

## **MANAGEMENT DISCUSSION AND ANALYSIS**

August 4, 2004

Management's Discussion and Analysis (MD&A) is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of YPG LP and Yellow Pages Income Fund during the six-month period ended June 30, 2004. This review should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2004, and with our annual consolidated financial statements and MD&A for the year ended December 31, 2003. In this MD&A, we, us, our and YPG mean YPG LP and its subsidiaries, and the Fund means Yellow Pages Income Fund and its subsidiaries. Quarterly reports, annual reports and supplementary information can be found under "financial reports" on our corporate Web site at [www.ypg.com](http://www.ypg.com). Additional information can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The MD&A is presented in the following sections:

- **Overview of our business**
- **Performance highlights**
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- **Analysis of operating and financial results**
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- **Financial position**
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### **OVERVIEW OF OUR BUSINESS**

#### **YPG**

We are Canada's largest directories publisher and the exclusive owner of the Yellow Pages™, Pages Jaunes™, and Walking Fingers & Design™ trademarks in Canada. Through our predecessor businesses, we have been an industry leader since we published our first directory in 1908. We are the official publisher of Bell Canada's directories in Canada as well as for a number of other incumbent telephone company directories that have leading market share in their markets. We are also the managing partner of Aliant ActiMedia, the incumbent telephone directories publisher in Atlantic Canada, in which we hold a 12.86% ownership interest. YPG published 236 different telephone directories in 2003.

We also operate the leading online commercial directories in Canada, YellowPages.ca™, Canada411.ca, CanadaTollFree.ca and the CanadaPlus.ca group of city sites. This online presence allows us to offer bundled packages of print and online directory advertising products. Our network of Web sites catered to an Internet audience of over 3.7 million unique visitors in May 2004 (Source: comScore Media Metrix).

#### ***Business Strategy***

Our business strategy aims to connect buyers and sellers while further developing our leading directory franchise in Canada through the continued execution of organic growth strategies and the pursuit of external growth opportunities.

We continually pursue initiatives to further grow our recurring and diversified revenue base while maintaining our industry-leading margins and significant free cash flow generation.

Since our acquisition of the directories businesses from affiliates of Bell Canada on November 29, 2002 (the "Acquisition"), we have implemented a business strategy to improve our operations and to achieve sustainable growth in revenues and profitability. Most notably, we have substantially completed our transition from a wholly-owned subsidiary of Bell Canada to a publicly-listed operating entity. Contemporaneously, we have implemented new sales and marketing initiatives, enhanced our competitive position through long-term contracts and other cost savings initiatives and expanded our online presence.

Our focus remains on executing our organic growth strategy and extending our product and service offerings for the benefit of both our advertisers and our users. We may also consider expanding our geographic coverage through selective investments and business acquisitions. We believe that the diversity of our customer base, geographic coverage and product offerings enhance the overall stability and potential growth of our earnings and cash flow. The capital raising activities we have conducted since the Fund's initial public offering in 2003 have now established a strong capital structure for our future growth, and we will consider investments or business acquisitions that could further strengthen our market position while being accretive to cash available for distributions to unitholders.

### ***Strategic Imperatives***

The following strategic imperatives remain critical to us for maximizing the long-term sustainability of our business:

- Reinforce our position as the leading publisher of directories in Canada;
- Increase the efficiency and productivity of our sales force;
- Improve the effectiveness of our workflows and business processes; and
- Enhance our financial flexibility while reducing our cost of capital.

We believe that the execution of our business strategy combined with the achievement of our strategic initiatives should result in lucrative and sustainable free cash flow generation.

### ***The Fund***

The Fund established as an unincorporated, open-ended limited purpose trust to invest in YPG, commenced operations on August 1, 2003 through the completion of a \$1 billion initial public offering. On December 17, 2003, the Fund completed a follow-on offering and issued additional units to the public for gross proceeds of \$1.5 billion. On June 11, 2004, YPG became a wholly-owned subsidiary of the Fund through a third public offering, by issuing additional units generating gross proceeds of \$743.3 million

### ***Distributions to Unitholders***

The distribution policy of the Fund is to make distributions to unitholders of its available cash to the maximum extent possible. The Fund makes equal monthly cash distributions to unitholders of record on the last business day of each month, net of estimated cash amounts required for expenses and other obligations of the Fund, potential cash redemptions of units and any tax liability.

The Board of Directors periodically reviews cash distributions taking into account our current and prospective performance. Some of the factors considered in making decisions related to distributions include cash amounts to service debt obligations, maintenance capital expenditures, taxes and other items considered to be prudent. In addition we believe that underlying trends in revenues and EBITDA<sup>(1)</sup> as well as sustainability of distributions should ultimately result in increases in distributions.

(1) see definition of Adjusted revenues, EBITDA and Adjusted EBITDA on page 4

## PERFORMANCE HIGHLIGHTS

This section reviews the progress made during the six-month period ended June 30, 2004 in executing our organic growth strategy. The impact of recent management initiatives on the results of operations and financial condition in 2004 is also discussed in the remaining pages of this MD&A.

