

Being the best  
business information  
bridge between  
buyers and sellers  
means...

...achieving  
excellent results

### **Meet Greg**

**Greg Johnson**

**Senior Account Manager, Yellow Book**

"In my 20 years experience of selling Yellow Book advertising I haven't found two customers that are the same, but they all want the same thing – great results from their advertising. What motivates me is the satisfaction and reward I get from bringing success to my customers."

# ...providing the right service

Yell will be the best business information bridge between buyers and sellers in its markets, regardless of channel, time or location

We are committed to:

- Being there for our users 24 hours a day, 7 days a week
- Offering a wide choice of channels
- Providing users with more advertisers from whom to choose
- Providing advertisers with high quality business leads
- Continually developing our products and services

Our advertisers rely on us to provide advertising solutions that deliver quality business leads and our users trust and value the information we provide. Meeting their needs is what we do well, whether in Birmingham, Alabama or Birmingham, West Midlands.

Our integrated, cost-effective and easy to use products are available in printed, online and phone-based media.

**Yellow Book** is the oldest and largest independent classified telephone directory publisher in the US and has been putting buyers in touch with sellers since 1930. Today, Yellow Book's 565 editions cover 43 states and Washington DC. We distributed 82 million directories in FY05.

**Yellow Pages** is our UK printed classified directory. From a single directory in 1966, Yellow Pages has grown to 102 editions, covering the whole of the UK. In FY05 we distributed 28 million copies to homes and businesses.

**Yell.com** is our UK online advertising medium. It features almost 2 million UK businesses, with searchable information from more than 140,000 advertisers.

**Yellowbook.com** is the website of Yellow Book, featuring more than 570,000 advertisements, 31 million business listings and more than 107 million residential listings.

**Yellow Pages 118 24 7** is our operator-assisted phone-based directory information service. Launched in 2003 to replace Talking Pages, the service is firmly established as a niche player. In FY05 we received 7.2 million calls and featured more than 70,000 listed advertisers.

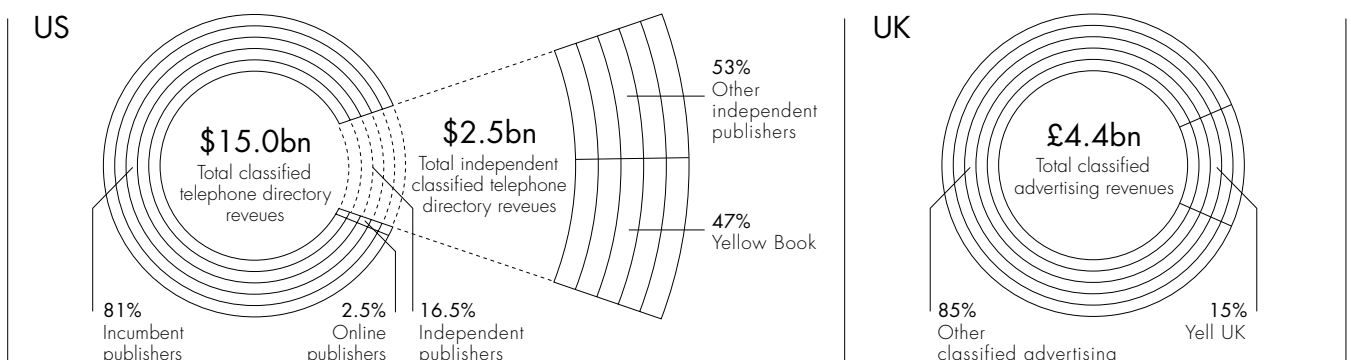
**Business Pages** is our printed business-to-business directory covering England, Scotland and Wales. In FY05 we published nine editions and distributed 2.2 million copies.

In the US and the UK we operate in the classified advertising market where we compete with a range of media such as other printed directories, local and national newspapers, online directories and providers of business and residential information over the phone. In 2004 this market was worth \$34.0 billion in the US and £4.4 billion in the UK. Despite increased competition, in the UK we have maintained our classified advertising market share at around 15% for more than five years. The majority of our advertisers are small businesses employing fewer than ten people.

In the US, Yellow Book is an independent publisher of classified telephone directories, that is, a publisher without ties to a parent telephone operating company. We are the largest independent publisher and have a 47% share of the independent sector which was worth \$2.5 billion in 2004. We compete predominantly with telephone directories published by the Regional Bell Operating Companies and by other large former telecom companies, collectively known as 'incumbents', as well as with other independent publishers.

The total US classified telephone directories sector of the classified advertising market was worth \$15 billion in 2004.

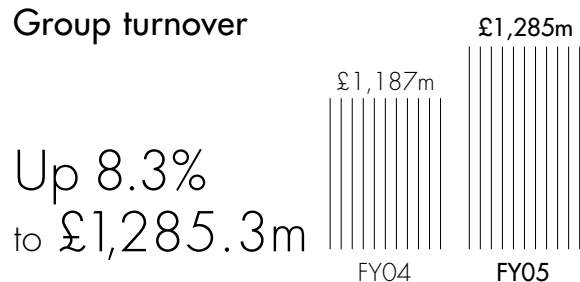
By realising our goals and maintaining the highest standards of corporate responsibility, we will deliver real value to our users and advertisers, our people, our shareholders and the communities in which we operate



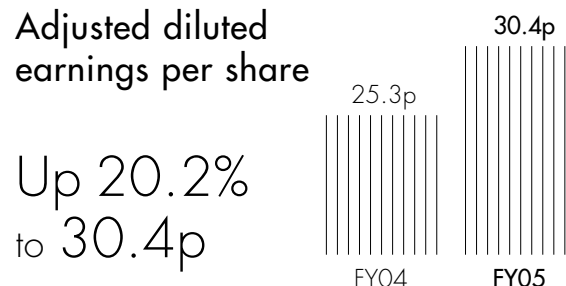
## Performance Highlights

Full year results to 31 March 2005

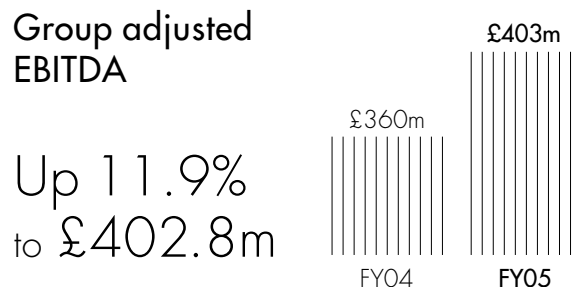
### Group turnover



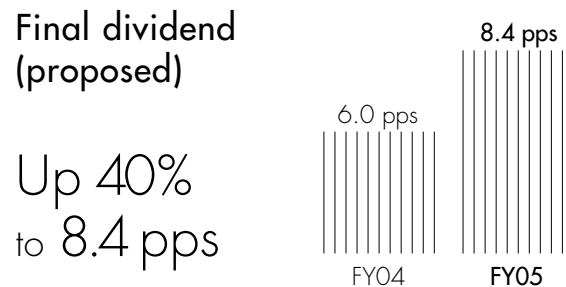
### Adjusted diluted earnings per share



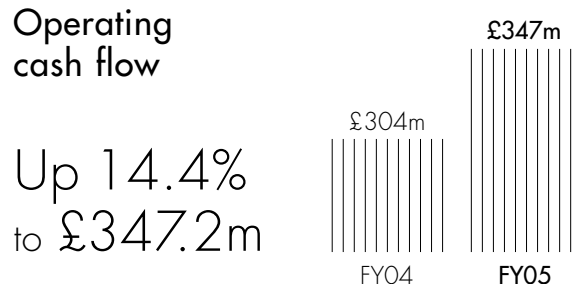
### Group adjusted EBITDA



### Final dividend (proposed)



### Operating cash flow



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...having the  
best team

### Meet Clare and Marion

**Clare Mooney**

**Customer Service Manager, Yell UK**

"Job sharing with Marion is the best thing I have done at Yell. I get the best from my work and my home life and I give both the right amount of attention. And the team like the arrangement too. Now other people are copying our approach."

**Marion Burke**

**Customer Service Manager, Yell UK**

"Being able to manage a team on a part-time basis works really well for all of us. I can use my 17 years experience, the team have two highly motivated managers and I spend the right time with my family. Everyone wins."

## Chairman's Statement

I am pleased to introduce the Yell Group plc annual report for the financial year ended 31 March 2005. This year, against a backdrop of tougher economic conditions and increasing competition, we continued to grow our business and have enjoyed success in all our operations.

We performed strongly across our portfolio of products and achieved expectations. We grew revenues by 8.3% to £1,285.3 million and grew adjusted EBITDA by 11.9% to £402.8 million. Operating cash flow was up 14.4% to £347.2 million and adjusted diluted earnings per share increased 20.2% to 30.4 pence.

Driving our financial performance is the continued growth in our customer base across all our products and we now have more than 950,000 advertisers across our US and UK markets.

We continued to expand geographically in the US and we now publish Yellow Book directories in 43 states and Washington DC. In the UK, we published a Yellow Pages directory in Kingston-upon-Hull for the first time and our Yellow Pages directory now covers all of the UK. Yell.com grew significantly during the year with a 37% increase in advertisers driving revenues up by 40%. Across the US and the UK we continued with our advertising campaigns to further raise awareness of our brands.

We take our Corporate Governance responsibilities very seriously. This year, the Board has adopted an integrated Governance and Responsibility programme, with ownership and responsibility for delivery shared by everyone in Yell. For the first time, we will publish a separate Corporate Responsibility report defining our approach and reporting on key achievements.

Our excellent product performance is delivered by our highly skilled people under the guidance of a strong management team. We now employ more than 8,600 people across the

US and UK, of whom some 5,300 are directly involved in selling our products. We are committed to developing our people and furnishing them with leadership of the highest quality, and in the UK, the success of our approach was confirmed in March 2005 with recognition under the Investors in People Leadership and Management Model. We continue to benefit from the transfer of skills and best practice between Yell UK and Yellow Book.

Our results in the UK have been achieved against a background of increasing competition and the regulatory undertakings on our Yellow Pages directories. With regard to this latter point, the Office of Fair Trading, having concluded a market study in April, have referred the supply of 'classified directory advertising services' to the Competition Commission for investigation. This investigation will take some time to complete. Meanwhile we will continue to focus on developing our business.

I would like to take this opportunity, on behalf of the shareholders and the Board, to thank John Condron and all the people in Yell for another excellent performance this year. The combined commitment of the Board, and the strength of both our management team and our people means that we are well placed to continue to grow our company.

In October we announced a 40% increase in our interim dividend and I am pleased to announce that the Board is recommending a final dividend of 8.4 pence per share, a 40% increase over last year, bringing the total dividend for the year to 12.6 pence per share.

Our Annual General Meeting will be held at 11am on 12 July 2005. At the end of this report you will find the Notice of AGM which gives full details of the meeting and the resolutions on which I ask you to vote. I look forward to meeting as many of you as possible at the AGM.

**Bob Scott**  
Chairman

# ...keeping our promises

## Meet Bill

Bill Klock

Director Product Branding and Training, Yellow Book

"I've been with Yellow Book for more than 17 years and I'm convinced that our consistent focus on our people and customers is one of the keys to our success. Both have the same goals, to develop and grow, and Yellow Book makes this happen."

## Chief Executive Officer's Review

I am delighted to report to you following another successful year for the Yell Group. Ours is a simple business – we connect buyers and sellers through easy-to-use products, across the US and UK. This year we have continued to expand both our advertiser base and the geographical areas we cover, and have continued to develop our products. We are the largest independent classified telephone directory publisher in the US and the largest player in the UK classified advertising market.

We pride ourselves on delivering our commitments and meeting expectations and this year was no exception. We have grown Group revenue and EBITDA, launched product innovations and grown our advertiser base in the US and the UK.

Across the Group, we continued with our strong, successful strategy of 'winning' new advertisers, 'keeping' existing ones and 'growing' the amount of advertising they take with us.

### Yell UK

In the UK, our printed directories performed in line with expectations, delivering 3.1% growth in revenue to £612.1 million. We acquired 117,000 new customers during the year, bringing our total number of printed product advertisers to 478,000. The retention rate declined slightly over the year reflecting increasing competition and the large numbers of new customers we have attracted over the past four years.

The price cap of RPI-6% on our Yellow Pages directories meant we reduced prices by an average of 3.3% over the year. At the same time, we grew the average revenue per advertiser by 3.5% to £1,280.

In February 2005, following a rescope of the original York directory, we published a directory in Kingston-upon-Hull for the first time. Yellow Pages now covers the whole of the UK. We also rescoped a further 12 directories, including five of the London directories, to make 23 new editions.

Research shows that 68% of Yellow Pages users go on to contact a business they find in the book and that 45% ultimately make a purchase. Overall more than eight out of ten advertisers are happy with the response from their Yellow Pages advertising.

Yell.com enjoyed strong performance, growing revenues by 40.3% to £36.2 million and EBITDA by 81.1% to £9.6 million. Underpinning these results was a 37% increase in searchable advertisers to more than 140,000. In March 2005 the site received more than 68 million page impressions.

In July 2004 we launched 'Super Search' which allows users to search using key words such as brand names or service terms. This facility greatly enhances the usefulness of search – an online survey showed that eight times more users preferred Super Search to basic search. Our aim is to move to a single search facility incorporating the benefits of both types of search.

In October we launched Yell.com mobile, the first mobile business information service of its kind in the UK. Yell.com mobile enables users to enter search requests and connect directly to the Yell.com business database whilst on the move. Users can also access maps and directions to the selected business.

Following its launch in March 2003, Yellow Pages 118 24 7 has firmly established itself as a niche telephone directory service. Our advertiser base grew to more than 70,000 advertisers and we received 7.2 million calls. The quality of our service was recognised in October 2004 when we were named as 'Best UK Service from a landline' in the Performance House 118 Tracker awards.

Early in 2005, we launched a new integrated marketing campaign aimed at the simultaneous promotion of the full Yell portfolio of book, phone and internet directories, underlining their complementary uses. The campaign strapline is 'Whatever you want just Yell' and appears on TV, radio and other media.

## Yellow Book USA

In the US, industry-wide classified telephone directory revenues grew by 1.3% to \$15.0 billion. Within the industry, it is the independent sector that is achieving most of the growth and Yellow Book, as the largest company in this sector, is a key driver.

Growth in group revenue and EBITDA was driven primarily by a strong performance by Yellow Book, which grew revenues 12.5% to £620.9 million and adjusted EBITDA 27.6% to £162.1 million. In dollar terms Yellow Book grew revenue by 22.3% and adjusted EBITDA by 38.9%.

The growth of Yellow Book has been achieved through a combination of new launches, growth of existing editions and acquisitions of other directories. We now have more than 455,000 Yellow Book advertisers across 565 directories.

Our priority this year was the growth of existing books, which was the major contributor to revenue growth at more than 11%. At the same time we increased the retention rate of our existing customers.

We also grew through the launch of new directories. This year, we published 19 new titles with a total circulation of 2.9 million books. These new directories contributed 3.1% revenue growth. In addition, we began selling directories in Atlanta and Las Vegas. The Las Vegas directory, which will publish in June 2005, will be the first directory published by an independent in this market and sales performance is ahead of expectations.

In the latter half of the year we acquired directories from two independent publishers which, coupled with Feist acquired in March 2004, contributed 8.4% revenue growth. As a result, we now publish directories in 43 states and Washington DC.

We continued to develop Yellowbook.com. We redesigned and relaunched the site, providing a more flexible search facility. Users can search by classification, business name or

within the content of adverts. They can also search for individual names. We also entered into agreements with a number of third parties under which Yellowbook.com will provide local search content, further increasing the number of users we reach. Yellowbook.com now has more than 570,000 advertisements, 18 million business listings and 107 million residential listings. Following the success of the new search engine in the UK, Yellowbook.com is adopting the use of Yell.com search technology.

Increasing awareness of the Yellow Book brand is at the heart of our advertising and our focus this year has been on campaigns which elevate national awareness in line with our expanded geographical footprint. In 2004, awareness of Yellow Book increased and Brandweek magazine ranked it at position 876 in 'America's Top 2000 Brands', up from position 1,768 the previous year. Early in 2005 we began advertising Yellowbook.com alongside the printed directory, to raise awareness of our online directory and reinforce that we have two appropriate directory products for different user situations.

## Our Operations

During the year we introduced 'Mobile Order Capture' to our UK sales force. So far, 40% of UK salespeople are able to capture customer order details at point of sale, eliminating paperwork and ensuring greater accuracy in, and more timely receipt of, our customer data. Mobile Order Capture will be rolled out to all UK salespeople over the next year and, ultimately, to the US.

Our UK online self-service system, 'Yell Direct', saw excellent growth in usage and registrations, with more than 40,000 customers signing up for the service. The site received more than 50,000 visits per month and more than 30,000 new businesses were brought into Yell through the Yell Direct free listing registration facility.



### LEADERSHIP AND MANAGEMENT

We achieved recognition under the Investors in People Leadership and Management Model

Our US advertising campaign elevates national awareness

667 Editions  
100m Copies

of Yellow Pages and Yellow Book directories

Our UK integrated advertising campaign

Yell UK were European Quality Award winners for the second time

We have continued to integrate the operations of the directory companies we have acquired in the US. We have consolidated our operations from ten directory systems to one and from eleven production centres to two.

To further improve customer service and sales efficiency in the US, we introduced our Interactive Customer Experience (ICE) during FY05. ICE is an intranet application that provides the sales organisation with secure access to vital customer information, including advertisements and directory pages.

### Regulation

In August 2004 the Office of Fair Trading (OFT) announced a review of Yell UK's undertakings in respect of our Yellow Pages directories. In November the OFT announced this review would take the form of a market study under the terms of the Enterprise Act. At the conclusion of their study in April 2005, the OFT referred what it defined as 'classified directory advertising services' to the Competition Commission for investigation.

In the ten years since the Monopolies and Mergers Commission completed its first review, the classified advertising market has become increasingly dynamic and aggressively competitive. Recently there have been a number of new entrants into the market. These include printed directories from BT and Trinity Mirror, more than 80 phone-based services and numerous online services. We believe that this has served advertisers and users well, and that the market is still evolving.

We are committed to playing an active role in the investigation. Our internal team is supported by appropriate external advisers to ensure that our arguments are properly supported and heard.

### Excellence

We are firmly committed to Excellence as a business approach and the assessment of our performance against international models and standards. In November 2004, Yell UK became the first company ever to win the European Quality Award for large businesses for the second time.

In the US, Selling Power magazine voted us the 5th Best Service Company to Sell For, and in the UK we ranked 22nd in The Sunday Times 100 Best Companies to Work For, one of only two FTSE 100 companies in the list.

### Strategy

Our strategy continues to be to develop our existing products and to seek new opportunities to connect buyers and sellers.

In the US we will look for opportunities to expand our national coverage and to in-fill with our current coverage areas through acquisitions. We will launch new directories in areas where we can make best use of our existing infrastructure and build on our brand and reputation. In this regard, on 17 May we announced that we have entered into a definitive agreement, subject to shareholder approval, for the purchase of Transwestern, a leading independent US publisher. This acquisition extends our national coverage of the US and allows us to provide greater value to more national and local advertisers.

In the UK we will continue to build on the success of our printed directories and to develop and expand our new media products. In addition, we will seek further opportunities in the classified advertising market where we can provide users and advertisers with innovative new services.

Financially and operationally this has been a highly successful year for the Yell Group. We have met expectations, delivered a strong financial performance and put in place operational enhancements to drive future performance. We believe that we are well placed for further success in the coming years.

**John Condron**  
Chief Executive Officer

# ...continuing to grow

## Meet Mitch

Mitch Connolly

Customer Excellence Director, Yell UK

"When I joined Yell as a Field Sales Representative in 1983 we had a single product. What amazes me most is the continuous development and growth of the company since then and the significant changes in our products and services."

## Chief Financial Officer's Review

Yell Group has delivered another strong set of results creating a financial position that is healthier than ever before.

Our balanced growth strategy continues to deliver consistent improvement in our three key performance measures: turnover, EBITDA and cash flow, and to support our investment for the future.

For full details of the Group's results please refer to the financial section of this report starting on page 44, which includes the audited financial statements.

In this section we present an overview of the results and some of the highlights.

Group turnover grew by 8.3% to £1,285 million, adjusted EBITDA was up 11.9% to £403 million, and operating cash flow increased 14.4% to £347 million.

Turnover (£m)	2004	2005	Growth
UK	635	664	4.6%
US	552	621	12.5%
Group	1,187	1,285	8.3%

Adjusted EBITDA (£m)	2004	2005	Growth
UK	233	241	3.3%
US	127	162	27.6%
Group	360	403	11.9%

Operating cash flow (£m)	2004	2005	Growth
Group	304	347	14.4%

### Yell UK

The UK business continues to grow, with increased turnover from Yellow Pages and a significant boost from the success of Yell.com.

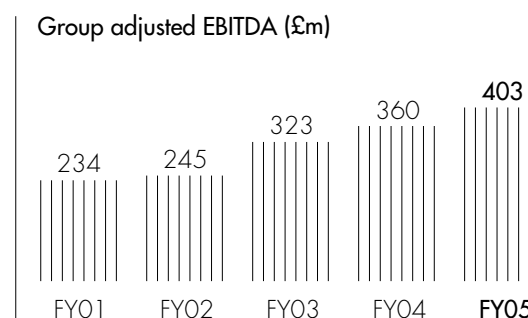
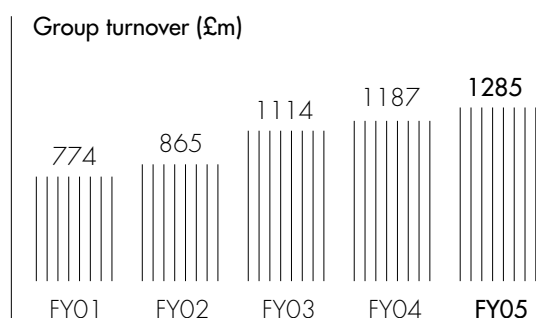
UK Operations (£m)	2004	2005	Growth
Turnover – printed directories	594	612	3.1%
– Yell.com	26	36	40.3%
– other	15	16	5.9%
– Total	635	664	4.6%
Adjusted EBITDA	233	241	3.3%
Margin	36.7%	36.2%	

Our Yellow Pages directories continue to be subject to a price cap which had the effect of reducing Yellow Pages prices by 3.3% in the year. Nevertheless, turnover from printed directories was up 3.1% as customers traded up to larger advertisements or purchased space in additional books. The number of printed directories customers fell slightly, by 0.4% to 478,000, but average spend increased by 3.5% to £1,280.

Yell.com produced another outstanding performance, with turnover increasing 40.3% to £36 million. Whilst Yell.com is still small compared to printed directories, its aggressive growth has generated one-third of our UK turnover growth. 25% of our printed directories customers now also advertise on Yell.com at an average spend of about £300.

The UK profit margin fell by 0.5% to 36.2% – a 1.5% decline in printed directories margins being largely offset by gains from Yell.com.

The drop in printed directory margins is a natural consequence of falling Yellow Pages prices. To minimise this decline we have controlled costs carefully and achieved operational efficiencies without sacrificing investment in quality and innovation.



**Yellow Book USA**

Yellow Book has once again delivered excellent growth and now represents just under half of Group turnover.

<b>US operations</b>	<b>2004</b>	<b>2005</b>	<b>Growth</b>
Turnover (\$m)	940	1,149	22.3%
Adjusted EBITDA (\$m)	216	300	38.9%
Margin	23%	26%	
Exchange rate \$:£	1.69	1.85	(8.2%)
Turnover (£m)	552	621	12.5%
Adjusted EBITDA (£m)	127	162	27.6%

Total US dollar turnover growth of 22.3% arose from three main sources.

Firstly, same-market growth (growth of existing directories) contributed 11.1%, up from 9.0% last year. This year's same-market figure was boosted by the relaunch of a number of books which we acquired when we bought McLeod in 2002.

Secondly, the launch of 19 new directories, usually in areas adjacent to our existing books, added a further 3.1% of growth.

Thirdly, acquisitions contributed 8.4%. The largest of these was Feist, which we acquired in March 2004. Acquisitions allow us to expand our geographic reach in the US attracting increased turnover from large national advertisers and generating economies of scale in our cost base.

US customer numbers increased by 18% to 455,000 and average spend per customer was up 3.7% to \$2,525.

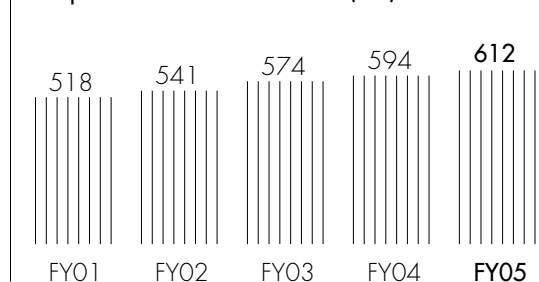
The US profit margin increased from 23% to 26% in the year. This was mainly due to operational leverage – the ability to increase the turnover of existing directories whilst keeping overheads at similar levels.

Whilst increasing our profits in the US, we also invested significant sums in advertising and future new launches to ensure growth continues.

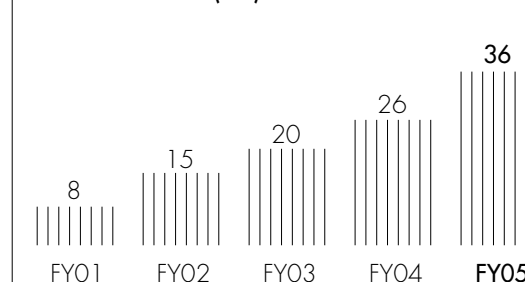
When translated into sterling, US growth rates were diluted significantly by the 8.2% weakening of the dollar during the year. The average exchange rate in the year was \$1.85 to £1 versus \$1.69 last year.

Other than denominating some of our borrowings in dollars, we do not actively hedge our foreign exchange exposure. This recognises the fact that we are a multinational business and allows our shareholders to participate in a US dollar investment. Approximately 40% of our adjusted EBITDA is subject to fluctuations in the dollar-sterling exchange rate.

**UK printed directories turnover (£m)**



**Yell.com turnover (£m)**



## Cash Flow

One of Yell's most attractive financial characteristics is its ability to generate cash.

Adjusted operating cash flow (£m)	2004	2005	Growth
Adjusted EBITDA	360	403	11.9%
Working capital increase	(31)	(32)	
Capital expenditure	(25)	(24)	
Adjusted operating cash flow	304	347	14.4%
Cash conversion	84%	86%	

We continue to convert a high proportion of EBITDA to operating cash flow, 86% versus 84% in the previous year. The working capital investment was driven by our strong US turnover growth.

After payments for exceptional items, interest and tax, we created £230 million of free cash flow in the year.

Free cash flow (£m)	2004	2005	Growth
Adjusted operating cash flow	304	347	14.4%
Exceptional items	(89)	(13)	
Interest and tax	(115)	(104)	
Free cash flow	100	230	
Average number of shares (m)	695	701	
Free cash flow per share	14.3p	32.8p	29.4%
Dividend per share	9.0p	12.6p	40.0%

We plan to return between one-third and one-half of free cash flow to shareholders as dividends, whilst retaining the remainder to invest in growth.

## Interest and Tax

During the year Yell benefited from lower interest charges as we paid down debt.

Interest (£m)	2004	2005	Growth
Average net debt	(1,494)	(1,165)	(22.0%)
Average interest rate	9.1%	7.8%	
Net interest expense	(136)	(91)	(33.1%)

The average UK and US base rates for the year were 4.7% and 1.9% respectively.

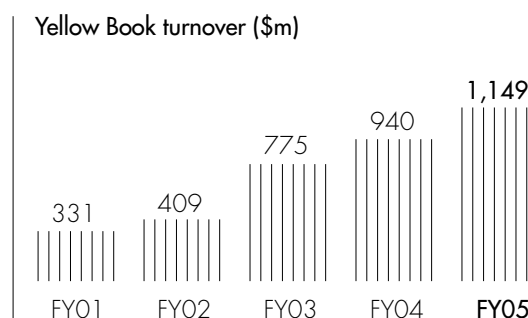
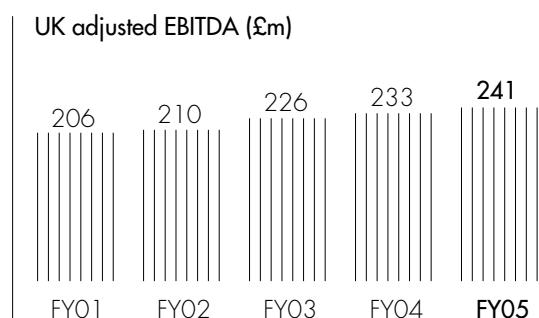
Yell's interest rate is somewhat higher than these due to the fixed rate high yield bonds issued in 2001 which carry an average interest rate of 11.3%. This reflects both higher base rates and our relatively high borrowings at the time of issue.

The bonds can be repaid in August 2006 for a one-off premium of £19 million.

The effective tax rate on adjusted profit before tax for the year was 25%.

Tax (£m)	2004	2005	Growth
Adjusted profit before tax	201	289	43.6%
Effective tax rate	22%	25%	
Ordinary tax charge	(44)	(73)	65.6%

Corporate tax rates are approximately 30% in the UK and 38% in the US. Our effective tax rate has been relatively low due to deductions claimed for tax-allowable amortisation and previous tax losses.



### Adjusted Earnings

Overall, adjusted diluted earnings per share grew by 20% to 30.4p.

Earnings per share (£m)	2004	2005	Growth
Adjusted EBITDA	360	403	11.9%
Depreciation	(23)	(23)	
Interest	(106)	(91)	
Adjusted profit before tax	231	289	24.9%
Tax	(53)	(73)	
Profit after tax	178	216	21.1%
Diluted number of shares (m)	704	708	
Adjusted diluted earnings per share	25.3p	30.4p	20.2%

This headline earnings figure is adjusted for a number of items to more clearly show underlying trends in performance. Note 9 to the financial statements sets out these adjustments in detail.

Adjusted items include exceptional expenses of £111 million (net of tax) in 2004 in relation to our IPO, and £23 million (net of tax) in 2005 in relation to lawsuits filed against us in the US. The lawsuits, filed by a competitor and a number of our US customers, alleged that certain Yellow Book advertising was misleading. The advertising campaigns in question were discontinued by the end of June 2004 and the exceptional expenses represent the expected total cost of settling these claims. For further details please see note 23.

