
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2002.
- TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____ .

Commission file number: 333-13860

YELL FINANCE B.V.

(Additional Registrant)

Yellow Pages Limited

(Exact name of Registrants as specified in their charters)

THE NETHERLANDS

(Jurisdiction of incorporation or organization)

ENGLAND AND WALES

(Jurisdiction of incorporation or organization of Additional Registrant)

**QUEENS WALK, OXFORD ROAD
READING, BERKSHIRE RG1 7PT**

UNITED KINGDOM

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

None

Name of each exchange on which registered

None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

10³/₄% Senior Sterling Notes due 2011

10³/₄% Senior Dollar Notes due 2011

13¹/₂% Senior Discount Dollar Notes due 2011

Guarantee relating to the Senior Sterling Notes, Senior Dollar Notes and Senior Discount Dollar Notes

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

200 ordinary shares of €100 each

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

BASIS OF PRESENTATION OF INFORMATION

Certain Definitions and Presentation of Financial and Other Information

Unless otherwise indicated, all references in this annual report to:

- the “Company” are to Yell Finance B.V., a company incorporated with limited liability under the laws of the Netherlands; the “parent” are to Yell Group plc (formerly Yell Group Limited); the “guarantor” are to Yellow Pages Limited;
- “we”, “us”, “our”, “Yell”, “Group” and the “Yell Group” are to the Company and, where the context requires, its consolidated subsidiaries, except as otherwise indicated; except as otherwise indicated, these terms also refer to the Yellow Pages and Yellow Book businesses and companies acquired from British Telecommunications plc (“BT”) and, after 16 April 2002, the business of McLeodUSA Media Group, Inc.;
- “Yellow Book USA” are to Yellow Book LP, with respect to periods prior to BT’s acquisition of the assets of Yellow Book USA, LP on 31 August 1999, or the “Yellow Book acquisition”, and to Yellow Book USA, Inc. thereafter;
- “McLeod” are to McLeodUSA Media Group, Inc. and its subsidiaries acquired on 16 April 2002;
- “Apax Partners” are to each and any of Apax Partners Holding Ltd., its subsidiaries and Apax Partners, Inc.;
- “Hicks Muse” are to Hicks, Muse, Tate & Furst Incorporated;
- the “Sponsors” are to Apax Partners and Hicks Muse, with respect to the acquisition of Yell from BT;
- “Sponsor Funds” are to funds managed or advised by the Sponsors;
- “financial year” are to a given 12-month period ended on 31 March of the year; for example, the “2002 financial year” refers to the 12 months ended 31 March 2002;
- “United Kingdom” and “UK” are to the United Kingdom of Great Britain and Northern Ireland;
- “EU” are to the European Union;
- “United States” and “US” are to the United States of America, its states, territories, possessions and all areas subject to its jurisdiction;
- “pound sterling”, “pounds sterling”, “sterling” and “£” are to the lawful currency of the United Kingdom;
- “euro” or “€” are to the single currency of the Member States of the European Union that have adopted such currency as their lawful currency in accordance with legislation of the European Union relating to European Economic and Monetary Union; and
- “dollar”, “dollars”, “US\$” and “\$” are to the lawful currency of the United States.

Yellow Pages™, Business Pages™, Yell™ and Yell.com™ are trademarks we use in the United Kingdom. Yellow Book™, McLeodUSA®, McLeod USA®, Yell™ and Yell.com™ are trademarks we use in the United States.

We present our financial statements in pounds sterling. Unless otherwise indicated, financial information in this annual report has been prepared in accordance with accounting principles generally accepted in the United Kingdom (“UK GAAP”). UK GAAP differs in certain significant respects from US generally

accepted accounting principles (“US GAAP”). See note 26 to our audited combined and consolidated historical financial statements included elsewhere in this annual report.

Market Share Information

Information regarding market share, market position and industry data pertaining to our business contained in this annual report consists of estimates based on data and reports compiled by industry professional organisations and analysts and our knowledge of our sales and markets.

We take responsibility for compiling and extracting, but have not independently verified, market data provided by third parties, or industry or general publications, and take no further responsibility for such data. Similarly, while we believe our internal estimates to be reliable, they have not been verified by any independent sources and we cannot assure you as to their accuracy.

Cautionary Statement Regarding Forward-Looking Information

This annual report includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this annual report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this annual report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industries in which we operate are consistent with the forward-looking statements contained in this annual report, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- our substantial leverage and our ability to meet our debt obligations;
- further changes in our regulatory environment in the United Kingdom;
- our ability to continue to attract new advertisers;
- our ability to compete with other printed directories businesses; and
- general local and global economic conditions.

We urge you to read Item 3.D. “Key Information—Risk Factors”, Item 4. “Information on the Company” and Item 5. “Operating and Financial Review and Prospects” for a more complete discussion of the factors that could affect our future performance and the industries in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this annual report may not occur.

We undertake no obligation to update publicly or publicly revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this annual report.

A. Selected Financial Data

Selected Yell Group Financial Information

The table below sets out selected historical combined and consolidated financial information for the Yell Group for the periods indicated.

Unless otherwise noted, the Yell Group historical combined and consolidated financial information presented and discussed below has been prepared in accordance with UK GAAP. UK GAAP differs in certain important respects from US GAAP. For a description of these differences, and a reconciliation to some of the US GAAP financial information presented below, see note 26 of the notes to the financial statements included elsewhere in this annual report.

	Combined (Predecessor)				1 April to 22 June 2001	Consolidated (Successor) 22 June 2001 to 31 March 2002
	Year ended or at 31 March					
	1998	1999	2000	2001		
	(in £ millions)					
<i>UK GAAP</i>						
Combined and Consolidated Profit and Loss Information						
Group turnover	458.3	469.0	622.2	774.3	169.1	696.3
Cost of sales	(157.1)	(162.6)	(242.1)	(316.0)	(71.1)	(315.9)
Gross profit	301.2	306.4	380.1	458.3	98.0	380.4
Distribution costs and administrative expenses	(130.5)	(129.0)	(187.0)	(270.8)	(65.1)	(261.7)
Group operating profit	170.7	177.4	193.1	187.5	32.9	118.7
Net interest payable	–	–	(10.8)	(24.5)	(5.8)	(158.6)
Profit (loss) on ordinary activities before taxation	170.7	177.4	182.3	163.0	27.1	(39.9)
Tax on profit on ordinary activities	(55.1)	(59.8)	(57.7)	(60.3)	(11.3)	(7.3)
Profit (loss) for the financial year	<u>115.6</u>	<u>117.6</u>	<u>124.6</u>	<u>102.7</u>	<u>15.8</u>	<u>(47.2)</u>
EBITDA ⁽¹⁾	175.7	183.6	210.8	222.6	42.7	199.8
Combined and Consolidated Balance Sheet Information						
Intangible fixed assets	–	–	370.5	429.3		1,640.5
Tangible fixed assets and investment	11.0	9.8	23.5	44.6		32.1
Current assets	182.3	187.4	289.2	390.4		528.3
Total assets	<u>193.3</u>	<u>197.2</u>	<u>683.2</u>	<u>864.3</u>		<u>2,200.9</u>
Creditors: amounts falling due within one year	(59.8)	(54.5)	(111.6)	(230.2)		(200.1)
Net current assets	<u>122.5</u>	<u>132.9</u>	<u>177.6</u>	<u>160.2</u>		<u>328.2</u>
Total assets less current liabilities	133.5	142.7	571.6	634.1		2,000.8
Creditors: amounts falling due after more than one year	–	–	(206.6)	(239.8)		(2,050.7)
Net assets (liabilities)/equity shareholders' funds (deficit)	<u>133.5</u>	<u>142.7</u>	<u>365.0</u>	<u>394.3</u>		<u>(49.9)</u>
Other Financial Information						
Depreciation and amortisation	(5.0)	(6.2)	(17.7)	(35.1)	(9.8)	(81.1)
Capital expenditure ⁽²⁾	(7.0)	(6.1)	(10.8)	(23.1)	(16.9)	(8.6)
Net cash inflow from operating activities	193.6	172.2	190.6	194.1	(37.6)	(158.7)

	Year ended or at 31 March		Combined (Predecessor)	Consolidated (Successor)
	2000	2001	1 April to 22 June 2001	22 June 2001 to 31 March 2002
			(in millions)	
<i>US GAAP</i>				
Combined and Consolidated Profit and Loss Information				
Net income (loss)	90.3	84.8	(18.2)	(147.9)
EBITDA ⁽¹⁾	181.5	212.2	12.0	98.5
Combined and Consolidated Balance Sheet Information				
Total assets	630.3	789.0		2,361.5
Total shareholders' equity (deficit)	312.1	319.0		(150.7)
Other Financial Information				
Net cash provided by operating activities	181.8	176.5	28.8	48.3
Net cash used in investing activities	(420.2)	(72.0)	(16.9)	(1,890.9)
Net cash provided by (used in) financing activities	243.1	(84.7)	12.4	1,942.7

(1) EBITDA comprises total Group operating profit before depreciation and amortisation. The EBITDA disclosed here is not necessarily comparable to EBITDA disclosed by other companies because EBITDA is not uniformly defined. We believe that EBITDA is a relevant measurement used by companies to assess performance as it attempts to eliminate variances caused by the effects of differences in taxation, the amount and types of capital employed and depreciation and amortisation policies. EBITDA should not be considered by investors as an alternative to Group operating profit or profit on ordinary activities before taxation as an indicator of operating performance, or as an alternative to cash flow from operating activities. EBITDA is not a measure of financial performance under UK or US GAAP.

(2) Capital expenditure represents cash expenditure on tangible fixed assets, which in the period from 1 April to 22 June 2001 includes £11.7 million in payments to BT relating to the transfer of a car fleet to the Group.

Selected unaudited Yell Group Operational Information

The table below sets out selected unaudited operational data for the Yell Group for the periods indicated.

	Year ended or at 31 March		
	2000	2001	2002
Yell Group Operational Information⁽¹⁾			
<i>UK information</i>			
Directory editions published ⁽²⁾	83	84	89
Directories advertisers ⁽³⁾ (thousands)	605	654	678
Total advertisements ⁽⁴⁾ (thousands)	803	861	898
Unique advertisers ⁽⁵⁾ (thousands)	378	418	438
Turnover per unique advertiser (pounds)	1,309	1,239	1,234
Unique advertiser market penetration ⁽⁶⁾ (%)	19.7	21.6	22.1
Unique advertiser retention rate ⁽⁷⁾ (%)	82.7	82.5	79.5
Copies distributed (millions)		28.9	29.1
Free-line entries (millions) ⁽⁸⁾	1.8	1.8	1.8
<i>US information: Yellow Book⁽⁹⁾</i>			
Directory editions published ⁽¹⁰⁾		306	272
Directories advertisers ⁽³⁾ (thousands)		251	246
Total advertisements ⁽⁴⁾ (thousands)		1,157	1,224
Unique advertisers ⁽⁵⁾ (thousands)		152	166
Turnover per unique advertiser (pounds)		1,450	1,711
Unique advertiser market penetration ⁽¹¹⁾ (%)		n/a	9.3
Unique advertiser retention rate ⁽⁷⁾ (%)		74.0	70.1
Copies distributed (millions)		22.1	26.8
Free-line entries (millions) ⁽⁸⁾		3.3	3.6

(1) Refers to our UK printed directories and US printed directories only.

- (2) Number of editions that have been recognised for revenue purposes, including Yellow Pages and Business Pages directories.
- (3) Number of businesses advertising in individual directories that were billed during the period. No adjustment is made for businesses advertising in two or more directories.
- (4) In the United Kingdom, this measures the number of billed advertisements accounted for in the period. In the United States, this measures total advertisements published, both revenue and non-revenue generating.
- (5) Number of unique advertisers in printed directories that were recognised for revenue purposes and have been billed. Unique advertisers are counted only once regardless of the number of advertisements they purchase or the number of directories in which they advertise. For Yellow Book, the number includes internet accounts and a small number of duplicates between regions.
- (6) Number of unique printed directory advertisers as a proportion of the number of companies with business telephone numbers in Yell's business records.
- (7) Proportion of advertisers that have renewed their advertising from the preceding publication. In the United Kingdom, this measure excludes national and key accounts where retention is very high, as well as ex-customers who were excluded by Yell because of bad debt.
- (8) A "free-line entry" is a business listing in a directory at no charge. In respect of Business Pages in the United Kingdom and in respect of Yellow Book directories in the United States, businesses with more than one free-line entry will be counted once per entry and businesses listed in multiple directories are also counted more than once.
- (9) No information is provided for periods prior to our 2001 financial year, the first full year that the financial results of Yellow Book USA were included within the Yell Group's combined financial results. Data for unique advertisers, turnover per unique advertiser and unique advertiser retention rate differ from previously reported numbers following further integration of our US information systems, which eliminated duplication in calculating the number of unique advertisers. This restatement has had no effect on the Group's reported earnings.
- (10) The number of directory editions for Yellow Book includes prototypes and books that were published twice during the period.
- (11) The number of unique printed directory advertisers as a proportion of the total number of companies in Yellow Book's markets as measured by third-party research as of October 2001.

Currency and Exchange Rate Data

The table below sets forth, for the period indicated, certain information regarding the noon buying rates in New York City for cable transfers in pounds sterling, as certified for customs purposes by the Federal Reserve Bank of New York expressed in dollars per pound sterling:

<u>Month and year</u>	<u>£1.00 = dollars</u>		
	<u>High</u>	<u>Low</u>	<u>Period end</u>
January 2002	1.4482	1.4074	1.4120
February 2002	1.4322	1.4085	1.4129
March 2002	1.4287	1.4146	1.4250
April 2002	1.4592	1.4310	1.4565
May 2002	1.4676	1.4474	1.4625
June 2002	1.5285	1.4574	1.5245
July 2002 (through 5 July)	<u>1.5307</u>	<u>1.5206</u>	<u>1.5206</u>

The following table sets forth the average of the noon buying rates in New York City for cable transfers in pounds sterling on the last full day of each full month during each of the last five years ended 31 March 2002 and for the period from 1 April 2002 through 5 July 2002 as certified for customs purposes by the Federal Reserve Bank of New York expressed in dollars per pound sterling:

<u>Year ended 31 March</u>	<u>£1.00 = dollars</u>
1998	1.6463
1999	1.6526
2000	1.6085
2001	1.4737
2002	1.4166
1 April 2002 through 5 July 2002	1.4910

We make no representation that any amount translated in this annual report could have been or could be converted at any of the rates indicated above or at any other rates.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our regulatory environment restricts our revenue growth in the United Kingdom.

Our UK printed consumer classified directories, which represent our largest product offering in terms of turnover and profits, are subject to undertakings we have given to the UK Secretary of State for Trade and Industry. These undertakings regulate the prices we may charge for classified advertisements, and have recently been revised to reduce further the prices that we may charge for classified advertisements in the United Kingdom following acceptance by the Secretary of State of the advice of the Director General of Fair Trading that a stronger price cap was needed to address the concerns expressed in his review. The revised undertakings, which affect prices for advertisements in all of our consumer classified directories in the United Kingdom sold from January 2002, limit any annual price increase to a percentage equal to the inflation rate as measured by the official UK Retail Price Index (“RPI”) minus six percentage points. This means that our prices for these advertisements will be required to be reduced in absolute terms each year that the inflation rate is less than 6% and that, relative to inflation, these prices will be reduced every year so long as the undertakings remain in effect. If the revised undertakings had been in effect during all of our 2002 financial year, assuming no change in our advertising volume or sales mix that may have occurred as a result of lower prices or any change in our cost structure, we estimate that we would have had approximately £21 million less in turnover and operating profit for that financial year. Our new undertakings to the UK Secretary of State for Trade and Industry are expected to remain in effect for a period of approximately four years from January 2002. However, the UK Secretary of State for Trade and Industry and the Director General of Fair Trading each have the power to review the effectiveness and appropriateness of the undertakings at any time and the UK Secretary of State for Trade and Industry may at any time request revised terms, which may be more restrictive.

Our results may vary from period to period and may not be indicative of our results for the full year.

Because the different editions of our classified directories are published and distributed at different times throughout the year, our business does not experience significant seasonality. In accordance with our accounting policies, we do not recognise turnover or the costs directly related to sales, production, printing and distribution for any given directory until delivery of that directory has been completed. This means that because the number and type of directories are not evenly distributed during the year or published in the same quarter every year, our turnover and profits do not arise evenly over the year. Any delay in the publication and distribution of a significant directory, or a number of directories that either singly or together generate significant turnover, could have the effect of postponing the recognition of turnover and costs from that directory or those directories to the following financial period. Similarly, an earlier distribution of directories during the year could result in recognition of turnover and costs in an earlier period as compared to the prior year, making year-to-year comparisons more difficult. Finally, due to timing differences among the recognition of revenues and costs, the payment of costs and invoicing our advertisers, operating profit, EBITDA and other financial indicators generally relied on by investors to evaluate a company’s financial performance may not, in our case, reflect actual cash received or expended during a given period.

Our business may be adversely affected by our reliance on, and our extension of credit to, small and medium-sized businesses.

A significant portion of our turnover is derived from selling advertising to small and medium-sized enterprises. In the ordinary course of our business, we extend credit to these advertisers for advertising purchases. Small and medium-sized enterprises, however, tend to have fewer financial resources and higher

financial failure rates than large businesses. We believe these limitations are a significant contributing factor to having advertisers in any given year not renew their advertising in the following year. Bad debt expense as a percentage of Group turnover was 4.8% and 6.1% for the financial years ended 31 March 2001 and 2002, respectively, and has been and currently is higher in the United States, where churn rates are higher. In addition, full collection of delinquent accounts can take an extended period of time. Consequently, we could be adversely affected by our dependence on and our extension of credit to small and medium-sized enterprises.

Increased paper prices may have a material adverse effect on our business.

Paper represents our single largest raw material expense. In the 2002 financial year, paper costs represented approximately 4.6% of turnover and 12.5% of our total cost of sales in the United Kingdom. Paper costs represented 10.3% of turnover and approximately 17.0% of our total cost of sales in the 2002 financial year in the United States. In the past, paper prices have fluctuated significantly. For example, during the past five years, the newspaper-grade paper prices we have paid in the United Kingdom have fluctuated between approximately £480 and £792 per tonne, and may significantly increase in the future. The average price of newspaper-grade paper we purchased in the 2002 financial year was approximately £480 per tonne in the United Kingdom and approximately \$640 per tonne in the United States. We estimate that a 10% change in paper prices during the 2002 financial year would have had an annual impact of approximately £5.6 million on our Group operating profit. We seek to limit our exposure to market fluctuations through fixed-price arrangements with our suppliers, although our current arrangements in the United Kingdom respectively expire in March 2003 and March 2004 and our current arrangements in the United States expire in April 2004, and we may not be able to renew them on satisfactory terms, if at all. The failure to deliver by any of our major suppliers could require that we make purchases in the spot market, at potentially higher prices, during the period it takes to replace such major suppliers. Historically both Yellow Book and McLeod had no fixed-price arrangements and instead obtained paper at prevailing market rates.

If we cannot expand through acquisitions and integrate our acquisitions and new directory introductions successfully, our ability to expand our business may be adversely affected. Material acquisitions by us may have a material adverse effect on our business.

We have expanded in the United States through several acquisitions of classified directory publishers and new directory introductions or launches. As part of our strategy, we actively evaluate and intend to continue from time to time to evaluate potential acquisitions, some of which may be material. While we currently have no agreement or understanding with any third party with respect to a material acquisition, any future material acquisition may affect significantly the nature of an investment in our 10³/₄% Senior Sterling Notes due 2011, 10³/₄% Senior Dollar Notes due 2011 and 13¹/₂% Senior Discount Dollar Notes due 2011 (collectively, the "Notes"). Further, any future new acquisitions, as well as recent acquisitions such as the McLeod acquisition, and recent and future directory launches will require the attention of our management and the diversion of other resources. We cannot assure you that we will be able to identify, acquire, launch or profitably manage additional classified directory publishers or directory launches or successfully integrate such publishers, including McLeod, without substantial costs, delays or other problems, or at all. In addition, we cannot assure you that any companies acquired or directories launched will be profitable at the time of their acquisition or launch or that they will achieve levels of profitability that will justify the investment we made in them. We cannot assure you in the case of acquisitions that we will successfully overcome disparities between our corporate strategies and cultures and those of the businesses we acquire in the future. We may also seek to expand into geographic areas where we currently have no operations and where we may encounter cultural differences. Our ability to expand our business in the future may be affected if we are unable to identify and consummate acquisitions and integrate our acquisitions or directory launches successfully.

If we lose the services of our key executive officers, we may not succeed in implementing our business strategy.

Our Chief Executive Officer and certain other senior managers are key to the successful implementation of our business strategy in the near to medium term. Our executive and senior managers have extensive experience and knowledge of our industry and its potential. The loss of their services could have a material adverse effect on our ability to implement our business strategy.

The loss of important intellectual property rights could adversely affect our competitiveness.

Some of our trademarks, such as our “Yellow Pages” brand name in the United Kingdom and our “Yellow Book” and “McLeod” brand names in the United States, and other intellectual property rights are important to our business. We rely upon a combination of copyright and trademark laws as well as, where appropriate, contractual arrangements, including licensing agreements, to establish and protect our intellectual property rights. We are required from time to time to bring lawsuits against third parties in order to protect our intellectual property rights. Similarly, we are and expect from time to time to be party to proceedings where third parties challenge our rights. We cannot be sure that any lawsuits or other actions brought by us will be successful or that we will not be found to infringe the intellectual property rights of third parties. As the internet grows, it may prove more onerous to protect our trademarks such as Yell.com and Planetpages.com from domain name infringement or to prevent others from using internet domain names that associate their business with ours. Although we are not aware of any material infringements of any trademark rights that are significant to our business, any lawsuits, regardless of their outcome, could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition or operating results. In addition, we do not have rights to the “Yellow Pages” brand name, or its local-language equivalent, in any countries in which we might operate other than in the United Kingdom, the Republic of Ireland and some of the former and current British territories overseas. The loss of important trademarks could have a material adverse effect upon our business, financial condition and results of operations.

Foreign exchange rate fluctuations may adversely affect our business, financial condition and results of operations.

As our reporting currency is the pound sterling, any movement in foreign currency exchange rates in relation to pounds sterling, particularly the movements in the dollar/pound sterling exchange rate, could have an impact on our business, financial condition and results of operations. If the average dollar/pound sterling exchange rate used for reporting purposes had been \$0.10 higher during our 2002 financial year, then our reported turnover would have been £18.6 million lower. In the future, we may also experience exchange gains or losses upon translation of our dollar-denominated liabilities relating to a portion of the Notes or upon translation of our US assets or results of operations, and we may incur foreign exchange transaction losses to the extent we are required to fund payments on the dollar-denominated Notes with pounds sterling. We do not currently hedge against foreign exchange risk, although we may choose to do so in the future. However, we cannot assure you that exchange rate fluctuations will not adversely affect our business, financial condition and results of operations.

Additional regulation regarding information technology and data privacy may increase our costs.

In addition to our printed directories, we also offer internet-based products and services. General advertising laws and regulations and data protection legislation may apply to our internet-based activities in the same way in which they apply to our activities generally. As our business in this area develops, specific laws and regulations relating to the provision of internet services and to the use of the internet and of related applications may become more relevant. Regulation of the internet and related services is itself still developing. If our regulatory environment becomes more restrictive, including increased internet content regulation, this could decrease our profitability.

Our exposure to defamation and privacy claims could have a material effect on our operating results or our financial condition.

We are exposed to defamation and breach of privacy claims relating to our directories business as well as methods of collection, processing and use of personal data. The subjects of our data and users of data collected and processed by us could also have claims against us if our data were found to be inaccurate, or if personal data stored by us were improperly accessed and disseminated by unauthorised persons. Although we have not had any material claims relating to defamation or breach of privacy claims to date, we may be party to litigation matters that could have a material adverse effect on our business, financial condition or results of operations or otherwise distract our management.

If we cannot adapt our business to technological change, we may be unable to maintain our competitive position.

We anticipate that the classified advertising industry may experience significant changes arising from rapid developments in technology and users' technology preferences. We currently derive substantially all of our revenue from our printed classified directories. However, increasing use by business and residential users of internet-based and other technologically advanced products and services may cause our future turnover mix to shift in favour of products and services other than our printed classified directories, such as our internet-based products and services. Turnover derived from our printed classified directories may decline and may not be offset by turnover derived from our other products and services. Our ability to maintain our competitive position may depend upon our ability to enhance existing products and services, develop and market new products and services and attract and retain key managers and employees to respond to the growing presence of internet-based and other technologically advanced products in our industry. If we fail to anticipate or to respond adequately to changes in technology and user preferences, or incur significant delays or costs in product development or introduction, we may be unable to maintain our competitive position. As a result of the growing use of internet-based and other technologically advanced products and services, we may face increased competition from new as well as existing providers of services similar to ours.

Our reliance on technology could have a material adverse impact on our business.

Most of our business activities rely to a significant degree on the efficient and uninterrupted operation of our computer and communications systems and those of third parties. Any failure of current or, in the future, new systems could impair our collection, processing or storage of data and the day-to-day management of our business. This could have a material adverse effect on our business, financial condition and results of operations.

Our computer and communications systems are vulnerable to damage or interruption from a variety of sources. Despite precautions taken by us, a natural disaster or other unanticipated problems that lead to the corruption or loss of data at our facilities could have a material adverse effect on our business, financial condition and results of operations.

Our dependence on two principal suppliers may have a material adverse effect on our business.

We depend on two principal suppliers in the United Kingdom for many of our printing and pre-press needs. To that end, we have several long-term contracts with both RR Donnelley, for printing and binding our classified directories, and Pindar Set Ltd., for pre-press needs, including preparing artwork and paginating the directories. In the United States, we depend on Pindar Set Ltd. for a portion of our Yellow Book pre-press needs and also on RR Donnelley and Quebecor Printing, Inc. for substantially all of McLeod's and Yellow Book's printing needs. In addition, we expect to outsource McLeod's pre-press work to Pindar Set Ltd. These contracts are for services that are integral to our business. Should our suppliers be unable to fulfil their contractual obligations under these agreements, this could result in a material adverse effect on our business until we find replacement suppliers for these services.

Our substantial leverage could adversely affect our financial well-being and preclude us from satisfying our obligations under the Notes.

As at 31 March 2002, on a pro forma basis after giving effect to the McLeod acquisition we would have had total third-party debt, before the allocation of deferred finance costs, of £2,559.4 million, including £1,130.7 million of secured debt under our senior credit facilities and £504.9 million in Notes issued, £176.1 million under a bridge facility used to purchase McLeod and subordinated parent company loans of £747.7 million. We anticipate that we will continue to maintain considerable debt for the foreseeable future. Our substantial leverage poses the risk to our noteholders that:

- a significant portion of our cash flow from our operations will have to be dedicated to servicing our debt;
- our ability to obtain additional financing for working capital, capital expenditures or business opportunities may be impaired;
- we may have a much higher level of debt than certain of our competitors, which may put us at a competitive disadvantage and may make it difficult for us to pursue our business strategy; and
- our debt level may render us unable to adequately plan for or react to changing market conditions, changes in our business and the industry in which we operate.

Our debt agreements contain significant restrictions limiting our flexibility in operating our business.

Various covenants contained in our debt instruments limit or may limit our ability to:

- borrow money;
- use assets as security in other transactions;
- make certain asset dispositions;
- make investments;
- enter into transactions with subsidiaries other than on arm's-length terms; and
- pay dividends or make other distributions.

These restrictions could hinder our ability to carry out our business strategy and make payments of principal or interest on the Notes. A breach of the covenants of the indentures under which the Notes were issued could cause a default under the terms of the other financing arrangements of our subsidiaries, causing all debt under those financing arrangements to become due.

Our ability to generate the cash needed to service our debt depends on certain factors beyond our control.

The future success of our operations will in large part dictate our ability to make scheduled payments on, and satisfy our obligations under, our debt, including our senior credit facilities and the Notes. Our future operating performance will be affected by general economic, competitive, market, business and other conditions, many of which are beyond our control. To the extent we are not able to fund any principal payment at maturity with respect to the senior credit facilities, the Notes or any interest payment when due from cash flow from operations, we will be required to refinance this debt pursuant to credit facilities and/or the issue of new debt and equity securities into the capital markets. Any failure to raise the additional funds necessary to achieve this would result in a default under the senior credit facilities and/or a default under the Notes. We anticipate that we will have to refinance in part the repayment of the Notes at maturity. We cannot assure you that we will be able to refinance any of our debt, obtain additional financing or sell assets on commercially reasonable terms or at all.

Both the Company and the guarantor are holding companies with no revenue-generating operations of their own.

The Company's and the guarantor's only assets are in each case an intercompany loan and shares in each of their direct wholly owned subsidiaries, which are themselves holding companies. We are therefore entirely dependant on dividends and other distributions from our operating subsidiaries that are indirectly held through our holding company subsidiaries. The ability of these operating subsidiaries to make payments to us is dependent on their cash flow and earnings. Our operating company subsidiaries may not generate cash flow sufficient to enable us to meet our payment obligations.

The terms of the intercreditor deed and the senior credit facilities as well as local corporate law restrict our subsidiaries' ability to provide funds to us.

The Company, our parent, the guarantor and most of our subsidiaries are parties to an intercreditor deed with, among others, the lenders under the senior credit facilities. The intercreditor deed contractually subordinates each of the Company's and the guarantor's rights to receive payments from subsidiaries under intercompany loans to the subsidiaries' obligations under the senior credit facilities. In addition, prior to the time the senior credit facilities are repaid, the intercreditor deed prohibits our subsidiaries from making payments to the Company and guarantor except to fund interest due on the Notes, certain permitted investor payments and administrative expenses. In the case of a default under the senior credit facilities, payments to the Company and guarantor from their subsidiaries, including payments under the Company's and the guarantor's intercompany loans, will be suspended in the event of a payment default or in the event of any other default if a blockage notice is issued by the senior facility agent under the senior credit facilities. These payments may be resumed when the default is cured, waived or ceases to exist, when any acceleration has been rescinded or when the senior facility agent terminates the blockage notice. The intercreditor deed also provides that, in addition to the payment blockage, prior to the time the senior credit facilities are repaid, enforcement action may not be taken by the Company or guarantor in relation to their intercompany loans without the consent of a majority of lenders under the senior credit facilities.

In addition, the terms of the senior credit facilities as well as local corporate law restrict our subsidiaries' ability to provide funds to us. Dividends are typically limited to accumulated earnings of the relevant subsidiary. Further, dividends and other distributions from our operating company subsidiaries will be applied to amounts owing under the senior credit facilities before any surplus is available for payment to the Company to satisfy its obligations under the Notes. As a result of these restrictions we may not have sufficient funds to pay the principal of and interest on the Notes.

Funds managed or advised by the Sponsors beneficially own our shares and their interests may conflict with yours.

Funds managed or advised by the Sponsors are the beneficial owners of nearly all of the shares of our parent, which owns 100% of our outstanding share capital. Accordingly, the Sponsors continue to be able to exert influence over, or in some cases block, all matters that must be decided by a vote of our parent's shareholders, including the election of directors.

If circumstances arise where the Sponsors' interests conflict with your interests, if, for example, we were to encounter financial difficulties or were unable to pay our debts as they matured, you could be disadvantaged by the Sponsors' ability to take actions contrary to your interests. In addition, the Sponsor Funds may benefit if we pursue acquisitions, divestitures, financings, currency exchange or interest rate hedging or other transactions which, in their judgement, could enhance the value of their equity investment, even though such transactions might involve risk to holders of the Notes.

The Notes and the guarantees are structurally subordinated to the obligations of our subsidiaries and you may not be repaid if we become insolvent.

Our obligations under the Notes are structurally subordinated to the obligations of our subsidiaries, including approximately £1,082.6 million of debt, net of deferred finance costs (including the revolving credit

facility) under the senior credit facilities. Our subsidiaries are separate and distinct legal entities. Other than the guarantor, which is also a holding company without independent operations, our subsidiaries will have no direct obligation, contingent or otherwise, to pay any amount due under the Notes. In the event of an insolvency, liquidation or other reorganisation of any of our subsidiaries (other than the guarantor), our creditors (including you) will have no right to proceed at law against our subsidiaries' assets. Creditors of these subsidiaries will be entitled to payment in full from the sale or other disposal of these assets in priority to the Company, except to the extent that the Company may be a distinct creditor with recognised claims against those subsidiaries.

The Notes and the guarantees are unsecured obligations of the Company and the guarantor, respectively. Debt under the senior credit facilities is secured by liens on substantially all of the assets of the guarantor, including its intercompany loans to its direct subsidiary and payments made under them and the shares and assets of our material operating subsidiaries. In the event of a default under the senior credit facilities or an insolvency, liquidation, winding-up or similar proceeding relating to the guarantor or any of the Company's other material subsidiaries, the guarantor's assets would be available to satisfy obligations under the senior credit facilities before any payment would be made on the Notes or under the guarantees. Any future secured indebtedness, whether of the Company or any of its subsidiaries, including the guarantor, would effectively rank senior to the Notes and the guarantees.

We may not be able to finance a change of control offer required by the indentures.

Upon a change of control (as defined under the indentures governing the Notes), the noteholders may require us to offer to purchase all of the Notes then outstanding at prices set forth in the indentures. The change of control provision in the indentures requires the occurrence of a rating decline to become effective. If a change of control were to occur, we cannot assure the noteholders that we would have sufficient funds to pay the purchase price of the outstanding notes, and we expect that we would require third-party financing to do so. We cannot assure the noteholders that we would be able to obtain this financing on favourable terms, if at all. In addition, the senior credit facilities impose restrictions on distributions from our subsidiaries that will restrict our ability to repurchase the Notes, including pursuant to an offer in connection with a change of control. A change of control may result in an event of default under the senior credit facilities and may cause the acceleration of other debt which may be senior to the Notes. Our future debt also may contain restrictions on repayment requirements with respect to specified events or transactions that could constitute a change of control under the indentures.

Dutch insolvency laws may adversely affect a recovery by the holders of the Notes.

We are organised under the laws of the Netherlands. Dutch insolvency laws differ significantly from insolvency proceedings in the United States and may make it more difficult for holders of the Notes to effect a restructuring of us or to recover the amount they would have recovered in a liquidation or bankruptcy proceeding in the United States. There are two primary insolvency regimes under Dutch law; the first, moratorium of payment (*surséance van betaling*), is intended to facilitate the reorganisation of a debtor's debts and enable the debtor to investigate the possibilities for continuing its business as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the assets of a debtor to its creditors.

If a company applies for a moratorium of payment, the court will grant the moratorium provisionally and appoint a trustee administrator (*bewindvoerder*), who, jointly with the company's management, will be in charge of the company and its business undertakings. A definitive moratorium will generally be granted upon the approval of a qualified majority of the unsecured creditors. In both cases, certain creditors will be precluded from attempting to recover their claims from the assets. A provisional or definitive moratorium of payment will be withdrawn and in most cases be converted into a bankruptcy if, among others, the assets or financial condition of the debtor is such that continuation of the moratorium is no longer desirable or the prospect that the debtor may eventually satisfy its creditors, appears not to exist. The moratorium does not apply to claims of secured creditors (such as pledgees and mortgagees), claims which are accorded preferential rights (such as tax and social security duties and employee wages) or any debts arising after the

date of the moratorium. Unlike chapter 11 proceedings under US bankruptcy law during which both secured and unsecured creditors are generally barred from seeking to recover on their claims, during a Dutch moratorium of payment secured creditors and preferential creditors may proceed against the assets that secure their claims or to which they have preferential rights, in order to satisfy their claims. A recovery under Dutch law, therefore, could involve a sale of the assets of the debtor in a manner that does not reflect the going-concern value of the debtor. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Notes to effect a restructuring of us and could reduce the recovery in a Dutch insolvency proceeding.

In connection with Dutch bankruptcy proceedings, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor's creditors in accordance with their respective ranks and, to the extent claims of certain creditors have equal ranking, in proportion to the amount of such claims. Certain parties (such as secured creditors and preferential creditors) will have special rights that may adversely affect the interests of holders of the Notes. Secured creditors such as pledgees and mortgagees may enforce their rights separate from the bankruptcy. Other creditors need to submit their claims to the receiver for verification. The claim of a creditor may be limited depending on the date the claim becomes due and payable in accordance with its terms. Generally, claims of holders of Notes which were not due and payable by their terms on the date of a bankruptcy of the Company will be accelerated and become due and payable on that date. Each of these claims will have to be submitted to the receiver of the Company to be verified by the receiver. "Verification" under Dutch law means that the receiver determines the existence, ranking and value of the claim and whether and to what extent it will be admitted in the bankruptcy proceedings. The valuation of claims that otherwise would not have been payable to the time of the bankruptcy proceedings may be based on a net present value analysis. Creditors that wish to dispute the verification of their claims by the receiver will need to commence a court proceeding. These verification procedures could cause holders of Notes to recover substantially less than the principal amount of their notes or less than they could recover in a US liquidation. Such verification procedures could also cause payments to the holders of Notes (if any) to be delayed compared with holders of undisputed claims.

Fraudulent conveyance legislation is also in force in the Netherlands. Portions of the legislation provide generally that certain transactions with a creditor entered into voluntarily by the debtor are subject to avoidance if both parties to the transaction know or should have known that the transaction would prejudice other creditors or that the debtor has previously made an application for bankruptcy. Knowledge that the transaction would prejudice other creditors is presumed by law for all transactions performed within one year of the adjudication before bankruptcy or within one year before the date the claim of fraudulent conveyance is made, if it is also established that one of the conditions mentioned in Article 43 of the Dutch Bankruptcy Act or, respectively, Article 46 of Book 3 of the Dutch Civil Code is fulfilled. These conditions include, but are not limited to, situations in which: (1) the value of the obligation of the debtor materially exceeds the value of the obligation of the creditor, (2) the debtor pays or grants security for debts which are not yet due, (3) an agreement is made between legal entities or an obligation arises from one legal entity towards another if a director of one of these legal entities is also a director of the other or (4) an agreement is made or an obligation would arise with a Group company. Accordingly, if a court of competent jurisdiction in a suit by an unpaid creditor of the Company or a representative of such a creditor were to find that the issuance of the Notes met the foregoing criteria, the court could avoid the Notes. A consequence of such avoidance could be the subordination of claims of holders of the Notes to existing and possibly future debt of the Company. We cannot assure you as to what standards a court would apply to determine whether the Company was solvent at the relevant time or whether, whatever, standard was applied, the Notes would not be avoided on another of the grounds set forth above.

UK insolvency laws are not as favourable to unsecured creditors as US insolvency laws.

The procedural and substantive provisions of English insolvency and administrative laws generally are more favourable to secured creditors than the comparable provisions of US law. These provisions afford debtors and unsecured creditors only limited protection against the rights of secured creditors and it will generally not be possible for the Company, as an unsecured creditor under intercompany loans, or the holders

of the Notes, as unsecured creditors of the Company under the Notes, or unsecured creditors of the guarantor under the guarantees to prevent the secured creditors from enforcing their security to repay the debts. After an event of default occurs, the security agent under the senior credit facilities will have the effective right to direct the disposition of any collateral. In addition, under English insolvency law, the Company's debt under the Notes and the guarantor's debt under the guarantees will, in a winding-up, rank after the claims of certain creditors which are entitled to priority under English insolvency law. The claims of these preferred creditors include:

- amounts owed to the UK Inland Revenue;
- amounts owed to the UK Customs and Excise;
- amounts owed in respect of UK National Insurance contributions;
- amounts owed under occupational pension schemes;
- amounts owed to employees; and
- liquidation expenses.

Under English insolvency law, an administrative order can be made if the court is satisfied that the relevant company is or is likely to become 'unable to pay its debts' for the purpose of the relevant statute and if one of a number of purposes specified in the legislation would be satisfied by the making of the order. Those purposes include the survival of the company as a going concern and a more advantageous realisation of the Company's assets than would be effected in a winding-up. The administrative regime is in some respects similar to the regime under chapter 11 of the US Bankruptcy Code as no steps may be taken to enforce security over a company's property and no proceedings or other legal process may be commenced or continued against a company in administration except with the consent of the court. It is possible, however, for a secured creditor that has the power to appoint an administrative receiver (which will generally be the case where the secured lender has security in the form of a floating charge over all or substantially all of the company's property, as is the case of the lenders under the senior credit facilities) to prevent the appointment of an administrator and, as a result, that secured creditor and other secured creditors will be able to enforce their security. As a result, the protection given to unsecured creditors under English insolvency law will in most cases be less than the protection that would be given to unsecured creditors under chapter 11 of the US Bankruptcy Code. It is possible that we could be subject to insolvency proceedings in other jurisdictions in which we operate. The insolvency laws of those jurisdictions may also differ from US insolvency laws.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Yell is a leading international directories business which includes the Yellow Pages and Business Pages directories in the United Kingdom and the Yellow Book and McLeod directories in the United States, as well as Yell.com, Yellowbook.com, Planetpages.com, Talking Pages and Yell Data.

The Company was incorporated on 19 June 2001 as a private company with limited liability under the laws of the Netherlands with its registered office in Amsterdam, the Netherlands. Our principal offices are located at Queens Walk, Oxford Road, Reading, Berkshire RG1 7PT, England, our telephone number is +44 (0) 118 959 2111, and our facsimile number is +44 (0) 118 950 9888.

The Yell Group operated as a business within BT prior to 22 June 2001, when funds managed or advised by the Sponsors purchased BT's equity interests in Yellow Book USA, Inc. and Yellow Pages Sales Limited and the net assets and operations of BT's subsidiary, Yell Limited.

Our business originated in 1966, when the General Post Office, a department of the UK Government and the predecessor to BT, first published a classified advertising book, later to be called Yellow Pages, as part of the Brighton telephone directory.

Between 1966 and the early 1980s, we expanded our coverage in the United Kingdom, publishing Yellow Pages sections and then separate Yellow Pages directories for substantially all of the United Kingdom. In the 2002 financial year, we published 89 directories, including Business Pages, across the United Kingdom. Although we have traditionally focused on paper-based directories, for a number of years we have been exploring other means of delivering our products and services.

In the mid-1980s, we began expanding our range of products and services in order to build on our database of information on UK businesses, our advertiser base and the expertise of our national sales force. In 1986, we launched Yell Data, formerly known as The Business Database, which provides direct-marketing and database development services to businesses operating principally in the United Kingdom. In 1987, we initiated our first electronic delivery of classified directory information. In 1994, we launched Talking Pages, a 24-hour telephone-based, operator-assisted classified directory service, on a nationwide basis. In 1996, we began offering online internet services for users in the United Kingdom using the Yell.co.uk domain name and, in June 2000, we relaunched Yell.co.uk as Yell.com.

Since March 1996, advertising rates in our UK Yellow Pages directories have been subject to price caps as a result of undertakings given to the UK Secretary of State for Trade and Industry. In 2001, following a review by the Office of Fair Trading, we entered into revised undertakings setting forth new price caps.

In addition to expanding our products and services, we have expanded geographically. The Yellow Book acquisition in August 1999 expanded our core business into the United States. The first Yellow Book business was founded in 1930 to publish local community directories for the then-newly emerging communities on Long Island, New York. In the 2002 financial year, we published 272 directories under the Yellow Book name covering 19 US states in the eastern half of the United States and Washington, DC.

Yellow Book USA has expanded through the acquisition of smaller independent directory publishers, building density of coverage and strengthening its market presence. Since 1997, Yellow Book USA has made 14 acquisitions. Ten of these have been made since we acquired Yellow Book in August 1999, including an acquisition of directories from Sprint for £31.4 million and nine others with a combined value of £21.8 million.

In April 2002, we significantly expanded our geographic coverage with the acquisition of McLeod. During its 2001 financial year, McLeod published 260 directories in 26 states and had a strong brand presence in markets throughout the Midwest and Western United States.

Acquisitions have been a key component of McLeod's growth strategy. Over the past ten years, McLeod has made 54 separate acquisitions (16 of which were of individual directories). Since February 1999, these have included an acquisition of directories from Talking Directories, Inc. ("TDI") for a total cost of \$132 million including expenses, and four other significant acquisitions with a combined total cost of \$73 million.

In addition to acquisitions, we have also expanded our geographic coverage in the United States through new directory launches. Since we acquired Yellow Book in August 1999, we have launched 30 new directories, including directories in the borough of Manhattan in New York City, metropolitan Boston and greater Chicago.

We are the leading provider of classified directory advertising and associated products and services in the United Kingdom and the leading independent provider (not affiliated with a US telephone service provider) of classified directory advertising in the United States. We seek to generate business leads for our advertisers by connecting buyers and sellers through an integrated portfolio of simple-to-use, cost-effective advertising solutions, including printed, telephone-based and online directories. Approximately 95% of our revenues during our 2002 financial year were derived from selling advertising in printed classified directories to our advertisers, which are principally small and medium-sized enterprises.

On a combined basis, taking into account McLeod's operations during the 2001 calendar year and our operations during the 2002 financial year, we published a total of 621 directories in the United Kingdom and the United States and distributed approximately 88.5 million copies of our directories containing

approximately 3.2 million advertisements on behalf of over 835,000 advertisers (based on a combined number of unique advertisers, without eliminating any overlap between Yellow Book and McLeod).

We believe that our advertisers value the effectiveness and low cost of advertising in our directories relative to many other forms of advertising, our broad distribution to potential buyers of our advertisers' products and services and the quality of our client service and support. During our 2002 financial year, we provided services to advertisers across a diverse range of industry sectors and achieved annual retention rates for our printed directories of approximately 79.5% in the United Kingdom and 70.1% in the United States, excluding McLeod.

B. Business Overview

Our activities are organised into the following areas:

- ***UK printed directories.*** In the United Kingdom, we are the largest classified directory publisher with approximately 27.8 million copies of the Yellow Pages directories distributed during our 2002 financial year, with an average of approximately 103 million directory uses each month. We published 83 regional Yellow Pages directories throughout substantially the whole of the United Kingdom, which together contained approximately 875,000 advertisements on behalf of approximately 434,000 unique advertisers during the same period. We also published six Business Pages directories, which are targeted at the business-to-business market. Together, these contained approximately 22,900 advertisements on behalf of approximately 16,200 unique advertisers during our 2002 financial year. Our UK printed directories business contributed 62.5% of Group turnover during the same period. Yellow Pages directories, excluding Business Pages, are delivered wholly or mainly to consumers and forms part of our UK printed directories business. They are the only part of our business that is subject to specific price and other regulatory controls.
- ***US printed directories.*** In the United States, through our publication of the Yellow Book and McLeod directories, we are the largest independent publisher of classified directory advertising and the fifth-largest overall publisher of classified directories based on combined Yellow Book and McLeod turnover for the 2001 calendar year. Including McLeod, we serve approximately 520 markets in 38 states and Washington, DC. We acquired the Yellow Book business in the United States in August 1999. Yellow Book USA is the oldest and largest independent publisher of classified directories in the United States. In April 2002, we acquired McLeod, which was the second-largest independent publisher of classified directories in the United States after Yellow Book. We have also been successful in entering new geographic markets in the United States through new directory launches and other acquisitions. In the United States, Yellow Book published 272 directories during our 2002 financial year, which together contained approximately 1.2 million advertisements on behalf of approximately 166,000 unique advertisers. Our US printed directories business contributed 32.8% of Group turnover during the 2002 financial year. Including McLeod, US printed directories would have contributed, on a pro forma basis, 45.9% to our pro forma Group turnover in the 2002 financial year. During the calendar year 2001, McLeod published 260 directories, which together contained approximately 1,067,000 advertisements for approximately 231,000 unique advertisers.
- ***Other products and services.*** Our other products and services, which contributed 4.7% of our Group turnover during the 2002 financial year, principally include:
 - ***Online services.*** Yell.com, our online products and service business, is a leading internet directory that offers comprehensive directory services and provides access to a database of approximately 1.7 million businesses in the United Kingdom. Advertisers can buy web links, template websites (including design and hosting), other online advertising products and services, and domain names. We also offer online directory services in the United States through our Yellowbook.com and Planetpages.com sites.
 - ***Talking Pages.*** Talking Pages is our 24-hour, telephone-based, operator-assisted service that provides up-to-date information throughout the United Kingdom on businesses and services

through a single telephone number. Talking Pages had approximately 22,400 paying advertisers as at 31 March 2002.

