

## Management's Discussion and Analysis

February 12, 2009

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Pages Income Fund and its subsidiaries for the years ended December 31, 2008 and 2007 and should be read in conjunction with our audited consolidated financial statements and accompanying notes. Quarterly reports, the annual report and supplementary information can be found under the "financial reports" section of our corporate web site: [www.ypg.com](http://www.ypg.com). Additional information, including our annual information form (AIF), can be found on SEDAR at [www.sedar.com](http://www.sedar.com). In this MD&A, the words "we", "us", "our", "the Company", "the Fund" and "YPG" refer to Yellow Pages Income Fund and its subsidiaries (including Yellow Pages Group Co., Yellow Pages Group, LLC, YPG Directories, LLC, and Trader Corporation), which are reported under the following segments:

- "Directories," which refers to our print and online directories, and our specialized guides; and
- "Vertical Media," which refers to our print and online vertical publications which are targeted to specific audiences (or verticals) based on topic or area of interest – such as automotive or real estate.

Our reporting structure reflects how we manage our business and how we classify our operations for planning and for measuring our performance. This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YPG. These statements are considered "forward-looking" because they are based on current expectations of our business, on the markets we operate in, and on various estimates and assumptions.

- These forward-looking statements describe our expectations on February 12, 2009.
- Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statements will materialize.
- Forward-looking statements do not take into account the effect that transactions or non-recurring items, announced or occurring after the statements are made, may have on our business.
- We disclaim any intention or obligation to update any forward-looking statements, except as required by law, even if new information becomes available through future events or for any other reason. It is the current practice of the Company to compare performance on a periodic basis with the targets established through our ongoing business planning process.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in section 7 – Risks and Uncertainties.

This MD&A is divided into the following sections:

1. Our Business, Mission, Strategy and Capability to Deliver Results
2. Results
3. Liquidity and Capital Resources
4. Distributable Cash
5. Critical Assumptions
6. Outlook
7. Risks and Uncertainties
8. Controls and Procedures

## 1. Our Business, Mission, Strategy and Capability to Deliver Results

### Our Business

Yellow Pages Group is a leading media company serving Canadians and Canadian businesses from coast to coast. We are a national leader in our two national platforms, Directories and Vertical Media, and have a presence in the United States through our YPG Directories in the Mid-Atlantic and the Southeast American markets. This section provides an overview of our business, how we strive to manage it and our ongoing priorities.

#### **Directories**

We are Canada's largest directories publisher and the exclusive owner of the Yellow Pages™, Pages Jaunes™ Walking Fingers & Design™ and Canada411™ trademarks in Canada. We have been an industry leader since we published our first directory in 1908.

In recent years we have expanded our reach, acquiring directory operations serving British Columbia, Alberta, Manitoba, the four Atlantic Provinces and, more recently, Saskatchewan to complement our strong presence in Ontario and Québec. YPG now publishes annually more than 340 different telephone directories with a total circulation of approximately 30 million copies. With more than 405,000 advertising customers, we manage one of the largest face-to-face sales forces for small and medium-sized enterprises (SMEs) in Canada. We also operate print community directories under the Community Phonebook brand name in selected Mid-Atlantic and Southeast American markets.

We are the official publisher of directories for Bell Canada (Bell), TELUS Communications Inc. (TELUS), Bell Aliant Regional Communications LP (Bell Aliant), MTS Allstream Inc. and for a number of other incumbent telephone companies that have a leading share in their respective markets.

We also operate the leading online directories in Canada including YellowPages.ca™, Canada411.ca™ as well as the CanadaPlus.ca™ group of city sites. This complementary online presence allows us to package print and online advertising products and offer them on a national basis.

Our directories are delivered into almost every household and business in our markets, and are available online and through a variety of digital options. Our content is rich and diverse which draws consumers to our directories by generating leads, calls, visits and clicks, and in turn attracts yet more advertisers.

#### **Vertical Media**

We are the Canadian leader in Vertical Media through Trader Corporation. Trader has over 160 publications and 20 web sites covering four main product verticals: automotive, real estate, employment, and generalist.

Trader is the leading new and used car destination with its AutoTrader.ca™ web site.

Trader is home to such print brands as Auto Trader™, Auto Hebdo<sup>MC</sup>, The Bargain Finder™, Home Renters' Guide™, Renters News™, and Buy & Sell™. Online, Trader owns Internet destinations such as [www.autotrader.ca](http://www.autotrader.ca), [www.autohebdo.net](http://www.autohebdo.net), [www.homebase.ca](http://www.homebase.ca), [www.visitenet.com](http://www.visitenet.com), [www.buysell.com](http://www.buysell.com) and [lesPAC.com](http://lesPAC.com).

## Mission

We are aligning our print and online strategies in a continuous effort to find the best seller for each buyer.

## Strategy

We have implemented a business strategy to improve our operations and achieve sustainable growth in revenues and profitability while pursuing two avenues for growth: organic and external. The recent economic slowdown in both the U.S. and Canada has had some impact on our business, especially in the Vertical segment. In addition, the continuing transition in the media and publishing industries towards more online and targeted content is driving us to develop new products that leverage the demand for new media while ensuring that our print products remain a key component of our advertisers' media mix.

### **Organic Growth:**

Organic growth means creating new opportunities to extend and enhance our existing print and online product and service offerings. This brings greater value to existing assets, provides new advertising opportunities to our advertisers and gives users new capabilities to find what they need.

We remain focused on the following areas to drive organic growth:

- Enhancing both YPG and Trader product offerings in response to evolving consumer and advertiser needs, to generate additional revenue streams;
- Securing compelling online opportunities for our advertisers and users;
- Leveraging relationships with key portals; and
- Exploring new efficiencies in the sales process in both Directories and Vertical Media.

### **External Growth:**

External growth means acting on opportunities to create new sources of revenue, largely through acquiring or developing new assets. During the past several years, we have acted decisively and effectively in this area through the acquisition of new directory operations and through our entry into Vertical Media. Our preference remains to expand our geographic presence in our directory business and to expand the scope and scale of our Vertical Media business in Canada. Although the current challenging credit markets may limit our ability to make acquisitions, we will continue to monitor such potential opportunities.

### **Sustainable profitability:**

We achieve sustainable profitability by maximizing our operating efficiency and constantly reviewing all of our operations with a view to ensuring we maintain a competitive cost structure. Improving our cost structure remains a key priority and will continue to be achieved through:

- Business process redesign;
- Cost containment initiatives; and,
- Investment in technology to better support our operations and customer service.

### *Directories*

For a review of developments and performance relative to key priorities identified for 2008, see Section 2 – Results.

Our key priorities for 2009 in our directory business are:

- Continued focus on customer relationship management through our “Customer First” program; and,
- Enhancement of our product and service offerings.

### *Customer First*

Customer First has formed the centrepiece of our customer retention and service enhancement activities for the past four years. We operate in a highly competitive environment and the onus is on us to devise new and better ways of serving customers to ensure they continue to use our products and services. Customer First encompasses two elements:

- A philosophy that defines how we treat our customers, how we reward them for their loyalty and the overall attitude we expect our employees to adopt in all their customer interactions – the customer must always be our first priority; and,
- A computer-based tool that allows us to act on that philosophy and improve service to our customers and add value in tangible and meaningful ways.

This new tool enables us to conduct our operations in a virtual paperless environment. The phases of implementation include:

1. *Business profiles* – providing a single source of complete customer profiles and production information combined with real-time claim processing;
2. *Ad request process* – covering the flow of information between the sales organization and both the assignment center and ad production;
3. *Call planning* – addressing sales assignment and call planning via a multi-dimensional view; and,
4. *Contract closure* – allowing for value-based pricing.

Phases 1, 2 and 3 of our Customer First tool to improve our service to customers have been completed. The roll-out of contract closure will be completed in the second quarter of 2009 for Ontario and Québec. Following our recent acquisition of Volt's directory systems and services in the United States, we are currently reviewing our plan to roll out contract closure to the rest of Canada during the balance of 2009. We expect to complete a revised plan during the first quarter of 2009 taking into account systems integration considerations.

### *Enhancement of Product Services*

The 2009 growth plan entails building upon the drivers listed below, the majority of which were developed or introduced in 2008:

Nationally:

- Customer Acquisition – The expansion of the acquisition channel from just under 50 sales representatives to over 100 took place in the latter half of 2008 in preparation for selling our 2009 issues;

- Enhanced Directory Plus - This bundle was launched in 2008 to provide advertisers increased visibility through the addition of Google Adwords;
- Integrated Bundles - The Showcase bundle is an example of the type of bundled solutions that we intend to launch more of in 2009. It is a complete media solution which includes a quarter column print ad, a bold alpha directory listing, our online video product Profile Plus and all the components of Enhanced Directory Plus thereby enhancing the advertisers' value proposition;

Market Specific:

- Urban Market Strategies - Toronto and Lower Mainland directory re-zoning plans have been implemented to give advertisers an easier way to geo-target their potential customers and improve their return-on-investment. The Large Urban Market strategy also aims at maintaining or increasing usage through the offering of a more complete print directory;
- Light Editions - The Light Edition directory is a smaller version of the core directory covering the same scope but with the convenience of a more portable format for people on the go. In 2008, YPG published six books (Calgary, Edmonton, Quebec, London, Hamilton and Red Deer) and we are introducing five new books in 2009 (Halifax, Montreal West, Mississauga, Kitchener, and Kelowna); and
- Eco Finder – The EcoFinder was developed to connect eco-conscious buyers with eco-responsible businesses. In 2008, we published four pilot sections (Laval, York Region, New Westminster and Montreal) and we have introduced six new sections for 2009 (Ottawa, London, Barrie, Victoria, Vancouver and Edmonton).

*Vertical Media*

For a review of developments and performance relative to key priorities identified for 2008, see section 2 – Results.

Our key priorities for 2009 in Vertical Media are:

- Improvement of productivity through investment in technology and business processes; and
- Enhancement and expansion of our product and service offerings.

*Improvement of productivity through investment in technology and business processes*

Trader will continue focusing on new technology implementation and integration across Canada while sharing and harmonizing best practices and initiatives to increase sales force effectiveness and operating efficiencies.

During 2009 we will complete the roll-out of the new digital ad-taking system across the country. This new national customer database will allow for standardization and productivity gains, optimizing our ad workflow. In addition, we will also complete the digitization of sales processes allowing our sales people to adopt a more consultative approach, and to develop a better understanding of our customers so that we can offer them value-added programs in all four of our product verticals.

### *Enhancement and expansion of our product and service offerings*

- Expand automotive dealers' solutions - During 2009, we will expand the breadth of Trader's online advertising solutions. At the beginning of 2009 Trader entered a partnership with Dealer.com to deliver enhanced inventory management tools, web site development and management services, lead tracking and search engine marketing optimization solutions for auto dealers in Canada. The new Trader value proposition will be a fully integrated, cost effective and one-stop solution that is designed to better promote the dealership and its inventory;
- Reinforce the online and mobile offering by providing value-add functionality for both New and Used Cars;
- Increase penetration of our real estate platform – HomeTrader was launched in the fourth quarter of 2008, positioning primarily rentals and new homes and condos. In 2009, we will launch the site on a national basis and add new functionality.

### Capability to Deliver Results

This section of our MD&A explains how we are equipped to continue to operate our business on a financially viable and progressive basis.

#### **Capital Resources**

YPG generates sufficient cash flow from its operations to fund cash distributions to its unitholders, to support required capital expenditures and to service its debt obligations. Its cash flow, along with its ability to access external capital if necessary, and the availability under its long term committed bank facilities provide sufficient resources to finance its cash requirements in the foreseeable future while maintaining adequate liquidity. Please refer to the Liquidity and Capital Resources section 3 of this MD&A for an analysis of the company's ability to generate sufficient cash and to access financial resources to meet operating needs in the current market environment. The reader should also refer to the Distributable Cash section 4 to understand the impact of new tax proposals issued on October 31, 2006 by the Federal Minister of Finance on cash flow from operations.

#### **Non-capital Resources**

YPG's critical intangible resources include:

- Strong brands;
- Established relationships with customers;
- Breadth and depth of local print and online content;
- Dedicated and experienced employees;
- Long-term relationships with incumbent telephone companies; and
- Culture and values that characterize our organization.

#### **Strong Brands**

YPG is the exclusive owner of a number of leading brands which have high-recognition value among our various audiences. As an industry leader, we believe our brands will position us well through the current economic slowdown as advertisers turn to trusted and established brands to maximize their return-on-investment.

### *Established Relationships with Customers*

We employ a sales force of approximately 2,400 people across our two segments, including sales support staff. This large and primarily face-to-face sales force is broken down into various customer segments allowing a more dedicated relationship between the sales force and the SMEs resulting in over 90% of our advertisers renewing their advertising with us each year.

### *Local Print and Online Content*

The quality of our print and online content generates usage which in turn encourages local and national advertisers to advertise in our directories and our Vertical Media publications.

### *Employees*

Over the past five years since becoming a publicly traded entity, our employees have consistently improved our operations. We have achieved constant growth in revenues, profitability and free cash flow generation. Our employees have executed on the initiatives needed to build an impressive track record. Despite the current economic climate, we are confident that our employees will continue to remain focused on our common objectives

### *Long-term Relationships with Incumbent Telephone Companies*

We are the official and exclusive publisher of telephone directories of Bell, TELUS, Bell Aliant and MTS Allstream Inc. YPG has entered into royalty-free, 30-year licenses which grant us the right to use the Bell (up to 2032), TELUS (up to 2031), Bell Aliant (up to 2037) and MTS Allstream Inc. (up to 2036) trademarks in connection with the publication of print and online telephone directories in any format (subject to certain exceptions). In addition, Bell, TELUS, Bell Aliant and MTS Allstream Inc. have agreed not to compete with YPG in the creation, publication, distribution or marketing of telephone directories (subject to certain exceptions) for a period of 30 years from the time we entered into these business arrangements with them.

### *Culture and Values*

We have a performance-based culture. That culture is defined by all of our values and influences our thinking and our actions which drive our desire to compete to win. This focus on performance also dictates the competencies and skills we seek to attract and retain. All our employees are expected to value teamwork and be focused on our customers, they should act with integrity, respect and passion for the job at hand while maintaining open communications.

We believe that our culture and our values form the foundation of this organization and are critical to its sustained success.

## **2. Results**

This section provides an overview of our financial performance in 2008 compared to 2007 and 2007 compared to 2006. It is also important to note that in order to help investors better understand our performance we rely on several metrics, some of which are not measures recognized by Generally Accepted Accounting Principles (GAAP). Definitions of these metrics are provided following the charts below and are important aspects which should be considered when analyzing our performance.

## Overall Performance

- Adjusted Revenues increased by \$68.5 million or 4.2% over the previous year to \$1,697.5 million. Revenues increased by \$72.3 million or 4.5% to \$1,696.7 million over the previous year;
- Adjusted EBITDA increased by \$59.9 million or 6.9% over the previous year to \$931 million. Income from operations before depreciation and amortization and restructuring and special charges increased by \$58.5 million or 6.7% to \$932.7 million over the previous year; and
- Distributable cash per unit increased by 8.3% over the previous year to reach \$1.43.

