THUS Group plc

Annual Report 2008

beyond communications | thus

THUS Group plc delivers advanced telecommunication services to large business customers and public sector organisations throughout the UK. It tailors these services to suit small and mid-sized businesses through its Demon branded product range.

Our objective is to be the pre-eminent alternative telecommunication provider for business customers in the UK.

find out more at **www.thus.net/annualreport2008**

Overview:

Financial Highlights[1]

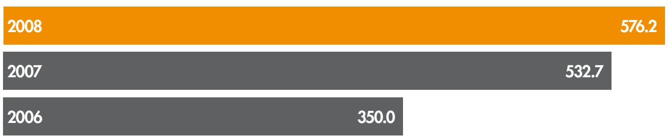
£576.2m +8%
Revenue

£57.0m +33%
EBITDA[2]

£4.0m +£13.5m
Operating Profit[3]

£(6.0)m +£19.7m
Free Cash Flow[4]

Revenue £m



Operating Profit/Loss[3] £m

EBITDA[2] £m

Free Cash Flow[4] £m

1 Represents continuing operations and excludes Demon Netherlands and Contact Centre.

2 Earnings before interest, tax, depreciation (including impairment), amortisation and restructuring costs.
(see Note 9 to the Consolidated Financial Statements).

3 Operating profit/(loss) before restructuring costs.

4 Operating cash after interest, taxation and capital expenditure.

Overview:
Our Strategy, Structure and Markets

Focused

Our objective is to be the pre-eminent alternative telecommunication provider for business customers in the UK.

Our principal strategies to achieve this objective have focused around:

- **Deployment** of an advanced national, next-generation telecommunications network. This allows us to improve our control over the quality of our service delivery, lower our ongoing traffic delivery costs and control the rate of service evolution.
- **Development** and sale of a comprehensive service portfolio capable of supporting business customers through the transition from legacy to IP-based and converged telecommunications.
- **Attainment** of consistently high levels of quality in our service delivery.
- **Achievement** of scale and operating leverage across our network and supporting systems.

Our market

Market structure

Twenty-five years after liberalisation, the fixed line business market in the UK remains dominated by the incumbent provider, BT.

Although many infrastructure-based market entrants have emerged, none has yet developed sufficiently to deliver sustained growth and meaningful returns. In particular, an over-investment in legacy networks has resulted in an over-supply of legacy services and inhibited competitors from developing sufficient scale to thrive.

The transition to next-generation services has put additional pressure on established revenue and margin from legacy services for all operators. Most suppliers now face significant network investment to enable them to offer next-generation services. THUS made this investment when it put in place a next-generation network as part of its national network rollout in the early part of the decade.

THUS continues to invest judiciously to increase its capabilities further, maximise the leverage of its assets, and deliver future growth and operating efficiencies. THUS is therefore well positioned to benefit as demand consolidates around market participants with next-generation capability over the longer term.

Organisation structure

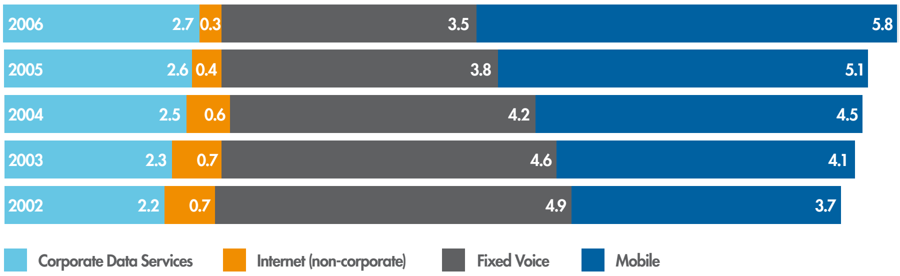
THUS is structured along functional lines to support the business segments with staff organised into sales, product, operations and support services. In addition, THUS maintains a central capability for management of finance, human resources and government and regulatory affairs.

Nigel Stevens, Product director.

Stuart Sutton, Operations director.

Richard Sweet, Government Affairs director.

Business Spending on Telecom Services[1] (£b)



Market size and service transition

The total UK business telecoms market is estimated at £12.3b[1] or excluding business spending on mobile services is estimated at £6.5b[1] down from £6.8b[1] the previous year. The fixed line segment is experiencing a transition in demand patterns. In particular, demand is moving away from traditional or legacy telecommunication services, including fixed switched voice, frame relay and ATM data, as well as narrow-band Internet access towards next-generation, IP-based services such as broadband, Ethernet, MPLS IP Virtual Private Networks and Voice over IP.

Market share

THUS must continue to build market share successfully in order to meet our longer-term objectives. Based on continuing operations[2] revenue growth, THUS improved its estimated market share to 8.7% during the year, reflecting our success in winning new business and extending relationships with existing customers.

Regulation

In 2005, communications regulator Ofcom completed its Strategic Review of Telecommunications, culminating in a new regulatory settlement for the industry. The new settlement continues to support infrastructure-based competition but seeks to promote equality of access to those parts of the BT network where investment in competing infrastructure is not sustainable.

A new BT division called Openreach was created to provide access to these regulated services. Although BT's customers suffered significant disruption following the creation of Openreach, Ofcom is now taking action to impose a service level guarantee regime on Openreach which should lead to improved service performance.

THUS remains optimistic that the regulatory settlement will eventually enhance competition, but continued vigilance will be required to ensure BT does not foreclose competition as it implements its next-generation network.

Financial targets

Following heavy up-front investment in network rollout, our financial plan is focused on delivering a return on capital employed greater than our weighted average cost of capital. Key long-term financial targets for the Group include:

1.5-2x

Asset turnover[3]

>20%

EBITDA[4]: revenue

c.10%

Capital investment: revenue

The Group has achieved three important financial milestones, moving EBITDA[4] positive in 2001/02, free cash flow[5] positive in 2004/05 and delivering our first operating profit in 2007/08.

1 Source: Ofcom, 'The Communications Market 2007'. Figures have been restated from the 2006 Communications Market Report by Ofcom to reflect more accurate data.
2 Excludes Demon Netherlands.
3 Ratio of revenue to property, plant, equipment and intangible assets.
4 Earnings before interest, tax, depreciation (including impairment) and amortisation.
5 Operating cash after interest, taxation and capital expenditure.

Ian Armour, Support Services director.

Gillian Campbell, HR director.

David Macleod, Company secretary.

Gerry Duffy, Sales director.

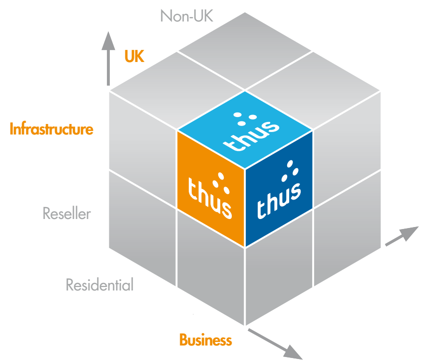
Overview:

THUS at a Glance

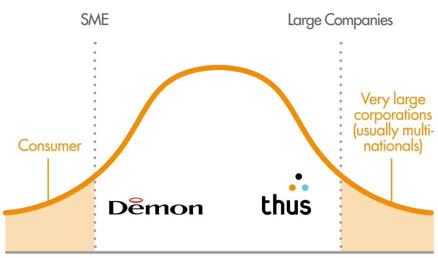
THUS is focused on the provision of fixed line telecommunication services to large business customers and public sector organisations, while tailoring services to suit small and mid-sized businesses under the Demon brand.

Business model

THUS' business model is focused on the provision of primarily infrastructure-based services to business customers and public sector organisations in the UK.



Our addressable market is not focused on the highly competitive consumer market in the UK nor very large multinational corporations. Demon's service offerings are targeted at small and mid-sized businesses and complement THUS' capabilities for larger organisations.



Continuing operations

THUS has four established business segments comprising Managed solutions, Data and telecoms, Internet and Mobile.

Managed solutions are run as a separate unit within THUS. They comprise large corporate accounts with complex service needs, typically combining delivery of several different standard services, an element of outsource to THUS and longer than average contract duration.

In contrast, the Data and telecoms, Internet and Mobile segments record revenue and results for more standard product sales to a wider customer base including corporate, small and mid-sized customers, channel resellers and other telecommunication companies.

Within each segment, the principal costs comprise payments to other telecommunication companies for interconnect and use of their network to collect and deliver services to THUS customers, other directly variable costs, directly attributable selling, distribution and administrative costs and depreciation on assets directly attributable to that segment.

However, as the majority of services are sold, provisioned and run from a unified infrastructure, THUS maintains a large pool of central costs. In 2008, these costs reduced by 7% to £108.7m[1] (2007: £117.2m[1]) and comprised £41.2m of depreciation, impairment and amortisation (2007: £43.4m), £29.4m of network operations and maintenance costs (2007: £27.3m) and £38.1m of corporate overheads (2007: £46.5m).

Managed solutions

Data and telecoms

Internet

Mobile

1 Excludes £1.6m of restructuring costs in 2007.

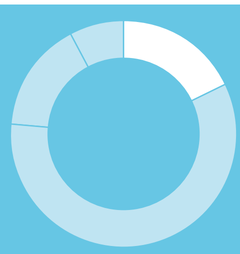
2 Segmental operating profit excludes central costs not allocated to individual segments.

Summary of Services

Our Managed solutions portfolio gives customers access to the knowledge, skills and experience that we offer as an operator of a state-of-the-art network, without the need for them to maintain these resources in-house. Our experts can help customers to plan, deploy, optimise, manage and run their network infrastructure, allowing them to focus on their core business, improve operational efficiency and reduce operating and capital expenditure.

Highlights of the Year

- Revenue grew 17% to £111.2m. The growth has been largely driven by the inclusion of revenue for HSBC and the Pathfinder North and Pathfinder South projects.
- Segmental operating profit[2] increased from £18.9m to £28.7m, with margins[2] improving to 26%.



19%

of Total Revenue

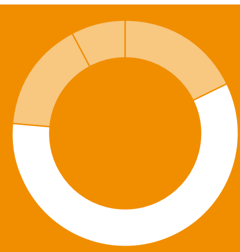
	2008 £m	2007 £m
Revenue	**111.2**	95.0
Operating profit[2]	**28.7**	18.9
Operating profit margin[2]	**26%**	20%

Summary of Services

THUS' comprehensive portfolio of voice and data services is backed by our advanced next-generation network. These services are often business-critical and, as a result, are supported by stringent Service Level Agreements. THUS offers a wide range of high quality and flexible services designed to meet the needs of our diverse customer base. Our portfolio includes switched voice, call recording and conferencing, MPLS IP VPN, leased lines and City/National Ethernet services.

Highlights of the Year

- Revenue grew 11% to £347.0m. Data revenue grew by 11% to £100.7m and voice revenue also grew by 11% to £246.3m.
- Segmental operating profit[2] was £60.9m (2007: £61.5m), with margins[2] of 18% (2007: 20%).
- Additional business for lower margin CPS services resulted in revenue for these services increasing to £101.5m (2007: £62.1m). Excluding the impact of the strong growth in CPS revenue, the underlying margin[2] was 21% (2007: 22%).



60%

of Total Revenue

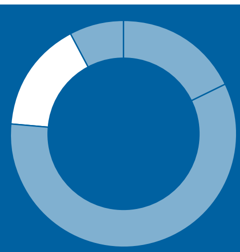
	2008 £m	2007 £m
Revenue	**347.0**	312.5
Operating profit[2]	**60.9**	61.5
Operating profit margin[2]	**18%**	20%

Summary of Services

THUS has many years experience in providing quality Internet solutions, and provides a comprehensive portfolio of services through Demon, one of the UK's longest-established and most recognisable Internet brands. With our experience and expertise to deliver, manage and support these services we are well equipped to understand our customers' needs and offer solutions right for them. Our portfolio includes high performance premier broadband, hosting, co-location and security services.

Highlights of the Year

- Revenue declined by 6% to £79.5m. Hosting and other internet services increased by 5% to £30.2m, dial-up Internet revenue fell to £5.7m (2007: £10.0m), and Broadband revenue declined by 5% to £43.6m.
- Segmental operating profit[2] fell from £23.1m to £18.4m, with margins[2] of 23% (2007: 27%).
- Broadband customers at 31 March 2008 were 115,000 (31 March 2007: 130,700).



14%

of Total Revenue

	2008 £m	2007 £m
Revenue	**79.5**	84.7
Operating profit[2]	**18.4**	23.1
Operating profit margin[2]	**23%**	27%

Summary of Services

THUS provides standard and bespoke Mobile solutions, tailored to our business customers' requirements, and has the capability to supply integrated voice, data and messaging solutions. Products and services range from mobile phones and Blackberrys® to a comprehensive range of vehicle and asset tracking, and field worker solutions. Our field worker solutions utilise both 3G and GPRS technology, enabling our customers to realise significant productivity gains.

Highlights of the Year

- Revenue for the year was £38.5m compared to £40.5m last year.
- Segmental operating profit[2] rose to £4.7m (2007: £4.2m), representing a 12% margin[2] up from 10% last year.
- The division continues to be Vodafone's largest independent UK business-to-business service provider and had 89,455 active connections at the year end (31 March 2007: 90,000).

7%

of Total Revenue

	2008 £m	2007 £m
Revenue	**38.5**	40.5
Operating profit[2]	**4.7**	4.2
Operating profit margin[2]	**12%**	10%

Strategic Progress and Success:
What Makes THUS Different

Capability
Consultation
Quality

Capability

Our unique capability comes from an extensive knowledge of the telecommunications industry and many years of experience working with our customers to ensure that we provide the right solutions.

Our state-of-the-art next-generation network (NGN), coupled with our technical capability, is crucial in delivering innovative, compelling and flexible communication solutions to a broad range of customers.

Our network is one of the most technically advanced in the UK, and allows us to harness new opportunities for our customers. It provides a single platform for the deployment of advanced business applications, allowing both voice and data to exist on the same advanced network. The result is a simplified communications infrastructure that delivers both performance gains and cost savings for our customers. Our NGN is configured to ensure maximum performance and reliability at all times.

The world-class THUS backbone network uses MPLS technology to deliver the highest possible performance. MPLS is the ideal platform to carry IP voice, video and data traffic across a converged network, as well as giving added flexibility and functionality.

Consultation

At THUS, we add value to our customers' operations through our consultative approach. Our goal is to drive success through in-depth customer and market knowledge. This has resulted in notable success and is recognised by our customers as a key differentiator. We lead on thorough consultative engagement, supported by our extensive sector knowledge and an in-depth understanding of both our customers' requirements and their key drivers.

We have extensive experience across multiple sectors nationwide. New business won this year is testament to this approach and included contract wins in the fields of education, utilities, retail, media and the public sector.

THUS believes in strong client engagement, which succeeds in building relationships with our customers based on trust and understanding, and allows us to identify their real requirements and challenges. Through this process, we are able to demonstrate a thorough understanding of the customers' situation, enabling us to tailor and deliver the right solution for them that will meet their needs today and in the future.

With a broad range of capabilities, a reputation for top-quality service, extensive sectoral coverage and a strong consultative approach, THUS is truly a distinctive leader in communications provision.

Quality

Providing the highest level of quality is essential to our business. We constantly strive to improve on our already high standards of service, and quality underpins everything we do as a company. It is only through delivering quality solutions to customers that we are able to drive the execution and growth of our business and build strong and committed relationships with our customers.

We fervently believe in delivering the highest levels of quality of service to our customers. We utilise external measurement to support and ensure that we deliver consistent quality across all our products and solutions. Our quality control can be measured by the fact that we have achieved full ISO 9001:2000 quality certification for all of our internal processes and certification for the International Information Security Standard, ISO/IEC 27001:2005 for our MPLS network. This certification (formerly known as BS 7799) is regarded as the benchmark for information security management.

Service and quality are the cornerstones of our business and the differentiators by which we are judged. We do not limit our continual focus on quality to products and services, as we believe that improvement in business strategy, business results and customer, employee and supplier relationships should also be subject to continual improvement. Our commitment to our employees is endorsed by our Investors in People accreditation.

In essence, we strive to continuously improve all aspects of our Company performance to ensure we exceed the expectations of our customers.

LLOYD'S REGISTER QUALITY ASSURANCE · ISO9001
UKAS QUALITY MANAGEMENT 001

LLOYD'S REGISTER QUALITY ASSURANCE · ISO/IEC27001
UKAS QUALITY MANAGEMENT 001

INVESTORS IN PEOPLE

Strategic Progress and Success:

New Business Won

1.

4.

2.

3.

Trusted by our

This year THUS won new business nationwide across multiple sectors demonstrating the success of our consultative approach and proven capability to deliver bespoke solutions tailored to our customers' needs.

1. Vodat International

THUS and Vodat International are working together to deliver NGN solutions to retailers such as cosmetics retailer Lush, White Stuff and Mosaic Fashions (parent company of Coast; Karen Millen; Oasis; Whistles). The THUS NGN network combined with Vodat International's applications provides a set of business class solutions which increase productivity in the retail enterprise, thereby reducing costs and improving customer service to increase sales.

>70%

of contracts[1] signed this year were for next-generation services

customers

2. Imperial College London ('ICL')
THUS secured new business with ICL for an Ethernet solution to provide high-bandwidth connectivity across nine of its sites and network connectivity to all other campus locations. This scalable solution enhances reliability and has the capability to converge voice, data and multimedia applications.

3. Global Radio
THUS renewed and extended its contract with leading UK broadcaster, Global Radio, for the provision of live audio broadcasts, voice and data traffic over an MPLS network. The tailored solution is resilient, reliable and scalable to meet the needs of a dynamic, growing broadcaster.

4. ScottishPower Energy Networks ('SPEN')
THUS will deploy a new NGN infrastructure to provide business critical voice and data applications to SPEN's transmission substations – extending to 130 sites in Central and Southern Scotland. ScottishPower is one of our longest standing customers and securing this contract is testament to our capabilities and track record for service and reliability.

5. Thresher Group
THUS extended its contract with Thresher Group, the UK's leading independent specialist drinks retailer. Thresher Group will use our Calls & Lines service at its Head Office and across 1,800 branches nationwide, and selected THUS for our extensive experience in the retail sector and our ability to deliver a high quality, reliable, cost-effective solution tailored to each branch location.

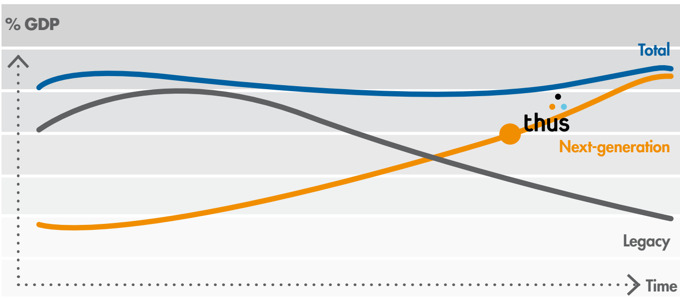
6. Johnston Press
The renewal and extension of our contract with Johnston Press is testament to our consultative approach and ability to provide a secure, fully managed, bespoke next-generation solution (involving large scale hosting and high capacity wavelength services), coupled with high levels of resilience and reliability for the delivery of business-critical information to over 230 sites.

1 Represents major corporate and public sector contracts typically covering higher value bespoke sales.

Strategic Progress and Success:

Our Journey to Profit

Vision Presence Profit



Vision

Our vision for the future provision of telecommunication solutions led to the construction of our next-generation network at the beginning of the decade. This has enabled us to differentiate ourselves from our competitors and ensures we are strongly positioned within the marketplace.

The current marketplace transition away from legacy services towards next-generation telecommunication services continues to accelerate as our customers realise the benefits of adopting these advanced solutions compared to the more commoditised legacy services.

Over 70% of our new business won[1] this year was for next-generation services. As a result, THUS has now passed the inflexion point with over 60% of our variable gross margin now derived from these next-generation services.

THUS is committed to delivering visionary, innovative solutions that allow our customers to achieve their aspirations and provide them with a competitive edge. We continue to look beyond today's needs to the next-generation of advanced telecommunication solutions that will best serve the needs of our customers.

Presence

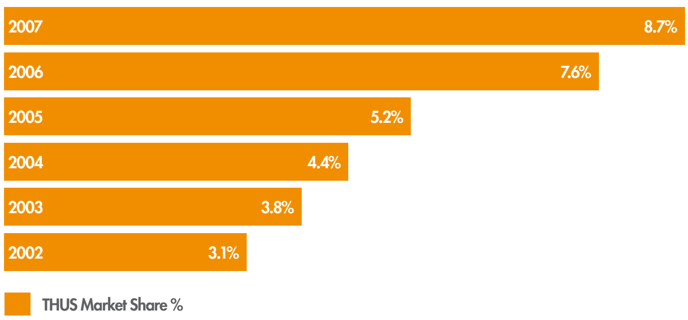
We have successfully grown our business every year since our flotation in 1999. This organic growth strategy was complemented by our first acquisitions in 2006 – Your Communications and Legend Communications.

The acquisitions accelerated our achievement of increased scale whilst also improving our geographical reach in the North of England by complementing THUS' existing market presence. As a result, THUS has achieved a truly nationwide presence in the UK.

As we successfully grow our enlarged business organically we continue to take market share[2] and estimate that it is now 8.7%, up from 7.6% last year. We must continue to successfully build our market share in order to achieve our long-term financial objectives.

THUS' visionary solutions for customers ensure we are strongly positioned in the marketplace, where we have achieved a truly nationwide presence, and momentum within our business enabled us to deliver our first full year of operating profit.

THUS Market Share



Profit

The strong growth of our higher margin next-generation services, together with the benefits from our increased scale and the successful delivery of the planned savings from the integration of Your Communications and Legend Communications, enabled us to achieve our first full year of operating profit this year.

Momentum within our business is evidenced by winning new business nationwide across multiple sectors, and financial performance for the second half of the year accelerated with revenue up 5% and EBITDA[3] up 15% compared to the first half of the year.

The achievement of our first operating profit is another important milestone for THUS. Our next financial goal is to deliver, for our stakeholders, a return on capital employed greater than our weighted average cost of capital.

To achieve this goal we must continue to win business from new customers and extend relationships with existing customers whilst maintaining our disciplines of operational productivity, sound cash management and a capital investment programme focused on driving future growth.

1 Represents major corporate and public sector contracts typically covering higher value bespoke sales.

2 THUS market share is based on continuing operations revenue (excluding mobile) for a financial year. 2007 market share is for the financial year ended 31 March 2008. 2002-06 is based upon Ofcom's 'The Communications Market 2007'. 2007 is based upon a THUS estimate.

3 Earnings before interest, tax, depreciation (including impairment), amortisation and restructuring costs.

Directors' Report:

Chairman's Statement

It is the energy and initiative of our staff in THUS that provides the fuel for our growth and many achievements.

I am pleased to report that this has been another year of strong growth and achievement for your Company, with revenue up by 8% to £576.2 million, and the achievement of our first operating profit of £4.0 million compared with an operating loss[1] of £9.5 million last year. It has been a busy year with major project implementations, growth in new services and the refinancing of our balance sheet, providing greater borrowing facilities on better terms than previously.

I take great pride in your Company's ability to win and successfully implement large Managed solutions contracts for our customers, and to continue to grow our next-generation services. Against the backdrop of a tough and challenging UK business services market, THUS has improved its competitive position and, once again, increased its market share.

In addition to achieving the important milestone of operating profit we returned to positive free cash flow[2] in the second half of the year, after the heavy investment in integration costs and the capital investment in the three major customer projects we announced last year. Indeed, 83% of capital investment this year was focused on customer related activity, up from the 77% I announced last year. All of this bodes well for the future.

In July 2007 we refinanced our balance sheet with a new £110 million, five year facility on favourable terms. Our balance sheet strength, with net gearing at only 6.9%, gives our customers confidence and we maintain a healthy cash balance.

In June 2007 our largest shareholder, United Utilities, successfully disposed of its shareholding in your Company. As a consequence Martin Beesley, the Non-executive Director representing United Utilities, resigned from your Board.

In December 2007, Jo Connell resigned from your Board after seven years of service. Jo was an active and lively member of your Board who took a keen interest in many facets of your Company. Her insights and experience in technology and customer service were greatly valued.

We offer both Jo and Martin our thanks and best wishes for the future.

In November 2007, we were pleased to welcome Alison Wood to your Board. Alison brings a wealth of experience in corporate strategy, government relations and mergers and acquisition activity, and will significantly reinforce our knowledge and expertise in these areas.

It is the energy and initiative of our staff in THUS that provides the fuel for our growth and many achievements. We recognise the challenge in our market and the uncertainty about the UK economy, but we are proud to have committed staff full of enterprise who share our optimism for the future. I offer them all my sincere thanks and congratulations for another successful year.

Philip Rogerson
Chairman

1 Operating loss stated before restructuring costs of £1.6m last year.

2 Operating cash after interest, taxation and capital expenditure.

Philip Rogerson, Chairman (left) and William Allan, Chief Executive (right)

Directors' Report:
Chief Executive's Review

We have the scale and capability to compete and successfully implement large and complex bespoke customer applications.

I was particularly pleased to announce our maiden operating profit for the year at our Preliminary results in May. Our growth in profits has been achieved from our increased market share and improved productivity, validating our strategy to focus on next-generation services in the UK business services market.

The transition from legacy to next-generation services continues and has improved our overall revenue mix. Over 70% of all new major corporate and public sector contracts[1] this year were for next-generation services. These services offer our customers greater efficiency, features and functionality within their businesses. Managed solutions revenue increased by 17% and data services revenue increased by 11%. Although revenue from voice services grew by 11%, we do not expect continued growth in Carrier Pre-Select (CPS) services, since these services will lose traction in the market as customers increasingly embrace Internet Protocol (IP) services and converged solutions.

THUS is strongly positioned. Our consultative engagement with our customers, our understanding of their business and telecommunication needs, and our innovative approach to convergence and service evolution allows us to sustain a competitive edge. THUS has a strong track record of service innovation, and this year has been no exception with fifteen new service enhancements launched to benefit our customers and improve our competitive position.

Our capital investment continues at almost 10% of revenue, with 83% focused directly on customer related activity. This is a higher percentage than last year, reflecting our success in winning larger and more complex Managed solutions customers. Nevertheless, we do not neglect our back office or core network and we have improved the availability on our core MPLS network, and the consistently high levels of service quality we offer.

In addition, we have received ISO/IEC 27001:2005 accreditation for the Information Security Management System supporting our MPLS network. This complements our longer standing ISO 9001:2000 accreditation. These standards give confidence to our customers about the quality standards in our business, and allow us to compete in new business areas.

As we have grown our business, our increased scale has offered new opportunities to improve our operating efficiency and productivity. Revenue grew by 8% this year but our operating costs[2] reduced by 8%. At 14.4% of revenue, our operating costs[2] are now below the level achieved before we made our two acquisitions in 2006, reinforcing the successful integration of Your Communications and Legend Communications into THUS. All of this improves our competitiveness and our ability to further scale our business from new revenue growth.

Our business strategy is sound. We have the scale and capability to compete and successfully implement large and complex bespoke customer applications. We are strongly positioned to benefit as our customers and our industry makes the transition to next-generation services. We have a talented and committed workforce, with an enviable track record on service innovation and enterprise. Although there is uncertainty about the UK economy, the outlook for this financial year is in line with the Board's expectations.

William Allan
Chief Executive

1 Contracts typically covering higher value bespoke sales.
2 Operating costs exclude depreciation and amortisation (including impairment), restructuring costs and other operating income.
3 Operating cash after interest, taxation and capital expenditure.

Key Achievements in 2008

- >70% of contracts signed[1] this year were for next-generation services
- Revenue up 8% with improved mix
- Maiden operating profit delivered
- Significantly improved free cash flow[3]
- Successfully refinanced bank facility to 2012 on more favourable terms
- Increased our market share

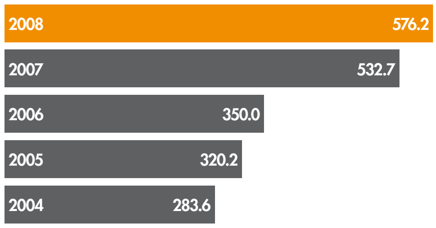
Directors' Report:

Financial Review

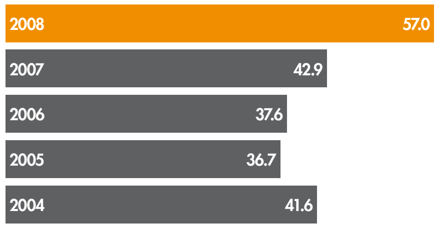
Key Achievements in 2008

- Operating profit delivered
- Third consecutive year of EBITDA[2] expansion
- Revenue up 8% with improved next-generation services' revenue mix
- Free cash flow[3] significantly improved

Revenue[1] £m



EBITDA[1,2] £m



Results

The focus of our performance review is on our continuing operations[1] which are based solely in the UK. Unless otherwise stated, comparatives are against the prior year.

Continuing operations[1]

Revenue increased by 8% to £576.2m (2007: £532.7m). Demand for next-generation services accelerated with revenue for these services increasing by 11% whilst revenue from our legacy services increased by 6%.

Gross profit increased 6% to £95.6m (2007: £89.7m) and gross profit margins were 16.6% (2007: 16.8%). Over 60% of variable gross margin is now derived from next-generation services, up 7% on the prior year.

EBITDA[2] increased by 33% to £57.0m (2007: £42.9m), representing the third consecutive year of expansion, and EBITDA[2] margins improved to 9.9% (2007: 8.0%). Growth in next-generation services variable gross margin contributed £18.8m of the improvement in EBITDA[2] and combined with cost savings (net of other operating income) of £4.3m more than compensated for the decline in legacy variable gross margin of £9.0m.

