

Directors' Remuneration Report

Remuneration Committee

Constitution, membership and advisors

The Remuneration Committee comprises independent Non-executive Directors and is chaired by Michael de Kare-Silver. The other members of the Committee who served throughout the year are Ian Chippendale, Jo Connell and Margaret Ford. During the course of the year, the Board accepted the recommendations made by the Committee without substantial amendment.

During the year, the Committee received advice and input from the Chairman, the Chief Executive and the director of Human Resources who are from time to time invited to attend. No individuals are involved in the determination of their own remuneration.

Towers Perrin have been the Committee's independent remuneration advisors since October 2003. Towers Perrin report directly to the Committee and have not undertaken any significant work for the Company outside the area of executive remuneration. Any such additional work would need to be approved by the Chairman of the Committee. The terms of engagement of the remuneration advisors are available at www.thus.net and form part of the Committee's terms of reference.

The Committee's overall objectives and remit

The Committee's terms of reference are also available at www.thus.net. The Committee is responsible for making recommendations to the Board on the Company's executive remuneration policy and for determining each Executive Director's remuneration package. In deciding the Company's broad policy for executive remuneration, the Committee aims to provide remuneration which is both competitive and appropriate. The Committee has always sought to pay no more than is necessary to motivate and retain highly-skilled executives. The Committee also reviews the remuneration arrangements of the members of the Company's senior management team and seeks to ensure that its decisions take into account pay and conditions elsewhere in the Company.

Remuneration policy

During the year the Committee has continued its decision making on the basis of a number of underlying principles which can be summarised as follows:

- Executive Directors and other senior executives should be paid market competitive levels of remuneration and receive significant incentives for performance which significantly exceeds challenging and objective targets.
- In setting base salary levels, the Committee has regard to benchmark data from a number of comparable companies both within and outside the telecommunications sector. The aim is to set salaries which are generally around the mid-market level. Salaries will be above mid-market where individual performance and skills justify it.
- The Committee remains strongly committed to ensuring there is an appropriate balance between fixed and performance pay with performance pay comprising both bonuses and share incentives. It also seeks to ensure alignment with shareholders' interests.
- The Committee's primary goal is to ensure that executive remuneration continues to be sufficiently attractive to retain Executive Directors in an increasingly competitive market and to motivate them to deliver results and to enhance shareholder value.

The Committee sets the basic salary for each Executive Director by reference to individual performance and to external market information prepared by its advisors.

The remuneration package

Basic salary

Salary adjustments are generally implemented with effect from 1 April in the financial year. Salaries effective from 1 April 2004 are: William Allan, £350,000; John Maguire, £250,000; Philip Male, £250,000. The Committee has benchmarked and reviewed basic salary data provided by its advisors and has concluded that base pay levels remain competitive and in line with the market. Salaries therefore remain unchanged from 1 April 2005.

Annual bonus

Executive Directors and senior executives participate in the Company's annual bonus plan.

The Committee remains committed to ensuring that bonus targets are challenging and only reward demonstrably superior performance.

The annual bonus plan for Executive Directors is based solely on corporate business performance and provides a maximum total payment of up to 100% of salary in respect of the Chief Executive and up to 85% of salary for other Executive Directors.

The plan is based on the following key parameters:

- Financial measures should be used wherever possible.
- The performance metrics should be linked to key corporate objectives.
- Whereas there may be a case for including individual performance criteria for more junior participants in the annual bonus plan, the Executive Director population should be measured exclusively by reference to corporate performance.

The achievement of pre-determined targets determines the levels of payout under the plan. There are currently three distinct financial measures which are weighted as follows:

- 50% is determined by reference to cash flow after interest and capital expenditure.
- 25% of the bonus is determined by reference to EBITDA (earnings before interest, tax, depreciation and amortisation) performance.
- 25% is determined by reference to turnover.

