

Corporate Governance Practices

Both the Board of Directors and management recognize the importance of having appropriate structures and procedures in place to support good corporate governance practices. Throughout the year, the Board's Human Resources Committee, which is responsible for corporate governance, examined EXFO's practices, the new Toronto Stock Exchange corporate governance guidelines, NASDAQ's proposed changes to its corporate governance rules and the provisions of the Sarbanes-Oxley Act of 2002 that impose a new set of corporate governance rules for Canadian companies with shares registered in the U.S. As a result, certain changes have already been implemented and our efforts in this area will continue in order to meet or surpass these new requirements as they come into effect. As the last year has demonstrated, achieving best practices in corporate governance is an ongoing process in an ever-changing context.

The Board of Directors believes that EXFO's corporate governance practices comply with the Toronto Stock Exchange's current guidelines. As the U.S. Securities and Exchange Commission issues new rules required under the Sarbanes-Oxley Act, as the Toronto Stock Exchange's new guidelines come into effect and as new NASDAQ rules are implemented, we will comply with these new requirements. Further details about our corporate governance practices are available in the proxy circular.

The present Board members were elected at our last Annual General Meeting of the Shareholders, held on January 16, 2002.

Responsibilities of the Board

The Board is responsible for the stewardship of our business and affairs by reviewing, discussing and approving our strategic direction and organizational structure as well as reviewing management's strategic planning on an annual basis. The Board also identifies the principal risks of our business and reviews our risk management systems on an annual and ongoing basis.

In addition to matters requiring Board approval under applicable laws, the Board grants final approval with respect to each of the following: (i) the strategic direction of EXFO; (ii) material contracts, acquisitions or dispositions of our assets; and (iii) the annual operational plan and capital and operating budgets.

The Board is also responsible for the establishment and functioning of all Board committees, the appointment of members to serve on such committees, their compensation and their good standing. At regularly scheduled meetings of the Board, the Directors receive, consider and discuss committee reports.

During the fiscal year ended August 31, 2002, the Board met a total of seven times.

Mr. Michael Unger, chairman of the Human Resources Committee and independent Director of EXFO, was appointed Lead Director this year. As such, he is responsible for ensuring that the Board properly discharges its duties, independent of management. The Lead Director is required to hold a minimum of two meetings of the Board of Directors without management members present, and additional meetings of independent Board members may be held at their request.

At the present time, EXFO has no formal procedures in place for recruiting new Directors.

Composition of the Board

Our articles of incorporation provide for a Board of Directors with a minimum of three and a maximum of twelve Directors. Our Board presently consists of five Directors, four of whom are independent of management and free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with a Director's ability to act with a view to the best interests of EXFO, other than interests arising from shareholding. Our Directors are elected at the Annual General Meeting of the Shareholders for one-year terms and serve until their successors are elected or appointed, unless they resign or are removed earlier.

Our Chairman of the Board and Chief Executive Officer, Mr. Germain Lamonde, is a significant shareholder of EXFO as he has the ability to exercise a majority of the votes for the election of the Board of Directors. Since the other four Board members do not have interests in EXFO or relationships with either EXFO or Mr. Lamonde, we believe that the interests of investors in EXFO, other than Mr. Lamonde's, are fairly represented.

Committees of the Board

Board committees play a significant role in the discharge of Board duties and obligations; committee chairs submit items for Board agendas and report on committee activities. The members of these committees are appointed annually and, in addition, the Board may appoint ad hoc committees periodically, as needed. EXFO has a practice of permitting the Board, any committee thereof and any individual Director to hire independent, external advisors at our expense. The Audit Committee and the Human Resources Committee are entirely comprised of unrelated Directors.

The following is a general description of the composition and general duties of each Board committee as contained in its mandate as at the fiscal year ended August 31, 2002.

Audit Committee

The Audit Committee reviews interim in-house financial statements and all annual audited financial statements and related disclosure documents with management and external auditors and approves them prior to public release. The Audit Committee is responsible for reviewing our internal control systems with regard to finance, accounting, legal compliance and ethical behavior. The Committee meets regularly with external auditors, with and without management, to consider the scope and results of their audits, including analysis of the adequacy of the internal controls and the effect of the procedures relating to the outside auditors' independence. The Committee also recommends to the Board the selection of external auditors for appointment by the shareholders. The Audit Committee is comprised of the following independent Directors: Mr. André Tremblay, Mr. Michael Unger and Mr. Pierre Marcouiller. The Chair of the Audit Committee is Mr. Tremblay.

Further to proposed changes to NASDAQ corporate governance rules and new Securities and Exchange Commission rules flowing from the adoption of the Sarbanes-Oxley Act, our Audit Committee charter will be revised during the current financial year to ensure that we comply with all new requirements.

Human Resources Committee

The Human Resources Committee is responsible for assessing the performance and establishing the annual compensation of all our senior officers, including the CEO. This Committee also reviews and submits to the Board the salary structure and the short-term and long-term incentive compensation programs for all our employees. The Committee is responsible for the review and approval of the employees who will receive options to purchase shares of EXFO in accordance with policies established by the Board and the terms of the Stock Option Plan. In addition, the Committee reports annually to the Board on the organizational structure and a succession plan for senior management. The Board's corporate governance practices are monitored by the Human Resources Committee, as is the functioning of the Board and the powers, mandates and performance of the committees. The remuneration to be paid by EXFO to the Directors is recommended to the Board by the Human Resources Committee. The Human Resources Committee is comprised of the following independent Directors: Dr. David A. Thompson, Mr. Michael Unger and Mr. Pierre Marcouiller. The Chair of the Human Resources Committee is Mr. Unger.

Disclosure Committee

The Disclosure Committee is responsible for overseeing our disclosure practices. The Disclosure Committee consists of the Chief Executive Officer, Chief Financial Officer, Investor Relations and Corporate Development Director, Communications Director, Manager of Financial Reporting and Accounting, as well as Legal Counsel and Corporate Secretary.

Shareholder/Investor Communications and Feedback

EXFO has an Investor Relations Director who is responsible for facilitating communications between senior management and EXFO's shareholders and financial analysts. Communications to shareholders are disseminated through annual and quarterly reports, press releases, the Annual General Shareholders' Meeting and investor presentations. The Investor Relations Director receives and responds to all shareholders' inquiries in an appropriate and timely manner. In communications to senior management, the Investor Relations Director also provides feedback from shareholders.