



**WE STARTED 2010 AS A  
SOLID COMPANY WITH STRONG  
BUSINESS FUNDAMENTALS  
AND WELL POSITIONED  
FOR FUTURE GROWTH.**

**MARC P. TELLIER**  
President and Chief Executive Officer

## MESSAGE TO OUR UNITHOLDERS

In the face of an uncertain economic environment, Yellow Pages Group (YPG) started 2010 as a solid company with strong business fundamentals and well positioned for future growth.

During 2009, we remained focused on delivering operational excellence, concentrating on what we could control and on our strategic imperatives. We made the necessary adjustments to adapt to challenging market conditions. We have maintained best-in-class performance metrics and outperformed most of our peers in directories and, more broadly, in the media industry.

We have been successful in proving that our directories business is resilient, even in tough economic times. In 2009, we continued to invest in market coverage, new product introduction as well as in technology, putting us in a better position to capitalize on growth opportunities as the economy recovers.

The economic downturn has had a greater impact at Trader. We dedicated time and resources to cost-containment and the completion of restructuring initiatives. Our team remained energized and focused on the deployment of Dealer Smart Solutions, an integrated, cost-effective solution for automotive dealers that has been instrumental in our repositioning of the business online.

For 2009, our consolidated Adjusted Revenues reached \$1.65 billion compared to \$1.7 billion in 2008. Online revenues represented the most significant lever of growth for both platforms through increased penetration of our offerings and the introduction of new products. For the year ended December 31, 2009, online revenues reached \$304 million, representing organic growth of 24 per cent.

Adjusted EBITDA for the year was \$898 million compared to \$931 million in 2008. Decisive actions to control expenditures across the entire company have translated into continuing high EBITDA conversion. The Adjusted EBITDA margin was 54.4 per cent at year end.

The ongoing resilience of the directories business, combined with cost-containment measures translated

into distributable cash of \$714 million in 2009 compared to \$751 million in 2008. Distributable cash per unit amounted to \$1.40 in 2009 compared to \$1.43 in 2008.

While managing our business with prudence throughout the year, we developed and executed a plan to strengthen our capital structure and prepare for the conversion from an income trust to a traditional corporation, which will take place by the end of 2010.

### EXECUTING OUR STRATEGY

Consistent with our objective to improve our value proposition to advertisers, we continued to expand our product offering to provide them with high quality leads through compelling multimedia bundles. The successful introduction of our integrated bundles to new market and customer segments contributed to meeting their needs for new online products while driving strong internet revenue growth.

The Enhanced Directory Plus bundle, the Showcase bundle and our online video product, Profile Plus - all launched in 2008 - continued to show great momentum in 2009. These products provide advertisers with print and online visibility, coupled with increased advertising exposure through video, additional business information on their profile page and Google Adwords™.

Customer First remains a key priority to improve the customer experience. In 2009, we improved our automated client information tools and invested in technology to support new sales and operations functions. These investments are aimed at driving productivity and reducing operating costs across the company.

In addition to increasing productivity, we have made significant progress in growing the role of our sales representative into that of a trusted media advisor. We continued to provide our Media Account Consultants with the right tools, new powerful applications and appropriate training so that they efficiently focus on selling the right solutions to small and medium-sized enterprises (SME), now more and more inclusive of online performance products.

# WE ARE BUILDING THE NECESSARY PLATFORMS TO ENSURE WE EMERGE AS THE UNDISPUTED LEADER IN LOCAL COMMERCIAL SEARCH.



As consumers increasingly turn to the web to find local businesses, digital and online media spending over the next five years is expected to grow at a healthy rate. We intend to tap into this high growth market and help our advertisers optimize their local media spending by extending our services to include Search Engine Marketing as part of our full service offering.

The strategic agreement we concluded in October with Marchex Inc., a leader in local search and performance platforms, represents the first step for YPG in the field of Search Engine Marketing and, overall, performance marketing. This partnership will allow us to provide simple, local, online performance-based advertising products and services to Canadian SMEs starting in the first quarter of 2010.

## EVOLVING WITH CONSUMER NEEDS

With the acceleration of technological change in recent years, consumers are increasingly embracing new media and methods of communications. In order to maintain our best-in-class product offering, we are positioning ourselves where our advertisers and consumers expect us to be – a step ahead of their evolving needs.

To address these needs, we have notably accelerated the pace at which we add features and functionalities to our leading online directory, YellowPages.ca™. In 2009, we launched several new features aimed at improving the user experience, while providing compelling and relevant advertising opportunities to businesses. Key areas of improvement include geo-relevant results based on merchants closest to the user's location, interactive mapping functions, and



additional options for users to refine their search. Businesses now also benefit from an optimized profile page with improved information organization.

Given the nature of our business, mobile applications hold tremendous potential for future growth – especially as consumers increasingly turn to their mobile device for fast, relevant, and local information. Mobile communication represents the next opportunity in terms of access to our products and services. We are determined to make the right investments to ensure that we emerge as the leading provider of local mobile search capabilities.

We have successfully introduced mobile search applications for users of BlackBerry®, Google Android™ and iPhone™ smart phones. These applications provide user-friendly tools to search for local businesses from mobile devices. Users have full access to merchant content, including video as well as business, person and reverse phone number look-ups. New features include local proximity-based searches using GPS and maps, as well as specialized saving and sharing capabilities.

We are seeing tremendous success with our mobile applications. At the end of 2009, the iPhone and Blackberry apps had been downloaded more than 650,000 times.

Our assets are unique. In 2009, we made significant progress in leveraging our capabilities to provide value to our advertisers and users alike. We are building the necessary platforms to ensure we emerge as the undisputed leader in local commercial search. Overall, our strengths are deep-seated and varied, supporting a business that is well equipped for sustained growth.

