

Board of Directors

Non-executive Directors

Roy Brown (56) was appointed as a Non-executive Director of THUS in January 2001 and became Chairman on 10 July 2002. Until May 2001, Mr Brown was a main Board Director of Unilever and President of Unilever's European Foods and Beverages division. In addition, he has held the role of Regional Director of Unilever's Africa, Middle East, Central and Eastern Europe division. Mr Brown is also a Non-executive Director of GKN Plc, Brambles Industries plc, BUPA, HMV Group plc and Lloyds Franchise Board.

Ian Chippendale (54) was appointed as a Non-executive Director of THUS on 15 October 1999. Mr Chippendale is Executive Chairman of Direct Line Group Limited, having previously been Chief Executive, and has considerable experience in the insurance and financial services industry. Prior to joining Direct Line in 1996, Mr Chippendale was Chief Executive of Privilege Insurance from 1994 and before that he was a Director of Provident Financial plc.

Michael de Kare-Silver (46) joined the Board of THUS as a Non-executive Director in September 2000. He is currently Managing Director of Modern Media Europe and before that was Head of eBusiness Services at PA Consulting Group. Prior to that he was Group e-commerce Director at Great Universal Stores Plc (GUS). Prior to joining GUS, Mr de Kare-Silver was Senior Partner of the strategy consulting firm, the Kalchas Group which was acquired by Computer Sciences Corp. in September 1997. Mr de Kare-Silver is Visiting Professor at Middlesex University Business School of Computing Sciences.

Jo Connell (55) joined the Board of THUS as a Non-executive Director in January 2001. Mrs Connell was until March 2003 Managing Director of Xansa plc. She joined Xansa in 1977 after five years at CMG and an early career with Mars. She became a member of the Xansa board in 1991 and was subsequently appointed Chief Operating Officer in July 1997 prior to being appointed Group Managing Director in November 1999. Mrs Connell was also a Director of First Banking Systems Limited, Xansa's joint venture with Bank of Scotland, and is a governor of the University of Hertfordshire.

Margaret Ford (45) was appointed as a Non-executive Director of THUS on 7 November 2002. She was appointed Chairman of English Partnerships in 2002. In addition, she is the founder and Chief Executive Officer of Goodpractice.net and a Non-executive Director of OFGEM. From 1993 to 2002 she was Managing Director and then Chairman of Eglinton Management Centre. From 1997 until 2001, Mrs Ford was Chairman of the Lothian Health Board. She has previously spent three years with PricewaterhouseCoopers, and held the position of Scottish Secretary for the Banking and Insurance Finance Union.

Executive Directors

William Allan (49) is Chief Executive of THUS. He joined a predecessor company in December 1998 as Chief Operating Officer and was appointed Managing Director in February 1999. Mr Allan has more than 25 years' experience in the telecommunications industry. In 1997, Mr Allan was appointed Chief Executive of Cable & Wireless Regional Businesses. He was a Director on the boards of Telecommunications of Jamaica, Entel Panama, the Barbados Telephone Company and the Barbados External Telecommunications Company. Between 1995 and 1997, Mr Allan was Regional Director for Cable & Wireless North East Asia Region, President and Representative Director of Cable & Wireless Japan, and Chairman of Cable & Wireless Communications Services Limited (Japan). He was also a Director on the boards of International Digital Communications (IDC Japan), Sakhalin Electrosvyaz, Sakhalin Telecom, Sakhalin Telecom Mobile and Nakhodka Telecom.

Philip Male (36) is Chief Operating Officer. He joined a predecessor company originally as Technical Director of Demon Internet Limited in October 1997. Mr Male has previous experience as Technical Director of Computer Newspaper Services and PA Data Design, part of the Press Association Group, and has held the positions of Head of Research and Development and, prior to joining Demon, Director of Strategic Research with the Press Association Group. With advanced knowledge of data networking technologies, programming languages and operating systems, Mr Male has been involved in the development of Internet services in the UK since 1990.

John Maguire (37) a Chartered Accountant, joined THUS as Chief Financial Officer in December 2000. Prior to joining THUS, Mr Maguire was Vice President Finance (Japan and Asia) for Cable & Wireless Global. This included leading the finance team in Cable & Wireless IDC, Japan's second largest international carrier. Mr Maguire has extensive financial and international telecommunications experience, having held a number of other key financial positions within the Cable & Wireless group since 1991, including that of Regional Finance Director of Cable & Wireless Asia Pacific, based in Singapore.