Each element of the bonus has an explicit gating factor of the Group being operating profit positive in the second half of the year. Although the Group has achieved an 8% improvement in turnover year on year, with positive cash flow for the year, no bonus payments were made to the Executive Directors due to the operating profit positive gating factor not being achieved. For employees other than Executive Directors, bonus arrangements allowed for payment to be made against cash flow and turnover targets for the first half of the year.

The bonus plan operates for the year ending 31 March 2006 against the same financial measures but the weighting applied to cash flow has been reduced from 50% to 30%; EBITDA increased from 25% to 50% and turnover reduced from 25% to 20%. This change in weighting reflects the fact that the Company has achieved sustained cash flow positive and the emphasis is now placed back on EBITDA, a well established industry measure of performance.

Directors' Remuneration Report continued

Long-term incentives

Share options

The Company operates an executive share option scheme (the THUS Group plc Discretionary Share Option Scheme), under which market value options can be granted, at the discretion of the Committee, to Executive Directors and selected employees. The performance criterion that currently applies to the vesting of options is relative Total Shareholder Return (TSR) measured against the FTSE Telecommunications sector and the FTSE Mid-250 (excluding telecommunications companies). Two-thirds of the options vest depending on the Company's TSR compared against the telecommunications index and one-third depending on the Company's TSR compared against the FTSE Mid-250. Half the options become exercisable when the Company's TSR is at the median. All the options are exercisable when the Company's TSR is at the upper quartile. The Committee must also satisfy itself that the underlying financial performance of the Company has improved during the vesting period.

Relative TSR performance is calculated by Towers Perrin using data supplied by Datastream to provide independent verification and is reported to the Committee.

Relative TSR was regarded as the most appropriate measure to determine the vesting of share options when the plan was approved. It was supported by our shareholders as a measure which aligned the interests of executives with those of shareholders by rewarding performance relative to the Company's sector peers.

There will be no opportunity to retest the performance conditions attached to the vesting of any options granted in 2005 and thereafter.

Performance shares

The Company also operates the THUS Group Performance Share Plan under which an award of shares can be granted at the discretion of the Committee to selected Executive Directors and employees. Grants made during a year will only become exercisable after three years if demanding performance targets set by the Committee are met.

Two performance criteria currently apply to the vesting of performance share awards. For half of an award of performance shares to vest, THUS's TSR (Total Shareholder Return) compared to that of the constituents of the FTSE All-Share Telecoms Sector as at the date of grant is measured over a three-year period. No shares vest where the Company's TSR is below the median. The minimum proportion of shares that vest at the median is 30%. All the shares vest when the Company's TSR is at the upper decile. Performance is measured over three years with no retesting opportunities. The Committee must also be satisfied at the time the performance condition is met that this is consistent with the achievement of commensurate underlying financial performance of the Company.

For the remaining half of the performance share award to vest, normalised Earnings Per Share (EPS) performance of the Company is measured over a three-year period. The EPS test is set with reference to broker forecasts covering the relevant three-year period. The extent to which EPS targets are satisfied after three years will be confirmed by the Committee.

As with the share option scheme, relative TSR has been included as one of the performance conditions for the performance share awards to ensure alignment between the interests of executives with those of shareholders. The Committee also included an EPS measure as this ensures rewards are only received for sustained

improvements in the financial performance of the Company. The TSR elements of the performance conditions are calculated by Towers Perrin using data supplied by Datastream and are regularly reported to the Remuneration Committee. The EPS calculations are performed internally and on the same basis as reported in the annual accounts. EPS and the standard of performance required to trigger the vesting of shares will be measured as if International Financial Reporting Standards (IFRS) had always been applied.

During the year ended 31 March 2005 grants with a face value equal to 100% of salary were made to the Executive Directors under both the THUS Group plc Discretionary Share Option Scheme and the THUS Group Performance Share Plan. This increased the proportion of remuneration which is performance linked, in accordance with the Committee's remuneration principles.