### Balance Sheet

The table below summarises the main assets and liabilities of the Group.

Balance sheet (£m)	2004	2005
Intangible fixed assets	1,725	1,635
Tangible fixed assets and investments	48	50
Net working capital	363	398
Tax, dividend and exceptional liabilities	(23)	(93)
Net debt	(1,223)	(1,106)
Net assets	890	884

Intangible fixed assets are the largest item on Yell's balance sheet. This represents the goodwill that arose from business acquisitions, which we amortise over 20 years.

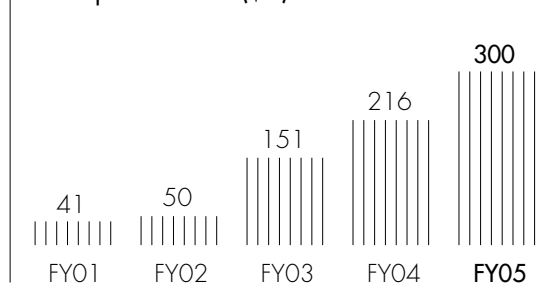
The book value of intangible assets shown above is a historical cost figure and does not include internally generated intangible assets. The fair value of intangible assets implied by Yell's stock market capitalisation on 31 March 2005 was approximately £4,000 million.

Tangible fixed assets are mainly computer equipment. (Printing presses and associated plant are owned by our printing suppliers.)

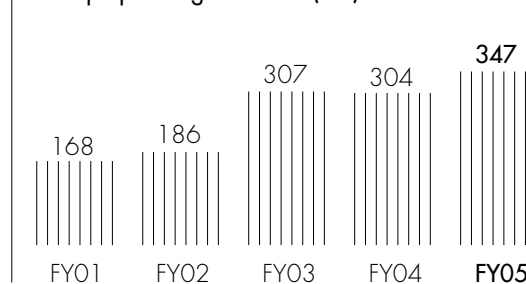
Working capital comprises amounts due from customers, work in progress and amounts due to creditors. The Group's working capital requirement, at 31% of turnover, is due largely to the credit terms we offer our customers. As our turnover increases, so does working capital.

Net debt is currently 2.7 times EBITDA, down from 3.4 times last year. Given our strong and steady cash flows, we believe that the Group can comfortably carry debt of 3 to 4 times EBITDA and, indeed, that it would be cost effective to do so.

US adjusted EBITDA (\$m)



Group operating cash flow (£m)



The only significant liability that does not currently appear on the balance sheet is the deficit in our pension fund, which totalled £99 million at March 2005 as compared to £66 million at March 2004. The increase in the deficit was mainly due to a change in longevity estimates. In addition to our normal annual pension contributions, we are paying in an extra £17 million over two years to improve the level of funding. £8.2 million of this was paid during the year. Full details on pension costs are given in note 24 of the financial statements.

### Other

There are two financial reporting issues that will affect Yell over the next two years: the transition to International Financial Reporting Standards (IFRS); and the Sarbanes-Oxley Act in the US.

Beginning in the next financial year (the year ending 31 March 2006) all European listed companies will be required to prepare their accounts using IFRS. IFRS differs in certain areas from current accounting standards and this will cause some changes to Yell's reported figures. The primary changes will be:

- Discontinuing goodwill amortisation unless the value of goodwill is impaired
- Accounting for pensions on a basis similar to what would have been required under FRS17 (see note 24 of the financial statements)
- Expensing the fair value of options granted to employees
- Increasing the tax charge to remove certain benefits recorded under UK GAAP

The change to IFRS will have no impact on the underlying operation of our business and will not affect cash flow.

We have published more detailed information on our corporate website, [www.yellgroup.com](http://www.yellgroup.com), including a restatement of this year's results under IFRS, and recommend you review that document carefully.

Due to the listing of our bonds in the US we will be required to comply with section 404 of the Sarbanes-Oxley Act from the beginning of the financial year after next (the year ending 31 March 2007). The Act arose following several high profile corporate failures and includes the requirement for directors to certify the effectiveness of a company's internal controls over financial reporting. Whilst we believe that our controls already perform to a very high standard, we have undertaken a considerable amount of work during the year to implement the additional procedures and produce the documentation required.

### Summary

These results clearly demonstrate the ability of Yell to deliver sustained earnings growth over a number of years. Strong cash generation has allowed a significant increase in the dividend and, going forward, we will continue to strike an appropriate balance between return of cash to shareholders and investment for the future.

We operate in a dynamic and competitive environment. We look forward to the opportunities and challenges awaiting us in the year ahead and believe that Yell is strongly positioned to continue its success.

**John Davis**  
Chief Financial Officer

... putting  
customers first

### Meet Pearl

Pearl Williams

Customer Service Representative

Yellow Book

"Every call is different and every customer has their own needs. I often go out of my way to help them, like sending 'out of area' copies of our Yellow Book directories or finding them a phone number. I think our customers' requirements come above all other things."

## Our Advertisers and Users

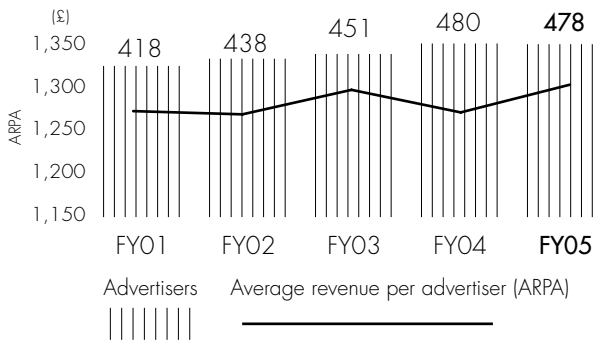
At the heart of our business is the 'virtuous circle'.

The more businesses that advertise with us, the more value we provide to our users, who in turn use our products more. This increased usage generates more sales leads for our advertisers, which encourages them to increase their advertising programmes with us and attracts more advertisers.

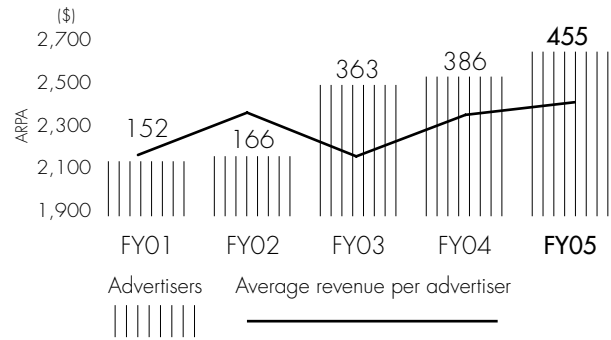
This proposition has allowed us to grow the number of advertisers across our products, as well as increasing the amount they spend with us.



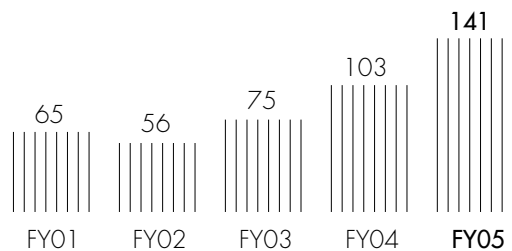
UK printed advertisers (000s)



US printed advertisers (000s)

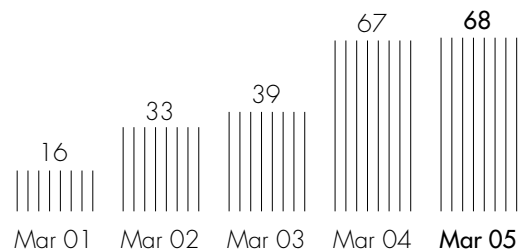


Yell.com searchable advertisers (000s)



The figure for FY01 includes all advertisers

Yell.com page impressions (m)



# ...the right blend of experience

**Left to right:**

John Condron  
John Davis  
Steve Chambers  
Victoria Sharrar  
Joe Walsh

**John Condron, Chief Executive Officer**

John (55) is an executive director of Yell Group plc. He has led the Group since 1994, building it into a leading international directories company. John has continued the growth of the company through acquisitions, launches and rescopes and the further development of Yell.com, as well as championing Yell UK's success in winning the European Quality Award for a second time.

**John Davis, Chief Financial Officer**

John (43) is an executive director of Yell Group plc. He heads up our Financial, Investor Relations and Risk Management teams. In our first full year as a public company, John has focused on ensuring that we deliver shareholder expectations while continuing to invest for long term growth with an optimum capital structure. He has also led the business in its preparation for Sarbanes-Oxley, and the move to International Accounting Standards.

**Steve Chambers, Chief Commercial Officer, Yell UK**

Steve (51) leads our UK Sales and Customer Service operations, a combined total of over 2,400 people, and is responsible for delivering our 'win, keep and grow' customer acquisition and development strategy. During the year Steve has overseen significant customer service improvements and a corresponding increase in customer satisfaction.

**Victoria Sharrar, Chief Sales Officer, Yellow Book**

Victoria (47) leads 3,450 sales and sales management people across our US sales operations. Her focus on our 'win, keep and grow' strategy has resulted in significant new directory launches and market growth activities. She has also implemented a leadership development strategy and championed our sales efficiency improvement programmes in the US.

**Joe Walsh Chief Executive Officer, Yellow Book**

Joe (42) leads our Yellow Book business and throughout the year he has focused on the integration of Feist and the continued growth of Yellow Book through further acquisitions. Joe works closely with Yell UK on the sharing of best practice.

**Left to right:**

Eddie Cheng  
 Paul Fry  
 Ann Francke  
 Jim Haddad  
 John Satchwell

**Eddie Cheng, eBusiness Director and President of Yell.com**

Eddie (53) has strategic and operational responsibility for our New Media developments including Yell.com. Eddie has recently led the development and launch of Super Search and Yell.com mobile. He is now focused on further improvement of Yell's search capabilities in order to ensure Yell.com supports its rapidly growing advertiser base. He and his team are also working with Yellow Book to assist them in their creation of the next generation of Yellowbook.com.

**Paul Fry, Strategy and Business Development Director**

Paul (54) heads up Yell's strategic planning, market research and information activities. He led our winning applications for the European Quality Award in 1999 and 2004 and is responsible for the development and implementation of our Quality and Standards programmes as well as Corporate Responsibility.

**Ann Francke, Chief Marketing Officer, Yell UK**

Ann (46) leads our UK Marketing teams in customer and product development and marketing communications.

Alongside the development of our 'win, keep and grow' strategy, and responsibility for maintaining our Superbrand status, Ann is driving innovation and the adoption of a portfolio approach to marketing.

**Jim Haddad, Chief Financial Officer, Yellow Book**

Jim (48) has responsibility for all financial, treasury and human resources operations in Yellow Book. He has focused on upgrading the financial systems and processes with significant improvements in reporting and forecasting. Jim has also led US compliance work for Sarbanes-Oxley.

**John Satchwell, Operations Director**

John (50) leads Yell UK's technology development and the teams responsible for order processing, printing and distribution. He has instigated process changes and improvements which have delivered our best ever quality results in these areas. John also supports Yellow Book in the development of their operations activities and is champion for our Health, Safety and Environmental activities.

# ...acting responsibly

## Meet Tina

Tina Horne

Corporate Support Manager, Yell UK

"I enjoy my role in Yell because it's challenging and a new area of focus for the company. Corporate Responsibility is about the way you manage your business and it is very exciting to be part of this."

## Governance and Responsibility

### Introduction

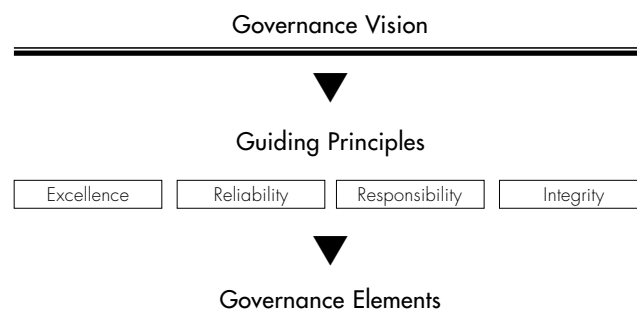
In our report last year we explained how we had established a Corporate Governance Steering Group, under the chairmanship of the Company Secretary, with responsibility for reviewing Yell's performance against corporate governance best practice and for designing and implementing policies and procedures to ensure our continuing compliance.

Over the last 12 months this group (now renamed the Governance and Responsibility Steering Group), in consultation with representatives from across the business and the Board, has been considering:

- What in the broadest sense governance means for Yell
- How our overall governance vision can be clearly articulated and communicated to all our stakeholders.

There were three outcomes. Firstly, a simple vision statement setting out the essence of what good governance means to Yell. Secondly, producing our core values or principles which it would be necessary for all Yell people, whether a graduate trainee or a senior executive, to uphold, to ensure delivery of our vision. Thirdly, our Governance and Responsibility framework setting out the key elements of governance we believe will ensure that we have a fully integrated approach across our business.

This project has resulted in a Governance and Responsibility programme which has been fully endorsed by the Board. For Yell, corporate governance and corporate responsibility are inextricably linked. We firmly believe that good governance involves being a responsible company and that a sound approach to corporate responsibility necessitates good governance. Our programme brings the two together both for internal management purposes and for reporting to investors, who are increasingly considering these two areas as one.



### Vision

For Yell, Governance and Responsibility is about:

'Providing our shareholders and other stakeholders with confidence that Yell is a well managed and responsible company.'

This statement reflects our commitment both to our shareholders and to the wider community of stakeholders, which includes our users and advertisers, suppliers, communities and, of course, our people.

### Guiding Principles

Supporting our Governance and Responsibility vision are our Guiding Principles – excellence, reliability, responsibility and integrity. They define how we work and underpin our approach to all aspects of our business.

**Excellence** In Yell we have a philosophy of continuous improvement and constantly seek to 'make the best better'. We have leading brands and aim to provide high quality products and services in the most efficient and effective way.

**Reliability** We pride ourselves in meeting targets and expectations, and in keeping our promises. We give confidence to our shareholders through relevant and timely communications. We provide advertisers with a wide choice of products and services of consistently high quality and our users with timely access to comprehensive, relevant information.

**Responsibility** Yell is a sustainable business, accountable to all its stakeholders. We operate in a clear and transparent fashion and take responsibility for all our actions.

**Integrity** We aim to operate with the highest ethical standards in all our activities. We have respect for each other and for all our stakeholders. Trust, honesty and integrity are key values across our business.

Every Yell person is expected to carry out his or her role within our company in accordance with our Guiding Principles.

## Governance Elements

The elements that make up our Governance and Responsibility framework are:

- The 'Yell Way' – our culture, our values and how we work
- Baseline compliance – meeting all laws and regulations relevant to our business
- Risk management – maximising opportunities whilst minimising risk
- Responsibility – adding value through being responsible
- Brand integrity – managing and maintaining our reputation and intellectual capital
- Accountability and openness – ensuring transparency and clarity in our operations and communications

The framework is set out on the opposite page.

## Governance and Responsibility Framework

Element	Sub-element	
The 'Yell Way'	Values Culture	Roles, responsibilities and accountabilities Business excellence
Baseline compliance	Laws and regulations	Listing rules
Risk management	Internal control Internal audit	Business continuity Sarbanes-Oxley Act
Responsibility	Environment Customers Suppliers/Partners	Investors Yell people Community
Brand integrity	Reputation and brand management	Fair selling
Accountability and openness	Stakeholder dialogue Combined Code	Reporting Internal communications

We report on Governance and Responsibility in a number of ways. These include our Annual Report, our annual Corporate Responsibility Report, and online at [www.yellgroup.com](http://www.yellgroup.com). We will provide commentary on the activities and programmes which support the elements of our Governance and Responsibility framework, including reporting performance against targets where appropriate.

On the following pages we report on Responsibility, Risk Management and Accountability and Openness.

## Responsibility

Responsibility is at the very heart of our business. It is one of our Guiding Principles and is integrated into the daily decisions we make. In this section we report on our performance using a Corporate Responsibility (CR) framework.

In the UK, our Responsibility Programme is co-ordinated by our CR steering group. This group is responsible for identifying key social, ethical and environmental issues, reviewing strategy, policy and performance and setting objectives and targets. It is headed by our Strategy and Business Development Director and he reports to our Chief Executive Officer, who takes overall responsibility.

We adopt a dual approach to CR to ensure we address the different needs of our UK and US operations. Our UK business is mature and policies and processes have been in place for many years. Our US business has quadrupled in size in terms of revenue since 1999, having acquired 26 companies. We are now meeting the challenge of integrating processes and consolidating our CR principles across our US operations. We have made a number of commitments to managing CR in our US business.

We have some notable achievements, including the listing of Yell in the Dow Jones Sustainability Indexes World, which covers the top 10% of some 2,500 companies around the globe, and a listing in the Dow Jones Indexes Stoxx which covers leading European companies.

In line with the requirements of full CR reporting, our separate, CR Report is based around two of the most widely recognised guidelines: Business in the Community and the Global Reporting Initiative. This report will be published in July 2005.

### Corporate Practice

Corporate Practice refers to our business standards and the way we manage relationships with our economic stakeholders. It includes providing community information in our directories, working with more than 30 reputable trade associations to uphold advertising standards and providing relevant and timely information to our investors about our performance and prospects.

Last November we held our first Investor Seminar where our senior managers gave presentations to our shareholders. We also held our second annual Yell UK Supplier Forum, attended by more than 200 of our key suppliers, where we launched our Corporate Responsibility objectives and our Ethical Purchasing Guidelines, which will be compulsory for UK suppliers from September 2005.

In the UK, we retained our registrations to key international management standards ISO 9001:2000, OHSAS 18001, ISO 14001 and Tick-IT and in January 2005 our UK Information Services department achieved accreditation to the British Standard BS 15000.

### Workplace

Our 8,600 people are the foundation of our success. Our programmes and policies are designed to recruit, retain and motivate the very best people. This is reflected in high employee retention levels. In the US, we continued to reduce turnover amongst sales people, achieving a retention rate of 63%. In the UK, we retained 80% of our sales people and 91% of our non-sales people.

In FY05 we invested 4% of our UK payroll budget in training and developing our people and in the US around 2.8%. Currently almost 20% of our UK people take advantage of flexible working options, including part-time working, job-sharing and career breaks.

External recognition of our success in managing and developing our people was provided in the form of two special prizes at the European Quality Awards – Leadership and Constancy of Purpose, and People Development and Involvement. In March 2005, Yell UK ranked 22nd in The Sunday Times 100 Best Companies to Work For list and in the US, Selling Power magazine voted us the 5th Best Company to Sell For.

In our annual UK employee survey, Tell Yell, our results outperformed other high performing companies, as benchmarked by research organisation International Survey Research. In this survey, 88% of our people told us they would recommend Yell as a good place to work. We have been recognised as an Investor in People since 1997 in the UK and

Yell is listed in the Dow Jones Sustainability Indexes World

In the US, we partner with Earth 911 to raise awareness of directory recycling

One of our UK charities is Marie Curie Cancer Care

in March 2005 gained recognition under the Investors in People Leadership and Management Model.

### Environment

Our biggest impact on the environment is our use of paper. In the UK, we hold regular face-to-face meetings with our paper, print and pre-press partners to discuss and review environmental performance. In FY05, 46% of the text paper in our Yellow Pages directories was made from recycled fibres. Our core paper suppliers are certified in accordance with the Finnish Forest Certification Scheme (FFSC), which is endorsed by the Pan European Forest Certification Council (PEFC). In the US, over the last year we have increased the level of recycled fibre in our Yellow Book directories from 12% to 19%.

In the UK, we work with 94% of local authorities to manage recycling of old directories and recently the first main newsprint mill accepted our recycled directories, a development we hope will continue. In 2004 market research indicated that for the first time, more than half of UK households (51%) were recycling their old directory, which compares favourably to the 18% (source: DEFRA 2003-2004) average recycling rate for municipal waste.

In the US, we partner with Earth 911, an environmental information network, to raise awareness of directory recycling within local communities. Last year we donated \$100,000 to Earth 911 as part of our commitment to the partnership.

### Community

Our key charity programmes are sponsorship of the Marie Curie Cancer Care Daffodil Appeal and running the Yellow Woods Challenge.

In FY05 we helped raise £2.4 million for Marie Curie, which will help to provide more than 150,000 hours of nursing care for terminally ill people in their own homes.

We run our Yellow Woods Challenge, a schools based environmental programme, in areas where directory recycling facilities have been absent or very limited. In 2004 more than £50,000 was awarded to schools collecting the most directories and we donated an equivalent £50,000 to the Woodland Trust.

More than a third of Yell UK people supported our communities last year, volunteering in our education programmes or fundraising for local charities. Activities include running a pledging centre for Comic Relief and fundraising for the Tsunami relief effort.

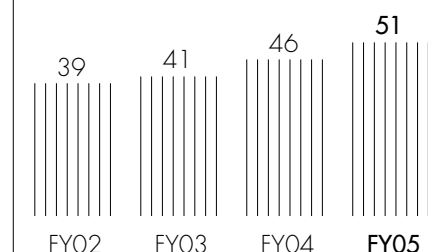
In the US last year 800 Yellow Book people in more than 42 offices raised more than \$100,000 for United Way of America, an organisation that works with companies and local communities to ensure donations from employees support the most pressing local needs. In January 2005 more than 400 Yellow Book people, as well as the company, contributed to a total donation of \$45,000 to the American Red Cross for the Tsunami disaster fund.

Overall, in FY05 we invested 0.6% of our pre-tax profits in charitable activities and our sponsorship of the Marie Curie Daffodil Campaign and the Woodlands Trust resulted in almost £3.8 million in 'equivalent advertising value'.

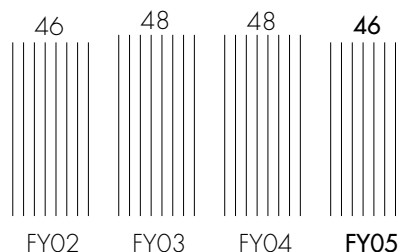
### Group community investments (£000s)

Cash	552.0
Time	193.4
In-kind	97.8
Management costs	53.0
<b>Total</b>	<b>896.2</b>

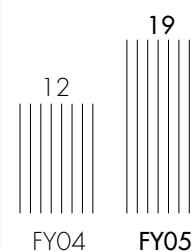
UK – Proportion of Yellow Pages recycled (%)



UK – Yellow Pages text paper recycled fibre content (%)



US – Printed directories recycled fibre content (%)



## Risk Management

We undertake a range of activities to ensure that appropriate internal controls are in place and that risks are properly managed.

The Board has overall responsibility for establishing and maintaining the systems of internal control and risk management and for reviewing their effectiveness. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss.

We have an ongoing process for identifying, evaluating and managing the significant risks we face. This has been in place for the reporting period, and up to the date of approval of the annual report and accounts. A detailed risk assessment is prepared by our Head of Risk, covering operational, financial and strategic risks. This identifies the nature and extent of risks facing the company, the likelihood of the risks concerned materialising and appropriate mitigation plans. This risk assessment is reviewed by senior management and the Audit Committee. In addition, each area of the business carries out its own risk assessment of its operations and ensures that key risks to the achievement of business objectives are identified and monitored.

The Audit Committee approves an annual audit plan prepared by the Head of Risk which is designed to ensure that our internal audit activities are focused on priority areas. The internal audit work provides assurance as to the effectiveness of Yell's systems of internal control and risk management to the senior management, the Audit Committee and the Board.

Yell Finance BV, a wholly owned subsidiary of Yell Group plc, has registered debt in the USA. It is required to provide quarterly and annual financial reports to the US Securities and Exchange Commission and, further, it is subject to the applicable requirements of the Sarbanes-Oxley Act of 2002. During the year we have undertaken a considerable amount of work to comply with Section 404 of the Sarbanes-Oxley Act: internal controls over financial reporting. We have fully documented the systems and processes which affect financial reporting and we have identified and tested the key controls within these processes.

The Board, with advice from the Audit Committee, has completed its annual review of the effectiveness of the system of internal control in accordance with the guidance of the Turnbull Report, and is satisfied that it is in accordance with that guidance.

## Accountability and Openness

### Statement of Application of Principles of the Combined Code

Save where detailed below, Yell has applied the principles and complied with the provisions set out in Section 1 of the 2003 Combined Code during the period 1 April 2004 to 31 March 2005.

### The Board

The Board of Yell Group Plc comprises two executive directors and six non-executive directors. Four out of the six non-executive directors are independent as defined by the 2003 Combined Code.

The executive directors are John Condron (Chief Executive Officer) and John Davis (Chief Financial Officer).

The Chairman, Bob Scott, was independent upon his appointment. The Board has determined that Lyndon Lea is non-independent due to his previous partnership in Hicks Muse, the private equity firm which, until January 2004, held a significant shareholding in Yell. The Board will reconsider the issue of Mr Lea's independence during the current financial year.

During the reporting period, the Board appointed Lord Powell of Bayswater as the Senior Independent Director with effect from 1 March 2005. Notwithstanding his appointment, all non-executive directors continue to be available to shareholders who wish to raise issues that cannot be addressed with the Chairman, either of the two executive directors, or since his appointment, Lord Powell himself.

In order that the membership of the Audit Committee is comprised exclusively of independent, non-executive directors, with effect from the 1 March 2005, Bob Scott resigned from the Audit Committee and was replaced by Lord Powell.

It remains the Company's intention to recruit an additional independent, non-executive director in order to fulfil the Remuneration and Nomination Committee membership requirements recommended in the 2003 Combined Code. A search for a suitable candidate was initiated during the reporting period, and is in progress.

Yell's Articles of Association require one third of the Board to retire by rotation at the Annual General Meeting. However, the Board have decided that, in order to optimise accountability to shareholders, all directors shall submit themselves for re-election at this year's Annual General Meeting.

John Condron and John Davis are full-time directors of companies within the Yell Group and have no other commitments to external companies and, consequently, do not receive any other fees. Details of the executive directors' service contracts and the non-executive directors' letters of appointment can be found in the report of the Remuneration Committee on page 37. The non-executive directors' letters of appointment do not set out fixed time commitments, since the schedule of board and committee meetings is subject to changes, according to the requirements of the Company. All directors are expected to demonstrate their commitment to the work of the Board on an ongoing basis.

Brief biographies of all directors appear on page 42. The Chairman, Bob Scott, and the rest of the Board (in respect of the Chairman) confirm that all the directors have been diligent and effective in their duties during the reporting period.

### **Operation of the Board**

The Board has overall responsibility for leading and controlling the Company and is accountable to shareholders for financial and operational performance, and for the open and transparent communication of information relevant to such performance.

The Board recognises the division in responsibility between the Chairman (who ensures the effective working of the Board) and the Chief Executive Officer (who runs our Company). The Board has agreed a schedule identifying matters reserved for its decision which include the approval of the financial statements, major acquisitions, Group strategy, and governance policies. This schedule, which is in writing, delineates the extent of the various delegated authorities granted by the Board.

All directors have access to the services of the Company Secretary, Howard Rubenstein, the removal of whom is a matter reserved for the decision of the Board. Mr Rubenstein acts as secretary to all of the Board Committees.

The Company Secretary works with the Chairman to ensure that all directors receive sufficient information on a timely basis to enable the Board to run efficiently. In the reporting period a secure website has been developed and launched as an exclusive channel for the Board to share information, receive training material and Board papers, and generally enhance the administration of the Board business.

The directors are entitled, at the expense of the Company, to take independent professional advice in furtherance of their duties. The Company has also arranged appropriate Directors' and Officers' insurance cover in respect of legal action against the directors.

The Board is scheduled to meet at least six times in any calendar year; February, March/April, May, July, September and November. During the reporting period, the Board met five times.

The table on page 26 shows the individual attendance by directors at the board and committee meetings, during the reporting period ended 31 March 2005.

Name	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	Attended	Absent	Attended	Absent	Attended	Absent	Attended	Absent
Bob Scott	5	–	4	–	–	–	–	–
John Condron	5	–	–	–	–	–	2	–
John Davis	5	–	–	–	–	–	–	–
Charles Carey	4	1	–	–	4	1	2	–
John Coghlan	5	–	4	–	–	–	2	–
Joachim Eberhardt	5	–	4	–	5	–	–	–
Lyndon Lea	4	1	–	–	–	–	2	–
Lord Powell Of Bayswater	5	–	–	–	–	–	–	–

During the reporting period, the Board conducted an evaluation of its overall effectiveness. Since the Board is relatively new, the focus of the evaluation was on the overall performance of the Board as a unit addressing issues such as information provision, quality of discussion, and overall Board culture. The exercise was conducted by means of a survey completed by each director and the results were discussed at the February 2005 Board meeting. As a result of the exercise, the Board reviewed and revised its annual programme of business. The Board intends that its next evaluation process will also focus on the performance of individual directors, including the Chairman.

During the reporting period, the non-executive directors have met without the executive directors present.

#### Committees

The following committees have been established under the overall direction of the Board. Each committee has written terms of reference, which are published on the Company website at [www.yellgroup.com](http://www.yellgroup.com). The chairmanship, membership and terms of reference of each committee are reviewed on an annual basis.

The table on page 27 shows the chairman and members of each committee during the reporting period.

Name	Status	Committee Membership and Role		
		Audit	Remuneration	Nomination
<b>Bob Scott</b>	Chairman, Non-Executive Director	<input type="checkbox"/> (Resigned 1 March 05)		
<b>John Condon</b>	CEO, Executive Director			<input type="checkbox"/>
<b>John Davis</b>	CFO, Executive Director			
<b>Charles Carey</b>	Non-Executive, Independent Director		<input type="checkbox"/>	<input type="checkbox"/>
<b>John Coghlan</b>	Non-Executive, Independent Director	<input type="checkbox"/> Chairman		<input type="checkbox"/>
<b>Joachim Eberhardt</b>	Non-Executive, Independent Director	<input type="checkbox"/>	<input type="checkbox"/> Chairman	
<b>Lyndon Lea</b>	Non-Executive Director			<input type="checkbox"/> Chairman
<b>Lord Powell of Bayswater</b>	Senior Independent, Non-Executive Director	<input type="checkbox"/> (Appointed 1 March 05)		

### Audit Committee

The Audit Committee is chaired by John Coghlan, who as Chief Financial Officer of Exel plc, is deemed by the Board to have recent and relevant financial experience. The other members during the year were Bob Scott, Lord Powell of Bayswater and Joachim Eberhardt. With effect from 1 March 2005, Bob Scott resigned from the Committee and Lord Powell of Bayswater was appointed, so that the Committee now consists entirely of independent non-executive directors. It meets at least four times a year. The external auditors and the internal Head of Risk attend all meetings.