We continue with initiatives to increase revenues and reduce operating costs while reinforcing our position as the leading publisher of both print and online directories in Canada. Examples of some key initiatives we have undertaken since the Acquisition include the optimization of our supply chain, the redesign of our directories, the relaunch of neighbourhood directories to expand our market coverage and the strategic investment in our brands through broadcast and billboard advertising campaigns. Our more recent focus includes improvements to our sales coverage and pricing models as well as initiatives to reduce our workforce and contain costs. The implementation of these initiatives has enabled YPG to achieve strong operating and financial performance for the first half of 2004.

Following a thorough review of all aspects of our business, we undertook a workforce reduction program in 2003 which resulted in an internal reorganization. The workforce reduction program addressed redundancies in certain activities and was substantially completed by the end of the second quarter of 2004.

We continue to benefit from the introduction of the premium products and the introduction of our Directory Plus offer. Premium products are advertising options available for both Yellow Pages™ and alphabetical listing telephone directories that allow businesses to advertise in a variety of high-visibility locations on or in our directories. Directory Plus is a print-Internet bundle that seamlessly integrates the two media.

During the second quarter of 2004, we completed our additional financing initiatives with the issuance of Medium Term Notes for an aggregate principal amount of \$750 million under our \$1 billion Medium Term Notes program. Net proceeds from the offering of approximately \$742 million were received on April 21, 2004 and were used to refinance bank borrowings as well as for general corporate purposes. The issuance of Medium Term Notes has reinforced our solid capital structure by diversifying our funding sources and extending the average term for debt sources while removing refinancing risk generally associated with traditional bank financing. Total debt at June 30, 2004 of approximately \$1.1 billion represents a financial leverage ratio of 2.8 times EBITDA.

<i>(in thousands of Canadian dollars, except unit information)</i>				
	Three-month period ended June 30, (unaudited)		Six-month period ended June 30, (unaudited)	
	2004	2003	2004	2003
<b>YPG</b>				
Revenues	\$ 165,888	\$ 149,661	\$ 330,211	\$ 295,956
Income (loss) from operations	89,845	3,109	176,272	(12,360)
Adjusted revenues <sup>(1)</sup>	165,888	158,781	330,211	315,983
Adjusted EBITDA <sup>(1)</sup>	96,269	90,689	191,875	181,962
Adjusted EBITDA margin	58.0%	57.1%	58.1%	57.6%
Cash available for distributions	84,603	39,372	169,418	82,161
<b>The Fund</b>				
Distributions declared	62,561	n/a	114,759	n/a
Distributions paid and payable per unit	0.2265	n/a	0.4464	n/a

(1) see definition of Adjusted revenues, EBITDA and Adjusted EBITDA on page 4

## NON-GAAP FINANCIAL MEASURES

### YPG

We acquired the directories businesses from affiliates of Bell Canada on November 29, 2002. The Acquisition was accounted for using the purchase method of accounting. Purchase accounting resulted in the elimination of deferred revenues and deferred publication costs related to those directories that were published prior to the Acquisition. These deferred revenues would have been recognized in 2003 while the deferred publication costs would have been recognized in 2003 and 2004, had the Acquisition not occurred. As a result, reported revenues in 2003 and expenses in 2003 and 2004 are not representative of revenues and expenses that would have otherwise been reported and are not representative of revenues and expenses that will be reported in subsequent periods.

Below are reconciliations of the reported results under Canadian generally accepted accounting principles ("GAAP") to the adjusted results had the Acquisition not occurred. The adjusted results are derived by excluding from the reported amounts the impact of purchase accounting, transition expenses relating to the Acquisition which are non-recurring, such as costs incurred to become a stand alone entity, and restructuring and special charges when applicable.

In order to provide a better understanding of our results, we use the term EBITDA (earnings before interest, taxes, depreciation and amortization). We define EBITDA as revenues less operating costs which represents income (loss) from operations before depreciation and amortization. YPG also uses the terms Adjusted revenues and Adjusted EBITDA (revenues and EBITDA adjusted for certain items indicated below which management believes are reflective of ongoing operations). These terms do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other issuers. We believe EBITDA, Adjusted revenues and Adjusted EBITDA to be important measures as they allow us to assess the operating performance of the ongoing business.

