Management's report

The accompanying financial statements of Yellow Pages Income Fund and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements are based upon management's best estimates and judgements and have been prepared in conformity with generally accepted accounting principles in Canada. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the data, management maintains internal accounting controls and established policies and procedures designed to ensure reasonable assurance that transactions are recorded and executed in accordance with its authorization, that assets are properly safeguarded and that reliable financial records are maintained. The internal control systems and financial records are subject to review by the external auditors during the examination of the financial statements.

The responsibility of the Board of Directors is pursued principally through the Audit Committee. The Audit Committee, which is composed exclusively of outside directors, meets regularly with the external auditors and with management, to discuss accounting policies and practices, internal control systems, the scope of audit word and to assess reports on audit work performed. The external auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Christian M. Paupe
Executive Vice President,
Corporate Services and Chief Financial Officer

Ginette Maillé
Vice President and Principal Accounting Officer

Auditors' Report

To the Unitholders of
Yellow Pages Income Fund

We have audited the consolidated balance sheets of Yellow Pages Income Fund (the "Fund") as at December 31, 2008 and 2007 and the statements of earnings, comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP[1]

Montreal, Québec
February 4, 2009

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[1] Chartered accountant auditor permit nº 10800

Consolidated Balance Sheets

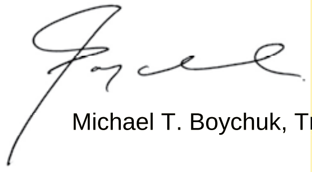
As at December 31,
(in thousands of Canadian dollars)

		2008		2007
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	**$**	**25,054**	$	53,275
Accounts receivable		**249,786**		225,251
Prepaid expenses		**11,596**		9,090
Deferred publication costs and other assets		**140,741**		125,344
Future income taxes (Note 13)		**43,723**		65,659
		470,900		478,619
DEFERRED PUBLICATION COSTS		**12,068**		10,216
CAPITAL ASSETS (Note 4)		**104,642**		125,769
OTHER ASSETS (Note 5)		**2,315**		4,612
DERIVATIVE FINANCIAL INSTRUMENTS		**4,500**		4,365
INTANGIBLES (Note 6)		**2,102,466**		2,066,167
GOODWILL (Note 7)		**6,648,667**		6,570,746
FUTURE INCOME TAXES (Note 13)		**20,661**		5,018
	$	**9,366,219**	$	9,265,512
LIABILITIES AND UNITHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities (Note 8)	**$**	**209,284**	$	207,487
Distributions payable		**50,709**		50,210
Deferred revenues		**112,364**		102,611
Current portion of long-term debt (Note 10)		**3,807**		4,416
		376,164		364,724
DEFERRED CREDITS		**26,143**		28,332
FUTURE INCOME TAXES (Note 13)		**117,114**		109,642
ACCRUED BENEFIT LIABILITIES (Note 9)		**78,197**		65,442
DERIVATIVE FINANCIAL INSTRUMENTS		**3,974**		-
LONG-TERM DEBT (Note 10)		**2,420,049**		2,133,179
EXCHANGEABLE DEBENTURES (Note 11)		**285,470**		280,553
PREFERRED SHARES (Note 12)		**489,072**		487,238
NON-CONTROLLING INTEREST		**8,544**		10,222
COMMITMENTS, CONTINGENCIES AND GUARANTEES (Notes 21 and 26)				
UNITHOLDERS' EQUITY		**5,561,492**		5,786,180
	$	**9,366,219**	$	9,265,512

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Fund by

Marc L. Reisch, Trustee



Michael T. Boychuk, Trustee

Consolidated Statements of Earnings

For the years ended December 31,
(in thousands of Canadian dollars, except per unit information)

		2008		2007
Revenues	**$**	**1,696,713**	$	1,624,424
Operating costs		**764,007**		750,264
Income from operations before depreciation and amortization and restructuring and special charges		**932,706**		874,160
Depreciation and amortization (Note 4 and 6)		**186,065**		225,584
Restructuring and special charges (Note 23)		**36,225**		-
Income from operations		**710,416**		648,576
Financial charges, net (Note 22)		**142,261**		137,361
Impairment of available–for–sale investment (Note 5)		**4,775**		-
Earnings before dividends on Preferred shares, income taxes and non-controlling interest		**563,380**		511,215
Dividends on Preferred shares		**22,750**		16,026
Earnings before income taxes and non-controlling interest		**540,630**		495,189
Provision for (recovery of) income taxes (Note 13)		**30,664**		(33,108)
Non-controlling interest		**739**		588
Net earnings	**$**	**509,227**	$	527,709
Basic earnings per unit	**$**	**0.97**	$	0.99
Weighted average number of units outstanding used in computing earnings per unit (Note 18)		**523,444,129**		530,604,504
Diluted earnings per unit	**$**	**0.89**	$	0.95
Weighted average number of units outstanding used in computing diluted earnings per unit (Note 18)		**614,710,805**		586,549,728

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31,
(in thousands of Canadian dollars)

	2008	2007
Net earnings	**$ 509,227**	$ 527,709
Other comprehensive gain (loss), net of related income taxes:		
Unrealized losses on derivatives designated as cash flow hedges[1]	**(2,767)**	-
Realized losses on derivatives designated as cash flow hedges[2]	**(1,849)**	-
Net gain on derivatives designated as cash flow hedges in prior periods transferred to earnings in the year[3]	**(306)**	(209)
Change in gains and losses on derivatives designated as cash flow hedges	**(4,922)**	(209)
Unrealized loss on available–for–sale investment in the year [4]	**(3,414)**	(1,361)
Unrealized loss on available–for–sale investment transferred to earnings in the year (Note 5)	**4,775**	-
Change in unrealized gains and losses on available–for–sale financial assets	**1,361**	(1,361)
Unrealized gains on translating financial statements of self-sustaining foreign operations	**12,060**	-
Other comprehensive gain (loss)	**8,499**	(1,570)
Comprehensive income	**$ 517,726**	$ 526,139

[1] Net of income taxes of $1,207

[2] Net of income taxes of $806

[3] Net of income taxes of $125 (2007 - $200)

[4] Net of income taxes of $nil (2007 - $nil)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Unitholders' Equity

For the years ended December 31, 2008 and 2007
(in thousands of Canadian dollars)

	Unitholders' Capital (Note 14)	Warrants	Equity Component of Exchangeable Debentures	Restricted Units	Contributed Surplus	Accumulated Other Comprehensive Income (Note 16)	Deficit	Total
Balance, December 31, 2006, as previously reported	$ 6,305,850 $	6,250 $	12,542 $	(19,187) $	7,515 $	- $	(481,426) $	5,831,544
Cumulative effect of adopting new accounting policy	-	-	-	-	-	2,202	537	2,739
Balance, January 1, 2007, as restated	6,305,850	6,250	12,542	(19,187)	7,515	2,202	(480,889)	5,834,283
Issuance of units (Note 14)	15,621	-	-	-	-	-	-	15,621
Restricted units (Note 19)	-	-	-	(17,718)	9,429	-	-	(8,289)
Restricted units vested (Note 19)	-	-	-	1,508	(1,508)	-	-	-
Distributions (Note 15)	-	-	-	-	-	-	(581,986)	(581,986)
Warrants expired (Note 14)	-	(6,250)	-	-	6,250	-	-	-
Obligations under stock options granted (Note 19)	-	-	-	-	412	-	-	412
Other comprehensive loss	-	-	-	-	-	(1,570)	-	(1,570)
Net earnings for the year	-	-	-	-	-	-	527,709	527,709
Balance, December 31, 2007	6,321,471	-	12,542	(35,397)	22,098	632	(535,166)	5,786,180
Issuance of units (Note 14)	6,422	-	-	-	-	-	-	6,422
Repurchase of Units (Note 14)	(183,477)	-	-	-	49,918	-	-	(133,559)
Restricted units (Note 19)	-	-	-	(24,103)	8,756	-	-	(15,347)
Restricted units vested (Note 19)	-	-	-	1,197	(1,197)	-	-	-
Distributions (Note 15)	-	-	-	-	-	-	(599,930)	(599,930)
Other comprehensive gain	-	-	-	-	-	8,499	-	8,499
Net earnings for the year	-	-	-	-	-	-	509,227	509,227
Balance, December 31, 2008	**$ 6,144,416 $**	**- $**	**12,542 $**	**(58,303) $**	**79,575 $**	**9,131 $**	**(625,869) $**	**5,561,492**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31,
(in thousands of Canadian dollars)

	2008	2007
OPERATING ACTIVITIES		
Net earnings	**$ 509,227**	$ 527,709
Items not affecting cash and cash equivalents:		
Depreciation and amortization	**186,065**	225,584
Amortization of deferred financing costs	**7,186**	5,824
Accretion on Exchangeable Debentures	**2,377**	2,233
Impairment of available–for–sale investment	**4,775**	-
Net benefit plan costs	**12,755**	11,387
Non-cash derivative financial instruments	**(200)**	(2,712)
Stock compensation expense	**8,756**	9,841
Other non-cash items	**(4,335)**	(2,752)
Future income taxes (recovery) (Note 13)	**18,945**	(39,901)
Non-controlling interest	**739**	588
Change in operating assets and liabilities (Note 20)	**(53,934)**	(42,261)
	692,356	695,540
INVESTING ACTIVITIES		
Business acquisitions, net of cash acquired and bank indebtedness assumed (Note 3)	**(212,125)**	(341,648)
Acquisition of capital assets	**(43,423)**	(73,129)
Proceeds from lease inducements	**266**	5,840
Acquisition of investment	**-**	(5,003)
Acquisition of intangibles	**(100)**	(93)
	(255,382)	(414,033)
FINANCING ACTIVITIES		
Issuance of long-term debt	**424,055**	72,000
Repayment of long-term debt	**(141,866)**	(246,747)
Distributions to Unitholders	**(599,431)**	(580,104)
Distribution to non-controlling interest	**(2,417)**	(866)
Issuance of Preferred shares	**-**	500,000
Proceeds from exercise of options (Note 14)	**2,284**	4,393
Repurchase of Units (Note 14)	**(122,102)**	-
Purchase of restricted units	**(24,103)**	(17,718)
Net proceeds received from derivative financial instruments (Note 24)	**560**	-
Deferred costs	**(2,294)**	(16,598)
	(465,314)	(285,640)
Effect of exchange rates changes on cash and cash equivalents denominated in foreign currencies	**119**	-
DECREASE IN CASH AND CASH EOUIVALENTS	**(28,221)**	(4,133)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**53,275**	57,408
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 25,054**	$ 53,275

Supplemental disclosure of cash flow information (Note 20)

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of the Fund

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on June 25, 2003 by a declaration of trust and amended by amended and restated declarations. The Fund has been created to invest, through the YPG Trust (the "Trust"), a wholly-owned trust, in partnership units of YPG LP and shares of YPG General Partner Inc. ("YPG GP"), the general partner of YPG LP. YPG LP, through subsidiaries, operates print and online directories and classified advertising in all the Provinces of Canada. Since September 2008, the Fund also operates independent directories in selected Mid-Atlantic and Southeast American markets. References herein to the Fund represent the financial position, results of operations, cash flows and disclosures of the Fund and its subsidiaries on a consolidated basis.

2. Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Adoption of new accounting policies

The following standards were adopted effective January 1, 2008.

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

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

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

The additional disclosures required as a result of the adoption of these standards are included in the notes to the consolidated financial statements (Notes 24 and 25).

Principles of consolidation

The Fund's consolidated financial statements include the accounts of the Trust, YPG LP, YPG GP, YPG Holdings Inc., Yellow Pages Group Co. ("YPG Co."), Snap Guides Inc., Vertical Guides Limited Partnership ("Vertical Guides LP"), Trader Corporation ("Trader"), LesPAC s.e.n.c. ("LesPAC"), and those of YPG (USA) Holdings, Inc., Yellow Pages Group, LLC and YPG Directories, LLC. All intercompany transactions and balances have been eliminated.

Cash and cash equivalents

Cash and cash equivalents consist of funds on deposit and, from time to time, highly liquid investments with a purchased maturity of three months or less. Cash and cash equivalents are presented at fair value and changes are recorded in Financial Charges.

Investment

The investment is classified as available–for–sale. The investment is recorded at fair value, with changes reported through other comprehensive income in each period. The Fund monitors its investment for other than temporary declines in fair value and charges impairment losses to net earnings when other than a temporary decline in estimated value occurs.

2. Significant accounting policies (continued)

Revenues

The Fund recognizes revenue for both segments based on the principles below only when fees charged are fixed or determinable, the Fund's customers understand the specific nature and terms of the agreed-upon transactions and collectibility is reasonably assured.

