

## **MANAGEMENT DISCUSSION AND ANALYSIS**

February 14<sup>th</sup>, 2005

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 ("YPG"), for the years ended December 31, 2004 and 2003 and of Yellow Pages Income Fund (the "Fund") for the year ended December 31, 2004 and for the period from commencement of operations, August 1, 2003 to December 31, 2003.

This MD&A contains forward-looking statements about YPG and the Fund'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 February 14, 2005.
- 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.

This review should be read in conjunction with our audited consolidated financial statements and accompanying notes. 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, the annual report 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
- Selected annual information
- Non-GAAP financial measures
- Analysis of operating and financial results
- Analysis of quarterly results
- Financial position
- Capital resources and liquidity
- Analysis of fourth quarter 2004 results
- Related party transactions
- Accounting policies
- Risks and uncertainties

## **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. Including Aliant ActiMedia, we published 244 different telephone directories in 2004 with a total circulation of approximately 18 million copies.

We also operate the leading online 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 4.2 million unique visitors in December 2004 (Source: comScore Media Metrix).

### **Business strategy**

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

Our focus remains on executing our organic growth strategy and extending our product and service offerings for the benefit of both our advertisers and our users. The directory advertising industry needs to accommodate user preferences, usage being the key driver affecting the level of advertising activity. Our industry is subject to changes arising from the increased usage of Internet-based products and technology advancement. As such, we have aligned our online and print strategies in a continued effort to connect buyers and sellers and to become the #1 source of references for our advertisers.

We may 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. Capital raising activities conducted since the Fund's inception in 2003 have solidified our capital structure for future growth and permit us to consider investments or business acquisitions which could further strengthen our market position and increase cash available for distributions to unitholders.

The following critical initiatives continued to underpin our strategy for maximizing the long-term sustainability of our business:

- Reinforce our position as the leading publisher of directories in Canada
- Increase the productivity of our sales force
- Improve the effectiveness of our workflows and business processes
- Implement new automated tools to optimize efficiency

We believe that the execution of our business strategy combined through the achievement of the above mentioned initiatives should result in recurring 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.

We periodically review 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> should result in sustainable increases in distributions.

## PERFORMANCE HIGHLIGHTS

This section reviews the progress made during the year in executing the various elements of our business strategy. The impact of management initiatives on the results of operations and financial condition in 2004 are also discussed in the remaining pages of this MD&A.

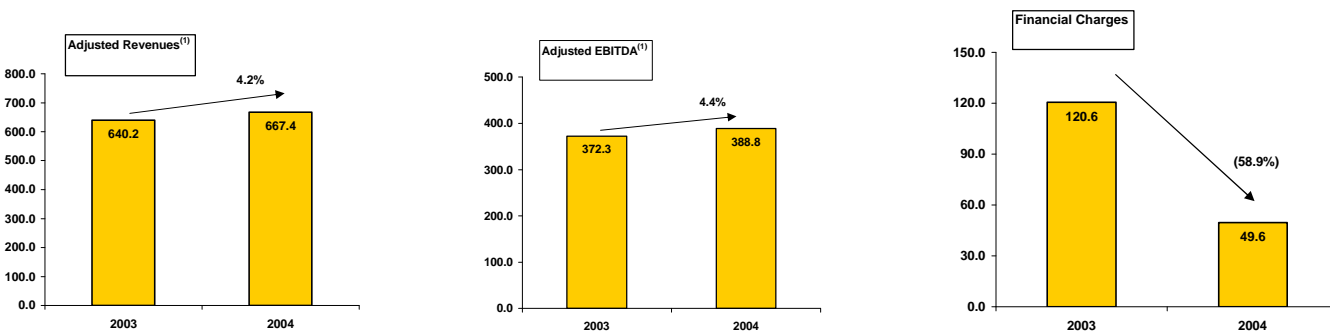
We continued to grow our revenue while maintaining our industry-leading margins and significant free cash flow generation. We pursued initiatives to maintain our market-leading position in Canada through the continued execution of our organic growth strategy. Some of the more notable initiatives undertaken during the year are as follows:

- Enhancement of our print product: The binding of the alphabetical business listings to the Yellow Pages directory in some markets, the introduction of new advertiser and user features and the redesign of our print directories.
- Enhancement of our online product: The upgrade of search functionalities of YellowPages.ca.
- Distribution agreement with search engine: The Google agreement making our business listings available on Google Local Canada.
- Improvement of the salesforce effectiveness: Improved sales coverage and new pricing models.

The two-year transition from a wholly-owned subsidiary of Bell Canada to a stand-alone entity ended on November 29, 2004. Notwithstanding this, we continued to focus on business process re-engineering and new technology which has resulted in increased productivity levels and efficiency improvement.

We diversified our funding by implementing a \$1 billion shelf offering of Medium Term Notes. Total debt as at December 31, 2004 of approximately \$1.2 billion accounts for a solid capital structure with a financial leverage ratio of 2.6 times Adjusted EBITDA, net of cash balances.