- *Yell Data.* Yell Data is a leading provider of business lists to the direct-marketing industry and customers operating in the business-to-business market in the United Kingdom, charging on a per-use basis. It also provides database development and management services and advertising campaign management services for telemarketing and direct-mail campaigns.

Industry Overview

The following are important characteristics of the classified directories business:

- *Classified directories are a widely used and highly effective form of advertising.* Classified directories are simple to use, and are frequently used by a wide variety of consumers and businesses to search for a broad range of products and services. Because most directory users have already made a decision to purchase, or at least are seriously considering purchasing, a product or service when they use a directory, we believe that classified directory advertising frequently has a higher probability of leading to a purchase than other traditional forms of advertising such as direct mail, telemarketing and television, and thus represents a cost-effective solution for advertisers.
- *Virtuous circle model.* A key characteristic of the classified directories business is the “virtuous circle” model. In this model, the greater the number of advertisers that advertise in a directory, the more useful it becomes to users. Users refer to the directory more frequently in their search for a supplier, which in turn provides more leads, and therefore better value, to advertisers, who are thus encouraged to pay for more advertising. Publishers facilitate this process by promoting the use of directories, and brand reputation grows as a result, which in turn contributes to increased usage and advertising.
- *Valuable form of advertising for small and medium-sized enterprises.* Given the effectiveness and “value for money” of classified directory advertising compared to other forms of advertising, we believe that a large number of small and medium-sized enterprises view classified directory advertising as a very valuable form of advertising which forms a significant part of their marketing budget.
- *High start-up costs.* New entrants require significant investment to obtain up-to-date databases, recruit and train a sales force, build brand recognition, acquire an advertiser base sufficiently large to justify directory use, and acquire and operate the necessary infrastructure before they can viably offer a large-scale service.
- *Strong financial characteristics and resilience in an economic downturn.* Given the characteristics described above, once successfully established, classified directories businesses, including Yell’s, have historically been characterised by strong cash flow generation, relatively low ongoing capital expenditure requirements after business start-up and a relatively stable advertiser base. In addition, given the importance of classified directory advertising to a broad and relatively stable base of small and medium-sized enterprises and the low exposure of classified directory advertising to cyclical advertising, such as offers for employment, automotive sales and property sales, we believe that the classified directories business is more resilient to economic downturns than other forms of advertising.

We believe that the following industry trends are important in evaluating Yell’s growth potential:

- *Continued growth potential in the United Kingdom.* The UK directories sector has experienced continuous growth during the past ten years. We believe that the sector will continue to grow and that this growth will be driven primarily by increased volumes. Turnover growth in the sector is expected to be achieved as penetration among the potential advertiser base of small and medium-sized enterprises increases, as existing advertisers increase their advertising spend on additional or larger advertisements, and as the result of the introduction of new product offerings.

- **High growth rates of independent directories in the United States.** The US independent directories business is the fastest-growing segment of the overall US printed directories market, which is the largest printed directories market in the world. According to industry sources, the US independent printed directories market grew from \$0.8 billion in 1997 (representing a 7% share of the overall US printed directories market) to \$1.7 billion in 2001 (representing a 12.5% share of the overall US printed directories market). According to industry forecasts, the size of the US independent printed directories market is estimated to grow to \$5.4 billion in 2006 (representing a 35.5% share of an estimated \$15.2 billion US printed directories overall market).
- **Expanded revenue opportunities through advances in technology.** Most participants in the classified directories industry have expanded beyond their traditional printed directories business and are delivering directory content and services through a broader range of media, including fixed and mobile internet and voice telephony. We expect that this trend will continue and that the directories market will grow as new media forms are introduced and improved and as users become more familiar with these new technologies.
- **Increased opportunities for consolidation.** We believe that the directories sector generally is fragmented in nature. For example, industry sources estimate that in the United States there were 240 classified directory publishers in 2001. Further, there are telecommunications companies in Europe and the United States that have recently divested their classified directories businesses. As a result, we believe there is potential for further consolidation in the industry.

Products and Services

UK Printed Directories

UK printed directories contributed 62.5% to Group turnover in the 2002 financial year. The following table sets forth certain information regarding our Yellow Pages and Business Pages directories for the 2002 financial year:

	<u>Yellow Pages</u>	<u>Business Pages</u>
Directory editions ⁽¹⁾	83	6
Copies distributed (in millions)	27.8	1.3
Uses per month (in millions) ⁽²⁾	103.0	10.4
Unique advertisers ⁽³⁾	434,000	16,200
Advertisements ⁽⁴⁾	875,000	22,900
Free-line entries (in millions) ⁽⁵⁾	1.8	0.6

(1) Number of editions that have been recognised for revenue purposes.

(2) As measured by third-party market research consultants, based upon a sample.

(3) Number of unique advertisers in printed directories that were recognised for revenue purposes and have been billed in the period. There is some overlap of advertisers in Yellow Pages and Business Pages.

(4) Number of billed advertisements accounted for in the period.

(5) As discussed below, a free-line entry is a business listing in a directory at no charge. In respect of Yellow Pages, this is the number of business records held, minus duplications that may appear if a business has entries in more than one directory. In respect of Business Pages, this is the number of free-line entries printed in such directories. Thus, businesses with more than one free-line entry in Business Pages will be counted once per entry.

Yellow Pages Directories

Yellow Pages is a series of annual regional classified directories that list the name, address and telephone number of substantially all business telephone subscribers in the United Kingdom. Yellow Pages carries text and display advertising for approximately 22% of these listings. The listings are currently organised into over 2,340 available classifications, with more than one classification potentially applicable to a business. We published 83 regional directories in the 2002 financial year, covering substantially the whole of the United Kingdom. In the 2003 financial year, we plan to publish 88 regional directories. In five of the existing regions we have decided to rescope and therefore to publish two directories in each of those regions, adding five

additional directories to our total. Our Yellow Pages directories are used approximately 1.2 billion times each year, based upon an estimated average monthly usage of approximately 103 million.

Businesses are offered a “free-line entry”, which is a listing on a discretionary basis at no charge in the relevant edition of our Yellow Pages directories. The entry includes only the name, address and telephone number of the business, which is listed in alphabetical order in the relevant classification in a three-columns-to-a-page format. We maintain the information that forms the basis of these listings as part of our proprietary database, which is derived from raw data purchased in the United Kingdom from BT, which includes BT’s and other telecommunications providers’ (“Telcos”) subscriber information and is supplemented with further information we obtain from our field sales and customer service employees.

A range of additional paid advertising options are available in our Yellow Pages directories, as follows:

- *Bold entries*—An advertiser’s name is printed in bold text and in a larger font than in free-line entries.
- *Semi-display*—An advertiser’s line-entry is separated from surrounding entries in a box format, sometimes including limited additional information and logos.
- *Display*—A full display enables advertisers to include a wide range of information, illustrations and logos. The cost of display advertisements depends on the size and type of advertisement purchased. The following types of display advertisements are available:
 - *Column*—covers all or part of one of the three columns on a page.
 - *Part page*—two or three columns wide, for greater prominence on the page.
 - *Full page*—covers an entire page for greater prominence within a business classification.
 - *White Knock-Out*—We print our Yellow Pages directories using yellow ink on white paper to create the yellow background characteristic of our directories, as a more cost-effective and environmentally friendly alternative to printing on yellow paper. Businesses may pay to have all or a portion of their advertisement printed against a white background for increased visibility in contrast to surrounding advertisements that are printed against a yellow background.
 - *Colour*—Since October 2001, we have offered a complete range of colour advertisement options in all of our published directories. All colour advertisements are priced at a premium to our normal advertisements and give advertisers even greater prominence on a page.
 - *Bound inserts*—Inclusion of a full-page, double-sided, heavyweight, full-colour insert which is bound inside the directory. These inserts enable advertisers to achieve prominence and increase the amount of information displayed to directory users. Technical considerations limit the number of bound inserts to approximately six per directory.
- *Cover*—Premium location advertisements are available on the inside and outside back covers of Yellow Pages directories.

In addition, we sell artwork services to our directory advertisers in Yellow Pages.

Business Pages

In addition to our Yellow Pages directories, we published six Business Pages directories in the 2002 financial year. We began publishing Business Pages directories in 1984. Business Pages is an annual classified business-to-business directory that carries the name, address and telephone number of selected businesses in the principal metropolitan areas in the United Kingdom, together with information on general business topics such as security, office technology and taxation. The Business Pages directory is designed for businesses that supply goods and services to other businesses. Information on Business Pages advertisers is also available through Yell.com.

These six Business Pages directories cover London, the Midlands, the North-West, Scotland, the Thames Valley and Yorkshire. As with our consumer Yellow Pages directories, Business Pages offers free-line entries, bold entries and a range of display advertisements in approximately 1,450 available classifications.

US Printed Directories

US printed directories contributed 32.8% to Group turnover in the 2002 financial year. Including McLeod, US printed directories would have contributed, on a pro forma basis, 45.9% to our pro forma Group turnover in the 2002 financial year. Our US printed directories are published in 38 states and Washington, DC under two distinct brands, Yellow Book and McLeod. Our Yellow Book directories maintain a strong brand presence in the eastern half of the United States, where they are now published in 19 states and Washington, DC. McLeod has a strong brand presence in directory markets in the Midwest and the Western United States, and it currently publishes or distributes directories in 26 US states.

The following table sets forth certain information regarding our Yellow Book directories for the 2002 financial year and our McLeod directories for the calendar year ended 31 December 2001:

	<u>Yellow Book</u>	<u>McLeod</u>
Directory editions ⁽¹⁾	272	260
Copies distributed (in millions)	26.8	32.6
Unique advertisers ⁽²⁾	166,000	231,000
Advertisements ⁽³⁾	1,224,000	1,067,000
Free-line entries (in millions) ⁽⁴⁾	3.6	2.1

- (1) The number of directory editions for Yellow Book includes prototypes and books that were published twice during the period.
- (2) Number of unique advertisers in printed directories that were recognised for revenue purposes during the period. For Yellow Book, the number includes internet accounts and a small number of duplicates between regions.
- (3) Total advertisements published, both revenue and non-revenue generating. The number for McLeod includes promotional and free advertising.
- (4) Number of free-line entries printed in all Yellow Book or McLeod directories. Since businesses may be listed under more than one category, certain businesses may be counted more than once within a single directory. Businesses listed in multiple directories are also counted more than once.

Our classified directories list the name, address and telephone numbers of business telephone subscribers in the geographic areas covered by our directories. The listings are currently organised into over 6,000 available classifications in Yellow Book and over 3,800 available classifications in McLeod, with more than one classification potentially applicable to a business. As is the case with our UK printed directories, businesses in the geographic areas covered by our directories are offered free-line entries at no charge.

We have a higher ratio of total advertisements to unique advertisers in the United States than in the United Kingdom. This is due to price discount schemes that offer advertisers extra advertisements as an incentive to book early in the sales canvass and encourage advertisers to advertise in more than one classification and in more than one directory, which is facilitated by the higher number of classifications and larger numbers of small, contiguous community directories in the United States than in the United Kingdom.

Our US printed directories offer advertisers a range of paid advertisement types and sizes similar to those available in our UK printed directories. Advertisers may choose to buy bold text, semi-display, a range of display advertisements (including graphics) and/or premium-location advertisements on the spine and front and back covers of our directories.

Due to a more fragmented market, we believe that there is a much greater opportunity for the introduction of new directories and geographic expansion in the United States compared to the United Kingdom. The large number of US directory publishers could also provide further opportunity for acquisitions. Since we acquired Yellow Book in August 1999, we have pursued a strategy of rapid geographic expansion and we have launched 30 new directories to increase our geographic coverage in the United States.

Significant directories launched include directories in the borough of Manhattan in New York City, metropolitan Boston and greater Chicago.

We launch directories to cover new areas in two ways. Where we believe we can effectively do so we launch a new directory with paid advertisements, utilising our field sales and telesales employees. In areas where we do not have significant name recognition, where we do not have a nearby sales force or where there is significant competition, we may launch using a prototype directory in which we offer free advertisements in the first directory. Although we intend to continue geographic expansion through new directory launches, we do not intend to launch as many directories as previously. In the 2003 financial year, we plan to launch directories in Nassau County, New York and North Boston, Massachusetts, as well as to publish the first revenue-generating books for Charlotte, North Carolina and Jackson, Mississippi, which were published as prototypes during the 2002 financial year. No prototype directories are currently foreseen for the 2003 and 2004 financial years.

Taking into account our acquisition of McLeod and new launches, we currently expect to publish 524 directories during the 2003 financial year. This figure is less than the aggregate number of directories published separately by Yellow Book and McLeod, reflecting a reduction in the overall number of directories due to a rescoping of some of our community directories into wide-area directories in the United States, as well as the merging of some McLeod directories with Yellow Book directories in markets where they overlap. We believe that this rescoping is beneficial since it provides opportunities for increased operating efficiencies, such as leveraging production, selling and marketing costs, and that it results in a greater yield per directory that has been rescoped.

Yellow Book

Our Yellow Book branded directories have historically published two principal types of classified directories in the United States:

- community directories, which cover individual communities, based on well-defined shopping patterns; and
- wide-area directories, which cover several distinct communities, often a county or a metropolitan area.

The decision to publish a community or wide-area directory is made on a case-by-case basis, depending on a number of factors, including the nature of the directory published by the local telephone operator, our view of the potential level of demand for advertising and our ability to offer advertisers and users a differentiated product. We continually evaluate the effectiveness of our approach and in several instances we have consolidated several community directories into one wide-area directory in order to achieve efficiencies in production, printing and/or distribution.

Community directories. In the 2002 financial year, we published 135 community classified directories in New York, Florida and New Jersey, including two university directories. Our community directories consist of:

- a yellow classified directory section, which contains display advertisements in two columns and listings of businesses under approximately 6,000 available classifications;
- a white pages section, which lists in alphabetical order the names, addresses and telephone numbers of businesses and individuals located in the geographic area covered by the directory;
- a community information section, which includes maps and other reference information about general community services such as listings for government offices, schools and hospitals; and
- coupons and advertising inserts.

Wide-area directories. In the 2002 financial year, we published 136 wide-area classified directories covering areas larger than our community directories. These areas include parts of Alabama, Delaware,

Washington, DC, Georgia, Illinois, Louisiana, Maryland, Mississippi, upstate New York, North Carolina, Pennsylvania, Tennessee and Virginia.

Our wide-area directories have essentially the same format as our community directories, although our larger directories do not include consumer white pages.

In addition to our consumer wide-area directories, we also publish one business-to-business directory serving the boroughs of Brooklyn and Queens, and Long Island, New York. The business-to-business directory consists of classified listings, alphabetical business listings on white pages, a business information section and a guide to the online business-to-business directory. First published in 1988, the business-to-business directory is generated from the proprietary database we developed based on the advertisers in our community directories, known businesses in the area and business suppliers identified through market research. We distributed approximately 200,000 copies of the business-to-business directory in the 2002 financial year.

The Acquisition and Integration of McLeod

We acquired McLeod in April 2002. The McLeod acquisition included the following directories published in the 2001 calendar year:

- *Established markets.* McLeod published 87 directories which it had owned for at least five years and represented 34% of its total directory advertising revenues in the 2001 calendar year. These directories typically have had year-over-year book revenue growth and have generated the highest book profit margins within the McLeod group.
- *Metro markets.* McLeod published 26 directories in metropolitan markets including Tampa, Columbus (Ohio), Indianapolis, Detroit, Kansas City, Denver, Minneapolis/St. Paul, St. Louis, Memphis and Chicago. These metro markets represented 19% of McLeod's total directory advertising revenues in the 2001 calendar year. While these markets represent an important business opportunity due to their size, they typically require a longer period of time before achieving similar performance levels as compared to established market directories.
- *Newer markets.* McLeod published 147 non-metro market directories that it had controlled for less than five years and which represented 46% of McLeod's total revenues in the 2001 calendar year. Because of the relative age of these directories from their point of acquisition, management believes that over time these directories will achieve performance levels comparable to those experienced in the established markets.

Further, through its third-party contract publishing business unit, Consolidated Communications Directories, Inc. McLeod currently acts as the vendor and publisher of various directories for several small telephone companies across the United States. As a result of a lack of perceived attractive future growth potential, McLeod has decided to exit this business and is not renewing arrangements with local telephone companies as contracts expire.

In order to integrate McLeod, we have implemented a single management structure over all of our US printed directories. We believe that the integration of McLeod will include the following benefits:

- improved sales force utilisation and management in contiguous or overlapping markets;
- the ability to more effectively target national customers by offering a presence in 38 US states and Washington, DC as opposed to 19 US states and Washington, DC;
- significant cost savings through an improvement in volume discounts for general expenses, such as paper, pre-press costs and printing;
- the transfer of strengths and best practices between Yellow Book and McLeod, such as improved marketing performance through the transfer of Yellow Book's sales strengths and improved standardisation and process management in back-office and production systems through the adoption of McLeod's processes; and

- a broader base in the United States into which some of Yell UK's more sophisticated sales and production processes and technologies can be introduced, creating the possibility of a single customer service and production platform offering substantial economies of scale.

In connection with the McLeod acquisition, we entered into a publishing, branding and operating agreement with McLeod's former parent companies. Under this agreement, we are obligated to publish the directories previously published by McLeod prior to its acquisition for a period of three years, and in certain territories we must continue until 2007 to publish, under McLeod trademarks, directories that would retain some aspects of McLeod's trade dress. The "trade dress" of the directory cover is a black background with a yellow star in its centre; in the star is a map of the region covered by the directory; and the names of the towns and the directory's date, amongst other things, appear in specific colours in specific places on the cover and spine of the directory. Although use of the McLeod trademarks may terminate under certain limited circumstances, we have purchased the McLeod trade dress, and may continue to use it even if our right to use the McLeod trademarks has terminated.

Other Products and Services

Other products or services contributed 4.7% to Group turnover in the 2002 financial year. In addition to our printed directories, we provide other associated products and services such as online services, Talking Pages and Yell Data. We also provide other related services such as "Service Call" and sales agent services for the BT Phone Book white pages directories.

Online Products and Services

In the United Kingdom, our online products and services are based on our internet site, Yell.com, which is designed to complement our off-line products and services. They include a directory search engine, web links, template websites (including design and hosting), other online advertising products and services and domain names. These products and services are designed to generate sales leads for our advertisers by enabling consumers and businesses to identify appropriate suppliers of goods and services and by facilitating contact.

The following table sets forth certain information regarding Yell.com:

	<u>March 2001</u>	<u>June 2001</u>	<u>September 2001</u>	<u>December 2001</u>	<u>March 2002</u>
Yell.com page impressions per month (in millions) ⁽¹⁾ . . .	15.5	20.7	26.2	22.3	33.3
Yell.com paying customers ⁽²⁾	65,220	72,170	73,740	77,730	81,530

(1) A file or a combination of files sent to a user as a result of that user's request being received by the server.

(2) Unique customers with a live contract at month end. These figures include customers who purchase a domain name.

Charges for our online services are currently largely based on annual fees or costs per thousand views. We currently generate most of our turnover for our online services from web links and website design and hosting, and in the future we expect increased revenue from those sources and from the development of other lead-generating services such as enhanced listings.

In the United States, we generate turnover from our Planetpages.com website through selling online advertisements, web links and e-mail links. Charges for these services are on a flat-fee basis and are offered only to existing printed directory customers who purchase a specified minimum advertisement size in one of our McLeod directories. We also generate turnover from our Yellowbook.com website through selling templated advertisements and banner advertising, mainly to existing printed directory customers for a monthly fee.

Talking Pages

Talking Pages is a 24-hour, telephone-based, operator-assisted directory service. It provides up-to-date information on businesses and services throughout the United Kingdom through a single telephone number

accessible from fixed and mobile lines in the United Kingdom. Talking Pages operators are able to access our Yellow Pages database and perform searches based on classifications, geographic locations and key words to identify businesses, shops and services that match criteria specified by the advertiser. Advertisers may update their information as frequently as they wish, giving them the ability to highlight special promotions, new services or changes in their business details. Users can perform searches using data categories where the information has been provided by advertisers.

As at 31 March 2002, we had approximately 1.7 million free-line entries for businesses on Talking Pages and approximately 22,400 paying advertisers whose information is given out on a basis preferential to that of the free-line entries. In the 2002 financial year, Talking Pages received over 14.3 million enquiries. Talking Pages provides a complementary information source for users of our printed and online products and services and, therefore, provides an additional source of sales leads for advertisers. As at 31 March 2002, approximately 78.1% of our Talking Pages advertisers also advertised in Yellow Pages.

Yell Data

Yell Data provides direct-marketing and database development services to businesses principally in the United Kingdom. Our proprietary database contains information such as names, addresses, post codes, industry groupings, premises types and employee numbers for over 1.6 million businesses throughout the United Kingdom. Data are obtained from the free-line entries that are published in the 83 regional Yellow Pages directories and are supplemented by additional information obtained from enquiries by our customer service representatives, including data such as the number of employees, the size of the business's premises and its products and services. The database is also then supplemented with data from Equifax and the UK Ordnance Survey, the mapping agency of the UK Government. Through Yell Data, we provide business listings to advertisers operating in the business-to-business market, charging either on a per-use basis or for a fixed-period lease. "Business Select", which we launched in 1999, is a direct-marketing CD-ROM based on Yell Data. It enables users to analyse, select and display business listings. In addition, Yell Data provides database development and management services to businesses seeking to build in-house campaigns. In the 2002 financial year, Yell Data provided approximately 114 million business listings to businesses.

Other

"Service Call" offers a telephone answering service in the United Kingdom to advertisers requiring 24-hour call-out facilities. The advertiser pays a flat monthly fee and an additional fee on a per-call basis to use Service Call. We also act as a sales agent for the BT Phone Book white pages directories, and our contract with BT provides for compensation based on the advertising revenue generated.

Operations

Publishing Cycle

We publish our directories on a 12-month cycle and in general produce each directory once each year. The nature of the publishing process means that there is a long lead time between the first sales activity and final distribution of a directory.

- *Selling*—Sales activity for a specific directory typically starts six months prior to publication. Our sales team focuses on a directory region and commences selling advertisements for the 'home' directory of each advertiser as well as selling advertisements for all of our other directories. Utilising a canvass-based approach, they contact existing advertisers and encourage them to renew and increase their advertising programme and to purchase other products in our portfolio. At the same time they approach new business prospects and leads generated by our customer service group and by our marketing activities.
- *Book closure*—Two months prior to publication, the sales activity for a particular directory is halted and the directory is considered to be closed. At this stage we continue to process orders, but the

sales team does not actively sell advertisements. During this period we concentrate on amendments to sold advertisements.

- *Final closure*—One month prior to publication the directory is finally closed. This is the deadline date for all amendments and cancellations. After this date all advertisements booked on or before this date will be published. As these dates are critical to the publication process they are clearly shown on our rate cards.
- *Pre-press*—Once the directory has finally closed, the pre-press activities commence. At this stage the composition of the directory is determined.
- *Printing and distribution*—On completion of the pre-press activities, printing and binding of the directory commences. Distribution begins as soon as the first completed directories are produced and takes on average three weeks per directory.

Although we recognise our revenues for accounting purposes when each published directory has been delivered, the long lead time of the publishing process gives us early visibility of revenue flows. We monitor sales on a book-by-book basis and are able to forecast the performance of each directory early in the sales cycle. This allows us to make changes to the sales activity in a particular region in response to initial sales performance and allows more accurate forecasting of final revenue flows.

Marketing and Sales

We continually seek to increase both the number of advertisers and the number of users of our directories, with success in one area generating success in the other area in accordance with the virtuous circle model characteristic of our industry. Our marketing and sales activities include promotion of our brands, our direct sales activity and specific sales promotions.

Brand Awareness

We believe the strength of our brands facilitates our ability to increase usage of our directories as well as increases our number of advertisers and the volume of advertisements our advertisers purchase.

We promote the “Yell”, “Yellow Pages”, “Yellow Book”, “Yell.com”, “McLeod”, “Yellowpages.com” and “Planetpages.com” brand names and our other individual products through a variety of media, including television, newspapers, billboards, magazines, radio publicity and the internet. Our advertising campaigns are designed to build brand awareness among users of our products and among advertisers that advertise in our directories. In the United Kingdom, in particular, we have a reputation for clever, amusing advertisements and have won numerous awards for our advertising campaigns.

Sales Force

We currently have a sales force of more than 4,400 employees in the United Kingdom and the United States. We believe that this extensive sales force is both experienced and well trained and that it constitutes one of our key business resources. Our sales force is divided into three principal groups in both the United Kingdom and the United States:

- *Field sales* focus on advertisers for new and repeat medium-sized and large advertisements in the United Kingdom. In the United States, we target most of our advertisers through our field sales force. All of our field sales force in the United Kingdom are equipped with laptop computers which provide them access to up-to-date advertiser information and market data and enable them to assist advertisers in developing advertising programmes and designing their own advertisements. Our field sales force in the United Kingdom has access to a proprietary software application which allows them to design advertisements in the field. We expect that we will be well positioned in the future to adopt those practices and technologies used by the UK field sales force that would be appropriate for our US field sales force.

- *Telephone sales* focus on new and repeat advertisers for smaller advertisements and represents our principal source of new advertisers in the United Kingdom. Historically, Yellow Book has not maintained a significant telephone sales force. McLeod has a more-established telephone sales force. In the future, we expect that telephone sales will be an increasing and cost-effective source of new advertisers in the United States for both Yellow Book and McLeod as we expand and build on McLeod's existing facilities.
- *National account sales* in both the United Kingdom and the United States focus on larger businesses that place advertisements in multiple directories. We believe that we will attract more national accounts in the United States due to our increased geographic coverage resulting from the McLeod acquisition.

The table below sets out our information on the approximate proportion of accounts and turnover corresponding to each sales group during the 2002 financial year or, in the case of McLeod, the 2001 calendar year.

<u>Sales channel</u>	<u>Number of employees⁽¹⁾</u>	<u>Proportion of accounts covered by respective sales channel⁽²⁾</u> (%)	<u>Proportion of turnover generated by respective sales channel⁽²⁾</u> (%)
United Kingdom			
Field sales	1,016	48	67
Telephone sales	605	51	10
National account sales	<u>128</u>	<u>1</u>	<u>23</u>
	1,749	100	100
United States (Yellow Book)			
Field sales	1,225	88	90
Telephone sales	58	3	3
National account sales	<u>28</u>	<u>9</u>	<u>7</u>
	1,311	100	100
United States (McLeod)			
Field sales	1,165	60	85
Telephone sales	<u>190</u>	<u>40</u>	<u>15</u>
	<u>1,355</u>	100	100
Total number of employees	<u><u>4,415</u></u>		

(1) Approximate number at period end.

(2) Approximate percentage.

Each of these groups work together in a co-ordinated fashion within a region and focuses its efforts on a rotating basis on specific geographical areas based on the publishing cycles of directories within the region while focusing on our sales strategy of encouraging our existing advertisers to allocate more of their advertising budget to our products, of increasing the number of our products they use and of winning new advertisers and retaining new and existing advertisers. We continually review the structure of our sales force and re-allocate accounts to maximise both service and added value.

Given our experience that average turnover per advertiser generally increases with the duration of our advertiser relationship, we focus on promoting a stable sales force that will help build and maintain advertiser relationships. To that end, in the United Kingdom we pay our sales force largely on a fixed-salary basis with an open-ended element that is commission based. In the United States, whilst we currently pay our sales force with a higher element of commission than in the United Kingdom, we are working towards changing the salary structure to a basis similar to that in the United Kingdom.

We believe that overall we have a loyal and mature sales force, as demonstrated by the fact that the average age of our sales force, including relevant management and support staff, in the United Kingdom is

34, with an average length of service of 4.8 years. The average age of our Yellow Book sales force in the United States is 38.3, with an average length of service of 3.7 years.

In order to ensure that we maintain a competitive sales force, we seek to be very selective in recruiting from amongst the large number of applicants we consider, and our sales representatives undergo continual training programmes and have regular appraisals to ensure that they are able to give advertisers high-quality service and advice on appropriate advertising products and services.

Promotions

As part of our marketing and sales effort, we have also engaged from time to time in specific promotional initiatives. In the United Kingdom, we introduced our “First Steps” programme to increase the number of our advertisers by encouraging prospective advertisers to test the benefits of advertising in Yellow Pages at discounted rates over a two-year period. The offer was available to new advertisers that had not previously advertised in our classified directories and applied to semi-display advertising only. Up to the end of our 2002 financial year, over 174,000 advertisers had taken advantage of this offer. In April 2002, we replaced First Steps with our “Move In” programme, which extends the offer to include quarter-column display advertising as well as semi-display advertising, with a discounted rate for one year. We believe Move In will increase the average turnover per first-year advertiser relative to First Steps and provide opportunities for advertisers to test the benefits of display advertising at an earlier stage of their Yellow Pages programme.

We also introduced the “Step Up” programme to increase long-term turnover per advertiser by encouraging advertisers to test the impact of larger advertising programmes by providing discounted rates for the take-up of larger display advertisements. Up to the end of our 2002 financial year, over 227,000 advertisers had taken advantage of this offer. In April 2002 we replaced Step Up with our “Move Up” programme, offering similar benefits to advertisers but at a lower discount rate relative to Step Up. It is open to renewing advertisers in both our Yellow Pages and Business Pages directories.

In the United States, we have introduced several different programmes that allow advertisers to test the effectiveness of increasing their advertising programme at a reduced rate. The “Headings Development” programme gives advertisers in McLeod directories who purchase an advertisement at full price the opportunity to receive the same advertisement in another classification free of charge for the first year and at a reduced rate in subsequent years. The “Free Colour” programme also provided in McLeod directories allows advertisers who increase their advertising programme to test the benefit of colour at no charge for the first year and then at a discount, with the discount being reduced over subsequent years. Further, advertisers in McLeod directories purchasing a full-price advertisement can increase their advertisement to the next larger size, or receive an identical advertisement in another directory, free of charge. Yellow Book advertisers who purchase a full-price advertisement in certain directories can in the first year benefit from a reduction in the price charged on a second advertisement in another classification in the same directory or in another directory. The Step Up programme offered by Yellow Book allows advertisers to test the benefits of a larger advertisement at a discount rate. Through its “Early Close Incentive” programme, Yellow Book also offers advertisers in certain directories a discount on an additional advertisement in a directory if the first advertisement is purchased early in the sales canvass of the particular directory. In seeking to encourage national advertisers to trial certain directories Yellow Book may insert their advertisements free of charge in those directories. This is sometimes known as “prototype advertising”.

Customer Service and Credit Control

Our ability to retain and increase sales to existing advertisers and to increase our penetration among potential advertisers is substantially dependent on the quality of our customer service and the business records and databases we maintain. Our customer service groups, particularly in the United Kingdom, maintain and update our business records and databases by capturing data from lists purchased from Telcos and from our existing advertisers and potential advertisers. Our customer service groups enhance the raw data by contacting businesses, verifying the validity of the data and collecting further information about the business. They also

generate sales leads for our sales force. We take the commercially available data and transform it into a proprietary database, which we then use as the basis for the majority of our products and services.

Our customer service groups also manage pre- and post-sales order processing, respond to advertiser enquiries, and provide information and support to our sales teams. In addition, our customer service groups monitor advertiser cancellations, requests for additional directories and advertisement errors, and determine the types and causes of errors.

Our customer service groups are also responsible for billing and collection. We continue to improve our cash collection through initial credit checking of new advertisers and a reduction in the time taken to resolve billing queries. Our credit check of new advertisers focuses on known areas of bad debt expense risk, such as certain directory classifications and levels of amounts spent. All new orders for existing advertisers are automatically checked for outstanding debt prior to confirmation. Both internal and external data are used to arrive at a decision on whether or not to extend credit to an advertiser. Where doubts about an advertiser's creditworthiness exist, we require the advertiser to pre-pay part or all of the value of its order.

Some of our bad debt may be written off through uncontrollable loss for a number of reasons such as liquidation, bankruptcy, voluntary arrangement and death. Our remaining bad debt arises when collection efforts are judged to be no longer viable or economical. See "Item 3.D. "Key Information—Risk Factors—Our business may be adversely affected by our reliance on, and our extension of credit to, small and medium-sized enterprises".

Production, Pre-Press and Printing

The following table sets out certain information regarding our publishing activities in the 2002 financial year:

<u>Printed directories</u>	<u>Editions</u>	<u>Copies</u> (in millions)	<u>Metric tonnage⁽¹⁾</u>
Yellow Pages	83	27.8	54,000
Business Pages	6	1.3	1,600
Yellow Book	272	26.8	60,500
McLeod ⁽²⁾	260	32.6	40,000

(1) Metric tonnage is paper used in the production process. One tonne is equal to 2,200 lbs.

(2) For the calendar year ended 31 December 2001.

Pre-press

Pre-press activities include preparing the artwork, format and layout of advertisements, proof reading and paginating the directories. At the end of the pre-press stage, directories are sent electronically to the printers for printing. In the United Kingdom, we outsource most of our pre-press activities to Pindar Set Ltd., with which we have maintained ongoing relations for nearly 20 years. In the United Kingdom, Pindar Set Ltd. provides us with advertisement make-up services for the production of advertisements and pagination for our directories in a digital format. Our operational contract with Pindar Set Ltd. for pre-press services commenced on 1 May 1995 and, following a renewal, extends until 31 March 2004. We pay a management fee on a monthly basis to cover overhead and fixed rates for each unit of output. In the United Kingdom, we also maintain a graphic arts studio for some pre-press services, currently employing approximately 71 full-time employees and two part-time employees to design display advertisements for our large advertisers. In the 2002 financial year, our graphic arts studio produced approximately 161,000 designs for advertisers.

Historically, pre-press activity in the United States was outsourced to a number of suppliers by Yellow Book and was conducted in-house by McLeod. Following a trial period, in order to improve our US pre-press capability, we entered into an agreement on 5 April 2002 to outsource our pre-press activities in the United States to Pindar Set Ltd. at their new Pennsylvania location over the next two years and to move towards a

digital format. We intend to migrate to a fully integrated model for Yellow Book and McLeod using Pindar Set Ltd.

Printing

Because of the large print volume and particular binding requirements, the printing of directories requires a high level of specialisation. We outsource our printing mainly to a number of established printing companies with which we have long-standing relationships. In the United Kingdom, our principal printer is RR Donnelley, which prints and binds all of our Yellow Pages and Business Pages directories and with which we have had a relationship for over 20 years. We entered into a new five-year contract with RR Donnelley, which commenced in August 2001 and includes the printing of colour advertising. In the United States, we have entered into fixed, long-term contracts with our principal printers for both Yellow Book and McLeod, which are RR Donnelley and Quebecor Printing, Inc.

Distribution

We typically aim to deliver our directories free of charge door-to-door to all of the residences and businesses in all of the geographical areas for which we produce directories. We currently outsource our directory distribution to four independent distribution companies in the United Kingdom pursuant to long- and short-term agreements. In the United States, Yellow Book currently uses several independent distribution companies for the delivery of its directories, making agreements with each company on a per-directory basis. We deliver our Manhattan directory principally through the US Postal Service.

McLeod carries out book distribution through an in-house operation. A large, highly automated distribution facility is located adjacent to its headquarters in Cedar Rapids, Iowa. This facility organises the routing, mapping, mailing via the US Postal Service and liaising with sub-contractors to deliver the books. We expect to transfer some of Yellow Book's distribution requirements through McLeod's facilities, as there is currently capacity within McLeod's facilities to satisfy some of Yellow Book's requirements. Our management expects that capacity utilisation would increase McLeod's facility absorption and thereby improve the combined profit margins.

Paper Supplies

Paper is our largest raw material and one of our largest variable-cost items. In the 2002 financial year, we purchased approximately 156,000 tonnes of paper for our directories, including the McLeod directories for the calendar year ended December 2001. Our principal paper suppliers in the United Kingdom are UPM-Kymmene, which provided 95% of our Yellow Pages paper requirements in the 2002 financial year, and Stora Enso, which supplied 90% of our Business Pages paper requirements in the 2002 financial year. Our principal paper suppliers in the United States were Abitibi, Fraser and Stadacona, which together supplied 72% of our paper requirements in the 2002 financial year.

To realise economies of scale, we tend to concentrate our paper purchases with a small number of suppliers. To help limit our exposure to fluctuating paper purchase prices, we have two-year fixed-price arrangements with our main suppliers, although until recently we did not have any fixed-price arrangements in the United States but instead obtained paper for Yellow Book and McLeod at prevailing market rates, either directly from the paper suppliers or via our printers. In the United Kingdom, the current fixed-price arrangements with UPM-Kymmene expire on 31 March 2004, and those with Stora Enso expire on 31 March 2003. In the United States, we have recently entered into fixed-price arrangements with UPM-Kymmene, Norske Skog Canada and Bulkley Dunton/Kruger, all of which expire on 30 April 2004. See Item 3.D. "Key Information—Risk Factors—Increased paper prices may have a material adverse effect on our business".

We have worked with our printers in the United Kingdom to achieve reductions in the amount of paper wasted in the production process from approximately 20% in the 1993 calendar year to approximately 8.9% in the 2002 financial year, compared to our estimate of the printed directories industry average of 9% to 12%. The use of special typefaces and advanced pagination and production techniques, including digital formatting,

coupled with effective wastepaper management, enables us to further reduce paper usage and costs in the United Kingdom.

Intellectual Property

We have made significant investments in our brand names and logos, including our “Yell”, “Yell.com”, “Yellow Pages”, “Yellow Book”, “McLeodUSA”, “McLeod USA”, “Business Pages”, “Yellowbook.com” “Planetpages.com” and “Talking Pages” brand names and logos. We currently have 62 trademark registrations in the United Kingdom, including “Yell”, “Yellow Pages”, “Talking Pages”, “Business Pages” and the “Walking Fingers” logo. We have five registered community trademarks which cover the European Union, and ten pending community trademark applications. In addition, we have six registered trademarks in the United States. This number excludes the brand name “Yellow Pages” and the “Walking Fingers” logo, which are generic terms and therefore in the public domain in the United States. We do not have exclusive rights to the “Yellow Pages” brand name, or its local-language equivalent, in any countries in which we might operate, other than the United Kingdom, the Republic of Ireland and some of the former and current British territories overseas. We have registered over 1,000 internet domain names, of which we currently use nine to connect to our websites in the United Kingdom, including Yell.com, which provides a link to Yellowbook.com.

We have registered or applied to register the “Yellow Book” trademark in the United Kingdom, the European Union and the United States. We cannot assure you that our applications for registration will be granted. In the United States, Interstate Publishers Corporation, a small independent publishing company, currently has a trademark registration on the supplemental register for the “Yellow Book” name which it uses in connection with publishing a buyers’ guide distributed to purchasing agents for industrial companies. We have filed a cancellation action with respect to Interstate Publishers Corporation’s registration and are actively pursuing our registration on the primary register.

We actively protect our brand names, internet domain names and logos in the countries in which we operate. For example, we are currently protesting the use by third parties of certain internet domain names that include the words “Business”, “Pages”, “Yell” and “Yellow Pages”. In doing so, we are from time to time compelled to bring lawsuits against third parties in order to protect our intellectual property rights. See Item 3.D. “Key Information—Risk Factors—The loss of important intellectual property rights could adversely affect our competitiveness”.

We are the proprietor of the database rights in the databases we have developed. As the proprietor of the database rights in our databases, we are entitled to prevent third parties from extracting or re-utilising all or a substantial part of the contents of our databases without our consent. In addition, we believe that we are the proprietor of the copyright in the databases we have developed to the extent that copyright subsists in them. As the proprietor of copyright in a database, we are entitled to prevent third parties from doing certain things, including copying the database, issuing copies of the database to the public or renting or lending the database to the public. In the United States, we also have copyrights in each edition of our directories.

We also own the copyright in software, artwork and literary work created by our employees during the course of their employment or assigned to us by contractors. We have also been assigned the trade dress that is displayed on the cover of the McLeod directories.

Competition

We compete in the United Kingdom with other producers of classified and local advertising, such as Thomson directories, local, regional and national newspapers and classified advertising magazines, such as Exchange & Mart. In the United Kingdom, our price-setting is constrained by price controls imposed under the terms of undertakings given to the UK Secretary of State for Trade and Industry in 1996, which were revised in 2001. Our competitors are not constrained by such undertakings. We sell our advertisements for printed directories on a fixed annual sales cycle and publish an advanced price list well before we publish a directory. We have revised our price lists relating to Yellow Pages published in 2002 to reflect the effect of our new undertakings with the UK Secretary of State for Trade and Industry. In the United Kingdom, unlike

in the United States, price differentials between classified directory publishers are not significant. We believe we are price competitive with other media.

In the United States, Yellow Book is the oldest and largest independent publisher of classified directories and we believe that both Yellow Book and McLeod hold strong competitive positions in a number of markets where they have published directories for several years. We are a relatively new entrant in many of the other areas in which we publish our directories, and we are seeking to establish our market position in these areas. We compete and may compete in the future primarily with telecommunication company publishers such as the former regional Bell operating companies, SBC, Verizon, BellSouth, Qwest (the “RBOCs”) and Sprint, and with independent publishers such as TransWestern Publishing. We compete with these businesses on the basis of price and quality. Our prices are in general substantially lower than those of the RBOC publishers. In the United States, we are not subject to any government-imposed price restrictions.

In the United States, the relatively small size of the independent directory publishers compared to the RBOCs has allowed them to compete on the time taken to bring a directory to the market and, particularly, on price. The following table compares prices charged by our US businesses with prices charged by its main utility competitor in six areas:

Rate comparison: RBOC vs Independent

<u>Market</u>	<u>Circulation</u>	<u>Full-page mono rate</u>	<u>Advertising cost per 1,000 directories in circulation</u> (in \$)
New York			
Manhattan (Verizon)	1,323,857	86,260	65
Manhattan (Yellow Book)	1,000,000	41,064	41
North Carolina			
Charlotte (BellSouth)	741,898	56,148	76
Charlotte (Yellow Book)	600,000	25,596	43
Pennsylvania			
Pittsburgh (Verizon)	911,211	32,357	36
Pittsburgh (Yellow Book)	673,255	18,300	27
Missouri			
Columbia (Verizon)	179,745	47,942 ⁽¹⁾	267
Columbia (McLeod)	211,846	17,083 ⁽¹⁾	81
Tennessee			
Jackson (BellSouth)	105,307	24,876 ⁽¹⁾	236
Jackson (McLeod)	163,000	9,476 ⁽¹⁾	58
Colorado			
Colorado Springs (Qwest Dex)	271,034	42,486 ⁽¹⁾	157
Colorado Springs (McLeod)	306,000	31,308 ⁽¹⁾	102

(1) These prices are for full-page White Knock-out-process colour.

Source: Yellow Pages Integrated Media Association (“YPIMA”) (formerly known as YPPA), March 2002.

The internet is an increasingly attractive medium for advertisers. Internet advertising enables companies to deliver messages to targeted audiences with specific demographics and interests. Although advertising on the internet still represents only a small part of total advertising turnover, we believe that as the internet grows it may become increasingly important as an advertising medium. We compete through our internet sites Yell.com, Yellowbook.com and Planetpages.com, with, amongst others, companies providing classified directory information over the internet, such as in the United Kingdom, to a greater or lesser extent, Countyweb.co.uk, Thomweb.co.uk, Scoot.com and Fish4it.co.uk and in the United States, to a greater or

lesser extent, www.smartpages.com (RBOC), www.qwestdex.com (RBOC), www.superpages.com (RBOC) and www.worldpages.com (independent publisher).

Regulation

The Yell Group is subject to the regulations that apply generally to businesses in the countries in which we operate. We conduct most of our business in the United Kingdom and in the United States.

The following summary relates to those regulations in force that are material in the context of our principal business activities.

Competition Laws

UK Competition Laws

In the United Kingdom, the Secretary of State for Trade and Industry and the Director General of Fair Trading have power under the Fair Trading Act 1973 to investigate monopoly situations, which can occur when a company supplies or purchases 25% or more of all the goods or services of a particular description in the United Kingdom or a defined part of it, or when a group of companies, which together supply or purchase 25% or more of all the goods or services of a particular description in the United Kingdom or a defined part of it, behaves in ways that adversely affect competition. If the UK Secretary of State for Trade and Industry or the Director General of Fair Trading considers that a monopoly situation may exist, he may decide to refer the matter to the UK Competition Commission (formerly known as the Monopolies and Mergers Commission).

In 1995, the UK Director General of Fair Trading asked the Monopolies and Mergers Commission to investigate and report on classified directory advertising services relating to directories that are distributed directly to consumers, predominantly free of charge in the United Kingdom. The publication of advertisements in voice-assisted services, such as Talking Pages, and online services, such as Yell.com, were excluded from the terms of reference of this investigation. The Monopolies and Mergers Commission concluded that BT's Yellow Pages division enjoyed a dominant situation in relation to the supply of printed consumer classified directory services in the United Kingdom. The Monopolies and Mergers Commission found that this dominant situation operated against the public interest in some respects, for example, in that the prices charged by BT's Yellow Pages division were higher than would have been the case in a competitive environment. Following the publication of the Monopolies and Mergers Commission Report in March 1996, BT gave undertakings to the Secretary of State for Trade and Industry in respect of its printed consumer classified directories, Yellow Pages. The Secretary of State requested that the Director General of Fair Trading report in three years time, or earlier if necessary, on the effectiveness of the undertakings.

The undertakings imposed a price cap on advertising rates, under which the prices which could be charged for advertising in our UK printed consumer classified directories could not increase by more than the annual change in the official UK RPI, minus a percentage determined by the Secretary of State for Trade and Industry. For directories published in the period from September 1996 until the end of December 2001, the maximum price increase in each annual edition of a Yellow Pages directory was fixed at RPI minus 2%.