## Highlights by Segment<sup>1</sup>

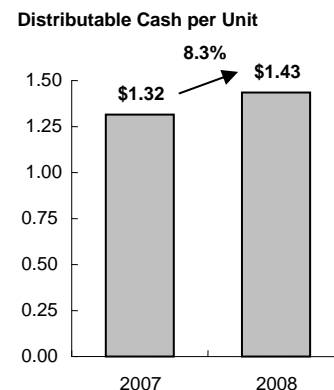
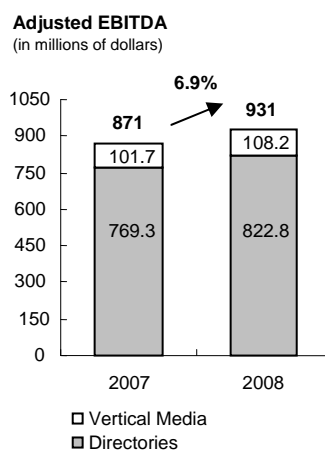
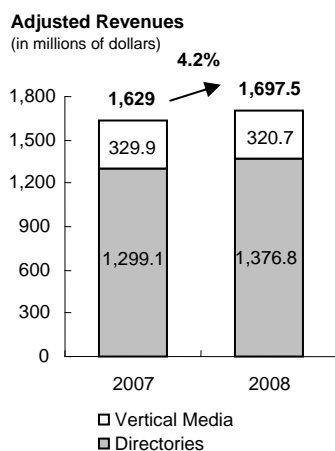
(in thousands of Canadian dollars— except unit information)

	Years ended December 31,					
	Directories		Vertical Media		Consolidated	
	2008	2007	2008	2007	2008	2007
Revenues	\$1,376,036	\$1,294,548	\$320,677	\$329,876	\$1,696,713	\$1,624,424
Income from operations before depreciation and amortization and restructuring and special charges	\$824,508	\$772,401	\$108,198	\$101,759	\$932,706	\$874,160
Basic earnings per unit					\$0.97	\$0.99
Cash flow from operating activities					\$692,356	\$695,540
Adjusted Revenues <sup>2</sup>	\$1,376,787	\$1,299,074	\$320,677	\$329,876	\$1,697,464	\$1,628,950
Adjusted EBITDA <sup>2</sup>	\$822,754	\$769,288	\$108,198	\$101,759	\$930,952	\$871,047
Distributable cash <sup>3</sup>					\$750,870	\$700,466
Distributable cash per unit					\$1.43	\$1.32

<sup>1</sup> We closed the acquisitions of the assets of TBayTel (ThunderBay) on February 19, 2008, Get It Pages on August 6, 2008 and the assets of Volt Information Sciences Inc, as well as its directory publishing operations (collectively, Volt) on September 5, 2008. We also closed the acquisitions of LesPAC s.e.n.c (LesPAC), Aliant Directory Services (Aliant) and Vertical Guides Limited Partnership (Vertical Guides LP) on April 19, 2007, April 30, 2007 and October 31, 2007, respectively. As such, included in the 2007 and 2008 results are the results of each acquired business from the respective date of acquisition to year end. The Trader US operations were divested on October 31, 2008 resulting in the exclusion of those results in the Vertical segment from that date to year-end.

<sup>2</sup> Please refer to definitions relative to understanding our results on page 9 of this MD&A and Consolidated Results table on page 13 of this MD&A for a reconciliation of Adjusted Revenues and Adjusted EBITDA.

<sup>3</sup> Please refer to Section 4 for a reconciliation of Distributable Cash.



## Definitions relative to understanding our results

### ***Adjusted Revenues***

We provide guidance and report on our revenue, adjusted for comparability purposes (Adjusted Revenues) by removing the effect of purchase accounting related to the acquisition of Advertising Directory Solutions Holding Inc. (ADS) and the acquisition of the assets of MTS Media (MTS), Aliant and Vertical Guides LP. Adjusted Revenues is a non-GAAP measure not likely to be comparable to similar measures used by other publicly traded companies. For a reconciliation with Canadian GAAP please refer to Consolidated Operating and Financial Results later in this section.

Adjusted Revenues reflect the level of advertising activity that is generally billed in accordance with contractual terms with our advertisers. It is recognized on a monthly basis over the estimated life of our products. In print directories, it commences with the delivery of the directory; for online, it commences with the display date of the advertisement. Amounts billed up front for directories are deferred and recognized over the period for which the corresponding directories are in circulation. Revenues are generally recognized and billed over periods not exceeding twelve months, or in the case of certain alphabetical directories, not exceeding twenty-four months.

### ***Adjusted Income from Operations before Depreciation and Amortization, Restructuring and Special charges and Impairment of Intangible Assets (Adjusted EBITDA)***

We provide guidance and report on our EBITDA (Income from operations before depreciation and amortization, restructuring and special charges and impairment of intangible assets) adjusted for comparability purposes (Adjusted EBITDA). These adjustments include removing the effect of purchase accounting related to the acquisitions of ADS and the assets of MTS, Aliant and Vertical Guides LP. Adjusted EBITDA is a key measure used by management to evaluate performance. Adjusted EBITDA is also used to make decisions relating to our cash distributions to unitholders and to measure compliance with debt covenants. We believe Adjusted EBITDA assists investors in assessing our performance on a consistent basis without regard to restructuring and special charges or impairment of intangible assets – which are non-recurring by nature and without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods or on non-operating factors such as historical cost.

As stated, EBITDA is not a calculation based on GAAP and is not considered an alternative to income from operations or net earnings in the context of measuring YPG's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. For a reconciliation with GAAP, please refer to Consolidated Operating and Financial Results later in this section. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on page 33 of this MD&A.

### ***Distributable Cash***

Distributable cash is a non-GAAP measure generally used by Canadian income trusts as an indicator of financial performance. It should not be seen as a measurement of liquidity or as a substitute for comparable metrics prepared in accordance with GAAP. Distributable cash is commonly used by investors, management and other stakeholders to evaluate the ongoing performance of YPG. Distributable cash may differ from similar calculations as reported by other companies and should not be considered comparable. For a reconciliation with GAAP, please refer to Section 4 – Distributable Cash of this MD&A.

### ***Cash Distributions per Unit***

We report on cash distributions per unit because it is a measure of return used by investors. Cash distributions per unit depend on our distributable cash and YPG's distribution policy. We make monthly cash distributions to unitholders of record on the last business day of each month. For a description of our cash distribution policy, please refer to Section 4 of this MD&A.

Cash distributions per unit grew by 3.5% from \$1.13 annually to \$1.17 effective on September 15, 2008. The increase in cash distributions is based on our confidence in our performance and prospects and is consistent with our objective to reduce our payout ratio in the 2006-2010 period as described in our distribution policy.

## Performance Relative to Business Strategy

### ***Organic growth***

#### *Directories*

##### Customer First

The deployment of call planning was completed in 2008. The roll-out of contract closure progressed as planned and phase 4 of this project will be completed in the second quarter of 2009 for Ontario and Québec. As mentioned earlier, we are currently reviewing our plan to roll out contract closure to the rest of Canada in 2009 in light of our recent expansion in the United States.

#### *Enhancement and expansion of products*

Our newly re-zoned Toronto directories continue to elicit positive feedback from customers as we canvass for the 2009 issues. Selling efforts related to our Light directories and Eco Finder sections are well underway in the new markets that were added for 2009. We are now actively selling Light directories and the Eco Finder in 11 markets nationwide. We believe that our investment in our print franchise will ensure our products meet consumers' and advertisers' needs of finding local information and will lead to increased usage and sustained advertiser return-on-investment.

Online growth continued to be strong throughout 2008. In the third quarter we began to realize some benefits from the roll-out of the Enhanced Directory Plus bundle (which includes Google Adwords™) and this momentum continued to build in the fourth quarter. Likewise sales of our online video product Profile Plus which was launched in 2008 are expected to gain momentum in 2009, given its relative novelty in the online product portfolio.

The new Showcase bundle launched in September 2008 has been enthusiastically received by customers as evidenced by a robust take-up rate. The bundled product offers a compelling value proposition to advertisers by providing them visibility, both print and online, with increased advertising exposure through a video, additional business information and Google Adwords™.

During the year, the purchase of the Canada411 trademark was completed and the Canada411.ca site was re-launched with the integration of maps, proximity search and business listings.

#### *Vertical Media*

During the year, we continued to make progress with our key initiatives directed at integrating operations across the country and improving productivity through the implementation of new technology and harmonized business processes.

The national ad taking system was deployed successfully in Ontario (all verticals except automotive as planned) and Atlantic Canada and the project team is now shifting into the planning activities for the final deployment phases in the Ontario region (automotive vertical) and Québec in 2009. Once deployed nationally, it will enable the sales, operations and billing teams to share customer information on a common platform and help us optimize our ad workflow from ad-taking to production, billing and receipt of payment.

The digitization of current sales processes with a data capture device and a display ad builder continues to be implemented progressively across the country and will result in a mostly paperless environment. The data capture device has streamlined and standardized the current processes for obtaining vehicle information and photos from dealers and the subsequent processing of that data. Implementation is completed in all regions across the country except Atlantic Canada. The display ad builder will enable sales representatives to renew an existing ad or submit

detailed instructions for production to either generate a new ad or make changes to an existing ad through a paperless communication channel. Roll-out was completed in British Columbia and we are currently implementing this in the other provinces of the Western region.

During 2008, we also continued our progress on the enhancement and expansion of our product offerings in the automotive vertical. Trader Dealer Showroom (TDSR) which is a combination of dealer services and print and online media has been embraced by the majority of our dealers in Ontario.

The expansion of Auto Trader in the new car category was launched earlier in 2008. The local sales organization is promoting Trader's technology suite to franchise dealers which enables them to promote their new car inventory on AutoTrader.ca. Our enhanced online platform has also stimulated growth for our national channel.

We are developing new solutions in real estate to harness the potential of this vertical. A beta version of HomeTrader.ca was launched in December to position Trader in the Rental and New Home and Condo segments. A revamped BuySell.com site was launched in November with a simplified online ad taking system and improved look and feel.

### **External Growth**

#### *Acquisition of the Volt business*

On September 5, 2008 we completed our acquisition of the directory assets of Volt Information Sciences, Inc. as well as its directory publishing operations (collectively Volt) for a net purchase price of USD\$179 million paid in cash at closing. The acquisition was accounted for using the purchase method of accounting and gave rise to intangible assets such as software, non-competition agreements, trademarks, customer contracts and customer relationships. Management has determined that these assets, with the exception of the trademarks, have finite lives as they are either contractual or, as in the case of software, the useful life is limited. These assets will be amortized over their expected useful life. We have also determined that the trademarks acquired have an indefinite life and will not be amortized.

Volt provided systems and services for the production and management of databases as well as the digitization of display advertisements for directory and other media publishers. In addition, Volt was a publisher of independent directories in selected Mid-Atlantic and Southeast American markets. The company operated print community directories under the Community Phonebook brand name. Volt has been a key strategic supplier to YPG for the last 17 years.

YPG has invested significantly in capital expenditures over the past few years to develop integrated systems, from publishing to customer relationship management. Volt's best-in-class processes are expected to play a key role in reinforcing the integration of YPG's back-and front-office capabilities. The Company expects to realize a number of benefits from the integration of Volt's operations, including a faster time-to-market on ongoing key print and online initiatives and additional gains in efficiency and productivity.

### *Integration Plan for the Volt business*

In the course of reaching our decision to acquire the Volt business, we also considered other potential benefits to be derived from its proposed integration including expected cost savings and efficiencies that would result from the consolidation of general and administrative expenses, economies of scale with respect to technology integration and improved supply chain management. These integration initiatives for the Volt business are collectively referred to as the Integration Plan.

The implementation of the Integration Plan began immediately following the closing of the acquisition and is expected to be executed within a period of 18 months. The key elements of our Integration Plan provide for the streamlining and integration of information technology platforms. In order to achieve this integration, we expect to incur non-recurring capital expenditures of approximately \$10 million and anticipate spending this Transition Capital during the period from September 2008 to June 2010.

As a result of the Integration Plan discussed above, the Fund also established provisions related to the restructuring of the acquired business' operations. Certain restructuring costs in the amount of USD\$6.5 million were recognized as assumed liabilities as they were contemplated at the time of the acquisition, and were therefore included in the underlying net identifiable assets acquired.

### *Partnership with Dealer.com*

On January 21, 2009, Trader announced a strategic agreement with Burlington, Vermont-based Dealer.com, a leading provider of online marketing solutions to the vehicle industry. The long-term, exclusive commercial agreement will make Dealer.com's web solutions available to Trader's customer base in Canada served under its AutoTrader™ brand. Concurrent with the agreement, Trader has acquired a 20% equity interest in Dealer.com for a cash consideration US\$35 million, with the option to increase its ownership in the privately held company over time.

Dealer.com has a client base of approximately 8,000 dealers, representing one-third of the new car dealerships in the United States.

Dealer.com offers award-winning website design incorporating dynamic video, lead management tools, search engine marketing and optimization and web analytics. Its suite of online marketing solutions expands the breadth of Trader's online advertising offer and leverages the investments Trader has made in developing best-in-class inventory management systems such as TDSR.

This strategic agreement will enable Trader to deliver a one-stop integrated solution to Canadian auto dealers, at a time when dealerships of all kinds are looking for opportunities to more effectively manage their inventory levels and advertising spending.

The deployment of Dealer.com's technology to Trader's network of Canadian dealers will start in the second quarter of 2009.

### *Saskatchewan Expansion*

YPG entered the Saskatchewan market in August 2008 via the acquisition of "Get It Pages", an independent publisher of four directories with approximately \$1 million in revenues and a circulation of 134,000 copies. The print directory titles are Melville/Yorkton, Estevan/Weyburn, Prince Albert and North Battleford. The former "Get It Pages" operations have been fully integrated into YPG. In conjunction with the acquisition of these print directories, we launched an online expansion initiative into the Saskatoon and Regina markets.

## Consolidated Operating and Financial Results

### Consolidated Results

(in thousands of Canadian dollars – except unit information)

	Years ended December 31,		
	2008	2007	2006
Revenues	\$1,696,713	\$1,624,424	\$1,384,956
Operating costs	764,007	750,264	638,201
Income from operations before depreciation and amortization, restructuring and special charges and impairment of intangible assets (EBITDA)	932,706	874,160	746,755
Depreciation and amortization	186,065	225,584	172,240
Restructuring and special charges	36,225	-	-
Impairment of intangible assets	-	-	8,000
Income from operations	710,416	648,576	566,515
Financial charges, net	142,261	137,361	134,306
Impairment of available-for-sale investment	4,775	-	-
Earnings before dividends on Preferred shares, income taxes and non-controlling interest	563,380	511,215	432,209
Dividends on Preferred shares	22,750	16,026	-
Earnings before income taxes and non-controlling interest	540,630	495,189	432,209
Provision for (recovery of) income taxes	30,664	(33,108)	276
Non-controlling interest	739	588	-
<b>Net earnings</b>	<b>\$509,227</b>	<b>\$527,709</b>	<b>\$431,933</b>
Basic earnings per unit	\$0.97	\$0.99	\$0.85
Diluted earnings per unit	\$0.89	\$0.95	\$0.84
Revenues	\$1,696,713	\$1,624,424	\$1,384,956
Elimination of purchase accounting impact	751	4,526	4,746
<b>Adjusted Revenues<sup>1</sup></b>	<b>\$1,697,464</b>	<b>\$1,628,950</b>	<b>\$1,389,702</b>
Income from operations before depreciation and amortization, restructuring and special charges and impairment of intangible assets (EBITDA)	\$932,706	\$874,160	\$746,755
Elimination of purchase accounting impact	(1,754)	(3,113)	(1,060)
Transition expenses	-	-	2,287
<b>Adjusted EBITDA<sup>1</sup></b>	<b>\$930,952</b>	<b>\$871,047</b>	<b>\$747,982</b>
<b>Adjusted EBITDA margin</b>	<b>54.8%</b>	<b>53.5%</b>	<b>53.8%</b>
<b>Total assets</b>	<b>\$9,366,219</b>	<b>\$9,265,512</b>	<b>\$9,003,247</b>
<b>Total long-term debt</b>	<b>\$2,705,519</b>	<b>\$2,413,732</b>	<b>\$2,590,179</b>

<sup>1</sup> Adjusted Revenues and Adjusted EBITDA – The acquisitions of ADS, MTS, Aliant and Vertical Guides LP (the “acquisitions”) were accounted for using the purchase method of accounting which resulted in the elimination of deferred revenues and deferred publication costs related to those directories published prior to each acquisition. These deferred revenues along with related deferred publication costs would have been recognized in 2006 through 2009, had the acquisitions not occurred. As a result, reported revenues and expenses are not representative of revenues and expenses that would have otherwise been reported and are not representative of revenues and expenses that will be reported in subsequent periods.

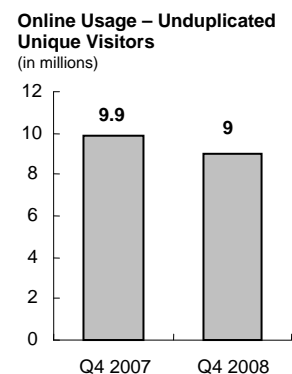
The adjusted results are derived by excluding from the reported amounts the impact of purchase accounting relating to acquisitions in the core Directories segment.