(in millions of dollars)



(1) See definition of Adjusted Revenues, EBITDA and Adjusted EBITDA on page 5

## SELECTED ANNUAL INFORMATION

	Year ended December 31, (in thousands of Canadian dollars, except per unit data)		
	2004	2003	2002 <sup>(1)</sup>
<b>YPG</b>			
Revenues	\$ 667,375	\$ 612,558	\$ 638,365
Income (loss) from operations	\$ 358,506	\$ (31,068)	\$ 288,608
Net earnings (loss)	\$ 276,547	\$ (56,936)	\$ 132,162
Adjusted Revenues <sup>(2)</sup>	\$ 667,375	\$ 640,216	\$ 613,358
Adjusted EBITDA <sup>(2)</sup>	\$ 388,757	\$ 372,347	\$ 341,223
Adjusted EBITDA margin	58.3%	58.2%	55.6%
Cash available for distributions <sup>(3)</sup>	\$ 337,265	\$ 315,011	\$ 265,903
Total assets	\$ 3,157,288	\$ 2,990,821	\$ 3,234,801
Total long-term debt	\$ 1,191,731	\$ 1,055,106	\$ 2,143,688
<b>The Fund<sup>(4)</sup></b>			
Revenues	\$ 637,346	\$ 25,416	
Income from operations	\$ 153,226	\$ 4,039	
Net earnings	\$ 106,989	\$ 3,161	
Net earnings per unit	\$ 0.36	\$ 0.028	
Diluted earnings per unit	\$ 0.35	\$ 0.026	
Total assets	\$ 4,940,446	\$ 4,462,744	
Total long-term debt	\$ 1,191,731	\$ 1,055,106	
Distributions declared	\$ 272,939	\$ 45,280	
Distributions paid and payable per unit	\$ 0.91	\$ 0.35	

### YPG

**Revenues, Income (loss) from operations and Net earnings (loss):** Revenues, Income (loss) from operations and Net earnings (loss) reported in 2004, 2003 and 2002 were impacted by purchase accounting following our acquisition of the directories businesses from affiliates of Bell Canada on November 29, 2002 (the "Acquisition"). Reported amounts for those years are not representative of amounts that would have otherwise been reported. Reference should be made to the information presented in tabular form in the section entitled "Non-GAAP Measures" of this MD&A for a more meaningful discussion of Revenues, Income (loss) from operations and Net earnings (loss).

**Income (loss) from operations:** In addition to the impact of purchase accounting referred to above, the loss from operations reported in 2003 has been impacted by restructuring and special charges in the amount of \$144.1 million. These charges related primarily to the refinancing of the Acquisition credit facilities and also included amounts related to initiatives that were undertaken to improve efficiencies following a thorough review of all aspects of the operations.

**Net earnings (loss):** The changes to our capital structure and our funding over the years have resulted in a substantial positive impact in our financial charges. Prior to the Acquisition, the predecessor business did not hold any long-term debt. As such, no interest expense was incurred during the 11 month-period ended November 29, 2002. Concurrent with the Acquisition, a \$1.5 billion facility and \$600 million of subordinated loans were put in place. Beginning with the initial public offering (the "IPO") of the Fund in August 2003, we began diversifying our funding sources and significantly reinforced our capital structure by substituting debt for equity. As a result, we now have lower levels of borrowings which, coupled with lower interest rates, have significantly reduced our financial charges.

**Adjusted Revenues<sup>(2)</sup>:** Adjusted Revenues<sup>(2)</sup> have grown consistently over the last three years. We have executed on our growth strategy with initiatives such as new pricing models, bundling of print and internet, improved sales coverage, intensive advertising campaigns and product enhancements.

(1) Combines the historical results of the predecessor business for the eleven months ended November 29, 2002 and YPG's one-month period ended December 31, 2002

(2) See definition of Adjusted Revenues and Adjusted EBITDA on page 5

(3) See definition distributable cash on p. 15

(4) Comparative figure covers period from commencement of operations, August 1, 2003 to December 31, 2003

**Adjusted EBITDA<sup>(1)</sup>:** Despite the expansion of our management team, the creation of new positions, and the additional recurring costs associated with being a publicly-listed company, our cost reduction initiatives following the transition of YPG to a stand-alone entity resulted in an improvement in Adjusted EBITDA margins from 55.6% in 2002 to 58.2% in 2003 and 58.3% in 2004.

**Total assets:** The excess cash as at December 31, 2004 accounted for most of the increase in total assets from 2003 to 2004 while the amortization of intangibles accounted for most of the decrease from 2002 to 2003.

**Total long-term debt:** A portion of the proceeds from the initial public offering in August 2003 and a follow-on equity offering in December of the same year were used to substantially reduce borrowings in 2003. The increase from 2003 to 2004 is due to the issuance of Medium Term Notes in November 2004.

### ***The Fund***

From its inception to December 17, 2003, the Fund accounted for its investment in YPG using the equity method of accounting. Under this method, the Fund's 30.56% share of the earnings of YPG, adjusted for the amortization of certain intangible assets and other items arising from the use of purchase accounting was reflected in the statement of earnings of the Fund as "Share of earnings from equity investee". On December 17, 2003, the Fund increased its ownership in YPG to 67% and became the controlling unitholder. Consequently, for the period from December 17 to December 31, 2003 the results of operations of YPG were consolidated with those of the Fund. On June 11, 2004, YPG became a wholly-owned subsidiary of the Fund. The results of operations of the Fund are entirely dependent on the performance of YPG.

**Total assets:** The increase in total assets is largely due to the increase in goodwill which occurred on June 11, 2004, when the Fund acquired the remaining 33% of YPG.

**Total long-term debt:** Represents the long-term debt of YPG in the Fund's consolidated financial statements.

## **NON-GAAP FINANCIAL MEASURES**

### ***YPG***

Our acquisition of the directories businesses from affiliates of Bell Canada on November 29, 2002 was 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 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, restructuring and special charges and other non-recurring items 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, amortization, restructuring and special charges. 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.

