



## **NOMINATING AND CORPORATE GOVERNANCE GUIDELINES**

The Nominating and Corporate Governance Guidelines (the “Guidelines”) have been adopted by the Board of Directors of Polymer Group, Inc. (“PGI” or the “Company”), acting on the recommendation of its Nominating and Corporate Governance Committee, to assist the Board of Directors (the “Board”) and its committees in the exercise of their responsibilities. These principles and policies are in addition to and are not intended to change or interpret any Federal or state law or regulation, including the Delaware General Corporation law, or the Certificate of Incorporation or By-laws of the Company. The Board will review these Guidelines at least annually and, if appropriate, revise these Guidelines from time to time.

### **I. Classification and Definition of Directors**

The principal classifications of directors on the Board are as follows:

A “Management Director” includes both present and former employees of the company who serve on the Board.

An “Independent Director” is an individual who qualifies as “independent” in accordance with the applicable provisions of the Securities Exchange Act of 1934, and the rules promulgated thereunder, and the applicable rules of the New York Stock Exchange, Inc. (“NYSE”). No director will qualify as “independent” unless the Board has determined that such director does not have a material relationship with PGI.

Management Directors shall not serve on the Nominating and Corporate Governance, Compensation or Audit Committees of the Board.

### **II. Size and Composition of the Board**

It is the sense of the Board that a range of seven to nine directors is appropriate. The Board should be diverse, engaged and independent.

#### One-Year Terms

Directors shall be elected at the annual meeting of shareholders for a one-year term, to serve until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as provided in the Company’s By-laws.

If a director is elected between annual meetings of shareholders, the initial term of any such director shall expire at the next annual meeting of shareholders and such director shall serve until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as provided in the Company's By-laws.

#### Change of Status

Any director whose principal occupation substantially changes following his or her initial election or re-election as a director of this Company should promptly notify the Nominating and Governance Committee of such change and submit a letter offering to resign from the PGI Board at the pleasure of the Committee. The Committee will, after consultation with the Chief Executive Officer, recommend to the Board whether such director should be asked to resign, to remain as a director, or to not stand for reelection at the next annual meeting, in order that a new candidate who meets the Committee's criteria for membership may join the Board without exceeding the desired maximum number of Board members.

#### No Term Limits

There is no limit on the number of one-year terms that a director may be re-elected to prior to his or her 72<sup>nd</sup> birthday. The Nominating and Governance Committee believes that much of the knowledge of the Company's operations, management and business is cumulative, and so long as a director is deemed by the Committee to meet the criteria for Board service, there shall be no limit on the number of terms that a director may be re-elected except for age.

#### Director Retirements

A director shall not be eligible for re-election after his or her 72<sup>nd</sup> birthday.

Any director who has held the office of Chief Executive Officer of the Company shall retire from the Board of Directors effective upon his or her resignation as Chief Executive Officer unless requested by the Independent Directors to continue to serve as a director for a transitional term.

Other than a former Chief Executive Officer, a director who is a current or former employee shall not be eligible for election or re-election as a director of the Company after attaining his or her 65<sup>th</sup> birthday.

#### Attendance at meetings of Shareholders

The Board of Directors encourages all of its members to attend the Annual Meeting of Shareholders.

#### Membership on other Boards

There shall be no pre-determined limitation on the number of other boards of directors on which directors of the Company may serve, although no director should serve on more

than two other corporate audit committees. The Board expects individual directors to use their judgment, in light of all other commitments, in accepting directorships of other corporations or charitable organizations and to allow sufficient time and attention to Company matters.

### **III. Director Qualifications**

A minimum of 3 directors shall be independent, non-Management Directors who meet the criteria for independence required by NYSE. In addition, any new directors must meet the independence requirement until a majority of Independent Directors has been achieved. There shall also be no more than two employee directors on the Board. Currently the Chief Executive Officer is the only Management Director. The Nominating and Governance Committee shall be responsible for reviewing the qualifications and independence of the members of the Board.

#### Independence Standards

An Independent Director is one whom the Board affirmatively determines has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). The Board has adopted the following categorical standards to assist it in the determination of each director's independence. The Board will determine the independence of any director with a relationship to the Company that is not covered by these standards and the Company will disclose such determinations and the identity of all directors who have been determined to be independent in the Company's annual proxy statements.

