



**Yellow Pages Group™**



**Supplemental Disclosure**

**Yellow Pages Income Fund  
Year-End and Fourth Quarter 2004**

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As filed on Sedar on February 14, 2005 ([www.sedar.com](http://www.sedar.com))  
This report is also available at <http://www.ypg.com/page.php/en/1/161.html>

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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, 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 in YPG. Following the exchange of partnership units to fund units by subsidiary of 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 from funds managed by Kohlberg Kravis Roberts & Co's the balance of the units of the Partnership. On the same date, a subsidiary of Ontario Teachers' Pension Plan 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.

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)

	YPG LP For the three-month period ended <b>December 31, 2004</b>	YPG LP For the three-month period ended December 31, 2003
Revenues	<b>\$170,197</b>	\$162,056
Operating costs	<b>76,372</b>	62,607
Income from operations	<b>89,841</b>	69,795
Adjusted Revenues	<b>\$170,197</b>	\$163,257
Adjusted EBITDA	<b>98,708</b>	96,181
<i>Adjusted EBITDA margin</i>	<b>58.0%</b>	58.9%
Cash available for distributions	<b>\$81,862</b>	\$81,589 <sup>1</sup>
Distributions declared <sup>2</sup>	<b>\$79,115</b>	\$72,489
YPG LP units outstanding (basic) <sup>3</sup>	<b>344,330,140</b>	342,803,030

	YPG LP For the year ended <b>December 31, 2004</b>	YPG LP For the year ended December 31, 2003
Revenues	<b>\$667,375</b>	\$612,558
Operating costs	<b>281,124</b>	211,742
Income (loss) from operations	<b>358,506</b>	(31,068)
Adjusted Revenues	<b>\$667,375</b>	\$640,216
Adjusted EBITDA	<b>\$388,757</b>	\$372,347
<i>Adjusted EBITDA margin</i>	<b>58.3%</b>	58.2%
Cash available for distributions	<b>\$337,265</b>	\$315,011
Distributions declared <sup>2</sup>	<b>\$311,485</b>	\$120,059
YPG LP units outstanding (basic) <sup>3</sup>	<b>344,330,140</b>	342,803,030

<sup>1</sup> Amounts restated to reflect capital expenditures incurred during the period. Previous methodology reflected capital expenditures on a cash basis.

<sup>2</sup> Includes December 2004 distribution of approximately \$26.4 million paid on January 17, 2005.

<sup>3</sup> At period end

For the quarter ended December 31, 2004, YPG reported Adjusted Revenues of \$170.2 million and Adjusted EBITDA of \$98.7 million, up 4.3% and 2.6%, respectively, compared to the same period last year. For the fiscal year ended December 31, 2004, YPG reported Adjusted Revenues of \$667.4 million and Adjusted EBITDA of \$388.8 million, up 4.2% and 4.4%, respectively, compared to the same period last year. The increase in revenues is attributable to continued enhancements to our print product, a strengthened online offering bolstered by our distribution agreement with Google, increased sales force effectiveness and improved business processes.

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

(in thousands of Canadian dollars)

<b><u>Yellow Pages Income Fund (YLO)</u></b>			<b><u>Yellow Pages Income Fund (YLO)</u></b>		
	For the three-month period ended <b>December 31, 2004</b>	For the three-month period ended December 31, 2003		For the year ended <b>December 31, 2004</b>	For the period from commencement of operations, August 1, 2003 to December 31, 2003
Net earnings	<b>\$38,349</b>	\$2,968	Net earnings	<b>\$106,989</b>	\$3,161
Net earnings per unit	<b>\$0.11</b>	\$0.024	Net earnings per unit	<b>\$0.36</b>	\$0.028
Weighted average number of units outstanding (basic)	<b>344,127,966</b>	122,337,191	Weighted average number of units outstanding (basic)	<b>297,206,228</b>	114,079,127
Distributions declared	<b>\$79,092</b>	\$31,288	Distributions declared	<b>\$272,939</b>	\$45,280
Distributions per unit	<b>\$0.23</b>	\$0.22	Distributions per unit	<b>\$0.91</b>	\$0.35
Units outstanding (basic) <sup>1</sup>	<b>344,330,140</b>	229,692,030	Units outstanding (basic) <sup>1</sup>	<b>344,330,140</b>	229,692,030