(1) See definition of Adjusted EBITDA in Non-GAAP financial measures section

<b>Year ended December 31, 2004</b> <i>(in thousands of Canadian dollars)</i>					
	Year ended December 31, 2004 (as reported)	Elimination of purchase accounting impact	Transition expenses/ Other	Adjusted	
Revenues	\$ 667,375	\$ -	\$ -	\$ 667,375	
Operating costs	281,124	5,104	(7,610)	278,618	
<b>EBITDA</b>	386,251	(5,104)	7,610	388,757	
Depreciation and amortization	27,745	(16,286)	-	11,459	
<b>Income from operations</b>	<b>\$ 358,506</b>	<b>\$ 11,182</b>	<b>\$ 7,610</b>	<b>\$ 377,298</b>	

<b>Year ended December 31, 2003</b> <i>(in thousands of Canadian dollars)</i>						
	Year ended December 31, 2003 (as reported)	Elimination of purchase accounting impact	Transition expenses	Restructuring and special charges	Adjusted	
Revenues	\$ 612,558	\$ 27,658	\$ -	\$ -	\$ 640,216	
Operating costs	211,742	62,287	(6,160)	-	267,869	
<b>EBITDA</b>	400,816	(34,629)	6,160	-	372,347	
Depreciation and amortization	287,769	(281,241)	-	-	6,528	
Restructuring and special charges	144,115	-	-	(144,115)	-	
<b>(Loss) income from operations</b>	<b>\$ (31,068)</b>	<b>\$ 246,612</b>	<b>\$ 6,160</b>	<b>\$ 144,115</b>	<b>\$ 365,819</b>	

The adjusted results for the year ended December 31, 2002 were derived by i) adding the predecessor business' eleven-month results ended November 29, 2002 and YPG's one-month results ended December 31, 2002, ii) modifying the method under which we accounted for our 12.86% equity interest in Aliant ActiMedia from consolidation to proportionate consolidation in order to be consistent with the method used in 2003 and 2004, iii) excluding from the one-month reported amounts the impact of purchase accounting and transition expenses as they relate to the Acquisition and are therefore non-recurring and iv) normalizing 2002 results to enhance comparability with 2003 and allow for a meaningful discussion taking into account adjustments that give effect to contractual arrangements negotiated in conjunction with the Acquisition and others that are reflective of ongoing operations following the Acquisition.

<b>Year ended December 31, 2002</b> <i>(in thousands of Canadian dollars)</i>						
	Year ended December 31, 2002	Aliant ActiMedia conforming adjustments	Elimination of purchase accounting impact	Transition expenses	Normalization adjustments	Adjusted
Revenues	\$ 638,365	\$ (40,019)	\$ 2,864	\$ -	\$ 12,148	\$ 613,358
Operating costs	291,674	(15,110)	8,027	(1,677)	(10,779)	272,135
<b>EBITDA</b>	346,691	(24,909)	(5,163)	1,677	22,927	341,223
Depreciation and amortization	58,083	(102)	(44,372)	-	-	13,609
<b>Income (loss) from operations</b>	<b>\$ 288,608</b>	<b>\$ (24,807)</b>	<b>\$ 39,209</b>	<b>\$ 1,677</b>	<b>\$ 22,927</b>	<b>\$ 327,614</b>

## ANALYSIS OF OPERATING AND FINANCIAL RESULTS

### *The Fund*

<i>(in thousands of Canadian dollar, except unit information)</i>		
	Year ended December 31, 2004	Period from commencement of operations, August 1, 2003 to December 31, 2003
Revenues	\$ 637,346	\$ 25,416
Income from operations	\$ 153,226	\$ 4,039
Non-controlling interest	\$ 36,127	\$ 3,533
Share of earnings from equity investee	\$ -	\$ (2,106)
Net earnings	\$ 106,989	\$ 3,161
Net earnings per unit	\$ 0.36	\$ 0.028
Diluted earnings per unit	\$ 0.35	\$ 0.026

The results of operations of the Fund are entirely dependent on the performance of YPG. YPG's results are presented and commented on below in order to provide information on the underlying operations of this investment.

### *YPG*

<b>Results</b> <i>(in thousands of Canadian dollars)</i>		
	Year ended December 31,	
	2004	2003
Revenues	\$ 667,375	\$ 612,558
Adjusted Revenues	\$ 667,375	\$ 640,216
EBITDA, as reported	\$ 386,251	\$ 400,816
Adjusted EBITDA	\$ 388,757	\$ 372,347
Adjusted EBITDA margin	58.3%	58.2%
EBITDA, as reported	\$ 386,251	\$ 400,816
Depreciation and amortization	27,745	287,769
Restructuring and special charges	-	144,115
Income (loss) from operations	358,506	(31,068)
Financial charges	49,599	120,592
Earnings (loss) before income taxes and non- controlling interest	308,907	(151,660)
Provision for (recovery of) income taxes	32,360	(93,156)
Non-controlling interest	-	(1,568)
Net earnings (loss)	\$ 276,547	\$ (56,936)

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

### **Adjusted Revenues**

Adjusted Revenues grew by \$27.2 million or 4.2% to \$667.4 million in 2004 compared to \$640.2 million in 2003. The increase in revenues is mainly attributable to increased advertising revenues in our print directories arising from new pricing models, improved sales coverage and new neighbourhood directories. During 2004, we maintained an account renewal rate of more than 90%.

Online advertising revenues from our internet-based directories, which are offered as a complement to our print directories, increased by \$6.8 million to \$21.3 million in 2004 compared to \$14.5 million in 2003 representing an increase of 46.9%. In 2004, 32% of our print advertisers also advertised online compared to 14% in 2003. Initiatives such as the upgrade of search functionalities and the Google agreement undertaken during the year, resulted in

increased traffic from consumers which benefited our advertisers and consequently had a positive effect on our online revenues.

Based on actual results and on our organic growth strategy, we anticipate that Adjusted Revenues should grow by 3% to 4% in 2005.

### ***Adjusted EBITDA***

Cost of sales amounted to \$168.8 million in 2004 compared to \$163.2 million for the previous year. Gross profit increased from 74.5% in 2003 to 74.7% in 2004 as a result of lower printing costs which were negotiated in 2003 and for which benefits were recognized.