Audit committee

Ian Chippendale, Chairman
Jo Connell
Michael de Kare-Silver

Nomination committee

Roy Brown, Chairman
William Allan
Ian Chippendale

Remuneration committee

Michael de Kare-Silver, Chairman
Ian Chippendale
Jo Connell
Margaret Ford

Senior Independent Non-executive Director

Ian Chippendale

Directors' Report

The Directors are pleased to present their Annual Report, together with the audited Accounts, for the year ended 31 March 2003.

Activities

THUS is a provider of voice, data, Internet and contact centre services to corporate and small and medium sized enterprise markets primarily in the UK. A review of the business and its future development is contained in the Chairman's and Chief Executive's Review on pages 4 and 5 and in the Operating and Financial Review on pages 6 to 13.

Results and dividend

The loss transferred to reserves for the year amounted to £59.0 million (2002: £106.2 million), details of which are set out in the Group Profit and Loss Account on page 30.

The Company has not declared or paid a dividend on its share capital (2002: £Nil). The Company intends to retain future earnings to expand the growth and development of its business. Accordingly, it does not anticipate paying dividends in the foreseeable future. In addition, given the Company's stage of development and the accumulated losses built up during the network deployment, the Company is not yet able to pay a dividend.

Share capital

On 9 September 2002, the 25,000,000 non-voting Deferred Shares of 92 ³⁴³/₃₄₆ pence each and the remaining fraction of ³⁵/₁₇₃ of an ordinary share were transferred to the Company and cancelled pursuant to a special resolution of the Company passed on 19 March 2002.

Details of THUS Group's authorised and issued share capital as at 31 March 2003 (all of which was fully paid or credited as fully paid) are contained in Note 21 to the Accounts on pages 45 and 46.

Environmental policy

THUS recognises its statutory obligations and the contribution it can make to reduce adverse environmental impact. It believes the new technology in communications can be used as an enabler to minimise adverse impacts of industry as a whole on the environment and community. THUS is proud that its environmental policy meets the criteria being introduced by FTSE4Good, and that it falls within their low environmental impact classification. Its environmental policy underpins its commitment to environmental protection, its stakeholders and the community at large.

Whilst THUS believes its environmental impact is light, it maintains its drive to meet or exceed its obligations in this regard. To this end:

- Redundant electrical and electronic equipment is passed to a contractor after which, where practicable, it is reused or recycled.
- THUS continues to endeavour to reduce staff travel, thereby reducing pollution caused by unnecessary journeys.
- THUS continues to monitor and review energy supplies and use. The findings of this programme will be used to engender a corporate culture that will reduce energy consumption.

The Company's procurement function has worked with the Environment Agency in the production of a guide to sustainable procurement.

Board of Directors

The names and details of the Directors of the Company are shown on pages 14 and 15.

Charles Berry, following the Company's demerger from ScottishPower, resigned as Chairman and as a Non-executive Director of THUS on 10 July 2002. Roy Brown assumed the role of Chairman on the same date. David Nish also resigned as a Non-executive Director with effect from 10 July 2002. James Reid ceased to be a Director on 18 July 2002. Margaret Ford was appointed as a Non-executive Director on 7 November 2002, and Philip Male, one of the Executive Directors, was appointed Chief Operating Officer with effect from 18 July 2002.

In accordance with the Articles of Association, Margaret Ford, Roy Brown, Philip Male and Ian Chippendale, are retiring from office at the Annual General Meeting. These Directors, being eligible, offer themselves for re-election.

Directors' interests

Details of the Directors' service contracts, letters of appointment and remuneration are set out in the Directors' Remuneration Report on pages 21 to 26. Other than as disclosed therein, none of the Directors had a material interest in any contract of significance with the Company and its subsidiaries during or at the end of the financial year.

The Directors' interests, all beneficial, in the ordinary shares of the Company at the year end, including awards and options under the THUS Group plc Discretionary Share Option Scheme, the THUS Group Performance Share Plan, the THUS Group plc Employee Sharesave Scheme, the THUS plc Employee Sharesave Scheme, the THUS plc Executive Share Option Scheme and the THUS plc Discretionary Share Option Scheme (2000) are contained in the Directors' Remuneration Report on pages 21 to 26.