Directories

Revenues are earned through the sale of telephone directory advertising. Advertising revenues are generally billed, in accordance with the contractual terms with advertisers, and recognized on a monthly basis over the estimated life of the print directory or electronic directory advertising, not exceeding twelve months, or in the case of certain alphabetical directories, not exceeding twenty-four months, commencing with the delivery or display date. Amounts billed up front for the directories are deferred and recognized over the billing period for which the corresponding directories are in circulation, not exceeding twelve months, or in the case of certain alphabetical directories, not exceeding twenty-four months.

Vertical Media

Private and commercial classified advertisements and display advertisements are published on a weekly and monthly basis for which revenues are recognized at the time the advertisements are published. Revenues related to advertisements appearing on multiple occasions are deferred and recognized during the period the advertisements are displayed.

Circulation revenues, net of returns, are recognized on a weekly basis at the time the publications are delivered to customers. Circulation revenues are earned primarily upon the delivery of magazines by independent distributors to retail outlets.

Deferred publication costs

Direct and incremental costs incurred for sales, manufacturing and distribution of telephone print directories not yet published are deferred. Upon publication, these costs are amortized over the same period in which the related revenues are recognized.

Capital assets

Capital assets are recorded at cost and are depreciated and amortized over their expected useful lives using the straight-line method as follows:

Office equipment	10 years
Computer equipment	3 years
Other equipment	3 - 12 years
Leasehold improvements	Over the terms of the various leases

Assets under development consist primarily of internally developed software that is not amortized until the assets are available for use at which time they will be reclassified in computer software and amortized over its expected useful life.

Intangibles

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

Non-competition agreements and logos	Straight-line over life of agreement
Customer contracts	Pro rata based on related revenues, not exceeding 12 months
Customer relationships	Pro rata based on related revenues, not exceeding 24 months
Trademark related to Advertising Directory Solutions Holdings Inc. ("ADS")	Straight-line over 6 years
Domain names related to ADS	Straight-line over 18 years
Computer software	Straight-line over 3 years

2. Significant accounting policies (continued)

The cost of internally developed software is capitalized and included in intangible assets as of the point at which the conceptual formulation, design and testing of possible software project alternatives are complete and management authorizes and commits to funding the project. The Fund does not capitalize pilot projects and projects where it believes that future economic benefits are less than probable.

Internally developed software costs include the cost of software tools and licenses used in the development of the Fund's systems, as well as payroll directly related to the projects and consulting costs.

Certain trademarks 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.

Impairment of long-lived assets

Long-lived assets with finite lives are reviewed when events or changes in circumstances cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Goodwill

Goodwill represents the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed less any subsequent writedowns for impairment. Goodwill is not amortized and is assessed for impairment annually on December 31 or more frequently should an event or change in circumstances indicate that the asset might be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment loss is recognized to the extent that the carrying value of goodwill exceeds its implied fair value. The implied fair value of goodwill is estimated in the same manner as goodwill is determined at the date of acquisition in a business acquisition, that is, the excess of the fair value of the reporting unit over the fair value of its identifiable assets and liabilities.

Employee benefit plans

The Fund maintains pension plans with defined benefit and defined contribution components which cover substantially all of the employees of YPG Co. On October 2, 2006, pursuant to the acquisition of MTS Media ("MTS"), employees of MTS joined the defined benefit component of the plan. On April 30, 2007, pursuant to the acquisition of Aliant Directory Services ("Aliant"), YPG became the sponsor of the Aliant defined benefit plan. On December 19, 2008, the merger of the Aliant Actimedia pension plan and the YPG Co. pension plan was approved by pension authorities effective April 30, 2007. The Fund also maintains unfunded supplementary defined benefit pension plans for certain executives and other retirement and post-employment benefits plans which cover substantially all employees of the Fund.

The Fund accrues its obligations for employee benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using:

- the projected benefit method, pro rated on service;
- a discount rate based on market interest rates on high-quality debt instruments with cash flows that match the timing and amounts of expected benefit payments; and
- management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs.

2. Significant accounting policies (continued)

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service period of active employees with a weighted average of 16 years at period end. The expected return on plan assets is based on the expected long-term rate of return on plan assets which are measured at fair value. The Fund uses a December 31 measurement date for the plans. A valuation is performed at least every three years to determine the actuarial present value of the accrued pension and other employee future benefits for funding purposes. The latest actuarial valuations were performed as at December 31, 2006 for the pension benefit plans, and as at December 31, 2007 and December 31, 2006 for the YPG Co. and Aliant other retirement and post-employment benefit plans, respectively. The next valuations for funding purposes will be performed as at December 31, 2009 for the pension benefit plan. The next valuation for other retirement and post-employment benefit plans will be performed as at December 31, 2010.

Stock-based compensation plans

The Fund uses the fair value method of accounting for all Restricted Units and stock options granted, as described in Note 19, whereby a compensation expense is recognized over the vesting period of all stock-based compensation awards and where applicable, based on the best available estimates of the outcome of the performance conditions.

Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. At the balance sheet date, monetary foreign currency assets and liabilities are translated at exchange rates then in effect. The resulting translation gains or losses are recognized in the determination of earnings.

In addition, the Fund complied with section 1651, *Foreign Currency Translation* for its newly acquired US operations. This section establishes standards for the translation of transactions of a reporting company that are denominated in a foreign currency and financial statements of a foreign operation for incorporation in the financial statements of a reporting company. The self-sustaining operations, with economic activities largely independent of the parent company, are accounted for using the current rate method. Under this method, assets and liabilities of subsidiaries denominated in a foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the year. Resulting unrealized gains or losses are accumulated and reported as a net change in unrealized gain on translating financial statements of self-sustaining foreign operations in the Consolidated Statements of Comprehensive Income. The accounts of the foreign operation, which is financially or operationally dependent on the parent company, is accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average rates for the year. Translation exchange gains or losses of such subsidiaries are reflected in net earnings.

Income taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is currently only taxable on any amount not distributed to Unitholders and income tax liabilities relating to distributions of the Fund are taxed in the hands of the Unitholders. As substantially all taxable income is distributed to the Unitholders, no provision for current income taxes on earnings of the Fund is made in the financial statements. On June 11, 2007, the Canadian federal government substantively enacted legislation whereby the income tax rules applicable to publicly traded trusts and partnerships was significantly modified. In particular, income earned by these entities will be taxed in a manner similar to income earned and distributed by a corporation. The legislation is effective for the 2007 taxation year, but the application of the rules is delayed to the 2011 taxation year with respect to trusts that were publicly traded prior to November 1, 2006, within certain guidelines. For the Fund, only temporary differences expected to reverse after January 1, 2011 are taken into account in the determination of the provision for income taxes.

2. Significant accounting policies (continued)

The Fund uses the liability method of tax allocation in accounting for income taxes of its subsidiaries and for the Fund starting on June 12, 2007 for temporary differences expected to reverse on or after January 1, 2011. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax basis result in either future income tax assets or liabilities. Future income taxes are computed using substantively enacted tax rates applicable to the years in which the differences are expected to reverse. Future income tax assets are only recognized to the extent that, in the opinion of management, they will more likely than not be realized. The enactment of the new legislation did not have a significant impact on the Fund's consolidated financial statements.

Leases

Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital leases are amortized over their expected useful lives using the straight-line method. Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to expense.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant items requiring the use of management estimates relate to the determination of collectibility of accounts receivable, valuation of intangibles, impairment of assets, pension and other employee benefits, useful lives for amortization, future income taxes, long-term incentive plans, the restructuring and special charges provision, the fair value of financial instruments and purchase price allocations. These estimates are revised periodically. Actual results may differ materially from the above estimates.

Variable interest entities

Accounting Guideline 15 ("AcG-15"), *Consolidation of Variable Interest Entities* ("VIEs") outlines consolidation principles for VIEs. VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders. AcG-15 requires the consolidation of a VIE by its primary beneficiary (i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's losses). In accordance with AcG-15, the Fund is considered as the primary beneficiary of LesPAC and accordingly, is consolidated.

Financial Instruments

Effective January 1, 2007, the Fund adopted Section 3855 *Financial Instruments – Recognition and Measurement* and Section 3861 *Financial Instruments – Disclosure and Presentation*. Section 3855 describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

Under Section 3855, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The Fund has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Changes in fair value are recorded in net earnings.
- Other than temporary investments will be classified as either financial assets held to maturity and will be measured at amortized cost or as available–for–sale and will be marked–to–market through comprehensive income at each balance sheet date.

2. Significant accounting policies (continued)

- Accounts receivable are classified as loans and receivables and are recorded at amortized cost.
- Accounts payable and accrued liabilities, distributions payable, long-term debt, Exchangeable Debentures, and Preferred shares are classified as other liabilities and measured at amortized cost.

Transaction costs

Transaction costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the issuance of the respective financial assets and liabilities. Transaction costs are capitalized to the cost of financial assets and liabilities classified as other than held for trading. As a result of the adoption of this policy, such costs previously reported as deferred financing costs have been reclassified against long-term debt and Exchangeable Debentures and on adoption, adjusted by a reduction of $0.7 million, net of related income taxes, to the 2007 opening deficit to reflect the utilization of the effective interest method instead of the straight-line method previously applied.

Non-financial and embedded derivatives

In addition, in order to comply with Section 3855, the Fund reviewed all contracts in place to identify non-financial derivatives and embedded derivatives. The Fund has chosen January 1, 2003 as its transition date for embedded derivatives, as permitted by the standard. This had no impact on the consolidated financial statements.

Hedging

The Fund uses interest rate derivatives to manage the combination of fixed to floating interest rates on its long-term debt and to manage the interest rate risk for future planned issuances.

- Fair value hedge

  The carrying value of the hedged item is adjusted based on the gains or losses attributable to the hedged risk with a corresponding amount in net earnings. The hedging derivative is carried at fair value on the balance sheet with changes in fair value recorded in net earnings.

- Cash flow hedge

  The effective portion of the changes in fair value of the hedging item is recognized in "Accumulated Other Comprehensive Income", whereas the ineffective portion is recognized in "Financial Charges". The amounts recognized in "Accumulated Other Comprehensive Income", with respect to cash flow hedges, are reclassified in net earnings in the period or periods during which the hedged item affects net earnings.

The December 31, 2006 amount of the deferred gains on discontinued hedging activities relating to fair value hedges has been reclassified to the related debt, whereas the amount relating to cash flow hedges has been reclassified to Accumulated Other Comprehensive Income.

Comprehensive Income.

Effective January 1, 2007, the Fund adopted Section 1530, *Comprehensive Income*. This section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in Unitholders' equity during the period from transactions and other events and circumstances except those resulting from investments by Unitholders and distributions to Unitholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments.

Hedging relationships

Effective January 1, 2007, the Fund adopted section 3865 *Hedges*. The recommendations expand the guidelines outlined in Accounting Guideline 13 ("AcG-13"), *Hedging Relationships.* This Section describes when and how hedge accounting can be applied, as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. On transition, in accordance with Section 3865, the net deferred gain on hedging activities has been reclassified to the carrying amount of the related debt or Accumulated Other Comprehensive Income (net of tax) as appropriate.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

2. Significant accounting policies (continued)

The following table summarizes the adjustments made to the consolidated balance sheet as of January 1, 2007, upon the adoption of the new standards.

Increase (decrease) in:		
Deferred financing costs	$	(30,376)
Derivative financial instruments - assets	$	636
Net deferred gain on hedging activities	$	(18,963)
Long-term debt	$	(2,265)
Exchangeable Debentures	$	(12,516)
Future income tax liabilities	$	1,265
Deficit	$	(537)
Accumulated Other Comprehensive Income	$	2,202

The Fund uses derivative financial instruments to manage its interest risk exposures on debt financing. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Fund formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Fund generally classifies cash flows from its derivative financial instruments in the same manner as the cash flows from the item that the derivative is hedging. Typically, this is included in cash flows from (used in) operating activities in the consolidated statement of cash flows.

Accounting changes

On January 1, 2007, the Fund adopted Section 1506, *Accounting Changes*. This Section established criteria to be met in order to change, together with the accounting treatment and disclosure required when there is a change in accounting policies, estimates and correction of errors. The adoption of this Section had no impact on the consolidated financial statements, except for additional disclosures.