General and Administrative expenses, including pension and post-employment expenses, increased to \$109.8 million or 16.5% of Adjusted Revenues in 2004 compared to \$104.7 million or 16.4% of Adjusted Revenues in 2003. The increase is mainly due to additional restructuring costs we incurred in 2004 and additional costs associated with being a public company for the entire year compared to 2003 when we operated as a public company for only five months.

As a result, Adjusted EBITDA margin improved slightly to 58.3% compared with 58.2% in 2003.

We expect to continue to realize benefits from initiatives undertaken in 2003 and 2004. Combined with our continued focus on process and system improvements in 2005 we are confident in our ability to grow Adjusted EBITDA by 3% to 5% in 2005.

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

There was a substantial decrease in depreciation and amortization during 2004 due to lower amortization on intangibles such as customer contracts and customer relationships. On November 29, 2002, when we acquired the directory businesses from Bell, those intangible assets 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 \$265.7 million in 2004 to \$15.6 million compared with the previous year.

### ***Restructuring and Special charges***

Restructuring and special charges amounting to \$144.1 million were recorded in 2003. These charges related primarily to the refinancing on August 1, 2003 of the credit facilities initially entered into on November 29, 2002 and also included amounts related to initiatives that were undertaken to improve efficiencies following a thorough review of all aspects of our operations. The restructuring and special charges recognized in 2003 consisted of:

- A write-off of \$83.2 million of previously deferred financing costs, \$15.4 million in redemption fees and a \$20.1 million charge due to the settlement of cross-currency interest rate swaps, all related to the repayment of our old credit facilities;
- The write-off of \$4.7 million of deferred financing costs, related to the partial repayment of the Term B loan facility of our new credit facilities entered into on August 1, 2003; and
- A \$9.3 million workforce reduction charge comprised primarily of severances and related benefits as well as impairment charges of \$5.6 million recognized on capital assets and \$5.8 million of other charges taken on other items.

No such expenses were incurred in 2004.

## Financial charges

Financial charges amounted to \$49.6 million in 2004 compared to \$120.6 million in 2003, a decrease of \$71 million.

Interest expense (including stand-by fees) decreased by 68% from \$131.7 million in 2003 to \$42.1 million in 2004. The decrease in interest expense results from significant changes in YPG's capital structure and funding sources over the last two years. A portion of the proceeds from our IPO in August 2003 along with a follow-on equity offering in December of the same year were used to reduce the level of borrowings in the latter half of 2003. Additionally, the debt originally raised at the time of the Acquisition was entirely refinanced with lower cost bank facilities, commercial paper and Medium Term Notes.

Foreign exchange gains of \$17.6 million were recognized in 2003 resulting from foreign exchange fluctuations associated with the U.S dollar-denominated long-term debt for the period ended January 24, 2003, the date at which the debt became fully hedged. As at December 31, 2004, our debt portfolio was entirely denominated in Canadian dollars.

## Income taxes

The combined provincial and federal tax rates were 33.9% and 35.3% in 2004 and 2003, respectively. The effective tax rate for the year ended December 31, 2004 was 10.5% compared to 61.4% in 2003. The legal entity YPG LP is a limited partnership and as such is not subject to income taxes other than large corporation taxes and provincial minimum taxes whereas its subsidiaries are subject to income tax. The variance between the statutory and the effective tax rates is primarily due to inter-company revenues which are not taxable when received by YPG LP.

## ANALYSIS OF QUARTERLY RESULTS

<b>Results (unaudited)</b> (in thousands of dollars)		<b>Three-month periods ended</b>							
		<b>2004</b>				<b>2003</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	
Revenues	\$ 170,197	\$ 166,967	\$ 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>\$ 170,197</b>	<b>\$ 166,967</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>	
Income (loss) from operations	\$ 89,841	\$ 92,393	\$ 89,845	\$ 86,427	\$ 69,795	\$ (88,503)	\$ 3,109	\$ (15,469)	
Adjustments to income (loss) from operations:									
Depreciation and amortization	3,984	5,094	7,078	11,589	21,675	52,222	95,353	118,519	
Restructuring and special charges	-	-	-	-	7,979	136,136	-	-	
<b>EBITDA</b>	<b>93,825</b>	<b>97,487</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	(90)	(553)	(1,488)	(2,973)	(4,946)	(6,274)	(10,056)	(13,353)	
Transition expenses/ Other	4,973	1,240	834	563	1,678	623	2,283	1,576	
<b>Adjusted EBITDA</b>	<b>\$ 98,708</b>	<b>\$ 98,174</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%	58.8%	58.0%	58.2%	58.9%	58.5%	57.1%	58.1%	
Income (loss) before taxes and non-controlling interest	78,262	83,837	70,425	76,383	56,591	(114,645)	(47,723)	(45,883)	
<b>Net earnings (loss)</b>	<b>\$ 60,892</b>	<b>\$ 76,968</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	\$ 3,157,288	\$ 3,052,763	\$ 3,021,533	\$ 2,989,487	\$ 2,990,821	\$ 3,034,418	\$ 3,042,817	\$ 3,167,164	
Long-term debt and other liabilities	\$ 1,190,058	\$ 1,081,399	\$ 1,081,724	\$ 1,053,885	\$ 1,053,992	\$ 1,200,000	\$ 1,965,372	\$ 2,064,001	

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.

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 higher pension-related expense.

We incurred restructuring and special charges in the third and fourth quarters of 2003 which negatively impacted the net earnings (loss) of those quarters. An 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, which negatively impacted our net earnings, particularly in comparison with the previous quarter, while lower interest expense had a positive impact over the last five quarters. The two year transition from Bell to a stand-alone organization ended in the last quarter of 2004 and as such our net earnings were negatively impacted by expenses relating to data conversion and final settlements of liabilities related to the Acquisition. Excluding the elements mentioned above, the diminishing impact of amortization of customer contracts and relationships and purchase accounting over the last eight quarters, have resulted in an improvement in net earnings quarter over quarter.