In addition to the interests referred to above, William Allan, John Maguire and Philip Male, as Executive Directors, are to be regarded as having an interest, as trustees, in the 18,930,284 ordinary shares held in trust to satisfy entitlements under the Company's various share incentive arrangements and the excess shares held in trust. These interests are also disclosed in the Directors' Remuneration Report on pages 21 to 26.

Directors' and officers' liability insurance

THUS Group plc maintains liability insurance for the Directors and officers of the Company and its subsidiaries.

Substantial shareholdings

The Company has been notified of the following interests representing 3% or more of the issued share capital of the Company as at 2 May 2003.

	Number of shares	Percentage of issued share capital
Meditor Capital Management Limited	63,943,900	4.74
Prudential plc	41,142,455	3.05
Legal & General Investment Management Limited	41,497,890	3.07
UBS Warburg	40,663,589	3.02

Employees

The Company fully recognises that its ability to attract, retain and develop the best employees is critical and will continue to be so in the years to come.

During the last 12 months THUS has successfully come through various challenges and a major contributor to this has been the resolve and commitment of employees at all levels of the business.

Employee development remains a major focus both on the technical and personal development fronts. The Open Learning facility continues to be a success and the number of employees accessing development opportunities at work and at home continues to rise. Further development and exposure of this development tool is planned during next year.

Involvement of employees in actively developing and growing the business is encouraged and the Company's communication and consultation processes are continually used and developed, in seeking employee input into areas of the business where focus is needed.

THUS conducted an employee survey during the year and it plans to build on the feedback received to address employee issues and improve overall performance. The Company's ability to listen and take positive action is a key to its future business growth.

As an equal opportunity employer it is actively engaged in ensuring recruitment, development and career progression is available to employees throughout the business and its policies will continue to reflect those of a progressive employer where ability and performance are the key differentiators to employee progression within the business.

The Company's policy in respect of the employment of disabled persons is the same as that relating to all other employees in matters of training, career development and promotion. Where employees become disabled during the period of their employment, the Company will endeavour to continue to provide employment.

Health and safety

As clearly stated in its Health and Safety Policy, THUS believes a high standard of health and safety performance will contribute to business performance by reducing losses. Effective and efficient health and safety management underpins its corporate values and risk management strategy. It is, therefore, an integral part of the way THUS does business.

The Company continues to develop, monitor and review its management of health and safety, following the principles set out in the Health and Safety Executive publication "Successful Health and Safety Management".

Over the past year:

- A number of health and safety policies and procedures have been reviewed.
- The programme of risk assessment has continued. Generic assessments have been reviewed and a system to enable employees to conduct activity specific risk assessments in the field has been implemented.
- Resources have been specifically dedicated to meet the requirements of construction safety legislation.
- The network sites induction procedure has been reviewed. The Company strives to provide comprehensive safety information to employees and others who visit its sites.

The Company's industrial injury accident rates remain low when compared to industry sector standards. No enforcement action has been taken against the Company this year.

Charitable and political donations

During the financial year the Company made no charitable donations and it made no donations for political purposes. The Company and members of staff provided assistance during the year to Comic Relief.

Creditor payment policy and practice

The Group's current policy and practice concerning the payment of the majority of its trade creditors is to follow the Better Payment Practice Code. Copies are available upon request from the Company Secretary. For other suppliers, the Group's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts, and to pay in accordance with its contractual and legal obligations. The Group's "creditor days" at 31 March 2003 were 44 days. The Company did not have any trade creditors at 31 March 2003.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors to the Company and to authorise the Directors to fix their remuneration will be put to shareholders at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the Radisson SAS Hotel, 301 Argyle Street, Glasgow, G2 8DL on Wednesday 9 July 2003 at 11.00 am. Details of the resolutions to be proposed at the Annual General Meeting are contained in the Notice of Annual General Meeting on page 58.

By Order of the Board
David Macleod
Secretary
2 May 2003

Corporate Governance Report

The Company Directors set the policy to be followed by the Group and continue to be committed to high standards of corporate governance. The Group supports the Principles of Good Governance and the Code of Best Practice (the Combined Code). A report on the role and effectiveness of Non-executive Directors was issued in January 2003 by Mr Derek Higgs. At the same time, Sir Robert Smith published his report on audit committees. These reports represent a valuable contribution to the corporate governance debate and make recommendations for changes to the Combined Code which the Board will consider and respond to in due course. The following describes how the principles of corporate governance are applied within the Group and reports the Group's compliance with the provisions of the Combined Code.

