



**Yellow Pages Group™**



**Supplemental Disclosure**

**Yellow Pages Income Fund  
Third Quarter 2004**

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## **TABLE OF CONTENTS**

1. INTRODUCTION .....	2
2. FINANCIAL HIGHLIGHTS - YPG LP .....	3
3. FINANCIAL HIGHLIGHTS - YELLOW PAGES INCOME FUND .....	4
4. RECENT DEVELOPMENTS .....	5
5. STATEMENT OF EBITDA .....	6
6. RECONCILIATION TO ADJUSTED REVENUE AND ADJUSTED EBITDA .....	7
7. OPERATING COSTS DETAILS .....	8
8. EBITDA GROWTH .....	9
9. CONSOLIDATED CAPITALIZATION .....	10
10. DISTRIBUTABLE INCOME - ESTIMATED AT SEPTEMBER 30, 2004 .....	11
11. CORPORATE FINANCE .....	12
12. PRELIMINARY MANAGEMENT GUIDANCE .....	13
13. CONSENSUS ESTIMATES .....	14

**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, 2003 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 a 70.28% equity interest in YPG as at March 31, 2004.

On June 11, 2004, the Fund completed a second follow-on offering and issued additional units to the public for gross proceeds of \$743.3 million. The proceeds were used to purchase the balance of Kohlberg Kravis Roberts & Co's (KKR) original investment in YPG. On the same date, Ontario Teachers' Pension Plan (Teachers') exchanged its units of YPG for an equivalent number of units of the Fund. Following these two 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 September 30, 2004	
Revenues	\$166,967
Operating costs	69,480
Income from operations	92,393
Adjusted revenue	\$166,967
Adjusted EBITDA	98,174
<i>Adjusted EBITDA margin</i>	<i>58.8%</i>
Cash available for distributions	\$84,621
Distributions declared <sup>1</sup>	\$79,088
YPG LP units outstanding (basic)	344,201,268

<b>YPG LP</b> For the three-month period ended September 30, 2003	
Revenues	\$154,546
Operating costs	54,691
Income from operations	(88,503)
Adjusted revenue	\$160,976
Adjusted EBITDA	\$94,204
<i>Adjusted EBITDA margin</i>	<i>58.5%</i>
Cash available for distributions	\$67,093
Distributions declared	\$47,570
YPG LP units outstanding (basic)	332,803,030

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

For the quarter ended September 30, 2004, YPG reported Adjusted Revenues of \$167.0 million and EBITDA of \$98.2 million, up 3.7% and 4.2%, respectively, compared to the same period last year. For the nine months just ended, YPG reported Adjusted Revenues of \$497.2 million and adjusted EBITDA of \$290 million, up 4.2% and 5.0%, respectively, compared to the same period last year. The increase in revenues is attributable to new pricing models, improved sales coverage, neighbourhood directories and continuing strong growth in our online business.

### **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 September 30, 2004		<b>Yellow Pages Income Fund (YLO)</b> For the nine-month period ending September 30, 2004
Net earnings	\$41,368	Net earnings	\$68,640
Net earnings per unit	\$0.12	Net earnings per unit	\$0.24
Weighted average number of units outstanding (basic)	344,067,402	Weighted average number of units outstanding (basic)	281,621,273
Distributions declared	\$79,088	Distributions declared	\$193,847
Distributions per unit	\$0.2298	Distributions per unit	\$0.6762
Units outstanding (basic) - September 2004 Distribution	344,201,268		

**Since January 1, 2004, nine 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 \$0.0766 per unit thereafter, which were paid on or on the first business day after the 15<sup>th</sup> of the following month. As at September 30, 2004, the distribution relating to the month of September had been declared and was paid on October 15<sup>th</sup>, 2004.**

## **4. RECENT DEVELOPMENTS**

### **1. Strategic Agreement with Google**

Signing of a strategic agreement with Google that makes YPG's 2.4 million business listings available on Google Local Canada, a new local search service. Our agreement with Google underscores our position as Canada's leading online directory publisher and sets the stage for the next phase of growth in the online local search market in Canada. The agreement entails no significant increase in costs or revenues in the short term, but it furthers our strategic goal of increasing traffic to YellowPages.ca and our network of related sites and making it easier for users to locate the information they need – both of which translate into additional value for advertisers.