## Analysis of Consolidated Operating and Financial Results

### ***Fiscal 2008 versus 2007***

#### *Revenues*

Revenues increased by \$72.3 million to \$1,696.7 million compared to \$1,624.4 million in 2007. For the year ended December 31, 2008, the contribution from businesses acquired in 2007 accounts for \$20.9 million, excluding their 2008 organic growth. Volt contributed \$12.3 million of revenues for the period since acquisition to December 31, 2008. Organic online revenue growth for the year reached 43.5%, well ahead of our 2008 online revenue growth target of 30%. Online revenues from the Directories and Vertical Media segments combined reached \$246.8 million in 2008. Online growth is driven by strong adoption of our online products in both of our segments. Our network of web sites in Directories and Vertical Media attracted 9 million unduplicated unique visitors<sup>1</sup> on average during the fourth quarter of 2008. The current economic slowdown in Canada has impacted our revenues, especially in the Vertical segment and the continuing shift in the media and publishing industries towards more online content has placed more pressure on our traditional print offerings.



#### *EBITDA*

EBITDA increased by \$58.5 million to \$932.7 million compared to \$874.2 million in 2007. The increase for the year is mainly attributable to organic growth in the Directories segment as well as cost efficiencies realized in both segments resulting from our continued cost containment initiatives and investment in new technology. The increase for the year is also attributable to the contribution from acquired businesses.

Cost of sales increased by \$20.3 million to \$464 million compared to \$443.6 million in 2007. The increase for year is directly related to increased revenues and the acquisition of Volt on September 5, 2008, and the acquisition of Aliant on April 30, 2007.

Gross profit margin remained stable at 72.7 % in 2008 and in 2007.

General and administrative expenses decreased by \$6.6 million to \$300 million compared to \$306.6 million in 2007. The decrease in general and administrative expenses is mainly attributable to lower costs in the Vertical segment due to cost containment initiatives. In 2007, we also recorded transition expenses following the integration of Trader.

#### *Restructuring and special charges*

During the fourth quarter of 2008, we recorded non-recurring charges relating to an internal reorganization, workforce reduction, the termination of certain contractual commitments, the acceleration of business process changes in call centers, the discontinuance of under-performing publications, the closure of certain ad centers, and other items amounting to \$36.2 million.

#### *Depreciation and amortization*

Depreciation and amortization decreased by \$39.5 million to \$186.1 million in 2008 compared to \$225.6 million in 2007. The decrease relates to lower amortization of certain intangible assets related to the acquisitions of Trader, Aliant, MTS and LesPAC which have been fully amortized, offset by the amortization related to the acquisition of Volt.

#### *Financial charges*

Financial charges increased by \$4.9 million to \$142.3 million compared to \$137.4 million in 2007. The variance is mainly due to lower credits related to derivative financial instruments and an increase in the non-cash amortization of deferred financing costs of \$1.4 million. The balance of the variance is related to an increased level of debt to finance acquisitions and to repurchase units under our normal course issuer bid (NCIB) program offset by lower short-term rates compared to 2007. The effective average interest rate on our debt portfolio as of December 31, 2008 was 5.1%.

<sup>1</sup> Source: comScore Media Metrix Canada.

#### *Dividends on preferred shares*

Dividends on the two series of preferred shares amounted to \$22.8 million compared to \$16 million in 2007. The Series 1 and Series 2 preferred shares were issued in March and June 2007, respectively. See Section 3 – Liquidity and Capital Resources – Cumulative Redeemable Preferred Shares.

#### *Provision for income taxes*

The combined statutory provincial and federal tax rate was 31.8% and 31.6% in 2008 and 2007 respectively. The Fund recorded tax expenses of 5.7% of earnings in 2008 compared to a tax recovery of 6.7 % of earnings in 2007. The Fund's subsidiary, YPG LP, is a limited partnership, and as such, is not subject to income taxes whereas YPG LP's subsidiaries are subject to income tax. The difference between the statutory and the effective tax rates is primarily due to inter-company revenues which are not currently taxable when received by YPG LP. In 2008, the provision for income taxes increased compared to the prior year reflecting the utilization of the future income taxes in 2008 combined with 2007 being positively impacted by the enactment of lower future income tax rates.

The enactment of the Budget Implementation Act 2007 (Bill C-52) on June 22, 2007 which contained legislation implementing proposed changes to the manner in which publicly-traded income trusts such as the Fund and the distributions from such entities will be taxed effective in the 2011 taxation year has no impact on YPG's current earnings. The operating activities are being carried on in corporate entities and as such, future income taxes are being calculated on all underlying operating assets and liabilities. For a more complete description of Bill C-52 and its impact on our results, see Section 7 – Risk and Uncertainties.

#### *Net earnings*

Net earnings decreased by \$18.5 million to reach \$509.2 million in 2008. The decrease is due to the restructuring and special charges combined with the higher provision for income tax incurred in 2008, offset by an increase in income from operations before restructuring and special charges.

### ***Fiscal 2007 versus 2006***

#### *Revenues*

Revenues increased by \$239.5 million to \$1,624.4 million compared to \$1,385 million in 2006. For the year ended December 31, 2007, \$161.9 million was attributable to the contribution of acquired businesses in 2006 and 2007, excluding their 2007 organic growth. Organic online revenue growth for the year reached 44%, well ahead of our 2007 online revenue growth target of 30%. Online revenues from the Directories and the Vertical Media segments combined reached \$170.7 million in 2007.

#### *EBITDA*

EBITDA increased by \$127.4 million to \$874.2 million compared to \$746.8 million in 2006. The increase for the year was mainly attributable to the contribution from MTS and Aliant. In addition, the full year contribution from the acquisition of Trader in 2006 further explains the variance for the year.

Cost of sales increased by \$71.2 million to \$443.6 million compared to \$372.4 million in 2006. The increase for the year substantially relates to the acquisitions made in 2006 and 2007 as 2006 included only a 12.86% share of Aliant, and the results of Trader and MTS from their respective dates of acquisition.

Gross profit margin decreased from 73.1% in 2006 to 72.7% in 2007. The decrease was attributable to lower margins in the Vertical Media segment, which was included for all of 2007. The 2006 results included the results from the Vertical Media segment only from their respective dates of acquisition of February 14, 2006 and June 8, 2006.

General and administrative expenses increased by \$40.8 million to \$306.6 million compared to \$265.8 million in 2006. The increase was mainly attributable to the acquisitions of MTS and Aliant. The acquisition of Trader explains the balance of the increase for the year as 2006 did not include a full year of results for Trader.

#### *Depreciation and amortization*

Depreciation and amortization increased by \$53.3 million to \$225.6 million compared to \$172.2 million in 2006. The increase relates to the amortization of certain intangible assets related to the acquisitions of Aliant, MTS and LesPAC, offset in part by the lower amortization of intangible assets of Trader and ADS acquired in the first half of 2006 and 2005, respectively.

#### *Financial charges*

Financial charges increased from \$134.3 million in 2006 to \$137.4 million in 2007. This was a result of the interest on new net debt incurred to finance business acquisitions, partly offset by lower other charges related to derivative financial instruments and a repayment of debt with the proceeds from preferred shares. The effective average interest rate on our debt portfolio as of December 31, 2007 was 5.4%.

#### *Dividends on preferred shares*

Pursuant to the issuance of Preferred Shares Series 1 in March 2007 and of Preferred Shares Series 2 in June 2007, dividends accrued for these preferred shares amounted to \$16 million for 2007. Dividends on the Preferred Shares Series 1 and Series 2 of \$10.3 million and \$5.5 million, respectively, were paid during 2007.

#### *Provision for (recovery of) income taxes*

The combined statutory provincial and federal tax rate was 31.6% in both 2007 and 2006. The Fund recorded a tax recovery of 6.7% of earnings in 2007 compared to a tax expense of 0.1% of earnings in 2006. The Fund's subsidiary, YPG LP, is a limited partnership, and as such, is not subject to income taxes whereas YPG LP's subsidiaries are subject to income tax. The difference between the statutory and the effective tax rates is primarily due to inter-company revenues which are not currently taxable when received by YPG LP. The enactment of the Budget Implementation Act 2007 (Bill C-52) on June 22, 2007 which contained legislation implementing proposed changes to the manner in which publicly-traded income-trusts such as the Fund and the distributions from such entities will be taxed effective in the 2011 taxation year has no impact on YPG's current earnings. In addition, the provision for income taxes was impacted by the enactment of lower future income tax rates during 2007. The operating activities are being carried on in corporate entities and as such, future income taxes are being calculated on all underlying operating assets and liabilities.

#### *Net earnings*

Net earnings increased by \$95.8 million to reach \$527.7 million in 2007. In addition to the organic growth in the Directories segment, the positive variance for the year was due to net earnings generated by the acquisitions of Trader, MTS and Aliant.

### Analysis of Adjusted Consolidated Operating and Financial Results

#### ***Fiscal 2008 versus 2007***

##### *Adjusted Revenues*

Adjusted Revenues increased by \$68.5 million to \$1,697.5 million in 2008 compared to \$1,629 million last year. The increase for the year is mainly due to organic online growth which reached 43.5%. The contribution from businesses acquired in 2007 amounted to \$20.9 million, excluding their 2008 organic growth. Volt contributed \$12.3 million of revenues for the period since acquisition to December 31, 2008.

##### *Adjusted EBITDA*

Adjusted EBITDA increased by \$59.9 million to \$931 million compared to \$871 million in 2007. These increases are largely due to organic growth in the Directories segment, cost efficiencies in both segments and contribution of businesses acquired in 2007 and 2008.

Cost of sales increased by \$15.2 million to \$466.5 million in 2008 compared with \$451.3 million in 2007. The increase is directly linked with the increase in revenues. The increase for the year is also attributable to the acquisition of Aliant as the 2007 results included only 12.86% of Aliant for the first four months of 2007.

Gross profit margin remained stable at 72.5% in 2008 compared to 72.3% in 2007.

General and administrative expenses decreased by \$6.6 million to \$300 million in 2008 compared to \$306.6 million in 2007. The decrease in general and administrative expenses is mainly attributable to lower costs in the Vertical segment following our cost containment initiatives.

### ***Fiscal 2007 versus 2006***

#### *Adjusted Revenues*

Adjusted Revenues increased by \$239.2 million to \$1,629 million in 2007 compared to \$1,389.7 million last year. The portion of the increase for the year attributable to the businesses acquired in 2006 and 2007 represented \$161.9 million of the variance, excluding their 2007 organic growth. As stated earlier, online organic growth for the year reached 44% for a total of \$170.7 million in 2007 for both the Directories and the Vertical Media segments.

#### *Adjusted EBITDA*

Adjusted EBITDA increased by \$123.1 million to \$871 million in 2007 compared with \$748 million in 2006. This increase is largely due to the contribution from acquired businesses and increased cost efficiencies realized during the year in both segments.

Cost of sales increased by \$73.1 million to \$451.3 million in 2007 compared with \$378.2 million in 2006. The increase substantially related to the acquisitions of MTS and Aliant as the 2006 results included only a 12.86% share of Aliant and included MTS only in the last quarter. Furthermore, the increase was also due to the acquisition of Trader as the 2006 results did not include a full year.

Gross profit margin decreased from 72.8% in 2006 to 72.3% in 2007. The decrease was attributable to lower margins in the Vertical Media segment. The 2006 results included the results from the Vertical Media segment from their respective dates of acquisition of February 14, 2006 and June 8, 2006.

General and administrative expenses increased by \$43.1 million to \$306.6 million in 2007 compared to \$263.5 million in 2006. The increase was largely attributable to the acquisitions of MTS, Aliant and Trader.

## Summary of Consolidated Quarterly Results

### Quarterly Results

(in thousands of Canadian dollars – except unit information)

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$425,559	\$426,141	\$430,442	\$414,571	\$412,566	\$416,507	\$411,110	\$384,241
Operating costs	194,020	188,348	194,461	187,178	190,670	188,005	190,791	180,798
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	231,539	237,793	235,981	227,393	221,896	228,502	220,319	203,443
Depreciation and amortization	45,872	33,369	50,860	55,964	66,826	64,746	49,982	44,030
Restructuring and special charges	36,225	-	-	-	-	-	-	-
Income from operations	149,442	204,424	185,121	171,429	155,070	163,756	170,337	159,413
Financial charges, net	42,644	34,731	30,221	34,665	33,281	34,164	34,828	35,088
Impairment of available-for-sale investment	418	4,357	-	-	-	-	-	-
Earnings before dividends on Preferred shares, income taxes and non-controlling interest	106,380	165,336	154,900	136,764	121,789	129,592	135,509	124,325
Dividends on Preferred shares	5,687	5,688	5,687	5,688	5,688	5,654	3,776	908
Earnings before income taxes and non-controlling interest	100,693	159,648	149,213	131,076	116,101	123,938	131,733	123,417
Provision for (recovery of) income taxes	21	13,379	13,293	3,971	(40,877)	1,703	3,600	2,466
Non-controlling interest	182	206	234	117	(70)	98	560	-
<b>Net earnings</b>	<b>\$100,490</b>	<b>\$146,063</b>	<b>\$135,686</b>	<b>\$126,988</b>	<b>\$157,048</b>	<b>\$122,137</b>	<b>\$127,573</b>	<b>\$120,951</b>
Basic earnings per unit	\$0.19	\$0.28	\$0.26	\$0.24	\$0.29	\$0.23	\$0.24	\$0.23
Diluted earnings per unit	\$0.17	\$0.25	\$0.24	\$0.22	\$0.28	\$0.22	\$0.23	\$0.22
Revenues	\$425,559	\$426,141	\$430,442	\$414,571	\$412,566	\$416,507	\$411,110	\$384,241
Elimination of purchase accounting impact	-	15	178	558	806	1,142	1,691	887
<b>Adjusted Revenues</b>	<b>\$425,559</b>	<b>\$426,156</b>	<b>\$430,620</b>	<b>\$415,129</b>	<b>\$413,372</b>	<b>\$417,649</b>	<b>\$412,801</b>	<b>\$385,128</b>
Income from operations before depreciation and amortization, and restructuring and special charges (EBITDA)	\$231,539	\$237,793	\$235,981	\$227,393	\$221,896	\$228,502	\$220,319	\$203,443
Elimination of purchase accounting impact	(115)	(312)	(537)	(790)	(875)	(857)	(886)	(495)
<b>Adjusted EBITDA</b>	<b>\$231,424</b>	<b>\$237,481</b>	<b>\$235,444</b>	<b>\$226,603</b>	<b>\$221,021</b>	<b>\$227,645</b>	<b>\$219,433</b>	<b>\$202,948</b>
<b>Adjusted EBITDA margin</b>	<b>54.4%</b>	<b>55.7%</b>	<b>54.7%</b>	<b>54.6%</b>	<b>53.5%</b>	<b>54.5%</b>	<b>53.2%</b>	<b>52.7%</b>

Adjusted Revenues reflect sustained organic growth in our Directories segment quarter over quarter. In addition, Adjusted Revenues were favourably impacted by the acquisitions of LesPAC on April 19, 2007, Aliant on April 30, 2007, Vertical Guides LP on October 31, 2007 and Volt on September 5, 2008. For the fourth quarters of 2007 and 2008, revenues were lower than their respective third quarters due to the seasonality of certain Vertical Media publications. In addition, revenues and Adjusted Revenues for the third and fourth quarters of 2008 were lower than the second quarter of 2008 due to lower revenues in the Vertical segment being negatively impacted by adverse economic conditions.

In 2007 and 2008, the improvement in Adjusted EBITDA margins highlights the synergies realized through the integration of acquired businesses and our cost containment initiatives. The decrease in the fourth quarter of 2007 and 2008 is attributable to the seasonality of certain Vertical Media publications. Furthermore the results for the fourth quarter of 2008 were impacted by the protracted economic downturn affecting our business.

Net earnings were affected by purchase accounting and are not comparable quarter over quarter. In addition, an adjustment to reflect the enactment of lower future income taxes was made during the fourth quarter of 2007 and a restructuring and special charge was recorded during the fourth quarter of 2008.