## **FINANCIAL POSITION**

### ***The Fund***

<b>Assets</b> <i>(in thousands of Canadian dollars)</i>		
	<b>As at December 31, 2004</b>	<b>As at December 31, 2003</b>
Total assets	<b>\$ 4,940,446</b>	<b>\$ 4,462,744</b>

The balance sheet of the Fund is presented on a consolidated basis. Intangibles and goodwill amounted to approximately \$4.5 billion as at December 31, 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 in November 2002.

<b>Capital structure</b> <i>(in thousands of Canadian dollars)</i>		
	<b>As at December 31, 2004</b>	<b>As at December 31, 2003</b>
Cash and cash equivalents	<b>\$ 186,957</b>	<b>\$ 45,545</b>
Long-term debt, including short term portion	<b>1,191,731</b>	<b>1,055,106</b>
<b>Total net debt (net of cash and cash equivalents)</b>	<b>1,004,774</b>	<b>1,009,561</b>
Non-controlling interest	-	585,615
Unitholders' Equity	<b>3,511,671</b>	<b>2,422,481</b>
<b>Total capitalization</b>	<b>\$ 4,516,445</b>	<b>\$ 4,017,657</b>
Net debt to total capitalization	<b>22.3%</b>	<b>25.1%</b>

Unitholders' Equity increased by \$1.1 billion for the year ended December 31, 2004. The exchange of units by BCE and Teachers' 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, which 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 KKR. These increases to Unitholders' Capital combined with net earnings of \$107 million were partially offset by monthly distributions totaling \$272.9 million for the year ended December 31, 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>		
	<b>As at December 31, 2004</b>	<b>As at December 31, 2003</b>
Total assets	\$ 3,157,288	\$ 2,990,821

Working capital excluding cash was \$33.6 million as at December 31, 2004 compared to \$36.8 million as at December 31, 2003. We do not expect any significant variations in our working capital for 2005.

<b>Capital structure</b> <i>(in thousands of Canadian dollars)</i>		
	<b>As at December 31, 2004</b>	<b>As at December 31, 2003</b>
Cash and cash equivalents	\$ 186,957	\$ 45,545
Long-term debt, including short term portion	1,191,731	1,055,106
<b>Total net debt (net of cash and cash equivalents)</b>	<b>1,004,774</b>	<b>1,009,561</b>
Partners' Equity	1,755,677	1,774,730
<b>Total capitalization</b>	<b>\$ 2,760,451</b>	<b>\$ 2,784,291</b>
Net debt to total capitalization	36.4%	36.3%

Cash and cash equivalents increased in 2004 compared to 2003 due to timing differences in the reimbursement of commercial paper outstanding following the issuance of additional Medium Term Notes in November 2004. Total net debt in 2004, however, is comparable to that in 2003.

Partners' Equity decreased by \$19.1 million during 2004. The exchange of units during 2004 whereby certain optionholders exercised 1,527,110 options into 1,527,110 shares of YPG Holdings Inc. and subsequently exchanged into 1,527,110 units of the Fund, in accordance with the Optionholders' Liquidity Agreement, increased the Partners' Capital by \$17.8 million. This increase to Partners capital combined with net earnings of \$276.5 million was offset by monthly distributions totaling \$311.5 million.

## CAPITAL RESOURCES AND LIQUIDITY

### *The Fund*

Distributions to unitholders declared amounted to \$272.9 million (\$0.906 per unit) during the year ended December 31, 2004 and \$45.3 million (\$0.3530 per unit) for the period from commencement of operations, August 1, 2003 to December 31, 2003. On an annualized basis, the increase in distributions declared reflects the increase in unitholders' capital following the exchange of units by BCE and Teachers' as well as the June 11, 2004 offering, discussed previously. The December 31, 2004 distribution of \$26.4 million (\$0.0766 per unit) was paid on January 17, 2005. The current monthly distribution of \$0.0766 per unit represents cash distributions of \$0.92 per unit annually. Distributions in 2004 increased by 4.5% from \$0.88 per unit to \$0.92 per unit. Distributions by the Fund are entirely dependent on the distributions and the performance of YPG, a discussion of which follows.

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 confident in our ability to grow the Fund's distributions by approximately 4% annually.

## YPG

We finance our operations through cash generated from operating activities. Consistent with the directory publishing industry, we have minimal working capital requirements, which along with low costs for operations, resulted in significant levels of free cash flow.

<b>Cash flow from operating activities</b> <i>(in thousands of Canadian dollars)</i>		
	Year ended December 31,	
	2004	2003
Cash flow from operations	\$ 350,304	\$ 216,864
Change in operating assets and liabilities	(93)	(41,450)
<b>Cash flow from operating activities</b>	<b>\$ 350,211</b>	<b>\$ 175,414</b>

Interest (including standby fees) paid during the year ended December 31, 2004 and 2003, amounted to \$33.4 million and \$133.7 million, respectively. Lower levels of borrowings resulting from the issuance of additional partnership units combined with reduced borrowing rates contributed to improve the cash generated from our operating activities during the year, compared to those of the preceding year. Cash generated from operating activities in 2003 was negatively impacted by restructuring and special charges amounting to \$49.6 million.

