

Notes to the Accounts

for the year ended 31 March 2002

1 Segmental reporting

Turnover has been analysed below between Internet services, interactive services, data and telecom services and contact centre services. The Directors consider these to be the same class of business and accordingly no segmental analysis of operating loss or net assets has been given.

| | 2002 £'000 | 2001 (Restated) £'000 |
|--------------------------------|----------------|-----------------------------|
| Turnover analysis | | |
| Internet services | 81,713 | 76,103 |
| Interactive services | 18,664 | 22,734 |
| Data and telecom services | 142,539 | 102,966 |
| Contact centre services | 25,438 | 27,519 |
| | 268,354 | 229,322 |
| Turnover by origin | | |
| United Kingdom | 262,259 | 224,070 |
| Europe | 6,095 | 5,252 |
| | 268,354 | 229,322 |
| Turnover by destination | | |
| United Kingdom | 261,587 | 223,275 |
| Europe | 6,767 | 6,047 |
| | 268,354 | 229,322 |

2 Operating loss

| | Notes | 2002 £'000 | 2001 £'000 |
|--|--------|---------------|---------------|
| Operating loss is stated after charging/(crediting): | | | |
| Depreciation on tangible fixed assets | | | |
| – Owned assets | | 64,835 | 34,738 |
| – Under finance leases | | 190 | 621 |
| Amortisation of intangible fixed assets | 10, 26 | 143 | 1,182 |
| Loss on disposal of tangible fixed assets | 26 | – | 438 |
| Hire of assets under operating leases | | | |
| – Other operating lease rentals | | 10,570 | 10,054 |
| Exchange rate gains | | (4) | (6) |
| Release of government grants | 20, 26 | (13) | (29) |
| Release of provisions for liabilities and charges | 19 | (166) | – |
| Exceptional item | | | |
| – Restructuring costs | 4 | 3,152 | – |
| Auditors' remuneration for audit of | (a) | | |
| – Group | | 172 | 203 |
| – Company | | – | – |

(a) Fees of £445,000 were paid to the auditors in respect of non-audit work in the current year (2001: £414,000).

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for the year ended 31 March 2002

3 Employees

| (a) Employee costs | Note | 2002 £'000 | 2001 £'000 |
|--|------|-----------------|---------------|
| Wages and salaries | | 70,697 | 68,906 |
| Social security costs | | 6,658 | 6,699 |
| Pension costs | 28 | 3,180 | 3,130 |
| Total employee costs | | 80,535 | 78,735 |
| Less: amounts not charged to the Profit and Loss Account | | (12,030) | (10,496) |
| Charged to the Profit and Loss Account | | 68,505 | 68,239 |

(b) Employee numbers

The year end and average number of employees (full-time and part-time) employed by the Group, including Executive Directors, were:

| | At 31 March | | Average | |
|--|--------------|-------|--------------|-------|
| | 2002 | 2001 | 2002 | 2001 |
| Operations | 612 | 703 | 665 | 691 |
| Selling and distribution | 295 | 337 | 306 | 359 |
| Administration and customer services | 445 | 529 | 500 | 542 |
| Contact centres | 877 | 1,117 | 921 | 1,104 |
| | 2,229 | 2,686 | 2,392 | 2,696 |
| The number of full-time equivalent staff was: | 2,185 | 2,614 | 2,352 | 2,624 |

By location

| | 2002 | 2001 |
|----------------|--------------|-------|
| United Kingdom | 2,320 | 2,613 |
| Europe | 71 | 82 |
| USA | 1 | 1 |
| | 2,392 | 2,696 |

4 Exceptional items

| | Note | 2002 £'000 | 2001 £'000 |
|---|------|----------------|---------------|
| Restructuring costs | 2 | (3,152) | – |
| Gain on sale of fixed assets under IRU agreements | | 1,660 | – |
| Loss on disposal of businesses | | (741) | – |
| | | (2,233) | – |

5 Amounts written off investments

Following the demerger from Scottish Power plc and the change in circumstances in relation to the ability of the Company to issue new shares to satisfy employee share options, the Directors have reclassified the own shares held in trust from fixed price to current asset investments. As a result of this change in classification the shares have been valued at the lower of cost and net realisable value, being mid-market price at the Balance Sheet date, giving rise to a charge of £21,259,000.

6 Net interest charge

| | Note | 2002 £'000 | 2001 £'000 |
|---|------|---------------|---------------|
| (a) Analysis of net interest charge | | | |
| Interest on overdrafts and other borrowings | | 18,599 | 9,069 |
| On finance leases | | 393 | 401 |
| Total interest payable | | 18,992 | 9,470 |
| External interest receivable | | (7) | (99) |
| Interest receivable from ScottishPower | 30b | (247) | (384) |
| Net interest charge | | 18,738 | 8,987 |

| | | 2002 £'000 | 2001 £'000 |
|---|-----|---------------|---------------|
| (b) Analysis of total interest payable | | | |
| - Bank loans and overdrafts | | 97 | 8 |
| - External loan notes | | 176 | 158 |
| - Other interest payable | | 329 | - |
| - On intragroup borrowings with ScottishPower | 30b | 16,640 | 7,026 |
| - On loan notes with ScottishPower | 30b | 75 | 40 |
| - Finance leases with ScottishPower | 30b | 393 | 401 |
| - Arrangement fee for revolving working capital facility with ScottishPower | 30b | - | 250 |
| - Commitment fee for revolving working capital facility with ScottishPower | 30b | 1,282 | 1,587 |
| | | 18,992 | 9,470 |

7 Taxation (charge)/credit on loss on ordinary activities

| | | 2002 £'000 | 2001 (Restated) £'000 |
|--|--|---------------|-----------------------------|
| Taxation on the loss for the year | | | |
| UK Corporation tax charge at 30% (2001: 30%) | | - | - |
| Adjustments in respect of prior year | | - | 292 |
| Overseas taxation | | (416) | - |
| Deferred taxation | | - | 13,535 |
| | | (416) | 13,827 |

The current tax charge is higher than the standard rate of corporation tax in the UK (30%) applied to the loss for the year due to the following factors:

| | 2002 £'000 | 2001 £'000 |
|---|---------------|---------------|
| Loss before tax at standard rate of 30% (2001: 30%) | (31,276) | (21,049) |
| Effects of: | | |
| Permanent differences | 15,122 | 5,943 |
| Fixed asset and other timing differences | 10,765 | (17,701) |
| Other timing differences | 1,322 | 752 |
| Tax losses not utilised | 4,067 | 32,347 |
| Prior year adjustments | - | (292) |
| Overseas tax | 416 | - |
| | 416 | - |

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for the year ended 31 March 2002

8 Loss per ordinary share

Loss per ordinary share has been calculated in accordance with Financial Reporting Standard 14 "Earnings per Share" (FRS 14), for both years by dividing the loss for the financial year, after non equity appropriations, by the weighted average number of ordinary shares in issue during the financial year, based on the following information:

| | 2002 £'000 | 2001 (Restated) £'000 |
|--|------------------|-----------------------------|
| Loss for the financial year after non equity appropriations | (106,181) | (57,763) |
| Basic weighted average share capital (number of shares, thousands) | 719,349 | 695,353 |

The basic weighted average share capital excludes shares held by the Company under Trust in connection with the Employee Share Schemes.

9 Appropriations – non equity

| | Note | 2002 £'000 | 2001 £'000 |
|---|------|---------------|---------------|
| Appropriations: | | | |
| Cumulative participating non redeemable Preference Shares | | | |
| 10% Cumulative preferential appropriation (Note 22b(i)) | 23 | 2,425 | 2,500 |

In accordance with the provisions of Financial Reporting Standard 4 "Capital Instruments" (FRS 4), the cumulative participating non redeemable Preference Shares have been classified as non equity and the Company has, therefore, appropriated through the Profit and Loss Account an amount equal to the Preference Share dividends for the period up to 19 March 2002. As the Company did not have sufficient distributable reserves in order to pay such preference share dividends, the amount was credited back in the Profit and Loss Account reserve.

As noted in the Basis of Preparation in the Accounting Policies and Definitions on pages 26 to 28, the Preference Shares were redesignated on 19 March 2002. The appropriation reflects the dividend on these shares up to this date. As part of the redesignation all historical and future rights to dividends attached to the Preference Shares were cancelled.

Following the redesignation of the Preference Shares and the subsequent creation of the Deferred non-voting shares the non equity interests as at 31 March 2002 now reflect the Deferred non-voting shares.

10 Intangible fixed assets

| Group | Notes | Licences £'000 | Other £'000 | Total £'000 |
|--|-------|-------------------|----------------|----------------|
| Cost | | | | |
| At 1 April 2001 | | 500 | 2,043 | 2,543 |
| Additions | | – | 124 | 124 |
| Disposals of businesses | | – | (90) | (90) |
| At 31 March 2002 | | 500 | 2,077 | 2,577 |
| Aggregate amortisation | | | | |
| At 1 April 2001 | | 138 | 1,919 | 2,057 |
| Charge for the year | 2, 26 | 100 | 43 | 143 |
| Disposal of businesses | | – | (89) | (89) |
| At 31 March 2002 | | 238 | 1,873 | 2,111 |
| Net book value at 31 March 2002 | | 262 | 204 | 466 |
| Net book value at 31 March 2001 | | 362 | 124 | 486 |

11 Tangible fixed assets

| Group | Note | Land & buildings £'000 | Plant & equipment £'000 | Other assets £'000 | Total £'000 |
|--|------|---------------------------|----------------------------|-----------------------|----------------|
| Cost | | | | | |
| At 1 April 2001 | | 12,517 | 396,977 | 135,413 | 544,907 |
| Additions | | (13) | 70,224 | 7,708 | 77,919 |
| Disposals | | – | (5,438) | – | (5,438) |
| Disposal of businesses | | (554) | (701) | (9,591) | (10,846) |
| At 31 March 2002 | | 11,950 | 461,062 | 133,530 | 606,542 |
| Aggregate depreciation | | | | | |
| At 1 April 2001 | | 2,018 | 36,224 | 39,165 | 77,407 |
| Charge for the year | 26 | 1,391 | 36,913 | 26,721 | 65,025 |
| Released on disposal | | – | (150) | – | (150) |
| Disposal of businesses | | (273) | (371) | (4,578) | (5,222) |
| At 31 March 2002 | | 3,136 | 72,616 | 61,308 | 137,060 |
| Net book value at 31 March 2002 | | | | | |
| Net book value at 31 March 2001 | | 10,499 | 360,753 | 96,248 | 467,500 |

The net book value of tangible fixed assets held under finance leases by the Group at 31 March 2002 was £3,318,000 (2001: £3,508,000). The charge for depreciation against these assets during the year was £190,000 (2001: £621,000) (Note 2).