Pension and other benefits

Pension benefits are provided for Executive Directors under the THUS Group plc Pension Scheme. The arrangements for Executive Directors are the same as for all other employees who are members of the scheme. The scheme is a contributory defined-benefit arrangement that provides pension benefits up to the maximum permitted by the Inland Revenue subject to an overall maximum limit of 1/60th of final pensionable salary for each year of pensionable service. Normal retirement age under the scheme is 60 and final pensionable salary is defined as the highest pensionable salary averaged over any 12-month period in the last five years of membership, or the highest three-year average in the last ten years if higher. Pensionable salary is defined as basic salary only.

In line with market practice a cash supplement is provided on earnings above the Inland Revenue earnings cap for all three Executive Directors.

The impact of the 2006 tax changes on executive pensions is currently under review and will be disclosed at the appropriate time. In principle, it has been agreed that THUS will not compensate executives for any increase in taxation they may face as a result of the changes.

Executive Directors are eligible for a range of benefits, the value of which is contained within the Directors' emoluments table on page 24. These include the provision of a company car or car allowance, fuel, private medical, life, permanent health and critical illness insurances.

Service contracts

Reflecting current market practice, the Executive Directors have service contracts that are terminable on one year's notice by either the individual or the Company. It is not the Committee's intention to appoint any new Executive Directors with contracts that provide for a longer notice period.

The Committee endorses the principle of mitigation of loss on early termination of a service contract and generally seeks to achieve that objective, where possible and appropriate.

In the event that THUS wished to terminate an Executive Director's contract other than in circumstances where the Company is entitled to summarily dismiss an Executive Director, it would need to either give 12 months' notice or make a payment in lieu of salary and benefits.

The dates, terms and notice periods of the service contracts for Executive Directors are as follows:

	Date of contract commencement	Date of initial appointment with THUS plc	Notice period	Expiry dates
William Allan	01/04/2004	22/10/1999	12 months	29/04/2016
John Maguire	01/04/2004	18/12/2000	12 months	07/07/2028
Philip Male	01/04/2004	22/10/1999	12 months	13/09/2029

Share ownership guidelines

Formal guidelines provide that Executive Directors should retain at least 25% of the after tax gain arising from any awards vesting pursuant to the Company's share incentive plans until such time as a shareholding equivalent in value to one times basic salary has been achieved. The Committee will review the guidelines not less than every two years, including updating to reflect any changes in share price and salary.

Policy on outside directorships

Currently no Executive Director holds any outside directorship. The Nomination Committee will consider the appropriate policy at such time as a request is made by an Executive Director.

The Chairman and Non-executive Directors

The appointment of the Chairman and Non-executive Directors is subject to the Articles of Association of the Company, in particular the usual provisions relating to re-election by shareholders. The Chairman and Non-executive Directors have letters of appointment which are available at www.thus.net. They were all appointed for an initial term of three years terminable at the request of the Board and may be renewed for a further period subject to approval by the Board. Current terms of office began on the following dates:

	Commencement date of current term of office	Date of initial appointment with THUS plc (if applicable)	End of current term
Roy Brown (Chairman)	11/01/2002 (Non-executive Chairman from 10 July 2002)	04/01/2001	01/09/2004 (retired from the Board)
Philip Rogerson (Chairman)	01/09/2004	–	31/08/2007
Ian Chippendale (Senior Independent Director)	11/01/2002	15/10/1999	14/10/2005
Jo Connell	11/01/2002	01/01/2001	31/12/2006
Margaret Ford	07/11/2002	–	06/11/2005
Michael de Kare-Silver	11/01/2002	22/09/2000	21/09/2006