A director will be presumed to be independent if the director:

1. Has not been an employee of the Company for at least three years, other than in the capacity as a former interim Chairman, Chief Executive Officer or other executive officer;
2. Has not, within the past three years, worked on the Company's audit as a partner or employee of a firm that is the Company's internal or external auditor, and is not a current partner or employee of such a firm;
3. Has not, during the last three years, been employed as an executive officer by a company for which an executive officer of the Company concurrently served as a member of such company's compensation committee;
4. Has no immediate family members (i.e., spouse, parents, children, siblings, mothers and father-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares the director's home) who did not satisfy the foregoing criteria; provided, however, that with respect to the employment criteria, such director's immediate family member may (i) serve or have served as an employee other than a partner in a firm that is the Company's internal or external auditor, unless such family member has participated in the firm's audit, assurance or tax compliance (other than tax planning) practice within the past three years, or personally worked on the

Company's audit during that time; and (ii) serve or have served as an employee but not as an executive officer of the Company during such period;

5. Has not received, and has no immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the Company (other than in or her capacity as a member of the Board or any committee of the Board or pension or other deferred compensation for prior service, provided that such compensation is not contingent in any way upon continued service); provided, however, that neither compensation received by a director for former services as an interim Chairman or CEO or other executive officer nor compensation received by a director's immediate family member for service as a non-executive employee shall be considered in determining independence;
6. Is not a current executive officer or employee, and has no immediate family member who is a current executive officer, of a company that made payments to, or received payments from, the Company for property or services in any of the last three fiscal years in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues as measured against the most recent completed fiscal year;
7. Has not been, and has no immediate family member who has been, an executive officer of a foundation, university, non-profit trust or other charitable organization, for which charitable contributions from the Company and its respective trusts or foundations, account or accounted for more than the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues, in any single of the last three fiscal years, unless the Company discloses all contributions made to the recipient organization in its annual proxy statement; and
8. Does not serve, and has no immediate family member who has served, as an executive officer or general partner of an entity that has received an investment from the Company or any of its subsidiaries, unless such investment is less than \$1 million or 2% of such entity's total invested capital, whichever is greater, in any of the last three years.

#### Desirable Characteristics of Directors

##### 1. Personal Characteristics

- **Integrity and Accountability:** High ethical standards, integrity and strength of character in his or her personal and professional dealings and a willingness to act on and be accountable for his or her decisions.
- **Informed Judgment:** Demonstrate intelligence, wisdom and thoughtfulness in decision-making. Demonstrate a willingness to thoroughly discuss issues, ask questions, express reservations and voice dissent.

- **Financial Literacy:** An ability to read and understand balance sheets, income and cash flow statements. Understand financial ratios and other indices for evaluating Company performance.
- **Mature Confidence:** Assertive, responsible and supportive in dealing with others. Respect for others, openness to others' opinions and the willingness to listen.
- **High Standards:** History of achievements that reflect high standards for himself or herself and others.

## 2. Core Competencies \*

- **Accounting and Finance:** Experience in financial accounting and corporate finance, especially with respect to trends in debt and equity markets. Familiarity with internal financial controls.
- **Business Judgment:** Record of making good business decisions and evidence that duties as a director will be discharged in good faith and in a manner that is in the best interests of the Company.
- **Management:** Experience in corporate management. Understand management trends in general and in all areas in which the Company conducts its business.
- **Crisis Response:** Ability and time to perform during periods of both short-term and prolonged crisis.
- **Industry/Technology:** Unique experience and skills in an area in which the Company conducts its business including science, manufacturing and technology relevant to the Company.
- **International Markets:** Experience in global markets, international issues and foreign business practices.
- **Leadership:** Understand and possess skills and have a history of motivating high-performing, talented managers.
- **Strategy and Vision:** Skills and capacity to provide strategic insight and direction by encouraging innovations, conceptualizing key trends, evaluating strategic decisions, and challenging the Company to sharpen its vision.

\* The Board as a whole needs the core competencies represented by at least several directors

## **IV. Director Responsibilities**

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its

shareholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors.

In furtherance of its responsibilities, the Board will:

- Review, evaluate and approve, on a regular basis the strategy and long-range plans for the Company.
- Review, evaluate and approve the Company's budget and forecasts.
- Review, evaluate and approve major resource allocations and capital investments.
- Review the financial and operating results of the Company.
- Review, evaluate and approve the overall corporate organizational structure, the assignment of senior management responsibilities and plans for senior management development and succession.
- Review, evaluate and approve compensation strategy as it relates to senior management of the Company.
- Adopt, implement and monitor compliance with the Company's Code of Conduct.
- Review periodically the Company's corporate objectives and policies relating to social responsibility.

In order to insure the independent status of each non-Management Director, contacts with Company personnel by non-Management Directors on behalf of job seekers, vendors, developers, political candidates, charitable organizations, or the like, are discouraged. Exceptions to this policy should be vetted through the Chairperson of the Nominating and Corporate Governance Committee of the Board.

Directors must disclose to other directors any potential conflicts of interest they may have with respect to any matter under discussion and, if appropriate, refrain from voting on a matter in which they may have a conflict.