<b>Three-month period ended June 30, 2004 (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Three-month period ended June 30, 2004 (as reported)	Elimination of purchase accounting impact	Transition expenses	Adjusted
Revenues	\$ 165,888	\$ -	\$ -	\$ 165,888
Operating costs	68,965	1,488	(834)	69,619
<b>EBITDA</b>	<b>96,923</b>	<b>(1,488)</b>	<b>834</b>	<b>96,269</b>
Depreciation and amortization	7,078	(4,080)	-	2,998
<b>Income from operations</b>	<b>\$ 89,845</b>	<b>\$ 2,592</b>	<b>\$ 834</b>	<b>\$ 93,271</b>

<b>Three-month period ended June 30, 2003 (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Three-month period ended June 30, 2003 (as reported)	Elimination of purchase accounting impact	Transition expenses	Adjusted
Revenues	\$ 149,661	\$ 9,120	\$ -	\$ 158,781
Operating costs	51,199	19,176	(2,283)	68,092
<b>EBITDA</b>	<b>98,462</b>	<b>(10,056)</b>	<b>2,283</b>	<b>90,689</b>
Depreciation and amortization	95,353	(94,256)	-	1,097
<b>Income from operations</b>	<b>\$ 3,109</b>	<b>\$ 84,200</b>	<b>\$ 2,283</b>	<b>\$ 89,592</b>

<b>Six-month period ended June 30, 2004 (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Six-month period ended June 30, 2004 (as reported)	Elimination of purchase accounting impact	Transition expenses	Adjusted
Revenues	\$ 330,211	\$ -	\$ -	\$ 330,211
Operating costs	135,272	4,461	(1,397)	138,336
<b>EBITDA</b>	<b>194,939</b>	<b>(4,461)</b>	<b>1,397</b>	<b>191,875</b>
Depreciation and amortization	18,667	(12,957)	-	5,710
<b>Income from operations</b>	<b>\$ 176,272</b>	<b>\$ 8,496</b>	<b>\$ 1,397</b>	<b>\$ 186,165</b>

<b>Six-month period ended June 30, 2003 (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Six-month period ended June 30, 2003 (as reported)	Elimination of purchase accounting impact	Transition expenses	Adjusted
Revenues	\$ 295,956	\$ 20,027	\$ -	\$ 315,983
Operating costs	94,444	43,436	(3,859)	134,021
<b>EBITDA</b>	<b>201,512</b>	<b>(23,409)</b>	<b>3,859</b>	<b>181,962</b>
Depreciation and amortization	213,872	(211,853)	-	2,019
<b>(Loss) income from operations</b>	<b>\$ (12,360)</b>	<b>\$ 188,444</b>	<b>\$ 3,859</b>	<b>\$ 179,943</b>

## ANALYSIS OF OPERATING AND FINANCIAL RESULTS

### *The Fund*

<i>(in thousands of Canadian dollars, except unit information)</i>		
	Three-month period ended June 30, 2004 (unaudited)	Six-month period ended June 30, 2004 (unaudited)
Revenues	\$ 156,754	\$ 311,438
Income from operations	\$ 30,260	\$ 59,118
Net earnings	\$ 17,801	\$ 27,272
Net earnings per unit	\$ 0.07	\$ 0.11
Diluted earnings per unit	\$ 0.07	\$ 0.11

The Fund commenced its operations in August 2003 and as such the financial information is disclosed without comparative figures.

The results of operations of the Fund are entirely dependent on the performance of YPG. To provide additional information on the underlying operations of this investment, the results of operations of YPG are commented on below.

## YPG

You should refer to the information presented in tabular form in the section entitled "Non-GAAP Measures" of this MD&A for a meaningful discussion on the reported revenues and income/(loss) from operations.

<b>Revenues (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Three-month period ended June 30,		Six-month period ended June 30,	
	2004	2003	2004	2003
Revenues	\$ 165,888	\$ 149,661	\$ 330,211	\$ 295,956
Adjusted revenues	\$ 165,888	\$ 158,781	\$ 330,211	\$ 315,983

We maintained a steady growth of 4.5% in the second quarter and for the six-month period compared to the same periods of the preceding year. Our Adjusted revenues grew by \$7.1 million during the second quarter and by \$14.2 million for the six-month period ended June 30, 2004. The increase in revenues is mainly attributable to an increase in advertising revenues in our print directories. This growth arises from new pricing models, improved sales coverage and neighbourhood directories.

Our Internet-based directories are offered as a complement to our print directories and as such this increased usage supports overall usage of our directories advertising products. The number of searches on our internet-based directories increased 58.3 % from 10.3 million in the second quarter of 2003 to 16.3 million in the second quarter of 2004 (Source: ProCase Consulting Inc.) resulting in a positive impact on overall revenue growth. Online advertising revenues increased by \$0.8 million to \$4.9 million in the second quarter of 2004, a 20.9 % increase compared to the same quarter in 2003. During the six-month period ended June 30, 2004, we reported an increase of \$1.8 million in online advertising revenues to \$9.2 million representing an increase of 23.6%, over the same period in 2003.