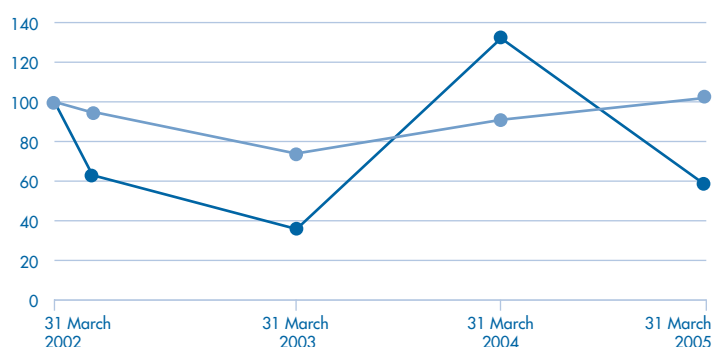
The remuneration of the Chairman is determined by the Remuneration Committee. The fees of the Non-executive Directors are determined by the Board. Full details of the remuneration of the Directors are contained in the Directors' emoluments table on page 24. The Chairman and Non-executive Directors are not entitled to compensation on early termination of their term of office. No individuals are involved in the determination of their own remuneration.

Performance graph

Legislation introduced by the Government requires this Report to contain a graph showing the performance of the Company compared with a "broad equity market index" over the period since the Company listed on 14 March 2002. The Committee has chosen the FTSE All-Share Telecommunications Index, of which THUS is a constituent. This Index was chosen because it shows the performance of the Company relative to its industry peer group and is therefore particularly relevant to shareholders.

Historical TSR performance

Source: Datastream



Growth in the value of a hypothetical £100 holding since listing date FTSE All-Share Telecommunications Services Index comparison based on spot values.

- THUS Group
- FTSE All-Share Telecommunications Services Index

Directors' Remuneration Report continued

Directors' emoluments

The following table provides a breakdown of the total emoluments of the Directors of the Company in office during the year ended 31 March 2005.

	Basic salary/fees £	Bonuses £	Supplementary allowances ⁽ⁱ⁾ £	Benefits in kind £	Compensation for loss of office £	Total 2005 £	Total 2004 ⁽ⁱⁱ⁾ £
Executive Directors							
William Allan	350,000	–	62,000	20,213	–	432,213	540,328
John Maguire	250,000	–	29,600	17,238	–	296,838	392,589
Philip Male	250,000	–	29,600	18,868	–	298,468	391,747
Non-executive Directors (fees and expenses)							
Philip Rogerson (appointed 01/09/2004)	46,667	–	–	–	–	46,667	–
Roy Brown (retired 01/09/2004)	33,333	–	–	–	–	33,333	80,000
Ian Chippendale	30,000	–	–	–	–	30,000	30,000
Jo Connell	30,000	–	–	–	–	30,000	30,000
Michael de Kare-Silver	30,000	–	–	–	–	30,000	30,000
Margaret Ford	30,000	–	–	–	–	30,000	30,000
Total	1,050,000	–	121,200	56,319	–	1,227,519	1,524,664

(i) The 2004 figures include an amount for bonus equivalent to £225,000 for the Chief Executive Officer and £146,625 each for the Chief Financial Officer and the Chief Operating Officer. Half of these bonus amounts were compulsorily deferred into shares which will vest after three years subject to continued employment.

(ii) The supplementary allowance paid to the Executive Directors is in lieu of pension benefits above the Inland Revenue Earnings Cap.

(iii) Aggregate emoluments in respect of qualifying services amounted to £1,227,519 (2004: £1,524,664).

Directors' pension benefits

An overview of the pension benefits provided to all Executive Directors is set out in the policy section earlier.

Details of pension benefits earned by the Executive Directors during the year ended 31 March 2005 are shown below:

Defined-benefits pension scheme as at 31 March 2005	Accrued benefit at 31 March 2005 £	Increase in accrued benefits excluding inflation (A) £	Increase in accrued benefits including inflation £	Transfer value of (A) less Directors' contributions £	Transfer value of accrued benefits at 31 March 2004 £	Transfer value of accrued benefits at 31 March 2005 £	Increase/(decrease) in transfer value less Directors' contributions £
William Allan	21,533	6,508	7,016	72,375	160,211	256,340	91,029
John Maguire	13,804	4,487	4,802	22,329	51,856	84,384	27,428
Philip Male	16,496	4,473	4,880	20,570	62,814	94,670	26,756

(i) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year, or end of service, assuming normal retirement at age 60. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

(ii) The Executive Directors are subject to the earnings cap introduced in the Finance Act 1989.