After depreciation and amortisation charges of £53.0m (2007: £52.4m) the Group delivered its first operating profit of £4.0m for the full year. This compared to an operating loss, before restructuring costs, of £9.5m last year.

Net financing expenses increased by £2.8m to £6.8m (2007: £4.0m).

A tax charge of £3.4m was reported for the year. Last year a tax credit of £69.6m arose due to recognition of the deferred tax asset. As a result, the loss for the year was £6.2m compared to a profit of £54.5m last year.

The deferred tax asset at 31 March 2008 was £56.4m (31 March 2007: £60.6m). The reduction of £4.2m was primarily due to the change in corporation tax rate from 30% to 28%.

Basic loss per share for continuing operations[1] was 3.40p compared to basic earnings per share of 30.29p last year.

Discontinued operations

Discontinued operations represent the results of Demon Netherlands in the current year and prior year.

This year discontinued operations reported a profit of £2.0m principally due to the receipt of a tax refund from the Dutch tax authorities.

Last year discontinued operations' revenue was £3.2m and operating profit was £0.4m reflecting the sale of Demon Netherlands in June 2006. The consideration received for the sale of Demon Netherlands gave rise to a post-tax gain on sale of £29.0m and resulted in a profit for the year of £29.4m.

Basic earnings per share for discontinued operations was 1.09p down from 16.34p last year.

Dividend

The Company has not declared or paid a dividend on its share capital (2007: £Nil). Given the Company's stage of development and the accumulated losses from the network deployment, the Board is not yet able to declare a dividend.

Capital expenditure

Capital expenditure (including expenditure on intangible assets) for continuing operations[1] was £56.5m compared with £59.3m last year. This is equivalent to 10% of revenue compared with 11% last year and is in-line with our stated long-term financial target of approximately 10% of revenue.

Growth related expenditure increased to 83% or £47.0m of the total with £37.5m spent on connecting customers to our network principally to receive next-generation services and a further £4.7m spent to enhance the capacity of our network. Other expenditure was £9.5m and included £4.9m related to the integration of Your Communications and Legend Communications.

Update on integration plan

The integration of Your Communications and Legend Communications has been substantially completed. The remaining activities continue to proceed ahead of original expectations and the company achieved, as previously advised, 90% of the £30m forecast annual synergy savings exiting this year on a run rate basis.

Financial position and capital structure

THUS is funded by equity, together with an element of bank debt and a small amount of finance leases.

Cash flows

EBITDA[2] less capital expenditure was £0.5m (2007: negative £(16.4)m).

Working capital outflows were £3.6m (2007: outflows £5.8m) and together with £4.3m of net interest payments and other movements of £1.4m resulted in a free cash outflow[3] of £6.0m (2007: outflow £25.7m). Free cash flow[3] for the second half of the year improved significantly resulting in an inflow of £6.9m compared to an outflow of £12.9m for the first half.

Other movements in net debt totalled £(0.1)m. As a result, net debt increased by £6.1m from £25.8m at 1 April 2007 to £31.9m at 31 March 2008 with net gearing of 6.9% compared to 5.5% at 31 March 2007.

Credit metrics

	2008	2007
Gross debt: EBITDA[2]	**1.8 times**	1.3 times
Net debt: EBITDA[2]	**0.6 times**	0.6 times
Net gearing	**6.9%**	5.5%
EBITDA: net interest[2,4]	**8.3 times**	11.5 times

With the capital structure representing the financial foundations of the business, THUS has taken a conservative stance to funding. Net gearing was 6.9% at 31 March 2008 (31 March 2007: 5.5%). Our financial position remains strong with net debt to EBITDA[2] of 0.6 times and EBITDA[2] net interest[4] cover of 8.3 times for continuing operations.

With the capital structure representing the financial foundations of the business, THUS has taken a conservative stance to funding. Net gearing at the year end was below 7%.

Equity

THUS had approximately 183.03m ordinary shares in issue at 31 March 2008 (31 March 2007: 183.03m) and a market capitalisation of £218m (31 March 2007: £337m).

In June 2007, United Utilities sold its entire 22.63% holding in THUS.

At 31 December 2007, the contingent consideration that was potentially payable to United Utilities for the purchase of Your Communications in February 2006 expired. This was payable in shares, dependant on the level of the THUS share price. No additional contingent consideration became payable between 1 April 2007 and 31 December 2007 and consequently the value of goodwill recorded on the balance sheet was reduced by £7.3 million to reflect the lower than estimated overall cost of the acquisition, with a corresponding adjustment to balance sheet reserves.

The Employee Share Trust purchased £1.2m of THUS shares during the year. The number of own shares held by the Trust at 31 March 2008 was 1.6m (2007: 0.9m).

Further details on the issued share capital and shares held by the Trust is included in Notes 27 and 28 to the Consolidated Financial Statements.

Cash balance

The cash balance at the end of the year was £71.6m. The balance is more than adequate to meet working capital needs for the foreseeable future.

Bank debt

Following an extensive evaluation of financing options the Group refinanced its existing bank facility in July 2007 with a new five year facility. The renegotiation of the facility on more favourable terms than the existing arrangements demonstrated the increased strength and capability of our business.

As at 31 March 2008, THUS had total indebtedness of £103.5m (31 March 2007: £57.1m), comprising £100.0m of bank debt and £3.5m of finance leases.

THUS' main bank debt is governed by standard banking covenants relating to the ratio of total net debt to EBITDA and interest cover, with interest charged in a range from LIBOR plus 0.75% to 1.75%, depending on the ratio of total debt to EBITDA. The bank debt is repayable in full in 2012. Further detail is included in Note 23 to the Consolidated Financial Statements.

Working capital

THUS has a strong track record in management of working capital, and successfully integrating the two acquisitions presented further opportunities to reduce debtor days of 44 at 31 March 2007 to 40 at 31 March 2008.

Summary

Demand for our next-generation services accelerated this year and resulted in an improved revenue mix, our third consecutive year of EBITDA[2] expansion and our first full year of operating profit. We retain a strong balance sheet, with low levels of net gearing, and returned to positive free cash flow[3] in the second half of the year. The outlook for this financial year is in line with the Board's expectations.

John Maguire, Chief Financial Officer

1 Continuing operations exclude the results of Demon Netherlands, Contact Centre and Interactive for all years.

2 Earnings before interest, tax, depreciation (including impairment) and amortisation (EBITDA) is stated before restructuring costs of £1.6m in 2007 and £8.8m in 2006.

3 Operating cash after interest, taxation and capital expenditure.

4 Interest excludes loan costs written off, loan amortisation costs and net interest associated with the THUS pension scheme.

Financial data for the charts on page 14 is prepared under IFRS for 2005–2008 and UK GAAP for 2004.

Directors' Report:

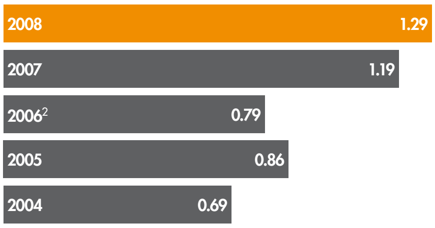
Measuring our Success

Performing

Achieving a successful financial performance relies on the business achieving growth, minimising cost of sales, driving scale efficiencies, targeting incremental investment to support growth over the core backbone network and maintaining high standards of quality. To ensure overall progress, THUS targets initiatives in each of these key areas and tracks performance to measure success.

	Long-term Targets	Actual Performance 2008
Revenue: Asset Turnover	1.5-2x	1.29x
Profitability: EBITDA as % of Revenue	>20%	10%
Efficiency: Operating Costs as % of Revenue	15-20%	14%
Investment: Capital Investment as % of Revenue	c.10%	10%
Network Performance: Availability	99.95%	>99.95%

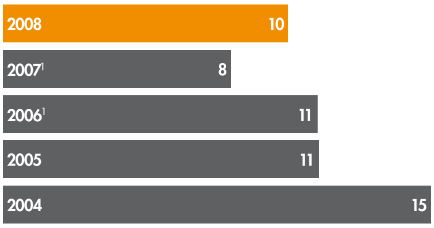
Asset[1] Turnover



1 Represents property, plant, equipment and intangible asset balances.

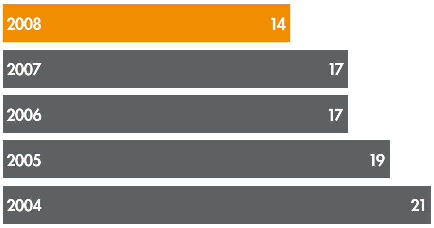
2 2006 included only one month of revenue for the acquisitions.

Profitability – EBITDA % margin



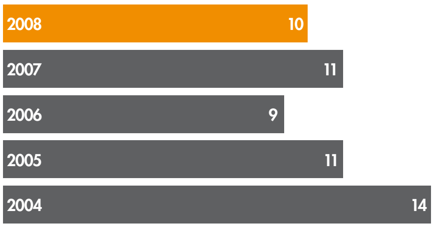
1 Excludes restructuring costs.

Efficiency – Operating Costs[1] %



1 Operating costs exclude depreciation and amortisation (including impairment), restructuring costs and other operating income.

Capital Investment – % of Revenue



Growth

THUS must continue to build market share successfully in order to meet our longer-term objectives. Based on continuing operations[1] revenue growth, THUS improved its estimated market share from approximately 7.6% to approximately 8.7% during the year, reflecting our success in winning new business. This resulted in an increase in the ratio of continuing operations[1] revenue to assets[2] from 1.19 to 1.29 times, compared with our long-term target of 1.5 to 2.0 times.

Cost of sales

Although network reach is extensive, it is not economically feasible to carry all customers' traffic end-to-end and payments to other operators, for customer connection and service interconnect are the largest component of our cost of sales.

Since flotation, THUS has made successive improvements to contain the increase in payments by increasing interconnect points with other operators, improving traffic routing across the network and participating in a wholesale market for the provision of last mile access.

The integration of the THUS network with those of the companies acquired in 2006, particularly that of Your Communications, has delivered further network efficiencies.

Scale efficiencies

This year in continuing operations[1], EBITDA: Revenue improved to 10% (2007: 8%), reflecting the benefits achieved from our increased scale and the successful delivery of the planned savings from the integration activities surrounding the acquisition of Your Communications and Legend Communications. The successful integration has also resulted in an improvement in our operating costs[3], expressed as a percentage of revenue, which fell to 14% of revenue.

Investment

Capital investment was 10% of continuing operations[1] revenue (2007: 11%), broadly in line with our long-term target of approximately 10% of revenue.

In the year under review, growth-related expenditure was £47.0m or 83% of the total and was primarily focused on customer connections and further capacity enhancements to our network. Other expenditure was £9.5m and included £4.9m related to the integration of Your Communications and Legend Communications.

Quality

During the year, we received the ISO/IEC 27001:2005 certification for our Information Security Management System supporting our MPLS network. Achievement of this accreditation demonstrates that robust and adequate controls to address confidentiality, integrity and availability of information are in place to safeguard the information of customers, stakeholders and trading counterparties.

In 2003, THUS also achieved ISO 9001:2000 accreditation which certifies our processes to international quality standards and is subject to independent audit twice a year.

Customer satisfaction

Our existing customer satisfaction programme has continued to be extended over the past year and now covers all of our products and services. Our ongoing roll-out of surveys will enable us to give all of our customers the opportunity to provide feedback on the products and services we provide.

Network performance

Availability on the core Multi-Protocol Label Switching (MPLS) network was consistently above our 99.95% target throughout the year, enabling THUS to manage sharply increasing volumes of MPLS traffic securely for our customers.

1 Continuing operations exclude Demon Netherlands, Contact Centre and Interactive for all years.

2 Represents property, plant, equipment and intangible asset balances.

3 Operating costs exclude depreciation and amortisation (including impairment), restructuring costs and other operating income.

Financial data for the charts above is prepared under IFRS for 2005–2008 and UK GAAP for 2004. All data relates to continuing operations.

Directors' Report:

Other Financial Issues

The preparation of the Group's financial statements requires the Directors to exercise their judgement. Accounting estimates, assumptions and judgements are evaluated to ensure they remain appropriate.

Accounting estimates and judgements

Critical accounting judgements in applying the Group's accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires the use of accounting estimates and assumptions. It also requires the Directors to exercise their judgement in the process of applying the Group's accounting policies. Estimates, assumptions and judgements are evaluated based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity which have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities are described below.

Revenue

The Group earns revenue from a number of different products and services, some of which are delivered under bespoke contracts. In applying the Group's accounting policies in respect of revenue recognition, a significant degree of judgement and estimation may be required in interpreting contracts and estimating values to be used in calculating revenue and associated costs in each accounting period.

Interconnect income and payments to other telecommunications operators

In certain instances THUS relies on other operators to measure the traffic flows interconnecting with our networks. Estimates are used in these cases to determine the amount of income receivable from, or payments we need to make to, these other operators. The prices at which these services are charged are often regulated and are subject to retrospective adjustment and estimates are used in assessing the likely effect of these adjustments.

Providing for doubtful debts

THUS provides services to substantially all customers on credit terms. Certain debts will not be paid through the default of a small number of customers. Estimates, based on our historical experience, are used in determining the level of debts that will not, in the opinion of the Directors, be collected. These estimates include such factors as the current state of the UK economy and particular industry issues.

Useful lives for property, plant and equipment

The plant and equipment in THUS' networks are long-lived with cables and switching equipment operating for over ten years, and underground ducts being used for decades. The annual depreciation charge is sensitive to the estimated service lives allocated to each type of asset. Asset lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned.

Asset impairment

Goodwill is tested annually for impairment. In addition, impairment tests are performed on an annual basis where there is an indication that impairment may exist. In performing these impairment tests management's judgement is required in preparing future cash flow projections, and then assessing an appropriate discount rate to be applied to these cash flows.

The cost of capital used to discount pre-tax cash flows can have a significant effect on the calculation of the recoverable amount.

The cost of capital which is expressed as a percentage is derived from the Group's post-tax weighted average cost of capital.

Future cash flows are based on cash flow projections for ten years with cash flows in the first five years based on approved forecasts which are then extrapolated in perpetuity using a nominal long-term growth rate. As future cash flows may deviate to some degree from forecasts, the results of the impairment review are sensitive to such changes. Further details are contained within Note 3 to the Consolidated Financial Statements – 'Impairment'.

Property arrangements

Our property rationalisation programme has continued to mitigate surplus property liabilities over the last 12 months with some notable successes. The programme is ongoing. However, in the current economic environment it is recognised that it will take further time to mitigate the surplus liabilities. In addition, vacant property Empty Rates relief in England and Wales will also be more limited from April 2008 onwards. Estimates have been made as to the cost of vacant properties and any shortfalls arising from the sublease rental income being lower than the principal lease liability borne by THUS. Any such costs or shortfalls have been recognised as a balance sheet provision.

Deferred tax

Management judgement is required when assessing the extent to which deferred tax assets should be recognised, with consideration given to the timing and level of future taxable income. The recognition of the deferred tax asset on the balance sheet in 2007 reflected the increased momentum in the operating performance of the business and the delivery of the majority of the integration programme relating to the acquisitions in 2006. Further details are contained within Notes 13 and 26 to the Consolidated Financial Statements.

Post-retirement benefits

The Group's defined benefit pension scheme is assessed annually in accordance with IAS 19. An independent actuarial valuation of the defined benefit pension scheme funding was completed in the previous financial year. The size of any surplus or deficit is sensitive to the market value of the assets held by the scheme and to actuarial assumptions, which include price inflation, pension and salary increases, the discount rate used in assessing actuarial liabilities, mortality and other demographic assumptions and the levels of contributions. With reference to the discount rate used, IFRS, as adopted by the EU, requires this to relate to high-quality bond yields.

The defined benefit pension scheme possessed assets of £79.1m and liabilities of £75.3m, resulting in a surplus of £3.8m at 31 March 2008 (31 March 2007: £0.8m). The defined benefit pension scheme sensitivities table below highlights the impact that changes in longevity assumptions and discount rates may have on the reported surplus. Further details are included in Note 31 to the Consolidated Financial Statements.

	£m
1 year change in longevity assumptions	**1.4**
0.1% change in discount rate	**1.8**

Source: Company's Independent Pension advisors

Treasury policies and objectives

THUS' treasury policy aims to minimise the use of complex financial instruments and manage cash to meet the needs of a tightly managed trading company and conservative balance sheet. Within this framework, specific consideration is given to managing financial risks arising from limited foreign currency exposure with supplier payments in US Dollars and Euros and exposure to changes in interest rates on our bank loans. With respect to the bank loans further detail is contained within Note 24 to the Consolidated Financial Statements – 'Interest rate risk'.

Tight control exists over treasury activities, with any non-standard instruments requiring approval from the Chief Financial Officer or Board, depending on their nature. THUS has no off-balance sheet financing or special purpose vehicles, and treasury activities are not run as a profit centre.

Creditor payment policy and practice

The Group's current policy concerning the payment of the majority of its trade creditors is to follow the Better Payment Practice Code. Copies are available upon request from the Company Secretary. For other suppliers, the Group's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts, and to pay in accordance with its contractual and legal obligations. The Group's 'creditor days' at 31 March 2008 were 44 days. The Company did not have any trade creditors at 31 March 2008.

Repurchase of shares

Resolution 9 to be proposed at the Annual General Meeting seeks authority for the Company to repurchase its own shares. Any such repurchase will have to be financed out of distributable reserves.

Currently the Company has a deficit on its distributable reserves. The Company is in the course of examining whether or not, through an internal re-organisation, the deficit can be eliminated.

Any such re-organisation will require the consent or approval of certain third parties, including the Court and the Company's banks. Currently, it is not possible to state with complete certainty whether or not the proposed internal re-organisation will be completed.

Directors' Report:

Principal Risks and Uncertainties

Quarterly reviews have been carried out by the Risk Management Group to ensure this is a continuous process which is embedded in our business culture.

Directors' policies for managing principal risks

There is a process for identifying, evaluating and managing significant risks faced by the business. Through 'Acertus Governance' software, risk reviews are undertaken regularly by the respective business areas throughout the year to identify and assess key risks associated with the achievement of our business objective. This software requires risk owners to regularly monitor and review risks and associated controls and action plans, to evidence the management of principal risks within the Group.

Quarterly reviews have been carried out by the Risk Management Group to ensure this is a continuous process which is embedded in our business culture. All aspects of business risk, such as strategic, operational, commercial, financial, compliance and business continuity risk are covered by the risk assessments. The Internal Audit function provides independent assurance to the Directors on the controls applied to mitigate key business risks. The quarterly reviews are reported to the Audit Committee and consequently to the Board.

The risks identified and discussed within this section are not an exhaustive list of the risks faced by the business, but are considered by management to be some of the principal risks. Our aim is to manage and control identified risk through our established processes but risk cannot be eliminated completely.

The main identified strategic risks are:

Market structure, industry economics and investor confidence

The UK fixed line telecommunication market is characterised by over-investment in infrastructure and networks to supply traditional telecommunication services. This has created a challenging and competitive landscape in which price competition for traditional fixed line telecommunication services has been intense, making it difficult for any individual provider to gain scale and deliver meaningful returns. More generally, unfavourable economic conditions in 2007/08 have also impacted telecommunications, along with other sectors.

Several risks can arise as a consequence, including possible reductions in share price. THUS has a limited ability to control these risks directly; however, we have an active programme of engaging with key stakeholders and the City. Our focus on creating value for customers through early investment in a next-generation network and our product and service portfolio, has positioned us to deliver growth in a challenging market and economy.

Regulation

The Group operates in a highly regulated environment, although the focus of much of the regulation is on companies with 'significant market power', such as BT. Ofcom holds powers to set and amend regulations for the industry and to impose sanctions, including financial penalties. Ofcom has laid down a number of 'General Conditions of Entitlement' which apply to all companies providing publicly available electronic communications services in the UK. Our business operates within this regulatory environment and we actively work with the regulator, contributing to various industry and government forums and debates in order to influence regulatory outcomes.

BT's next-generation network

BT is consulting on access and interconnect arrangements between itself and other operators in relation to its '21st Century Network' programme (the migration of existing, multiple service-specific networks to a single converged next-generation network). As BT is by far the largest fixed line operator in the UK, this move impacts all other operators and brings potential operational and commercial risks. We are actively involved in various working groups on this topic such as the Consult21 Steering Board and the Ofcom body, NGNuk. We anticipate that in respect of many of the new interconnection products, BT will be designated by Ofcom as having 'significant market power' and therefore be subject to regulation. The programme, however, continues to experience delays.

Notably, we already have our own next-generation network in place, having invested in network and service capability to evolve our services, and so maximise the opportunities from this development.

BT

We continue to monitor the performance of BT as our main supplier, and in particular, BT Openreach. There is a potential risk that service delivery to our customers is impacted by poor supplier performance. Control measures include continual supplier engagement and active lobbying of the regulator in order to mitigate this risk.

The main identified commercial risk is:

Delivering growth

There is always an element of risk associated with growing a business within a market undergoing profound change. Sales management monitors the effectiveness of leads into our sales pipeline and corresponding conversion rates. The forecast level of sales and other factors required to achieve targets are also examined regularly. Regular reporting within the Group identifies levels of margin at risk in order that appropriate action can be taken.

The main identified operational risks are:

Maintaining access to the network

We are reliant on our IT systems and maintenance of network integrity, quality and availability is a significant operational risk due to the impact on our customer delivery. For this reason, business continuity is of major importance to THUS and our customers. Our platform availability is closely monitored on an ongoing basis.

Meeting customer expectations

The business strives to continually meet and exceed agreed levels of service. Failure to do so could impact customer satisfaction levels affecting future sales, financial performance and possibly brand reputation. Customer satisfaction levels are regularly measured and reported on by our Customer Services function. Moreover, in demonstrating our commitment to quality, the business has been certified for a number of years to the ISO 9001:2000 standard. In 2007/08, the business has increased its portfolio of recognised accreditations with the addition of the International Information Security Standard ISO/IEC 27001:2005, for its MPLS network.

The main identified people risk is:

Recruiting, retaining and training employees

Recruiting and retaining appropriate employees can also impact business performance. The Human Resources department implements policy and procedures in this respect, including family-friendly policies, employee benefit initiatives and salary benchmarking. Our 2007 Employee Survey results were very encouraging, particularly in the areas of employee retention and satisfaction.

We must also ensure that our employees receive appropriate training to safeguard excellent service and delivery to our customers. Training requirements are identified through regular appraisals carried out by line managers and our training processes are assessed as part of our Investors in People accreditation.

The main identified financial risks are:

Bank covenants

THUS has a £110m bank facility. The loan is used for general corporate purposes including working capital requirements. Our bank debt is subject to two standard EBITDA-related covenants. While headroom in reporting against these covenants is considered more than adequate, the risk and corresponding cash levels are closely monitored and reported on to ensure that any risk of covenant breach is mitigated.

Billing

The risk of inaccurate billing is heightened in the telecommunications industry due to complex pricing structures. THUS management has implemented several controls to minimise this risk. Our commitment to accurate billing can be demonstrated via our Ofcom Metering and Billing Scheme Approval for our THUS branded switched telephony products.

Pensions

Current legislation requires pension shortfalls in respect of final salary pensions to be funded fully in cash. There is a risk that due to economic and social factors (which are largely outside the control of the Company) pension liabilities increase. Asset and liability levels are therefore closely monitored by both the Company and pension Trustees to ensure proactive decision making is implemented as required.

Directors' Report:
Employees

Our culture
We place a strong emphasis on creating a positive working culture, encouraging a clear understanding of our objectives and key business imperatives. Our talented and skilled employees underpin our ability to deliver innovative telecommunication services that bring value to our customers' business operations.

The enthusiasm, flexibility and continued development of our employees remain vital to achieving our overall objectives and we continue to invest in training and development to enhance their skillbase. Providing our employees with the resources they require to maximise their performance and drive business growth remains a priority. Our objective is to ensure measures are in place to retain and develop our employees while, at the same time, attracting talented individuals to join our organisation.

Maximising our people performance
At THUS, we encourage, value and reward superior performance. The performance of employees is measured against clear, business-focused objectives and through our 'Windmills' performance appraisal process. This is supported by an on-going programme of two-way communication, including a quarterly one-to-one process which ensures that qualitative discussions are taking place with employees at regular intervals throughout the year.

Developing our people
We are focused on developing employee skill levels and a strong corporate culture, which best facilitate growth, superb customer service and cost competitiveness, all aimed at enhancing sustainable growth in shareholder value.
The capability, performance and commitment of our employees remain key factors in our ability to grow our business in the competitive market in which we operate. We have a highly qualified workforce, with our recent employee survey indicating that over 60% of our employees have degrees, and/or professional qualifications.
Investment in training and development of our employees continues and our open learning facility, which is available to both employees and their families, continues to be well used.

At THUS, we are keen to develop the careers of our employees. During the past financial year, 35% of new positions within the Company have been filled by internal applicants, giving many employees the opportunity to broaden their skills and further develop their careers within our Company.

Growing our talent
We place a strong emphasis on continuous professional development. We believe that this is vital to attracting and retaining the highest calibre people. We have a number of ways of doing this:

Graduate & apprenticeship programme
We have an established Graduate programme which provides participants with experience, exposure and education through a series of placements, work experience rotations and further education. This programme is aimed at continually growing our talent pool.

During 2008, we are launching a new initiative to introduce apprentices to our Company. The successful candidates will be given the opportunity to learn 'on the job' across a number of business areas and will be mentored by our own employees.

Undergraduate sponsorships
This year, in addition to recruiting graduate trainees into our business, we are also sponsoring ten undergraduate students from The University of Greenwich. This sponsorship allows these students to undertake their chosen studies without the financial pressures which might impede their effective learning.

In addition, we also have a number of other educational programmes in place, including sponsoring university placement students for CISCO course graduates to undertake six week placements within our organisation, helping the students to develop their skills and our Company to develop potential talent. We are delighted that several of these students have subsequently been employed by the Company.

Talent management
In 2007, we launched our 'Talent Spotting' programme which involved a rigorous application process, internal and third-party recommendations and a series of assessment exercises. The programme successfully identified high potential employees who have now embarked on personalised development programmes.

Our Talent Spotting programme is designed to help high calibre employees make a valued and lasting contribution to the Company's success, whilst enhancing their personal and leadership skills.

Investors in People
Our commitment to our employees is endorsed by our Investors in People accreditation. We value this accreditation as it is a highly effective tool which focuses on training and developing our employees to achieve our business objectives.

Reward
The performance of managers and senior professional staff is linked to the Group's financial results by way of a bonus scheme which has targets linked to revenue, EBITDA and cash flow. Reward has an important role to play with regard to employee retention and we continue to carry out annual benchmarking comparing employee salaries against the market. To allow flexibility and the ability to react to changing market conditions, salaries are reviewed quarterly to ensure remuneration is appropriate to retain high-quality employees.

For sales staff, commission schemes are based on billed revenue, with a weighting to increase reward for the sale of services with higher profit margins and next-generation services. This commission scheme is designed to focus sales staff on value creation for our customers and shareholders.

The Group has offered all employees access to an annual Sharesave scheme during 2007/08 which allows them to save and buy shares in the Company at a discounted rate thereby sharing in any increase in the share price over the savings period. The Group Personal Pension (GPP) plan matches employee contributions up to 6% affording employees the opportunity to build meaningful pension provisions for the future while strengthening our ability to attract and retain quality employees.

During 2007/08, we launched U@THUS reward, an on-line benefits programme for all THUS employees. This programme affords employees the opportunity to purchase additional benefits to suit their lifestyle, wherever possible, taking advantage of the Inland Revenue approved 'salary sacrifice' scheme which results in tax and national insurance savings for both employees and the Group. Examples of benefits on offer under the scheme include childcare vouchers, health screening and tax free bicycles.

Communication and consultation

At THUS, we encourage communication and employee involvement through our elected employee forum, Xchange. This forum allows THUS to share business information with employees, encouraging an awareness of the financial and economic factors affecting the Group and, importantly, takes account of employee views and feedback when planning change. This employee forum, which meets every two months, is integral to facilitating the smooth path of business development and evolution.

Equal opportunities

THUS is committed to promoting equal opportunities for all of our employees. Our policy in respect of employment of disabled persons is the same as that relating to all other employees in matters of training and career development. Where employees become disabled during the course of their employment, we make every effort to make reasonable adjustments to their working environment to enable their continued employment.

Talented

Our talented and skilled employees underpin our ability to deliver innovative telecommunication services that bring value to our customers' business operations.

Directors' Report:

Environment and Community

Corporate Social Responsibility

At THUS, we are committed to Corporate Social Responsibility (CSR) and we have policies in place to ensure that we operate in a safe, ethical and responsible manner which protects the environment as well as safeguarding the health and safety of our employees, customers and the communities in which we operate.

Our CSR steering group manages our activities and is drawn from several disciplines across the Group. The committee meets regularly and reports to the Management Board on progress.

We are a member of Scottish Business in the Community and benchmark ourselves against other companies.

Safety, health and environment

The commitment and participation of all employees is vital to the efficient and effective implementation and control of our safety, health and environmental management systems. In order to meet our responsibility to protect the environment, employees and the business, THUS continues to focus on enhancing our existing safe working practices and the production of a robust risk management strategy that will eliminate operational hazards or minimise the risks incurred. Our performance reflects the success of this approach. The total number of internally recorded accidents remains very low, with a monthly average of 1.1. One accident has been reported to the enforcing authority as a '3 day accident'.

