

3. BOARD COMPOSITION, MEETING ARRANGEMENTS, REMUNERATION AND INDEMNIFICATION

1. COMPOSITION

The election of Directors occurs at the annual general meeting and is for a term of one (1) year. The foregoing notwithstanding, the Board may unanimously appoint Directors during the year, for a term ending at the next annual general meeting. The Corporation's practice with respect to the election of its directors is not to use slate voting, but rather to allow every shareholder to vote for each director individually or withhold his/her vote from each director individually.

A majority of Directors must be "independent", as determined by the Board on the basis of the applicable regulatory criteria for "independence" set out at the end of this Tab 3. Furthermore, no more than two (2) of the Directors may sit on one same outside board of directors.

The articles of the Corporation provide that the Board of Directors shall consist of a minimum number of eight (8) and a maximum number of twenty (20) Directors to be elected annually.

The only officer who is currently a member of the Board is the President and Chief Executive Officer.

Each director must have a combined attendance rate of 75% or more at Board and Committee meetings to stand for reelection unless exceptional circumstances arise such as illness, death in the family or other like circumstances.

To ensure Director availability, Directors of the Corporation may sit on no more than 4 other outside boards, unless otherwise approved by the Board of Directors of the Corporation. No Director who is also a Chief Executive Officer in office may sit on more than 1 outside board other than his company's and the Corporation's unless otherwise approved by the Board of Directors of the Corporation.

The Corporation is committed to building a skilled, diverse Board of Directors reflective of Canadian society and consisting of a cross-section of highly professional and competent members with the necessary disciplines to facilitate the Corporation meeting its legal, financial, operational and societal objectives.

2. MEETINGS

- (a) The Chairman shall solicit from the members of the Board recommendations as to matters to be brought before the Board and shall ensure that such matters receive a fair hearing. The Board will meet at least five (5) times per year. Meetings will not normally exceed one (1) day in duration. A quorum for meetings is a majority of Directors. The Board sets the schedule of the Board and Board committee meetings to be held in any given calendar year, a year or more in advance.
- (b) The Chairman of the Board and the President and Chief Executive Officer shall, in consultation with the Corporate Secretary, set the agenda. Such agenda and background material on agenda items will be provided to Board members prior to each meeting so that they have an opportunity for advance review of relevant materials. Senior management will be made accessible to Board members at Board and committee meetings to help them to fulfill their obligations.
- (c) A Director may participate in a meeting of the Board or of a committee by means of telephone or other communications facilities which permit all persons participating in the meeting to hear each other, and a Director participating in such a meeting by such means is deemed to be present at the meeting. If a regular meeting has been convened, telephone participation in the meeting by individual Board members is discouraged, except in special circumstances.
- (d) At each of the five (5) regularly scheduled meetings of the Board, the Chairman of the Board shall hold an in camera session of the outside (non-management) Directors and shall, in any event, hold an in camera session of the outside Directors when compensation issues are discussed.
- (e) At each of the five (5) regularly scheduled meetings of the Board, management shall report on the Corporation's investor relations, and the President and Chief Executive Officer shall report on key prospects, principal matters reviewed by the Bid and Investment Approval Committee and such other business as the Board deems appropriate and timely for discussion at the meeting.
- (f) All Directors are encouraged to attend the Annual Meeting of Shareholders.

3. MAJORITY VOTING POLICY

In an uncontested election of directors at the annual meeting of shareholders of the Corporation, any nominee who receives a greater number of “withheld” votes than “for” votes will tender his/her resignation to the Chairman of the Board promptly following the meeting. The Corporation’s Governance Committee will then consider the offer of resignation and, except in special circumstances, will recommend that the Board of Directors accept it. The Board will make its decision and announce it in a press release within 90 days following the annual meeting of shareholders, including the reasons for rejecting the resignation, if applicable. A Director who tenders his/her resignation pursuant to this policy will not participate in any meeting of the Board or of the Governance Committee at which the resignation is being considered.

4. REMUNERATION

- (a) Remuneration of the Board is established upon the recommendation of the Governance Committee and shall be generally in line with that paid by other Canadian controlled public companies of a similar size and type. Refer to Tab 20 of this Handbook.
- (b) Pursuant to Section 15 of By-Law No. 2005-1 of SNC-Lavalin Group Inc., the Directors are entitled to be reimbursed for their traveling and other expenses properly incurred by them in connection with the affairs of the Corporation. Refer to Tab 20 of this Handbook.

5. DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE

The following summarizes the arrangements relating to the indemnification and insurance of Directors and officers of SNC-Lavalin Group Inc.

(a) THE STATUTORY FRAMEWORK

Indemnification:

Subject to certain limitations, the *Canada Business Corporations Act* (“**CBCA**”) provides that a corporation may indemnify a director or officer of the corporation, a former director or officer of the corporation or another individual who acts or acted at the corporation’s request as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses (including an amount paid to settle an action or satisfy a judgment) reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the corporation or other entity.