### **2. New Montreal and GTA Directories**

Delivery of the new Montreal Yellow Pages™ directories, which for the first time, combines the Yellow Pages™ directory information with the alphabetical business pages. Same initiative for the Greater Toronto Area directories: Etobicoke, Scarborough and North York. These new 2-in-1 directories are a more complete, one-stop reference source of every business in these cities that can be searched by

### **3. Enhancements to our Print Directories**

The publication of the Consumer Report and Protégez-Vous Buying Guides, produced in collaboration with the Consumers Union and Protégez-Vous, . These consumer guides found in the Toronto and Montreal directories offer consumers tips on how to make optimal

### **4. New Innovative Advertising Campaign**

Launching of an innovative multi-media advertising campaign in Toronto and Montreal targeting users of Yellow Pages™ directories. Consumer feedback has been highly positive with campaign results exceeding average advertising results. The campaign combined the use of outdoor billboards, newspaper banners and street advertising with the message that Yellow Pages™ directories provide "More".

## 5. STATEMENT OF EBITDA

(in thousands of Canadian dollars)

	BAI Finance Limited						Year-over-year % Change
	Predecessor Company		Partnership		YPG LP		
	Year Ended						
	December 31, 2000	December 31, 2001	December 31, 2002	December 31, 2003	September 30, 2003	September 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	\$160,976	\$166,967	3.7%
Adjusted EBITDA (\$)			341,223	372,347	94,204	98,174	4.2%
<i>EBITDA margin</i>			55.6%	58.2%	58.5%	58.8%	
<u>Capital Expenditures</u> <sup>1</sup>							
Maintenance				\$7,911	\$2,200	\$2,006	
Pre-funded				2,022		3,463	
New initiatives				3,946		3,191	
Leasehold Improvements (net of lease inducements)				10,326		474	

**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.

<sup>1</sup> Pursuant to the Acquisition and the Offering, \$10.0 million was set aside as **pre-funded** capital for the purpose of transitioning to a stand-alone entity. **Maintenance** capital expenditures are for ongoing operations to maintain the integrity of the infrastructure; such expenditures are not expected to exceed \$10 million per annum over the foreseeable future. In our efforts to optimize processes and reduce costs, we invest in selected new **initiatives**. As a result of the move to our new headquarters and significant renovations made to our other offices, we have invested in **leasehold improvements**. More than 50% of the expenditures will be reimbursed to us through *lease inducements*. We expect that the level of expenses associated with leasehold improvements will significantly diminish after the second quarter of 2005 once we complete all of the improvements.

## **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>September 30, 2004</b>				
Revenues	\$166,967	-	-	\$166,967
Operating costs	69,480	553	(1,240)	\$68,793
<b>EBITDA</b>	<b>97,487</b>	<b>(553)</b>	<b>1,240</b>	<b>98,174</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>September 30, 2003</b>				
Revenues	\$154,546	\$6,430	-	\$160,976
Operating costs	54,691	12,704	(623)	66,772
<b>EBITDA</b>	<b>99,855</b>	<b>(6,274)</b>	<b>623</b>	<b>94,204</b>

<sup>1</sup> 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.

<sup>2</sup> Impact of transition expenses eliminated as they are related to the Acquisition and are therefore non-recurring.

## **7. OPERATING COSTS DETAILS**

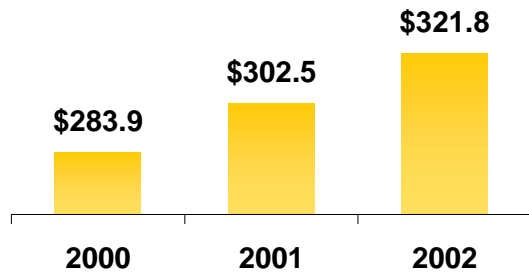
(in thousands of Canadian dollars)

	<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>September 30, <u>2003</u></b>		<b>September 30, <u>2004</u></b>	
Adjusted Revenue	\$640,216		\$160,976		\$166,967	
Expenses						
Cost of Sales	163,215	25.5%	40,760	25.3%	42,091	25.2%
General and Administrative	100,045	15.6%	24,854	15.4%	25,778	15.4%
Pension and Post-employment Expenses	4,610		1,158		924	
Adjusted EBITDA	\$372,347		\$94,204		\$98,174	
<i>Adjusted EBITDA margin</i>	<i>58.2%</i>		<i>58.5%</i>		<i>58.8%</i>	