Improvements have been introduced to report key health and safety performance indicators to the Board with both reactive and proactive information being provided. This ensures the timely identification and prioritisation of performance trends.

Significant elements of our safety, health and environmental management systems' documentation have been revised to ensure that a single set of policies and procedures is adopted. A range of supporting documents and templates has been produced to assist managers with assessment, planning and monitoring activities.

The communication of safety, health and environment information to managers and employees continues to improve, with the addition of a designated Environmental Forum that complements the existing Safety and Health forums. This provides a basis upon which to develop our high standards.

Environmental management

To enhance our environmental management systems, a set of standards has been produced. We continue to work on ways to reduce our impact on the environment, the main focus being on energy conservation and the use of renewable resources, the reuse and recycling of waste electrical equipment, a reduction in general waste going to landfill, and the effects on the environment from travel. This year we generated 60,008kg of waste electrical equipment, 98% of which was reused or recycled.

Energy

With a commitment to reducing our impact on the environment, 98% of the electricity supply points were provided with a source of renewable energy this year.

Achievements

In recognition of our commitment to the management of Safety and Health we have been awarded The Royal Society for the Prevention of Accidents (RoSPA) Bronze Award. This is the first phase of a 5 year plan to obtain a RoSPA Gold Award. This achievement forms an integral part of a phased approach to gaining the Occupational Health and Safety Assessment Series (OHSAS) 18001:2007 accreditation.

We have also committed to achieving the International Organisation for Standardisation (ISO) 14001:2004 accreditation for our Environmental Management System. The implementation of the two standards will enable THUS to control its Occupational Health, Safety and Environmental risks and improve on our performance.

Community relations

Across the Group, we place strong emphasis on our charitable and community activities. We are keen to play an active role in the communities in which we are based and we actively encourage employees to participate in community relations activities.

Charitable and political donations

Following the share consolidation in March 2006, the fractional share entitlements were sold, raising net proceeds of approximately £274,000. The Directors' aim was to apply these proceeds for gifts or donations to a range of worthy causes and a number of initiatives are underway throughout the UK. During the year, the Group made the following charitable donations: £2,500 to the Victim Support Sunrise Appeal; £3,000 to the Scottish Outward Bound Association; £4,400 to Manchester Children's Hospital and £30,000 to the University of Greenwich. The Group made no donations for political purposes.

Outward Bound Trust

The Outward Bound Trust is an educational charity which inspires young people from all walks of life to fulfil their potential through challenging outdoor experiences, raising self-esteem and preparing them to face the future with confidence. THUS provides financial assistance in the form of bursaries for young people from disadvantaged backgrounds who would not normally have access to, or be able to afford, an outward bound course. During 2007/08, we helped over 150 children from schools across Scotland, Manchester and London.

During this year, our employees also took part in the Scottish Outward Bound Association (SOBA) challenge. SOBA is an educational charity offering professional team-building courses which also helps to further fund the Outward Bound Trust courses for disadvantaged young people, while developing the team-building and leadership skills of our employees.

The Emmaus Foundation

THUS has a long-established relationship with Emmaus, which is a self-help and self-supporting enterprise offering unemployed and homeless people opportunities for work, companionship and the chance to regain self-respect through their own efforts. The charity enables people to move on from their homelessness, providing work and a home in a supportive, family environment. Companions, as residents are known, work full-time collecting, renovating and reselling donated furniture. This work supports the community financially and enables residents to develop skills and rebuild their self-respect. All Companions share a commitment to rebuilding their lives and participating in the life and work of the communities around them.

Other charities

During the year, THUS continued to support a number of other charitable and educational causes, including The United Kingdom Telecommunications Academy (UKTA), a charity which helps to support and educate students from the developing world on how to create and regulate successful telecommunications. We also give financial assistance in the form of providing free telephone lines in support of Women's Aid and their Domestic Abuse Campaigns.

The Company also operates a charity matching scheme for employees' personal charitable and community relations activities. This included donations to Cancer Research, MacMillan Cancer Support and Marie Curie Cancer Care of £250 each.

Respect

THUS is committed to ensuring we are a 'good neighbour' and making a genuine contribution to the communities we serve.

Directors' Report:
Board of Directors

Non-executive Directors

1 Philip Rogerson
Philip Rogerson (63) was appointed Chairman of THUS on 1 September 2004. Mr Rogerson is also Chairman of Aggreko plc, Carillion plc and Northgate plc, and a Non-executive Director of Davis Service Group plc. From 1992 to 1998 he was Finance Director and subsequently Deputy Chairman of BG plc. He spent his early career with ICI in a variety of roles, latterly as General Manager Finance.

2 Ian Chippendale
Ian Chippendale (59) was appointed as a Non-executive Director of THUS on 15 October 1999. Mr Chippendale was Chairman of RBS Insurance until December 2006, having previously been Chief Executive of Direct Line Group Limited. Prior to joining Direct Line in 1996, Mr Chippendale was Chief Executive of Privilege Insurance from 1994 and before that he was a Director of Provident Financial plc. He is also a Non-executive Director of Homeserve plc and Transatlantic Holdings Inc.

3 Rick Medlock
Rick Medlock (47) was appointed as a Non-executive Director of THUS on 7 November 2006. He is Chief Financial Officer of Inmarsat plc, the mobile satellite services company providing voice and data communications to industrial, government, military and aid organisations worldwide. Prior to joining the Board of Inmarsat in September 2004, he served as Chief Financial Officer and Company Secretary of NDS Group plc for eight years. Mr Medlock previously served as Chief Financial Officer of several private equity-backed technology companies in the UK and the USA. He is a Fellow of the Institute of Chartered Accountants of England and Wales.

4 Alison Wood
Alison Wood (44) was appointed as a Non-executive Director of THUS on 1 November 2007. She joins National Grid as Global Director of Strategy & Business Development in June 2008. Prior to this she was Group Strategic Development Director at BAE Systems, reporting to the Chief Executive, and responsible for corporate strategy, and mergers and acquisitions including supporting the board's annual strategic review of the group. She joined BAe in 1991 and has held a range of strategy, mergers and acquisitions, and government interface roles, most recently as Group Managing Director of NITEworks, a joint programme with the Ministry of Defence and nine defence companies to set up new battlefield simulation capabilities. Her career prior to BAe was in consulting, at Outram Cullinam & Company from 1989 to 1991 and Booz Allen & Hamilton from 1985 to 1987. She is also a Non-executive Director of BTG plc.

Executive Directors

5 William Allan

William Allan (54) is Chief Executive of THUS. He joined a predecessor company in December 1998 as Chief Operating Officer and was appointed Managing Director in February 1999. Mr Allan has more than 25 years' experience in the telecommunications industry. In 1997, Mr Allan was appointed Chief Executive of Cable & Wireless Regional Businesses. He was a Director of Telecommunications of Jamaica, Entel Panama, the Barbados Telephone Company and the Barbados External Telecommunications Company. Between 1995 and 1997, Mr Allan was Regional Director for Cable & Wireless North East Asia Region, President and Representative Director of Cable & Wireless Japan, and Chairman of Cable & Wireless Communications Services Limited (Japan). He was also a Director of International Digital Communications (IDC Japan), Sakhalin Electrosvyaz, Sakhalin Telecom, Sakhalin Telecom Mobile and Nakhodka Telecom.

6 Philip Male

Philip Male (41) is Chief Operating Officer. He joined a predecessor company originally as Technical Director of Demon Internet Limited in October 1997. Mr Male has previous experience as Technical Director of Computer Newspaper Services and PA Data Design, part of the Press Association Group, and has held the positions of Head of Research and Development and, prior to joining Demon, Director of Strategic Research with the Press Association Group. With advanced knowledge of data networking technologies, programming languages and operating systems, Mr Male has been involved in the development of Internet services in the UK since 1990.

7 John Maguire

John Maguire (42) a Chartered Accountant, joined THUS as Chief Financial Officer in December 2000. Prior to joining THUS, Mr Maguire was Vice President Finance (Japan and Asia) for Cable & Wireless Global. This included leading the finance team in Cable & Wireless IDC, Japan's second-largest international carrier. Mr Maguire has extensive financial and international telecommunications experience, having held a number of other key financial positions within the Cable & Wireless Group since 1991, including that of Regional Finance Director of Cable & Wireless Asia Pacific, based in Singapore.

Audit Committee

Rick Medlock, Chairman
Ian Chippendale
Jo Connell (resigned 31 December 2007)
Alison Wood (appointed 16 November 2007)

Remuneration Committee

Ian Chippendale, Chairman
Jo Connell (resigned 31 December 2007)
Rick Medlock
Alison Wood (appointed 16 November 2007)

Nomination Committee

Philip Rogerson, Chairman
William Allan
Ian Chippendale
Jo Connell (resigned 31 December 2007)
Rick Medlock
Alison Wood (appointed 16 November 2007)

Senior Independent Non-executive Director

Ian Chippendale

Directors' Report:
Other Information

Names and details of directors
The names and details of the Directors of the Company who served during the year are shown on pages 26 and 27. Jo Connell and Martin Beesley also served as Directors during the year, resigning as Directors with effect from 31 December 2007 and 25 June 2007 respectively.

Directors' interests
Details of the Directors' service contracts, letters of appointment and remuneration are set out in the Directors' Remuneration Report on pages 32 to 36. Other than as disclosed therein, or in the Corporate Governance Report on page 29 in relation to Martin Beesley or in Note 35 to the Consolidated Financial Statements on pages 65 and 66 in relation to related party transactions, none of the Directors had a material interest in any contract of significance with the Company and its subsidiaries during or at the end of the financial year. The Directors' interests in the shares of the Company at the year end are contained in the Directors' Remuneration Report on pages 32 to 36.

Indemnification arrangements for Directors and Officers
Article 158 of the Company's Articles of Association grants, subject to the provisions of the Companies Acts, but without prejudice to any indemnity to which a Director might otherwise be entitled, an indemnity to any Director or other officer of the Company against any liability incurred by him in defending any proceedings relating to the affairs of the Company in which judgement is given in his favour.

In addition, the Company may purchase and maintain for any Director or other officer or auditor, insurance against any liability incurred in the execution of his duties and the Company does maintain appropriate insurance cover against legal action brought against its Directors and officers and the Directors and officers of its subsidiaries.

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

Statement as to disclosure of information to auditors
The Directors who held office at the date of the approved Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting
The Annual General Meeting will be held at the Radisson SAS Hotel, 301 Argyle Street, Glasgow, G2 8DL on Thursday 31 July 2008 at 11.00 am. Details of the resolutions to be proposed at the Annual General Meeting are contained in the Notice of the Annual General Meeting on pages 69 to 71.

This Directors' Report on pages 12 to 28 was approved by the Board of Directors on 20 May 2008 and was signed on its behalf by

David Macleod
Secretary
20 May 2008

Corporate Governance:
Corporate Governance Report

The Board sets the policy to be followed by the Group and continues to be committed to high standards of corporate governance. The Group has complied with the requirements of the Combined Code in respect of the financial year ended 31 March 2008 except that the Senior Independent Non-executive Director has not during the year attended, in accordance with the Combined Code (provision D.1.1), meetings with a range of major shareholders of the Group as explained in the section headed 'Relations with shareholders' on page 30.

Board of Directors

The separation of the roles of the Non-executive Chairman and the Chief Executive ensures that there is a well established division of authority and responsibility at the most senior level within the Group. The Chairman leads the Board in the determination of its strategy and achievement of its objectives. The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. The division of responsibilities between the Chairman and Chief Executive is set out in writing and has been agreed by the Board. During the year, the Board comprised a Non-executive Chairman, three Executive Directors and four Non-executive Directors until the resignation, with effect from 25 June 2007, of Martin Beesley as a non-independent Non-executive Director in accordance with the terms of the Relationship agreement between the Company and United Utilities plc following the disposal by United Utilities of its shareholding in the Company. The Board then comprised three Non-executive Directors (all of whom were considered to be independent by the Board) in addition to the Chairman and the three Executive Directors. Alison Wood was then appointed to the Board as an independent Non-executive Director with effect from 1 November 2007 and Jo Connell retired from the Board as an independent Non-executive Director, her resignation from the Board being effective from 31 December 2007.

The Non-executive Directors are from varied business and other backgrounds. Biographies of all the Directors are set out on pages 26 and 27, including details of professional and business commitments of a significant nature. Induction is provided for all new Directors which is tailored to their specific requirements and includes meetings with senior management, site visits to business locations and provision of key documentation and information. Continuing development is provided through presentations and briefing materials in relation to the Group in the course of regular Board and Committee meetings and also by external sources such as attendance by Directors at seminars conducted by the Company's professional advisors and other recognised bodies.

The Non-executive Directors are considered by the Board to be independent and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

All of the Non-executive Directors have held office throughout the year, with the exception of Martin Beesley who resigned from the Board on 25 June 2007, Jo Connell who resigned from the Board on 31 December 2007 and Alison Wood who was appointed to the Board on 1 November 2007. Executive Directors normally retire at age 63 in terms of their service contracts. Non-executive Directors are appointed for a specified term of three years which may be renewed. The Group maintains liability insurance for its Directors and officers.

Ian Chippendale has been identified as the Senior Independent Non-executive Director who is available to shareholders for concerns not resolved through the existing mechanisms for investor communication.

Directors must stand for election by the shareholders at the first AGM following their appointment. All Directors also retire by rotation such that approximately one-third of the Board retires and seeks re-election each year. Each Director must retire and seek re-election at least every three years. At the forthcoming AGM to be held on 31 July 2008, Alison Wood offers herself for election and Philip Rogerson and John Maguire will retire as Directors and offer themselves for re-election to the Board. Following evaluation of the performance of each of those Directors, it is confirmed that each individual performs effectively in the role and demonstrates commitment to the role. Their continued appointment as Board members is therefore recommended by the Board.

Details of Directors' remuneration together with the Group's remuneration policy and the principles under which these have been formulated and applied are described in the Directors' Remuneration Report as set out on pages 32 to 36.

Control of the Group is through the Board of Directors. The Board's main roles are to promote the success of the Company for the benefit of its members, create shareholder value, provide leadership of the Group, approve the Group's strategic objectives and promote the highest standards of ethics and integrity in all of the Group's business activities.

The Board met ten times during the year and has a schedule of matters concerning key aspects of the Group's activities which are specifically referred to it for its collective decision. The matters reserved to the Board for decision include the approval of the Annual Report and any other Financial Statements, the long-term objectives of the Group and the strategy necessary to achieve these objectives, the Group's budgets and plans, significant capital expenditure and allocation of resources, significant investments and disposals, the arrangements for ensuring the Group manages risks effectively, any significant change in accounting policies and the appointment of the Company's main professional advisors.

The types of decision delegated to the Chief Executive relate principally to implementation of the business plan and annual budget, competitive positioning and relationships with employees, customers and suppliers.

The Board evaluates its performance and that of its Committees and individual Directors. The process adopted in respect of the Board is by means of a Board review of responses to a questionnaire, completed by each Director, which encourages the Directors to draw on their experience to endeavour to ensure that the Group follows best practice and to suggest how the Group's procedures may be improved. The Committees also assess their respective terms of reference and effectiveness and report the conclusions to the Board, with recommendations for change if necessary. The Chairman has a private discussion at least once a year with each Director on a range of issues affecting the Group, including an evaluation of the performance of the Director and any matters which the Director wishes, individually, to raise.

The Remuneration Committee also reviews the performance of the Chief Executive and the other Executive Directors when considering their remuneration arrangements. The Chairman's performance is evaluated by the Non-executive Directors at an annual meeting, led by the Senior Independent Non-executive Director, taking account of the views of the Executive Directors.

The table below sets out the number of meetings of the Board and its main Committees during the year, and the attendance of individual Directors.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings during the year	10	5	2	4
Current Directors				
Philip Rogerson	10		2	
William Allan	10		2	
Ian Chippendale	9	4	2	4
Philip Male	10			
John Maguire	10			
Rick Medlock	10	5	2	4
Alison Wood[1]	4	1	1	1
Former Directors				
Jo Connell[2]	7	4	1	2
Martin Beesley[3]	2			

1 Appointed to the Board on 1 November 2007 and to the Audit Committee, Remuneration Committee and Nomination Committee on 16 November 2007.
2 Resigned from the Board, Audit Committee, Remuneration Committee and Nomination Committee on 31 December 2007.
3 Resigned from the Board on 25 June 2007.

The Chairman, the Chief Executive, the Chief Financial Officer and the Chief Operating Officer attended certain meetings of the Audit Committee and Remuneration Committee during the year at the invitation of the Chairman of those Committees.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that all Board procedures are observed. Any Director wishing to do so, in furtherance of his duties, may take independent professional advice at the Group's expense.

Board Committees

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

Audit Committee

The Audit Committee comprised three independent Non-executive Directors except during the brief period between the appointment to the Committee on 16 November 2007 of Alison Wood and the resignation of Jo Connell from the Committee on 31 December 2007 when it comprised four independent Non-executive Directors. The Committee is chaired by Rick Medlock and has written terms of reference. It met five times in the year to review the annual and interim accounts, review the appropriateness of accounting policies, review internal controls and financial reporting, and made recommendations to the Board. It also considers the appointment and fees of the external auditors, the appointment of the director of Risk Management (as Head of Internal Audit) and reviews the risk management framework, the internal audit plan and resulting reports and the Group's whistle-blowing policy. The Audit Committee discusses the action taken on specific areas identified by Board members or in the internal and external audit reports. The Committee reviews its terms of reference and effectiveness annually and reports its conclusions to the Board, including any recommendations for change.

The Committee has also established a policy on the provision of non-audit services by the external auditors which requires the Committee to approve in advance the provision of certain kinds of those services within defined parameters. The key principles which underpin the policy and which are designed to minimise the risk of conflict of interest

Corporate Governance:

Corporate Governance Report – continued

arising are that the auditors should not audit their own firm's work, make management decisions for the Group, have a mutuality of financial interest with the Group, or be put in the role of advocate for the Group. Prior approval of the Audit Committee is also required for any services provided by the external auditors where the cumulative annual fees in any year are likely to be in excess of the audit fee for that year. In any case activities that may be perceived to be in conflict with the independence of the external auditors must be submitted to the Committee for approval prior to engagement, regardless of the amounts involved. Details of the non-audit services performed during the year and the fees for those services are contained in Note 6 to the Financial Statements on page 47. The Committee, in respect of the year, assessed the effectiveness of the external audit service and independence of the external auditors. The Committee's conclusion was that the service continued to be effective and that the auditors remained independent, demonstrating effectiveness and commitment in the role. A resolution to reappoint the external auditors and to authorise the Directors to fix their remuneration will be proposed at the AGM on 31 July 2008.

In respect of the year, the Committee also had a meeting with the external auditors without executives present and a meeting with the director of Risk Management (in his capacity as Head of Internal Audit) alone.

The Committee has established a policy in relation to the arrangements whereby employees of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. It reviews the terms of the policy and its operation annually.

The Chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board which receives the minutes of Audit Committee meetings.

The Board considers that the membership of the Audit Committee as a whole has sufficient and relevant experience to discharge its functions and that, in particular, Rick Medlock has recent and relevant financial experience. The Committee's terms of reference are displayed on the Company's website at www.thus.net.

Nomination Committee

The Nomination Committee is chaired by the Group's Non-executive Chairman and comprises the Chief Executive, the Senior Independent Non-executive Director and two other independent Non-executive Directors except for the brief period between the appointment to the Committee of Alison Wood on 16 November 2007 and the resignation from the Committee of Jo Connell on 31 December 2007 during which it included three other independent Non-executive Directors. It has written terms of reference and its remit is to consider and make recommendations to the Board on the appointment and re-election of Directors, having regard to the overall balance and composition of the Board, and to review and advise the Board upon issues of succession planning. The Chairman of the Nomination Committee reports the outcome of the Committee meetings to the Board which receives the minutes of Nomination Committee meetings.

In relation to Board appointments, the Committee, in liaison with the Board, prepares a profile of the requirements of the role in order to brief external search consultants to provide a list of suitable candidates, both external and where appropriate internal for the Committee to interview, leading then to a shortlist and ultimate selection of the most suitable candidate for recommendation to the Board for appointment. The proposed candidate is provided with the opportunity to meet Board members and the senior management team prior to acceptance of the appointment. The Committee reviews annually its terms of reference and effectiveness, and reports its conclusions to the Board, including recommendations for any change. The Committee's terms of reference are displayed on the Company's website at www.thus.net.

Remuneration Committee

The Remuneration Committee comprised exclusively three independent Non-executive Directors except during the brief period between the appointment to the Committee on 16 November 2007 of Alison Wood and the resignation of Jo Connell from the Committee on 31 December 2007 when the Committee comprised four independent Non-executive Directors. The Committee meets regularly and is chaired by Ian Chippendale. Its remit is to make recommendations to the Board on the Group's framework for the remuneration of the Group's executives and its cost and, on behalf of the Board, to determine and review specified remuneration packages for the Non-executive Chairman, the Executive Directors and the Company Secretary. The Committee seeks to design policies which will attract, retain and motivate Executive Directors and senior managers of the required calibre. The Committee also has responsibility for reviewing the operation of the Group's bonus and incentive schemes. The Chairman of the Remuneration Committee reports the outcome of the Committee meetings to the Board and the Board receives the minutes of Remuneration Committee meetings. The Directors' Remuneration Report for the year is set out on pages 32 to 36.

The Committee reviews its terms of reference and effectiveness annually and reports its conclusions to the Board, including any recommendations for change. The terms of reference, and those of the Committee's remuneration consultants, who are independent of the Group, are displayed on the Company's website at www.thus.net.

Relations with shareholders

As at 31 March 2008, the Company had 183.03 million shares in issue, approximately 90% of which were held by institutions and corporate shareholders with the remainder being held by private individuals. The Company had been notified of the following interests, representing 3% or more of the issued share capital and voting rights of the Company, as at 20 May 2008.

	Number of shares	Percentage of issued share capital and voting rights
Amber Capital L.P.	20,063,119	10.96
Columbia Ventures Corporation	16,000,000	8.74
Aviva plc and Delta Lloyd N.V.	15,644,211	8.55
Investec Asset Management Limited	9,345,795	5.11
Legal & General Group plc	7,410,249	4.05
Deutsche Bank AG	7,021,224	3.84

There is a regular dialogue with shareholders through the Annual and Interim Reports and through a supplementary investor relations programme focused around the Group's preliminary and interim results announcements and periodic trading updates. The Executive Directors' presentation of results is broadcast through webcast. Following results, the Executive Directors undertake a series of formal presentations to existing and potential investors in London, Edinburgh, Glasgow and also in mainland Europe and the USA. In November 2007 the Executive Directors and members of the management team also held an Investor day for analysts and investors.

To develop an understanding of the views of major shareholders, the Board receives regularly an investor relations report, compiled with input from the Group's brokers, setting out key features and trends in relation to trading in the Group's shares and share price movements. Analysts' reports on the Group, its competitors and the telecommunications sector are circulated to Board members on a regular basis. Feedback from investors after the Group's results announcements and presentations are regularly reported to the Board. The Non-executive Directors are also invited to attend presentations of the Group's results.

The senior independent Non-executive Director has not, during the year, undertaken in accordance with the Combined Code a programme of meetings with a range of major shareholders of the Group as this has not been considered necessary by the Board. It is believed that the approach described in this section provides an efficient method of maintaining contact with shareholders, and to date the Group has seen no evidence of demand from shareholders for such meetings. The situation will be kept under review in the year ahead.

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

Internal control

The Board has maintained the approach adopted in previous years, in establishing and monitoring the Group's internal control procedures and policies. In following the requirements of the Combined Code, a review on an annual basis of the effectiveness of the system of internal control is carried out by the Board. This review includes material financial, operational and compliance controls and risk management. The Turnbull Report (Internal Control: Revised Guidance for Directors on the Combined Code), published in October 2005, provides guidance to the Directors in respect of this requirement.

Overall responsibility for the system of internal control and for reviewing the effectiveness of the system rests with the Directors of THUS Group plc. The Internal Audit function of the Group supports the Directors in assessing the operation of key internal controls through a structured review programme. The purpose, authority and responsibility of the Group's Internal Audit function is contained within a formal Risk Management Charter.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. Internal control, therefore, can only provide reasonable and not absolute assurance against material misstatement or loss.

During the course of the year, the risk management and internal control systems have continued to be developed across the Group. The risk management framework is designed to ensure that the key controls are, and have been, embedded into business processes. This has enabled the Directors to be satisfied that the Group was fully compliant with the revised Combined Code provisions, including those of the Turnbull Report, on internal control in the course of the financial year ended 31 March 2008.

Control environment

The Group is committed to ensuring that a suitable control environment exists, which will not hinder its aim to be the pre-eminent alternative telecommunication provider for business customers in the UK.

The Group has a defined organisational structure and any changes are communicated throughout the business. Individual objectives and authority levels are identified and reviewed on an ongoing basis. Accountability and key responsibilities are documented in role profiles and reporting models are utilised to ensure that issues are escalated appropriately. Codes of Conduct are also published within the business to ensure that employees are educated in expected standards of behaviour. These include probity, whistle-blowing and disciplinary policies.

Each of the Executive Directors has responsibility for specific aspects of the Group's business. The Management Board is chaired by the Chief Executive and is the principal forum at senior management level in the Group which supports decision-making by the Chief Executive and the Executive Directors within the authorities delegated to them by the Board of THUS Group plc. The Management Board focuses on business plan implementation, competitive positioning and customer requirements, and meets on a monthly basis in advance of the THUS Group plc main Board. The Management Board receives reports on corporate performance from various management groups, which meet regularly. The implementation of the year's annual budget remains its focus.

The Earnings Update Committee meets regularly and reviews detailed revenue and margin data from Group level down to individual product lines. The Committee consists of various operational and financial business representatives, including product, sales and finance. During Committee meetings, a number of presentations are given by product managers to the business directors on actual and forecasted revenue and margins. In addition, a detailed operating cost forecast is also produced allowing subsequent production of an updated Group EBITDA forecast. The Committee meetings end with a review by the Executive Directors of the aggregated Group position. The Chief Financial Officer also carries out a detailed monthly review of the financial results.

The Chief Operating Officer chairs Business Operations, which manages the day-to-day operation of the business, ensuring cohesion in marketing, sales, provisioning and through to operational delivery.

Capital investment, major bids, facilities and major project implementation within the Group are tracked by Capital Planning and Programme Management, which is chaired by the Support Services director.

Identification and assessment of business risk and evaluation of controls

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the business. This process has been in place for the year under review and up to the date of approval of the Annual Report. The process is regularly reviewed by the Board, via the Audit Committee, and is guided by the content of the Turnbull Report.

Risk Assessments are completed on key processes and quarterly reviews have been carried out by the Risk Management Group to ensure this is a continuous process which is embedded into the business. All aspects of business risk such as financial, operational, strategic, compliance and business continuity risk are covered by the Risk Assessments.

Risk reviews are also undertaken regularly by the respective business areas throughout the year, to identify and assess the key business risks associated with the achievement of strategic objectives. The reviews are supported by governance software which enables and requires risk owners to regularly monitor and review risks within the Group. The reviews include consideration of the nature and extent of risks facing the Group, the likelihood of risks materialising and review of controls and action plans associated with the risks.

As a result of our Risk Management process and monitoring thereof, we have been successful in securing a reduction for the past two years in our corporate insurance premiums.

Revenue assurance software continues to be employed by the Group and is designed to assure revenue streams and reduce the potential for fraud against the Company. During the year, the software has been further integrated into risk management processes with activity expanding to cover additional revenue streams.

Monitoring

The Group's Risk Management functions consist of Internal Audit, Quality Management, Revenue Assurance, Business Continuity, Corporate Security and Health & Safety professionals. Their activities include verification of core processes, significant risks and reviewing compliance with Company policies and business accreditations.

The Internal Audit function continues to independently assess and audit the effectiveness of internal control. Similarly, the Revenue Assurance function carries out a programme of review and assurance of the Group's revenue streams.

The Group Safety, Health and Environment team manages, develops and assesses compliance against the Group's Health, Safety and Environmental management systems. The Company applies the standards set out in HS(G)65 'Successful Health and Safety Management'. In addition THUS has committed to achieving OHSAS18001. This will allow the Company to consistently identify and control its health and safety risks, reduce the potential for accidents, aid legislative compliance and improve overall performance.

The Business Continuity unit ensures that all business continuity plans and disaster recovery processes are maintained, audited and regularly tested in accordance with Company policy.

Corporate Security is responsible for Company security policies and management of the Information Security Management System which maintains our compliance to the International Information Security Standard ISO/IEC 27001:2005. THUS was awarded certification to the exacting standard for our MPLS network during the year under review.

An assessment of residual risk and of significant risks across the business, resulting from the reviews of the risks of the Group, is presented to the Audit Committee on a quarterly basis. Control failings or weaknesses assessed as significant are included within these quarterly reviews by the Audit Committee, including discussion on actions taken by the business to address them. This ensures that necessary actions have been or are being taken to remedy any significant control failings or weaknesses.

Finally, an additional annual review of the effectiveness of the system of internal control and risk management processes is carried out by the Board.

Going concern

After making enquiries, the Directors have a reasonable expectation that THUS Group plc has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the Financial Statements on pages 38 to 67.

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements on the same basis.