The Committee assists the Board in fulfilling its duties regarding the reporting of financial and non-financial information to shareholders. On behalf of the Board, the Committee examines the effectiveness of the Group's internal controls and risk management by reviewing evidence of risk assessment activity, agreeing the scope of internal audit reviews, reviews of the annual and interim financial statements and the nature and scope of the external audit. The Committee has also carried out an evaluation of its own performance and that of the external auditors.

Yell operates a 'whistleblowing' policy whereby confidential matters can be brought to the attention of the General Counsel. Any investigations are jointly undertaken by the General Counsel and the Head of Risk, and the Committee will have oversight of these investigations. It was agreed, following the Committee evaluation that the whistleblowing policy would be reviewed to ensure it continues to comply with current best practice. Any changes will be implemented with the approval of the Committee in the forthcoming year.

The Committee also reviews the independence and objectivity of our external auditors. The nature of non-audit work which may be undertaken by our auditors has been defined and financial limits on the amount of this work have been established. Regular updates are prepared for the Committee on the nature and extent of non-audit services provided by our auditors. The auditors are also required to confirm their independence at least annually.

The Board formally reviewed the effectiveness of the systems of internal control during the last financial year.

### Remuneration Committee

The Remuneration Committee is chaired by Joachim Eberhardt. Charles Carey was the other member of the Committee during the reporting period. Both members of the Committee are non-executive directors, independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. Save as to the suggested number of members, the Committee complied with the requirements set out in the Combined Code in carrying out its duties.

The Committee, which meets at least four times a year has responsibility for making recommendations to the Board on the Company's policy on the remuneration of senior executives, for reviewing the performance of executive directors and senior management of the Company, and for determining, within agreed terms of reference, specific remuneration packages for each of the directors of the Company and members of senior management including pension rights, any compensation payments and the implementation of executive incentive schemes. In accordance with the Committee's terms of reference, no director may participate in discussions relating to their own terms and conditions of service or remuneration.

In the course of the reporting year, the Committee received advice from the Chief Executive Officer and the Company Secretary. The Committee also appointed and received advice from Deloitte & Touche LLP in respect of remuneration policy, market practice and corporate governance for senior management and other employees. Tax and risk management services were also received from Deloitte & Touche LLP by the Company during the year.

The report of the Remuneration Committee appears on pages 32-41.

### **Nomination Committee**

The Nomination Committee is chaired by Lyndon Lea and its other members are Charles Carey, John Coghlan and John Condron. The Committee, which meets at least once a year, has responsibility for considering the size, structure and composition of the Board, the retirement and/or appointment of directors and ensuring that the Board has the right blend of skills and experience.

The Committee has recommended that in order to facilitate the smooth running of the Board Committees it would be advantageous to appoint an additional independent non-executive director. This recommendation was approved by the Board, and a search process is underway.

During the reporting period, the Committee has also reviewed the succession planning process for senior management within the Company.

### **Relations with Shareholders**

The Company is committed to ongoing communications with its shareholder base. This is achieved through:

- Regular dialogue and presentations throughout the year to the institutional investors, such as our Investors Seminar which took place on 15 November 2004
- The issuing of press releases, regulatory announcements and annual and interim reports
- Our Annual General Meeting which gives all our shareholders the opportunity to hear first hand from our Board of Directors and to raise questions. All proposed resolutions are put to a poll vote and electronic proxy voting is encouraged to enfranchise all shareholders

## Directors' Report

The directors have pleasure in presenting the report and accounts of Yell Group plc (the Company) for the year ended 31 March 2005.

### Overview and Principal Activities

The Company is the leading provider of classified directory advertising and associated products and services in the UK and the leading independent provider of classified telephone directory advertising in the US.

### Share Capital History

Full details of the movements in the authorised and issued share capital of the Company during the reporting period are provided in note 19 to the financial statements.

### Major Shareholders

At 19 May 2005, the most recent practicable date, the Company had received notification from the following entities under Part VI of the Companies Act 1985, showing a material interest of 3% or more in the Company's shares.

Shareholder	No. of shares	% of issued ordinary share capital
FMR Corp and Fidelity International Limited and their subsidiaries	93,422,379	13.27
Franklin Resources Inc	49,499,804	7.03
Lloyds TSB Group Plc	41,705,374	5.92
Barclays Plc	41,465,925	5.88
Aviva plc and its subsidiaries	29,973,015	4.25
Legal & General Group plc	25,299,234	3.59
MFS Investment Management	22,779,265	3.24

### Review of Business and Future Developments

A review of the performance for the reporting period and the expected future developments is given in the CEO's and CFO's reviews on pages 5–13.

### Results and Dividends

The Group's pre-tax profit for the year ended 31 March 2005 was £153.7 million (2004–£44.1 million loss) after charging interest and amortisation. Excluding the effect of the exceptional items, the pre-tax profit for the 2005 financial year would have been £190.2 million compared to a net profit of £104.4 million in the 2004 financial year.

An interim dividend of 4.2p per ordinary share was paid on 21 December 2004. The directors propose a final dividend of 8.4p to be paid on 19 August 2005 to shareholders on the register at 22 July 2005, subject to approval at the Annual General Meeting on 12 July 2005.

The Trustees of the Yell Employee Benefit Trust have waived their entitlement to previous and proposed dividends totalling £0.4 million.

### Directors and their Interests

The directors of the Company are listed on page 42. All directors will submit themselves for re-appointment at the Annual General Meeting on 12 July 2005.

The directors' emoluments are disclosed on page 38.

The beneficial interests of the directors and their immediate family in the Company's issued share capital are given on page 41.

### Charitable and Political Donations

During the past financial year the Company has made charitable donations totalling just over £500,000 (2004 – £500,000), which support various community related charities and projects. No political donations were made during the year.

### **Applications for Employment by Disabled People**

Yell has a Recruitment and Selection Policy that states we are committed to the employment of people with disabilities. We guarantee an interview to people with disabilities who meet the minimum selection criteria for any vacancy. Yell UK is registered as a Two Tick employer as it satisfies the UK government's criteria on the employment of people with disabilities.

### **Policy on Arrangements for Able Bodied People that Develop Disabilities**

Our Equal Opportunities Policy contains a code of good practice on disability which states that an individual who becomes disabled whilst in employment will receive support to ensure, wherever possible, they are able to continue in their role. This will involve whatever reasonable adjustments that can be made, in consultation with the individual. Again, in consultation with the individual, other positions will be considered where the individual's skills and abilities match the requirements of the role, making reasonable adjustments wherever possible.

### **Policy on Training/Career Development of Disabled People**

We ensure that training and career development is equally available to people with disabilities, tailored where practicable for their specific needs.

### **Information Provision**

We provide information to our people on many topics, including financial performance, through a number of different communication vehicles including our intranet, various printed publications and live briefings.

Where we have specific plans for change, a consultation mechanism is built into the change process.

### **Approach to Share Ownership**

We actively encourage our people to share in the future of the Company. An employee 'ShareSave' scheme operates in the UK, and a Stock Purchase Plan operates for our people in the US.

### **Policy and Practice on Payment of Creditors**

It is the Company's policy to use its purchasing power fairly and to pay promptly and as agreed. Payment terms for purchases under major contracts are settled as part of the contract negotiations. It is the Company's policy to make payments for other purchases within 30 days following the end of the month in which a correct and valid invoice is received.

At 31 March 2005 trade creditors represented 15 days (2004-18 days) of purchases. The Company has no significant trade creditors.

### **Auditors**

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors will be proposed at the Annual General Meeting.

### **Annual General Meeting**

The Notice of the Annual General Meeting, to be held on 12 July 2005, (together with explanatory notes) appears on pages 106-110.

By order of the Board

**Howard Rubenstein**  
Company Secretary

## Remuneration Report

### The Remuneration Committee

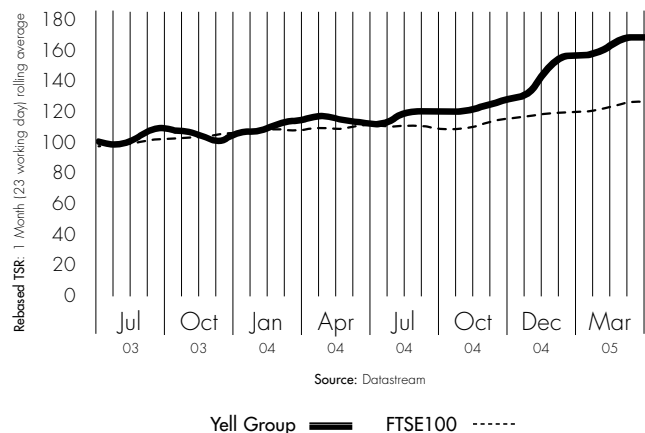
Within agreed terms of reference the Remuneration Committee has responsibility for making recommendations to the Board of directors on the Company's policy on the remuneration of executive directors and for reviewing the performance of these individuals.

### Performance Graph

The graph below sets out the performance of the Company relative to the FTSE 100 index of which the Company is a constituent.

The performance graph has been prepared in accordance with the Directors Remuneration Report Regulations 2002 and is not an indication of the likely vesting of awards granted under any of the Company's incentive plans.

### Yell Group Total Shareholder Return since IPO, 15 July 2003, plotted against the FTSE100



### Remuneration Committee Members

The Committee is chaired by Joachim Eberhardt and its other member is Charles Carey. Both members of the Committee are independent non-executive directors of the Company. It remains the Company's intention to appoint a third member of the Committee following the recruitment of an additional independent non-executive director. Save as to the suggested number of members, the Committee complied with the requirements set out in the Combined Code in carrying out its duties.

The Chief Executive Officer is invited to attend Committee meetings, except when his remuneration is being discussed.

The Committee met on five occasions during the year ended 31 March 2005.

The Committee received advice from the Chief Executive Officer and the Company Secretary. The Committee also appointed and received advice from Deloitte & Touche LLP in respect of remuneration policy, market practice and corporate governance for senior management and other employees. Tax and risk management services were also received from Deloitte & Touche LLP by the Company during the year.

### Remuneration Policy

The Committee believes that a robust incentive and reward framework is vital to the Company's continued success and is therefore committed to the development of the Company's remuneration policy over time, in consultation with shareholders and institutional investors where appropriate.

The remuneration policy developed by the Committee since flotation is designed to provide a cohesive framework which maximises the achievement of individual and Company potential through targeted, results-driven reward and incentives which pay for good performance at all levels throughout the organisation.

The remuneration policy continues to be based on the following key principles:

- Simplicity and coherence
- Fairness of rewards against comparable companies
- Alignment of executive interests with the interests of shareholders
- Variable reward based on local profit and share price growth
- Encouraging all-employee share ownership
- Incentivising exceptional performance with the potential for superior rewards

The Committee is committed to enabling the Company to achieve its potential by attracting and retaining high quality people and providing them with a competitive overall remuneration package with clear targeted incentives. This will enable them to be among the best paid people in the marketplace if they and the Company deliver outstanding results.

Under the Company's remuneration policy, total remuneration is broadly based on market median for on target performance, with the potential for upper quartile or above remuneration for superior performance. The vehicle for delivering medium and long-term incentives at each level within the organisation differs to accommodate the specific issues, desired behaviours and performance drivers for the different groups of employees.

### Development of Executive Remuneration Policy

As was disclosed last year, during the latter part of 2004 the Committee conducted a detailed review of the total remuneration of the executive directors. The Committee then carried out a full consultation with the major shareholders of the Company, in advance of implementation.

As part of the review, changes were made to certain elements of the remuneration policy. The Committee has continued to follow the tiered remuneration approach developed during 2003 which encompasses all employees within the same policy framework. This approach highlights the Committee's determination to reward all employees fairly and consistently and to encourage and promote employee share ownership. Following the review, a number of one-off adjustments were made to the total remuneration packages of the executive directors.

During the course of the review, the Committee reaffirmed the importance of executives having the opportunity to be highly rewarded for outstanding personal and company performance, and of basing incentives on a combination of performance conditions collectively geared to enhancing shareholder value.

The Committee therefore determined that now would be an appropriate time to make use of the Long-Term Incentive Plan (LTIP) approved on flotation and to make changes to the Annual Bonus Plan.

As discussed with our major shareholders, these changes enable the executive directors to receive a highly competitive package for delivering outstanding results. Long-term incentives will be offered in the form of Share Options and Performance Shares with performance conditions based on Earnings Per Share and Total Shareholder Return respectively. The tiered approach to remuneration now comprises five levels as set out below.

## Target Population

Executive Directors	LTIP
Executive Directors & Senior Executive Group	Executive Options
Management Group	Capital Accumulation Plan <sup>(a)</sup>
All Employees	UK ShareSave & US Stock Purchase Plan
All Employees	Annual Bonus Plan <sup>(b)</sup>

(a) As discussed last year, this plan was adopted in 2004 for key members of the management group excluding executive directors.

(b) For executive directors, the annual bonus is operated with an element of deferral.

All the Company's share plans incorporate dilution limits consistent with the guidelines provided by the Association of British Insurers (the ABI), the National Association of Pension Funds and other shareholder representative bodies. As a result of consultation with shareholders during the year, for options granted in FY04/FY05 and onwards there will no longer be the opportunity to retest performance conditions.

## Summary of Individual Elements of Executive Directors' Remuneration

Executive directors' total remuneration comprises short, medium and long-term incentives in the form of salary and benefits, annual and deferred bonus, share options, performance shares and pension benefits.

The aim of the Committee is to ensure that executive directors' remuneration reflects the principles of the policy outlined previously.

The benefit derived from the various elements of remuneration, excluding salary, the sharesave plan and pension, is subject to the achievement of predetermined performance targets. The Committee considers there to be an appropriate balance between fixed and variable remuneration with approximately one third of total remuneration deriving from fixed salary and approximately two thirds deriving from variable incentives.

## Base Salary

Base salaries are set taking account of the individual role, responsibility, experience and long-term contribution. As a result of the remuneration review the Committee felt that it was appropriate to increase the base salary of the executive directors to a more appropriate level given the fact that the Company is now listed and a constituent of the FTSE 100. The Committee reviewed comparable practice in media companies and other FTSE 100 companies before setting the level, and now consider that the salaries have been brought into line with the market.

The Committee now consider that this element of pay is in accordance with the policy of paying competitive total rewards and represents a competitive position against other media and FTSE 100 companies.

### Annual Bonus and the Deferred Bonus Plan

Each executive director is eligible to receive a bonus subject to the achievement of performance targets. The performance targets are set by the Committee each year having regard to the business plan.

Executive directors are eligible to receive a maximum bonus of 120% (100% for FY04) of salary with an on-target bonus of 65%. However, under the new Deferred Bonus Plan, any bonus in excess of 100% of salary will be subject to a compulsory deferral into shares for a period of three years. These shares will be forfeited if the director leaves otherwise than in pre-determined 'good leaver' circumstances.

For the executive directors, the Committee have determined that the targets for the annual bonus will be related to the Group's revenue, profit and cash generation targets (100%) with the balance (20%) based on non-financial metrics.

The Annual Bonus Plans for sales and non-sales staff similarly operate by reference to financial and non-financial metrics.

### Share Options

The executive directors and other key UK senior managers of the Company participate in the Yell Group plc Executive Share Option Scheme. Key US senior managers participate in the Yell Group plc 2003 US Equity Incentive Plan. Options are granted under both plans with an exercise price at least equal to the market value of the underlying shares at the date of grant.

It is intended that going forward, options will be granted to executive directors at a multiple of two times base salary. However for FY05 only, the Committee granted options to each executive director at a multiple of two and a half times base salary. Included in this grant was a one-off additional grant of 50% of salary which recognised the decision by the Company to align the executive directors' stock option grant dates (previously July) with the Company's grant date for all other executives (November).

Options granted in FY05 will only be exercisable if the adjusted Earnings per Share (EPS) of the Company, taken over a three year period, is equal to or exceeds the cumulative increase in the Retail Price Index (RPI) plus 3% per annum at the end of such three year period. If the performance condition is not met at the end of the third year the option lapses. Details of options granted to executive directors are provided on page 40.

The Committee continues to consider that the EPS condition most appropriately focuses eligible employees on increasing the Company's earnings and therefore helps to align the interests of the executive directors with both shareholders and the Company.

The committee has determined that if appropriate, it will exercise its judgement and discretion to make adjustments to EPS in order to take into account the transition to International Accounting Standards. However, this would only apply where the adjustment was made for the purpose of ensuring that the performance condition remained equitable to both participants and shareholders and, in the opinion of the Committee, no less stretching to achieve. Should the Committee exercise such discretion and judgement in the future it will outline the reason and basis for its decision to shareholders in the Directors' Remuneration Report for the relevant year.

### Long Term Incentive Plan (LTIP)

The first awards under the LTIP were made in November 2004. It is intended that going forward, awards to executive directors will be made at a multiple of one times salary.

As previously noted, the Committee believe it is important for executives to be incentivised by reference to a combination of different performance conditions. Given the use of an EPS measure for the Option Scheme, it was felt that using TSR for the LTIP would provide an appropriate balance of financial and market based performance conditions for the long-term incentive component of remuneration.

The extent to which the awards will vest will depend upon the Company's Total Shareholder Return (TSR) performance relative

to the TSR performance of the FTSE 100 constituents (excluding investment trusts) over a three year period. To the extent that the performance condition is not satisfied, the award will lapse and there will be no opportunity to retest the condition further.

For an award to vest, the Company's TSR performance must not be less than that of the median company in the comparator group. If the Company is ranked at the median level, 30% of the award will vest, rising to 100% vesting at the upper quartile level.

### Pension

Both the Chief Executive Officer and the Chief Financial Officer participate in the Yell Pension Plan which is an Inland Revenue approved plan. Under the terms of the Yell Pension Plan applicable, both executive directors will receive retirement benefits on a defined benefit basis.

The Chief Executive Officer is a member of Section 2 of the Yell Pension Plan. Under that Section, he accrues an annual pension of  $\frac{1}{60}$  of his Final Pensionable Earnings for each year of Pensionable Service. In addition, he accrues a one-off cash sum of  $\frac{3}{60}$  of his Final Pensionable Earnings for each year of Pensionable Service. He is not subject to the Inland Revenue's Earnings cap for pension purposes (due to his prior membership of the BT Pension Scheme) and is entitled to an enhancement of his Pensionable Service under the Yell Pension Plan (by reference to the BT Pension Scheme) which will continue until 13 November 2009. Under the terms of this enhancement, since 1 July 1996, the Chief Executive Officer has been granted an additional 71 days of Pensionable Service for each actual year of Pensionable Service in the BT Pension Scheme or the Yell Pension Plan. The effect of the enhancement is that if he remains a member of the Yell Pension Plan until his normal retirement date. The Chief Executive Officer's forecasted total Pensionable Service at age 60 will be 40 years.

The Chief Financial Officer is a member of both Sections 1 and 3 of the Yell Pension Plan and under each Section accrues an annual pension of  $\frac{1}{60}$  of his Final Pensionable Earnings up to the Inland Revenue's Earnings Cap for each year of

Pensionable Service giving a total accrual of  $\frac{1}{30}$  each year. He is contractually entitled to a pension based on uncapped pensionable salary for each year of service under the Yell Pension Plan. As he is subject to the Earnings Cap, the excess over the approved benefit conferred under the Chief Financial Officer's contractual arrangement is currently being provided on an unfunded basis. This unfunded, unapproved pension promise was reviewed during the financial year. The review highlighted that the CFO's then entitlement of  $\frac{1}{45}$  was below the median for comparable executive roles and a majority (62%) of Chief Financial Officers in the FTSE 100 have an accrual rate of  $\frac{1}{30}$ . Accordingly the CFO's pension promise was amended to increase his overall entitlement to  $\frac{1}{30}$  ( $\frac{1}{45}$  previously) of his Pension Scheme Salary for each complete year of Pensionable Service and in proportion for a part year. For the avoidance of doubt, it should be noted that the revised entitlement will be applied to all periods of Pensionable Service.

Further details of the executive directors' pension benefits can be found on page 39.

### Other Remuneration

The executive directors also participate in the ShareSave plan.

The executive directors receive a number of other benefits including life assurance, private health cover, long-term disability insurance, the provision of a car, telecommunications services, health club membership and an allowance for personal tax and financial advice.

In addition, the executive directors receive reimbursement from the Company for reasonable expenses incurred in the carrying out of their duties.

### Service contracts – Executive Directors

The service contracts for both executive directors are for a rolling 12 month period, in line with the Company's policy on executive directors' service contracts.

The key terms of the executive directors' service contracts are as follows:

Aspect	Policy
Notice period (on termination by the company or the director)	Twelve calendar months
Termination payments if contract terminated without cause	Payment if the notice period is served: Pro-rata bonus based on the greater of on target performance (65%) and projected performance determined by the Board of Directors (maximum 120%). Payment if employment is terminated by the company without notice: 95% of annual salary, benefits, pension contributions and on target bonus (65%) plus all conditional awards of shares and share options vest immediately on termination.

### Letters of Appointment – Non-Executive Directors

Non-executive directors each have a letter of appointment which sets out details of their appointments with a notice period of three months.

The following table shows the date of appointment of individual non-executive directors:

Director	Date of appointment
Bob Scott	1 July 2003
Charles Carey	1 July 2003
John Coghlan	1 July 2003
Joachim Eberhardt	1 July 2003
Lyndon Lea	1 July 2003
Lord Powell of Bayswater	1 July 2003

### Non-Executive Directors' Remuneration

The Company endeavours to pay non-executive directors' fees that reflect a market competitive rate.

For the FY05 financial year, all the non-executive directors with the exception of Bob Scott received fees for their services of £50,000 per annum. Bob Scott received fees for his services as a non-executive director and as the Company's Chairman of £150,000 per annum. In addition, a further fee of £10,000 per annum was payable to each non-executive director for chairing committees and £5,000 per annum was payable for membership of committees.

Non-executive directors are not eligible to participate in the Company's share plans and the Company does not make any benefits available to them under other employee benefit arrangements or make any contributions to their personal pension plans.

## Audited information

## Remuneration for the year ended 31 March 2004 and 2005

	Salary/Fees		Performance related bonus <sup>(a)</sup>		Other benefits <sup>(b)</sup>		Share benefits <sup>(c)</sup>		Total	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Executive Directors</b>										
John Condron	550	650	550	780	47	48	–	–	1,147	1,478
John Davis <sup>(d)</sup>	340	376	340	450	22	25	–	–	702	851
<b>Non-Executive Directors</b>										
Bob Scott	129	155	–	–	–	–	150	–	279	155
Charles Carey	57	60	–	–	–	–	150	–	207	60
John Coghlan	64	65	–	–	–	–	75	–	139	65
Joachim Eberhardt	63	65	–	–	–	–	75	–	138	65
Lyndon Lea <sup>(e)</sup>	45	60	–	–	–	–	–	–	45	60
Lord Powell of Bayswater	50	50	–	–	–	–	75	–	125	50

(a) Comprises cash bonus of 100% of base salary and, in 2005 only a further 20% of base salary payable in shares under the Deferred Bonus Plan. A description of the plan is on page 35.

(b) Executive directors' benefits mainly comprise company cars, life assurance, private health cover, long-term disability insurance, health club membership and allowances for personal tax and financial advice.

(c) Under an arrangement pre-dating the IPO, non-executive directors subscribed for shares in Yell Group plc at the date of the IPO at a discount to market value. 105,263 ordinary shares were issued for £150,000 to each of Charles Carey and Bob Scott, 52,632 ordinary shares were issued for £75,000 to each of Joachim Eberhardt, John Coghlan, and Lord Powell.

(d) 2005 salary/fee includes a one-off ex-gratia payment of £1,245.

(e) Lyndon Lea provided non-executive directors services to the company until 7 January 2004 via Hicks Muse where he was a partner. His fees for the year to 7 January 2004 were therefore paid to Hicks Muse rather than to Mr Lea directly. From 8 January 2004 Mr Lea's fees have been paid to him directly.

## Retirement Benefits

	Accrued benefit at 31 March 2004		Accrued benefit at 31 March 2005		Change in accrued benefit during the year		Transfer value at 31 March 2004	Transfer value at 31 March 2005	Change in transfer value during the year <sup>(c)</sup>	Change in accrued benefit net of inflation		Transfer value of change in accrued benefit <sup>(c)</sup>
	£'000		£'000		£'000		£'000	£'000	£'000	£'000		£'000
	Annual pension	One-off cash sum	Annual pension	One-off cash sum	Annual pension	One-off cash sum				Annual pension	One-off cash sum	
<b>John Condron<sup>(a)</sup></b>	229	686	280	840	51	154	3,647	4,720	1,034	44	133	705
<b>John Davis<sup>(b)</sup></b>	27	–	57	–	30	–	207	466	244	30	–	224

(a) John Condron is a member of Section 2 of the Yell Pension Plan and under that Section accrues an annual pension of  $\frac{1}{60}$  of his Final Pensionable Earnings for each year of Pensionable Service. In addition, he accrues a one-off cash sum of  $\frac{3}{60}$  of his Final Pensionable Earnings for each year of Pensionable Service.

(b) John Davis is a member of both Sections 1 and 3 of the Yell Pension Plan and under each Section accrues an annual pension of  $\frac{1}{60}$  of his Final Pensionable Earnings up to the Inland Revenue's Earnings Cap for each year of Pensionable Service (total accrual of  $\frac{2}{60}$  each year). As he is subject to the Earnings Cap, Mr Davis receives part of this pension through an unfunded unapproved pension promise. This unfunded unapproved pension promise was reviewed during the financial year. The amended promise increases his overall entitlement to  $\frac{1}{60}$  (previously  $\frac{1}{45}$ ) of his Pension Scheme Salary for each complete year of Pensionable Service and in proportion for a part year. For the avoidance of doubt, it should be noted that the revised entitlement applies to all period of Pensionable Service. To determine the transfer value of the unapproved pension we have used the standard cash equivalent transfer basis adopted by the Yell Pension Plan.

(c) Net of member contributions.

## Share Options

The information summarised in the table below shows the directors' share options under the existing share option schemes.

	Type of option	At 31 March 2004 (number)	Granted (number)	Exercised	At 31 March 2005 (number)	Exercise Price (pence)	Market price at date of exercise	Date from which first exercisable	Date of expiry
John Condron	SMIP	589,762	–	–	589,762	0.365	–	15 Jul 2003	14 Jul 2013
	EXEC <sup>(a)</sup>	964,912	–	–	964,912	285	–	15 Jul 2006	14 Jul 2013
	EXEC <sup>(b)</sup>	–	404,480	–	404,480	401.75	–	11 Nov 2007	10 Nov 2014
	SAYE	3,548	–	–	3,548	260	–	1 Nov 2006	1 May 2007

	Type of option	At 31 March 2004 (number)	Granted (number)	Exercised	At 31 March 2005 (number)	Exercise Price (pence)	Market price at date of exercise	Date from which first exercisable	Date of expiry
John Davis	EXEC <sup>(a)</sup>	596,491	–	–	596,491	285	–	15 Jul 2006	14 Jul 2013
	EXEC <sup>(b)</sup>	–	233,354	–	233,354	401.75	–	11 Nov 2007	10 Nov 2014
	SAYE	6,096	–	–	6,096	260	–	1 Nov 2008	1 May 2009

The closing market price of an ordinary share on 31 March 2005 was 473p. During the year the highest and lowest market prices were 475p and 303.5p respectively.

SMIP Yell Group Limited Senior Manager Incentive Plan. Options were granted and became exercisable on admission of the Company's shares to the London Stock Exchange on 15 July 2003. The options are not subject to performance conditions but a proportion of the underlying shares were subject to a sale restriction until 15 July 2004.

EXEC<sup>(a)</sup> Yell Group plc Executive Share Option Scheme. These options were granted on flotation. Options granted over shares with a value of three times salary will only be exercisable if the adjusted EPS over an initial three year period is at least equal to RPI + 3% per annum at the end of the period. If the target is not met it may be retested at the end of the fourth year. Options granted over shares with a value of two times salary will only be exercisable if the Company's total shareholder return at the end of a three year period exceeds the growth in the total shareholder return of the companies making up the FTSE 100. Options will be exercisable in full if the growth in the Company's total shareholder return would put the Company at the 25th position or higher (taken from the top) of the FTSE 100. The proportion of options which may be exercised will be reduced on a straightline basis to the 50th position of the FTSE 100, at which point 25% of the options may be exercised. If the Company's total shareholder return at the end of the three year period would place the Company below the 50th position, no options will be exercisable.

EXEC<sup>(b)</sup> Yell Group plc Executive Share Option Scheme. The exercise of these options is subject to the EPS growth of the Company exceeding the growth in RPI by 3% per annum. Performance is measured over a three year period and there is no opportunity for retesting.

SAYE Yell Group plc ShareSave Plan.

### Long Term Incentive Plan

The first awards under the plan were made during the year ended 31 March 2005 as follows:

	Granted (number)	At 31 March 2005 (number)	Market price at date of award	Date from which first exercisable	Date of expiry
John Condron	161,792	161,792	401.75p	11 Nov 2007	10 Nov 2014
John Davis	93,341	93,341	401.75p	11 Nov 2007	10 Nov 2014

The extent to which the awards will vest will depend upon the Company's Total Shareholder Return (TSR) performance relative to the TSR performance of the FTSE 100 constituents (excluding investment trusts) over a three year period. To the extent that the performance condition is not satisfied, the award will lapse and there will be no opportunity to retest the condition further.

For an award to vest, the Company's TSR performance must not be less than that of the median company in the comparator group. If the Company is ranked at the median level, 30% of the award will vest, rising to 100% vesting at the upper quartile level.

### Directors' Interests

The directors' beneficial and non-beneficial interests in shares in the Company are shown below. Since 31 March 2005 up to the date of this document, the respective holdings of the directors in office have not changed.

	31 March 2004 (number)	31 March 2005 (number)
John Condron <sup>(a)</sup>	6,549,853	3,349,853
John Davis <sup>(a)</sup>	2,901,379	1,451,739
Bob Scott	105,263	105,263
Charles Carey	105,263	105,263
John Coghlan	52,632	52,632
Joachim Eberhardt	52,632	52,632
Lyndon Lea	200,000	200,000
Lord Powell of Bayswater	52,632	2,632

(a) On 12 November 2004 Mourant & Co Trustees Limited, as trustee for the Yell Employee Benefit Trust, (the Trust) acquired in the market, at an average price of £4.09428 per share, a total of 1,598,002 Ordinary shares in the Company (the Shares).