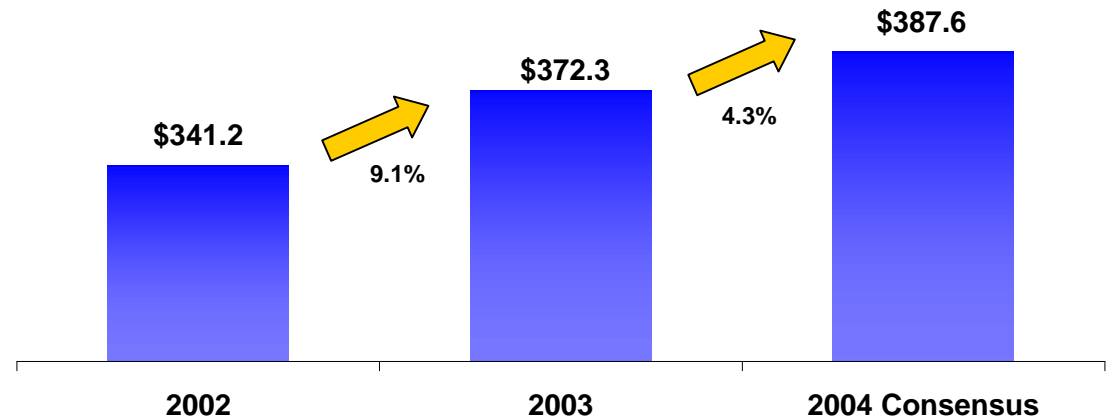
## 8. EBITDA GROWTH

(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 October 24, 2004.

## **9. CONSOLIDATED CAPITALIZATION**

(in millions of Canadian dollars)

	December 31, 2002 <sup>1</sup>	December 31, 2003	June 30, 2004	September 30, 2004
Medium Term Notes			\$750	\$750
Senior Funded Debt - External	\$1,544	\$760	\$50	\$50
Commercial Paper		\$290	\$275	\$275
Obligations Under Capital Leases		\$5	\$8	\$8
Subordinated Loan	\$600			
<b>Total Third-Party Debt</b>	<b>\$2,144</b>	<b>\$1,055</b>	<b>\$1,083</b>	<b>\$1,083</b>
Cash and cash equivalents	\$37	\$46	\$78	\$44
<b>Net Debt</b>	<b>\$2,106</b>	<b>\$1,010</b>	<b>\$1,006</b>	<b>\$1,039</b>
Non-Controlling Interest	\$4	-	-	-
Partners' Equity	\$869	\$1,775	\$1,772	\$1,772
<b>Total Capitalization</b>	<b>\$2,979</b>	<b>\$2,784</b>	<b>\$2,778</b>	<b>\$2,811</b>
Adjusted EBITDA	341.2	372.3	382.3	386.2
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	8.5	8.6
EBITDA / (Annualized Cash Interest + Maint. CapEx)	1.8	6.6	8.5	8.2
Net Debt / EBITDA	6.2	2.7	2.6	2.7
Net Debt / (EBITDA - Maint. CapEx)	6.4	2.8	2.6	2.7
FCF / Net Debt <sup>5</sup>	13%	31%	33%	32%
Net Debt / Partners' Equity	2.4	0.6	0.6	0.6
Net Debt / Enterprise Value	71%	20% <sup>6</sup>	20% <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> June 30, 2004 and September 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 June 30, 2004 of \$11.34 with 344,069,143 units outstanding and on September 30, 2004 of \$12.11 with 344,201,143 units outstanding.

## **10. DISTRIBUTABLE INCOME - ESTIMATED AT SEPTEMBER 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> September 30, 2004	<u>TTM ended</u> September 30, 2004
<b>Adjusted EBITDA</b>	<b>\$341,223</b>	<b>\$372,347</b>	<b>\$98,174</b>	<b>\$386,230</b>
Less <sup>2</sup> :				
Maintenance capital expenditures <sup>3</sup>	(10,000)	(7,911)	(2,006)	(5,031)
Interest	(63,720) <sup>4</sup>	(48,826) <sup>5</sup>	(10,737)	(45,000) <sup>6</sup>
Additional administrative expenses	(1,000)	n/a	n/a	n/a
Other	(600)	(599)	(810)	(1,213)
<b>Cash Available for Distributions</b>	<b>\$265,903</b>	<b>\$315,011</b>	<b>\$84,621</b>	<b>\$334,986</b>
<b>Cash Available for Distributions per unit<sup>7</sup></b>	<b>\$0.80</b>	<b>\$0.92</b>	<b>\$0.25</b>	<b>\$0.97</b>

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

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

<sup>3</sup> Amounts restated to reflect capital expenditures incurred during the period. Previous methodology reflected capital expenditures on a cash basis.