In 2000, the Director General of Fair Trading announced he was conducting a review of the undertakings, with a view to making a recommendation to the Secretary of State for Trade and Industry as to whether the undertakings were still necessary, or whether they should be varied or superseded. Following this review, the Director General of Fair Trading recommended to the Secretary of State for Trade and Industry that the Group be required to amend the rates for its UK printed consumer classified directories in order to bring the return on sales from that business towards that which could, in his view, be expected in a competitive market and that, in order to do so by 2005, the Yell Group be required to cut those rates by 15% on 1 January 2002, and then by RPI minus 4% on 1 January 2003, 2004 and 2005. On 11 May 2001, the Office of Fair Trading announced that the Secretary of State for Trade and Industry had decided that the price cap should be RPI minus 6% every year for a period of four years for directories published from January 2002. This means, for example, that if inflation as measured by RPI is 2% at the time prices are set for given

directories in each of the next four years, then advertisement prices would be reduced in absolute terms by 4% in each of the next four years and the prices in the fourth year would be approximately 15% lower than they are currently. We will only be able to increase prices in absolute terms if inflation exceeds 6% and our prices relative to inflation will continue to decline so long as the undertakings remain in effect. It should also be noted that the four-year period is entirely at the discretion of the Secretary of State for Trade and Industry and the Director General of Fair Trading, who have the power to advance or delay a review and to decide any future price controls.

Our subsidiary, Yell Limited, has signed a set of revised undertakings that it has given to the Secretary of State for Trade and Industry. In addition to the price cap, these revised undertakings (which affect only our UK printed directories business) require us to observe certain other conditions:

- publication of a price list that covers all Yellow Pages directories and sets out the charges for advertisements, including any discounts;
- a prohibition on publishing more than one printed consumer classified directory in each distribution area except as allowed in certain limited areas;
- an obligation to prepare and make available financial statements in respect of the printed consumer classified directory business; and
- a requirement that, if we publish new directories as a result of altering distribution areas, we must not, when calculating rates for the new directories, exceed prices determined with reference to a specified formula.

The revised undertakings, unlike those given in 1996, permit us, after two years, to publish local directories in areas where no other supplier operates and do not require us to obtain consent from the Director General of Fair Trading for withdrawal of discount schemes or changes in certain business practices, such as the introduction of new features.

We have a variety of measures in place to ensure compliance with the undertakings given to the Secretary of State and its other regulatory obligations. In particular, Yell regularly submits to the Office of Fair Trading a draft of the rate card for its Yellow Pages directories, to provide an opportunity for the Office of Fair Trading to verify before the rate card is released that Yell's proposed rates comply with its undertakings. Once Yell's rates have been set, Yell's systems ensure that advertisements can only be sold at those rates. Yell is also required each year to prepare accounts for its UK printed directories business and to submit those accounts to the Director General of Fair Trading. The Office of Fair Trading has never initiated any investigations (other than during its formal review of the undertakings in 2000-2001) concerning the Yell Group's compliance with any aspects of Yell's undertakings. Compliance with Yell's regulatory obligations more generally is assisted by the work of Yell's regulatory compliance officer, who provides regular training to Yell's employees regarding the regulatory obligations, and by procedures designed to ensure that all the Yell Group's business plans are developed taking into account the group's regulatory obligations.

On 26 March 2002, the UK Government introduced an Enterprise Bill to the House of Commons which, if adopted, will repeal the monopoly provisions of the Fair Trading Act 1973, and introduce a new regime of market investigations. The legislation, as currently drafted, does not contain any provisions specifically dealing with pre-existing undertakings.

In addition, in the United Kingdom we are required to comply with the UK Competition Act 1998, the main provisions of which came into force in March 2000. The UK Competition Act 1998 prohibits anti-competitive agreements and concerted practices which may affect trade within the United Kingdom and have as their object or effect the prevention, restriction or distortion of competition within the United Kingdom or a substantial part of the United Kingdom. It also prohibits conduct that unilaterally, or jointly with others, amounts to the abuse of a dominant position in a market in the United Kingdom. Behaviour that the Office of Fair Trading Guidelines indicate might be abusive includes excessive prices, price and other discrimination, predation and the imposition of certain vertical restraints (such as exclusive purchasing or tie-in sales). Breaches of the UK Competition Act 1998 by a company could lead to fines of up to 10% of its

UK revenues for the previous three years, could result in directions by the Director General of Fair Trading as to conduct (including the modification or termination of agreements), could result in claims for damages and additionally or alternatively could result in agreements found to be anti-competitive becoming void and unenforceable in whole or in part.

EU Competition Laws

Provisions similar to the provisions of the UK Competition Act 1998 apply under EU competition laws. Article 81 of the EU Treaty prohibits all agreements and concerted practices which have the object or effect of preventing, restricting or distorting competition within the common market and may affect trade between EU Member States. Article 82 of the EU Treaty prohibits the abuse of a dominant position by one or more businesses within the common market, or in a substantial part of it, insofar as the abuse may affect trade between EU Member States. Breaches of the EU competition rules could lead to fines of up to 10% of a company's worldwide turnover for the previous year, could result in claims for damages in national courts and additionally or alternatively could result in agreements found to be anti-competitive becoming void and unenforceable in whole or in part.

US Competition Laws

While there are competition and antitrust laws in the United States which prohibit anti-competitive practices, no restrictions have been imposed on our business in the United States, and we do not anticipate any such restrictions being imposed unless these laws change or the Yell Group grows substantially.

In the United States, our activities are subject to various competition and antitrust laws, including the Sherman Act, the Clayton Act and the Federal Trade Commission Act, all of which generally prohibit parties from engaging in anti-competitive activities that restrain trade, substantially lessen competition or tend to create a monopoly. At present, no restrictions under any of these laws have been imposed on our business activities in the United States. Future business activities of the Yell Group, including future acquisitions, will be subject to these laws, the violation of which can result in government enforcement actions which may seek fines, injunctive relief and/or imprisonment of individuals, as well as civil lawsuits which may seek damages and/or injunctive relief.

Data Protection

The Yell Group's ability to collect, use and process personal data of advertisers, users and employees is constrained by EU and UK legislation.

At the EU level, the Data Protection Directive (EC Directive 95/46/EC) and the Directive "Concerning the processing of personal data and the protection of privacy in the telecommunications sector" (97/66/EC) set out the underlying requirements for processing personal data within the European Union. In the United Kingdom, personal data are data relating to living individuals who can be identified from those data or from those data and other information available to the person processing the data. Persons whose personal data are processed in the European Union have several rights, including the right of access to their personal data, the right to recourse in the event of unlawful processing of personal data and the right to withhold permission for the use of their personal data for direct marketing.

In the United Kingdom, the Data Protection Act 1998, the main provisions of which came into force on 1 March 2000, affects the Yell Group's activities. The Data Protection Act 1998 provides that personal data must be: (i) processed fairly and lawfully, usually with the consent of the data subject; (ii) obtained only for specified and lawful purposes; (iii) adequate, relevant and not excessive in relation to those purposes; (iv) not kept longer than is necessary for those purposes; and (v) protected against accidental loss or destruction by measures appropriate to the sensitivity of the data concerned and the harm that might result from that loss or destruction.

We are undertaking an audit of our data protection practices and policies; this remains ongoing. We intend to make any changes that it deems necessary or desirable for those practices and policies to comply

with data protection legislation and relevant codes of conduct that apply to it. We do not expect the cost of those changes to be material to our business. The Data Protection Act 1998 impacts on our activities to the extent that it deals with data relating to identifiable living individuals. Although our activities relate primarily to printed directories of business information, rather than to individual or personal data, we also process data concerning individuals, such as sole traders, partnerships, individual users and employees.

The Data Protection Act 1998 also requires that personal data must not be transferred to a country or territory outside the European Economic Area unless that country or territory ensures an “adequate level” of protection for the rights and freedoms of data subjects or an exemption applies. In this context, the European Commission has recently determined that an arrangement put in place by the US Department of Commerce, under which US companies can voluntarily adhere to a set of data protection principles recognised by the European Commission, provides adequate protection for personal data transferred from the European Union to such US companies.

If we fail to comply with applicable data protection legislation, we may be subject to an enforcement action and if an individual suffers damage as a result, we may be liable to pay compensation. We must also comply with requirements relating to a data subject’s rights of access to personal information we hold and, if the requisite consent from the data subject has not been secured, the Group must take steps to prevent the use of such data for the purposes of direct marketing. The Group has procedures in place to ensure that it complies with the requirements of data protection legislation in its operations.

Following a vote in the European Parliament on 30 May 2002, the European Union is expected shortly to adopt a new Directive on data protection regarding the processing of personal data and the protection of privacy in the electronic communications sector. The EU Member States will have a period in which the Directive is required to be implemented into national law, which is expected to expire by the end of 2003.

Under this draft Directive, directory publishers will be obliged to obtain the consent of a subscriber to a publicly available electronic communications service in order to process “traffic” data relating to that subscriber’s use of electronic communications and data relating to that subscriber’s location. This will be the case whether the subscriber is an individual or an entity such as a company. Consent will also be required in order to send unsolicited electronic communications, including e-mail, for direct-marketing purposes to an individual. Subscribers who are natural persons, as referred to in Article 12 of the draft Directive, would have a right to be informed about usage possibilities based on search functions in electronic versions of directories. However, it is not anticipated that the costs of compliance with the draft Directive will be substantial as we do not currently undertake or expect to undertake many of the activities covered by the new provisions contained in the draft Directive and, in so far as these new provisions do apply, our existing business practices are largely compliant with them.

Protection of Databases

The Yell Group’s business uses a number of databases, both licensed to it and developed by it. For further information see Item 4.D. “—Property, Plant and Equipment—Information Systems”. Directive 96/9/EC harmonises the laws of EU Member States relating to the protection of copyright in databases and introduces a specific right to prevent extraction and re-utilisation of the contents of a database. The Copyrights and Rights in Databases Regulations 1997 have implemented Directive 96/9/EC in UK law. These regulations provide a right for the maker of a database in which there has been a substantial investment in obtaining, verifying and presenting database content, to prevent extraction and re-utilisation of the whole or a substantial part of a database.

Database rights subsist in all databases completed on or after 1 January 1983, provided there has been sufficient investment. Under the Directive and the Regulations, where a company has database rights in a database and the database was completed before 1 January 1998, these database rights subsist for a period of 15 years commencing 1 January 1998, or, if the database was completed on or after 1 January 1998, for a period of 15 years from the end of the calendar year in which the database was completed. However, if there is a substantial change to the contents of the database after its compilation such that the resulting database would be considered to be a substantially new investment, in terms of the quantity or quality or a

combination of both, then the database rights in that database will subsist for a period of 15 years from the date on which the substantially new investment was made. We are continually updating our databases and believe that we have made sufficient investment since 1 January 1983 in obtaining, verifying and presenting the data in its databases for database rights to subsist in them.

In addition, we believe that we are the proprietor of the copyright in the databases we have developed to the extent that copyright subsists in them. In the United Kingdom, to the extent that copyright does not subsist in any of our proprietary databases, our rights in these databases are protected as confidential information and/or under database rights. Any copyright in our databases will subsist in those databases for a period of 50 years from the end of the calendar year in which the database was created, if the database was computer generated, or 70 years from the end of the calendar year in which the last person responsible for creating the database died, if the database was not computer generated. In the United States, we have developed one proprietary database, DB 2000, in which we believe we have copyright protection. Copyright in this database will subsist for a period of 95 years from the year of first publication or 120 years from the year of creation, whichever period is shorter. We developed the DB 2000 database in 1991 and intend to migrate this database, and another non-proprietary database, to DIAD by the end of 2002. As the proprietor of copyright in a database, we are entitled to prevent third parties from doing certain things, including copying the database, issuing copies of the database to the public or renting or lending the database to the public. In the United States, we also have copyrights in each edition of its directories.

Advertising

Our principal activity is the sale of advertising in, and the preparation and publication of, our classified directories. As with other publishers of advertisements, we are subject to advertising laws and regulations. Under EU directives, UK regulations and general UK advertising industry standards, we could be required to cease publishing any misleading advertisements which our advertisers may have placed in our directories. Further, in the United Kingdom, specific rules, broadly intended to ensure that consumers are protected, apply to publishers of particular types of advertisements, such as advertisements for financial services under the terms of the Financial Services and Markets Act 2000, or advertisements offering consumer credit under the terms of the Consumer Credit (Advertisements) Regulations 1989. Some of these specific rules are enforced by criminal sanctions.

We have put in place extensive programmes and procedures designed to ensure that we comply with the advertising laws and regulations that impact on our operations. We have internal advertisement compliance policies that our employees and advertisers are required to follow. Our internal advertisement compliance policies contain details of the legal requirements that apply to advertising. In specific sectors we take particular care; for example, we check and require that advertisements include any prescribed warnings, and we obtain written confirmation that investment business advertisers are regulated by their relevant regulatory body.

Telecommunications

The Yell Group provides telecommunications services such as Talking Pages under the Telecommunications Services class licence. We will not be required to apply for this licence, as it applies automatically to anyone providing services which are within the authorisation detailed in the class licence.

Internet Regulation and E-commerce

The internet has emerged as an attractive new medium for advertisers. Internet advertising allows companies to deliver messages to targeted audiences with specific demographics and interests. Although advertising on the internet still represents only a small part of total advertising revenues in Europe, we believe that as the internet grows it will become increasingly important as an advertising medium. We offer internet-based products and services in addition to printed consumer classified directories. General advertising laws and regulations and data protection legislation apply to our internet-based activities in the same way in which they apply to our activities generally. As our business in this area develops, specific laws relating to

the provision of internet services and to the use of the internet and of internet-related applications may become relevant. Regulation of the internet and internet-related services is itself still developing, both formally by, for instance, statutory regulation, and also less formally by such methods as industry self-regulation.

Depending on the scope and timing of these developments, they could have a material impact on our internet operations. The main issues are set out below.

Content Regulation and Content Liability

We publish third-party content on our website, in the form of content and links to advertisers' websites. We intends to develop our content offerings. Future internet content regulation, such as any measures that may be adopted by the European Union under the "Safer Internet Action Plan", and the possibility of service provider liability for information distributed over the internet or contained on websites hosted by such a provider, may become relevant to our business.

Internet Domain Names

A domain name is part of a website's internet address. The current system for registering, allocating and managing internet domain names has given rise to litigation, including trademark litigation, since internet domain names are allocated in many countries on a first-come, first-served basis to any person who requests that allocation, whether or not a third party owns the rights to a trademark incorporated in that domain name.

Abusive registrations of internet domain names may be subject to cancellation or transfer to a trademark proprietor where a domain name registrant has been found to have registered the domain name in bad faith. Most domain name administrators have a dispute resolution policy in place for dealing with abusive registrations of internet domain names. For example, ICANN, the organisation that coordinates generic top-level domains, including .com, requires all generic top-level domain name registrants to submit to a Uniform Domain Name Dispute Resolution Policy. In the event that a trademark proprietor alleges that the domain name registrant has abusively registered a domain name, the trademark proprietor may select an arbitrator from a panel of arbitral bodies available under the domain name resolution policy which includes the World Intellectual Property Organisation. In the event that the arbitrators decide that the domain name has been abusively registered, ICANN will cancel the domain name registration and/or transfer it to the trademark proprietor.

We have registered a large number of internet domain names, both on our own behalf and for our advertisers, in the United Kingdom and internationally, including "Yell.com" and "Yell.co.uk". All of our domain name registrations are composed of words in which we have registered or unregistered trademark rights in one or more jurisdictions around the world. Consequently, we do not consider any of our domain name registrations to have been made abusively. We are not aware of any challenges to our domain name registrations under ICANN's Uniform Domain Name Dispute Resolution Policy or any similar policy offered by other domain name administrators.

E-commerce and Electronic Signatures

In addition to providing an attractive new advertising medium, the internet has begun to have an impact on the way consumers and businesses buy and sell goods and services. The internet allows sellers to reach a vast global audience and enables buyers to benefit from increased product information and price comparison power. We conduct intermediary e-commerce activities by renting hyperlinks on our Yell.com internet site to external online retailers, and we may expand our offering of online products and services in the future.

At the EU level, Directive 2000/31/EC (the "E-Commerce Directive"), is part of a Europe-wide initiative to promote e-commerce. This is yet to be implemented in the United Kingdom, although draft regulations have been published and there was a consultation period in place whereby members of the public could comment on these draft regulations. This consultation ended in May 2002 and may result in further changes to the draft regulations. The Department of Trade and Industry hopes that the E-Commerce Directive will be

implemented by the end of summer 2002. Currently in the United Kingdom, the Electronic Communications Act 2000 creates a legal framework for e-commerce and the use of technology. Directive 1999/93/EC provides a Community framework for electronic signatures and was adopted on 13 December 1999. It was implemented in the United Kingdom as the Electronic Signature Regulations 2002, which came into force on 8 March 2002.

These legislative measures set up a framework for legal recognition of electronic contracts and electronic signatures. Under the terms of the E-Commerce Directive, service providers are subject to the laws of the country in which they are established. Further, of particular relevance to our business are those provisions in the E-Commerce Directive that provide that advertising must be identifiable as such and distinct from editorial content, and that e-commerce service providers carrying out unsolicited advertising by e-mail to individuals must consult regularly and comply with registers established to enable individuals to opt out of receiving such advertising.

Consumer Credit

Yell Limited has a licence from the Office of Fair Trading to conduct regulated consumer credit business. Regulated Credit Agreements are written by Yell Limited in respect of instalment payments made by individuals, partnerships and unincorporated associations which place advertisements in our publications. Procedures are in place to ensure that the agreements used are prepared and executed in compliance with the Consumer Credit Act 1974. Breaches of the detailed requirements of the Consumer Credit Act 1974 may lead to the agreements in question being unenforceable without a court order or, in some instances, totally unenforceable. Should the Office of Fair Trading at any time determine that Yell Limited is no longer a 'fit and proper person' to hold the licence, the licence may be revoked, preventing Yell Limited from writing any further, or administering our existing agreements. Certain specific rules under the Consumer Credit Act 1974 are reinforced by criminal sanctions.

C. Organizational Structure

The principal subsidiaries of the Company are as follows:

<u>Name and country of incorporation</u>	<u>Registered office</u>	<u>Class of share capital (issued and fully paid)</u>	<u>Proportion of share capital held</u>	<u>Nature of business</u>
Yell Limited (England)	Queens Walk, Oxford Road, Reading, Berkshire RG1 7PT	13 ordinary shares of £1 each	100% (indirect)	classified directory publisher
Yellow Pages Sales Limited (England)	Queens Walk, Oxford Road, Reading, Berkshire RG1 7PT	2 ordinary shares of £1 each	100% (indirect)	provision of sales services
Yellow Book USA, Inc. (US)	193 EAB Plaza Uniondale New York 11556-0193	500 shares of common stock of \$0.01 each	100% (indirect)	classified directory publisher
Yellow Pages Limited (England)	Queens Walk, Oxford Road, Reading, Berkshire RG1 7PT	21 ordinary shares of £1 each	100% (direct)	intermediate holding company

<u>Name and country of incorporation</u>	<u>Registered office</u>	<u>Class of share capital (issued and fully paid)</u>	<u>Proportion of share capital held</u>	<u>Nature of business</u>
Yell Holdings 2 Limited (England)	Queens Walk, Oxford Road, Reading, Berkshire RG1 7PT	6,453,921 ordinary shares of £1 each	100% (indirect)	intermediate holding company
YH Limited (England)	Queens Walk, Oxford Road, Reading, Berkshire RG1 7PT	1 ordinary share of £1 and 828,400 ordinary shares of \$0.01 each	100% (indirect)	intermediate holding company
Yell s.a.r.l. (Luxembourg)	3 Boulevard Prince Henri L-1724, Luxembourg	500,520 ordinary shares of \$22.26 each	100% (indirect)	intermediate holding company
Yellow Book Group, Inc. (US)	Corporation Trust Centre, 1209 Orange Street, Wilmington, Delaware 19801	110 shares of common stock of \$0.01 each	100% (indirect)	intermediate holding company
Yellow Book Holdings, Inc. (US)	Corporation Trust Centre, 1209 Orange Street, Wilmington, Delaware 19801	110 shares of common stock \$0.01 each	100% (indirect)	intermediate holding company
McLeodUSA Media Group, Inc. (US)	CT Corporation System, 2222 Grand Avenue, Des Moines, Iowa 50312	2,681,731 shares of common stock of \$0.00 each	100% (indirect)	intermediate holding company
McLeodUSA Publishing Company	CT Corporation System, 2222 Grand Avenue, Des Moines, Iowa 50312	6,000 shares of common stock of \$0.00 each	100% (indirect)	classified directory publisher

D. Property, Plant and Equipment

Property

We operate from 37 leasehold properties in the United Kingdom, in each case, held on rack rent full repairing leases. Legal title to two of the properties, including one of the Yell Group's principal establishments, Block C, Hagley Road, Birmingham, is not yet vested in the Yell Group. Landlord's consent to the assignment has been requested but not yet obtained. The lease of the second property is due to expire on 28 September 2002. A number of these leases will come to the end of their contractual term within the next five years and consequently there may be a financial burden with regard to potential dilapidations claims by the relevant landlord in relation to these leases. In addition, the annual rent in respect of a number of these leases is due to be reviewed in the next year and consequently rental liabilities may increase in the immediate future. In the United States, we operate from approximately 114 locations.

No property of the Yell Group accounts for 10% or more of the Yell Group's net turnover. Details of the group's registered office and principal places of business are as follows:

<u>Location</u>	<u>Tenure</u>	<u>Rent</u>	<u>Term</u>	<u>Approximate floor area</u>
Yellow Pages House, Queens Walk, Reading, England	leasehold	£1,165,500 p.a. plus £258,710 p.a. car park fee	25 years expiring 24 March 2009 the car park licence expires on 31 March 2003	80,600 sq.ft
First and Second Floors, Bridge Street, Reading, England	leasehold	£920,000 p.a.	24 and 25 years each expiring 24 December 2012	65,682 sq.ft
Directories House, Wellington Street, Slough, England	leasehold	£1,530,000 p.a.	25 years expiring 24 March 2015	69,858 sq.ft
Second and Fourth Floors, Whitefriars, Lewins Mead, Bristol, England	leasehold	£376,399 p.a.	10 years expiring 31 December 2008	38,245 sq.ft
Ground, Fourth and Part Fourth Floors, Jackson House, Sale, Cheshire, England	leasehold	£251,900 p.a.	25 years expiring 31 August 2005, 25 years expiring 30 September 2002 and 10 years expiring 12 November 2011	23,112 sq.ft
Parts Eighth, Twelfth and Thirteenth Floors, Edgbaston House, Duchess Place, Birmingham, England	leasehold	£181,125 p.a.	25 years expiring 25 August 2005	16,130 sq.ft
Block C, 54 Hagley Road, Birmingham, England	leasehold	£306,600 p.a.	25 years expiring 23 June 2005 and 24 March 2013 together with reversionary leases for the seventh, eighth and twelfth floors for terms of 24 June 2005 to 24 March 2013	23,956 sq.ft
King of Prussia, Pennsylvania, USA	leasehold	\$618,612 p.a.	10 years expiring 30 April 2010	35,000 sq.ft
193 EAB Plaza, Uniondale, New York 11556-0193, USA	leasehold	\$888,000 p.a.	10 years expiring 31 October 2011	30,375 sq.ft
Cedar Rapids, IA-Tech Park and IA Distribution, 6300 C Street SW, Cedar Rapids, Iowa 52406, USA	freehold	N/A	N/A	215,000 sq.ft
2201 Willenborg Avenue, Effingham, Illinois 62401, USA	leasehold	\$649,716 p.a.	expires 15 April 2009	56,250 sq.ft
1200 Network Centre Drive, Effingham, Illinois 62401, USA	leasehold	\$198,840 p.a.	expires April 2009	17,650 sq.ft

Information Systems

Our key business processes are highly automated, and we believe that our information systems are key operational and management assets. Our information systems are an integral part of our business processes and support systems and we use them to help sell and deliver our products, and to maintain our databases.

Our advertiser database enables us to identify market potential and allocate advertisers to appropriate sales channels, develop sales campaigns and compile advertiser data for use by our sales force. In the United Kingdom, our field sales force is equipped to allow remote working and reduced travel downtime. Their equipment includes standard templates to enable sales consultants to assist advertisers to design their own advertisements. We have developed specialised proprietary applications for market analysis as well as to support our telephone sales and field sales forces. For example, we have developed a sophisticated application for analysing the advertiser base and developing sales strategies for each directory area.

We have developed advanced systems to support our business processes. We operate wide-area networks in the United Kingdom and the United States to provide nationwide access to data. In the United Kingdom, we have direct data links with our pre-press supplier. In the United Kingdom, we have implemented management information systems provided by SAP for management accounting and human resources. We have expanded the application of SAP to core sales order processing, customer services and billing activities in the future. Our data centre for the United Kingdom in Reading has over 13 terabytes of storage and is directly managed by a team of 18 people.

In the United States, we use DIAD, AMDOCS and a proprietary operating system across a variety of hardware platforms that we have inherited in the course of acquisitions. We aim to undertake a systems review to determine how best to reorganise our US business systems. We are in the process of consolidating all of our production systems, including those of McLeod, onto the DIAD database, which is based in King of Prussia, Pennsylvania, and plan to complete these conversions by the end of 2003. We are not planning to implement an ERP system at this stage. We will also have direct links with our pre-press supplier utilising software that has been developed in conjunction with our UK directories business. We have implemented management information systems using Great Plains software for management accounting and use ADP for human resources and payroll applications.

We expect to continue to undertake significant expenditures in developing and integrating our information systems in the future to support continuing operational efficiencies within the Group. In the United Kingdom, we have developed significant expertise in the development and implementation of our information systems and we intend to facilitate development of our US systems by transferring this expertise on a project-by-project basis. For example, we aim to implement a new telesales operation in the United States, utilising the knowledge and expertise gained in our UK operations.

Environment

In both the United Kingdom and the United States, we actively seek to minimise the impact of the production of our directories on the environment. In particular, we have been increasing the percentage of recycled paper fibre used in our printed directories. In the 2002 financial year, the recycled fibre content of our Yellow Pages directories was approximately 46% and in our McLeod directories it was 40% for the 2001 calendar year. We actively promote the collection and recycling of used directories in the United Kingdom through links with, and by providing financial support to, local government. In the United States, McLeod ran recycling programmes in 252 markets in the 2001 calendar year, and recycled approximately five million directories. Our activities in the United Kingdom are registered to ISO 14001, the environmental standard of the International Standards Organisation. Our activities in our McLeod directory regions met the environment standards defined by YPIMA (formerly YPPA).

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following information should be read in conjunction with the audited financial statements for the Yell Group. The financial statements have been prepared in accordance with generally accepted accounting principles in the United Kingdom (“UK GAAP”). UK GAAP differs in certain important respects from generally accepted accounting principles in the United States (“US GAAP”).

Overview

We are the leading provider of classified directory advertising and associated products and services in the United Kingdom and the leading independent provider of classified directory advertising in the United States.

The Yell Purchase

We have operated as an independent group since 22 June 2001, the date the businesses and companies comprising the Yell Group were purchased from BT. The total cost of acquiring these businesses and companies was £2,007.6 million, giving rise to total goodwill after fair value adjustments of £1,703.1 million with an estimated life of 20 years. In connection with this purchase, we borrowed £2,099.0 million, comprising £1,450.0 million from financial institutions (approximately £500 million of which was refinanced through the Notes issuance), £549.0 million from funds managed or advised by the Sponsors (which was loaned to us through our parent company Yell Group plc, net of financing fees paid) and £100.0 million from the vendor, a BT affiliate (which was also loaned to us through Yell Group plc).

The purchase has had a significant effect on the financial results for the period following the purchase. In particular, our increased leverage has led to a significant increase in interest payable. In addition, the increase in goodwill of £1,235.9 million resulting from the purchase has led to a significant increase in the amortisation of goodwill. Taking into account the increased goodwill amortisation and the increased interest charge, including the non-cash accrual of interest payable to certain investors, we have reported net losses for periods following the purchase.

The following discussion compares our aggregated results for the predecessor period from 1 April 2001 to 22 June 2001 and the successor period from 22 June 2001 through 31 March 2002 with our combined predecessor results for the years ended 31 March 2001 and 2000. The predecessor combined results of the Yell Group for the periods up to and including 22 June 2001 represent an aggregation of the historical results of the Yellow Pages and Yellow Book businesses and companies, since their acquisition by BT, as if the Yell Group had been formed as a discrete operation throughout those periods. The successor consolidated financial results of the Yell Group represent a consolidation of the financial statements of Yell Finance B.V. and its subsidiaries after the acquisition from 22 June 2001 to 31 March 2002.

The McLeod Acquisition

On 16 April 2002, we acquired McLeod, one of the largest independent directory publishers in the United States, for \$600.0 million plus expenses. McLeod published 260 directory editions during the year ended 31 December 2001, and generated turnover of \$298.4 million and EBITDA of \$13.5 million for that period on a UK GAAP basis. The acquisition doubled the number of states in which we operate within the United States. Our review below of the Yell Group’s historical results of operations does not give effect to this acquisition, which occurred following the end of our 2002 financial year. The financing of the acquisition is discussed below under “—Liquidity and Capital Resources—Capital Resources”.

The Yellow Book Acquisition

On 31 August 1999, we acquired Yellow Book USA in the United States. The inclusion of Yellow Book USA’s financial results in our combined financial results from the date of its acquisition on 31 August 1999 has led to a substantial increase in both turnover and costs for subsequent periods. With respect to periods under review, the 2001 financial year shows a significant increase in these financial line items as compared to

the 2000 financial year, reflecting the incorporation of Yellow Book USA's results for a full financial year as opposed to only seven months during the 2000 financial year.

Effect of US Expansion

The change of the geographic mix of our business resulting from our Yellow Book acquisition in 1999, as well as the strategy we have pursued of rapid growth and geographic expansion of our business in the United States, has had an important effect on our financial results during the periods under review, including our profit margins. These factors, together with the McLeod acquisition, are expected to continue to have an important impact on our financial results in the future.

In the 2002 financial year, over 67% of our turnover came from our UK operations. Our printed directories business in the United Kingdom, which we view as more developed and which covers substantially all of the United Kingdom, has historically had higher gross profit margins than those in the United States. In contrast, we have been expanding our geographic coverage in the United States, both through further acquisitions of independent directory publishers and through new directory launches. Directory launches into new markets necessarily require us to incur higher costs, and our position as an independent competitor in our markets often leads us to charge lower advertising prices than those offered by incumbent competitors. As a result, in the 2002 financial year, for example, our gross profit margin for our UK printed directories was approximately 63%, compared to 40% for our US printed directories. Our overall gross profit margin is therefore affected and will continue to be affected to the extent our US operations continue to form an increasing portion of the geographic mix of our business.

Whilst we expect to continue to expand our geographic coverage in the United States, we do not intend in the near-to-medium term to continue to launch new directories at the same rate as in recent years. We have increased our focus on enhancing our operating efficiencies and organic growth in the United States, and we believe there will be opportunities to improve our US gross profit margins, as our US operations become more established.

Factors Affecting Results of Operations

Group Turnover

We currently derive our turnover principally from sales of advertisements in our printed directories, Yellow Pages, Yellow Book (from 31 August 1999), Business Pages and McLeod (from 16 April 2002, following the 2002 financial year). We also generate turnover from online-related activities such as online advertising, website design and domain name sales, from Talking Pages and from Yell Data. We recognise turnover from advertisement sales for a printed directory when we have completed delivery of that directory. Because the number and type of directories are not evenly distributed throughout the year, turnover and profits do not arise evenly over the year. Therefore, certain periods have higher-than-average levels of turnover and profits, while others have lower-than-average levels. For example, during our 2002 financial year, the four financial quarters accounted for 22.4%, 23.3%, 23.4% and 30.9% of Group turnover, respectively. The quarterly distribution of turnover will continue to be uneven, and the distribution during our 2002 financial year is not necessarily representative of what we will experience during the 2003 financial year. The re-phasing or timing of distribution into an earlier or later period also affects the quarterly distribution of turnover. By the same token, because our sales and publishing cycle requires us to agree to an advertising sale often months in advance of the actual delivery of the directories and recognition of the corresponding revenues, this provides better visibility of our expected near-term financial results than might otherwise be the case. We recognise turnover from non-printed directories and other activities over the life of the contract from the point at which the service is first provided or, in the case of a single delivery, at the time of delivery.

Growth in our turnover is driven primarily by the volume of advertisement sales to new and existing advertisers and by new product offerings. In the United States, we have also experienced growth in turnover as a result of acquisitions of other independent directory publishers and new printed directory launches.

Our ability to increase turnover in the United Kingdom during most of the period under review was limited by the undertakings given to the UK Secretary of State for Trade and Industry in July 1996, as we could not, through 31 December 2001, raise advertising rates in our Yellow Pages directories if RPI was less than 2%. This has restricted our ability to raise prices in the United Kingdom. We are not subject to any regulatory price constraints in the United States. During our 2002 financial year, the average price of advertising in our Yellow Pages directories decreased by 0.4%, as compared to an increase of 0.7% during our 2001 financial year. Effective from January 2002, we are now required to cap the rates charged for advertising sold after that date in our UK printed consumer classified directories at RPI minus 6% for an expected period of four years from January 2002. Because of the time lapse between sales under the new rates and the publication of the corresponding directories, the new price cap did not have a significant effect on our 2002 financial year results as it affected only three directories published in March 2002.

When RPI is less than 6%, this new price cap will require us to reduce the price in absolute terms that we can charge our advertisers for placing advertisements in our UK printed consumer classified directories. Relative to inflation, our prices will decrease each year that the price cap remains in effect. For example, if inflation as measured by RPI were 2% at the time prices are set for given directories in each of the four years commencing January 2002, then advertisement prices would be reduced in absolute terms by 4% each year, and the prices in the fourth year would be approximately 15% lower than they were when the new price cap took effect.

In the 2002 financial year approximately 60.4% of our Group turnover was affected by a price cap, as compared to 64.4% during the 2001 financial year and 76.7% during the 2000 financial year. Had the revised price cap affected all Yellow Pages directories published in the 2002 financial year, assuming no change in advertising volume or our sales mix, we estimate that our turnover and operating profits would have been reduced by approximately £21 million.

Cost of Sales

Our cost of sales consists principally of costs associated with the publication of directories, including advertising sales, paper, printing and pre-press production, as well as bad debt expense. The principal components of advertising sales costs, which represent a significant portion of our cost of sales, are employee costs of the sales force, including salaries, benefits and commissions, and associated direct costs.

In general, we recognise the cost of sales for each directory on completion of delivery of that directory. In our US operations, we have historically launched some of our new directories by publishing a prototype directory in which free advertisements are given to advertisers in the first directory, in which case we recognise costs for that directory when incurred. Prototype directories have had the effect on our US operations of increasing cost of sales relative to turnover in periods where they have been utilised. We have no current plans to launch prototype directories during the 2003 and 2004 financial years.

We anticipate that cost of sales will increase as we expand and introduce new directories and other products. Our expansion into new markets in the United States also increases our employee costs. In addition to requiring a larger sales force, the commissions we pay to our sales force tend to be higher in new markets, as our commission structure pays higher remuneration for new advertisers.

Cost of sales also includes bad debt expense, which has increased as a percentage of turnover following the Yellow Book acquisition due to our policy of accepting higher credit risk customers in order to build market share in certain US markets. Our Yellow Pages business currently has relatively low bad debt expense due to our established market position in the United Kingdom. Our Yellow Book business operates in a number of markets in which we are a relatively new entrant, and as a result a higher proportion of our advertisers are new advertisers, a category in which historically we have intentionally allowed a higher rate of bad debt expense. For example, during the 2002 financial year, bad debt expense as a percentage of turnover in the United Kingdom was nearly half of the average percentage in the United States. In addition, in order to expand its advertiser base, Yellow Book USA's creditworthiness requirements intentionally are not as stringent as those of Yellow Pages, which has resulted in a comparatively higher level of bad debt expense. We believe that the benefits of our growth strategy in the United States outweigh any risks associated with

the credit profile of Yellow Book USA's advertisers, and over time, as our newer directories become more established in their respective markets, we expect that bad debt expense as a percentage of turnover in the United States will decrease. Nevertheless, because we expect to continue our growth strategy in the future, we expect our bad debt expense as a percentage of turnover in the United States to remain higher than in the United Kingdom.

Paper is our largest raw material and one of our largest variable-cost items. In recent years paper prices have fluctuated significantly. In the 2002 financial year, paper costs were equivalent to approximately 6.5% of Group turnover and represented approximately 12.5% of our total cost of sales in the United Kingdom and approximately 17.0% of our total cost of sales in the United States.

Distribution Costs and Administrative Expenses

Our distribution costs consist principally of amounts payable to third-party delivery companies with which we contract for the delivery of our printed directories. These costs vary principally due to the number of directories delivered in a financial period. Our distribution costs related to a directory are recognised when the directory is delivered.

Our administrative expenses consist principally of amortisation and depreciation, advertising, promotion and marketing expenses, administrative staff expenses, information technology costs and staff training. Advertising, promotion and marketing expenses represent our most significant discretionary expenses.

Administrative expenses have increased primarily due to an increase in the amortisation of goodwill following the Yell purchase.

A substantial portion of our advertising, promotion and marketing expenses and the costs relating to the development of our online services relate to promotional and brand-building expenditures, which are largely discretionary and which we can reduce if we determine at any stage that the business environment does not justify the related expenditure.

Net Pension Liability

We currently operate a defined benefit pension scheme for our UK employees employed before 1 October 2001 that is accounted for on a Statement of Standard Accounting Practice 24 "Accounting for Pension Costs" ("SSAP 24") basis, but is subject to the transitional disclosure requirements of UK Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17"). A valuation of this scheme for the purposes of FRS 17 was carried out at 31 March 2002 by a qualified independent actuary. The net liability measured in accordance with FRS 17 was £1.1 million, which is not materially different from amounts recorded.

Year Ended 31 March 2002 Compared to Year Ended 31 March 2001

Group Turnover

The following table sets forth, for each of the periods indicated, our turnover in pounds sterling and as a percentage of Group turnover for the periods indicated:

	Year ended 31 March		Combined (Predecessor)	Consolidated (Successor)	Year ended 31 March	
	2001		1 April to 22 June 2001	22 June 2001 to 31 March 2002	2002 ⁽¹⁾ Aggregated	
	(£ in millions)	(%)	(£ in millions)	(£ in millions)	(£ in millions)	(%)
UK printed directories:						
Yellow Pages	502.2	64.8	111.2	414.6	525.8	60.8
Business Pages	15.6	2.0	7.3	7.4	14.7	1.7
	517.8	66.8	118.5	422.0	540.5	62.5
US printed directories	220.4	28.5	42.3	241.8	284.1	32.8
Other products and services	36.1	4.7	8.3	32.5	40.8	4.7
Group turnover	774.3	100.0	169.1	696.3	865.4	100.0

(1) Includes the predecessor results through 22 June 2001 and the successor results through 31 March 2002.

Group turnover increased by £91.1 million, or 11.8%, from £774.3 million in the 2001 financial year to £865.4 million in the 2002 financial year, reflecting increased turnover during the period from each business segment, particularly US printed directories.

UK printed directories. Turnover from UK printed directories increased by £22.7 million, or 4.4%, from £517.8 million in the 2001 financial year to £540.5 million in the 2002 financial year. Turnover from Yellow Pages directories increased by £23.6 million, or 4.7%, from £502.2 million in the 2001 financial year to £525.8 million in the 2002 financial year. A lower level of demand for business-to-business advertisements during the year resulted in turnover from our Business Pages directories decreasing by £0.9 million, or 5.8%, from £15.6 million in the 2001 financial year to £14.7 million in the 2002 financial year.

The growth in turnover of UK printed directories consisted entirely of organic growth and reflects primarily increases in advertising volumes and the introduction and take-up of colour advertising in directories published from October 2001, offset in part by decreases in advertising prices as a result of the regulatory price cap.

Our increase in advertising volumes was due in part to the acquisition of new advertisers, as the number of unique advertisers increased by 5% from approximately 418,000 during the 2001 financial year to approximately 438,000 during the 2002 financial year. The increase in unique advertisers reflected, amongst other things, our First Steps marketing initiative, which was introduced in March 2000 and provided an incentive to new advertisers of a 50% discount in the first year and a 25% discount in the second year on non-display advertisements.

Our retention rates decreased to 79.5% during the 2002 financial year as compared to 82.5% during the prior financial year, mainly reflecting the lower renewal rate among the large proportion of first-time advertisers that we acquired in the prior year when we introduced our First Steps programme. This decrease also reflects a slight increase in the percentage of advertisers that did not renew due to business failure and other forms of uncontrollable advertiser loss.

The turnover per unique advertiser decreased marginally from £1,239 during the 2001 financial year to £1,234 during the 2002 financial year. This reflected the increase in new advertisers taking advantage of discounts offered as part of the First Steps programme, which was offset in part by (a) increased turnover from First Steps advertisers who joined the programme in the prior year and renewed at the lower discount available during the second year and (b) additional revenues generated by the introduction and take-up of colour advertising in directories published from October 2001. We currently expect that colour advertising will continue to affect our turnover positively going forward in the short term and help compensate for downward pressures on UK prices.

US printed directories. Turnover from US printed directories increased by £63.7 million, or 28.9%, from £220.4 million in the 2001 financial year to £284.1 million for the 2002 financial year. New directories launched during the 2002 financial year accounted for approximately £34 million of the increase.

Same-market growth of approximately £12 million, or 6.5%, during the 2002 financial year was the second most important factor contributing to this increase. Same-market growth is derived by comparing the turnover from directories (including rescoped directories) that we published in a period with turnover from these same directories or predecessor directories covering substantially the same geographic area published in the previous publishing cycle. "Rescoped directories" are directories where we redefine the geographic boundaries covered by one or more directories, which could include replacing one directory with multiple directories or combining multiple directories into fewer directories. Our calculation of same-market growth above does not include our business-to-business directory, which experienced a decline in revenues of £1.3 million due to a shortened canvassing period resulting from the events of 11 September 2001, and a reallocation of the sales force to other directories. Further, it does not include a £0.3 million decline in Nassau County, New York community directories, as a new rescoped wide-area Nassau County directory marketed alongside the community directories as an advertising alternative was not published until the beginning of this financial year, preventing an equivalent same-market comparison for the period. Finally, it does not include the effect of the Cincinnati, Ohio directory which was published in the prior period shortly

after its acquisition (once sales had already been made) and which had decreased revenues of £0.9 million after we instituted stronger credit controls and made other changes designed to increase the quality of revenues.

Our rate of same-market growth for US printed directories in the 2002 financial year was affected in part by difficult market conditions in the United States, which may have decreased the amount of advertising spend that some advertisers were willing to devote to our directories, prevented or discouraged some advertisers from renewing advertising and reduced generally the pool of new small businesses that were potential new advertisers.

The balance of the increase in turnover benefited from movement in the dollar to pound sterling exchange rate and also came from directories that we published for the first time since we acquired them, including in some cases acquired directories that we rescope and combined with existing directories.

We sold advertising to 166,000 unique advertisers during the 2002 financial year, a net increase of 14,000 unique advertisers as compared to the 152,000 unique advertisers we had during the 2001 financial year. In the United States, customer retention rates for the 2002 financial year were 70.1% compared to 74.0% for the 2001 financial year and were affected by the large number of launches in the prior year which traditionally have lower retention rates in early cycles.

Turnover per unique advertiser for US printed directories has increased from £1,450 during the 2001 financial year to £1,711 during the 2002 financial year. This growth has been largely due to increases in volume and mix of types of advertising sold.

Other products and services. Turnover from other products and services increased by £4.7 million, or 13.0%, from £36.1 million in the 2001 financial year to £40.8 million in the 2002 financial year. This was due largely to growth in our online services relating to Yell.com, which grew from £8.3 million to £14.9 million during the period, partially offset in each case by reductions in other products and services.

Cost of Sales

The following table sets forth, for each of the periods indicated, our cost of sales in pounds sterling and as a percentage of the related turnover for the periods indicated:

	Year ended 31 March 2001		Combined (Predecessor) 1 April to 22 June 2001	Consolidated (Successor) 22 June 2001 to 31 March 2002	Year ended 31 March 2002 ⁽¹⁾ Aggregated	
	(£ in millions)	(%)	(£ in millions)	(£ in millions)	(£ in millions)	(%)
UK printed directories:						
Yellow Pages	171.4	34.1	40.8	151.8	192.6	36.6
Business Pages	5.7	36.5	2.5	3.1	5.6	38.1
	177.1	34.2	43.3	154.9	198.2	36.7
US printed directories	126.0	57.2	24.6	147.1	171.7	60.4
Other products and services	12.9	35.7	3.2	13.9	17.1	41.9
Total cost of sales	316.0	40.8	71.1	315.9	387.0	44.7

(1) Includes the predecessor results through 22 June 2001 and the successor results through 31 March 2002.

Total cost of sales increased by £71.0 million, or 22.5%, from £316.0 million in the 2001 financial year to £387.0 million in the 2002 financial year.

Cost of sales for UK printed directories increased by £21.1 million, or 11.9%, from £177.1 million in the 2001 financial year to £198.2 million in the 2002 financial year. This was due primarily to an increase in employee costs, which resulted from an increase in the size of our sales force corresponding with growth in the UK business as well as an increase in annual salaries.

Cost of sales for US printed directories increased by £45.7 million, or 36.3%, from £126.0 million in the 2001 financial year to £171.7 million in the 2002 financial year. This increase reflected growth in the US business, the significant additional costs associated with the launch of new directories, particularly in the fourth quarter, and an increase in our pre-press costs as a result of using two suppliers on a parallel basis whilst the work is transitioned to a new supplier, which was partially offset by a decrease in prototype directory costs. The costs of launching new prototype directories in the United States were approximately £2 million in the 2002 financial year as compared to approximately £9 million during the 2001 financial year. During the 2003 and 2004 financial years, we expect a decreased number of new directory launches, and we have no current plans to launch any new prototype directories.

Cost of sales for other products and services increased by £4.2 million, or 32.6%, from £12.9 million in the 2001 financial year to £17.1 million in the 2002 financial year. This increase is broadly in line with the related increase in turnover during that same period and is due primarily to increased costs from Yell.com and Talking Pages.

Our consolidated bad debt expense was £53.2 million (or approximately 6% of Group turnover) in the 2002 financial year, as compared with £37.4 million (or 5% of Group turnover) in the 2001 financial year. In the United Kingdom, our bad debt expense was 4% of UK printed directories turnover in the 2002 financial year, as compared with 4% of UK printed directories turnover in the 2001 financial year. In the United States, where our creditworthiness requirements are intentionally not as stringent as those of Yellow Pages, our bad debt expense was 9% of US printed directories turnover in the 2002 financial year, as compared with 8% of US printed directories turnover in the 2001 financial year. This change reflected a slight deterioration in collection rates due to challenging economic conditions.

Gross Profit

Gross profit increased by £20.1 million, or 4.4%, from £458.3 million in the 2001 financial year to £478.4 million in the 2002 financial year. Gross profit margin decreased from 59.2% in the 2001 financial year to 55.3% in the 2002 financial year, reflecting primarily the lower gross profit margins associated with Yellow Book USA and the increased contribution of our US business.

Gross profit from UK printed directories of £342.3 million in the 2002 financial year was slightly higher than the £340.7 million reported in the 2001 financial year. Gross profit margin on UK printed directories decreased from 65.8% in the 2001 financial year to 63.3% in the 2002 financial year, primarily reflecting the increased sales employee costs described above.

Gross profit from US printed directories increased from £94.4 million during the 2001 financial year to £112.4 million for the 2002 financial year. Gross profit margin on US printed directories was 42.8% in the 2001 financial year and 39.6% in the 2002 financial year. This decrease reflected the high level of new directory launches in 2002. As described above, we currently expect a lower level of new launches during 2003.

