

Audit Committee Report

Summary of the role of the Audit Committee

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Group. The Audit Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is responsible for:

- > monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- > reviewing the Group's internal financial controls and the Group's internal control and risk management systems, including consideration of the need for an internal audit function;
- > making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meeting, on the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;
- > reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- > developing and implementing a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

Composition of the Audit Committee

The members of the Audit Committee are:

Mark Richardson (Chairman)
Tim Clark
Jonathan Short

Membership of the Committee is reviewed by the Chairman of the Committee and the Executive Chairman, who is not a member of the Audit Committee, at regular intervals and they recommend new appointments to the Nominations Committee for onward recommendation to the Board. Mark Richardson and Tim Clark were appointed to the Committee during the year. David White and David Ross stepped down from the Committee on their resignation from the Board. Mark Richardson replaced David White as the Committee Chairman.

The Audit Committee structure requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). Currently Mark Richardson, as a Fellow of the Institute of Chartered Accountants of England and Wales, fulfils this requirement. All Audit Committee members are expected to be financially literate.

The Group provides an induction programme for new Audit Committee members and on-going training to enable all of the Committee members to carry out their duties. The induction programme covers the role of the Audit Committee, its terms of reference and expected time commitment by members and an overview of the Group's business, including the main business and financial dynamics and risks. New Committee members also meet some of the Group's staff. On-going training includes attendance at formal conferences, internal company seminars and briefings by external advisers.

The Board expects the Audit Committee members to have an understanding of:

- > the principles of, contents of, and developments in financial reporting including the applicable accounting standards and statements of recommended practice;
- > key aspects of the Group's operations including corporate policies, Group financing, products and systems of internal control;
- > matters that influence or distort the presentation of accounts and key figures;
- > the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- > the role of external auditing and risk management;
- > the regulatory framework for the Group's businesses; and
- > environmental and social responsibility best reporting practices.

The Committee have reviewed the arrangements for "whistleblowing" by employees to ensure that there is a consistent policy in the Group to enable employees to voice concerns particularly in respect of possible financial reporting improprieties. A whistleblowing policy is included in the employee handbook.

The terms of reference of the Committee are available on the Company's website bigyellow.co.uk.

Meetings

The Audit Committee is required to meet three times per year and has an agenda linked to events in the Group's financial calendar. The agenda is predominantly cyclical and is therefore approved by the Audit Committee Chairman on behalf of his or her fellow members. Each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee invites the Chief Executive, Chief Financial Officer, Financial Controller, and senior representatives of the external auditors to attend all of its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior management are invited to present such reports as are required for the Committee to discharge its duties.

Audit Committee Report (continued)

Overview of the actions taken by the Audit Committee to discharge its duties

Since the beginning of the financial year the Audit Committee has:

- > reviewed the March 2008 report and financial statements, the September 2008 half-yearly report and the trading updates issued in July and January. As part of this review the Committee received a report from the external auditors on their audit of the annual report and financial statements and review of the half-yearly report;
- > considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- > reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements on this matter;
- > reviewed and agreed the scope of the audit work to be undertaken by the auditors;
- > considered a report from the external auditors on their review of the effectiveness of controls across the Group;
- > agreed the fees to be paid to the external auditors for their audit of the March 2009 financial statements and September half-yearly report;
- > undertaken an assessment of the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process. This included consideration of a report on the audit firm's own quality control procedures and the audit firm's annual transparency report;
- > assessed the risks associated with the possible withdrawal of the external auditor from the market;
- > met the Group's external valuers;
- > undertaken an evaluation of the performance of the external auditors; and
- > reviewed its own effectiveness.

External auditors

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day to day responsibility to the Chief Financial Officer. The policy states that the external auditors are jointly responsible to the Board and the Audit Committee and that the Audit Committee is the primary contact.

The Group's policy on external audit sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the Group, subject to de minimis levels.

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee reviewed:

- > the changes in key external audit staff in the external auditors' plan for the current year;
- > the arrangements for day-to-day management of the audit relationship;
- > a report identifying the number of former external audit staff now employed by the Group and their positions within the Group;
- > a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest; and
- > the overall extent of non-audit services provided by the external auditors, in addition to their case-by-case approval of the position of non-audit services by the external auditors.

To assess the effectiveness of the external auditors, the Audit Committee reviewed:

- > the arrangements for ensuring the external auditors' independence and objectivity;
- > the external auditors' fulfilment of the agreed audit plan and variations from the plan;
- > the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements; and
- > the content of the external auditors' comments on control improvement recommendations.

Regard is paid to the nature of, and remuneration received, for other services provided by Deloitte LLP to the Group and, inter alia, confirmation is sought from them that the fee payable for the annual audit is adequate to enable them to perform their obligations in accordance with the scope of the audit.

In respect of the year ended 31 March 2009, the auditors' remuneration comprised £142,000 for audit work and £146,000 for other work, principally relating to corporation tax work.

As part of this year's decision to recommend the re-appointment of the auditors, the audit committee has taken into account the tenure of the auditors and the need to consider at least every five years whether there should be a full tender process. There are no contractual obligations that act to restrict the audit committee's choice of external auditors.

As a consequence of its satisfaction with the results of the activities outlined above, the Audit Committee has recommended to the Board that the external auditors are re-appointed.

Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditors.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the committee.

Approved by the Audit Committee and signed on its behalf by

Mark Richardson

Audit Committee Chairman

15 May 2009