

# CORPORATE GOVERNANCE

Fiberweb plc is committed to complying with the best practice principles of the Combined Code on Corporate Governance adopted by the Financial Reporting Council in June 2006 ("the Code"). During the year ended 31 December 2008, the Company considers that it has complied in full with the provisions set out in Section 1 of the Code, except in respect of Code provision D.1.1, as the Senior Independent Director did not meet major shareholders during the year, and in respect of Code provision A.4.1, as independent non-executive directors do not form a majority of the members of the Nomination Committee. Details and explanations of the application of the Code are given below.

## The Role of the Board

The Board as a whole has responsibility for the success of the Company. The Board meets regularly to determine the strategic direction of the Group and to review operating, financial and risk performance. Specific responsibilities are delegated to Board Committees as described later in this report.

There is a formal schedule of matters reserved to the Board that includes approval of the following:

- the Group's long term objectives and strategy;
- acquisitions, disposals and capital expenditure projects above certain thresholds;
- all guarantees and treasury related transactions above certain thresholds;
- the financial statements and assessment of financial performance;
- the Company's dividend policy;
- transactions involving the issue or purchase of Company shares;
- the Group's risk management strategy;
- legal actions brought by or against the Group above certain thresholds;
- appointments to the Board and the appointment of the Company Secretary;
- Group policies and the scope of delegations to Board Committees and executive management of the Group; and
- directors' conflicts of interest.

The full schedule of matters reserved for Board approval can be viewed on the Company's website at [www.fiberweb.com](http://www.fiberweb.com).

The schedule of matters is reviewed on an annual basis. Matters outside the scope of the formal schedule of matters are decided by management in accordance with the delegated authority limits within the Group Authority Limits Policy.

In order to ensure that all matters are given due consideration, the Board has adopted an annual schedule of agenda items, which is reviewed yearly.

These include:

- annual strategy review;
- divisional updates and business plans;
- annual budget setting and approval;
- review of Group policies; and
- patent portfolio review.

At each meeting, the Board receives information from the Chief Executive Officer and Chief Financial Officer on the performance and results of the Group and individual operating businesses, the Group's current financial position and updates on any other significant matters. The Divisional Presidents and Global Head of Research and Development present to the Board at least once a year. In addition, other senior managers such as the Head of HR and Change and Head of Legal update the Board on developments in their area of responsibility.

The directors are generally provided with detailed and comprehensive papers in advance of each Board meeting. The agenda is set by the Chairman in conjunction with the Chief Executive Officer, Chief Financial Officer and the Company Secretary.

The Company Secretary is responsible to the Board for the timeliness and quality of information and is responsible for advising the Board on corporate governance matters and Board procedures. All directors have access to the advice and the services of the Company Secretary.

The Company Secretary acts as secretary to all Board Committees.

The directors may take independent professional advice at the Company's expense in relation to their responsibilities as directors. None of the directors obtained independent professional advice in this regard in the period under review.

The number of Board and Board Committee meetings held during the year and individual attendance by directors at those meetings are set out in the table below.

	Full Board	Audit Committee	Remuneration Committee	Nomination Committee	
<b>Number of meetings held during the year</b>	<b>12</b>	<b>4</b>	<b>5</b>	<b>1</b>	
<b>Attendance:</b>					
Malcolm Coster	Chairman	12	4	5	1
Daniel Dayan	CEO	12	4	5	1
Daniel Abrams	CFO	9	4	4	–
Peter Hickman	Non executive director	12	4	5	1
Richard Stillwell	Non executive director	11	4	5	1
Brian Taylorson	Non executive director	8	3	3	–
<b>Note:</b>					
Malcolm Coster, Daniel Dayan and Daniel Abrams all attended meetings of the Audit Committee and Remuneration Committee at the invitation of the Chairmen of those Committees.					

### The Board, Board Balance and Independence

The Board comprises two executive directors and four non executive directors (including the Chairman) who contribute a wide range of complementary skills and experience. Details of each director's skills and experience are set out on pages 34 and 35.

The Chairman of the Board is Malcolm Coster. The Chairman's other significant commitments are set out on page 34. Since the last report, the Chairman has resigned as Chairman of MTL Instruments Group plc

The Chief Executive Officer is Daniel Dayan. Richard Stillwell is the Senior Independent Director. He is available to shareholders if they have concerns that the normal channels of contact with the Chairman or Chief Executive Officer would not resolve.

The Board believes that there is an appropriate balance of executive and non executive directors on the Board, without one individual or group dominating the Board's decision-making process.

The Board has determined all its non executive directors to be independent in character and judgement. The non executive Chairman, Malcolm Coster, was considered independent in character and judgement on appointment. Whilst the assessment of independence is not required for a serving Chairman under the Code, the Board considers its Chairman to be independent, notwithstanding his fee structure, which allows for the payment of his fees in cash and shares. Further details of the Chairman's fee arrangement are set out in the Directors' Remuneration Report on page 50.