<b>Cash flow from investing activities</b> <i>(in thousands of Canadian dollars)</i>		
	Year ended December 31,	
	2004	2003
Acquisition of capital assets	\$ (29,194)	\$ (17,147)
Proceeds from lease inducements	9,824	449
Other	(25)	(1,449)
<b>Cash flow from investing activities</b>	<b>\$ (19,395)</b>	<b>\$ (18,147)</b>

<b>Acquisition of capital assets, net of lease inducements</b> <i>(in thousands of Canadian dollars)</i>		
	Year ended December 31,	
	2004	2003
Pre-funded	\$ 9,557	\$ 3,182
Maintenance	7,949	7,911
New initiatives	4,092	2,671
Leasehold improvements net of lease inducements	808	1,164
<b>Total</b>	<b>22,406</b>	<b>\$ 14,928</b>
Adjustment to reflect expenditures on a cash basis	(3,036)	1,770
<b>Acquisition of capital asset, net of lease inducements</b>	<b>\$ 19,370</b>	<b>\$ 16,698</b>

#### Pre-Funded (transition)

Pursuant to the Acquisition and the IPO, \$10 million was set aside as pre-funded capital for the purpose of transitioning the Company to a stand-alone entity. As a result of the termination of the transition service agreement with Bell Canada in November 2004, we incurred certain capital expenditures amounting to \$9.6 million during the year compared to \$3.2 million in 2003. In total, our transition capital assets totaled \$12.7 million.

#### Maintenance

Maintenance capital expenditures are for ongoing operations to maintain the integrity of our infrastructure. Such expenditures are not expected to exceed \$10 million per annum over the foreseeable future. In 2004 we incurred maintenance capital expenditures of \$7.9 million.

#### New Initiatives (transformation)

As we optimize processes to reduce costs, we invest in selected new initiatives. During the year we spent \$4.1 million on such initiatives.

#### Leasehold Improvements

Following the move to our new headquarters in 2003, renovations in the form of leasehold improvements were made to our other offices in 2004. A substantial portion of these leasehold expenditures are reimbursed to us through tenant inducements and we expect that the level of expenses associated with these leasehold improvements will be significantly reduced as they are completed during the second half of 2005.

<b>Cash flow from financing activities</b> (in thousands of Canadian dollars)		
	Year ended December 31,	
	2004	2003
Issuance (repayment) of long-term debt, net	\$ 132,404	\$ (1,075,237)
Distributions	(310,306)	(94,862)
Issuance of units, net of issuance cost	-	1,045,487
Deferred financing costs and other	(11,502)	(24,492)
<b>Cash flows from financing activities</b>	<b>\$ (189,404)</b>	<b>\$ (149,104)</b>

We improved our capital structure during the third quarter of 2003 by paying down our initial debt with proceeds received from the initial public offering of the Fund in August 2003 and the closing of new credit facilities. Since the IPO, we have continued to execute our financing plan to further reduce our borrowings, diversify our funding sources and extend 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 followed by an additional \$250 million issued during the last quarter of the year. Net proceeds of approximately \$742 million and \$247 million, respectively, were used to refinance bank borrowings, reduce drawings under our commercial paper program and for general corporate purposes.

During the year ended December 31, 2004, we reimbursed the remaining Term B loan of \$10 million and Term A loan of \$750 million. In addition, the commercial paper program was reduced by \$106 million.

### **Commitments**

The following table sets forth our contractual obligations, for the next five years and thereafter, as at December 31, 2004.

<b>Contractual obligations</b> (in thousands of Canadian dollars)						
	Payments due by the year ended December 31,					
	2005	2006	2007	2008	2009	Thereafter
Long-term debt	\$ -	\$ 184,000	\$ -	\$ -	\$ 450,000	\$ 550,000
Capital lease obligations	1,673	1,338	1,140	1,106	1,200	1,274
Operating leases	5,233	9,734	9,369	9,399	10,030	86,384
Purchase obligations	61,680	61,680	61,680	50,631	50,631	-
<b>Total contractual obligations</b>	<b>\$ 68,586</b>	<b>\$ 256,752</b>	<b>\$ 72,189</b>	<b>\$ 61,136</b>	<b>\$ 511,861</b>	<b>\$ 637,658</b>

### **Long-term debt**

Our debt funding sources are currently comprised of the following:

- A commercial paper program and associated standby lines of credit with an authorized limit of \$300 million, maturing in October 2006. The program is rated R-1 (low) by DBRS. Commercial paper outstanding amounted to \$184 million at December 31, 2004.
- A 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 notes issued under the program are rated BBB (high) by DBRS and BBB- by Standard & Poor's. The program was fully utilized as at December 31, 2004. Medium Term Notes were issued in three series with different maturity dates. The \$450 million Series 1 5-year Notes mature in April 2009, the \$300 million Series 2 10-year Notes mature in April 2014 while the \$250 million Series 3 15-year Notes mature in November 2019.
- A revolving bank credit facility consisting of a \$100 million unsecured revolving term facility maturing August 1, 2007 (undrawn at December 31, 2004).

During the year ended December 31, 2004, we fully reimbursed the remaining Term B loan of \$10 million and Term A loan of \$750 million. In addition, the drawings under the commercial paper program were reduced to \$184 million from \$290 million as at December 31, 2003. Proceeds from the Medium Term Notes as well as cash and cash equivalents were used for the repayment of maturing Commercial Paper.

With the Term loans fully reimbursed and the Medium Term Notes program used to its maximum, YPG reached an important objective of diversifying its sources of funding and extending the maturity of its debt obligations. We expect our debt structure at December 31, 2004 to remain fairly stable, in the normal course of business. The interest expense going forward should reflect the debt instruments outstanding at December 31, 2004 and the derivative instruments described below.

The revolving term facility and the commercial paper program 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 EBITDA and a minimum ratio of EBITDA to interest expense on total debt. YPG was in compliance with all debt covenants as of December 31, 2004.

### ***Derivative instruments***

We use various derivative financial instruments to manage our exposure to interest rates and foreign exchange risk 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.