The Board currently plans at least four regular meetings each year, with additional meetings (or action by unanimous consent) at the discretion of the Board. Directors are encouraged to attend the regularly scheduled Board meetings in person, however, participation via telephone or teleconference is permitted.

## **V. Director Orientation and Education**

Management will provide new directors with an initial orientation in order to familiarize them with their responsibilities as directors under law and the NYSE Listing Standards, and with the Company and its strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Conduct, its senior management, and its internal and independent auditors.

In order to facilitate the directors' fulfillment of their responsibilities regarding continuing education and to enhance each director's knowledge of the Company, the Company's business operations and the latest developments in corporate governance, it is appropriate for management to provide directors with the following:

- Educational programs supplemental to the initial orientation to explain the Company's business operations including its technology, products and market position.
- Access to, or notice of, continuing educational programs that are designed to keep directors abreast of the latest developments in corporate governance matters and critical issues relating to the operation of public company boards.
- Material that contains information pertaining to (i) the Company's industry, and (ii) comparisons of the Company with its major competitors.
- Periodic visits to operating units, plants and laboratories, normally as part of regularly scheduled Board meetings.
- A legal review for the Board, at least annually, of (i) the status of major litigation, (ii) compliance with significant regulatory requirements affecting the Company and (iii) corporate governance matters.

## **VI. Board Compensation**

The Board or the Compensation Committee of the Board will determine and review the form and amount of directors' compensation, including cash, equity-based awards and other director compensation. In connection with such director compensation, the Board will be aware that questions may be raised when director's fees and benefits exceed what is customary. Similarly, the Board will be aware that the independence of directors could be questioned if substantial charitable contributions are made to organizations in which a director is affiliated or if the Company enters into consulting contracts with, or provides other indirect compensation to, a director. The Board will critically evaluate each of these matters when determining the form and amount of director compensation, and whether a director qualifies as independent.

Members of the Audit Committee of the Board shall receive no compensation from the Company other than fees for service as a member of the Board and any Committee of the Board.

Management Directors and affiliates of MatlinPatterson Global Advisers LLC are not entitled to receive any fees for their service on the Board of Directors. All other directors are reimbursed for out-of-pocket expenses incurred in connection with attending meetings. In addition, such other directors receive a yearly fee of \$60,000, \$1,000 for each Board of Directors meeting attended, and \$500 for each Committee meeting attended. At least \$10,000 of the yearly fee will be payable in shares of the Company's Class A Common Stock pursuant to the 2004 Restricted Stock Plan. As Chairman of the Board, Mr. Hewitt receives an additional yearly fee of \$20,000. The chairman of each of the Audit, Purchasing, Compensation, and Nominating and Corporate Governance Committees

receives a yearly fee of \$20,000, \$10,000, \$10,000, and \$10,000 respectively, for serving in such capacity.

## **VII. Board Access to Independent Advisors**

The Board, and to the extent set forth in the applicable committee charter, Board committees, have the right to consult and retain independent legal and other advisors at the expense of the Company.

The Board shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate and approve the fees and other retention terms of independent legal advisors, experts or consultants, as it deems appropriate, without seeking approval of management. The Company shall provide for appropriate funding, as determined by the Board, for payment of compensation to any such advisors, experts or consultants retained by the Board.

## **VIII. Board Access to Senior Management**

Board members have complete access to PGI's management and are encouraged to make regular contact. Board members shall coordinate such access with respect to matters relating to standing committees of the Board through the appropriate committee chair. Board members will use judgment to assure that this access is efficient and appropriate and not distracting to management and the business operation of the Company. Directors should refrain from giving strategic or operating direction to members of management outside the scope of full Board or committee responsibility and accountability.

## **IX. Board Interaction with Institutional Investors, Media, Customers, etc.**

The Board believes that the management and specifically, the Chief Executive Officer, and his designees, speak for PGI.

## **X. Board Committees**

The Board of Directors shall at all times maintain an Audit Committee, a Nominating and Corporate Governance Committee, and a Compensation Committee and may maintain an Executive Committee, all of which must operate in accordance with applicable law, their respective charters as adopted and amended from time to time by the Board, and the applicable rules of the Securities and Exchange Commission and NYSE. The Board may also establish such other committees as it deems appropriate and delegate to such committees such authority permitted by applicable law and the Company's By-laws as the Board sees fit.

## **XI. Assignment and Rotation of Committee Members**

The Nominating and Corporate Governance Committee, after consultation with the Chairman and Chief Executive Officer as the Committee may deem appropriate, shall recommend to the Board for approval, and the Board shall approve, all assignments of committee members, including designations of the chairs of the committees.

The Board believes that rotating Committee assignments on a fixed schedule should not be mandated as a policy, since there may be reasons at any given time to maintain an individual director's committee membership for a longer period.