(iii) The increase in accrued pension during the year allows for an increase in inflation of RPI as measured at 3.5%.

(iv) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer value represents a liability of the pension scheme, not a sum due to or paid to the Director.

Directors' interests in shares and share options

Executive Director	At 1 April 2004	Granted	Exercised	Lapsed	At 31 March 2005	Date granted	Date exercised	Exercise price (pence)	Market price at date of exercise	Date from which exercisable	Expiry date
THUS plc Discretionary Share Option Scheme – see Note 1											
William Allan	1,569,230	–	–	–	1,569,230	Mar 2002	–	16.25p	–	Mar 2005	Mar 2009
	–	1,354,489	–	–	1,354,489	May 2004	–	25.84p	–	May 2007	May 2011
John Maguire	1,000,000	–	–	–	1,000,000	Dec 2000	–	72p	–	Dec 2003	Dec 2007
	–	1,107,692	–	–	1,107,692	Mar 2002	–	16.25p	–	Mar 2005	Mar 2009
Philip Male	–	967,492	–	–	967,492	May 2004	–	25.84p	–	May 2007	May 2011
	1,230,769	–	–	–	1,230,769	Mar 2002	–	16.25p	–	Mar 2005	Mar 2009
–	967,492	–	–	967,492	May 2004	–	25.84p	–	May 2007	May 2011	
THUS Group Performance Share Plan – see Note 2											
William Allan	784,615	–	–	784,615	–	Mar 2002	–	£1 total consideration	–	–	Mar 2005
	–	1,875,000	–	–	1,875,000	Feb 2003	–	£1 total consideration	–	Feb 2006	Feb 2006
	–	1,354,489	–	–	1,354,489	May 2004	–	£1 total consideration	–	May 2007	May 2007
John Maguire	553,846	–	–	553,846	–	Mar 2002	–	£1 total consideration	–	–	Mar 2005
	–	1,437,500	–	–	1,437,500	Feb 2003	–	£1 total consideration	–	Feb 2006	Feb 2006
	–	967,492	–	–	967,492	May 2004	–	£1 total consideration	–	May 2007	May 2007
Philip Male	615,384	–	–	615,384	–	Mar 2002	–	£1 total consideration	–	–	Mar 2005
	–	1,437,500	–	–	1,437,500	Feb 2003	–	£1 total consideration	–	Feb 2006	Feb 2006
	–	967,492	–	–	967,492	May 2004	–	£1 total consideration	–	May 2007	May 2007
THUS Group plc Sharesave Scheme – see Note 3											
William Allan	13,842	–	–	–	13,842	May 2002	–	14p	–	May 2005	Nov 2005
John Maguire	13,842	–	–	–	13,842	May 2002	–	14p	–	May 2005	Nov 2005
	–	19,989	–	–	19,989	June 2004	–	21.5p	–	August 2007	Feb 2008
Philip Male	13,842	–	–	–	13,842	May 2002	–	14p	–	May 2005	Nov 2005
	–	13,540	–	–	13,540	June 2003	–	11.75p	–	August 2006	Feb 2007
	–	19,989	–	–	19,989	June 2004	–	21.5p	–	August 2007	Feb 2008

The emoluments of the highest paid Director (Mr Allan) including gains on the exercise of entitlements to share and shares options, but excluding pension contributions are £432,213 (2004: £540,328). Pension contributions made by the Company under approved pension arrangements for Mr Allan amounted to £15,769 (2004: £14,850). The aggregate of the gains made on the exercise of share options during the year was £Nil (2004: £Nil).