Future accounting changes

The CICA has issued new accounting standards:

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

b) *International Financial Reporting Standards*. The Accounting Standards Board of Canada ("AcSB") will converge Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards ("IFRS") over a transition period that will end effective January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

2. Significant accounting policies (continued)

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Fund has established a changeover plan to convert to these new standards according to the timetable set with these new rules. An implementation team has been created and third party advisors have been engaged to provide training to our staff. The Fund completed the scoping and diagnostic phase in the last quarter of 2008 and is now in the impact analysis and design phase. The Fund's analysis of IFRSs in comparison to Canadian GAAP has identified a number of differences. At this time, the impact on our future financial position and results of operations is not reasonably determinable or estimable. The Fund will continually review and adjust the changeover plan to ensure the implementation process properly addresses the key elements of the plan.

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

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

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

3. Business acquisitions

2008

a) Acquisition of TBay Tel Directory Business

On February 19, 2008, a subsidiary of the Fund acquired the assets of the directory business of TBay Tel ("ThunderBay") for a cash consideration of $17.3 million (including acquisition related costs of $0.2 million). The acquisition was financed with cash on hand.

ThunderBay publishes the City of Thunder Bay directory for a circulation of over 120,000 copies. The business is included in the Directories segment.

The Fund accounted for the acquisition using the purchase method of accounting. The purchase price was allocated to the net identifiable assets acquired on the basis of their fair values. The fair value of the underlying net identifiable assets of ThunderBay acquired is allocated as follows:

Intangibles	
Non-competition agreement	**$ 3,536**
Customer contracts	**1,270**
Customer relationships	**3,798**
Net identifiable assets acquired	**8,604**
Goodwill	**8,646**
Purchase price	**$ 17,250**
Consideration:	
Cash	**$ 17,050**
Transaction costs	**200**
	$ 17,250

(all tabular amounts are in thousands of Canadian dollars, except unit information)

3. Business acquisitions (continued)

b) Acquisition of Volt Information Sciences Inc.'s Systems and Get It Pages

In August and September of 2008, subsidiaries of the Fund acquired all of the outstanding shares of 613417 Saskatchewan Ltd, doing business as Get It Pages ("Get It Pages") and the directory assets of Volt Information Sciences Inc. as well as its directory publishing operations (collectively "Volt") for a combined cash consideration of $194.9 million (including acquisition related costs of $3.4 million). The acquisitions were financed with cash on hand and existing credit facilities.

Get It Pages publishes four directories in Saskatchewan: Battleford, Meadow Lake and area; Prince Albert and area; Yorkton, Melville and area; and Estevan, Weyburn and area. Volt provides systems and services for the production and management of databases as well as the digitization of display advertisements for directory and other media publishers. In addition, the Fund acquired from Volt the publishing operations of Data National, a publisher of independent directories in selected Mid-Atlantic and Southeast American markets. The company operates print community directories under the Community Phonebook brand name. Prior to the acquisition, Volt provided the Fund services related to the Fund's ad production systems. Although the Fund had a pre-existing relationship with Volt, the acquisition did not result in any settlement gain or loss.

The acquired businesses are included in the Directories segment.

The Fund accounted for the acquisitions using the purchase method of accounting. The purchase prices were allocated to the net identifiable assets acquired on the basis of their fair values. The fair values of the underlying net identifiable assets of Volt and Get It Pages acquired is allocated as follows:

Current assets and liabilities		
Cash and cash equivalents	$	**71**
Accounts receivable		**4,803**
Prepaid expenses		**145**
Deferred publication costs		**1,647**
Future income tax assets		**2,748**
Accounts payable and accrued liabilities		**(9,870)**
Deferred revenues		**(6,059)**
Capital assets		**2,277**
Intangibles		
Acquired software		**100,000**
Non-competition agreement		**2,750**
Customer contracts		**6,000**
Customer relationships		**15,000**
Trademark		**17,000**
Net identifiable assets acquired		**136,512**
Goodwill		**58,434**
Purchase prices	**$**	**194,946**

Consideration:		
Cash	$	**191,596**
Transaction costs		**3,350**
	$	**194,946**

2007

a) Acquisition of Aliant Directory Services

On April 30, 2007, the Fund acquired the assets of Aliant, in which it already had a 12.86% ownership, for a consideration of $331.2 million (including acquisition related costs of $3.9 million). Prior to April 30, 2007, the Fund accounted for its 12.86% interest in Aliant using the proportionate consolidation method.

The acquisition of Aliant was financed through drawings under existing credit facilities and cash on hand.

Aliant was the incumbent directory publisher in the four Atlantic provinces and publishes more than 35 directories with a total circulation of 1.8 million copies. The business is included in the Directories segment.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

3. Business acquisitions (continued)

The Fund accounted for the acquisition using the purchase method of accounting. The purchase price was allocated to the net identifiable assets acquired on the basis of their fair values. The fair value of the underlying net identifiable assets of Aliant acquired was allocated as follows:

Current assets and liabilities		
Accounts receivable	$	**8,006**
Prepaid expenses		**130**
Future income tax assets		**436**
Accounts payable and accrued liabilities		**(3,922)**
Capital assets		**122**
Intangibles		
Non-competition agreement and logo		**42,500**
Customer contracts		**27,500**
Customer relationships		**90,000**
Future income tax assets		**4,978**
Accrued benefit liabilities		**(4,642)**
Net identifiable assets acquired		**165,108**
Goodwill		**166,096**
Purchase price	**$**	**331,204**
Consideration:		
Cash	**$**	**327,279**
Transaction costs		**3,925**
	$	**331,204**

b) Acquisition of LesPAC

On April 19, 2007, the Fund acquired a 50% interest in LesPAC for a consideration of $10.6 million (including acquisition related costs of $0.1 million). The acquisition of LesPAC was financed with cash on hand.

LesPAC.com is Quebec's leading classified web site in the generalist category. The business is included in the Vertical Media segment.

The Fund accounted for the acquisition using the purchase method of accounting. The purchase price was allocated to the net identifiable assets acquired on the basis of their fair values. The fair value of the underlying net identifiable assets of LesPAC acquired was allocated as follows:

Current assets and liabilities		
Accounts receivable	**$**	**775**
Prepaid expenses		**54**
Accounts payable and accrued liabilities		**(411)**
Capital assets		**280**
Intangibles		
Trademark		**14,000**
Non-competition agreement		**3,800**
Customer contracts		**300**
Non-controlling interest		**(10,500)**
Future income tax liabilities		**(2,603)**
Net identifiable assets acquired		**5,695**
Goodwill		**4,905**
Purchase price	**$**	**10,600**
Consideration:		
Cash	**$**	**10,500**
Transaction costs		**100**
	$	**10,600**

(all tabular amounts are in thousands of Canadian dollars, except unit information)

3. Business acquisitions (continued)

c) Acquisition of Vertical Guides LP

On October 31, 2007, the Fund acquired Vertical Guides LP, in which it already had a 50% ownership, for a consideration of $0.3 million. The acquisition of Vertical Guides LP was financed with cash on hand. Prior to October 31, 2007, the Fund accounted for its 50% interest in Vertical Guides LP using the proportionate consolidation method.

The Fund accounted for the acquisition using the purchase method of accounting. The purchase price was allocated to the net identifiable assets acquired on the basis of their fair values. The fair value of the underlying net identifiable liabilities of Vertical Guides LP acquired was allocated as follows:

Current assets and liabilities	
Cash and cash equivalents	**$ 491**
Accounts receivable	**70**
Accounts payable and accrued liabilities	**(1,403)**
Intangibles	
Customer contracts	**1,163**
Future income tax liabilities	**(361)**
Net identifiable liabilities acquired	**(40)**
Goodwill	**375**
Purchase price	**$ 335**
Consideration:	
Cash	**$ 335**

4. Capital assets

			December 31, 2008
	Cost	**Accumulated depreciation and amortization**	**Net Book Value**
Office equipment	**$ 18,050**	**$ 6,543**	**$ 11,507**
Office equipment under capital lease	**17,609**	**8,906**	**8,703**
Computer equipment	**38,091**	**24,250**	**13,841**
Computer equipment under capital lease	**8,163**	**3,157**	**5,006**
Other equipment	**6,729**	**2,940**	**3,789**
Leasehold improvements	**44,451**	**12,446**	**32,005**
Assets under development	**29,791**	**-**	**29,791**
	$ 162,884	**$ 58,242**	**$ 104,642**

			December 31, 2007
	Cost	Accumulated depreciation and amortization	Net Book Value
Office equipment	$ 18,104	$ 6,168	$ 11,936
Office equipment under capital lease	16,097	6,135	9,962
Computer equipment	26,618	14,791	11,827
Computer equipment under capital lease	8,902	1,534	7,368
Other equipment	6,439	1,510	4,929
Leasehold improvements	28,866	6,300	22,566
Assets under development	57,181	-	57,181
	$ 162,207	$ 36,438	$ 125,769

During the year, fixed assets with a cost of $2.2 million and an accumulated amortization of $2.2 million were written off. Amortization for the year ended December 31, 2008, was $23.8 million (2007 - $19.6 million).

(all tabular amounts are in thousands of Canadian dollars, except unit information)

5. Other assets

	December 31, 2008	December 31, 2007
Investment	**$ 228**	$ 3,642
Other	**2,087**	970
	$ 2,315	$ 4,612

The investment in common shares of Call Genie Inc. is classified as an available-for-sale investment and recorded at fair value with unrealized gains and losses recorded in other comprehensive income. The Fund evaluates the carrying value of the investment in Call Genie and tests for impairment to the extent necessary, due to events or circumstances that occur. In light of the prolonged decline in the fair value, the Fund concluded a triggering event had occurred requiring an evaluation of the investment for recoverability. As a result of the evaluation, the Fund concluded that $4.8 million of the investment was impaired. The Fund therefore reduced the carrying value of the investment to equal its estimated fair value and transferred the related unrealized losses accumulated in other comprehensive losses to net earnings as an impairment of an available-for-sale investment of $4.8 million for the year ended December 31, 2008.

6. Intangibles

			December 31, 2008
	Cost	**Accumulated Amortization**	**Net Book Value**
Trademarks	**$ 1,356,002**	**$ -**	**$ 1,356,002**
Trademark related to ADS	**24,500**	**8,167**	**16,333**
Non-competition agreements and logos	**643,528**	**96,530**	**546,998**
Customer contracts	**37,148**	**33,700**	**3,448**
Customer relationships	**181,083**	**172,380**	**8,703**
Domain names	**19,050**	**-**	**19,050**
Domain names related to ADS	**5,700**	**633**	**5,067**
Software	**226,335**	**79,470**	**146,865**
	$ 2,493,346	**$ 390,880**	**$ 2,102,466**

			December 31, 2007
	Cost	Accumulated Amortization	Net Book Value
Trademarks	$ 1,336,312	$ -	$ 1,336,312
Trademark related to ADS	24,500	4,083	20,417
Non-competition agreements and logos	636,822	68,915	567,907
Customer contracts	430,530	423,688	6,842
Customer relationships	338,225	277,692	60,533
Domain names	19,050	-	19,050
Domain names related to ADS	5,700	317	5,383
Software	84,462	34,739	49,723
	$ 2,875,601	$ 809,434	$ 2,066,167

During the year, intangibles with a cost of $580.9 million and an accumulated amortization of $580.9 million were written off. Amortization for the year ended December 31, 2008, was $162.3 million (2007 - $206 million).