<b>EBITDA (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Three-month period ended June 30,		Six-month period ended June 30,	
	2004	2003	2004	2003
EBITDA	\$ 96,923	\$ 98,462	\$ 194,939	\$ 201,512
Adjusted EBITDA	\$ 96,269	\$ 90,689	\$ 191,875	\$ 181,962
Adjusted EBITDA margin	58.0%	57.1%	58.1%	57.6%

Please refer to the "Non-GAAP Measures" Section for a discussion on EBITDA. Adjusted EBITDA of \$96.3 million for the second quarter of 2004 increased by \$5.6 million or 6.2% over the same period last year. For the six-month period ended June 30, 2004, the Adjusted EBITDA increased by \$9.9 million or 5.4% year over year. This growth reflects the realization of cost saving initiatives partially offset by additional recurring costs related to becoming a publicly-listed stand-alone entity on August 1, 2003.

Cost containment in the first half of this year was mainly driven by certain initiatives undertaken in 2003 such as the renegotiation of our printing outsourcing arrangements, the optimization of our operational processes and internal reorganization that eliminated certain redundant activities.

<b>Other items (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Three-month period ended June 30,		Six-month period ended June 30,	
	2004	2003	2004	2003
<b>EBITDA, as reported</b>	<b>\$ 96,923</b>	<b>\$ 98,462</b>	<b>\$ 194,939</b>	<b>\$ 201,512</b>
Depreciation and amortization	7,078	95,353	18,667	213,872
<b>Income (loss) from operations</b>	<b>89,845</b>	<b>3,109</b>	<b>176,272</b>	<b>(12,360)</b>
Financial charges	19,420	50,832	29,464	81,246
<b>Earnings (loss) before income taxes and non-controlling interest</b>	<b>70,425</b>	<b>(47,723)</b>	<b>146,808</b>	<b>(93,606)</b>
Provision for (recovery of) income taxes	388	(24,676)	8,121	(51,758)
Non-controlling interest	-	(906)	-	(1,411)
<b>Net earnings (loss)</b>	<b>\$ 70,037</b>	<b>\$ (22,141)</b>	<b>\$ 138,687</b>	<b>\$ (40,437)</b>

### ***Depreciation and amortization***

The substantial decrease in depreciation and amortization for the three-month and the six-month periods ended June 30, 2004, is mainly due to lower amortization on certain intangibles.

On November 29, 2002 when we acquired the directory businesses from Bell, intangible assets such as customer contracts and customer relationships were recorded at fair value and were amortized over their expected useful lives, pro rata relative to revenues, for a period not exceeding 24 months. The unamortized balance of those particular intangibles as at January 1, 2004 was minimal and as such, the related amortization decreased by \$90.2 million in the second quarter of 2004 to \$3.9 million and by \$198.9 million in the six-month period ended June 30, 2004 to \$12.6 million in comparison with the same periods of the previous year.

### ***Financial charges***

Interest expense decreased by 78.3%, from \$47.1 million in the second quarter of 2003 to \$10.2 million in the second quarter of 2004 and by 79.3% from \$92.8 million during the six month period ended June 30, 2003 to \$19.2 million during the six-month period ended June 30, 2004. The decrease in interest expense resulted from a lower level of borrowings, coupled with lower interest rates under our new credit facilities and commercial paper program.

Foreign exchange gains of \$17.6 million were recognized in the first six months of 2003 resulting from foreign exchange fluctuations associated with the U.S. denominated long-term debt for the period ended January 24, 2003, the date at which the debt became fully hedged. The new credit facilities, Medium Term Notes and commercial paper program are denominated in Canadian dollars.

### ***Income taxes***

The combined provincial and federal tax rates were 33.9% and 35.4% in 2004 and 2003, respectively. The effective tax rates were 0.6% and 5.5% for the second quarter and year-to-date of 2004. The legal entity YPG LP is a limited partnership and as such is not subject to income taxes whereas its subsidiaries are subject to tax. The variance between the statutory and the effective tax rates is primarily due to intercompany revenues which are not taxable when received by YPG LP.

## ANALYSIS OF QUARTERLY RESULTS

This section would ordinarily provide information for the eight most recently completed quarters. YPG acquired the directories businesses on November 29, 2002 and as such no quarterly financial information for the fiscal year 2002 is available.

<b>Revenues (unaudited)</b> <i>(in thousands of dollars)</i>						
	<b>Three-month periods ended</b>					
	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Revenues	\$ 165,888	\$ 164,323	\$ 162,056	\$ 154,546	\$ 149,661	\$ 146,295
Elimination of purchase accounting impact	-	-	1,201	6,430	9,120	10,907
<b>Adjusted revenues</b>	<b>\$ 165,888</b>	<b>\$ 164,323</b>	<b>\$ 163,257</b>	<b>\$ 160,976</b>	<b>\$ 158,781</b>	<b>\$ 157,202</b>

Adjusted revenues have increased progressively quarter over quarter. These revenues are recognized over the life of the directories and, as such, sequential quarterly growth has been relatively stable. The slight increase in the third and fourth quarters of 2003 was mostly attributable to positive revenue trends in the second half of the year.