The Group and Parent Company Financial Statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such Financial Statements that references in the relevant part of that Act to Financial Statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Report that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report and Financial Statements

We confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with the applicable set of accounting standards and set out on pages 38 to 67, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report, set out on pages 12 to 28, includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

William Allan
Chief Executive
20 May 2008

John Maguire
Chief Financial Officer
20 May 2008

Corporate Governance:
Directors' Remuneration Report

Remuneration Committee
Constitution, membership and advisors
At the date of this report the Remuneration Committee comprises the following independent Non-executive Directors: Ian Chippendale (Chairman) and Rick Medlock (both of whom served throughout the year), and Alison Wood (appointed 16 November 2007). During the year, Jo Connell served on the Committee until her retirement on 31 December 2007. 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 Committee meetings. No individuals are involved in the determination of their own remuneration.

Towers Perrin have been the Committee's independent remuneration advisors since October 2003. From March 2008, Hewitt New Bridge Street (HNBS) were appointed to be the Committee's independent advisors, following a competitive tender process. HNBS provide no other services to the Company. HNBS 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, 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 both individual performance and external market information prepared by its advisors 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 both individual experience and performance, and market comparables, justify it.
- The Committee remains strongly committed to ensuring there is an appropriate balance between fixed and performance pay. It also seeks to ensure alignment with shareholders' interests. A significant proportion of Executive Directors' remuneration is performance-related through annual bonus and long-term incentives as set out below.
- The Committee's primary goal is to ensure that executive remuneration continues to be sufficiently attractive to retain Executive Directors in a highly competitive market and to motivate them to deliver results and to enhance shareholder value.

The arrangements described below are likely to continue to apply in future years unless there are specific reasons for change. The Committee will continue to regularly review arrangements to ensure that they remain effective and appropriate to the Company's circumstances and prospects, and to monitor the level of potential awards.

The remuneration package
Basic salary
Following an increase of 3.6%, the base salary levels for Executive Directors in 2007/08 were as follows: William Allan, £435,120; John Maguire, £310,800; Philip Male, £310,800. The Committee has considered salaries in relation to market data, performance and pay settlements elsewhere in the business, and has agreed an increase of 3.9% to base salaries with effect from 1 April 2008.

Annual bonus
Executive Directors and senior executives participate in the Company's annual Corporate 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 on a mix of financial and non-financial performance conditions on an 80:20 ratio and provides a maximum total payment of up to 100% of salary. Following a review of remuneration for the Executive Directors, the Committee has agreed to raise the maximum bonus potential for the Chief Financial Officer and Chief Operating Officer from 85% to 100% of salary with effect from 1 April 2008, further strengthening the performance related element of their remuneration package.

The achievement of pre-determined targets determines the levels of payout under the plan. For the year ended 31 March 2008, there were three distinct financial measures which were weighted as follows:

- 25% was determined by reference to cash flow after interest and capital expenditure.
- 50% was determined by reference to EBITDA (earnings before interest, tax, depreciation and amortisation) performance.
- 25% was determined by reference to revenue.

Based on the Company's performance for 2007/08 the plan made a payment of 48.05% of maximum entitlement.

In respect of 80% of the bonus potential the same financial measures will be used for 2008/09 weighted as follows:

- 30% determined by reference to cash flow after interest and capital expenditure.
- 50% determined by reference to EBITDA.
- 20% determined by reference to revenue.

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

The two performance criteria which apply to the vesting of performance share awards are Group EBITDA in respect of 50% of an award and Group EBIT return on capital employed with respect to the remaining 50%. Performance is measured against targets set with reference to internal forecasts and the extent to which they are satisfied is confirmed by the Committee.

Calculations are made internally on the same basis as reported in the Financial Statements and are verified by the auditors.

The two performance criteria are recognised both internally and by analysts as key measures of the success of the fixed line telecommunications business model and the drivers of shareholder value and, as such, are recognised by the participants and, we believe (following the support of shareholders in 2006) by shareholders, as being directly linked to the success of the business.

It is currently anticipated that awards to Executive Directors in 2008/09 will be made over shares worth 100% of salary.

The performance conditions will require annual compound growth in EBITDA of between 12% to 25% over three years and EBIT return on capital for the final year in the performance period to be between 5% and 10%. 30% of the respective part of the award will vest for threshold performance. These performance ranges are considered to be appropriately stretching taking into account the outlook for the business. For the EBITDA condition, it is recognised that the numbers are lower than for prior years' ranges. However, as they are referenced off higher base figures, they represent a clear progression on the ranges set in previous years. Furthermore they remain relatively high by market standards. Conversely, the EBIT return on capital range is higher than prior years' awards. Overall, the ranges are considered to be equally challenging to those set in prior years.

Matching shares
Under the Co-Investment Plan, Executive Directors are allowed to invest up to a maximum of 25% of their base salary in Company shares. The offer is typically made to them each year shortly after bonuses are declared. This means that Executive Directors can use their net bonus to acquire shares at market price (although there is no direct link to the bonus paid). Provided that the Executive Director continues to hold these shares for three years, the Company makes an award of matching shares. The minimum level of match is one share for every two the individual acquires. The level of match can increase up to a maximum of four shares for every two shares the individual acquires, dependent on performance against the same performance targets that apply for awards under the Performance Share Plan. Participation in the plan has been extended to selected senior executives below Board level.

The rules of the various long-term incentive plans provide that the aggregate of all share-based awards does not exceed the guidelines laid down by the Association of British Insurers that recommend (i) that the number of awards granted over new issue shares in respect of all share-based schemes should not exceed 10% of the current issued share capital in any rolling ten-year period; and (ii) that the number of awards granted over new issue shares in respect of discretionary schemes should not exceed 5% of the current issued share capital in the same period. As at 31 March, the percentage of share capital used in relation to these two limits was nil. All awards granted to date have utilised shares held within the Employee Share Trust.

Pension and other benefits
Pension benefits are provided under the THUS Group plc Pension Scheme. This scheme is a contributory defined-benefit scheme that provides 1/60th of final pensionable salary from age 60 for each year of pensionable service up to 31 March 2007 and 1/75th of final pensionable salary from age 65 for each year of pensionable service after 31 March 2007. 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 10 years if higher. Pensionable salary is defined as basic salary only.

In line with market practice a cash supplement is provided for Executive Directors who continue to participate in THUS' pension arrangements to provide a market competitive level of pension benefit overall.

Executive Directors are eligible for a range of benefits, the value of which is contained within the Directors' emoluments table on page 34. 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 twelve months' worth of salary and benefits (including pension).

There are no special provisions which apply in the event of a change of control.

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

	Commencement date of current term of office	Date of initial appointment with THUS plc (if applicable)	Notice period	Normal retirement date
William Allan	01/04/04	22/10/99	12 months	29/04/16
John Maguire	01/04/04	18/12/00	12 months	07/07/28
Philip Male	01/04/04	22/10/99	12 months	13/09/29

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 reviews 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.

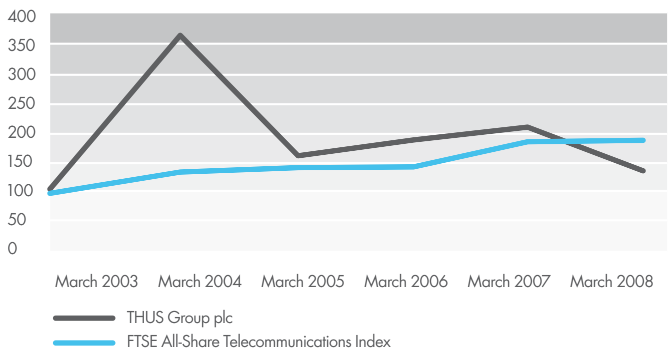
Chairman and Non-executive Directors
The appointment of the Chairman and Non-executive Directors is subject to the Articles of Association of the Company, in particular the usual provisions relating to re-election by shareholders. The Chairman and Non-executive Directors have letters of appointment which are available at www.thus.net. They were all appointed for an initial term of three years terminable at the request of the Board which 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
Philip Rogerson (Chairman)	01/09/04		31/08/10
Ian Chippendale	11/01/02	15/10/99	14/10/08
Jo Connell (resigned from Board)	11/01/02	01/01/01	31/12/07
Rick Medlock	07/11/06		06/11/09
Martin Beesley (resigned from Board)	22/11/06		25/06/07
Alison Wood (appointed to Board)	01/11/07		31/10/10

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 34. With effect from 1 April 2008, the Chairman's fees were increased to £100,000 per annum and the fees of the Non-executive Directors were increased to £35,000 per annum, with an additional fee of £5,500 per annum payable to the Chairman of the Audit Committee, an additional fee of £2,750 per annum payable to the Chairman of the Remuneration Committee and an additional fee of £2,750 per annum payable to the Senior Independent Non-executive Director. 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 a five-year period. 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.

Total shareholder return (Source: Thomson Financial)



This graph shows the value, by 31 March 2008, of £100 invested in THUS Group plc on 31 March 2003 compared with the value of £100 invested in the FTSE All-Share Telecommunications Index. The other points plotted are the values at intervening financial year-ends.

Corporate Governance:
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 2008. The information and explanatory notes on pages 34 (Directors' emoluments table) to 36 (Directors' interests in ordinary shares/entitlements to shares), has been audited by the Company's auditors in line with the relevant legislation.

	Basic salary/fees £	Bonuses £	Benefits in kind £	Supplementary allowances £	Compensation for loss of office £	Total 2008 £	Total 2007 £
Executive Directors							
William Allan	435,120	209,075	21,147	77,016	–	742,358	886,697
John Maguire	310,800	126,938	17,454	36,674	–	491,866	577,715
Philip Male	310,800	126,938	20,645	36,674	–	495,057	580,148
Non-executive Directors (fees and expenses)							
Philip Rogerson	95,000	–	–	–	–	95,000	80,000
Ian Chippendale	38,000	–	–	–	–	38,000	30,000
Jo Connell (resigned 31/12/07)	24,750	–	–	–	–	24,750	30,000
Rick Medlock	38,000	–	–	–	–	38,000	12,000
Alison Wood (appointed 01/11/07)	13,750	–	–	–	–	13,750	–
Michael de Kare-Silver (resigned 08/09/06)	–	–	–	–	–	–	13,167
Total	**1,266,220**	**462,951**	**59,246**	**150,364**	**–**	**1,938,781**	**2,209,727**

(i) Benefits in kind include car allowance in lieu of company car, health care, life assurance, critical illness insurance and permanent health insurance.

(ii) The supplementary allowance paid to the Executive Directors is in lieu of either formal pension provision or pension benefits above a notional Inland Revenue Earnings Cap, as appropriate.

(iii) Aggregate emoluments in respect of qualifying services amounted to £1,938,781 (2007: £2,209,727).

The emoluments of the highest paid Director (William Allan) including gains on the exercise of entitlements to shares and share options, but excluding pension contributions, are £742,358 (2007: £918,518). Pension contributions made by the Company under approved pension arrangements for William Allan amounted to £18,155 (2007: £16,833).

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 2008 are shown below:

Defined benefit pension scheme as at 31 March 2008	Accrued benefits at 31 March 2008 £	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 2007 £	Transfer value of accrued benefits at 31 March 2008 £	Increase/ (decrease) in transfer value less Directors' contributions £
William Allan	46,745	5,669	7,249	62,905	545,744	566,140	14,756
John Maguire	31,294	4,047	5,095	17,268	187,769	177,140	(16,269)
Philip Male	34,271	4,043	5,206	15,927	195,533	182,811	(18,362)

(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 benefits are taken at the normal retirement ages shown above. 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 in respect of pensionable service before 1 August 2002.

(iii) The increase in accrued pension during the year allows for an increase in inflation of RPI as measured at 4.0%.

(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 2007	Granted	Exercised	Lapsed	At 31 March 2008	Date granted	Date exercised	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
THUS plc Discretionary Executive Share Option Scheme [1]											
William Allan	135,449	–	–	–	**135,449**	May-04	–	2.58	–	May-07	May-11
John Maguire	63,334	–	–	63,334	**–**	Dec-00	–	7.20	–	Dec-03	Dec-07
	96,749	–	–	–	**96,749**	May-04	–	2.58	–	May-07	May-11
Philip Male	96,749	–	–	–	**96,749**	May-04	–	2.58	–	May-07	May-11
Thus Group Performance Share Plan [2]											
William Allan	135,449	–	–	135,449	**–**	May-04	–	£1 total consideration	–	May-07	May-07
	–	239,933	–	–	**239,933**	Jun-07	–	£1 total consideration	–	Jun-10	Jun-10
John Maguire	96,749	–	–	96,749	**–**	May-04	–	£1 total consideration	–	May-07	May-07
	–	171,381	–	–	**171,381**	Jun-07	–	£1 total consideration	–	Jun-10	Jun-10
Philip Male	96,749	–	–	96,749	**–**	May-04	–	£1 total consideration	–	May-07	May-07
	–	171,381	–	–	**171,381**	Jun-07	–	£1 total consideration	–	Jun-10	Jun-10
Thus Group plc Co-Investment Plan [3]											
William Allan	118,380	–	–	–	**118,380**	Sep-06	–	£Nil consideration	–	Sep-09	Sep-09
	–	64,815	–	–	**64,815**	Jun-07	–	£Nil consideration	–	Jun-10	Jun-10
	–	33,801	–	–	**33,801**	Dec-07	–	£Nil consideration	–	Dec-10	Dec-10
John Maguire	53,232	–	–	–	**53,232**	Sep-06	–	£Nil consideration	–	Sep-09	Sep-09
	–	36,921	–	–	**36,921**	Jun-07	–	£Nil consideration	–	Jun-10	Jun-10
	–	22,143	–	–	**22,143**	Dec-07	–	£Nil consideration	–	Dec-10	Dec-10
Philip Male	84,468	–	–	–	**84,468**	Sep-06	–	£Nil consideration	–	Sep-09	Sep-09
	–	42,663	–	–	**42,663**	Jun-07	–	£Nil consideration	–	Jun-10	Jun-10
	–	22,731	–	–	**22,731**	Dec-07	–	£Nil consideration	–	Dec-10	Dec-10
Thus Group plc Sharesave Scheme [4]											
John Maguire	1,998	–	–	1,998	**–**	Jun-04	–	2.15	–	Aug-07	Jan-08
	1,584	–	–	–	**1,584**	Jun-05	–	1.10	–	Aug-08	Jan-09
	–	2,226	–	–	**2,226**	Jun-07	–	1.53	–	Aug-10	Jan-11
Philip Male	1,998	–	–	1,998	**–**	Jun-04	–	2.15	–	Aug-07	Jan-08
	1,584	–	–	–	**1,584**	Jun-05	–	1.10	–	Aug-08	Jan-09

The exercise prices above (except the nominal exercise prices applicable to grants under the THUS Group Performance Share Plan) have been appropriately adjusted following the 10 to 1 consolidation of ordinary shares. The number of shares and share options has also been adjusted accordingly.

The aggregate of the gains made by the Executive Directors on the exercise of share options during the year was £nil (2007: £80,796).

1. Exercise of options is subject to a total shareholder return (TSR) performance condition, measuring the Company's TSR against two comparator groups. For two thirds of the award the comparator group is the companies comprising the FTSE Telecoms sector. For the remaining one third of the award the comparator group is the companies comprising the FTSE 250 Index (excluding telecoms companies and investment trusts). In both cases 50% of options are exercisable for median TSR performance rising on a straight-line basis so that 100% of options are exercisable for upper quartile performance. If performance conditions have not been met in full after three years, there are two opportunities to re-test performance (from the same base measurement point) after four and five years.
2. Awards granted under the Performance Share Plan for the year ended 31 March 2008 are subject to the following performance conditions measured over a fixed period of three financial years beginning in the financial year in which an award is made:

   50% of an award is subject to EBITDA growth of 15% to 35% per annum compound. The remaining 50% is subject to EBIT return on capital of 4% to 8% for the final year of the performance period. In both cases 30% of that part of the award vests at the threshold, increasing on a straight-line basis so that there is full vesting at the maximum threshold.
3. For awards made under the Co-Investment Plan the minimum level of match is one share for every two purchased, irrespective of performance. Additional matching shares vest from the one for two level, up to a maximum of three for two, subject to a range of EBITDA and EBIT return on capital targets.

   Awards granted for the year ended 31 March 2008 are subject to the same performance criteria as apply to the awards of performance shares (set out in footnote 2). For awards granted for the year ended 31 March 2007 the EBITDA growth range is 20% to 35%. The EBIT return on capital range is the same as set out in footnote 2.
4. As required by the relevant legislation, no performance conditions apply to options under the Sharesave Scheme.

The market price of a share at 31 March 2008 was 119p and the range during the year ended 31 March 2008 was 107p to 200p. The figures relating to events prior to 10 March 2006 have been restated to reflect the consolidation of the ordinary shares of 2.5p each into 25p shares that took place on that date.

No terms of any awards were varied during this year.

Corporate Governance:

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 2008	Ordinary shares 1 April 2007
Chairman and Executive Directors		
Philip Rogerson	**31,470**	16,470
William Allan	**153,385**	78,921
John Maguire	**83,583**	35,488
Philip Male	**99,911**	56,315
Non-executive Directors		
Ian Chippendale	**5,322**	5,322
Rick Medlock	**11,782**	–
Alison Wood (appointed 01/11/07)	**8,000**	–

As potential beneficiaries under the Employee Share Trust, the Executive Directors are deemed to be interested in the shares held by the Trust, which, as at 31 March 2008, amounted to 1,629,985 ordinary shares.

No changes took place to the interests of the Directors between 31 March 2008 and 20 May 2008.

Approved by the Board on 20 May 2008 and signed on its behalf by

Ian Chippendale
Chairman of the Remuneration Committee

Financial Statements:

Independent Auditors' Report to the Members of THUS Group plc

We have audited the Group and Parent Company Financial Statements (the 'Financial Statements') of THUS Group Plc for the year ended 31 March 2008, which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Group and Parent Company Balance Sheets, the Consolidated and Parent Company Statement of Cash Flows and the related notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 31.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

→ the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 March 2008 and of its loss for the year then ended;

→ the Parent Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 March 2008;

→ the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation; and

→ the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

20 May 2008

Financial Statements:

Consolidated Income Statement

for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Continuing operations:			
Revenue	4	**576,200**	532,693
Cost of sales	8, 11	**(480,637)**	(442,986)
Gross profit		**95,563**	89,707
Selling and distribution expenses	8	**(26,793)**	(27,114)
Administrative expenses	8, 11	**(66,707)**	(76,182)
Other operating income	7	**1,927**	2,479
Operating profit/(loss) before restructuring costs		**3,990**	(9,540)
Restructuring costs	8	**–**	(1,570)
Operating profit/(loss)	6	**3,990**	(11,110)
Financial income	12	**6,512**	5,451
Financial expenses	12	**(13,276)**	(9,426)
Net financing expenses	12	**(6,764)**	(3,975)
Loss before income tax		**(2,774)**	(15,085)
Income tax (expense)/credit	13	**(3,416)**	69,599
(Loss)/profit from continuing operations		**(6,190)**	54,514
Discontinued operations:			
Profit from discontinued operations, net of tax	5	**1,986**	29,414
(Loss)/profit for the year attributable to the equity holders of the parent	28	**(4,204)**	83,928
Earnings per share:			
Basic (loss)/earnings per share (pence)	14	**(2.31)**	46.63
Diluted (loss)/earnings per share (pence)	14	**(2.31)**	46.16
Continuing operations:			
Basic (loss)/earnings per share (pence)	14	**(3.40)**	30.29
Diluted (loss)/earnings per share (pence)	14	**(3.40)**	29.98

The Notes on pages 42 to 67 form an integral part of these Consolidated Financial Statements.

Financial Statements:

Consolidated Statement of Recognised Income and Expense

for the year ended 31 March 2008

	Notes	Group 2008 £'000	Group 2007 £'000
Foreign exchange translation differences	28	**–**	(15)
Actuarial gains on defined benefit pension plan	28	**2,757**	2,978
Income tax on income and expense recognised directly in equity	26, 28	**(772)**	(893)
Net income and expense recognised directly in equity		**1,985**	2,070
(Loss)/profit for the year		**(4,204)**	83,928
Total recognised income and expense for the year attributable to the equity holders of the parent		**(2,219)**	85,998

Movements in equity for the Group are disclosed in Note 28 to the Consolidated Financial Statements.

The Parent Company loss for the year is £594,000 (2007: profit £141,000). No income or expense has been recognised directly in equity for either 31 March 2008 or 31 March 2007.

The Notes on pages 42 to 67 form an integral part of these Consolidated Financial Statements.

Financial Statements:

Group and Parent Company Balance Sheets

as at 31 March 2008

	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Assets					
Non-current assets					
Property, plant and equipment	15	**386,210**	381,334	**–**	–
Intangible assets	16	**58,738**	67,577	**–**	–
Investments	17	**–**	–	**56,963**	56,963
Retirement benefit obligations	31	**3,774**	805	**–**	–
Deferred tax assets	26	**56,384**	60,643	**–**	–
Trade and other receivables	19	**–**	–	**70,188**	78,095
Total non-current assets		**505,106**	510,359	**127,151**	135,058
Current assets					
Inventories	18	**8,615**	4,213	**–**	–
Trade and other receivables	19	**119,559**	108,481	**–**	–
Cash and cash equivalents	20	**71,643**	31,724	**87**	87
Total current assets		**199,817**	144,418	**87**	87
Total assets		**704,923**	654,777	**127,238**	135,145
Liabilities					
Current liabilities					
Interest-bearing loans and borrowings	23	**(230)**	(6,511)	**–**	–
Trade and other payables	21	**(140,548)**	(123,533)	**(228)**	(241)
Current tax liabilities	22	**–**	(537)	**–**	–
Provisions	25	**(551)**	(1,534)	**–**	–
Total current liabilities		**(141,329)**	(132,115)	**(228)**	(241)
Non-current liabilities					
Interest-bearing loans and borrowings	23	**(101,923)**	(49,871)	**–**	–
Provisions	25	**(470)**	(1,572)	**–**	–
Total non-current liabilities		**(102,393)**	(51,443)	**–**	–
Total liabilities		**(243,722)**	(183,558)	**(228)**	(241)
Net assets		**461,201**	471,219	**127,010**	134,904
Equity					
Issued capital	27	**45,758**	45,758	**45,758**	45,758
Shares to be issued reserve	28	**–**	7,300	**–**	7,300
Share premium account	28	**39,001**	39,001	**39,001**	39,001
Merger reserve	28	**586,556**	586,556	**19,996**	19,996
Capital redemption reserve	28	**23,248**	23,248	**23,248**	23,248
Other reserves	28	**–**	–	**–**	–
Cumulative loss reserve	28	**(233,362)**	(230,644)	**(993)**	(399)
Total equity attributable to the equity holders of the parent	28	**461,201**	471,219	**127,010**	134,904

The Notes on pages 42 to 67 form an integral part of these Consolidated Financial Statements.

Approved by the Board on 20 May 2008 and signed on its behalf by

William Allan
Chief Executive

John Maguire
Chief Financial Officer

Financial Statements:

Consolidated and Parent Company Statement of Cash Flows

for the year ended 31 March 2008

	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Cash flows from operating activities					
(Loss)/profit for the year		**(4,204)**	83,928	**(594)**	141
Adjustments for:					
Depreciation and impairment	11	**51,120**	48,645	**–**	–
Amortisation and impairment	16	**1,909**	3,758	**–**	–
Financial income	12(c)	**(6,541)**	(5,459)	**–**	–
Financial expenses	12(c)	**13,430**	9,426	**5**	–
Movement relating to defined benefit pension scheme		**351**	1,917	**–**	–
Equity settled share-based payment expenses	33	**478**	1,164	**–**	–
Taxation	13	**3,416**	(69,599)	**64**	–
Gain on sale of property, plant and equipment		**(364)**	–	**–**	–
Gain on sale of discontinued operations, net of tax	4(a)	**(2,111)**	(29,032)	**–**	–
Cash inflow/(outflow) before changes in working capital and provisions		**57,484**	44,748	**(525)**	141
(Increase)/decrease in trade and other receivables		**(10,955)**	7,915	**607**	2,196
Increase in inventories		**(4,402)**	(404)	**–**	–
Increase/(decrease) in trade and other payables		**13,812**	(6,091)	**(13)**	(2,337)
Decrease in provisions		**(2,086)**	(7,209)	**–**	–
Cash generated from operations		**53,853**	38,959	**69**	–
Income tax received/(paid)		**71**	(321)	**(64)**	–
Additional contribution to defined benefit pension scheme fund	31(b)	**–**	(7,500)	**–**	–
Net cash from operating activities		**53,924**	31,138	**5**	–
Cash flows from investing activities					
Disposal of discontinued operations, net of cash disposed of	5	**511**	41,466	**–**	–
Income tax received/(paid) from disposal of discontinued operations	5	**1,559**	(9,500)	**–**	–
Interest received		**1,096**	1,385	**–**	–
Proceeds from the sale of property, plant and equipment		**424**	–	**–**	–
Acquisition of subsidiary, net of cash acquired		**–**	(3,431)	**–**	–
Acquisition of property, plant and equipment		**(55,417)**	(51,949)	**–**	–
Acquisition of intangible assets		**(210)**	(974)	**–**	–
Net cash used in investing activities		**(52,037)**	(23,003)	**–**	–
Cash flows from financing activities					
Receipts from exercise of share options		**230**	419	**–**	–
Issue costs paid during the year		**–**	(1,564)	**–**	–
Purchase of treasury shares		**(1,207)**	–	**–**	–
Proceeds from borrowings		**100,000**	–	**–**	–
Repayment of borrowings		**(53,242)**	(32,472)	**–**	–
Payment of expenses in connection with borrowings		**(1,605)**	(769)	**–**	–
Payment of finance lease liabilities		**(349)**	(324)	**–**	–
Interest paid		**(5,395)**	(5,358)	**(5)**	–
Net cash from/(used in) financing activities		**38,432**	(40,068)	**(5)**	–
Net increase/(decrease) in cash and cash equivalents		**40,319**	(31,933)	**–**	–
Cash and cash equivalents at the start of the year		**31,324**	63,257	**87**	87
Cash and cash equivalents at the end of the year	20	**71,643**	31,324	**87**	87

The Notes on pages 42 to 67 form an integral part of these Consolidated Financial Statements.

Financial Statements:

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 March 2008

1 Reporting entity

THUS Group plc is a company domiciled in the United Kingdom. The address of the Company's registered office is 1-2 Berkeley Square, 99 Berkeley Street, Glasgow, G3 7HR. The Consolidated Financial Statements of the Company for the year ended 31 March 2008 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company Financial Statements present information about the Company as a separate entity and not about its Group. The Group is primarily involved in the provision of telecommunication services.

2 Basis of preparation

(a) Statement of compliance

Both the Consolidated Financial Statements and the Parent Company Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) ('adopted IFRSs').

On publishing the Parent Company Financial Statements here together with the Consolidated Financial Statements, the Parent Company is taking advantage of the exemption in Section 230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved Financial Statements.

The Financial Statements were authorised for issue by the Directors on 20 May 2008.

(b) Basis of measurement

The financial information has been prepared in accordance with IFRSs as adopted by the EU ('adopted IFRSs').

The financial information is prepared on the historical cost basis.

(c) Functional and presentation currency

These Consolidated Financial Statements are presented in pounds Sterling, which is the Group and Company's functional currency. The financial information is presented in pounds Sterling rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial information in conformity with IFRSs as adopted by the EU requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are disclosed in Note 36 to the Consolidated Financial Statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements and Parent Company Financial Statements.

Basis of consolidation

The Consolidated Financial Statements include the Financial Statements of the Company and the entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Prior year adjustment

The Company has adopted the requirements of IFRIC 8 'Scope of IFRS 2' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' for the first time in these Financial Statements. This change in accounting policy has had no impact on the Income Statement and Balance Sheet of the Company for the reasons set out in Notes 17 and 28(b) to the Consolidated Financial Statements.

Revenue

Revenue represents the value of goods and services supplied to customers during the year (net of Value Added Tax). The Group's revenue comprises revenue from voice telephony services, data services, Internet services, mobile services and Managed solutions of a variety of telecommunication services. Revenue recognition occurs when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, and collectability is probable.

Voice telephony services

Revenue from voice telephony services comprises call charges and associated line rentals to customers connected directly to the THUS network, indirectly connected customers, customers utilising 'Carrier Pre-Select' services, Voice over Internet Protocol (VoIP) and wholesale customers. Call charges comprise charges for Geographical and non-Geographical numbers. Revenue for call charges is recognised when the service is provided, rental charges are recognised on a straight-line basis over the length of the supply contract.

Data services

Data services comprise installation and provision of ongoing data supply products, including leased lines, Virtual Private Networks, Ethernet services, and provision of open fibre services. Installation charges are recognised where there is a contractually identified installation charge, reflecting the arm's length value of the cost of the installation and the fair value of the work done. In limited cases, installation work straddles an accounting period end. Whilst such contracts do not meet the definition of construction contracts under IAS 11 'Construction Contracts' (IAS 11), where the outcome of the contract and stage of completion can be assessed reliably, sales and cost of sales are recognised using the percentage completion method in accordance with IAS 18 'Revenue' (IAS 18). Completion is generally measured by reference to costs incurred to date as a percentage of estimated total installation costs. Connection fees are recognised on commencement of a customer contract only where incremental costs are incurred in connection. All other connection fees are recognised over the life of the customer contract. Rental charges are recognised on a straight-line basis over the length of the supply contract.