Gross profit from other products and services increased by £0.5 million, or 2.2%, from £23.2 million in the 2001 financial year to £23.7 million in the 2002 financial year. The gross profit margin on other products and services decreased from 64.3% in the 2001 financial year to 58.1% in the 2002 financial year.

Distribution Costs and Administrative Expenses

Distribution costs increased by £2.3 million, or 10.6%, from £21.7 million in the 2001 financial year to £24.0 million in the 2002 financial year. Most of the increase arose from higher delivery costs in the United States, due to the greater number of directories circulated. Distribution costs excluding Yellow Book USA's financial results remained flat for the 2002 financial year when compared to the 2001 financial year.

Administrative expenses increased by £53.7 million, or 21.6%, from £249.1 million in the 2001 financial year to £302.8 million in the 2002 financial year. The increase was due primarily to an increase in the amortisation of goodwill following the Yell purchase.

Excluding amortisation of goodwill from all periods, administrative expenses increased by £5.1 million, or 2.2%, from £227.0 million in the 2001 financial year to £232.1 million in the 2002 financial year. This increase included a 1.3% increase in US administrative expenses which primarily arose from ongoing employee costs, movement in the dollar to pound sterling exchange ratio and increased advertising and promotional costs from new directory launches. The increase also included a 2.9% increase in UK administrative expenses, which arose primarily from costs incurred during the period in connection with increased employee and other costs in the UK to operate on a stand-alone basis, increased depreciation related to the car fleet transferred from BT in March 2001, and the implementation of our SAP management information system, offset by decreased advertising and promotional costs.

Operating Profit

Operating profit decreased by £35.9 million, or 19.1%, from £187.5 million in the 2001 financial year to £151.6 million in the 2002 financial year. Our operating profit margin decreased from 24.2% in the 2001 financial year to 17.5% in the 2002 financial year, principally reflecting the effect of amortising the higher level of goodwill from the date of the Yell purchase (which is reflected in the significant increases in administrative costs).

EBITDA

EBITDA is as defined in Item 3.A. “Key Information—Selected Financial Data”. For the 2002 financial year EBITDA was £242.5 million, or 8.9%, higher than EBITDA for the same period in the prior financial year. The increase in EBITDA benefited from growth in gross profit, partially offset by the increase in administrative expenses, both as described above.

The EBITDA margin for the 2002 financial year was 28.0%, down from 28.7% for the same period in the prior financial year. These movements in margin largely reflect movements in the gross profit margin, as explained above.

Net Interest Payable

Net interest payable was £164.4 million, comprising both cash interest and non-cash interest, in the 2002 financial year, compared to £24.5 million in the 2001 financial year. Of this £164.4 million net interest payable, £94.7 million was paid subsequent to the Yell purchase on 22 June 2001. The increase was due to the increased leverage resulting from the Yell purchase, and, to a lesser extent, a write-off in August 2001 of £5.3 million of fees related to the bridge loans entered into in connection with the Yell purchase that were refinanced with the proceeds of the Notes issuance.

Profit (Loss) Before and After Tax

Profit on ordinary activities before tax was £163.0 million in the 2001 financial year as compared to a loss of £12.8 million in the 2002 financial year.

Tax on profit on ordinary activities decreased by £41.7 million, or 69.2%, from £60.3 million in the 2001 financial year to £18.6 million in the 2002 financial year. There is a tax charge for the 2002 financial year, albeit a reduced charge, even though there is an accounting loss. This is due to the effect of non-deductible goodwill amortisation in the United Kingdom and tax losses in the United States for which no credit has been recognised. There was a £7.3 million tax charge for the period from 22 June to 31 March 2002. This is lower than periods before the Yell purchase due to the decrease in taxable profit, largely as a result of increased interest payable. Taxation during all the periods presented primarily arose as UK corporation tax on the results of our UK operations. Our future taxation charge will depend on our taxable income in the United Kingdom and United States. We believe that in the short term our tax charge is likely to increase due to loss utilisation in the United States following the McLeod acquisition.

We had a loss after tax of £31.4 million in the 2002 financial year compared to profit after tax of £102.7 million in the 2001 financial year for the reasons described above.

Year Ended 31 March 2001 Compared to Year Ended 31 March 2000

Group Turnover

The following table sets forth, for each of the periods indicated, our turnover in pounds sterling and as a percentage of Group turnover for the periods indicated:

	Year ended 31 March			
	2000		2001	
	(£ in millions)	(%)	(£ in millions)	(%)
UK printed directories:				
Yellow Pages	478.2	76.9	502.2	64.8
Business Pages	16.5	2.7	15.6	2.0
	494.7	79.6	517.8	66.8
US printed directories	98.7	15.8	220.4	28.5
Other products and services	28.8	4.6	36.1	4.7
Group turnover	622.2	100.0	774.3	100.0

Group turnover increased by £152.1 million, or 24.4%, from £622.2 million in the 2000 financial year to £774.3 million in the 2001 financial year. Growth in turnover in the 2001 financial year was limited due to the effect of the undertakings given in March 1996 in respect of our UK printed directories, which included a price cap on the rates we could charge for advertisements appearing in Yellow Pages.

Turnover from UK printed directories increased by £23.1 million, or 4.7%, from £494.7 million in the 2000 financial year to £517.8 million in the 2001 financial year. Turnover from Yellow Pages directories increased by £24.0 million, or 5%, from £478.2 million in the 2000 financial year to £502.2 million in the 2001 financial year, primarily as a result of increased turnover from advertisements in our Yellow Pages directories. A lower level of demand for business-to-business advertisements during the year resulted in turnover from our Business Pages directories decreasing by £0.9 million, or 5.5%, from £16.5 million in the 2000 financial year to £15.6 million in the 2001 financial year.

The increase in turnover from our UK printed directories reflected in part the acquisition of new advertisers, as the number of unique advertisers increased by 10.6% from approximately 378,000 during the 2000 financial year to approximately 418,000 during the 2001 financial year. The increase in unique advertisers reflected in part our First Steps marketing initiative, which was introduced in March 2000 and provided an incentive to new advertisers of a 50% discount in the first year and a 25% discount in the second year on non-display advertisements. The turnover per unique advertiser decreased from £1,309 during the 2000 financial year to £1,239 during the 2001 financial year, again reflecting the discounts offered to first-time advertisers as part of the First Steps initiative, the effect of which was offset in part by the continuing impact from the introduction of premium-priced White Knock-Out advertisements.

Turnover from US printed directories increased by £121.7 million, from £98.7 million in the 2000 financial year to £220.4 million for the 2001 financial year, principally reflecting a full year of contribution by Yellow Book USA. Taking into account the turnover relating to the Yellow Book business for the period prior to its acquisition by the Yell Group, we believe the turnover for the Yellow Book business also reflected an increase for the 2001 financial year as compared to the full 2000 financial year. We believe that this increase reflected organic growth of turnover in existing directories as well as acquisitions and new directory launches which occurred following the Yellow Book acquisition and during the 2001 financial year.

Turnover from other products and services increased by £7.3 million, or 25.3%, from £28.8 million in the 2000 financial year to £36.1 million in the 2001 financial year, primarily as a result of volume growth in online services.

Cost of Sales

The following table sets forth, for each of the periods indicated, our cost of sales in pounds sterling and as a percentage of related turnover for the periods indicated:

	Year ended 31 March			
	2000		2001	
	(£ in millions)	(%)	(£ in millions)	(%)
UK printed directories:				
Yellow Pages	164.2	34.3	171.4	34.1
Business Pages	5.8	35.1	5.7	36.5
	170.0	34.4	177.1	34.2
US printed directories	60.7	61.5	126.0	57.2
Other products and services	11.4	39.6	12.9	35.7
Total cost of sales	<u>242.1</u>	38.9	<u>316.0</u>	40.8

Cost of sales increased by £73.9 million, or 30.5%, from £242.1 million in the 2000 financial year to £316.0 million in the 2001 financial year. This was due to increased selling costs, paper, printing and pre-press costs, reflecting the inclusion of Yellow Book USA's financial results for a full financial year. Cost of sales excluding Yellow Book USA's financial results increased by £8.6 million, or 4.7%.

Cost of sales for UK printed directories increased by £7.1 million, or 4.2%, from £170.0 million in the 2000 financial year to £177.1 million in the 2001 financial year, in line with the increase in related turnover.

Cost of sales for US printed directories also increased, relative to the corresponding period since the Yellow Book acquisition, reflecting acquisitions, including acquired directories in progress and new directory launches. The costs of launching new prototype directories for free in the United States were approximately £9 million in the 2001 financial year. This was more than four times the cost in the seven months ended 31 March 2000.

Cost of sales for other products and services increased by £1.5 million, or 13.2%, from £11.4 million in the 2000 financial year to £12.9 million in the 2001 financial year.

Gross Profit

Gross profit increased by £78.2 million, or 20.6%, from £380.1 million in the 2000 financial year to £458.3 million in the 2001 financial year. Gross profit margin decreased from 61.1% in the 2000 financial year to 59.2% in the 2001 financial year, reflecting the lower gross profit margins associated with Yellow Book USA, for which the 2001 financial year was its first full year in the Group. Gross profit excluding Yellow Book USA's financial results increased by £21.8 million, or 6.4%.

Gross profit from UK printed directories increased by £16.0 million, or 4.9%, from £324.7 million in the 2000 financial year to £340.7 million in the 2001 financial year. Gross profit margin on UK printed directories was 65.6% in the 2000 financial year and 65.8% in the 2001 financial year.

Gross profit from US printed directories increased from £38.0 million in the relevant period during the 2000 financial year to £94.4 million for the full 2001 financial year. Gross profit margin on US printed directories was 38.5% in the 2000 financial year and 42.8% in the 2001 financial year.

Gross profit from other products and services increased by £5.8 million, or 33.3%, from £17.4 million in the 2000 financial year to £23.2 million in the 2001 financial year. The gross profit margin on other products and services increased from 60.4% in the 2000 financial year to 64.3% in the 2001 financial year.

Distribution Costs and Administrative Expenses

Distribution costs increased by £5.5 million, or 34%, from £16.2 million in the 2000 financial year to £21.7 million in the 2001 financial year, reflecting the inclusion of Yellow Book USA's financial results for a

full financial year for the first time. Distribution costs excluding Yellow Book USA's financial results remained flat for the 2001 financial year when compared to the 2000 financial year.

Administrative expenses increased by £78.3 million, or 45.8%, from £170.8 million in the 2000 financial year to £249.1 million in the 2001 financial year. The inclusion of Yellow Book USA's financial results for a full financial year for the first time accounted for more than two-thirds of this increase. Administrative expenses for the UK operations increased by 17.9% in the 2001 financial year largely due to development costs of our online services.

Administrative expenses included £22.1 million of goodwill amortisation in the 2001 financial year, reflecting the inclusion of Yellow Book USA's financial results for the full financial year. This was nearly double the £11.2 million included in the 2000 financial year for the seven months following the Yellow Book acquisition.

Consistent with our strategy of building our brands and promoting our products, costs of advertising and promoting our products increased nearly 32% in the 2001 financial year compared to the previous year. In our US operations, these costs were more than triple the costs in the 2000 financial year, reflecting the expansion of our US operations and their first full year of inclusion in the Group. A 15.5% increase in advertising and promotion costs in the United Kingdom in the 2001 financial year compared to the 2000 financial year reflected increased development costs of online services offset by reduced expenditure during the year on other, more-developed products and services.

Group Operating Profit

Group operating profit decreased by £5.6 million, or 2.9%, from £193.1 million in the 2000 financial year to £187.5 million in the 2001 financial year. Group operating profit margin decreased from 31.0% in the 2000 financial year to 24% in the 2001 financial year, reflecting the inclusion of Yellow Book USA's financial results and its lower gross margins for a full financial year. Group operating profit as a percentage of Group turnover, excluding the results of Yellow Book USA, decreased from 38.2% in the 2000 financial year to 35.8% in the 2001 financial year. Group operating profit from our UK operations, excluding online services, increased by 9.1%. Group operating profit from our UK operations, including development costs of online services, remained flat for the 2001 financial year when compared to the 2000 financial year.

Net Interest Payable

Interest payable was £24.5 million in the 2001 financial year, compared to £10.8 million in the 2000 financial year. The increase was primarily due to interest on indebtedness to BT incurred in connection with the Yellow Book acquisition being included for the full 2001 financial year compared to seven months in the 2000 financial year.

Profit for the Financial Year

Profit on ordinary activities before tax decreased by £19.3 million, or 10.6%, from £182.3 million in the 2000 financial year to £163.0 million in the 2001 financial year.

Tax on profit on ordinary activities increased by £2.6 million, or 4.5%, from £57.7 million in the 2000 financial year to £60.3 million in the 2001 financial year, in line with the increase in taxable profit from UK operations. Income tax on our US operations is limited to small amounts in certain local jurisdictions. The effective tax rate increased from 31.7% in the 2000 financial year to 37.0% in the 2001 financial year, primarily reflecting the fact that while losses associated with the US operations had the effect of decreasing our profit on ordinary activities for Group financial reporting purposes, but as they were not recognised, they did not have a corresponding effect of offsetting our earnings for UK tax accounting purposes.

Profit after tax of £102.7 million in the 2001 financial year was 17.6% lower than profit after tax of £124.6 million in the 2000 financial year. This is largely the result of investment in our US operations and online services.

B. Liquidity and Capital Resources

Prior to the Yell purchase, our principal source of liquidity was cash flow generated from our operations and from loans from BT to fund acquisitions. Going forward, we will continue to fund our existing business largely from cash flows generated from our operations. In addition, we have access to a £100.0 million revolving credit facility as part of the senior credit facilities, of which the full amount was available as of 31 March 2002.

Our net cash inflow from operating activities was £194.1 million in the 2001 financial year and £196.3 million in the 2002 financial year.

Our capital expenditure was £23.1 million in the 2001 financial year and £14.9 million in the 2002 financial year. In the 2002 financial year, this capital expenditure was principally in respect of the acquisition of fixed assets to support our sales force and central administration staff. The predecessor Yell Group also paid £11.7 million to BT in the period from 1 April through 22 June 2001 for the transfer of a car fleet to one of our subsidiaries in March 2001. We currently expect to spend approximately £25 million for capital expenditure in the 2003 financial year, primarily on information technology systems.

Prior to the Yell purchase, our financing activities were limited to transactions with BT. On 22 June 2001, we received cash from borrowings of £2,028.9 million and the issue of £1.0 million in share capital to fund the Yell purchase. The amounts borrowed on 22 June 2001 and cash paid to BT on that date, include £40.0 million we drew from the £100.0 million revolving credit facility for the funding of a reserve for an adjustment based on a post-closing determination of net working capital. We repaid all amounts owed under the revolving credit facility in July 2001, when BT refunded the actual amount of the adjustment we agreed.

Capital Resources

At 31 March 2002, we had cash of £100.1 million.

We expect that any significant acquisitions or other significant expenditures, including those related to the development of our online services, or any payment of interest on amounts outstanding under or repayment of an existing bridge facility, would in the future be financed through any one or more of operating cash flow, credit facilities and the issue of new debt and equity securities.

We financed the McLeod acquisition, completed on 16 April 2002, through \$250.0 million of senior bank financing and a \$250.0 million bridge facility together with \$87.7 million of additional funds in the form of subordinated non-cash pay loans from investors in our parent company, channelled through our parent company, and \$37.3 million of unrestricted cash from our available cash balances. As a result, our overall borrowings increased by approximately £414 million. For a description of the bridge facility, see Item 10.C. "Additional Information—Material Contracts—Bridge Note Purchase Agreement".

We had net debt of £2,004.0 million at 31 March 2002. We are required to satisfy interest and principal payments on our borrowings as they become due. To the extent we are not able to fund any principal payment at maturity or any interest payment when due from cash flow from operations, we would be required to refinance this indebtedness pursuant to credit facilities and/or the issue of new debt and equity securities into the capital markets. Any failure to raise additional funds necessary to achieve this would result in default under our debt covenants. We anticipate that we will have to refinance in part the repayment of the Notes at maturity. No one has guaranteed our obligations under the Notes or has any obligation to provide additional equity financing to us. The first principal repayments we are required to make on the senior credit facilities are on 30 September 2002 in the amounts of £25.8 million and \$0.9 million. The table below sets forth the maturity profile of our debt at 31 March 2002 prior to the acquisition of McLeod. On a pro forma basis after

giving effect to the McLeod acquisition, we would have had third-party debt, before the allocation of deferred financing costs, of £2,559.4 million at 31 March 2002.

<u>Debt</u>	<u>Payments due by period</u>				
	<u>Total</u>	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
			(£ in millions)		
Long-term loans and other borrowings					
Term Loan A	600.0	51.0	183.0	246.0	120.0
Term Loan B	175.0	—	—	—	175.0
Term Loan C	179.6	1.8	3.6	3.6	170.6
Senior Sterling Notes due 2011	250.0	—	—	—	250.0
Senior Dollar Notes due 2011	140.3	—	—	—	140.3
Senior Discount Dollar Notes due 2011	114.6	—	—	—	114.6
Subordinated parent company loan	685.3	—	—	—	685.3
Other	0.7	0.6	0.1	—	—
Total debt	<u>2,145.5</u>	<u>53.4</u>	<u>186.7</u>	<u>249.6</u>	<u>1,655.8</u>
Unamortised financing costs	(41.4)				
Cash at bank	(100.1)				
Net debt at end of period	<u>2,004.0</u>				

The terms of the senior credit facilities require us to maintain specified consolidated financial ratios for senior debt on Earnings before Interest, Tax, Depreciation and Amortisation (“EBITDA”) as defined in the senior credit facilities, cash flow to total debt service, EBITDA to net cash interest payable and total net debt to EBITDA and to observe capital expenditure limits for each financial year. Certain of these financial ratios have to be prepared for the preceding 12-month period and reported to the providers of the senior credit facilities on a quarterly basis. We have reported that we have maintained the financial ratios for the year ended 31 March 2002 in compliance with these debt covenants.

We do not have any off-balance sheet arrangements other than the contingent liability to certain key US employees and the interest rate hedges discussed below.

The following table sets forth our contractual obligations as at 31 March 2002:

	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>	<u>Total</u>
			(£ in millions)		
Long-term debt	53.4	186.7	249.6	1,655.8	2,145.5
Operating lease obligations	13.2	17.5	13.8	31.9	76.4
Total	<u>66.6</u>	<u>204.2</u>	<u>263.4</u>	<u>1,687.7</u>	<u>2,221.9</u>

Treasury Policy

Our treasury operation’s primary role is to manage liquidity, funding investment and our financial risk, including risk from volatility in currency and interest rates and counterparty credit risk. The treasury operation is not a profit centre and its objective is to manage risk at optimum cost.

Our board of directors sets the treasury department’s policy and its activities are subject to a set of controls commensurate with the magnitude of the investments and borrowings under its management. Counterparty credit risk is closely monitored and managed within controls set by our board of directors. It is likely that derivative financial instruments, including forward foreign exchange contracts, if entered into, will be used only for hedging purposes.

Significant Differences Between UK and US GAAP

Our combined and consolidated financial statements are prepared in accordance with UK GAAP, which differ in certain significant respects from US GAAP. Differences result primarily from the different treatment of purchase price allocations when accounting for acquisitions, 'push-down' accounting for payments made to certain management by BT, costs associated with selling advertisements, derivative financial instruments, pensions and deferred taxes. Under US GAAP, a portion of the purchase price is allocated, when accounting for acquisitions, to the deferred costs of directories that publish in the months immediately following the acquisition. Under UK GAAP, the deferred costs, which represent the value of selling efforts not yet realised, are valued at the lower of historical cost and net realisable value. The purchase price allocation under US GAAP increases the value of the selling effort to its retail value and, accordingly, profits in the period immediately following an acquisition would be significantly lower under US GAAP than under UK GAAP. Furthermore, under US GAAP, a portion of the purchase price would be allocated to other intangible assets such as acquired customer relationships and brand names, which are amortised over a different life than the goodwill recorded under UK GAAP and establishing associated deferred taxes. See note 26 of the notes to the financial statements included elsewhere in this annual report on differences between US GAAP and UK GAAP.

New UK Accounting Standards

In November 2000, the Accounting Standards Board ("ASB") issued FRS 17. We are required to phase in the adoption of the disclosure requirements over the two financial years ended 31 March 2002 and 2003. We have presented the required disclosure under the transition rules of FRS 17 in note 21 of the notes to the financial statements included elsewhere in this annual report. Full adoption of the standard is required from 1 April 2003. FRS 17 requires changes in the actuarial methods and assumptions and the method of accounting for scheme surpluses or deficits. Upon full adoption of FRS 17 the results of prior periods will also be restated to reflect its requirements. We do not believe that the adoption of FRS 17 will have a material effect on our results to the extent that market valuations do not materially fluctuate. Adoption of the standard could result in more volatile pension charges from period to period when market valuations do materially fluctuate.

Recent US GAAP Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No 141 "Business Combinations" ("SFAS 141"), which supersedes APB opinion No 16 "Business Combinations" and Statement of Financial Accounting Standards No 38 "Accounting for Pre-acquisition Contingencies of Purchased Enterprises". SFAS 141 addresses financial accounting and reporting for business combinations and requires that all business combinations within the scope of SFAS 141 be accounted for using only the purchase method. SFAS 141 is required to be applied for all business combinations initiated after 30 June 2001. We do not expect the adoption of this standard to have a material impact on the financial statements.

Also in June 2001, the FASB issued Statement of Financial Accounting Standards No 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), which supersedes APB opinion No 17 "Intangible Assets". SFAS 142 addresses how goodwill should be accounted for in the consolidated financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognised in the consolidated financial statements. Accordingly, we will adopt SFAS 142 as of 1 April 2002. Our management is currently evaluating the impact and adoption of SFAS 142 will have on our consolidated financial statements. The immediate impact on adoption will be the cessation of goodwill amortisation, which in fiscal year 2002 amounted to £45.7 million.

In August 2001, the FASB issued Statement of Financial Accounting Standards No 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The objectives of SFAS 144 are to address significant issues relating to the implementation of the FASB's Statement of Financial Accounting Standards No 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be

Disposed of” (“SFAS 121”), and to develop a single accounting model based on the framework established in SFAS 121 for long-lived assets to be disposed of by sale. The standard requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, the standard expands the scope of discontinued operations to include all components of any entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. This statement is effective for the fiscal years beginning after 15 December 2001. We do not expect the adoption of this standard to have a material impact on our financial statements.

In April 2002, the FASB issued Statement of Financial Accounting Standards No 145, “Rescission of FASB Statements No 4, 44 and 64, Amendment of FASB Statement No 13 and Technical Corrections” (“SFAS 145”). This standard will require gains and losses from extinguishment of debt to be classified as extraordinary items only if they meet the criteria of unusual and infrequent in Opinion 30, “Reporting the Result of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions”. Any gain or loss on extinguishment will be recorded in the most appropriate line item to which it relates within net income before extraordinary items. SFAS 145 is effective for fiscal years beginning after 15 May 2002; however, certain sections are effective for transactions occurring after 15 May 2002. The Yell Group does not expect the adoption of this standard to have material effect on its financial statements.

Critical Accounting Policies

The consolidated financial statements include accounts of Yell Group and all its subsidiaries. In general, our accounting policies are consistent with those generally adopted by others operating within the same industry in the United Kingdom.

In preparing the consolidated financial statements, our management has made its best estimates and judgements of certain amounts included in the financial statements, giving due consideration to materiality. We regularly review and update these estimates when required. Actual results could differ from these estimates. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. We consider the following policies to be a list of the most significant policies that require our management to make subjective and complex judgements or to consider matters that are inherently uncertain.

Allowance for doubtful debts. Debtors are reduced by an allowance for amounts that may become uncollectable in the future. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. We have demonstrated the ability to make reasonable and reliable estimates of allowances for doubtful accounts based on significant historical experience. Whilst such bad debts have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Goodwill and tangible fixed assets. Goodwill and tangible fixed assets are long-lived assets that are amortised over their useful lives. Useful lives are based on management’s estimates of the period that the assets will generate revenue. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Pensions. The determination of our obligation and expense for pensions is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in note 21 of the notes to the financial statements included elsewhere in this annual report and include, amongst others, the discount rate, the expected long-term rate of return on plan assets and rates of increase in compensation. Whilst we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect the amount of our future pension obligations, future valuation adjustments in the statement of total recognised gains and losses and our future employee expenses.

Deferred taxes. We recognise deferred tax assets and liabilities arising from timing differences where we have a taxable benefit or obligation in the future as a result of past events. We record deferred tax assets to the extent that we believe they are more likely than not to be realised. Should we determine that we would be able to realise our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made.

Related Parties

See Item 7.B. “Major Shareholders and Related Party Transactions—Related Party Transactions” for a further discussion of related party transactions.

C. Research and Development, Patents, Licenses, etc.

Not applicable.

D. Trend Information

Current Trading and Prospects

Since 31 March 2002, trading has developed favourably as we have continued to experience turnover growth in each of our business segments.

In the United Kingdom, based on directories published in the current financial year and information regarding sales canvasses closed, our UK printed directories have continued to benefit from a favourable take-up of colour advertising and have experienced volume growth in our sales of advertising as we have continued to attract new advertisers. Our prices have also declined pursuant to the new regulatory undertakings, which have affected all Yellow Pages directories published in the United Kingdom in the current period. Notwithstanding the regulatory undertakings, we are currently experiencing an increase in turnover as compared to the same period in the prior year.

In the United States, we have also continued to grow turnover during the current financial year. The McLeod acquisition, which occurred near to the beginning of the financial year on 16 April 2002, has significantly expanded our operations and our revenue base. Further, we have seen a favourable effect on profit margins in our US business as we have adopted our strategy of developing directories that we have launched over the last two years and decreased the number of new directory launches during the current financial year as compared to our 2002 financial year. Based on directories published to date and sales canvasses closed, we have also experienced same-market growth. The integration of McLeod into our US operations is progressing, and we have begun to realise cost savings from our paper supply and printing arrangements as a result of our increased size.

We have also generated turnover growth during the current trading period from our other products and services segment, entirely due to continued growth in our Yell.com and other online services turnover.

Accordingly, we are confident about the prospects for the Yell Group for the current financial year.

See Items 3.D. “Key Information—Risk Factors”, 5.A. “Operating and Financial Review and Prospects—Operating Results” and 5.B. “Operating and Financial Review and Prospects—Liquidity and Capital Resources” for a further discussion of information required by this item. See also Item 3. “Key Information—Cautionary Statement Regarding Forward-Looking Information”.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Our Directors, and their dates of birth and positions, are as follows:

<u>Name</u>	<u>Date of birth</u>	<u>Position</u>
John Condron	14 November 1949	Chief Executive Officer (executive)
John Davis	21 March 1962	Chief Financial Officer (executive)
Stephen Grabiner	30 September 1958	Director (non-executive)
Stephen Green	30 December 1963	Director (non-executive)
Salem Shuchman	23 February 1963	Director (non-executive)
Thomas O. Hicks	7 February 1946	Director (non-executive)
John R. Muse	24 February 1951	Director (non-executive)
Lyndon Lea	13 January 1969	Director (non-executive)

Executive Directors

John Condron was previously the Managing Director of the Group, when it was a division of BT. Mr Condron started working for BT in 1973 in the International Finance Division. He later became Strategy Manager for BT's White Pages Division in 1978 before joining the Group in 1980 as New Product Development Manager. In 1987, he became the Marketing and Sales Controller and, in 1992, he assumed the additional responsibility of Managing Director of Yellow Pages Sales Limited. In January 1994, Mr Condron was appointed as the Managing Director of the Group. Mr Condron is Chairman of the UK's Directory and Database Publishers Association and a member of the UK Government's Advisory Committee on Advertising. Mr Condron is a director of Yellow Pages Sales Limited, General Art Services Limited, Yellow Book USA, Inc., Yellow Book of New York, Inc. and Yellow Book of Pennsylvania, Inc. He received an honours degree in Economics from Queen's University in Belfast.

John Davis is also a director of Yellow Pages Sales Limited and General Arts Services Limited. Before joining Yell in September 2000, Mr Davis was Group Finance Director at Yahoo! Europe. Before then, he worked for Pearson plc from 1997 to 2000 as Chief Financial Officer for their US operations, and as a board director of Pearson Inc. He subsequently became Finance Director of the Financial Times Group Limited. Mr Davis was a director of a number of Pearson subsidiaries from which he resigned prior to leaving Pearson, including Millartrice Limited. Mr Davis began his career at Price Waterhouse, where he qualified as a Chartered Accountant. From 1989 to 1997, he held a variety of positions at EMAP plc, including Director of Corporate Finance/Treasury and Finance Director of EMAP Radio. Mr Davis received a degree in Accounting from the University of Kent and a master's degree from the Stanford Graduate School of Business. Mr Davis is also the secretary of Yell Group plc.

Non-executive Directors

Stephen Grabiner joined Apax Partners in 1999 following positions as Chief Executive of ONdigital Plc, Executive Director at United News & Media and Managing Director of The Telegraph Plc. Mr Grabiner focuses on media and communication investments. He also represents Apax Partners on the board of International Sportsworld Communicators Ltd. Mr Grabiner has a BA(Hons) in Economics and an MBA from Manchester Business School.

Stephen Green was appointed a director in the leverage transactions group at Apax Partners in January 2000, where he specialises in buyouts. He also represents Apax Partners on the board of Independier and Tumiza SpA. Prior to joining Apax Partners as an assistant director in 1997, he worked at PricewaterhouseCoopers, where he advised management teams on management buyouts. Mr Green also worked for two years as a geophysicist with Seismograph Service, part of the Raytheon Corporation. Mr Green graduated from Exeter University with a degree in physics and has an ACA from the Institute of Chartered Accountants in England and Wales.

Salem Shuchman was appointed a General Partner of Apax Partners in 1995. He is responsible for Apax Partner's leveraged transactions group in the United States and is also a member of the firm's Operating Committee. He serves on the board of directors of several Apax Partners' portfolio companies, including Ricon Corporation and Freedom Scientific. Prior to joining Apax Partners as a Vice President in 1993, Mr Shuchman worked as a Principal at Odyssey Partners, L.P. for eight years, where he worked primarily on leveraged buyouts. He received a BA with Honors from Swarthmore College, where he presently serves on the Board of Managers.

Thomas O. Hicks is Chairman of Hicks Muse. Mr Hicks serves as a director of Clear Channel Communications, Inc. and as Chairman of Viasystems Group, Inc. He is also a director of CCI Holdings, CorpGroup Limited, Digital Latin America, Home Interiors & Gifts, Inc., Fox Pan American Sports LLC and Pinnacle Foods. Mr Hicks is also the Chairman of the Board and owner of the Dallas Stars Hockey Club, a National Hockey League member, as well as the Chairman and owner of the Texas Rangers Baseball Club, an American League Baseball member. He serves on the board of directors of Crow Family Holdings, as well as the JP Morgan National Advisory Board. Prior to forming Hicks Muse, Mr Hicks was Co-Chairman and Co-Chief Executive Officer of Hicks & Haas Incorporated, a private investment firm specialising in leveraged acquisitions, from 1983 to May 1989. From 1977 to 1983, Mr Hicks was co-managing partner of Summit Partners, a Dallas-based LBO and special-situation investment firm. From 1974 to 1977, he was President of First Dallas Capital Corporation, the venture capital affiliate of First National Bank of Dallas. Prior to that, he was an investment officer for the venture capital affiliate of Morgan Guaranty Trust Company in New York. Mr Hicks received an MBA from the University of Southern California in 1970 and a BBA from the University of Texas in 1968.

John R. Muse is co-founder of Hicks Muse. As head of the firm's London office, Mr Muse is helping lead the firm's investment initiatives in Europe. Mr Muse serves as a director of Eurotax/Glass's, Premier Brands International, Burton's Foods Limited and Pinnacle Foods. He is also on the board of the Anderson School of Business at the University of California at Los Angeles, the Cox School of Business at Southern Methodist University, Dallas, Texas and Goodwill Industries, Dallas, Texas. Prior to the formation of Hicks Muse, Mr Muse headed the investment/merchant banking activities of Prudential Securities for the southwestern region of the United States. Mr Muse is a graduate of the United States Air Force Academy and received his MBA from the University of California at Los Angeles.

Lyndon Lea is a Partner of Hicks Muse and has been with Hicks Muse since 1998. Mr Lea currently serves on the boards of Premier International Foods Plc, Eurotax Glass's Holding AG and Burton's Foods Limited. Prior to joining Hicks Muse, Mr Lea served at Glenisla, the European affiliate of Kohlberg Kravis Roberts & Co. He previously served in the investment banking division of Schroders in London and in the mergers and acquisitions department of Goldman Sachs in New York. Mr Lea received his BA Honours in Business Administration from the University of Western Ontario, Canada.

Senior Management

Our senior management team (in addition to the executive directors listed above), their dates of birth, and positions are as follows:

<u>Name</u>	<u>Date of birth</u>	<u>Position</u>
Steve Chambers	29 September 1953	Chief Commercial Officer
Eddie Cheng	15 March 1952	eBusiness Director
Arthur Christoffersen	20 November 1946	Chief Operating Officer USA
Paul Fry	25 May 1951	Strategy & Business Development Director
James Haddad	4 March 1957	Chief Financial Officer USA
John Satchwell	11 March 1955	Operations Director
Victoria Sharrar	2 June 1958	Chief Sales Officer USA
Joseph Walsh	15 April 1963	Chief Executive Officer USA

Steve Chambers is responsible for sales of the Group's services and the marketing of its printed products. Before joining us in 1993, Mr Chambers held a variety of sales management positions including

serving as a sales director with ITT World Directories UK. Prior to his appointment as Chief Commercial Officer, he served as Head of Sales of Yellow Pages Sales Limited.

Eddie Cheng is responsible for all the Group's new media services. Dr Cheng joined the Group in 1984 as a product development manager. He started his career as a sales representative for Ciba Geigy before joining BT in 1981 as a product manager in Prestel. Dr Cheng served on the Department of Trade and Industry's steering committee on electronic publishing during 1998 and was until recently a member of BT's Executive Technology Council.

Arthur Christoffersen is Chief Operating Officer in the United States. He joined McLeodUSA Publishing in 1990 and served as its Chairman, President and Chief Executive Officer from that date until the acquisition by the Yell Group. Prior to 1990, Mr Christoffersen served as Executive Vice President and Chief Financial Officer of Teleconnect and its successor TelecomUSA, and has also held a variety of management positions including Executive Vice President of Life Investors Inc., a diversified financial services company. Mr Christoffersen received a BA in Business Administration from the University of Iowa and is a certified public accountant.

Paul Fry joined us in 1974. Since then, Mr Fry has worked in the Operations, Marketing and Business planning departments and has lead a number of key business development projects. Mr Fry has served as our Strategic Development Director. He has represented the Group in several external organisations, including in the role of board director of the European Association of Directory Publishers.

James Haddad is Chief Financial Officer in the United States. Mr Haddad joined McLeodUSA Publishing Company in 1986, where he served as a Senior Vice President and its Chief Operating Officer until its acquisition by the Yell Group. Prior to 1996, Mr Haddad was Vice President–Finance and Chief Financial Officer from 1986 to 1996. Mr Haddad received a BA in Business Administration with distinction from the University of Iowa.

John Satchwell is responsible for our customer services, computing, process development and publishing activities. Prior to joining us in 1993, Mr Satchwell was Deputy Managing Director of ITT World Directories UK. He has also held management positions in GKN and Burmah Castrol. He is also a director of River Gardens Management Company Limited. Mr Satchwell received an MA in Business Administration from Warwick University.

Victoria Sharrar is Chief Sales Officer in the United States. Ms Sharrar has been with Yellow Book since 1997. Ms Sharrar has worked in the independent directory industry for over 17 years, and prior to joining Yellow Book she worked for RH Donnelley Proprietary East & West Coast for over 12 years. Ms Sharrar received a BA from the University of Southern California.

Joseph Walsh joined Yellow Book USA, Inc. in 1987 and served as its Chairman and Chief Executive Officer from 1993 until its acquisition by us in August 1999. Before then, he co-founded IYP Publishing in 1982 and joined Data National as the Vice President of Sales in 1985, when IYP Publishing was acquired by Data National. Mr Walsh is currently Chairman of the Association of Directory Publishers and has served on the Board of the Association of Directory Marketing in the United States.

B. Compensation

The aggregate remuneration paid to or on behalf of all our senior management, including those members of management appointed as executive directors for the 2002 financial year, was £9,522,853 (including salaries, fees, commissions and bonuses).

These amounts exclude all pension and other post-retirement benefits provided to our executive directors and senior management, other than those required to be paid or contributed to by law. These amounts also exclude expenses such as business travel, professional and business association dues and expenses reimbursed to our senior management.

Pension contributions paid in respect of our senior management as a group for the 2002 financial year was £151,795.

The remuneration paid to or on behalf of our highest-paid senior manager or executive director for the 2002 financial year was £4,214,606 in salaries, fees, commissions, bonuses and pensions.

At 1 May 2002, we had total outstanding loans of £15,000 made to our senior management in relation to a car ownership scheme. Prior to that date there were no outstanding loans or guarantees granted or provided by us or any of our subsidiaries to or for the benefit of any of our senior management.

Pension Schemes

In the United Kingdom, Yell Group employees participate in the Yell pension plan (the “Yell Pension Plan”).

In the United States, Yell offers the Yellow Book Profit Sharing Retirement Savings Plan (the “Yellow Book Pension Scheme”) to its US employees. The Yell Group also maintains the McLeodUSA Publishing 401(k) Profit Sharing Plan (the “McLeod Pension Scheme”).

Yell Pension Plan

The Yell Pension Plan was established with effect from 6 April 1981. The Yell Pension Plan has four benefit sections, each of which is governed by a separate set of Rules. The Yell Pension Plan is a funded, contributory, exempt-approved scheme. One of the conditions of approval by the Inland Revenue is that the benefits for individual members do not exceed prescribed limits. The assets of the Yell Pension Plan are invested in units in the managed fund operated by Scottish Widows Investment Partnership Limited. Sections One to Three of the Yell Pension Plan are contracted out of the State Earnings Related Pension Scheme.

Group employees who prior to the Yell purchase participated in the BT pension scheme (the “BT Pension Scheme”) continued to do so until 31 October 2001. These employees were then offered membership of the Yell Pension Plan with effect from 1 November 2001. In October 2001, the Yell Pension Plan was amended to include additional benefit sections so that former BT Pension Scheme members could receive substantially similar benefits under the Yell Pension Plan for future service.

The Yell Pension Plan has four benefit sections, three of which provide contributing members with benefits on a defined-benefit basis and the fourth provides benefits on a defined-contribution basis. Section One provides defined benefits for those employees who were members of the Yell Pension Plan prior to the Yell purchase. Section Two has been designed to provide defined benefits similar to those provided under Section B of the BT Pension Scheme and is closed to new entrants. Section Three of the Yell Pension Plan was designed to provide defined benefits similar to those provided under Section C of the BT Pension Scheme. Former members of Sections B and C of the BT Pension Scheme were offered membership of Section Two or Three as appropriate with effect from 1 November 2001. Former members of Section A of the BT Pension Scheme were offered membership in Section Two of the Yell Pension Plan with effect from 1 November 2001.

Section Four of the Yell Pension Plan provides benefits on a defined-contribution basis and generally is for employees joining the Yell Pension Plan after 1 October 2001 (other than those eligible to join Section Two or Section Three on 1 November 2001). Employer contributions to Section Four increase by reference to a member’s service, as follows:

<u>Years of service completed at previous month end</u>	<u>Employer contribution rate (percentage of pensionable earnings)</u>
Up to 5	4%
5-9	6%
10-14	8%
15+	10%

As at 31 March 2002, there were approximately 2,100 full contributing members of the Yell Pension Plan and a further 1,020 members who were covered for death benefits only. There are no special

arrangements for Directors or senior managers within the Yell Pension Plan, with the exception of John Davis and John Condron. For further information see “—Directors’ Service Agreements and Senior Management’s Employment Agreements”. Actuarial valuations of the Yell Pension Plan are carried out at regular intervals by a qualified actuary.

On the actuarial basis used for ongoing funding purposes, the valuation of the Yell Pension Plan as at 6 April 1999 showed that there was a deficit in the plan of £2.4 million and the ratio of assets (actuarial value of £23 million) to the past-service liabilities (£25.4 million) was approximately 91%. A special contribution of £2.4 million was paid to the Yell Pension Plan in March 2001.

Participating employers currently contribute to the Yell Pension Plan at the following rates:

Section One:	12.25% of pensionable earnings (or 12.75% in respect of members in service before May 1991).
Sections Two and Three:	11.6% of pensionable earnings.
Section Four:	See table above setting out service-related contribution rates.

Individuals who prior to the Yell purchase were members of the BT Pension Scheme have been granted the option of transferring their past-service benefits from the BT Pension Scheme to the Yell Pension Plan on terms that are intended to ensure that the benefits will be adequately funded.

Under the Business Sale Agreement (as described under Item 10.C. “Additional Information—Material Contracts”) BT has agreed that to the extent (if any) that the trustees of the BT Pension Scheme fail to pay the agreed transfer payment, BT will pay an amount to Yell Limited equal to the shortfall less an amount designed to reflect the corporation tax deduction likely to be applicable to Yell Limited on paying the shortfall amount into the Yell Pension Plan.

The amount of the transfer payment to be paid from the BT Pension Scheme to the Yell Pension Plan has not yet been agreed between the actuaries for Yell Limited and BT. It is currently anticipated that an interim transfer payment of around 85% of the estimated value of the final transfer payment will be paid to the Yell Pension Plan in July 2002. The terms upon which the interim transfer payment is to be paid are expected to include a provision whereby BT agrees that to the extent (if any) that the trustees of the BT Pension Scheme fail to pay to the trustees of the Yell Pension Plan the interim payment and subsequently the balance of the agreed transfer payment, BT will pay an amount to Yell Limited equal to the shortfall less an amount designed to reflect the corporation tax deduction likely to be applicable to Yell Limited on paying the shortfall amount into the Yell Pension Plan.

In common with most UK pension schemes, no attempt has been made to equalise between the sexes guaranteed minimum pensions and associated entitlements arising out of the arrangements for contracting out of the State Earnings Related Pension Scheme up to 6 April 1997.

Yellow Book Pension Scheme

The Yellow Book Pension Scheme provides deferred retirement and savings benefits to participants based upon the amounts contributed to the participant’s account by the employer and the employee and the investment return achieved on these accounts. The Yellow Book Pension Scheme is subject to the provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”) and is also qualified under Section 401(a) of the US Internal Revenue Code and are therefore exempt from federal taxes under Section 501(a) of the US Internal Revenue Code.

Participants may contribute up to 15% of their annual eligible compensation. Yellow Book makes matching contributions of 50% of the first 6% participant contributions. During the 2001 financial year, Yellow Book USA paid employer’s contributions of £1.1 million to the Yellow Book Pension Scheme. Matching contributions vest according to a schedule based on years of service. In addition, Yellow Book USA may make discretionary profit-sharing contributions to the Yellow Book Pension Scheme on behalf of eligible

participants. Yellow Book USA did not make a discretionary sharing contribution to the Yellow Book Pension Scheme in the 2001 financial year.

McLeod Pension Scheme

The McLeod Pension Scheme provides deferred retirement benefits to participants based on the amounts contributed to the participant's account by the employer and the employee and the investment return achieved on these accounts. The McLeod Pension Scheme assets are currently exempt from federal taxes under Section 501(a) of the US Internal Revenue Code on the basis that it is subject to the provisions of ERISA and is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code.

Participants may contribute up to 50% of their annual compensation. McLeod also makes discretionary matching contributions. Matching contributions vest according to a schedule based on years of service.

C. Board Practices

Please see Item 10.B. "Additional Information—Memorandum and Articles of Association" for a description of the provisions regarding directors in the Articles of Association of Yell Group plc.

Board Composition

Currently, our board is composed of eight members, consisting of two executive directors and six non-executive directors. Each director has one vote. Resolutions will be adopted by a majority vote of those present at meetings. Our parent's board of directors has established an audit committee and a remuneration committee.

Audit Committee

The audit committee will meet at least twice a year and will be comprised of four directors appointed by the Sponsors, the chief financial officer of the Yell Group and the head of internal audit of the Yell Group. No appointments to the audit committee have yet been made.

The purpose of the audit committee is to ensure that (a) the accounting and financial policies and controls of the Yell Group are proper and effective, (b) the internal and external auditing processes are properly co-ordinated and work effectively and (c) the integrity of the financial statements and information published by the various companies that comprise the Yell Group is preserved.

Remuneration Committee

The remuneration committee normally meets at least twice a year and is comprised of up to four directors appointed by the Sponsors and the chief executive officer of our parent. The current remuneration committee members are John Condron, Lyndon Lea and Stephen Grabiner.

The purpose of the remuneration committee is to ensure that (a) the executive directors and the senior employees of the various companies that comprise the Yell Group are fairly rewarded and (b) the remuneration of such executives and senior employees is independently approved and monitored.

Directors' Service Agreements and Senior Management's Employment Agreements

On 22 June 2001, we entered into a service agreement with John Condron. The agreement can be terminated at any time by either party upon 12 months' notice. Under the agreement, Mr Condron is eligible to receive an annual bonus of 50% to 100% of his base salary subject to the achievement of performance targets. If Mr Condron's employment is terminated by us other than for cause, he will be entitled to his salary and the value of benefits for a period, equivalent to the notice period or any unexpired part, and a pro rata bonus payment for the period from the start of the bonus year to the termination date based on factors set forth in the agreement. In addition, if Mr Condron's employment is terminated by us other than for cause during the five years following the Yell purchase or until the occurrence of certain Sponsor exit

events, he will be entitled to receive an additional lump-sum payment. This lump-sum payment together with the termination payment described above will equal US\$5 million if the termination occurs during the first year, US\$3 million during the second year, US\$2 million during the third year and US\$1 million during the fourth or fifth year.

On 22 June 2001, we entered into a service agreement with John Davis. The agreement can be terminated at any time by either party upon 24 months' notice. Mr Davis is eligible to receive an annual bonus payment of 40% to 100% of his base salary. If Mr Davis's employment is terminated by us other than for cause, he will be entitled to his salary and the value of benefits for a period equivalent to the notice period or any unexpired part, and a pro rata bonus payment for the period from the start of the bonus year to the termination date based on factors set forth in the agreement.

John Davis has a contractual pension arrangement which is partially met by membership in both the BT Pension Scheme, whilst Yell remains a participating employer in that scheme, and the Yell Pension Plan. The entitlement that exceeds the approved benefit under the UK 1989 Finance Act is currently being provided on an unfunded basis. Once we cease to be a participating employer of the BT Pension Scheme, Mr Davis's benefits will be met exclusively by the Yell Pension Plan and the unapproved arrangement. There is an overriding clause that restricts benefits and the pension equivalent of any cash sum taken at retirement to two thirds of his pensionable salary. Benefits payable by us may have to be reduced to ensure that this limit is not exceeded.

