

DS Smith Plc

AUDIT COMMITTEE – Terms of Reference

As approved by the Board of Directors of DS Smith Plc on 24 June 2008

Membership

1. The Board shall appoint an Audit Committee. All members of the Committee shall be independent non-Executive Directors of the Company. The Committee shall consist of not less than three members. At least one member shall have significant recent and relevant financial experience. A quorum shall be two members.
2. The Chairman of the Committee shall be appointed by the Board from amongst the independent non-Executive Directors.
3. The Company Secretary shall be the Secretary of the Committee.

Attendance at Meetings

4. The Chairman of the Board, the Group Chief Executive, the Group Finance Director, other Directors, the Head of Operational Audit, representatives from the Company's external auditors, members of the Company's management and external advisors may attend meetings in whole or in part if invited by the Committee.
5. There should be at least one meeting a year, or part thereof, where the external auditors attend without management present, and similarly, where the Head of Operational Audit attends without management present.

Frequency of Meetings

6. Meetings shall be held not less than three times a year, and where appropriate should coincide with key dates in the Company's financial reporting cycle.
7. External auditors or internal auditors may request a meeting if they consider that one is necessary.

Authority

8. The Board has delegated its powers, authorities and discretions to the Audit Committee in accordance with these Terms of Reference, plus any other relevant matters referred to it by the Board. In carrying out its duties, the Committee will have due regard to the Principles of Governance and Code of Best Practice published in the 'Combined Code'.

9. The Committee is specifically authorised by the Board to:
 - a. investigate any activity within its Terms of Reference;
 - b. seek any information that it requires from any employee of the Company and all employees are directed to co-operate with any request made by the Committee; and
 - c. obtain outside legal or independent professional advice as necessary.

Responsibilities and Duties

10. The responsibilities of the Committee shall be:

10.1 External Audit

- a. to oversee the Company's relations with the external auditor;
- b. to consider and make recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- c. to review and approve the terms of engagement and the remuneration to be paid to the external auditor in respect of audit and non-audit services provided and make recommendations accordingly to the Board;
- d. to assess the qualifications, expertise, resources, effectiveness, independence and objectivity of the external auditors annually;
- e. to discuss with the external auditor, before the audit commences, the nature and scope of the audit;
- f. to review with the external auditors the findings of their work;
- g. to review the audit representation letters before consideration by the Board;
- h. to assess at the end of the audit cycle, the effectiveness of the auditors and the audit process;
- i. to review and monitor the content of the external auditor's management letter and management's response to the findings of the audit and any significant recommendations made by the external auditors; and
- j. to develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the auditor, and ensure that the

provision of such services does not impair the external auditor's independence or objectivity.

10.2 Internal Audit

- a. to review and approve the internal audit function's terms of reference and programme, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- b. to review the results of internal audit work and to consider management's response to any significant internal audit recommendations;
- c. to monitor and review the effectiveness of the internal audit function; and
- d. to approve the appointment, dismissal or re-assignment of the Head of Internal Audit.
- e. The Chairman of the Audit Committee shall meet privately with the Head of Internal Audit not less than twice a year. In the interests of independence and objectivity, while the Head of Internal Audit reports on a day-to-day basis to the Group Finance Director, he is responsible to the Chairman of the Audit Committee to fulfil those parts of the Audit Committee's Terms of Reference which relate to Internal Audit, and has free access to the Chairman of the Audit Committee and to the Chairman of the Board at all times.

10.3 Internal Control and Risk Management

- a. to review management's and the internal auditor's reports on the effectiveness of the systems:

for internal financial control,
for financial reporting,
for identifying, assessing and managing all aspects of risk;
- b. to monitor the integrity of the Company's internal financial controls;
- c. to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks. The Board retains overall responsibility for the review of the effectiveness of the system of internal control and risk management;
- d. to review the Company's procedures for detecting fraud and for handling allegations from persons reporting workplace malpractice; and

- e. to advise the Board of the Committee's conclusions with regard to the matters above.

10.4 Internal and External Reporting

- a. to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- b. to review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management; and
- c. to review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements, operating and financial review, preliminary announcements and related formal statements before submission to the Board, paying particular attention to:
 - i. critical accounting policies and practices, and any changes in them
 - ii. decisions requiring a major element of judgement
 - iii. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
 - iv. the clarity of disclosures
 - v. significant adjustments resulting from the audit
 - vi. the going concern assumption
 - vii. compliance with accounting standards
 - viii. compliance with stock exchange and other legal requirements
 - ix. the Company's statement on internal control and risk management prior to endorsement by the Board.

10.5 Other

- a. to consider other matters as required by the Board.

Reporting Procedures

- 11. The Secretary of the Committee shall circulate the minutes of meetings of the Committee to all members of the Board.
- 12. The Chairman of the Committee or, as a minimum, another member of the Committee, shall report any matters of significance arising from the proceedings of the Committee at a subsequent Board meeting.

13. The Chairman of the Committee or, as a minimum, another member of the Committee, shall attend the Board meeting at which the accounts are approved.
14. The Committee members shall conduct an annual review of their work and these Terms of Reference and make recommendations to the Board.
15. The Committee's duties and activities during the year shall be disclosed in the annual financial statements.
16. The Chairman of the Committee shall attend the Annual General Meeting and shall answer questions, through the Chairman of the Board, on the Audit Committee's activities and their responsibilities.