



**Yellow Pages Group™**



**Supplemental Disclosure**

**Yellow Pages Income Fund  
Second Quarter 2004**

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**The Supplemental Disclosure may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Neither the Fund nor YPG LP assume responsibility for the accuracy and completeness of the forward-looking statements and do not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.**

## **1. INTRODUCTION**

Yellow Pages Income Fund (the "Fund") commenced operations on August 1, 2003 upon completion of a \$1.0 billion initial public offering. Accordingly, no comparatives for periods prior to August 1 are provided. The Fund was created to indirectly acquire and hold an ownership interest in YPG LP ("YPG"), a limited partnership which indirectly owns 100% of Yellow Pages Group Co., the operating company which publishes print and electronic directories primarily in Ontario and Quebec. Given that the Fund's results are entirely dependent on the performance of YPG, management also provides disclosure for YPG.

On December 17, 2003, the Fund completed a follow-on offering and issued additional units to the public for gross proceeds of \$1.5 billion. As at December 31, 2003, the Fund had a 67% ownership interest. Following the exchange of partnership units to fund units by BCE Inc. and the exercise of options by optionholders in February 2004, the Fund held 70.28% equity interest in YPG as at March 31, 2004.

On June 11, 2004, the Fund issued 66,666,600 units to the public in exchange for net proceeds of \$713.6 million, after deducting underwriters' fees in the amount of \$29.7 million (the "Third Offering"). The proceeds were used to indirectly purchase an equivalent number of units of YPG from BAI LLP and BAI2 LLP (investment funds managed by Kohlberg Kravis Roberts & Co) ("KKR"). On June 11, 2004, TMB Directories Inc. ("Teachers") exchanged all of its 35,333,300 units of YPG LP and its 35,333,300 common shares of the YPG GP (the "Teachers' exchange") for the equivalent number of units of the Fund, in accordance with the Investor Liquidity Agreement entered into at the time of the Fund's initial public offering (the "Offering"). Following the two latest transactions, the Fund now holds 100% equity interest in YPG LP.

YPG LP began operations on November 29, 2002 upon completion of the acquisition of the directories business from Bell Canada ("the Acquisition"). The Acquisition was accounted for using the purchase method of accounting, which resulted in the elimination of deferred revenues and deferred publication costs related to directories that were published prior to the Acquisition. These deferred revenues would have been recognized in 2003 while the deferred publication costs would have been recognized in 2003 and 2004, had the Acquisition not occurred. As a result, reported revenues in 2003 and expenses in 2003 and 2004 are not representative of what would have otherwise been reported and are not representative of revenues and expenses that will be reported in subsequent periods.

In order to provide a better understanding of the results, YPG uses the term EBITDA (earnings before interest, taxes, depreciation and amortization). Management defines EBITDA as revenues less operating costs which represents income (loss) from operations before depreciation and amortization. YPG also uses the terms Adjusted revenues and Adjusted EBITDA (revenues and EBITDA adjusted for purchase accounting and transition expenses in order to reflect ongoing operations). These terms do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other issuers. Management believes EBITDA, Adjusted revenues and Adjusted EBITDA to be important measures as they allow management to assess the operating performance of the ongoing business.

## **2. FINANCIAL HIGHLIGHTS - YPG LP**

(in thousands of Canadian dollars)

<b>YPG LP</b> For the three-month period ended June 30, 2004	
Revenues	\$165,888
Operating costs	68,965
Income from operations	89,845
Adjusted revenue	\$165,888
Adjusted EBITDA	96,269
<i>Adjusted EBITDA margin</i>	<i>58.0%</i>
Cash available for distributions	\$84,603
Distributions declared <sup>1</sup>	\$77,851
YPG LP units outstanding (basic)	344,069,143

<b>YPG LP</b> For the three-month period ended June 30, 2003	
Revenues	\$149,661
Operating costs	51,199
Income from operations	3,109
Adjusted revenue	\$158,781
Adjusted EBITDA	\$90,689
<i>Adjusted EBITDA margin</i>	<i>57.1%</i>
Cash available for distributions	\$39,372
Distributions declared	n/a
YPG LP units outstanding (basic)	n/a

<sup>1</sup> Includes June distribution of approximately \$26.4 million paid on July 15, 2004.