<sup>1</sup> At period end

Since January 1, 2004, twelve 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 15th of the following month. As at December 31, 2004, the distribution relating to the month of December had been declared; it was paid on January 17th, 2005.

## **4. RECENT DEVELOPMENTS**

### **1. Enhanced Print Product**

During 2004 we enhanced the Yellow Pages™ directories for the Montreal and Greater Toronto areas to include the alphabetical business listings. New features such as the customized "My Yellow Pages" and the Consumer Report buying guide were introduced to help the users. Also, we redesigned our neighbourhood directories in Toronto and Montreal, and launched new ones in Quebec City and the Greater Toronto area.

### **2. Strengthened Online Offering**

Significant milestones in 2004 with respect to our online offering include: the signing of an agreement with Google that makes YPG's 2.4 million business listings available on Google Local Canada, a new local search service; the launch of ActivAction.ca, a new online pay-per-performance service allowing advertisers to better position themselves on our network of web sites by bidding on key words; and the introduction of new functions on our websites making it easier for buyers to find the right business to meet their needs. These key initiatives, along with many others, helped us attract up to 4.2 million unique visitors in December to our family of Web sites.

### **3. Sharpened Sales Message**

YPG continued to focus on demonstrating the value we provide to our advertisers and users. Throughout 2004, we implemented new and improved tools to help our sales force focus on selling the YPG value equation to our advertisers. Also, a new and more powerful sales performance tracking system was introduced to help the sales force achieve superior results and contact more clients.

### **4. Improved Business Processes**

During the year, we implemented new HR, Payroll and Finance systems. In November 2004, we completed the process, started in 2002, of becoming a stand alone company as our two year Transition Services Agreement with Bell came to an end.

## **RECENT ORGANIZATIONAL CHANGES**

### **1. New appointment**

Effective January 4<sup>th</sup>, 2005, Mr. Ezana Raswork has been appointed Vice President, Business Development. He joined the company in February, 2004 as Director, Marketing and late position of Acting Vice President, Marketing for six months. Ezana Raswork is a graduate of l'École Internationale de Genève in Switzerland and of Stanford University in California.

Before joining Yellow Pages Group, he held several key positions at Microcell Solutions, the only major provider of telecommunications services in Canada dedicated solely to wireles as Director, Market Management for Fido and as Director, Customer Loyalty. Prior to that, he spent more than 10 years in several divisions of Procter & Gamble throughout the world Geneva, Switzerland, Cairo, Egypt, Cincinnati, Ohio, and Toronto, Ontario. Amongst the various positions he held, he acted as Brand Manager for several brands (Ariel, Pantene, Prir as Marketing Director, Wal-Mart Customer Team. With Mr. Raswork's 16 years of international experience in marketing and business development in very competitive B2B and B2C ir we are confident the leadership he brings to our team will help us achieve our goals.

### **2. A well deserved retirement**

The Company also announces that L. A. (Tony) Street, Vice President, Corporate Performance & Planning, is retiring, effective March 31, 2005. We thank him for his 38 years of cont YPG and predecessor businesses. His responsibilities in the areas of corporate performance and planning will be assumed by Claire Lanctôt, Vice President, Corporate Finance.