### ***Analysis of fourth quarter 2008 Results***

#### *Revenues*

Revenues increased by \$13 million to \$425.6 million during the fourth quarter of 2008 compared with the same period last year. Volt contributed \$9.9 million of revenues for the quarter. Despite challenging economic and market conditions, organic online revenue growth for the fourth quarter reached 44.7%. Online revenues from the Directories and the Vertical Media segments combined reached \$69.5 million during the fourth quarter of 2008 or \$278 million annualized. Online growth is driven by strong adoption of our online products and the introduction of new pay for performance products.

#### *EBITDA*

EBITDA increased by \$9.6 million to \$231.5 million during the fourth quarter of 2008 compared with the same period last year. The increase for the fourth quarter is mainly attributable to organic revenue growth in our directory segment and cost efficiencies in both segments.

Cost of sales increased by \$2.6 million to \$114.8 million during the fourth quarter of 2008 compared with the same period last year. The increase for the fourth quarter substantially relates to the acquisition of Volt. We also benefited from cost efficiencies in both segments.

Gross profit margin increased slightly from 72.8% in the fourth quarter of 2007 to 73% in the fourth quarter of 2008. The increase for the three-month period ended December 31, 2008 is mainly due to the synergies being realized across all platforms.

General and administrative expenses remained relatively stable at \$79.2 million during the quarter compared to \$78.4 million in 2007.

#### *Depreciation and amortization*

Depreciation and amortization decreased from \$66.8 million to \$45.9 million during the fourth quarter of 2008 compared with the same period last year. The decrease relates to the lower amortization of certain intangible assets related to the acquisitions of Trader, Aliant and LesPAC, offset in part by the amortization of intangible assets of Volt acquired in the second half of 2008.

### *Financial charges*

Financial charges increased from \$33.3 million in the fourth quarter of 2007 to \$42.6 million in the fourth quarter of 2008. The Fund recorded a non-cash charge of \$6 million during the fourth quarter of 2008 versus a credit of \$1.5 million in the fourth quarter of 2007 related to embedded derivative financial instruments. In addition, the balance of the increase is due to interest on new net debt incurred to finance business acquisitions and the repurchase of units under our NCIB program.

### *Dividends on preferred shares*

Dividends on the two series of preferred shares amounted to \$5.7 million for the fourth quarter of 2008. Dividends on the Preferred Shares Series 1 and Series 2 of \$5.7 million were paid during the fourth quarter of 2008. See section 3 – Liquidity and Capital Resources – Cumulative Redeemable Preferred Shares.

### *Provision for (recovery of) income taxes*

The combined statutory provincial and federal tax rate was 31.8% in 2008 and 31.6% in 2007. The Fund recorded tax recoveries of 0.02% and 35.2% of earnings for the three-month periods ended December 31, 2008 and 2007, respectively.

### *Net earnings*

Net earnings decreased by \$56.6 million to reach \$100.5 million during the fourth quarter of 2008. The decrease results from a provision of income taxes of \$0.02 million compared to a recovery of \$40.9 million last year and restructuring and special charges of \$36.2 million partly offset by an increase in income from operations before restructuring and special charges.

## ***Analysis of Adjusted fourth quarter 2008 Results***

### *Adjusted Revenues*

Adjusted Revenues increased by \$12.2 million to \$425.6 million in the fourth quarter of 2008 compared to the same period last year. The increase is driven mainly by online organic growth in the directory segment. Volt contributed \$9.9 million in the quarter.

### *Adjusted EBITDA*

Adjusted EBITDA increased by \$10.4 million to \$231.4 million in the fourth quarter of 2008 compared to the same period last year. This increase is due to organic growth in the directory segment and cost containment initiatives.

Cost of sales increased by \$1 million to \$114.9 million in the fourth quarter of 2008 compared with the same period last year. Volt contributed \$2.4 million of the increase and was partly offset by cost efficiencies in both segments.

Gross profit margin increased from 72.4% in the fourth quarter of 2007 to 73% in the fourth quarter of 2008. The increase is attributable to synergies realized in both segments.

General and administrative expenses remained relatively stable in the fourth quarter of 2008 compared to the same period last year.

## Segmented Information – Directories

### **Key Performance Indicators**

Each year, we set targets to advance our goals and drive results. The targets below were established in August 2007 based on our economic and business outlooks for 2008 at that time. In preparing our 2008 outlook, we made assumptions that the Canadian macroeconomic conditions would remain largely unchanged relative to 2007. We considered competitive activity in some of our localized markets and our ability to respond to changing market conditions while offering our advertisers new products and services that are intended to position the directory category both print and online. We also considered third party expectations regarding Canadian advertising trends as well as expected migration from print to online advertising solutions for advertisers taking into account changing consumer trends affecting local commercial search.

During the last six months, we have observed a more cautious behaviour from advertisers due to the adverse economic conditions they are experiencing. We have in the past demonstrated our ability to sustain stable and consistent growth during economic downturns and as a result, our revenues continue to grow despite the protracted economic and market environment highlighting the resilient nature of our national directory platform.

The table below incorporates the results of Aliant in 2007 as if YPG had owned that entity all year in order to better discuss performance on a comparable basis.

### **Year-over-Year Performance<sup>1</sup>**

	<b>2008 Target</b>	<b>Three-month period ended December 31, 2008</b>	<b>Year ended December 31, 2008</b>
Adjusted Revenue growth – On a comparable basis	4% to 5%	2.8%	3.5%
Adjusted EBITDA growth – On a comparable basis	4% to 7%	4.1%	4.9%

Adjusted Revenues on a comparable basis grew below our original 2008 target range for the year ended December 31, 2008 at 3.5% and for the fourth quarter of 2008 at 2.8%. This level of growth is consistent with what we had previously disclosed in the third quarter. Adjusted EBITDA on a comparable basis grew within our 2008 target range at 4.1% for the fourth quarter of 2008, and at 4.9% for the year ended December 31, 2008. The adjusted revenue growth reflects a lower than expected performance in certain large urban markets specifically in the print category, which was partially offset by continued strong online revenue performance. Our objective of providing our customers with high quality leads through compelling print and online bundles continues to support increased online penetration of the print advertiser base and to drive strong internet revenue growth. While directory revenues benefit from some level of diversification across multiple headings and regional geographies, a slowing of the economy and what we believe to be a generalized reduction in advertising spending mitigated revenue growth.

<sup>1</sup> Excludes the results of Volt for the period from acquisition September 5, 2008 to December 31, 2008.

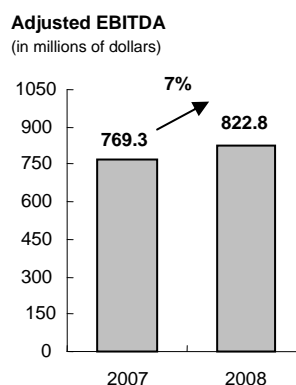
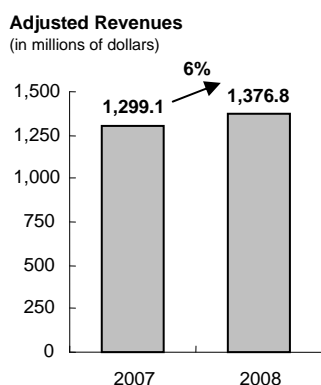
**Operating and Financial Results**

**Operating Results<sup>1</sup>**

(in thousands of Canadian dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
Revenues	\$354,814	\$334,655	\$1,376,036	\$1,294,548
Operating costs	146,351	135,304	551,528	522,147
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	208,463	199,351	824,508	772,401
Depreciation and amortization	39,818	54,648	157,376	179,227
Restructuring and special charges	24,068	-	24,068	-
Income from operations	\$144,577	\$144,703	\$643,064	\$593,174
Revenues	\$354,814	\$334,655	\$1,376,036	\$1,294,548
Elimination of purchase accounting impact	-	806	751	4,526
<b>Adjusted Revenues</b>	<b>\$354,814</b>	<b>\$335,461</b>	<b>\$1,376,787</b>	<b>\$1,299,074</b>
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	\$208,463	\$199,351	\$824,508	\$772,401
Elimination of purchase accounting impact	(115)	(875)	(1,754)	(3,113)
<b>Adjusted EBITDA</b>	<b>\$208,348</b>	<b>\$198,476</b>	<b>\$822,754</b>	<b>\$769,288</b>

<sup>1</sup> See Note 27 - Segmented Information of the audited consolidated financial statements of the Company for the year ended December 31, 2008.



## ***Analysis of Operating and Financial Results – Year End and Fourth Quarter***

### *Revenues and Adjusted Revenues*

Revenues increased by \$20.2 million to \$354.8 million during the fourth quarter of 2008 and by \$81.5 million to reach \$1,376 million for the year ended December 31, 2008, compared with the same periods last year. Excluding the effect of purchase accounting, Adjusted Revenues increased by \$19.4 million to \$354.8 million during the fourth quarter of 2008 and by \$77.7 million to \$1,376.8 million for the year ended December 31, 2008, compared with the same periods last year. Organic growth amounted to \$9.4 million or 2.8% for the fourth quarter of 2008, and \$46 million or 3.5% for the year ended December 31, 2008 driven by our increased online penetration; as of December 31, 2008 the number of directories customers choosing to advertise both in print and online reached 59% across Canada compared to 54% for the corresponding period last year. The increase for the year attributable to the acquisition of Aliant in 2007 amounted to \$19.4 million as 2007 included only a 12.86% share of Aliant for the period up to April 30, 2007. Volt contributed \$12.3 million of revenues for the period since acquisition to December 31, 2008.

### *EBITDA and Adjusted EBITDA*

EBITDA increased by \$9.1 million to \$208.5 million in the fourth quarter of 2008 and by \$52.1 million to reach \$824.5 million for the year ended December 31, 2008, compared with the same period last year. Excluding the effect of purchase accounting, Adjusted EBITDA increased by \$9.9 million to \$208.3 million in the fourth quarter of 2008 and by \$53.5 million to \$822.8 million for the year ended December 31, 2008, compared with the same periods last year. The increases result from our organic growth in revenues and our cost containment efforts and synergies realized from the acquisition of Aliant. Volt contributed \$2.3 million of EBITDA for the period since acquisition to December 31, 2008.

Cost of sales amounted to \$80 million in the fourth quarter of 2008 compared with \$73.6 million for the same period last year. For the year ended December 31, 2008, cost of sales was \$310.3 million compared to \$283.3 million in 2007. Excluding the effect of purchase accounting, cost of sales increased in the fourth quarter of 2008 to \$80.1 million compared with \$75.3 million for the same period last year due to increased revenues. For the year ended December 31, 2008, cost of sales increased to \$312.8 million compared to \$290.9 million for the same period last year, mainly due to the acquisition of Aliant and higher direct costs from higher revenues.

Gross profit margin was lower at 77.5% in the fourth quarter of 2008 compared to 78% for the same period last year and 77.4% for the year ended December 31, 2008 compared to 78.1% for the same period last year. Excluding the effect of purchase accounting, gross profit margin was 77.4% in the fourth quarter of 2008 compared to 77.6% for the same period last year and 77.3% for the year ended December 31, 2008 compared to 77.6% for the same period last year.

General and administrative expenses in the fourth quarter of 2008 decreased by \$4.7 million to \$66.4 million and by \$2.3 million to \$241.2 million for the year ended December 31, 2008 compared with the same periods last year due to cost containment initiatives.

### *Depreciation and amortization*

Depreciation and amortization decreased from \$54.6 million in the fourth quarter of 2007 to \$39.8 million in the fourth quarter of 2008. The decrease in the fourth quarter compared to the same period last year is due to the lower amortization of intangible assets of Aliant and MTS which were respectively acquired in 2007 and 2006. For the year ended December 31, 2008, compared to the same period last year, depreciation and amortization decreased to \$157.4 million from \$179.2 million. This year over year decrease substantially relates to lower amortization of intangible assets of Aliant and MTS offset by the acquisitions of TBay Tel directories (ThunderBay) in the first quarter of 2008 and Volt in the third quarter of 2008. Excluding the effect of purchase accounting, depreciation and amortization was \$11.2 million for the fourth quarter of 2008, down slightly from \$11 million for the fourth quarter of 2007 and \$44.6 million for the year ended December 31, 2008 when compared to \$39.7 million for the same period last year. Given the recent acquisition of Volt, we expect amortization to increase in the coming quarters mostly related to the amortization of software.

*Restructuring Initiatives*

In conjunction with the acquisition of the Volt business, we reviewed our existing directory operations and are undertaking additional restructuring initiatives to further improve our operational capabilities. During the fourth quarter we finalized our estimates and recorded non-recurring charges higher than originally anticipated relating to an internal reorganization, workforce reduction and the termination of certain contractual commitments amounting to \$24.1 million.

Segmented Information – Vertical Media

**Key Performance Indicators**

Each year, we set targets to advance our goals and drive results similarly to the Directory segment. The targets below were established in August 2007 based on our economic and business outlooks for 2008 at that time. In preparing our 2008 outlook, we made assumptions that the Canadian macroeconomic conditions would remain largely unchanged relative to 2007. We also considered third party expectations regarding Canadian advertising trends as well as expected migration from print to online advertising solutions for advertisers. The migration from print to online in the vertical segment is accelerating with 35.8% of Vertical Media revenues generated from online for the month of December. The strong adoption of our online offerings continues to drive online organic growth.

The table below incorporates the results of LesPAC in 2007 as if YPG had owned that entity all year and excludes the results of the Trader US operations from the beginning of the reporting periods in 2007 and 2008 following the sale of our former US business in October 2008, in order to better discuss performance on a comparable basis.

**Year-over-Year Performance**

	2008 Target	Three-month period ended December 31, 2008	Year ended December 31, 2008
Revenue growth – On a comparable basis	5% to 7%	(7%)	(1.8%)
EBITDA growth – On a comparable basis	7% to 9%	3.7%	6.1%

Revenues on a comparable basis were lower by 7% for the fourth quarter and lower by 1.8% for the year ended December 31, 2008. During the fourth quarter, we discontinued certain publications which we considered under performing and closed certain ad centers. If we consider these changes, revenues on a comparable basis would have decreased by 6% for the quarter and 1.5% for the year-ended December 31, 2008. Continued change management surrounding the progressive integration of several technology platforms across the country has caused delays in the introduction of new revenue initiatives and product launches during the year. This combined with adverse economic conditions which were heightened in the fourth quarter impacted our ability to generate revenue growth consistent with our objectives. In our largest vertical, representing almost two-thirds of Trader revenues, reduced spending on vehicle advertising reflected slower economic growth that impacted vehicle sales as potential buyers limited their spending. In the real estate vertical, representing 18% of revenues, there are declining vacancy rates for rental properties across Canada directly impacting our rental print advertising revenues. Activity in the resale market generally has slowed and advertisers are delaying advertising. EBITDA grew below our target range at 3.7% for the fourth quarter as a result of the accelerated revenue shortfall offset by cost savings from our cost containment initiatives and slightly below our target range at 6.1% for the year ended December 31, 2008.

## Operating and Financial Results

### Operating Results<sup>1</sup>

(in thousands of Canadian dollars)

	Three-month periods ended		Years ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Revenues	\$70,745	\$77,911	\$320,677	\$329,876
Operating costs	47,669	55,366	212,479	228,117
Income from operations before depreciation and amortization and restructuring and special charges (EBITDA)	23,076	22,545	108,198	101,759
Depreciation and amortization	6,054	12,178	28,689	46,357
Restructuring and special charges	12,157	-	12,157	-
Income from operations	\$4,865	\$10,367	\$67,352	\$55,402

<sup>1</sup> See Note 27 – Segmented Information of the audited consolidated financial statements of the Company for the year ended December 31, 2008.

### Analysis of Operating and Financial Results –Year End and Fourth Quarter

#### Revenues

Revenues from our Vertical Media segment amounted to \$70.7 million in the three-month period ended December 31, 2008 compared to \$77.9 million for the same period last year, and \$320.7 million for the year ended December 31, 2007 compared to \$329.9 million. Excluding the U.S. operations, the lower revenues for the quarter and year ended December 31, 2008, is mainly attributable to the Generalist and Employment product verticals in Canada.