The Board will assess the independence of its non executive directors on a continuous basis.

Following the introduction on 1 October 2008 of the statutory duty on directors to avoid situations which have or may have an interest which conflicts or possibly may conflict with the interests of the Company, the Nominations Committee has been given responsibility for considering and if appropriate authorising such conflict situations on such terms as are considered necessary, or if material referring them to the Board, on an ongoing basis. Any director in a conflicting or potentially conflicting situation is excluded from any decision. No conflict situations have arisen since 1 October 2008.

### Role of the Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separate and there is a clear division of responsibilities between these roles. In accordance with the Code, the Board has adopted a formal written statement of the division of responsibilities between the Chairman and the Chief Executive Officer.

The Chairman leads the Board and ensures the effective engagement and contribution of all non executive and executive directors. In conjunction with the Company Secretary, he is responsible for ensuring that directors receive information in an accurate, clear and timely manner, and for promoting effective decision making. He is also responsible for ensuring that directors continually update their skills and knowledge. The Chairman has active contact and involvement with the executive directors and the affairs of the Company. This serves to keep him abreast of current business issues but also provides the executive directors with access to an independent opinion on day to day business decisions.

The Chief Executive Officer has responsibility for the day to day management of the Group's businesses and acts in accordance with the authority delegated by the Board. He is responsible for developing and proposing a strategy for consideration and adoption

by the Board and for implementing the Board's strategies, decisions and policies. He is also responsible for ensuring that the business strategy and activities are effectively communicated and promoted within and outside the business, building positive relationships with the Company's stakeholders and for creating and developing the Company's culture.

### Board Appointments

Primary responsibility for planned and progressive refreshing of the Board lies with the Board. The Board, through the work of the Nomination Committee, ensures that there is a formal, rigorous and transparent procedure for the appointment of new directors. Further details of the work of the Nomination Committee are set out below.

Appointments of non executive directors are made by the Board for an initial term of three years, which is subject to the usual regulatory provisions and continued satisfactory performance of their duties. Re-appointment for a further term is not automatic but may be made by mutual agreement.

In accordance with the Company's Articles of Association, all directors are subject to re-election by shareholders at least every three years.

On appointment, all non executive directors are advised of the time commitment expected of them to fulfil their duties.

Letters of appointment for the non executive directors are available for inspection on request.

### Board Induction and Professional Development

The Board has adopted a formal written programme for the induction of new directors to familiarise themselves with the Group's businesses, understand the goals, objectives and mission of the Company and develop an awareness and understanding of the views of the Company's major shareholders. The programme is also structured to enable the new director to gain an understanding of his or her own specific duties and responsibilities. The programme, developed in accordance with the Institute of Chartered Secretaries and Administrators guidelines on Board induction, is made up of a combination of selected written corporate information, meetings with key senior management and site visits, and can be tailored to meet each new director's specific needs, skills and experience. Where a non executive director is also being appointed a member of one of the Board Committees, his or her induction will cover matters such as the role of and terms of reference of the relevant Committee.

In order to maintain, develop and update directors' knowledge and capabilities, the Board and its Committees are briefed on corporate governance and regulatory developments as they arise. The Audit Committee is briefed on technical and accounting matters as a matter of routine at each meeting by senior management and the external auditors. The directors receive comprehensive training in respect of their statutory duties, the disclosure obligations under the Disclosure and Transparency Rules, and the Listing Rules. A continuous programme of development will occur as needs require.

The Board regards performance evaluation as an important part of monitoring and improving its effectiveness, and a formal internal appraisal of the Board and individual directors (including the Board Committees) was undertaken during the year. This involved the Chairman, acting on behalf of the Board, obtaining views from and evaluating the performance of the other individual directors, and the non executive directors, led by the Senior Independent Director assessing the performance of the Chairman.

# CORPORATE GOVERNANCE

continued

## Board Committees

The terms of reference of the principal Committees of the Board, the Remuneration, Audit and Nomination Committees, are available on the Company's website at [www.fiberweb.com](http://www.fiberweb.com)

## Remuneration Committee

The details of the Remuneration Committee are given in the Directors' Remuneration Report on pages 45 to 50.

## Audit Committee

The Audit Committee consists of three independent non executive directors and is chaired by Peter Hickman. Its other members are Richard Stillwell and Brian Taylorson.

Both Peter Hickman and Brian Taylorson are qualified Chartered Accountants and currently hold or recently held senior finance roles in major UK listed public companies.

The terms of reference of the Audit Committee include all matters listed in Code provision C.3.2 with the exception of risk management which is reviewed by the Board as a whole. The terms of reference are reviewed annually and any proposed revisions formally approved and adopted by the Board.

