

## Message to Unitholders

Yellow Pages Group will celebrate its **100<sup>th</sup> anniversary** in 2008, marking the passage of a century since the publication of our first directory in Canada.

This is a significant milestone for us. In the course of our history we have become **one of Canada's leading media companies** with a unique mix of both print and digital media.

In 2007, we made it a priority to thank the people who contributed to our success. Our goal was twofold: to **celebrate what we have accomplished**, and to **celebrate our collective future**. We wanted to celebrate a future in which we remain a leading destination for buyers and sellers.



**Marc P. Tellier**  
President and  
Chief Executive Officer

We continued to move our business forward during 2007, achieving solid operating and financial performance. Our continuing progress has earned us leading status in the directories business not just in Canada or North America, but around the world.

This is our fifth year as a stand-alone entity and for each of those years we have delivered the same level of leadership, consistently delivering a leading performance relative to our peers and surpassing our own results. We continue to demonstrate the stability and experience of a seasoned veteran and the energy, enthusiasm and potential of a youthful start-up.

It is a parallel that carries through to the structure of our business as well. Our print directories are the time-honoured foundation of our business that continue to deliver organic growth and new opportunities. And yet we also have established a significant next-generation, online presence that too offers substantial growth prospects, now and in the future.

Such complementary strengths are a source of considerable strategic advantage because we can offer integrated advertising solutions. Given the breadth of our platforms, we are able to promote cross-selling and bundling propositions to our customers and thus grow our business.

The same is true for our vertical media business, Trader Corporation. Trader offers a suite of leading print and online destinations covering four categories: Automotive, Real Estate, Generalist and Employment. Trader is the first and only nation-wide vertical media business in Canada.

The year 2007 was one of transition for Trader during which we focused on build-

ing a fully integrated national company while investing in news systems and in our people.

## Leading Operating and Financial Metrics

The success of our efforts in 2007 drove our financial performance to historic levels. For 2007, our Consolidated Adjusted Revenues increased 17.2% to reach \$1.63 billion compared to \$1.39 billion in 2006. Likewise, Adjusted EBITDA grew 16.5% to \$871 million in 2007 compared to \$748 million in 2006.

Once again this year, our operating performance was accretive to distributable cash which climbed to \$700.5 million up more than 15% when compared to 2006. Distributable cash per unit increased by 11.9% to \$1.32 from \$1.18 in the previous year.

## Directories

In 2007, we acquired Aliant Directory Services, serving the four Atlantic Provinces. This acquisition, along with the previously acquired MTS Media in Manitoba, has given us true national reach. As a leader in directories, we were able to use our best-practices experience to quickly integrate these acquisitions and capitalize on our expanded geographic presence.

Our focus on operational excellence is paying off as demonstrated by improvements in virtually all of our key financial and operational metrics.

In Directories, on a comparable basis, Adjusted Revenues grew by 5.3% and Adjusted EBITDA by 6.6%. The Adjusted EBITDA margin for the entire year was 59.2% compared to 58.6% in 2006. This growth reflects the contribution of the MTS Media and Aliant Directory Services acquisitions.



**Marc L. Reisch**  
Chairman of the Board

As we have stated many times in the past, we believe there remains significant potential for organic growth in our directories business. Every month there are more than 110 million searches in our directories in Canada. Nearly twice as many users consult our printed Yellow Pages™ directories as surf the online versions.

Over the last year, we made significant progress in strengthening the print side of our business. We have one of the highest market penetration rates of all publishers worldwide – 40% of companies in Canada advertise in our directories – but we believe we can still increase that performance.

To help achieve that growth, we created a unique sales team dedicated to bringing new customers on board with YPG. Selling to new customers requires a more educative and consultative approach than when selling to existing customers. Through specialized training, we quickly brought this team up to speed.

Results to date have been very encouraging with newly generated revenues tracking ahead of our expectations. We now have these dedicated teams covering key markets in British Columbia, Alberta, Ontario, Québec and Atlantic Canada. Based on this success, we will continue to invest in the program as an element in our overall efforts to keep our directories business growing.

### Customer First

Our “new-advertiser” acquisition sales channel is one of several examples of how we live our Customer First philosophy at Yellow Pages Group. We are changing our overall business model, putting our customers first and making that imperative central to how we structure and manage our business. The goal is to enhance our customer experience while increasing our productivity.