Internet services

Revenue from Internet services comprises monthly access fees for business access services (including the provision of leased lines and e-commerce services), revenue from wholesale Internet services provided to Virtual Internet Service Providers, access fees paid by Internet subscribers, and ingress receipts. Installation revenue is recognised for the design and building of bespoke solutions, reflecting the arm's length value of the goods supplied. In limited cases, installation work straddles an accounting period end. Whilst such contracts do not meet the definition of construction contracts under IAS 11, where the outcome of the contract and stage of completion can be assessed reliably, sales and cost of sales are recognised using the percentage completion method in accordance with IAS 18. Completion is generally measured by reference to costs incurred to date as a percentage of estimated total installation costs. Connection fees are recognised on commencement of a customer contract only where incremental costs are incurred in connection. All other connection fees are recognised over the life of the customer contract. Rental revenue is recognised on a straight-line basis over the contract term.

Mobile services

Mobile revenue comprises revenue from the provision of the supply of airtime for mobile communications equipment and the provision of such equipment. Revenue for airtime is recognised when the service is provided.

Managed solutions

Managed solutions revenue comprises revenue from the provision of voice telephony, data and internet services as part of bespoke contractual arrangements. Installation revenue is recognised for the design and building of bespoke solutions, reflecting the arm's length value of the goods supplied. In limited cases, installation work straddles an accounting period end. Whilst such contracts do not meet the definition of construction contracts under IAS 11, where the outcome of the contract and stage of completion can be assessed reliably, sales and cost of sales are recognised using the percentage completion method in accordance with IAS 18. Completion is generally measured by reference to costs incurred to date as a percentage of estimated total installation costs. Connection fees are recognised on commencement of a customer contract only where incremental costs are incurred in connection. All other connection fees are recognised over the life of the customer contract. Rental revenue is recognised on a straight-line basis over the contract term.

Indefeasible rights of use ('IRU') sales

As part of its service offering, the Group and Company periodically sell dark fibre to other network operators seeking to extend their own networks under IRU agreements. These agreements extend for all of the assets' expected useful lives and transfer substantially all of the risks and benefits of ownership to the buyer. In a number of cases, the Group and Company have acquired dark fibre under IRU agreements from the same counterparties in order to complete its own network.

The profit on IRU sales is shown in the Financial Statements as a gain on the disposal of fixed assets.

Other operating income

Rents received from the sublet of properties unoccupied by the Group, but for which a commitment remains, are recognised in the Consolidated Income Statement on a straight-line basis over the sublease term.

Cost definitions

The Group and Company's costs comprise of cost of sales, selling and distribution and administrative expenses.

3 Significant accounting policies – continued

Cost of sales
Cost of sales consists of costs directly attributable to each type of revenue stream and includes interconnect costs for telephony charges, rental of data capacity and costs of equipment installed for customers. Other costs comprise expenditure on fixed network infrastructure, operational properties and network depreciation together with the salaries and associated costs of the network maintenance function.

Selling, distribution and administrative expenses
Selling and distribution expenses comprise expenditure on marketing, advertising and promotions, together with the salaries and associated costs of the sales and marketing function. Administrative expenses comprise expenditure on customer services, human resources, information technology, legal and regulatory compliance, finance department costs and non-operational property together with depreciation of non-network assets.

Segment reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly network assets and depreciation that relate to services provided by different business segments, interest-bearing loans, borrowings and corporate expenses.

Short-term employee benefits
Short-term employee benefits include entitlement to corporate bonus, provision of company car and private medical insurance. Liabilities for company cars and private medical insurance are expensed as incurred. Provision for bonus awards is recognised for amounts expected to be paid where the Group has a present legal or constructive obligation to pay this as a result of past service provided by the employee and the amounts concerned can be reliably estimated.

Financial income and expenses
Financial income comprises of interest income on funds invested and assumed returns on pension assets on long-term actuarial assumptions.

Financial expenses are recognised in the Consolidated Income Statement using the effective interest method. Interest on finance leases is recognised on a straight-line method over the life of the lease.

Financial expenses also include costs relating to the secured bank loans comprising commitment fees, legal fees connected to loan documentation and other related expenses. The costs are released to the Consolidated Income Statement on a straight-line basis over the term of the loan. In the event of the loan being repaid earlier, or replaced, the remaining costs are immediately charged to the Consolidated Income Statement.

Changes in the fair value of the derivatives used for hedging purposes are also recognised as either financial income or financial expenses.

Taxation
Income tax comprises current and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Earnings per share
The Group discloses basic and diluted earnings/(loss) per share (EPS) figures for its ordinary shares and also discloses EPS for continuing and discontinued operations. Basic EPS is calculated by dividing the profit or loss for the year attributable to the equity holders of the parent by the weighted average number of ordinary shares in issue during the financial year after taking account of the shares held by the Employee Share Trust. The shares held by the Trust are calculated on a weighted average basis. Diluted EPS is calculated on the same basis as the basic EPS with an adjustment being made to the weighted average number of ordinary shares for the impact of all dilutive potential ordinary shares arising from share options granted to employees.

Intangible assets
Goodwill
Subject to the transitional relief in IFRS 1 'First-time Adoption of International Financial Reporting Standards' (IFRS 1), all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. For those business combinations occurring prior to 1 April 2004, no goodwill is recognised as these business combinations were accounted for using merger accounting principles. The Group has elected to take the exemption allowed under IFRS 1 not to restate these business combinations.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and tested annually for impairment.

Licence fees
Licence fees, including those for computer software, are stated at cost less accumulated amortisation and provision for any impairment in value, and amortised on a straight-line basis over the remaining licence period, of between five and ten years, once the relevant asset to which a licence relates becomes operational and the service is utilised or available for use.

Other intangibles
Other intangible assets, including customer lists and trade names, acquired by the Group and Company are stated at cost less accumulated amortisation and impairment losses and are amortised over their estimated useful lives as follows:
- Customer lists: 1–15 years
- Trade names: 5 years

Development
Development expenditure is capitalised as an intangible asset only when the following conditions are met – the technical feasibility of completing the asset; that the Group intends to complete the development and use or sell the asset; future economic benefits are probable; and that the costs of development can be reliably measured. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. The intangible asset is measured at cost less accumulated amortisation.

Non-current assets held for sale and discontinued operations
An asset is classified as held for sale when it has been identified that the asset in question is no longer required for continuing use and is therefore available for immediate sale, and that the sale is highly probable. Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of the carrying amount and the fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in the Consolidated Income Statement. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Property, plant and equipment
Property, plant and equipment is stated at historic cost, less accumulated depreciation and provision for impairments in value. The cost of self-constructed assets includes the cost of materials, direct labour and other costs which are directly attributable to the construction of property, plant and equipment. Depreciation is charged to the Consolidated Income Statement using the straight-line basis over estimated useful lives. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation rates, useful lives and residual values are reassessed at each reporting date. The estimated useful lives are as set out below:

	Years
Land and leasehold buildings	
Alterations to leasehold premises	Over lease period or useful life if shorter
Plant and equipment	
Underground network	40
Fibre optic cable and transmission equipment	5 to 20
Electronics, switching equipment and base stations	5 to 15
Customer connections	5
Tools	4
Other assets	
Fixtures and fittings	10
Vehicles	4
Personal computers	3

Freehold land is not depreciated.

Maintenance, repairs and renewals are generally charged to the Consolidated Income Statement during the year in which they are incurred. Major refurbishments and renovations are capitalised and included in the carrying amount of the related asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and Company. Major refurbishments and renovations are depreciated over the remaining life of the asset.

Borrowing costs are not capitalised.

Financial Statements:
Notes to the Consolidated and Parent Company Financial Statements
for the year ended 31 March 2008

3 Significant accounting policies – continued

Inventories
Inventories are stated at the lower of cost or net realisable value. Cost is determined on a first-in-first-out (FIFO) basis. Net realisable value is the amount that can be realised from the sale of the inventory in the normal course of business after allowing for the costs of realisation.

An allowance is recorded for inventory obsolescence.

Trade receivables
Trade receivables are initially stated at fair value and subsequently carried at amortised cost less an estimate made for impaired trade receivables, based upon the periodic review of all outstanding amounts.

Cash and cash equivalents
The Group and Company manage their short-term liquidity through holdings of cash and highly liquid interest-bearing deposits. For the purpose of the cash flow statement only deposits with a maturity period of three months from the date of acquisition or less are shown as cash and cash equivalents. Bank overdrafts that are repayable on demand and that form an integral part of the Group and Company's cash management are also included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other payables
Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost.

Impairment
Financial assets
All financial assets are assessed at each reporting date to ascertain if there is any evidence that it is impaired. A financial asset is considered to be impaired if evidence exists indicating that one or more events has had an adverse effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risks.

Non-financial assets
The carrying amount of the Group's non-financial assets are reviewed as appropriate at each reporting date to determine whether there is any indication of impairment. If such an indication exists then the assets' recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent from other assets and groups. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. Impairment losses are recognised in the Consolidated Income Statement.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss recognised in prior periods is reversed if there has been a change in the estimate used to determine the recoverable amount.

Finance and operating leases
Leases in terms of which the Group and Company assume substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are depreciated in line with the Group and Company's depreciation policy or, where shorter, over the term of the relevant lease. The interest element of the finance lease repayments is charged to the Consolidated Income Statement in proportion to the balance of the capital repayments outstanding.

Rentals payable under operating leases are charged to the Consolidated Income Statement on a straight-line basis over the lease term.

Rent-free periods received by the Group and Company, at the inception of new operating leases for properties, are recognised in the Consolidated Income Statement, over the period of the lease.

Foreign currency
Transactions in foreign currencies are translated to the respective functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such balances is taken to the Consolidated Income Statement.

The assets and liabilities of the overseas entity are translated at the rate of exchange ruling at the balance sheet date. The expenses of the overseas entity are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising on retranslation are recognised in the Consolidated Income Statement.

Pensions
The Group and Company participate in Group pension arrangements, consisting of both defined contribution and defined benefit plans.

Defined contribution plans
Contributions to defined contribution pension plans are charged to the Consolidated Income Statement in the period in which they are incurred.

These contributions are determined as a fixed percentage of the individual employees' relevant salary and the Group has no legal or constructive obligation to pay further amounts. All contributions are paid across to an independent provider.

For a small number of employees, the Group and Company pay varying levels of contributions to personal pension schemes. These costs are charged to the Consolidated Income Statement as incurred.

Defined benefit plans
For defined benefit pension plans, pension costs are calculated using the projected unit credit method. The calculation is performed annually by an independent qualifed actuary. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates on high-quality corporate bonds, where the terms to maturity are comparable with the terms of the related liabilities. Actuarial gains and losses are recognised as incurred on an annual basis outside the Consolidated Income Statement and presented in the Statement of Recognised Income and Expense in accordance with IAS 19 'Employee Benefits' (IAS 19).

Borrowings
Borrowings are recognised initially at fair value net of transaction costs. In subsequent periods they are stated at amortised cost and any difference between net proceeds and redemption amounts are recognised in the Consolidated Income Statement over the life of the borrowings.

Share-based payments
Group
The share option programme allows Group and Company employees to acquire shares of the ultimate Parent Company, THUS Group plc, and these awards are granted by THUS Group plc. The fair value of the options granted after 7 November 2002 and those not yet vested before the date of transition to International Financial Reporting Standards is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured, using a variety of different models including the Black-Scholes model and a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that expect to and do vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The Group has elected to apply IFRS 2 'Share based payments' (IFRS 2) only to the relevant awards that were granted after 7 November 2002. The Group has not accounted for share-based payments granted prior to that date.

Company
Share-based payment awards are granted by the Company to employees of the Company's wholly owned subsidiary, THUS plc. The fair value of these awards is calculated in accordance with the requirements of IFRS 2, as detailed above. On grant this is treated as an increase in the investment in the subsidiary company and recognised over the relevant vesting period. In accordance with IFRS 2, there is a corresponding increase in equity.

Share-based payment awards are satisfied through shares held in the Employee Share Trust which is sponsored by the subsidiary THUS plc, being transferred to THUS Group plc. This arrangement is considered an equity settled share-based payment and accounted for as a reduction of the cost of investment and a reduction from own equity as own shares are received.

Provisions
Provision is made where the Group and Company have a present legal or constructive obligation that can be estimated reliably as a result of past events and it is probable that an outflow of economic benefit will be required to settle the obligation. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group and Company from a contract are lower than the unavoidable costs of meeting their obligations under the contract.

Share capital
Ordinary shares
Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity against an appropriate reserve account.

Treasury shares
Own shares purchased by the Group are held by an Employee Share Trust which is sponsored by THUS plc. These shares are treated as treasury shares, with the total cost, including transactions costs, being recognised as a deduction from equity against the cumulative loss reserve account. When these treasury shares are subsequently transferred, by way of settling outstanding share options, the amount received is recognised as an increase in equity.

3 Significant accounting policies – continued

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any impairment losses.

Financial instruments

Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, trade and other payables, and loans and other borrowings.

Derivative financial instruments
The Group and Company use derivative financial instruments to hedge their exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Group and Company do not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Income Statement. The fair value of interest rate swaps is the estimated amount that the Group and Company would receive or pay to terminate the swap at the balance sheet date, taking into account market conditions.

Adopted IFRSs not yet applied

A number of new standards, amendments to existing standards and interpretations are not yet effective for the year ended 31 March 2008 and have not been applied in preparing these Financial Statements.
The following standards have been endorsed by the EU and will require to be applied in subsequent periods:

IFRIC 14 'IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
IFRIC 14 clarifies the requirements of IAS 19 paragraph 58, which limits the measurement of a defined benefit asset to the 'present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan' plus unrecognised net actuarial losses and past service cost; this is known as the 'asset ceiling'.

The IFRIC addresses when refunds or reductions in future contributions should be regarded as available; how a minimum funding requirement might affect the availability of reductions in future contributions; and when a minimum funding requirement might give rise to an additional liability.

IFRS 8 'Operating segments'
This introduces the management approach to segment reporting. IFRS 8 becomes mandatory for the Group's 2009 Financial Statements but is not expected to have any significant impact.

IFRIC 13 'Customer loyalty programmes'
This IFRIC will only apply where customer loyalty programmes operate and so will have no impact on the Group.

The following standards and interpretations have not yet been endorsed by the EU but may apply in subsequent periods if endorsed:

Amendments to IAS 1 Presentation of Financial Statements: A revised presentation
This standard will require the Group and Company to present a statement of comprehensive income and may require additional disclosures around changes in equity.

Revised IAS 23: Borrowing costs
This removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group and Company's 2009 Financial Statements but will have no impact as the Group and Company currently do not have any qualifying assets.

Amendments to IAS 32 Financial Instruments: Presentation
The amendments provide exemptions from the requirement to classify as a liability financial instruments under which an entity has an unavoidable obligation to deliver cash. The exemptions apply to two categories only of instruments issued by an entity. They are:

- → a puttable financial instrument; or
- → an instrument, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity *only* on liquidation.

The amendments set out detailed definitions and circumstances that must be met before these exemptions are available.

The amendments to IAS 32 lead to consequential amendments to IAS 1, IFRS 7 and IFRIC 2.

Amendments to IAS 27 Consolidated and Separate Financial Statements and IFRS 3 (revised) Business combinations – These amendments make some changes to accounting for business combinations. The standard will affect the Group and Company only if they are involved in business combinations in future financial periods.

Amendment to IFRS 2 Share-based payment – Vesting Conditions and Cancellations
The definition of vesting conditions in IFRS 2 has been amended to clarify that vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered non-vesting conditions.

Under the amendment, non-vesting conditions are taken into account in measuring the grant date fair value of the share-based payment and there is no true-up of equity-settled arrangements for differences between expected and actual outcomes. Therefore, if all vesting conditions are met, then the entity will recognise the grant date fair value of the equity-settled share-based payment as compensation cost even if the counterparty does not become entitled to the share-based payment due to a failure to meet a non-vesting condition.

4 Segmental reporting

Segment information is presented in the Financial Statements in respect of the Group's business and geographical segments. The primary format, business segments, reflects the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results include depreciation charges on assets directly attributable to a segment. Unallocated expenses comprise overheads that cannot be directly allocated to individual segments, depreciation and amortisation charges on assets not directly attributable to business segments, and restructuring costs. Unallocated assets include network and other fixed assets which are used across all business segments and other corporate assets. Unallocated liabilities include interest-bearing loans and other corporate liabilities.

Business segments

The Group's main business segments are:
Managed solutions – the provision of voice, telephony, data and internet services as part of a bespoke contractual arrangement.
Data and telecoms – the provision of voice telephony services and data supply products.
Internet – the provision of services using internet-based products.
Mobile – the provision of mobile services.

Geographical segments

The Internet segment operated in two principal geographical areas, United Kingdom and Europe. In Europe, the Group had, until June 2006, operations in the Netherlands that had operational, sales, marketing and corporate functions.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

(a) Primary segmental reporting

Business segments	Notes	2008 £'000	2007 £'000
Segment revenue			
Managed solutions		**111,199**	95,049
Data and telecoms		**346,955**	312,452
Internet		**79,533**	84,726
Mobile		**38,513**	40,466
Total segment revenue from continuing operations		**576,200**	532,693
Discontinued operations	5	**–**	3,165
Consolidated segment revenue		**576,200**	535,858
Segment result			
Managed solutions		**28,663**	18,917
Data and telecoms		**60,933**	61,450
Internet		**18,431**	23,141
Mobile		**4,707**	4,192
Total segment result from continuing operations		**112,734**	107,700
Discontinued operations	5	**–**	374
Consolidated segment result		**112,734**	108,074
Unallocated expenses		**(108,744)**	(118,810)
Operating profit/(loss)		**3,990**	(10,736)
Net financing expenses	12 (c)	**(6,889)**	(3,967)
Income tax (expense)/credit		**(3,416)**	69,599
Gain on sale of discontinued operations, net of tax		**2,111**	29,032
(Loss)/profit for the year		**(4,204)**	83,928

Financial Statements:

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 March 2008

4 Segmental reporting – continued

(a) Primary segmental reporting – continued

Business segments	2008 £'000	2007 £'000
Segment assets		
Managed solutions	**50,420**	34,276
Data and telecoms	**133,082**	123,591
Internet	**31,745**	34,695
Mobile	**23,813**	25,054
Unallocated assets	**465,863**	437,161
Total assets	**704,923**	654,777
Segment liabilities		
Managed solutions	**(10,840)**	(11,000)
Data and telecoms	**(72,482)**	(70,753)
Internet	**(5,717)**	(8,671)
Mobile	**(6,967)**	(7,106)
Unallocated liabilities	**(147,716)**	(86,028)
Total liabilities	**(243,722)**	(183,558)
Segment depreciation and amortisation		
Managed solutions	**3,358**	1,356
Data and telecoms	**7,425**	6,695
Internet	**598**	550
Mobile	**376**	394
Unallocated depreciation and amortisation	**41,272**	43,408
Total depreciation and amortisation	**53,029**	52,403

Segment impairment losses

There were no impairment losses in the year (2007: £Nil).

	2008 £'000	2007 £'000
Segment non-cash expenses		
Managed solutions	**92**	462
Data and telecoms	**142**	559
Internet	**40**	173
Unallocated non-cash expenses	**555**	1,887
Total non-cash expenses	**829**	3,081
Segment capital expenditure (including intangible assets)		
Managed solutions	**17,657**	11,334
Data and telecoms	**6,807**	6,980
Internet	**–**	250
Mobile	**70**	72
Discontinued operations	**–**	102
Unallocated capital expenditure	**31,990**	40,618
Total capital expenditure (including intangible assets)	**56,524**	59,356

(b) Secondary segmental reporting

	United Kingdom		Europe		Consolidated	
Geographical segments	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Revenue	**576,200**	532,693	**–**	3,165	**576,200**	535,858
Segment assets	**704,923**	654,777	**–**	–	**704,923**	654,777
Cash flows from operating activities	**53,924**	31,811	**–**	(673)	**53,924**	31,138
Cash flows from investing activities	**(54,107)**	(54,874)	**2,070**	31,871	**(52,037)**	(23,003)
Cash flows from financing activities	**38,432**	(40,068)	**–**	–	**38,432**	(40,068)
Capital expenditure	**56,524**	59,254	**–**	102	**56,524**	59,356

The cash flows attributable to the discontinued business of Demon Netherlands have been disclosed as Europe above.

5 Discontinued operations

On 15 June 2006, the Group completed the disposal of its operations based in the Netherlands, following the announcement made on 1 February 2006. The Dutch operations represented a separate geographical business area of the Group and therefore were classified as a discontinued operation for the year ended 31 March 2007, and were formerly included as part of the Internet segment.

The results, for the year ended 31 March 2008, represent the finalisation of the tax position regarding the prior year disposal.

In the prior year, the gross proceeds from the sale of the Demon Netherlands operations to the Dutch telecommunications company, Royal KPN NV, amounted to £47 million, with selling costs of £3.5 million and £1.2 million representing the net assets disposed of.

The table below provides an analysis of the amounts disclosed in the Consolidated Income Statement:

	Note	2008 £'000	2007 £'000
Revenue		**–**	3,165
Cost of sales		**–**	(1,971)
Gross profit		**–**	1,194
Selling and distribution expenses		**–**	(553)
Administrative expenses		**–**	(267)
Operating profit		**–**	374
Financial income		**29**	8
Financial expenses		**(154)**	–
Net financing (expenses)/income		**(125)**	8
(Loss)/profit before and after income tax		**(125)**	382
Gain on sale of discontinued operations		**397**	42,295
United Kingdom income tax expense on gain on sale of discontinued operations (deferred tax)		**–**	(3,763)
Overseas income tax credit/(expense) on gain on sale of discontinued operations		**1,714**	(9,500)
Profit from discontinued operations, net of tax		**1,986**	29,414
Discontinued operations basic earnings per share (pence)	14	**1.09**	16.34
Discontinued operations diluted earnings per share (pence)	14	**1.09**	16.18

Cash flows from discontinued operations	2008 £'000	2007 £'000
Net cash from operating activities	**–**	(673)
Net cash from investing activities	**2,070**	31,871
Net cash from discontinued operations	**2,070**	31,198

5 Discontinued operations – continued

Effect of disposal on the financial position of the Group	2007 £'000
Property, plant and equipment	(1,180)
Inventories	(172)
Trade and other receivables	(1,717)
Cash and cash equivalents	(2,036)
Trade and other payables	3,907
Current tax liabilities	3
Net assets disposed of	(1,195)

	2008 £'000	2007 £'000
Consideration received, satisfied in cash and net of disposal costs	**(511)**	(43,502)
Cash disposed of	**–**	2,036
Income tax (received)/paid on gain on sale of discontinued operations	**(1,559)**	9,500
Net cash inflow	**(2,070)**	(31,966)

6 Operating profit/(loss)

	Notes	**2008 £'000**	2007 £'000
Operating profit/(loss) is stated after charging/(crediting):			
Depreciation and impairment on tangible fixed assets			
– Owned assets	11	**50,982**	48,425
– Under finance leases	11,15	**138**	220
Amortisation of intangible fixed assets (including impairment provision)	16	**1,909**	3,758
Other operating lease rentals payable			
– Property		**13,097**	13,661
– Other assets		**170**	174
– Sublease receipts	7	**(1,563)**	(1,844)
Other operating income – profit on disposal of fixed assets	7	**(364)**	(635)
Exchange differences		**1**	(3)

Fees paid to the auditors and their associates during the current and prior year are analysed below:

	2008 £'000	2007 £'000
Fees payable to the Company's auditor for the audit of these Financial Statements	**250**	239
Audit-related regulatory reporting	**40**	29
Fees payable to the Company's auditor and its associates for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**42**	40
Other services	**10**	109
	342	417

The work included in Other services comprises £10,000 for other advisory work (2007: £5,000 for other advisory work and £104,000 for work relating to the disposal of the discontinued operations).

Amounts paid to the Company's auditors in respect of services to the Company, other than the audit of the Company's Financial Statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

7 Other operating income

	Note	**2008 £'000**	2007 £'000
Rents received	6	**1,563**	1,844
Profit on disposal of fixed assets	6	**364**	635
		1,927	2,479

8 Restructuring costs

The Group has identified material one-off or unusual items as detailed below. These have been shown to provide a more meaningful analysis of the trading results of the Group and are consistent with the way Group management has assessed the financial performance for both years.

	2008 £'000	2007 £'000
Restructuring costs	**–**	1,570

These costs are recognised in the following categories in the Consolidated Income Statement:

Cost of sales	**–**	94
Selling and distribution expenses	**–**	252
Administrative expenses	**–**	1,224
	–	1,570

The restructuring costs incurred in the prior year represented additional redundancy costs, not previously provided for, and other costs associated with restructuring the Group's operations following the integration of Your Communications and Legend Communications plc.

9 Earnings before interest, tax, depreciation (including impairment) and amortisation (EBITDA)

	Notes	**2008 £'000**	2007 £'000
Operating profit/(loss)		**3,990**	(11,110)
Depreciation charge for the year	11	**51,120**	48,645
Amortisation charge for the year	16	**1,909**	3,758
EBITDA		**57,019**	41,293

EBITDA before restructuring costs is calculated as follows:			
Operating profit/(loss)		**3,990**	(11,110)
Restructuring costs	8	**–**	1,570
Depreciation charge for the year	11	**51,120**	48,645
Amortisation charge for the year	16	**1,909**	3,758
EBITDA before restructuring costs		**57,019**	42,863

EBITDA is a key measure used by the Group's management to assess the performance of the Group. As this is a non-GAAP measure, and is not defined within International Financial Reporting Standards as adopted by the EU, this reconciliation has been provided.

10 Employees

(a) Group employee costs

	Notes	**2008 £'000**	2007 £'000
Wages and salaries		**70,108**	65,167
Social security costs		**7,666**	7,938
Pension costs:			
– defined benefit scheme	31	**3,857**	5,162
– contributions to defined contribution plans and others	31	**1,009**	909
Benefits in kind		**1,788**	1,631
Equity settled transactions	33	**478**	1,164
Total employee costs		**84,906**	81,971
Less: capitalised within property, plant and equipment		**(13,203)**	(12,461)
Charged to the Consolidated Income Statement		**71,703**	69,510

Employee costs are recognised in the following categories in the Consolidated Income Statement:		
Cost of sales	**26,702**	23,839
Selling and distribution expenses	**22,077**	21,379
Administrative expenses	**22,924**	24,292
Total employee costs	**71,703**	69,510

Financial Statements:
Notes to the Consolidated and Parent Company Financial Statements
for the year ended 31 March 2008

10 Employees – continued
(b) Group 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	
	2008	2007	**2008**	2007
Operations	**886**	758	**842**	761
Selling and distribution	**317**	284	**306**	294
Administrative and customer services*	**646**	684	**635**	676
	1,849	1,726	**1,783**	1,731
The number of full-time equivalent staff was:	**1,828**	1,705	**1,762**	1,720

* Administrative and customer services includes customer services, provisioning and corporate functions.

	Average	
By location	**2008**	2007
United Kingdom	**1,783**	1,721
Europe*	**–**	10
	1,783	1,731

* For the prior year the average figure for Europe represented the employees based in the Netherlands up until the disposal of this operation in June 2006.

(c) Group key management compensation

	2008 £'000	2007 £'000
Salaries and short-term benefits	**3,280**	3,443
Post-employment benefits	**175**	195
Share-based payments	**196**	442
	3,651	4,080

The key management figures above include Executive and Non-executive Directors and Management Board members.

Details of Directors' emoluments, share options, long-term incentives and pension arrangements are contained in the Directors' Remuneration Report on pages 32 to 36.

(d) Company employee costs

	2008 £'000	2007 £'000
Wages and salaries	**2,072**	1,211
Social security costs	**283**	150
Pension costs	**55**	51
Charged to the Income Statement	**2,410**	1,412

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

	At 31 March		Average	
	2008	2007	**2008**	2007
Administrative	**3**	3	**3**	3
The number of full-time equivalent staff was:	**3**	3	**3**	3

	Average	
By location	**2008**	2007
United Kingdom	**3**	3

(f) Company key management compensation

	2008 £'000	2007 £'000
Salaries and short-term benefits	**2,355**	1,361
Post-employment benefits	**55**	51
	2,410	1,412

The key management figures above include Executive Directors only.

11 Depreciation and impairment charge
Depreciation and impairment is charged on network and non-network assets and is included within cost of sales and administrative expenses on that basis as follows:

	Note	2008 £'000	2007 £'000
Cost of sales		**42,729**	41,063
Administrative expenses		**8,391**	7,582
	15	**51,120**	48,645

The cost of sales depreciation charge includes asset impairment charges of £Nil (2007: £Nil).

