised surplus gain/(loss)	831	(367)	(814)	(634)	302
Actuarial loss recognised in Statement of total recognised gains and losses	-	-	-	329	(270)

16. Called up share capital

<u>Group and Company</u>	2014 £'000	2013 £'000
Allotted, issued and fully paid	50	50
50,000 (2013: 50,000) ordinary shares of £1 each	50	50

17. Statement of movement on reserves

	<u>Group</u> Profit and loss account £'000	<u>Company</u> Profit and loss account £'000
At 1 April 2013	(20,864)	(166,720)
Loss for the financial year	(720,056)	(15,810)
Currency translation differences	173	-
At 31 March 2014	(740,747)	(182,530)

Of the Group's loss for the financial year, a loss of £15,810,000 is dealt with in the financial statements of PHS Group Limited (formerly PHS Group plc).

18. Reconciliation of movements in shareholders' (deficit)/funds

	<u>Group</u> 2014 £'000	2013 £'000	<u>Company</u> 2014 £'000	2013 £'000
Loss for the financial year	(720,056)	(48,636)	(15,810)	(17,566)
Other recognised gains and losses for the financial year	173	428	-	-
	(719,883)	(48,208)	(15,810)	(17,566)
Opening shareholders' (deficit)/ funds	(20,814)	27,394	(166,670)	(149,104)
Closing shareholders' deficit	(740,697)	(20,814)	(182,480)	(166,670)

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

19. Analysis of other headings in the cash flow statement

	2014	2013
	£'000	£'000
Reconciliation of operating (loss)/profit to net cash inflow from operating activities:		
Operating (loss)/profit	(682,969)	23
Depreciation and impairment loss	752,669	100,033
Profit on disposal of an operation	-	(137)
Loss on disposal of tangible fixed assets	979	1,071
(Increase)/decrease in stocks	(549)	1,857
Increase in debtors	(28,153)	(31,229)
Increase in creditors	57,957	35,492
Net cash inflow from operating activities	99,934	107,110
Returns on investments and servicing of finance		
Interest paid	(126)	(79)
Interest paid on bank loans and overdrafts	(43,496)	(39,620)
Issue costs incurred in respect of borrowings	(124)	(11,024)
Interest paid on hire purchase agreements	(71)	(89)
	(43,817)	(50,812)
Capital expenditure		
Purchase of equipment at customers' premises	(21,845)	(22,700)
Purchase of other tangible fixed assets	(13,818)	(12,135)
Proceeds from sale of tangible fixed assets	279	331
	(35,384)	(34,504)
Acquisitions		
Acquisition of subsidiaries and other businesses	(5,175)	(22,230)
Proceeds from sale of an operation	2,425	255
Acquisition expenses	(294)	(584)
Disposal expenses	(122)	-
Net cash acquired	1,374	644
Net cash disposed	-	(90)
	(1,792)	(22,005)
Financing		
Receipt of bank loans	2,856	-
Repayments of bank loans	-	(721)
Repayment of capital element of hire purchase agreements	(256)	(562)
	2,600	(1,283)

The trade, assets and liabilities of acquisitions made during the year have been amalgamated into the existing trade, assets and liabilities of the Group and therefore their effects on the reported cash flows cannot be determined.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

20. Movements in net debt

	At 1 April 2013 £'000	Cash flow £'000	Acquisitions (excluding cash and overdrafts) £'000	Non-cash changes £'000	At 31 March 2014 £'000
Cash at bank and in hand	23,253	20,371	-	(194)	43,430
Debt due within one year					
Bank loans	-	-	-	(932,004)	(932,004)
Obligations under hire purchase agreements	(285)	256	-	(127)	(156)
	(285)	256	-	(932,131)	(932,160)
Debt due after more than one year					
Bank loans	(929,554)	(2,856)	-	932,410	-
Obligations under hire purchase agreements	(434)	-	-	117	(317)
	(929,988)	(2,856)	-	932,527	(317)
Net debt	(907,020)	17,771	-	(202)	(889,047)

Non-cash changes include £212,000 of translation differences on cash and bank loans and £10,000 of other non-cash changes which are explained further in note 21.

21. Reconciliation of net cash flow to movement in net debt

	2014 £'000	2013 £'000
Increase/(Decrease) in cash	20,371	(6,442)
Cash flow from movement in debt and lease financing	(2,600)	1,283
Change in net debt resulting from cash flows	17,771	(5,159)
Bank loans and leases acquired	-	(839)
Translation differences	212	(195)
Changes in net debt resulting from other non-cash changes	(10)	(1,234)
Movement in net debt in the year	17,973	(7,427)
Opening net debt	(907,020)	(899,593)
Closing net debt	(889,047)	(907,020)

Other non-cash changes comprise £nil (2013: £813,000) amortisation of debt issue costs and £10,000 (2013: £421,000) of new hire purchase or finance lease agreements.

22. Capital commitments

Neither the Group nor Company had any capital commitments at 31 March 2014 (2013: £nil).

Notes to the financial statements for the year ended 31 March 2014 (continued)

23. Acquisitions

During the year, the Group acquired the entire issued share capital of two companies. The Directors do not believe either of the acquisitions to have been individually material. The name and acquisition date of each acquisition is listed below:

Acquired entity	Date of acquisition
Hygiene Matters Limited	24 April 2013
Bettershred Limited	31 July 2013

Goodwill arising on all acquisitions made in the year can be determined only on a provisional basis because the fair values of the consideration payable and net assets acquired cannot yet be finally determined.