A key element to our Customer First program is the adoption of a new technology platform. Most important is the personal investment that we are asking our employees to make in adapting to this new system and its procedures. Their commitment has been remarkable to date and we thank them for fully embracing this important program.

Employees are truly helping us make a difference with our customers. For example, local small and medium enterprises (SMEs) account for close to 90% of our business. This sector of the economy is often overlooked by marketers and other media companies because their business models don't allow them to serve SMEs effectively. Our business model does and our employees pay close attention to their needs. We can demonstrate to our customers how advertising in our directories makes good business sense with a strong return on investment.

We have also taken steps to increase the number of customers who advertise in both our print and online directories. Our solid understanding of the nature of our customers' businesses allows our sales representatives to sell a combination of

## The Find Engine™



Print  
Local Directory



Web  
[www.YellowPages.ca](http://www.YellowPages.ca)



Mobile  
[mobile.YP.ca](http://mobile.YP.ca)



Text messaging-SMS  
YELLOW (935569)



Instant messaging  
[poynt@YellowPages.ca](mailto:poynt@YellowPages.ca)



print and digital advertising to leverage our capabilities as a fully integrated media company.

As of December 31, 2007, on a national basis, 54% of customers who advertised in our print directories also advertised in our digital media. That's up from 41% at the end of 2006 and we expect that it will rise further in the coming year. The most significant increase in online penetration came from our operations in Western Canada which have quickly risen to almost match penetration rates in Ontario and Québec.

### Anywhere, Anytime and in Any Way

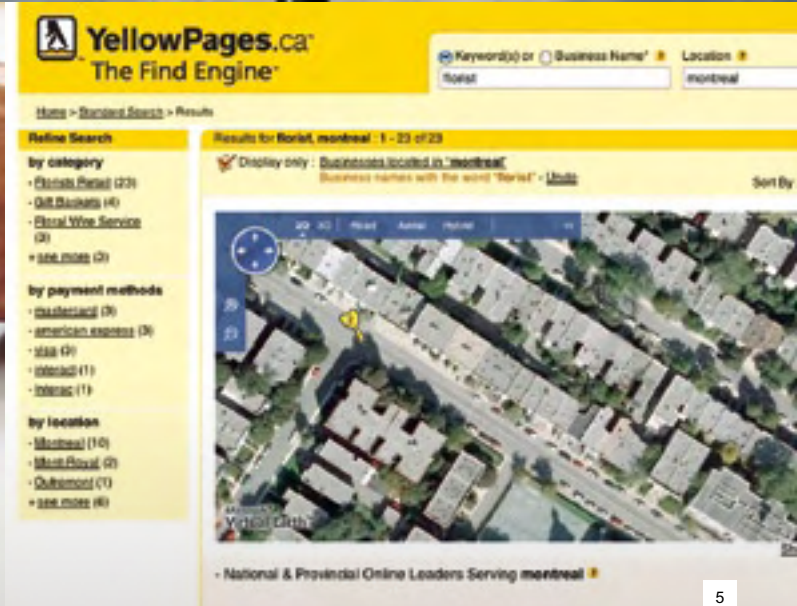
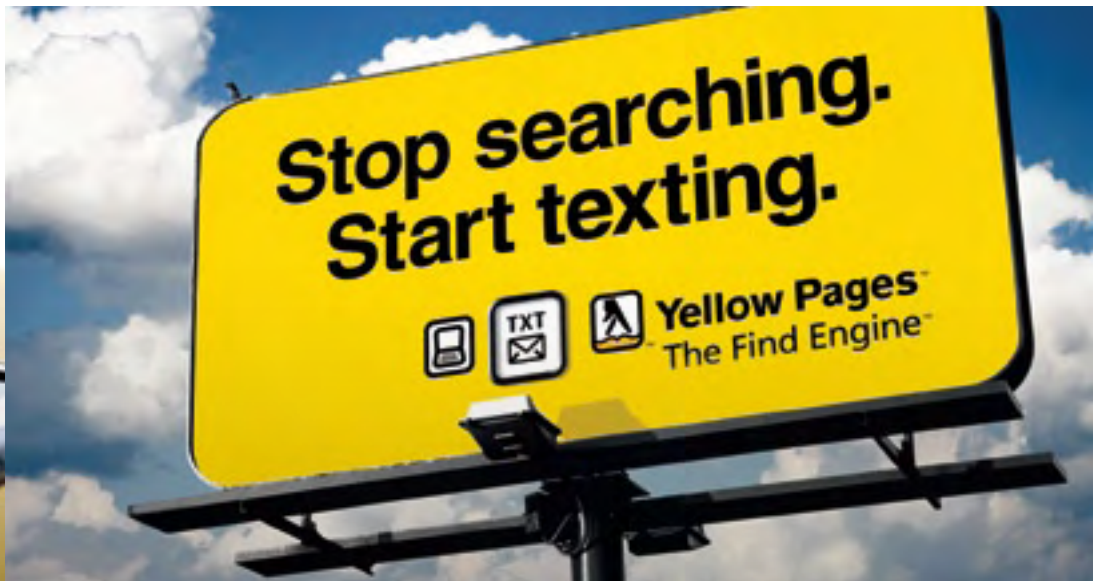
We will continue to make strategic investments in our online properties to