<b>EBITDA (unaudited)</b> <i>(in thousands of dollars)</i>						
	<b>Three-month periods ended</b>					
	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Income (loss) from operations	\$ 89,845	\$ 86,427	\$ 69,795	\$ (88,503)	\$ 3,109	\$ (15,469)
Adjustments to income (loss) from operations:						
Depreciation and amortization	7,078	11,589	21,675	52,222	95,353	118,519
Restructuring and special charges	-	-	7,979	136,136	-	-
<b>EBITDA</b>	<b>96,923</b>	<b>98,016</b>	<b>99,449</b>	<b>99,855</b>	<b>98,462</b>	<b>103,050</b>
Elimination of purchase accounting impact	(1,488)	(2,973)	(4,946)	(6,274)	(10,056)	(13,353)
Transition expenses	834	563	1,678	623	2,283	1,576
<b>Adjusted EBITDA</b>	<b>\$ 96,269</b>	<b>\$ 95,606</b>	<b>\$ 96,181</b>	<b>\$ 94,204</b>	<b>\$ 90,689</b>	<b>\$ 91,273</b>
Adjusted EBITDA margins	58.0%	58.2%	58.9%	58.5%	57.1%	58.1%

Within each financial year, Adjusted EBITDA increased steadily and is in line with growth in Adjusted revenues, with the exception of the three-month period ended June 30, 2003 during which we recorded a higher pension-related expense. In comparing the first quarter of 2004 to the fourth quarter of 2003, there is some cyclicity caused by the sequence of book closings and as such expenses are not incurred uniformly throughout the year. A more meaningful comparison is to compare quarters year over year.

<b>Other items (unaudited)</b> <i>(in thousands of dollars)</i>						
	<b>Three-month periods ended</b>					
	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Revenues	\$ 165,888	\$ 164,323	\$ 162,056	\$ 154,546	\$ 149,661	\$ 146,295
Income (loss) from operations	89,845	86,427	69,795	(88,503)	3,109	(15,469)
Income (loss) before taxes and Non-controlling interest	70,425	76,383	56,591	(114,645)	(47,723)	(45,883)
<b>Net earnings (loss)</b>	<b>\$70,037</b>	<b>\$68,650</b>	<b>\$54,116</b>	<b>\$(70,615)</b>	<b>\$(22,141)</b>	<b>\$(18,296)</b>
Total assets	\$ 3,021,533	\$ 2,989,487	\$ 2,990,821	\$ 3,034,418	\$ 3,042,817	\$ 3,167,164
Long-term debt and other liabilities	\$ 1,081,724	\$ 1,053,885	\$ 1,053,992	\$ 1,200,000	\$ 1,965,372	\$ 2,064,001

We incurred restructuring and special charges in the third and fourth quarters of 2003 which negatively impacted the results of those quarters while lower interest expense positively impacted results over the last three quarters. The increase in financial charges in the second quarter of 2004 is mainly due to a write-off of certain deferred financial charges following the refinancing of our credit facilities, thereby negatively impacting our results, particularly in

comparison with the previous quarter. The amortization of customer contracts and relationships on a pro rata basis with related revenues combined with the impact of purchase accounting has resulted in an improvement in earnings quarter over quarter.

## **FINANCIAL POSITION**

### ***The Fund***

<b>Assets</b> <i>(in thousands of Canadian dollars)</i>		
	As at June 30, 2004 (unaudited)	As at December 31, 2003
Total assets	\$ 5,065,465	\$ 4,462,744

The balance sheet of the Fund is presented on a consolidated basis. Intangibles and goodwill amounted to approximately \$4.6 billion as at June 30, 2004 and approximately \$4 billion at December 31, 2003. These intangibles and goodwill result from the step-acquisitions of YPG and the acquisition of the directories businesses by YPG.

<b>Capital structure</b> <i>(in thousands of Canadian dollars)</i>		
	As at June 30, 2004 (unaudited)	As at December 31, 2003
Cash and cash equivalents	\$ 77,558	\$ 45,545
Long-term debt, including short term portion	1,083,352	1,055,106
<b>Total net debt (net of cash and cash equivalents)</b>	<b>1,005,794</b>	<b>1,009,561</b>
Non-controlling interest	-	585,615
Unitholders' Equity	3,587,721	2,422,481
<b>Total capitalization</b>	<b>\$ 4,593,515</b>	<b>\$ 4,017,657</b>
Net debt to total capitalization	21.9%	25.1%

Unitholders' Equity increased by \$1.2 billion during the six-month period ended June 30, 2004. The exchange of units by BCE Inc. and TMB Directories Inc. during the first six months of 2004, for all of their units of YPG LP and common shares of YPG GP into the equivalent number of units of the Fund in accordance with the Investor Liquidity Agreement entered into at the time of the Fund's initial public offering, increased Unitholders' Capital by \$538.2 million. On June 11, 2004 the Fund also completed an offering of 66,666,600 units for net proceeds of \$713.6 million. The net proceeds were then used to purchase an equivalent number of units of YPG LP and common shares in YPG General Partner Inc. held by entities controlled by funds managed by Kohlberg Kravis Roberts & Co. These amounts combined with net earnings of \$27.3 million were partially offset by monthly distributions totaling \$114.8 million for the six month period ended June 30, 2004.