12 Investments

| Cost and net book value (a) Group | 2002 £'000 | Total 2001 £'000 |
|--------------------------------------|---------------|------------------------|
| At 1 April | 24,250 | – |
| Additions | – | 24,250 |
| Transfer to current assets | (24,250) | – |
| At 31 March | – | 24,250 |

Group investments comprise own shares held under Trust. These were stated at cost less provision for diminution in value. Following the demerger from Scottish Power plc, at which point these shares need no longer be retained to satisfy share options, they have been reclassified as a current asset rather than as fixed asset investments.

| Cost and net book value (b) Company | Subsidiary undertakings 2002 £'000 |
|--|--|
| At 1 April 2001 | – |
| Additions | 56,963 |
| At 31 March 2002 | 56,963 |

The investment in subsidiary undertakings represents an investment in shares of £56,963,000.

(c) The number of shares, held as current asset investments, as at 31 March 2002 was 19,614,852 and they are carried at the mid-market price at that date. Full details are included in Note 5 to the Accounts on page 34. The dividends on all shares held as current asset investments have not been waived. The nominal value of all shares held as current asset investments as at 31 March 2002 was £490,371.

Notes to the Accounts

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13 Subsidiary undertakings

Details of the Company's subsidiary undertakings at 31 March 2002 are as follows:

| Company | Country of incorporation | Class of share | Proportion of shares held | Principal activity |
|---------------------------------------|--------------------------|----------------|---------------------------|--|
| THUS plc | Scotland | Ordinary | 100% | Voice, data, Internet and contact centre services provider |
| | | Preference | 100% | |
| Demon Internet, Inc* | USA | Ordinary | 100% | US Internet peering management |
| THUS Profit Sharing Trustees Limited* | Scotland | Ordinary | 100% | Trustee |

* The investment in these companies is held by a subsidiary undertaking.

14 Stocks

| | 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 |
|---|---------------|------------------------|--------------------------|
| Raw materials – replacement parts and consumables | 5,323 | 8,692 | - |
| Work in progress | - | 2,049 | - |
| | 5,323 | 10,741 | - |

15 Other debtors

| | 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 |
|---|---------------|------------------------|--------------------------|
| Trade debtors | 45,268 | 56,776 | - |
| Prepayments and accrued income | 30,235 | 23,545 | - |
| Other taxes and social security | - | 245 | - |
| Other debtors | 1,121 | 466 | - |
| Amounts owed by ScottishPower Group companies | 12,447 | 11,448 | - |
| | 89,071 | 92,480 | - |

16 Other creditors

| | 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 |
|--|----------------|------------------------|--------------------------|
| Trade creditors | 21,780 | 17,906 | - |
| Corporation tax | 416 | - | - |
| Taxation and social security | 760 | 449 | - |
| Capital creditors and accruals | 13,767 | 43,452 | - |
| Other creditors | 1,769 | 10,089 | 87 |
| Accruals and deferred income | 60,777 | 72,793 | - |
| Amounts due to subsidiary companies | - | - | 540 |
| Amounts due to ScottishPower Group companies | 5,054 | 1,109 | - |
| | 104,323 | 145,798 | 627 |

17 Loans and other borrowings

| | Notes | 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 |
|--------------------------------|---------|---------------|------------------------|--------------------------|
| Bank loans and overdrafts | 27 | 85 | 244 | - |
| ScottishPower loan accounts | 27, 30b | 600 | 180,600 | - |
| Loan notes – ScottishPower | 30b | 500 | 500 | - |
| Loan notes – other | (i) | - | 3,060 | - |
| Finance leases – ScottishPower | 30b | 4,306 | 4,402 | - |
| | | 5,491 | 188,806 | - |

(i) The loan notes were repayable on demand, at the holders discretion and interest accrued on a daily basis on the loan notes at 2% above LIBOR.

| | 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 |
|---|---------------|------------------------|--------------------------|
| Repayments fall due as follows: | | | |
| Within one year, or on demand | 691 | 3,900 | - |
| After more than one year | 4,800 | 184,906 | - |
| | 5,491 | 188,806 | - |
| Repayments due after more than one year are analysed as follows: | | | |
| Between one and two years | 717 | 180,706 | - |
| Between two and five years | 424 | 386 | - |
| After five years | 3,659 | 3,814 | - |
| | 4,800 | 184,906 | - |

| | Notes | 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 |
|--|---------|---------------|------------------------|--------------------------|
| (a) Analysis of loans and other borrowings | | | | |
| Bank loans and overdrafts due within one year or on demand: | | | | |
| Unsecured | | 85 | 244 | - |
| | | 85 | 244 | - |
| Other borrowings: | | | | |
| ScottishPower loan accounts | 27, (i) | 600 | 180,600 | - |
| Loan notes | 27 | 500 | 3,560 | - |
| Finance lease obligations | | 4,306 | 4,402 | - |
| | | 5,491 | 188,806 | - |

(i) The ScottishPower loan account was repaid on 12 March 2002. At the date of repayment this amounted to £260,000,000. Prior to repayment interest was charged at 3% over LIBOR.

| | Note | 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 |
|---|---------|---------------|------------------------|--------------------------|
| (b) Finance lease obligations | | | | |
| Falling due: | | | | |
| Within one year | | 106 | 96 | - |
| Between one and two years | | 117 | 106 | - |
| Between two and five years | | 424 | 386 | - |
| After five years | | 3,659 | 3,814 | - |
| Amounts falling due after one year | | 4,200 | 4,306 | - |
| Total | 27 | 4,306 | 4,402 | - |
| (c) ScottishPower loan accounts | | | | |
| At 1 April | | 180,600 | - | - |
| Net cash (outflow)/inflow (to)/from ScottishPower | 25e, 27 | (180,000) | 180,600 | - |
| At 31 March | 27, 30b | 600 | 180,600 | - |

Notes to the Accounts

for the year ended 31 March 2002

18 Derivatives and other financial instruments

(a) Financial instruments and risk management

(i) Overview

The main financial risks faced by the Group are funding and liquidity, counterparty and credit risk, interest rate and exchange rate risk; the Board has reviewed and agreed policies for managing each of these risks as summarised below. Speculative trading activities are not permitted.

(ii) Risk management

Funding and liquidity management

The Group's objective is to maintain continuity of funding for its operations using committed facilities and overdrafts and to maximise interest on surplus funds. Finance leases are also used where considered cost effective. A revolving credit facility with ScottishPower was the Group's main source of financing during the year. Drawings under this facility were subject to various covenants with which the Group complied in full. In addition to this, Scotland On-Line Limited had received funding in the form of loan notes.

Counterparty and credit risk management

Cash placements and derivative transactions give rise to credit risk on the potential default of counterparties. The Group monitors the exposures and the credit rating of its counterparties regularly and uses limits to mitigate the credit risk that the Group may have with any one counterparty. It is not anticipated that any existing counterparties will fail to meet their current obligations.

Interest rate management

The Group's policy is to have a floating rate interest profile, with the exception of finance leases, Preference Shares and Deferred non-voting shares. The Group's borrowing facilities and investments are all at sterling LIBOR floating rate of interest. The interest flows are not hedged and this policy has been applied throughout the year.

Foreign exchange management

THUS faces currency exposures in Euros (2001: NLG) and USD from operating activities generated in the Netherlands and United States and has fixed asset expenditure in USD. In addition, on consolidation, THUS is exposed to risk from the translation of net assets and profits earned in its US subsidiary. THUS does not hedge either the currency exposure on the operating activities to date, which are not considered to be material, or the translation exposure on consolidation as this is considered to be an accounting rather than cash exposure.

(b) Borrowing facilities

THUS entered into a revolving working capital facility agreement with ScottishPower in November 1999, whereby ScottishPower agreed to provide the Group with an unsecured revolving loan facility of up to £220,000,000. The existing facility was renegotiated and extended by a further £100,000,000 to cover, in particular, the national network roll-out and the service development programme which was completed during the year.

The facility was available for drawing down up to but excluding 31 December 2002 and interest accrued daily on advances under the facility at a rate of LIBOR plus an applicable margin of 3% per annum.

On 19 December 2001, THUS announced that it had reached an agreement for an Open Offer of approximately £275,000,000 and had agreed the terms of an underwritten £90,000,000 third party bank facility. The proceeds of the Open Offer were used to repay THUS' drawings under the ScottishPower facility which was subsequently cancelled.

The purpose of the third party bank facility is to finance capital expenditure, working capital requirements and general corporate purposes. The facility will initially be available on a revolving basis, refinanced by an amortising term loan facility on 1 April 2004 and maturing on 31 March 2008. As at 31 March 2002 no part of the third party facility had been utilised.

The Group has the following undrawn committed borrowing facilities at 31 March in respect of which all conditions precedent have been met.

| | 2002 £'000 | 2001 £'000 |
|------------------------------------|---------------|---------------|
| Expiring between one and two years | - | 140,000 |
| Expiring after five years | 90,000 | - |

18 Derivatives and other financial instruments continued

(c) Financial assets and liabilities

The only significant financial assets are the cash at bank and in hand with a net book amount of £9,533,000 at 31 March 2002 (2001: £3,484,000) of which £9,373,000 was denominated in Sterling (2001: £1,638,000), £160,000 was denominated in Euros (2001: £Nil), £Nil was denominated in NL Guilders (2001: £1,846,000) and the funds deposited with ScottishPower totalling £Nil (2001: £17,550,000). These funds were loaned to ScottishPower on a call account basis, and earned interest at 0.5% below LIBOR.