<sup>4</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>5</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>6</sup> TTM interest expense calculated as the annualized interest cost estimated following the MTN offering.

<sup>7</sup> Units Outstanding: 332.8M proforma for the IPO (as of December 31, 2002); 342.8M as of December 31 2003 and 344.2 M as of September 30, 2004.

## **11. CORPORATE FINANCE**

### **1. Consolidated Capitalization**

As at September 30, 2004, amounts outstanding under the Company's credit facilities were unchanged from the previous quarter and 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 BA rates plus an applicable margin;
- (e) \$275 million under the commercial paper program.

Working capital excluding cash was \$74.3 million as at September 30, 2004 compared with \$36.8 million as at December 31, 2003. This investment in working capital arises from an increase in our accounts receivable caused by a one day delay in a monthly payment due September 30, 2004 from one of our large commercial accounts. Payment in full was received on October 1, 2004.

### **2. Distributions**

Cash available for distributions continues to grow. For the twelve months ended September 30, 2004, cash available for distributions amounted to \$335 million, or \$0.97 per unit. During the quarter, total cash distributions paid to unitholders amounted to \$0.2298 per unit. Monthly distributions are currently at the level of \$0.0766 per unit, or \$0.92 annually.

## **12. PRELIMINARY MANAGEMENT GUIDANCE**

<b>Summary</b>		
	<b><u>2004</u></b>	<b><u>2005</u></b>
Ajusted Revenues	3% - 4%	3% - 4%
Adjusted EBITDA	4% - 5%	3% - 5%
Cash Distribution	4%	4%

A number of initiatives have been developed and implemented since the Acquisition to strengthen our business model and to improve returns to unitholders. Many of the supply-chain, marketing, sales, workforce reduction and consolidation initiatives implemented during the course of 2003 as well as the business process re-engineering and new technology implemented in 2004 have accrued to the income statement in the nine months of the year and are expected to fully accrue to the income statement in the last quarter of 2004 and during 2005. We therefore remain comfortable in our ability to sustain the current level of EBITDA margins and free cash flow generation.

The strong differentiation of YPG in the marketplace positions us to maintain our leading market share position and strong consumer usage of our directories. We will continue to extend our product and service offerings through premium products and our neighbourhood directories, and believe that premium products and other product line extensions offer an opportunity for us to grow our business organically. Our goal with online properties is to further increase traffic through the upgrading of our search capabilities and the maintenance of distribution agreements with leading search engines and portals while offering print-Internet bundles that seamlessly integrate our print and online media. Based on actual results and on our organic growth strategy, we anticipate that Adjusted Revenues will grow by 3% to 4% in 2004.

The significant changes being undertaken at YPG have resulted in a strong improvement in our operating and financial metrics since the Acquisition. We continue to anticipate that in 2004 EBITDA on a comparable basis, adjusted to eliminate the purchase accounting impact and for transition and non-recurring expenses, will grow between 4% and 5% as we continue to realize benefits from our initiatives.

YPG management also provided preliminary guidance for 2005. As a result of our organic growth strategy, we expect Adjusted Revenues to grow between 3% and 4%, and EBITDA on a comparable basis, adjusted for the elimination of purchase accounting, should grow between 3% and 5%. We remain confident in our ability to grow the Fund's distributions by approximately 4% annually.

### **13. CONSENSUS ESTIMATES**

(in thousands of Canadian dollars)

<b>Consensus Estimates<sup>1</sup></b>						
	<b>FY 2003</b>	<b>FY 2004 Average</b>	<b>Low</b>	<b>FY 2005 Average</b>	<b>High</b>	<b>% Var Avg. 05/ Avg. 04</b>
Revenues	\$640.2	\$661.5	\$675.9	\$684.4	\$695.7	3.46%
Adjusted EBITDA	\$372.3	\$388.5	\$396.8	\$403.2	\$414.7	3.79%
Distributable Income	\$315.0	\$327.6	\$333.4	\$342.2	\$351.1	4.43%
Distributable Income per Unit Available	\$0.92	\$0.97	\$0.97	\$1.00	\$1.02	3.37%

<sup>1</sup> Consensus Estimates as of October 24, 2004.