12 Net financing expenses
(a) Analysis of net financing expenses

Continuing operations	Notes	2008 £'000	2007 £'000
Interest on overdrafts and other borrowings		**8,955**	5,634
Interest on defined benefit pension plan obligations	31	**4,003**	3,431
Interest on finance leases		**318**	361
Financial expenses	(b)	**13,276**	9,426
Interest receivable		**(1,083)**	(1,365)
Interest rate swaps		**(319)**	–
Expected return on defined benefit pension plan assets	31	**(5,110)**	(4,086)
Financial income		**(6,512)**	(5,451)
Net financing expenses		**6,764**	3,975

(b) Analysis of financial expenses

Continuing operations	2008 £'000	2007 £'000
Secured bank loans	**6,404**	4,465
Amortisation of loan costs	**318**	518
Loan costs written off	**664**	376
Net change in fair value of cash flow hedges	**561**	–
Other interest payable	**859**	275
Unwinding of discount rate interest	**149**	–
Interest on defined benefit pension plan obligations	**4,003**	3,431
Finance leases	**318**	361
	13,276	9,426

(c) Analysis of net financing expenses between continuing and discontinued operations

	Note	2008 £'000	2007 £'000
Financial expenses			
Continuing operations		**13,276**	9,426
Discontinued operations	5	**154**	–
		13,430	9,426
Financial income			
Continuing operations		**(6,512)**	(5,451)
Discontinued operations	5	**(29)**	(8)
		(6,541)	(5,459)
Net financing expenses/(income)			
Continuing operations		**6,764**	3,975
Discontinued operations	5	**125**	(8)
		6,889	3,967

13 Income tax (expense)/credit

(a) Recognised in the Consolidated Income Statement:

Current tax credit	2008 £'000	2007 £'000
UK Corporation tax charge at 30% (2007: 30%)	**–**	–
Adjustments in respect of prior year	**71**	–
	71	–

Deferred tax (expense)/credit	2008 £'000	2007 £'000
Origination and reversal of temporary differences	**364**	4,482
Reduction in tax rate	**(4,057)**	–
Deferred tax asset recognised in respect of prior year timing differences	**206**	65,117
	(3,487)	69,599

	Note	2008 £'000	2007 £'000
Income tax (expense)/credit excluding tax on sale of discontinued operations		**(3,416)**	69,599
Income tax credit/(expense) on gain on sale of discontinued operations	5	**1,714**	(13,263)
Total income tax (expense)/credit		**(1,702)**	56,336

(b) Reconciliation of effective tax rate

The current tax charge is higher (2007: credit – higher) than the standard rate of corporation tax in the UK (30%) applied to the (loss)/profit for the year due to the following factors:

	2008 £'000	2007 £'000
(Loss)/profit after tax for the year	**(4,204)**	83,928
Total income tax expense/(credit)	**1,702**	(56,336)
(Loss)/profit excluding income tax	**(2,502)**	27,592

	2008 %	2008 £'000	2007 %	2007 £'000
Income tax using UK standard rate of corporation tax of 30% (2007: 30%)	**30.0**	**(751)**	30.0	8,278
Effects of:				
Non-deductible expenses	**(30.0)**	**751**	1.8	503
Deferred tax asset recognised in the current year in respect of current year temporary differences	**14.5**	**(364)**	–	–
Defered tax asset recognised in the current year in respect of prior year temporary differences	**–**	**–**	(236.0)	(65,117)
Under/(over) provision in the prior year	**11.1**	**(277)**	–	–
Impact of change in tax on deferred tax asset recognised	**(162.1)**	**4,057**	–	–
Overseas tax – adjustments in respect of prior years	**68.5**	**(1,714)**	–	–
	(68.0)	**1,702**	(204.2)	(56,336)

(c) Income tax recognised directly in equity

	Note	2008 £'000	2007 £'000
Actuarial gains and losses	28	**772**	893

14 (Loss)/earnings per share

The basic (loss)/earnings and diluted (loss)/earnings per ordinary share have been calculated in accordance with IAS 33 'Earnings per Share' (IAS 33) for both years. The (loss)/profit for the financial year, divided by the weighted average number of ordinary shares in issue during the financial year, has been used to calculate both the (loss)/earnings and diluted (loss)/earnings per ordinary share. The detailed calculations are as follows:

(a) (Loss)/profit

	Note	2008 £'000	2007 £'000
(Loss)/profit for the year from continuing operations		**(6,190)**	54,514
Profit for the year from discontinued operations	5	**1,986**	29,414
Total (loss)/profit for the year attributable to equity shareholders		**(4,204)**	83,928

Weighted average number of ordinary shares	Note	2008 No. of shares 000's	2007 No. of shares 000's
Issued ordinary shares at 1 April		**183,032**	180,757
Effect of own shares held		**(867)**	(1,476)
Effect of own shares purchased		**(231)**	–
Effect of share options exercised		**162**	313
Effect of shares issued		**–**	379
Basic weighted average number of shares at 31 March		**182,096**	179,973
Effect of dilutive potential ordinary shares – share options	(c)	**–**	1,832
Diluted weighted average number of shares at 31 March		**182,096**	181,805

The basic and diluted weighted average share capital excludes 1,629,985 (2007: 866,376) ordinary shares held by the Group under Trust in connection with the Employee Share Schemes.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

(b) (Loss)/earnings per share for continuing and discontinued operations

For the years ended 31 March 2008 and 31 March 2007, the (loss)/earnings per share for continuing and discontinued operations has been calculated using the same figures as the overall (loss)/earnings per share, except that the loss for the year used in the calculation for the continuing operations (loss)/earnings per share is £6,190,000 (2007: profit £54,514,000), and for discontinued operations, the profit is £1,986,000 (2007: profit £29,414,000).

(c) Potentially dilutive instruments

Due to their anti-dilutive nature for the year ended 31 March 2008, 1,878,785 share options have been excluded from the diluted loss per share calculation.

Financial Statements:

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 March 2008

15 Property, plant and equipment

Group	Notes	Land & leasehold buildings £'000	Plant & equipment £'000	Other assets £'000	Total £'000
Cost					
At 1 April 2006		5,518	597,174	148,387	751,079
Reclassification		–	(1,447)	1,447	–
Additions		1,757	48,712	7,228	57,697
Disposal of business		–	–	(102)	(102)
At 31 March 2007		**7,275**	**644,439**	**156,960**	**808,674**
At 1 April 2007		7,275	644,439	156,960	808,674
Additions		991	50,187	4,976	56,154
Disposals		–	(75)	(196)	(271)
At 31 March 2008		**8,266**	**694,551**	**161,740**	**864,557**
Depreciation and impairment losses					
At 1 April 2006		3,361	261,978	113,356	378,695
Depreciation charge for the year	6, 11	523	41,058	7,064	48,645
At 31 March 2007		**3,884**	**303,036**	**120,420**	**427,340**
At 1 April 2007		3,884	303,036	120,420	427,340
Depreciation charge for the year	6, 11	619	43,087	7,414	51,120
Released on disposal		–	(15)	(98)	(113)
At 31 March 2008		**4,503**	**346,108**	**127,736**	**478,347**
Net book value					
At 1 April 2006		2,157	335,196	35,031	372,384
At 31 March 2007		**3,391**	**341,403**	**36,540**	**381,334**
At 1 April 2007		3,391	341,403	36,540	381,334
At 31 March 2008		**3,763**	**348,443**	**34,004**	**386,210**

The net book value of tangible fixed assets held under finance leases by the Group at 31 March 2008 was £98,000 (2007: £236,000). The charge for depreciation against these assets during the year was £138,000 (2007: £220,000) (see Note 6).

All property, plant and machinery of the Group is secured by a bond and floating charge and a fixed and floating charge in favour of the Royal Bank of Scotland for the secured bank loans.

16 Intangible assets

Group	Notes	Goodwill £'000	Trade names £'000	Customer lists £'000	Computer software £'000	Licences £'000	Other £'000	Total £'000
Cost								
At 1 April 2006		59,532	1,600	9,741	4,922	1,530	2,796	80,121
Additions		–	–	–	1,624	–	35	1,659
Revisions to deferred consideration		(1,974)	–	–	–	–	–	(1,974)
At 31 March 2007		**57,558**	**1,600**	**9,741**	**6,546**	**1,530**	**2,831**	**79,806**
At 1 April 2007		57,558	1,600	9,741	6,546	1,530	2,831	79,806
Additions		–	–	–	370	–	–	370
Revisions to deferred consideration	28	(7,300)	–	–	–	–	–	(7,300)
At 31 March 2008		**50,258**	**1,600**	**9,741**	**6,916**	**1,530**	**2,831**	**72,876**
Aggregate amortisation								
At 1 April 2006		–	1,600	1,308	2,873	595	2,095	8,471
Amortisation charge for the year	6	–	–	2,371	921	71	395	3,758
At 31 March 2007		**–**	**1,600**	**3,679**	**3,794**	**666**	**2,490**	**12,229**
At 1 April 2007		–	1,600	3,679	3,794	666	2,490	12,229
Amortisation charge for the year	6	–	–	505	942	121	341	1,909
At 31 March 2008		**–**	**1,600**	**4,184**	**4,736**	**787**	**2,831**	**14,138**
Carrying amounts								
At 1 April 2006		59,532	–	8,433	2,049	935	701	71,650
At 31 March 2007		**57,558**	**–**	**6,062**	**2,752**	**864**	**341**	**67,577**
At 1 April 2007		57,558	–	6,062	2,752	864	341	67,577
At 31 March 2008		**50,258**	**–**	**5,557**	**2,180**	**743**	**–**	**58,738**

All intangible assets, including goodwill, are secured by a bond and floating charge and a fixed and floating charge in favour of the Royal Bank of Scotland for the secured bank loans.

The amortisation charge is recognised in the following line items in the Consolidated Income Statement:

	2008 £'000	2007 £'000
Cost of sales	**–**	–
Administrative expenses	**1,909**	3,758
	1,909	3,758

Following the acquisition of Your Communications, the Group decided not to use the Your Communications trade name and accordingly the £1,600,000 intangible asset recognised at acquisition was impaired to £Nil in 2006.

Impairment tests for cash generating units containing goodwill

Goodwill arose on the acquisitions made in the year ended 31 March 2006. In the year of acquisition, this goodwill was allocated to the Your Communications, Legend Communications plc and Intercell businesses which, at that time, were identified as separate cash generating units (CGUs). Following the integration of these entities within the existing operations during the year ended 31 March 2007, the number of CGUs was redefined. Goodwill, arising on acquisition, has been amended in the current year to reflect the deferred consideration revision and has been allocated to the following CGUs:

	2008 £'000	2007 £'000
Managed solutions	**1,959**	2,333
Data and telecoms	**23,432**	27,898
Internet	**13,853**	14,214
Mobile	**11,014**	13,113
	50,258	57,558

The Group tests goodwill annually for impairment. The impairment test involves determining the recoverable amount of CGUs to which goodwill has been allocated. The recoverable amount is based on the present value of expected future cash flows (value in use). As the nature of the Group's business results in a significant amount of unallocated assets and costs, the value in use of all assets has also been considered.

The key assumptions underlying the cash flow projections are revenue growth, margins, the level of operating expenditure, the amount of capital expenditure and the terminal value of the CGU. The cash flow projections are based on formally approved management cash flow projections for a ten-year period which, for the first five years, are based on past experience and future expectations and, for the next five years, are based on growth rates consistent with UK growth forecasts. These are then extrapolated into perpetuity using a nominal long-term growth rate based on United Kingdom GDP of 3.1% (2007: 3.0%). A pre-tax discount rate in the range of 9.2% to 10.8% (2007: 9.8% to 11%) has been used. The cost of capital assigned to CGUs can have a significant effect on the valuation. The cost of capital reflects a number of financial and economic variables including the risk free interest rate and a premium to reflect the inherent risks. These variables are established based on management judgement.

Having reviewed the key assumptions used, the Directors do not believe that there is a reasonably possible change in any of the key assumptions that would require further disclosure.

Financial Statements:

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 March 2008

17 Investments

Company	Note	Subsidiary undertakings 2008 £'000	2007 £'000
Cost and net book value			
At 1 April		**56,963**	69,079
Transferred to subsidiary – THUS plc	35(e)	**–**	(12,116)
At 31 March		**56,963**	56,963

The investment in subsidiary undertakings represents an investment in shares of £56,963,000 (2007: £56,963,000).

During the year the Company implemented the requirements of IFRIC 8 'Scope of IFRS 2' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' and as a result, the value of the investments increased by £739,000 (2007: £1,164,000), representing the fair value of share-based payments granted by the Company to the employees of the Company's wholly owned subsidiary THUS plc.

The shares used to satisfy the obligation arising from these options are held by the Employee Share Trust, which is sponsored by the subsidiary THUS plc. The increase in the cost of investment is matched by a reduction in the value of investments of £739,000 (2007: £1,164,000) arising from the recharge arrangement with THUS plc, through which shares are given to the Company to allow it to satisfy its obligation arising from the share-based payment arrangements. Accordingly, no movement is disclosed above in investments in subsidiaries.

Details of the Company's significant subsidiary undertakings, all of which are included in the consolidation, at 31 March 2008, 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 Managed solutions services provider
		Preference	100%	
Demon Internet, Inc*	USA	Ordinary	100%	US Internet peering management
THUS Profit Sharing Trustees Limited*	Scotland	Ordinary	100%	Trustee
Your Communications Group Limited*	England	Ordinary	100%	Investment holding company
		Preference	100%	
Intercell Limited*	England	Ordinary	100%	Mobile airtime and equipment provider
Legend Communicatons plc*	England	Ordinary	100%	Dormant

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

18 Inventories

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Raw materials – replacement parts and consumables	**8,615**	4,213	**–**	–

Inventories to the value of £4,995,000 (2007: £4,418,000) were recognised as expenses in the year.

Included in inventories is £Nil expected to be recovered in more than 12 months.

19 Trade and other receivables

	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Amounts falling due within one year:					
Trade receivables		**73,502**	71,882	**–**	–
Amounts owed by related parties	35(e)	**–**	3,064	**–**	–
Taxation and social security		**2,367**	–	**–**	–
Prepayments and accrued income		**42,900**	31,245	**–**	–
Other receivables		**790**	2,290	**–**	–
		119,559	108,481	**–**	–
Amounts falling due after one year:					
Amounts owed by subsidiary undertakings	(a), 35(e)	**–**	–	**70,188**	78,095
		119,559	108,481	**70,188**	78,095

(a) Although amounts owed by subsidiary undertakings are repayable on demand, the Directors believe that as the amounts are unlikely to be realised in the 12 months from the balance sheet date, the loan is appropriately disclosed as amounts falling due after one year.

20 Cash and cash equivalents

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Cash and cash equivalents per Balance Sheets	**71,643**	31,724	**87**	87
Less: deposits with a maturity period in excess of three months	**–**	(400)	**–**	–
Cash and cash equivalents per Cash Flow Statements	**71,643**	31,324	**87**	87

21 Trade and other payables

	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Trade payables		**69,042**	36,991	**–**	–
Amounts due to related parties	35(e)	**–**	1,166	**–**	–
Taxation and social security		**–**	613	**141**	154
Capital creditors and accruals		**9,869**	9,271	**–**	–
Other payables		**6,978**	5,448	**87**	87
Derivatives used for hedging	24(e)	**561**	–	**–**	–
Accruals and deferred income		**54,098**	70,044	**–**	–
		140,548	123,533	**228**	241

22 Current tax liabilities

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Liabilities acquired through business combinations	**–**	537	**–**	–

23 Interest-bearing loans and borrowings

Current	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Other borrowings:					
Secured bank loans	(a)	**–**	6,000	**–**	–
Other loans	(b)	**–**	186	**–**	–
Finance lease obligations	(c)	**230**	325	**–**	–
		230	6,511	**–**	–

Non-current	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Other borrowings:					
Secured bank loans	(a)	**98,623**	46,261	**–**	–
Other loans	(b)	**–**	56	**–**	–
Finance lease obligations	(c)	**3,300**	3,554	**–**	–
		101,923	49,871	**–**	–

Terms and debt repayment schedule

The terms and conditions of the outstanding loans and borrowings were as follows:

	Currency	Nominal interest rate	Year of maturity	Face value 2008 £'000	Carrying amount 2008 £'000	Nominal interest rate	Year of maturity	Face value 2007 £'000	Carrying amount 2007 £'000
Secured bank loans*	**GBP**	**LIBOR+1.25%**	**2012**	**100,000**	**100,000**	LIBOR+1.5%	2010	53,000	53,000
Other loans	**GBP**	**–**	**–**	**–**	**–**	5.75%	2008	242	242
Finance lease obligations	**GBP**	**8.93%**	**2019**	**3,530**	**3,530**	8.93%	2019	3,879	3,879
				103,530	**103,530**			57,121	57,121

* For the purposes of this table the secured bank loans are shown gross of unamortised issue costs.

Financial Statements:
Notes to the Consolidated and Parent Company Financial Statements
for the year ended 31 March 2008

23 Interest-bearing loans and borrowings – continued
(a) Secured bank loans
The secured bank loans are stated net of unamortised issue costs of £1,377,000 (2007: £739,000). The secured bank loans are secured by a bond and floating charge over the undertaking and all property and assets, present and future, of the Group, and by a fixed and floating charge over the properties, plant and machinery, securities, debts, bank accounts, goodwill and uncalled capital and intellectual property rights of the Group.

On 30 June 2007, the Group repaid £2,000,000 of the final facility of the secured bank loans in line with the bi-annual loan repayment schedule. On 12 July 2007, the Group replaced this £15,000,000 revolving credit facility and £36,000,000 facility, with a £60,000,000 revolving credit facility and a £50,000,000 term loan facility. The repayment of both facilities falls due for full and final settlement on 12 July 2012.

The purpose of the replacement bank facility is for general corporate purposes including working capital requirements. The bank facilities incurred commitment fees of £1,045,000 being 0.95% of the facilities obtained.

The Group has £10,000,000 of committed but undrawn facilities at 31 March 2008 (2007: £Nil).

The interest rate applied to the loan facilities is calculated as being the aggregate of an applicable margin, LIBOR and a mandatory cost, if any. The mandatory cost is defined as an addition to the interest rate to compensate the lenders for certain compliance costs.

The average interest rate charged during the year was 7.43% (2007: 7.22%).

(b) Other loans
The other loans were secured by a debenture giving a fixed and floating charge over all assets of the Group.

(c) Finance lease obligations
Finance lease obligations are payable as follows:

	Minimum lease payments 2008 £'000	Interest 2008 £'000	Principal 2008 £'000	Minimum lease payments 2007 £'000	Interest 2007 £'000	Principal 2007 £'000
Less than one year	**531**	**301**	**230**	648	323	325
Between one and five years	**1,955**	**995**	**960**	2,021	1,083	938
After five years	**2,933**	**593**	**2,340**	3,422	806	2,616
Total	**5,419**	**1,889**	**3,530**	6,091	2,212	3,879

24 Financial instruments
Financial risk management
Overview
The Group has exposure to the following risks from the use of financial instruments:
- liquidity risk
- credit risk
- market risk
  - interest rate risk
  - currency risk

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the business including those specifically listed above. The Board of Directors, via the Audit Committee, regularly review this process.

Risk assessments are carried out on key processes and quarterly reviews are carried out by the Risk Management Group. These assessments cover all aspects of business risk such as financial, operational, strategic, compliance and business continuity. In addition to this, risk reviews are also carried out to identify and assess the key business risks associated with the achievement of strategic objectives. The reviews are assigned to risk owners, who have a responsibility to regularly monitor and review risks within the Group. A review includes consideration of the nature and extent of the risks facing the Group, the likelihood of the risks materialising, and a review of the controls and action plans associated with the risk.

A quarterly presentation is made to the Audit Committee on the assessment of the risk assessments and risk reviews by the Internal Audit function. This will include control failings and/or weaknesses assessed as significant and discussions on the actions taken by the business to address them.

(a) Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due.

The Group's banking facilities include a £60,000,000 revolving credit facility and a £50,000,000 term loan facility with the Royal Bank of Scotland, Rabobank International London, Allied Irish Bank, Halifax Bank of Scotland, Lloyds TSB Bank and National Australia Bank. All loans are subject to various financial covenants.

Liquidity is managed by the use of annual cash flow budgets and cash flow forecasts, and monitoring of actual cash flow performance against budgets and forecasts. Identified surplus cash is either placed on deposit, or used to repay existing facilities.

The table below details the contractual maturities of financial liabilities, including estimated interest payments.

	31 March 2008						
Group	**Carrying amount £'000**	**Contractual cash flows £'000**	**6 months or less £'000**	**6 – 12 months £'000**	**1 – 2 years £'000**	**2 – 5 years £'000**	**More than 5 years £'000**
Non-derivative financial liabilities							
Secured bank loans	**100,000**	**129,152**	850	3,603	3,325	121,374	–
Finance lease liabilities	**3,530**	**5,419**	287	244	489	1,466	2,933
Trade and other payables	**139,987**	**139,987**	139,987	–	–	–	–
	243,517	**274,558**	**141,124**	**3,847**	**3,814**	**122,840**	**2,933**

24 Financial instruments – continued
(a) Liquidity risk – continued

Group	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
							31 March 2007
Non-derivative financial liabilities							
Secured bank loans	53,000	62,984	2,854	5,959	13,511	40,660	–
Other loans	242	246	171	18	36	21	–
Finance lease liabilities	3,879	6,091	324	324	555	1,466	3,422
Trade and other payables	123,533	123,533	123,533	–	–	–	–
	180,654	192,854	126,882	6,301	14,102	42,147	3,422

Company	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
							31 March 2008
Non-derivative financial liabilities							
Trade and other payables	**228**	**228**	228	–	–	–	–
	228	**228**	**228**	**–**	**–**	**–**	**–**

Company	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
							31 March 2007
Non-derivative financial liabilities							
Trade and other payables	241	241	241	–	–	–	–
	241	241	241	–	–	–	–

(b) Credit risk
Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty fails to meet its contractual obligations, and arises from the Group and Company's trade receivables.

The Group and Company monitor the exposures and the credit rating of their counterparties regularly, and carry out appropriate credit checks on potential customers before sales commence, to mitigate the credit risk that the Group and Company may have with any one counterparty. It is not anticipated that any existing counterparties will fail to meet their current obligations. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Trade and other receivables
The Group and Company operate 'debt paths' to manage credit risk for counterparties that do not honour agreed credit terms. The debt paths include escalation, suspension of services, offset of amounts payable, and recourse to court action to recover monies outstanding. Provision is made for doubtful receivables upon age of debt and experience of collecting overdue debts. The Group will obtain security from customers by way of a deposit to mitigate credit risk.

Guarantees
THUS Group plc and THUS plc have provided cross guarantees in respect of THUS plc's secured borrowing arrangements.

(i) Group
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Group	Notes	**Carrying amount** 2008 £'000	2007 £'000
Trade and other receivables	19	**119,559**	108,481
Cash and cash equivalents	20	**71,643**	31,324
		191,202	139,805

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables due up to 30 days. Allowances are made for receivables beyond that date on a specific base, where debt recovery is deemed unlikely.

Cash and cash equivalents are held with banks which are not expected to fail.

An analysis of the age of trade receivables that are past due at the reporting date is:

Group trade receivables – by invoice date	Gross 2008 £'000	Impairment 2008 £'000	Gross 2007 £'000	Impairment 2007 £'000
Not due – 30 days	**54,144**	**–**	54,424	–
Due 31 – 60 days	**7,360**	**–**	7,500	–
Due > 90 days	**14,665**	**(2,667)**	17,775	(4,753)
	76,169	**(2,667)**	79,699	(4,753)

In excess of 50% of all trade receivables at the period end, and during the year, relate to the Group's top 50 customers.

Financial Statements:

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 March 2008

24 Financial instruments – continued

(b) Credit risk – continued

(i) Group – continued

The movement in the impairment balance in respect of trade receivables during the year was:

Group	2008 £'000	2007 £'000
Balance at 1 April	**4,753**	9,042
Impairment loss recognised	**(2,086)**	(4,289)
Balance at 31 March	**2,667**	4,753

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Group	2008 £'000	2007 £'000
Domestic	**72,815**	76,527
Euro-zone countries	**3,354**	2,992
	76,169	79,519

(ii) Company

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
Company	**Notes**	**2008 £'000**	2007 £'000
Trade and other receivables	19	**70,188**	78,095
Cash and cash equivalents	20	**87**	87
		70,275	78,182

The trade receivables balance in the Company balance sheet represents an intercompany loan between THUS Group plc and THUS plc. Although this loan is payable on demand, the Directors believe that the amounts are unlikely to be realised in the 12 months from the balance sheet date.

(c) Market risk

This is defined as the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Group and Company income or the value of their holdings of financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters.

Unless approved by the Board, promissory notes, off balance sheet financing and letters of credit are not permitted. Financial instruments require the approval of the Chief Financial Officer and the Group Financial Controller. An instrument involving a commitment in excess of £1,000,000 is subject to the approval of the Chief Executive under the existing approval framework for general transactions and will be subject to a separate report to the Audit Committee.

(i) Interest rate risk

The Group is exposed to changes in interest rates on borrowings and it is the Group's policy to have a floating rate interest profile, with the exception of finance leases. The Group's borrowing facilities and investments are all at a Sterling LIBOR floating rate of interest. Only the interest flows connected to the secured bank loans are hedged and this policy has been applied throughout the year. To comply with the Group's secured bank loan facilities, an interest rate hedge with a notional amount equal to a proportion of drawn amounts must be in place. The Group has a £25,000,000 interest rate collar in place, which caps LIBOR at 6.00% with a floor of 4.62%. In addition, the Group has a £20,000,000 interest rate swap that fixes LIBOR at 5.25%, and a £5,000,000 interest rate swap that fixes LIBOR at 5.29%.

At the balance sheet date, the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2008 £'000	2007 £'000
Fixed rate instruments		
Financial assets	**–**	–
Financial liabilities	**(4,091)**	(3,879)
	(4,091)	(3,879)
Variable rate instruments		
Financial assets	**50,400**	9,300
Financial liabilities	**(100,000)**	(53,242)
	(49,600)	(43,942)

Fair value sensitivity analysis for fixed rate instruments

The Group accounts for its interest rate hedging instruments at fair value through the Consolidated Income Statement.

A change of 100 basis points increasing interest rates at the reporting date, after taking into account hedging instruments, would have decreased equity and increased the loss for the year by £600,000 (2007: £530,000).

.

24 Financial instruments – continued
(c) Market risk – continued
(ii) Currency risk
Group
The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than Sterling. Wherever practical, the Group makes sales and purchases in its functional currency to minimise currency risk.

THUS faces currency exposure in US Dollars (USD) from operating activities in the United States and has fixed asset expenditure in USD. The Group is also subject to interconnect charges in foreign currencies, and was also subject to currency exposure in Euros, and incurred fixed asset expenditure in Euros, from its operating activities in the Netherlands until the sale of this operation during the prior year. 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.

The Group's policy is to engage in exchange rate hedging on a case by case basis for specific material transactions that occur at known intervals.

The Group's exposure to currency risk is deemed to be immaterial.

Company
All transactions entered into by the Company are denominated in Sterling. The Company therefore has no exposure to currency risk.

(d) Capital management
The Board's policy for managing capital is to use banking facilities for trading purposes and consider appropriate capital structures for non-trading requirements.

From time to time, the Group purchases its own shares in the market through an Employee Share Trust. The decision to purchase or sell own shares is made by the Trustees of the Employee Share Trust. The Group and Company do not currently have a share buyback plan. Any future share buyback would require the approval of the Board after shareholder consent is obtained.

There were no changes to the Group and Company's approach to capital management during the year.

No Group companies were subject to any externally imposed capital requirements.

(e) Financial assets and liabilities at fair value through Consolidated Income Statement
The Group does not trade in derivative financial instruments. All transactions in derivative financial instruments are undertaken to manage business risks. The Group has a £25,000,000 interest rate collar in place which caps LIBOR at 6.00% with a floor of 4.62%. In addition, the Group has a £20,000,000 interest rate swap that fixes LIBOR at 5.25% and a £5,000,000 interest rate swap that fixes LIBOR at 5.29%.

The fair value is based on the value at which one party assumes the rights and duties of another party.

The hedging instruments were entered into during the current year, and the movement in fair value is given in the table below:

	Notes	At 1 April 2007 £'000	Movement in year £'000	**At 31 March 2008 £'000**
£25,000,000 cap and collar		–	356	**356**
£20,000,000 interest rate swap at 5.25%		–	131	**131**
£5,000,000 interest rate swap at 5.29%		–	74	**74**
	12(b), 21	–	561	**561**

(f) Fair values
(i) Fair values vs carrying amounts
The fair values, together with the carrying amounts shown in the balance sheet for the years ended 31 March 2008 and 2007, are as follows:

		31 March 2008		31 March 2007	
Group	**Notes**	**Carrying amount £'000**	**Fair value £'000**	Carrying amount £'000	Fair value £'000
Trade and other receivables	19	**119,559**	**119,559**	108,481	108,481
Cash and cash equivalents	20	**71,643**	**71,643**	31,324	31,324
Trade and other payables (excluding derivatives used for hedging)	21	**(139,987)**	**(139,987)**	(123,533)	(123,533)
Derivatives used for hedging	21	**(561)**	**(561)**	–	–
Secured bank loans	23	**(98,623)**	**(98,623)**	(52,261)	(52,261)
Other loans	23	**–**	**–**	(242)	(242)
Finance lease liabilities	23	**(3,530)**	**(2,279)**	(3,879)	(2,348)
		(51,499)	**(50,248)**	(40,110)	(38,579)

		31 March 2008		31 March 2007	
Company	**Notes**	**Carrying amount £'000**	**Fair value £'000**	Carrying amount £'000	Fair value £'000
Trade and other receivables	19	**70,188**	**70,188**	78,095	78,095
Cash and cash equivalents	20	**87**	**87**	87	87
Trade and other payables	21	**(228)**	**(228)**	(241)	(241)
		70,047	**70,047**	77,941	77,941

(ii) Estimation of fair values
The following methods and assumptions were used to estimate the fair values shown above.

Trade and other receivables/payables – the fair value of receivables and payables with a remaining life of less than one year is deemed to be the same as the book value.

Cash and cash equivalents – the fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Derivatives used for hedging – the fair value is based on quotes provided by the issuers of those instruments.

Secured bank loans and other loans – the fair value is considered to be the same as the book value as the loans are charged at floating rates of interest.

Finance lease liabilities – the fair value is based on the discounted future cash flows expected to be paid out by the Group. The fair values are based on cash flows discounted using a rate based on borrowings of 7.00% (2007: 7.68%).