give our users access to our advertisers, regardless of how they choose to find merchants, the time of day or where they are located. Part of this effort is our new strategic agreement with Google whereby YPG has become the first Canadian reseller of Google AdWords™. The Google AdWords™ advertising program allows advertisers to display their ads alongside search results when users search for local information on Google and Google Maps. In addition to their existing advertisements on YellowPages.ca™ or Canadaplus.ca™, our network of seven local city sites, our advertisers will now have the opportunity to reach potential buyers with Google AdWords™.

Furthermore, in December we greatly enhanced the functionality of our YellowPages.ca™ site by adding a

state-of-the-art mapping service, Microsoft® Virtual Earth™. Visitors to our YellowPages.ca™ web site now have access to interactive maps, featuring current location data and driving directions. They are able to see aerial images and have the ability to view map results in "photo realistic" three-dimensional views.

But we have much more than our print and online capabilities. With our "Anywhere, Anytime and in Any Way" promise in mind, we offer information on our advertisers through innovative services like text messaging by texting YELLOW (935569), via cell phone by browsing mobile.yip.ca, by instant messaging at poynt@yellowpages.ca and in some markets by phone by calling Yellow Pages™ 411 (310-YELO).



### Vertical Media

Providing a compelling offering to sellers and a complete source of information for buyers is something we have focused on at Trader. Throughout 2007, we worked to build a fully integrated national company. That integration has progressed according to plan and we anticipate it will be completed by the end of 2008.

Trader generated revenues of \$329.9 million. EBITDA in 2007 increased by \$36.1 million to reach \$101.8 million and the EBITDA margin was 30.8%.

Our focus has been on investing in our online platform, in new systems and in our people. We are notably building a national sales platform for the combined company. We are already seeing the benefits.

Our purpose is to automate the sales processes. It will enable us to develop a better understanding of the needs of our clients so that we can adopt a more consultative approach and offer value-added programs.

For example, we invested in technology to help Auto Trader™'s advertisers better manage their vehicle inventory. We introduced a new data capture device and launched the Trader Dealer Showroom, an integrated package which gives dealers all the functionality they need to create, manage and market their inventory both print and online. Thanks to this technology, Trader sales representatives will have a virtually paperless means of managing customer accounts. It is expected to improve both productivity and our overall selling ability.

# Leading Canadian Vertical Media Company

Automotive  
Real Estate  
Generalist  
Employment

200  
vertical  
publications

20  
web sites



We are also enhancing Trader's online capabilities through a number of initiatives. In April 2007, in the generalist segment, we acquired a 50% ownership interest in LesPAC.com, Québec's largest classified advertising web site. This partnership with LesPAC.com adds value to our existing web presence and traffic to our online network of directories and vertical media, as well as brings additional visibility to our car dealers.

On the automotive front, we continued pushing our coast-to-coast "Come meet your match" advertising campaign to position Auto Trader™ as the most compelling source of automotive information. This campaign was awarded two silver awards from marketing industry organizations that recognize best-in-class Canadian advertising programs. It has clearly raised

the profile of our print and online automotive products and contributed to our brand awareness.