## **5. STATEMENT OF EBITDA**

(in thousands of Canadian dollars)

	Predecessor Company		BAI Finance Limited Partnership		YPG LP	YPG LP	
	Year Ended						Year-over-year % Change
	December 31, 2000	December 31, 2001	December 31, 2002	December 31, 2003	December 31, 2004		
Normalized Revenues	\$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 Revenues			\$613,358	\$640,216	\$667,375		4.2%
Adjusted EBITDA			341,223	372,347	388,757		4.4%
<i>EBITDA margin</i>			55.6%	58.2%	58.3%		
<u>Capital Expenditures<sup>1</sup></u>							
Maintenance				\$7,911	\$7,949		
Pre-funded				3,182	9,557		
New initiatives				2,671	4,092		
Leasehold improvements (net of lease inducements)				1,164	808		

**Normalized Revenues, 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 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**. A substantial amount 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>Adjusted</b>
<b>December 31, 2004</b>				
Revenues	\$170,197	-	-	\$170,197
Operating costs	76,372	90	(4,973)	\$71,489
<b>EBITDA</b>	<b>93,825</b>	<b>(90)</b>	<b>4,973</b>	<b>98,708</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>Adjusted</b>
<b>December 31, 2003</b>				
Revenues	\$162,056	\$1,201	-	\$163,257
Operating costs	62,607	6,147	(1,678)	67,076
<b>EBITDA</b>	<b>99,449</b>	<b>(4,946)</b>	<b>1,678</b>	<b>96,181</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 COST DETAILS**

(in thousands of Canadian dollars)

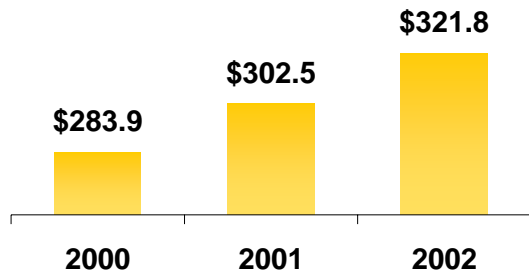
	<u>For the three-month period ended</u>				<u>Year ended</u>			
	<u>December 31,</u> <u>2004</u>		<u>December 31,</u> <u>2003</u>		<u>December 31,</u> <u>2004</u>		<u>December 31,</u> <u>2003</u>	
Adjusted Revenues	\$170,197		\$163,257		\$667,375		\$640,216	
Expenses								
Cost of Sales	41,712	24.5%	41,631	25.5%	168,764	25.3%	163,212	25.5%
General and Administrative <sup>1</sup>	29,776	17.5%	25,445	15.6%	109,854	16.5%	104,657	16.3%
Adjusted EBITDA	\$98,708		\$96,181		\$388,757		\$372,347	
<i>Adjusted EBITDA margin</i>	58.0%		58.9%		58.3%		58.2%	

<sup>1</sup> Includes pension and post-employment expenses

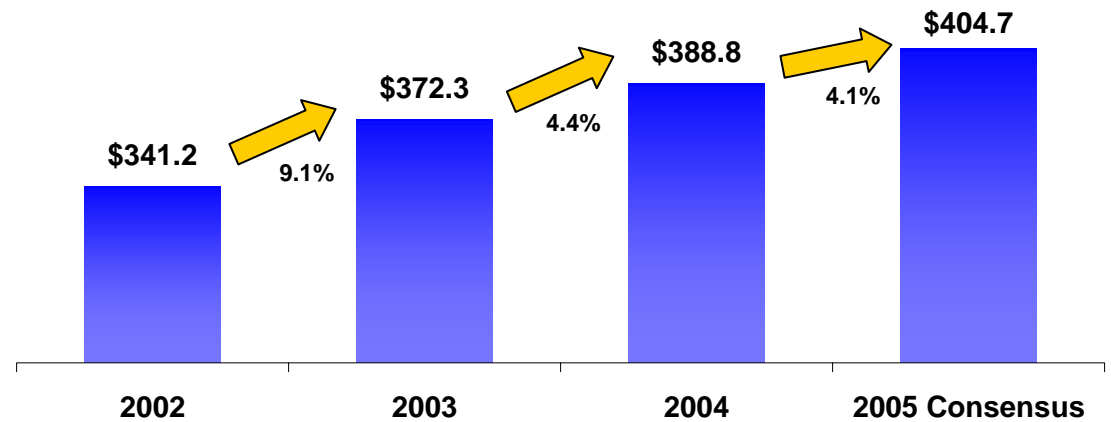
## 8. EBITDA GROWTH

(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 February 8, 2005

## **9. CONSOLIDATED CAPITALIZATION - YPG LP**

(in millions of Canadian dollars)