(all tabular amounts are in thousands of Canadian dollars, except unit information)

7. Goodwill

The changes in the book value of goodwill are as follows:

			December 31, 2008
	Directories	**Vertical Media**	**Total**
Balance, beginning of year	**$ 5,607,359**	**$ 963,387**	**$ 6,570,746**
Business acquisitions and other (Notes 3 and 14)	**71,218**	**-**	**71,218**
Foreign currency translation adjustment	**6,703**	**-**	**6,703**
Balance, end of year	**$ 5,685,280**	**$ 963,387**	**$ 6,648,667**

			December 31, 2007
	Directories	Vertical Media	Total
Balance, beginning of year	$ 5,430,493	$ 964,287	$ 6,394,780
Business acquisitions and other (Notes 3,14 and Note 23)	176,866	(900)	175,966
Balance, end of year	$ 5,607,359	$ 963,387	$ 6,570,746

8. Accounts payable and accrued liabilities

	December 31, 2008	December 31, 2007
Trade	**$ 47,936**	$ 66,757
Payroll related accruals	**27,773**	46,797
Publishing related accruals	**11,385**	13,949
Accrued interest	**37,684**	37,909
Normal course issuer bid (Note 14)	**11,457**	-
Other accrued liabilities	**17,757**	12,395
Income and commodity taxes	**14,233**	14,562
Restructuring and special charges (Note 23)	**41,059**	15,118
	$ 209,284	$ 207,487

9. Employee benefit plans

The Fund maintains pension plans with defined benefit and defined contribution components which covers substantially all of the employees of YPG Co., as described in Note 2. The Fund maintains unfunded supplementary defined benefit pension plans for certain executives and also maintains other retirement and post-employment benefits (“other benefits”) plans which cover substantially all employees of the Fund.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

9. Employee benefit plans (continued)

The changes in the accrued benefit obligations and in the fair value of assets and the reconciliation of the funded status of the defined benefit plans to the amount recorded on the consolidated balance sheets for the years ended December 31, 2008 and 2007 were as follows:

	December 31, 2008		December 31, 2007	
	Pension Benefits	**Other Benefits**	Pension Benefits	Other Benefits
Fair value of plan assets, beginning of year	**$ 476,403**	**$ -**	$ 478,856	$ -
Acquisition of Aliant	**-**	**-**	8,370	-
Actual return on plan assets	**(60,389)**	**-**	14,418	-
Benefit payments	**(37,087)**	**(2,018)**	(25,416)	(2,205)
Transfers from defined benefit to defined contribution component of the plan	**(2,049)**	**-**	(1,455)	-
Employer contributions	**506**	**2,018**	551	2,205
Employee contributions	**757**	**-**	1,079	-
Fair value of plan assets, end of year	**378,141**	**-**	476,403	-
Accrued benefit obligation, beginning of year	**509,287**	**54,444**	507,930	52,972
Acquisition of Aliant	**-**	**-**	11,725	1,287
Current service cost	**16,181**	**1,070**	17,041	1,386
Employee contributions	**757**	**-**	1,079	-
Interest cost	**28,209**	**2,536**	27,173	2,839
Actuarial gains	**(122,909)**	**(17,953)**	(30,245)	(1,835)
Benefit payments	**(37,087)**	**(2,018)**	(25,416)	(2,205)
Accrued benefit obligation, end of year	**394,438**	**38,079**	509,287	54,444
Funded status - plan deficit	**(16,297)**	**(38,079)**	(32,884)	(54,444)
Unamortized plan amendment[1]	**-**	**(5,502)**	-	(6,081)
Unamortized net actuarial (gains) losses	**(3,015)**	**(15,304)**	25,961	2,006
Accrued benefit liabilities, end of year	**$ (19,312)**	**$ (58,885)**	$ (6,923)	$ (58,519)

[1] A modification to the other benefits plan in 2005 resulted in a gain of approximately $7.5 million which is amortized over the expected average remaining service life of the employees at that time, which was 13 years.

The pension benefits and the other benefits are shown as accrued benefit liabilities, within the consolidated balance sheets.

While all the plans are not considered fully funded for financial reporting purposes, registered plans are funded in accordance with the applicable statutory funding rules and regulations governing the particular plans.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

9. Employee benefit plans (continued)

The significant assumptions adopted in measuring the Fund's pension and other benefit obligations as at December 31, 2008 and 2007, were as follows:

	December 31, 2008		December 31, 2007	
	Pension Benefits	**Other Benefits**	Pension Benefits	Other Benefits
At December 31				
Accrued benefit obligation				
Discount rate, end of year	**7.50%**	**7.50%**	5.50%	5.50%
Rate of compensation increase	**3.25%**	**3.50%**	3.25%	3.50%
For the years ended December 31				
Net benefit plan costs				
Discount rate, end of preceding year	**5.50%**	**5.50%**	5.25%	5.25%
Rate of compensation increase	**3.25%**	**3.50%**	3.25%	3.50%
Expected long-term rate of return on plan assets	**7.25%**	**-**	7.50%	-
Expected average remaining service life	**16 years**	**15 years**	16 years	16 years

For measurement purposes, a 9.50% annual increase in the per capita cost of covered health care benefits (the health care cost trend rate) was assumed in 2008. The cost of medication was assumed to gradually decline to 4.50% by 2018 and to remain at that level thereafter. A 4.50% annual increase in per capita cost of covered dental care benefits was assumed in 2008.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-Percentage-Point - Increase	One-Percentage-Point - Decrease
Effect on other benefits – total service and interest costs	$ 238	$ (249)
Effect on other benefits – accrued benefit obligation	$ 1,505	$ (1,573)

(all tabular amounts are in thousands of Canadian dollars, except unit information)

9. Employee benefit plans (continued)

The net benefit plan costs for the years included the following components:

	For the years ended December 31,			
		2008		2007
	Pension Benefits	**Other Benefits**	Pension Benefits	Other Benefits
Current service cost	**$ 16,181**	**$ 1,070**	$ 17,041	$ 1,386
Interest cost	**28,209**	**2,536**	27,173	2,839
Actual return on plan assets	**60,389**	**-**	(14,418)	-
Actuarial gains	**(122,909)**	**(17,953)**	(30,245)	(1,835)
Benefit costs before adjustments	**(18,130)**	**(14,347)**	(449)	2,390
Adjustments to recognize long-term nature of employee benefit plan costs:				
Actual return over expected return on plan assets	**(93,933)**	**-**	(20,773)	-
Difference between annual amortization and plan amendment	**-**	**(579)**	-	(579)
Difference between annual amortization and actuarial gains on obligation	**122,909**	**17,310**	30,245	1,854
Net benefit plan costs for the defined benefit plans	**$ 10,846**	**$ 2,384**	$ 9,023	$ 3,665
Net benefit plan costs for the defined contribution plans	**2,049**	-	1,455	-
Total net benefit plan costs	**$ 12,895**	**$ 2,384**	$ 10,478	$ 3,665

Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. Plan assets are held in trust and the asset allocation was as follows as at December 31:

(in percentages - %)	**2008**	2007
	%	%
Pension Plan		
Asset categories in the Master Trust:		
Cash and other short-term investments	**4**	4
Publicly traded equity securities	**50**	56
Publicly traded fixed income securities	**42**	37
Pending MTS transfer	**4**	3

The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

The total cash payments for employee benefit plans and pension benefit plans made by the Fund amounted to $2.5 million for 2008 (2007-$2.8 million).

As at December 31, 2008 and December 31, 2007, the publicly traded equity securities did not directly include any units of the Fund.

The Fund’s funding policy is to make contributions to its pension plans based on various actuarial cost methods as permitted by pension regulatory bodies. The Fund is responsible to adequately fund the plans. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

10. Long-term debt

				December 31, 2008
	Principal amount	**Fair value adjustment of hedged item**	**Deferred financing costs**	**Total**
Medium Term Notes	$ 2,050,000	$ 15,909	$ (14,539)	**$ 2,051,370**
Revolving credit facilities	358,700	-	-	**358,700**
Obligations under capital leases[1]	13,786	-	-	**13,786**
	2,422,486	15,909	(14,539)	**2,423,856**
Less current portion of long-term debt	3,807	-	-	**3,807**
	$ 2,418,679	**$ 15,909**	**$ (14,539)**	**$ 2,420,049**

				December 31, 2007
	Principal amount	Fair value adjustment of hedged item	Deferred financing costs	Total
Medium Term Notes	$ 2,050,000	$ 14,894	$ (16,827)	$ 2,048,067
Revolving credit facilities	72,000	-	-	72,000
Obligations under capital leases[1]	17,528	-	-	17,528
	2,139,528	14,894	(16,827)	2,137,595
Less current portion of long-term debt	4,416	-	-	4,416
	$ 2,135,112	$ 14,894	$ (16,827)	$ 2,133,179

[1] Less imputed interest at varying rates not exceeding 15.6% (2007 – 15.6%).

Medium Term Notes

Medium Term Notes were issued in various series between April 2004 and February 2006. The terms and conditions of these notes are governed by a Trust indenture dated April 2004.

- $450 million of 4.57% Series 1 Notes maturing on April 21, 2009 priced at $99.982, for an initial yield to the noteholders of 4.57% compounded semi-annually
- $300 million of 5.71% Series 2 Notes maturing on April 21, 2014 priced at $99.985, for an initial yield to the noteholders of 5.71% compounded semi-annually and
- $250 million of 5.85% Series 3 Notes maturing on November 18, 2019 priced at par, for an initial yield to the noteholders of 5.85% compounded semi-annually.
- $550 million of 5.25% Series 4 Notes maturing on February 15, 2016 priced at $99.571, for an initial yield to the noteholders of 5.31% compounded semi-annually
- $250 million of 6.25% Series 5 Notes maturing on February 15, 2036 priced at $99.514, for an initial yield to the noteholders of 6.29% compounded semi-annually
- $100 million of 6.25% Series 5 Notes maturing on February 15, 2036 priced at $100.933, for an initial yield to the noteholders of 6.181% compounded semi-annually
- $150 million of 4.65% Series 6 Notes maturing on February 28, 2011 priced at $99.841, for an initial yield to the noteholders of 4.686% compounded semi-annually

All Series of Notes are unsecured and are unconditionally guaranteed by the Fund, YPG Trust, YPG LP, YPG Co., Trader, YPG (USA) Holdings, Yellow Pages Group, LLC and YPG Directories, LLC. as to the payment of principal and interest.

Revolving Facilities

The Fund has in place two senior unsecured revolving credit facilities (the “Revolving Credit Facilities”) totalling $1,150 million consisting of:

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

10. Long-term debt (continued)

As at December 31, 2008, $358.7 million was drawn on the Principal Facility. The revolving tranche can be extended annually, subject to the lender's consent. If not extended, any amount drawn may be converted, at the Fund's option, into a 2-year non-revolving term loan. The Principal Facility can be used for general corporate purposes and as back-up for the Fund's commercial paper program. The Principal Facility bears interest at BA rates plus a spread of 0.575% for the $200 million tranche and 0.625% for the $500 million tranche. These spreads are based on a rating grid.

On May 8, 2008, the Fund increased its liquidity by entering into a new $250 million senior unsecured revolving credit facility. This New Revolving Facility has a 364-day revolving tranche with a 2-year term-out option that matures in May 2011. In December 2008, the total availability under this facility was increased to $450 million. The revolving tranche can be extended annually, subject to the lender's consent. If not extended, any amount drawn may be converted, at the Fund's option, into a 2-year non-revolving term loan. The New Revolving Facility can be used for general corporate purposes. As at December 31, 2008, no amount was drawn on the New Revolving Facility.

The Fund has classified the Series 1 Medium Term Notes that mature in April 2009 as long-term since the Fund has the intention and ability to refinance these obligations. The Fund had $791.3 million of unutilized Revolving Credit Facilities at December 31, 2008 which can be drawn to refinance the Series 1 Medium Term Notes. The maturities range between May 2011 and May 2012.

The Revolving Facilities are unsecured and are unconditionally guaranteed by the Fund, YPG Trust, YPG LP, YPG Co., Trader, YPG (USA) Holdings, Yellow Pages Group, LLC and YPG Directories, LLC as to the payment of principal and interest.

The Revolving Credit Facilities are subject to customary terms and conditions including limits on pledging assets without the consent of lenders. These facilities are also subject to the maintenance of a maximum ratio of funded debt to Latest Twelve Month Adjusted EBITDA[1] of 4.25 times and a minimum ratio of Latest Twelve Month Adjusted EBITDA[1] to cash interest expense on total debt of 3.5 times.

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

Interest rate derivatives

The Fund has entered into interest rate derivative agreements described in Note 24 in order to manage its fixed and variable rate ratio on its long-term debt.

Commercial paper

YPG Holdings Inc. maintains a commercial paper program (the "Commercial Paper program") with an authorized limit of $500 million. The commercial paper matures up to but not exceeding 365 days from the date of the issue. As at December 31, 2008, there was no amount outstanding under the Commercial Paper program.

Obligations under capital leases

The Fund entered into several lease agreements with third parties for office equipment and for software. The obligations under capital leases are secured by a moveable hypothec on the office equipment leased.