#### EBITDA

EBITDA increased by \$0.5 million to \$23.1 million for the three-month period ended December 31, 2008 and increased by \$6.4 million to \$108.2 million for the year ended December 31, 2008, compared to the same periods last year.

Cost of sales decreased to \$34.8 million for the fourth quarter of 2008 compared to \$38.6 million for the same period last year. For the year ended December 31, 2008, cost of sales was \$153.7 million compared to \$160.4 million for the same period last year. These results directly relate to the decline in revenues and are a reflection of our cost containment efforts.

Gross profit margin was 50.8% for the fourth quarter of 2008 compared to 50.4% for the same period last year and 52.1% for the year ended December 31, 2008 compared to 51.4% for the same period last year.

General and administrative expenses amounted to \$12.9 million in the fourth quarter of 2008 compared to \$16.7 million for the same period last year. For the year ended December 31, 2008, general and administrative expenses were \$58.8 million compared to \$67.7 million for the same period last year. The reduction is a reflection of our cost containment initiatives in 2008.

#### *Depreciation and amortization*

Depreciation and amortization amounted to \$6.1 million in the fourth quarter of 2008 compared to \$12.2 million for the same period last year and \$28.7 million for the year ended December 31, 2008 compared to \$46.4 million for the same period last year. Excluding the effect of purchase accounting, depreciation and amortization was \$6 million for the fourth quarter of 2008 compared to \$11.6 million for the same period last year, and \$18.4 million for the year ended December 31, 2008 compared to \$19.3 million for the same period last year. During the last quarter of 2007, depreciation and amortization included a charge of \$8.5 million relating to assets which were written off. The remainder of the change is due to the amortization associated with new systems implementation.

#### *Divestiture of US Operations*

As part of the Classified Media (Canada) Holdings Inc. (Trader Canada) acquisition in June 2006, the Fund acquired classified advertising operations of limited scope in the United States in the states of Tennessee, Indiana and Kentucky. These operations were comprised of 10 print publications. A number of initiatives were executed in the last 24 months to contain costs and streamline these US operations. However, given their lack of scale and their limited geographic location, these operations were considered non-core for Trader. We made the decision to dispose of these US operations in 2008. A transaction was completed on October 31, 2008 whereby Trader divested its US operations for a nominal cash consideration. For the ten-month period ended October 31, 2008 revenues generated by Trader's US operations were \$7.6 million compared with \$12.5 million for the year-ended December 31, 2007. On a comparable basis, for the ten-month period in 2008 that we operated the US operations, revenues declined by 30.4% or \$3.3 million.

#### *Restructuring Initiatives*

During the fourth quarter of 2008, we continued to make progress in positioning Trader Corporation for future growth and sustained profitability by further integrating operations across Canada and improving productivity through the implementation of harmonized business processes, the deployment of new technology and improved product sets for advertisers. Trader management also developed and executed restructuring and other initiatives to further improve Trader's EBITDA generation. These restructuring initiatives include an internal reorganization, an in-depth review of supply chain and distribution expenses, the acceleration of business process changes in our call centers located in Vancouver, Toronto and Montreal, the discontinuance of under-performing publications, the closure of certain ad centers and other cost containment efforts. The revenues generated from the underperforming publications and ad centers amounted to \$7.6 million on an annual basis. As a result of the above-mentioned initiatives, the Fund recorded during the fourth quarter of 2008 restructuring and other special charges of \$12.2 million, slightly higher than originally anticipated.

### 3. Liquidity and Capital Resources

This section examines the Company's capital structure, including the sources of liquidity and the various financial instruments of its debt and preferred share portfolio.

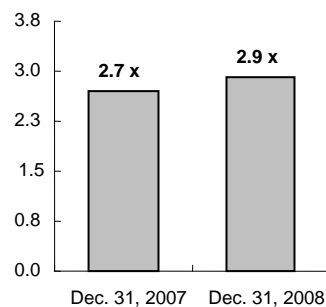
#### Financial Position

##### Capital Structure

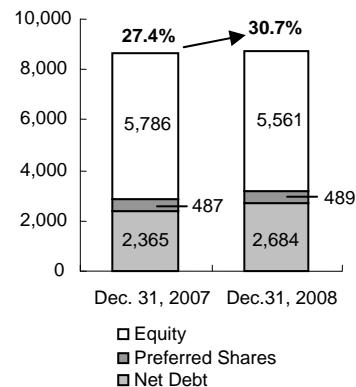
(in thousands of Canadian dollars)

	As at December 31, 2008	As at December 31, 2007
Cash and cash equivalents	\$25,054	\$53,275
Medium Term Notes	2,051,370	2,048,067
Exchangeable Debentures	285,470	280,553
Revolving credit facilities	358,700	72,000
Obligations under capital leases	13,786	17,528
Long-term debt, including current portion	\$2,709,326	\$2,418,148
<b>Net debt (net of cash and cash equivalents)</b>	<b>\$2,684,272</b>	<b>\$2,364,873</b>
Preferred shares	489,072	487,238
<b>Net debt and Preferred shares (net of cash and cash equivalents)</b>	<b>3,173,344</b>	<b>2,852,111</b>
Unitholders' equity	5,561,492	5,786,180
<b>Total capitalization including Preferred shares</b>	<b>\$8,734,836</b>	<b>\$8,638,291</b>
Net debt to total capitalization	30.7%	27.4%
Net debt and Preferred shares to total capitalization	36.3%	33.0%

**Net Debt to Latest Twelve Month Adjusted EBITDA<sup>1</sup>  
Ratio**



**Net debt to total capitalization  
(in millions of dollars)**



<sup>1</sup> Income from operations before depreciation and amortization and restructuring and special charges adjusted for comparability purposes, removing the effect of purchase accounting related to the acquisitions of the assets of MTS, Aliant and Vertical Guides LP and giving effect to the impact of the LesPAC, Aliant and Volt acquisitions as if the Fund has owned these entities from the beginning of each respective year ("Latest Twelve Month Adjusted EBITDA").

As at December 31, 2008, YPG had approximately \$2.7 billion of debt net of cash and cash equivalents, or \$3.2 billion including preferred shares, compared to \$2.4 billion of debt net of cash and cash equivalents, or \$2.9 billion including preferred shares, as of December 31, 2007. The net debt and preferred shares position increased during the year as the positive operating free cash flow (net of distributions) was offset by capital deployed for the Volt acquisition (\$192.5 million) and the acquisition of the directory assets of Thunderbay (\$17.3 million), and the cash outflow for the repurchase of units under the Normal course issuer bid (NCIB) program (\$122.1 million). The net debt to Latest Twelve Month Adjusted EBITDA<sup>1</sup> ratio as of December 31, 2008 was up slightly compared to December 31, 2007 at 2.9 times. The net debt and preferred shares to Latest Twelve Month Adjusted EBITDA<sup>1</sup> ratio was at 3.4 times as of December 31, 2008. The net debt to total capitalization was at 30.7 % compared to 27.4% as of December 31, 2007, and the net debt and preferred shares to total capitalization stands at 36.3% as of December 31, 2008 compared to 33% as of December 31, 2007.

### ***Revolving Credit Facilities and Commercial Paper Program***

YPG currently has in place two senior unsecured revolving credit facilities totalling \$1.15 billion consisting of:

- A \$700 million unsecured revolving credit facility, which is composed of two tranches (the Principal Revolving Facility):
  - a \$500 million 364-day revolving tranche with a 2-year term-out option maturing in May 2011; and
  - a \$200 million 5-year revolving tranche maturing in May 2012;
- A \$450 million 364-day unsecured revolving credit facility with a 2-year term-out option maturing in May 2011 (the New Revolving Facility).

The total amount of the Principal Revolving Facility can be used as back-up for the commercial paper program and for general corporate purposes. The 364-day tranche can be extended annually, subject to the lender's consent. If not extended, any amount drawn may be converted, at our option, into a 2-year non-revolving term loan.

On May 8, 2008, the Company increased its sources of liquidity by entering into the New Credit Facility which, at that time, provided a \$250 million senior unsecured revolving credit facility. On December 19, 2008, the size of the New Credit Facility was increased to \$450 million. This facility has a 364-day revolving tranche with a 2-year term-out option that matures in May 2011. The tranche can be extended annually, subject to the lender's consent. If not extended, any amount drawn may be converted, at our option, into a 2-year non-revolving term loan. The New Revolving Facility can be used for general corporate purposes.

YPG Holdings Inc., a subsidiary of YPG, maintains a commercial paper program with an authorized limit of \$500 million. The Principal Revolving Facility serves as a back-up facility for the program. As at December 31, 2008 and 2007, no amount was outstanding. Commercial paper was issued in 2008 between February and September. Towards the end of the third quarter, given difficult market conditions in the Canadian money markets affecting commercial paper issuers, the Company made the decision to draw amounts under the Principal Revolving Facility to replace maturing commercial paper and to fund its short-term liquidity requirements. Therefore, as of December 31, 2008, an amount of \$358.7 million was drawn under the Principal Revolving Facility. No amount was drawn under the New Revolving Facility.

<sup>1</sup> Income from operations before depreciation and amortization and restructuring and special charges adjusted for comparability purposes, removing the effect of purchase accounting related to the acquisitions of the assets of MTS, Aliant and Vertical Guides LP and giving effect to the impact of the LesPAC, Aliant and Volt acquisitions as if the Fund has owned these entities from the beginning of each respective year ("Latest Twelve Month Adjusted EBITDA").

Both credit facilities are subject to customary terms and conditions including limits on pledging assets without the consent of lenders. These facilities are also subject to the maintenance of a maximum ratio of funded debt to Latest Twelve Month Adjusted EBITDA<sup>1</sup> of 4.25 times and a minimum ratio of Latest Twelve Month Adjusted EBITDA<sup>1</sup> to cash interest expense on total debt of 3.5 times.

YPG was in compliance with all of its debt covenants as at December 31, 2008.

### ***Medium Term Note Program***

YPG Holdings Inc. has a total of \$2.1 billion of notes outstanding under its Medium Term Note program with varying maturity dates between 2009 and 2036. The medium term notes Series 1 in the amount of \$450 million will mature in April 2009. The Company has committed availability under its Principal Revolving Facility and its New Revolving Facility to re-finance these notes at maturity (see Liquidity Section below).

### ***Exchangeable Unsecured Subordinated Debentures***

YPG Holdings Inc. has a total of \$300 million of Exchangeable Unsecured Subordinated Debentures outstanding (the Exchangeable Debentures). The Exchangeable Debentures have a maturity date of August 1, 2011 and are exchangeable at any time, at the option of the holder, for units of the Fund at an exchange price of \$20.00 per unit. The Exchangeable Debentures are redeemable at par at the option of YPG Holdings Inc. after August 1, 2009, subject to certain restrictions. The Exchangeable Debentures also provide YPG Holdings Inc. with the option to repay the principal and interest in units of the Fund. An amount of approximately \$13 million, representing the value of the exchange option, has been classified as a component of Unitholders' equity on the balance sheet. There has not been any exchange of the Exchangeable Debentures during the year.

### ***Cumulative Redeemable Preferred Shares***

YPG Holdings Inc. has two series of cumulative redeemable first preferred shares outstanding. On March 6, 2007, 12,000,000 cumulative redeemable preferred shares, Series 1 (Preferred Shares Series 1) were issued for gross proceeds of \$300 million. A dividend of \$1.0625 per share per annum is payable quarterly on the Preferred Shares Series 1, yielding 4.25% per annum. The Preferred Shares Series 1 are redeemable by the issuer at par for cash on or after March 31, 2012, or by the issuance of units of the Fund between March 31, 2012 and December 31, 2012. The Preferred Shares Series 1 are also retractable for cash at the holder's option on or after December 31, 2012 at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears.

On June 8, 2007, 8,000,000 cumulative redeemable preferred shares, Series 2 (the Preferred Shares Series 2) were issued for gross proceeds of \$200 million. A dividend of \$1.25 per share per annum is payable quarterly, yielding 5.0% per annum. The Preferred Shares Series 2 are redeemable by the issuer at a decreasing premium for cash on or after June 30, 2012, or by the issuance of units of the Fund between June 30, 2012 and June 30, 2017. The Preferred Shares Series 2 are also retractable for cash at the holder's option on or after June 30, 2017 at a price equal to \$25.00 per share plus any accrued and unpaid dividends in arrears.

### ***Liquidity***

As part of its capital structure guidelines, YPG remains committed to maintaining adequate liquidity at all times. To this end, YPG has access to committed bank lines, and has been proactive in increasing its liquidity and capital resources during 2008, taking a prudent approach in the context of challenging credit market conditions. YPG currently maintains two credit facilities totalling \$1.15 billion, providing ample liquidity to fund its operations.

<sup>1</sup> Income from operations before depreciation and amortization and restructuring and special charges adjusted for comparability purposes, removing the effect of purchase accounting related to the acquisitions of the assets of MTS, Aliant and Vertical Guides LP and giving effect to the impact of the LesPAC, Aliant and Volt acquisitions as if the Fund has owned these entities from the beginning of each respective year ("Latest Twelve Month Adjusted EBITDA").

On December 31, 2008, cash and cash equivalents amounted to \$25.1 million. In addition to cash and cash equivalents, YPG Holdings Inc. may issue additional notes amounting to \$500 million under its commercial paper program and access another \$291.3 million under its revolving credit facilities. Alternatively, if additional notes are not issued under the commercial paper program, YPG Holdings may access the full \$791.3 million available under its revolving credit facilities.

In April 2009, YPG will be repaying at maturity the series 1 medium term notes issued in April 2004 (\$450 million) and currently intends to draw under the New Revolving Facility to refinance these notes. We will also continue to monitor conditions in the fixed income market. Under our June 2008 Short Form Base Shelf Prospectus we may issue up to \$1.0 billion of new debt securities. Consistent with our past financing practices, our objectives would be to extend the term of our debt and to diversify our sources of funding. Over time, we intend to refinance drawings under the credit facilities with longer term funded debt or through the issuance of other capital market securities.

**Unit data**

As at February 12, 2009 outstanding unit data was as follows:

<b>Outstanding Unit Data</b>			
	<b>As at February 12, 2009</b>	<b>As at December 31, 2008</b>	<b>As at December 31, 2007</b>
Units outstanding	<b>518,033,759</b>	518,301,059	533,188,571
Options outstanding	<b>394,912</b>	394,912	977,600

The units are voting and participate equally in the income, losses and capital distributions of the Fund. In February 2006, 19,000,000 Exchangeable Units of YPG LP (exchangeable for units of the Fund) were issued as a partial consideration for the acquisition of Trader Media Corp. (TMC), one of two companies from which we have built our Vertical Media business. During the first half of 2007, 5,000,000 Exchangeable Units of YPG LP were exchanged for an equal number of Units of the Fund. On January 18, 2008, 3,185,000 Exchangeable Units of YPG LP were exchanged for an equal number of Units of the Fund. As a result, at February 12, 2009, 10,815,000 Exchangeable Units of YPG LP remain outstanding. The units underlying the outstanding Exchangeable Units of YPG LP are included in the outstanding unit data.

No options were granted following the inception of the Fund.

YPG Holdings Inc. also has a total of \$300 million of Exchangeable Debentures which are exchangeable at any time, at the option of the holder into units of the Fund at an exchange price of \$20.00 per unit.

YPG Holdings Inc. has also issued 12,000,000 Preferred Shares Series 1 for gross proceeds of \$300 million and 8,000,000 Preferred Shares Series 2 for gross proceeds of \$200 million. Both series of preferred shares are redeemable by the issuer under certain conditions through the issuance of units of the Fund.

**Normal course issuer bid**

On March 28, 2008, the Fund received approval from the Toronto Stock Exchange on its notice of intention to make a normal course issuer bid for its units through the facilities of the Toronto Stock Exchange from April 2, 2008 to April 1, 2009, in accordance with applicable rules of the Toronto Stock Exchange. Under its normal course issuer bid, the Fund can purchase for cancellation up to 25 million units, representing approximately 5% of its units outstanding.

