

TM



Yellow Pages
Income Fund™

Path to Conversion From a Trust to a Corporation - Backgrounder

Investor Marketing
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Corporate Conversion Considerations

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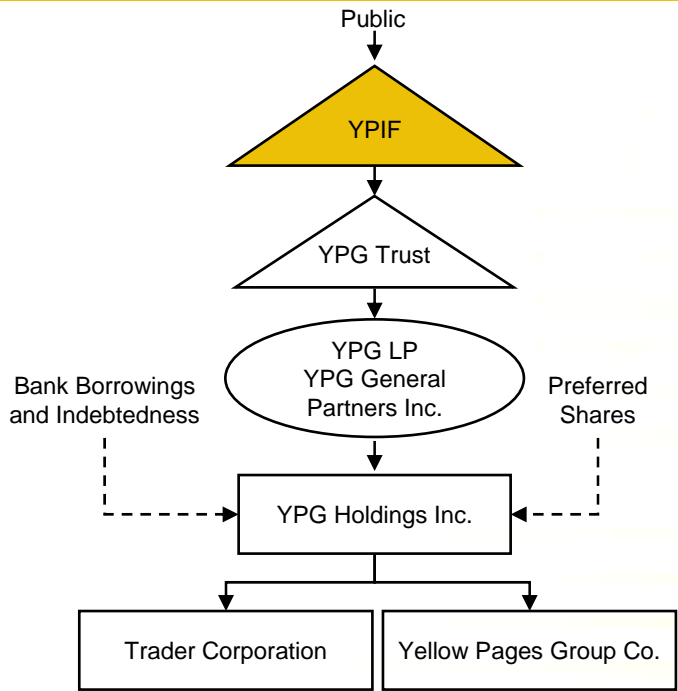
This document contains forward-looking statements about the objectives, strategies, financial condition, results of operations and businesses of YPG. These statements are considered “forward-looking” because they are based on current expectations about our business and the markets we operate in, and on various estimates and assumptions. Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statements will materialize. Forward-looking statements do not take into account the effect that transactions or non-recurring items announced or occurring after the statements are made may have on our business. We disclaim any intention or obligation to update any forward-looking statements, except as required by law, even if new information becomes available through future events or for any other reason.

Risk that could cause our actual results to differ materially from our current expectations are discussed in section 7 of our 2009 Management’s Discussion and Analysis. This document shall be read in connection with the 2009 Financial Statements and Management’s Discussion and Analysis.

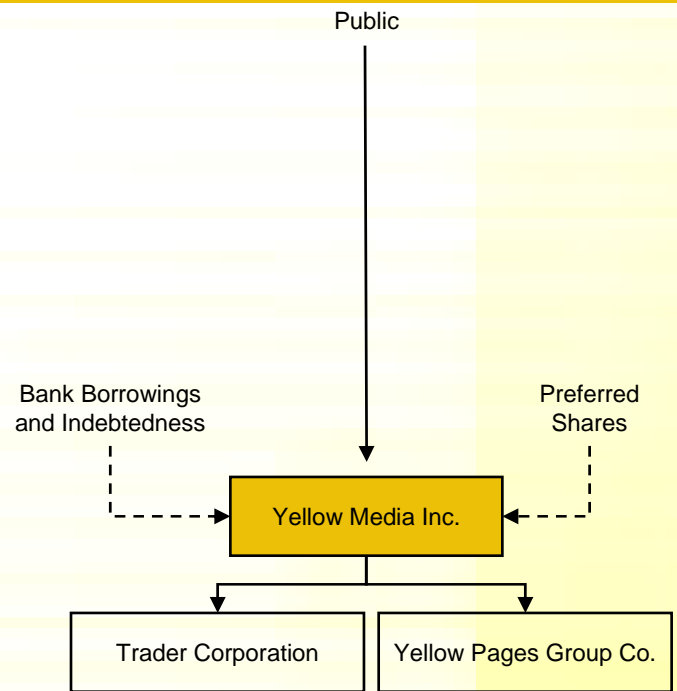
1. New Corporate Structure and Key Conversion Considerations

- The conversion from a Trust to a Corporate structure (“the Conversion”) will take place by the end of 2010 and will require the approval of Yellow Pages Income Fund (“the Fund” or “YPIF”) unitholders, as well as customary court and regulatory approvals
- A management information circular and proxy statement outlining the details of the Conversion will be mailed to YPIF unitholders by the end of March 2010
- The Conversion must be approved by no less than two-thirds of the votes cast by unitholders at the related unitholder meeting which will be held on May 6, 2010, concurrent to the Fund’s annual general meeting
- Post conversion, bank borrowings, commercial paper and medium term notes (commonly referred to “Bank Borrowings and Indebtedness”) along with common shares and preferred shares will reside at the level of Yellow Media Inc. (“the Company” or “the Surviving Entity”)