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

(all tabular amounts are in thousands of Canadian dollars, except unit information)

10. Long-term debt (continued)

Future repayments

Future principal repayments and minimum capital lease payments to be made during the next five years and thereafter, as of December 31, 2008, are as follows:

	Long-term debt[1]	Capital leases
2009	$ 450,000	$ 4,763
2010	–	4,230
2011	308,700	2,981
2012	200,000	2,395
2013	–	1,336
Thereafter	1,450,000	581
Total principal repayments and future minimum lease payments	2,408,700	16,286
Less imputed interest at varying rates not exceeding 15.6%	–	2,500
	$ 2,408,700	**$ 13,786**

[1] Excludes Exchangeable Debentures (see Note 11)

11. Exchangeable debentures

	December 31, 2008	December 31, 2007
Principal amount	**$ 300,000**	$ 300,000
Equity component	**(12,542)**	(12,542)
Accretion (Note 22)	**5,653**	3,276
Deferred financing costs	**(7,641)**	(10,181)
	$ 285,470	$ 280,553

On July 6, 2006, YPG Holdings Inc. issued exchangeable unsecured subordinated debentures for a principal amount of $300 million (“Exchangeable Debentures”). The Exchangeable Debentures bear interest, payable semi-annually at a rate of 5.5% and mature August 1, 2011. The Exchangeable Debentures may be exchanged at any time, at the option of the holder, for units of the Fund at an exchange price of $20 per unit. On or after August 1, 2009 and prior to August 1, 2010, the Exchangeable Debentures may be redeemed in whole or in part at the option of the Fund at a price equal to their principal amount plus accrued interest thereon, provided that the market price of the units on the date on which notice is given is not less than 125% of the conversion price of $20 per unit. After August 1, 2010, the Fund has the option to redeem the Exchangeable Debentures in whole or in part at a price equal to their principal amount plus accrued interest. The Fund may also, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amounts and interest of the Exchangeable Debentures that are to be redeemed or repaid at maturity, by issuing Fund units. The number of units a holder will receive in respect of each Exchangeable Debenture will be determined by dividing the principal amount of the Exchangeable Debentures that are to be redeemed or repaid at maturity by 95% of the market price of the units.

The conversion option was valued at $12.5 million at the date of issuance and is included in Unitholders’ equity. The liability portion of the Exchangeable Debentures is being accreted such that the liability at maturity will equal the principal amount.

Accretion of $2.4 million (2007 – $2.2 million) is recorded in financial charges for the year ended December 31, 2008.

The Exchangeable Debentures are unconditionally guaranteed on a subordinated basis by the Fund, YPG Trust, YPG LP, YPG Co., Trader YPG (USA) Holdings, Yellow Pages Group, LLC and YPG Directories, LLC as to the payment of principal and interest.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

12. Preferred shares

	December 31, 2008	December 31, 2007
Shares issued, Series 1 and Series 2	**$ 500,000**	$ 500,000
Derivative component	**1,586**	1,586
Accretion (Note 22)	**(190)**	(66)
Deferred financing costs	**(12,324)**	(14,282)
	$ 489,072	$ 487,238

a) Series 1

On March 6, 2007, YPG Holdings Inc. issued 12,000,000 Series 1 cumulative redeemable first preferred shares ("Series 1 shares") for net proceeds of $291 million after deducting underwriters' fees in the amount of $8 million and other issuance costs of $1 million.

Voting rights

All of the issued and outstanding Series 1 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 1 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.0625 per Series 1 share per annum, payable quarterly.

Redemption by the issuer

On or after March 31, 2012, YPG Holdings Inc. may, at its option, redeem at par for cash the Series 1 shares, in whole or in part. Also, on or after March 31, 2012, and prior to December 31, 2012, YPG Holdings Inc. may, at its option, exchange the outstanding Series 1 shares, in whole or in part, into freely-tradable units of the Fund. In addition, the Series 1 shares will be redeemable at a premium in cash or exchangeable at the option of YPG Holdings Inc., in whole into Units of the Fund on or after March 31, 2007 provided that any exchange prior to March 31, 2012 shall be limited to circumstances in which the Series 1 shares are entitled to vote separately as a class or series by law or court order. This option meets the definition of an embedded derivative under GAAP and is recorded at fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

Redemption by the holder

On or after December 31, 2012, each preferred share is redeemable, at the option of the holder, at a price equal to $25.00 per share plus any accrued and unpaid dividends in arrears.

b) Series 2

On June 8, 2007, YPG Holdings Inc. issued 8,000,000 Series 2 cumulative redeemable first preferred shares ("Series 2 shares") for net proceeds of $193 million after deducting underwriters' fees in the amount of $6 million and other issuance costs of $1 million.

Voting rights

All of the issued and outstanding Series 2 shares are non-voting, except under special circumstances when the holders are entitled to one vote per share.

Entitlement to dividends

The holders of the Series 2 shares are entitled to receive fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors, in an amount equal to $1.25 per Series 2 share per annum, payable quarterly.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

12. Preferred shares (continued)

Redemption by the issuer

On or after June 30, 2012, YPG Holdings Inc. may, at its option, redeem for cash the Series 2 shares, in whole or in part at a decreasing premium until June 30, 2016 and at par thereafter. Also, on or after June 30, 2012, and prior to June 30, 2017, YPG Holdings Inc. may, at its option, exchange the outstanding Series 2 shares, in whole or in part, into freely-tradable Units of the Fund at a decreasing premium until June 30, 2016 and at par thereafter. In addition, the Series 2 shares will be redeemable at a premium in cash or exchangeable at the option of YPG Holdings Inc., in whole into Units of the Fund on or after June 30, 2007 provided that any exchange prior to June 30, 2012 shall be limited to circumstances in which the Series 2 shares are entitled to vote separately as a class or series by law or court order. This option meets the definition of an embedded derivative under GAAP and is recorded at fair value on the consolidated balance sheet with changes in fair value recognized in earnings.

Redemption by the holder

On or after June 30, 2017, each preferred share is redeemable, at the option of the holder, at a price equal to $25.00 per share plus any accrued and unpaid dividends in arrears.

13. Income taxes

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

	For the years ended December 31, 2008	2007
Earnings before income taxes	**$ 540,630**	$ 495,189
Combined Canadian federal and provincial tax rates	**31.82%**	31.59%
Income tax expense at statutory rates	**$ 172,028**	$ 156,430
Increase (decrease) resulting from:		
Intercompany interest income earned in non-taxable entities	**(157,176)**	(179,739)
Other	**4,725**	(3,315)
Non-deductible dividend expense	**7,756**	5,476
Non-deductible amortization of intangible assets	**5,219**	9,275
Net tax impact of foreign activities	**622**	-
Effect of enacted future rates on temporary differences	**(3,051)**	(22,485)
Corporate minimum tax	**541**	1,250
Provision for (recovery of) income taxes	**$ 30,664**	$ (33,108)

Provision for (recovery of) income taxes for the years ended:

	December 31, 2008	December 31, 2007
Current	**$ 11,178**	$ 5,543
Future	**18,945**	(39,901)
Corporate minimum tax	**541**	1,250
	$ 30,664	$ (33,108)

(all tabular amounts are in thousands of Canadian dollars, except unit information)

13. Income taxes (continued)

Future income tax assets (liabilities) are attributable to the following items as at:

	December 31, 2008	December 31, 2007
Deferred financing costs and redemption fees	$ 3,388	$ 19,981
Non-capital losses carryforward	12,029	41,451
Deferred revenues	35,272	32,714
Accrued benefit liabilities	28,897	22,927
Net deferred loss on hedging activities	5,772	4,269
Accrued liabilities	15,129	7,546
Capital assets and lease inducements	4,452	1,266
Intangibles	(157,669)	(169,119)
Future income tax liabilities, net	**$ (52,730)**	$ (38,965)

Financial statement presentation as at:

	December 31, 2008	December 31, 2007
Current future income tax assets	$ 43,723	$ 65,659
Long-term future income tax assets	20,661	5,018
Long-term future income tax liabilities	(117,114)	(109,642)
Future income tax liabilities, net	**$ (52,730)**	$ (38,965)

As at December 31, 2008, the Fund has non-capital losses available for carryforward to reduce future taxable income of $85.2 million expiring from 2009 to 2028. A future income tax asset of $12 million has been recorded with respect to these non-capital losses.

14. Unitholders' capital

The Fund's Declaration of Trust provides that an unlimited number of units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net earnings, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding up of the Fund. All Trust Units are of the same class with equal rights and privileges. The units issued are not subject to future calls or assessments, and entitle the holders thereof to one vote for each whole unit held at all meetings of Unitholders.

		December 31, 2008
	Number of Units	**Amount**
Balance, December 31, 2007	533,188,571	$ 6,321,471
Units issued	582,688	6,422
Repurchase of Units	(15,470,200)	(183,477)
Balance, December 31, 2008 [1,2]	**518,301,059**	**$ 6,144,416**

		December 31, 2007
	Number of Units	Amount
Balance, December 31, 2006	532,067,956	$ 6,305,850
Units issued	1,120,615	15,621
Balance, December 31, 2007 [1,2]	533,188,571	$ 6,321,471

[1] Includes 10,815,000 (2007 – 14,000,000) Exchangeable Units of YPG LP issued as partial consideration of the Trader Media Corp. ("TMC") acquisition, which are presented as part of Unitholders' capital as the criteria of Emerging Issues Committee Abstract 151 *Exchangeable Securities Issued by Subsidiaries of Income Trust* are met.

[2] Includes 4,497,126 Restricted Units (2007 – 2,379,931) pursuant to the Restricted Unit Plan.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

14. Unitholders' capital (continued)

Warrants

		December 31, 2007
	Number of Warrants	Amount
Balance, December 31, 2006	12,500,000	$ 6,250
Expired	(12,500,000)	(6,250)
Balance, December 31, 2007	-	$ -

On August 22, 2006, the Fund issued 25,000,000 Warranted Units consisting of 25,000,000 units and 25,000,000 one-half of one Warrant. Each one half of one Warrant was issued at $0.25 for total proceeds of $6.3 million. Each Warrant entitled the holder to purchase one Fund Unit at a price of $17.50. The warrants expired unexercised on December 14, 2007, at which time the value ascribed to the warrants was reclassified to contributed surplus.

Normal course issuer bid

On March 28, 2008, the Fund received approval from the Toronto Stock Exchange ("TSX") on its notice of intention to make a normal course issuer bid for its units through the facilities of the TSX from April 2, 2008 to April 1, 2009, in accordance with applicable rules of the TSX.

Under its normal course issuer bid, the Fund can purchase for cancellation up to 25 million of its outstanding units. During the year ended December 31, 2008, the Fund had purchased for cancellation 15,470,200 Units of the Fund for a total cost of $133.6 million including brokerage fees at an average price of $8.63 per unit. An amount of $11.5 million representing 1,789,600 Units repurchased in the last three days of December and settled in January, is included in accounts payables and accrued liabilities as at December 31, 2008. The average carrying value of these Units was $11.86 per Unit. The difference between the purchase price and the carrying value of the Units of $49.9 million was credited to Contributed Surplus.

Exercise of options

During the year, optionholders exercised 582,688 (2007 – 1,120,615) options at an exercise price of $3.92 per option for cash consideration of $2.3 million (2007 – $4.4 million). These options were exercised into 582,688 (2007 – 1,120,615) shares of YPG Holdings Inc. which were automatically exchanged into 582,688 (2007 – 1,120,615) units of the Fund pursuant to the Optionholders' Liquidity Agreement, at an average stated value of approximately $11.02 (2007– $13.94) per share, which in turn were exchanged into units of YPG LP. This transaction gave rise to an increase in goodwill of $4.1 million (2007 – $11.2 million).

15. Distributions to unitholders

The Fund's distribution policy is to make distributions of its available cash taking into account the current and prospective performance of its business, amounts to service debt obligations, maintenance capital expenditures, taxes and other items considered to be prudent. The Fund's objective is to progressively reduce its payout ratio over the 2007 – 2010 period in order to provide the necessary flexibility to fund cash taxes starting in 2011, following the income tax rule changes enacted by the Canadian Federal government on June 22, 2007.

Cash distributions are payable monthly to the Unitholders and Exchangeable Unitholders of record on the last business day of each month and are paid on the 15th day of the following month.

During the year ended December 31, 2008, the Fund declared total distributions to Unitholders and Exchangeable Unitholders of $599.9 million (2007 – $582 million) or $1.1467 per unit (2007 – $1.0966).

(all tabular amounts are in thousands of Canadian dollars, except unit information)

16. Accumulated other comprehensive income

The components of Accumulated other comprehensive income are as follows:

		December 31, 2008
Net gain on derivatives designated as cash flow hedges, net of income taxes[1]	$	(162)
Unrealized losses on derivatives designated as cash flow hedges		(2,767)
Unrealized gains on translating financial statements of self-sustaining foreign operations		12,060
Balance December 31, 2008	**$**	**9,131**

		December 31, 2007
Net gain on derivatives designated as cash flow hedges, net of income taxes[1]	$	1,993
Unrealized loss on available–for–sale investment		(1,361)
Balance December 31, 2007	$	632

[1] The net gain on derivatives designated as cash flow hedges in prior periods will be transferred to net earnings over the term of the underlying debt which matures on May 2011, February 2016 and February 2036.

17. Interest in joint ventures

At December 31, 2006, the Fund had a 12.86% interest in Aliant, a general partnership. The Fund also had a 50% interest in Vertical Guides LP. During 2007, the Fund acquired the remaining 87.14% interest in Aliant and 50% of Vertical Guides LP (see Note 3 - Business acquisitions).