	December 31, 2002 <sup>1</sup>	December 31, 2003	December 31, 2004
Medium Term Notes			\$1,000
Bank Term Facilities	\$1,544	\$760	-
Commercial Paper		\$290	\$184
Obligations Under Capital Leases		\$5	\$8
Subordinated Loan	\$600		
<b>Total Third-Party Debt</b>	<b>\$2,144</b>	<b>\$1,055</b>	<b>\$1,192</b>
Cash and cash equivalents	\$37	\$46	\$187
<b>Net Debt</b>	<b>\$2,106</b>	<b>\$1,010</b>	<b>\$1,005</b>
Non-Controlling Interest	\$4	-	-
Partners' Equity	\$869	\$1,775	\$1,756
<b>Total Capitalization</b>	<b>\$2,979</b>	<b>\$2,784</b>	<b>\$2,760</b>
Adjusted EBITDA	341.2	372.3	388.8
Annualized Interest Expense	184.7 <sup>2</sup>	48.8 <sup>3</sup>	42.1
EBITDA / Annualized Interest	1.8	7.6	9.2
EBITDA / (Annualized Interest + Maint. CapEx)	1.8	9.1	11.4
Net Debt / EBITDA	6.2	2.7	2.6
Net Debt / (EBITDA - Maint. CapEx)	6.4	2.8	2.6
FCF / Net Debt <sup>4</sup>	13%	31%	34%
Net Debt / Partners' Equity	2.4	0.6 <sup>5</sup>	0.6 <sup>5</sup>
Net Debt / Enterprise Value	71%	20% <sup>5</sup>	18% <sup>5</sup>

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

<sup>2</sup> December 31, 2002 cost interest expense based on annualized cost 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 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> FCF is assumed to be equal to Cash Available for Distribution.

<sup>5</sup> Based on market value of units at close on December 31, 2003 of \$11.60 per unit and on December 31, 2004 of \$13.49 with 344,330,140 units outstanding.

## 10. DISTRIBUTABLE INCOME

(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> December 31, 2004	<u>Year ended</u> December 31, 2004
<b>Adjusted EBITDA</b>	<b>\$341,223</b>	<b>\$372,347</b>	<b>\$98,708</b>	<b>\$388,757</b>
Less <sup>2</sup> :				
Maintenance capital expenditures	10,000	7,911	5,094	7,949
Interest	63,720 <sup>3</sup>	48,826 <sup>4</sup>	11,381	42,093
Additional administrative expenses	1,000	n/a	n/a	n/a
Other	600	599	372	1,450
<b>Cash Available for Distributions</b>	<b>\$265,903</b>	<b>\$315,011</b>	<b>\$81,862</b>	<b>\$337,265</b>
<b>Cash Available for Distributions per unit <sup>5</sup></b>	<b>\$0.80</b>	<b>\$0.92</b>	<b>\$0.24</b>	<b>\$0.98</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 interest cost based on annualized 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 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> Units Outstanding: 332.8M proforma for the IPO as of December 31, 2002; 342.8M as of December 31 2003 and 344.3 M as of December 31, 2004.