During the year, the Fund repurchased for cancellation 15,470,200 units at an average price of \$8.63 per unit for an amount of \$133.6 million including brokerage fees. Some of the units repurchased during the last three days of December were settled in the first quarter of 2009. Therefore the amount paid by the Fund during the year totalled \$122.1 million.

### ***Pension Obligations***

YPG sponsors a registered pension plan with a defined benefit component and a defined contribution component covering substantially all employees of Yellow Pages Group (the "YPG Pension Plan"). The Fund also sponsors a separate defined contribution pension plan covering substantially all employees of Trader Corporation (the "Trader Pension Plan").

Effective January 1, 2006, the defined benefit component of the YPG Pension Plan was closed to new employees. As of the same date, the defined contribution component was implemented to offer pension benefits to new employees. The YPG Pension Plan has approximately 3,500 members under the defined benefit component of the plan, of which 25% are pensioners or survivors. As at December 31, 2008, the plan assets totalled \$378 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. The plan's rate of return on assets for 2008 was -13.5%, reflecting the general market downturn. The plan's return was 3% higher than that of our benchmark portfolio, aided by the strong performance of our pension managers under difficult market conditions and an underweight position in Canadian equities during the last few months of the year.

The most recent actuarial valuation of the YPG Pension Plan for funding purposes was performed as at December 31, 2006. This valuation established the amount of contributions the Company is required to make under the YPG Pension Plan from the valuation date until the next valuation, which is due no later than December 31, 2009. The December 2006 valuation disclosed a funding surplus of \$72 million and a solvency surplus of \$76 million. In compliance with tax rules, no employer contributions are permitted before December 31, 2009. As a result, YPG has been benefiting from a contribution holiday since the latest valuation and such contribution holiday will continue into 2009. Although a complete actuarial valuation was not performed, management has estimated that if a valuation had been performed as at December 31, 2008, the plan would have shown a solvency deficit estimated at \$60 million and a funding surplus estimated at \$34 million. Under current regulations the Fund would have been required to make annual amortization payments estimated at \$13 million to liquidate the solvency deficit over a period of 5 years, as well as current service contributions of approximately \$12 million for the defined benefit component in respect of 2009. These estimates of the financial situation of the YPG Pension Plan as at December 31, 2008 were projected from the valuation results as at December 31, 2006 using the same actuarial methods and assumptions except for the solvency basis, which was updated to reflect the market conditions as at December 31, 2008. The Plan's asset value was based on the financial asset information as at December 31, 2008.

From an accounting perspective, the pension expense for the YPG Pension Plan reached \$12.9 million in 2008, representing approximately 1% of the consolidated EBITDA for the year. Based on the market as at December 31, 2008, we currently expect a \$3 million increase in the pension expense for 2009. The pension expense for the defined benefit component is primarily sensitive to the pension fund investment performance and the discount rate used. Based on the current accounting funded status of our pension plan, each one-percentage-point decrease in the long-term asset rate of return assumption or one-percentage-point decrease in the discount rate assumption results in an estimated increase of approximately \$3.6 million in our 2009 pension expense.

## Contractual Obligations and Other Commitments

### Contractual obligations

(in thousands of Canadian dollars)

	Payments due for the periods ending December 31			
	Total	1 – 3 years	4 – 5 years	After 5 years
Long-term debt <sup>1,2</sup>	\$2,708,700	\$1,058,700	\$200,000	\$1,450,000
Obligations under capital leases	13,786	9,856	3,548	382
Preferred shares <sup>2</sup>	500,000	-	300,000	200,000
Operating leases	174,980	66,945	36,601	71,434
Purchase obligations	28,712	24,748	964	3,000
<b>Total contractual obligations</b>	<b>\$3,426,178</b>	<b>\$1,160,249</b>	<b>\$541,113</b>	<b>\$1,724,816</b>

<sup>1</sup> Including Exchangeable Debentures

<sup>2</sup> Principal amount

### **Obligations under capital leases**

We enter into capital lease agreements for office equipment and software. As of December 31, 2008, minimum payments under these capital leases up to 2015 totalled \$13.8 million.

### **Operating leases**

We rent our premises and equipment under various operating leases. As of December 31, 2008, minimum payments under these operating leases up to 2019 totalled \$175 million.

### **Purchase obligations**

We use the services of outside suppliers to distribute our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2009 and 2038. As at December 31, 2008, we have an obligation to purchase services for \$28.7 million over the next five years and thereafter. Cash from operations will be used to meet these purchase obligations.

## Sources and Uses of Cash

Consistent with other directories and media companies active in vertical media, the Company has minimal capital spending requirements combined with low operating costs.

### Sources and Uses of Cash

*in thousands of Canadian dollars*

	Years ended December 31,	
	2008	2007
<b>Cash flow from operating activities</b>		
Cash flow from operations	\$746,290	\$737,801
Change in operating assets and liabilities	(53,934)	(42,261)
	<b>\$692,356</b>	<b>\$695,540</b>
<b>Cash flow used in investing activities</b>		
Business acquisitions, net of cash acquired and bank indebtedness assumed	\$(212,125)	\$(341,648)
Acquisition of capital assets	(43,423)	(73,129)
Proceeds from lease inducements	266	5,840
Acquisition of investment	-	(5,003)
Acquisition of intangibles	(100)	(93)
	<b>\$(255,382)</b>	<b>\$(414,033)</b>
<b>Cash flow used in financing activities</b>		
Issuance of long-term debt	\$424,055	\$72,000
Repayment of long-term debt	(141,866)	(246,747)
Issuance of preferred shares	-	500,000
Distributions to Unitholders	(599,431)	(580,104)
Repurchase of Units	(122,102)	-
Other	(25,970)	(30,789)
	<b>\$(465,314)</b>	<b>\$(285,640)</b>

#### **Cash flow from operating activities**

Cash flow from operating activities was essentially unchanged when compared to the same period last year, reaching \$692.4 million in 2008. The increase in cash flow from operations of \$8.5 million for the year ended December 31, 2008, reflects the additional Adjusted EBITDA contribution generated through our operations partly offset by higher preferred share dividends and tax related amounts. The decrease in operating assets and liabilities for the year was \$11.7 million higher than the corresponding period last year. These changes are mainly due to the timing of the payment of certain accounts payable and accrued liabilities as reflected on our balance sheet.

The Company generates sufficient cash flow from operations to fund capital expenditures, distributions, working capital requirements and to service its debt obligations. Please refer to Distributable Cash in Section 4 to understand the impact of new tax proposals from the Federal Minister of Finance on cash flow from operating activities.

#### **Cash flow used in investing activities**

Cash used in investing activities decreased during the year from \$414 million in 2007 to \$255 million in 2008. During the year, we acquired the assets of ThunderBay and Volt and the shares of Get it Pages representing a total cash outflow of \$212.1 million. In 2007, the cash used in investing activities was related to the acquisitions of Aliant and LesPAC. Also, in 2008 acquisition of capital assets decreased from \$73.1 million in 2007 to \$43.4 million in 2008 as described below.

## Acquisition of Capital Assets, Net of Lease Inducements

(in thousands of Canadian dollars)

	Years ended December 31,	
	2008	2007
Transition capital	\$4,530	\$13,467
Maintenance	21,101	22,892
New initiatives	16,450	21,224
Leasehold improvements, net of lease inducements	5,030	16,235
<b>Total</b>	<b>\$47,111</b>	<b>\$73,818</b>
Adjustment to reflect expenditures on a cash basis	(3,954)	(6,529)
<b>Acquisition of capital assets, net of lease inducements</b>	<b>\$43,157</b>	<b>\$67,289</b>

Transition Capital – Amounts in 2007 relate to the acquisitions of TMC and Trader Canada. Amounts were spent in prior years for purposes of integrating the combined Vertical Media businesses. Amounts in 2008 relate to the acquisition of Volt. We expect to deploy Transition Capital related to the Volt acquisition up to mid-2010 of approximately \$10 million.

Maintenance capital expenditures decreased slightly from \$22.9 million in 2007 to \$21.1 million in 2008.

Capital spending for new initiatives decreased to \$16.5 million for 2008 compared with \$21.2 million for 2007. The decrease is due to lower spending in both segments.

There were no meaningful leasehold improvements projects during the year but we incurred significant costs in 2007 following the acquisition of Trader and MTS in 2006.

Total capital expenditures for the year amounted to \$47.1 million and were in line with expectations.

### **Cash flow used in financing activities**

The increase in the level of cash distributions per unit, partially offset by a reduced number of units outstanding, resulted in an increase in distributions to unitholders from \$580.1 million in 2007 to \$599.4 million in 2008. During the year, the Fund purchased for cancellation 15,470,200 units for a total cost of \$133.6 million including brokerage fees. Some of the units repurchased during the last four days of the month of December were settled only in January.

### Off-Balance Sheet Arrangements

(See Notes 21 and 26 of the Consolidated Financial Statements of the Company for the year ended December 31, 2008).

## Financial and Other Instruments

(See Note 24 of the Consolidated Financial Statements of the Company for the year ended December 31, 2008).

The Company's financial instruments consist of cash and short-term investments, accounts receivable, other investments, accounts payable, distributions payable, short-term and long-term debt, exchangeable debentures, preferred shares and interest rate derivatives.

### ***Derivative Instruments***

We use various derivative financial instruments to manage our exposure to interest rate risks on debt financing. YPG does not hold or use any derivative instruments for speculative trading purposes. We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in our hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

In October 2008, we entered into bond forward transactions totalling \$100 million in order to effectively lock in the 5-year Government of Canada rate on a portion of an expected long-term refinancing. These contracts were maturing in December 2008 and were at rates varying between 2.73% and 2.77%. In December 2008, we determined that given the challenging credit market conditions, the timing of the planned debt issuance became uncertain. As such, the Fund terminated the bond forward agreements resulting in a loss of \$2.7 million.

In October 2008, we also entered into floating to fixed interest rate swaps to fix the rate on our floating rate exposure to the Canadian Banker's acceptance rate. The Fund will pay a fixed rate of interest of 2.25% and receive a floating rate corresponding to the Banker's acceptance rate on an amount of \$150 million between November 3, 2008 and May 3, 2009, increasing to \$300 million from May 3, 2009 to January 5, 2010. As at December 31, 2008, the interest rate swaps met the criteria for hedge accounting.

Taking into consideration the debt instruments outstanding, the preferred shares, the cash and the above-mentioned derivative instruments, our fixed-to-floating ratio was 94% fixed rate as at December 31, 2008. While the counterparties of these agreements expose YPG to credit losses in the event of non-performance, we believe that the possibility of incurring such losses is remote. This is due to the creditworthiness of all counterparties, all of whom are highly-rated Canadian chartered banks.

The Preferred Shares Series 1 and 2 contain options for redemption. These options meet the definition of an embedded derivative. They are recorded at their fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

The carrying value of outstanding interest rate derivatives was a liability of \$4 million and the carrying value of embedded derivatives was \$4.5 million on December 31, 2008. The carrying value is calculated as is customary in the industry using discounted cash flows with quarter-end market rates. For 2008, we reported an unrealized gain of \$0.2 million (2007 – \$2.7 million gain) on derivatives.

### ***Short-term investments***

Credit risk associated with short-term investments is minimized substantially by ensuring that these financial assets are placed with creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

### ***Accounts receivable***

YPG is exposed to credit risk with respect to accounts receivable from customers. With our billing and collection services agreements, Bell, TELUS, MTS Allstream Inc. and Bell Aliant receive money from customers on behalf of YPG. There are no individual customers that account for 1% or more of revenues and there are no accounts receivable from any one individual customer and certified marketing representative that exceeds 5% of the total balance of accounts receivable at any point in time during the year. Included in trade accounts receivable of \$249.8 million at December 31, 2008 is \$45.8 million (2007 - \$46.6 million) to be remitted by Bell, \$26.7 million

(2007 – \$26.8 million) to be remitted by TELUS, \$2.9 million (2007 - \$3.6 million) to be remitted by MTS Allstream Inc. and \$4.4 million (2007 - \$4.5 million) to be remitted by Bell Aliant under their respective billing and collection services agreements.

## 4. Distributable Cash

The Fund's primary source of cash for distributions is cash flow from operating activities. A reconciliation between cash flow from operating activities and distributable cash is provided below:

### Distributable Cash

(in thousands of Canadian dollars)

	Three-month periods ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
<b>Cash flow from operating activities</b>	<b>\$177,651</b>	<b>\$179,908</b>	<b>\$692,356</b>	<b>\$695,540</b>
Operating non-cash items <sup>1</sup>	(3,706)	(3,272)	(19,741)	(20,024)
Change in operating assets and liabilities <sup>2</sup>	(22,229)	3,186	53,934	42,261
Maintenance capital expenditures <sup>3</sup>	(5,293)	(6,513)	(21,101)	(22,892)
Restructuring and special charges <sup>4</sup>	36,225	-	36,225	-
Other <sup>5</sup>	1,899	2,963	9,197	5,581
<b>Distributable cash</b>	<b>\$184,547</b>	<b>\$176,272</b>	<b>\$750,870</b>	<b>\$700,466</b>
Weighted average number of units outstanding	517,811,656	530,803,014	523,444,129	530,604,504
Distributable cash per unit <sup>6</sup>	\$0.36	\$0.33	\$1.43	\$1.32
Distributions declared	\$151,302	\$148,183	\$599,930	\$581,986
Distributions declared per unit	\$0.29	\$0.28	\$1.15	\$1.10
Payout ratio <sup>7</sup>	81%	85%	80%	83%

<sup>1</sup> Represents operating items with no impact on current cash flow such as pension expense and employee-related expenses through restricted unit awards. The likelihood of those elements materializing into outflows on a long term basis is such that management believes it should be included in the calculation in order to reflect the cash generated from the ongoing operations.

<sup>2</sup> Changes in operating assets and liabilities are not considered a source or use of distributable cash. As a result, it is excluded from the calculation as it would introduce cash flow variability and affect underlying cash flow available for distributions.

Various working capital items, including but not limited to the timing of receivables collected and payment of payables and accruals, can have a significant impact on the determination of free cash flow available for distribution. Accordingly, management excludes the impact of changes in non-cash working capital items to remove the resulting variability of including such amounts in the determination of free cash flow available for distribution. Realized changes in working capital and working capital acquired by way of acquisition are typically funded from excess free cash flow available for distribution or the Fund's cash on hand and available credit facilities.

<sup>3</sup> Maintenance capital expenditures refer to capital expenditures that are necessary to sustain current productive capacity. Management believes that maintenance capital expenditures should be funded by cash flow from operating activities. Capital spending for new initiatives are expected to improve future distributable cash and as such are not deducted from cash flow from operating activities. Transition capital is provided for as part of the financing plan of specific business acquisitions and is therefore not funded from distributable cash.

<sup>4</sup> Restructuring and special charges are excluded from the calculation as they do not reflect the ongoing operations of the business.

<sup>5</sup> Includes non-controlling interest related to the LesPAC partnership formed in April 2007, tax related amounts and other amounts that do not reflect the ongoing operations of the business.

<sup>6</sup> Please refer to Section 2 – Highlights by Segment for the calculation of Basic earnings per unit.

<sup>7</sup> The level of distributions paid is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent. See the section Distribution Policy.

## Distributable Cash

(in thousands of Canadian dollars)

	Three-month period ended December 31, 2008	Year ended December 31, 2008	Previously completed fiscal years	
			2007	2006
Cash flow from operating activities	\$177,651	\$692,356	\$695,540	\$601,363
Net earnings	\$100,490	\$509,227	\$527,709	\$431,933
Actual cash distributions declared	\$(151,302)	\$(599,930)	\$(581,986)	\$(527,879)
<b>Excess of cash flows from operating activities over cash distributions declared</b>	<b>\$26,349</b>	<b>\$92,426</b>	<b>\$113,554</b>	<b>\$73,484</b>
<b>Shortfall of net earnings over cash distributions declared</b>	<b>\$(50,812)</b>	<b>\$(90,703)</b>	<b>\$(54,277)</b>	<b>\$(95,946)</b>
Impact of purchase accounting on net earnings	\$28,632	\$122,981	\$166,592	\$125,564
(Shortfall) Excess of net earnings over cash distributions declared excluding impact of purchase accounting	\$(22,180)	\$32,278	\$112,315	\$29,618

Distributions declared exceeded net earnings by \$50.8 million for the three-month period and by \$90.7 million for the year ended December 31, 2008. The Fund does not use net earnings as a basis to calculate distributions. Net earnings in accordance with GAAP include expenses which do not affect cash such as amortization of non-compete agreements, customer contracts and customer relationships. As a result of our acquisitions over the past several years, our net earnings have been affected by purchase accounting, resulting in an increased amount of amortization related to the acquired intangibles. The costs of these intangible assets are included in the purchase price but there are no future cash outflows associated with maintaining these intangible assets. If we exclude the impact of purchase accounting, distributions declared exceeded net earnings by \$22.2 million for the three-month period ended December 31, 2008 and net earnings exceeded distributions declared by \$32.3 million for the year ended December 31, 2008. Net earnings for 2008 include non-cash taxes of \$30.7 million which do not affect cash distributions. Also, net earnings for the three-month period and year ended December 2008 include restructuring and special charges of \$36.2 million which do not reflect the ongoing operations of the business.