### **3. FINANCIAL HIGHLIGHTS - YELLOW PAGES INCOME FUND**

(in thousands of Canadian dollars)

<b>Yellow Pages Income Fund (YLO)</b> For the three-month period ended June 30, 2004	
Net earnings	\$17,801
Net earnings per unit	\$0.07
Weighted average number of units outstanding (basic)	264,040,991
<hr/>	
Distributions declared	\$62,561
Distributions per unit	\$0.2265
Units outstanding (basic) - January 2004 Distribution	229,692,030
Units outstanding (basic) - February, March and April 2004 Distributions	241,216,813
Units outstanding (basic) - May 2004 Distribution	241,828,151
Units outstanding (basic) - June 2004 Distribution	344,069,143

<b>Yellow Pages Income Fund (YLO)</b> For the six-month period ending June 30, 2004	
Net earnings	\$27,272
Net earnings per unit	\$0.11
Weighted average number of units outstanding (basic)	250,062,090
<hr/>	
Distributions declared	\$114,759
Distributions per unit	\$0.4464

**Since January 1, 2004, six distributions to unitholders were paid. These include the December, January, February, March and April distributions each in the amount of \$0.0733 per unit and May distribution in the amount of \$0.0766 per unit, which were paid on or on the first business day after the 15<sup>th</sup> of the following month. As at June 30, 2004, the distribution relating to the month of June had been declared and was paid on July 15<sup>th</sup>, 2004.**

## **4. RECENT DEVELOPMENTS**

### **1. Partners' Equity**

- On June 11, 2004, Yellow Pages Income Fund completed an offering of 66,666,600 units for aggregate proceeds of \$743.3 million. The units were distributed by a syndicate of underwriters to unitholders as either fully-paid units at an offering price of \$11.15 per unit or as instalment receipts at an offering price of \$11.35 per unit, of which \$6.85 was paid upon closing and \$4.50 is payable on or before June 10, 2005. Upon closing, 42,572,697 Instalment Receipts were issued. The issuance of instalment receipts rather than fully-paid units does not have any financial impact on Yellow Pages Income Fund as the units were fully paid and are non-accessible.
- The net proceeds to the Fund of \$713.6 were used to purchase 66,666,600 units in YPG LP and 66,666,600 common shares in YPG General Partner Inc. ("YPG GP") held by BAI LLP and BAI2 LLP, entities controlled by funds managed by Kohlberg Kravis Roberts & Co.
- Effective with the closing of this offering, TMB Directories Inc. (entity controlled by funds managed by Teachers) exchanged all of its 35,333,300 units in YPG LP and 35,333,300 common shares in YPG GP for 35,333,300 units of the Fund, in accordance with its pre-existing exchange right provided for in agreements entered into at the time of the Fund's initial public offering.
- After giving effect to the transactions described above, the Fund holds 100% of the outstanding units in YPG LP and 100% of the outstanding common shares in YPG GP, which will facilitate public disclosure and financial reporting going forward, as well as eliminate the minority interest at the YPG LP level.

### **2. Credit Facilities**

- As a step towards diversifying its funding sources, YPG Holdings Inc., a wholly-owned subsidiary of YPG LP, issued Series 1 and Series 2 Medium Term Notes for combined gross proceeds of \$749.9 million in April 2004. The issuance is comprised of:
  - (a) \$450 million of 4.57% Series 1 Notes maturing on April 21, 2009 priced at \$99.982 for an initial yield to the noteholders of 4.574% compounded semi-annually;
  - (b) \$300 million of 5.71% Series 2 Notes maturing on April 21, 2014 priced at \$99.985 for an initial yield to the noteholders of 5.712% compounded semi-annually.
- The proceeds from the issuance of the Notes were used to permanently repay bank borrowings under the existing bank credit facilities and for general corporate purposes. The issuance of Medium Term Notes has improved the capital structure through diversified funding sources and an extension of the average term of the outstanding debt, while removing refinancing risk generally associated with traditional bank financing.
- As at June 30, 2004, amounts outstanding under the Company's credit facilities were as follows:
  - (a) unused unsecured revolving term facility maturing August 1, 2007 bearing interest at Prime plus an applicable margin;
  - (b) \$450 million of 4.57% Series 1 Notes maturing on April 21, 2009 compounding semi-annually;
  - (c) \$300 million of 5.71% Series 2 Notes maturing on April 21, 2014 compounding semi-annually;
  - (d) \$50 million in unsecured Term A loan facility maturing August 1, 2007 bearing interest at Bankers' Acceptance rates plus an applicable margin;
  - (e) \$275 million under the commercial paper program.