The financial liabilities of the Group at 31 March 2002 are bank loans and overdrafts of £85,000 (2001: £244,000) of which £85,000 was denominated in US Dollars (2001: £244,000), loan notes of £500,000 (2001: £3,560,000), finance leases of £4,306,000 (2001: £4,402,000), Preference Shares of £Nil (2001: £25,000,000), Deferred non-voting shares of £23,248,000 (2001: £Nil) and funds borrowed from ScottishPower totalling £600,000 (2001: £180,600,000). £Nil (2001: £180,000,000) of the funds borrowed from ScottishPower were under the revolving working capital facility.

The maturity of these Group's financial liabilities at 31 March were as follows:

| | Debt £'000 | Finance leases £'000 | Other financial liabilities £'000 | Total 2002 £'000 |
|-------------------------------|---------------|-------------------------|---|------------------------|
| Within one year, or on demand | 585 | 106 | - | 691 |
| Between one and two years | 600 | 117 | - | 717 |
| Between two and five years | - | 424 | - | 424 |
| After five years | - | 3,659 | 23,248 | 26,907 |
| | 1,185 | 4,306 | 23,248 | 28,739 |

| | Debt £'000 | Finance leases £'000 | Other financial liabilities £'000 | Total 2001 £'000 |
|-------------------------------|----------------|-------------------------|---|------------------------|
| Within one year, or on demand | 3,804 | 96 | - | 3,900 |
| Between one and two years | 180,600 | 106 | - | 180,706 |
| Between two and five years | - | 386 | - | 386 |
| After five years | - | 3,814 | 25,000 | 28,814 |
| | 184,404 | 4,402 | 25,000 | 213,806 |

For the purpose of the disclosures which follow in this Note, short-term debtors and creditors which arise directly from the Group's operations have been excluded as permitted by Financial Reporting Standard 13 "Derivatives and Other Financial Instruments: Disclosures" (FRS 13).

(d) The interest rate risk profile of the Group's financial assets and liabilities at 31 March were as follows:

(i) Financial assets

| | Total 2002 £'000 | Floating rate financial assets 2002 £'000 | Total 2001 £'000 | Floating rate financial assets 2001 £'000 |
|--------------------------------------|------------------------|--|------------------------|--|
| At 31 March: | | | | |
| Currency: Sterling | | | | |
| - Cash at bank and in hand | 9,373 | 9,373 | 1,638 | 1,638 |
| - Funds deposited with ScottishPower | - | - | 17,550 | 17,550 |
| Currency: Euros | | | | |
| - Cash at bank and in hand | 160 | 160 | - | - |
| Currency: NL Guilders | | | | |
| - Cash at bank and in hand | - | - | 1,846 | 1,846 |
| Gross financial assets | 9,533 | 9,533 | 21,034 | 21,034 |

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18 Derivatives and other financial instruments continued

(d) The interest rate risk profile of the Group's financial assets and liabilities at 31 March were as follows:

(i) Financial assets continued

The floating rate financial assets, in the current year, comprise Euros denominated cash at bank and in hand, and sterling denominated cash at bank and in hand. The Euros denominated cash at bank and in hand attracts interest based on EURIBOR less an applicable margin.

The floating rate financial assets, in the prior year, comprised NLG denominated cash at bank and in hand, and sterling denominated cash at bank and in hand and funds deposited with ScottishPower. The NLG denominated cash at bank and in hand attracted interest at the Netherlands ruling spot rate less an applicable margin, whilst the sterling denominated funds deposited with ScottishPower attracted interest based on LIBOR less an applicable margin.

| (ii) Financial liabilities | Total £'000 | Floating rate financial liabilities £'000 | Fixed rate financial liabilities £'000 | Weighted average interest rate % | Average period for which rate is fixed years |
|-------------------------------------|----------------|--|---|---|---|
| At 31 March 2002: | | | | | |
| Currency: Sterling | | | | | |
| – ScottishPower loan accounts | 600 | 600 | – | | |
| – Loan notes | 500 | 500 | – | | |
| – Finance leases | 4,306 | – | 4,306 | 10 | 20 |
| – Deferred non-voting share capital | 23,248 | – | 23,248 | 10 | * |
| Currency: US Dollars | | | | | |
| – Bank loans and overdrafts | 85 | 85 | – | | |
| Gross financial liabilities | 28,739 | 1,185 | 27,554 | | |

| At 31 March 2001: | Total £'000 | Floating rate financial liabilities £'000 | Fixed rate financial liabilities £'000 | Weighted average interest rate % | Average period for which rate is fixed years |
|------------------------------------|----------------|--|---|---|---|
| Currency: Sterling | | | | | |
| – ScottishPower loan account | 180,600 | 180,600 | – | | |
| – Loan notes | 3,560 | 3,560 | – | | |
| – Finance leases | 4,402 | – | 4,402 | 10 | 20 |
| – Preference Share capital | 25,000 | – | 25,000 | 10 | * |
| Currency: US Dollars | | | | | |
| – Bank loans and overdrafts | 244 | 244 | – | | |
| Gross financial liabilities | 213,806 | 184,404 | 29,402 | | |

* The Preference Share capital and Deferred non-voting share capital are not redeemable. The average period for which the weighted average interest rate is applicable has therefore not been quoted.

The Group does not have any financial liabilities that do not bear interest with the exception of the ScottishPower loan account balance remaining at 31 March 2002.

The floating rate liabilities, in the current year, comprise USD denominated bank loans and overdrafts and sterling denominated ScottishPower loan accounts and loan notes. The USD denominated bank loans and overdrafts bear interest rates based on the Federal Reserve Central Bank short-term interest rate plus an applicable margin. The sterling denominated loan notes bear interest rates based on LIBOR plus an applicable margin.

The floating rate liabilities, in the prior year, comprised USD denominated bank loans and overdrafts and sterling denominated ScottishPower loan account and loan notes. The USD denominated bank loans and overdrafts bore interest based on the Federal Reserve Central Bank short-term interest rate plus an applicable margin. The sterling denominated ScottishPower loan account and loan notes bore interest rates based on LIBOR plus an applicable margin.

18 Derivatives and other financial instruments continued

(e) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities as at 31 March 2002 and 31 March 2001. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values.

| Notes | 2002 Book value £'000 | 2002 Fair value £'000 | 2001 Book value £'000 | 2001 Fair value £'000 |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Primary financial instruments held or issued to finance the Group's operations: | | | | |
| Financial assets | | | | |
| Cash at bank and in hand | 9,533 | 9,533 | 3,484 | 3,484 |
| Funds deposited with ScottishPower | - | - | 17,550 | 17,550 |
| Financial liabilities | | | | |
| Borrowings: | | | | |
| - Short-term | 17 | 691 | 3,900 | 3,900 |
| - Long-term | 17 | 4,800 | 184,906 | 184,906 |
| | 5,491 | 5,491 | 188,806 | 188,806 |
| Other financial liabilities: | | | | |
| - Deferred non-voting shares | 22 | 23,248 | * | - |
| - Preference Shares | 22 | - | 25,000 | * |

* A fair value has not been attributed to the £23,248,000 Deferred non-voting shares nor the £25,000,000 cumulative participating non redeemable Preference Shares as the Company is unable to determine, with sufficient reliability, a fair value for these shares as they are not traded on an open market, there is no information on a directly comparable instrument and the future cash flows of the shares are difficult to predict reliably. The rights attaching to these shares are detailed in Note 22.

The following methods and assumptions were used to estimate the fair values shown above.

Short-term deposits and borrowings – The fair value of short-term deposits, loans and overdrafts and loan notes approximate to the carrying amount because of the short maturity of these instruments.

Long-term borrowings – In the case of finance leases their estimated fair value was based on the book value as the finance leases were renegotiated in the last two years. The fair value of the ScottishPower loan accounts approximates to the carrying value as the loan is due for repayment in less than two years and the Directors consider it unlikely that there would be a significant variation between the fair value and the settlement value.

(f) Currency exposure

The table below shows the extent to which Group companies have net monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the Group's Profit and Loss Account.

| Functional currency of operation | Net foreign currency monetary assets/(liabilities) | | 2002 £'000 |
|----------------------------------|--|------------------------|---------------|
| | US Dollar £'000 | EU currencies £'000 | |
| Sterling | (928) | 731 | (197) |

| Functional currency of operation | Net foreign currency monetary assets/(liabilities) | | 2001 £'000 |
|----------------------------------|--|------------------------|---------------|
| | US Dollar £'000 | EU currencies £'000 | |
| Sterling | (729) | 2,413 | 1,684 |

(g) Hedge accounting

Hedge accounting is only applicable for the tangible fixed asset purchases that are denominated in a foreign currency.

Notes to the Accounts

for the year ended 31 March 2002

19 Provisions for liabilities and charges

| Group | At 1 April 2001 £'000 | Provided in the year £'000 | Released during the year £'000 | Utilised during the year £'000 | At 31 March 2002 £'000 |
|---------------------------------------|-----------------------------|----------------------------------|--------------------------------------|--------------------------------------|------------------------------|
| Property | - | 900 | - | - | 900 |
| Other | 166 | - | (166) | - | - |
| PUEP* | 29 | - | - | (29) | - |
| Balance at the end of the year | 195 | 900 | (166) | (29) | 900 |

The property provision represents costs associated with the centralisation of the Glasgow offices.

In the prior year other provisions for liabilities and charges were in respect of legal disputes concerning defamation of character, trademark issues and other miscellaneous cases. Full disclosure under the provisions of Financial Reporting Standard 12 "Provisions, Contingent Liabilities and Contingent Assets" (FRS 12), of the details of such disputes including the amount and timing of estimated potential payments and the major assumptions on which these estimates were based were not made on the grounds that the Directors considered that such disclosure in relation to provisions of this nature would be seriously prejudicial to the Group.