The Audit Committee is responsible for making recommendations to the Board on the appointment of external auditors and their remuneration. The Committee reviews the external auditors' independence, and considers the nature, scope and results of the auditors' work and the provision of non-audit services by them. The Committee focuses particularly on compliance with legal and other regulatory requirements, accounting standards and ensuring that an effective system of internal controls is maintained. The Committee may consider any financial matter that may have an impact on the Company. The ultimate responsibility for reviewing and approving the annual and interim financial statements and biannual trading statements remains with the Board.

The Committee normally meets not less than three times a year at dates to coincide with the financial reporting cycle. The Committee also meets privately with the external auditors at least twice a year and with the Internal Audit Manager once. The Chairman may call a meeting at the request of the executive directors or that of the external auditors.

In addition to Committee members, the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Group Financial Controller, Internal Audit Manager and the external auditors normally attend meetings at the invitation of the Committee Chairman.

During the year and up to the date of this report, the Audit Committee considered the following matters and took the following actions in the discharge of its duties:

- reviewed and advised the Board on the financial statements in the 2008 report and accounts;
- reviewed and assessed the audit services provided and the effectiveness of the external auditors;
- discussed and agreed the nature and the scope of work to be performed by the external auditors;
- reviewed the effectiveness of the Group's internal control systems established by management and reviewed the Board's sign-off procedure on the system of internal controls, which are set out in more detail below;

- reviewed the scope of the work of the internal audit function and the manner in which internal audit services will be provided in 2009;
- received and reviewed reports from the internal audit function on the work undertaken during the year;
- reviewed the policy on the provision of non-audit services by the external auditors and assessed the independence of the auditors;
- reviewed the management procedures to enable the directors to provide the confirmation regarding audit information required under Section 234ZA of the Companies Act 1985; and
- reviewed the arrangements by which concerns can be raised by staff in respect of possible matters of financial impropriety or other matters.

## Auditor Independence and Effectiveness

One of the key responsibilities of the Committee is to ensure that the independence and objectivity of the external auditors is safeguarded. The Committee has adopted a policy on the provision of non-audit services that is in line with the Accounting Practice Board's Ethical Standards. This policy is reviewed annually. It prohibits the external auditors from providing certain additional services to the Group such as bookkeeping, internal audit, valuations, actuarial services and financial systems design and implementation. The external auditors are, however, permitted to provide assurance services such as reporting accountant work and tax services.

The Group's general policy is not to use the external auditors for acquisition and due diligence work. However, where the Group considers it appropriate or conflicts arise, suppliers other than the preferred supplier may be asked to tender and this may include the external auditors.

In accordance with the policy, the Chairman of the Committee or, in his absence, another designated member of the Committee is required to pre-approve certain permitted services that exceed the financial limits set out in the policy. A summary of the overall level of non-audit fees paid to the external auditors is presented at each Audit Committee meeting.

Details of the amounts paid to the external auditors, Deloitte LLP, for non-audit services provided during the year are given in note 4 on page 66. The Audit Committee is satisfied that neither the non-audit services provided by, nor the level of fees paid to, Deloitte LLP in respect of those services impairs their objectivity or independence.

## Internal Control

The Board has overall responsibility for the Group's system of internal control and risk management, and reviews its effectiveness on an annual basis.

The implementation and maintenance of risk management is the responsibility of the executive directors and other senior management and a system has been established to identify, evaluate and manage the significant risks that the Group faces. The system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatement or loss.

The main elements of the Group's internal control system are as follows:

- 1. The Board** – The Board has overall responsibility for the Group's system of internal control. As mentioned above in this report, the Board meets regularly and has a schedule of matters reserved for its approval and the Board Committees operate within delegated terms of reference. This structure includes the Audit Committee which, with the Chief Financial Officer, reviews the effectiveness of the internal financial and operating control environment of the Group. All acquisitions and disposals of companies or businesses are approved by the Board.
- 2. Strategic and Business Planning** – The Group and each business unit produce and agree a business plan each year against which the performance of the business is regularly monitored.
- 3. Monthly Management Accounts** – Detailed monthly management accounts are submitted to management that measure actual performance against budget. A monthly report is provided to the Board, highlighting key issues and summarising the detailed financial information provided by the operating units. Forecasts of sales, profits and operating cash are reviewed quarterly and presented to the Board.
- 4. Internal Audit** – PricewaterhouseCoopers LLP as internal auditors undertake a programme of reviews aligned to the business risks. The Audit Committee receives a report from internal audit at each meeting that includes opinions on the adequacy and effectiveness of controls by site, a summary of key issues, work issues and follow up actions. The Internal Audit Manager has direct access to the Chairman of the Audit Committee. The Audit Committee reviews the effectiveness of the internal audit activities, including the scope of work, authority and resources of the internal audit function.
- 5. System of Control Procedures and Delegated Authorities** – There are clearly defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions that have been approved by the Board. A detailed matrix defines the levels of authority for the Group's senior management and their direct reports in relation to acquisitions, capital expenditure, commercial and employee contracts and treasury matters.
- 6. Treasury Policies and Procedures** – Detailed procedures exist for the investments, currency and commodity hedging, granting of guarantees and the use of Treasury products.
- 7. Risk Identification, Monitoring and Management Procedures** – A process is in place to collate schedules of risks for each key site, which are then reviewed by the Divisional Presidents and consolidated into a schedule of the significant divisional level risks. Similarly, key functional heads produce risk schedules for their own areas. Risks identified cover business, financial, compliance, operational as well as environmental, social and governance risks. These risk schedules, which include an assessment of their likelihood and impact, are kept under review and are presented at least annually at a Fiberweb Executive Team meeting each year for review. The Fiberweb Executive Team is responsible for confirming that the plans to mitigate those risks are satisfactory and for improving internal controls and processes. The Chief Financial Officer is responsible for reporting the work of the Fiberweb Executive Team on risk management to the Board.