Cash distributions declared were lower than distributable cash resulting in a payout ratio of 81% for the three-month period ended December 31, 2008, and 80% for the year ended December 31, 2008. The level of distributions declared is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent.

### **Distributable cash**

Distributable cash increased from \$700.5 million in the year ended December 31, 2007 to \$750.9 million in the year ended December 31, 2008. The increase is mainly due to organic growth in EBITDA for the year ended December 31, 2008. This was partially offset by dividends paid on preferred shares.

Distributable cash per unit increased from \$1.32 in 2007 to \$1.43 in 2008. This increase represents growth of 8.3% for 2008 and is within our 2008 guidance.

The Fund's cumulative distributable cash since its Initial Public Offering ("IPO") in August of 2003 to December 31, 2008 is approximately \$3 billion, or \$6.34 per unit. Total distributions declared during the same period reached approximately \$2.6 billion, or \$5.48 per unit representing a cumulative payout ratio of 86%.

In calculating the Fund's distributable cash, we take into consideration our debt management and our productive capacity maintenance strategies.

Our long-term debt management strategy is to refinance our funded debt at maturity. Our funded debt portfolio currently has an average term of approximately 8 years. We are reasonably assured that we will be able to refinance these obligations given our previously demonstrated access to capital markets, our commitment to investment grade credit ratings, and our adequate liquidity under our existing credit facilities.

We maintain the value of our asset base over time through constant investment in our productive capacity. Such investment, referred to as maintenance capital expenditures, are funded from operational cash flows and deducted from our distributable cash calculation.

Our debt obligations do not restrict our ability to pay distributions as long as we are in compliance with our credit agreements. Our revolving credit facilities do not provide specific limitations on distributions as long as we maintain our investment grade ratings. The agreements also provide for distributions paid for any given 12-month period not to exceed the total distributable cash plus a provision of \$100 million in the event that the Fund becomes non-investment grade, providing us with significant flexibility.

Furthermore, our Medium Term Note program and our Exchangeable Unsecured Subordinated Debentures, which represent \$2.3 billion of our total long-term debt portfolio as of December 31, 2008, do not provide for any contractual limitations on the distribution of cash.

#### ***Distributions declared per unit***

Distributions declared per unit increased from \$1.10 in 2007 to \$1.15 in 2008 as a result of the increase in distributions per unit on an annualized basis.

#### ***Impact of changes to the Canadian Income Tax treatment of income trusts on distributable cash and distributions declared per unit***

On October 31, 2006, the Federal Minister of Finance announced that income other than taxable dividends earned by existing publicly-traded income trusts (or other flow-through entities) such as the Fund, would be taxed beginning in 2011 (October 31, 2006 Announcement). To effect this, the Minister introduced Bill C-52 which received Royal Assent on June 22, 2007. The Bill contained what has become known as the "SIFT Rules" to bring these tax changes into force.

During the four-year interim period, income trusts will be subject to growth guidelines issued by the Federal Department of Finance (the Normal Growth Guidelines). Growth will be measured by the amount of equity issued by the Fund, to benefit from the deferred application of the new tax regime to 2011. Please refer to Section 7 – Risks and Uncertainties: Income Tax Matters of our MD&A for the year ended December 31, 2008 for more details on the SIFT Rules.

Following the October 31, 2006 Announcement, we reiterated periodically that these measures would not affect our business model or operating plans.

#### ***Distribution policy***

Distributable cash per unit amounted to \$1.43 in 2008 while distributions declared per unit amounted to \$1.15. Strong growth in distributable cash has resulted in a progressive reduction in our payout ratio from about 95% at the time of our IPO to 80% in 2008, notwithstanding regular increases in cash distributions to unitholders.

Following the October 31, 2006 Announcement, we indicated that we would continue to monitor closely the Fund's payout ratio over the 2007-2010 period. In the periodic review of distributions, we will continue to take into account the current and prospective performance of our business, with the objective of continuing to progressively reduce our payout ratio during the transition period from an income trust to a corporate structure. With distributable cash per unit

expected to grow at sustainable growth rates in excess of cash distributions, the payout ratio is expected to decline to the low 70% range by 2010.

On December 19, 2008, concurrent with the increase in the size of the New Revolving Facility, we reaffirmed our distribution policy and the current level of cash distributions of \$1.17 per annum. Over the last two years, we have communicated our commitment to a successful conversion from an income trust to a corporate structure. We continue to believe that our ability to generate growing free cash flow from operations will provide the necessary flexibility to fund cash income taxes starting in 2011, which should position us well for a successful transition from an income trust to a corporation on or about December 31, 2010. Please refer to Section 6 – Outlook for more details on the proposed rules on the conversion from an income trust to a corporation.

## 5. Critical Assumptions

When we prepare our financial statements in accordance with Canadian GAAP, we must make certain estimates and assumptions about our business. These estimates and assumptions in turn affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements.

In this section we provide detailed information on these important estimates and assumptions which are under continuous evaluation by the Company.

### Critical Accounting Estimates

We base our estimates and assumptions on past experience and other factors that are deemed reasonable under normal business practices. This involves varying degrees of judgement and uncertainty, thus the amounts currently reported in the financial statements – which we believe to be valid at this time – could prove to be inaccurate in the future.

#### ***Business combinations***

YPG's acquisitions have been accounted for using the purchase method of accounting. Under the purchase method, the acquiring company adds to its own balance sheet the estimated fair values of the acquired company's assets and liabilities.

There are various assumptions made by YPG in determining the fair values of the acquired companies' assets and liabilities. The most significant assumptions, and those requiring the most judgment, involve the estimated fair values of trademarks. To determine the fair value of these trademarks, we adopted the "relief from royalty approach", a valuation technique based on the concept that the Company owns the trademark, and is therefore not required to pay royalties for its use. The amount of the notional royalty payment is used as a surrogate for income attributable to the trademark. The fair value of the trademark is based upon the present value of the expected after-tax royalty or cash flow stream. Among others, significant assumptions include the determination of royalty rates, discount rate, weighted average cost of capital and anticipated average income tax rates.

#### ***Intangibles and goodwill***

Intangibles and goodwill represented 22.4% and 71% respectively (2007 – 22.3% and 70.9%), of YPG's consolidated assets as at December 31, 2008. If the Company's estimated useful lives of these assets were incorrect, we could experience increased or reduced charges for amortization of intangible assets that have finite lives in the future. If the future was to adversely differ from management's best estimate of key economic assumptions, and if associated cash flows were to materially decrease, YPG could potentially experience future material impairment charges related to its intangible assets that have indefinite lives. If intangible assets with indefinite lives were determined to have finite lives at some point in the future, YPG could experience increased charges for amortization of intangible assets. Such charges do not result in a cash outflow and would not affect YPG's liquidity.

### ***Recoverability of intangible assets***

Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset with value as stated – or carried – on our books. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is not considered to be impaired. However, if the reverse is true and the carrying value of the intangible asset exceeds its fair value, it is considered to be impaired. This impairment is defined as the difference between the fair value and the carrying value. This will result in a reduction in the carrying value of the intangible assets on the consolidated balance sheet and in the recognition of a non-cash impairment charge in our operating income metric. Consistent with current industry-specific valuation methods, YPG uses a “discounted expected future cash flow” model in determining the fair value of its intangible assets.

The most significant assumptions underlying the recoverability of intangible assets with indefinite lives include projected revenues and EBITDA, anticipated market share and projected renewal rates. We perform annual impairment tests of our indefinite life intangible assets. In light of the current economic conditions and a decrease in our unit price, we performed an in-depth review of all assumptions used in our models. We also considered the prevailing conditions in our industries. Based on our analysis, we concluded that no impairment charge was required.

### ***Recoverability of goodwill***

Goodwill is not amortized. It is assessed for impairment annually and sometimes more frequently if a change in circumstances indicates that the asset might be impaired. We identify potential goodwill impairment by comparing the fair value of the business to its carrying value on our books. If the carrying value exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. However, if the reverse is true and the fair value exceeds its carrying value, goodwill is considered not to be impaired. A goodwill impairment loss would be recognized to the extent that the carrying value of goodwill exceeds the implied fair value.

Fair value of goodwill is estimated in the same manner as goodwill is determined at the date of acquisition in a business acquisition. Specifically, goodwill is defined as the excess of the fair value of the business over the fair value of the identifiable net assets of the reporting unit. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in our operating income metric. The Company determines fair value by using a “discounted expected future cash flow” model in accordance with recognized valuation methods. The process of determining these fair values requires management to make a number of estimates and assumptions such as projected future sales, cost of sales, earnings, market conditions and discount rates.

As we do each year, management performed a review for impairment of goodwill. In light of the current economic conditions and a decrease in our unit price, we performed an in-depth review of all assumptions used in our models. We also considered the prevailing conditions in our industries and concluded that no adjustment was required.

### ***Allowance for doubtful accounts***

We expect that a certain portion of required customer payments will not be made – what we refer to as “doubtful accounts”. To account for this, we maintain an allowance in our books for these doubtful accounts based on our estimate of the likelihood of recovering certain accounts receivable. It incorporates current and expected collection trends. Accounts receivable represented approximately 40.6% (2007 – 35.8%) of our consolidated tangible assets as at December 31, 2008. If economic conditions change, or actual results or specific industry trends differ from our expectations, we will adjust our allowance for doubtful accounts and our bad debt expense accordingly.

### ***Employee future benefits***

YPG provides its eligible employees with pension benefits under various pension plans. Certain actuarial and economic assumptions used in determining pension costs, accrued pension benefit obligations, and pension plan assets require significant judgment.

The accrued benefit obligation and expense are determined by independent actuaries on an annual basis, using the “projected benefit method” pro-rated for service. They are also based on management's best economic and

demographic estimates, and on significant actuarial assumptions, including employees' expected years of service, retirement age, and specified benefit levels. The discount rate, which is used to determine the accrued benefit obligation, is based on market interest rates on high-quality, long-term bonds. Market changes could have an impact on the discount rate, resulting in an obligation for YPG to make future contributions to its pension plan that could differ significantly from the current estimates. Future increases in compensation to employees are based on current benefit policies and on economic forecasts. Defined benefit pension costs are also affected by the quantitative methods used to determine estimated returns on pension plan assets.

The expected return on the plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns, and asset allocation. There is no assurance that the plan will be able to earn the assumed rate of return.

The significant actuarial assumptions adopted are consistent with what we have used in the past. They reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect our employee benefit obligations, future expenses, and overall financial performance. These changes could be caused, for example, by updated historical information or changes in market conditions.

Any immediate impact is lessened, however, as the net actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the fair value of the plan assets would be amortized over the average remaining service period of active employees covered by the plan.

#### *Change in Accounting Policies*

a) Section 3862, *Financial Instruments – Disclosures*. This section describes the required disclosures related to the significance of financial instruments on the Fund's financial position and performance. It also describes the nature and extent of risks arising from financial instruments to which the Fund is exposed during the period and at the consolidated balance sheet date and how the Fund manages those risks. This section complements the principles of recognition, measurement, and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3863, *Financial Instruments – Presentation* and Section 3865, *Hedges*.

b) Section 3863, *Financial Instruments – Presentation*. This section establishes standards for presentation of financial instruments and non-financial derivatives. It replaces standards of Section 3861, *Financial Instruments – Disclosure and Presentation*.

c) Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

#### **Effect of New Accounting Standards Not Yet Implemented**

a) Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section, issued in February 2008, will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Fund will adopt the new standards for its interim period and fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Fund is currently evaluating the impact of the adoption of this new section and amendments on the consolidated financial statements.

b) International Financial Reporting Standards (IFRS).

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

The Fund has established a changeover plan to convert to these new standards according to the timetable set with these new rules. An implementation team has been created that is led by finance management, and will include representatives from various areas of the organization as necessary to plan for and achieve a smooth transition to IFRS. Third party advisors have also been engaged to provide training to our staff.

The implementation project consists of three primary phases, which in certain cases will be in process concurrently as IFRS is applied to specific areas from start to finish:

- Scoping and diagnostic phase — This phase involves performing a detailed diagnostic comparing Canadian GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS.
- Impact analysis and design phase — In this phase, each area identified from the scoping and diagnostic phase will be addressed. This phase will determine changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content. The Fund is also assessing the impact of the conversion on our business activities including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls.
- Implementation and review phase — This phase will include execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across the Fund's finance and other staff, as necessary. The ultimate objective being able to provide IFRS compliant financial information.

The Fund completed the scoping and diagnostic phase in the fourth quarter of 2008, and is now in the impact analysis and design phase. The Fund's analysis of IFRS in comparison to Canadian GAAP has identified a number of differences. At this time, the impact on our future financial position and results of operations is not reasonably determinable or estimable.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Fund is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the Fund's circumstances.

c) Section 1582, *Business Combinations*. This new Section will be applicable to business combinations for which the acquisition date is on or after the Fund's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

d) Section 1601 *Consolidated financial statements*. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

e) Section 1602, *Non-Controlling interests*. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

## 6. Outlook

The development and execution of our corporate strategy and operating plans continue to be guided by our objectives of achieving sustainable organic growth and positive operating leverage. Each year, we establish targets to advance our goals and to drive results through the execution of initiatives to maximize revenue growth and cash flow generation. These full year targets are established and communicated to investors concurrent with the release of our second quarter results.

We expect to continue to measure our progress against annual targets on a quarterly basis. Consistent with our historical practice, we do not intend however to provide quarterly guidance for key performance metrics. Our preference remains to review on a periodic basis through the MD&A our progress in reaching our stated objectives for the full year taking into account changes in the economic environment, local operating and economic conditions, direct and indirect competition for our products and other relevant factors. While we acknowledged in November 2008, following the release of our third quarter results, that late 2008 and early 2009 would be challenging given expected continued capital market dislocation and slower economic growth, we did not expect these conditions to persist nor their impact to be as significant. In spite of these unforeseen and difficult circumstances, we met most of our growth objectives for the year 2008. Please refer to section 2 Results.

### Key Performance Indicators 2008 Performance and 2009 Outlook

	2008 Target	Year ended December 31, 2008	2009 Target
<b>Directories <sup>(1)</sup></b>			
Adj. Revenue Growth	4% to 5%	3.5%	4% to 5%
Adj. EBITDA Growth	4% to 7%	4.9%	4% to 7%
<b>Vertical Media <sup>(1)(2)</sup></b>			
Revenue Growth	5% to 7%	(1.8%)	2% to 4%
EBITDA Growth	7% to 9%	6.1%	4% to 7%
<b>Consolidated Metrics</b>			
Online Revenues <sup>(1)</sup>	Approx. 30%	44%	Approx. 30%
Distributable Cash per unit	8% to 10%	8%	8% to 10%

<sup>(1)</sup> On a comparable basis, including Aliant and LesPAC results as if YPG had owned these entities effective January 1, 2007 and excluding Volt, in their respective segments.

<sup>(2)</sup> Excludes the results of the Trader US operations from the beginning of the reporting periods in 2007 and 2008.

Our objectives for the fiscal year ending December 31, 2009 were established in August 2008 based on our economic and business outlooks at that time. This continues to be our operating framework for 2009 and we will measure our progress in achieving these full year objectives on a quarterly basis.