* The provision established in the prior year was for National Insurance Contributions payable by the Group, based on the market value of the shares held under the PUEP scheme at 31 March 2001, in accordance with the requirements of UITF 25 "National Insurance Contributions on Share Option Gains".

20 Deferred income

| Government grants | Notes | Group | | Company |
|--------------------|-------|---------------|---------------|---------------|
| | | 2002 £'000 | 2001 £'000 | 2002 £'000 |
| At 1 April | | 13 | 42 | - |
| Released in year | 2, 26 | (13) | (29) | - |
| At 31 March | | - | 13 | - |

21 Deferred taxation

Total potential deferred tax assets computed at the rate of corporation tax at 31 March 2002 of 30% (2001: 30%) are noted below. These assets have not been recognised as their future recoverability is not certain.

| | Group | | Company |
|---|-----------------|----------------|---------------|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 |
| Accelerated capital allowances | (6,761) | 30,596 | - |
| Other timing differences | (18,204) | (38,991) | - |
| Total deferred tax assets not recognised | (24,965) | (8,395) | - |

22 Share capital

| | 2002 £'000 | 2001 £'000 |
|---|---------------|---------------|
| Authorised: | | |
| 1,974,788,625 ³⁵ / ₁₇₃ (2001: 705,483,871) ordinary shares of 2.5p each | 49,370 | 17,637 |
| 30,000,000 cumulative participating non redeemable Preference Shares of £1 each | - | 30,000 |
| 25,000,000 Deferred non-voting shares of 92 ³⁴³ / ₃₄₆ p each | 23,248 | - |
| | 72,618 | 47,637 |
| Allotted, called up and fully paid: | | |
| 1,348,613,156 ³⁵ / ₁₇₃ (2001: 705,483,871) ordinary shares of 2.5p each | 33,715 | 17,637 |
| 25,000,000 cumulative participating non redeemable Preference Shares of £1 each | - | 25,000 |
| 25,000,000 Deferred non-voting shares of 92 ³⁴³ / ₃₄₆ p each | 23,248 | - |
| | 56,963 | 42,637 |

The Company was incorporated and registered in Scotland on 7 January 2002 as a public company limited by shares under the Companies Act 1985 with the name THUS Group plc.

22 Share capital *continued*

(a) The share capital history of the Company is as follows:

On incorporation the authorised share capital of the Company was £50,100 divided into 2,000,000 ordinary shares in the capital of the Company of 2.5p each and 100 cumulative participating non redeemable Preference Shares of £1 each. Two ordinary shares were issued at par (fully paid up).

On 11 January 2002 the Company issued and allotted a further 1,999,998 ordinary shares at par which were fully paid up.

On 11 March 2002 by a special resolution passed at an Extraordinary General Meeting it was resolved that:

- > The authorised share capital of the Company be increased from £50,100 to £72,617,548 by the creation of 1,702,701,920 ordinary shares of 2.5p each and 29,999,900 cumulative participating Preference Shares of £1 each in the capital of the Company.

On 19 March 2002 by a special resolution passed at an Extraordinary General Meeting it was resolved that:

- > The THUS Group Preference Shares with a nominal value of £1 each are consolidated into one unclassified share and sub-divided into new THUS Group ordinary shares of 2.5p each;
- > The Consolidated Share to be sub-divided into $2^{139/173}$ THUS Group ordinary shares of 2.5p each for each £1 nominal value amount of the Consolidated Share;
- > The balance of the Consolidated Share shall be further sub-divided into Deferred non-voting shares of $92^{343/346}$ p each;
- > The preferential dividend on any THUS Group Preference Shares shall cease to accrue and the right to receive any amounts in respect of accrued dividends shall be deemed to be irrevocably lost by the holders thereof by the passing of the special resolution;
- > The THUS Group ordinary shares arising on the consolidation and sub-division shall rank pari passu in all respects with the THUS Group ordinary shares already in issue and shall entitle the holder to all dividends and other distributions payable on the ordinary shares;
- > The Articles of Association of the Company be amended;
- > The definition of Preference Shares is deleted and the definition of Deferred Shares is Deferred Non-voting shares of $92^{343/346}$ p each in the capital of the Company; and
- > The share capital of the Company is £72,617,548 and was consolidated and sub-divided into 1,974,788,625 $^{35/173}$ ordinary shares of 2.5p each and 25,000,000 Deferred Shares of $92^{343/346}$ p each.

Pursuant to the Open Offer in THUS plc, 573,042,580 ordinary shares with a total nominal value of £14,326,065 were issued on 12 March 2002 for a total consideration of £275,060,438. Expenses of £2,921,227 were incurred by THUS plc in connection with the issue.

(b) Rights attaching to Participating Preference Shares

(i) Dividends

The Preference Shares shall confer upon the holders thereof the right, to receive:

- > In priority to the payment of any dividend to the holders of the ordinary shares, a preferential dividend of £0.20 per Preference Share (exclusive of any associated tax credit) payable on the date of issue of the relevant Preference Shares; and
- > In priority to the payment of any dividend to the holders of the ordinary shares, a fixed cumulative preferential dividend of 10% per annum per Preference Share (exclusive of any associated tax credit) payable half-yearly in arrears on 30 April and 31 October (or the nearest business day after such date) in each year; and
- > In priority to the payment of any dividend to the holders of the ordinary shares, a variable participating dividend of 1% on the amount of the Company's annual consolidated post tax profits up to £50 million, 0.1% on the Company's annual consolidated post tax profits between £50 million and £100 million and 0.01% of the Company's annual consolidated post tax profits in excess of £100 million.

Notes to the Accounts

for the year ended 31 March 2002

22 Share capital continued

(ii) Voting rights

The Preference Shares shall confer on the holders the right to receive notice of and to attend all general meetings of the Company but shall only confer the right to speak or vote at any such meeting if the business of the meeting includes the consideration of a resolution for winding up the Company or modifying, varying or abrogating any of the rights or privileges attaching to the Preference Shares, or if any part of any dividend payable in respect of the Preference Shares is six months or more in arrears. For any resolution on which holders of the Preference Shares are entitled to vote, each such holder present in person shall, on a show of hands, have one vote and, on a poll, each such holder present in person or by proxy, shall have one vote in respect of every £1 in nominal amount of Preference Shares which he is the holder.

(iii) Distribution of assets on liquidation or other return of capital

In the event of a winding up of the Company or other return of capital (except on conversion, redemption or purchase by the Company of any of its shares), the assets of the Company available for distribution among the shareholders shall be divided in the following manner and order of priority:

Firstly, in paying to the holders of Preference Shares all unpaid arrears and accruals of dividends (whether or not such unpaid arrears and accruals have become due and payable) to be calculated down to and including the date of return of capital;

Secondly, in paying to the holders of Preference Shares a sum equal to the capital paid up or credited as paid up in respect of the Preference Shares held by them, respectively;

Thirdly, in paying to the holders of the ordinary shares a sum equal to the capital paid up or credited as paid up in respect of the ordinary shares held by them; and

Finally, in paying any surplus to the holders of the ordinary shares and the Preference Shares, 0.5% of such surplus being paid to the holders of the Preference Shares and 99.5% of such surplus being paid to the holders of the ordinary shares ratably in accordance with the amount paid up or credited as paid up on the Preference Shares and the ordinary shares held by them respectively.

(c) Rights attaching to Deferred Shares

The reduction of capital paid up on the Deferred Shares or any other shares and/or the creation, allotment or issue of further shares in the capital of the Company ranking in priority for payment of a dividend or in respect of capital or which confer on the holders voting rights more favourable than those conferred by the Deferred Shares shall be deemed not to vary the rights attaching to the Deferred Shares.

(i) Dividends

The Deferred Shares shall not entitle the holders thereof to the payment of any dividend or other distribution and shall not carry any right or interest in or to the profits or assets of the Company except on the winding-up or otherwise of the Company.

(ii) Voting rights

The Deferred Shares shall not entitle the holders thereof to receive notice of or attend or vote at any general meeting of the Company.

(iii) Distribution of assets on liquidation or other return of capital

On a return of capital on winding-up or otherwise, the Deferred Shares shall entitle the holders thereof only to the repayment of the amounts paid up on such shares after payment in respect of each ordinary share of the capital paid up on such ordinary share and £100,000.

(iv) Redemption of shares

The Deferred Shares shall not be transferable, save that the Company may, without obtaining the sanction of the holder or holders of the Deferred Shares, appoint any person to execute, on behalf of any holder of Deferred Shares, a transfer of all or any part thereof and/or an agreement to transfer the same (in each case, without making any payment therefore to the holder) to such person, including the Company, as the Directors may determine (and for any Director to take any action in connection with such transfer or agreement to transfer as he may, in his sole discretion, think necessary or desirable) and cancel and/or purchase the same in accordance with the provisions of the Companies Act 1985 and pending such transfer and/or cancellation and/or purchase to retain the certificates for such Deferred Shares.

23 Analysis of movements in shareholders' funds

| | Notes | Number of shares 000's | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Profit and loss account £'000 | Other reserves £'000 | Total £'000 |
|---|-------|---------------------------|------------------------|------------------------|-------------------------|----------------------------------|-------------------------|------------------|
| (a) Group | | | | | | | | |
| At 1 April 2001 | | 730,484 | 42,637 | 307,933 | – | (67,606) | – | 282,964 |
| Prior year adjustments | | – | – | – | – | (6,220) | 6,220 | – |
| Merger adjustments | | – | – | (307,933) | 307,933 | – | – | – |
| Restated position at 1 April 2001 | | 730,484 | 42,637 | – | 307,933 | (73,826) | 6,220 | 282,964 |
| Share capital issued prior to restructuring | | 573,042 | 14,326 | 257,813 | – | – | – | 272,139 |
| Merger adjustments | | – | – | (257,813) | 257,813 | – | – | – |
| Redesignation of Preference Shares | 22 | 70,087 | – | – | – | – | – | – |
| Retained loss for the year | | – | – | – | – | (106,181) | – | (106,181) |
| Unrealised gains on fixed asset disposals | | – | – | – | – | – | 14,905 | 14,905 |
| Transfer | | – | – | – | – | 833 | (833) | – |
| Reversal of appropriation of Preference Share dividends | 9 | – | – | – | – | 2,425 | – | 2,425 |
| Currency translation differences on overseas net assets | | – | – | – | – | (100) | – | (100) |
| At 31 March 2002 | | 1,373,613 | 56,963 | – | 565,746 | (176,849) | 20,292 | 466,152 |

| | | Share capital £'000 | Profit and loss account £'000 | Total £'000 |
|------------------------------|--|------------------------|----------------------------------|----------------|
| (b) Company | | | | |
| At 1 April 2001 | | – | – | – |
| Share capital issued | | 56,963 | – | 56,963 |
| Retained loss for the period | | – | (540) | (540) |
| At 31 March 2002 | | 56,963 | (540) | 56,423 |

(c) As permitted by section 230 of the Companies Act 1985, the Company has not presented its own Profit and Loss Account. The Company's Profit and Loss Account was approved by the Board on 28 April 2002. The loss for the period was £540,000.