Board of Directors

The separation of the Non-executive Chairman and the Chief Executive ensures that there is a well-established division of authority and responsibility at the most senior level within the Group. At the year end, the Board comprised three Executive and five Non-executive Directors (including a Non-executive Chairman). The Non-executive Directors are from varied business and other backgrounds, and all Directors have the benefit of induction visits and briefings following their appointment to the Board.

The Non-executive Directors are considered by the Board to be independent and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement. Four of the Non-executive Directors have held office throughout the year. Margaret Ford was appointed on 7 November 2002. Roy Brown was appointed Chairman with effect from 10 July 2002 following the resignation of Charles Berry.

Ian Chippendale has been identified as the senior independent Non-executive Director.

Directors are initially appointed by the Board. Following such appointment, the Director is required to retire and seek election at the next Annual General Meeting. All Directors retire by rotation such that approximately one-third of the Board seeks reappointment each year. Therefore, at the forthcoming Annual General Meeting to be held on 9 July 2003, Margaret Ford, Roy Brown, Philip Male and Ian Chippendale will be required to retire as Directors and offer themselves up for re-election to the THUS Group plc Board.

Details of Directors' remuneration together with the Group's remuneration policy and the principles under which they have been formulated and applied are described in the Directors' Remuneration Report as set out on pages 21 to 26.

The Board recognises that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system can only provide reasonable assurance and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Board meets monthly and has a schedule of matters concerning key aspects of the Group's activities which are specifically referred to it for its collective decision, principally relating to the strategy, direction and financial performance of the Group. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that all Board procedures are observed. Any Director wishing to do so, in furtherance of his duties, may take independent professional advice at the Group's expense.

Board Committees

The Board has three principal standing committees: the Audit Committee, Nomination Committee and Remuneration Committee. The composition, purpose and function of each of these committees are described below.

Audit Committee

The Audit Committee is comprised of three Non-executive Directors and is chaired by Ian Chippendale. It meets quarterly, has written terms of reference and its remit is to review the annual and interim Accounts and the appropriateness of accounting policies, to review internal controls and financial reporting, and to make recommendations on these matters to the Board. It also considers the appointment and fees of the external and internal auditors and reviews the internal audit plan and resulting reports. The Audit Committee discusses the action taken on problem areas identified by Board members or in the internal and external audit reports.

The Chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board, which receives and considers the minutes of all Audit Committee meetings.

Nomination Committee

The Nomination Committee is chaired by the Group's Non-executive Chairman and comprises the Chief Executive and one independent Non-executive Director. It has written terms of reference and its remit is to consider and make recommendations to the Board on the appointment of Directors, having regard to the overall balance and composition of the Board, and to review and advise upon issues of succession planning.

Remuneration Committee

The Remuneration Committee is comprised exclusively of four independent Non-executive Directors, is chaired by Michael de-Kare Silver and meets regularly. The remit is to assess the performance of the Executive Directors and to consider and make recommendations to the Board on remuneration policy for Executive Directors and senior managers. The Committee is committed to the provisions of the Combined Code and seeks to design policies which will attract, retain and motivate Executive Directors and senior managers of the required calibre. The Committee also has responsibility for reviewing the operation of the Group's bonus and incentive schemes.

The Chairman of the Remuneration Committee reports the outcome of the Committee meetings to the Board and the Board receives the minutes of all Remuneration Committee meetings.

The Directors' Remuneration Report for the year is set out on pages 21 to 26.

Relations with shareholders

As at 31 March 2003, the Company had 1,348.6 million shares in issue, approximately 77% of which were held by institutions and corporate shareholders with the remainder being held by private investors.

There is a regular dialogue with shareholders through the Annual and Interim Reports and through a supplementary investor relations programme focused around the Company's preliminary and interim results announcements and periodic trading updates. The Executive Directors' presentation of results and trading updates is broadcast via webcast or telephone conference. Following this, the Executive Directors undertake a series of formal presentations to existing and potential investors in London, Edinburgh and Glasgow. During the year, the Company also arranged a number of operational tours for institutional and private investors.