On 22 June 2001, we also entered into service agreements with Steve Chambers, Eddie Cheng, Paul Fry and John Satchwell. Each agreement can be terminated at any time by either party upon 12 months' notice. Each of these directors is eligible to receive an annual bonus payment of 40% to 100% of his base salary. If a director's employment is terminated by us other than for cause, he will be entitled to his salary and the value of benefits for a period equivalent to the notice period or any unexpired part thereof.

All agreements described above contain restrictions governing competition, solicitation of customers and solicitation of key employees, each lasting for a period of 12 months from termination of employment.

D. Employees

The following table reflects the number of employees by employment status in the Yell Group as at 31 March 2002:

	<u>United Kingdom</u>	<u>United States</u>	<u>Total</u>
Full-time employees	2,951	1,902	4,853
Part-time employees	<u>358</u>	<u>30</u>	<u>388</u>
Total employees	<u>3,309</u>	<u>1,932</u>	<u>5,241</u>
Full-time equivalent	<u>3,179</u>	<u>1,917</u>	<u>5,096</u>

The following table reflects the average number of employees in the Yell Group for the periods indicated:

	<u>Year ended 31 March</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
UK employees	3,099	3,110	3,271
US employees	961 ⁽²⁾	1,887	2,050
Total employees ⁽¹⁾	<u>4,060</u>	<u>4,997</u>	<u>5,321</u>

(1) Full-time and full-time equivalent.

(2) This figure is an average since the Yellow Book acquisition.

	<u>United Kingdom</u> %	<u>United States</u> %
Marketing and sales	82	69
Other	18	31

In the United Kingdom, some of our employees are represented by three labour unions which collectively represent approximately 247 full-time employees and approximately 32 part-time employees. Membership in those unions is individual and voluntary. No unions have representation rights in respect of our employees in the United States.

We believe our relations with the unions of which our employees are members are on good terms.

E. Share Ownership

The following table reflects the share ownership of our directors in our parent, Yell Group plc:

<u>Name</u>	<u>Percentage of share ownership</u>
John Condron	2.6
John Davis	1.1
Non-executive directors	(1)

(1) Each of the non-executive directors who owns ordinary shares in our parent owns less than 1% of our parent's outstanding ordinary shares.

Incentive Schemes

Our parent adopted the Yell Group Limited Employee Plan (the "Yell Employee Plan"), the Yell Group Limited US Employee Plan (the "Yell US Employee Plan") and the Yell Group Limited Senior Manager Incentive Plan (the "Yell Manager Plan") (together the "Yell Schemes") for employees of any participating company (being Yell Group plc and any subsidiary that the remuneration committee of our parent's board of directors (including the Chief Executive Officer of Yellow Book USA) (the "committee") in its absolute discretion decided should be a participating company.

Yellow Book USA, Inc. (our indirect subsidiary) has adopted the Yellow Book USA, Inc. Phantom DDB Plan (the "Phantom DDB Plan") and the Yellow Book USA Management Equity Plan (the "US Equity Plan") (together the "Yell US Schemes") for employees of Yellow Book USA, Inc. and its subsidiaries in the United States.

The Yell Schemes and the Yell US Schemes are all administered by the committee or, where relevant, the trustee for the time being of the Yell Employee Benefit Trust (the "Trustee"). The terms of the Trustee's appointment are set out in the trust deed establishing the Yell Employee Benefit Trust dated 13 March 2002.

The Yell Group Limited Employee Plan

The Yell Employee Plan has the following main features:

Eligibility

The Yell Employee Plan is only available to employees of any participating company (including an employee who is also a director, but excluding non-executive directors of Yell Group plc (formerly Yell Group Limited).

Grant of options

Options may be granted at any time to eligible employees by the committee or the Trustee to acquire such number of ordinary shares as the committee or the Trustee (taking into account recommendations of the

committee) may determine at such price and subject to such objective conditions as it may in its absolute discretion think fit (although the exercise price may not be less than the nominal value of an ordinary share).

Limits

No option to subscribe for ordinary shares may be granted under the rules of the Yell Employee Plan if, when aggregated with (i) the number of ordinary shares issued on the exercise of (or remaining capable of being issued on the exercise of) options, and (ii) the number of ordinary shares issued on the exercise of options (or remaining capable of being issued) pursuant to any other share incentive plan established by Yell Group plc (excluding any ordinary shares issued or issuable within the limits set out in the Yell Manager Plan) would exceed two million ordinary shares.

Exercise of options and lapse of options

An option granted under the Yell Employee Plan may not be exercised until the occurrence of an Exit Event (being a Sale, Quotation, Winding-Up or Change of Control of Yell Group plc (each as defined in the rules of the Yell Employee Plan)) and subject to the satisfaction of any conditions imposed (if any).

In the event of a Quotation:

- (aa) an option may not be exercisable if it was granted on terms that prevented it being exercisable until a period of time following the Quotation, in which case the option shall be exercisable from the date specified in the option certificate; and
- (bb) if all or some of the shareholders are required to give undertakings not to sell some of their ordinary shares in order to maintain a regular market, then the optionholder shall also undertake not to sell his ordinary shares (or such proportion of his ordinary shares as the Committee may in its discretion determine), for a period of six months from the date of the Quotation or such shorter period as the Committee may determine (and no option shall be exercised until such an undertaking has been given).

An optionholder may exercise his option in respect of all or some of the ordinary shares comprised in the option.

If an optionholder ceases to be an employee of Yell Group plc or any subsidiary in certain circumstances including death, retirement, redundancy, injury or disability, the option will be exercisable within a specified period from the date of such cessation.

Yell Group plc shall bear any liability to employer's National Insurance contributions arising in relation to the option.

Adjustment of option terms

In the event of an increase, or variation of the share capital of Yell Group plc, the committee (or, where relevant, the Trustee) may make such adjustments as it considers fair and reasonable to the number of ordinary shares in respect of which any option granted under the Yell Employee Plan may be exercised, the price payable for the ordinary shares under any option or any limits set out in the Yell Employee Plan, provided that the price payable per ordinary share on the exercise of an option to subscribe for ordinary shares shall not be less than a sum equal to the nominal value of an ordinary share.

Modifications to the scheme

The basic structure of the Yell Employee Plan cannot be altered without the prior sanction of an ordinary resolution of Yell Group plc in a general meeting.

Termination

Our parent's board of directors may at any time (without prejudice to the rights of the optionholders under subsisting options) suspend or terminate the operation of the Yell Employee Plan.

The Yell Group Limited US Employee Plan

Options may be granted under the Yell US Employee Plan in accordance with the provisions as set out above in relation to the Yell Employee Plan with the following modifications:

- (aa) if the option was granted on 14 March 2002, the option may not be exercised until or after the date falling six months after the date of Quotation (as defined in the Yell US Employee Plan) or such earlier date as the committee may, in its absolute discretion decide;
- (bb) such modifications as are necessary to enable options to be granted on terms that they qualify as Incentive Stock Options within the meaning of Sections 421 and 422 of the US Internal Revenue Code of 1986 (as amended); and/or
- (cc) such modifications as are necessary to comply with applicable US federal or state securities law.

In all other respects, the rules of the Yell US Employee Plan follow the rules of the Yell Employee Plan.

The Yell Group Limited Senior Manager Incentive Plan

The Yell Manager Plan has the following main features:

Eligibility

The Yell Manager Plan is only available to employees of any participating company (including an employee who is also a director, but excluding non-executive directors of Yell Group plc).

Grant of options

Options may be granted at any time to eligible employees by the committee or the Trustee to acquire such number of ordinary shares as the committee or the Trustee (taking into account recommendations of the committee) may determine at such price and subject to such objective conditions as it may in its absolute discretion think fit (although the exercise price may not be less than the nominal value of an ordinary share).

Limits

No option to subscribe for ordinary shares may be granted under the rules of the Yell Manager Plan if, when aggregated with (aa) the number of ordinary shares in issue on that date (excluding any ordinary shares that are issued within (and count towards) the limit set out in the Yell Employee Plan); (bb) the number of ordinary shares remaining capable of being issued on the exercise of options granted under the Yell Manager Plan; and (cc) the number of ordinary shares capable of being issued pursuant to any other rights in existence on that date (excluding any ordinary shares issuable within (and counting towards) the limit set out in the Yell Employee Plan), would exceed ten million ordinary shares.

Exercise of options and lapse of options

An option granted under the Yell Manager Plan may not be exercised until the occurrence of an Exit Event (being a Sale, Quotation, Winding-Up or Change of Control of Yell Group plc (each as defined in the rules of the Yell Manager Plan)) and (subject to the satisfaction of any conditions imposed, if any).

In the event of a Quotation:

- (aa) an option may not be exercisable if it was granted on terms that prevented it being exercisable until a period of time following the Quotation, in which case the option shall be exercisable from the date specified in the option certificate;

- (bb) if all or some of the shareholders are required to give undertakings not to sell a percentage of their ordinary shares in order to maintain a regular market (referred to as the “Relevant Shareholders”) then the optionholder shall also undertake not to sell the same percentage of his ordinary shares (referred to as “Restricted Shares”) for the same period of time as the majority of the Relevant Shareholders are so restricted (and the optionholder may not exercise this option unless he has entered into such an undertaking); and
- (cc) if the Relevant Shareholders are subsequently permitted to sell a proportion of their ordinary shares, then the optionholder shall also be able to sell a proportion of his Restricted Shares, such proportion being equal to the highest proportion of shares that the Relevant Shareholder is permitted to sell.

An optionholder may exercise his option in respect of all or some of the ordinary shares comprised in the option.

If an optionholder ceases to be an employee of Yell Group plc or any subsidiary in certain circumstances including death, retirement, redundancy, injury or disability the option (or such vested portion of the option, where relevant) will be exercisable for a specified period from the date of such cessation.

Yell Group plc shall bear any liability to employer’s National Insurance contributions arising in relation to the option.

Adjustment of option terms

In the event of an increase, or variation of the share capital of Yell Group plc, the committee (or, where relevant, the Trustee) may make such adjustments as it considers fair and reasonable, to the number of ordinary shares in respect of which any option granted under the Yell Manager Plan may be exercised, the price payable for the ordinary shares under any option or any limits set out in the Yell Manager Plan, provided that the price payable per ordinary share on the exercise of an option to subscribe for ordinary shares shall not be less than a sum equal to the nominal value of an ordinary share.

Modifications to the scheme

The basic structure of the Yell Manager Plan cannot be altered without the prior sanction of an ordinary resolution of Yell Group plc in general meeting.

Termination

Our parent’s board of directors may at any time (without prejudice to the rights of the optionholders under subsisting options) suspend or terminate the operation of the Yell Manager Plan.

Summary of options granted under the Yell Schemes

Options over a total of 3,351,292 ordinary shares with an exercise price of £0.01 each remain capable of being exercised under the Yell Schemes as follows:

<u>Plan</u>	<u>Total number of options granted over ordinary shares</u>	<u>Exercise price per share</u>
Yell Senior Manager Plan	1,901,992	£0.01
Yell Employee Plan	939,600	£0.01
Yell US Employee Plan	509,700	£0.01
Total	<u>3,351,292</u>	

Yellow Book USA, Inc. Phantom DDB Plan (the “Phantom DDB Plan”)

Under the Phantom DDB Plan, units representing an initial sum of \$44,918,182 have been granted, subject to vesting over three years, to certain employees of Yellow Book USA, Inc. and its subsidiaries, but

pay out only on the occurrence of an exit event (e.g. sale or quotation). These units, called “Phantom Units”, generally have the same economic benefits and risks as if that amount were invested in the DDBs (defined in Item 10.C. “Additional Information—Material Contracts—DDBs”).

Payments are made under the Phantom DDB Plan when payments are made under the DDB instrument in respect of the DDBs. The DDB instrument calls for payments to be made upon the optional redemption by Yell Group plc or the sale or quotation of Yell Group plc.

If the Sponsors were to receive marketable securities of the same class of securities as securities issued in a Quotation of Yell Group plc (defined therein as “Yell Marketable Securities”) in respect of their DDBs that are then sold as part of the Quotation, the Phantom DDB Plan participants will either be entitled to sell the same proportionate share of their Yell Marketable Securities in the Quotation on the same terms as the Sponsors or will receive the cash equivalent thereof as if the participants had sold their Yell Marketable Securities in the Quotation. Any such cash payments will be made promptly following the Quotation.

Any Yell Marketable Securities distributed in respect of Phantom DDB Units will be held by Yell Management Company LLC until the earlier of the disposition of Yell Marketable Securities by the Sponsors or one year.

Yell Group plc has guaranteed Yellow Book USA’s obligations under the Phantom DDB Plan.

Yellow Book USA, Inc. Management Equity Plan (the “US Equity Plan”)

Under the US Equity Plan, units representing all of the equity interests (“LLC Interests”) in Yell Management Company LLC have been granted to certain employees of Yellow Book USA and its subsidiaries. Yell Management Company LLC holds limited partnership interests in Yellow Pages Investments L.P., the limited partnership vehicle through which funds managed or advised by the Sponsors made their initial investments in the Company, based on a capital contribution of £57,863. The LLC Interests are subject to vesting over three years.

In accordance with the Management Incentive Plan Trust and Distribution Agreement, if Yell Management Company LLC receives Yell Marketable Securities in respect of its partnership interests in Yellow Pages Investments L.P., Yell Management Company LLC will not distribute such Yell Marketable Securities to the participants of the US Equity Plan until the earlier of the disposition of such Yell Marketable Securities by the Sponsors or one year.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

We are a wholly owned subsidiary of Yell Group plc, our parent.

The beneficial ownership of Yell Group plc is as set forth below:

<u>Name of beneficial owner</u>	<u>Percentage of beneficial ownership⁽¹⁾</u>
Funds managed or advised by:	
Apax Partners	44.35
Hicks Muse	44.35
	<hr/>
	88.70
<hr/>	
Directors and management ⁽²⁾	11.30
<hr/>	

- (1) These percentages do not take into account any additional shares in our parent reserved for issue to our employees or additional shares to be issued on behalf of employees under the Yell US Schemes, each as described in Item 6.E. “Directors, Senior Management and Employees—Share Ownership—Incentive Schemes”.
- (2) None of the Directors or senior management is expected to hold a direct or indirect beneficial interest of more than 1%, other than John Condron (2.6%), John Davis (1.1%) and Joseph Walsh (2.8%) (who holds an indirect interest in connection with the US Equity Plan referred to above).

B. Related Party Transactions

On the acquisition of McLeod, we paid an aggregate transaction fee of \$9 million to affiliates of Hicks Muse and Apax Partners.

Subscription and Shareholders' Agreement

On 25 May 2001, our parent Yell Group Limited (now Yell Group plc), Yellow Pages Investments L.P. and certain members of management including our executive directors entered into a subscription and shareholders' agreement. We are not a party to this agreement. This agreement provides, amongst other things, that:

- the Sponsors will have the right to appoint six directors, including a chairman of the board, or such greater number as constitutes a majority of the board of directors of each Yell Group company;
- the chief executive officer and chief financial officer shall be entitled to be directors of each Yell Group company;
- transfers of shares in our parent are restricted except as permitted by our parent's articles of association;
- the Yell Group should pay an arrangement fee of £30.0 million relating to the Yell purchase to affiliates of the Sponsors and reimburse professional fees and other expenses incurred in connection with the Yell purchase, which fees were included as transaction costs;
- the Yell Group and our parent shall be obligated to pay to the Sponsors' affiliates on a 50:50 basis an annual monitoring fee in aggregate equal to the greater of £1.5 million and 0.25% of the consolidated annual net sales of the Yell Group (plus VAT and out-of-pocket expenses); and
- in connection with any tender offer, acquisition, sale, merger or similar transaction involving the Yell Group, our parent and the Yell Group will pay to the Sponsors' affiliates a cash fee in aggregate equal to 1.5% of the total value of the transaction.

Please see note 23 of the notes to the financial statements included elsewhere in this annual report for a discussion of other related party transactions.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See Item 18.

Legal Proceedings

No member of the Yell Group is or has been engaged in or, so far as we are aware, has pending or threatened, any legal or arbitration proceedings which may have, or have had in the 2002 financial year a significant effect on the Group's financial position.

B. Significant Changes

On 16 April 2002, we acquired McLeod. For a further discussion of the impact of this acquisition, please see Item 5. "Operating and Financial Review and Prospects" and the McLeod financial statements previously filed with the SEC on 13 June 2002 on Form 6-K.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Not applicable.

B. Plan of Distribution

Not applicable.

C. Markets

The Notes are listed on the Luxembourg Stock Exchange.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Memorandum of Association

The Memorandum of Association of Yell Finance B.V. provides that its object is to carry on the business of a holding company.

Articles of Association

The Articles of Association provide that the business and affairs of the Company are managed by the board of directors (the “Board”). The Board, which must consist of at least one Director but has no specified maximum number of Directors, is elected by the Company’s shareholders at a general meeting (a “General Meeting”). Board resolutions must be approved by an absolute majority of the votes cast. General Meetings, which must be held at least once a year, may be called by any of the Board, individual Directors or individual shareholders. Actions that must be approved at a General Meeting include, amongst other things, (i) approving the Company’s annual accounts, (ii) declaring dividends, (iii) increasing, reducing or authorising the transfer of the Company’s share capital, (iv) appointing and removing Directors, (v) approving certain Board resolutions and (vi) winding up the Company.

C. Material Contracts

The following contracts are contracts (not entered into in the ordinary course of business) which have been entered into by the Company or another member of the Yell Group within the two years immediately preceding the date of this document which are or may be material.

Senior Facilities Agreement

The Company and certain of its affiliates have entered into a senior facilities agreement dated 25 May 2001 (as amended on 22 June 2001, 10 July 2001, 1 August 2001, 13 March 2002, 12 April 2002 and 31 May 2002) between Yell Group Limited (now Yell Group plc) as the Parent, Yell Limited as the UK Principal Borrower, Yellow Book Holdings, Inc. as the US Principal Borrower, the companies identified therein as Borrowers and as Guarantors, Merrill Lynch International as Mandated Lead Arranger of the Original Facilities, CIBC World Markets plc as Mandated Lead Arranger of the Tranche D Term Facility, CIBC World Markets plc and Deutsche Bank AG London as Joint Lead Arrangers of the Original Facilities, Credit Suisse First Boston as Joint Lead Arranger of the Tranche D Term Facility, the Banks and Financial Institutions named therein and Deutsche Bank AG London as Facility Agent and Security Agent (the “Senior Facilities Agreement”).

Structure

The original term loan facilities consisted of: (i) term loan A, in the amount of £600 million; (ii) term loan B, in the amount of £175 million; (iii) term loan C1, in the amount of US\$181,568,612.08; and (iv) term loan C2 in the amount of £52,241,919.42. The term loan facilities were used to finance the Yell purchase including, amongst other things, transaction costs. The revolving credit facility provides for revolving advances and the issuance of letters of credit and bank guarantees in an aggregate amount of up to £100 million, to be used for working capital and other general corporate purposes. In connection with the McLeod acquisition, a new term loan D facility was added in the amount of \$250 million. This amount was drawn down on the date of the closing of the McLeod acquisition and was used to finance the acquisition of McLeod including, amongst other things, transaction costs.

Interest rates and fees

Advances under the various facilities bear interest at rates per annum equal to LIBOR plus, where appropriate, any applicable mandatory liquid asset costs (which are the adjustments required if the Bank of England mandates a change to the reserve requirements for lending banks), plus the following applicable margins: (i) 2.375% per annum for term loan A; (ii) 3% per annum for term loan B; (iii) 3.50% per annum for term loan C1 and term loan C2; (iv) 3% per annum for term loan D; and (v) 2.375% per annum for the revolving credit facility. There is a margin adjustment mechanism in relation to term loan A and the revolving credit facility, commencing with the accounting quarter ended 31 March 2002, under which the applicable margins may be reduced following reductions in Yell Group plc’s leverage ratio as reflected in the financial statements delivered for the previous accounting quarter. The leverage ratio is the ratio of the Yell Group plc’s total net debt to EBITDA.

An issuing bank fee of 0.125% per annum is payable quarterly in arrears on the issuing bank’s exposure under any letters of credit or bank guarantees issued pursuant to the revolving credit facility. Commitment commission is payable quarterly in arrears at a rate of 0.75% per annum on the undrawn and uncanceled portion of the revolving credit facility. There is a commitment commission adjustment mechanism in relation to the revolving credit facility, commencing with the accounting quarter ended 31 March 2002, under which the commitment commission may be reduced following reductions in Yell Group plc’s leverage ratio as reflected in the financial statements delivered for the previous accounting quarter.

Guarantees and security

Yell Group plc’s obligations under the senior credit facilities are guaranteed by, amongst others, Yellow Pages Limited, Yell Holdings 2 Limited, Yell Limited and Yellow Book Group, Inc., and each of Yell Limited’s and Yellow Book Group, Inc.’s subsidiaries.

Yellow Pages Limited, Yell Holdings 2 Limited, Yell Limited and each subsidiary guarantor incorporated in the United Kingdom has granted a security interest over substantially all of its assets, including a fixed charge over certain of its properties, debts, bank accounts, insurances, intellectual property and specified agreements, and a floating charge over all of its other undertakings and assets. In addition, the shares of Yell

Holdings 2 Limited, Yell Limited, YH Limited and the subsidiary guarantors incorporated in the United Kingdom have been charged in favour of Deutsche Bank AG London as security agent for the banks under the senior credit facilities.

Yellow Book Group, Inc. and each subsidiary guarantor incorporated in the United States has granted a security interest over substantially all of its assets, including a first-priority perfected lien over certain of its properties (including property), debts, bank accounts, insurances, intellectual property and specified agreements. In addition, the shares of the subsidiary guarantors incorporated in the United States have been pledged to Deutsche Bank AG London, as security agent for the banks under the senior credit facilities. Certain property owned by McLeodUSA in Cedar Rapids, Iowa has also been mortgaged in favour of Deutsche Bank AG London.

Yell Sàrl has granted a security interest over its intercompany receivables, in addition to a pledge over the shares of Yellow Book Group, Inc., as security for its obligations as a guarantor of the senior credit facilities.

Covenants

The senior credit facilities contain certain customary negative covenants, which restrict the borrowers and their subsidiaries (subject to certain agreed exceptions) from, amongst other things: (i) incurring additional debt; (ii) giving guarantees and indemnities; (iii) making loans to others; (iv) creating security interests on their assets; (v) making acquisitions and investments or entering into joint ventures; (vi) disposing of assets other than in the ordinary course of business; (vii) issuing shares other than, in the case of subsidiaries of Yell Group plc, to their direct holding companies which are wholly owned by Yell Group plc or, in the case of Yell Group plc, ordinary share capital carrying no creditor rights; (viii) preparing or amending or entering into subordinated debt or equity documents; or (ix) paying dividends or making payments in excess of agreed amounts to shareholders.

Acquisitions will, amongst other things, be permitted to the extent (but subject to further limitations) the aggregate cash or non-cash consideration paid and payable for such acquisitions does not exceed £100 million in any financial year, excluding the amount of consideration funded by shareholder debt, equity contributions or additional high-yield debt or the proceeds of an initial public offering (less the amount invested in permitted joint ventures in that financial year).

In addition, the senior credit facilities require Yell Group plc and its consolidated subsidiaries to maintain specified consolidated financial ratios for senior debt to EBITDA (as defined in the senior credit facilities), cash flow to total debt service, EBITDA to net cash interest payable and total net debt to EBITDA, and to observe capital expenditure limits for each financial year.

The senior credit facilities also require the borrower to observe certain customary covenants, including, but not limited to, covenants relating to legal status, notification of default, making of claims, banking arrangements, guarantees and security, financial assistance, financial condition and hedging arrangements.

Maturity and amortisation

Term loan A is to be repaid in semi-annual instalments beginning on 30 September 2002 and continuing through 31 March 2008. Each of term loan B and term loan D is to be repaid in two instalments with 50% repayable on 30 September 2008 and the balance repayable on 31 March 2009. Term loan C1 and term loan C2 are to be repaid in semi-annual instalments beginning 30 September 2002 and continuing through 31 March 2010. No amounts repaid by the borrowers on the term loan facilities may be re-borrowed. The revolving credit facility will cease to be available for drawing on 22 May 2008. Each advance made under the revolving credit facility must be repaid on the last day of each interest period relating to it, although amounts thus repaid are available for re-borrowing.

Prepayments

All loans under the senior credit facilities must be prepaid in full upon the occurrence of certain events, including (i) a change of control of Yell Group plc; (ii) a change of control as defined under the indentures relating to the Notes; and (iii) the sale of substantially all of the business and/or assets of Yell Group plc and its subsidiaries. On a listing of share capital of Yell Group plc or, in certain circumstances, any other member of the Yell Group on any recognised stock exchange or any sale or issue thereof by way of flotation or public offering which does not cause a change of control, the net proceeds, save to the extent reinvested in assets required for the business of the Yell Group, shall be applied to pre-pay the term loan facilities and revolving facilities to the extent required by the terms of the senior credit facilities. In addition, in certain circumstances the term loan facilities require prepayments from the net proceeds of price adjustments in connection with transactions, asset disposals, insurance claims and surplus cash.

Subject to an indemnity for broken funding costs, the borrower may voluntarily pre-pay amounts outstanding under the term loan facilities, without penalty or premium, at any time in whole or in part in minimum amounts of £3 million and, if greater, integral multiples of £1 million upon two business days' notice to the facility agent.

Events of default

The senior credit facilities contain certain customary events of default for senior leveraged acquisition financings, the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments.

Hedging arrangements

The borrowers are required by the terms of the senior credit facilities to enter into hedging arrangements to provide protection in respect of interest rate risk exposure arising because the financing under the senior credit facilities is at floating interest rates. The hedging arrangements must cover at least 50% of the amount of the total commitments under the term loan facilities for a period of at least two years from the date of the Yell purchase closing (in the case of the term loan A, B, C1 and C2 facilities) and two years from the date of the McLeod acquisition closing (in the case of the term loan D facility). Hedging banks have been granted security, guarantee and subordination rights which rank at least equally with the obligations of the banks under the senior credit facilities.

Bridge Note Purchase Agreement

Yell Group plc and certain of its affiliates have entered into a Bridge Note Purchase Agreement dated 15 April 2002, among Yell Group Limited (now Yell Group plc) as the Parent, Yell Finance B.V. as the Issuer, Yellow Pages Limited as the Guarantor, CIBC World Markets plc as the Arranger, Syndication and Documentation Agent, Joint Bookrunner and Administrative Agent, Credit Suisse First Boston as Joint Bookrunner, and the Banks and Financial Institutions named therein as the Initial Purchasers.

Structure

The bridge note facilities consist of Series A Notes, in the amount of US\$200 million, and Series B Notes, in the amount of US\$50 million. The bridge note facilities were drawn down on the date of the closing of the McLeod acquisition (the "McLeod Closing Date"), and were used to finance the McLeod acquisition including, amongst other things, transaction costs.

Interest rates and fees

Advances under the Series A Notes bear interest payable quarterly in arrears (if not capitalised) at rates per annum equal to Adjusted LIBO Rate (as defined therein) plus:

- for the three-month period from the McLeod Closing Date to the three-month anniversary of the McLeod Closing Date, the higher of (aa) 9.50% and (bb) LIBOR plus 7.40%;

- for the one-month period from the three-month anniversary of the McLeod Closing Date to the four-month anniversary of the McLeod Closing Date, the higher of (aa) 10.0% and (bb) LIBOR plus 7.90%;
- for the one-month period from the four-month anniversary of the McLeod Closing Date to the five-month anniversary of the McLeod Closing Date, the higher of (aa) 10.5% and (bb) LIBOR plus 8.40%;
- for the one-month period from the five-month anniversary of the McLeod Closing Date to the six-month anniversary of the McLeod Closing Date, the higher of (aa) 11.0% and (bb) LIBOR plus 8.90%;
- for the one-month period from the six-month anniversary of the McLeod Closing Date to the seven-month anniversary of the McLeod Closing Date, the higher of (aa) 11.5% and (bb) LIBOR plus 9.40%; and
- thereafter, a percentage per annum equal to the higher of (aa) 12.0% and (bb) LIBOR plus 9.90%.

Interest cannot exceed 14.0% (or, during the continuance of an event of default, 16.0%) and any interest in excess of 12.5% may, at the option of Yell Finance BV, be capitalised.

Advances under the Series B Notes bear interest payable quarterly in arrears (if not capitalised) at rates per annum equal to the sum of Adjusted LIBO Rate (as defined therein) plus:

- for the three-month period from the Closing Date to the three-month anniversary of the McLeod Closing Date, the higher of (aa) 12.50% and (bb) LIBOR plus 10.40%;
- for the one-month period from the three-month anniversary of the McLeod Closing Date to the four-month anniversary of the McLeod Closing Date, the higher of (aa) 13.0% and (bb) LIBOR plus 10.90%;
- for the one-month period from the four-month anniversary of the McLeod Closing Date to the five-month anniversary of the McLeod Closing Date, the higher of (aa) 13.5% and (bb) LIBOR plus 11.40%;
- for the one-month period from the five-month anniversary of the McLeod Closing Date to the six-month anniversary of the closing date, the higher of (aa) 14.0% and (bb) LIBOR plus 11.90%;
- for the one-month period from the six-month anniversary of the McLeod Closing Date to the seven-month anniversary of the McLeod Closing Date, the higher of (aa) 14.5% and (bb) LIBOR plus 12.40%; and
- thereafter, a percentage per annum equal to the higher of (aa) 15.0% and (bb) LIBOR plus 12.90%.

provided that (aa) interest payable prior to 1 August 2006 will be capitalised, (bb) at no time will interest exceed 16.0% per annum (or, during the continuance of an event of default, 18.0% per annum), and (cc) any interest in excess of 15.5% may, at the option of Yell Finance BV, be capitalised.

Yell Finance B.V.'s obligations under the bridge note facilities are guaranteed by Yellow Pages Limited.

Covenants

The bridge note facilities contain certain customary negative covenants which restrict Yell Group plc and its subsidiaries (subject to certain agreed exceptions) from, amongst other things: (i) incurring additional debt; (ii) giving guarantees and indemnities; (iii) making loans to others; (iv) creating security interests on their assets; (v) making acquisitions and investments or entering into joint ventures; (vi) disposing of assets other than in the ordinary course of business; (vii) issuing shares; (viii) preparing, amending or entering into subordinated debt or equity documents; or (ix) paying dividends or making payments to shareholders, in each case on substantially the same terms as the senior credit facilities.

In addition, the bridge note facilities require Yell Group plc and its consolidated subsidiaries to maintain specified consolidated financial ratios for senior debt to EBITDA (as defined in the bridge note facilities), cash flow to total debt service, EBITDA to net cash interest payable and total net debt to EBITDA. In each case the financial ratios are calculated in the same manner as the senior credit facilities, but are set at slightly more liberal limits.

The senior credit facilities also require Yell Group plc to observe certain customary covenants, including, but not limited to, covenants relating to legal status, notification of default, the making of claims, banking arrangements, guarantees and security, and financial condition.

Maturity and amortisation

The Series A Notes and Series B Notes are each to be repaid on 16 April 2003.

In the event the Series A Notes and Series B Notes are not repaid on such date, they will be converted into rollover notes with a 1 August 2011 maturity date. The interest rate will be, in the case of Series A Rollover Notes, a fixed rate equal to the higher of (i) the then-applicable interest rate with respect to the Series A Notes and (ii) 12.50% per annum (subject to a maximum interest rate of 14.0% with a cash interest cap of 12.5%). In the case of Series B Rollover Notes, the interest rate will be equal to the higher of (i) the then-applicable interest rate with respect to the Series B Notes and (ii) 15.5% per annum (subject to a maximum interest rate of 16.0% with interest payable prior to 1 August 2006 to be capitalised and added to the principal, and the amount of cash interest paid then subject to a cap of 15.5%). The terms and conditions of any rollover notes, including representations and warranties, covenants and events of default, in addition to early-redemption premiums, will be those which are typical for a high-yield note issue and others to be agreed by Yell Finance B.V. and the holders.

Prepayments

Subject always to the terms of the Intercreditor Deed (as defined below), the Series A Notes and Series B Notes are required to be redeemed upon the occurrence of certain events, including (i) a change of control of Yell Group plc, (ii) the sale of substantially all of the business and/or assets of Yell Group plc and its subsidiaries, and (iii) the receipt of price adjustments in connection with the McLeod acquisition, asset disposals and insurance claims. On a sale or other issuance of equity share capital of Yell Group plc or its subsidiaries, the net proceeds shall be applied (after application to obligations under the senior credit facilities) to redeem the Series A Notes and Series B Notes. The redemptions of the Series A Notes and Series B Notes are without penalty or premium.

Events of default

The bridge note facilities contain certain customary events of default for senior leveraged acquisition financings (similar to the events of default under the senior credit facilities), the occurrence of which allows the purchasers of the notes to accelerate all outstanding amounts due under the notes and demand repayment.

Intercreditor Deed

Yell Group plc and certain of its affiliates have entered into an intercreditor deed, dated 22 June 2001 (as amended on 11 July 2001, 13 March 2002, 16 April 2002 and 31 May 2002) with, amongst others, Yell Group Limited (now Yell Group plc) and certain of its subsidiaries as Obligors, Yellow Pages Limited as the Guarantor, Yell Finance B.V. as the Issuer of the High Yield Notes, Discount High Yield Notes and Further High Yield Debt, the Institutions named therein as the Senior Finance Parties and the funds managed or advised by Apax Partners and Hicks Muse (the "Intercreditor Deed").

The Intercreditor Deed provides for, amongst other things, the conditions upon which certain payments can and cannot be made in respect of intercompany loans made to Yell Group plc's subsidiaries. The Intercreditor Deed includes provisions which:

- prohibit Yell Group plc's subsidiaries from making any payments to Yell Group plc in respect of any intercompany loans until the senior discharge date without the consent of the creditors under the senior credit facilities, except on dates and in amounts not exceeding scheduled interest due on the Notes plus certain fees and expenses incurred by Yell Group plc in connection with the administration of the Notes;
- prohibit Yell Group plc and Yell Group plc's subsidiaries from making any payments in respect of the BT Loan Notes (as defined under "—BT Loan Notes"), the bridge notes and the DDBs until the senior discharge date without the consent of the creditors under the senior credit facilities;
- give the creditors under the senior credit facilities priority of payment over subordinated debt, including debt owed to Yell Group plc in the form of intercompany loans and debt owed by Yell Group plc in the form of subordinated shareholder loans in respect of the BT Loan Notes, the bridge notes and the DDBs;
- prohibit Yell Group plc and its subsidiaries from making any payments, other than those payments described above, payments by Yell Finance B.V. and Yell Group plc in respect of the Notes, payments permitted under and in respect of the senior credit facilities and certain other payments to fund certain corporate overhead expenses, taxes and fees payable by Yell Group plc;
- provide for the suspension of payments to Yell Finance B.V. or Yell Group plc under the intercompany loans in the event of a payment default under the senior credit facilities or if a payment blockage notice has been issued following any other type of default under the senior credit facilities;
- prohibit any enforcement action by Yell Group plc on debt owed to Yell Group plc by its subsidiaries in the form of intercompany loans until the senior discharge date;
- prohibit any enforcement action by Yell Group plc on debt owed to it by its subsidiaries in the form of subordinated shareholder loans until the senior discharge date; and
- prohibit any enforcement action by the holders of the DDBs, the bridge notes and the BT Loan Notes on debt owed to them until the senior discharge date.

Senior Sterling Notes, Senior Dollar Notes and Senior Discount Dollar Notes

Yell Finance B.V. has issued £250 million principal amount of 10³/₄% Senior Sterling Notes due 2011, \$200 million principal amount of 10³/₄% Senior Dollar Notes due 2011 and \$288.25 million principal amount at maturity of 13¹/₂% Senior Discount Dollar Notes due 2011 (collectively, the "Notes") under indentures (the "Indentures") dated as of 6 August 2001 and amended 18 January 2002, in each case among Yell Finance B.V., as the Issuer, Yellow Pages Limited as the Guarantor and The Bank of New York as the Trustee.

The Notes are general unsecured obligations of Yell Finance B.V. and mature on 1 August 2011, unless previously redeemed. The Senior Sterling Notes and Senior Dollar Notes bear interest at the rate of 10³/₄%, payable semi-annually in arrears on 1 February and 1 August in each year, commencing 1 February 2002. The Senior Discount Dollar Notes were initially issued at a discount with an issue price of \$521.33 per \$1,000 principal amount at maturity. No interest is payable on the Senior Discount Dollar Notes prior to 1 August 2006. From and after 1 August 2006, each Senior Discount Dollar Note will bear interest at the rate of 13¹/₂%, payable semi-annually in arrears on 1 February and 1 August in each year, commencing 1 February 2007.

The Notes will be subject to redemption at any time on or after 1 August 2006, at the option of the Issuer, in whole or in part, at the redemption prices set forth in the Indentures (initially par plus one-half the

coupon declining to par on or after 1 August 2009). In addition, the Issuer may redeem all but not less than all of any series of Notes on or prior to 1 August 2006 by paying a make-whole premium based on the Gilt Rate (as defined therein) or the Treasury Rate (as defined therein).

Further, before 1 August 2004, the issuer may redeem up to 35% of the aggregate principal amount at maturity of each series of Notes with the net proceeds of a public equity offering at a price of 110.75% of the principal amount (in the case of the Senior Sterling Notes and Senior Dollar Notes) or 113.50% of the accreted amount of the Senior Discount Dollar Notes, if at least 65% of the original aggregate principal amount at maturity of such series remains outstanding after such redemption.

Unless previously called for redemption, if a Change of Control (as defined in the Indentures, which definition includes the requirement that a decline occur in respect of the rating of the Notes) shall occur at any time, then each holder of Notes shall have the right to require that the Issuer purchase such holder's Notes in whole or in part at a purchase price in cash in an amount equal to 101% of the principal amount of the Senior Sterling Notes and the Senior Dollar Notes and 101% of the accreted value of the Senior Discount Dollar Notes.

The Indentures contain certain covenants which, amongst other things, restrict Yell Finance B.V.'s ability and the Restricted Subsidiaries (as defined therein) to:

- incur additional indebtedness;
- pay dividends or make distributions in respect of Yell Finance B.V.'s equity interests or make certain other investments or restricted payments;
- issue certain guarantees;
- enter into certain transactions with shareholders or affiliates;
- create certain liens;
- sell certain assets; or
- create consensual restrictions on the ability of Restricted Subsidiaries to pay dividends and make certain other payments and transfer of assets to us and the other Restricted Subsidiaries.

In addition, the Indentures limit Yell Finance B.V.'s ability to consolidate, merge or sell all or substantially all of its assets.

The Indentures also contain events of default, including:

- non-payment of amounts due;
- failure to comply with provisions relating to a consolidation, merger or sale of all or substantially all of its assets;
- failure to repurchase the Notes in accordance with the terms of the Indentures;
- breach of covenants;
- cross-defaults by Yell Finance B.V. or its significant subsidiaries;
- certain judgment awards against Yell Finance B.V. or its significant subsidiaries; and
- certain events of bankruptcy and insolvency.

Upon the occurrence of an event of default, the Trustee under the Indentures or the holders of 25% of outstanding Notes, may declare the Notes immediately due and payable at 100% of the principal amount plus accrued and unpaid interest and liquidated damages, if any, to the date of declaration.

Subordination Agreement

Yell Group Limited (now Yell Group plc) and Yell Finance B.V. entered into a subordination agreement dated 6 August 2001 with, amongst others, the holders of the DDBs and the trustee for the benefit of holders of the Notes (the “Subordination Agreement”). The terms of the Subordination Agreement are subject to those of the Intercreditor Deed.

The Subordination Agreement includes provisions that:

- subordinate Yell Group plc’s right of payment under the intercompany loans made to Yell Finance B.V. to the prior payment in full of the Notes;
- prohibit the maturity, redemption or repurchase of the intercompany loans prior to the maturity and repayment of the Notes;
- prohibit the Yell Group plc’s subsidiaries from securing the intercompany loans by granting a lien on their assets or guaranteeing the intercompany loans;
- entitle the holders of Notes to payment in full before Yell Group plc is entitled to receive any payment in respect of the intercompany loans, in the event of Yell Finance B.V.’s dissolution, bankruptcy, insolvency or similar circumstances;
- prohibit the amendment of the intercompany loans in any manner adverse to the holders of the Notes, prior to the repayment of the Notes;
- prohibit Yell Finance B.V. from making any payments on the intercompany loans prior to the repayment of the Notes (other than permitted payments under the Indentures), setting off any of the intercompany loans or securing the intercompany loans by a lien on Yell Finance B.V.’s assets; and
- prohibit any of the holders of the DDBs from taking any action in respect of the DDBs contrary to Yell Group plc’s and Yell Finance B.V.’s obligations under the Subordination Agreement.

The provisions of the Subordination Agreement also prohibit Yell Group plc from:

- taking any enforcement action on the intercompany loans prior to the maturity and repayment of the Notes in full in cash;
- transferring or otherwise conveying any of the intercompany loans to any person other than Yell Finance B.V.; and
- making any payments in respect of the DDBs or the BT Loan Notes; however, Yell Group plc may make such payments with its own funds or funds distributed to it in accordance with the restricted payments covenant in the Indentures.

Keepwell Agreement

Yell Group Limited (now Yell Group plc) has entered into a keepwell agreement with Yell Finance B.V. dated as of 6 August 2001 (as amended and restated on 6 April 2002), which provides that in the event Yell Finance B.V., in its sole discretion, determines that it will have insufficient funds (including funds available from its subsidiaries under the senior credit facilities) to meet its obligations under the Notes, it will promptly notify Yell Group plc, and Yell Group plc will make available to Yell Finance B.V. before the due date of such obligations, funds sufficient to enable Yell Finance B.V. to satisfy such payment obligations (the “Keepwell Agreement”). Such funds will be made available to Yell Finance B.V. either as a capital contribution or a subordinated loan in compliance with the terms of the Indentures and on the basis that no interest or principal payments may be made on any such subordinated loan unless Yell Finance B.V., immediately before and after such payment, is solvent in all respects and such subordinated loan is subordinated to the Notes in the event of bankruptcy or insolvency.

In accordance with certain requirements of the Dutch Central Bank, the Keepwell Agreement will be enforceable against Yell Group plc only by Yell Finance B.V. and/or its liquidator or administrator in the

event of a bankruptcy, or, as the case may be, a “moratorium” under Dutch law (*surseance van betaling*). The Keepwell Agreement is not enforceable by the holders of the Notes or the trustee on behalf of the holders of the Notes.

Umbrella Agreement

An umbrella agreement, dated 25 May 2001, was entered into between Yell Limited (now called Castaim Limited and an affiliate of BT), BT Holdings Limited, Yellow Pages B.V., Marchprobe Limited (now called Yell Holdings 2 Limited), Castaim Limited (now called Yell Limited), Yasmin Two (US) Inc. (now called Yellow Pages Holdings Inc.) and BT (the “Umbrella Agreement”), pursuant to which the parties agreed the common terms for each of the Business Sale Agreement, the US Share Sale Agreement and the UK Share Sale Agreement (each as described below). The Umbrella Agreement was executed, and has since remained outside, the United Kingdom. The Umbrella Agreement was subsequently amended by the First Amending Agreement and the Second Amending Agreement on 21 June 2001 and 22 June 2001, respectively.

The warranties, as specifically set out in each of the agreements mentioned above, are several and are limited in the Umbrella Agreement so that the relevant purchasers are only entitled to recover for a breach of warranty to the extent that such breach or breaches exceed £100 million, provided that the purchasers can claim for the entire amount and not just the excess. The maximum aggregate liability in respect of all claims under all agreements shall not exceed £1.4 billion. Any claim under £100,000 is to be disregarded. Liability in respect of all of the warranties ceased on 30 June 2002, except in respect of a warranty claim where notice was given prior to 30 June 2002. In addition certain non-compete provisions agreed to by BT ceased to have effect on 30 June 2002.

Business Sale Agreement

A business sale agreement, dated 25 May 2001, was entered into between Yell Limited (now Castaim Limited and an affiliate of BT), BT, Castaim Limited (now Yell Limited) (the “UK Purchaser”) and Yasmin Two (US) Limited (now Yellow Book Holdings Inc.) (the “US Purchaser”) (the “Business Sale Agreement”) and amended on 21 June 2001 pursuant to the First Amending Agreement. Under this Agreement, which was executed and which has since remained outside the United Kingdom, the US Purchaser agreed to purchase the US Intellectual Property Rights (as defined therein) and certain residual rights and the UK Purchaser agreed to purchase the Assets (as defined therein) of Yell Limited (now called Castaim Limited and an affiliate of BT), other than the US Intellectual Property Rights and certain other excluded assets, and the Business (as defined therein) of Yell Limited (now called Castaim Limited and an affiliate of BT) as a going concern.

The consideration payable by the UK Purchaser for the acquisition of the Assets was £1.288 billion in cash, payable on completion and subject to adjustment for current net assets. In addition, £100 million of loan notes were issued to Yell Limited (now called Castaim Limited and an affiliate of BT) by the UK Purchaser and there was an additional £100 million deferred consideration payable upon determination of the current net assets.

The consideration payable by the US Purchaser for the US Intellectual Property Rights was £1 and for the licence for the residual rights, an additional £1 was paid.

The Business Sale Agreement contains limited warranties for the benefit of the UK Purchasers and the US Purchasers relating to the business, assets and liabilities of Yell Limited (now called Castaim Limited and an affiliate of BT) and the US Intellectual Property Rights. These warranties are subject to the limitations set out in the Umbrella Agreement, except to the extent that there is fraud or wilful misconduct on the part of Yell Limited (now called Castaim Limited and an affiliate of BT) as to the subject matter of the warranty claim. The period during which warranty claims and any claim for a breach of the non-compete provisions may be made under the Business Sale Agreement and the Umbrella Agreement ended on 30 June 2002. Accordingly, it is now less likely that there will be any need for Yell to bring either the Business Sale Agreement or the Umbrella Agreement into the United Kingdom.

US Share Sale Agreement

The US Share Sale Agreement was entered into between Yellow Pages B.V. and Yasmin Two (US) Inc. (now called Yellow Book Holdings Inc.) (the “Purchaser”), dated 25 May 2001 (the “US Share Sale Agreement”), pursuant to which the Purchaser acquired all of the capital stock of Yellow Book USA, Inc. in consideration of the payment of £650 million. The consideration was subject to adjustment based on the current net assets and deducted to the extent required to enable the Purchaser to repay all of the intra-group debt owed by Yellow Book USA, Inc. to any member of the BT Group (as defined therein) and to repay any indebtedness owed by Yellow Book USA, Inc. pursuant to certain Yellow Book USA, Inc. loan notes.

The US Share Sale Agreement contains limited warranties relating to, amongst other things, shares, taxes and employee benefits of Yellow Book USA, Inc. and contains a tax indemnity from Yellow Pages B.V. in respect of taxes of Yellow Book USA, Inc. or any of its group companies with respect to the taxable periods ending on or prior to the date of completion and an indemnity from the Purchaser in respect of taxable periods following completion.

The warranties are subject to the limitations set out in the Umbrella Agreement except to the extent that there is fraud or wilful misconduct on the part of Yellow Pages B.V. as to the subject matter of the warranty claim or the tax indemnity.