- Outstanding options held by Directors under the Discretionary Option Scheme will only be exercisable if the following performance condition is met. Two-thirds of the shares under option have a comparator group of the FTSE Telecoms Sector and the remaining third have a comparator group of the FTSE Mid-250 companies (excluding telecommunications companies). In both cases, 50% of the shares under that part of the option are exercisable for median TSR performance against their respective comparator group rising on a straight-line basis to full vesting for upper quartile performance for the 2002 and 2004 grants. If the performance targets have not been satisfied in full on the third anniversary of the grant of the option, the options may be retested on two further occasions (being fourth and fifth anniversaries of the grant), with retesting always from a fixed base point. Any part of the options not exercisable after the fifth anniversary will lapse. Any award of options in future will have no opportunity for retesting of the performance conditions. The market price of a share on 28 May 2004 when the award was made was 26p.
- For awards granted in the year ended 31 March 2004 under the Performance Share Plan, in respect of half of the award, TSR must exceed the upper decile of a comparator group of the FTSE All-Share Telecoms Sector as at the date of grant over a fixed three-year period in order for the full half of the award to vest. 30% of this part of the award vests for median TSR performance, rising on a straight-line basis to full vesting at upper decile performance. No awards vest for below median performance. For the remaining half of the award, normalised Earnings Per Share (EPS) performance of the Company will be measured over a three-year period. 30% of this part of the award will vest at a normalised EPS in 2005 of -0.75p; 100% vesting at a normalised EPS of +0.5p; 30% – 100% will vest on a straight-line basis at a normalised EPS figure between -0.75p and +0.5p. The market price of a share on 11 February 2003 when an award was made was 8p.
For awards granted in the year ended 31 March 2005 under the Performance Share Plan, in respect of half of the award, TSR must exceed the upper decile of a comparator group of the FTSE All-Share Telecoms Sector as at the date of grant over a fixed three-year period in order for the full half of the award to vest. 30% of this part of the award vests for median TSR performance, rising on a straight-line basis to full vesting at upper decile performance. No awards vest for below median performance. For the remaining half of the award, normalised Earnings Per Share (EPS) performance of the Company will be measured over a three-year period. 30% of this part of the award will vest at a normalised EPS in 2007 of 0.5p; 100% vesting at a normalised EPS of 1.5p; 30% – 100% will vest on a straight-line basis at a normalised EPS figure between 0.5p and 1.5p. The market price of a share on 28 May 2004 when the award was made was 26p.
- As required by the relevant legislation, no performance conditions apply to options under the sharesave schemes.

The market price of the shares at 31 March 2005 was 14p and the range during the financial year ended 31 March 2005 was 13p to 33p.

No awards were varied during this year.

The information and explanatory notes on pages 24 and 25 above, has been audited by the Company's auditors in line with the relevant legislation.

Directors' Remuneration Report continued

Directors' interests in ordinary shares/entitlements to shares

The interests of the Directors in office at the end of the year in the shares of THUS Group plc at the beginning of the year, or date of appointment if later, and at the end of the year were as follows:

	Ordinary shares	
	31 March 2005	As at 1 April 2004
Chairman and Executive Directors		
Philip Rogerson (appointed 01/09/2004)	100,000	–
Roy Brown (retired 01/09/2004)	–	4,500
William Allan	321,907	289,607
John Maguire	107,384	75,084
Philip Male	208,416	176,116
Non-executive Directors		
Ian Chippendale	53,225	53,225
Jo Connell	42,097	17,097
Michael de Kare-Silver	5,000	5,000
Margaret Ford	51,149	51,149

As potential beneficiaries under the Employee Benefit Trust, the Executive Directors are deemed to be interested in the shares held by the Trust, which, as at 31 March 2005, amounted to 16,772,979 ordinary shares.

No changes took place to the interests of the Directors between 31 March 2005 and 20 May 2005.

Approved by the Board on 20 May 2005 and signed on its behalf by

Michael de Kare-Silver

Chairman of the Remuneration Committee