The Shares will be held by the Trust until they are transferred to participants in the Company's Capital Accumulation Plan (the Plan). Neither John Condron nor John Davis is entitled to receive any of the Shares or be granted any benefit under the Plan.

The Trust is a discretionary trust and all employees (including John Condron and John Davis) are included in the class of potential beneficiaries. Therefore, John Condron and John Davis are deemed to be interested in the Shares whilst they are held by the Trust. This interest will cease following distribution of the Shares to the participants in the Plan.

Accordingly, the Shares are not included in the table of Directors' interests above.

By order of the Board

**Joachim Eberhardt**

Chairman Remuneration Committee

## The Board

### Bob Scott, Chairman

Bob (63) is currently a non-executive director of the Royal Bank of Scotland Group plc, Jardine Lloyd Thompson Group plc, Focus DIY Group Limited and Crimestoppers Trust. He is also a non-executive director of Swiss Reinsurance Company, Zurich. Bob retired as Group Chief Executive of CGNU plc in 2001, having previously held the same position with CGU plc and General Accident plc, where he had been a director since 1992. He was also chairman of the Association of British Insurers in 2000-2001, having been a board member for four years and he was a member of the President's Committee of the CBI from 1998-2000.

### John Condron, Chief Executive Officer

John (55) was previously the Managing Director of the Group, when it was a division of BT. He continued as CEO of the Group on its sale by BT. John is a member of the UK Government's Advisory Committee on Advertising. John joined BT in 1973 in the International Finance Division. He became Strategy Manager for BT's White Pages Division in 1978 before joining Yell in 1980 as New Product Development Manager. In 1987, John 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, he was appointed as the Managing Director of the Yellow Pages Group.

### John Davis, Chief Financial Officer

John (43) was Group Finance Director at Yahoo! Europe before joining Yell as CFO in September 2000. Prior to that, 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. John began his career at Price Waterhouse, where he qualified as a Chartered Accountant. From 1989-1997, he held a variety of positions at EMAP plc, including Director of Corporate Finance/Treasury and Finance Director of EMAP Radio.

### Charles Carey

Charles (51) is President and Chief Executive Officer of DIRECTV Inc, a position he has held since December 2003. He also is a member of the DIRECTV Inc. Board of Directors. As President and CEO Charles oversees the operations and strategic direction of the DIRECTV Inc. companies, which include DIRECTV Inc. in the US and DIRECTV Latin America. Prior to joining DIRECTV Inc., Charles was Co-Chief Operating Officer of News Corp. and President and Chief Executive Officer of Sky Global Networks until his resignation in January 2002. He also served as Chairman and Chief Executive Officer of the Fox Television Group until 2001. In addition to

serving on the DIRECTV Inc. Board and News Corp. Board, Charles is also a member of the Board of Directors of British Sky Broadcasting and Gateway Inc. He is a Trustee of Colgate University and a graduate of Colgate University and Harvard Business School.

### John Coghlan

John (47) is currently Deputy Chief Executive and Group Finance Director of Exel plc. Prior to joining Exel/Ocean Group plc in 1995, he qualified as a chartered accountant in 1982 and worked for Arthur Andersen for eight years before joining Tomkins plc, where he spent seven years in various financial roles.

### Joachim Eberhardt

Joachim (41) is currently the Executive Vice President of Global Sales, Marketing and Service for DaimlerChrysler Motors LLC in the US. Until 1 June 2003 he was President and CEO of DaimlerChrysler UK Limited, a position he held since November 1999. He is currently a non-executive director of a number of DaimlerChrysler owned subsidiaries. Joachim holds a Masters of Arts degree from the Academy for Administration and Economics in Stuttgart, Germany and an MBA from New York University Stern School of Business.

### Lyndon Lea

Lyndon (36) is a founding partner of Lion Capital. Lyndon currently serves on the boards of Aber Diamond Corporation, and various Cayman limited companies which wholly-own Jimmy Choo, Weetabix, Materne, Aster City Cable and Burton's Foods. Prior to founding Lion Capital he was a partner and management committee member of Hicks, Muse, Tate & Furst whose European business he co-founded in 1998. Previously, he served at Glenisla, which was 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. Lyndon received his BA Honours in Business Administration from the University of Western Ontario, Canada.

### Lord Powell of Bayswater

Lord Powell (64) is currently Chairman of Sagitta Asset Management and UK Chairman of Louis Vuitton Moet Hennessy (LVMH). He is also a director of British Mediterranean Airways, Caterpillar Inc., LVMH, Mandarin Oriental Hotel Group, Matheson & Co, Northern Trust Global Services, Schindler Holding and Textron Corporation. Lord Powell is also a member of numerous international advisory boards, Chairman or Trustee of several not-for-profit organisations and a cross-bench member of the House of Lords.

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**Bob Scott**  
Chairman

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**John Condron**  
Chief Executive Officer

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**John Davis**  
Chief Financial Officer

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**Charles Carey**  
Non-Executive Director

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**John Coghlan**  
Non-Executive Director

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**Joachim Eberhardt**  
Non-Executive Director

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**Lyndon Lea**  
Non-Executive Director

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**Lord Powell of Bayswater**  
Non-Executive Director

## Operating and Financial Review and Prospects

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The following information should be read in conjunction with the audited financial statements for Yell Group. The financial statements have been prepared in accordance with generally accepted accounting principles in the UK (UK GAAP). UK GAAP differs in certain important respects from generally accepted accounting principles in the US (US GAAP). See the reconciliation of UK GAAP to US GAAP at Note 29 to the audited financial statements for the Group. US GAAP information is provided in this document because we have US employees who have been granted share options.

### Factors Affecting Results of Operations

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#### Group Turnover

We are the leading provider of classified directory advertising and associated products and services in the UK and the leading independent provider of classified telephone directory advertising in the US. We currently derive our turnover principally from sales of advertisements in our printed directories, Yellow Pages, Yellow Book and Business Pages. We also generate turnover from online-related activities such as online advertising, website design and domain-name sales and from our classified telephone directory service Yellow Pages 118 24 7. 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. Therefore, we have better visibility of our expected near-term financial results than might otherwise be the case.

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, whilst others have lower-than-average levels. For example, during our 2005 financial year, the four financial quarters accounted for 22%, 25%, 23% and 30% of Group turnover, respectively. Different directories may grow at different rates, such that growth may not be evenly distributed between quarters. We sometimes have to rephase our timing of distributions into an earlier or later period for operational reasons, such as when we rescope directories or integrate acquisitions. Such changes can also affect the quarterly distribution of turnover. 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 US, 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 UK during the period under review was limited by the undertakings given to the UK Secretary of State for Trade and Industry in 2001, under which, from January 2002, we were required to limit the annual growth in advertising rates in our UK printed Yellow Pages directories to RPI less 6% for an expected period of four years. This has restricted our ability to raise prices on advertisements within our printed Yellow Pages directories in the UK.

When RPI is less than 6%, this price cap requires 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. During our 2005 financial year, the average price of advertising in our Yellow Pages directories decreased by 3.3%, as compared to a decrease of 4.8% during our 2004 financial year. We are not subject to any regulatory price constraints in the US.

In the 2005 financial year, 46% of the Group's turnover was affected by a price cap, as compared to 49% during the 2004 financial year. In the 2005 financial year, 52% of our turnover came from our UK operations compared with 53% in the 2004 financial year.

While the current Competition Commission review of the market is underway, we will continue to cut prices for advertising in our UK Yellow Pages directories in line with the RPI less 6% formula.

## 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. We recognise the cost of sales for each directory on completion of delivery of that directory.

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 US 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.

Paper is our largest raw material and one of our largest variable-cost items. In recent years paper prices have fluctuated significantly. In the 2005 financial year, paper costs were equivalent to 6.6% of Group turnover and represented 10.6% of our total cost of sales in the UK and 17.0% of our total cost of sales in the US.

Cost of sales also includes bad debt expense. Our UK business currently has low bad debt expense relative to our US business due to our established market position in the UK. Our Yellow Book directories 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 accepted a higher rate of bad debts. We believe that the benefits of our growth strategy in the US outweigh any risks associated with the credit profile of our 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 US 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 US to remain higher than in the UK.

## Distribution Costs and Administrative Costs

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

Our administrative costs 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.

## Gross Profit Margins

The change in the geographic mix of our business, as well as the strategy we have pursued of rapid growth and geographic expansion of our business in the US, has had an important effect on our financial results during the periods under review, including our profit margins. These factors are expected to continue affecting our financial results in the future.

In the US, the different market dynamics and the younger portfolio result in lower gross profit margins than in the UK. In the 2005 financial year, for example, our gross profit margin for our UK printed directories was 62.9%, compared to 44.3% 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.

We intend to increase our focus on enhancing our operating efficiencies and organic growth in the US, and we believe there will be opportunities to improve our US gross profit margins as our US operations become more established.

Our printed directories business in the UK, which we view as more developed and which covers substantially all of the UK, has historically had higher gross profit margins than those in the US.

## Year Ended 31 March 2005 Compared to Year Ended 31 March 2004

Group Turnover	Year ended 31 March			
	2004		2005	
	£m	% <sup>(b)</sup>	£m	% <sup>(b)</sup>
UK printed directories	593.9	50.0	612.1	47.6
Other UK products and services	41.0	3.5	52.3	4.1
<b>Total UK turnover</b>	<b>634.9</b>	<b>53.5</b>	<b>664.4</b>	<b>51.7</b>
US printed directories at constant exchange rate <sup>(a)</sup>	552.0	46.5	675.0	52.5
Exchange impact <sup>(a)</sup>	—	—	(54.1)	(4.2)
<b>Total US turnover</b>	<b>552.0</b>	<b>46.5</b>	<b>620.9</b>	<b>48.3</b>
<b>Group turnover</b>	<b>1,186.9</b>	<b>100.0</b>	<b>1,285.3</b>	<b>100.0</b>

(a) Constant exchange rate states current year results at the same exchange rate as that used to translate the previous year's results. Exchange impact is the difference between the results reported at a constant exchange rate and the actual results reported using current year exchange rates.

(b) The percentage of total Group turnover.

Group turnover increased by £98.4 million, or 8.3%, from £1,186.9 million in the 2004 financial year to £1,285.3 million in the 2005 financial year, reflecting increased turnover during the period from each business segment.

### UK Turnover

UK printed directories turnover increased by 3.1%, or £18.2 million, during the 2005 financial year. We added almost 117,000 new advertisers, exceeding our target of 100,000 new advertisers for the fifth successive year. We retained 75% of existing customers (74% excluding national and key accounts). The decline from 77% last year primarily reflects increased competition and the substantial growth in our advertiser base over the last five years as new customers typically dilute retention. As a result, the total number of unique print advertisers was 478,000 compared with 480,000 last year.

Turnover per unique advertiser increased for all UK printed directories by 3.5% to £1,280 from £1,237, after the effect of the 3.3% price reduction on our Yellow Pages directories.

We rescoped 13 directories into 25 during the year, addressing changes in demographic, shopping and trading patterns and enabling us to compete more effectively with the wide range of alternative classified information available to the user. We now publish 102 Yellow Pages directories and offer full coverage of the UK, following the publication of the Hull directory for the first time.

Turnover from Yell.com, our UK online directory service, increased by £10.4 million, or 40.3%, from £25.8 million to £36.2 million. This increase reflected the 36.9% increase in searchable advertisers to 141,000, including 23,000 who do not advertise in our printed products. This brings our total UK unique advertisers to 501,000 compared to 498,000 last year. Through our channel neutral approach, Yell.com has successfully captured new advertisers from new markets, taking advantage of the widening usage of the internet within the classified advertising market.

In the year ahead we expect total UK turnover to grow at around 3% with a significant contribution from Yell.com.

## US Turnover

Turnover from US printed directories increased by £68.9 million, or 12.5%, from £552.0 million in the 2004 financial year to £620.9 million for the 2005 financial year. Turnover was negatively affected by £54.1 million from a weakening US dollar. On a constant US dollar basis, US turnover grew by £123.0 million, or 22.3%. The average exchange rates were approximately \$1.85 to £1.00 in the year ended 31 March 2005 and \$1.69 to £1.00 in the prior year.

The Group had 455,000 unique advertisers in the US in the year ended 31 March 2005 compared to 386,000 in the prior year. Average turnover per unique advertiser grew 3.7% from \$2,434 to \$2,525. Customer retention increased from 70% to 71%.

Of the 22.3% growth in turnover, excluding the effect of exchange rate movements, 14.2% was from organic turnover growth. This included 11.1% from same-market growth, which benefitted from the successful relaunch of several major former McLeod directories, as compared with 9.0% last year. Directories from acquisitions that published for the first time in the most recent year are not included in the same-market growth results.

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, which is not necessarily the same period in the prior financial year. Rescoped directories are those 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.

Remaining growth was due to 19 new directory launches (contributing 3.1% to the growth) and 32 directories publishing for the first time after acquisition (contributing 8.4% to the growth) offset by the effect of winding down certain operations (0.3% reduction).

In the year ahead, we expect organic turnover growth of around 12% helped by a heavy schedule of launches in the first half. We also expect our 2005 acquisitions to contribute an extra 1.5% of turnover in 2006.

## Cost of Sales

	Year ended 31 March			
	2004		2005	
	£m	% <sup>(b)</sup>	£m	% <sup>(b)</sup>
UK printed directories	228.0	38.4	231.7	37.9
Other UK products and services	12.4	30.2	14.6	27.9
<b>Total UK cost of sales</b>	<b>240.4</b>	<b>37.9</b>	<b>246.3</b>	<b>37.1</b>
US printed directories:				
US printed directories at constant exchange rate <sup>(a)</sup>	312.5	56.6	375.2	55.6
Exchange impact <sup>(a)</sup>	—	—	(29.2)	54.0
<b>Total US cost of sales</b>	<b>312.5</b>	<b>56.6</b>	<b>346.0</b>	<b>55.7</b>
<b>Total cost of sales</b>	<b>552.9</b>	<b>46.6</b>	<b>592.3</b>	<b>46.1</b>

(a) Constant exchange rate states current year results at the same exchange rate as that used to translate the previous year's results. Exchange impact is the difference between the results reported at a constant exchange rate and the actual results reported using current year exchange rates.

(b) The percentage of related turnover.

Total cost of sales increased by £39.4 million, or 7.1%, compared to last year.

The £3.7 million, or 1.6%, increase in cost of sales for UK printed directories from £228.0 million in the 2004 financial year to £231.7 million in the 2005 financial year reflected higher advertisement volumes. Cost of sales for other UK products and services increased by £2.2 million, or 17.7%, from £12.4 million in the 2004 financial year to £14.6 million in the 2005 financial year, reflecting the increased turnover from Yell.com.

Cost of sales for Yellow Book directories as a percentage of turnover was 55.7% in the 2005 financial year, as compared to 56.6% in the 2004 financial year.

Our consolidated bad debt expense was £72.6 million, or 5.6% of Group turnover in the 2005 financial year, as compared with £71.0 million, or 6.0% of Group turnover in the 2004 financial year. The charge for UK bad debts was 4.1% of UK printed directories and other products and services turnover in 2005 and 4.5% in the 2004 financial year. The US bad debt expense was 7.3% of US printed directories turnover in the 2005 financial year as compared to 7.7% in the 2004 financial year.

## Gross Profit and Gross Profit Margin

	Year ended 31 March			
	2004		2005	
	£m	% <sup>(b)</sup>	£m	% <sup>(b)</sup>
UK printed directories	365.9	57.7	380.4	54.9
Other UK products and services	28.6	4.5	37.7	5.4
<b>Total UK gross profit</b>	<b>394.5</b>	<b>62.2</b>	<b>418.1</b>	<b>60.3</b>
US printed directories:				
US printed directories at constant exchange rate <sup>(a)</sup>	239.5	37.8	299.8	43.3
Exchange impact <sup>(a)</sup>	—	—	(24.9)	(3.6)
<b>Total US gross profit</b>	<b>239.5</b>	<b>37.8</b>	<b>274.9</b>	<b>39.7</b>
<b>Gross profit</b>	<b>634.0</b>	<b>100.0</b>	<b>693.0</b>	<b>100.0</b>
<b>Gross profit margin (%)</b>				
UK operations		62.1		62.9
US operations		43.4		44.3
<b>Group total (%)</b>		<b>53.4</b>		<b>53.9</b>

(a) Constant exchange rate states current year results at the same exchange rate as that used to translate the previous year's results. Exchange impact is the difference between the results reported at a constant exchange rate and the actual results reported using current year exchange rates.

(b) The percentage of total gross profit.

The increase in gross profit as a percentage of Group turnover from 53.4% in the 2004 financial year to 53.9% in the 2005 financial year reflected improved margins from both the UK and US operations.

## Distribution Costs and Administrative Expenses

Distribution costs increased by £3.8 million, or 11.0%, from £34.5 million in the 2004 financial year (2.9% of Group turnover) to £38.3 million in the 2005 financial year (3.0% of Group turnover). Excluding the effects of the weakening dollar, distribution costs would have increased by £6.0 million.

Administrative expenses decreased by £39.1 million, or 8.7%, from £449.1 million in the 2004 financial year to £410.0 million in the 2005 financial year. Excluding exceptional costs, administrative expenses increased by £14.5 million or 4.0% from £359.0 million to £373.5 million.

## Group Operating Profit and EBITDA

	Year ended 31 March		
	2004	2005	Change
	£m	£m	%
<b>UK operations</b>			
Operating profit	129.8	170.6	
Depreciation and amortisation	69.4	70.1	
EBITDA <sup>(a)</sup>	199.2	240.7	
Exceptional IPO costs	33.9	—	
Adjusted EBITDA <sup>(a)</sup>	233.1	240.7	3.3
<b>US operations</b>			
Operating profit	20.6	74.1	
Depreciation and amortisation	50.2	51.5	
EBITDA <sup>(a)</sup>	70.8	125.6	
Exceptional IPO costs	56.2	—	
Exceptional litigation costs	—	36.5	
Exchange impact <sup>(b)</sup>	—	14.3	
Adjusted EBITDA at constant exchange rate <sup>(b)</sup>	127.0	176.4	38.9
Exchange impact <sup>(b)</sup>	—	(14.3)	
Adjusted EBITDA <sup>(a)</sup>	127.0	162.1	27.6
<b>Group</b>			
Total operating profit	150.4	244.7	
Depreciation and amortisation	119.6	121.6	
Group EBITDA <sup>(a)</sup>	270.0	366.3	35.7
Exceptional items	90.1	36.5	
<b>Group adjusted EBITDA<sup>(a)</sup></b>	<b>360.1</b>	<b>402.8</b>	<b>11.9</b>

(a) EBITDA comprises total operating profit before depreciation and amortisation, both being non-cash items. EBITDA is not a measurement of performance under UK or US GAAP and you should not consider EBITDA as an alternative to (a) operating profit or net profit (loss) (as determined in accordance with generally accepted accounting principles), (b) cash flows from operating, investing or financing activities (as determined in accordance with generally accepted accounting principles), or as a measure of our ability to meet cash needs or (c) any other measures of performance under generally accepted accounting principles. EBITDA is not a direct measure of our liquidity, which is shown by the Group's cash flow statement and needs to be considered in the context of our financial commitments. EBITDA may not be indicative of our historical operating results and is not meant to be predictive of our potential future results. We believe that EBITDA is a measure commonly reported and widely used by investors in comparing performance on a consistent basis without regard to depreciation and amortisation, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred) or non-operating factors. Accordingly, EBITDA has been disclosed in this report to permit a more complete and comprehensive analysis of our operating performance relative to other companies. Because all companies do not calculate EBITDA identically, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA is one of the key financial measures that we use to assess our success in achieving growth and operational efficiencies.

(b) Constant exchange rate states current year results at the same exchange rate as that used to translate the previous year's results. Exchange impact is the difference between the results reported at a constant exchange rate and the actual results reported using current year exchange rates.

Group adjusted EBITDA increased by £42.7 million, or 11.9%. Group adjusted EBITDA at a constant exchange rate increased by £57.0 million, or 15.8%. The group adjusted EBITDA margin increased one percentage point to 31.3%, reflecting the strong US performance.

Adjusted EBITDA from the UK operations increased by £7.6 million, or 3.3%. EBITDA from the UK operations increased 20.8% to £240.7 million. Adjusted EBITDA growth primarily reflects the increased profitability of Yell.com. Yell.com reported EBITDA of £9.6 million (operating profit of £7.8 million adding back depreciation of £1.8 million) for the 2005 financial year as compared to £5.3 million (operating profit of £3.6 million adding back depreciation of £1.7 million) in the prior year. The printed directory adjusted EBITDA margin decreased from 38.3% to 36.8%, and the overall UK adjusted EBITDA margin was 36.2% compared to 36.7% the year before. In the year ahead, we expect the UK EBITDA margin to reflect increasing competitive pressure and additional charges under International Financial Reporting Standards.

Adjusted EBITDA from our US operations increased by £35.1 million, or 27.6%, compared to the 2004 financial year. Including exceptional items, EBITDA from Yellow Book for the 2005 financial year increased by £54.8 million compared to the 2004 financial year. The adjusted EBITDA margin from our US operations increased to 26.1%, as we focused on increasing the benefit and yield from our directory investments. We increased the profitability of our directories by leveraging our existing operations and administrative cost base to yield additional turnover from our directories without a corresponding increase in costs. In the year ahead, we expect the US EBITDA margin will continue to grow.

### Net Interest Payable

Net interest expense was £91.0 million, comprising both cash interest and non-cash interest, in the 2005 financial year, compared to £194.5 million in the 2004 financial year. Net interest expense in the 2005 financial year comprised £74.5 million of net interest paid or to be paid within a six-month period, £10.4 million of interest rolled-up into our long-term debt and £6.1 million of amortised financing costs. Net interest before exceptional items was £136.1 million in the 2004 financial year. The exceptional items of £58.4 million in 2004 comprised £36.4 million accelerated amortisation of deferred financing costs in connection with the repayment of the senior credit facilities on 15 July 2003 and senior notes on 18 August 2003, £19.7 million early redemption of 35% of our senior notes on 18 August 2003, and £2.3 million arrangement fee on the undrawn revolving credit facility.

### Taxation

Taxation before exceptional items was a charge of £73.2 million for the 2005 financial year and a charge of £44.2 million last year. Tax credits in the amount of £13.7 million in the 2005 financial year and £37.2 million last year were recognised as a benefit arising from exceptional items. Our future taxation charge will depend on our taxable income in the UK and the US. We expect our effective tax rate to be around 30% of profits before amortisation and tax in the 2006 financial year under current UK GAAP and around 33% under IFRS.

### Profit (Loss) Before and After Tax

After charging the exceptional costs, the profit on ordinary activities before tax was £153.7 million in the 2005 financial year as compared to a loss of £44.1 million in the 2004 financial year. Excluding the effect of exceptional costs, the profit before taxation and profit after taxation for the 2005 financial year would have been £190.2 million and £117.0 million respectively.

### Earnings per Share

Adjusted diluted earnings per share were 30.4 pence before amortisation and exceptional costs; an increase of 20.2%. Basic earnings per share before amortisation and exceptional costs were 30.8 pence. This compares with pro forma (before amortisation and as if the IPO had occurred before the start of last year) basic earnings per share of 25.6 pence last year.

### Liquidity

Apart from significant acquisitions which we have funded through a combination of borrowings, cash from contributions from the investment funds from the former owners and cash flow from operations, we have funded our existing business largely from cash flows generated from our operations. We believe that we have sufficient working capital to meet our operating and capital expenditure requirements. In addition, we have access to a £200.0 million revolving credit facility as part of the senior credit facilities, which expires on 7 July 2008, none of which was drawn down at 31 March 2005.

Our net cash inflow from operating activities was £294.2 million in the 2004 financial year and £357.6 million in the 2005 financial year, or a 21.6% increase.

Our net cash inflow from operating activities before payments of exceptional costs (2004-£33.8 million; 2005-£13.6 million) and after capital expenditure (2004-£24.5 million; 2005-£24.0 million) increased from £303.5 million in the 2004 financial year to £347.2 million in the 2005 financial year. As a percentage of adjusted EBITDA (cash conversion) it rose from 84.3% in the 2004 financial year to 86.2% in the 2005 financial year. We use cash conversion to monitor the efficiency of our operations in converting earnings into cash. We expect to continue to convert around 80% of EBITDA to cash in the year ahead.

Free cash flow was £229.9 million, comprising net cash inflow from operating activities of £357.6 million, less interest of £72.2 million, taxation paid of £31.5 million and purchase of fixed assets of £24.0 million. Free cash flow before the payment of exceptional items was £243.5 million. We made an additional annual pension contribution of £8.2 million in the year, and expect to make an additional annual contribution of approximately £8.5 million in the next financial year. These contributions are the first step in alleviating the £69.6 million (net of tax) pension deficit reported under FRS 17. While the contributions reduce free cash flow, they have no effect on the Group's profit and loss.

Net cash outflow from returns on investments and servicing of finance of £72.2 million for the 2005 financial year comprises £72.2 million of cash pay interest.

Net cash outflow for capital expenditures and financial investment comprises capital expenditure on fixed assets and purchases of subsidiary undertakings, net of cash acquired. Capital expenditure was £24.0 million in the 2005 financial year compared to £24.5 million last year. The capital expenditure was principally in respect of the acquisition of fixed assets to support our sales force and central administrative staff. We continued to augment our growth in the US with further selective acquisitions totalling £31.8 million in the 2005 financial year.

## Capital Resources

At 31 March 2005 we had cash of £55.5 million.

Since the year end, we have agreed a new £2 billion credit facility to refinance our existing bank debt and to fund an acquisition as explained under 'Post balance sheet event' on page 52.

We expect that any other significant acquisitions or other significant expenditures, including those related to the development of our online services, would in the future be financed through any one or more of operating cash flows, credit facilities and the issue of new debt and equity securities.

We had net debt of £1,106.1 million at 31 March 2005, down £116.9 million from £1,223.0 million at 31 March 2004. Our net debt at 31 March 2005 is equal to 2.7 times our adjusted EBITDA.

Debt	Payments due by period				Total
	Within 1 year	1-3 years	3-5 years	After 5 years	
	£m	£m	£m	£m	£m
Long-term loans and other borrowings					
Term Loan A1 – denominated in sterling	90.0	150.0	304.0	—	544.0
Term Loan A2 – denominated in US dollars	—	—	315.6	—	315.6
Senior notes	—	—	—	314.7	314.7
Revolving loan under senior credit facilities and other	1.3	—	—	—	1.3
<b>Total debt</b>	<b>91.3</b>	<b>150.0</b>	<b>619.6</b>	<b>314.7</b>	<b>1,175.6</b>
Unamortised financing costs					(14.0)
Cash at bank					(55.5)
<b>Net debt at end of the period</b>					<b>1,106.1</b>

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 senior notes at maturity. No one has guaranteed our obligations under the senior notes or has any obligation to provide additional equity financing to us.

The terms of the senior credit facilities require us to maintain specified consolidated financial ratios for net total debt to EBITDA, EBITDA to net cash interest payable and, until 31 March 2005, net senior debt to EBITDA. Certain of these financial ratios have to be prepared for the preceding twelve-month period and reported to the providers of the senior credit facilities on a six-monthly basis. We have maintained the financial ratios for the year ended 31 March 2005 in compliance with these debt covenants.

## Commitments

The following table sets forth our contractual obligations and their maturity dates as at 31 March 2005:

Debt	Within 1 year	1-3 years	3-5 years	After 5 years	Total
	£m	£m	£m	£m	£m
Long-term debt	90.0	150.0	619.6	314.7	1,174.3
Operating lease obligations	13.7	23.5	19.0	29.4	85.6
Finance lease obligations	1.3	—	—	—	1.3
Estimated interest payments <sup>(a)</sup>	68.6	149.8	85.8	50.4	354.6
<b>Total</b>	<b>173.6</b>	<b>323.3</b>	<b>724.4</b>	<b>394.5</b>	<b>1,615.8</b>

(a) Interest payments have been estimated based on the assumptions that (1) the long-term debt principal repayments are the same as those presented in this table; (2) floating rate interest rates are the same as those implicit in the long-term yield curve (one month LIBOR on UK senior debt remaining at 4.9% in April 2005 to March 2007 and one month LIBOR on US senior debt increasing from 2.7% in April 2005 to 4.7% by March 2007); (3) floating interest rates do not change after March 2007; and (4) the US Dollar to British Pound exchange rate is \$1.90: £1.00 in all future periods. Our estimated interest payments should not be relied on as fact, because interest rates and exchange rates could vary materially from those that we assumed.

There were no purchase commitments or other long-term liabilities as at 31 March 2005 other than those stated above.

**Other Matters****Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements other than the hedges discussed in this document.

**Acquisitions**

In the year ended 31 March 2005, we acquired various directories for an aggregate purchase price of \$60.0 million (£31.8 million). These acquisitions gave rise to £27.0 million of goodwill recorded in the year. In the year ended 31 March 2004, we acquired directories in the US (including Feist) for an aggregate purchase price of \$198.9 million (£108.6 million) plus expenses of \$0.5 million (£0.3 million). These acquisitions gave rise to £100.4 million of goodwill recorded in that year.

**Post Balance Sheet Event**

On 17 May 2005, we announced that our US business had entered into a definitive agreement for the purchase (the Acquisition) of Transwestern Holdings, L.P. (Transwestern) from Thomas H. Lee Partners, CIVC Partners, LLC and Transwestern management for \$1,575 million (£829 million) in cash. Transwestern is a leading independent directory publisher in the US, with an extensive footprint in 25 states, including core positions in California and Texas, which complements Yellow Book's footprint. Transwestern published 332 directories during the year ended 31 December 2004. Transwestern also offers online directory advertising services through WorldPages.com.

The Acquisition establishes Yell as the third largest directory publisher globally and Yellow Book as the fifth largest directory publisher in the US, based on US pro forma revenues in excess of \$1.4 billion for the financial year 2005. The acquisition further strengthens our position as a leading independent directory publisher in the US.

At 17 May 2005 we had agreed in principle a new £2 billion credit facility, fully underwritten by ABN AMRO, BNP paribas, Citibank, HSBC and JPMorgan Chase, to refinance all of our existing bank debt of £860 million and to fund the Acquisition, if the Acquisition is completed. Our senior notes remain unaffected.