UK Share Sale Agreement

The UK Share Sale Agreement was entered into between BT Holdings Limited and Marchprobe Limited (now called Yell Holdings 2 Limited), dated 25 May 2001 (the “UK Share Sale Agreement”), pursuant to which Marchprobe Limited acquired the entire issued share capital of Yellow Pages Sales Limited free from all encumbrances in consideration of the payment of £2 million in cash.

The UK Share Sale Agreement contains limited warranties as to, amongst other things, ownership of the shares, properties and pensions. These warranties are subject to the limitations set out in the Umbrella Agreement except to the extent that there is fraud or wilful misconduct on the part of BT Holdings Limited as to the subject matter of the warranty claim.

Stamp Duty Agreement

On 25 May 2001, Yell Limited (now Castaim Limited and an affiliate of BT), Castaim Limited (now Yell Limited), BT Holdings Limited, Yellow Pages BV and BT entered into an agreement relating to the stamp duty (the “Stamp Duty Agreement”) which governed the execution and keeping of the original versions of the Business Sale Agreement and the Umbrella Agreement (together the “Documents” and each a “Document”) outside the United Kingdom.

Under the Stamp Duty Agreement it was agreed that each party would not at any time cause or knowingly permit the Documents to be brought into the United Kingdom unless (i) it was necessary to produce the Document in any judicial, arbitration, administrative or other legal proceedings; (ii) it was required to do so by any tax authority; (iii) it was required to do so by any government department or other regulatory body; or (iv) it was required to do so by law.

Subject to the above, it was also agreed that each party would not argue or raise (or cause to be argued or raised) any question in any judicial, arbitration, administrative or other legal proceeding involving the Documents that a copy or certified copy of any of the Documents could not be produced as adequate evidence in any such proceedings.

In the event that any of the Documents is brought into the United Kingdom in the circumstances described above, then Yell Limited as the purchaser of the Yell business in the United Kingdom undertook that it would submit that Document as soon as reasonably practicable to the Inland Revenue and would pay any stamp duty thereon. If Yell Limited fails to comply with that obligation, Castaim Limited has the right to present the relevant Document to the Inland Revenue, pay the stamp duty and require repayment of such stamp duty from Yell Limited.

The Company is not aware of any circumstances which would require either it or BT to bring any of the Documents into the United Kingdom and believes the risk of such circumstances arising to be remote. However, if stamp duty were to be paid on the Documents, the amount payable by Yell would be in the order of £54.5 million plus applicable interest.

DDBs

Yell has issued £549 million subscription amount of unsecured unguaranteed, non-interest-bearing loan notes which have an accretion rate of 10% per annum due 2021 under a DDB instrument, dated 22 June 2001 and amended and restated on 31 July 2001 (the “DDBs 2001”). Yell has also issued £61,228,196 subscription amount of unsecured, unguaranteed, non-interest-bearing loan notes due 2019 under a DDB instrument dated 16 April 2002 (the “DDBs 2002” and, together with the DDBs 2001, the “DDBs”).

BT Loan Notes

On 22 June 2001, Yell Limited issued £100 million floating rate unlisted, unguaranteed, unsecured vendor notes to BT pursuant to an instrument dated 22 June 2001 (the “BT Loan Notes”). Also on 22 June 2001, the obligations, interest and rights under the instrument were novated by Yell Limited, and through the intermediate holding companies, to Yell Group plc pursuant to a deed of novation. On 13 March 2002, the deed of novation was amended and restated in its entirety to record a substitution of the holder of the BT Loan Notes from BT to Castaim Limited (a subsidiary of BT).

Management Incentive Plan Trust and Distribution Agreement (“MIP Distribution Agreement”)

The MIP Distribution Agreement works in conjunction with the Phantom DDB Plan and the US Equity Plan in the event that Yell Marketable Securities are allocated to the US management participants in those plans. Pursuant to this agreement, Yell Group plc will deliver to Yell Management Company LLC any Yell Marketable Securities paid in respect of the Phantom Units or LLC Interests held by the participants in the Phantom DDB Plan and the US Equity Plan.

With respect to Yell Marketable Securities held on behalf of the Phantom DDB Plan participants, Yell Management Company LLC will hold the Yell Marketable Securities until it receives notice that the Sponsors have disposed of the Yell Marketable Securities held by them in respect of the DDBs. Yell Management Company LLC will then distribute to the Phantom DDB Plan participants the same proportion of their Yell Marketable Securities as were subject to the disposition by the Sponsors.

Likewise, upon notice from the Sponsors, Yell Management Company LLC will distribute to the US Equity Plan participants the same proportion of their Yell Marketable Securities as were subject to a disposition by the Sponsors of the Yell Marketable Securities held by them in respect of the Sponsors’ partnership interests in Yellow Pages Investments L.P.

Upon the first anniversary of a Quotation any Yell Marketable Securities still held by Yell Management Company LLC will be distributed to the participants of the Phantom DDB and US Equity Plan.

In the event of a Quotation, if requested by the underwriters, Yell Management Company LLC has also agreed to enter into a lock-up agreement with respect to Yell Marketable Securities held by it on substantially the same terms as the Sponsors.

McLeod Acquisition Agreement

The McLeod acquisition agreement was entered into between McLeodUSA Incorporated (the “Parent”), Yell Group Limited (now Yell Group plc) and McLeodUSA Holdings, Inc. (the “Seller”), a wholly owned subsidiary of the Parent, on 19 January 2002 (the “McLeod Acquisition Agreement”), pursuant to which in April 2002, Yell Group plc acquired all the issued share capital of McLeod, a wholly owned subsidiary of the Seller, in consideration of the payment of \$600 million in cash.

The McLeod Acquisition Agreement contains warranties as to, amongst other things, ownership of the shares, employee benefit plans, intellectual property, material contracts, and the assets and properties of McLeod.

Under the terms of the McLeod Acquisition Agreement, active employees of McLeod as of the closing date shall be provided with comparable benefits for the two years following the closing of the acquisition and will be given credit for past service for purposes of eligibility and vesting under employee benefit plans. The Company has also agreed to maintain a major employment centre in Cedar Rapids, Iowa for a period of at least two years following the closing date of the acquisition.

The McLeod Acquisition Agreement also provides the Seller with an exclusive right of first negotiation for a limited period of time in the event that Yell Group plc decides to sell McLeod to a third party and McLeod is operating as a stand-alone business and is not integrated with the businesses of Yell Group Limited or any of its subsidiaries.

McLeod Operating Agreement

In connection with the McLeod acquisition, Yell Group plc entered into a publishing, branding and operating agreement with McLeodUSA Incorporated and McLeodUSA Telecommunications Services, Inc., McLeod's former parent companies (the "McLeod Parent Companies") dated 16 April 2002 (the "McLeod Operating Agreement").

This agreement grants Yell licences to use the "McLeod" trademarks and also imposes several requirements on Yell's US operations in the former McLeod territory for a term of five years, which is automatically renewed for successive two-year terms except upon one year's written notice by either party. Under the agreement, Yell is required to publish the directories published by McLeod prior to its acquisition for a period of three years. Yell is also required to publish these directories using the "McLeod" brand. Under the specified terms of the agreement, Yell may combine a few former McLeod directories with Yellow Book directories in certain regions, including Chicago and other regions of Illinois. Yell must notify the McLeod Parent Companies if it decides to publish any additional directories in other areas within the regions covered by the McLeod Operating Agreement. In addition, the McLeod Parent Companies may ask Yell to publish a directory in a specific region. If Yell does not agree to such request, Yell's licence in that region will be terminated. The agreement also imposes obligations on Yell regarding its publications in the former McLeod territory, including use of the "McLeod" trademarks and directory format and policies. For the term of the McLeod Operating Agreement, Yell is subject to specified non-compete and non-solicitation provisions. The McLeod Operating Agreement may be terminated by Yell or the McLeod Parent Companies if a change of control of a specified party (as defined therein) occurs. In the event that the agreement is terminated, we will have an obligation to publish only those directories which are already scheduled to be published prior to the termination date. We will also be required to stop using the "McLeod" brand name, except for purposes of distributing those directories published prior to the termination date. All rights granted to us will revert back to the McLeod Parent Companies immediately upon termination, except for the trade dress which remains assigned to Yell regardless of the reason for termination of the McLeod Operating Agreement. The "trade dress" of the directory cover is a black background with a yellow star in its centre; in the star is a map of the region covered by the directory; and the names of the towns and the directory's date, amongst other things, appear in specific colours in specific places on the cover and spine of the directory.

D. Exchange Controls

None.

E. Taxation

Proposed EU Directive on Taxation of Savings Income

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States

will be required to provide to the tax authorities of another Member State, details of payments of interest or other similar savings income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

United States

US Federal Income Tax Considerations

This is a discussion of the important US federal income tax consequences of purchasing, holding and disposing of the senior sterling notes, the senior dollar notes and the senior discount dollar notes. Except to the limited extent discussed below, this discussion only applies to a “US holder”, defined as:

- a citizen or individual resident of the United States;
- a corporation created or organised under the laws of the United States or any political subdivision thereof or therein;
- an estate, the income of which is subject to US federal income tax regardless of the source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust.

This discussion does not address all aspects of US federal income taxation that may be relevant to a particular US holder based on such holder’s particular circumstances (including the potential application of the US alternative minimum tax), nor does it address any aspect of state, local or non-US tax laws, or the possible application of US federal gift or estate taxes. This discussion does not consider the tax treatment of persons who hold Notes through a partnership or other pass-through entity. This discussion does not address the US federal income tax consequences to US holders that are subject to special treatment, including US holders that:

- are broker-dealers, traders, insurance companies, tax-exempt organisation or financial institutions;
- hold notes as part of a “straddle”, “hedge” or “conversion transaction” with other investments; or
- own at least 10% of the issuer’s voting stock (directly, indirectly or constructively).

This discussion considers only US holders that will own Notes as capital assets and whose functional currency is the dollar. The discussion is generally limited to the tax consequences to holders who purchase Notes in connection with their initial issue at the “issue price”, and does not address any special rules that may apply if the Notes are called before the maturity date. For this purpose the “issue price” of a note is the first price at which a substantial amount of the Notes are sold to the public for money, excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers. It does not describe any tax consequences arising out of the tax laws of any state, local or foreign jurisdiction.

This discussion is based upon the US Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), existing and proposed regulations thereunder, and current administrative rulings and court decisions. All of the foregoing are subject to change, possibly on a retroactive basis, and any such change could affect the continuing validity of this discussion.

You should consult your tax adviser concerning the application of federal income tax laws, as well as the laws of any state, local or foreign taxing jurisdiction, to your particular situation.

Interest and Original Issue Discount

Stated interest on the senior sterling notes and the senior dollar notes. Interest paid on a senior dollar note (including any amounts paid in respect of the guarantees) will be taxable to a US holder as ordinary income at the time it accrues or is received in accordance with such holder’s method of accounting for

US federal income tax purposes. Interest income received by a US holder on the senior sterling notes or senior dollar notes that is not subject to a withholding tax of 5% or more will generally be foreign source passive income or financial services income for purposes of computing the US foreign tax credit limitation.

Interest paid on a senior sterling note (including any amounts paid in respect of the guarantees) will also be taxable to a US holder as ordinary income at the time it accrues or is received in accordance with such holder's method of accounting for US federal income tax purposes. A US holder of a senior sterling note that uses the cash method of accounting measures interest received by translating the amount of pounds sterling into dollars at the spot rate on the date of receipt or payment. A US holder of a senior sterling note that uses the accrual method of accounting is generally required to determine interest income received using either of two methods. Under the first method, the dollar value of interest accrued is translated at the average rate for the interest accrual period (or, with respect to an accrual period that spans two taxable years, the partial period within the taxable year). Under the second method, a US holder can make an election (which must be applied consistently to all debt instruments from year to year and may not be revoked without the consent of the US Internal Revenue Service) to accrue interest on a senior sterling note at the pounds sterling spot rate on the last day of an interest accrual period or, if the last day of an accrual period is within five business days of receipt, the spot rate on the date of receipt. A US holder will recognise exchange gain or loss, as the case may be, on the receipt of pounds sterling to the extent that the exchange rate on the date payment is received differs from the rate applicable to the accrual of that income. This foreign currency gain or loss will generally be treated as ordinary income or loss, and sourced to the United States for foreign tax credit purposes.

With respect to the sale, exchange, retirement or repayment of a senior sterling note, the foreign currency amount realised will be considered first to be the payment of accrued but unpaid interest (on which exchange gain or loss is recognised as described above), then as accrued but unpaid original issue discount (on which exchange gain or loss is recognised as described below) and finally as a payment of principal. With respect to such payment of principal, (i) gain or loss is computed in the foreign currency and translated on the date of retirement or disposition and (ii) exchange gain or loss is separately computed on the foreign currency amount of the purchase price. Exchange gain or loss computed on accrued interest and principal is recognised, however, only to the extent of total gain or loss on the transaction. For purposes of determining the total gain or loss on the transaction, a US holder's tax basis in the note will generally equal the dollar cost of the note, increased by the dollar amounts includible in income as accrued interest or OID (as defined below) and reduced by the dollar amount of any payments other than payments of qualified stated interest.

The cost of a foreign currency note to the US holder will be the dollar value of the foreign currency purchase price translated at the spot rate for the date of purchase. The conversion of dollars into a foreign currency and the immediate use of that currency to purchase a foreign currency note generally will not result in a taxable gain or loss for a US holder. A US holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a note equal to the dollar value of such currency on the date of receipt.

Original issue discount on the senior discount dollar notes. For the reasons set forth below, the senior discount dollar notes will be considered to have been issued with original issue discount ("OID"). OID arises when the "stated redemption price at maturity" of a debt instrument exceeds its issue price (as defined above). For this purpose, the "stated redemption price at maturity" will equal the stated principal and the total amount of interest provided for over the term of the notes other than "qualified stated interest" (which is defined as interest that is unconditionally payable at least annually throughout the term of the debt instrument). Because none of the interest provided for under the terms of the senior discount dollar notes is unconditionally payable at least annually, all of the interest on the senior discount dollar notes is added to the stated redemption price at maturity. Consequently, the senior discount dollar notes will be considered to have been issued with OID equal to the difference between the price at which a substantial amount of the senior discount dollar notes were sold to the public and the stated principal due on those notes plus the sum of all of the interest payments provided for in the senior discount dollar notes.

Each US holder of a senior discount dollar note will generally be required to accrue and include OID in income on an annual basis in advance of the receipt of cash attributable to such income, whether such

US holder uses the cash or accrual method of accounting. The amount of OID that must be included in gross income for the taxable year will equal the sum of the “daily portions” of OID for each day of the taxable year on which the US holder held the senior discount dollar note. The daily portion of OID required to be included in a US holder’s gross income in a taxable year is determined under a constant yield to maturity method by allocating to each day during the taxable year on which the US holder holds the senior discount dollar note a ratable portion of the OID on the note attributable to the accrual period (i.e. the interval between compounding dates) in which such day is included. The amount of OID allocable to each accrual period will equal the product of the adjusted issue price of the senior discount dollar note at the beginning of the accrual period (i.e. the original issue price plus previously accrued OID minus previous cash payments) multiplied by the yield to maturity of the note (properly adjusted for the length of the accrual period). Finally, the “yield to maturity” of a senior discount dollar note is that discount rate which, when used in computing the present value of all principal and stated interest payments to be made under the senior discount dollar note, produces an amount equal to the issue price of that senior discount dollar note. The amount of OID included in income by a US holder will be treated as interest income. Thus, OID received from the issuer as well as any payments received pursuant to the guarantees that is not subject to a withholding tax of 5% or more will generally be foreign source passive income or financial services income for purposes of computing the US foreign tax credit limitation.

Additional Amounts and Special Interest

We believe the likelihood that the issuer will pay additional amounts or special interest is remote or incidental (within the meaning of the applicable US Treasury regulations). In any event, a US holder will be required to treat the gross amount of any Additional Amounts or Special Interest as ordinary interest income at the time such amount is received or accrued in accordance with such US holder’s method of accounting for tax purposes. Consequently, the amount a US holder will include in gross income with respect to a note could exceed the amount includible by the US holder as stated interest.

Dispositions of Notes

Senior dollar notes and senior discount dollar notes. Unless a non-recognition provision applies, a US holder will generally recognise gain or loss on the sale, exchange, repayment or other disposition of a senior dollar note or a senior discount dollar note equal to the difference between:

- the amount of cash received plus the fair market value of any property received on the disposition (other than amounts attributable to accrued interest or OID, which will be taxable as ordinary interest income); and
- the US holder’s adjusted tax basis in the note.

A US holder’s adjusted tax basis in a senior dollar note or a senior discount dollar note generally will equal the cost of the note to the US holder (net of accrued interest), and increased by amounts includible in income as OID. Because the senior dollar notes and senior discount dollar notes are held as a capital asset, such gain or loss will generally constitute capital gain or loss and will be long-term capital gain or loss if the notes are held for longer than one year. If the US holder is an individual, any capital gain generally will be subject to US federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to certain limitations. Any gain recognised by a US holder on the sale, exchange or disposition of a senior dollar note or a senior discount dollar note will generally be treated as US source income for purposes of computing the US foreign tax credit limitation. Any loss recognised by a US holder on the sale or other disposition of a senior dollar note or a senior discount dollar note generally will be treated as US source loss except to the extent such loss is attributable to accrued but unpaid interest.

Senior sterling notes. Gain or loss recognised by a US holder on a senior sterling note will generally be computed in the same way as gain or loss on the sale of a senior dollar note. For this purpose, however, the cost of a senior sterling note to a US holder will be the dollar value of the pound sterling purchase price, translated at the spot rate of the pound sterling on the date of purchase (or, in some cases, on the settlement date). The conversion of dollars into pounds sterling and the immediate use of those pounds sterling to

purchase a senior sterling note generally will not result in a taxable gain or loss to the US holder. A US holder will have a tax basis in any pounds sterling received on the sale, exchange, or retirement of a senior sterling note equal to the dollar value of the pound sterling on the date of receipt.

In addition, upon the sale, exchange, retirement or other disposition of a senior sterling note, a US holder will recognise exchange gain or loss measured by the difference between the currency exchange rate on the date of retirement or other disposition and the exchange rate on the date that the senior sterling note was acquired. Exchange gain or loss is recognised, however, only to the extent of total gain or loss on the transaction. Exchange gain or loss is generally treated as US source ordinary income or loss.

Information Reporting and Backup Withholding

The amount of interest (including OID) and principal paid or accrued on the notes to a US holder (other than corporations and other exempt recipients) will be reported to the US Internal Revenue Service. Under the Internal Revenue Code, a US holder of a note may be subject, under certain circumstances, to “backup withholding” at a rate up to 31% with respect to interest payments thereon or the gross proceeds (including repayment of principal) thereof. Backup withholding generally applies only if the US holder:

- fails to furnish his social security or other taxpayer identification number within a reasonable time after the request therefor;
- furnishes an incorrect taxpayer identification number;
- fails to report properly interest or OID; or
- fails, under certain circumstances, to provide a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is his correct number and that he is not subject to backup withholding.

Any amount withheld from a payment to a US holder under backup withholding rules will be refunded or allowed as a credit against such holder’s US federal income tax liability, provided that the required information is furnished to the US Internal Revenue Service. A US holder of a note should consult their tax adviser as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

United Kingdom

UK Tax Consequences

The following summary describes certain UK tax consequences of the ownership of the Notes but does not purport to be comprehensive. Except where expressly stated, the summary relates only to the position of those persons who are the absolute beneficial owners of their Notes and the interest thereon and may not apply to special situations, such as those of dealers in securities. It is not intended to apply to persons other than companies. Furthermore, the discussion below is generally based upon provisions of UK tax law and UK Inland Revenue practice as at the date hereof.

Persons considering the purchase, ownership or disposition of the Notes should consult their own tax advisers concerning UK tax consequences in the light of their particular situations as well as any consequences arising under the law of any other relevant tax jurisdiction. No representations with respect to the tax consequences to any particular holder of Notes are made hereby.

Interest on the Notes

The notes will constitute “quoted Eurobonds” within the meaning of section 349(4) of the UK Income and Corporation Taxes Act 1988 (“ICTA”) provided they are listed on a “recognised stock exchange” within the meaning of section 841 of ICTA. The Luxembourg Stock Exchange is currently a recognised stock exchange for these purposes. Accordingly, once the Notes are listed on the Luxembourg Stock Exchange (and

provided they remain so listed), payments of interest on the Notes may be made without withholding on account of UK income tax.

In addition, payments of interest on the Notes constituting UK source income for UK tax purposes, made by the Issuer to companies (but not individuals) who are within the charge to UK corporation tax in respect of that interest, may be made without withholding on account of UK income tax pursuant to section 349A(1) of ICTA provided that the UK Inland Revenue has not given a direction that such section is not to apply.

In all other cases an amount must be withheld from payments of interest on the Notes on account of UK income tax at the lower rate (currently 20%) subject to any direction to the contrary by the UK Inland Revenue under an applicable double tax treaty.

Interest on the Notes constitutes UK source income for UK tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a holder of a Note who is not resident for tax purposes in the United Kingdom unless that holder of a Note carries on a trade, profession or vocation in the United Kingdom through a UK branch or agency in connection with which the interest is received or to which the Note is attributable. There are exemptions for interest received by certain categories of agents (such as brokers and investment managers). The provisions of an applicable double-taxation treaty may also be relevant for such holders of Notes.

UK Corporation Taxpayers

In respect of holders of Notes which are within the charge to UK corporation tax, any returns, profits or gains (including interest and discount) arising from the notes or any fluctuation in their value (whether attributable to currency fluctuations or otherwise) will generally be charged to tax as income in each accounting period on a basis reflecting the treatment in the statutory accounts of such holders, calculated in accordance with the holder's authorised accounting method.

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or stamp duty reserve tax is payable on the issue or transfer of the Notes.

Prospective purchasers of the Notes who are in any doubt as to their tax position or who may be subject to tax in other jurisdictions should consult their own tax advisers.

F. Dividends and Paying Agents

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), applicable to foreign private issuers and fulfill the obligation with respect to such requirements by filing reports with the United States Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC without charge at the SEC's public reference room at 450 Fifth Street, N.W., Washington, DC 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act.

In addition, we are not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as US companies whose securities are registered under the Exchange Act. A copy of each report submitted in accordance with applicable US securities laws is available for public review at our principal executive offices.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest is payable under our senior credit facilities at a variable rate. We could, therefore, be adversely affected if interest rates were to rise significantly. Under the senior credit facilities, we are required to hedge at least 50% of the variable-rate indebtedness under the senior credit facilities for a duration of two years. We have hedged at 31 March 2002 nearly 100% of the indebtedness under the senior credit facilities for 18 months using interest rate swaps and 50% for the following nine months, with a review of this strategy on a quarterly basis. At 31 March 2002 the Group has £11.3 million net unrecognised losses on these instruments that will be recognised when the interest is paid.

All of these instruments are entered into for hedging purposes and, under UK GAAP, gains and losses on these instruments are deferred and only recognised in income when the underlying transaction is recorded. Such instruments have not been designated and do not qualify for hedge accounting under Statement of Financial Accounting Standards No 133 for US GAAP.

All significant cash inflows and outflows associated with our operations in the United Kingdom are denominated in pounds sterling, and all significant cash inflows and outflows associated with our operations in the United States are denominated in dollars. However, our financial statements are presented in pounds sterling, and changes in the exchange rate between the dollar and pounds sterling will affect the translation of the results of our Yellow Book operations in the United States into pounds sterling. We do not currently intend to hedge any foreign exchange rate risk relating to dollar-denominated notes, although we will continue to review this practice.

At 31 March 2002, we had £382.3 million of borrowings denominated in dollars and £1,058.4 million of borrowings that accrue interest at variable rates, before taking into account hedging arrangements. The following examples illustrate the effect certain changes in foreign exchange rates and interest rates would have had in the 2002 financial year. The following discussion of estimated amounts generated from the sensitivity analysis is forward looking and involves risks and uncertainties. If the amount or mix of long-term borrowings is different, then the following examples may not be indicative of the effects of changing exchange rates and interest rates.

- If the variable interest rates had been a full percentage point higher or lower with no change in foreign exchange rates, then the interest payable with respect to our variable-rate indebtedness in the 2002 financial year would have been £1.0 million higher or lower, respectively, taking into account our hedging arrangements, or £10.6 million higher or lower, respectively, without taking into account hedging arrangements.
- If the average exchange rate of the dollar as measured against the pound sterling were 10% higher or lower, with no change in variable rates of interest, then the interest payable in the 2002 financial year would have been approximately £2.6 million lower or £3.2 million higher, respectively.

Our exposure to interest rate fluctuations will depend on the amount of variable rate indebtedness that we have outstanding and the extent of any hedging arrangements that we put in place. Similarly, our exposure to currency fluctuations will depend on the mix of dollar- and pounds sterling-denominated indebtedness and the extent of any hedging arrangements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. [RESERVED]

ITEM 16. [RESERVED]

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18. “Financial Statements” in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements, together with the report thereon by the independent accountants, are filed as part of this annual report as pages F-2 to F-55. An index to these pages is given on page F-1.

ITEM 19. EXHIBITS

The exhibits filed with or incorporated by reference into this annual report are listed below.

- 1.1 Deed of Incorporation of Yell Finance B.V. (incorporated herein by reference to Exhibit 3.1 to Yell Finance B.V.’s Registration Statement on Form F-4 filed with the United States Securities and Exchange Commission on August 29, 2001, declared effective on August 30, 2001 (the “Exchange Offer Registration Statement”).*
- 1.2 Articles of Association of Yell Finance B.V. (incorporated herein by reference to Exhibit 3.2 to the Exchange Offer Registration Statement).*
- 1.3 Memorandum of Association of Yellow Pages Limited (incorporated herein by reference to Exhibit 3.3 to the Exchange Offer Registration Statement).*
- 1.4 Articles of Association of Yellow Pages Limited (incorporated herein by reference to Exhibit 3.4 to the Exchange Offer Registration Statement).*
- 2.1 Indenture relating to 10³/₄% Senior Sterling Notes due 2011, dated August 6, 2001, between Yell Finance B.V., Yellow Pages Limited, as Guarantor, and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Exchange Offer Registration Statement).*
- 2.2 Indenture relating to 10³/₄% Senior Dollar Notes due 2011, dated August 6, 2001, between Yell Finance B.V., Yellow Pages Limited, as Guarantor, and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.2 to the Exchange Offer Registration Statement).*
- 2.3 Indenture relating to 13¹/₂% Senior Discount Dollar Notes due 2011, dated August 6, 2001, between Yell Finance B.V., Yellow Pages Limited, as Guarantor, and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.3 to the Exchange Offer Registration Statement).*
- 2.4 Registration Rights Agreement, dated August 6, 2001, between Yell Finance B.V. and Yellow Pages Limited, as Guarantor, and Merrill Lynch International, Deutsche Bank AG London, CIBC World Markets plc, and the other Initial Purchasers as listed on Schedule A of the Purchase Agreement, as Initial Purchasers (incorporated herein by reference to Exhibit 4.4 to the Exchange Offer Registration Statement).*
- 2.5 Subordination Agreement, dated August 6, 2001, between Yell Finance B.V., Yell Group Limited, as Parent and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4.5 to the Exchange Offer Registration Statement).*
- 2.6 Intercreditor Deed, dated June 22, 2001 (as amended on July 11, 2001, March 13, 2002, April 16, 2002 and May 31, 2002), between Tasktip Limited as Parent and certain of its subsidiaries as Obligors, Seamleigh Limited as Bridge, High Yield Note, Discount High Yield Note and Further High Yield Debt Guarantor, Tasktip Finance B.V. as Bridge Borrower, and High Yield Note, Discount High Yield Note and Further High Yield Debt Issuer, the Institutions named therein as Senior Finance

* Incorporated by reference.

** Filed herewith.

Parties and Bridge Finance Parties, the Companies and Institutions named therein as Equity Investors, British Telecommunications plc as Vendor and Deutsche Bank AG London as Senior Facility Agent, Security Agent and Bridge Administrative Agent.**

- 2.7 Form of Sterling Note (incorporated herein by reference to Exhibit 4.7 to the Exchange Offer Registration Statement).*
- 2.8 Form of Dollar Note (incorporated herein by reference to Exhibit 4.8 to the Exchange Offer Registration Statement).*
- 2.9 Form of Discount Dollar Note (incorporated herein by reference to Exhibit 4.9 to the Exchange Offer Registration Statement).*
- 2.10 Form of Guarantee (included in Exhibits 2.7, 2.8 and 2.9) (incorporated herein by reference to Exhibits 4.7, 4.8 and 4.9 to the Exchange Offer Registration Statement).*
- 2.11 First Supplemental Indenture dated January 18, 2002, to the Indenture relating to 10³/₄% Senior Sterling Notes due 2011 incorporated herein by reference to Exhibit 4.1 to the Exchange Offer Registration Statement.**
- 2.12 First Supplemental Indenture dated January 18, 2002, to the Indenture relating to 10³/₄% Senior Dollar Notes due 2011 incorporated herein by reference to Exhibit 4.2 to the Exchange Offer Registration Statement.**
- 2.13 First Supplemental Indenture dated January 18, 2002, to the Indenture relating to 13¹/₂% Senior Discount Dollar Notes due 2011 incorporated herein by reference to Exhibit 4.3 to the Exchange Offer Registration Statement.**
- 4.1 Senior Credit Facilities Agreement dated May 25, 2001 (as amended on June 22, 2001, July 10, 2001, April 12, 2002 and May 31, 2002) between Yell Group Limited, as the Parent, Yell Limited, as the UK Principal Borrower, Yasmin Two (US) Inc., as the US Principal Borrower, the Companies identified in Part A of Schedule 2 as Borrowers hereto, and the Companies identified in Part B of Schedule 2 as Guarantors hereto and Merrill Lynch International, as Mandated Lead Arranger, CIBC World Markets plc and Deutsche Bank AG London, as Joint Lead Arrangers, Barclays Bank plc, Bayerische Hypo-Und Vereinsbank AG London Branch, BNP Paribas London Branch, Goldman Sachs International Bank, The Industrial Bank of Japan, Limited, Mizuho Nederland N.V. and Scotiabank Europe plc, as Arrangers, Bear, Stearns International Limited and HSBC Investment Bank plc, as Senior Co-Arrangers, Merrill Lynch International, as Syndication Agent, CIBC World Markets plc, as Documentation Agent, Merrill Lynch Capital Corporation, CIBC World Markets plc and Deutsche Bank AG London, as Original Banks, Merrill Lynch International and CIBC World Markets plc, as Joint Bookrunners, Deutsche Bank AG London, as Facility Agent and Deutsche Bank AG London, as Security Agent.**
- 4.2 Security Agreement, dated June 22, 2001, between Yasmin Two (US) Inc., Yasmin One (US), Inc., Yellow Book USA, Inc., Yellow Book GP, LLC, Yellow Book of Florida Directories, L.P., Yellow Book of Illinois, LLC, Yellow Book Mid-Atlantic, L.P., Yellow Book of New York, Inc., Yellow Book Southern Directories, LLC, Yellow Book of Pennsylvania, Inc., and Yellow Book Delaware Inc. (incorporated herein by reference to Exhibit 10.2 to the Exchange Offer Registration Statement).*
- 4.3 Keep-Well Agreement, dated August 6, 2001, between Yell Group Limited and Yell Finance B.V. (incorporated herein by reference to Exhibit 10.3 to the Exchange Offer Registration Statement).*
- 4.4 Umbrella Agreement, dated May 25, 2001, among Yell Limited, BT Holdings Limited, Yellow Pages BV, Marchprobe Limited, Castaim Limited, Yasmin Two (US) Inc. and British Telecommunications plc (incorporated herein by reference to Exhibit 10.4 to the Exchange Offer Registration Statement).*

* Incorporated by reference.

** Filed herewith.

- 4.5 Business Sale Agreement, dated May 25, 2001, among Yell Limited, British Telecommunications plc, Castaim Limited and Yasmin Two (US) Inc. (incorporated herein by reference to Exhibit 10.5 to the Exchange Offer Registration Statement).*
- 4.6 US Share Sale Agreement, dated May 25, 2001, between Yellow Pages BV and Yasmin Two (US) Inc. (incorporated herein by reference to Exhibit 10.6 to the Exchange Offer Registration Statement).*
- 4.7 UK Share Sale Agreement, dated May 25, 2001, between BT Holdings Limited and Marchprobe Limited (incorporated herein by reference to Exhibit 10.7 to the Exchange Offer Registration Statement).*
- 4.8 McLeod Acquisition Agreement dated January 19, 2002 among McLeodUSA Inc. as Parent, Yell Group Limited (now Yell Group plc) and McLeodUSA Holdings, Inc as Seller.**
- 4.9 McLeod Operating Agreement dated April 16, 2002 among Yell Group Limited (now Yell Group plc), McLeodUSA Inc. and McLeodUSA Telecommunications Services, Inc.**
- 4.10 Directors' Service Agreement dated June 22, 2001 between John Davis and Yell Group Limited (now Yell Group plc).**
- 4.11 Directors' Service Agreement dated June 22, 2001 between John Condron and Yell Group Limited (now Yell Group plc).**
- 7.1 Statement regarding computation of the ratio of earnings to fixed charges.**
- 8.1 Subsidiaries of Yell Finance B.V. (please see list of principal subsidiaries under Item 4.C. "Information on the Company—Organizational Structure" of this annual report on Form 20-F on pages 40-41).

* Incorporated by reference.

** Filed herewith.

SIGNATURES

Each registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

YELL FINANCE B.V.

By: /s/ JOHN CONDRON
Name: John Condron
Title: Director and Chief Executive Officer

YELL FINANCE B.V.

By: /s/ JOHN DAVIS
Name: John Davis
Title: Director and Chief Financial Officer

YELLOW PAGES LIMITED

By: /s/ STEPHEN GRABINER
Name: Stephen Grabiner
Title: Director

YELLOW PAGES LIMITED

By: /s/ STEPHAN LOBMEYR
Name: Stephan Lobmeyr
Title: Director

Date: July 19, 2002

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YELL GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The following statement, which should be read in conjunction with the Report of Independent Accountants set out below, is made with a view to distinguishing for shareholders the respective responsibilities of the Management and of the Independent Accountants in relation to the combined and consolidated financial statements.

It is the responsibility of the Management to prepare financial statements for each period which present fairly the state of affairs of the Yell Group as at the end of the financial period and the profit or loss for that period. The Management confirm that applicable accounting standards have been followed, and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements. They are also responsible for maintaining adequate accounting records, for safeguarding the assets of the Yell Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and the Shareholders of the Yell Group.

We have audited the accompanying combined and consolidated balance sheets of the Yell Group, as defined in note 1 to these combined and consolidated financial statements, as of 31 March 2001 and 2002 and the related combined and consolidated profit and loss accounts, cash flow statements and statements of total recognised gains and losses for each of the two years ended 31 March 2001 and for the periods from 1 April 2001 to 22 June 2001 and from 22 June 2001 to 31 March 2002, all expressed in pounds sterling. Our audits of these statements were made in accordance with auditing standards generally accepted in the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the combined and consolidated financial statements referred to above present fairly the combined and consolidated financial position of the Yell Group as at 31 March 2001 and 2002, and the combined and consolidated results of its operations and the changes in cash flows for each of the two years in the period ended 31 March 2001 and the periods from 1 April 2001 to 22 June 2001 and from 22 June 2001 to 31 March 2002, in conformity with accounting principles generally accepted in the United Kingdom consistently applied.

Accounting principles generally accepted in the United Kingdom vary in certain important respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of combined and consolidated net income expressed in pounds sterling for each of the two years in the period ended 31 March 2001 and the periods from 1 April 2001 to 22 June 2001 and from 22 June 2001 to 31 March 2002, and the determination of combined and consolidated net investment and combined and consolidated financial position also expressed in pounds sterling at 31 March 2001 and 2002 to the extent summarised in note 26 to the combined and consolidated financial statements.

As described in note 1 to these financial statements, during the periods presented to 22 June 2001 the Yell Group had significant transactions and relationships with British Telecommunications plc and its affiliates. Because of these relationships, it is possible that the terms of these transactions were not the same as those that would have resulted from transactions among wholly unrelated parties.



PricewaterhouseCoopers
London, England
15 July 2002

YELL GROUP
COMBINED AND CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Notes	Combined (Predecessor)			Consolidated (Successor)
		Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
		2000	2001	2001	2002
		£	£	£	£
		(in millions)			
Turnover					
Continuing operations		523.5	758.5	169.1	691.2
Acquisitions		98.7	15.8	–	5.1
Group turnover	2	622.2	774.3	169.1	696.3
Cost of sales		(242.1)	(316.0)	(71.1)	(315.9)
Gross profit		380.1	458.3	98.0	380.4
Distribution costs		(16.2)	(21.7)	(5.5)	(18.5)
Administrative expenses		(170.8)	(249.1)	(59.6)	(243.2)
Operating profit (loss)					
Continuing operations		199.8	186.8	32.9	118.1
Acquisitions		(6.7)	0.7	–	0.6
Total operating profit	3	193.1	187.5	32.9	118.7
Net interest payable	5	(10.8)	(24.5)	(5.8)	(158.6)
Profit (loss) on ordinary activities before taxation		182.3	163.0	27.1	(39.9)
Tax on profit (loss) on ordinary activities	6	(57.7)	(60.3)	(11.3)	(7.3)
Profit (loss) for the financial period	18	124.6	102.7	15.8	(47.2)

STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Combined (Predecessor)			Consolidated (Successor)
		Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
		2000	2001	2001	2002
		£	£	£	£
		(in millions)			
Profit (loss) for the financial period	18	124.6	102.7	15.8	(47.2)
Currency movements		1.6	22.7	0.8	(3.7)
Total recognised gains (losses) for the financial period		126.2	125.4	16.6	(50.9)

The accompanying notes form an integral part of these financial statements.

YELL GROUP

COMBINED AND CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Combined (Predecessor)			Consolidated (Successor)
		Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
		2000	2001	2001	2002
		£	£	£	£
				(in millions)	
Net cash inflow from operating activities		190.6	194.1	37.6	158.7
Returns on investments and servicing of finance . .					
Interest paid		(11.3)	(25.9)	(8.8)	(85.9)
Finance fees paid		—	—	—	(49.4)
Net cash outflow for returns on investments and servicing of finance		(11.3)	(25.9)	(8.8)	(135.3)
Taxation		(0.9)	(1.6)	—	(0.4)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(10.8)	(23.1)	(5.2)	(9.7)
Sale of tangible fixed assets		—	—	—	1.1
Payment for assets transferred from BT		—	—	(11.7)	—
Net cash outflow for capital expenditure and financial investment		(10.8)	(23.1)	(16.9)	(8.6)
Acquisitions					
Purchase of subsidiary undertakings, net of cash acquired	7	(406.0)	(39.0)	—	(1,906.4)
Net cash outflow for acquisitions		(406.0)	(39.0)	—	(1,906.4)
Net cash (outflow) inflow before financing		(238.4)	104.5	11.9	(1,892.0)
Financing					
Issue of ordinary share capital	18	—	—	—	1.0
Net cash contributions from (distributions to) BT	18	39.3	(150.7)	—	—
New loans issued		206.4	66.0	12.4	2,531.1
Borrowings repaid		—	—	—	(540.0)
Net cash inflow (outflow) from financing		245.7	(84.7)	12.4	1,992.1
Increase in net cash in the period		7.3	19.8	24.3	100.1
(Increase) decrease in net debt resulting from cash flows	8	(199.1)	(46.2)	11.9	(1,841.6)

**RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM
OPERATING ACTIVITIES**

		Combined (Predecessor)			Consolidated (Successor)
		Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
		2000	2001	2001	2002
		£	£	£	£
				(in millions)	
Total operating profit		193.1	187.5	32.9	118.7
Depreciation		6.5	13.0	4.4	15.8
Goodwill amortisation		11.2	22.1	5.4	65.3
(Increase) decrease in stocks		(2.8)	(12.4)	(12.1)	7.4
(Increase) decrease in debtors		(34.6)	(60.8)	3.4	(52.8)
Increase in creditors		15.8	37.9	3.6	3.8
Other		1.4	6.8	—	0.5
Net cash inflow from operating activities		190.6	194.1	37.6	158.7

The accompanying notes form an integral part of these financial statements.

YELL GROUP
COMBINED AND CONSOLIDATED BALANCE SHEETS

	Notes	Combined (Predecessor)	Consolidated (Successor)
		At 31 March 2001	At 31 March 2002
		£	£
(in millions)			
Fixed assets			
Intangible assets	9	429.3	1,640.5
Tangible assets	10	42.7	30.0
Investment		<u>1.9</u>	<u>2.1</u>
Total fixed assets		473.9	1,672.6
Current assets			
Stocks	11	87.5	90.9
Debtors	12	278.1	337.3
Cash at bank and in hand		<u>24.8</u>	<u>100.1</u>
Total current assets		<u>390.4</u>	<u>528.3</u>
Creditors: amounts falling due within one year			
Loans and other borrowings	13	(97.2)	(53.4)
Other creditors	15	<u>(133.0)</u>	<u>(146.7)</u>
Total creditors: amounts falling due within one year		<u>(230.2)</u>	<u>(200.1)</u>
Net current assets		<u>160.2</u>	<u>328.2</u>
Total assets less current liabilities		<u>634.1</u>	<u>2,000.8</u>
Creditors: amounts falling due after more than one year			
Loans and other borrowings	13	(221.8)	(2,050.7)
Other creditors	15	<u>(18.0)</u>	<u>—</u>
Total creditors: amounts falling due after more than one year ...		<u>(239.8)</u>	<u>(2,050.7)</u>
Net assets (liabilities)		<u>394.3</u>	<u>(49.9)</u>
Capital and reserves			
Called up share capital	17	—	0.1
Share premium account	18	—	0.9
Profit and loss account (deficit)	18	—	(50.9)
BT's net investment in the Yell Group	18	394.3	—
Equity shareholders' funds (deficit)		<u>394.3</u>	<u>(49.9)</u>

The accompanying notes form an integral part of these financial statements.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation, combination and consolidation, and accounting policies

Basis of preparation, combination and consolidation

Presentations in the profit and loss account and cash flow statement for the years ended 31 March 2000 and 2001 of certain immaterial amounts related to an investment have been reclassified to conform with the presentations in the 2002 financial periods.

The principal activity of the Yell Group is publishing classified advertising directories in the United Kingdom and the United States.

The Yell Group comprises a number of legal entities. The principal entities included within the financial statements are reflected on the next page.

On 22 June 2001, the Yell Group and its subsidiaries acquired from British Telecommunications plc (“BT”) the net assets of the Yellow Pages business unit of BT which had been transferred to a separate legal entity, Yell Limited, on 6 March 2001, Yellow Pages Sales Limited and General Art Services Limited (collectively “Yellow Pages”) and Yellow Book USA, Inc. and its subsidiary undertakings (“Yellow Book”). Yellow Book was acquired by the BT group on 31 August 1999.

The predecessor combined financial statements of the Yell Group for the periods up to and including 22 June 2001 represent an aggregation of the historical financial statements of Yellow Pages and of Yellow Book, since its acquisition by BT, as if the Yell Group had been formed as a discrete operation throughout those periods. The capital structure of the Yell Group and its interest charges, goodwill amortisation, administrative expenses, pension costs and tax charges during that period are significantly different from those that have existed since the acquisition. The successor consolidated financial statements of the Yell Group represent a consolidation of the financial statements of Yell Finance B.V. and its subsidiaries after the acquisition from 22 June 2001 to 31 March 2002. From 22 June 2001, BT’s net investment in the Yell Group described in note 18 was replaced by share capital, reserves and external borrowings.

Prior to 6 March 2001, Yellow Pages was a business unit of BT and did not form a separate legal entity, nor was it structured with a holding company as a separate legal entity. As a stand-alone business unit within BT, Yellow Pages provided its own administration and management; however, BT provided some services including, but not limited to, treasury, cash management (including participation in BT’s cash pooling system), employee benefit administration, and legal and professional services.

Yellow Pages has been allocated or charged costs from BT for certain administration and other services supplied, as set out in note 23. These costs have been allocated based on reasonable estimates and are insignificant to the total value of services provided by BT. The results, assets and liabilities included in the financial statements are affected by the financing, taxation and cost allocation arrangements of BT for all periods up to 22 June 2001.

Substantially all funding of the Yell Group’s businesses was financed via BT’s net investment and loans issued by BT up until 22 June 2001. Subsequently, all funding is financed by a number of shareholder and third-party debt facilities as detailed in note 13. In the balance sheet at 31 March 2001, trading and short-term treasury cash management balances with BT were included in debtors and creditors, as appropriate.

Up until the acquisition on 22 June 2001, Yell Group management regarded BT as the ultimate controlling party of the Yell Group. Thereafter, management regards funds managed or advised by Apex Partners & Co. and Hicks, Muse, Tate & Furst Incorporated (“Hicks Muse”), which together purchased the Yell Group, as the ultimate controlling parties.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Basis of preparation, combination and consolidation, and accounting policies (continued)

Basis of preparation, combination and consolidation (continued)

Turnover and operating profits in respect of acquisitions shown separately in the profit and loss account relate to Yellow Book and three minor acquisitions in the year ended 31 March 2000, three minor acquisitions in the year ended 31 March 2001, and four minor acquisitions in the period from 22 June 2001 to 31 March 2002. The results of the existing Yell Group acquired from BT on 22 June 2001 have been shown as continuing operations in the period from 22 June 2001 to 31 March 2002. Details of the Yellow Book acquisition and the acquisition from BT on 22 June 2001 are given in note 7.

Where the financial statements of subsidiary undertakings do not conform with the Yell Group's accounting policies, appropriate adjustments are made on combination and consolidation in order to present the Yell Group combined and consolidated financial statements on a consistent basis. All companies within the Yell Group during the period of ownership have coterminous financial years. All transactions between the Yell Group's businesses have been eliminated in the preparation of these combined and consolidated financial statements.

The preparation of the combined and consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates. Estimates are used principally when accounting for income, provision for doubtful debts, depreciation, employee pension and management incentive schemes and taxes.

Subsidiary undertakings

Brief details of principal subsidiary undertakings at each year end (except where noted), all of which are unlisted, are as follows:

	Activity	Group interest in allotted capital ^(a)	Country of operation
Yell Limited ^(c)	Classified directory publisher	100% ordinary	United Kingdom
Yellow Pages Sales Limited . .	Provision of sales services	100% ordinary	United Kingdom
Yellow Book USA, Inc.	Classified directory publisher	100% common	United States of America ^(b)

(a) The proportion of voting rights held corresponds to the aggregate interest percentage held by the holding company and subsidiary undertakings, unless otherwise stated.

(b) Incorporated in its country of operation.

(c) Company formed for the acquisition from BT on 22 June 2001.

Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards in the United Kingdom. These differ significantly from those in the United States and a reconciliation to generally accepted accounting principles in the United States ("US GAAP") is provided in note 26. A summary of the more important Yell Group accounting policies, which have been consistently applied, is set out below.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Basis of preparation, combination and consolidation, and accounting policies (continued)

Accounting policies (continued)

New accounting standards

The Yell Group has adopted FRS 18 “Accounting Policies” and FRS 19 “Deferred Tax” throughout the period covered by these financial statements, and the transitional disclosure rules of FRS 17 “Retirement Benefits” for the periods from 1 April to 22 June 2001 and 22 June 2001 to 31 March 2002.