Financial Statements:

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 March 2008

25 Provisions

(a) Group

	Restructuring £'000	Customers contracts £'000	Property £'000	Total £'000
At 1 April 2006	5,173	2,044	3,098	**10,315**
Provisions used during the year	(5,173)	(1,100)	(936)	**(7,209)**
At 31 March 2007	**–**	**944**	**2,162**	**3,106**
At 1 April 2007	–	944	2,162	**3,106**
Provisions used during the year	–	(944)	(1,141)	**(2,085)**
At 31 March 2008	**–**	**–**	**1,021**	**1,021**

Provisions are analysed between current and non-current as follows:

	2008 £'000	2007 £'000
Current	**551**	1,534
Non-current	**470**	1,572
	1,021	3,106

(i) Customer contracts
The initial customer contracts provision of £2,044,000 represented obligations in respect of a contract acquired as part of the Your Communications acquisition. As anticipated this provision was fully utilised by the conclusion of the contract.

(ii) Property
The property provision represents costs associated with vacant properties and dilapidations. The costs principally relate to the rents due to be paid on these properties until the Group can exit the leases at the next contracted exit dates.

(b) Company

The Company has no provisions.

26 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
Group	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Property, plant and equipment	**(45,623)**	(52,586)	**–**	–	**(45,623)**	(52,586)
Intangible assets	**–**	–	**1,894**	1,951	**1,894**	1,951
IRU deferred income	**–**	–	**–**	5,019	**–**	5,019
Share-based payments	**(268)**	(450)	**–**	–	**(268)**	(450)
Pensions	**–**	–	**1,057**	242	**1,057**	242
Provisions	**(2,450)**	(3,040)	**–**	–	**(2,450)**	(3,040)
Tax loss carry-forwards	**(10,994)**	(11,779)	**–**	–	**(10,994)**	(11,779)
Tax (assets)/liabilities	**(59,335)**	(67,855)	**2,951**	7,212	**(56,384)**	(60,643)

(b) Movement of temporary differences during the year

	Balance at 31 March 2006 £'000	Recognised in profit or loss £'000	Recognised in equity £'000	Balance at 31 March 2007 £'000	**Recognised in profit or loss £'000**	**Recognised in equity £'000**	**Balance at 31 March 2008 £'000**
Property, plant and equipment	3,000	(55,586)	–	(52,586)	**6,963**	**–**	**(45,623)**
Intangible assets	1,300	651	–	1,951	**(57)**	**–**	**1,894**
IRU deferred income	–	5,019	–	5,019	**(5,019)**	**–**	**–**
Share-based payments	–	(450)	–	(450)	**182**	**–**	**(268)**
Pensions	–	(651)	893	242	**43**	**772**	**1,057**
Provisions	–	(3,040)	–	(3,040)	**590**	**–**	**(2,450)**
Tax loss carry-forwards	–	(11,779)	–	(11,779)	**785**	**–**	**(10,994)**
	4,300	(65,836)	893	(60,643)	**3,487**	**772**	**(56,384)**

The amount recognised in the profit and loss, for the prior year, includes a credit of £69,599,000 for continuing operations and a charge of £3,763,000 for discontinued operations.

The Directors have prepared long-term financial projections, which highlight that the Group should become tax paying in the future. Consequently, the Directors are of the view that recognition of the deferred tax assets is appropriate.

Tax losses are carried forward indefinitely. The deductible temporary differences do not expire under the current tax legislation.

27 Issued capital

	Group and Company	
	2008 £'000	2007 £'000
Authorised:		
197,478,862 ordinary shares of 25p each	**49,370**	49,370

		Group and Company			
Issued and fully paid:	**Note**	**No. of shares 000's**	**2008 £'000**	No. of shares 000's	2007 £'000
At 1 April – ordinary shares of 25p each		**183,032**	**45,758**	180,757	45,189
Ordinary shares issued during the year at 25p each	(a)	**–**	**–**	2,275	569
At 31 March – ordinary shares of 25p each		**183,032**	**45,758**	183,032	45,758

(a) Issue of shares
On 1 February 2007, 2,274,701 ordinary shares of 25p each with a total nominal value of £569,000 were issued and allotted to United Utilities PLC as an additional consideration for the acquisition of Your Communications. This consideration was valued at £3,526,000 using the share price at the date of acquisition of 15.5p (prior to the 10 to 1 share consolidation) and £2,957,000 was transferred to the Share Premium Account.

(b) Shares to be issued
Under the terms of the acquisition of Your Communications, United Utilities PLC was potentially entitled to a further allotment of consideration shares. This entitlement was dependent upon the THUS Group plc share price reaching, or exceeding, certain strike prices from the date of completion, 26 February 2006, up to and including, 31 December 2007. The maximum number of shares that could have potentially been allotted under the terms of the acquisition were 12,001,006 ordinary shares of 25p each. This would have represented a total nominal value of £3,000,000. If the maximum number of shares had been allotted, under the terms of the agreement, United Utilities PLC would have had a potential shareholding of 26.5% in the Company. At 31 December 2007, the share price had not reached the requisite strike prices therefore, under the terms of the agreement, no further allotment of consideration shares is due for the year ended 31 March 2008.

(c) Rights attaching to ordinary shares
The holders of ordinary shares are entitled to:

(i) Dividends – the holders of ordinary shares are entitled to dividends as declared from time to time by the Company.

(ii) Voting rights – every member is entitled to one vote per share at general meetings of the Company, but only if the shares held by the member are fully paid.

(iii) Distribution of assets on liquidation – in the event of a winding-up of the Company, the whole or any part of the assets of the Company may be divided amongst the members *in specie*. The liquidator is also entitled to value the assets and determine how the division is to be carried out as between the members, or different classes of members, or vest the whole or any part of the assets in trust for the benefit of the members and determine the scope and terms of those trusts.

Financial Statements:

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 March 2008

28 Reconciliation of movement in capital and reserves

(a) Group

	Notes	No. of shares 000's	Issued capital £'000	Shares to be issued reserve £'000	Share premium account £'000	Merger reserve (vi) £'000	Capital redemption reserve (vii) £'000	Other reserves £'000	Cumulative loss reserve £'000	Total £'000
Balance at 1 April 2006		180,757	45,189	12,800	36,091	586,556	23,248	3	(318,240)	**385,647**
Shares issued	(i)	2,275	569	–	2,910	–	–	–	–	**3,479**
Shares to be issued – shares issued	(ii)	–	–	(3,526)	–	–	–	–	–	**(3,526)**
Shares to be issued – reduction	(iii)	–	–	(1,974)	–	–	–	–	–	**(1,974)**
Profit for the year		–	–	–	–	–	–	–	83,928	**83,928**
Currency translation differences on overseas net assets	(iv)	–	–	–	–	–	–	(15)	–	**(15)**
Translation differences released	(iv)	–	–	–	–	–	–	12	–	**12**
Actuarial gains on defined benefit pension scheme		–	–	–	–	–	–	–	2,978	**2,978**
Income tax on defined benefit plan actuarial gains	26	–	–	–	–	–	–	–	(893)	**(893)**
Share-based payment charges	33	–	–	–	–	–	–	–	1,164	**1,164**
Proceeds from exercise of share options	(v)	–	–	–	–	–	–	–	419	**419**
Balance at 31 March 2007		**183,032**	**45,758**	**7,300**	**39,001**	**586,556**	**23,248**	**–**	**(230,644)**	**471,219**
Balance at 1 April 2007		183,032	45,758	7,300	39,001	586,556	23,248	–	(230,644)	**471,219**
Shares to be issued – reduction	(iii)	–	–	(7,300)	–	–	–	–	–	**(7,300)**
Loss for the year		–	–	–	–	–	–	–	(4,204)	**(4,204)**
Actuarial gains on defined benefit pension scheme		–	–	–	–	–	–	–	2,757	**2,757**
Income tax on defined benefit plan actuarial gains	26	–	–	–	–	–	–	–	(772)	**(772)**
Share-based payment charges	33	–	–	–	–	–	–	–	478	**478**
Proceeds from exercise of share options	(v)	–	–	–	–	–	–	–	230	**230**
Treasury shares purchased	(v)	–	–	–	–	–	–	–	(1,207)	**(1,207)**
Balance at 31 March 2008		**183,032**	**45,758**	**–**	**39,001**	**586,556**	**23,248**	**–**	**(233,362)**	**461,201**

The Cumulative loss reserve closing balance is offset by £20,886,000 (2007: £21,232,000) in respect of own shares held.

(i) The shares issued in the prior year, were valued at a consideration of £3,526,000 with £2,957,000 being transferred to the Share premium account. Other costs totalling £47,000 were also incurred during the year ended 31 March 2007 relating to the issue of shares in the previous year.

(ii) The shares to be issued in respect of the acquisition of Your Communications were satisfied in ordinary shares (see Note 27(a)).

(iii) The reduction in the Shares to be issued reserve for the current year reflects the lapsing of the deferred consideration following the Company's share price not reaching the required strike prices. In the prior year, the reduction reflected an update of the valuation of the remaining 9,726,305 shares potentially due to United Utilities PLC at that time using a 'Monte Carlo' simulation methodology and a share price volatility of 28% (see Note 27 (b)).

(iv) This represented net foreign exchange differences arising from the translation of the Financial Statements of foreign operations which were released back to the Consolidated Income Statement following the disposal of the Netherlands operations.

(v) The THUS plc Employee Share Trust was established at the time of THUS plc's flotation in November 1999. THUS plc provided the Trust with a £24 million non-interest-bearing loan to purchase shares in THUS plc to satisfy the various share option schemes in existence at the time. When the new holding company, THUS Group plc, was established and the THUS plc shares were delisted, all THUS plc shares were converted to THUS Group plc shares. These shares have been classified as Treasury shares. Shares held by the Trust are transferred to employees on payment of the option price.

The number of own shares, held by the Employee Share Trust and over which the Group has *de facto* control, as at 31 March 2008 was 1,629,985 (2007: 866,376). At 31 March 2008, 6,160 (2007: 5,570) shares were under option to employees.

The market value as at 31 March 2008 of the shares held under trust and which have not yet vested unconditionally with employees is £1,939,682 (2007: £1,596,298).

The nominal value of the own shares held under trust as at 31 March 2008 was £407,496 (2007: £216,594).

(vi) The Merger reserve balance consists of two elements. On 12 March 2002, the Company issued shares for a consideration, less expenses, of £566,560,000. At this time the Group demerged from its former parent, and this restructuring was accounted for using merger accounting principles under the then UK GAAP. During the year ended 31 March 2006, £19,996,000 was added to this reserve representing the element of the share issue and related costs that were assigned to the purchase of Your Communications Group Limited and Intercell Limited, in accordance with Section 131 of the Companies Act 1985.

(vii) The Capital redemption reserve was created when 25,000,000 deferred non-voting shares of 92 $^{343/346}$p each were cancelled pursuant to a Special Resolution of the Company passed on 19 March 2002.

28 Reconciliation of movement in capital and reserves – continued
(b) Company

	No. of shares 000's	Issued capital £'000	Shares to be issued reserve £'000	Share premium account £'000	Merger reserve £'000	Capital redemption reserve £'000	Cumulative loss reserve £'000	Total £'000
Balance at 1 April 2006	180,757	45,189	12,800	36,091	19,996	23,248	(540)	**136,784**
Shares issued	2,275	569	–	2,910	–	–	–	**3,479**
Shares to be issued – shares issued	–	–	(3,526)	–	–	–	–	**(3,526)**
Shares to be issued – reduction	–	–	(1,974)	–	–	–	–	**(1,974)**
Profit for the year	–	–	–	–	–	–	141	**141**
Balance at 31 March 2007	**183,032**	**45,758**	**7,300**	**39,001**	**19,996**	**23,248**	**(399)**	**134,904**
Balance at 1 April 2007	183,032	45,758	7,300	39,001	19,996	23,248	(399)	**134,904**
Shares to be issued – reduction	–	–	(7,300)	–	–	–	–	**(7,300)**
Loss for the year	–	–	–	–	–	–	(594)	**(594)**
Balance at 31 March 2008	**183,032**	**45,758**	**–**	**39,001**	**19,996**	**23,248**	**(993)**	**127,010**

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own Income Statement. The Company's Income Statement was approved by the Board on 20 May 2008. The Company made a loss of £594,000 for the year ended 31 March 2008 (2007: profit £141,000).

During the year, the Company implemented the requirements of IFRIC 8 'Scope of IFRS 2' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' and as a result an amount of £739,000 (2007: £1,164,000), was recognised in reserves, representing the fair value of share-based payments granted by the Company to the employees of the Company's wholly owned subsidiary, THUS plc. As the shares used to satisfy these options are held by the Employee Share Trust, which is sponsored by THUS plc, this was matched by an equal and opposite amount for the recharge from the subsidiary for shares given to the Company to satisfy share-based payments. Accordingly, no movement is disclosed above in reserves.

29 Free cash flow

Group	2008 £'000	2007 £'000
Net cash from operating activities	**53,924**	31,138
Included in cash flows from investing activities		
Interest received	**1,096**	1,385
Acquisition of property, plant and equipment	**(55,417)**	(51,949)
Acquisition of intangible assets	**(210)**	(974)
	(54,531)	(51,538)
Included in cash flows from financing activities		
Interest paid	**(5,395)**	(5,358)
Free cash flow	**(6,002)**	(25,758)

Free cash flow is a key measure used by the Group's management to evaluate the cash flow performance of the Group. Free cash flow is defined as operating cash after interest, taxation and capital expenditure. As this is a non-GAAP measure, and is not defined within International Financial Reporting Standards as adopted by the EU, this reconciliation has been provided.

30 Analysis of net debt

Net debt includes cash and cash equivalents, overdrafts, loans and finance leases as follows:

Group	At 1 April 2007 £'000	Cash flow £'000	Other non-cash changes £'000	At 31 March 2008 £'000
Cash and cash equivalents	31,324	40,319	–	**71,643**
Loans – due within one year	(6,186)	6,186	–	**–**
Loans – due after one year	(47,056)	(52,944)	–	**(100,000)**
Finance leases	(3,879)	349	–	**(3,530)**
	(57,121)	(46,409)	–	**(103,530)**
Total	(25,797)	(6,090)	–	**(31,887)**

The net debt figure is shown gross of unamortised issue costs of £1,377,000 (2007: £739,000).

Financial Statements:
Notes to the Consolidated and Parent Company Financial Statements
for the year ended 31 March 2008

31 Retirement benefit obligations
The pension charge for the year comprises:

	2008 £'000	2007 £'000
Defined benefit scheme	**3,857**	5,162
Defined contribution arrangements	**999**	773
Others	**10**	136
	4,866	6,071

The Group operates two pension schemes:

- The THUS Group plc Pension Scheme (the 'Scheme'), a funded defined benefit scheme. The assets of the Scheme are held in a Trust Fund which is independent of the Group's own assets.
- The THUS Group Personal Pension Plan, a funded defined contribution arrangement.

The information disclosed below is in respect of the whole of the THUS Group plc Pension Scheme. The Company has no pension commitments.

	Group	
	2008 £'000	2007 £'000
Present value of funded defined benefit obligations	**(75,300)**	(74,630)
Fair value of plan assets	**79,074**	75,435
Net assets	**3,774**	805
Unrecognised actuarial gains and losses	**–**	–
Recognised defined benefit asset at the end of the year	**3,774**	805

Movements in the present value of defined benefit obligations	Note	Group 2008 £'000	2007 £'000
At 1 April		**(74,630)**	(69,005)
Current service cost		**(3,857)**	(5,162)
Past service cost	(a)	**(198)**	(1,880)
Interest cost		**(4,003)**	(3,431)
Actuarial gains		**7,833**	4,573
Benefits paid		**435**	1,175
Contributions by members		**(880)**	(900)
At 31 March		**(75,300)**	(74,630)

Movements in the present value of plan assets	Note	Group 2008 £'000	2007 £'000
At 1 April		**75,435**	61,094
Expected return on plan assets		**5,110**	4,086
Actuarial gains		**(5,076)**	(1,595)
Contributions by employer	(b)	**3,160**	12,125
Contributions by members		**880**	900
Benefits paid by the plan		**(435)**	(1,175)
At 31 March		**79,074**	75,435

(a) These costs were provided for as part of the restructuring provision created at 31 March 2006.

(b) During the year ended 31 March 2007 the Group made a one-off payment of £7,500,000 into the defined benefit pension scheme to effectively eliminate the deficit recorded in the December 2005 valuation of this scheme. Further payments totalling £1,880,000 were paid into the Scheme for augmentation payments concerning former employees.

Expense recognised in the Consolidated Income Statement	Group Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Current service cost	**3,857**	5,162
Interest on defined benefit pension plan obligations	**4,003**	3,431
Expected return on defined benefit pension plan assets	**(5,110)**	(4,086)
Total pension expense	**2,750**	4,507

The expense is recognised in the following line items in the Consolidated Income Statement:

	Group Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Cost of sales	**2,525**	3,184
Selling and distribution expenses	**513**	941
Administrative expenses	**819**	1,037
Financial income	**(5,110)**	(4,086)
Financial expenses	**4,003**	3,431
	2,750	4,507

Cumulative actuarial gains reported in the Statement of Recognised Income and Expense since 1 April 2004, the transition date for adopting IFRS, are £1,994,000 (2007: losses £763,000).

The fair value of the plan assets and the return on those assets were as follows:

	Group 2008 Fair value £'000	2007 Fair value £'000
Equities	**41,707**	37,428
Bonds	**36,344**	30,385
Other assets	**1,023**	7,622
	79,074	75,435
Actual return on plan assets	**34**	2,491

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions used at the measurement date were as follows:

	Note	Group 31 March 2008 % per annum	31 March 2007 % per annum
Discount rate		**6.5**	5.4
Expected rate of return on assets	(c)	**7.3**	6.4
Future salary increases		**4.7**	4.1
Rate of increase in pensions		**3.7**	3.1
Inflation assumption		**3.7**	3.1

The average life expectancy assumptions, after a retirement age of 65, are:

	2008 No. of years	2007 No. of years
Male	**22.8**	20.3
Female	**25.2**	22.9

(c) The expected return on scheme assets assumption was determined as the average of the expected returns on the assets held by the Scheme at 31 March 2008. The rates of return for each class were determined as follows and are set out below:

- Equities: the rate adopted was derived using Watson Wyatt's Global Asset Model at 31 March 2008.
- Bonds: the overall rate has been set to reflect the yields available on the gilts and corporate bond holdings held as at 31 March 2008.
- Other assets: this class is mostly made up of cash holdings and the rate adopted reflects current short-term returns on such deposits.

	Long-term rate of return expected on 31 March 2008 % per annum	31 March 2007 % per annum
Equities	**8.5**	7.9
Bonds	**6.1**	5.1
Other assets	**4.7**	4.1
Total assets	**7.3**	6.4

31 Retirement benefit obligations – continued

History of plan

The history of the plan for the current and prior years is as follows:

	Group			
	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Present value of defined benefit obligations	**(75,300)**	(74,630)	(69,005)	(52,186)
Fair value of plan assets	**79,074**	75,435	61,094	47,290
Surplus/(deficit)	**3,774**	805	(7,911)	(4,896)

Experience adjustments

	Group			
	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Experience (gain)/loss on plan liabilities	**(567)**	(6,760)	97	106
Experience loss/(gain) on plan assets	**5,076**	1,595	(7,603)	(1,234)

The Group expects to contribute approximately £3,200,000 to its defined benefit plan in the next financial year.

Defined contribution plans

The Group operates a number of defined contribution pension plans and has also made payments to other schemes during the year.

The total expense relating to these plans in the current year was £1,009,000 (2007: £909,000).

32 Financial commitments

(a) Group analysis of total commitments under operating leases

	2008 £'000	2007 £'000
Leases of land and buildings		
Expiring within one year	**1,533**	612
Expiring between two and five years inclusive	**6,392**	9,254
Expiring in over five years	**106,416**	114,421
	114,341	124,287
Other operating leases		
Expiring in over five years	**1,954**	2,124
	1,954	2,124

The Group leases a number of offices, network sites and other assets under operating leases. The leases have various terms and renewal options. The Group also leases towers under non-cancellable operating lease agreements.

Properties utilised by the Group are deemed to be operating leases because the terms of the leases are considerably shorter than the anticipated useful life of the property and all leases are subject to periodic rent reviews where rental charges are updated to reflect prevailing market conditions.

Thirty-two of the leased properties have been sublet by the Group with a further four subject to agency arrangements. These leases and subleases expire between six months and 19 years and the total future minimum sublease payments expected to be received at 31 March 2008 are £12,869,000 (2007: £14,495,000). Sublet payments of £1,614,000 (2007: £1,525,000) are expected to be received in the following financial year. The Group has recognised a provision of £101,000 in respect of two of these properties where the income received does not cover the rent paid out by the Group.

A further £770,000 (2007: £1,710,000) has been provided for 10 properties identified for closure following a rationalisation of the combined property portfolio subsequent to the acquisition of Your Communications.

(b) Group capital commitments

	2008 £'000	2007 £'000
Contracted but not provided	**39,825**	31,164

These capital commitments are expected to be settled during the following financial year.

(c) Company

The Company had no obligations under operating leases or capital commitments.

33 Employee share schemes

The Company operates the THUS Group Restricted Scheme, the THUS Group Bonus Plan, the THUS Group Performance Share Plan, the THUS Group plc Discretionary Share Option Scheme and the THUS Group plc 2006 Co-Investment Plan, details of which are explained below. In addition, 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.

THUS Group Restricted Scheme

Under this scheme, awards were granted to senior employees of the Group. No performance conditions apply. One-third of the award may be exercised after one year, two-thirds after two years and the full award after three years. If the holder of the award leaves the employment of the Group, the award will lapse.

THUS Group Bonus Plan

The shares awarded to the Executives under this plan are of an equivalent value to the annual bonus payment. The awards, which are not subject to any performance conditions, vest after three years, but will be forfeited if the Executive leaves the employment of the Company before the end of the vesting period. The Company has the right to settle the awards in cash rather than shares.

THUS Group Performance Share Plan

Awards are made under this plan to Executive Directors and selected employees, and grants will only become exercisable after three years if demanding performance targets 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' Total Shareholder Return (TSR) compared to that of the constituents of the FTSE All-Share Telecoms Sector, as at the date of the 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 shares vest when the Company's TSR is at the upper decile.

Performance is measured over three years with no retesting opportunities. The Remuneration 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 awards 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 Remuneration Committee.

Awards made under the Performance Share Plan during the year ended 31 March 2008, are subject to the following performance conditions measured over a three year period beginning the financial year in which the award is made:

- 50% of an award is subject to annual compound growth in EBITDA of 15% to 35%
- 50% is subject to an EBIT return on capital of 4% to 8% for the final year of the performance period.

In both cases 30% of that part of the award vests at the threshold, increasing on a straight-line basis so that there is full vesting at the maximum threshold.

THUS Group plc Discretionary Share Option Scheme

Under this scheme, market value options can be granted to Executive Directors and selected employees. The performance criterion that currently applies to the vesting of options is relative TSR measured against the FTSE Telecommunications sector and the FTSE Mid-250 (excluding telecommunication 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 Remuneration Committee must also be satisfied that the underlying financial performance of the Company has improved during the vesting period.

Financial Statements:

Notes to the Consolidated and Parent Company Financial Statements

for the year ended 31 March 2008

33 Employee share schemes – continued

THUS Group plc 2006 Co-Investment Plan

This plan is a co-investment arrangement under which eligible employees, who are selected to participate, are invited to contribute shares in the Company which they currently own, or shares for which arrangements have been made to acquire with funds provided by the employees, to the Plan ('Deposited Shares'). An award will then be granted, 'Matching Award', to allow the participants to acquire further shares. The Matching Award will consist of one or both of 'Core Shares' and 'Performance Shares'. The number of Core Shares subject to a Matching Award cannot exceed one half of the number of Deposited Shares. A participant is entitled to the Core Shares if the related Deposited Shares are left in the Plan until the end of a predetermined holding period. The number of Performance Shares subject to a Matching Award cannot exceed the number of Deposited Shares contributed. A participant will be entitled to some or all of the Performance Shares if the related Deposited Shares are left in the Plan until the end of the holding period and the performance conditions are satisfied.

The maximum value of Deposited Shares that a participant can contribute to the Plan in any one year will be 25% of their gross annual basic salary. The performance conditions for the Performance Shares are that half of each award is subject to the performance of Group EBITDA, and the other half is based on Group EBIT return on capital.

For the Group EBITDA-related performance condition, the annual compound growth rate in EBITDA must exceed 20% for 15% of the Performance Shares to vest and rises on a straight-line basis to 50% vesting for an EBITDA growth rate of 35% a year or above.

For awards granted during the year ended 31 March 2008 the annual compound growth rate for the EBITDA – related performance condition is a range of 15% to 35%.

For the other half of the Performance Shares to vest, the Group's annual compound growth in EBIT return on capital requires to exceed certain percentages. For 15% of the Performance Shares to vest, the annual compound growth must exceed 4% and rises on a straight-line basis to 50% vesting for an EBIT return on capital of 8% or above a year.

THUS Group plc Sharesave Scheme

Under this scheme, in normal circumstances, share options are exercisable on completion of a three- or five-year save-as-you-earn contract, as appropriate.

Closed Schemes

Prior to the establishment of THUS Group plc on the demerger from its former parent company, 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. As the awards were granted before 7 November 2002, the recognition and measurement principles of IFRS 2 'Share-Based Payments' have not been applied to these schemes.

The terms and conditions of the grants are as follows:

Scheme name	Grant date	Employees entitled	No. of shares granted	Vesting conditions	Contractual life of options
THUS Group Restricted Scheme	01.04.06 19.11.07	Senior employees Senior employees	317,656 38,531	Three years' service Three years' service	3 years 3 years
THUS Group Bonus Plan	28.05.04	Executive Directors	100,281	Three years' service	3 years
THUS Group Performance Share Plan	28.05.04	Executive Directors	328,947	For one half of the award, the Company's TSR must rank above the median relative to companies in the FTSE All-Share Telecoms sector. The remaining half is determined by an EPS test	3 years
	28.06.07	Executive Directors and selected employees	1,188,994	For performance shares, one half of the award is subject to a performance condition based on the Group's EBITDA and the remaining half of the award is subject to a performance condition based on the Group's EBIT return on capital	3 years
THUS Group plc Discretionary Share Option Scheme	28.05.04	Executive Directors	328,947	Performance of Company's TSR relative to the FTSE All-Share Telecoms sector and the FTSE Mid-250 Index (excluding telecommunication companies)	7 years
THUS Group plc 2006 Co-Investment Plan	27.09.06 28.06.07 03.12.07	Executive Directors and senior employees Executive Directors and senior employees Executive Directors and senior employees	367,542 205,815 119,124	For performance shares, one half of the award is subject to a performance condition based on the Group's EBITDA and the remaining half of the award is subject to a performance condition based on the Group's EBIT return on capital	3 years 3 years 3 years
THUS Group plc Sharesave Scheme	11.06.04 27.06.05 17.07.06 14.06.07	All employees All employees All employees All employees	671,889 672,913 1,258,502 974,801	Three years' service Three years' service Three years' service Three years' service	3 years 3 years 3 years 3 years

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price (£) 2008	**No. of options 2008**	Weighted average exercise price (£) 2007	No. of options 2007
Outstanding at the beginning of the year	**0.98**	**3,513,887**	1.21	2,590,361
Forfeited during the year	**0.99**	**(1,120,883)**	1.41	(414,324)
Exercised during the year	**0.17**	**(53,031)**	0.69	(605,850)
Granted during the year	**0.59**	**2,527,265**	0.68	1,943,700
Outstanding at the end of the year	**0.79**	**4,867,238**	0.98	3,513,887
Exercisable at the end of the year		**6,160**		5,570

The options outstanding at 31 March 2008 have an exercise price in the range of £Nil and £1.00 in total and £1.05 to £2.58 per share, and a weighted average remaining contractual life of 1.8 years. The weighted average share price at the date of exercise, during the year ended 31 March 2008, was £1.84 (2007: £1.42).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of services received is measured using the Black-Scholes model for the Bonus Plan, Restricted Scheme and various Sharesave schemes. The remaining schemes have been valued using a combination of Black-Scholes and the binomial lattice models.

33 Employee share schemes – continued

The assumptions used in the models are:

	Notes	Restricted Scheme (d) 2008	Co-Investment Plan (e) 2008	Co-Investment Plan (e) 2008	Performance Share Plan (e) 2008	Sharesave Scheme 2008	Restricted Scheme (d) 2007	Co-Investment Plan (e) 2007	Sharesave Scheme 2007
Fair value per option		**£1.36**	**£1.25**	**£1.81**	**£1.81**	**£0.64**	£1.62	£0.44	£0.42
Share price		**£1.36**	**£1.25**	**£1.84**	**£1.84**	**£1.99**	£1.62	£1.30	£1.35
Exercise price		**£1 total for each tranche**	**£Nil**	**£Nil**	**£1 total consideration**	**£1.528**	£1 total for each tranche	£Nil	£1.05
Expected volatility	(a)	**–**	**–**	**–**	**–**	**40%**	–	–	40%
Option life		**3 years**	**3 years**	**3 years**	**3 years**	**3 years**	3 years	3 years	3 years
Expected dividends	(b)	**0%**	**0%**	**0%**	**0%**	**0%**	0%	0%	0%
Risk-free interest rate	(c)	**–**	**–**	**–**	**–**	**5.9%**	–	–	4.8%

(a) The expected volatility has been based on the daily share price movements over the three years preceding the granting of an award, rounded to the nearest 10%.