24 Minority interest

| | 2002 £'000 | 2001 £'000 |
|-------------------------------------|---------------|----------------|
| Equity minority interest | | |
| At 1 April | (1,285) | (212) |
| Transfer to Profit and Loss Account | (914) | (1,073) |
| Disposal of subsidiary | 2,199 | – |
| At 31 March | – | (1,285) |

Notes to the Accounts

for the year ended 31 March 2002

25 Analysis of cash flows

| | 2002 £'000 | 2001 (Restated) £'000 |
|---|-------------------|-----------------------------|
| (a) Returns on investments and servicing of finance | | |
| Interest received | 343 | 394 |
| Interest paid | (19,266) | (8,366) |
| Interest element of finance lease rental payments | (393) | (401) |
| Net cash outflow for returns on investments and servicing of finance | (19,316) | (8,373) |
| (b) Capital expenditure and financial investment | | |
| Purchase of tangible and intangible fixed assets | (107,728) | (171,476) |
| Purchase of fixed asset investments | - | (24,250) |
| Sale of tangible fixed assets | 21,853 | 6,980 |
| Net cash outflow for capital expenditure and financial investment | (85,875) | (188,746) |
| (c) Acquisitions and disposals | | |
| Acquisitions* | - | (1,000) |
| Disposals | 2,910 | - |
| Net cash inflow/(outflow) from acquisitions and disposals | 2,910 | (1,000) |
| * The cash outflow in respect of acquisitions represented payments of deferred considerations. | | |
| (d) Management of liquid resources** | | |
| Funds deposited with ScottishPower | 17,550 | 11,983 |
| Net cash inflow from management of liquid resources | 17,550 | 11,983 |
| ** Liquid resources comprised funds on deposit with ScottishPower which were repayable on demand. | | |
| (e) Financing | | |
| Issue of ordinary share capital | 275,060 | - |
| Expenses paid in connection with issue of ordinary share capital | (2,921) | - |
| | 272,139 | - |
| ScottishPower loan accounts | 17c, 27 (180,000) | 180,600 |
| Loan notes | 27 500 | 2,175 |
| Capital element of finance lease rental payments | 27 (96) | (212) |
| (Reduction)/increase in debt | 27 (179,596) | 182,563 |
| Net cash inflow from financing | 92,543 | 182,563 |

26 Reconciliation of operating loss to net cash outflow from continuing operating activities

| | Notes | 2002 £'000 | 2001 (Restated) £'000 |
|--|-------|----------------|-----------------------------|
| Operating loss | | (65,176) | (61,176) |
| Depreciation on tangible fixed assets | 11 | 65,025 | 35,359 |
| Amortisation of intangible fixed assets | 2, 10 | 143 | 1,182 |
| Loss on disposal of tangible fixed assets | 2 | - | 438 |
| Release of government grant deferred income | 2, 20 | (13) | (29) |
| Movements in provisions for liabilities and charges | | 705 | (485) |
| Decrease/(increase) in stocks | | 3,369 | (2,061) |
| Decrease/(increase) in debtors | | 319 | (23,960) |
| (Decrease)/increase in creditors | | (5,976) | 49,980 |
| Net cash outflow from continuing operating activities | | (1,604) | (752) |

27 Analysis of net funds/(debt)

| | Notes | At 1 April 2001 £'000 | Cashflow £'000 | Disposals (excl. cash & overdrafts) £'000 | At 31 March 2002 £'000 |
|--|----------|-----------------------------|-------------------|--|------------------------------|
| Cash at bank and in hand | | 3,484 | 6,049 | - | 9,533 |
| Overdrafts | 17 | (244) | 159 | - | (85) |
| | | 3,240 | 6,208 | - | 9,448 |
| Loan notes – due within one year | 17a | (3,560) | (500) | 3,560 | (500) |
| ScottishPower loan accounts – due after one year | 17c, 25e | (180,600) | 180,000 | - | (600) |
| Finance leases | 17b, 25e | (4,402) | 96 | - | (4,306) |
| | | (188,562) | 179,596 | 3,560 | (5,406) |
| Funds deposited with ScottishPower | | 17,550 | (17,550) | - | - |
| Total | | (167,772) | 168,254 | 3,560 | 4,042 |

28 Pensions

The Group participates in four defined benefit pension schemes and one defined contribution pension scheme operated by the ScottishPower Group. The amount payable to each defined benefit scheme by THUS Group plc is defined in the Pensions Agreement between Scottish Power UK plc and THUS plc and is known as the Adjusted Regular Pension Cost. The calculation is based on the percentage of ordinary shares in THUS held by ScottishPower and the regular pension cost and scheme rate determined by the actuary for each pension scheme. Contributions to the defined contribution scheme are based on age and range from 3% to 5% of pensionable salary. A charge of 1% of salaries is added to cover administration expenses for all schemes and paid to Scottish Power UK plc.

For the purposes of FRS 17, the contributions paid by the Group will be accounted for as defined contribution schemes, since the share of assets and liabilities of the schemes relating to the Group cannot be separately identified.

The majority of THUS employees participate in the ScottishPower Pension Scheme and the Final Salary LifePlan. The surplus on the ScottishPower Pension Scheme at the last valuation date of 31 March 2000 was £437.8 million. The Final Salary LifePlan was last valued at 31 March 1999 and had no surplus or deficit. The expectation is that future contributions will remain at a similar level.

The defined benefit schemes are valued every three years by a professionally qualified independent actuary. The actuary determines the level of contribution required to meet the benefits for each scheme.

Details of each scheme and the adjusted regular pension cost are as follows:

| Pension Fund | Scheme type | Adjusted regular pension cost |
|-------------------------------|----------------------|-------------------------------|
| ScottishPower Pension Scheme | Defined benefit | 11.48% |
| Manweb Pension Scheme | Defined benefit | 12.00% |
| Southern Water Pension Scheme | Defined benefit | 11.53% |
| Final Salary LifePlan | Defined benefit | 11.40% |
| Money Purchase LifePlan | Defined contribution | 3.00% – 5.00% |

The ScottishPower, Manweb and Southern Water pension schemes are closed to new entrants. New employees joining THUS Group plc may be eligible for the Final Salary LifePlan or the Money Purchase LifePlan, subject to their contract of employment.

Notes to the Accounts

for the year ended 31 March 2002

28 Pensions continued

The pension charge included in the financial information is as follows:

| | 2002 £'000 | 2001 £'000 |
|-------------------------------|---------------|---------------|
| | Note | |
| Pension Funds | | |
| ScottishPower Pension Scheme | 1,452 | 1,571 |
| Manweb Pension Scheme | 120 | 122 |
| Southern Water Pension Scheme | 52 | 59 |
| Final Salary LifePlan | 1,304 | 1,117 |
| Money Purchase LifePlan | 231 | 199 |
| Other schemes | 21 | 62 |
| | 3 | |
| | 3,180 | 3,130 |

Full details of the pension schemes can be found in The Annual Report and Accounts /Form 20-F of Scottish Power plc. Copies of these consolidated Accounts may be obtained from The Secretary, Scottish Power plc, 1 Atlantic Quay, Glasgow, G2 8SP.

29 Financial commitments

| | 2002 £'000 | 2001 £'000 |
|--|---------------|---------------|
| (a) Group analysis of annual commitments under operating leases | | |
| Leases of land and buildings | | |
| Expiring within one year | 1,226 | 200 |
| Expiring between two and five years inclusive | 2,034 | 2,552 |
| Expiring in over five years | 6,858 | 7,382 |
| | 10,118 | 10,134 |
| Other operating leases | | |
| Expiring within one year | - | - |
| Expiring between two and five years inclusive | - | - |
| Expiring in over five years | 170 | 170 |
| | 170 | 170 |
| (b) Capital commitments | | |
| Contracted but not provided | 1,450 | 12,465 |

30 Related party transactions

The Group, until 19 March 2002, was a subsidiary of Scottish Power plc. Consequently trading arrangements with Scottish Power plc, which were conducted on an arm's length basis, are deemed related party transactions for the year.

The principal agreements entered into by THUS with ScottishPower are summarised below. Certain of the agreements have been terminated on the demerger or notice to terminate the agreement has already been served.

(i) Agreements relating to the use of assets of the ScottishPower Group

Fibre Agreement

THUS uses fibre optic cable installed on ScottishPower's overhead electricity infrastructure as the backbone of THUS' network in Scotland. THUS has been granted a 20 year licence to use optic fibre installed on ScottishPower's network. In addition, THUS has been granted the right of first refusal for a period of 10 years to install new optic fibre on ScottishPower's overhead infrastructure and to use existing optic fibre on ScottishPower's overhead infrastructure not currently used by THUS. An annual licence fee for each optic fibre is payable by THUS per kilometre. THUS will also be liable for maintenance charges in respect of any new optic fibre that it leases or has installed on the ScottishPower infrastructure.

THUS requires a number of consents from third parties in order to operate the optic fibre THUS licences from ScottishPower. THUS is required to reimburse ScottishPower for all payments which relate to the optic fibre licenced by THUS as well as to pay ScottishPower a reasonable administration fee for maintaining the consents on THUS' behalf.