Following the June 11, 2004 transaction mentioned above, YPG LP became a wholly-owned subsidiary of the Fund resulting in the elimination of the non-controlling interest.

### **YPG**

<b>Assets</b> <i>(in thousands of Canadian dollars)</i>		
	As at June 30, 2004 (unaudited)	As at December 31, 2003
Total assets	\$ 3,021,533	\$ 2,990,821

Working capital excluding cash was \$42.1 million as at June 30, 2004 compared to \$36.8 million as at December 31, 2003. Intangibles and goodwill as at June 30, 2004 and December 31, 2003 amounted to approximately \$2.7 billion.

<b>Capital structure</b> <i>(in thousands of Canadian dollars)</i>		
	As at June 30, 2004 (unaudited)	As at December 31, 2003
Cash and cash equivalents	\$ 77,558	\$ 45,545
Long-term debt, including short term portion	1,083,352	1,055,106
<b>Total net debt (net of cash and cash equivalents)</b>	<b>1,005,794</b>	<b>1,009,561</b>
Partners' Equity	1,772,489	1,774,730
<b>Total capitalization</b>	<b>\$ 2,778,283</b>	<b>\$ 2,784,291</b>
Net debt to total capitalization	36.2%	36.3%

Partners' Equity decreased by \$2.2 million during the first half of 2004. The exchange of units during the six month period ended June 30, 2004 whereby certain optionholders exercised 1,266,113 options into 1,266,113 shares of YPG Holdings Inc. and which were subsequently exchanged into 1,266,113 units of the Fund, in accordance with the Optionholders' Liquidity Agreement, increased the Partners' Capital by \$14.6 million. This amount combined with net earnings of \$138.7 million for the six-month period was entirely offset by monthly distributions totaling \$153.3 million.

## **CAPITAL RESOURCES AND LIQUIDITY**

### **The Fund**

Distributions to unitholders declared amounted to \$62.6 million (\$0.2265 per unit) during the second quarter of 2004 and \$114.8 million (\$0.4464 per unit) during the six-month period ended June 30, 2004. The June 30, 2004 distribution of \$26.4 million (\$0.0766 per unit) was paid on July 15, 2004. The Trustees of the Fund approved a 4.5% increase in cash distributions to \$0.92 per unit annually on May 12, 2004. This higher level of monthly distribution of \$0.0766 per unit was paid on June 15, 2004 to unitholders of record on May 31, 2004.

Distributions by the Fund are entirely dependent on the distributions and the performance of YPG, a discussion of which follows below.

### **YPG**

<b>Cash flow from operating activities (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Three-month period ended June 30,		Six-month period ended June 30,	
	2004	2003	2004	2003
Cash flow from operations	\$ 88,125	\$ 50,074	\$ 178,004	\$ 107,985
Change in non cash working capital items	6,016	(16,326)	(7,764)	(26,792)
<b>Cash flow from operating activities</b>	<b>\$ 94,141</b>	<b>\$ 33,748</b>	<b>\$ 170,240</b>	<b>\$ 81,193</b>

Interest paid during the three-month periods ended June 30, 2004 and June 30, 2003 amounted to \$1.2 million and \$45.7 million, respectively. For the first half of the year, interest paid amounted to \$12.8 million in 2004 and \$86.2 million in 2003. Lower levels of borrowings resulting from the issuance of partnership units combined with reduced borrowing rates contributed to improve the cash generated from operating activities during the first quarter and the six-month period ended June 30, 2004 compared to the same periods in 2003.

The change in the timing of interest payments following the refinancing of credit facilities into Medium Term Notes contributed to the lower level of payments during the second quarter of 2004 and is not representative of amounts to be paid in the future.

<b>Cash flow from investing activities (unaudited)</b>				
<i>(in thousands of Canadian dollars)</i>				
	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Acquisition of capital assets	\$ (2,235)	\$ (2,146)	\$ (11,319)	\$ (4,605)
Proceeds from lease inducements	2,606	-	5,614	-
Other	(25)	3,814	(25)	(972)
<b>Cash flow from investing activities</b>	<b>\$ 346</b>	<b>\$ 1,668</b>	<b>\$ (5,730)</b>	<b>\$ (5,577)</b>

#### **Acquisition of capital assets (unaudited)**

<i>(in thousands of Canadian dollars)</i>				
	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Pre-funded	\$ 704	\$ -	\$ 4,062	\$ -
Maintenance	1,033	2,146	2,214	4,605
New initiatives	529	-	2,319	-
Leasehold improvements <sup>(1)</sup>	(31)	-	2,724	-
<b>Total</b>	<b>\$ 2,235</b>	<b>\$ 2,146</b>	<b>\$ 11,319</b>	<b>\$ 4,605</b>