(a) Turnover

Group turnover, after deduction of sales allowances, value added tax and other sales taxes, comprises the value of products provided by the Yell Group undertakings. Turnover from classified directories, Business Pages and other directories, mainly comprising advertising revenue, is recognised in the profit and loss account upon completion of delivery to the users of the directories. Other turnover, principally from Talking Pages and online services, is recognised from the point at which service is first provided over the life of the contract.

(b) Cost of sales

Cost of sales are the costs incurred in producing directories and other group products, including costs of the sales force and certain sales overheads dedicated to the sale of advertising. Charges for doubtful debts are also included within cost of sales. Such costs are charged to the profit and loss account as a percentage of turnover calculated based upon the actual bad debt experience as a proportion of total billings.

(c) Advertising

The Yell Group expenses the costs of advertising its own products and services as the costs are incurred.

(d) Interest

Interest payable is charged as incurred.

(e) Foreign currencies

On combination and consolidation, the assets and liabilities of foreign undertakings are translated into sterling at year-end exchange rates. The results of foreign undertakings are translated into sterling at average rates of exchange for the period.

Exchange differences arising from the retranslation at period-end exchange rates of the net investment in foreign undertakings, less exchange differences on borrowings that finance or provide a hedge against those undertakings, are taken through the statement of total recognised gains and losses to reserves and are disclosed in note 18.

All other exchange gains or losses are dealt with through the profit and loss account.

(f) Intangible fixed assets

Goodwill arising from the purchase of subsidiary undertakings represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired and is amortised on a straight-line basis from the time of the acquisition over its estimated useful economic life of 20 years.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Basis of preparation, combination and consolidation, and accounting policies (continued)

Accounting policies (continued)

(g) Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation. Cost comprises the purchase price and any other costs of bringing an asset into use. Depreciation is provided on tangible fixed assets on a straight-line basis from the time they are available for use, so as to write off their costs over their estimated useful economic lives taking into account any expected residual values.

The lives assigned to significant tangible fixed assets are:

Furniture and fittings and leasehold improvements	5 years
Computers and office equipment	2 to 6 years
Motor vehicles	2 to 4 years

(h) Leased assets

Rentals in respect of operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are charged to the profit and loss account on a straight-line basis over the life of the lease.

Assets held under finance leases where substantially all the benefits and risks of ownership are transferred to the Yell Group are capitalised as tangible fixed assets and depreciated over their useful economic lives. The capital element of the future obligations under the leases is included as a liability in the combined and consolidated balance sheets, classified as appropriate as a creditor due within or after one year. Lease payments are split between capital and interest elements using the annuity method and the interest is then charged to the profit and loss account.

(i) Stocks

Stocks are stated at the lower of cost and net realisable value. Directories in progress mainly comprise sales force costs, artwork and other directory production costs, including appropriate overheads, pending completion of delivery of the relevant directories.

(j) Pension schemes

The Yell Group currently operates a defined-benefit pension scheme for its UK employees employed before 1 October 2001 and operates defined-contribution pension schemes for its UK employees employed subsequent to 1 October 2001 and its US employees.

All pension schemes are independent of the Yell Group's finances. Actuarial valuations of the defined-benefit schemes are carried out as determined by the trustees at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. In any intervening years, the actuaries review the continuing appropriateness of the contribution rates. The cost of providing pensions is charged against profits over employees' working lives with the Yell Group using the projected unit method.

Prior to the acquisition, some UK employees were members of the BT group defined-benefit pension scheme. The Yell Group recognised pension costs in its profit and loss account as billed from BT. Effective

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Basis of preparation, combination and consolidation, and accounting policies (continued)

Accounting policies (continued)

from 1 November 2001, Yell Group employees who previously contributed to the BT scheme were transferred to the Yell Group's own defined-benefit scheme, the Yell Pension Plan ("YPP").

Payments to the Yell Group's defined-contribution schemes are charged against profit as incurred.

In November 2000, the Accounting Standards Board ("ASB") issued FRS 17. We are required to phase in the adoption of the disclosure requirements over the two financial years ended 31 March 2002 and 2003. We have presented the required disclosure under the transition rules of FRS 17 in note 21 of the notes to the financial statements included elsewhere in this annual report. Full adoption of the standard is required from 1 April 2003. FRS 17 requires changes in the actuarial methods and assumptions and the method of accounting for scheme surpluses or deficits. Upon full adoption of FRS 17 the results of prior periods will also be restated to reflect its requirements. We do not believe that the adoption of FRS 17 will have a material effect on our results to the extent that market valuations do not materially fluctuate. Adoption of the standard could result in more volatile pension charges from period to period when market valuations do materially fluctuate.

(k) Taxation

The charge for taxation is based on the profit (loss) for the period and takes into account deferred taxation. Provision is made in full for deferred tax liabilities that arise from timing differences where transactions or events that result in an obligation to pay more tax in the future have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

A substantial portion of the Yellow Pages operation was not a separate taxable entity for corporation tax purposes prior to 22 June 2001 and the results of the Yellow Pages operation were included in the UK corporation tax returns of BT. In the financial statements for the periods prior to 22 June 2001, Yellow Pages has provided for corporation taxes as if it were a separate taxpayer in the United Kingdom.

(l) Financial instruments

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

The Yell Group considers its derivative financial instruments to be hedges when certain criteria are met. For interest rate derivatives, the instrument must be related to assets or liabilities or a probable commitment and must also change the interest rate or the nature of the interest rate by converting a variable rate to a fixed rate or vice versa. Interest differentials under interest rate swap agreements are recognised by adjustment of interest payable.

(m) Asset impairment

Intangible and tangible fixed assets are tested for impairment when an event that might affect asset values has occurred. An impairment loss is recognised to the extent that the carrying amount cannot be

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Basis of preparation, combination and consolidation, and accounting policies (continued)

Accounting policies (continued)

recovered either by selling the asset or by the discounted future earnings from operating the assets. Goodwill is subject to an impairment review at the end of the first full year following an acquisition and at any other time when the directors believe that an impairment may have occurred.

(n) Related parties

Intra-group transactions which have been eliminated on consolidation of the Yell Group have not been disclosed, as permitted by FRS 8 “Related Party Disclosures”.

2. Segmental analysis

The Yell Group is a publisher of classified advertising directories in the United Kingdom and the United States. Turnover is principally derived from the sale of advertising in such publications. The geographical analysis is stated on the basis of origin of operations, although it would not be different had it been stated on the basis of customer origin.

The statements on segments presented are based on the segmental operating results regularly reviewed by the Yell Group’s chief operating decision maker (the “CEO”).

The Yell Group’s operations are a unitary business and have been managed on this basis. For the purposes of exercising day-to-day managerial and budgetary control, the management accounts are divided internally by product but these divisions are not self-standing businesses. For the purpose of managing the business, most common costs are allocated entirely to classified directories. Control is exercised by comparing performance against budgets agreed in advance. The CEO reviews the turnover and operating results for each main product.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Segmental analysis (continued)

Segmental statements are provided in respect of UK directories, US directories and “UK other”, which principally comprises Yell.com, Talking Pages and Yell Data.

	<u>Group turnover</u> £	<u>Depreciation and amortisation</u> £ (in millions)	<u>Operating profit (loss)</u> £
Year ended 31 March 2000 (Predecessor)			
UK printed directories	494.7	4.8	207.4
Other	<u>28.8</u>	<u>0.7</u>	<u>(7.6)</u>
Total United Kingdom	523.5	5.5	199.8
US directories (seven months from date of acquisition of Yellow Book)	<u>98.7</u>	<u>12.2</u>	<u>(6.7)</u>
Group total	<u><u>622.2</u></u>	<u><u>17.7</u></u>	<u><u>193.1</u></u>
Year ended 31 March 2001 (Predecessor)			
UK printed directories	517.8	6.4	220.9
Other	<u>36.1</u>	<u>1.6</u>	<u>(22.6)</u>
Total United Kingdom	553.9	8.0	198.3
US directories	<u>220.4</u>	<u>27.1</u>	<u>(10.8)</u>
Group total	<u><u>774.3</u></u>	<u><u>35.1</u></u>	<u><u>187.5</u></u>
For the period 1 April to 22 June 2001 (Predecessor)			
UK printed directories	118.5	2.0	46.8
Other	<u>8.3</u>	<u>0.6</u>	<u>(4.4)</u>
Total United Kingdom	126.8	2.6	42.4
US directories	<u>42.3</u>	<u>7.2</u>	<u>(9.5)</u>
Group total	<u><u>169.1</u></u>	<u><u>9.8</u></u>	<u><u>32.9</u></u>
For the period 22 June 2001 to 31 March 2002 (Successor)			
UK printed directories	422.0	55.4	117.2
Other	<u>32.5</u>	<u>2.0</u>	<u>(9.2)</u>
Total United Kingdom	454.5	57.4	108.0
US directories	<u>241.8</u>	<u>23.7</u>	<u>10.7</u>
Group total	<u><u>696.3</u></u>	<u><u>81.1</u></u>	<u><u>118.7</u></u>

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Segmental analysis (continued)

	<u>Combined (Predecessor) At 31 March 2001 £</u>	<u>Consolidated (Successor) At 31 March 2002 £</u>
	(in millions)	
Fixed assets		
United Kingdom	36.5	1,146.5
United States	437.4	526.1
Group total	<u>473.9</u>	<u>1,672.6</u>
Net operating assets		
United Kingdom	209.1	1,397.5
United States	504.2	656.7
Group total	<u>713.3</u>	<u>2,054.2</u>
Net assets (liabilities)		
United Kingdom	209.1	(286.8)
United States	185.2	236.9
Group total	<u>394.3</u>	<u>(49.9)</u>
Total assets		
United Kingdom	300.7	1,506.9
United States	563.6	694.0
Group total	<u>864.3</u>	<u>2,200.9</u>

Net operating assets comprise total assets less creditors, excluding loans and other borrowings. The majority of UK net operating assets relate to the UK printed directories business.

3. Operating profit

Operating profit for the Yell Group is stated after charging:

	<u>Combined (Predecessor)</u>			<u>Consolidated (Successor)</u>
	<u>Year ended 31 March</u>	<u>1 April to 22 June 2001</u>	<u>22 June to 31 March 2002</u>	
	<u>2000</u>	<u>2001</u>	<u>2001</u>	<u>2002</u>
	£	£	£	£
	(in millions)			
Staff costs (note 4)	139.0	211.9	74.3	157.9
Advertising costs	31.0	40.1	7.1	26.6
Operating leases, excluding plant and equipment hire	14.9	14.2	2.4	14.6
Plant and equipment hire	0.6	0.4	0.1	0.5
Depreciation of owned tangible fixed assets	6.1	12.2	4.2	15.3
Depreciation of tangible fixed assets held under finance leases	0.4	0.8	0.2	0.5
Goodwill amortisation	11.2	22.1	5.4	65.3

The auditors' remuneration has been disclosed in note 24.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Employees

	Year ended 31 March		
	2000 ^(a)	2001	2002
Average monthly number of employees in the Yell Group (including executive directors—see note 20 for separate disclosures):			
United Kingdom.....	3,099	3,110	3,271
United States	961	1,887	2,050
Total employees	4,060	4,997	5,321

(a) The average number of employees in the United States is a weighted average reflecting the portion of the year that Yellow Book was a member of the Yell Group.

	Year ended 31 March		
	2000	2001	2002
Marketing and sales	3,312	4,034	4,097
Other	748	963	1,224
Total employees	4,060	4,997	5,321

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March		1 April to 22 June 2001	22 June to 31 March 2002
	2000	2001	2001	2002
	£	£	£	£
	(in millions)			
Staff costs for the Yell Group during the year				
Wages and salaries	122.6	188.4	68.4	139.0
Social security	10.7	14.6	4.0	12.5
Pensions (note 21)	5.7	8.9	1.9	6.4
Total staff costs	139.0	211.9	74.3	157.9

Employee incentive plans

Certain of the Yellow Book management were awarded units under an incentive plan established as from 1 October 1999. The plan, which initially had a five year life, provided for payouts of cash lump sums based upon achievement of increases in the value of Yellow Book compared to the purchase consideration paid by BT on the acquisition of Yellow Book in 1999. A similar plan was established for certain UK senior management. Under these schemes £3.0 million was charged to the profit and loss account for the period up to 22 June 2001 (year ended 31 March 2001—£11.6 million, year ended 31 March 2000—£5.3 million). Prior to 22 June 2001 no payments were made under these plans. Effective on the sale of the Yell Group, these plans were terminated and payments aggregating £44.7 million were made to management in settlement of all obligations agreed under these plans by BT. The amount of £24.1 million over and above that already accrued was agreed and funded by BT and accordingly has not been charged to the Yell Group profit and loss account.

Pursuant to the acquisition of the Yell Group from BT, a new incentive scheme (“the Phantom DDB Plan”) has been established for certain Yellow Book management. This scheme provides for a payout, to be settled in cash or by the allotment of ordinary shares, of approximately £31.9 million plus accretion of 10.0%

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Employees (continued)

per annum from 22 June 2001 on the occurrence of an exit event (e.g. sale or quotation) of the Yell Group. A charge in respect of this scheme will arise only on the occurrence of such an event.

The Yell Group's employees in the United Kingdom were eligible to participate in BT's employee share schemes up to the date of the acquisition. Following the acquisition, the Yell Group's employees had to exercise existing options before 12 December 2001. None of the BT shares or options issued to employees of the Yell Group were converted into equity of the Yell Group, nor was there any charge on the Yell Group for the cost of these options.

See note 22 for a discussion of the new employee stock option plans.

5. Net interest payable

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
	2000	2001	2001	2002
	£	£	£	£
	(in millions)			
Senior credit facilities	–	–	–	61.5
Senior sterling and dollar notes	–	–	–	36.4
Subordinated parent company loan ^(a)	–	–	–	46.3
Bridging facilities	–	–	–	7.0
Loans from BT	10.8	24.5	5.8	–
Other	–	–	–	0.2
Amortisation of finance costs	–	–	–	9.5
Total interest payable	10.8	24.5	5.8	160.9
Interest receivable	–	–	–	(2.3)
Net interest payable	10.8	24.5	5.8	158.6

(a) Interest on the subordinated parent company loan rolls up into the principal balance and is not due until the maturity or repayment of the loans.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tax on profit (loss) on ordinary activities

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
	2000	2001	2001	2002
	£	£	£	£
			(in millions)	
UK corporation tax at 30%	58.3	60.0	13.4	8.6
Foreign taxes	(0.6)	0.3	—	—
Total current tax	<u>57.7</u>	<u>60.3</u>	<u>13.4</u>	<u>8.6</u>
Deferred tax				
Origination and reversal of timing differences in the United Kingdom	—	—	(2.1)	(1.3)
Tax on profit (loss) on ordinary activities	<u>57.7</u>	<u>60.3</u>	<u>11.3</u>	<u>7.3</u>

For periods prior to the acquisition on 22 June 2001, total tax on profit on ordinary activities is computed by applying the UK corporation tax rate at 30% throughout the periods presented to UK taxable profits. Operations in the United States gave rise to a tax net operating loss for the period from 22 June 2001 to 31 March 2002 and 1 April to 22 June 2001 were £19.4 million and £62.2 million, respectively (year ended 2001—£15.7 million loss, year ended 2000—£31.5 million loss), which is available to offset taxable income arising in the United States in future years.

The tax for the period is higher than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
	2000	2001	2001	2002
	£	£	£	£
			(in millions)	
Profit (loss) on ordinary activities before taxation	182.3	163.0	27.1	(39.9)
Profit (loss) on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom (30%)	54.7	48.9	8.2	(12.0)
Effects of:				
Non-deductible UK goodwill amortisation	—	—	—	13.5
Other expenses not deductible for tax purposes	0.2	0.9	0.4	1.4
US tax losses	9.7	7.0	1.5	8.7
Other timing differences	(4.9)	5.0	6.5	(2.2)
Higher tax rates on overseas earnings	(2.0)	(1.5)	(3.2)	(0.8)
Total current tax	<u>57.7</u>	<u>60.3</u>	<u>13.4</u>	<u>8.6</u>
Deferred tax	—	—	(2.1)	(1.3)
Tax on profit (loss) on ordinary activities	<u>57.7</u>	<u>60.3</u>	<u>11.3</u>	<u>7.3</u>

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Acquisitions

Acquisition of Yell Group from BT

The Yell Group was acquired from BT on 22 June 2001 for an aggregate price of £2,007.6 million. The purchase was accounted for as an acquisition. The purchase price was allocated to the assets and liabilities of the Yell Group as follows:

	<u>Book value</u>	<u>Fair value adjustments^(a)</u>	<u>Debt and other liabilities extinguished^(b)</u>	<u>Fair value</u>
	£	£	£	£
	(in millions)			
Fixed assets				
Intangible assets	426.3	(426.3)	–	–
Tangible assets	42.6	–	–	42.6
Investment	2.1	–	–	2.1
Total fixed assets	<u>471.0</u>	<u>(426.3)</u>	<u>–</u>	<u>44.7</u>
Current assets				
Stocks	100.2	(2.3)	–	97.9
Debtors	275.0	(0.8)	–	274.2
Cash at bank and in hand	8.3	–	–	8.3
Total current assets	<u>383.5</u>	<u>(3.1)</u>	<u>–</u>	<u>380.4</u>
Creditors: amounts falling due within one year				
Loans and other borrowings	(110.5)	–	109.7	(0.8)
Other creditors	(112.7)	(6.0)	–	(118.7)
Total creditors: amounts falling due within one year	<u>(223.2)</u>	<u>(6.0)</u>	<u>109.7</u>	<u>(119.5)</u>
Net current assets	<u>160.3</u>	<u>(9.1)</u>	<u>109.7</u>	<u>260.9</u>
Total assets less current liabilities	<u>631.3</u>	<u>(435.4)</u>	<u>109.7</u>	<u>305.6</u>
Creditors: amounts falling due after more than one year				
Loans and other borrowings	(222.8)	–	222.4	(0.4)
Other creditors	(21.3)	–	20.6	(0.7)
Total creditors: amounts falling due after more than one year	<u>(244.1)</u>	<u>–</u>	<u>243.0</u>	<u>(1.1)</u>
Identifiable net assets	<u>387.2</u>	<u>(435.4)</u>	<u>352.7</u>	<u>304.5</u>
Goodwill				<u>1,703.1</u>
Total cost				<u>2,007.6</u>
Consideration:				
Cash				1,907.6 ^(c)
Subordinated parent company loan				100.0
Total consideration				<u>2,007.6</u>

(a) The fair value adjustments principally comprise the elimination of the difference between the purchase consideration and the fair value of net assets previously acquired by the Yell Group and recorded as goodwill, a write down of directories in progress at the date of acquisition and accruals for unprovided liabilities at the date of acquisition. These adjustments to stocks and other creditors relate to matters affecting a number of years and the impact on any individual year is insignificant.

(b) Debt extinguished reflects the repayment on the date of acquisition of loans due to BT, loan notes due to senior management of Yellow Book and amounts previously accrued and payable under the Yellow Book management incentive plan. Additional amounts payable under this incentive plan on the change of ownership were funded by BT.

(c) Consideration includes acquisition costs of £39.2 million.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Acquisitions (continued)

Acquisition of Yellow Book

On 31 August 1999, BT purchased Yellow Book, an independent classified directory publisher in the United States, for £414.8 million. The purchase was accounted for as an acquisition. The purchase price was allocated to the assets and liabilities of Yellow Book as follows:

	Book value (UK GAAP) \$	Book value (UK GAAP) £	Fair value adjustments ^(a) £ (in millions)	Debt extinguished £	Fair value £
Fixed assets					
Intangible assets	226.1	140.6	(140.6)	–	–
Tangible assets	7.0	4.4	–	–	4.4
Investment	3.2	2.0	–	–	2.0
Total fixed assets	<u>236.3</u>	<u>147.0</u>	<u>(140.6)</u>	<u>–</u>	<u>6.4</u>
Current assets					
Stocks	48.3	30.0	–	–	30.0
Debtors	47.5	29.5	–	–	29.5
Cash at bank and in hand	3.2	2.0	–	–	2.0
Total current assets	<u>99.0</u>	<u>61.5</u>	<u>–</u>	<u>–</u>	<u>61.5</u>
Creditors: amounts falling due within one year					
Loans and other borrowings	(212.1)	(131.9)	–	131.9	–
Other creditors	(32.8)	(20.4)	(3.6)	–	(24.0)
Total creditors: amounts falling due within one year	<u>(244.9)</u>	<u>(152.3)</u>	<u>(3.6)</u>	<u>131.9</u>	<u>(24.0)</u>
Net current assets (liabilities)	<u>(145.9)</u>	<u>(90.8)</u>	<u>(3.6)</u>	<u>131.9</u>	<u>37.5</u>
Total assets less current liabilities ..	90.4	56.2	(144.2)	131.9	43.9
Creditors: amounts falling due after more than one year					
Loans and other borrowings	(3.7)	(2.3)	–	1.3	(1.0)
Identifiable net assets	<u>86.7</u>	<u>53.9</u>	<u>(144.2)</u>	<u>133.2</u>	42.9
Goodwill					<u>371.9</u>
Total cost					<u>414.8</u>
Consideration:					
Cash					400.9 ^(b)
Yellow Book loan notes					<u>13.9</u>
Total consideration					<u>414.8</u>

(a) Elimination of the difference between the purchase consideration and the fair value of net assets previously acquired by Yellow Book and recorded as goodwill.

(b) Cash consideration was funded by £189.5 million (\$300.0 million) US dollar loan notes 2009 issued to BT and a £211.4 million cash contribution from BT.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Acquisitions (continued)

The consolidated results of Yellow Book for the 10 months ended 31 August 1999 under UK GAAP are summarised as follows:

	Ten months ended 31 August 1999
	<u>£</u>
	(in millions)
Group turnover	102.1
Total operating profit	10.6
Profit before taxation	1.9
Taxation	—
Profit for the financial period	1.9

Cash flow movements arising from the acquisition of Yellow Book during the year ended 31 March 2000 were:

	Year ended 31 March 2000
	<u>£</u>
	(in millions)
Net cash inflow from operating activities	2.1
Returns on investments and servicing of finance	(8.4)
Taxation paid	(0.1)
Investing activities	<u>(427.3)</u>
Net cash outflow before financing	<u><u>(433.7)</u></u>

Other acquisitions

Yellow Book made other acquisitions in the period 22 June 2001 to 31 March 2002 for cash of £7.1 million (year ended 31 March 2001—£39.0 million, year ended 31 March 2000—£7.1 million), giving rise to additional goodwill of £7.1 million (year ended 31 March 2001—£34.8 million, year ended 31 March 2000—£6.9 million).

Reconciliation of cash paid to the cash flow statement

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March	1 April to 22 June 2001	22 June to 31 March 2002	2002
	2000	2001	2001	2002
	£	£	£	£
	(in millions)			
Cash consideration for:				
Acquisition of Yellow Book	400.9	—	—	—
Acquisition of Yell Group from BT	—	—	—	1,907.6
Other acquisitions	7.1	39.0	—	7.1
Less:				
Cash acquired with subsidiaries	<u>(2.0)</u>	—	—	<u>(8.3)</u>
Cash paid for purchase of subsidiary undertakings, net of cash acquired	<u>406.0</u>	<u>39.0</u>	<u>—</u>	<u>1,906.4</u>

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Movements in net debt

Reconciliation of movement in net debt

	Total cash less bank overdraft	Debt due within one year — excluding overdraft	Debt due after one year	Net debt
	£	£	£	£
	(in millions)			
At 1 April 1999 (Predecessor)	(2.6)	—	—	(2.6)
Cash flow	7.3	(19.8)	(186.6)	(199.1)
Balances assumed on acquisitions	—	(2.0)	(12.9)	(14.9)
Currency movements	—	—	(1.8)	(1.8)
At 31 March 2000 (Predecessor)	4.7	(21.8)	(201.3)	(218.4)
Cash flow	19.8	(74.8)	8.8	(46.2)
Currency movements	0.3	(0.6)	(29.3)	(29.6)
At 31 March 2001 (Predecessor)	24.8	(97.2)	(221.8)	(294.2)
Cash inflow before acquisitions and financing	11.9	—	—	11.9
Cash inflow from financing	12.4	(12.4)	—	—
Other non-cash items	—	(223.0)	223.0	—
Currency movements	—	(0.5)	(1.3)	(1.8)
At 22 June 2001 (Predecessor)	49.1	(333.1)	(0.1)	(284.1)
At 22 June 2001 (Successor)	—	—	—	—
Cash inflow before acquisitions and financing	63.8	—	—	63.8
Cash inflow from financing:				
— on acquisition	2,029.9	(592.8)	(1,436.1)	1.0
— after acquisition	502.2	—	(502.2)	—
Repayment of loans	(540.0)	540.0	—	—
Cash outflow on acquisitions	(1,914.7)	—	—	(1,914.7)
Balances assumed on acquisitions	8.3	(0.6)	(0.1)	7.6
Subordinated parent company loan	—	—	(100.0)	(100.0)
Finance fees paid	(49.4)	—	49.4	—
Interest and amortised fees	—	—	(65.0)	(65.0)
Other non-cash items	—	—	1.4	1.4
Currency movements	—	—	1.9	1.9
At 31 March 2002 (Successor)	100.1	(53.4)	(2,050.7)	(2,004.0)

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Movements in net debt (continued)

Reconciliation of net cash flow to movements in net debt

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
	2000	2001	2001	2002
	£	£	£	£
	(in millions)			
Increase in net cash in the period	7.3	19.8	24.3	100.1
Net cash inflow from increase in debt	(206.4)	(66.0)	(12.4)	(1,941.7)
(Increase) decrease in net debt resulting from cash flows ...	(199.1)	(46.2)	11.9	(1,841.6)
Balances assumed on acquisitions	(14.9)	–	–	(0.7)
Subordinated parent company loan	–	–	–	(100.0)
Interest and amortised fees	–	–	–	(65.0)
Other non-cash items	–	–	–	1.4
Currency movements	(1.8)	(29.6)	(1.8)	1.9
(Increase) decrease in net debt in the period	(215.8)	(75.8)	10.1	(2,004.0)
Net debt at beginning of the period	(2.6)	(218.4)	(294.2)	–
Net debt at end of the period	(218.4)	(294.2)	(284.1)	(2,004.0)

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Intangible assets

Goodwill

	<u>£</u> <u>(in millions)</u>
Gross book value	
Balance at 31 March 2000 (Predecessor)	381.9
Additions	34.8
Currency movements	47.9
Total gross book value at 31 March 2001 (Predecessor)	<u>464.6</u>
Amortisation	
Balance at 31 March 2000 (Predecessor)	11.4
Charge for the year	22.1
Currency movements	1.8
Total amortisation at 31 March 2001 (Predecessor)	<u>35.3</u>
Net book value at 31 March 2001 (Predecessor)	<u>429.3</u>
Gross book value	
Balance at 31 March 2001 (Predecessor)	464.6
Currency movements (Predecessor)	2.6
Eliminated on acquisition from BT	<u>(467.2)</u>
Total gross book value at 22 June 2001 (Successor)	–
Additions arising on acquisition from BT	1,703.1
Other additions	7.1
Currency movements (Successor)	<u>(4.4)</u>
Total gross book value at 31 March 2002 (Successor)	<u>1,705.8</u>
Amortisation	
Balance at 31 March 2001 (Predecessor)	35.3
Charge for the period prior to acquisition from BT	5.4
Currency movements (Predecessor)	0.2
Eliminated on acquisition from BT	<u>(40.9)</u>
Total amortisation at 22 June 2001 (Successor)	–
Charge on goodwill arising on acquisition from BT	<u>65.3</u>
Total amortisation at 31 March 2002 (Successor)	<u>65.3</u>
Net book value at 31 March 2002 (Successor)	<u>1,640.5</u>

The acquisitions of Yellow Book on 31 August 1999 and the Yell Group from BT on 22 June 2001 are detailed in note 7. Goodwill arising on the acquisition from BT is being amortised on a straight-line basis over 20 years, being the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the book value of the assets.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Tangible fixed assets

Tangible fixed assets, comprising primarily computers and office equipment, are summarised as follows:

	<u>£</u> <u>(in millions)</u>
Cost	
Balance at 31 March 2000 (Predecessor)	55.6
Acquisitions of subsidiary undertakings	0.3
Additions	21.2
Transfer of assets from BT	11.7
Disposals	(15.9)
Currency movements	<u>1.2</u>
Total cost at 31 March 2001 (Predecessor)	<u>74.1</u>
Depreciation	
Balance at 31 March 2000 (Predecessor)	33.6
Charge for the year	13.0
Disposals	(15.9)
Currency movements	<u>0.7</u>
Total depreciation at 31 March 2001 (Predecessor)	<u>31.4</u>
Net book value at 31 March 2001 (Predecessor)	<u>42.7</u>
Cost	
Balance at 31 March 2001 (Predecessor)	74.1
Additions	4.3
Disposals	(0.6)
Adjustment on acquisition ^(a)	<u>(35.2)</u>
Total cost at 22 June 2001 (Successor)	42.6
Additions	10.7
Disposals	<u>(16.5)</u>
Total cost at 31 March 2002 (Successor)	<u>36.8</u>
Depreciation	
Balance at 31 March 2001 (Predecessor)	31.4
Charge for the period 1 April to 22 June 2001	4.4
Disposals	(0.6)
Adjustment on acquisition ^(a)	<u>(35.2)</u>
Total depreciation at 22 June 2001 (Successor)	–
Charge for the period 22 June 2001 to 31 March 2002	15.8
Disposals	<u>(9.0)</u>
	<u>6.8</u>
Net book value at 31 March 2002 (Successor)	<u>30.0</u>

(a) Adjustment to reflect the net book value of assets acquired as gross cost on acquisition.

The net book value of fixed assets included amounts of £0.7 million (2001—£1.2 million) in respect of assets held under finance leases.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Tangible fixed assets (continued)

Additions to tangible fixed assets comprised:

	<u>Combined (Predecessor)</u>		<u>Consolidated (Successor)</u>
	<u>Year ended 31 March 2001</u>	<u>1 April to 22 June 2001</u>	<u>22 June 2001 to 31 March 2002</u>
	£	£	£
	(in millions)		
Computers and office equipment	19.1	4.3	9.8
Motor vehicles and other	12.7	–	0.4
Leasehold improvements	1.1	–	0.5
Total additions to tangible fixed assets	<u>32.9</u>	<u>4.3</u>	<u>10.7</u>

Net book value at the end of each year comprised:

	<u>Combined (Predecessor)</u>		<u>Consolidated (Successor)</u>
	<u>At 31 March 2001</u>	<u>At 31 March 2002</u>	<u>At 31 March 2002</u>
	£	£	£
	(in millions)		
Computers and office equipment	29.0	28.6	28.6
Motor vehicles and other	12.3	0.7	0.7
Leasehold improvements	1.4	0.7	0.7
Net book value at the end of the year	<u>42.7</u>	<u>30.0</u>	<u>30.0</u>

11. Stocks

	<u>Combined (Predecessor)</u>		<u>Consolidated (Successor)</u>
	<u>At 31 March 2001</u>	<u>At 31 March 2002</u>	<u>At 31 March 2002</u>
	£	£	£
	(in millions)		
Directories in progress	84.3	84.6	84.6
Other	3.2	6.3	6.3
Total stocks	<u>87.5</u>	<u>90.9</u>	<u>90.9</u>

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Debtors

	Combined (Predecessor)	Consolidated (Successor)
	At 31 March	At 31 March
	2001	2002
	£	£
	(in millions)	
Trade debtors ^(a)	229.4	287.3
Other debtors	–	6.8
Accrued income ^(a)	43.9	32.1
Prepayments	4.8	7.7
Deferred tax asset (note 16)	–	3.4
Total debtors	278.1	337.3

(a) The Yell Group's trade debtors and accrued income are stated after deducting a provision of £71.4 million at 31 March 2002 (2001—£60.9 million) for doubtful debts and sales allowances. The amount charged to the Yell Group profit and loss account for doubtful debts for the periods ended 22 June 2001 to 31 March 2002 and 1 April to 22 June 2001 were £43.4 million and £9.8 million, respectively (year ended 31 March 2001—£37.4 million, year ended 31 March 2000—£29.0 million).

All amounts above fall due within one year except for the deferred tax asset, which falls due after more than one year.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Loans and other borrowings

	Interest rate	Combined	Consolidated
		(Predecessor)	(Successor)
		At 31 March	At 31 March
		2001	2002
	%	£	£
(in millions)			
Amounts falling due within one year			
Senior credit facilities ^{(a)(b)}	8.35	–	52.8
Other US dollar loans ^(h)	7.40	92.3	–
Yellow Book loan notes US dollar ⁽ⁱ⁾	7.70	3.9	–
Net obligations under finance leases		1.0	0.6
Total amounts falling due within one year		97.2	53.4
Amounts falling due after more than one year			
Senior credit facilities ^{(a)(b)}	8.35	–	878.2
Senior notes:			
Senior sterling notes ^(c)	10.75	–	241.0
Senior dollar notes ^(d)	10.75	–	135.3
Senior discount dollar notes ^(e)	13.96	–	110.8
Subordinated parent company loan ^(f)	9.11	–	685.3
US dollar loan notes 2009 ^(g)	8.90	211.0	–
Other US dollar loans ^(h)	7.40	0.4	–
Yellow Book loan notes US dollar ⁽ⁱ⁾	7.70	10.1	–
Net obligations under finance leases		0.3	0.1
Total amounts falling due after more than one year		221.8	2,050.7
Net loans and other borrowings		319.0	2,104.1

- (a) Facilities comprise three term loans of £600.0 million, £175.0 million and £179.6 million which are due in 2008, 2009 and 2010, respectively. The senior credit facilities were drawn down in full in order to fund the acquisition of the Yell Group. In addition to the term loans, the senior credit facilities include a revolving credit facility of £100.0 million. At 31 March 2002, no amounts were outstanding under the revolving credit facility. The senior credit facilities have first priority security over substantially all of the Yell Group's assets.
- (b) The terms of the senior credit facilities require the Yell Group and its consolidated subsidiaries to maintain specified consolidated financial ratios for senior debt to Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") as defined in the senior credit facilities, cash flow to total debt service, EBITDA to net cash interest payable and total net debt to EBITDA and to observe capital expenditure limits for each financial year. Certain of these financial ratios have to be prepared for the preceding 12-month period and reported to the providers of the senior credit facilities on a quarterly basis. The Yell Group has reported that it has maintained the financial ratios for the year ended 31 March 2002 in compliance with these debt covenants.
- (c) This represents a £250.0 million aggregate principal amount of 10.75% senior sterling notes due 2011. Interest is payable on 1 February and 1 August of each year, beginning 1 February 2002. The notes are unsecured and rank equally with each other and existing and future senior debt.
- (d) This represents a \$200.0 (£140.3) million aggregate principal amount of 10.75% senior dollar notes due 2011. Interest is payable on 1 February and 1 August of each year, beginning 1 February 2002. The notes are unsecured and rank equally with each other and existing and future senior debt.
- (e) This represents a \$288.3 (£202.2) million aggregate principal amount of 13.50% senior discount dollar notes due 2011, plus accreted interest. The issue price of each senior discount dollar note was \$521.3 (£365.7) per \$1,000.0 (£701.5) principal amount at maturity. Interest will not accrue on the senior discount dollar notes until 1 August 2006, at which time interest is payable on 1 February and 1 August of each year, beginning 1 February 2007. The notes are unsecured and rank equally with each other and existing and future senior debt. The 13.96% interest rate represents the rate of return on the notes including the unwinding of the discount.
- (f) Loans represent funding advanced by the parent company in the form of sponsor deep discount bonds and vendor loan notes.
- The principal amount of deep discount bonds issued to shareholders was £549.0 million. The bonds mature in 2021, were issued at a discount to par yielding 10.00% per annum and have no requirement to pay cash interest.
- The vendor loan notes were advanced in the sum of £100.0 million in the original principal amount. The notes mature in 2013 and bear interest at a floating rate equal to six-month sterling LIBOR which will accrue and be paid only on redemption of the notes.
- (g) This represented a \$300.0 (£210.5) million long-term note issued by BT on the acquisition of Yellow Book as part of the refinancing of the US operations. The notes were repaid immediately upon the acquisition from BT.
- (h) This represented loans due to the BT group arising on acquisition of Yellow Book and on further subsequent acquisitions by Yellow Book, all of which were repaid upon the acquisition from BT.
- (i) This represented amounts due to senior management of Yellow Book in connection with the acquisition of Yellow Book by BT on 31 August 1999. The notes were repayable over the four years ending 31 August 2003 and accrued interest at the average US treasury bill rate plus 2.00%. These notes were repaid immediately upon the acquisition from BT.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Loans and other borrowings (continued)

These balances are shown net of unamortised deferred finance costs, which have been allocated as follows:

	Consolidated (Successor)		
	At 31 March 2002		
	Principal amount	Deferred finance costs	Net balance
	£	£	£
	(in millions)		
Senior credit facilities	954.6	(23.6)	931.0
Senior notes:			
Senior sterling notes	250.0	(9.0)	241.0
Senior dollar notes	140.3	(5.0)	135.3
Senior discount dollar notes	114.6	(3.8)	110.8
Subordinated parent company loan	685.3	–	685.3
Other	0.7	–	0.7
Total loans and borrowings	2,145.5	(41.4)	2,104.1

Repayments fall due as follows:

	Combined (Predecessor)	Consolidated (Successor)
	At 31 March	At 31 March
	2001	2002
	£	£
	(in millions)	
Within one year, or on demand	97.2	53.4
Between one and two years	5.1	76.9
Between two and three years	5.7	109.8
Between three and four years	–	133.8
Between four and five years	–	115.8
After five years	211.0	1,655.8
Total due for repayment after more than one year	221.8	2,092.1
Total repayments due	319.0	2,145.5
Deferred finance costs	–	(41.4)
Total loans and other borrowings	319.0	2,104.1

14. Financial instruments and risk management

Treasury policy

The Yell Group's treasury operation's primary role is to fund investments and to manage liquidity and financial risk, including risk from volatility in currency and interest rates and counterparty credit risk. The treasury operation is not a profit centre and its objective is to manage risk at optimum cost

The board of directors sets the treasury department's policy and its activities are subject to a set of controls commensurate with the magnitude of the investments and borrowings under its management.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments and risk management (continued)

Counterparty credit risk is closely monitored and managed within controls set by the board of directors. Derivative financial instruments, including forward foreign exchange contracts, are used only for hedging purposes.

The principal financing and treasury exposures faced by the Yell Group relate to working capital management, the financing of acquisitions and tangible fixed assets, the management of interest rate positions and the investment of surplus cash. The Yell Group has not purchased or issued any derivative contracts for trading or hedging purposes, except as referred to below.

The Yell Group financed its operations prior to 22 June 2001 primarily by a mixture of BT's net investment and, for the acquisition of Yellow Book in the year ended 31 March 2000, long-term loans primarily from BT. Subsequent to 22 June 2001, the Yell Group has financed its operations primarily by long-term debt. Details of the Yell Group's borrowings as a result of the acquisition from BT is disclosed in note 13.

All significant cash inflows and outflows associated with the Yell Group's operations in the United Kingdom are denominated in pounds sterling, and all significant cash inflows and outflows associated with operations in the United States are denominated in dollars. However, the financial statements are presented in pounds sterling, and changes in the exchange rate between the dollar and pounds sterling will affect the translation of the results of Yellow Book operations in the United States into pounds sterling. The Yell Group does not currently intend to hedge any foreign exchange rate risk relating to dollar-denominated notes, although it will continue to review this practice.

The Yell Group borrows at both fixed and floating rates of interest and, in order to achieve the objective of managing interest rate risk, hedges its risk through the use of interest rate derivative instruments. Interest is payable under the senior credit facilities at a variable interest rate. The Yell Group is required to hedge at least 50% of the variable-rate indebtedness under the senior credit facilities for a duration of two years. The Yell Group has hedged at 31 March 2002 nearly 100% of the indebtedness under the senior credit facilities for 18 months using interest rate swaps and 50% for the following nine months.

During the year ended 31 March 2002, as set out in note 8, net debt increased from £294.2 million to £2004.0 million, primarily as a result of acquisitions, financings and their associated costs and foreign currency movements in the period.

Other financial instruments

Paper is the most important raw material used by the Yell Group. The Yell Group has developed long-term relationships with its key suppliers in the United Kingdom. The business in the United Kingdom limits its exposure to market fluctuations by entering into fixed-price arrangements for terms in excess of one year. The Yell Group has arrangements with two paper suppliers who agreed to supply paper to the Yell Group during the two years ending 31 March 2004, at a price not to exceed £490.0 per tonne.

The Yell Group also has short-term debtors and creditors which arise in the normal course of business and have been excluded from the disclosures which follow.

There has been no change in the role that financial instruments have in creating or changing the Yell Group's risk between 31 March 2002 and the date of these financial statements.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments and risk management (continued)

Currency risk profile

The interest rate profile of the Yell Group's financial assets and liabilities was:

	<u>Sterling</u>	<u>US dollar</u>	<u>Total</u>
	£	£	£
	(in millions)		
Floating rate	22.3	2.5	24.8
Total financial assets at 31 March 2001 (Predecessor)	<u>22.3</u>	<u>2.5</u>	<u>24.8</u>
Fixed rate	–	(211.0)	(211.0)
Floating rate	–	(108.0)	(108.0)
No interest payable	–	(18.0)	(18.0)
Total financial liabilities at 31 March 2001 (Predecessor)	<u>–</u>	<u>(337.0)</u>	<u>(337.0)</u>
Net financial assets (liabilities) at 31 March 2001 (Predecessor)	<u>22.3</u>	<u>(334.5)</u>	<u>(312.2)</u>
Floating rate	66.8	33.3	100.1
Total financial assets at 31 March 2002 (Successor)	<u>66.8</u>	<u>33.3</u>	<u>100.1</u>
Fixed rate	(1,602.4)	(364.3)	(1,966.7)
Floating rate	(128.6)	(8.8)	(137.4)
Total financial liabilities at 31 March 2002 (Successor)	<u>(1,731.0)</u>	<u>(373.1)</u>	<u>(2,104.1)</u>
Net financial liabilities at 31 March 2002 (Successor)	<u>(1,664.2)</u>	<u>(339.8)</u>	<u>(2,004.0)</u>

Details of currency denomination, interest and maturity profiles of specific borrowings are given in note 13. There are no material monetary assets or liabilities denominated in currencies other than local reporting currencies.

Interest rate profile

Details of year-end interest rates on borrowings are set out in note 13. The Yell Group has entered into interest rate forward contracts and swaps for the purpose of hedging future floating interest rate movements. The Yell Group has fixed interest rates on nearly all of the senior credit facilities until 30 September 2003 and on 50.0% from 1 October 2003 until 30 June 2004.

For the fixed-rate financial liabilities, the average interest rates and the average periods for which the rates are fixed are:

	<u>Sterling</u>	<u>US dollar</u>	<u>Total borrowings</u>
At 31 March 2001 (Predecessor)			
Weighted average interest rate (%)	–	8.9	8.9
Weighted average period for which rate is fixed (years)	–	8.0	8.0
At 31 March 2002 (Successor)			
Weighted average interest rate (%)	9.4	11.0	9.7
Weighted average period for which rate is fixed (years)	9.3	7.0	8.8

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one month to six months by reference to LIBOR.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Financial instruments and risk management (continued)

Borrowing facilities and liquidity risk

Prior to 22 June 2001, the Yell Group was a division of BT and benefited from the facilities available to the BT group.

Since 22 June 2001, the Yell Group has maintained unutilised banking facilities to mitigate any liquidity risk it may face. There were undrawn committed senior debt facilities at 31 March 2002 of £100.0 million. These facilities expire on 22 June 2008.

Fair values of financial assets and liabilities

The following table reflects the carrying amount and fair value of the Yell Group's financial instruments (including the employee incentive plans) at 31 March 2001 and 2002. The fair values of the financial instruments are the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in forced liquidation or sale.

	<u>Combined (Predecessor)</u>		<u>Consolidated (Successor)</u>	
	<u>Book value at 31 March 2001</u>	<u>Fair value at 31 March 2001</u>	<u>Book value at 31 March 2002</u>	<u>Fair value at 31 March 2002</u>
	£	£	£	£
	(in millions)			
Non-derivatives:				
Assets				
Cash at bank and in hand	24.8	24.8	100.1	100.1
Liabilities				
Short-term borrowings ^(a)	97.2	97.2	53.4	53.4
Long-term borrowings ^(b)	239.8	257.5	2,050.7	1,958.8
Derivatives:				
Interest rate swaps	—	—	—	(11.3)

(a) The fair value of short-term borrowings approximated to carrying value due to the short maturity of the instruments.

(b) The fair value of the Yell Group's notes and other long-term borrowings has been estimated on the basis of quoted market prices for the same or similar issues with the same maturities where they existed, and on calculations of the present value of future cash flows using the appropriate discount rates in effect at the balance sheet dates, where market prices of similar issues did not exist.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on the interest rate derivative instruments are as follows:

	<u>Consolidated (Successor)</u>		
	<u>At 31 March 2002</u>		
	<u>Gains</u>	<u>Losses</u>	<u>Net gains (losses)</u>
	£	£	£
	(in millions)		
Unrecognised gains and losses on hedges at 31 March 2002, of which: . . .	0.4	(11.7)	(11.3)
Expected to be recognised in the year to 31 March 2003	—	(7.7)	(7.7)
Expected to be recognised after 31 March 2003	0.4	(4.0)	(3.6)

The Yell Group had no derivatives in any period prior to 22 June 2001.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Other creditors

Amounts falling due within one year

	<u>Combined (Predecessor)</u> <u>At 31 March</u> <u>2001</u> £ (in millions)	<u>Consolidated (Successor)</u> <u>At 31 March</u> <u>2002</u> £
Trade creditors	21.4	19.8
Amounts owed to BT	20.6	1.4
Corporation tax	5.5	9.4
Other taxation and social security	11.9	19.1
Other creditors	3.1	3.2
Accrued expenses	44.8	66.6
Deferred income	<u>25.7</u>	<u>27.2</u>
Total other creditors falling due within one year	<u><u>133.0</u></u>	<u><u>146.7</u></u>

Amounts falling due after more than one year

An amount of £18.0 million was accrued in respect of the Yellow Book and the Yell Group management incentive plans for the year ended 31 March 2001. Effective on the sale of the Yell Group, these plans were terminated (see note 4).

16. Deferred taxation

Deferred tax asset

	<u>Combined (Predecessor)</u> <u>Year ended 31 March</u> <u>2001</u> £ (in millions)	<u>Consolidated (Successor)</u> <u>Year ended 31 March</u> <u>2002</u> £
Balance at beginning of the year	–	–
Amount credited to profit and loss account	<u>–</u>	<u>3.4</u>
Balance at end of the year	<u><u>–</u></u>	<u><u>3.4</u></u>

At 31 March 2002 the Yell Group recognised a £3.4 million deferred tax asset, primarily relating to timing differences between book and tax depreciation. This is included in debtors (note 12).