Current Structure



Post Conversion Structure



: Public entity

2. EPS and Cash EPS

- EPS is a GAAP measure while Cash EPS is a non-GAAP measure
- Cash EPS is defined as net earnings plus amortization of intangible assets (net of income taxes)
- Cash EPS excludes amortization of intangible assets given the non-cash nature of this expense
- Dividend payout after conversion will be calculated as a percentage of Cash EPS

For Illustrative Purposes Only - Cash EPS¹

(In millions of Canadian dollars, except per share amounts)

	<u>2009</u>
Net earnings (excluding impairment of goodwill)²	\$519

Net earnings	\$519
Amortization	122
Impact of income taxes on amortization ³	(33)
Cash earnings	\$608

EPS	\$1.02
Amortization	\$0.24
Impact of income taxes on amortization	(\$0.07)
Cash EPS	\$1.19

Net impact of \$0.17 {

¹ In this table, Cash EPS calculation is presented for illustrative purposes only. Given that in 2009 YPIF was operating under an Income Fund structure, the Cash EPS presented is not a valid representation of Cash EPS post conversion

² The Fund's 2009 reported net earnings included a goodwill impairment charge of \$315 million

³ Calculated using 2012 effective tax rate assumption (see section 5. Income Taxes) given this is the best estimate of the applicable future income tax rate

3. Depreciation and Amortization

- Over the next three years, depreciation and amortization expenses are expected to be as follows:

Depreciation & Amortization Expense				
<i>(In millions of Canadian dollars, except per share data)</i>				
	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	
Depreciation	\$17	\$15	\$13	
Amortization	100	90	60	
Total	\$117	\$105	\$73	

For Cash EPS purposes →	Amortization per share	\$0.20	\$0.18	\$0.12
	Amortization per share (net of income taxes)	\$0.14	\$0.13	\$0.09
	<i>Assumed weighted average shares outstanding</i>	510.7	510.7	510.7

- The above guidance considers the following elements:
 - The expected depreciation and amortization which will be generated from our current asset base
 - The additional depreciation and amortization expected from assets under development when they become available for use
 - The depreciation and amortization generated from our expected capital expenditures for 2010 and 2011 (see section 4. Capital Expenditures)

4. Capital Expenditures

- Post conversion to a corporation, Yellow Media Inc. will redefine its capital expenditures classification (new initiatives, transition, maintenance, leasehold improvements) and will present capital expenditures as growth and sustaining capital expenditures

Capital Expenditures					
<i>(In millions of Canadian dollars)</i>					
	2009A	2010E		2009A	2010E
New initiatives	\$22	\$25	→	Growth capital expenditures	\$22 \$25
Transition capital	8	5-10	→	Sustaining capital expenditures	24 25-30
Maintenance	14	15			
Leasehold improvements (Net of lease inducements)	2	5			
Total capital expenditures	\$46	\$50-\$55		Total capital expenditures	\$46 \$50-\$55
Adjustment to reflect expenditures on a cash basis	(2)	-			
Acquisition of fixed assets, net of lease inducements	\$44	\$50-\$55			

- Preliminary capital expenditures guidance for 2011 includes \$25-\$35 million of growth capital expenditures and \$15 million of sustaining capital expenditures

5. Income Taxes

- Post conversion, Yellow Media Inc.'s income taxes will increase given the Company will no longer benefit from intercompany interest income earned in non-taxable entities, which amounted to \$136 million in 2009. As such, most of the earnings of the Corporation will be taxable at the Company level
- The following tables present key income tax assumptions which should be applicable post conversion

Income Statement	Provision for Income Taxes	
	2011E	2012E
<ul style="list-style-type: none"> • Effective tax rate assumptions¹ 	~28%	~27%

- The effective tax rate should be applied to earnings before income taxes and before dividends on preferred shares, Series 1, 2, 3 and 5 given these dividends are not deductible when calculating applicable taxable income

Cash Flow	Cash Taxes		
	2010E	2011E	2012E
<p><i>(In millions of Canadian dollars)</i></p> <ul style="list-style-type: none"> • Cash outflows expected from income taxes 	\$15	\$60	\$355
	As an Income Trust	As a Corporation	

- From a cash flow perspective, the Company is expected to begin paying normalized cash taxes starting in 2013

¹ Compared to expected combined Canadian federal and provincial statutory tax rates of 28.4% for 2011 and 26.9% for 2012