### **3. Distributions**

- On May 12, 2004, the Trustees of the Fund announced an increase in cash distributions per unit from the previous annualized level of \$0.88 per unit to \$0.92, representing an increase of 4.5%. The higher monthly distribution of \$0.0766 per unit began with the June 15th distribution to unitholders of record on May 31, 2004.

## 5. STATEMENT OF EBITDA

(in thousands of Canadian dollars)

	Predecessor Company		BAI Finance Limited Partnership		YPG LP		Year-over-year % Change
	Year Ended						
	December 31, 2000	December 31, 2001	December 31, 2002	December 31, 2003	June 30, 2003	June 30, 2004	
Normalized Revenue	\$571,490	\$583,683	\$601,210				
Normalized EBITDA (\$)	283,887	302,487	321,829				
<i>EBITDA margin</i>	49.7%	51.8%	53.5%				
Normalized capital expenditures	\$9,607	\$5,410	\$11,742				
Adjusted Revenue			\$613,358	\$640,216	\$158,781	\$165,888	4.5%
Adjusted EBITDA (\$)			341,223	372,347	90,689	96,269	6.2%
<i>EBITDA margin</i>			55.6%	58.2%	57.1%	58.0%	
<u>Capital Expenditures</u>							
Maintenance				\$7,911	\$2,146	\$1,033	
Pre-funded				3,182		704	
New initiatives				2,671		529	
Leasehold Improvements (net of tenant inducements)				2,934		(2,637)	

**Normalized Revenue, Normalized EBITDA and Normalized Capital Expenditures** represent historical revenues, EBITDA and capital expenditures of BAI Finance Limited Partnership adjusted for certain items that management believes enhance the comparability of historical periods as described in the December, 31 2003 Annual Information Form published on May 14, 2004. Normalized Revenue, Normalized EBITDA and Normalized Capital Expenditures are not measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, they may not be comparable to similar measures presented by other issuers.

## **7. OPERATING COSTS DETAILS**

(in thousands of Canadian dollars)

	<b>Year ended</b>		<b>For the three-month period ended</b>		<b>For the three-month period ended</b>	
	<b>December 31, <u>2003</u></b>		<b>June 30, <u>2003</u></b>		<b>June 30, <u>2004</u></b>	
Adjusted Revenue	\$640,216		\$158,781		\$165,888	
Expenses						
Cost of Sales	163,215	25.5%	41,220	26.0%	42,986	25.9%
General and Administrative	100,045	15.6%	25,459	16.0%	25,709	15.5%
Pension and Post-employment Expenses	4,610		1,413		924	
Adjusted EBITDA	\$372,347		\$90,689		\$96,269	
<i>Adjusted EBITDA margin</i>	<i>58.2%</i>		<i>57.1%</i>		<i>58.0%</i>	

## **6. RECONCILIATION TO ADJUSTED REVENUE AND ADJUSTED EBITDA**

(in thousands of Canadian dollars)

<b>Three-month period ended</b>	<b>Reported</b>	<b>Purchase accounting <sup>(1)</sup></b>	<b>Transition expenses <sup>(2)</sup></b>	<b>As adjusted</b>
<b>June 30, 2004</b>				
Revenues	\$165,888	\$0	\$0	\$165,888
Operating costs	68,965	1,488	(834)	69,619
<b>EBITDA</b>	<b>96,923</b>	<b>(1,488)</b>	<b>834</b>	<b>96,269</b>

<b>Three-month period ended</b>	<b>Reported</b>	<b>Purchase accounting <sup>(1)</sup></b>	<b>Transition expenses <sup>(2)</sup></b>	<b>As adjusted</b>
<b>June 30, 2003</b>				
Revenues	\$149,661	\$9,120	\$0	\$158,781
Operating costs	51,199	19,176	(2,283)	68,092
<b>EBITDA</b>	<b>98,462</b>	<b>(10,056)</b>	<b>2,283</b>	<b>90,689</b>

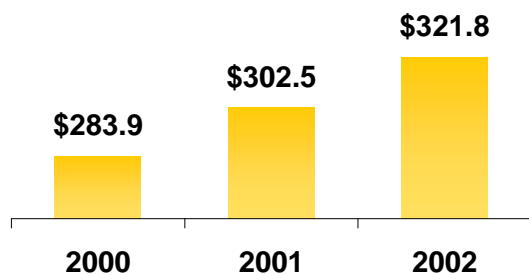
(1) Elimination of the impact of purchase accounting rule that prevents YPG from recognizing deferred revenues and expenses associated with directories that were published prior to the Acquisition.