We manage interest rate exposure by having a balanced schedule of debt maturities, as well as a combination of fixed and floating interest rate obligations and have entered into interest rate swap agreements to manage this exposure. We also hedge our exposure on foreign currency denominated long-term debt by entering into offsetting cross-currency interest rate swaps. There are no foreign currency derivatives outstanding, and all debt instruments are denominated in Canadian dollars.

The carrying value of all outstanding derivative instruments was \$2.6 million at December 31, 2004 and their fair values amounted to \$3.7 million. For the year ended December 31, 2004, we reported an unrealized gain on interest rate swaps of \$1.1 million (2003 – nil) and recorded a deferred gain on interest swaps of \$0.3 million of which \$10 thousand was amortized during the year.

Derivatives that are economic hedges, but do not qualify for hedge accounting are recorded on the balance sheet with changes in fair value recognized in earnings. Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or have ceased to be effective prior to maturity, are deferred on the balance sheet and recognized in income during the period in which the underlying hedged transaction is recognized.

Taking into consideration the debt instruments outstanding, the cash and the above mentioned derivative instruments, our fixed-to-floating ratio of the net debt was 88% of fixed rate debt as of December 31, 2004. Excluding the impact of cash, this ratio is 74%.

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 a loss is remote due to the creditworthiness of the counterparties all of whom are highly-rated financial institutions that have strong credit ratings.

### ***Obligations under capital leases***

We entered into various capital lease agreements for office equipment and software. As of December 31, 2004, minimum payments under these capital leases over the next five years and thereafter totaled \$7.7 million.

## ***Operating leases***

We rent our premises under various operating leases. As of December 31, 2004, minimum payments under these operating leases over the next five years and thereafter totaled \$130.1 million. One of the leases stipulates that no lease payments are required before January 1, 2006.

## ***Purchase obligations***

We use the services of outside suppliers to print and bind all of our directories and have entered into long-term agreements with such suppliers. These agreements expire between 2007 and 2009. As at December 31, 2004, we have an obligation to purchase goods for \$286.3 million over the next five years. Cash from operations will be used to satisfy these purchase obligations.

## ***Off-balance sheet arrangements***

We did not enter into any off-balance sheet arrangements other than the two interest rate swap agreements contracted in November 2004. These two agreements met the criteria for hedge accounting and as such, their total fair market value is not recorded on the balance sheet but is disclosed in the financial statements. As at December 31, 2004, the fair market value on these swap agreements was \$1.1 million.

## ***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 stakeholders to evaluate the ongoing performance of the Fund.

<b><i>Distributable cash (unaudited)</i></b> <b><i>(in thousands of Canadian dollars)</i></b>	<b>Year ended December 31,</b>	
	<b>2004</b>	<b>2003</b>
Adjusted EBITDA	<b>\$ 388,757</b>	<b>\$ 372,347</b>
Less:		
Maintenance capital expenditures <sup>(1)</sup>	<b>7,949</b>	<b>7,911</b>
Interest	<b>42,093</b>	<b>48,826</b>
Other	<b>1,450</b>	<b>599</b>
<b>Cash available for distributions</b>	<b>\$ 337,265</b>	<b>\$ 315,011</b>
Cash available for distributions per unit	<b>\$ 0.98</b>	<b>\$ 0.92</b>

## **ANALYSIS OF FOURTH QUARTER 2004 RESULTS**

### ***Operating and financial results***

#### ***The Fund***

The results of operations of the Fund are entirely dependant on the performance of YPG. YPG's results are presented and commented on below in order to provide information on the underlying operations of this investment.

(1) Amounts restated to reflect capital expenditures incurred during the period. Previous methodology reflected capital expenditures on a cash basis.

## **YPG**

You should refer to the information presented in tabular form in the section entitled "Analysis of Quarterly Results" for more meaningful information on reported revenues and income from operations.

Adjusted Revenues increased to \$170.2 million during the three-month period ended December 31, 2004, up \$6.9 million over Adjusted Revenues of \$163.3 million in the corresponding period of 2003. This increase of 4.3% is in line with the yearly growth.

Adjusted EBITDA of \$98.7 million for the three-month period ended December 31, 2004 increased by \$2.5 million or 2.6% over the same period last year. The Adjusted EBITDA margin of 58.0% was slightly lower in the last quarter of 2004 compared to 58.9% in 2003. Our continued focus on optimization of efficiency resulted in an additional restructuring initiative during the fourth quarter of 2004. As such, our EBITDA was impacted by an additional charge of \$1.4 million.

There was a substantial decrease in depreciation and amortization for the three-month period ended December 31, 2004 compared with the corresponding period of the preceding year, 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 these particular intangibles as at January 1, 2004 was minimal and as such, the related amortization decreased by \$18.3 million in the fourth quarter of 2004 to \$1.2 million.

Interest expense, including standby and other charges in the fourth quarter of 2004 decreased to \$11.4 million compared to \$12.3 million in 2003. The decrease in interest expense is a result of a lower level of borrowings, and lower interest rates under our new credit facilities, commercial paper program and Medium Term Notes.

Net earnings amounted to \$60.9 million in the three-month period ended December 31, 2004 compared with \$54.1 million for the same period of the preceding year.

### ***Capital resources and liquidity***

#### ***The Fund***

Distributions to unitholders declared amounted to \$79.1 million (\$0.2298 per unit) during the last quarter of 2004 \$31.3 million (\$0.2154 per unit) in 2003.

## **YPG**

During the quarter, we experienced a significant increase in cashflow from operations mostly due to the receipt of payment from one of our large commercial relationships which should have been received in the third quarter.

Interest, including standby charges, paid during the three-month period ended December 31, 2004 amounted to \$18 million compared to \$10.3 million in 2003. The change in the timing of interest payments following the refinancing of our credit facilities into our Medium Term Notes program contributed to the higher level of payments during the fourth quarter of 2004 which reflects the new semi-annual payment schedule.