6. Distributable Cash vs. Free Cash Flow

- Free cash flow is equal to cash flow from operating activities less acquisition of fixed assets as reported in the Company's consolidated financial statements
- The main differences between free cash flow and distributable cash calculations are:
 - Inclusion of all capital expenditures as opposed to only maintenance capital expenditures
 - Inclusion of changes in working capital while excluded from distributable cash
 - Inclusion of restructuring and special charges while excluded from distributable cash

Distributable Cash		Free Cash Flow		
<i>(In millions of Canadian dollars)</i>		<i>(In millions of Canadian dollars)</i>		
Previous Methodology	2009		2009	
	EBITDA	\$893	Net earnings	\$204
	Maintenance capital expenditures	(14)	Depreciation and amortization	142
	Interest	(142)	Impairment of goodwill	315
	Dividends on preferred shares	(22)	Other non-cash expense and other items	29
	(1)	Change in operating assets and liabilities	60	
	\$714	Cash flow from operating activities	\$750	
Current Methodology	Cash flow from operating activities	\$750	Acquisition of fixed assets	(44)
	Operating non-cash items	(17)		
	Change in operating assets and liabilities	(60)		
	Maintenance capital expenditures	(14)		
	Restructuring and special charges	40		
	Other	15		
Distributable cash	\$714	Free cash flow	\$706	

From cash flow statement

7. Accounting Treatment of Preferred Shares

- Preferred shares, Series 1, 2, 3 and 5 are currently treated differently given their specific features:

Preferred Shares	Features for Accounting Purposes	Accounting Treatment	Dividend Treatment	Credit Agency Treatment	
				S&P	DBRS
Series 1 and 2	Retractable for cash at the holder's option	Debt	Financial charges	100% Debt	100% Equity
Series 3 and 5	Redeemable solely at the issuer's option and issued by YPG Holdings Inc., a subsidiary of YPIF	Non-controlling interest	Non-controlling interest expense	50% Debt / 50% Equity	100% Equity

- Post conversion, presentation of Series 1 and 2 will remain as described above
- Preferred shares, Series 3 and 5 will be reclassified from non-controlling interest to shareholders' equity
- Dividends on Series 3 and 5 will no longer be included in net earnings but will enter in the EPS and Cash EPS calculation

	Current		Post Conversion	
Balance Sheet	<i>(In millions of Canadian dollars)</i>		<i>(In millions of Canadian dollars)</i>	
	Current liabilities	\$386	Current liabilities	\$386
	Long-term debt	2,310	Long-term debt	2,310
	Other	225	Other	225
	Preferred shares (series 1 and 2)	473	Preferred shares (series 1 and 2)	473
	Non-controlling interest (pref. series 3 and 5)	324	Shareholders' equity	\$5,549
	Unitholders' equity	\$5,225		
Income Statement	EBIT	\$396	EBIT	\$396
	Financial charges, net	(115)	Financial charges, net	(115)
	Preferred shares dividend (series 1 and 2)	(22)	Preferred shares dividend (series 1 and 2)	(22)
	EBT	\$259	EBT	\$259
	Provision for income taxes	(43)	Provision for income taxes	(43)
	Share of losses from equity investees	(7)	Share of losses from equity investees	(7)
	Non-controlling interest related to investments	(1)	Non-controlling interest related to investments	(1)
	Dividends on preferred shares (series 3 and 5)	(4)	Net earnings	\$208
	Net earnings	\$204	Dividends on preferred shares (series 3 and 5)	(4)
		Net earnings applicable to common shares	\$204	

8. Key Pension Considerations

■ General Information

- Effective January 1, 2006, the defined benefit plan has been closed and new employees participate to a defined contribution plan
- The YPG Pension Plan has approximately 3,400 members under the defined benefit component of the plan
 - 27% are pensioners or survivors
- As at December 31, 2009, the plan assets totalled \$401 million
 - Invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities
 - Rate of return on assets for 2009 was 16.4% compared to a negative return of 13.8% in 2008

■ Actuarial Valuation

- December 31, 2008: most recent actuarial valuation of the YPG Pension Plan for funding purposes
 - Valuation disclosed a funding surplus of \$25 million
 - Valuation disclosed a solvency surplus of \$22 million
 - YPG had a contribution holiday up until 2009
 - For 2010, in the context of new pension regulations enacted in 2009, the Fund will have to make annual contributions for an amount equivalent to the current service contributions (approximately \$10 million) for the defined benefit plans

■ Pension Expense

- From an accounting perspective, total net benefit plan costs for the defined benefit plan represented \$13.7 million in 2009
 - Representing approximately 2% of the consolidated EBITDA for the year
 - Based on market as at December 31, 2009, a \$2 million increase is expected for 2010