(2) Impact of transition expenses eliminated as they are related to the Acquisition and are therefore non-recurring.

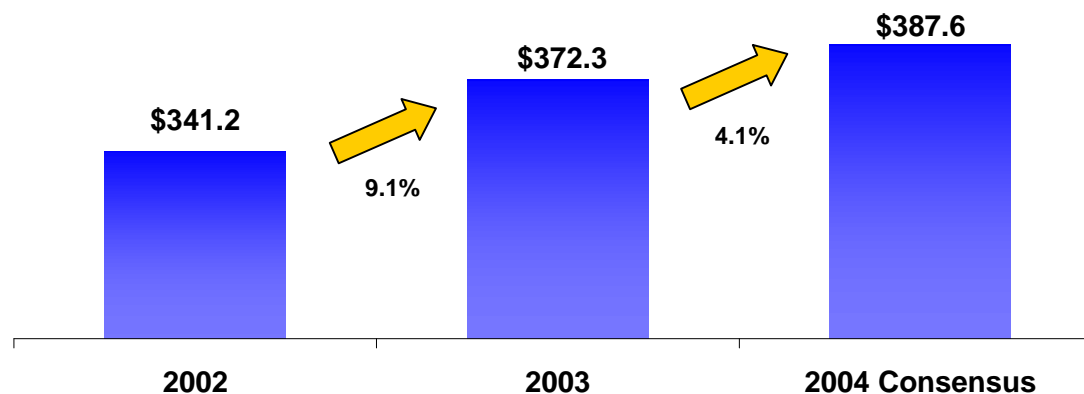
## 8. EBITDA GROWTH

(in millions of Canadian dollars)

### Normalized EBITDA <sup>1</sup>



### Adjusted EBITDA <sup>1,2</sup>



<sup>1</sup> Normalized EBITDA for 2000, 2001, 2002 and Adjusted EBITDA for 2002 are for BAI Finance LP. The 2003 and 2004 amounts are for YPG LP.

<sup>2</sup> Consensus estimates as of July 29, 2004.

## **9. DISTRIBUTABLE INCOME - ESTIMATED AT JUNE 30, 2004**

(in thousands of Canadian dollars)

	<u>Year ended</u> December 31, 2002 <sup>1</sup>	<u>Year Ended</u> December 31, 2003	<u>For the Quarter</u> <u>Ended</u> June 30, 2004	<u>TTM ended</u> June 30, 2004
<b>Adjusted EBITDA</b>	<b>\$341,223</b>	<b>\$372,347</b>	<b>\$96,269</b>	<b>\$382,260</b>
Less <sup>2</sup> :				
Maintenance capital expenditures	(10,000)	(7,911)	(1,033)	(5,520)
Interest	(63,720) <sup>3</sup>	(48,826) <sup>4</sup>	(10,499)	(45,000) <sup>5</sup>
Additional administrative expenses	(1,000)	n/a	n/a	n/a
Other	(600)	(599)	(134)	(218)
<b>Cash Available for Distributions</b>	<b>\$265,903</b>	<b>\$315,011</b>	<b>\$84,603</b>	<b>\$331,522</b>
<b>Cash Available for Distributions per unit <sup>6</sup></b>	<b>\$0.80</b>	<b>\$0.92</b>	<b>\$0.25</b>	<b>\$0.96</b>

<sup>1</sup> December 31, 2002 amounts are for BAI Finance LP

<sup>2</sup> Estimated amounts for 2002

<sup>3</sup> December 31, 2002 proforma cash interest cost based on annualized cash interest cost of New Credit Facilities upon closing of the IPO as described in the "Summary of Distributable Cash" section of the July 24, 2003 prospectus.