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Deferred taxation (continued)

The elements of all net deferred tax assets not recognised in the accounts, including the cumulative unrecognised effect of net operating losses arising from operations in the United States, were as follows:

	Combined (Predecessor)	Consolidated (Successor)
	At 31 March	At 31 March
	2001	2002
	£	£
	(in millions)	
Tax effect of timing differences due to:		
Deferred compensation	3.3	–
Tax net operating loss from US operations	19.5	37.7
Unrecognised net deferred tax assets	22.8	37.7

This net deferred tax asset will be available to offset against future operating profits in the United States and will be recognised when it is considered to be more likely than not that the US operations will become tax profitable. The benefits available in respect of tax net operating losses arising from US operations expire between 2018 and 2021 if not used.

17. Called up share capital

	Combined (Predecessor)	Consolidated (Successor)
	At 31 March	At 31 March
	2001	2002
	£	£
	(in millions)	
Authorised		
900 shares of 100 euro each	–	0.1
Allotted, called up and fully paid		
200 shares issued to Yell Group Limited	–	0.1

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Changes in equity shareholders' funds (deficit)

BT's net investment in the Yell Group (pre-22 June 2001)

	<u>BT's net investment</u>	<u>Called up share capital</u>	<u>Share premium</u>	<u>Profit and loss account</u>	<u>Total</u>
	£	£	£	£	£
	(in millions)				
Balance at 31 March 1999 (Predecessor)	142.7	–	–	–	142.7
Profit for the period	124.6	–	–	–	124.6
Net investment from BT	39.3	–	–	–	39.3
Taxation settled by BT on behalf of the Yell Group	56.8	–	–	–	56.8
Currency movements ^(a)	1.6	–	–	–	1.6
Balance at 31 March 2000 (Predecessor)	365.0	–	–	–	365.0
Profit for the period	102.7	–	–	–	102.7
Net distributions to BT	(150.7)	–	–	–	(150.7)
Taxation settled by BT on behalf of the Yell Group	54.6	–	–	–	54.6
Currency movements ^(a)	22.7	–	–	–	22.7
Balance at 31 March 2001 (Predecessor)	394.3	–	–	–	394.3
Profit from 1 April to 22 June 2001	15.8	–	–	–	15.8
Currency movements ^(a)	0.8	–	–	–	0.8
Balance at 22 June 2001 (Predecessor)	<u>410.9</u>	<u>–</u>	<u>–</u>	<u>–</u>	410.9
Cash retained by BT on acquisition					(40.8)
Taxation to be settled by BT after acquisition					<u>17.1</u>
Identifiable net assets sold by BT					387.2
Elimination of BT invested capital on acquisition from BT					<u>(387.2)</u>
Balance at 22 June 2001 (Successor)					<u>–</u>

(a) The cumulative foreign currency translation adjustment was £25.1 million at 22 June 2001 (year ended 31 March 2001—£24.3 million, year ended 31 March 2000—£1.6 million).

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Changes in equity shareholders' equity (deficit) (continued)

Reconciliation of movement in the consolidated equity shareholders' deficit (post-22 June 2001)

	<u>Share capital</u>	<u>Share premium</u>	<u>Profit and loss account</u>	<u>Total</u>
	£	£	£	£
	(in millions)			
Issuance of share capital (ordinary shares at par value) (note 17)	0.1	0.9	–	1.0
Loss for the period from 22 June 2001 to 31 March 2002	–	–	(47.2)	(47.2)
Currency movements	–	–	(3.7)	(3.7)
Balance at 31 March 2002 (Successor)	<u>0.1</u>	<u>0.9</u>	<u>(50.9)</u>	<u>(49.9)</u>

19. Financial commitments and contingent liabilities

	<u>Combined (Predecessor)</u>	<u>Consolidated (Successor)</u>
	<u>At 31 March</u>	<u>At 31 March</u>
	<u>2001</u>	<u>2002</u>
	£	£
	(in millions)	
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:		
Within one year	1.0	3.9
Between one and five years	3.5	3.3
After five years	6.0	6.0
Total payable within one year	<u>10.5</u>	<u>13.2</u>

Future minimum operating lease payments for the Yell Group at 31 March 2002 are as follows:

	£
	(in millions)
Payable in the year ending 31 March:	
2003	13.2
2004	9.0
2005	8.5
2006	7.2
2007	6.6
Thereafter	<u>31.9</u>
Total future minimum operating lease payments	<u>76.4</u>

Operating lease commitments are principally in respect of leases of land and buildings.

There are no contingent liabilities or guarantees other than those referred to in note 4 and note 22 and those arising in the ordinary course of the Yell Group's business.

No material losses are anticipated on liabilities arising in the ordinary course of business.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial commitments and contingent liabilities (continued)

The Yell Group does not believe that there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the Yell Group.

20. Directors' remuneration

The emoluments of the directors and the benefits received under the long-term incentive plans were:

	Year to 31 March		
	2000	2001	2002
	£	£	£
	(in thousands)		
Salary	190	380	706
Other benefits	20	21	77
Performance-related bonus	156	228	723
Non-executive directors' fees	–	–	6
Additional payments by BT following the acquisition on 22 June 2001 ^(a) ..	–	–	3,800
Aggregate emoluments	366	629	5,312
Aggregate gains made on the exercise of share options	–	–	20
Aggregate amounts receivable under long-term incentive plans	132	153	132
	<u>498</u>	<u>782</u>	<u>5,464</u>

(a) This amount included primarily an agreed settlement with BT to terminate the UK management incentive plan.

Two directors (2001: two, 2000: one) have retirement benefits accruing under a defined-benefit pension scheme.

The non-executive directors who held office between 22 June 2001 and 31 March 2002 were appointed to the board of the Yell Group as representatives of Apax Partners Managing Entities and Hicks Muse. Monitoring fees charged to the Yell Group by these companies are detailed in note 23.

Directors' detailed remuneration

	John Condron			John Davis		
	Year to 31 March			Year to 31 March		
	2000	2001	2002	2000	2001 ^(b)	2002
	£	£	£	£	£	£
	(in thousands)			(in thousands)		
Salary	190	240	416	–	140	290
Other benefits	20	15	29	–	6	48
Performance-related bonus	156	168	426	–	60	297
Additional payments by BT following the acquisition on 22 June 2001 ^(a)	–	–	3,300	–	–	500
Aggregate emoluments	366	423	4,171	–	206	1,135
Gains made on exercise of share options	–	–	20	–	–	–
Amounts receivable under long-term incentive plans	132	153	132	–	–	–
	<u>498</u>	<u>576</u>	<u>4,323</u>	<u>–</u>	<u>206</u>	<u>1,135</u>

(a) This amount included primarily an agreed settlement with BT to terminate the UK management incentive plan.

(b) John Davis's emoluments for the year ended 31 March 2001 relate to the period of his employment from 25 September 2000.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Directors' remuneration (continued)

Non-executive directors' fees

	Year to 31 March		
	2000	2001	2002
	£	£	£
	(in thousands)		
Lord Powell of Bayswater	—	—	6

Retirement benefits

	John Condron			John Davis		
	At 31 March			At 31 March		
	2000	2001	2002	2000	2001	2002
	£	£	£	£	£	£
	(in thousands)			(in thousands)		
Cumulative accrued annual pension	61	84	146	—	3	9
Cumulative accrued lump sum ...	203	252	439	—	—	—
Transfer value of increase in accrued benefit	115	217	817	—	9	25

Beneficial and non-beneficial interests

The interests of directors and their families in Yell Group ordinary shares are shown below:

	At 31 March	
	2001	2002
	Number	Number
John Condron	—	3,000,000
John Davis	—	1,250,000

Interests in BT

John Condron exercised the following options, which had been adjusted for the rights issue and demerger of mmO₂ from BT, during the period from 1 April 1999 to 31 March 2001:

Scheme	Number of options	Date from which exercisable	Exercise date	Exercise price (pence)	Share price on exercise (pence)	Profit on exercise (£)
1993 BT Share option scheme	6,214	4 March 1996	31 May 2001	386.10	434.80	3,026
1994 BT Share option scheme	7,127	8 December 1997	31 May 2001	336.72	434.80	6,990
Sharesave 11	4,402	14 August 2001	15 August 2001	239.74	448.00	9,168
Sharesave 12	1,702	19 December 2001	19 December 2001	322.35	344.30	374

No options were granted during the period, and all remaining options lapsed on 25 December 2001.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Directors' remuneration (continued)

Interests in BT (continued)

BT shares have been provisionally awarded to, and vested with, John Condron under the following share schemes. He remains eligible for the benefits receivable under these schemes.

	Year to 31 March		
	2000	2001	2002
BT Executive share plan^(a):			
<i>Number of shares</i>			
At the beginning of the period	94,216	93,078	75,832
Rights issue prior to vesting	–	–	2,306
BT Shares awarded during the period	11,043	–	–
BT Shares vested during the period	(13,602)	(19,265)	(23,543)
BT Shares not vested	–	–	(3,190)
Dividends reinvested, rights taken up, demerger adjustment	1,421	2,019	22,711
At the end of the period	93,078	75,832	74,116
Market value of shares vested (£'000)	132	153	115
Maximum value at year end (£'000)	1,094	387	208
Deferred Bonus Plan^(b):			
<i>Number of shares</i>			
At the beginning of the period	3,105	5,670	5,823
BT Shares awarded during the period	2,479	–	–
BT Shares vested during the period	–	–	(3,538)
Dividends reinvested, rights issue and demerger	86	153	1,444
At the end of the period	5,670	5,823	3,729
Value of shares vested at date of vesting (£'000)	–	–	17
Value at year end (£'000)	67	30	10
Incentive Share Plan^(c):			
<i>Number of shares</i>			
At the beginning of the period	–	22,452	22,765
BT Shares awarded during the period	22,094	–	–
BT Shares vested during the period	–	–	–
Dividends reinvested, rights issue and demerger	358	313	10,062
At the end of the period	22,452	22,765	32,827
Value at year end (£'000)	264	116	92

(a) Awards of BT ordinary shares normally vest at the end of five years but only if BT's total shareholder return meets a pre-determined target related to other companies in the FTSE 100.

(b) Awards under the Deferred Bonus Plan were granted in respect of the respective previous years's performance. The shares are held in trust and transferred to the executive at the end of the third year.

(c) Awards under the incentive plan normally vest at the end of three years but only if BT's total return meets a pre-determined target related to other companies in the FTSE 100.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Directors' remuneration (continued)

Interests in BT (continued)

	Year to 31 March		
	2000	2001	2002
	pence	pence	pence
Closing BT share price at the end of the period	1175	510	280
Price range in period:			
Minimum	889	469	216 ^(a)
Maximum	1513	1172	600

(a) The lowest price in the year was subsequent to the demerger of mmO₂, where BT shareholders were issued with one mmO₂ share for each BT share. The relative share values on the date of demerger, 19 November 2001, were £2.86 and £0.83 for BT and mmO₂, respectively.

21. Pensions

SSAP 24—"Accounting for Pension Costs"

Pension costs in respect of the Yell Pension Plan ("YPP"), the BT Pension Scheme ("BTPS") and the defined-contribution schemes were:

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March		1 April to 22 June 2001	22 June 2001 to 31 March 2002
	2000	2001	2001	2002
	£	£	£	£
	(in millions)			
Amounts expensed for YPP (defined-benefit section)	3.4	6.2	1.0	4.7 ^(a)
Amounts charged from BTPS	1.9	1.6	0.5	0.9 ^(b)
Amounts expensed for defined-contribution schemes	0.4	1.1	0.4	0.8
Total	5.7	8.9	1.9	6.4

(a) From 1 November 2001 includes cost in respect of the members transferred from the BTPS.

(b) For the period 1 April 2001 to 1 November 2001.

Yell Pension Plan (YPP)—Defined-benefit scheme

With effect from 1 October 2001, a defined-contribution section was established in the YPP and the defined-benefit section was closed to new entrants.

The pension costs for the years ended 31 March 2001 and 31 March 2002 in respect of the defined-benefit schemes of the YPP were based on the valuation as at 6 April 1999. The pension cost for the year ended 31 March 2000 was based on the valuation at 6 April 1996. The valuations, carried out by

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Pensions (continued)

professionally qualified independent actuaries, used the projected unit method in conjunction with a discounted value of assets. The principal assumptions used and the results of the valuation are set out below:

	6 April 1996	6 April 1999
	Rates per annum %	
Valuation method	Projected unit	Projected unit
Return on existing and future assets	9.0	8.0
Average increase in retail price index	5.0	4.0
Average future increases in wages and salaries	7.5	6.0
Average increase in pensions	4.5	3.8
Dividend growth	4.5	4.8

At the last valuation date the market value of assets was £30.9 million. The results of the valuation show that the assets of the scheme were sufficient to cover 91.0% of the benefits that had accrued to members by that date after allowing for expected future increases in salaries. The next valuation will be performed as at 5 April 2002, and is expected to be available in the second quarter of the year ending 31 March 2003.

In the periods from 1 April to 22 June 2001 and 22 June 2001 to 31 March 2002, the Yell Group made regular contributions totalling £1.0 million and £4.7 million, respectively, to the defined-benefit section (including contributions from 1 November 2001 in respect of members transferring from BTPS) (year ended 31 March 2001—£3.8 million, year ended 31 March 2000—£3.4 million). In March 2001 the Yell Group made a special contribution of £2.4 million in respect of the deficit in the YPP. At 31 March 2002, the provision/prepayment held on the balance sheet in respect of this plan was £nil (year ended 31 March 2001—£nil, year ended 31 March 2000—£nil).

The YPP assets are invested in UK and overseas equities, UK and overseas properties, fixed interest and index linked securities, deposits and short-term investments. The assets are held in separate trustee administered funds.

BT Pension Scheme (BTPS)—Defined-benefit scheme

Prior to the acquisition of the Yell Group from BT, the Yell Group participated in a pension scheme operated by BT for its employees and those of certain of its subsidiaries. The scheme provided benefits based upon final pensionable pay. The assets of the scheme were held in a separate trustee administered fund. Pension costs were charged to the profit and loss account so as to spread the cost over the service lives of all employees in the scheme. Actuarial surpluses or deficits were accounted for by BT. The contributions were determined by a qualified actuary on the basis of valuations undertaken at intervals of not more than three years.

The last formal actuarial valuation of the BTPS was performed as at 31 December 1999, using the projected unit method. At that date, the assets were sufficient to cover about 97.0% of the liabilities. The major assumptions were that, over the long term, the return on existing assets would be 5.5% per annum (allowing for real equity dividend growth of 1.0% per annum) and on future contributions would be 7.1% per annum, the retail price index would increase at an average of 3.0% per annum and that salaries would increase at an average of 4.8% per annum.

Prior to 22 June 2001, the Yell Group recognised pension costs from this scheme as they were billed from the BT group. From 22 June to 31 October 2001, the Yell Group had a special arrangement to allow it

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Pensions (continued)

to continue to participate in the BTPS. With effect from 1 November 2001, the Yell Group ceased to participate in the BTPS and following this cessation employees in the scheme at the date of transfer, who elected to do so, were transferred to the YPP where they are receiving substantially similar benefits to the BTPS. A share of BTPS assets, allocated on the basis of past service, will be transferred to the YPP in due course. The transfer value is calculated using principal assumptions that investment returns would be 7.12% per annum, salaries would increase by 4.80% per annum, and pensions would increase by 3.00% per annum. This calculated past service reserve is adjusted by applying the ratio of 2.96% to the dividend yield on the FT Actuaries All Share Index at the transfer date. The amount transferred will be at least equal to the value of the benefits on the government minimum funding requirement basis as at the date of payment.

Defined-contribution schemes

In addition to the defined-contribution section of the YPP, Yellow Book sponsor a 401(k) plan for the majority of their employees in the United States. The plan allows employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. Yellow Book matches a percentage of the employee contributions up to certain limits. The assets of the plan are held separately from those of Yellow Book in an independently administered fund.

The pension cost in respect of these schemes represents contributions payable to the funds and amounted to £0.4 million and £0.8 million in the periods from 1 April to 22 June 2001 and 22 June 2001 to 31 March 2002, respectively (year ended 31 March 2001—£1.1 million, 2000—£0.4 million in the seven months ended 31 March 2000). Outstanding contributions amounted to £0.4 million as at 31 March 2002 (2001—£1.1 million, £0.2 million). These are included in other creditors (note 15).

FRS 17—"Retirement benefits"

A valuation of the YPP for the purposes of FRS 17 was carried out as at 31 March 2002 by a qualified independent actuary. The following key assumptions were used:

	<u>31 March 2002</u> % per annum
Discount rate	6.0
Salary increases	4.2
Pension increases	2.7
Inflation rate	2.7

The assets in the YPP at 31 March 2002 and the annual expected rates of return for the year ending 31 March 2003 were:

	%	£ (in millions)
Equities	7.6	38.6
Bonds	5.5	6.4
Property	7.1	1.6
Other	3.5	3.5
Bulk transfer receivable from BTPS	7.6	52.9
Total		103.0

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Pensions (continued)

The 7.3% weighted average rate of return calculated from the above table does not take into consideration the investment strategy to be implemented when the bulk transfer is received. The Yell Group expects a long-term rate of return on these assets of 6.2% after implementation of the strategy, yielding a 6.6% expected rate of return on total assets.

The following amounts as at 31 March 2002 were measured in accordance with the requirements of FRS 17:

	Consolidated (Successor) 31 March 2002 £ (in millions)
Total market value of assets	103.0
Present value of scheme liabilities	<u>(104.6)</u>
Deficit in the scheme	<u>(1.6)</u>
Related deferred tax asset	<u>0.5</u>
Net balance sheet liability	<u><u>(1.1)</u></u>

If the above amounts had been recognised in the financial statements, the Yell Group's net assets (liabilities) and profit and loss account at 31 March 2002 would be as follows:

	Consolidated (Successor) 31 March 2002 £ (in millions)
Net liabilities excluding pension liability	(49.9)
Pension liability	<u>(1.1)</u>
Net liabilities including FRS 17 pension liability	<u><u>(51.0)</u></u>
Profit and loss account (deficit) excluding pension liability	(50.9)
Pension reserve	<u>(1.1)</u>
Profit and loss account (deficit) including FRS 17 pension liability	<u><u>(52.0)</u></u>

22. Employee stock option plans

In March 2002, the Yell Group introduced three stock option plans, the Yell Group Limited Employee Plan, the Yell Group Limited US Employee Plan and the Yell Group Limited Senior Manager Incentive Plan. The plans have been set up to provide employees with option awards that may not be exercised until at least six months after an exit event (e.g. sale or quotation). A charge in respect of this scheme will arise only on the occurrence of such an event. Under these plans, 3,472,048 options were granted in March 2002 at an exercise price of £0.01 each. In addition, a liability will arise for UK National Insurance in respect of these options, being 11.8% of the difference between the share price on the date of exercise and the exercise price.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

23. Related party transactions

Transactions with BT

The Yell Group entered into various transactions with its former parent, BT. In addition to those referred to in notes 1, 5, 13, 14 and 21, these included the following:

	Combined (Predecessor)		Consolidated (Successor)
	Year ended 31 March		Year ended 31 March
	2000	2001	2002
	£	£	£
	(in millions)		
Telecommunication services ^(a)	9.3	11.5	9.8
Building rental ^(a)	5.6	5.8	0.2
Motor vehicles costs ^(b)	4.9	4.9	1.8
Management fee ^(c)	2.8	0.1	–
Data capture ^(a)	0.7	2.1	0.3
Commission on BT Phonebooks ^(a)	(3.7)	(3.1)	(3.4)
Other	3.8	6.1	4.3
Total transactions with BT	23.4	27.4	13.0

(a) Transactions are at amounts that would have been incurred had they been purchased from an independent third party.

(b) Transactions are charged on an allocated cost basis.

(c) Represents fees for certain central services including group finance and accounting services, treasury management and employee benefit administration. Costs are allocated based on an estimate of actual service provided.

In addition, prior to 22 June 2001, the Yell Group performed billing services for the BT group on an agency basis. In this capacity, the Yell Group collected and forwarded £9.5 million in the year ended 31 March 2002 (2001—£11.8 million, 2000—£12.2 million). The Yell Group also purchased from BT fixed assets amounting to £12.1 million in the year ended 31 March 2001 (2000—£2.3 million), of which £11.7 million was outstanding at 31 March 2001 and was paid in the year ended 31 March 2002.

The balance outstanding with BT at each year end is shown separately in notes 13 and 15.

Transactions with funds managed or advised by Apax Partners & Co. and Hicks Muse

From the date of acquisition from BT, funds managed or advised by Apax Partners & Co. and Hicks Muse have held deep discount bonds issued by the Company of £549.0 million subscribed amount. Details of these bonds are given in note 13. None of the bonds have been redeemed during the year to 31 March 2002.

Under the arrangement put in place following the acquisition from BT, Apax Partners Managing Entities and affiliates of Hicks Muse have charged monitoring fees of £1.9 million, of which £1.1 million remains outstanding at 31 March 2002.

Transaction costs charged to the Yell Group on 22 June 2001 from Apax Partners Managing Entities and affiliates of Hicks Muse were £15.0 million each.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Auditors' remuneration

The following fees were paid or are payable to the Yell Group's auditors for the years ended 31 March 2000, 31 March 2001 and 31 March 2002.

	Combined (Predecessor)			Consolidated (Successor) 22 June 2001 to 31 March 2002
	Year ended 31 March		1 April to 22 June 2001	
	2000	2001	2001	
	£	£	£	£
	(in millions)			
Yell Group audit fees	0.2	0.2	–	0.4
Other services:				
Accounting and tax advice on purchase from BT	–	–	–	1.6
Accounting and tax advice on US reporting and bond issuance	–	–	–	0.8
Quarterly reviews	–	–	–	0.1
Other	0.2	0.2	–	0.2
Total	0.4	0.4	–	3.1

Prior to the acquisition on 22 June 2001, the audits of the combined financial statements of the operations comprising the Yell Group were carried out in connection with a proposed demerger of the Yell Group by BT. The cost of these audits (£0.7 million) was borne by BT and are not included in the auditors' remuneration disclosed above. The auditors' remuneration for audit services above for the two years ended 31 March 2001 relates only to the audits of certain UK statutory accounts and accounts prepared for regulatory purposes.

25. Post balance sheet events

On 16 April 2002, the Yell Group announced the completion of the acquisition of McLeodUSA Publishing Company ("McLeod"), one of the largest independent directory publishers in the United States, from its parent company McLeodUSA Incorporated, for \$600.0 million (£421.0 million) plus expenses of approximately \$25.0 million (£17.0 million). McLeod published 260 directory editions during the year ended 31 December 2001 and generated turnover of approximately \$300.0 million (£209.2 million). The acquisition doubled the number of states in which the Yell Group operates within the United States.

At 31 March 2002 the Yell Group had received bank commitments for \$250.0 million (£176.1 million) of senior bank financing and a \$250.0 million (£176.1 million) bridge facility, which were used together with additional funds from existing investors and unrestricted cash to finance the McLeod acquisition.

The bridge facility is repayable on three days' notice at the discretion of Yell Group until 16 April 2003, at which time it converts to rollover notes due August 2011. Interest is payable monthly on \$200 million (£140.9 million) of the facility and is capitalised on the remaining \$50 million (£35.2 million). The initial interest rate is the higher of 10.1% or LIBOR plus 8.0% increasing to the higher of 12.6% or LIBOR plus 10.5% if the facility is not repaid by 30 September 2002. However, the interest rate is capped at 14.4%.

26. United States Generally Accepted Accounting Principles

The Yell Group's combined and consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP"), which differ in certain respects from those applicable in the United States ("US GAAP").

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

I Differences between United Kingdom and United States generally accepted accounting principles

The following are the main differences between UK and US GAAP which are relevant to the Yell Group's financial statements.

(a) *Directories in progress*

Under UK GAAP, the cost of directories in progress deferred in stock represents direct fixed and variable costs as well as directly attributable overhead costs. Under US GAAP, the deferred costs associated with directories in progress would comprise only the incremental direct costs associated with selling and creating the directories. Directories in progress acquired in a business purchase are valued at replacement value under UK GAAP and at fair value under US GAAP. Under UK GAAP this difference is included in goodwill.

(b) *Pensions*

Under both UK and US GAAP, pension costs are charged against profits over employees' working lives. Differences between the UK and US GAAP figures arise from the requirement to use different actuarial methods and assumptions and a different method of amortising surpluses or deficits, when accounting for a single employer scheme.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

(c) Goodwill and other intangibles

Under UK GAAP the purchase price of acquisitions is allocated to the fair market value of identifiable tangible assets, with the excess recorded as goodwill with an estimated economic life of 20 years. Under US GAAP the purchase price is allocated to the fair value of identifiable tangible and intangible assets, including acquired customer relationships that are amortised over eight to nine years and brand names that are amortised over 40 years. The excess is recorded as goodwill and amortised over 20 years until the adoption of Statement of Financial Accounting Standards No 142 "Goodwill and Other Intangible Assets" on 1 April 2002, at which time goodwill will no longer be amortised subject to annual impairment tests. Intangible assets under US GAAP comprise:

	<u>Combined (Predecessor)</u> <u>At 31 March</u> <u>2001</u> £ (in millions)	<u>Consolidated (Successor)</u> <u>At 31 March</u> <u>2002</u> £
Gross book value		
Acquired customer relationships	116.1	430.0
Brand names	–	550.0
Goodwill	<u>322.7</u>	<u>992.3</u>
Total gross book value under US GAAP	<u>438.8</u>	<u>1,972.3</u>
Accumulated amortisation		
Acquired customer relationships	(22.2)	(72.4)
Brand names	–	(10.6)
Goodwill	<u>(7.8)</u>	<u>(38.5)</u>
Total accumulated amortisation under US GAAP	<u>(30.0)</u>	<u>(121.5)</u>
Net book value in accordance with US GAAP	<u>408.8</u>	<u>1,850.8</u>
Net book value in accordance with UK GAAP	<u>429.3</u>	<u>1,640.5</u>
Estimated UK to US GAAP adjustments	<u>(20.5)</u>	<u>210.3</u>

Additionally, under US GAAP, the difference between the retail value and net replacement value of directories in progress is included in directories in progress and charged against profits when the directories are delivered. Under UK GAAP the difference is included in goodwill.

(d) Derivative financial instruments

Certain financial risks are managed through the use of financial instruments, mainly interest rate swaps/collars. These contracts provide economic hedging to the Company; however, they do not qualify as hedges for US GAAP accounting purposes under Statement of Financial Accounting Standards No 133 "Accounting for Derivative Instruments and Hedging Activities". Derivative financial instruments are recorded on the balance sheet at fair value. Therefore, unrealised gains/losses must be recorded in the profit and loss account at each reporting date. For the interest rate derivative contracts, a loss of £11.3 million would have been recorded for the year ended 31 March 2002 under US GAAP, within interest expense. This loss reflects the reduction in the fair value of the US dollar and pounds sterling floating interest rate swaps since the contracts were agreed.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

(e) *Management incentive plans*

Under UK GAAP, certain incentive payments made by BT to senior management were accounted for as an adjustment to the Yell Group purchase price. Under US GAAP, these payments would be treated as an expense that would be 'pushed down' to the acquired company.

(f) *Deferred taxation*

The reconciling adjustment for deferred taxation comprises the tax effects arising from the other UK to US GAAP adjustments listed in the reconciliation below.

At 31 March 2002, the adjustment to decrease shareholders' funds (deficit) of £235.0 million (2001—£13.5 million increase) included the tax effect of other US GAAP adjustments. This comprised an adjustment increasing current deferred tax assets by £15.1 million (2001—£nil) increasing non-current deferred tax assets by £nil at 31 March 2002 (2001—£13.5 million increase) which were net of a £71.3 million (2001—£40.1 million), valuation allowance for deferred tax assets arising from operations in the United States, and £250.1 million (2001—£nil) of non-current deferred tax liabilities. Deferred tax assets arising from operations in the United Kingdom are considered to be recoverable for all years presented.

For the periods from 1 April to 22 June 2001 and 22 June 2001 to 31 March 2002, the US GAAP deferred taxation adjustment to shareholders' deficit relates largely to the deferred tax liabilities arising on the intangible assets other than goodwill arising as a result of the acquisition from BT.

(g) *Gross profit under US GAAP presentation*

Under UK GAAP, doubtful debt expenses are included in cost of sales. Under US GAAP, these expenses do not meet the criteria to be classified as cost of sales and thus would be included in administrative expenses (see note 12).

(h) *Asset impairment*

Under UK GAAP, an impairment loss is recognised to the extent that an asset's carrying amount cannot be recovered either by selling the asset or by discounted future earnings from operating the asset. Under US GAAP, an impairment loss is only recognised when the undiscounted future cash flows from operating the asset are less than the carrying amount. The impairment loss is measured as the amount the carrying value exceeds the fair value of the asset. No impairment losses had to be recognised by the Yell Group under either UK GAAP or US GAAP for any of the periods presented.

II Net income and shareholders' funds (deficit) reconciliation statements

The following statements summarise estimated adjustments, gross of their tax effect, which reconcile net income and shareholders' funds (deficit) from that reported under UK GAAP to that which would have been reported had US GAAP been applied.

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

Net income

	<u>Combined (Predecessor)</u>			<u>Consolidated (Successor)</u>	
	<u>Year ended 31 March</u>		<u>1 April to 22 June 2001</u>	<u>22 June 2001 to 31 March 2002</u>	
	<u>2000</u>	<u>2001</u>	<u>2001</u>	<u>2002</u>	
	£	£	£	£	
		(in millions)			
Profit (loss) for the financial period under UK GAAP	124.6	102.7	15.8	(47.2)	
Adjustment for:					
Directories in progress					
– Deferred costs	(2.8)	(11.0)	(6.2)	4.3	
– Acquisition accounting ^(a)	(25.5)	(0.9)	–	(94.1)	
Pensions	(1.0)	1.5	(0.4)	(0.2)	
Goodwill and other intangibles	(3.9)	(7.9)	(2.0)	(56.1)	
Derivative financial instruments	–	–	–	(11.3)	
Management incentive plans ^(a)	–	–	(24.1)	–	
Deferred taxation	(1.1)	0.4	(1.3)	56.7	
Net income (loss) as adjusted for US GAAP ...	<u>90.3</u>	<u>84.8</u>	<u>(18.2)</u>	<u>(147.9)</u>	

(a) Represents certain one-off adjustments that arose as a result of acquisitions, that only affect the year being reported.

Shareholders' funds (deficit)

	<u>Combined (Predecessor)</u>	<u>Consolidated (Successor)</u>
	<u>At 31 March 2001</u>	<u>At 31 March 2002</u>
	£	£
	(in millions)	
Shareholders' funds (deficit) under UK GAAP	394.3	(49.9)
Adjustment for:		
Directories in progress	(70.4)	(72.4)
Pensions	2.1	7.6
Goodwill and other intangibles	(20.5)	210.3
Derivative financial instruments	–	(11.3)
Deferred taxation	13.5	(235.0)
Shareholders' funds (deficit) as adjusted for US GAAP	<u>319.0</u>	<u>(150.7)</u>

III Consolidated statements of cash flows

Under UK GAAP, the Consolidated Statements of Cash Flows are presented in accordance with UK Financial Reporting Standard No 1 (FRS 1). The statements prepared under FRS 1 present substantially the same statements as that required under Statement of Financial Accounting Standards No 95 "Statement of Cash Flows" ("SFAS 95").

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

Under SFAS 95, cash and cash equivalents include cash and short-term investments with original maturities of three months or less. Under FRS 1, cash comprises cash in hand and at bank and overnight deposits, net of bank overdrafts.

Under FRS 1, cash flows are presented for operating activities; returns on investments and servicing of finance; taxation; capital expenditure and financial investments; acquisitions and disposals; dividends paid to the Company's shareholders; and financing. SFAS 95 requires a classification of cash flows as resulting from operating, investing and financing activities.

Cash flows under FRS 1 in respect of interest and finance fees paid and taxation would be included within operating activities under SFAS 95.

The following statements summarise the statements of cash flows as if they had been presented in accordance with US GAAP.

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March	1 April to 22 June		22 June 2001 to 31 March 2002
	2000	2001	2001	2002
	£	£	£	£
	(in millions)			
Net cash provided by operating activities	181.8	176.5	28.8	48.3
Net cash used in investing activities	(420.2)	(72.0)	(16.9)	(1,890.9)
Net cash provided by (used in) by financing activities	243.1	(84.7)	12.4	1,942.7
Net increase in cash and cash equivalents at end of the period ^(a)	4.7	19.8	24.3	100.1
Effects of exchange rate changes	–	0.3	–	–
Cash and cash equivalents at beginning of the period	–	4.7	24.8	–
Cash and cash equivalents at end of the period ^(a)	4.7	24.8	49.1	100.1

(a) Cash and cash equivalents under US GAAP are the same as cash at bank and in hand under UK GAAP for all periods presented.

IV Unaudited pro forma financial information

The following table reflects unaudited condensed pro forma financial information under UK GAAP as if the acquisition of Yell Group from BT had occurred as of 1 April 2000, for the years ended 31 March 2001 and 2002.

	Year ended 31 March	
	2001	2002
	£	£
	(in millions)	
Group turnover	774.3	865.4
Loss for the year	(83.2)	(71.7)

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

V Pensions

The following position for the YPP is computed in accordance with US GAAP pension accounting rules under Statement of Financial Accounting Standards No 87 “Employers’ Accounting for Pensions” (“SFAS 87”), the effect of which is shown in the above reconciliation statements.

The components of the pension cost for the YPP comprised:

	Combined (Predecessor)			Consolidated (Successor)
	Year ended 31 March 2000	2001	1 April to 22 June 2001	22 June 2001 to 31 March 2002
	£	£	£	£
	(in millions)			
Service cost	4.4	4.9	1.4	5.8
Interest cost	2.1	2.7	0.8	4.5
Expected return on scheme assets	(2.2)	(2.9)	(0.8)	(5.5)
Amortisation of net obligation at date of limited application of SFAS 87	(0.1)	(0.1)	0.1	–
Recognised gains	0.2	0.1	–	–
YPP pension costs for the period under US GAAP	4.4	4.7	1.5	4.8

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

The statements required to be disclosed in accordance with Statement of Financial Accounting Standard No 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB Statements No 87, 88 and 106" concerning the funded status of the YPP, based on the valuation at 6 April 1999, is as follows:

	Combined (Predecessor) At 31 March 2001 £	Consolidated (Successor) At 31 March 2002 £
	(in millions)	
Changes in benefit obligation		
Present value of scheme liabilities at the beginning of the year	42.3	50.1
Service cost	4.9	7.2
Interest cost	2.7	5.3
Employees' contributions	1.8	2.5
Actuarial movement	(1.1)	(1.5)
Benefits paid or payable	(0.5)	(0.3)
Anticipated transfer in from BTPS on acquisition	—	46.3
Benefit obligation at the end of the year	42.3	50.1
Changes in scheme assets		
Market value of scheme assets at the beginning of the year	38.4	41.7
Actual return on scheme assets	(4.2)	(2.2)
Employer's contributions	6.2	5.7
Employees' contributions	1.8	2.5
Benefits paid or payable	(0.5)	(0.3)
Anticipated transfer in from BTPS on acquisition	—	55.6
Market value of assets at the end of the year	41.7	103.0
Funded status under US GAAP		
Projected benefit obligation in excess of scheme assets	(8.4)	(6.6)
Unrecognised net assets at date of initial application of SFAS 87 ^(a)	(0.5)	—
Other unrecognised net actuarial losses	11.0	14.2
Prepaid pension costs under US GAAP	2.1	7.6

(a) The surplus on the funded status at the date of initial application was being amortised over 16 years from 1 April 1988.

The benefit obligation for the main pension scheme was determined using the following assumptions at 1 April 2000, 1 April 2001 and 1 April 2002:

	Rates (per annum)%		
	2000	2001	2002
Discount rate	6.00	6.25	6.00
Rate of future pay increases	4.50	4.75	4.20
Pension increases	3.00	3.00	2.70
Expected return on assets	7.00	6.50	7.35

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

For US GAAP purposes, multi-employer accounting was applied in respect of past participation in the BTPS for the period until 1 November 2001. Accordingly, the annual pension expense in respect of the BTPS is equal to the annual employer contributions, as is the case under UK GAAP.

Beginning 1 November 2001, the date of the transaction, the participants in the BTPS became participants of YPP, which is a single employer scheme. The SFAS 87 disclosures above for 2002 reflect the additional participants as a result of the transaction.

As a result of the acquisition at 22 June 2001, the surplus of £6.1 million (made up of a £3.1 million deficit in the YPP and a £9.2 million surplus in respect of the transfer from the BTPS) was recognised on the balance sheet as part of the purchase price allocation.

VI Recent US GAAP Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No 141, "Business Combinations" ("SFAS 141"), which supersedes APB opinion No 16 "Business Combinations" and Statement of Financial Accounting Standards No 38 "Accounting for Pre-acquisition Contingencies of Purchased Enterprises". SFAS 141 addresses financial accounting and reporting for business combinations and requires that all business combinations within the scope of SFAS 141 be accounted for using only the purchase method. SFAS 141 is required to be applied for all business combinations initiated after 30 June 2001. Yell Group management does not expect the adoption of this standard to have a material impact on the financial statements.

Also in June 2001, the FASB issued Statement of Financial Accounting Standards No 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), which supersedes APB opinion No 17 "Intangible Assets". SFAS 142 addresses how goodwill should be accounted for in the consolidated financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognised in the consolidated financial statements. Accordingly, SFAS 142 will be adopted from 1 April 2002. Yell Group management is currently evaluating the impact SFAS 142 will have on the consolidated financial statements. The immediate impact on adoption will be the cessation of goodwill amortisation, which amounted to £45.7 million in the financial year ended 31 March 2002.

In August 2001, the FASB issued Statement of Financial Accounting Standards No 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The objectives of SFAS 144 are to address significant issues relating to the implementation of Statement of Financial Accounting Standards No 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"), and to develop a single accounting model based on the framework established in SFAS 121, for long-lived assets to be disposed of by sale. The standard requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, the standard expands the scope of discontinued operations to include all components of any entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. This statement is effective for the financial years beginning after 15 December 2001. Yell Group management does not expect the adoption of this standard to have a material impact on the financial statements.

In April 2002, the FASB issued Statement of Financial Accounting Standards No 145, "Rescission of FASB Statements No 4, 44 and 64, Amendment of FASB Statement No 13 and Technical Corrections" ("SFAS 145"). This standard will require gains and losses from extinguishment of debt to be classified as extraordinary items only if they meet the criteria of unusual and infrequent in Opinion 30, "Reporting the

YELL GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. United States Generally Accepted Accounting Principles (continued)

Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual Infrequently Occurring Events and Transactions”. Any gain or loss on extinguishment will be recorded in the most appropriate line item to which it relates within net income before extraordinary items. SFAS 145 is effective for fiscal years beginning after 15 May 2002; however, certain sections are effective for transactions occurring after 15 May 2002. The Yell Group does not expect the adoption of this standard to have a material effect on its financial statements.

27. Supplemental Guarantor Information

The notes issued by Yell Finance B.V. (the “Issuer”) pursuant to Rule 144A under the US Securities Act 1933 and described in note 13 are guaranteed by Yellow Pages Limited and certain subsidiaries (the “Guarantor”). Yellow Pages Limited and certain subsidiaries are the wholly owned guarantor subsidiaries of Yell Finance B.V. who jointly and severally, fully and unconditionally guarantee the debt securities that were issued. Yellow Pages Limited has granted a security interest over substantially all of its assets including a fixed charge over certain of its properties, debts, bank accounts, insurances, intellectual property and specified agreements and a floating charge over all of its other undertakings and assets. Substantially all of Yell Finance B.V.’s income and cash flow is generated by its subsidiaries. As a result, funds necessary to meet the debt service obligations are provided in large part by distributions or advances from Yellow Pages Limited and its subsidiaries.

Investments in subsidiaries are accounted at cost; accordingly, entries necessary to consolidate Yell Finance B.V. and the Guarantor and its consolidated subsidiaries are reflected in the eliminations column. Separate complete financial statements of Yell Finance B.V. and the Guarantor would not provide additional material information that would be useful in assessing the financial composition of Yellow Pages Limited and subsidiaries.

The following information sets forth the consolidated profit and loss accounts and cash flow statements for the period 22 June 2001 to 31 March 2002 and the consolidated balance sheets at 31 March 2002.

The Yell Group has not provided reconciliations from UK GAAP to US GAAP for the columns relating to the guarantor entities as such reconciliations would not materially affect an investor’s understanding of the nature of the guarantee. All reconciling items as shown in note 26 relate to the Guarantor.

YELL GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

Consolidated (Successor)				
22 June 2001 to 31 March 2002				
(Unaudited)	Yell Finance B.V. (Issuer of notes)	Yellow Pages Limited (Guarantor)	Eliminations	Consolidated
	£	£ (in millions)	£	£
Group turnover	–	696.3	–	696.3
Cost of sales	–	(315.9)	–	(315.9)
Gross profit	–	380.4	–	380.4
Distribution costs	–	(18.5)	–	(18.5)
Administrative expenses	–	(243.2)	–	(243.2)
Total operating profit	–	118.7	–	118.7
Interest payable	(96.2)	(160.9)	96.2	(160.9)
Interest receivable	96.2	2.3	(96.2)	2.3
Net interest payable	–	(158.6)	–	(158.6)
Profit (loss) on ordinary activities before taxation	–	(39.9)	–	(39.9)
Tax on profit (loss) on ordinary activities	(0.3)	(7.0)	–	(7.3)
(Loss) profit for the financial period	<u>(0.3)</u>	<u>(46.9)</u>	<u>–</u>	<u>(47.2)</u>

YELL GROUP

CONSOLIDATED CASH FLOW STATEMENTS

	Consolidated (Successor)			
	22 June 2001 to 31 March 2002			
(Unaudited)	Yell Finance B.V. (Issuer of notes)	Yellow Pages Limited (Guarantor)	Eliminations	Consolidated
	£	£ (in millions)	£	£
Net cash inflow from operating activities	–	158.7	–	158.7
Returns on investments and servicing of finance				
Interest paid	(2.8)	(83.1)	–	(85.9)
Finance fees paid	(19.1)	(30.3)	–	(49.4)
Net cash outflow for returns on investments and servicing of finance . .	(21.9)	(113.4)	–	(135.3)
Taxation	–	(0.4)	–	(0.4)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	–	(9.7)	–	(9.7)
Sale of tangible fixed assets	–	1.1	–	1.1
Amounts loaned to subsidiaries	(1,019.3)	–	1,019.3	–
Investment in subsidiary	(1.0)	–	1.0	–
Net cash (outflow) inflow for capital expenditure and financial investment . .	(1,020.3)	(8.6)	1,020.3	(8.6)
Acquisitions				
Purchase of subsidiary undertakings, net of cash acquired with subsidiary	–	(1,906.4)	–	(1,906.4)
Net cash outflow for acquisitions	–	(1,906.4)	–	(1,906.4)
Net cash (outflow) inflow before financing	(1,042.2)	(1,870.1)	1,020.3	(1,892.0)
Financing				
Issue of ordinary share capital	1.0	1.0	(1.0)	1.0
Proceeds from third-party borrowings	1,002.2	989.9	–	1,992.1
Proceeds from parent company borrowings	539.0	1,019.3	(1,019.3)	539.0
Third-party borrowings repaid	(500.0)	(40.0)	–	(540.0)
Net cash inflow (outflow) from financing	1,042.2	1,970.2	(1,020.3)	1,992.1
Increase in net cash in the period	–	100.1	–	100.1

YELL GROUP

CONSOLIDATED BALANCE SHEETS

	Consolidated (Successor)			
	At 31 March 2002			
(Unaudited)	Yell Finance B.V. (Issuer of notes)	Yellow Pages Limited (Guarantor)	Eliminations	Consolidated
	£	£ (in millions)	£	£
Fixed assets				
Intangible assets	–	1,640.5	–	1,640.5
Tangible assets	–	30.0	–	30.0
Investment	1.0	2.1	(1.0)	2.1
Total fixed assets	<u>1.0</u>	<u>1,672.6</u>	<u>(1.0)</u>	<u>1,672.6</u>
Current assets				
Stock	–	90.9	–	90.9
Debtors	–	337.3	–	337.3
Intercompany debtors	1,235.2	46.6	(1,281.8)	–
Cash at bank and in hand	–	100.1	–	100.1
Total current assets	<u>1,235.2</u>	<u>574.9</u>	<u>(1,281.8)</u>	<u>528.3</u>
Creditors: amounts falling due within one year				
Loans and other borrowings	–	(53.4)	–	(53.4)
Other creditors	(7.0)	(139.7)	–	(146.7)
Total creditors: amounts falling due within one year	<u>(7.0)</u>	<u>(193.1)</u>	<u>–</u>	<u>(200.1)</u>
Net current assets	<u>1,228.2</u>	<u>381.8</u>	<u>(1,281.8)</u>	<u>328.2</u>
Total assets less current liabilities ..	<u>1,229.2</u>	<u>2,054.4</u>	<u>(1,282.8)</u>	<u>2,000.8</u>
Creditors: amounts falling due after one year				
Loans and other borrowings	(1,182.4)	(868.3)	–	(2,050.7)
Intercompany loans	(46.6)	(1,235.2)	1,281.8	–
Total creditors: amounts falling due after one year	<u>(1,229.0)</u>	<u>(2,103.5)</u>	<u>1,281.8</u>	<u>(2,050.7)</u>
Net assets (liabilities)	<u>0.2</u>	<u>(49.1)</u>	<u>(1.0)</u>	<u>(49.9)</u>
Capital and reserves				
Share capital	1.0	1.0	(1.0)	1.0
Profit and loss account (deficit)	(0.8)	(50.1)	–	(50.9)
Equity shareholders' funds (deficit)	<u>0.2</u>	<u>(49.1)</u>	<u>(1.0)</u>	<u>(49.9)</u>

SCHEDULE II

YELL GROUP

VALUATION AND QUALIFYING ACCOUNTS

Valuation Allowances and Provisions	<u>Balance at beginning of year</u> £	<u>Charged to profit and loss</u> £	<u>Charged to other accounts/ acquired</u> £ (in millions)	<u>Deductions/ other</u> £	<u>Balance at end of year</u> £
22 June 2001 to 31 March 2002					
(Successor)					
Allowance for doubtful debts	55.6	65.2	–	(49.4)	71.4
Provisions for deferred compensation	–	–	–	–	–
Unrecognised net deferred tax assets	26.3	–	11.4	–	37.7
1 April to 22 June 2001					
(Predecessor)					
Allowance for doubtful debts	60.9	13.5	–	(18.8)	55.6
Provisions for deferred compensation	18.0	3.0	0.7 ⁽¹⁾	(21.7)	–
Unrecognised net deferred tax assets	22.8	–	3.5	–	26.3
Year ended 31 March 2001					
Allowance for doubtful debts	44.4	53.8	–	(37.3)	60.9
Provisions for deferred compensation	5.3	11.6	1.1 ⁽¹⁾	–	18.0
Unrecognised net deferred tax assets	7.9	–	14.9	–	22.8
Year ended 31 March 2000					
Allowance for doubtful debts	23.1	44.0	18.8 ⁽²⁾	(41.5)	44.4
Provisions for deferred compensation	–	5.3	–	–	5.3
Unrecognised net deferred tax assets	–	–	7.9	–	7.9

(1) Foreign exchange translation adjustment was charged to the statement of total recognised gains and losses in the respective periods.

(2) Balance on Yellow Book USA balance sheet at date of acquisition.