Based on Yell's and Transwestern's strong cash generation, we expect our leverage ratio (net debt/pro forma EBITDA) to reach 4.0 times by 31 March 2006.

The Acquisition is subject to shareholder approval and Hart Scott Rodino clearance in the USA. Therefore, completion of the Acquisition cannot be assured.

**Litigation**

The exceptional costs of £36.5 million (£22.8 million after tax) in the year ended 31 March 2005 are the estimated costs relating to lawsuits brought against Yellow Book USA in relation to an advertising campaign that finished in 2004.

As we previously disclosed, a lawsuit filed by Verizon was settled in October 2004. Following publication of our half year results, Yellow Book USA was served with complaints filed as class actions in five US states and the District of Columbia. In these actions, the plaintiffs allege violations of consumer protection legislation and are placing reliance on findings of the New York court in the now settled suit brought against Yellow Book USA by Verizon. On 13 May 2005, the court in New Jersey gave its preliminary approval to a comprehensive national settlement, with no admission of liability. Notice of the terms of settlement will be published to class members and the final approval hearing is anticipated to be held in late summer 2005.

**Effect of the IPO**

The IPO in July 2003 raised £433.6 million (gross proceeds).

We used the proceeds to settle £109.5 million payable on the vendor loan notes; to pay share issue costs of £23.7 million; to pay £79.6 million of exceptional costs; to repay £48.3 million of debt under the senior credit facilities; and to redeem 35% (£172.5 million) of the senior notes pursuant to the optional redemption features under the indentures. We also replaced our remaining senior credit facilities with new senior credit facilities of £664 million and \$596 million and a revolving credit facility of £200 million.

As a result of the capital-raising, we incurred a number of exceptional or one-off costs, including: cash and non-cash interest charges relating to premiums paid in connection with the redemption of the senior notes and to the write-off of deferred finance costs; charges relating to option grants under existing share ownership plans; fees paid to the owners before the IPO; and other transaction fees and costs arising out of the IPO. In addition, participants in a plan implemented for certain key employees of Yellow Book and its subsidiaries were entitled to a payment under the Yellow Book Phantom DDB Plan, under which the participants as a group are treated economically as if they had invested approximately £32 million in the Group in the same manner as the funds advanced by the owners before the IPO. We recorded a compensation charge of \$63 million (£39 million) in connection with this. In satisfaction of those obligations, the participants in the Yellow Book Phantom DDB Plan exchanged their interests in the plan for Ordinary shares in the Company.

## 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 the basis of Statement of Standard Accounting Practice 24: Accounting for Pension Costs (SSAP 24). At the last valuation date, 5 April 2002, under SSAP 24 and on an ongoing basis, the assets of the scheme were sufficient to cover 102% of accrued benefits. Although there has been no formal valuation since this time, it is likely that the funding position has worsened due to adverse changes in the capital markets and increased longevity.

We have also complied with the transitional disclosure requirements of UK Financial Reporting Standard 17: Retirement Benefits (FRS 17). Valuations of this scheme for the purposes of FRS 17 were carried out at 31 March 2004 and 31 March 2005 by a qualified independent actuary. The liability, net of tax, measured in accordance with FRS 17 was £69.6 million at 31 March 2005 (2004=£46.5 million). The deficit at 31 March 2004 arose primarily as a result of adverse conditions in the capital markets. The increase in the deficit in the 2005 financial year primarily reflects the increase in the liabilities of the scheme as a result of changing our assumptions regarding how long scheme members will live after retirement.

Our employer pension contribution to the defined benefit pension scheme during the 2005 financial year was £16.2 million (2004=£9.4 million), including an additional annual contribution of £8.2 million. We expect to make an additional annual contribution of approximately £8.5 million in the next financial year. These additional contributions are the first step in alleviating the £69.6 million (net of tax) pension deficit reported under FRS 17. Full details of the SSAP 24 and FRS 17 disclosures are given in note 24 of the notes to the financial statements.

## Treasury Policy

Our treasury operation's primary role is to manage liquidity, investment funding 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 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. It is likely that derivative financial instruments, including forward foreign exchange contracts, if entered into, will be used only for hedging purposes.

## Market-Related Risks

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 agreement dated 8 July 2003 we were required to have fixed or capped interest on at least 50% of net interest payments during the 21 months following each month end. However, this requirement ceased once net debt fell below 3.5 times EBITDA. Even so, we have fixed interest on 50% of the indebtedness under the senior credit facilities using interest rate swaps over the period to March 2007, with a review of this strategy on a quarterly basis. When combined with the fixed rate senior notes, we have fixed our interest rates on approximately 65% of our total gross debt until March 2007, falling to approximately 32% thereafter. At 31 March 2005, we had £2.9 million net unrecognised gains 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 the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No 133: Accounting for Derivative Instruments and Hedging Activities for US GAAP purposes.

All significant cash inflows and outflows associated with our operations in the UK are denominated in pounds sterling, and all significant cash inflows and outflows associated with our operations in the US are denominated in US dollars. However, our financial statements are presented in pounds sterling, and changes in the exchange rate between the US dollar and pounds sterling will affect the translation of the results of our operations into pounds sterling. The composition of our debt partially hedges exchange rate fluctuations, because 41.9% of our debt and 35.7% of our net interest expense are denominated in US dollars, thereby reducing our US EBITDA exposure by approximately 18.5%. We do not currently intend to use derivative instruments to hedge any foreign exchange translation rate risk relating to US dollar-denominated notes or other US financial liabilities, although we will continue to review this practice.

At 31 March 2005, we had £463.5 million of borrowings denominated in US dollars net of deferred financing fees, and £851.0 million of borrowings, also net of deferred financing fees, 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 2005 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 2005 financial year would have been £3.0 million higher or lower taking into account our hedging arrangements, or £8.5 million higher or lower without taking into account hedging arrangements.

If the average exchange rate of the US dollar as measured against the pound sterling had been 10% higher or lower, with no change in variable rates of interest, then the interest payable in the 2005 financial year would have been approximately £3.8 million lower or £4.6 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 US dollar and pounds sterling-denominated indebtedness and the extent of any hedging arrangements.

Further information on financial instruments and our risk management is discussed in note 17 of the notes to the financial statements.

### Significant Differences between UK and US GAAP

Our consolidated financial statements are prepared in accordance with UK GAAP, which differ in certain respects from US GAAP. Differences result primarily from acquisition accounting, which affects the accounting for directories in progress, goodwill and other intangibles, and taxation. Timing differences also arise when recognising certain costs associated with directories in progress, interest that is fixed by derivative financial instruments, and deferred tax assets associated with net operating losses in the US. Differences in accounting for pensions arise from the requirements to use different actuarial methods and assumptions. Under UK GAAP, dividends are recorded in the period in respect of which they are declared (in the case of interim or any special dividends) or proposed by the Board to the shareholders (in the case of final dividends). Under US GAAP, dividends are recorded in the period in which dividends are declared. See note 28 of the notes to the financial statements on differences between US GAAP and UK GAAP.

### Recent US GAAP Accounting Pronouncements

In December 2004, the FASB issued a revision of Statement of Financial Accounting Standards No. 123R, Accounting for Stock-Based Compensation (SFAS 123R). This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We believe that we already comply with this requirement and do not expect adoption of this revision to the standard to have a material effect on our consolidated financial position or results of operations.

### International Financial Reporting Standards

In June 2002, the Council of Ministers of the European Union approved a regulation (the Regulation) requiring all companies that are governed by the law of a Member State of the European Union and whose securities are admitted to trading on a regulated market of any Member State to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Regulation is effective for each financial year starting on or after 1 January 2005. Accordingly, we have adopted IFRS from 1 April 2005.

Our first results under IFRS will be for the three months ending 30 June 2005. The date of transition to IFRS is 1 April 2004. We have published separately from this report 2005 conversion statements that set out the effects of the transition from UK GAAP to IFRS on our balance sheet at the date of transition and on the quarterly results since transition. These statements have been prepared on the basis of our best knowledge of what IFRS may require at 31 March 2006. The current standards are subject to ongoing review and interpretation. There is a possibility that IFRS at 31 March 2006 will be different from what we currently expect. Therefore, the financial information for the 2005 financial year that we publish in our audited accounts for the year ending 31 March 2006 may be different from that published in our conversion statements.

The conversion statements include the three months ended 30 June 2004, six months ended 30 September 2004, the nine months ended 31 December 2004 and the year ended 31 March 2005. These statements have been prepared on the basis of IFRS expected to be available at 31 March 2006. These are subject to ongoing review and endorsement by the EU or possible amendment and are, therefore, still subject to change.

We have included our accounting policies as revised under IFRS in the conversion statements. The primary changes to our published results arise from:

- Discontinuing goodwill amortisation unless the value of goodwill is impaired
- Accounting for pensions on a basis similar to what would have been required under FRS17 as described in Note 24 to the financial statements in this annual report
- Including in employee costs the fair value of equity instruments granted to employees
- Increasing the tax charge to remove certain benefits recognised under UK GAAP

Our unaudited adjusted EBITDA under IFRS for the year ended 31 March 2005 is 2.4% lower than under UK GAAP at £393.0 million. Unaudited profit before tax is £234.4 million and profit after tax is £162.5 million, 52.5% and 72.5% higher, respectively, primarily due to discontinuing goodwill amortisation. The adjustments do not affect the reported cash flows from operations. Additional information regarding the effects of IFRS on our 2005 results is provided in our conversion statements, which are on our website [www.yellgroup.com](http://www.yellgroup.com).

## UK Regulation

In August 2004 the Office of Fair Trading (OFT) announced a review of Yell UK's undertakings in respect of our Yellow Pages directories. In November 2004 the OFT announced this review would take the form of a market study under the terms of the Enterprise Act. At the conclusion of their study in April 2005, the OFT referred what it defined as 'classified directory advertising services' to the Competition Commission for investigation.

In the ten years since the Monopolies and Mergers Commission completed its first review, the classified advertising market has become increasingly dynamic and aggressively competitive. Recently there have been a number of new entrants into the market. These include printed directories from BT and Trinity Mirror, more than 80 phone-based services and numerous online services. We believe that this has served advertisers and users well, and that the market is still evolving.

The Commission's administrative timetable allows for the publication of its final report by the end of June 2006. It is not bound in the remedies it can apply and therefore a wide range of outcomes is possible.

We are committed to playing a proactive role in the investigation. Our internal team is supported by appropriate external advisers to ensure that our arguments are properly supported and heard.

## Critical Accounting Estimates

In general, our accounting policies under UK GAAP are consistent with those generally adopted by others operating within the same industry in the UK. Our accounting policies are summarised in note 1 of the notes to the financial statements.

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 these estimates and update them when required. Actual results could differ from these estimates. Unless otherwise indicated, 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 to be a description of the most significant estimates, which require our management to make subjective and complex judgements, or 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.

If our allowance for credit losses as a percentage of turnover had been 1.0% higher or lower during the year ended 31 March 2005, then profit before tax would have varied by approximately £13 million.

**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. If the useful economic lives had increased or decreased by an average of one year during the year ended 31 March 2005, then our amortisation charge would have varied by approximately £5 million. Our depreciation charge would have varied by approximately £6 million if the useful lives had increased by an average of one year, or by approximately £13 million if the useful lives had decreased by an average of one year. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable and at the end of the first full year following acquisition.

Historically, we have not realised large gains or losses on disposals of fixed assets.

**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 24 of the notes to the financial statements 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.

**Taxes** The determination of our obligation and expense for taxes requires an interpretation of tax law. We seek appropriate competent and professional tax advice before making any judgements on tax matters. Whilst we believe that our judgements are prudent and appropriate, significant differences in our actual experience may materially affect our future tax charges. 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. In the year ended 31 March 2005, we increased our net profit for the year by £5.8 million when we recognised previously unrecognised deferred tax assets that we believe we will realise in the near future. At 31 March 2005 we have recognised all our potential deferred tax assets.

**Lawsuit Costs** The determination of our obligation and expense for the exceptional lawsuits are based on management's best estimates after taking into consideration appropriate advice from legal experts.

### Current Trading and Prospects

Since 31 March 2005, trading has been in line with our expectations.

We have put in place substantial groundwork to ensure that our growth continues in the current financial year. Our strong cash generation should allow us to continue to finance acquisitions in the US and grow dividends in line with earnings.

### Dividend Policy

The total dividend for the year ended 31 March 2005 will be £88.3 million. An interim dividend of 4.2 pence per share was paid on 17 December 2004 to shareholders registered on 19 November 2004, and a final dividend of 8.4 pence per share will be paid on 19 August 2005 to shareholders registered on 22 July 2005 subject to approval by the shareholders of the company.

## Statement of Directors' Responsibilities

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Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for maintaining the integrity of the financial information, including the Annual Report, on the Yell Group plc website – [www.yellgroup.com](http://www.yellgroup.com). Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Auditors' Report

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Yell Group plc

### Independent Auditors' Report to the Members of Yell Group plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A of the Companies Act 1985 contained in the directors' remuneration report (the auditable part).

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and UK Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, the chief executive officer's review, the chief financial officer's review, the operating and financial review, the governance and responsibility statements, the five year financial summary and the two year operational summary.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

#### Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2005 and of the profit and cash flows of the Group for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

6 June 2005

## Consolidated Profit and Loss Account

(Continuing Operations)	Notes	Year ended 31 March	
		2004	2005
		£m	£m
<b>Turnover</b>	2	1,186.9	1,285.3
Cost of sales		(552.9)	(592.3)
<b>Gross profit</b>		634.0	693.0
Distribution costs		(34.5)	(38.3)
Administrative expenses			
Ongoing activities		(359.0)	(373.5)
Exceptional items	3	(90.1)	(36.5)
		(449.1)	(410.0)
Operating profit	4	150.4	244.7
<b>Net interest payable</b>			
Ongoing activities		(136.1)	(91.0)
Exceptional items	3	(58.4)	—
	6	(194.5)	(91.0)
<b>(Loss) profit on ordinary activities before taxation</b>		(44.1)	153.7
<b>Tax credit (charge) on (loss) profit on ordinary activities</b>			
Before exceptional items		(44.2)	(73.2)
On exceptional items	3	37.2	13.7
<b>Taxation</b>	7	(7.0)	(59.5)
<b>(Loss) profit on ordinary activities after taxation</b>		(51.1)	94.2
Dividends	8	(62.8)	(88.3)
<b>(Loss) profit for the financial year</b>		(113.9)	5.9
<b>Earnings (loss) per share</b>			
Basic (loss) earnings per share	9	(8.9)p	13.4p
Diluted (loss) earnings per share	9	(8.9)p	13.3p
Earnings per share before exceptional items and amortisation <sup>(a)</sup>			
Basic	9	25.6p	30.8p
Diluted	9	25.3p	30.4p

(a) Earnings per share before exceptional items and goodwill amortisation for the year ended 31 March 2004 has been adjusted as though our initial public offering and debt refinancing had occurred and non-recurring restructuring costs had been incurred before 31 March 2003.

There is no difference between the (loss) profit on ordinary activities before taxation and the (loss) profit for the year stated above and their historic cost equivalents.

## Statement of Total Recognised Gains and Losses

(Continuing Operations)	Notes	Year ended 31 March	
		2004	2005
		£m	£m
(Loss) profit for the financial year	20	(51.1)	94.2
Currency movements	20	(65.0)	(13.4)
<b>Total recognised (losses) gains for the financial year</b>		(116.1)	80.8

## Group and Company Balance Sheets

	Notes	Group		Company	
		At 31 March			
		2004	2005	2004	2005
		£m	£m	£m	£m
<b>Fixed assets</b>					
Intangible assets	10	1,725.3	1,635.0	—	—
Tangible assets	11	45.9	47.8	—	—
Investment	12	1.8	2.0	1,170.0	1,470.0
<b>Total fixed assets</b>		<b>1,773.0</b>	<b>1,684.8</b>	<b>1,170.0</b>	<b>1,470.0</b>
<b>Current assets</b>					
Stocks	13	151.9	172.6	—	—
Debtors					
Amounts falling due after more than one year		34.7	18.7	831.2	478.5
Amounts falling due within one year		425.9	460.0	41.9	58.9
	14	460.6	478.7	873.1	537.4
Cash at bank and in hand	22	18.7	55.5	0.3	2.4
<b>Total current assets</b>		<b>631.2</b>	<b>706.8</b>	<b>873.4</b>	<b>539.8</b>
<b>Creditors: amounts falling due within one year</b>					
Loans and other borrowings	16,22	(85.8)	(91.3)	—	—
Other creditors	18	(273.0)	(345.7)	(42.0)	(59.1)
<b>Total creditors: amounts falling due within one year</b>		<b>(358.8)</b>	<b>(437.0)</b>	<b>(42.0)</b>	<b>(59.1)</b>
<b>Net current assets</b>		<b>272.4</b>	<b>269.8</b>	<b>831.4</b>	<b>480.7</b>
<b>Total assets less current liabilities</b>		<b>2,045.4</b>	<b>1,954.6</b>	<b>2,001.4</b>	<b>1,950.7</b>
<b>Creditors: amounts falling due after more than one year</b>					
Loans and other borrowings	16,22	(1,155.9)	(1,070.3)	—	—
<b>Total creditors: amounts falling due after more than one year</b>		<b>(1,155.9)</b>	<b>(1,070.3)</b>	<b>—</b>	<b>—</b>
<b>Net assets</b>		<b>889.5</b>	<b>884.3</b>	<b>2,001.4</b>	<b>1,950.7</b>
<b>Capital and reserves</b>					
Called up share capital	19,20	7.0	7.0	7.0	7.0
Share premium account	20	1,184.7	1,191.0	1,184.7	1,191.0
Profit and loss account (deficit)	20	(302.2)	(313.7)	809.7	752.7
<b>Equity shareholders' funds</b>		<b>889.5</b>	<b>884.3</b>	<b>2,001.4</b>	<b>1,950.7</b>

The financial statements on pages 58-103 were approved by the board of directors on 6 June 2005.

**John Condron**  
Director and Chief Executive Officer

**John Davis**  
Director and Chief Financial Officer

## Consolidated Cash Flow Statement

	Notes	Year ended 31 March	
		2004	2005
		£m	£m
<b>Net cash inflow from operating activities</b>		294.2	357.6
<b>Returns on investments and servicing of finance</b>			
Net interest paid		(120.4)	(72.2)
Redemption premium paid		(19.7)	—
Finance fees paid		(16.4)	—
<b>Net cash outflow from returns on investments and servicing of finance</b>		(156.5)	(72.2)
<b>Taxation</b>		(13.7)	(31.5)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets, net of sales proceeds		(24.5)	(24.0)
<b>Net cash outflow for capital expenditure</b>		(24.5)	(24.0)
<b>Acquisitions</b>			
Purchase of subsidiary undertakings, net of cash acquired	21	(108.9)	(31.8)
<b>Net cash outflow for acquisitions</b>		(108.9)	(31.8)
Equity dividends paid		(20.9)	(71.1)
<b>Net cash (outflow) inflow before financing</b>		(30.3)	127.0
<b>Financing</b>			
Issue of ordinary share capital	22	433.6	3.4
Expenses paid in connection with share issue	22	(23.7)	—
Purchase of own shares	22	(5.8)	(6.6)
New loans issued	22	1,036.0	—
Borrowings repaid	22	(1,418.4)	(85.0)
<b>Net cash inflow (outflow) from financing</b>		21.7	(88.2)
<b>(Decrease) increase in net cash in the year</b>		(8.6)	38.8

## Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	Notes	Year ended 31 March	
		2004	2005
		£m	£m
Total operating profit		150.4	244.7
Depreciation	11	22.9	23.0
Goodwill amortisation	10	96.7	98.6
Employee costs settled in shares		49.1	2.5
Increase in stocks		(19.5)	(23.0)
Increase in debtors		(3.8)	(38.4)
(Decrease) increase in creditors		(3.7)	47.3
Other		2.1	2.9
<b>Net cash inflow from operating activities</b>		294.2	357.6
<b>Net cash inflow from operating activities</b>		294.2	357.6
Cash payments for exceptional costs included in operating profit		33.8	13.6
Purchase of tangible fixed assets, net of sales proceeds		(24.5)	(24.0)
<b>Net cash inflow from operating activities before payments of exceptional costs and after capital expenditure</b>		303.5	347.2

# 1. Basis of Preparation, Consolidation and Accounting Policies

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## Basis of Preparation and Consolidation

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards in the UK and the Companies Act 1985. These differ significantly to those in the US and a reconciliation to generally accepted accounting principles in the US (US GAAP) is provided in note 29. A summary of the more important Group accounting policies, which have been consistently applied, is set out below.

The Group financial statements consolidate the financial statements of the Company and all subsidiaries for the year ended 31 March 2005.

Where the financial statements of subsidiary undertakings do not conform with the Yell Group's accounting policies, appropriate adjustments are made on consolidation in order to present the Yell Group 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 consolidated financial statements. The results of companies and businesses acquired during the period are included in the consolidated financial statements from their respective dates of acquisition.

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

The preparation of the 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 provision for doubtful debts, amortisation of goodwill, depreciation, employee pension, lawsuit costs and taxes.

Brief details of principal subsidiary undertakings at each year end, all of which are unlisted, are shown in note 12 to the financial statements.

## Accounting Policies

### (a) Turnover

Group turnover, after deduction of sales allowances, value added tax and other sales taxes, comprises the value of products provided by 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 Yellow Pages 118 24 7 and Yell.com, 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 and are charged to the profit and loss account as a percentage of turnover based upon the actual bad debt experience as a proportion of total billings.

### (c) Advertising

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

### (d) Interest

Interest payable is charged as incurred on an accruals basis.

### (e) Foreign currencies

On 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 also disclosed in note 20.

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. Estimated useful life is determined after taking into account such factors as the nature and age of the business, as well as the typical life span of the acquired products to which the goodwill attaches. Goodwill in respect of all acquired businesses is amortised over 20 years.

**(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 tangible fixed assets are:

Buildings	40 years
Leasehold improvements	5 years or life of lease if less than 5 years
Office equipment	2–6 years

**(h) 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 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.

**(i) Investments**

Investments in subsidiary undertakings in the financial statements of the Company are carried at Directors' valuation and are valued at least once every three years, but earlier if significant acquisitions have taken place.

A deficit on revaluation is charged to the profit and loss account to the extent that it is not covered by a surplus previously credited to the revaluation reserve.

**(j) 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 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 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.

**(k) Stocks**

Stocks, primarily directories in progress, 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 direct overheads, pending completion of delivery of the relevant directories. Other stock represents paper stock held by the US business.

**(l) Pension schemes**

The 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 Group's finances. Actuarial valuations of the defined benefit scheme 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 Group using the projected unit method.

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

The transitional arrangements of FRS 17 Retirement Benefits have been applied in the preparation of these financial statements with the relevant disclosures shown in note 24.

**(m) Employee share schemes**

The cost of employee share options, except for options in Inland Revenue approved ShareSave schemes, is measured at the intrinsic value of the options granted on the date of grant and is charged to the profit and loss account over the vesting period. The Group takes advantage of available exemptions in respect of accounting for discounts arising on the grant of options in Inland Revenue approved Sharesave schemes. When the ESOP trust acquires and holds shares of the Company, the Group presents them as a deduction in arriving at equity shareholders' funds.

**(n) Taxation**

The charge (credit) 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 more likely than not to be 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.

**(o) 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 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.

See note 17 for further details on the Group's financial instruments.

**(p) Dividends**

Dividends are recorded in the period in respect of which they are declared.

## 2. Segmental Analysis

The Group is a publisher of classified advertising directories in the UK and the US. 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 segmental information is based on the segmental operating results regularly reviewed by the Group's chief operating decision maker (the CEO).

The Group's operations are split geographically between the UK and the US and have been managed on this basis. For the purposes of exercising day-to-day managerial and budgetary control, the UK management accounts are divided internally by product but these divisions are not self-standing businesses. For the purpose of managing the UK business, most common costs are allocated entirely to classified directories. Control is exercised by comparing performance against budgets that are agreed in advance.

The CEO reviews the turnover and earnings before interest, tax, depreciation and amortisation (EBITDA) before and after exceptional items within geographic segments. EBITDA, before exceptional items, together with turnover, are key financial measures that we use to assess the success of our people in achieving growth in the business and operational efficiencies. Segmental information is provided below in respect of UK and US businesses.

### Turnover

	Year ended 31 March		Change
	2004	2005	
	£m	£m	%
UK printed directories	593.9	612.1	3.1
Other products and services	41.0	52.3	27.6
<b>Total UK turnover</b>	<b>634.9</b>	<b>664.4</b>	<b>4.6</b>
US printed directories:			
US printed directories at constant exchange rate <sup>(a)</sup>	552.0	675.0	22.3
Exchange impact <sup>(a)</sup>	—	(54.1)	
<b>Total US turnover</b>	<b>552.0</b>	<b>620.9</b>	<b>12.5</b>
<b>Group turnover</b>	<b>1,186.9</b>	<b>1,285.3</b>	<b>8.3</b>

(a) Constant exchange rate states current year results at the same exchange rate as that used to translate the previous year's results. Exchange rate impact is the difference between the results reported at a constant exchange rate and the actual results using current year exchange rates.

**Profit and Loss Information<sup>(a)</sup>**

	Year ended 31 March		Change %
	2004 £m	2005 £m	
<b>UK operations</b>			
<b>Turnover</b>	634.9	664.4	
<b>Earnings</b>			
UK printed directories operating profit	127.2	157.8	
Other products and services operating profit	2.6	12.8	
UK Operating profit	129.8	170.6	
Depreciation and amortisation <sup>(b)</sup>	69.4	70.1	
UK operations EBITDA	199.2	240.7	
Exceptional items	33.9	—	
UK operations adjusted EBITDA	233.1	240.7	3.3
UK operations adjusted EBITDA margin	36.7%	36.2%	
<b>US operations</b>			
<b>Turnover</b>	552.0	620.9	
<b>Earnings</b>			
Operating profit	20.6	74.1	
Depreciation and amortisation	50.2	51.5	
US operations EBITDA	70.8	125.6	
Exceptional items	56.2	36.5	
Exchange impact <sup>(c)</sup>	—	14.3	
US operations adjusted EBITDA at constant exchange rate <sup>(c)</sup>	127.0	176.4	38.9
Exchange impact <sup>(c)</sup>	—	(14.3)	
US operations adjusted EBITDA	127.0	162.1	27.6
US operations adjusted EBITDA margin	23.0%	26.1%	
<b>Group</b>			
<b>Turnover</b>	1,186.9	1,285.3	
<b>Earnings</b>			
Operating profit	150.4	244.7	
Depreciation and amortisation	119.6	121.6	
Group EBITDA	270.0	366.3	35.7
Exceptional items	90.1	36.5	
Exchange impact <sup>(c)</sup>	—	14.3	
Group adjusted EBITDA at constant exchange rate <sup>(c)</sup>	360.1	417.1	15.8
Exchange impact <sup>(c)</sup>	—	(14.3)	
Group adjusted EBITDA	360.1	402.8	11.9
Group adjusted EBITDA margin	30.3%	31.3%	

(a) Excluding interest because interest is not allocated to individual products.

(b) In the year ended 31 March 2005, £67.7 million (2004—£66.6 million) of depreciation and amortisation was allocated to UK printed directories and £2.4 million (2004—£2.8 million) was allocated to other products and services in the UK.

(c) Constant exchange rate states current year results at the same exchange rate as that used to translate the previous year's results. Exchange rate impact is the difference between the results reported at a constant exchange rate and the actual results reported using current year exchange rates.

## Adjusted EBITDA by Segment

	Year ended 31 March		Change
	2004	2005	
	£m	£m	
<b>Total UK operations</b>	233.1	240.7	3.3
US operations:			
US printed directories at constant exchange rate <sup>(a)</sup>	127.0	176.4	38.9
Exchange impact <sup>(a)</sup>	—	(14.3)	
<b>Total US operations</b>	127.0	162.1	27.6
<b>Group adjusted EBITDA</b>	360.1	402.8	11.9

(a) Constant exchange rate states current year results at the same exchange rate as that used to translate the previous year's results. Exchange rate impact is the difference between the results reported at a constant exchange rate and the actual results using current year exchange rates.

## Assets by Segment

	At 31 March	
	2004	2005
	£m	£m
<b>Fixed assets</b>		
UK	1,027.9	974.2
US	745.1	710.6
<b>Group total</b>	1,773.0	1,684.8
<b>Net operating assets</b>		
UK	1,143.4	1,046.3
US	987.8	999.6
<b>Group total</b>	2,131.2	2,045.9
<b>Net (liabilities) assets</b>		
UK	222.5	198.7
US	667.0	685.6
<b>Group total</b>	889.5	884.3
<b>Total assets</b>		
UK	1,331.4	1,281.5
US	1,072.8	1,110.1
<b>Group total</b>	2,404.2	2,391.6

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. The majority of external loans are included in the UK segment.

### 3. Results Before and After Exceptional Items

	Year ended 31 March					
	2004			2005		
	Ongoing activities	Exceptional items	Total	Ongoing activities	Exceptional items	Total
	£m	£m	£m	£m	£m	£m
<b>Gross profit</b>	634.0	—	634.0	693.0	—	693.0
Distribution costs	(34.5)	—	(34.5)	(38.3)	—	(38.3)
Administrative expenses	(359.0)	(90.1)	(449.1)	(373.5)	(36.5)	(410.0)
<b>Operating profit (loss)</b>	240.5	(90.1)	150.4	281.2	(36.5)	244.7
Net interest payable	(136.1)	(58.4)	(194.5)	(91.0)	—	(91.0)
<b>(Loss) profit before taxation</b>	104.4	(148.5)	(44.1)	190.2	(36.5)	153.7
Taxation (charge) credit	(44.2)	37.2	(7.0)	(73.2)	13.7	(59.5)
<b>(Loss) profit for the year</b>	60.2	(111.3)	(51.1)	117.0	(22.8)	94.2

Exceptional administrative expenses in the year ended 31 March 2005 are the costs from lawsuits explained in note 23. Exceptional administrative costs in the year ended 31 March 2004 relate to costs incurred in connection with the IPO, including £57.0 million for employee incentive plans contingent upon IPO and £33.1 million of transaction costs. Of the £90.1 million exceptional administrative expenses, £33.9 million relates to our UK business and £56.2 million to our US business. The exceptional interest payable in the year ended 31 March 2004 comprises £19.7 million senior note redemption premium, £36.4 million from accelerated amortisation of financing fees on our debt repaid in July and August 2003 and £2.3 million for arrangement fees for the withdrawn revolving credit facility. The exceptional tax credits in the year ended 31 March 2004 and 2005 represent the tax on the exceptional items before tax.