Insurance

The *CBCA* provides that a corporation may purchase and maintain insurance for the benefit of an individual whom the corporation may indemnify under the *CBCA* against any liability incurred by the individual in the individual’s capacity as a director or officer of the corporation or in the individual’s capacity as a director or officer or similar capacity, of another entity, if the individual acts or acted in that capacity at the corporation’s request.

The *CBCA* provides that a corporation may not indemnify an individual unless the individual acted honestly and in good faith with a view to the best interests of the corporation or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in a similar capacity at the corporation’s request.

Directors or officers who breach their fiduciary duties to the corporation are not entitled to the Directors’ and Officers’ (“**D&O**”) insurance to recoup their losses.

(b) **SNC-LAVALIN PRACTICE**

Indemnification

Section 16 of By-Law No. 2005-1 of SNC-Lavalin Group Inc. provides as follows:

“16.

(1) Indemnification. The Corporation shall indemnify a director or officer of the Corporation, a former director or officer of the Corporation or another individual who acts or acted at the Corporation’s request as a director or officer or an individual acting in a similar capacity of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the Corporation or other entity.

(2) Advance of Costs. The Corporation shall advance monies to a director, officer or other individual for the costs, charges and expenses of a proceeding referred to in subsection 16(1). The individual shall repay the monies if the individual does not fulfill the conditions of subsection 16(3).

(3) Limitation. The Corporation may not indemnify an individual under subsection 16(1) unless the individual:

(a) acted honestly and in good faith with a view to the best interests of the Corporation or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in a similar capacity at the Corporation’s request; and

(b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual’s conduct was lawful.

(4) Indemnification in Derivative Actions. The Corporation shall, with the approval of a court, indemnify an individual referred to in subsection 16(1) or advance monies under subsection 16(2) in respect of an action by or on behalf of the Corporation or other entity to procure a judgment in its favour, to which the individual is made a party because of the individual's association with the Corporation or other entity as described in subsection 16(1), against all costs, charges and expenses reasonably incurred by the individual in connection with such action, if the individual fulfils the conditions set out in subsection 16(3).

(5) Right to Indemnity. Despite subsection 16(1), an individual referred to in that subsection is entitled to indemnity from the Corporation in respect of all costs, charges and expenses reasonably incurred by the individual in connection with the defence of any civil, criminal, administrative, investigative or other proceeding to which the individual is subject because of the individual's association with the Corporation or other entity as described in subsection 16(1), if the individual seeking indemnity:

- (a) was not judged by the court or other competent authority to have committed any fault or omitted to do anything that the individual ought to have done; and
- (b) fulfils the conditions set out in subsection 16(3).

(6) Insurance. The Corporation shall purchase and maintain insurance for the benefit of an individual referred to in subsection 16(1) against any liability incurred by the individual:

- (a) in the individual's capacity as a director or officer of the Corporation; or
- (b) in the individual's capacity as a director or officer, or similar capacity, of another entity, if the individual acts or acted in that capacity at the Corporation's request."

Insurance

The Directors' and Officers' ("D&O") insurance policy maintained by the Corporation is the standard D&O policy currently available in Canada and provides two forms of coverage for two distinct insureds as follows:

Coverage A (individual): the coverage is provided for all Losses for which the individual is not indemnified by the corporation for which the individual becomes legally obligated to pay on account of any Claim first made against him/her, individually or otherwise during the Policy Period. The individual is or could be any person who has been, now is, or shall become a duly elected director or duly elected or appointed officer or employee of any Insured Organization, organized under federal, state, or provincial laws of Canada or the United States of America, or any equivalent executive position under applicable law in any country other than Canada or the United States of America.

Coverage B (corporate): the coverage is provided to pay the insured corporation for all Losses for which the insured corporation grants indemnification to each Insured person who by law is required to pay any Claim first made against the individual during the Policy Period.

The total limit under the Corporation's policy is **\$70 million** per occurrence per year. The deductible is **\$250,000** for the corporate reimbursement coverage, and there is no deductible for the Directors' and Officers' coverage.