## **11. CORPORATE FINANCE**

### **1. Consolidated Capitalization**

As at December 31, 2004, the Company's debt structure was as follows:

- (a) unused \$100 million revolving senior unsecured bank facility maturing August 1, 2007 bearing interest at Prime plus 0.25% or BA plus 1.25%;
- (b) \$450 million of 4.57% Series 1 Notes maturing on April 21, 2009;
- (c) \$300 million of 5.71% Series 2 Notes maturing on April 21, 2014;
- (d) \$250 million of 5.85% Series 3 Notes maturing on November 18, 2019;
- (e) \$184 million under the \$300 million Commercial Paper program (backed by a senior unsecured CP back-up revolving bank facility maturing in October 2006).

Working capital excluding cash was \$33.6 million as at December 31, 2004 compared with \$36.8 million as at December 31, 2003. Cash and cash equivalents at year-end 2004 were 187.0 million.

### **2. Distributions**

Cash available for distributions continues to grow. For the twelve months ended December 31, 2004, cash available for distributions amounted to \$337.3 million, or \$0.98 per unit, up 7.1% from \$315.0 million, or \$0.92 per unit in 2003.

## 12. SELECTED HISTORICAL FINANCIAL NUMBERS - YPG LP

(in thousands of Canadian dollars except for Units Outstanding)

	For the three-month period ended							
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Adjusted Revenue	\$157,202	\$158,781	\$160,976	\$163,257	\$164,323	\$165,888	\$166,967	\$170,197
<i>YOY growth</i>					4.5%	4.5%	3.7%	4.3%
Adjusted EBITDA	\$91,273	\$90,689	\$94,204	\$96,181	\$95,606	\$96,269	\$98,174	\$98,708
<i>YOY growth</i>					4.7%	6.2%	4.2%	2.6%
<i>EBITDA margin</i>	58.1%	57.1%	58.5%	58.9%	58.2%	58.0%	58.8%	58.0%
Cash Available for Distributions <sup>1</sup>			\$67,093	\$81,589	\$85,659	\$85,124	\$84,621	\$81,862
Cash Available for Distributions per unit			\$0.20	\$0.24	\$0.25	\$0.25	\$0.25	\$0.24
Units Outstanding (M)			332.8	342.8	343.2	344.1	344.2	344.3

<sup>1</sup> Prior to Q3 2004, amounts restated to reflect capital expenditures incurred during the period. Previous methodology reflected capital expenditures on a cash basis.

### **13. 2005 MANAGEMENT GUIDANCE**

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

We have implemented a business strategy to improve our operations and to achieve sustainable growth in revenues and profitability. During the year we have reinforced our brand equity, enhanced our directories, strengthened our online offerings, expanded our distribution and continued to improve our operational processes.

Our focus remains on executing our organic growth strategy and extending our product and services offerings for the benefit of both our advertisers and our users. The directory advertising industry needs to accommodate user preferences, usage being the key driver affecting the level of advertising activity. Our industry is subject to changes arising from the increased usage of Internet-based products and technology advancement. As such, we aligned our online and print strategies that aim to connect buyers and sellers.

Based on our 2004 results and our organic growth strategy, we anticipate that Adjusted Revenues will grow by 3% to 4% in 2005. We expect to continue to realize benefits from our initiatives undertaken in 2003 and 2004 which, when combined with a continued focus on process and system improvements, will sustain our ability to grow Adjusted EBITDA by 3% to 5% in 2005. Management is also confident in its ability to grow the Fund's cash distribution by approximately 4% annually.

## 14. CONSENSUS ESTIMATES

(in millions of Canadian dollars except for Cash Available for Distributions per Unit)

Consensus Estimates <sup>1</sup>						
	FY 2003	FY 2004	Low	FY 2005 Average	High	% Var Avg. 05/ Act. 04
Revenues	\$640.2	\$667.4	\$655.3	\$686.3	\$700.0	2.8%
Adjusted EBITDA	\$372.3	\$388.8	\$397.6	\$404.7	\$408.4	4.1%
Cash Available for Distributions per Unit	\$0.92	\$0.98	\$1.00	\$1.02	\$1.04	3.7%

<sup>1</sup> Consensus Estimates as of February 8, 2005.