Towards the end of the year, Trader launched a new look for all of its Auto Trader™ magazines across Canada. The goal was to create a consistent national look, but to have distinctive covers for each of the various Trader vehicle products. These changes have been very well received by readers; the redesigned covers are more appealing and have a greater visual impact than the original ones.

We also launched a complete New Car section on AutoTrader.ca™. Our goal is to become the car destination of choice for our growing audience of shoppers looking for used or new vehicles. We therefore added

the "Find a New Vehicle" search functionality and new vehicle tools for users to build their new desired vehicle or compare different makes.

As complementary businesses, YPG and Trader continue to identify cross-selling opportunities. In 2007, we successfully introduced the Yellow Pages™ Auto Edition in the Toronto and Montreal Auto Trader™ magazines. We believe there is still significant opportunity for synergies which we continue to actively explore.



**GOT THE 70,000KM ITCH?**



## Outlook for 2008

Based on 2007 results, during which we met or exceeded our financial targets, we anticipate our momentum will continue in the coming year. Consequently our outlook remains positive with performance metrics similar to what we delivered in 2007.

Following changes announced in 2006 regarding the taxation of income trusts, we have confirmed our intention to convert to a traditional corporate structure in late 2010. We believe that there is no economic benefit to convert early, but there is also no incentive to remain a trust starting in 2011.

Given those expected changes, we have adopted a more prudent approach to cash distributions and will continue to closely monitor our payout ratio. Strong EBITDA growth over the last three years resulted in our payout ratio decreasing from 95% at the time of our initial public offering in August 2003 to approximately 83% at December 31, 2007 (\$1.09 cash distributions paid for most of 2007 compared with distributable cash per unit of \$1.32). This is in spite of sustained growth in cash distributions during the same period. We maintain our objective of continuing to progressively reduce our payout ratio over time.

Under these circumstances, as announced at mid-year, we believe it is more appropriate during the 2008 to 2010 transition period to provide guidance and report on annual expected growth in distributable cash per unit rather than to provide guidance on cash distributions declared.

We remain confident that our ability to generate free cash flow from operations will provide the necessary flexibility to fund cash income taxes following the transition period from a trust to a traditional corporate structure. Our strong business fundamentals and solid capital structure position us well to continue to maximize returns to our unitholders.

10  
million unique  
visitors monthly

340  
directories

420,000  
advertisers



The decision to increase cash distributions by 3.7% in November, effective on December 17, 2007 to an annualized level of \$1.13 per unit, confirms our expectation of continuing strong momentum in operating performance in 2008.

### Thank You to Our Employees

Our operations remain strong thanks to the hard work and ingenuity of our employees and their relentless focus on our customers. As an organization, we also work hard to reward and recognize our employees for their efforts.

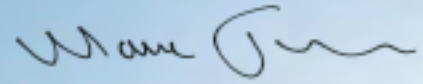
For the second consecutive year, we have been named one of the Top 100 Employers in Canada and one of the Top 15 Employers in Montreal. We have also earned the fifth place on the 2007 list of Canada's 10 Most Admired Corporate Cultures™, moving up the list significantly from our 10<sup>th</sup> place ranking in 2006. These awards reflect the value we place on our employees and our commitment to being an employer of choice in the communities in which we serve.

### A Leading Destination to Find

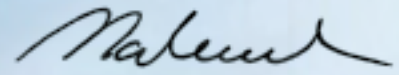
Our success going forward, and our ability to maintain our leadership status, will continue to be predicated on our capacity to bring buyers and sellers together. It is in this sense that "find" so accurately portrays the nature of our business.

Making our directories and online properties not just "search" engines but useful and relevant tools that let our users "find" what they seek. And "find" also speaks to the ways in which we approach our relationship with our advertisers. We work to help them find the optimal mix of media that draws their customers to them. And thus we help them find their own success.

We will remember 2007 as the year in which we thanked our loyal customers and dedicated employees for helping us to reach our centennial milestone. We will approach the challenges and rewards of 2008 confident their support will help us write yet more chapters in the YPG success story.



Marc P. Tellier  
President and Chief Executive Officer



Marc L. Reisch  
Chairman of the Board



# The Find Engine™



**Yellow Pages™**