## **XII. Committee Agendas**

The Chairperson of each committee of the Board, in consultation with committee members and the appropriate members of management and staff, will develop the committee's agenda. Each committee should annually review its charter for any necessary revisions.

## **XIII. Selection of Agenda Items for Board Meetings**

The Chairman of the Board and the Chief Executive Officer (if the Chairman is not the Chief Executive Officer) will establish the agenda for each Board meeting.

Each Board member is free to suggest the inclusion of item(s) on the agenda.

## **XIV. Board Materials Distributed in Advance**

Information and data that is important to the Board's understanding of the business to be conducted at a Board or committee meeting should generally be distributed in writing to the Board prior to the meeting so that Board meeting time may be conserved and discussion time focused on questions that the Board may have about the materials.

Particularly sensitive subject matters may be discussed at the meeting without advance distribution of written materials.

## **XV. Presentations**

The sense of the Board is that presentations by senior management are beneficial in giving Board members the opportunity to evaluate these persons. Further, biographies of presenters will be distributed in advance with the Board meeting material.

## **XVI. Executive Sessions**

The non-Management Directors will meet in executive session periodically, with no members of management present. Non-Management Directors who are not independent under the rules of NYSE may participate in these executive sessions, but Independent Directors will meet in executive session at least once per year.

## **XVII. Attendance of Non-Directors at Board Meetings**

PGI's Board is comfortable with attendance at Board meetings of non-Board members who are members of the staff of the Chief Executive Officer.

Further, the Board specifically encourages management from time to time to bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) represent managers with future potential that management believes should be given exposure to the Board.

Should the Chief Executive Officer want to invite people as attendees on a regular basis, it is expected that this suggestion would be made to the Chairman of the Board for prior concurrence.

#### **XVIII. Selection of Chairman and Chief Executive Officer**

The Board will remain free to make this choice in the manner it judges most appropriate for the company at any given point in time.

Therefore, the Board does not have a predetermined policy as to whether or not the roles of the Chief Executive Officer and Chairman should be separate and, if they are to be separate, as to whether the Chairman should be an Independent Director or a Management Director.

#### **XIX. Formal Evaluation of the Chief Executive Officer**

The Nominating and Corporate Governance Committee should make an annual formal evaluation of the Chief Executive Officer. The results should be communicated in person by the Chairman of the Board, the Chairperson of the Nominating and Corporate Governance Committee and one or more chairs of the Audit or Compensation Committees. The Chief Executive Officer may make a formal response to the Nominating and Corporate Governance Committee at the next Board meeting.

#### **XX. Succession Planning and Management Development**

There shall be an annual report to the Board by the Chairman and the Chief Executive Officer on succession planning for the Chief Executive Officer and his staff.

There shall also be available, on a continuing basis, recommendations from the Compensation Committee taking into account the recommendations of the Chairman of the Board and the Chief Executive Officer as to a succession plan should either or both be unexpectedly disabled.

There shall be an annual report by the Chief Executive Officer on the Company's program of management development. This report should be given to the Board at the same time as the succession planning report noted above.

The Chairman of the Board and Chief Executive Officer's report on succession planning and management development shall be reviewed with the Compensation Committee, and thereafter, the Chairperson of the Compensation Committee and Chief Executive Officer shall report on succession planning and management development to the Board. The

Compensation Committee shall review succession planning and management development with the Chief Executive Officer's staff in accordance with its charter.

#### **XXI. Assessing the Board's Performance**

The Board shall conduct a self-evaluation annually to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee will oversee this evaluation.

This evaluation will be of the Board's contribution as a whole and specifically review areas in which the Board and/or management believes a better contribution can be made. Its purpose is to increase the effectiveness of the Board, not to target any individual Board member(s).

#### **XXII. Securities Laws**

Each director is required to timely submit a Directors and Officers Questionnaire that will be distributed by the Company in preparation for the annual proxy statement filed with the United States Securities and Exchange Commission ("SEC") and distributed to stockholders. This questionnaire may also be circulated before the Company files any registration statement with the SEC. Each director is expected to comply with the Company's Insider Trading Guidelines. It is a violation of Company policy to engage in any securities transactions involving the Company securities without pre-approval from the Company's General Counsel. To comply with the accelerated deadlines to file Section 16 reports, each director will be requested to sign a power of attorney authorizing the Company to prepare, sign and submit these reports on behalf of the director.

#### **XXII. Amendment, Modification and Waiver**

These Guidelines may be amended, modified or waived by the Board of Directors and waivers of these guidelines may also be granted by the Nominating and Corporate Governance Committee, subject to the disclosure and other provisions of the Securities and Exchange Act of 1934, the rules promulgated thereunder and the applicable rules of NYSE.