Prior to these acquisitions, the Fund's proportionate share of Aliant's and Vertical Guides LP's results of operations and cash flows included in the consolidated financial statements were as follows:

		For the year ended December 31, 2007
Statements of earnings		
Revenues	$	4,753
Operating costs		3,870
Depreciation and amortization		5
Interest income		(14)
		3,861
Net earnings	$	892

		For the year ended December 31, 2007
Statements of cash flows		
Funds (used by) provided from:		
Operating activities	$	260
Financing activities		(2,419)
Investing activities		2
	$	(2,157)

(all tabular amounts are in thousands of Canadian dollars, except unit information)

18. Earnings per unit

The following table reconciles the net earnings and the weighted average number of units outstanding used in computing basic earnings per unit to weighted average number of units outstanding used in computing diluted earnings per unit:

	For the years ended December 31,	
	2008	2007
Weighted average number of units outstanding used in computing basic earnings per unit	**523,444,129**	530,604,504
Dilutive effect of options	**571,432**	1,334,557
Dilutive effect of Restricted Units[1]	**4,014,311**	2,227,859
Dilutive effect of Series 1 Preferred shares	**32,505,350**	19,665,919
Dilutive effect of Series 2 Preferred shares	**21,670,233**	8,237,085
Dilutive effect of Exchangeable Debentures	**32,505,350**	24,479,804
Weighted average number of units outstanding used in computing diluted earnings per unit	**614,710,805**	586,549,728

[1] At 200% pay-out including unallocated Restricted Units.

	For the years ended December 31,	
	2008	2007
Net earnings	**$ 509,227**	$ 527,709
Impact of assumed conversion of Exchangeable Debentures, net of applicable taxes	**15,465**	14,431
Impact of assumed conversion of Series 1 Preferred shares, net of applicable taxes	**12,625**	11,191
Impact of assumed conversion of Series 2 Preferred shares, net of applicable taxes	**9,416**	5,747
Net earnings adjusted for dilutive effect	**$ 546,733**	$ 559,078

The Exchangeable Units of YPG LP issued as partial consideration of the TMC acquisition described in Note 14 above are included in the number of units for both basic and diluted earnings per unit.

19. Stock-based compensation plans

The Fund's stock-based compensation plans consist of the Restricted Unit Plan and a Stock Option Plan.

Restricted Unit Plan

On August 30, 2004, YPG LP, through its general partner YPG GP, established the YPG Co. Restricted Unit Plan (the "RU Plan") to encourage ownership of units, to enhance YPG Co.'s ability to attract, motivate and retain key personnel, to reward the participants for significant performance and associated growth in distributable cash of the Fund and to align the interests of the participants and the Unitholders of the Fund.

Under the RU Plan, YPG GP, as general partner of YPG LP, may grant to directors and eligible employees either a fixed dollar or fixed unit incentive amount which is then used by the plan custodian to purchase units of Yellow Pages Income Fund on the open market of the Toronto Stock Exchange (the "Restricted Units"). The Restricted Units so awarded may vest pursuant to a time-based or a performance-based criteria as determined by YPG GP. Time-based Restricted Units will vest 36 months after the date of determination of the incentive amount while performance-based Restricted Units will vest at the later of 36 months after the date of determination of the incentive amount and the date of confirmation by the Board of the achievement of the specified performance targets. The Board will determine, not later than October 31 of the year following the end of the performance period whether the performance-based vesting condition has been achieved. The performance-based units which have not achieved the vesting condition shall automatically be forfeited and cancelled.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

19. Stock-based compensation plans (continued)

Cash distributions received on all Restricted Units awarded to eligible employees and directors are reinvested in additional Restricted Units and vest according to the terms of the grant pursuant to which they are paid. Cash distributions received on all Restricted Units awarded to non-executive directors are not reinvested in additional Restricted Units and will be paid according to the terms of the grant pursuant to which they are paid. Unless instructed otherwise by a participant, upon the vesting of the Restricted Units, the plan custodian shall sell the Restricted Units of the participant on the open Market of the Toronto Stock Exchange and remit to the participant the net proceeds from the sale thereof after deducting all applicable taxes and other costs associated therewith.

Upon termination for cause or resignation, all Restricted Units not vested shall be forfeited and cancelled. Upon a participant's retirement, termination without cause, death and long-term disability, the time-based Restricted Units will vest as a pro-rata of the performance cycle completed versus the 36 month period. All performance-based Restricted Units that are not vested on the date of the participant's retirement, termination without cause, death or long-term disability shall be forfeited and cancelled on such date.

The Restricted Units have vesting acceleration provisions under certain circumstances.

Employees who were awarded units under the RU Plan prior to January 1, 2006 (pre-2006 grants), were granted Restricted Units in equal proportions between time-based vesting and performance-based vesting criteria. During the years 2006 to 2008, YPG LP awarded Restricted Units to key employees which are performance-based vesting only, between 2008 to 2010 and also awarded Restricted Units to non-executive directors of YPG GP, the general partner of YPG LP, which are time-based vesting only.

During the year ended December 31, 2008, an amount of $11.3 million (2007 – $8.8 million) representing 998,841 (2007 – 650,166) Restricted Units were granted at an average market price of $11.35 (2007 – $13.57). Except for pre-2006 grants and Restricted Units granted to Directors, the number of Restricted Units that vest can potentially reach two times the actual number of Restricted Units awarded if the actual performance reaches the maximum level of the objectives. Consequently, $19.8 million (2007 – $15.4 million) was used to purchase 1,742,404 (2007 – 1,214,243) Restricted Units of the Fund on the open market of the Toronto Stock Exchange, which are held in escrow in order to provide for a maximum 200% pay-out subject to adjustment at time of vesting. In addition, an amount of $4.3 million (2007 – $2.3 million) was used to reinvest in 471,223 (2007 – 154,564) Restricted Units using the proceeds from the distributions on the Restricted Units held in escrow. This includes 230,725 (2007 – 70,867) Restricted Units associated with the portion which provides for 200% pay-out.

The following table summarizes the status of the grants:

	For the year end December 31, 2008	
	Number of Restricted Units	
	Pre-2006 Grants	**2006 to 2008 Grants**
Outstanding, beginning of year	**69,915**	**1,167,613**
Granted	**–**	**998,841**
Vested	**(68,163)**	**(16,168)**
Forfeited	**(2,271)**	**(168,822)**
Cash distributions reinvested	**519**	**239,979**
Outstanding, end of year	**–**	**2,221,443**
Weighted average remaining life	**–**	**1.63 years**

	For the year ended December 31, 2007	
	Number of Restricted Units	
	Pre-2006 Grants	2006 and 2007 Grants
Outstanding, beginning of year	204,437	515,012
Granted	–	650,166
Vested	(122,160)	–
Forfeited	(23,329)	(70,295)
Cash distributions reinvested	10,967	72,730
Outstanding, end of year	69,915	1,167,613
Weighted average remaining life	0.24 year	1.56 years

(all tabular amounts are in thousands of Canadian dollars, except unit information)

19. Stock-based compensation plans (continued)

As at December 31, 2008 there were 227,652 (2007 – 107,275) Restricted Units which were not allocated to any specific employee and 2,048,031 (2007 – 1,035,128) Restricted Units representing the portion which provides for a 200% pay-out. Total compensation expense for year ended December 31, 2008 of $8.8 million (2007 – $9.4 million) was recorded in the consolidated statements of earnings.

Stock Options

Employee participants

Prior to the inception of the Fund, certain employees were issued options to purchase common shares of YPG Holdings Inc. Employees who participated in the equity plan were granted options in equal proportions between time-based vesting and performance-based vesting criteria. Employees who did not participate in the equity plan only received performance-based options. Time-based options were exercisable as to 20% to 33 1/3 % per year on the anniversary of the grant date in each of the three to five subsequent years. Performance-based options were exercisable as to 20% per year on the anniversary of the grant date in each of the five subsequent years provided that YPG Co. achieves specified performance targets. At December 31, 2007, YPG Co. had achieved the performance targets identified at the time of establishment of the Stock Option Plan and all of the performance-based options became exercisable in 2008.

The following table summarizes the status of the stock option program:

	For the year ended December 31, 2008	
	Number of options	**Weighted average exercise price per option**
Outstanding, beginning of year	**977,600**	**$ 3.92**
Exercised	**(582,688)**	**3.92**
Outstanding, end of year	**394,912**	**$ 3.92**
Exercisable, end of year	**394,912**	**$ 3.92**

	For year ended December 31, 2007	
	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	2,055,300	$ 3.92
Exercised	(1,120,615)	3.92
Cancelled	(16,274)	3.92
Reinstatement	59,189	3.92
Outstanding, end of year	977,600	$ 3.92
Exercisable, end of year	419,737	$ 3.92

The following table summarizes information about the stock option program as of December 31, 2008:

	Options outstanding			Options exercisable	
Exercise price per option	Number of options	Weighted average remaining life	Weighted average exercise price	Number of options	Weighted average exercise price
$3.92	**394,912**	**3.54 years**	**$3.92**	**394,912**	**$3.92**

Compensation expense for the years ended December 31, 2008 of $nil (2007 – $0.4 million) was recorded in the consolidated statements of earnings. No options have been granted to employees and non-employees since the inception of the Fund.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

20. Supplemental disclosure of cash flow information

Change in operating assets and liabilities:

	For the years ended December 31,	
	2008	2007
Accounts receivable	**$ (19,473)**	$ (35,902)
Prepaid expenses	**(2,359)**	(594)
Deferred publication costs and other assets	**(15,374)**	(21,954)
Accounts payable and accrued liabilities	**(19,528)**	2,508
Deferred revenues	**2,800**	13,681
	$ (53,934)	$ (42,261)

Supplemental information:

	For the years ended December 31,	
	2008	2007
Interest paid	**$ 136,415**	$ 134,483
Dividends on Preferred shares paid	**$ 22,750**	$ 15,836
Income taxes and capital taxes paid	**$ 23,306**	$ 3,255
Additions to capital assets under capital leases	**$ 773**	$ 10,713
Additions to capital assets included in accounts payable and accrued liabilities	**$ 6,459**	$ 7,467

Cash and cash equivalents consist of:

	As at December 31,	
	2008	2007
Cash	**$ 10,254**	$ 5,186
Short-term investments	**14,800**	48,089
	$ 25,054	$ 53,275

21. Commitments and contingencies

a) The Fund has commitments under various leases for premises, equipment and purchase obligations through long-term distribution agreements for each of the next five years and thereafter, as of December 31, 2008, and in the aggregate of:

2009	**$ 47,723**
2010	**23,214**
2011	**20,756**
2012	**19,550**
2013	**18,015**
Thereafter	**74,434**
	$ 203,692

Under certain lease agreements, there are inducements for leasehold improvements. The lease inducements are accounted for as part of deferred credits and amount to $26.1 million. These lease inducements are recorded as a reduction of rent expense on a straight-line basis.

21. Commitments and contingencies (continued)

b) The Fund has four billing and collection services Agreements. The term of the Billing & Collection Services Agreement with Bell expires on January 25, 2011, with an automatic renewal period for three years thereafter unless the Fund provides prior notice not to renew. The agreement with TELUS includes automatic renewal for successive one-year periods. The Fund may terminate this agreement at any time upon providing no less than 60 days' prior written notice. The agreement with MTS Allstream Inc. expires on October 2, 2016, with two automatic renewal periods for ten years up to a maximum of 30 years unless the Fund provides prior notice not to renew. The Fund may terminate this agreement at any time upon providing no less than 90 days' prior written notice. The agreement with Bell Aliant expires on April 30, 2017, with two automatic renewal periods for ten years unless the Fund provides prior notice not to renew. The Fund may terminate this agreement at any time upon providing no less than 90 days' prior written notice.

Pursuant to publication agreements with each of Bell Canada, TELUS, MTS Allstream Inc. and Bell Aliant, YPG Co. produces alphabetical listing telephone directories for each of these companies in order for them to meet their regulatory obligations. The White Pages Publication and Distribution Agreement with Bell Canada will continue in force until the later of the termination or expiration of Bell's non-compete obligations and the cessation of all regulatory requirements requiring Bell Canada to publish and distribute alphabetical listing telephone directories, unless terminated earlier in accordance with its terms. The Publishing Agreement with TELUS is in force for a period of thirty years unless terminated earlier in accordance with the provisions of the agreements. The Directory Publication and Distribution Agreement with MTS Allstream Inc. is in force until the earlier of thirty years from October 2, 2006, and the cessation of all regulatory requirements requiring MTS Allstream Inc. to publish alphabetical listing telephone directories. The Bell Aliant Publication and Distribution Agreement will continue in force until the later of (i) the expiration of the Non-Competition Agreement and (ii) cessation of all regulatory requirements requiring Bell Aliant to publish alphabetical listing telephone directories.