Master Lease Agreement

In addition to the licenced optic fibre, mentioned above, THUS uses space in various premises of the ScottishPower Group to accommodate and operate telecommunications equipment.

Intellectual Property and Branding Agreement

This agreement was terminated on the demerger. The agreement provided primarily for THUS to use certain trademarks and brands owned by ScottishPower. The agreement was royalty free until ScottishPower was no longer the majority shareholder of THUS. Thereafter royalties will be agreed between the parties. A new agreement has been entered into whereby ScottishPower may not use, sell or assign the "Scottish Telecom" brand for a period of 10 years.

(ii) Agreement for the continued provision of services to the ScottishPower Group by THUS

Strategic Network Facilities Management Agreement (excluding ScottishPower Southern Water Group companies) and Operational Systems Facilities Management Agreement (ScottishPower Southern Water Group companies)

THUS provides to ScottishPower Group companies facilities management and other related services in respect of the strategic telecommunications network used by ScottishPower Group companies to monitor, control, protect and operate their electricity infrastructure. ScottishPower pays fees on a basis consistent with the charges levied by THUS for any other customer for similar services. The Operational Systems Facilities Management Agreement is in all material respects on the same terms as the Strategic Network Facilities Management Agreement. Southern Water has issued notice to terminate this agreement on 8 December 2002. Until that time, the agreement will continue to operate as before.

Telecommunications Services and Facilities Management Agreement

This agreement provides for the delivery of voice and data services to the ScottishPower Group.

Callcentre Systems Facilities Management Agreement

The agreement provides for facilities management services in respect of the facilities used by ScottishPower's UK Division – Generation, Trading and Supply at its callcentres in England and Scotland by THUS.

(iii) Agreements for the continued provision by ScottishPower of services to THUS

Transitional and Administrative Services Agreement

ScottishPower provided THUS with a number of administrative services for example payroll services, insurance, human resources, pension support and vehicle purchasing and leasing. The provision of these services together with the costs to be borne by THUS are covered as part of this agreement. THUS has terminated a number of services under this agreement, however, the payroll services and various vehicle leasing services will continue to be supplied by ScottishPower until the Group has established its own payroll and vehicle leasing services.

(iv) Other agreements between THUS and ScottishPower

Revolving Working Capital Facility Agreement

Following the completion of the demerger and the Open Offer this facility was repaid in full and cancelled. THUS had entered into a facility agreement with ScottishPower whereby ScottishPower had agreed to provide THUS with an unsecured revolving loan facility. Loans made under the agreement were applied towards the general corporate purposes of the Group. Further details relating to the agreement are contained within Note 18.

Notes to the Accounts

for the year ended 31 March 2002

30 Related party transactions continued

Pensions Agreement

Under the Pensions Agreement ScottishPower set out the terms on which THUS was permitted to continue to participate in the ScottishPower pension schemes. The agreement also set out arrangements for the establishment by THUS of alternative pension arrangements following the cessation of participation in the ScottishPower schemes. An agreement has been proposed with ScottishPower in relation to the continued participation of THUS in the ScottishPower pension schemes for a limited period.

Provision of benefits agreement

This agreement will be terminated by THUS immediately following the year end. Under this agreement, ScottishPower continued to provide THUS employees with a number of benefits available to other ScottishPower Group employees, which THUS traditionally received as part of the ScottishPower Group. The only benefit still provided was the use of learning facilities run by ScottishPower for the benefit of their employees.

Counter Indemnity Agreement

ScottishPower has provided guarantees in relation to certain obligations of THUS. ScottishPower may be required to make payments under the guarantees. Under this agreement a counter indemnity is given by THUS in favour of ScottishPower in respect of ScottishPower's obligations under the guarantees.

(a) Trading transactions and balances arising in the normal course of business

| Related party | Related party relationship to the Group | Sales to/ (purchases from) other Group companies in the year | |
|---------------------------------|---|---|---------------|
| | | 2002 £'000 | 2001 £'000 |
| Sales to related parties | | | |
| Scottish Power UK plc | Parent Company | 15,628 | 20,326 |
| Manweb plc | 100% subsidiary of Parent Company | 2,553 | 2,170 |
| Southern Water plc | 100% subsidiary of Parent Company | 4,769 | 5,049 |
| Scotland On-Line Limited* | 50% subsidiary of THUS plc | 158 | – |
| | | 23,108 | 27,545 |

Included within the above sales to ScottishPower was £21,211,000 (2001: £23,994,000) for the Facilities Management contract.

Purchases from related parties

| | | | |
|---------------------------|-----------------------------------|----------------|----------------|
| Scottish Power UK plc | Parent Company | (7,913) | (6,764) |
| Manweb plc | 100% subsidiary of Parent Company | (12) | (488) |
| Scotland On-Line Limited* | 50% subsidiary of THUS plc | (74) | – |
| | | (7,999) | (7,252) |

* On 21 January 2002 the Group disposed of its 50% interest in Scotland On-Line Limited. The balances shown cover the period from the date of disposal to 31 March 2002.

| Related party | Related party relationship to the Group | Notes | Amounts due from/(to) other Group companies at the year end | |
|---|---|-------|---|----------------|
| | | | 2002 £'000 | 2001 £'000 |
| Amounts due from related parties | | | | |
| Scottish Power UK plc | Parent Company | | 9,265 | 9,549 |
| Manweb plc | 100% subsidiary of Parent Company | | 588 | 485 |
| Southern Water plc | 100% subsidiary of Parent Company | | 2,594 | 1,414 |
| Scotland On-Line Limited | 50% subsidiary of THUS plc | | 987 | – |
| | | 15 | 13,434 | 11,448 |
| Amounts due to related parties | | | | |
| Scottish Power UK plc | Parent Company | | (5,039) | (1,005) |
| Manweb plc | 100% subsidiary of Parent Company | | (15) | (104) |
| | | 16 | (5,054) | (1,109) |

The balances shown for Scottish Power UK plc, Manweb plc and Southern Water plc are all at 19 March 2002 being the date of the demerger.

30 Related party transactions continued

(b) Funding transactions and balances arising in the normal course of business

| Related party | Related party relationship to the Group | Notes | Interest (payable to)/ receivable from other Group companies in the year | |
|--|---|-------|---|---------------|
| | | | 2002 £'000 | 2001 £'000 |
| Scottish Power UK plc | Parent Company | | | |
| - Loan account | | 6b | (16,640) | (7,026) |
| - Funds deposited with ScottishPower | | 6a | 247 | 384 |
| - Arrangement fee for extension of revolving working capital facility | | 6b | - | (250) |
| - Loan notes | | 6b | (75) | (40) |
| - Commitment fee for revolving working capital facility | | 6b | (1,282) | (1,587) |
| - Finance leases | | 6b | (393) | (401) |

| Related party | Related party relationship to the Group | | Amounts due from/(to) other Group companies | |
|-----------------------|---|----|---|---------------|
| | | | 2002 £'000 | 2001 £'000 |
| Scottish Power UK plc | Parent Company | | | |
| - Funds deposited | | | - | 17,550 |
| - Loan accounts | | 17 | (600) | (180,600) |
| - Loan notes | | 17 | (500) | (500) |
| - Finance lease | | 17 | (4,306) | (4,402) |

31 Employee share schemes

Three new schemes were created, as replacements for those previously established by THUS plc for which awards over THUS Group plc subsist. The key conditions and performance criteria for the new schemes are as follows:

THUS Group Performance Share Plan

Under this plan, a conditional award of shares can be granted, at the discretion of the Remuneration Committee, to selected Executive Directors and employees. Each individual's participation is limited so that the number of shares granted in any 12 month period cannot exceed one times base salary. Under the Performance Share Plan, awards normally vest after three years subject to demanding performance conditions being met. For awards granted in 2001/2002, total shareholder return must exceed the upper decile of a comparator group of UK telecommunications companies over a fixed three year period in order for the full award to vest. 30% of the award vests for median total shareholder return rising on a straight-line basis to full vesting at upper decile performance. No awards vest for below median performance.

THUS Group plc Discretionary Share Option Scheme

Participation is limited so that the number of options granted in any 12 month period cannot exceed three times base salary. If share options (other than pursuant to the Sharesave Scheme) are also granted in any year that awards under the Performance Share Plan are made, the maximum share option grant would be restricted to a grant of options over shares worth two times base salary. Participants under this discretionary scheme can only exercise their options if demanding performance targets are met. For options granted in 2001/2002, two-thirds of the shares under option have a comparator group of the FT-SE Telecoms sector and the remaining third have a comparator group of the FT-SE Mid 250 companies (excluding telecommunications companies). In both cases, 50% of the shares under that part of the option are exercisable for median performance against their respective comparator group rising on a straight-line basis to full vesting for upper quartile performance.

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.

THUS Group plc Sharesave Scheme

The Company also recognises the importance of encouraging share ownership amongst all employees and to that extent, the Company operates the THUS Group plc Sharesave Scheme which provides the opportunity for employees to exercise options at the end of a savings contract. Options are exercisable, in normal circumstances on completion of a three or five year save-as-you-earn contract as appropriate. No performance criteria are attached to the exercise of these options.

Notes to the Accounts

for the year ended 31 March 2002

31 Employee share schemes continued

Closed Schemes

Prior to the establishment of THUS Group plc on the demerger from Scottish Power plc, THUS plc operated a number of share incentive plans pursuant to which awards over shares in THUS Group plc continue to subsist. No further awards will be made under any of these schemes.

THUS plc Employee Sharesave Scheme

Under this Scheme, in normal circumstances, share options are exercisable on completion of a three, five or seven year save-as-you-earn contract as appropriate. Where options are linked to a five year save-as-you-earn contract employees can elect to receive the maximum bonus by delaying exercise of the options for a further two years after the end of the contract.

THUS plc Executive Share Option Scheme

The majority of outstanding options under this scheme will only be exercised if the Company's Total Shareholder Return is ranked above the median of its comparator group.

THUS plc Performance Unit Equity Plan

The Performance Unit Equity Plan (PUERP) was established for the Executive Directors, at the time of the flotation, and certain senior managers. No consideration is payable by the participants.