### 4. Operating Profit

Operating profit for the Group is stated after charging:

	Year ended 31 March	
	2004	2005
	£m	£m
Staff costs (note 5)	311.4	357.3
Advertising costs	53.1	55.0
Operating leases, excluding plant and equipment hire	14.0	13.5
Plant and equipment hire	1.0	1.1
Depreciation of owned tangible fixed assets	22.7	22.3
Depreciation of tangible fixed assets held under finance leases	0.2	0.7
Goodwill amortisation	96.7	98.6

The auditors' remuneration has been disclosed in note 27.

## 5. Employees

	Year ended 31 March	
	2004	2005
Average monthly number of employees in the Group (including executive directors):		
UK	3,414	3,569
US	4,668	5,115
<b>Total employees</b>	<b>8,082</b>	<b>8,684</b>
Marketing and sales	4,913	5,591
Other	3,169	3,093
<b>Total employees</b>	<b>8,082</b>	<b>8,684</b>

	Year ended 31 March	
	2004	2005
	£m	£m
<b>Staff costs for the Group during the year</b>		
Wages and salaries	274.2	317.6
Social security costs	26.5	28.3
Other pension costs (note 24)	10.7	11.4
<b>Total staff costs</b>	<b>311.4</b>	<b>357.3</b>

Details of the Company's various stock option plans are given in note 26.

### Directors

	Year ended 31 March	
	2004	2005
	£m	£m
Aggregate emoluments	2.8	2.8
Aggregate gains made on the exercise of share options	2.7	—
Aggregate amounts receivable under long-term incentive schemes	—	—
	5.5	2.8

In addition, retirement benefits are accruing to two directors (2004 – two) under the Company's defined benefit pension scheme. Details of individual directors' emoluments are given in the Remuneration Report on pages 32 – 41.

## 6. Net Interest Payable

	Year ended 31 March	
	2004	2005
	£m	£m
Senior credit facilities	68.2	50.4
Senior sterling and dollar notes <sup>(a)</sup>	43.3	35.5
Shareholder deep discount bonds <sup>(b)</sup>	20.1	—
Vendor loan notes <sup>(b)</sup>	1.2	—
Other	0.3	0.3
Amortisation of finance costs	5.2	6.1
Exceptional interest and write-off of financing costs	58.4	—
<b>Total interest payable</b>	<b>196.7</b>	<b>92.3</b>
Interest receivable	(2.2)	(1.3)
<b>Net interest payable</b>	<b>194.5</b>	<b>91.0</b>

(a) Interest on the senior discount dollar notes is rolled up into the principal balance and is not due until the maturity or repayment of the notes. Yell Group settled 35% of the amounts previously outstanding on 18 August 2003.

(b) Interest on shareholder deep discount bonds and vendor loan notes were rolled up into the principal balances. All amounts outstanding were settled at the time of the initial public offering.

## 7. Tax Charge (credit) on Profit (loss) on Ordinary Activities

	Year ended 31 March	
	2004	2005
	£m	£m
UK corporation tax at 30%	21.6	44.6
Adjustment in respect of prior period	0.4	(2.1)
Foreign taxes	1.1	1.5
<b>Total current tax</b>	<b>23.1</b>	<b>44.0</b>
Origination and reversal of timing differences		
UK	(1.8)	2.6
Adjustment in respect of prior period	—	2.7
Foreign	(14.3)	10.2
<b>Total deferred tax</b>	<b>(16.1)</b>	<b>15.5</b>
<b>Tax charge on profit on ordinary activities</b>	<b>7.0</b>	<b>59.5</b>

The effective tax rate for the year is different from the standard rate of corporation tax in the UK (30%) as explained below:

	Year ended 31 March	
	2004	2005
	£m	£m
(Loss) profit on ordinary activities before taxation	(44.1)	153.7
(Loss) profit on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	(13.2)	46.1
Effects of:		
Adjustments from prior years	0.4	(2.1)
Goodwill amortisation disallowed for tax	22.6	20.2
Higher tax rates on overseas earnings	(1.9)	1.3
Other permanent differences for tax purposes	12.9	(3.8)
US tax losses (used) created in the year	0.7	(19.3)
Other timing differences	1.6	1.6
<b>Total current tax</b>	<b>23.1</b>	<b>44.0</b>

## 8. Dividends

	Year ended 31 March	
	2004	2005
	£m	£m
<b>Ordinary</b>		
Interim dividend paid of 4.2p per share (2004 – 3p)	20.9	29.4
Final dividend proposed of 8.4p per share (2004 – 6p)	41.9	58.9
	<b>62.8</b>	<b>88.3</b>

Shares held in the ESOP Trust have waived the proposed and paid dividends totalling £0.4 million (2004 – £0.1 million).

## 9. Earnings (loss) per Share

Basic earnings per share (EPS) is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the ordinary shares during the year and the contingently issuable shares under the Group's long-term incentive plan. At 31 March 2005, the performance criteria for the vesting of the awards under the incentive scheme had not been met and consequently the shares in question are excluded from the diluted EPS calculation.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

Supplementary earnings per share exclude the exceptional costs net of tax and goodwill amortisation; and in 2004 include pro forma interest adjustments net of tax.

	Year ended March 2004			Year ended 31 March 2005		
	£m	(millions) Weighted average number of shares <sup>(a)</sup>	(pence)  Per share amount	£m	(millions) Weighted average number of shares <sup>(a)</sup>	(pence)  Per share amount
<b>Basic EPS</b>	(51.1)	572	(8.9)	94.2	701	13.4
Effect of interest adjustments net of tax <sup>(b)</sup>	21.1			—		
Exceptional costs net of tax <sup>(c)</sup>	111.3			22.8		
Effect of goodwill amortisation <sup>(d)</sup>	96.7			98.6		
Effect of shares issued on IPO		123			—	
<b>Basic EPS excluding goodwill amortisation<sup>(e)</sup></b>	178.0	695	25.6	215.6	701	30.8
Effect of dilutive securities – options		9	(0.3)		7	(0.4)
<b>Diluted pro forma EPS excluding goodwill amortisation</b>	178.0	704	25.3	215.6	708	30.4
<b>Diluted EPS</b>	(51.1)	572	(8.9)	94.2	708	13.3

(a) The calculation of the basic and diluted earnings (loss) per ordinary share has been based on the profit (loss) for the relevant financial year and on 572 million shares for the year ended 31 March 2004. For the year ended 31 March 2005, the calculation was based on 701 million shares, the weighted average share capital during the year.

(b) Group losses for the year ended 31 March 2004 have been adjusted to exclude interest charges on the long-term debt we repaid as a result of the initial public offering as if repaid by 31 March 2003. Interest has been added back by referring to the effective interest rates applied to the borrowings repaid from the proceeds of the IPO over the period prior to the IPO. All interest adjustments have been tax effected at the UK corporation tax rate of 30%. The weighted average number of shares has been adjusted as though the IPO had happened by 31 March 2003.

(c) Exceptional costs are explained in Note 3.

(d) Amortisation charges presented are not adjusted for tax. If the tax effect from allowable amortisation in the US had been taken into account, then the adjustment would have been £88.0 million, as opposed to £98.6 million and £86.4 million, as opposed to £96.7 million, in 2005 and 2004, respectively. Accordingly, the adjusted diluted earnings per share would have been 28.9 pence as opposed to 30.4 pence in the year ended 31 March 2005.

(e) Pro forma earnings per share before exceptional items and goodwill amortisation. For the year ended 31 March 2004 and also as though our initial public offering and debt refinancing had occurred and non-recurring restructuring costs had been incurred before 31 March 2003.

Supplementary basic and diluted EPS have been calculated to exclude the effect of goodwill amortisation. The adjusted numbers have been provided in order that the effects of goodwill amortisation on reported earnings can be fully appreciated.

## 10. Intangible Assets

### Goodwill

	Year ended 31 March	
	2004	2005
	£m	£m
<b>Gross book value</b>		
Balance at beginning of the year	1,985.1	1,971.5
Additions	100.4	27.0
Fair value adjustments <sup>(a)</sup>	3.3	(1.3)
Currency movements	(117.3)	(20.6)
<b>Total gross book value at end of the year</b>	<b>1,971.5</b>	<b>1,976.6</b>
<b>Amortisation</b>		
Balance at beginning of the year	161.0	246.2
Charge for year	96.7	98.6
Currency movements	(11.5)	(3.2)
<b>Total amortisation at end of the year</b>	<b>246.2</b>	<b>341.6</b>
<b>Net book value at end of the year</b>	<b>1,725.3</b>	<b>1,635.0</b>

(a) The fair value adjustments to goodwill were due to the finalisation of transaction costs in respect of acquisitions in prior years.

The acquisitions made during the year are detailed in note 21. The goodwill arising on acquisitions has been amortised on a straight-line basis over its estimated useful life of 20 years.

## 11. Tangible Fixed Assets

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

	Year ended March 2004			
	Buildings	Leasehold improvements	Computers and equipment	Total
	£m	£m	£m	£m
<b>Cost</b>				
Balance at beginning of year	10.1	2.3	56.2	68.6
Acquisitions	0.9	0.1	0.2	1.2
Additions	—	1.8	23.0	24.8
Disposals	—	(0.1)	(8.9)	(9.0)
Currency movements	(1.5)	(0.3)	(3.4)	(5.2)
<b>Total cost at end of the year</b>	<b>9.5</b>	<b>3.8</b>	<b>67.1</b>	<b>80.4</b>
<b>Depreciation</b>				
Balance at beginning of year	0.3	0.6	20.6	21.5
Charge for the year	0.2	0.4	22.3	22.9
Disposals	—	—	(8.4)	(8.4)
Currency movements	(0.1)	(0.1)	(1.3)	(1.5)
<b>Total depreciation at end of the year</b>	<b>0.4</b>	<b>0.9</b>	<b>33.2</b>	<b>34.5</b>
<b>Net book value at end of the year</b>	<b>9.1</b>	<b>2.9</b>	<b>33.9</b>	<b>45.9</b>

	Year ended March 2005			
	Buildings	Leasehold improvements	Computers and equipment	Total
	£m	£m	£m	£m
<b>Cost</b>				
Balance at beginning of year	9.5	3.8	67.1	80.4
Acquisitions	0.3	—	0.5	0.8
Additions	0.1	1.5	23.2	24.8
Disposals	—	—	(6.9)	(6.9)
Currency movements	(0.2)	(0.1)	(0.8)	(1.1)
<b>Total cost at end of the year</b>	<b>9.7</b>	<b>5.2</b>	<b>83.1</b>	<b>98.0</b>
<b>Depreciation</b>				
Balance at beginning of year	0.4	0.9	33.2	34.5
Charge for the year	0.2	0.7	22.1	23.0
Disposals	—	—	(6.9)	(6.9)
Currency movements	—	—	(0.4)	(0.4)
<b>Total depreciation at end of the year</b>	<b>0.6</b>	<b>1.6</b>	<b>48.0</b>	<b>50.2</b>
<b>Net book value at end of the year</b>	<b>9.1</b>	<b>3.6</b>	<b>35.1</b>	<b>47.8</b>

The net book value of fixed assets included amounts of £4.2 million at 31 March 2005 (2004 – £0.8 million) in respect of assets held under finance leases.

## 12. Investments

	Group		Company	
	Year ended 31 March 2004	Year ended 31 March 2005	Year ended 31 March 2004	Year ended 31 March 2005
	£m	£m	£m	£m
<b>Shares in group undertakings</b>				
Balance at beginning of year	—	—	865.6	1,170.0
Additions <sup>(a)</sup>	—	—	917.9	300.0
Liquidations <sup>(b)</sup>	—	—	(613.5)	—
At end of the year	—	—	1,170.0	1,470.0
<b>Other investments</b>				
Balance at beginning of the year	1.9	1.8	—	—
(Deductions) additions	(0.1)	0.2	—	—
At end of the year	1.8	2.0	—	—
<b>Total investments</b>	<b>1.8</b>	<b>2.0</b>	<b>1,170.0</b>	<b>1,470.0</b>

(a) In 2004, the Yell Group issued 215,280,606 ordinary shares at the price of £2.85 per share to purchase entities holding Yell Group's deep discount bonds. These entities were wound up in the year ended 31 March 2004. Furthermore, the Company received shares worth £304.4 million from Yell Finance BV in settlement of balances receivable. In 2005, the Company agreed to receive shares worth £300.0 million from Yell Finance BV in settlement of balances receivable.

(b) Investments with a net book value of £613.5 million were liquidated in 2004 with no gain or loss.

### Subsidiary undertakings

Brief details of principal subsidiary undertakings at 31 March 2004 and 2005, all of which are unlisted, are as follows:

	Activity	Group interest in allotted capital <sup>(a)</sup>	Country of operation <sup>(b)</sup>
Yell Finance BV <sup>(c)</sup>	Intermediate holding company	100% ordinary	UK
Yell Limited	Classified directory publisher	100% ordinary	UK
Yellow Pages Sales Limited	Provision of sales services	100% ordinary	UK
Yellow Book USA, Inc.	Classified directory publisher	100% common	USA

(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 except Yell Finance BV which is incorporated in the Netherlands.

(c) Directly held.

All subsidiary undertakings have the same year end as the Group and all the above companies have been included in the group consolidation. The companies listed include those which materially affect the amount of profit and assets of the Group. A full list of all of our subsidiary undertakings at the date of this document is available for inspection at the registered office of the Company.

## 13. Stocks

	At 31 March	
	2004	2005
	£m	£m
Directories in progress	147.2	165.1
Other	4.7	7.5
<b>Total stocks</b>	<b>151.9</b>	<b>172.6</b>

## 14. Debtors

	Group		Company	
	At 31 March			
	2004	2005	2004	2005
	£m	£m	£m	£m
<b>Amounts falling due within one year</b>				
Trade debtors <sup>(a)</sup>	401.9	429.3	—	—
Amounts owed by group undertakings	—	—	41.9	58.9
Other debtors	8.7	8.1	—	—
Accrued income <sup>(a)</sup>	4.7	4.7	—	—
Prepayments	10.6	17.9	—	—
	425.9	460.0	41.9	58.9
<b>Amounts falling due after more than one year</b>				
Amounts owed by group undertakings	—	—	831.2	478.5
Deferred tax asset (note 15)	34.7	18.7	—	—
<b>Total debtors</b>	<b>460.6</b>	<b>478.7</b>	<b>873.1</b>	<b>537.4</b>

(a) The Group's trade debtors and accrued income are stated after deducting a provision of £112.8 million at 31 March 2005 (2004—£113.1 million) for doubtful debts and sales allowances. The amount charged to the Group profit and loss account for doubtful debts for the year ended 31 March 2005 was £72.6 million (2004—£71.1 million).

## 15. Deferred Taxation

### Deferred tax asset

	At 31 March	
	2004	2005
	£m	£m
Balance at beginning of the year	23.1	34.7
Amount credited (charged) to profit and loss account	16.1	(15.5)
Adjustments relating to acquisitions	(1.9)	—
Currency movements	(2.6)	(0.5)
<b>Balance at end of the year</b>	<b>34.7</b>	<b>18.7</b>

The deferred tax assets are included in debtors (note 14). The elements of all net deferred tax assets recognised in the accounts, including the cumulative effect of net operating losses arising from operations in the US, were as follows:

	At 31 March	
	2004	2005
	£m	£m
Tax effect of timing differences due to:		
Amortisation and depreciation	(12.2)	(4.9)
Bad debt provisions	22.7	25.1
Recognised tax net operating losses	40.0	20.9
Stocks valuation	(22.6)	(25.8)
Accrued expenses	9.8	2.3
Other temporary differences	(3.0)	1.1
<b>Recognised net deferred tax assets</b>	<b>34.7</b>	<b>18.7</b>
<b>Unrecognised deferred tax assets relating to tax net operating losses from US operations</b>	<b>7.7</b>	<b>—</b>

Tax losses of £55.6 million are available to use against taxable income arising in the US in future years. The benefits available in respect of tax net operating losses arising from US operations expire between 2018 and 2024 if not used.

## 16. Loans and Other Borrowings

	Interest rate	Group		Company	
		At 31 March			
	%	2004	2005	2004	2005
		£m	£m	£m	£m
<b>Amounts falling due within one year</b>					
Term loans under senior credit facilities <sup>(a)(b)</sup>	5.30	80.0	90.0	—	—
Revolving loan under senior credit facilities	5.70	5.0	—	—	—
Net obligations under finance leases		0.8	1.3	—	—
<b>Total amounts falling due within one year</b>		<b>85.8</b>	<b>91.3</b>	<b>—</b>	<b>—</b>
<b>Amounts falling due after more than one year</b>					
Senior credit facilities <sup>(a)(b)</sup>	5.30	856.6	761.0	—	—
Senior notes:					
Senior sterling notes <sup>(c)(f)</sup>	10.75	158.1	159.8	—	—
Senior dollar notes <sup>(d)(f)</sup>	10.75	68.1	67.4	—	—
Senior discount dollar notes <sup>(e)(f)</sup>	13.95	73.1	82.1	—	—
<b>Total amounts falling due after more than one year</b>		<b>1,155.9</b>	<b>1,070.3</b>	<b>—</b>	<b>—</b>
<b>Net loans and other borrowings</b>		<b>1,241.7</b>	<b>1,161.6</b>	<b>—</b>	<b>—</b>

(a) Facilities comprise two term loans of £624.0 million and \$596.0 million final instalments due in 2008. In addition to the term loans, the senior credit facilities include a revolving credit facility of £200.0 million. At 31 March 2005, £nil was outstanding under the revolving credit facility (2004-£5.0 million). The senior credit facilities, including the Revolving Credit facility, have first priority security over substantially all of the 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 net total debt to Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA as defined in the senior credit facilities), EBITDA to net cash interest payable, and until 31 March 2005, total net senior debt to EBITDA. Certain of these financial ratios have to be prepared for the preceding twelve-month period and reported to the providers of the senior credit facilities on a six-monthly basis. The Yell Group has reported that it has maintained the financial ratios for the year ended 31 March 2005 in compliance with these debt covenants.

(c) This represents a £162.5 million aggregate principal amount of 10.75% senior sterling notes due 2011. Interest is payable on 1 February and 1 August of each year. The notes are unsecured and rank equally with each other and existing and future senior notes.

(d) This represents a \$130.0 million aggregate principal amount of 10.75% senior dollar notes due 2011. Interest is payable on 1 February and 1 August of each year. The notes are unsecured and rank equally with each other and existing and future senior notes.

(e) This represents a \$187.4 million aggregate principal amount of 13.50% senior discount dollar notes due 2011 discounted from 1 August 2006. The issue price of each senior discount dollar note was \$521.3 per \$1,000.0 principal amount at maturity. Cash 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 notes. The 13.95% interest rate represents the rate of return from inception on the notes including the unwinding of the discount and excluding the amortisation of issue costs.

(f) The Senior sterling, Senior dollar and Senior discount dollar notes (the Notes) carry an issuer call option that allows the Group to redeem some or all of the Notes from 1 August 2006 upon payment of a premium of £19 million. The premium reduces on each anniversary until 1 August 2009, after which the Notes may be redeemed at any time at par.

These balances are shown net of unamortised deferred finance costs, which have been allocated as follows:

	At 31 March 2004			At 31 March 2005		
	Principal amount	Deferred finance costs	Net balance	Principal amount	Deferred finance costs	Net balance
	£m	£m	£m	£m	£m	£m
Term loans under senior credit facilities	947.8	(11.2)	936.6	859.6	(8.6)	851.0
Senior notes:						
Senior sterling notes	162.5	(4.4)	158.1	162.5	(2.7)	159.8
Senior dollar notes	70.6	(2.5)	68.1	68.8	(1.4)	67.4
Senior discount dollar notes	75.1	(2.0)	73.1	83.4	(1.3)	82.1
Revolving loan under senior credit facilities	5.0	—	5.0	—	—	—
Other	0.8	—	0.8	1.3	—	1.3
<b>Total loans and borrowings</b>	<b>1,261.8</b>	<b>(20.1)</b>	<b>1,241.7</b>	<b>1,175.6</b>	<b>(14.0)</b>	<b>1,161.6</b>

Debt maturities, net of issue costs, are as follows:

	At 31 March 2004			At 31 March 2005		
	Principal amount	Deferred finance costs	Net balance	Principal amount	Deferred finance costs	Net balance
	£m	£m	£m	£m	£m	£m
Within one year, or on demand	85.8	(4.2)	81.6	91.3	(6.6)	84.7
Between one and two years	90.0	(4.5)	85.5	100.0	(4.1)	95.9
Between two and three years	100.0	(4.9)	95.1	50.0	(2.6)	47.4
Between three and four years	50.0	(5.2)	44.8	619.6	(0.7)	618.9
Between four and five years	627.8	(1.3)	626.5	—	—	0.0
After five years	308.2	—	308.2	314.7	—	314.7
Total due after more than one year	1,176.0	(15.9)	1,160.1	1,084.3	(7.4)	1,076.9
<b>Total loans and other borrowings</b>	<b>1,261.8</b>	<b>(20.1)</b>	<b>1,241.7</b>	<b>1,175.6</b>	<b>(14.0)</b>	<b>1,161.6</b>

## 17. Financial Instruments and Risk Management

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### Treasury policy

The Group's treasury function'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 function is not a profit centre and its objective is to manage risk at optimum cost.

The board of directors sets the treasury function'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 the board of directors. Derivative financial instruments, including forward foreign exchange contracts, are normally used only for hedging purposes.

The principal financing and treasury exposures faced by the Group arise from working capital management, the financing of acquisitions and tangible fixed assets, the management of interest rate positions and the investment of surplus cash. The treasury function manages those exposures with the objective of remaining within ratios covenanted with the senior lenders. The Group has not purchased or issued any derivative contracts for trading or hedging purposes, except as referred to below.

Up until the initial public offering on 15 July 2003, the Yell Group financed its operations primarily by long-term debt. Subsequent to the initial public offering, the Yell Group has funded the business largely from cash flows generated from operations. Details of the Group's borrowings are disclosed in note 16.

All significant cash inflows and outflows associated with the Group's operations in the UK are denominated in pounds sterling, and all significant cash inflows and outflows associated with operations in the US 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 our operations in the US into pounds sterling. The composition of our debt partially hedges exchange rate fluctuations, because 41.9% of our debt and 35.7% of our net interest expense are denominated in US dollars, thereby reducing our US EBITDA exposure by approximately 18.5%. The Group does not intend to hedge any foreign exchange rate risk relating to US dollar-denominated notes, although we will continue to review this practice.

The Group borrows at both fixed and floating rates of interest and, in order to achieve the objective of managing interest rate risk, partially hedges its risks through the use of interest-rate derivative instruments. Interest is payable under the senior credit facilities at a variable interest rate. Under our current senior facilities agreement we were required to have fixed interest on at least 50% of all interest payments during the 21 months following each month end. This requirement ceased once the Group leverage ratio fell below 3.5 times. Even so, we have fixed interest on at least 50% of the indebtedness under the senior credit facilities using interest rate swaps over the period to March 2007, with a review of this strategy on a quarterly basis.

During the year ended 31 March 2005, as set out in note 22, net debt decreased from £1,223.0 million to £1,106.1 million, primarily as a result of cash inflows from operating activities.

### Other financial instruments

The Group also has short-term debtors and creditors that arise in the normal course of business and, therefore, 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 Group's risk between 31 March 2005 and the date of these financial statements.

### Currency profile and interest rate risk

The interest rate profile of the Group's financial assets and liabilities was as shown in the first table on page 80.

	Financial assets		Financial liabilities			Net financial liabilities
	Floating rate	Fixed rate	Floating rate	No interest payable	Total	
	£m	£m	£m	£m	£m	£m
<b>At 31 March 2004</b>						
<b>Currency:</b>						
Sterling	7.8	(513.5)	(278.0)	—	(791.5)	(783.7)
US dollar	10.9	(295.7)	(174.6)	—	(470.3)	(459.4)
<b>Total</b>	<b>18.7</b>	<b>(809.2)</b>	<b>(452.6)</b>	<b>—</b>	<b>(1,261.8)</b>	<b>(1,243.1)</b>
<b>At 31 March 2005</b>						
<b>Currency:</b>						
Sterling	10.8	(458.5)	(248.0)	—	(706.5)	(695.7)
US dollar	44.7	(297.0)	(172.1)	—	(469.1)	(424.4)
<b>Total</b>	<b>55.5</b>	<b>(755.5)</b>	<b>(420.1)</b>	<b>—</b>	<b>(1,175.6)</b>	<b>(1,120.1)</b>

Total financial liabilities are presented gross before unamortised costs which amount to £14.0 million at 31 March 2005 (£20.1 million at 31 March 2004). See further detail in note 16.

Details of currency denomination, interest and maturity profiles of specific borrowings are given in note 16. 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 16. The Group has entered into interest rate swaps for the purpose of hedging future floating interest rate movements. The Group has fixed interest rates on at least 50% of the interest rate exposure on the indebtedness under the senior credit facilities using interest rate swaps over the period to March 2007.

For the fixed-rate financial liabilities, the average interest rates and the average periods for which the rates are fixed are:

	At 31 March 2004		At 31 March 2005	
	Weighted average interest rate	Weighted average period for which rate is fixed	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years	%	Years
<b>Currency:</b>				
Sterling	7.1	3.0	6.9	2.8
US dollar	8.5	4.2	8.8	3.8
<b>Total borrowings</b>	<b>7.3</b>	<b>3.4</b>	<b>7.3</b>	<b>3.2</b>

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging, at the Group's option, from one month to six months by reference to LIBOR. The Group expects to continue to fix its floating rate financial liabilities at the end of each month by reference to one month LIBOR at that time.

#### Borrowing facilities and liquidity risk

The Group has maintained committed banking facilities to mitigate any liquidity risk it may face. There were committed senior debt facilities at 31 March 2005 of £200.0 million (2004 – £200.0 million) of which £nil had been drawn down at 31 March 2005 (2004 – £5.0 million). These facilities expire on 7 July 2008.

**Fair values of financial assets and liabilities**

The following table reflects the carrying amount and fair value of the Group's financial instruments at 31 March 2004 and 2005. The fair values of the financial instruments are the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in forced liquidation or sale.

	At 31 March 2004		At 31 March 2005	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
<b>Non-derivatives:</b>				
Assets				
Cash at bank and in hand	18.7	18.7	55.5	55.5
Liabilities				
Short-term borrowings <sup>(a)(c)</sup>	(85.8)	(85.8)	(91.3)	(91.3)
Long-term borrowings <sup>(b)(c)</sup>	(1,176.0)	(1,231.5)	(1,084.3)	(1,125.4)
<b>Derivatives:</b>				
Interest rate swaps	—	(3.2)	—	(2.9)
Forward foreign exchange contracts	—	—	—	—

(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 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.

(c) Long-term borrowings are presented gross before unamortised costs, which amount to £14.0 million at 31 March 2005 (£20.1 million at 31 March 2004). See note 16 for further details.

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:

	Gains	Losses	Net gains
	£m	£m	£m
Unrecognised gains and losses on hedges at 31 March 2005	3.3	(0.4)	2.9
of which:			
Expected to be recognised in the year to 31 March 2006	1.8	—	1.8
Expected to be recognised after 31 March 2006	1.5	(0.4)	1.1

## 18. Other Creditors

### Amounts falling due within one year

	Group		Company	
	At 31 March			
	2004	2005	2004	2005
	£m	£m	£m	£m
Trade creditors	26.0	22.9	—	—
Corporation tax	16.2	28.0	—	—
Other taxation and social security	22.9	23.1	—	—
Dividend payable	41.9	59.0	41.9	59.0
Other creditors	4.4	4.3	—	—
Accruals	89.8	116.9	0.1	0.1
Deferred income	71.8	91.5	—	—
<b>Total other creditors falling due within one year</b>	<b>273.0</b>	<b>345.7</b>	<b>42.0</b>	<b>59.1</b>

## 19. Called up Share Capital

### Group and Company

	At 31 March	
	2004	2005
	£m	£m
<b>Authorised</b>		
936,320,000 ordinary shares of £0.01 each (2004 – 936,320,000)	9.4	9.4
<b>Allotted, called up and fully paid</b>		
703,958,316 ordinary shares of £0.01 each (2004 – 697,785,649)	7.0	7.0

### The share capital history of the Company from 1 April 2003 up to 31 March 2005 is as follows:

- on 13 June 2003, the authorised share capital of the Company was increased from £130,695 to £864,628,937 by the creation of 1,140,499 C ordinary shares of £758 each.
- also on 13 June 2003, 1,140,499 C ordinary shares of £758 each were issued by the Company by way of a bonus issue fully paid up at par out of reserves.
- on 9 July 2003 the issued share capital of the Company was reduced by the cancellation of 1,140,499 C ordinary shares of £758 each and the distributable reserves of the Company were credited with an amount of £864,498,242.

(d) on 15 July 2003:

- (i) the authorised share capital of the Company was increased from £130,695 to £9,364,868 by the creation of an additional 8,936,484,974 B ordinary shares of £0.0001 each, 664,663,889 ordinary shares of £0.01 each, and 169,388,585 D ordinary shares of £0.01 each
  - (ii) 16,682,374 B ordinary shares of £0.0001 each were redesignated into, and reclassified as, 16,682,374 deferred shares of £0.0001 each
  - (iii) the Company capitalised an amount of £893,649 and applied this amount in paying up in full at par 8,936,485,074 unissued B ordinary shares of £0.0001 each
  - (iv) 8,936,485,074 B ordinary shares of £0.0001 each were issued by the Company fully paid up at par
  - (v) every issued 100 B ordinary shares of £0.0001 each were consolidated into one B ordinary share of £0.01 each
  - (vi) each issued B ordinary share of £0.01 each was redesignated into, and reclassified as, one ordinary share of £0.01 each
  - (vii) the Company capitalised an amount of £1,693,886 and applied this amount in paying up in full at par 169,388,585 unissued D ordinary shares of £0.01 each
  - (viii) 169,388,585 D ordinary shares of £0.01 each were issued by the Company fully paid up at par
  - (ix) each issued D ordinary share of £0.01 each was redesignated into, and reclassified as, one ordinary share of £0.01 each
  - (x) 3,350,384 ordinary shares of £0.01 each were issued by the Company fully paid up at par
  - (xi) 200,000 ordinary shares of £0.01 each were issued by the Company at a premium of £2.84 per ordinary share and were fully paid up
  - (xii) 368,422 ordinary shares of £0.01 each were issued by the Company at a premium of £1.425 per ordinary share and were fully paid up
  - (xiii) 272,274,069 ordinary shares of £0.01 each were issued by the Company at a premium of £2.84 per ordinary share and were fully paid up
  - (xiv) 151,754,386 ordinary shares of £0.01 each were issued by the Company at a premium of £2.84 per ordinary share and were fully paid up
  - (xv) 16,682,374 deferred shares of £0.0001 each were purchased by the Company for an aggregate consideration of £0.09 and cancelled.
- (e) during the period from 15 July 2003 to 31 March 2004, 3,082,277 ordinary shares of £0.01 each were issued by the Company fully paid up at par to settle exercised share options.
- (f) during the period from 1 April 2004 to 31 March 2005, 6,172,667 ordinary shares of £0.01 each were issued by the Company at par value to settle exercised share options and were fully paid up.