YPG Co. also entered into several other agreements with Bell Canada, TELUS, MTS Allstream Inc. and Bell Aliant, providing for the use of listing information and trademarks for the publications of directories. If YPG Co. materially fails to perform its obligations under the publication agreements mentioned above and as a result they are terminated in accordance with their terms, these other agreements with any of Bell Canada, TELUS, MTS Allstream Inc. or Bell Aliant may also be terminated.

c) The Fund entered into directory printing agreements with its printing suppliers to print, bind and furnish alphabetical, classified and combined directories as well as other publications. It also entered into distribution agreements. These agreements will terminate between 2009 and 2020.

d) The Fund is subject to various claims and proceedings which have been instituted against it during the normal course of business for which certain of the claims are provided for and included in accounts payable and accrued liabilities based on management's best estimate of the likelihood of the outcome. Management believes that the disposition of the matters pending or asserted is not expected to have any material adverse effect on the financial position, results of operations or cash flows of the Fund.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

22. Financial charges, net

The significant components of the Fund's financial charges are as follows:

	For the years ended December 31,	
	2008	2007
Interest on Medium Term Notes	**$ 107,501**	$ 108,702
Interest on Revolving Credit Facilities	**4,281**	1,108
Interest on Exchangeable Debentures, net of accretion	**16,500**	16,526
Interest on Commercial paper	**3,969**	5,071
Standby fees and other financial charges, net	**1,948**	600
Other credits related to derivative financial instruments	**(200)**	(2,712)
Amortization of deferred financing costs	**7,186**	5,824
Accretion on Exchangeable Debentures (Note 11)	**2,377**	2,233
Accretion on Preferred shares (Note 12)	**(124)**	(66)
Foreign exchange (gain) loss	**(1,177)**	75
	$ 142,261	$ 137,361

23. Restructuring and special charges

In connection with the acquisitions of ADS, Trader, MTS and Aliant, the Fund recorded provisions for restructuring and special charges of $25.8 million, $38.7 million, $8.3 million and $0.9 million, respectively. In connection with the acquisition of Volt, the Fund recorded a provision for restructuring and special charges of USD$6.5 million (CDN$6.9 million). The Fund has adopted formal plans to integrate and restructure the acquired businesses. Consequently, the Fund established provisions related to planned termination of employment of certain employees of the acquired businesses who were performing functions already available through its existing structure and other restructuring of the acquired businesses' operations. The other special charges are composed mainly of costs to exit or terminate specific leases and contracts which the Fund intends to modify or terminate, and costs related to decommissioning of the existing technology platforms following the integration of the acquired business' operations. The liabilities related to these costs were initially included in the underlying net identifiable assets acquired. During 2007, the Fund revised its initial estimates of provisions related to certain acquisitions. As a result, the allocation of the purchase prices were revised which resulted in a reduction of goodwill of $9.7 million before related income taxes of $3.1 million.

During the fourth quarter of 2008, the Fund recorded non-recurring charges relating to an internal reorganization, workforce reduction, the termination of certain contractual commitments, the acceleration of business process changes in call centers, the discontinuance of under-performing publications, the closure of certain ad centers and other items in the amount of $36.2 million. Included in the restructuring and special charges of $36.2 million are write-off of costs totalling $3.6 million which does not impact the restructuring and special charges provision.

The following table sets forth the restructuring reserve activities and special charges provision:

	Restructuring charges	Other special Charges	Total
Balance as at December 31, 2006	**$ 26,605**	**$ 13,449**	**$ 40,054**
Provision related to the acquisition of Aliant	**452**	**425**	**877**
Utilized in 2007:			
Cash	**(13,277)**	**(2,816)**	**(16,093)**
Provisions related to the acquisitions recorded as a reduction of goodwill[1]	**(8,499)**	**(1,221)**	**(9,720)**
Balance as at December 31, 2007	**$ 5,281**	**$ 9,837**	**$ 15,118**
Provision related to restructuring	**27,098**	**5,509**	**32,607**
Provision related to the acquisition of Volt	**5,496**	**1,374**	**6,870**
Utilized in 2008:			
Cash	**(6,621)**	**(6,915)**	**(13,536)**
Balance as at December 31, 2008	**$ 31,254**	**$ 9,805**	**$ 41,059**

[1] Goodwill was reduced by the reversal of the provision related to the acquisitions of MTS, and Trader in the amount of $6.6 million net of related income taxes of $3.1 million.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

24. Financial risk management

Credit Risk

Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. The Fund is exposed to credit risk with respect to cash and cash equivalents, accounts receivable from customers and derivative financial instruments. The carrying amount of financial assets represents the Fund's maximum exposure.

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

The Fund's extension of credit to customers involves considerable judgment. The Fund has established internal controls designed to mitigate credit risk, including a formal credit policy managed by its credit department. New customers, customers increasing their advertising spent by a certain threshold and customers not respecting payment terms are subject to a specific vetting and approval process.

The Fund considers that it has limited exposure to concentration of credit risk with respect to accounts receivable from customers due to its large and diverse customer base operating in numerous industries and its geographic diversity. There are no individual customers that account for 1% or more of revenues and there are no accounts receivable from any one individual customer and certified marketing representative that exceeds 5% of the total balance of accounts receivable at any point in time during the period.

Bell Canada ("Bell"), TELUS Communications Inc. ("TELUS"), MTS Allstream Inc. and Bell Aliant Regional Communications LP ("Bell Aliant") provide the Fund with customer collection services with respect to advertisers who are also their customers. As such they receive money from customers on behalf of the Fund. The Fund retains the ultimate collection risks on these receivables.

Allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet reporting date. The Fund updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends of past due accounts. Accounts receivable are written-off once determined not to be collectable.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2008:

Current	**$ 142,968**
Past due less than 180 days	**81,963**
Past due over 180 days	**24,855**
Accounts receivable	**$ 249,786**

The Fund's accounts receivable are stated after deducting a provision of $40.4 million at December 31, 2008. The movements in the provision for doubtful accounts were as follows:

	December 31, 2008
Balance, beginning of year	**$ 35,848**
Bad debt expense, net of recovery	**30,714**
Written-off	**(26,113)**
Balance, end of year	**$ 40,449**

	December 31, 2007
Balance, beginning of year	$ 25,542
Bad debt expense, net of recovery	28,746
Written-off	(18,440)
Balance, end of year	$ 35,848

24. Financial risk management (continued)

In addition, the Fund is exposed to credit risk if counterparties to its derivative financial instruments fail to meet their obligations. The Fund expects that its counterparties will meet their obligations because they are highly-rated financial institutions that have strong credit ratings.

Interest Risk

The Fund is exposed to interest rate risks through its financial obligations bearing variable interest rates. The interest rates on YPG Holdings Inc.'s bank facility, commercial paper issuances, and cash and short-term investments are generally based on the Canadian Banker's Acceptance rate. As of December 31, 2008, including the impact of the financial derivatives described below, the net amount exposed to short-term rates fluctuations was $183.6 million. Based on this exposure as at December 31, 2008, an assumed 0.5 percentage point increase in the Banker's Acceptance rate would have an unfavourable impact of $0.2 million on quarterly net earnings with an equal but opposite effect for an assumed 0.5 percentage point decrease. The Fund is also exposed to fluctuations in long-term interest rates relative to the refinancing of its debt obligations upon their maturity. The interest rate on new long-term debt issuances will be based on the prevailing rates at the time of the refinancing, and will also depend on the tenor of the new debt issued. The Fund manages interest rate risk exposure by having a balanced schedule of debt maturities, as well as a combination of fixed and floating interest rate obligations and uses interest rate derivative products when appropriate.

The Fund uses derivative contracts to manage the combination of fixed and floating interest rates on its long-term debt and to manage interest rate risk on planned debt issuances.

On April 8, 2008, the Fund terminated the two interest rate swaps with a nominal amount of $75 million each totalling $150 million, for gross proceeds of $3.2 million, which equalled the carrying value of these derivative financial instruments at that date. These interest rate swap agreements were originally entered into in February 2006 to convert the fixed interest rate of the Series 6 Medium Term Notes into floating interest rates. The $3.2 million was deferred and will be amortized over the term of the underlying debt.

In October 2008, the Fund entered into bond forward transactions totalling $100 million in order to effectively lock in the 5-year Government of Canada rate on a portion of an expected long-term refinancing. These contracts matured in December 2008 and were at rates varying between 2.73% and 2.77%. In December 2008, the Fund terminated these bond forwards which resulted in a loss of $2.7 million. The loss was recorded in Other Comprehensive Income and will be transferred to net earnings over the term of the underlying debt which matures May 2011.

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

Foreign Exchange Risk

The Fund operates in the United States and is exposed to foreign exchange risk arriving from various currency transactions. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the functional currency of the Fund's business unit that is party to the transaction. The Fund is exposed to fluctuations in the US dollar. The effect on net earnings and other comprehensive income from existing US dollar exposures of a 1 point increase or decrease in the Canadian/US dollar exchange rate is not significant.

Liquidity Risk

Liquidity risk is the exposure of the Fund to the risk of not being able to meet its financial obligations as they become due. The Fund manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 25 - Capital Disclosures.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

24. Financial risk management (continued)

The following are the contractual maturities of the financial liabilities and related capital amounts:

	Payments due for the years ending December 31			
	Total	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Long-term debt[1,2]	$2,708,700	$1,058,700	$200,000	$1,450,000
Obligations under capital leases[2]	13,786	9,856	3,548	382
Preferred shares[2]	500,000	-	300,000	200,000
Total	**$3,222,486**	**$1,068,556**	**$503,548**	**$1,650,382**

1 Including Exchangeable Debentures
2 Principal amount

On December 31, 2008, cash and cash equivalents amounted to $25.1 million. This amount does not include any investments in asset-backed commercial paper. In addition to cash and cash equivalents, YPG Holdings Inc. may issue additional notes amounting to $500 million under its commercial paper program and access another $291.3 million under its Revolving Credit Facilities. Alternatively, if notes are not issued under the commercial paper program, YPG Holdings Inc. may access the full $791.3 million available under the Revolving Credit Facilities.

Fair values

The fair value is the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Fund could currently obtain, on the market, for loans with similar terms, conditions and maturities.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and Revolving Credit Facilities is approximately equal to their carrying values due to their short-term maturity.

The fair value of the investment classified as available–for–sale, Exchangeable Debentures and Preferred shares is evaluated based on quoted market prices at the balance sheet date.

Fair values of Medium Term Notes and derivative financial instruments are determined based on market rates prevailing at the balance sheet date and obtained from financial institutions for similar financial instruments.

These estimates are significantly affected by assumptions including the amount and timing of estimated future cash flows and discount rates, all of which reflect varying degrees of risk.

The following schedule represents the carrying values and the fair values of other financial instruments:

		December 31, 2008		
		Carrying Value		**Fair Value**
Other assets				
-investment	**$**	**228**	**$**	**228**
Long-term debt due within one year	**$**	**3,807**	**$**	**3,807**
Long-term debt	**$**	**2,420,049**	**$**	**2,205,828**
Exchangeable Debentures[1]	**$**	**285,470**	**$**	**249,479**
Preferred shares	**$**	**489,072**	**$**	**318,000**
Derivative financial instruments				
-Redemption option on Preferred shares	**$**	**4,500**	**$**	**4,500**
-Interest rate swaps - liabilities	**$**	**3,974**	**$**	**3,974**

(all tabular amounts are in thousands of Canadian dollars, except unit information)

24. Financial risk management (continued)

	December 31, 2007	
	Carrying Value	Fair Value
Other assets		
-investment	$ 3,642	$ 3 ,642
Long-term debt due within one year	$ 4,416	$ 4,416
Long-term debt	$ 2,133,179	$ 2,039,672
Exchangeable Debentures[1]	$ 280,553	$ 293,827
Preferred shares	$ 487,238	$ 442,680
Derivative financial instruments		
-Redemption option on Preferred shares	$ 4,298	$ 4,298
-Interest rate swaps	$ 67	$ 67

[1] The carrying value includes the liability portion of the Exchangeable Debentures

25. Capital disclosures

The Fund's objective in managing capital is to:

- Maintain a diversified capital structure with well balanced debt maturities;
- Ensure flexibility in the capital structure to fund operations, distributions to unitholders, capital investments and funding to support the external growth strategy; and
- Maintain adequate liquidity at all times.