We intend to pursue our investment in market coverage and new product introduction for sustainable future growth. While we acknowledge that progress towards certain objectives for fiscal 2009 may be impacted by ongoing difficult economic and market conditions, we believe we are positioned to outperform, on a relative basis in this demanding environment. Growth in revenues in fiscal 2009 is premised on strong execution, investment in expanded market coverage, improved product sets and solutions for our customers as well as the successful introduction of new products both print and online. We are also confident in our ability to grow EBITDA and distributable cash per unit through the successful completion of restructuring initiatives that will improve returns in both of our platforms. These targeted initiatives were recently augmented by further actions in the areas of cost containment and contingency planning. In our Directory segment, we continue to benefit from visibility associated with the recurring, predictable and

resilient nature of our revenue sources from a diversified customer base. In our Vertical Media segment, visibility is limited due largely to the weekly frequency of most of our publications somewhat compensated by strong online organic growth. Please refer to Section 7 – Risks and Uncertainties for a discussion of our major risks and uncertainties that could materially affect YPG's future business results.

On December 19, 2008, we announced an increase in the size of our new Revolving Facility with a syndicate of financial institutions increasing our total liquidity and capital resources to \$1.15 billion. We affirmed our commitment to guidelines regarding our capital structure as well as our current stability and investment grade credit ratings. We also expressed confidence in our ability to sustain the current level of cash distributions to unitholders while aiming to further reduce our payout ratio as we look to convert to a traditional corporate structure in late 2010.

## 7. Risks and Uncertainties

The following section examines the major risks and uncertainties that could materially affect YPG's future business results and explains how these risks are managed.

Understanding and managing risks are important parts of YPG's strategic planning process. The Board requires that our senior management identify and properly manage the principal risks related to our business operations. To understand and manage risks at YPG, our Board and senior management analyze risks in three major categories:

1. Strategic risks – which are primarily external to the business;
2. Financial risks – generally related to matters addressed in the Financial Risk Management Policy and in the Pension Statement of Investment Policy and Procedures; and,
3. Operational risks – related principally to risks under the control of management across key functional areas of the organization.

YPG has put in place certain guidelines in order to manage the risks to which it may be exposed. Please refer to the Annual Information Form for a complete description of these risk factors. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful.

### **Competition**

YPG competes with other directory and classified advertising businesses and with other forms of advertising media. This includes newspapers, television, radio, the Internet, magazines, billboards and direct mail advertising.

These competitors may reduce their prices to increase their market share or may be able to offer their services at lower costs than we can. In either case, YPG could be forced to reduce prices or offer and perform other services in order to remain competitive. YPG's failure to compete effectively with its current or future competitors could have a number of impacts such as, a reduction in its advertiser base, lower rates and increased costs. This could have a material adverse effect on our financial condition and on our results of operations.

A significant portion of YPG's organic growth resulted from increased prices for its products and services on an annual basis. There can be no assurance that YPG will be able to continue to increase prices in the future. Entry of competitors into YPG's markets may make it more difficult for us to maintain growth at historical rates through price increases.

We actively monitor and assess our competition and determine our competitiveness within each of our markets. We address this competition by ensuring we best meet customer needs through targeted offers and pricing. Ongoing refinements to our customer segmentation model will support our strategies to attract and retain customers.

We continuously enhance the value of our directories with initiatives such as:

- The addition of new features;
- The re-design of certain directories; and,
- The upgrade of search functionalities of our print and online products.

We use multimedia campaigns to promote our brand and deliver our message to the market reinforcing the value our directory offers.

The Vertical Media business faces competition for advantageous retail display placement. In the retail environment, the Vertical Media business competes with all print publications that are co-displayed at any time. Local distribution managers, through frequent contact with third party distributors, retailers and wholesalers, closely monitor the flow of publications to ensure that an adequate number of copies are available for sale or distribution, while minimizing the number of unsold or undistributed copies. In many of Trader's regions, this process has been automated through the use of planning software. The failure of our Vertical Media business to remain competitive and maintain favourable placement of its publications on retailer display racks could have a material adverse effect on the circulation of its publications. We are developing innovative product placement practices, such as the free supply of attractive display racks to retailers, long-term display arrangements with retailers and third-party maintenance of retail display racks.

The Vertical Media business also faces substantial online competition due to the lower barriers to entry on the Internet. For example, Trader competes with the online classified advertising businesses of transaction and other classified web sites. In addition, increased online penetration and the resulting increase in the availability of free classified advertising opportunities may cause a decrease in the total revenues for classified advertising, particularly if the Vertical Media business is unable to find a way to effectively generate revenue from online activities.

We continuously enhance the value of our online offer with initiatives such as:

- The addition of new search functionality; and
- The addition of editorial content.

***Decline in overall usage of directories and vertical media***

YPG could be materially adversely affected if the usage of printed telephone directories or vertical publications declines significantly. For example, increased usage of the Internet by consumers to find information could result in a decline in their use of print directory and vertical media. Such declines could:

- Impair YPG's ability to maintain or increase YPG's advertising prices;
- Cause businesses that purchase advertising in YPG's directories and vertical publications to reduce or discontinue their purchases; and,
- Discourage businesses that do not already purchase advertising in YPG's directories and vertical publications from doing so.

Any of the factors that may contribute to a decline in usage of either or both YPG's printed directories and vertical publications could impair YPG's revenues and have a material adverse effect on our business.

As previously mentioned, our continuous efforts to improve the content of our directories and vertical publications combined with advertising campaigns are initiatives undertaken to improve users' satisfaction and awareness of the content, therefore generating a positive impact on usage.

As we have acknowledged, our industry is subject to changes arising from the increased usage of Internet-based products and other new technologies. To capitalize on this, we have aligned our online and print strategies in a continuous effort to find the best seller for each buyer. With sustained consumer use of print publications and an increase in online searches, our Directories and Vertical Media segments as a whole are growing.

### ***Availability of Capital***

We may need to refinance our available credit facilities or other debt obligations in the future. In addition, future capital expenditures and potential acquisitions may require additional financing. The global financial markets crisis and the global economic slowdown, which may extend for an undetermined period of time and could continue to deteriorate, may further constrain our ability to meet our future financing requirements, increase our weighted average cost of capital and cause other cost increases from counterparties also faced with liquidity problems and higher cost of capital. Disruptions and high volatility in the capital markets could reduce the amount of capital available or increase the cost of such capital. These risks are mitigated to the extent that we currently maintain committed long term bank facilities for a total amount of \$1.15 billion, continue to benefit from investment grade credit ratings, and due to our strong financial position (with a net indebtedness to total Adjusted EBITDA ratio of 2.9 times as at December 31, 2008) and the liquidity provided by cash generated from our operations. Despite such factors, no assurances can be given as to the future availability of capital. If we are unable to obtain such additional financing, when and if required, or to refinance our credit facilities or other debt obligations, or we are only able to obtain such additional financing or refinance these credit facilities or other debt obligations on less favorable and/or more restrictive terms, this could have a material adverse effect on our financial position and on our future growth by limiting acquisitions and capital expenditures, and may also indirectly limit or negatively impact our ability to pay cash distributions.

### ***Interest rate fluctuations***

YPG is exposed to fluctuations in short term interest rates on some of its financial obligations bearing variable interest rates. YPG is also exposed to fluctuations in long term interest rates and credit spreads relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long term debt issuances will be based on the prevailing market rates at the time of the refinancing and will depend on the tenor of the new debt issued. Increases in short term interest rates and increases in interest rates on new debt issuances may have a material adverse effect on our earnings.

We manage interest rate exposure by maintaining a balanced schedule of debt maturities, and through a combination of fixed and floating interest rate obligations. YPG monitors market conditions and the impact of interest rate fluctuations on our fixed-to-floating interest rate exposure mix. From time to time, we enter into interest rate swap agreements and other interest rate derivatives in order to manage this exposure.

### ***Pension Contributions***

YPG has been benefiting from a contribution holiday since the latest valuation. We may be required to make contributions to our pension plans in the future depending on various factors including future returns on pension plan assets, long-term interest rates and changes in pension regulations, which may have a negative effect on our liquidity and results of operations.

The funding requirements of our pension plans, resulting from valuations of our pension plan assets and liabilities, depend on a number of factors, including actual returns on pension plan assets, long-term interest rates, plan demographic and pension regulations. Changes in these factors could cause actual future contributions to significantly differ from our current estimates and could require us to make contributions to our pension plans in the future and, therefore, could have a negative effect on our liquidity and results of operations.

There is no assurance that our pension plans will be able to earn their assumed rate of return. A material portion of our pension plans' assets is invested in public equity securities. As a result, the ability of our pension plans to earn the rate of return that we have assumed significantly depends on the performance of capital markets. The market

conditions also impact the discount rate used to calculate our solvency obligations and thereby could also significantly affect our cash funding requirements.

***YPG's reliance on outsourcing for billing, collection, printing and binding and other services***

We have a Billing and Collection Services Agreement with Bell Canada and a Master Billing and Collection Services Agreement with TELUS, a Billing and Collection Services Agreement with MTS Allstream Inc. and a Billing and Collection Service Agreement with Bell Aliant. Through these agreements, our billing is included as a separate line item on the telephone bills of Bell, TELUS, MTS Allstream Inc. and Bell Aliant customers who use our services respectively. Bell Canada, TELUS, MTS Allstream Inc. and Bell Aliant (the Telco Partners) contract with third parties to conduct monthly billing of customers who use them as their local telephone service provider. In addition, the Telco Partners provide collection services for YPG with those advertisers who are also their customers. Additionally, YPG has entered into publishing agreements with each Telco Partner. If YPG fails to perform its obligations under these agreements and the agreements are consequently terminated by such Telco Partner, other agreements with such Telco Partners may also be terminated, including the Bell Canada Trademark License Agreement, the TELUS Trademark License Agreement, the MTS Allstream Inc. Branding and Trademark Agreement and the Bell Aliant Branding and Trademark Agreement, as well as non-competition covenants we benefit from such Telco Partners.

We have agreements with outside service suppliers to print and distribute our directories and publications. These agreements are for services that are integral to our business.

The failure of the Telco Partners or any of the other suppliers to fulfill their contractual obligations under these agreements could result in a material adverse effect on our business until we could find a replacement supplier for those services.

Advertisers who do not use the Telco Partners as their local telephone provider are billed directly by YPG. Our internal billing and collection services are cost-effective and can be grown as our customer base expands.

***Integration of Trader***

The integration process of the combined Vertical Media may result in significant challenges. Management may be unable to accomplish the integration successfully. In addition, the inability of management to successfully integrate the operations of the acquired businesses could have a material adverse effect on the business and financial condition of YPG. There can be no guarantee that management of YPG will be able to integrate the operations successfully.

In order to properly manage the integration, we have prepared an integration plan with a list of initiatives, dates of execution, costs associated with the execution and expected synergies. That plan is now being executed and is, to date, progressing on schedule.

***Reliance on key brands and trademarks and failure to protect intellectual property rights***

YPG relies heavily on its existing brands and trademarks for a significant portion of its revenues. Failure to adequately maintain the strength and integrity of these brands and trademarks, or to develop new brands and trademarks, could adversely affect our results from operations and our financial condition.

It is possible that third parties could infringe upon, misappropriate or challenge the validity of YPG's trademarks or our other intellectual property rights. This could have a material adverse effect on our business, our financial condition or our operating results. The actions that YPG takes to protect its trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce or protect YPG's intellectual property rights, its trade secrets or to determine the validity and scope of the proprietary rights of others. We cannot ensure that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information.

Any such infringement or misappropriation could harm any competitive advantage we currently derive, or may derive, from our proprietary rights. Third parties may assert infringement claims against YPG. Any such claims and any

resulting litigation could subject YPG to significant liability for damages. An adverse judgement arising from any litigation of this type could require YPG to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend against and could result in the diversion of YPG's time and resources. Any claims from third parties may also result in limitations on YPG's ability to use the intellectual property subject to these claims.

We devote significant resources to the development and protection of our trademarks and take a proactive approach to protecting our brand exclusivity.

### ***Labour relations***

Certain non-management employees of YPG are unionized. Current union agreements range between two to four years in duration and are subject to expiration at various dates in the future. If YPG is unable to renew these agreements as they come up for renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on our business.

We manage labour relations risk by ensuring that collective agreements' expiration dates are strategically positioned to minimize potential disruptions on both a regional (geographic) or on a functional (sales and clerical) basis. Also, every negotiation process to renew a collective agreement includes a cross-functional team in which all business units are represented. This team has the responsibility to develop and ultimately implement an effective contingency plan that would allow YPG to continue its day to day operations with minimal disruptions in the event of a labour dispute.

### ***Distribution of securities on redemption or termination of the Fund***

Upon redemption of Units or termination of the Fund, the Trustees may distribute the Trust Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Trust Notes or the Trust Units. In addition, Trust Notes and Trust Units are not freely tradable or listed on any stock exchange.

We believe that the execution of our business strategy combined with the achievement of selected critical initiatives for maximizing the long-term sustainability of our business should result in recurring and sustainable cash flow generation.

### ***Income Tax Matters***

In the normal course of the Fund's activities, the tax authorities are carrying out ongoing reviews. In that respect, the Fund is of the view that all expenses claimed by the different entities of the group are reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties have been correctly determined. There is no assurance that the tax authorities may not challenge these positions. Such challenge, if successful, may have an adverse effect on our earnings and may affect the return to unitholders.

On June 22, 2007, Bill C-52 received Royal Assent. The SIFT Rules contained in Bill C-52 are not expected to apply to the Fund until 2011 as the government has allowed a transition for publicly-traded trusts that existed prior to November 1, 2006. To qualify for the interim period, we must continue to comply with the Normal Growth Guidelines regarding equity capital as outlined by the government. The Normal Growth Guidelines provide for a safe harbour amount equal to 20% of the October 31, 2006 Market Capitalization for each of the 2008 to 2010 calendar years. These amounts of safe harbour are cumulative during the interim period. The Fund's October 31, 2006 Market Capitalization was approximately \$7.8 billion. It is therefore assumed, for the purposes of this summary that the Fund will not be subject to the SIFT Rules until January 1, 2011. We intend to fully comply with these guidelines. However there can be no assurance that the Fund will be able to retain the benefit of the deferred application of the SIFT Rules until 2011. If the Fund is deemed to have undergone undue expansion during the period up to December 31, 2010, as described in the Normal Growth Guidelines, the SIFT Rules would become effective on a date earlier than January 1, 2011.

On June 26, 2007, the Québec Ministère des Finances (MFQ) published Information Bulletin 2007-5 which confirms the MFQ's previously announced intention to harmonize Québec's tax legislation with the SIFT Rules through the implementation of a separate tax regime. Specifically, the MFQ has announced that a SIFT Trust with an establishment in Québec at any time in a taxation year would be subject to a tax at a rate generally equal to the Québec tax rate applicable to corporations. On February 26, 2008, the Canadian Department of finance announced changes to the SIFT Rules that will, among other things, result in harmonization between the SIFT Rules and the separate Québec tax regime relating to SIFT entities.

## 8. Controls and Procedures

As a public entity we must take every step to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of YPG. Responsibility for this resides with management, including the President and Chief Executive Officer and the Executive Vice-President-Corporate Services and Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures, as well as internal control over financial reporting.

### Disclosure Controls and Procedures (DC&P)

The evaluation of the effectiveness of DC&P as defined in National Instrument 52-109 was performed under the supervision of the President and Chief Executive Officer and the Executive Vice President-Corporate Services and Chief Financial Officer. They conclude that these disclosure controls and procedures were adequate and effective, as at December 31, 2008. YPG's management can therefore provide reasonable assurance that it receives material information relating to the company in a timely manner so that it can provide investors with complete and reliable information.

### Internal Control over Financial Reporting (ICFR)

Management has designed ICFR to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements were prepared in accordance with GAAP. The design and effectiveness of ICFR were evaluated as defined in National Instruments 52-109 under the supervision of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer. Based on the evaluations, they conclude that the ICFR is adequate and effective to provide such assurance as at December 31, 2008.

Management also concluded that during the fourth quarter ended December 31, 2008, no changes were made to ICFR that would have materially affected, or would be reasonably considered to materially affect, these controls.