<sup>4</sup> Year ended December 31, 2003 cash interest reflects the annualized cost of the New Credit Facilities, partial effect of the implementation of Commercial Paper Program and partial effect of the December 2003 equity offering.

<sup>5</sup> TTM interest expense calculated as the annualized interest cost estimated following the MTN offering.

<sup>6</sup> Units Outstanding: 332.8M proforma for the IPO (as of December 31, 2002); 342.8M as of December 31 2003 and 344.1 M as of June 30, 2004.

## 10. CONSOLIDATED CAPITALIZATION

(in millions of Canadian dollars)

	December 31, 2002 <sup>1</sup>	December 31, 2003	March 31, 2004	June 30, 2004
Medium Term Notes				\$750
Senior Funded Debt - External	\$1,544	\$760	\$760	\$50
Commercial Paper		\$290	\$290	\$275
Obligations Under Capital Leases		\$5	\$5	\$8
Subordinated Loan	\$600			
<b>Total Third-Party Debt</b>	<b>\$2,144</b>	<b>\$1,055</b>	<b>\$1,055</b>	<b>\$1,083</b>
Cash and cash equivalents	\$37	\$46	\$40	\$78
<b>Net Debt</b>	<b>\$2,106</b>	<b>\$1,010</b>	<b>\$1,015</b>	<b>\$1,006</b>
Non-Controlling Interest	\$4			
Partners' Equity	\$869	\$1,775	\$1,774	\$1,772
<b>Total Capitalization</b>	<b>\$2,979</b>	<b>\$2,784</b>	<b>\$2,789</b>	<b>\$2,778</b>
Adjusted EBITDA	341.2	372.3	376.7	382.3
Annualized Cash Interest Expense	184.7 <sup>2</sup>	48.8 <sup>3</sup>	45.0 <sup>4</sup>	45.0 <sup>4</sup>
EBITDA / Annualized Cash Interest	1.8	7.6	8.4	8.5
EBITDA / (Annualized Cash Interest + Maint. CapEx)	1.8	6.6	7.3	8.3
Net Debt / EBITDA	6.2	2.7	2.7	2.6
Net Debt / (EBITDA - Maint. CapEx)	6.4	2.8	2.7	2.6
FCF / Net Debt <sup>5</sup>	13%	31%	32%	33%
Net Debt / Partners' Equity	2.4	0.6 <sup>6</sup>	0.6 <sup>6</sup>	0.6 <sup>6</sup>
Net Debt / Enterprise Value	71%	20% <sup>6</sup>	19% <sup>6</sup>	20% <sup>6</sup>

<sup>1</sup> December 31, 2002 amounts are from a BAI Finance LP.

<sup>2</sup> December 31, 2002 cash interest expense based on annualized cash interest expense of the Old Credit Facilities for the period between November 30, 2002 to December 31, 2002 annualized on a 365-day basis.

<sup>3</sup> December 2003 cash interest reflects the annualized cost of the New Credit Facilities, partial effect of the implementation of Commercial Paper program and partial effect of the December 2003 equity offering.

<sup>4</sup> March 31, 2004 and June 30, 2004 interest expense calculated as the annualized interest cost estimated following the MTN offering.

<sup>5</sup> FCF is assumed to be equal to Cash Available for Distribution.

<sup>6</sup> Based on market value of units at close on December 31, 2003 of \$11.60 per unit and on March 31, 2004 of \$12.37 per unit with 343,216,713 units outstanding and on June 30, 2004 of \$11.34 with 344,069,143 units outstanding.

## **11. CONSENSUS ESTIMATES**

(in thousands of Canadian dollars)

<b>Consensus Estimates</b>					
	<b>FY 2003 Actual</b>	<b>Low</b>	<b>FY 2004<sup>1</sup> Average</b>	<b>High</b>	<b>% Var Avg 04 / Avg 03</b>
Revenues	\$640.2	\$655.3	\$660.1	\$667.0	3.1%
Adjusted EBITDA	\$372.3	\$384.9	\$387.6	\$392.0	4.1%
Distributable Income	\$315.0	\$315.6	\$324.7	\$333.2	3.1%
Distributable Income per Unit Available	\$0.92	\$0.94	\$0.96	\$0.98	4.3%

<sup>1</sup> Consensus Estimates as of July 29, 2004.