While the Corporation's policy covers a broader range of liability than does the corporate indemnity, it does not provide coverage in every circumstance. The Corporation's policy specifically excludes the following:

- (i) claims prior to the inception of the policy and claims for which another policy would respond;
- (ii) claims based upon a violation of fiduciary duties set out in the U.S. *Employee Retirement Income Act* of 1974 or obligations or duties imposed by the *Pension Benefit Standards Act, 1985* of Canada;
- (iii) claims for bodily injury or property damage;

- (iv) for claims based upon (i) the actual, alleged or threatened discharge, release, escape, or disposal of Pollutants into or on real personal Property, water or the atmosphere (ii) testing for, monitoring, cleaning up, containing, detoxifying or neutralizing Pollutants (iii) financial losses to the Corporation or its creditors for claims not covered due to the Pollution exclusion. Pollutants are defined as any substance in the world exhibiting hazardous characteristics as identified on a list of hazardous substances issued under the *Canadian Environmental Protection Act*, or by the USA Environmental Protection Agency or any municipal, provincial, federal or state government. These substances include solids, gaseous, thermal irritants, contaminants, smoke, vapor, soot, fumes, acids, alkalis, or waste materials. Other excluded Pollutants are air emission, odor, oil, infectious or medical waste, asbestos, asbestos products and any noise;
- (v) claims for libel or slander;
- (vi) claims for the return by any director or officer of illegally paid remuneration;
- (vii) claims for the accounting of profits made through unlawful insider trading;
- (viii) claims brought about by the dishonesty of a director or officer or the violation of any statute or regulation;
- (ix) claims in actions where a director or officer gained a personal profit or advantage to which he/she was not legally entitled;
- (x) “insured vs. insured” claims (except derivative actions and wrongful termination actions) and claims by an Insured for contribution or indemnity if the claim results from another Claim covered by the policy; and
- (xi) claims against the Insured for failure to provide engineering services.

SNC-Lavalin has purchased a **\$8 million** fiduciary liability policy to cover the types of claims excluded in paragraph (ii) above and claims based on corporate employee benefit programs. This policy has a deductible of **\$250,000** applicable to any indemnifiable loss. Claims for bodily injury or property damage excluded under paragraph (iii) above may, depending on the circumstances, be covered under the Corporation’s general liability policy which also covers claims for bodily injury or property damage arising out of sudden and accidental pollution incidents.

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Applicable Regulatory Criteria for “Independence”

For the purposes of determining whether a person is “independent” in accordance with the following provisions, “the Corporation” includes a subsidiary entity of the Corporation and a parent of the Corporation.

- (1) An individual is independent if he/she has no direct or indirect material relationship with the Corporation.
- (2) For the purposes of subsection (1), a “**material relationship**” is a relationship which could, in the view of the Corporation’s Board of Directors, be reasonably expected to interfere with the exercise of a member’s independent judgment.
- (3) Despite subsection (2), the following individuals are considered to have a material relationship with the Corporation:
 - (a) an individual who is, or has been within the last three (3) years, an employee or executive officer of the Corporation;
 - (b) an individual whose immediate family member is, or has been within the last three (3) years, an executive officer of the Corporation;
 - (c) an individual who:
 - (i) is a partner of a firm that is the Corporation’s internal or external auditor,
 - (ii) is an employee of that firm, or
 - (iii) was within the last three (3) years a partner or employee of that firm and personally worked on the Corporation’s audit within that time;
 - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
 - (i) is a partner of a firm that is the Corporation’s internal or external auditor,
 - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
 - (iii) was within the last three (3) years a partner or employee of that firm and personally worked on the Corporation’s audit within that time;
 - (e) an individual who, or whose immediate family member, is or has been within the last three (3) years, an executive officer of an entity if any of the Corporation’s current executive officers serves or served at that same time on the entity’s compensation committee; and
 - (f) an individual who received, or whose immediate family member who is employed as an executive officer of the Corporation received, more than \$75,000 in direct compensation from the Corporation during any twelve (12) month period within the last three (3) years.
- (4) Despite subsection (3), an individual will not be considered to have a material relationship with the Corporation solely because:

- (a) he/she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004; or
 - (b) he/she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005.
- (5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
- (6) For the purposes of clause (3)(f), direct compensation does not include:
- (a) remuneration for acting as a member of the Board of Directors or of any Board committee of the Corporation, and
 - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.
- (7) Despite subsection (3), an individual will not be considered to have a material relationship with the Corporation solely because the individual or his/her immediate family member:
- (a) has previously acted as an interim chief executive officer of the Corporation, or
 - (b) acts, or has previously acted, as a chair or vice-chair of the Board of Directors or of any Board committee of the Corporation on a part-time basis.

Additional Applicable Regulatory Criteria for “Independence” with respect to Audit Committee Members

- (1) Despite any determination made under the above independence criteria, an individual who:
- (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation or any subsidiary entity of the Corporation, other than as remuneration for acting in his/her capacity as a member of the Board of Directors or any Board committee, or as a part-time chair or vice-chair of the Board or any Board committee; or
 - (b) is an affiliated entity of the Corporation or any of its subsidiary entities, is considered to have a material relationship with the Corporation.
- (2) For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by:
- (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or

- (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Corporation or any subsidiary entity of the Corporation.

- (3) For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

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