**Movement in share capital subsequent to 31 March 2005 up to the date of this document:**

- (a) during the period 1 April 2005 to 19 May 2005, 61,479 ordinary shares of £0.01 each were issued by the Company at par value to settle exercised share options and were fully paid up.

## 20. Changes in Equity Shareholders' Funds (deficit)

Group	Share capital	Share premium	Profit and loss account	Total
	£m	£m	£m	£m
<b>Balance at 31 March 2003</b>	0.1	1.0	(125.4)	(124.3)
Restructuring of share capital prior to IPO	2.6	—	(2.6)	—
Ordinary share capital issued to settle deep discount bonds	2.6	734.8	—	737.4
Ordinary share capital issued to employees	0.2	40.5	—	40.7
Issuance of ordinary share capital on IPO for cash <sup>(b)</sup>	1.5	408.4	—	409.9
Issuance of C ordinary shares	864.5	—	—	864.5
Cancellation of C ordinary shares	(864.5)	—	—	(864.5)
Dividends paid and proposed	—	—	(62.8)	(62.8)
Equity offset in respect of employee share options	—	—	10.5	10.5
Loss for the year	—	—	(51.1)	(51.1)
Currency movements <sup>(a)</sup>	—	—	(65.0)	(65.0)
Capital Accumulation Plan <sup>(c)</sup>	—	—	(5.8)	(5.8)
<b>Balance at 31 March 2004</b>	7.0	1,184.7	(302.2)	889.5
Ordinary share capital issued to employees	—	6.3	(0.3)	6.0
Dividends paid and proposed	—	—	(88.3)	(88.3)
Profit for the year	—	—	94.2	94.2
Currency movements <sup>(a)</sup>	—	—	(13.4)	(13.4)
Capital Accumulation Plan and other share schemes (net) <sup>(c)</sup>	—	—	(3.7)	(3.7)
<b>Balance at 31 March 2005</b>	7.0	1,191.0	(313.7)	884.3

(a) The cumulative foreign currency translation adjustment was a £116.1 million loss at 31 March 2005 (2004—£102.7 million loss).

(b) Ordinary shares issued for £433.6 million at a premium, net of £23.7 million share issue expenses.

(c) Shares held in an ESOP trust for employees.

## Company

	Share capital	Share premium	Revaluation reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m
<b>Balance at 31 March 2003</b>	0.1	1.0	864.5	0.1	865.7
Issuance of C ordinary shares <sup>(a)</sup>	864.5	—	(864.5)	—	—
Cancellation of C ordinary shares <sup>(b)</sup>	(864.5)	—	—	864.5	—
Restructuring of share capital prior to IPO	2.6	—	—	(2.6)	—
Ordinary share capital issued to settle deep discount bonds	2.6	734.8	—	—	737.4
Issuance of ordinary share capital on IPO for cash <sup>(c)</sup>	1.7	448.9	—	—	450.6
Dividends paid and proposed	—	—	—	(62.8)	(62.8)
Equity offset in respect of employee share options	—	—	—	10.5	10.5
<b>Balance at 31 March 2004</b>	7.0	1,184.7	—	809.7	2,001.4
Ordinary share capital issued to employees	—	6.3	—	(0.3)	6.0
Dividends paid and proposed	—	—	—	(88.3)	(88.3)
Equity offset in respect of other share schemes	—	—	—	0.3	0.3
Profit for the year	—	—	—	31.3	31.3
<b>Balance at 31 March 2005</b>	7.0	1,191.0	—	752.7	1,950.7

(a) A bonus issue of C ordinary shares to all shareholders paid out of revaluation reserves.

(b) The C ordinary shares were cancelled upon consent from shareholders and sanction from the High Court, creating a capital reserve from which dividends can be paid.

(c) Ordinary shares issued for £433.6 million at a premium net of £23.7 million share issue expenses (note 19).

The Company's profit for the year ended 31 March 2005 is £31.3 million (2004 – £nil). The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a Profit and Loss account for the Company alone.

## 21. Acquisitions

In the year ended 31 March 2005, the Yell Group acquired a number of directories businesses in the US for consideration totalling \$60.0 million (£31.8 million). No cash was acquired with the businesses. The purchases were accounted for as acquisitions. The purchase prices were allocated to the acquired assets and liabilities as follows:

### Acquisitions in 2005

	Book value <sup>(a)</sup>	Provisional fair value adjustments	Fair value
	£m	£m	£m
<b>Fixed assets</b>			
Tangible assets	—	—	—
<b>Total fixed assets</b>	—	—	—
<b>Current assets</b>			
Stocks	0.4	—	0.4
Debtors	4.6	—	4.6
<b>Total current assets</b>	5.0	—	5.0
<b>Creditors: amounts falling due within one year</b>	(0.2)	—	(0.2)
<b>Net current assets</b>	4.8	—	4.8
<b>Identifiable net assets</b>	4.8	—	4.8
Goodwill			27.0
Total cost			31.8
<b>Consideration:</b>			
<b>Cash</b>			31.8

(a) Translated from US dollars to pounds sterling at the exchange rates on the dates of acquisition.

### Acquisitions in 2004

In the year ended 31 March 2004, the Yell Group acquired a number of directories businesses in the US for consideration totalling \$198.9 million (£108.6 million) plus expenses of \$0.5 million (£0.3 million). No cash was acquired with the businesses. The purchases were accounted for as acquisitions. The purchase prices were allocated to the acquired assets and liabilities as shown on the table on page 87.

	Book value <sup>(a)</sup>	Provisional fair value <sup>(b)</sup> adjustments	Fair value
	£m	£m	£m
<b>Fixed assets</b>			
Tangible assets	—	1.2	1.2
<b>Total fixed assets</b>	—	1.2	1.2
<b>Current assets</b>			
Stocks	2.1	—	2.1
Debtors	15.6	(4.9)	10.7
<b>Total current assets</b>	17.7	(4.9)	12.8
<b>Creditors: amounts falling due within one year</b>	(5.9)	0.4	(5.5)
<b>Net current assets</b>	11.8	(4.5)	7.3
<b>Identifiable net assets</b>	11.8	(3.3)	8.5
Goodwill			100.4
Total cost			108.9
<b>Consideration:</b>			
<b>Cash</b>			108.9

(a) Translated from US dollars to pounds sterling at the exchange rates on the dates of acquisition.

(b) The provisional fair value adjustments principally comprise a revaluation of fixed assets and deferred tax balances to estimated fair market value, and an alignment of accounting policies for revenue recognition.

The effect of acquisitions in the year on the Group's cash flows before financing were as follows:

	Year ended 31 March 2004
	£m
Net cash inflow from operating activities	0.1
Returns on investments and servicing of finance	—
Taxation paid	—
Investing activities	—
<b>Net cash inflow before financing</b>	0.1

The effect of the acquisitions on the results of the Yell Group includes the following for the years ended 31 March 2004 and 2005:

	Year ended 31 March	
	2004	2005
	£m	£m
Turnover	0.7	6.8
Cost of sales	(0.4)	(4.7)
<b>Gross profit</b>	0.3	2.1
Distribution costs	—	(0.4)
Administrative costs	(0.2)	(1.3)
<b>Operating profit</b>	0.1	0.4

## 22. 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
	£m	£m	£m	£m
<b>At 31 March 2003</b>	30.1	(112.8)	(2,286.0)	(2,368.7)
Cash inflow from operating activities less interest, redemption premium and taxation paid and capital expenditures	115.9	—	19.0 <sup>(a)</sup>	134.9
Cash outflow on acquisitions	(108.9)	—	—	(108.9)
Dividends paid	(20.9)	—	—	(20.9)
Net proceeds from shares issued <sup>(b)</sup>	409.9	—	—	409.9
DDBs converted into equity	—	—	737.4	737.4
Borrowings repaid	(1,418.4)	112.8	1,305.6	—
New loans acquired	1,036.0	(85.8)	(950.2)	—
Finance fees paid	(16.4)	—	16.4	—
Purchase of own shares	(5.8)	—	—	(5.8)
Non-cash charges	—	—	(77.3)	(77.3)
Currency movements	(2.8)	—	79.2	76.4
<b>At 31 March 2004</b>	18.7	(85.8)	(1,155.9)	(1,223.0)
Cash inflow from operating activities less interest, redemption premium and taxation paid and capital expenditures	229.9	—	—	229.9
Cash outflow on acquisitions	(31.8)	—	—	(31.8)
Dividends paid	(71.1)	—	—	(71.1)
Net proceeds from shares issued <sup>(c)</sup>	3.4	—	—	3.4
Reclassification of long- and short-term debt	—	(90.0)	90.0	—
Borrowings repaid	(85.0)	85.0	—	—
Purchase of own shares	(6.6)	—	—	(6.6)
Non-cash charges	—	(0.5)	(16.3)	(16.8)
Currency movements	(2.0)	—	11.9	9.9
<b>At 31 March 2005</b>	55.5	(91.3)	(1,070.3)	(1,106.1)

(a) The £120.4 million of interest paid in the year included £19.0 million of interest that had been capitalised in the year as long-term debt.

(b) Ordinary shares issued for £433.6 million, net of £23.7 million issue expenses.

(c) Ordinary shares issued through employee share plans.

### Reconciliation of net cash flow to movements in net debt

	Year ended 31 March	
	2004	2005
	£m	£m
(Decrease) increase in net cash in the year	(8.7)	38.8
Net cash inflow from decrease in debt	417.8	85.0
Decrease in net debt resulting from cash flows	409.1	123.8
DDBs converted into equity	737.4	—
Other non-cash items	(77.3)	(16.8)
Currency movements	76.5	9.9
Decrease in net debt in the year	1,145.7	116.9
Net debt at beginning of the year	(2,368.7)	(1,223.0)
<b>Net debt at end of the year</b>	<b>(1,223.0)</b>	<b>(1,106.1)</b>

## 23. Financial Commitments, Contingent Liabilities and Litigation

	At 31 March	
	2004	2005
	£m	£m
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:		
Within one year	0.8	1.1
Between one and five years	6.2	6.6
After five years	5.8	6.0
<b>Total payable within one year</b>	<b>12.8</b>	<b>13.7</b>

Future minimum operating lease payments for the Group at 31 March 2005 are as follows:

	£m
Payable in the year ending 31 March:	
2006	13.7
2007	12.2
2008	11.3
2009	10.5
2010	8.5
Thereafter	29.4
<b>Total future minimum operating lease payments</b>	<b>85.6</b>

Operating lease commitments are principally in respect of leases of land and buildings.

A lawsuit filed by Verizon was settled in October 2004. Following publication of our half year results, Yellow Book USA was served with complaints filed as class actions in five US states and the District of Columbia. In these actions, the plaintiffs allege violations of consumer protection legislation and are placing reliance on findings of the New York court in the now settled suit brought against Yellow Book USA by Verizon. On 13 May 2005, the court in New Jersey gave its preliminary approval to a comprehensive national settlement, with no admission of liability. Notice of the terms of settlement will be published to class members and the final approval hearing is anticipated to be held in late summer 2005. The total estimated costs of settling these lawsuits is included in exceptional administrative expenses in note 3.

There are no contingent liabilities or guarantees other than those referred above and under the section Commitments on page 51 and those arising in the ordinary course of the Group's business.

No material losses are anticipated on liabilities arising in the ordinary course of business.

## 24. Pensions

### SSAP 24 – Accounting for Pension Costs

Pension costs in respect of the Yell Pension Plan (YPP) and the defined contribution schemes were:

	Year ended 31 March	
	2004	2005
	£m	£m
Amounts expended for YPP (defined benefit section)	8.3	7.9
Amounts expended for defined contribution schemes	2.4	3.5
<b>Total</b>	<b>10.7</b>	<b>11.4</b>

### Yell Pension Plan (YPP) – Defined benefit section

There are three defined benefit sections of the YPP, which have been closed to new entrants since 1 October 2001. There is also an unfunded, unapproved scheme for certain employees.

The pension cost for the year ended 31 March 2005 was based on the valuation at 5 April 2002. The valuation, carried out by professionally qualified independent actuaries, used the projected unit method in conjunction with a market value of assets. The principal assumptions used and the results of the valuation are set out below:

	5 April 2002
	Rates per annum %
Valuation method	Projected unit
Return on existing and future assets	6.0 to 6.5
Average increase in retail price index	2.7
Average future increases in wages and salaries	4.2
Average increase in pensions	2.7
Dividend growth	—

At 5 April 2002 (the last valuation date) the market value of assets was £102.7 million. The results of the valuation show that the assets of the scheme were sufficient to cover 102% of the benefits that had accrued to members by that date after allowing for expected future increases in salaries. The date for the next valuation is expected to be no later than 5 April 2005.

For the year ended 31 March 2005, the Group made regular contributions totalling £7.5 million to the defined benefit section (2004–£8.5 million), together with a £0.4 million contribution to the unapproved scheme. In addition, a contribution of £0.5 million (2004–£0.9 million) in respect of benefit improvements was made and an additional annual contribution of £8.2 million in respect of deficit funding (2004–£nil). The Group intends to make an additional annual contribution of approximately £8.5 million in the 2006 financial year. There are no provisions held on the balance sheet in respect of this plan at 31 March 2005. The Group has a prepayment of £8.6 million at 31 March 2005 (2004–£0.3 million). The funding policy differs from the accounting policy primarily in that for funding purposes the Group contributes to target a funding level of 105% in the above assumptions.

The YPP assets are invested in UK and overseas equities, fixed interest and index linked securities, deposits and short-term investments. The assets are held in separate trustee administered funds. The trustees set asset allocation targets at 31 March 2004 and 2005 in which approximately 55% of the assets held should be equity investments and 45% should be debt securities.

### Defined contribution schemes

In addition to the defined contribution section Four of the YPP, Yellow Book sponsor a 401(k) plan for the majority of Yellow Book employees in the US. 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 £2.9 million in the year ended 31 March 2005 (2004–£2.4 million) for the Yellow Book scheme, and £0.6 million (2004 – £0.4 million) for Section Four of the YPP. Outstanding contributions amounted to £nil as at 31 March 2005 (2004 – £nil).

**FRS 17 – Retirement benefits**

A valuation of the YPP for the purposes of FRS 17 was carried out at 31 March 2002 and updated to 31 March 2004 and 2005 by a qualified independent actuary. The following key assumptions were used:

	At 31 March		
	2003	2004	2005
	% per annum	% per annum	% per annum
Discount rate	5.4	5.4	5.4
Salary increases	4.0	4.4	4.4
Pension increases	2.5	2.9	2.9
Inflation rate	2.5	2.9	2.9

The assets in the YPP and the annual expected rates of return were:

	At 31 March					
	2003		2004		2005	
	%	£m	%	£m	%	£m
Equities	7.8	49.9	7.7	66.4	7.7	82.5
Corporate Bonds	5.4	15.8	5.4	3.7	5.4	6.8
Gilts	4.8	28.4	4.7	52.3	4.7	61.2
<b>Total</b>		94.1		122.4		150.5

The expected rates of return were set by reference to yields available on government bonds at the measurement date and appropriate risk margins.

The following amounts as at 31 March 2003, 2004 and 2005 were measured in accordance with the requirements of FRS 17 and show the net balance sheet liability at the year end as if FRS 17 had been adopted:

	At 31 March		
	2003	2004	2005
	£m	£m	£m
Total market value of assets	94.1	122.4	150.5
Present value of scheme liabilities	(141.2)	(188.8)	(249.9)
Deficit in the scheme	(47.1)	(66.4)	(99.4)
Related deferred tax asset, based on 30% rate of tax	14.1	19.9	29.8
Net balance sheet liability	(33.0)	(46.5)	(69.6)

The following amounts explain the change in the deficit in the scheme for the year ended 31 March 2004 and 2005:

	At 31 March	
	2004	2005
	£m	£m
Deficit in scheme at beginning of year	(47.1)	(66.4)
Movement in year:		
Current service cost	(10.4)	(13.7)
Contributions	9.4	16.2
Past service costs	(0.8)	(0.7)
Other finance costs	(1.5)	(2.3)
Actuarial loss	(16.0)	(32.5)
<b>Deficit in scheme at 31 March</b>	<b>(66.4)</b>	<b>(99.4)</b>

The full actuarial valuation at 5 April 2002 updated to 31 March 2005 showed a deficit of £99.4 million. Improvements in benefits costing £0.5 million were made in the year ended 31 March 2005 and contributions of £7.5 million (13.05% of pensionable earnings), plus an additional contribution of £8.2 million in respect of deficit funding were made. In addition a contribution of £0.8 million in respect of benefit improvements made in the previous year was made on 1 April 2004. In the year ended 31 March 2005, the Group made contributions at an average rate of 13.05% of pensionable earnings inclusive of expenses and life assurance premiums. The Group's trustees have agreed that contributions for the next year will continue at the same rate, with an evaluation of future contribution rates after the next full valuation.

The actuarial loss in the year ended 31 March 2005 was primarily the result of changing our assumptions regarding how long scheme members will live after retirement.

As the scheme is closed to new members, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The history of experience gains and losses follows:

	Year ended 31 March		
	2003	2004	2005
Difference between the expected and actual return on scheme assets			
– (loss) gain (£m)	(27.4)	11.4	2.2
– (loss) gain (proportion of scheme assets)	(29%)	9%	1%
Experience gains and losses on scheme liabilities			
– loss (£m)	(4.7)	(8.4)	(5.8)
– loss (proportion of present value of scheme liabilities)	(3%)	(4%)	(2%)
Total amount to be recognised in the statement of total recognised gains and losses upon full adoption of FRS 17			
– loss (£m)	(45.7)	(15.9)	(32.5)
– loss (proportion of present value of scheme liabilities)	(32%)	(8%)	(13%)

If the above amounts had been recognised in the financial statements, the Group's net liabilities and profit and loss account deficit at 31 March 2004 and 2005 would have been as follows:

	At 31 March	
	2004	2005
	£m	£m
Net assets excluding pension asset <sup>(a)</sup>	889.2	875.7
Pension liability	(46.5)	(69.6)
<b>Net assets including FRS 17 pension liability</b>	<b>842.7</b>	<b>806.1</b>

(a) Excluding SSAP 24 balance sheet items.

Profit and loss account deficit excluding pension liability	(302.2)	(313.4)
Pension liability	(46.5)	(69.6)
<b>Profit and loss account deficit including FRS 17 pension liability</b>	<b>(348.7)</b>	<b>(383.0)</b>

If the above amounts had been recognised in the financial statements, the Group's profit and loss account and statement of total recognised gains and losses for the years ended 31 March 2004 and 31 March 2005 would have included the following:

#### Amounts charged to operating profit

	Year ended 31 March	
	2004	2005
	£m	£m
Current service cost	10.4	13.7
Past service cost	0.8	0.7
<b>Total operating charge</b>	<b>11.2</b>	<b>14.4</b>

#### Net amount credited to net interest payable

	Year ended 31 March	
	2004	2005
	£m	£m
Expected return on pension scheme assets	6.5	8.3
Interest on pension scheme liabilities	(8.0)	(10.6)
<b>Net loss on pension scheme</b>	<b>(1.5)</b>	<b>(2.3)</b>

#### Amount recognised in statement of total recognised gains and losses

	Year ended 31 March	
	2004	2005
	£m	£m
Actual return less expected return on pension scheme assets	11.4	2.2
Experience losses arising on the scheme liabilities	(8.4)	(5.8)
Changes in assumption underlying the present value of the scheme liabilities	(19.0)	(28.9)
<b>Actuarial loss</b>	<b>(16.0)</b>	<b>(32.5)</b>

## 25. Related Party Transactions

There were no related party transactions in the year ended 31 March 2005.

Funds managed or advised by Apax Partners and Hicks, Muse, Tate and Furst Incorporated (Hicks Muse) held deep discount bonds issued by the Group of £610 million subscribed amount. Details of these bonds are given in note 16. All of the deep discount bonds were redeemed in the year ended 31 March 2004.

Under the arrangement put in place following the acquisition from BT, Apax Partners Managing Entities and affiliates of Hicks Muse charged transaction and monitoring fees of £25.8 million in 2004, of which £nil remained outstanding at the year end.

No transaction or monitoring fees were payable after 15 July 2003, the date of the IPO. Both parties ceased being related parties on 6 January 2004, when the funds sold their equity interests in the Group.

## 26. Employee Share Schemes

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The Group has various stock option plans for employees and directors.

### (a) The Yell Group Limited 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 were set up to provide employees with option awards over shares that would become exercisable on an exit event (e.g. sale or quotation). The option life under these plans is ten years from date of grant.

### (b) The Yell Group plc Yellow Book (USA) West Management Share Option Scheme

In September 2002, the Yell Group introduced a stock option plan, the Yell Group plc Yellow Book (USA) West Management Share Option Scheme for certain employees of the former McLeod directories. This plan provided employees with option awards for shares that vest ratably on each anniversary of the grant date over a three-year period. The options could be exercised and sold on the later of the vesting date or the date of an exit event. The option life under the plan is ten years from date of grant.

### (c) The Yell Group plc ShareSave Plan

The Yell Group plc ShareSave Plan (the ShareSave) was established in July 2003. Eligible employees who wish to participate must enter into a savings contract for a period of three or five years under which they will contribute payments of between £5 and £250 per month, and a bonus is added at the end of three, five or seven years. In conjunction with the savings contract, an eligible employee is granted an option to subscribe for Ordinary shares of Yell Group plc out of the repayment made under that contract at the end of three, five or seven years. The exercise price of any option will not be manifestly less than 80% of the market value of the Ordinary shares at the date of grant. The ShareSave is Inland Revenue approved and therefore no charge has been recorded to the profit and loss account in accordance with the exemption available under UITF 17.

### (d) The Yell Group plc Employee Stock Purchase Plan

The Yell Group plc 2003 Employee Stock Purchase Plan (the US ESPP) was established in July 2003. Eligible employees are entitled to purchase Ordinary shares at the lower of 85% of the fair market value of the Ordinary shares on the date the Ordinary shares are offered and 85% of the fair market value of the Ordinary shares on the date ending the offer period when the Ordinary shares are purchased by the employee. All Ordinary shares must be purchased through the savings accumulated during an offer period through payroll deductions.

### (e) The Yell Group plc Executive Share Option Scheme

The Yell Group plc Executive Share Option Scheme (the UK Option Scheme) was established in July 2003, and contains an unapproved section and a section approved by the Inland Revenue. The price per Ordinary share at which options will be exercised will be not less than the market value of the Ordinary shares at the date of grant. Options will normally be granted within a period of 42 days commencing on the day after the date on which the Group releases its quarterly, half-yearly or final results for any financial period. In most circumstances an objective performance condition must be satisfied before an option can be exercised. Normally options may only be exercised three years after their initial date of grant. The option life under this plan is ten years from the date of grant.

### (f) The Yell Group plc US Equity Incentive Plan

The Yell Group plc 2003 US Equity Incentive Plan (the US EIP) was established in July 2003. It allows the Company to issue both non-qualified and incentive stock options and Ordinary shares. The Board has sole discretion to determine who may receive awards under the USEIP and any performance conditions. The exercise price for incentive stock options will not be less than 100% of the fair market value of the Ordinary shares on the date of grant. The option life under this plan is ten years from the date of grant. Stock awards may be made to officers or employees, and the purchase price, if any, is as established by the Company.

### (g) The Capital Accumulation Plan

The Yell Group plc Capital Accumulation Plan (CAP) was established in February 2004. It allows the Company to make awards of Ordinary shares, which vest three years from the date of grant, to employees. There are no performance criteria attached to the vesting of these shares, which are awarded to employees whom the Company wishes to retain as key talent within the organisation. Awards are satisfied by purchasing existing shares on the open market rather than by issue of new shares.

**(h) The Long-Term Incentive Plan**

The Yell Group plc Long Term Incentive Plan (the LTIP) was established in July 2003 and is not intended to be approved by the Inland Revenue. The Board has sole discretion to determine which executives are granted awards under the LTIP. Awards are granted in the form of performance shares and in most circumstances an objective performance condition must be satisfied before an award vests. Normally awards may only vest three years after their initial date of grant.

**(i) Deferred Bonus Plan**

The Yell Group plc Deferred Bonus Plan (the DBP) was established in November 2004. Under the plan, any bonus awarded to executive directors in excess of 100% of salary is subject to compulsory deferral into shares for a period of three years. There is no matching provided by the Company and the shares will be forfeited if the director leaves the Company other than as a predetermined 'good leaver'.

**Options under share schemes**

Options granted, exercised and lapsed under these share option schemes during the years ended 31 March 2004 and 2005 and options exercisable at 31 March 2004 and 2005 were as follows:

	Savings related schemes	Other share option schemes	Total	Exercise price range	Weighted average exercise price
Outstanding, 31 March 2003	—	11,046,925	11,046,925	0.4p–128p	18p
Granted	4,563,964	10,906,881	15,470,845	0.4p–296p	226p
Exercised	—	(5,796,453)	(5,796,453)	0.4p–128p	3p
Expired or forfeited	(113,065)	(1,450,041)	(1,563,106)	0.4p–260p	22p
Outstanding, 31 March 2004	4,450,899	14,707,312	19,158,211	0.4p–296p	190p
Granted	1,595,313	5,655,000	7,250,313	0.0p–402p	367p
Exercised	(700,691)	(4,893,648)	(5,594,339)	0.4p–260p	60p
Expired or forfeited	(836,625)	(241,402)	(1,078,027)	0.4p–402p	253p
Outstanding, 31 March 2005	4,508,896	15,227,262	19,736,158	0.0p–402p	289p
Exercisable, 31 March 2004	—	6,777,988	6,777,988	0.4p–128p	26p
Exercisable, 31 March 2005	—	1,817,018	1,817,018	0.4p–128p	13p

The following table summarises option activity for 2005 and 2004:

	2004		2005	
	Shares	Weighted average exercise price (pence)	Shares	Weighted average exercise price (pence)
Options outstanding at year end	19,158,211	190	19,736,158	289
Options exercisable at year end	6,777,988	26	1,817,018	13
Shares available for future grant at year end	57,398,341		50,557,360	
Weighted-average exercise price equal to market value of ordinary shares at date of grant	7,929,324	292	5,399,867	401
Weighted-average exercise price less than market value of ordinary shares at date of grant	7,541,521	157	1,850,446	269

The weighted average fair value of the 7,250,313 options granted in the year ended 31 March 2005 (2004 – 15,470,845 options) was 77 pence per option (2004 – 69 pence per option).

The following table summarises information about stock options outstanding at March 31, 2005:

Exercise price	Number outstanding	Weighted average contractual life	Number exercisable
Pence		Years	
0	255,133	13	—
0.4	1,631,538	8	1,631,538
128	185,480	7	185,480
260	2,952,012	3	—
272	906,884	4	—
285	2,801,158	8	—
296	4,984,534	9	—
342	73,142	9	—
370	650,000	1	—
402	5,296,277	10	—
	19,736,158	8	1,817,018

The Group awarded 1,613,683 shares (2004 – 1,774,327 shares) under the CAP during the year ended 31 March 2005. An employee benefit trust held 3,333,207 shares (2004 – 1,735,205 shares) at 31 March 2005 to satisfy past awards when they vest in the future.

## 27. Auditors' Remuneration

The following fees were paid or are payable to the Group's auditors for the years ended 31 March 2004 and 31 March 2005.

	Year ended 31 March	
	2004	2005
	£m	£m
Audit services		
Statutory audit	0.6	0.6
Audit – related regulatory reporting	0.2	0.1
Further assurance services	0.2	0.3
Tax services		
Compliance services	0.1	0.2
Advisory services	1.0	0.3
Other services not covered above	—	0.2
<b>Total auditors' remuneration</b>	<b>2.1</b>	<b>1.7</b>
<b>Audit fees paid in respect of the parent company</b>	<b>—</b>	<b>—</b>

In addition to the amounts above, fees in relation to accounting and tax advice in respect of the IPO in the year ended 31 March 2004, which were approved and incurred prior to the IPO, were £3.6 million. In addition, certain fees in relation to due diligence totalling £0.5 million in the year ended 31 March 2004 were approved and incurred prior to the IPO.

## 28. Post Balance Sheet Events

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On 17 May 2005, the Group announced that the US business had entered into a definitive agreement for the purchase (the Acquisition) of Transwestern Holdings, L.P. (Transwestern) from Thomas H. Lee Partners, CIVC Partners, LLC and Transwestern management for \$1,575 million (£829 million) in cash. Transwestern is a leading independent directory publisher in the US, with an extensive footprint in 25 states, including core positions in California and Texas, which complements Yellow Book's footprint. Transwestern published 332 directories during the year ended 31 December 2004. Transwestern also offers online directory advertising services through WorldPages.com.

At 17 May 2005, the Group had agreed in principle a new £2 billion credit facility, fully underwritten by ABN AMRO, BNP paribas, Citibank, HSBC and JPMorgan Chase, to refinance all of the existing bank debt of £860 million and to fund the Acquisition, if the Acquisition is completed. The senior notes remain unaffected.

The acquisition is subject to shareholder approval and Hart Scott Rodino clearance in the USA. Therefore, completion of the Acquisition can not be assured.

## 29. US Generally Accepted Accounting Principles

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The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the UK (UK GAAP), which differ in certain respects from those applicable in the US (US GAAP). US GAAP information is provided because US employees have been granted share options.