THUS plc Profit Sharing Schemes (UK/Overseas)

An award of 80 free shares was made to each employee at the time of the flotation.

The ordinary shares received through the profit sharing scheme will be held by the trustee for a minimum period of two years from the date of admission of THUS plc to Stock Exchange listing. In relation to the UK scheme, for the following year, the trustee will continue to hold such ordinary shares unless the employee concerned wishes to sell or otherwise dispose of them and thereafter will transfer them to the employee.

Ordinary shares may, at the trustee's discretion, be transferred to a participant or sold on his behalf at any time prior to the normal release of such shares to the participant from the trust, to satisfy any tax liability that may arise.

In relation to the Overseas scheme the terms were broadly similar to the UK scheme except that:

- (i) Ordinary shares received through the Overseas scheme will not be held by the trustee following the two year period of retention; and
- (ii) Ordinary shares allocated under the scheme, may, at the trustee's discretion be transferred to a participant or sold on his behalf at any time prior to the normal release of such shares to the participant from the trust, to satisfy any tax liability that may arise early.

THUS plc Discretionary Share Option Scheme (2000)

The performance conditions described under the THUS Group plc Discretionary Share Option Scheme also apply to this scheme. In addition, a grant over 2,000 shares was made to each employee (excluding Executive Directors), on 6 December 2000 without any performance conditions applying.

31 Employee share schemes continued

| (a) Summary of movements in share options in THUS Group plc shares | THUS plc PUEP | THUS plc Employee Sharesave Scheme | THUS plc Executive Share Option Scheme | THUS plc UK Profit Sharing Scheme | THUS plc Overseas Profit Sharing Scheme | THUS plc Discretionary Share Option Scheme (2000) | THUS Group Performance Share Plan | THUS Group plc Discretionary Share Option Scheme | Total |
|--|--------------------------|------------------------------------|--|-----------------------------------|---|---|-----------------------------------|--|--------------------------|
| | (number of shares 000's) | (number of shares 000's) | (number of shares 000's) | (number of shares 000's) | (number of shares 000's) | (number of shares 000's) | (number of shares 000's) | (number of shares 000's) | (number of shares 000's) |
| Outstanding at 1 April 2000 | 1,439 | 1,032 | 979 | 146 | 4 | - | - | - | 3,600 |
| Granted | - | - | 3,428 | - | - | 13,789 | - | - | 17,217 |
| Exercised | (460) | - | - | - | - | - | - | - | (460) |
| Lapsed | (179) | (518) | (1,144) | - | - | (815) | - | - | (2,656) |
| Outstanding at 1 April 2001 | 800 | 514 | 3,263 | 146 | 4 | 12,974 | - | - | 17,701 |
| Granted | - | - | - | - | - | 714 | 2,908 | 9,612 | 13,234 |
| Exercised | (261) | - | - | (1) | (4) | - | - | - | (266) |
| Lapsed | - | (277) | (495) | - | - | (2,028) | - | - | (2,800) |
| Outstanding at 31 March 2002 | 539 | 237 | 2,768 | 145 | - | 11,660 | 2,908 | 9,612 | 27,869 |

| (b) Analysis of share options outstanding at 31 March 2002 | Date of grant | Number of participants | Number of shares (000s) | Option price (pence) | Normal exercisable date |
|--|---------------|------------------------|-------------------------|------------------------|-------------------------|
| THUS plc Performance Unit Equity Plan (PUEP)* | 22.10.99 | 4 | 539 | Nil | Nov 2000 – May 2003 |
| THUS plc Employee Sharesave Scheme* | 16.11.99 | 169 | 237 | 272 | Feb 2003 – Feb 2005 |
| THUS plc Executive Share Option Scheme* | 16.11.99 | 30 | 230 | 340 | Nov 2002 – Nov 2009 |
| | 16.11.99 | 16 | 220 | 310 | Nov 2002 – Nov 2009 |
| | 13.06.00 | 169 | 2,318 | 326 | Jun 2003 – Jun 2010 |
| THUS plc UK Profit Sharing Scheme* | 24.11.99 | 1,814 | 145 | Nil | Nov 2001 – Nov 2002 |
| THUS plc Discretionary Share Option Scheme (2000)* | | | | | |
| Executive Grant | 28.09.00 | 2 | 361 | 141 | Sep 2003 – Sep 2007 |
| | 06.12.00 | 183 | 5,893 | 72 | Dec 2003 – Dec 2007 |
| | 20.12.00 | 1 | 1,000 | 72 | Dec 2003 – Dec 2007 |
| | 14.02.01 | 4 | 80 | 72 | Feb 2004 – Feb 2008 |
| | 05.06.01 | 4 | 714 | 60 | Jun 2004 – Jun 2008 |
| All Employee Grant | 06.12.00 | 1,843 | 3,612 | 72 | Dec 2003 – Dec 2007 |
| THUS Group Performance Share Plan | 27.03.02 | 5 | 2,908 | £1 total consideration | Mar 2005 |
| THUS Group plc Discretionary Share Option Scheme | 27.03.02 | 55 | 9,612 | 16.25 | Mar 2005 – Mar 2009 |

All options are exercisable over THUS Group plc shares.

* All outstanding awards under the schemes marked * will be satisfied by shares held by an employment benefit trust, the trustee of which has acquired the ordinary shares required to satisfy the rights under the various schemes. New issue shares will be used in all other cases.

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for the year ended 31 March 2002

32 Directors' emoluments and interests

(a) Policy

The Remuneration Committee is responsible for making recommendations to the Board on the Group's remuneration policy. The objective of THUS' remuneration policy is to ensure that the rewards for Executives and Directors attract and retain executives of high quality, who are incentivised to achieve performance which exceeds that of competitors. Furthermore, the objective is to ensure that incentive schemes are in line with best practice and promote the interests of the shareholders. The Remuneration Committee determines the detail of each Executive's remuneration package.

(b) Total 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 2002.

| | Basic salary £ | Bonuses £ | Benefits in kind £ | Total 2002 £ | Total 2001 £ |
|--|-------------------|----------------|-----------------------|------------------|-----------------|
| Executive Directors | | | | | |
| William Allan | 255,000 | 178,500 | 13,733 | 447,233 | 268,228 |
| Gerard McAloon (resigned at 13 July 2000) | – | – | – | – | 49,871 |
| John Maguire | 180,000 | 126,000 | 14,873 | 320,873 | 64,461 |
| Philip Male | 200,000 | 140,000 | 19,398 | 359,398 | 218,893 |
| James Reid (appointed 2 April 2001) | 179,500 | 126,000 | 4,398 | 309,898 | – |
| Non-executive Directors (fees and expenses) | | | | | |
| Ian Russell (resigned 23 May 2001) | – | – | – | – | – |
| Charles Berry (appointed Chairman 23 May 2001) | – | – | – | – | – |
| Roy Brown | 30,000 | – | – | 30,000 | 7,258 |
| Ian Chippendale | 30,000 | – | – | 30,000 | 30,000 |
| Jo Connell | 30,000 | – | – | 30,000 | 7,500 |
| Michael de Kare-Silver | 30,000 | – | – | 30,000 | 17,500 |
| David Nish (appointed 23 May 2001) | – | – | – | – | – |
| Jonathan Solomon (deceased 21 May 2000) | – | – | – | – | 4,194 |
| Total | 934,500 | 570,500 | 52,402 | 1,557,402 | 667,905 |

All Directors continue to be remunerated by THUS plc after the merger with THUS Group plc. No remuneration has been received by the Directors from THUS Group plc.

Mr Russell, Mr Berry and Mr Nish do not receive any remuneration from THUS Group plc, nor Scottish Power plc, for their services as Non-executive Directors of THUS Group plc.

Full details of the emoluments and interests of Mr Russell, Mr Berry and Mr Nish, who are also Directors of Scottish Power plc, are contained within the Annual Report and Accounts/Form 20-F of Scottish Power plc.

The emoluments of the highest paid Director (Mr Allan) excluding pension contributions were £447,233 (2001: £268,228). Pension contributions made by the Company under approved pension arrangements for Mr Allan amounted to £4,579 (2001: £10,877).

In the prior year, Mr McAloon resigned as a Director of THUS plc. Mr McAloon had a service contract with THUS plc terminable by THUS plc, or the individual, on one year's notice. THUS plc paid Mr McAloon compensation for loss of office of £264,227. This represented one year's salary and benefits and included £63,000 in relation to holdings under the ScottishPower Long-Term Incentive Plan. In addition, £13,617 was paid to the ScottishPower pension scheme on his behalf.

32 Directors' emoluments and interests continued

(c) Directors' pension benefits

An overview of the pension benefits provided to all Executive Directors is set out in the Report of the Board on Remuneration on page 24.

Details of pension benefits earned by the Executive Directors during the year ended 31 March 2002 are shown below:

| | Transferred in benefits £ | Additional pension earned in year £ | Accrued entitlement £ | Transfer value of increases after indexation (net of Directors' contribution) £ |
|--|---------------------------------|---|-----------------------------|---|
| Defined benefits pension scheme as at 31 March 2002 | | | | |
| Executive Directors | | | | |
| William Allan | Nil | 1,668 | 3,977 | 12,546 |
| John Maguire | Nil | 1,609 | 2,056 | 5,793 |
| Philip Male | Nil | 1,666 | 3,911 | 5,772 |
| James Reid (appointed 2 April 2001) | Nil | 1,585 | 1,585 | 13,148 |

- (i) The accrued entitlement of the highest paid Director (Mr Allan) was £3,977 (2001: £2,297).
- (ii) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year assuming normal retirement at age 63. 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.
- (iii) The Executive Directors are subject to the earnings cap introduced in the Finance Act 1989. Pension entitlements which cannot be provided through the Company's approved schemes due to the earnings cap are provided through unapproved pension arrangements. The pension benefits disclosed above include approved and unapproved pension arrangements.
- (iv) The increase in accrued pension during the year allows for an increase in inflation of RPI as measured at 0.7%.
- (v) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less Director's contributions.
- (vi) Transferred in benefits represent pension rights accrued in respect of previous employments.