<sup>(1)</sup> excludes proceeds from lease inducements

Pursuant to the Acquisition and the Offering, \$10.0 million was set aside as pre-funded capital for the purpose of transitioning to a stand-alone entity. For the three-month and the six-month periods ended June 30, 2004, pre-funded capital spending amounted to \$0.7 million and \$ 4.1 million, respectively. For the same periods, maintenance capital expenditures for ongoing operations amounted to \$1.0 million and \$2.2 million and such expenditures are expected to average approximately \$10 million per annum over the foreseeable future. In addition capital spending associated with leasehold improvements at our new headquarters amounted to \$2.7 million for the six-month period. Most of the \$0.5 million and \$2.3 million spent on new initiatives during the three-month and six-month period ended June 30, 2004 is related to project improvements in certain of our business processes.

<b>Cash flow from financing activities (unaudited)</b>				
<i>(in thousands of Canadian dollars)</i>				
	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Issuance (repayment) of long-term debt, net	\$ 24,362	\$ (83,790)	\$ 24,084	\$ (96,581)
Distributions	(76,653)	-	(152,123)	-
Deferred financing costs and other	(4,550)	1,205	(4,458)	(8,106)
<b>Cash flows from financing activities</b>	<b>\$ (56,841)</b>	<b>\$ (82,585)</b>	<b>\$ (132,497)</b>	<b>\$ (104,687)</b>

We improved our capital structure during 2003 by paying down our initial debt with proceeds received from the initial public offering of the Fund, the closing of new credit facilities, the implementation of a commercial paper program and a follow-on equity offering. Since the initial public offering of the Fund on August 1, 2003, we executed on our financing plan to further reduce our borrowings, diversified our funding sources and extended the average term of our indebtedness.

During the second quarter of 2004, we issued Medium Term Notes in the principal aggregate amount of \$750 million. Proceeds from this offering of Medium Term Notes consisted of \$450 million 5 year notes and \$300 million 10 year notes. Net proceeds of approximately \$742 million were used to refinance bank borrowings and for general corporate purposes.

Our debt funding sources are currently comprised of the following:

- The commercial paper program and associated standby lines of credit with an authorized limit of \$300 million. The program is rated R-1 (low) by DBRS. Commercial paper issuance amounted to \$275 million at June 30, 2004.
- The Medium Term Notes program with a potential total issuance during a period of 25 months following the final shelf short-form prospectus of \$1 billion. The program is rated BBB (high) by DBRS and BBB- by Standard & Poor's. Medium term notes issued as at June 30, 2004 amounted to \$750 million.
- Bank credit facilities consisting of a \$100 million, unsecured revolving term facility maturing August 1, 2007 (undrawn at June 30, 2004) and \$50 million of borrowings under the unsecured Term A loan facility maturing August 1, 2007.

Following the implementation of our financing initiatives discussed above, \$700 million of borrowings under the above-mentioned \$750 million Term A loan facility and all of the borrowings under the Company's \$450 million, unsecured Term B loan facility were repaid on a permanent basis.

During the second quarter of 2004, we entered into interest rate swap agreements for a total nominal amount of \$150 million that convert the applicable interest rate from fixed to floating.

Cash and cash equivalents at June 30, 2004 totalled \$77.6 million compared with \$45.5 million at December 31, 2003. On July 15, 2004 YPG paid distributions declared in June 2004 totalling \$26.4 million.

### **Commitments**

No material changes occurred in relation with contractual obligations during the six-month period ended June 30, 2004.

### **Distributable cash**

Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities.

We believe that distributable cash calculated from Adjusted EBITDA is the most appropriate measure to help readers evaluate the performance of YPG on an ongoing basis considering the comparability of that measure from period to period. In addition, this measure is commonly used by investors, management and other interested parties to evaluate the ongoing performance of the Fund.

<b>Distributable cash (unaudited)</b> <i>(in thousands of Canadian dollars)</i>				
	Three-month period ended June 30,		Six-month period ended June 30,	
	2004	2003	2004	2003
Adjusted EBITDA	\$ 96,269	\$ 90,689	\$ 191,875	\$ 181,962
Less:				
Maintenance capital expenditures	1,033	2,146	2,214	4,605
Interest	10,499	48,683	19,975	94,547
Other	134	488	268	649
<b>Cash available for distributions</b>	<b>\$ 84,603</b>	<b>\$ 39,372</b>	<b>\$ 169,418</b>	<b>\$ 82,161</b>
Cash available for distributions per unit	\$ 0.2459	n/a	\$ 0.4924	n/a

## **RELATED PARTY TRANSACTIONS**

For the three-month and six-month periods ended June 30, 2004 and June 30, 2003, we incurred consulting and monitoring fees of \$0.3 million and \$0.5 million with Kohlberg Kravis Roberts & Co (“KKR”) and placement fees of \$0.1 million and \$0.2 million with Ontario Teachers’ Pension Plan Board (“Teachers”), respectively. YPG had agreed to pay such fees related to consulting, monitoring and placement fees. These agreements and related fees were terminated effective June 11, 2004.