The Fund's capital management objectives, policies and procedures were unchanged since the last year.

The Fund actively manages and monitors its capital structure and makes adjustments based on the objectives described above in response to changes in economic conditions and the risk characteristics of the underlying assets.

The primary measure used by the Fund to monitor its financial leverage is its ratio of net debt to Latest Twelve Month Adjusted EBITDA[1]. The Fund also uses other financial metrics to monitor its financial leverage including net debt and preferred shares to Latest Twelve Month Adjusted EBITDA[1], Fixed Charges Coverage Ratio and Net Debt to Capitalization.

The Fund's capital is comprised of net debt and Preferred shares and Unitholders' equity as follows:

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

	For the year ended	
	December 31, 2008	December 31, 2007
Latest Twelve Month Adjusted EBITDA[1]	**$ 940,630**	$ 884,134
Net Debt to Latest Twelve Month Adjusted EBITDA ratio[1]	**2.9**	2.7

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

(all tabular amounts are in thousands of Canadian dollars, except unit information)

26. Guarantees

In the normal course of operations, the Fund has entered into agreements that contain certain features which meet the definition of a guarantee under the guidance provided by CICA Accounting Guideline 14, *Disclosure of Guarantees* and which are customary in the industry.

The Fund has entered into agreements which contain indemnification of its trustees and officers indemnifying them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the trustees and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Fund. The Fund benefits from directors' and officers' liability insurance which is purchased by the Fund. No amount has been accrued in the consolidated balance sheet as of December 31, 2008 with respect to this indemnity.

Pursuant to the acquisitions of Aliant, LesPAC, and Volt, the Fund has entered into agreements whereby the Fund agrees to indemnify and hold harmless the vendors from and against any and all claims, liabilities, costs and expenses arising out of, based upon or related to (i) any breach by the Fund in the performance of its obligations under these agreements and (ii) any breach of a representation contained herein. Furthermore, agreements entered into by Trader and its predecessor companies prior to the acquisition contain indemnifications similar to the ones just described. No amount has been accrued in the consolidated balance sheet as of December 31, 2008, with respect to these indemnities.

The nature of these guarantees prevents the Fund from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties.

27. Segmented information

The Fund's reportable segments consist of strategic business units that offer different products. Management has determined that the Fund operates in two reportable segments: Directories and Vertical Media. The Directories segment operates in print and online directories, and specialized publications. The Vertical Media segment operates in the vertical print publications and web sites by topic or area of interest. The accounting policies of the segments are the same as those used for the consolidated financial statements. The Fund or chief operating decision maker analyzes the performance of its operating segments based on their income from operations which is not a measure of performance under GAAP; however, management uses this performance measure for assessing the operating performance of its reportable segments.

The tables below summarize the selected financial information by segment:

			For the year ended December 31, 2008
	Directories[1]	**Vertical Media**	**Consolidated**
Revenues	**$ 1,376,036**	**$ 320,677**	**$ 1,696,713**
Operating costs	**551,528**	**212,479**	**764,007**
Income from operations before depreciation and amortization and restructuring and special charges	**824,508**	**108,198**	**932,706**
Depreciation and amortization	**157,376**	**28,689**	**186,065**
Restructuring and special charges	**24,068**	**12,157**	**36,225**
Income from operations	**$ 643,064**	**$ 67,352**	**$ 710,416**

			For year ended December 31, 2007
	Directories	Vertical Media	Consolidated
Revenues	$ 1,294,548	$ 329,876	$ 1,624,424
Operating costs	522,147	228,117	750,264
Income from operations before depreciation and amortization	772,401	101,759	874,160
Depreciation and amortization	179,227	46,357	225,584
Income from operations	$ 593,174	$ 55,402	$ 648,576

[1] Included in the Directories segment are the results of the US operations (YPG (USA) Holdings, Yellow Pages Group, LLC and YPG Directories, LLC.).Consequently, $12.3 million of revenues are included for the year ended December 31, 2008. Revenues are attributed to countries based on the location of the customer. Also included in the Directories segment is goodwill of $63 million and capital assets of $2.2 million at December 31, 2008 relating to the US operations.

(all tabular amounts are in thousands of Canadian dollars, except unit information)

27. Segmented information (continued)

			December 31, 2008
	Directories[1]	**Vertical Media**	**Consolidated**
Intangibles	**$ 1,768,649**	**$ 333,817**	**$ 2,102,466**
Goodwill	**$ 5,685,280**	**$ 963,387**	**$ 6,648,667**
Total assets	**$ 7,971,215**	**$ 1,395,004**	**$ 9,366,219**

			December 31, 2007
	Directories	Vertical Media	Consolidated
Intangibles	$ 1,733,192	$ 332,975	$ 2,066,167
Goodwill	$ 5,607,359	$ 963,387	$ 6,570,746
Total assets	$ 7,865,549	$ 1,399,963	$ 9,265,512

[1] Included in the Directories segment are the results of the US operations (YPG (USA) Holdings, Yellow Pages Group, LLC and YPG Directories, LLC.).Consequently, $12.3 million of revenues are included for the year ended December 31, 2008. Revenues are attributed to countries based on the location of the customer. Also included in the Directories segment is goodwill of $63 million and capital assets of $2.2 million at December 31, 2008 relating to the US operations.

	For the years ended December 31,	
	2008	2007
Additions to capital assets[1]		
Directories	**$ 25,732**	$ 36,711
Vertical Media	**$ 17,456**	$ 48,094
Additions to intangible assets		
Directories	**$ 100**	$ 73
Vertical Media	**$ -**	$ 20

[1] These amounts represent total expenditures for additions to capital assets, whether they are paid or not.

28. Comparative figures

The Fund reclassified the 2007 net book value of software of $49.8 million composed of cost of $84.5 million and accumulated amortization of $34.7 million from Capital assets to Intangibles and all other related figures. Other comparative figures have been reclassified to conform to the current year's presentation.

29. Subsequent event

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

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Leadership Team

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President and Chief Executive Officer

Christian M. Paupe
Executive Vice-President, Corporate Services and Chief Financial Officer

François D. Ramsay
Senior Vice-President – General Counsel and Secretary

Josée Dykun
Vice-President – Human Resources

Nicolas Lavoie
Vice-President – Finance and Treasurer

Ginette Maillé
Vice-President and Principal Accounting Officer

Barbara E. Oberleitner
Chief Compliance Officer

Stephen Port
Vice-President – Corporate Performance and Sales Operations

Yvan Proteau
Chief Information Officer

D. Lorne Richmond
Vice-President – Supply Chain & Logistics

Directories

Gerard L. DiPippo
Senior Vice-President & Corporate Development

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Vice-President – Sales, Alberta and British Columbia

David K. Gilbert
Vice-President – Sales
Your Community Phonebook (US)

Paul Lalonde
Vice-President – Sales, Québec and Atlantic Canada

Jean-Pascal Lion
Vice-President – Marketing

Linda McFarlane
Vice-President – Sales Support

Gregory S. Shearer
Vice-President – Business Solutions

David Toms
Vice-President – Sales, Ontario Region

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Vice-President – Publishing

Vertical Media

Douglas A. Clarke
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Jamie Blundell
Vice-President, Operations

Jacky Hill
Vice-President, National Real Estate

Geneviève LeBrun
Vice-President, Marketing

Normand Théberge
Vice-President, Business Development

Corporate Information

Yellow Pages Group™

16 Place du Commerce
Verdun, Québec H3E 2A5

www.ypg.com

TRADER Corporation™

401 The West Mall
Etobicoke, Ontario M9C 5J5

www.tradercorporation.com

Investor Relations

1 877 YLO-2003 (1 877 956-2003)
ir.info@ypg.com

Auditors

Deloitte & Touche LLP

Units and Other Securities Listed on the Toronto Stock Exchange

Units: YLO.UN
Exchangeable Debentures: YPG.BD
Cumulative Redeemable Preferred Shares Series 1: YPG.PR.A
Cumulative Redeemable Preferred Shares Series 2: YPG.PR.B

Transfer Agent

CIBC Mellon Trust Company
2001 University Street
Suite 1600
Montréal, Québec H3A 2A6
Telephone: 1 800 387-0825
E-Mail Inquiries: inquiries@cibcmellon.com

Annual Report

To consult the online interactive version of our Annual Report, visit: www.ypg.com/annualreport2008.

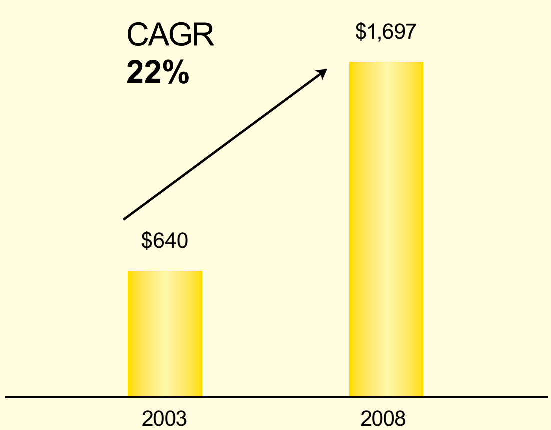
Ce rapport est également disponible en français. Pour obtenir la version française, veuillez communiquer avec la Compagnie Trust CIBC Mellon à l'adresse indiquée ci-haut.

Annual Meeting

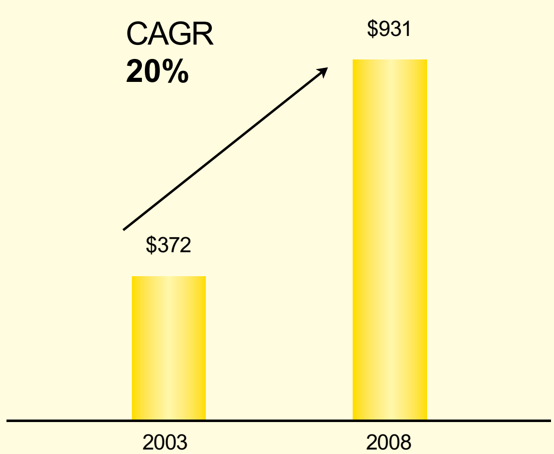
The Annual Meeting of Yellow Pages Income Fund's unitholders will be held on Thursday, May 7, 2009. The meeting will take place at 11:00 a.m. (EDT) at The Windsor, 1170 Peel, Montréal, Québec, Canada.

Sustained Growth and Strong Financial Performance

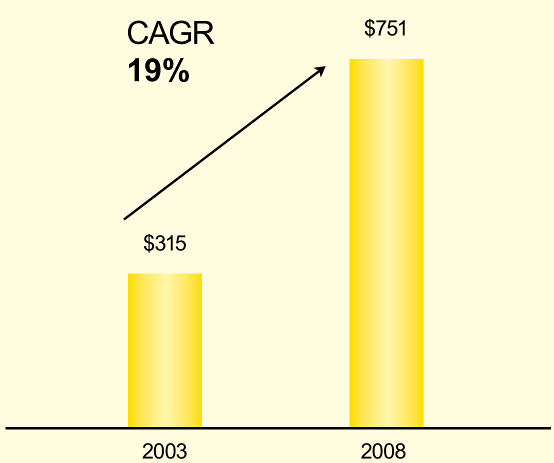
Adjusted Revenues
(in millions of Canadian dollars)



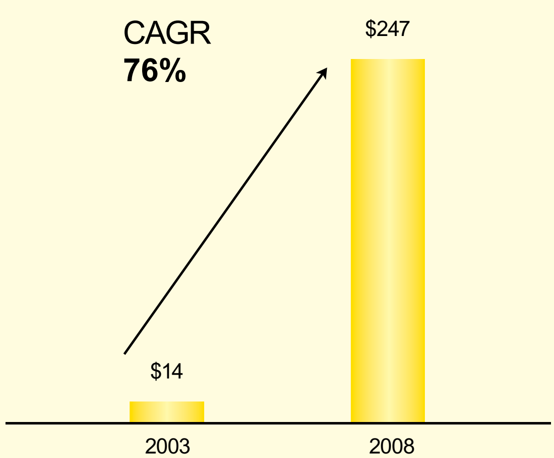
Adjusted EBITDA
(in millions of Canadian dollars)

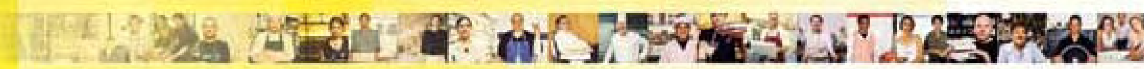


Distributable Cash
(in millions of Canadian dollars)



Online Revenues
(in millions of Canadian dollars)





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