## TRANSFORMING TRADER CORPORATION

The impact of the recession was most seriously felt at Trader, requiring some necessary cost-containment initiatives to adapt to the challenging economic environment. Despite these difficult decisions, we continued to invest in new technology to support our strategy of creating a national sales platform, automating our back-office processes, and consolidating our production and call centre activities.

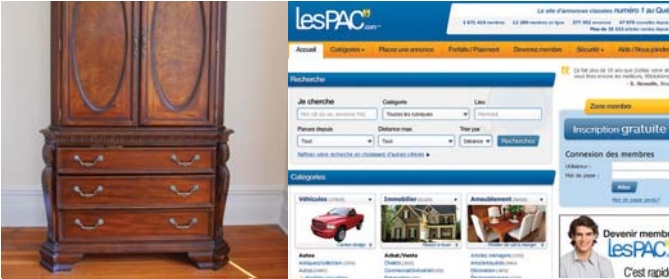
From its early beginnings as a traditional print business, Trader has undergone a significant transformation, culminating in 2009 with the successful roll-out of our Dealer Smart Solutions. This represents a critical step for Trader, serving as a springboard for our migration to online and marking the expansion of our business model into a comprehensive, end-to-end commercial solution.

Dealer Smart Solutions provides dealers with a full spectrum of services including content capture, inventory management, website presence, marketing campaign management, as well as monitoring and tracking tools. It allows dealers to measure the effectiveness of their marketing campaigns, demonstrating the return on investment so they can in turn optimize their advertising budget allocation.

The rollout of Dealer Smart Solutions was completed in the latter part of 2009 and provided an immediate contribution to revenue. We expect to continue leveraging this solution and its different components in 2010.

In the first quarter of 2009, we launched HomeTrader.ca, our national online real estate platform. Initially, the platform targeted the rental, new home and condo market, and was recently expanded to include re-sale homes as well.

# OUR BUSINESS FUNDAMENTALS ARE SOLID AND WE HAVE A STRONG CAPITAL STRUCTURE TO SUPPORT OUR BUSINESS IN THE LONG TERM.



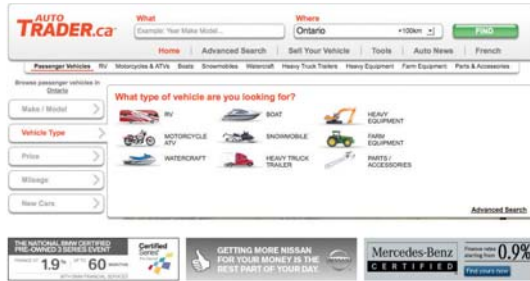
HomeTrader.ca features innovative capabilities such as interactive mapping with geo-targeted listings based on the user's location. It provides location of neighbourhood amenities and services near each home listing, powered by YellowPages.ca™. It also features options to yield more relevant results, editorial content including expert advice and tips, as well as save and share features to send search results to friends.

In the generalist vertical, Trader took full ownership of LesPAC, Quebec's number one classified advertising website. LesPAC revamped its site to improve the user experience and introduce video capability for consumers to showcase their items on sale. LesPAC remains one of Quebec's most popular and visited Internet sites reaching approximately 2 million unique visitors monthly, with a new ad posted by consumers every 12 seconds.

Trader also made a number of enhancements to its popular AutoTrader.ca™ website that attracts some two million unique visitors every month. The company redesigned the site's home page and optimized its search capabilities. An upgraded search engine was introduced in test format in late 2009 and improvements will continue into 2010.

The progress accomplished at Trader during 2009 should position the business for growth as the economy recovers.





### STRENGTHENING OUR CAPITAL STRUCTURE

Early in 2009, we established an objective to achieve a stronger capital structure as we transition from an income trust to a traditional corporate structure. In 2009, we raised more than \$1.25 billion in the fixed-income and equity capital markets through a series of very successful financing initiatives. These decisive actions have allowed us to fully pay down bank borrowings and extend the average term of our indebtedness. At year-end 2009, the net debt to adjusted EBITDA ratio stood at 2.5 times compared to 2.9 times at the end of 2008 and we expect it to further improve by the end of 2010.

As we have communicated on several occasions, we have carefully planned and implemented our path to conversion from an income trust to a corporation over the past quarters. With that in mind, we made the decision to reduce our annual cash distributions per unit from \$1.17 in 2008 to \$0.80 in May 2009. This precautionary measure was adopted in the best long-term interest of all our stakeholders. The decision to reduce the level of our payout helped us secure additional financial flexibility and strengthen our capital structure while still providing an attractive source of recurring income for our investors. We have since then affirmed our intention to maintain cash distributions of \$0.80 per unit annually until December 2010.

Above and beyond the conversion process, we remain committed to protecting our investment grade credit ratings and to diversifying our sources of funding.

### EMBRACING THE FUTURE

There is no doubt that 2009 was a challenging year. However, we have been facing headwinds with conviction, confident that our business fundamentals are solid and that we have a strong capital structure to support our business in the long term.

Our objectives are clear moving forward: we will develop our local search capabilities and invest in acquiring relevant, local content for our properties; we will enhance the online and mobile consumer experience; and we will help businesses build successful marketing and lead-generation programs.

We stand on solid foundations on which to continue to grow the business. We have long-lasting relationships with hundreds of thousands of small and medium-sized enterprises from coast to coast. We own rich local content offered under strong, trusted brands. And, above all, we have a workforce committed to compete, committed to win.

All good reasons for us to embrace 2010 with confidence.

**MARC L. REISCH**  
Chairman  
of the Board

**MARC P. TELLIER**  
President and  
Chief Executive Officer