The Annual General Meeting, which is normally attended by all Directors, gives those institutional and private shareholders attending the opportunity for communication with the Board. Shareholders present are encouraged to ask questions both during and after the conclusion of the meeting.

Consistent with its obligations under the Listing Rules of the Financial Services Authority, the Company makes announcements to one of the Regulatory Information Services approved by the FSA from time to time.

Internal control

The Board has adopted an approach, which is in line with the guidance issued by the London Stock Exchange, in establishing the Group's internal control procedures and policies. The Combined Code introduced a requirement that the effectiveness of the system of internal control, including financial, operational, compliance controls and risk management, is reviewed by the Directors. In addition, Internal Control: Guidance for Directors on the Combined Code (the Turnbull Report) published in September 1999, provides guidance to Directors in respect of this requirement.

The Directors of THUS Group plc have overall responsibility for the system of internal control and for reviewing the effectiveness of the system. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's Internal Audit function has a formal charter approved by the Board which describes its purpose, authority and responsibility. It supports the Directors in assessing key internal controls through a structured review programme.

The risk management framework adopted by the Group is designed to ensure that the key controls are embedded into business processes. The continued development and implementation of the risk management and internal control systems across the Group enabled the Directors to be satisfied that the Group was fully compliant with the Combined Code provisions on internal control in the course of the financial year ended 31 March 2003.

Control environment

The Group is committed to ensuring that an appropriate control environment exists, which will not slow growth or stifle innovation.

The organisational structure is defined and communicated and individual objectives and authority levels are identified.

Each Executive Director has been given responsibility for specific aspects of the Group's business. The Management Board is the key decision-making body at Executive level in the Group and is chaired by the Chief Executive. It meets monthly in advance of the THUS Group plc main Board and focuses on business plan implementation, strategy, competitive positioning, policy and customers. Reporting to the Management Board are the following performance management groups which meet frequently, focusing on the implementation of the year's annual budget.

There is a Revenue Review Committee meeting monthly, which considers by both business and product lines the operational revenue and margin performance throughout the Group. It also has the responsibility of improving forecasting and budgeting procedures on an ongoing basis. This committee is closely monitored and reports to the Chief Financial Officer (CFO). The CFO also conducts a detailed monthly review of the actual financial results.

Business Operations, chaired by the Chief Operating Officer, manages the day-to-day operation of the business, ensuring linkage from marketing, sales, provisioning and through to operational delivery.

Capital Planning and Programme Management, chaired by the Business Services director, Ian Armour, tracks capital investment, major bids, facilities and major project implementation.

Identification and assessment of business risk and evaluation of controls

The Group's risk management framework has continued to develop during the year. This resulted in the implementation of a new more integrated and effective, risk management system. Risk Assessments are completed on all key processes and quarterly reviews are carried out by the Risk Management Group to ensure this is a continuous process which is embedded into the business. The Risk Assessments cover all aspects of business risk such as financial, operational, strategic, compliance and business continuity risk.

The key sources of assurance over business risk have been integrated into the Group which ensures a co-ordinated, consistent approach to the management of risk and advises and supports management to enable ownership of risk management to sit within the business.

Monitoring

The quarterly reviews of the risk registers produce an assessment of residual risk, by process, across the business (the "risk management map") which is presented to the Audit Committee each quarter.

Effectiveness of internal control is audited and assessed by the internal audit function under the direction of the director of Risk Management.

The Safety Health & Environment team assess whether the health and safety risks are being appropriately controlled and conducts audits on the operation of the Group's health and safety management system.

The Board carries out an annual review of the effectiveness of the system of internal control and risk management processes.

Going concern

The Directors, after making appropriate enquiries, confirm that they are satisfied that THUS Group plc has adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future and, therefore, have adopted the going concern basis in preparing the Accounts on pages 28 to 56.

Directors' responsibility for the Accounts

Company law requires the Directors to prepare Accounts for each financial year, which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those Accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts.
- Prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the Accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' responsibilities

The Group's registered auditors, KPMG Audit Plc, are responsible for forming an independent opinion on the Accounts of the Group as presented by the Directors, and for reporting their opinion to the Group's members. The Independent Auditors' Report to the Members of THUS Group plc is set out on page 27.