(b) No dividends have been payable by the Company since flotation and it has been assumed that this will continue, therefore a zero dividend yield has been used.

(c) The risk-free interest rate is the yield on zero coupon UK government bonds on terms consistent with the option life.

(d) The fair values for the Restricted Scheme have been calculated to be equal to the face value, therefore no expected volatilty or risk-free interest rate has been quoted in the table above.

(e) The performance conditions of the Co-Investment Plans and Performance Share Plan depend upon the performance of the Group and are therefore considered to be non-market-based tests, which are excluded from the fair value calculations. The fair value of these plans has been calculated to be 100% of the face value and, as a result, no values for expected volatility or risk-free interest rate are quoted in the table above.

The total expenses recognised for the year arising from share-based payments are as follows:

	2008 £'000	2007 £'000
Equity settled share-based payment expense	**739**	1,164
Cash settled share-based payment expense	**(261)**	–
	478	1,164

34 Contingencies

(a) A sum of £400,000 has been placed on deposit as Funds for Liabilities as required by the regulator, Ofcom, for reinstatement of civil construction works by Local Authorities.

(b) Under the terms of a particular customer agreement, THUS plc has entered into an on demand bond with the Royal Bank of Scotland, in the event of the insolvency of the company. The maximum sum payable on such an event is determined by the date the demand is served by the customer to the Royal Bank of Scotland and is detailed below. The maximum sum shall not exceed £10,000,000.

	Maximum sum £'000
1 April 2007 until 31 March 2008 (inclusive)	**5,000**
1 April 2008 until 31 March 2009 (inclusive)	**10,000**
1 April 2009 until 31 March 2010 (inclusive)	**8,000**
1 April 2010 until 31 March 2011 (inclusive)	**6,000**
1 April 2011 until 31 March 2012 (inclusive)	**4,000**
1 April 2012 until 31 March 2014 (inclusive)	**2,000**

The bond expires on 31 March 2014.

35 Related party transactions

(a) Group

The Group has a related party relationship with its Directors and Executive Officers and major shareholders. All transactions with subsidiaries are eliminated on consolidation in these Financial Statements therefore no disclosure is made concerning these items.

(b) Company

The Company has a related party relationship with its subsidiaries, its Directors and Executive Officers and major shareholders.

(c) Transactions with key management personnel

The key management personnel compensation is disclosed in Note 10 above.

(d) Transactions with subsidiaries

During the year ended 31 March 2008, the Company transferred the release of the deferred consideration of £7,300,000 relating to the acquisition of Your Communications to THUS plc following the previous transfer of the cost of the Your Communications investment to the subsidiary. This transfer, along with other transactions between THUS Group plc and THUS plc, results in a total loan outstanding at 31 March 2008 of £70,188,000.

The intercompany loan of £70,188,000 (2007: £78,095,000) due from THUS plc is repayable on demand and is interest free. However, this loan is unlikely to be repaid by THUS plc within the next 12 months.

(e) Other related party transactions

Following the acquisition of Your Communications in February 2006, United Utilities PLC held 21.7% of the Company's issued share capital, and was therefore considered to be a related party from this date. Following the additional share issue in February 2007, United Utilities PLC had a 22.63% shareholding in THUS Group plc at 31 March 2007.

On 20 June 2007, United Utilities PLC placed its entire shareholding in THUS and from this date is no longer considered to be a related party of the Group.

Financial Statements:
Notes to the Consolidated and Parent Company Financial Statements
for the year ended 31 March 2008

35 Related party transactions – continued
(e) Other related party transactions – continued
The following transactions were carried out with related parties:

(i) Sales of services

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
United Utilities Group	**3,116**	15,208	**–**	–

The figures shown for the current year represent sales up to 20 June 2007, only.

(ii) Purchases of services

	2008 £'000	2007 £'000	2008 £'000	2007 £'000
United Utilities Group	**1,028**	3,108	**–**	–

The figures shown for the current year represent purchases up to 20 June 2007, only.

(iii) Year end balances arising from sales/purchases of services

	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Receivables from related parties:					
United Utilities Group	19	**–**	3,064	**–**	–
Payables to related parties:					
United Utilities Group	21	**–**	(1,166)	**–**	–

These transactions and balances are all at arm's length and the balances were settled within the Group's normal terms of settlement in relation to trade receivables and payables.

(iv) Other balances with related parties

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Other receivables:					
Balance due from THUS plc	19	**–**	–	**70,188**	78,095

(v) Other transactions with related parties

	Notes	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Issue of shares to United Utilities PLC – 2,274,701 ordinary shares of 25p each	27	**–**	569	**–**	569
Shares to be issued to United Utilities PLC – share issue and revision to estimate	28	**–**	(5,500)	**–**	(5,500)
Release of deferred consideration to United Utilities PLC	27(b), 28	**(7,300)**	–	**(7,300)**	–
Transfer of acquisition of Legend Communications plc to THUS plc	17	**–**	–	**–**	12,116
Transfer of release of deferred consideration for Your Communications to THUS plc	27(b), 28	**–**	–	**(7,300)**	–
Transfer of costs between THUS plc and THUS Group plc		**–**	–	**(607)**	(4,047)

Under the terms of a Relationship Agreement entered into between United Utilities and THUS, United Utilities was prevented, subject to certain specific exceptions, from disposing of the ordinary shares for a period of 12 months from completion. There was also a standstill obligation that prohibited Unitied Utilities, or any other member of its Group, from acquiring any further shares in THUS, or making or announcing any offer in connection with acquiring further shares, for a period of 18 months from the date of completion. This agreement expired on 26 August 2007.

(vi) Other related party agreements
Relationship Agreement
In addition to the details disclosed above, United Utilities was entitled to nominate one Non-executive Director for appointment to the Board during the period of this agreement. On 22 November 2006, Martin Beesley, the Finance Director of United Utilities Water PLC and United Utilities Electricity PLC, was appointed as a Non-executive Director. Martin Beesley resigned from the THUS Group plc Board on 25 June 2007 following United Utilities PLC disposal of its shareholding in the Company.

The purchase of goods and services includes costs covered by certain agreements between THUS plc and United Utilities including telecoms and supply agreements and agreements to lease fibre and ducts. On acquisition, the Group also entered into a Transitional Services Agreement for financial and payroll processing, wayleave services, accounting software and switchboard operator agreements.

(vii) Guarantees
THUS Group plc has granted security by way of a Deed of Pledge of its shares in the capital of THUS plc in favour of the Royal Bank of Scotland plc. Under the terms of the Loan Agreement for the secured bank loans, THUS Group plc has guaranteed THUS plc's obligations. The amount outstanding at 31 March 2008 was £100,000,000 (2007: £53,000,000).

36 Accounting estimates and judgements

Critical accounting judgements in applying the Group and Company accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of accounting estimates and assumptions. It also requires the Directors to exercise their judgement in the process of applying the Group and Company accounting policies. Estimates, assumptions and judgements are continually evaluated based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity which have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities are described below.

Revenue

The Group earns revenue from a number of different products and services, some of which are delivered under bespoke contracts. In applying the Group's accounting policies in respect of revenue recognition, a significant degree of judgement and estimation may be required in interpreting contracts and estimating values to be used in calculating revenue and associated costs in each accounting period.

Interconnect income and payments to other telecommunications operators

In certain instances THUS relies on other operators to measure the traffic flows interconnecting with the Group's networks. Estimates are used in these cases to determine the amount of income receivable from, or payments that the Group need to make to, these other operators. The prices at which these services are charged are often regulated and are subject to retrospective adjustment, and estimates are used in assessing the likely effect of these adjustments.

Providing for doubtful debts

THUS provides services to substantially all customers, on credit terms. Certain debts will not be paid through the default of a small number of customers. Estimates, based on the Group's historical experience, are used in determining the level of debts that will not, in the opinion of the Directors, be collected. These estimates include such factors as the current state of the UK economy and particular industry issues.

Fair values

Estimating the fair value of assets and liabilities acquired on acquisition requires judgement. Such fair values have been computed as follows:

Tangible fixed assets have been valued at their direct replacement cost, less an economic obsolescence factor. In addition, this valuation has been cross-checked against projected cash flows from cash generating units.

Intangible fixed assets for customer relationships have been valued using a residual earnings approach, which involves deducting contributory asset charges from discounted cash flow projections, to leave a value attributable to customers.

Cash flow projections are based on assessments of future activities and market conditions, and actual activities and market conditions may differ from those forecast, resulting in actual cash flows being different from those projected. Tangible and intangible asset valuations are subjective to the extent actual cash flows differ from projected cash flows.

The fair value of working capital amounts is based upon estimated anticipated recoverable amounts.

Useful lives for property, plant and equipment

The plant and equipment in THUS' networks is long lived with cables and switching equipment operating for over ten years, and underground ducts being used for decades. The annual depreciation charge is sensitive to the estimated service lives allocated to each type of asset. Asset lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned.

Impairment

THUS tests goodwill annually for impairment. In addition, THUS performs impairment testing of assets, on an annual basis, where there is an indication that impairment may exist. In performing these impairment tests, management's judgement is required in preparing future cash flow projections, and then assessing an appropriate discount rate to be applied to these cash flows.

The cost of capital used to discount future pre-tax cash flows can have a significant effect on the calculation of the recoverable amount. The cost of capital which is expressed as a percentage is derived from the Group's post-tax weighted average cost of capital specific to that cash generating unit.

Future cash flows are based on formally approved cash flow projections for a ten-year period which, for the first five years, are based on past experience and future expectations and, for the next five years, are based on growth rates consistent with UK growth forecasts. These are then extrapolated in perpetuity using a nominal long-term growth rate. As future cash flows may deviate to some degree from forecasts, the results of the impairment review are sensitive to any such changes.

Property arrangements

As part of the property rationalisation programme, a number of surplus properties have been identified and, during the year, some of these properties have been successfully disposed of. Efforts continue to be made to sublet the remaining sites; it is recognised that this may not be possible immediately in the current economic environment. Estimates have been made of the cost of vacant possessions and any shortfall arising from the sublease rental income being lower than the lease costs being borne by THUS. Any such cost or shortfall has been recognised as a provision.

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised, with consideration given to the timing and level of future taxable income. As future taxable income is likely to deviate to some degree from forecasts, the amount of the deferred tax assets carried needs to be reviewed in the light of such variations.

Post-retirement benefits

The Group's defined benefit pension scheme is assessed annually in accordance with IAS 19. The accounting valuation, which was based on assumptions determined with independent actuarial advice, resulted in a surplus of £3.8 million being recognised on the balance sheet at 31 March 2008 (2007: surplus £0.8 million). The size of the surplus/deficit is sensitive to the market value of the assets held by the Scheme and to actuarial assumptions, which include price inflation, pension and salary increases, the discount rate used in assessing actuarial liabilities, mortality and other demographic assumptions and the levels of contributions. Further details are included in Note 31 to the Consolidated Financial Statements.

37 Subsequent events

On 30 April 2008, the Group completed the disposal of its interest in a number of customer contracts for telephony services to Daisy Communications PLC. The proceeds for the disposal are expected to be no less than £2,300,000, dependent upon customer churn, over the period to 30 June 2008.

Five Year Financial Summary

Results	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000	Year ended 31 March 2006 (Restated) £'000	IFRS Year ended 31 March 2005 £'000	UK GAAP Year ended 31 March 2004 (Restated) £'000
Revenue	**576,200**	532,693	349,987	360,016	332,372
Earnings before interest, tax, depreciation (including impairment) and amortisation (EBITDA)	**57,019**	41,293	28,778	37,758	43,563
Restructuring and other non-recurring costs	**–**	1,570	10,406	8,126	–
Exceptional items (UK GAAP only)	**–**	–	–	–	(266)
Loss before tax and gain on sale of discontinued operations	**(2,774)**	(15,085)	(28,332)	(42,101)	(26,749)
(Loss)/profit after tax but before gain on sale of discontinued operations	**(6,190)**	54,514	(28,332)	(42,842)	(26,961)
(Loss)/profit for the financial year	**(4,204)**	83,928	(26,183)	(43,156)	(26,961)
Free cash flow	**(6,002)**	(25,758)	11,115	3,749	(2,619)
Capital expenditure on tangible fixed assets	**56,154**	57,697	28,295	35,110	41,118
Net debt	**(31,887)**	(25,797)	(26,260)	(30,990)	(35,354)
Net assets	**461,201**	471,219	385,647	332,787	379,973
Ratios and statistics					
Basic (loss)/earnings per ordinary share (pence) – restated for share consolidation	**(2.31)**	46.63	(18.99)	(32.42)	(20.30)
Employees					
Number of employees (full-time equivalent) at 31 March:					
THUS Group plc	**1,828**	1,705	1,930	1,421	2,089

The financial summary for the year ended 31 March 2004 is prepared using UK Accounting (UK GAAP) Standards as it is not practicable to restate the amounts prior to the transition date to IFRS. The main differences between IFRS and UK GAAP in terms of the Group's reported numbers relate to the basis on which:

– Defined benefit pension schemes and share-based payments are accounted for in all other periods.

Ancillary Information:
Notice of Annual General Meeting

This notice is important and requires your immediate attention.

If you are in any doubt as to the action you should take, you should consult immediately your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your shares in the Company, please send this notice and the accompanying documents to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting of the Company for 2008 will be held on Thursday 31 July 2008 at 11.00 am at the Radisson SAS Hotel, 301 Argyle Street, Glasgow, G2 8DL for the following purposes:

Ordinary business

1 To receive and adopt the Report of the Directors and Financial Statements for the year ended 31 March 2008.

2 To approve the Directors' Remuneration Report for the year ended 31 March 2008.

3 To elect Alison Wood as a Director.

4 To re-elect Philip Rogerson as a Director.

5 To re-elect John Maguire as a Director.

6 To reappoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to fix their remuneration.

Special business

7 To consider and if thought fit to pass the following resolution which will be proposed as an ordinary resolution:

THAT the Board be and it is hereby generally and unconditionally authorised in substitution for the authority conferred on it by all subsisting authorities to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £3,611,623.75, which authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (unless previously revoked or varied by the Company in general meeting) or, if earlier, 30 September 2009, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8 To consider and if thought fit to pass the following resolution which will be proposed as a special resolution:

THAT the Board be and it is hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash, pursuant to the authority conferred by the previous resolution, as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

A the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders and in favour of holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of such persons on a fixed record date are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever); and

B the allotment (otherwise than pursuant to sub-paragraph A above) of equity securities up to an aggregate nominal value of £2,287,904.50 or if less, 5% of the issued ordinary share capital from time to time;

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, 30 September 2009, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

9 To consider and if thought fit to pass the following resolution which will be proposed as a special resolution:

THAT the Company be generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163(3) of that Act) of ordinary shares of 25 pence each in the capital of the Company upon such terms and in such manner as the Directors of the Company shall determine, subject to the following restrictions and provisions:

(a) the maximum aggregate number of ordinary shares to be purchased pursuant to the authority granted by this resolution shall be 27,436,551;

(b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to the nominal value of an ordinary share;

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary share cannot be more than an amount equal to the higher of:

(i) 105% of the average of the closing middle market price for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately prior to the day the purchase is made; and

(ii) the price stipulated by Article 5(1) of Commission Regulation (EC) No 2273/2003 (the Buy-back and Stabilisation Regulation);

(d) unless previously revoked or varied, this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 31 December 2009; and

(e) the Company may make a contract or contracts to purchase ordinary shares before the expiry of this authority, which will or may be executed wholly or partly after the expiry of this authority, and may make a purchase of ordinary shares pursuant to any such contract or contracts.

By order of the Board	Registered office:
David Macleod	1-2 Berkeley Square
Secretary	99 Berkeley Street
4 June 2008	Glasgow G3 7HR

(i) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members by 6.00 pm on 29 July 2008 or by 6.00 pm. two days prior to the date of any adjournment of the meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

(ii) Any member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend. A proxy need not be a member of the Company. A separate Form of Proxy is enclosed. Completing and returning a Form of Proxy will not prevent any member from attending the meeting in person and voting should that member so wish. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this paragraph. Please read paragraph (vii) below.

(iii) Members may register their proxy appointments or voting directions electronically via the www.shareview.co.uk website, where full details of the procedure are given. Members will need the reference number, card ID and account number set out on the enclosed Form of Proxy. If more than one proxy appointment is returned relating to any share, either by paper or by electronic communication, the proxy received last by the Registrar before the latest time for receipt of proxies will take precedence. The Company will not accept any communication that is found to contain a computer virus.

(iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

Ancillary Information:
Notice of Annual General Meeting – continued

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK and Ireland Limited's ('EUI's') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID 7RA01) by no later than 11.00 am on 29 July 2008. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which our registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to procure that his CREST sponsor or voting service provider take) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST System and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

(v) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (a) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (b) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (a) above.

(vi) As at 5.00 pm on 4 June 2008, the Company's issued share capital comprised 183,032,367 ordinary shares of 25p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00 pm on 4 June 2008 is 183,032,367.

(vii) If you are a person who has been nominated under Section 146 of the Companies Act 2006 to enjoy information rights (Nominated Person):

- → you may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting;
- → if you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
- → your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

Notes

Resolution 1

The Directors are required by law to present to the meeting the Financial Statements and the Report of the Directors and Auditors for the year ended 31 March 2008.

Resolution 2

The shareholders are being asked to vote on the Remuneration Report relating to the Directors and senior executives. The vote is advisory and the Directors' entitlement to remuneration is not conditional on the resolution being passed.

Resolutions 3–5

The Articles of Association require that Directors stand for election by the shareholders at the first Annual General Meeting following their appointment and also that one-third of the Directors retire at every Annual General Meeting. The Board, following its evaluation of the performance of those Directors standing for election and re-election, confirms that each of those Directors performs effectively and demonstrates commitment to the role. The biographical details of each of the Directors who are offering themselves for election or re-election are shown on pages 26 and 27. The election and re-election of those Directors shall, subject to the passing of the relevant resolutions, take effect immediately upon the conclusion of the meeting.

Resolution 6

The reappointment of the Auditors is proposed. Following assessment of the audit service by the Audit Committee, the Board considers the Auditors to be effective and independent in their role.

Resolution 7

Under the Companies Act 1985 (Section 80) the Directors of a company may only allot unissued shares if authorised to do so. Passing this Resolution will continue the Directors' flexibility to act in the best interests of shareholders when opportunities arise by issuing new shares.

In Resolution 7, the Company is seeking authority to allot shares with a nominal value of up to £3,611,623.75, which represents approximately 14,446,495 ordinary shares of 25 pence each or approximately 8% of the Company's issued ordinary share capital. The Directors intend to use this authority, which will lapse at the conclusion of the next Annual General Meeting of the Company (to be held in 2009), or, if earlier, 30 September 2009, for general corporate purposes.

Resolution 8

If shares are to be offered for cash, the Companies Act 1985 requires that those shares are offered first to the existing shareholders in proportion to the number of shares they hold at the time of the offer. However, it may sometimes be in the interests of the Company for the Directors to allot shares other than to shareholders in proportion to their existing holdings. At last year's Annual General Meeting shareholders authorised the Board, subject to specified limits:

- → to allot shares in connection with a rights issue, defined in summary as, an offer of equity securities to shareholders which is open for a period decided by the Board subject to any limits or restrictions which the Board thinks are necessary or appropriate.
- → to allot shares not in connection with a rights issue up to a specific amount so that the pre-emption requirement does not apply to the allotments of shares for cash up to that amount.

This authority requires to be renewed annually. The Directors will be empowered by Resolution 8 to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) for cash without complying with the statutory pre-emption rights of shareholders under Section 89 of the Companies Act 1985, up to a maximum nominal amount of approximately £2,287,904.50. This disapplication is limited to allotments made to ordinary shareholders and holders of any other class of equity security in proportion (as nearly as may be) to their holdings and, otherwise, to allotments up to a maximum of 9,151,618 ordinary shares (representing approximately 5% of the Company's issued ordinary share capital).

This means that the interests of existing shareholders are protected. If a share issue is not a rights issue the proportionate interest of existing shareholders could not without their agreement be reduced by more than 5% of the value of the new shares in cash issued to new shareholders by reference to the issued share capital at the date of this notice. There are no current plans to allot shares except in connection with the employee share schemes.

Resolution 9

This resolution which is being proposed as a special resolution will give the Directors authority to make market purchases of the Company's ordinary shares up to a maximum aggregate number of 27,436,551 ordinary shares (representing 14.99% of the share capital of the Company in issue at 4 June 2008). This resolution authorises the Company to pay a maximum price per share of an amount equal to the higher of (i) 105% of the average closing middle market price for an ordinary share for the five dealing days preceding any such purchase and (ii) the price stipulated by Article 5(1) of Commission Regulation (EC) No 2273/2003 (the Buy-back and Stabilisation Regulation), being the higher of the last independent trade for an ordinary share or the highest current independent bid for an ordinary share as derived from the trading venue where the purchase is carried out.

Any shares repurchased by the Company under the authority would be cancelled. There is currently no intention to hold such shares in treasury. The Company did not hold any ordinary shares in the capital of the Company in treasury at 4 June 2008 (being the latest practicable date prior to the publication of this Notice) except for 1,618,548 market-purchased ordinary shares held in the Employee Share Trust in connection with employee share schemes.

The Directors have no present intention of exercising on behalf of the Company the authority to purchase the Company's ordinary shares. The Directors would only cause the Company to purchase shares if, in their opinion, the expected effect would be to result in an increase in earnings per share and would benefit shareholders generally. The Directors are making no recommendation as to whether shareholders should sell their shares in the Company.

At 4 June 2008, being the last practicable date prior to the publication of this Notice, there were options outstanding over 4,879,538 ordinary shares in the capital of the Company which represent approximately 2.66% of the share capital of the Company in issue at that date. If the authority to purchase the Company's ordinary shares was exercised in full, the shares issued pursuant to these options would represent approximately 3.13% the Company's issued share capital.

Recommendation of the Board of Directors in respect of all items of business

The Board is of the opinion that all of the proposed resolutions are in the best interests of shareholders as a whole and of the Company. Accordingly, the Board recommends that you vote in favour of each resolution, as the Directors intend to do in respect of their own beneficial shareholdings held at the time of the Annual General Meeting.

Ancillary Information:

General Information for Shareholders Attending the Annual General Meeting

1 The Notice of Meeting is being issued to all shareholders. Enclosed with this Notice, you will find an attendance card and a Form of Proxy.

2 If you are attending the meeting, you should bring the attendance card.

3 A shareholder is entitled to appoint one or more proxies to attend, speak and vote on their behalf. A proxy need not be a shareholder. If you wish to appoint a proxy, or proxies, you must complete the enclosed Form of Proxy which must be deposited with the Registrars, Equiniti, The Causeway, Worthing, West Sussex, BN99 6DA not later than 11.00 am on 29 July 2008. If you do not wish the Form of Proxy to be seen by anyone except the Company and its Registrars, you should post it in an envelope to Equiniti, FREEPOST, The Causeway, Worthing, West Sussex, BN99 6DA.

Alternatively, if you wish to register your proxy appointment electronically through the Internet, please use www.sharevote.co.uk where details of the procedure are provided. You will have to disclose the reference number, card ID and account number shown on the enclosed proxy form.

CREST members should refer to the Notice of Annual General Meeting (on pages 69 to 71) for instructions regarding the CREST electronic proxy appointment service.

4 Copies of the Executive Directors' service contracts, letters of appointment for the Non-executive Directors, a statement of all transactions of Directors (and of their families) in the share capital of the Company for the year ended 31 March 2008, and a copy of the Company's Memorandum and Articles of Association will be available for inspection at the Company's registered office during normal business hours on each day (except Saturday, Sunday and any public holidays) from the date of the Notice of Meeting until 31 July 2008 and also at the place of the AGM from 10.30 am on the day of the meeting until the conclusion of the meeting. Copies of the same will also be available on the same days at the offices of the Company's solicitors, Biggart Baillie, Dalmore House, 310 St Vincent Street, Glasgow G2 5BB.

Introduction
After his opening remarks and following a presentation from the Chief Executive, the Chairman will explain in detail the procedures for the conduct of the meeting, particularly for asking questions and voting on resolutions. The resolutions which are set out in the Notice of Annual General Meeting will then be put to the meeting.

How to ask questions
At the meeting, shareholders will be given the opportunity to ask questions from Question Points which will be clearly indicated.

At each Question Point, a member of staff will be available to help you. Please tell the member of staff the nature of your question and give your name and address. You may be asked to wait until called upon to speak. Please remember to state your name before asking your question.

How to vote
You should raise above your head your voting card (which you will receive when you register) indicating that you are voting either for or against each resolution as it is put to the vote by the Chairman. Only shareholders, authorised representatives of corporate shareholders or proxies may vote on a show of hands. If you are attending as a corporate representative for a shareholder, you will receive an appropriate identification card at registration.

Time
The doors will open at 9.30 am and the meeting will start promptly at 11.00 am.

Cameras/video or tape recorders/mobile phones
No cameras, video recorders or tape recorders will be allowed into the meeting. Mobile phones must be switched off during the meeting.

Registration
To ensure your entrance to the meeting is dealt with promptly, please bring your attendance card with you and register at the registration desk inside the hotel.

Customer enquiries
Company personnel will be available if you have any questions as a customer of the Company.

Shareholder information
If you have any questions concerning your shareholding, please speak to the staff at the shareholders' enquiry desk.

Disabled persons
Special arrangements have been made to offer every assistance to people with disabilities. If you have a companion to assist you, they will be admitted to the meeting as a guest. Guide dogs will also be permitted. The auditorium has an induction loop system for the deaf or hard of hearing and your hearing aid should be switched to the 'T' position.

First aid
First aid facilities are available. Ask any member of staff for assistance.

Emergency precautions
An announcement will be made if there is a fire warning or other emergency. Emergency exits are marked clearly around the auditorium. In case of a medical emergency, please contact a member of staff.

Refreshments
Refreshments will be available between 9.30 am and 10.50 am.

Important
If you have any questions about the meeting, or if you need any assistance, please telephone the Annual General Meeting enquiry line on 0141 566 3127 from Monday 30 June 2008 during normal working hours.

Ancillary Information:

Shareholder and Contact Information

Analysis of shareholders (as at 31 March 2008)

Range of holdings	Number of shareholders	Numbers of shares
1–100	287,526	5,402,914
101–200	12,694	1,790,592
201–600	8,003	2,793,030
601–1,000	1,950	1,601,597
1,001–5,000	2,208	4,475,093
5,001–100,000	479	9,227,462
100,001 and above	120	157,741,679

Financial calendar

31 July 2008	Annual General Meeting
November 2008	Interim Results for the six months ended 30 September 2008
May 2009	Preliminary Results for the year ended 31 March 2009

Annual General Meeting

The Annual General Meeting will be held at the Radisson SAS Hotel, 301 Argyle Street, Glasgow, G2 8DL on Thursday 31 July 2008 at 11.00 am. Details of the resolutions to be proposed at the Annual General Meeting are contained in the Notice of Annual General Meeting on pages 69 to 71.

Dividend

The Directors have not recommended the payment of a dividend for the year ended 31 March 2008.

Listing

Ordinary shares of THUS Group plc have been admitted to the Official List of the UK Listing Authority and are traded on the London Stock Exchange.

Share price

The share price is available from the THUS website at www.thus.net and in national newspapers.

Shareholder administration

Any queries relating to the administration of shareholdings, such as change of address, change of ownership and amalgamation of multiple accounts, should be referred to the Registrar.

Equiniti
The Causeway
Worthing
West Sussex
BN99 6DA.

Tel: 0871 384 2124*
Tel: 0871 384 2255 for textel/hard of hearing
Fax: 0871 384 2100

*Calls to this number are charged at 8p per minute from a BT landline.
Other telephony providers costs may vary.

Share dealing

THUS Group's shares may be bought or sold at competitive rates. For further details, please contact Stocktrade on 0845 601 0995, quoting LOWC0078. Alternatively, please contact Equiniti on 0871 384 2020 or at www.shareview.co.uk.

ShareGift

ShareGift is an independent registered charity which provides a free service for shareholders wishing to give small holdings of shares to benefit charitable causes. It may be especially useful for those who wish to dispose of a small parcel of shares which would cost more to sell than they are worth. There are no capital gains tax implications on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be obtained at www.sharegift.org or from the THUS Shareholder Helpline on 0871 384 2124.

Contact information

Secretary and registered office

David Macleod
THUS Group plc
1-2 Berkeley Square
99 Berkeley Street
Glasgow
G3 7HR

Registered number SC 226738

For enquiries relating to the Company's operations and performance, please contact either:

Investor Relations	Corporate Communications
THUS Group plc	THUS Group plc
1-2 Berkeley Square	1-2 Berkeley Square
99 Berkeley Street	99 Berkeley Street
Glasgow	Glasgow
G3 7HR	G3 7HR
Tel: 0141 566 3176	Tel: 0141 566 3642

THUS' services

Information about THUS' services can be found on the THUS website at www.thus.net.

Mixed Sources
Product group from well-managed forests and other controlled sources
FSC
www.fsc.org Cert no. TT-COC-002242
© 1996 Forest Stewardship Council

Designed and produced by **Emperor Design Consultants Ltd**
Tel **+44 (0)131 220 7990 www.emperordesign.co.uk**

www.thus.net

THUS Group plc
1-2 Berkeley Square
99 Berkeley Street
Glasgow G3 7HR

INVESTORS IN PEOPLE