Notes to the Accounts

for the year ended 31 March 2002

32 Directors' emoluments and interests continued

(d) Directors' interests in shares and share options

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

| | Ordinary shares/entitlements to shares | | | | | |
|---|--|--|--|--|------------------------------|--|
| | Ordinary shares 31.3.02 | as at 01.04.01 or date of appointment | THUS plc Profit Sharing Scheme 31.3.02 | as at 01.04.01 or date of appointment | THUS plc *PUEP 31.3.02 | as at 01.04.01 or date of appointment |
| Chairman and Executive Directors | | | | | | |
| Charles Berry (appointed Chairman 23 May 2001) | 10,000 | 1,000 | - | - | - | - |
| William Allan | 59,528 | 54,528 | 80 | 80 | 252,982 | 252,982 |
| John Maguire | - | - | - | - | - | - |
| Philip Male | 27,369 | 27,369 | 80 | 80 | 133,932 | 133,932 |
| James Reid (appointed 2 April 2001) | 20,000 | - | - | - | - | - |
| Non-executive Directors | | | | | | |
| Roy Brown | 4,500 | - | - | - | - | - |
| Ian Chippendale | 33,225 | 23,225 | - | - | - | - |
| Jo Connell | 17,097 | 17,000 | - | - | - | - |
| Michael de Kare-Silver | 5,000 | 5,000 | - | - | - | - |
| David Nish (appointed 23 May 2001) | 2,114 | 2,114 | - | - | - | - |

* The Directors were entitled to acquire 25% of the shares under the PUEP within six months of the first anniversary of the admission. A further 25% may be acquired within six months of the second anniversary of admission and the final 50% may be acquired within six months of the third anniversary of admission.

| | Share options | | | | | | | | | |
|---|--|--|--|--|--|--|---|--|---|--|
| | THUS plc Employee Sharesave Scheme 31.3.02 | as at 01.04.01 or date of appointment | THUS plc Executive Share Option Scheme 31.3.02 | as at 01.04.01 or date of appointment | THUS plc Discretionary Share Option Scheme (2000) 31.3.02 | as at 01.04.01 or date of appointment | THUS Group Performance Share Plan 31.3.02 | as at 01.04.01 or date of appointment | THUS Group plc Discretionary Share Option Scheme 31.3.02 | as at 01.04.01 or date of appointment |
| Chairman and Executive Directors | | | | | | | | | | |
| Charles Berry (appointed Chairman 23 May 2001) | - | - | - | - | - | - | - | - | - | - |
| William Allan | - | - | 234,662 | 234,662 | - | - | 784,615 | - | 1,569,230 | - |
| John Maguire | - | - | - | - | 1,000,000 | 1,000,000 | 553,846 | - | 1,107,692 | - |
| Philip Male | 2,136 | 2,136 | 184,049 | 184,049 | - | - | 615,384 | - | 1,230,769 | - |
| James Reid (appointed 2 April 2001) | - | - | - | - | 500,000 | - | 553,846 | - | 1,107,692 | - |
| Non-executive Directors | | | | | | | | | | |
| Roy Brown | - | - | - | - | - | - | - | - | - | - |
| Ian Chippendale | - | - | - | - | - | - | - | - | - | - |
| Jo Connell | - | - | - | - | - | - | - | - | - | - |
| Michael de Kare-Silver | - | - | - | - | - | - | - | - | - | - |
| David Nish (appointed 23 May 2001) | - | - | - | - | - | - | - | - | - | - |

32 Directors' emoluments and interests continued

(d) Directors' interests in shares and share options continued

| Executive Director | At 1 April 2001 | Granted | Exercised | At 31 March 2002 | Date exercised | Market price at date of exercise (pence) | Date from which exercisable | Expiry date |
|---|--------------------|------------------|-----------|---------------------|-------------------|--|-----------------------------------|----------------|
| THUS plc Employee Sharesave Scheme | | | | | | | | |
| Philip Male | 2,136 | – | – | 2,136 | | | Feb 2003 | Aug 2003 |
| THUS plc Executive Share Option Scheme | | | | | | | | |
| William Allan | 234,662 | – | – | 234,662 | | | Jun 2003 | Jun 2010 |
| Philip Male | 184,049 | – | – | 184,049 | | | Jun 2003 | Jun 2010 |
| | 418,711 | – | – | 418,711 | | | | |
| THUS plc PUEP | | | | | | | | |
| William Allan | 252,982 | – | – | 252,982 | | | Nov 2000 | May 2003 |
| Gerard McAloon (resigned 13 July 2000) | 89,287 | – | (89,287) | – | 19 Nov 2001 | 60 | Nov 2000 | May 2003 |
| Philip Male | 133,932 | – | – | 133,932 | | | Nov 2000 | May 2003 |
| | 476,201 | – | (89,287) | 386,914 | | | | |
| The exercise price (pence) for the PUEP entitlement is Nil. | | | | | | | | |
| THUS plc Profit Sharing Scheme | | | | | | | | |
| William Allan | 80 | – | – | 80 | | | Nov 2001 | Nov 2002 |
| Gerard McAloon (resigned 13 July 2000) | 80 | – | – | 80 | | | Nov 2001 | Nov 2002 |
| Philip Male | 80 | – | – | 80 | | | Nov 2001 | Nov 2002 |
| | 240 | – | – | 240 | | | | |
| THUS plc Discretionary Share Option Scheme (2000) | | | | | | | | |
| John Maguire | 1,000,000 | – | – | 1,000,000 | | | Dec 2003 | Dec 2007 |
| James Reid (appointed 2 April 2001) | – | 500,000 | – | 500,000 | | | Jun 2004 | Jun 2008 |
| | 1,000,000 | 500,000 | – | 1,500,000 | | | | |
| THUS Group Performance Share Plan | | | | | | | | |
| William Allan | – | 784,615 | – | 784,615 | | | | Mar 2005 |
| John Maguire | – | 553,846 | – | 553,846 | | | | Mar 2005 |
| Philip Male | – | 615,384 | – | 615,384 | | | | Mar 2005 |
| James Reid (appointed 2 April 2001) | – | 553,846 | – | 553,846 | | | | Mar 2005 |
| | – | 2,507,691 | – | 2,507,691 | | | | |
| THUS Group plc Discretionary Share Option Scheme | | | | | | | | |
| William Allan | – | 1,569,230 | – | 1,569,230 | | | Mar 2005 | Mar 2009 |
| John Maguire | – | 1,107,692 | – | 1,107,692 | | | Mar 2005 | Mar 2009 |
| Philip Male | – | 1,230,769 | – | 1,230,769 | | | Mar 2005 | Mar 2009 |
| James Reid (appointed 2 April 2001) | – | 1,107,692 | – | 1,107,692 | | | Mar 2005 | Mar 2009 |
| | – | 5,015,383 | – | 5,015,383 | | | | |

The market price of the shares at 31 March 2002 was 15.25p and the range during 2001/2002 was 15.25p to 63.5p.

The aggregate of the gains made on the exercise of the PUEP entitlements during the year was £53,572 (2001: £167,637), of which £Nil (2001: £47,433) related to the gain attributable to the highest paid Director (Mr Allan).

Following the resignation of Mr McAloon as a Director and employee of THUS plc, the Directors agreed to him retaining the entitlement to the 89,287 shares which had previously been granted to him under the PUEP scheme. The gain attributable to the PUEP entitlements exercised by Mr McAloon during the year was £53,572 (2001: £95,091).

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33 Contingent liabilities

(a) Prior to the demerger on 19 March 2002, THUS plc and ScottishPower formed a Group for UK capital gains tax purposes. If THUS plc ceased to be a part of the ScottishPower Capital Gains Tax Group before 30 September 2005 other than in certain specific circumstances, the Company would have become liable to an amount of corporation tax on chargeable gains calculated as the difference between the market value at 30 September 1999 of the assets and liabilities of the ScottishTelecom Businesses acquired by THUS plc on that date and the indexed base cost of those assets and liabilities as at 30 September 1999, multiplied by the percentage rate of corporation tax applicable to the profits of the Company in the accounting period in which THUS plc ceased to be a member of the ScottishPower Capital Gains Tax Group. Management estimated that such liability would be up to £570 million. Management's estimate was subject to the following principal uncertainties:

- (i) The rate of corporation tax applicable at the time of exit from the ScottishPower Group; and
- (ii) The valuation attributable to the acquired businesses by the Inland Revenue as at 30 September 1999.

(b) The demerger has resulted in THUS plc leaving the ScottishPower Capital Gains Tax Group but has not caused the contingent liability to crystallise. However, the contingent liability has not been removed and can still be crystallised if THUS makes a "chargeable payment" to any member of the ScottishPower Group where there is a parental holding of at least 75% of the ordinary share capital (which for capital gains tax purposes would include participating Preference Shares where applicable) or vice versa, a payment is made to THUS by any member of the ScottishPower Group, again where the above shareholding relationship applies. The contingent liability expires on 19 March 2007.

A "chargeable payment" is defined as any payment made otherwise than for bona fide commercial reasons or forming part of a scheme of arrangement the main purpose or one of the main purposes of which is the avoidance of tax. Management of both THUS and ScottishPower have put in place procedures to monitor and minimise the exposure.

THUS and ScottishPower have jointly agreed that neither party will make or agree to make any chargeable payment within five years of the date of the demerger. This agreement is governed by a Tax Indemnity Deed entered into between ScottishPower and THUS whereby voluntary acts of omissions that result in a chargeable payment being made, will not be indemnified by the innocent party.

34 Ultimate holding company and controlling party

Prior to the demerger, THUS plc was a majority owned subsidiary of Scottish Power UK plc which is, in turn, a wholly owned subsidiary of Scottish Power plc. Both the former immediate Parent Company and the ultimate Parent Company are registered in Scotland.

Copies of the Scottish Power plc's consolidated Accounts may be obtained from The Secretary, Scottish Power plc, 1 Atlantic Quay, Glasgow, G2 8SP.