### (I) Differences between UK and US generally accepted accounting principles

The following are the main differences between UK and US GAAP which are relevant to the 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 only comprise the direct production costs and 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. Under US GAAP, the fair value is charged to the profit and loss upon delivery of the related directories.

#### (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.

**(c) Goodwill and other intangibles**

Under UK GAAP the purchase price of acquisitions is allocated to the fair market value of identifiable tangible and intangible assets, with the excess recorded as goodwill with an estimated economic life of 20 years. Goodwill is not amortised under US GAAP and is subject to an annual impairment test. The Yell Group completed its impairment tests of goodwill as of 31 March 2004 and 2005 and determined that goodwill balances were not impaired. Under US GAAP the purchase price of acquisitions 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 five to forty years. The aggregate amortisation expense for the years ended 31 March 2004 and 2005 and the estimated aggregate amortisation expense for the succeeding five years, assuming a constant US dollar exchange rate, are as follows:

	£m
<b>Aggregate amortisation expense</b>	
For year ended 31 March 2004	86.5
For year ended 31 March 2005	73.0
<b>Estimated amortisation expense</b>	
For year ending 31 March 2006	60.1
For year ending 31 March 2007	49.9
For year ending 31 March 2008	41.9
For year ending 31 March 2009	35.8
For year ending 31 March 2010	30.6

**Goodwill**

The changes in the net book value of goodwill for the years ended 31 March 2004 and 31 March 2005 are as follows:

	UK	US	Yell Group
	£m	£m	£m
<b>Balance at 31 March 2003</b>	599.4	578.0	1,177.4
Goodwill acquired during year	—	76.1	76.1
Reversal of valuation allowance on deferred tax assets acquired	—	(8.2)	(8.2)
Fair value adjustments <sup>(a)</sup>	—	3.3	3.3
Currency movements	—	(85.6)	(85.6)
<b>Balance at 31 March 2004</b>	599.4	563.6	1,163.0
Goodwill acquired during year	—	20.5	20.5
Reversal of valuation allowance on deferred tax assets acquired	—	(16.9)	(16.9)
Fair value adjustments	—	(3.6)	(3.6)
Currency movements	—	(13.9)	(13.9)
<b>Balance at 31 March 2005</b>	599.4	549.7	1,149.1

(a) The fair value adjustment to goodwill was due to the finalisation of transaction costs in respect of acquisitions in prior years.

Intangible assets under US GAAP comprise:

	At 31 March	
	2004	2005
	£m	£m
<b>Gross book value</b>		
Acquired customer relationships	498.1	501.3
Brand names	511.6	510.2
Additional minimum liability	1.1	1.7
Goodwill on pension scheme	1,163.0	1,149.1
	2,173.8	2,162.3
<b>Accumulated amortisation</b>		
Acquired customer relationships	(224.6)	(283.3)
Brand names	(39.6)	(51.7)
Total accumulated amortisation under US GAAP	(264.2)	(335.0)
Net book value in accordance with US GAAP	1,909.6	1,827.3
<b>Net book value in accordance with UK GAAP</b>	1,725.3	1,635.0
<b>Estimated UK to US GAAP adjustments</b>	184.3	192.3

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 (SFAS 133, as amended and interpreted). 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 gain of £6.1 million would have been recorded for the year ended 31 March 2005 (2004—a gain of £21.7 million) under US GAAP, within interest expense. The asset at 31 March 2005 would have been £2.9 million (2004—a liability of £3.2 million). These movements reflect the fluctuations in the fair value of the US dollar and pounds sterling floating interest rate swaps since the contracts were agreed, and the unwinding of losses previously recognised under US GAAP which have now been recorded as interest expense under UK GAAP.

#### (e) Employee option plans

Under UK GAAP, compensation expense on awards of stock options and other share-based compensation is measured based on the intrinsic value of the awards, if any, at the date of grant. Under US GAAP, compensation expense is measured based on the fair value of the awards at the date of grant. The fair value of each option grant during the period from 1 April 2003 through June 2003 was estimated at the date of grant using the minimum-value method. The fair value of each option grant subsequent to June 2003 was estimated at the date of grant using the Black-Scholes option valuation method. The total compensation expense for 2005 under US GAAP would have been £6.3 million. The Group used the following weighted-average assumptions in its estimations of fair value:

	Year ended 31 March	
	2004	2005
	£m	£m
Risk free interest rate	4.4%	4.6%
Expected dividend yield	3%	3%
Expected volatility	35%	20%
Expected life of option	3.7 years	3.6 years

#### (f) Dividends

Under UKGAAP, dividends are recorded in the period in respect of which they are declared. Under US GAAP, dividends are recorded in the period in which dividends are declared.

**(g) 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, together with the effect of an adjustment of £16.9 million (2004–£8.2 million) to reverse tax benefits associated with the reversal of a valuation allowance recorded on purchase which under US GAAP results in a reduction to goodwill.

At 31 March 2005, the adjustment to decrease shareholders' funds (deficit) of £136.9 million (2004–£182.9 million decrease) included the tax effect of other US GAAP adjustments. This comprised an adjustment increasing current deferred tax assets by £81.4 million (2004–£35.7 million), increasing non-current deferred tax assets by £nil million at 31 March 2005 (2004–£nil) which were net of a £nil million (2004–£7.7 million), valuation allowance for deferred tax assets arising from operations in the US, and £218.3 million (2004–£218.6 million) of non-current deferred tax liabilities. Deferred tax assets arising from operations in the UK are considered to be recoverable for all years presented.

**(h) Gross profit under US GAAP presentation**

Additionally, 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 costs. Additionally, distribution costs would be in cost of sales under US GAAP.

**(II) Net loss and shareholders' (deficit) funds reconciliation statements**

The following statements summarise estimated adjustments, gross of their tax effect, which reconcile loss and shareholders' (deficit) funds from that reported under UK GAAP to that which would have been reported had US GAAP been applied.

Net (loss) profit	Year ended 31 March	
	2004	2005
	£m	£m
(Loss) profit for the year under UK GAAP	(51.1)	94.2
Adjustment for:		
Directories in progress	(20.8)	(14.3)
Pensions	(8.0)	(13.2)
Goodwill	96.7	98.6
Other intangible assets	(86.5)	(73.0)
Derivative financial instruments	21.7	6.1
Employee option costs	(1.3)	(3.1)
Other items	(0.6)	(0.8)
Deferred taxation	28.6	25.3
<b>Net (loss) profit as adjusted for US GAAP</b>	<b>(21.3)</b>	<b>119.8</b>

Shareholders' funds	At 31 March	
	2004	2005
	£m	£m
Shareholders' funds under UK GAAP	889.5	884.3
Adjustment for:		
Directories in progress	(103.2)	(115.6)
Pensions	(0.3)	(13.5)
Additional minimum pension liability	(37.9)	(59.0)
Goodwill	(562.3)	(485.9)
Other intangible assets	746.6	678.2
Derivative financial instruments	(3.2)	2.9
Deferred taxation	(182.9)	(136.9)
Dividends proposed	41.9	58.9
Other items	2.3	1.5
<b>Shareholders' funds as adjusted for US GAAP</b>	<b>790.5</b>	<b>814.9</b>

**(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, Cash Flow Statements, (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).

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.

	Year ended 31 March	
	2004	2005
	£m	£m
Net cash provided by operating activities	123.9	253.9
Net cash used in investing activities	(133.3)	(55.8)
Net cash provided by (used in) financing activities	0.8	(159.3)
Net decrease in cash and cash equivalents at end of the year <sup>(a)</sup>	(8.6)	38.8
Effects of exchange rate changes on cash and cash equivalents	(2.8)	(2.0)
Cash and cash equivalents at beginning of the year	30.1	18.7
<b>Cash and cash equivalents at end of the year<sup>(a)</sup></b>	<b>18.7</b>	<b>55.5</b>

(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) Pensions**

The effect of the following US GAAP disclosures for the YPP is shown in the above reconciliation statements. The annual pension charge is based on the measurements at the balance sheet date for the previous year. The measurement date of benefit obligations and net assets is the same as the balance sheet date.

The components of the pension cost for the YPP comprised:

	Year ended 31 March	
	2004	2005
	£m	£m
Service cost	12.6	15.2
Interest cost	8.0	10.5
Expected return on scheme assets	(6.5)	(8.1)
Amortisation of net obligation at date of limited application of SFAS 87	3.1	3.4
Amortisation of prior service cost	—	0.1
<b>YPP pension cost for the year under US GAAP</b>	<b>17.2</b>	<b>21.1</b>

The information required to be disclosed in accordance with Statement of Financial Accounting Standard No 132 (revised 2003) Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements No 87, 88 and 106 (SFAS 132R) concerning the funded status of the YPP at and for the years ended 31 March 2004 and 2005, based on the valuation at 5 April 2002, is as follows:

	At and for the year ended 31 March	
	2004	2005
	£m	£m
<b>Changes in benefit obligation</b>		
Present value of scheme liabilities at the beginning of the year	147.9	194.9
Service cost	12.6	15.2
Interest cost	8.0	10.5
Employees' contributions	3.7	3.3
Actuarial movement	24.6	33.8
Benefits paid or payable	(2.7)	(1.9)
Plan amendments	0.8	0.6
<b>Benefit obligation at the end of the year</b>	<b>194.9</b>	<b>256.4</b>

	At 31 March	
	2004	2005
	£m	£m
<b>Amounts recognised in the statement of financial position consist of:</b>		
Accrued pension costs	(37.9)	(63.9)
Intangible asset	1.1	1.7
Charge to equity	36.8	57.3
<b>Net accrued pension costs recognised</b>	<b>—</b>	<b>(4.9)</b>

The accumulated benefit obligation of £214.4 million at 31 March 2005 (2004 – £160.3 million) was calculated on the assumption that pension increases start immediately.

	At 31 March	
	2004	2005
	£m	£m
<b>Changes in scheme assets</b>		
Market value of scheme assets at the beginning of the year	94.1	122.4
Actual return on scheme assets	17.8	10.5
Employer's contributions	9.5	16.2
Employees' contributions	3.7	3.3
Benefits paid or payable	(2.7)	(1.9)
<b>Market value of assets at the end of the year</b>	<b>122.4</b>	<b>150.5</b>

	At 31 March	
	2004	2005
	£m	£m
<b>Funded status under US GAAP</b>		
Projected benefit obligation in excess of scheme assets	(72.6)	(105.9)
Unrecognised prior service costs <sup>(a)</sup>	1.1	1.7
Other unrecognised net actuarial losses	71.5	99.3
<b>Accrued pension costs under US GAAP</b>	—	(4.9)

(a) The unrecognised prior service costs are amortised over 15 years.

The benefit obligation for the main pension scheme was determined using the following assumptions at 31 March 2003, 2004 and 2005.

	Rates (per annum)		
	2003	2004	2005
	%	%	%
Discount rate	5.40	5.40	5.40
Rate of future pay increases	4.00	4.40	4.40
Pension increases	2.50	2.90	2.90
Expected return on assets	6.50	6.35	6.35

We expect to pay approximately £16.5 million of annual pension contributions in the 2006 financial year. The following table sets out our best estimate of future benefits payable by the defined benefit pension scheme.

	At 31 March 2005
	£m
2006 financial year	1.9
2007 financial year	2.2
2008 financial year	2.5
2009 financial year	2.9
2010 financial year	3.3
Financial years 2011 through 2015	27.4

The assets in the YPP and the annual expected rates of return on these assets are shown in note 24 to the financial statements.

## Five Year Financial Summary

(Unaudited)	Year ended or at 31 March				
	2001	2002	2003	2004	2005
	£m	£m	£m	£m	£m
<b>UK GAAP</b>					
<b>Combined and Consolidated, Condensed Profit and Loss Information</b>					
Group turnover	774.3	865.4	1,114.0	1,186.9	1,285.3
Group operating profit	187.5	151.6	183.4	150.4	244.7
Net interest payable	(24.5)	(164.4)	(236.6)	(194.5)	(91.0)
Profit (loss) on ordinary activities before taxation	163.0	(12.8)	(53.2)	(44.1)	153.7
Tax (charge) credit on profit (loss) on ordinary activities	(60.3)	(18.6)	12.6	(7.0)	(59.5)
Profit (loss) for the financial year	102.7	(31.4)	(40.6)	(51.1)	94.2
Group adjusted EBITDA <sup>(a)</sup>	234.2	245.5	323.0	360.1	402.8
<b>Combined and Consolidated, Condensed Balance Sheet Information</b>					
Current assets	390.4	528.4	637.3	631.2	706.8
Total assets	864.3	2,201.0	2,510.4	2,404.2	2,391.6
Loans and other borrowings – falling due within one year	(97.2)	(53.4)	(112.8)	(85.8)	(91.3)
Net current assets	160.2	328.3	288.6	272.4	269.8
Total assets less current liabilities	634.1	2,000.9	2,161.7	2,045.4	1,954.6
Loans and other borrowings – falling due after more than one year	(221.8)	(2,050.7)	(2,286.0)	(1,155.9)	(1,070.3)
Net assets (liabilities)/equity shareholders' funds (deficit)	394.3	(49.8)	(124.3)	889.5	884.3
<b>Other Financial Information</b>					
Depreciation and amortisation	(35.1)	(90.9)	(120.9)	(119.6)	(121.6)
Capital expenditure <sup>(b)</sup>	(23.1)	(25.5)	(16.0)	(24.5)	(24.0)
Net cash inflow from operating activities	194.1	196.3	309.1	294.2	357.6
<b>US GAAP</b>					
<b>Combined and Consolidated Profit and Loss Information</b>					
Net income (loss)	84.8	(166.1)	(79.1)	(21.3)	119.8
Adjusted net income (loss) <sup>(c)</sup>	159.9	(108.9)	(79.1)	(21.3)	119.8
<b>Combined and Consolidated Balance Sheet Information</b>					
Total assets	789.0	2,361.6	2,647.5	2,304.4	2,308.3
Total shareholders' equity (deficit)	319.0	(150.6)	(295.6)	790.5	814.9
<b>Other Financial Information</b>					
Net cash provided by operating activities	176.5	17.7	143.8	123.9	253.9
Net cash used in investing activities	(72.0)	(1,583.9)	(486.9)	(133.3)	(55.8)
Net cash provided by (used in) financing activities	(84.7)	1,641.6	273.9	0.8	(159.3)

(a) EBITDA is not a measurement of performance under UK or US GAAP and you should not consider EBITDA as an alternative to (a) operating income or net income (as determined in accordance with generally accepted accounting principles), (b) cash flows from operating, investing or financing activities (as determined in accordance with generally accepted accounting principles), or as a measure of our ability to meet cash needs or (c) any other measures of performance under generally accepted accounting principles. EBITDA is not a direct measure of our liquidity, which is shown by the Group's cash flow statement and needs to be considered in the context of our financial commitments. EBITDA may not be indicative of our historical operating results, nor is it meant to be predictive of our potential future results. We believe that EBITDA is a measure commonly reported and widely used by investors in comparing performance on a consistent basis without regard to depreciation and amortisation, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred) or non-operating factors. Accordingly, EBITDA has been disclosed in this document to permit a more complete and comprehensive analysis of our operating performance relative to other companies and of our ability to service our debt. Because all companies do not calculate EBITDA identically, our presentation of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA is one of the key measures that we use to assess our success in achieving growth and operational efficiencies. See the reconciliation of Group operating profit to EBITDA in the Operating and Financial Review, and the reconciliation of operating profit to net cash inflow from operating activities in the note to the Cashflow Statement.

EBITDA comprises total Group operating profit before depreciation and amortisation, both being non-cash items. Adjusted EBITDA excludes exceptional one-off items comprising £36.5 million of lawsuit costs associated with a Yellow Book advertising campaign in the year ended 31 March 2005; £90.1 million of expenses incurred in connection with our initial public offering in the year ended 31 March 2004; and £15.0 million of expenses incurred in connection with our decision not to proceed with the initial public offering and non-recurring restructuring charges of £3.7 million in the year ended 31 March 2003.

(b) Capital expenditure represents cash expenditure on tangible fixed assets, net of sales proceeds.

(c) Effective 1 April 2002, the Group prospectively adopted SFAS 142 for US GAAP reporting purposes, which eliminated the requirement to amortise goodwill. Adjusted net income (loss) presents the prior periods' net income (loss) after eliminating the effect of goodwill amortisation from 1 April 1999.

## Two Year Operational Summary

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

	Year ended or at 31 March	
	2004	2005
<b>UK information</b>		
Unique advertisers (thousands) <sup>(a)</sup>	480	478
Directory editions published	99	111
Turnover per unique advertiser (£)	1,237	1,280
Unique advertiser retention rate (%) <sup>(b)</sup>	77	75
<b>US information</b>		
Unique advertisers (thousands) <sup>(a)(c)</sup>	386	455
Directory editions published	536	565
Turnover per unique advertiser (\$)	2,434	2,525
Unique advertiser retention rate (%) <sup>(c)</sup>	70	71
<b>Other UK products and services</b>		
Yell.com searchable advertisers as at 31 March (thousands) <sup>(d)</sup>	103	141
Yell.com page impressions for March (millions) <sup>(e)</sup>	67	68
Yell.com searches for March (millions)	19	21

(a) Number of unique advertisers in printed directories that were recognised for turnover purposes and have been billed. Unique advertisers are counted once only, regardless of the number of advertisements they purchase or the number of directories in which they advertise.

(b) The proportion of unique advertisers that have renewed their advertising from the preceding publication. As a result of improvements to our systems, we are now able to include national and key accounts in our measurement of retention. If we had continued to exclude these accounts, the retention rate for the financial year ended 31 March 2005 would have been 74%. We have not adjusted previously reported figures for the financial year ended 31 March 2004. These improvements to our systems have not affected the reporting of our financial results.

(c) As a result of the progress in the US towards integrating our customer databases, we have been able to make improvements in the ways in which we capture, record and analyse customer information. This has led to a significant overall elimination of duplicate records of unique advertisers. We have not adjusted the previously reported figure for the financial year ended 31 March 2004 for any duplicated records in that period. There remains some overlap in reporting unique advertisers between Yellow Book and acquired businesses that we expect to be removed. These improvements to our systems have not affected the reporting of our financial results. Retention in the US is based on unique directory advertisers.

(d) Unique customers with a live contract at month end. These figures refer to searchable advertisers only, i.e. advertisers for whom users can search on Yell.com. They exclude advertisers who purchase products such as banners and domain names.

(e) Growth in page impressions is lower than in previous periods as a result of a site redesign that has reduced the number of pages a user has to access when searching Yell.com.

## Notice of Annual General Meeting

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Notice is hereby given that the 2005 Annual General Meeting of Yell Group plc (the Company) will be held at the Plaisterers Hall, No. 1 London Wall, London, EC2Y 5JU on Tuesday 12 July 2005 at 11.00am to consider the following resolutions:

### Ordinary Resolutions

#### Resolution 1

**That the report of the directors and auditors, and the audited accounts of the Company, for the year ended 31 March 2005 be received and considered.**

The directors are required by law to present to the shareholders of the Company at a general meeting the report of the directors and auditors, and the audited accounts of the Company, for the year ended 31 March 2005. The report of the directors and the audited accounts have been approved by the directors, and the report of the auditors has been approved by the auditors, and a copy of each of these documents may be found in the Annual Report of the Company.

#### Resolution 2

**That the final dividend of 8.4 pence per ordinary share in the Company recommended by the directors be declared and, if approved, payable on 19 August 2005 to holders of ordinary shares in the Company registered at the close of business on 22 July 2005.**

It is a requirement of law that the final dividend for the year ended 31 March 2005 be approved by the shareholders of the Company. The amount to be declared as a final dividend may not exceed the amount recommended by the directors.

#### Resolution 3

**That the report on the remuneration of directors for the year ended 31 March 2005 be approved.**

The Directors Remuneration Report Regulations 2002 require companies to include certain specified information on the remuneration of their directors for each financial year in a report and to give their shareholders an opportunity to approve such report. The report on the remuneration of the directors of the Company for the year ended 31 March 2005 may be found in the Annual Report of the Company starting at page 32.

#### Resolution 4

**That John Condron be re-elected as a director.**

#### Resolution 5

**That John Davis be re-elected as a director.**

#### Resolution 6

**That Lyndon Lea be re-elected as a director.**

#### Resolution 7

**That Lord Powell of Bayswater be re-elected as a director.**

#### Resolution 8

**That Bob Scott be re-elected as a director.**

#### Resolution 9

**That Charles Carey be re-elected as a director.**

#### Resolution 10

**That John Coghlan be re-elected as a director.**

#### Resolution 11

**That Joachim Eberhardt be re-elected as a director.**

As a matter of best practice, all of the current directors of the Company believe that they should retire and submit themselves for re-election at the 2005 Annual General Meeting.

Biographical details of all of the directors of the Company may be found in the Annual Report of the Company on page 42.

**Resolution 12**

**That PricewaterhouseCoopers LLP be reappointed auditors of the Company to hold office until the conclusion of the next general meeting of the Company before which accounts are laid.**

The auditors are responsible for examining the annual accounts of the Company and forming an opinion as to whether they give a true and fair view of its results and financial position. It is a requirement of law that the Company appoint auditors at each meeting at which accounts are presented to its shareholders, such appointment to continue until the next meeting at which accounts are presented.

**Resolution 13**

**That the directors be authorised to determine the remuneration of the auditors.**

This resolution gives the directors of the Company the authority to determine the remuneration of the auditors for the audit work to be carried out by them in the next financial year. The amount of the remuneration paid to the auditors for the next financial year will be disclosed in the next audited accounts of the Company.

**Resolution 14**

**That the directors be generally and unconditionally authorised under Section 80 of the Companies Act 1985 to allot relevant securities (as defined in that Act) up to an aggregate nominal amount of £2,344,386. This authority will expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date of this resolution. However, before this authority expires, the Company may make an offer or agreement which would or might require relevant securities to be allotted after the authority expires and the directors may allot relevant securities under any such offer or agreement as if the authority had not expired.**

Section 80 of the Companies Act 1985 provides that the directors of a company cannot issue new shares in its capital without the approval of its shareholders. Accordingly, the purpose of this resolution is to give the directors of the Company authority to issue new shares in the capital of the Company up to a maximum amount of £2,344,386 which is approximately equivalent to 33.3 per cent of the issued ordinary share capital of the Company as at 19 May 2005. This resolution will allow the directors of the Company flexibility to act in the best interests of the Company and its shareholders by issuing new shares in appropriate circumstances.

**Resolution 15**

**That the Company, and each of Yell Limited and Yellow Pages Sales Limited (wholly owned subsidiaries of the Company), be authorised to:**

- a) make donations to EU political organisations**
- b) incur EU political expenditure**

**in an aggregate amount not exceeding £100,000 during the period ending on the date of the next Annual General Meeting. For the purpose of this resolution 15, the phrases 'donations', 'EU political organisations' and 'EU political expenditure' shall have the meanings set out in Part XA of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000).**

The Companies Act 1985 now includes provisions which require companies to obtain authority from their shareholders before they can make 'donations' to EU political organisations or incur 'EU political expenditure'. The definitions of 'donations' and 'EU political expenditure' are very broad and, as a result, may cover activities which form part of the normal non-partisan relationships between companies and the political world, even though these activities are not designed to support a particular political party or to influence support for any political party, and would not be thought as political donations in the ordinary sense of the word.

The Company does not, directly or through any of its subsidiaries, make donations to any political parties and the Company does not have any intention of doing so in the future. However, operating as we do in a regulated environment, we have a business need to maintain contact with politicians and political parties within the EU to make them aware of key issues affecting the Company and its subsidiaries, and the industry in which the Company and its subsidiaries operate. This can involve, for example, involvement in seminars and functions to which politicians may be invited and sponsoring meetings at political parties' conferences. Accordingly, in common with other companies, the Company is seeking the approval of its shareholders, on a precautionary basis so as to avoid contravening the Companies Act 1985, to incur a level of expenditure to cover all of these activities.

## Special Resolutions

### Resolution 16

That, provided resolution 14 has been passed, the directors be authorised under section 95 of the Companies Act 1985 to allot equity securities (as defined in that Act) for cash pursuant to the authority conferred on them by resolution 14, or where such allotment constitutes the allotment of equity securities by virtue of section 94(3A) of that Act, as if section 89(1) of that Act did not apply to any such allotment. This authority is limited to:

- a) allotments connected to a rights issue to holders of ordinary shares in the Company (excluding any ordinary shares held by the Company as treasury shares) where the rights of each such holder are, as nearly as may be, proportionate to the number of ordinary shares held by such holder. The directors may exclude certain shareholders, deal with fractions and generally manage the rights issue as they think fit
- b) the allotment (other than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £352,009

This authority will expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date of this resolution. However, before this authority expires, the Company may make an offer or agreement which would or might require equity securities to be allotted after the authority expires and the directors may allot securities under any such offer or agreement as if the authority had not expired.

Section 89 of the Companies Act 1985 gives existing shareholders in a company certain pre-emption rights with respect to allotments of new shares. A company can only disapply these rights with the approval of its shareholders. Accordingly, the purpose of this resolution is to allow the directors of the Company to allot ordinary shares in the Company for cash, or to transfer treasury shares for cash, other than to its existing shareholders on a pre-emptive basis up to a maximum amount of £352,009 which is equivalent to 5% of the issued ordinary share capital of the Company as at 19 May 2005 and is in line with the recommended guidelines issued by institutional investor bodies.

### Resolution 17

That, pursuant to Article 20 of its Articles of Association, the Company be generally and unconditionally authorised to purchase its own fully-paid ordinary shares in the Company by way of market purchases (within the meaning of section 163(3) of the Companies Act 1985) provided that:

- a) the maximum number of ordinary shares in the Company that the Company may purchase is 70,401,979
- b) the minimum price that the Company may pay for an ordinary share in the Company is 1.00 pence
- c) the maximum price which the Company may pay for an ordinary share in the Company is an amount equivalent to 105% of the middle market price for an ordinary share in the Company (as set out in the Daily Official List published by London Stock Exchange) for the five business days immediately before the day on which the Company agrees to purchase ordinary shares in the Company
- d) this authority will expire at the conclusion of the next AGM or, if earlier, 15 months from the date of this resolution. However, before this authority expires, the Company may agree to purchase ordinary shares in the Company where the purchase will or may be completed, either fully or partly, after the authority expires and the Company may purchase such ordinary shares as if the authority had not expired

The directors consider, in certain circumstances, that it may be appropriate and in the best interest of shareholders generally for the Company to purchase its own shares. This resolution gives authority for the Company to purchase up to 70,401,979 ordinary shares which is approximately equivalent to 10 per cent of the issued share capital of the Company as at 19 May 2005. The directors have no specific plans to exercise any authority granted by this resolution in the future, but will keep the matter under review and will only make purchases where, in the light of prevailing market conditions, they consider it will result in an increase in earnings per ordinary share in the Company.

The total number of options to subscribe for ordinary shares in the Company outstanding as at 19 May 2005 was 19,674,679. This represents 2.79 per cent of the issued ordinary share capital of the Company at that date. If the Company were to buy back the maximum number of shares permitted pursuant to the passing of this resolution and cancel them, then the total number of options to subscribe for shares in the Company outstanding as at 19 May 2005 would represent 3.10 per cent of the reduced issued ordinary share capital of the Company.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (which came into force on 1 December 2003) enable companies to retain any of their own shares they have purchased as treasury shares with a view to their possible re-issue at a later date, rather than cancelling them as the law previously required. The Company will consider holding any of its own shares that it purchases pursuant to this resolution as treasury shares, which will give the directors flexibility in the management of the capital base of the Company. No dividends will be paid on treasury shares while held in treasury, and no voting rights will attach to them.

**Attendance at AGM and voting**

Only holders of ordinary shares in the Company on the Register of Members of the Company at 11am on 10 July 2005 are entitled to attend and vote at the Annual General Meeting.

A holder of ordinary shares in the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy or proxies to vote on his behalf. A proxy need not be a shareholder of the Company.

**Electronic proxy appointment through CREST**

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 12 July 2005 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

**Documents**

The following documentation is available for inspection during business hours at the registered office of the Company on any weekday (not including public holidays). They will also be available for inspection at the Annual General Meeting venue, from 9.30 am until the meeting concludes.

- Register of interest of directors (and their families) in the share capital of the Company.
- Copy of all service contracts between the directors and the Company.
- Copy of the existing Articles of Association of the Company.
- Printed copies of this Notice of Annual General Meeting and the Company's Annual Report 2004/05.

Further copies of the Company's Annual Report can be sent to shareholders on request, or viewed on the Company's website at [www.yellgroup.com](http://www.yellgroup.com).

**By order of the Board**

**Howard Rubenstein**

**Company Secretary**

6 June 2005

## Notes

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## Financial Calendar

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<b>Financial Year ended</b>	<b>31 March 2005</b>	<b>Financial Year ending</b>	<b>31 March 2006</b>
Annual General Meeting	12 July 2005	First quarter results	26 July 2005
Final dividend record date	22 July 2005	Interim results	8 November 2005
Final dividend payment date	19 August 2005	Interim dividend payment date	December 2005

## Shareholder Contact Details

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Lloyds TSB Registrars  
 The Causeway  
 Worthing  
 West Sussex  
 BN99 6DA

**Website for online viewing about your holding:**  
[www.shareview.co.uk](http://www.shareview.co.uk)

**Lloyds TSB Registrars' telephone line for shareholders:**  
 08706 094 537

**Lloyds TSB Registrars' telephone line  
 for employee shareholders:**  
 08706 094 538

**Text phone for the hard of hearing:**  
 08706 003 950

## Yell Group plc

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 Berkshire RG1 7PT

**Website:**  
[www.yellgroup.com](http://www.yellgroup.com)

The annual report contains forward-looking statements. These statements appear in a number of places in this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, turnover, financial condition, liquidity, prospects, growth, strategies, new products, the level of new directory launches and the markets in which we operate. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors. You should read the section entitled Risk Factors in Yell Finance BV's 2005 annual report on Form 20-F filed with the SEC in June 2005 for a discussion of some of these factors. We undertake no obligation to publicly update or revise any forward-looking statements, except as may be required by law.

Yell Group plc is registered in the UK and is listed on the London Stock Exchange. It has US dollar denominated bonds and therefore files an Annual Report on Form 20-F which is filed with the US Securities and Exchange Commission. Copies of this Annual Report and Form 20-F can be obtained from the Company's website – [www.yellgroup.com](http://www.yellgroup.com)

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[www.yellgroup.com](http://www.yellgroup.com)

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