## **CHANGE IN ACCOUNTING POLICIES**

The consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual consolidated financial statements with the exception of the following:

### ***Stock-based compensation plan***

Effective January 1, 2004, we adopted the amendment to CICA Handbook Section 3870 “Stock-Based Compensation and Other Stock-Based Payments”. The amendment, issued in November 2003, requires the expensing of all stock-based compensation awards for fiscal years beginning on or after January 1, 2004 using the fair value method. We have chosen to adopt the amendment using the retroactive without restatement transitional alternative as permitted by the standard.

### ***Impairment of long-lived assets***

Effective January 1, 2004, we adopted Section 3063 of the CICA Handbook, “Impairment of long-lived assets”. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value. The adoption of this standard did not have any impact on the financial statements.

### ***Hedging relationships***

As at January 1, 2004, the Partnership adopted Accounting Guideline (“AcG-13”), Hedging Relationships. The guideline applies to all existing and new hedging relationships and provides additional documentation and designation requirements for hedge accounting and requires regular and periodic assessment of effectiveness. Hedge accounting is to be discontinued for any hedging relationships that do not meet the requirements of the guideline.

## **RISKS AND UNCERTAINTIES**

For a detailed discussion on risks and uncertainties, readers should review the risk factors section of the Annual Information Form of the Fund incorporated by reference.

## **OUTLOOK**

A number of initiatives have been developed and implemented since the Acquisition to strengthen our business model and to improve returns to unitholders. Many of the supply-chain, marketing, sales, workforce reduction and consolidation initiatives implemented during the course of 2003 have accrued to the income statement in the first half of the year and are expected to fully accrue to the income statement in the second half of 2004. We therefore remain comfortable in our ability to sustain the current level of EBITDA margins and free cash flow generation.

Revenue growth remains a key priority in 2004. We will continue to adjust our market coverage and pricing strategies while further focusing on the training, productivity and efficiency of our sales force. We expect to achieve this partly through process improvements and new technology, but will also continue to strategically invest in our franchise and our brand equity through product promotion and advertising. We believe that this is fundamental to the successful execution of our business plan.

The strong differentiation of YPG in the marketplace positions us to maintain our leading market share position and strong consumer usage of our directories. We will continue to extend our product and service offerings through premium products and our neighbourhood directories, and believe that premium products and other product line extensions offer an opportunity for us to grow our business organically. Regarding online properties, our goal is to further increase traffic through the recent upgrading of our search engines while offering print-Internet bundles that seamlessly integrate the print and online media. As a result of our organic growth strategy, we continue to anticipate that Adjusted revenues will grow by approximately 3% in 2004.

We are achieving cost savings through supply chain, cost containment and other initiatives. Further reductions in our cost base are being realized through workforce reduction and business process re-engineering. In late 2003, we began the introduction of Six Sigma, a rigorous methodology that should ensure the long-term sustainability of our new initiatives. The significant changes being undertaken at YPG have resulted in a strong improvement in our operating and financial metrics since the Acquisition. We continue to anticipate that in 2004 EBITDA on a comparable basis, adjusted to eliminate the purchase accounting impact and for transition and non-recurring expenses, should grow between 3% and 5% as we continue to realize benefits from these projects.

### ***Cash Distributions to Unitholders***

The cash available for distributions amounted to \$84.6 million or \$0.2459 per unit for the second quarter and \$169.4 million or \$0.4924 per unit for the first half of the year. Following the initial public offering of the Fund, the initial annualized monthly distributions to unitholders amounted to \$0.825 per unit. Since then, distribution per unit has increased by 11.5% to reach \$0.92 beginning with the May 2004 distribution. For the six-month period ended June 30, 2004, the cash available for distributions reflected maintenance capital spending of \$2.2 million and cash interest expense of \$20.0 million.

Our distribution policy takes into account the current and prospective performance of YPG, including cash amounts to service debt obligations, maintenance capital expenditures, taxes and other factors considered to be prudent. We remain comfortable in our ability to grow distributions by approximately 4% annually.

### ***Forward-looking statements***

This MD&A contains forward-looking statements about YPG's objectives, strategies, financial condition, results of operations and businesses. These statements are "forward-looking" as they are based on our current expectations about our business and the markets we operate in, and on various estimates and assumptions.

- Forward-looking statements in this MD&A describe our expectations on August 4, 2004.
- Our actual results could be materially different from what we expect 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 statement 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 and assume no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.
- Risks that could cause our actual results to materially differ from our current expectations are discussed under risks and uncertainties which refer the reader to the risk factors section of the Fund's Annual Information Form.