During the quarter, we fully reimbursed without penalties, our unsecured Term A loan facility of \$50 million, which was to mature August 1, 2007. We also issued an additional \$250 million of 15-year Notes from our Medium Term Notes program and repaid \$91 million of borrowings under our Commercial Paper program.

## **RELATED PARTY TRANSACTIONS**

For the year ended December 31, 2004 and December 31, 2003, we incurred consulting and monitoring fees of \$0.5 million and \$1 million, respectively, with KKR and placement fees of \$0.2 million and \$0.5 million, respectively, with Teachers'. These agreements and related fees were terminated effective June 11, 2004.

For the year ended December 31, 2003, we incurred fees to Capstone Consulting LLC, an independent consulting firm that provides services exclusively to KKR and its affiliates, of approximately \$2.4 million for its services to YPG. No such fees were paid during 2004. In 2003, Capstone Consulting LLC invested in YPG and received 207,607 options to purchase securities of a subsidiary, of which, 69,202 options were exercised in 2004.

BCE exchanged its units of YPG on February 10, 2004, as described previously. As such, on that date, BCE ceased to meet the definition of a related party. In the normal course of business, we recorded \$0.4 million in revenues and \$1 million in expenses for the period of January 1, 2004 to February 10, 2004. For the year ended December 31, 2003, we recorded \$2.7 million in revenues while expenses amounted to \$15.3 million.

As at December 31, 2004, there were no related parties.

## **ACCOUNTING POLICIES**

Our consolidated financial statements are based on the selection and application of accounting policies which require us to make significant estimates and assumptions. We believe that the following accounting policies which may involve a higher degree of judgment and complexity in their application, represent our critical accounting policies.

### **Critical accounting policies**

#### **Goodwill**

Goodwill represents the excess of the purchase price over the estimated fair value of the net identifiable assets of businesses acquired. Goodwill is not amortized but rather is assessed for impairment annually or more frequently if circumstances change, on the basis of its fair value. Fair value is determined using discounted expected future cash flows.

#### **Intangibles**

Intangibles are recorded at cost. Intangibles with finite lives are amortized as follows:

Non-competition agreement and logo	Straight-line over 30 years
Customer contracts	Pro rata based on related revenues, not exceeding 11 months
Customer relationships	Pro rata based on related revenues, not exceeding 24 months

The trademark and domain names are considered intangible assets with indefinite lives and are not amortized; however, they are assessed for impairment annually or more frequently if circumstances change, on the basis of their fair values. Fair value is determined using discounted expected future cash flows.

## **Change in accounting policies**

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

Effective August 1, 2003, we adopted the recommendations of CICA Handbook Section 3870 *"Stock-Based Compensation and Other Stock-Based Payments"*. The standard requires recognition of compensation awards granted to employees and others. The standard was applied to awards granted on or after January 1, 2003.

In 2003, we chose not to use the fair value method to account for stock options issued to employees under YPG's stock option program. No compensation expense was recognized for this plan when stock options were granted to employees. Any consideration paid by employees on exercise of stock options is credited to partner's equity in YPG.

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. The cumulative effect of adopting the new accounting policy on the opening accumulated earnings is \$0.3 million.

### **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, we adopted Accounting Guideline - 13, *"Hedging Relationships"* ("ACG-13"). 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. The adoption of this guideline did not have any impact on the financial statements.

## **Recent accounting pronouncements**

### **Variable interest entities**

The CICA has issued a guideline on accounting for variable interest entities (VIEs) titled Accounting Guideline - 15 *"Consolidation of Variable Interest Entities"* ("AcG-15"), which proposes amendments to the guideline to harmonize with corresponding guidance in the United States. A VIE is any type of legal structure not controlled by voting equity but rather by/or through contractual or other financial agreements. This guideline requires us to identify VIEs in which we have an interest, determine whether we are the primary beneficiary of such entities, and, if so, to consolidate the VIE. A primary beneficiary is an enterprise that will absorb a majority of the VIE's expected losses, receive a majority of its expected residual return, or both.

AcG-15 is effective for fiscal periods beginning on or after November 1, 2004 and early adoption is encouraged. We will be adopting this standard in fiscal 2005. We conducted a review of the ownership and contractual interest in entities and determined that the adoption of this guideline will not have any impact on our financial statements.

### **Critical accounting estimates**

The preparation of financial statements in conformity with Canadian GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements. We constantly evaluate these estimates and assumptions.

We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty, thus the amounts currently reported in the financial statements could prove to be inaccurate in the future.

### **Intangibles**

Identified intangibles acquired were evaluated on the basis of their fair value based on independent or internal valuations. Certain information inputs in respect to the valuations were based on management's assumptions. Key assumptions used included projected revenues and EBITDA, anticipated market share and projected renewal rates.

### **Allowance for doubtful accounts**

We expect that a certain portion of required customer payments will not be made and maintain an allowance for these doubtful accounts. This allowance is based on our estimation of the likelihood of recovering our accounts receivable. It incorporates current and expected collection trends. If economic conditions changes, actual results or specific industry trends differ from our expectations, we will adjust our allowance for doubtful accounts and our bad debt expense accordingly. In addition, Bell Canada provides us with customer collection services with respect to advertisers who are also Bell Canada's customers. We rely on information provided by Bell Canada in determining the portion of required customer payments that will not be made and we maintain an allowance for those accounts.

### **Employee future benefits**

The accrued benefit obligation is determined by independent actuaries using the projected benefit method pro rated on service and is based on management's best economic and demographic estimates. These benefits relate to YPG's defined benefit plans. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investments returns and assets allocation.

### **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.