A table showing the book value, fair value adjustments and fair value of each class of asset and liability acquired, on an aggregated basis, is set out below. The table also analyses the fair value of the consideration payable and sets out the purchased goodwill arising.

	Book value £'000	Alignment of accounting policies £'000	Provisional fair value £'000
Intangible fixed assets	-	-	-
Tangible fixed assets	37	(37)	-
Stocks	23	-	23
Debtors	430	(33)	397
Deferred taxation	-	-	-
Cash	260	-	260
Total assets	750	(70)	680
Bank overdraft	(23)	-	(23)
Bank loans	-	-	-
Hire purchase lease creditors	-	-	-
Corporation tax	-	-	-
Other creditors	(207)	(11)	(218)
Deferred income	(65)	-	(65)
Net assets/(liabilities)	455	(81)	374
Purchased goodwill (note 7)			3,999
Consideration			4,373
Satisfied by:			
Cash			3,854
Deferred cash consideration			339
Acquisition expenses			180
			4,373

An analysis of cash and cash equivalents is set out below:

	£'000
Cash consideration (including acquisition expenses)	4,034
Acquired cash net of bank overdrafts	(237)
Net outflow of cash and cash equivalents	3,797

In addition to the above, £1,435,000 was paid in respect of acquisitions made in prior years, mainly as a result of the payment of deferred consideration and additional acquisition expenses.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

24. Operating lease commitments

At 31 March, the Group was committed to making the following annual payments during the next year in respect of non-cancellable operating leases:

	2014	2013
	£'000	£'000
Land and buildings		
Operating leases which expire:		
Within one year	274	190
Between one and five years	2,486	2,977
After five years	5,962	4,926
	<u>8,722</u>	<u>8,093</u>
Other		
Operating leases which expire:		
Within one year	883	1,388
Between one and five years	8,660	11,158
After five years	909	389
	<u>10,452</u>	<u>12,935</u>

25. Related party transactions

PHS Group Limited (formerly PHS Group plc) was a wholly owned subsidiary of PHS Group Holdings Limited at the balance sheet date.

The Company is exempt under the terms of FRS8 from disclosing related party transactions with entities that are part of the PHS Group Holdings Limited group or investors of the PHS Group Holdings Limited group.

26. Post balance sheet events

The Group breached its financial covenant in relation to its debt to earnings ratio for the relevant testing periods ending on 5 January 2014, 30 March 2014 and 20 July 2014. Whilst the Group had outstanding covenant breaches as at 30 March 2014, it was at that date already well advanced in constructive discussions with its financial creditors, over one third of whom had agreed not to take any enforcement action. The Group has subsequently completed a successful restructuring of its debt facilities resulting in substantially reduced indebtedness being provided under its new facilities. No events of default have occurred or are anticipated under the new facilities.

The balance sheet shown on the following page has been restated to reflect the position at 31 March 2014 on the basis that the restructuring process had been completed before the balance sheet date.

**Notes to the financial statements
for the year ended 31 March 2014 (continued)**

26. Post balance sheet events (continued)

	<u>Group</u>		<u>Company</u>	
	2014	Effect of	2014	Effect of
	£'000	restructuring	£'000	restructuring
		£'000		£'000
Fixed assets				
Intangible assets	366,597	366,597	-	-
Tangible assets	85,328	85,328	-	-
Investments	-	-	596,996	596,996
	<u>451,925</u>	<u>451,925</u>	<u>596,996</u>	<u>596,996</u>
Current assets				
Stocks	13,226	13,226	-	-
Debtors	367,112	94,162	750,696	477,746
Cash at bank and in hand	43,430	43,430	3,901	3,901
	<u>423,768</u>	<u>150,818</u>	<u>754,597</u>	<u>481,647</u>
Creditors: amounts falling due within one year	<u>(1,616,073)</u>	<u>(154,210)</u>	<u>(1,534,073)</u>	<u>(134,661)</u>
Net current (liabilities)/assets	<u>(1,192,305)</u>	<u>(3,392)</u>	<u>(779,476)</u>	<u>346,986</u>
Total assets less current liabilities	<u>(740,380)</u>	<u>448,533</u>	<u>(182,480)</u>	<u>943,982</u>
Creditors: amounts falling due after more than one year	<u>317</u>	<u>678,817</u>	<u>-</u>	<u>678,500</u>
Capital and reserves				
Called up share capital	50	50	50	50
Profit and loss account	(740,747)	(230,334)	(182,530)	265,432
Total shareholders' deficit	<u>(740,697)</u>	<u>(230,284)</u>	<u>(182,480)</u>	<u>265,482</u>
	<u>(740,380)</u>	<u>448,533</u>	<u>(182,480)</u>	<u>943,982</u>

27. Ultimate parent company and controlling party

The immediate and ultimate parent company was PHS Group Holdings Limited, a Company incorporated in the United Kingdom and registered in England and Wales, at the balance sheet date. Copies of the parent company's financial statements are available from the Company's registered office at Western Industrial Estate, Caerphilly.

The parent company of the largest group at which the Company's financial statements are consolidated is PHS Group Holdings Limited.

The ultimate controlling party of the Company was funds managed by Charterhouse General Partners (VII) at the balance sheet date.

At the date of signing these financial statements, as a result of the debt restructuring (see note 26), the ultimate parent company is PHS Group Investments Limited (formerly Pacific 1 Limited) and, in the opinion of the directors, there is no ultimate controlling party.