**8. Organisational Structure** – Structures are in place at Head Office and divisional level that clearly define responsibilities for operational, accounting, taxation, treasury, legal, company secretarial and insurance functions.

**9. Group Finance Manual** – The Group has adopted the policies that are appropriate and as such, it has a full set of accounting policies and procedures in force. During the year a comprehensive review of the policies was commenced and a revised and updated manual is expected to be issued in the first quarter of 2009.

**10. Group Policies** – A new Group Policy Manual was adopted in 2007 and communicated to all businesses. The policies are reviewed and revised as necessary to take account of changing law and circumstances. The review of compliance with a number of these policies by Group companies has been introduced and the results are communicated to the Fiberweb Executive Team and the Board as necessary.

**11. Health, Safety and Environmental Manual (HS&E)** – A Group Health, Safety and Environmental Manual details policies, standards and procedures that are applicable throughout the Group. Further information is included in the Business Review on pages 31 to 33. A monthly report is prepared and circulated to the Fiberweb Executive Team on environmental and safety matters and the Board receives a report on HS&E matters at each Board meeting.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and that it has been in place for the period under review up to the date of approval of the annual report and accounts. The Group's system is reviewed regularly by the Board and accords with the Turnbull guidance. Any significant failings or weaknesses that come to management's and the Board's attention are addressed and appropriate action taken.

#### Nomination Committee

The Nomination Committee is chaired by Malcolm Coster and its other members are Daniel Dayan, Richard Stillwell and Peter Hickman. The Board considers this provides an appropriate balance of knowledge and experience. The Chairman will not participate in any discussion relating to the appointment of his successor.

The Committee has responsibility for identifying and nominating candidates for Board vacancies and making recommendations to the Board in relation to the appointment of the Company's executive and non executive directors.

Before making an appointment, the Committee will evaluate the balance of skills, knowledge and experience on the Board and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. Use will be made of external recruitment consultants and the final decision regarding appointment rests with the Board.

The Committee also has responsibility for reviewing and if appropriate authorising conflicts of interest or potential conflicts of interest of directors.

The Committee appointed external recruitment consultants to assist it in the recruitment of a director to replace Simon Bowles. One Nomination Committee meeting occurred during the year at which the appointment of Daniel Abrams as director and Chief Financial Officer was considered and recommended to the Board for approval.

# CORPORATE GOVERNANCE

continued

## Shareholder Relations

The Board as a whole is kept up to date on the views of Fiberweb's major shareholders. This is achieved through regular meetings during the year between the Chief Executive Officer, Chief Financial Officer and major shareholders to discuss matters of mutual interest that are reported to the Board. Broker reports are routinely circulated to the Board.

The Chairman met with major shareholders during the year. Formal invitations to meet both the Chairman and Senior Independent Director were extended to major shareholders. The Senior Independent Director was unable to attend the meeting subsequently arranged. Nevertheless the Board considers that its Senior Independent Director has an understanding and awareness of the issues and concerns of major shareholders. The Senior Independent Director and the other non executive directors were available to meet shareholders at the Annual General Meeting.

Both institutional and private shareholders are welcome at the Annual General Meeting. The meeting provides an opportunity for shareholders to discuss with executive and non executive directors any issues concerning the Company and its activities. The Chairman of the Board and the Chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions at the meeting.

The Company was ranked first in the Leading Company for Investor Relations – UK Small Caps category of the 2008 Thomson Reuters Extel Survey.

The Company counts all proxy votes cast in respect of the Annual General Meeting and makes available the proxy voting figures on each resolution. The voting results where resolutions are passed on a show of hands and details of all proxy votes cast prior to the meeting are available on the Company's website. The results of the meeting are announced to the market via a Regulatory Information Service.