



# Fellow Shareholders,

We pride ourselves on being pioneers in the fiber-optic test, measurement and monitoring industry.

*The world is moving at Internet speed. Everybody keeps repeating this phrase, but what does it mean in practical terms? Take a minute to sit down and observe the latest high-bandwidth Internet applications that surround us—video conferencing, e-commerce, video on demand and high-definition television.*

And that's only the tip of the optical fiber!

Bandwidth demand is doubling every nine months to support high-capacity applications. Ryan, Hankin & Kent, a leading telecom research firm, forecasts that Internet traffic will increase from 350,000 terabytes, or trillions of bytes, per month at the end of 1999 to more than 15 million terabytes per month in 2003. In terms of pure speed and information-carrying capacity, nothing compares to optical fiber for handling this volume of traffic.

Optical fiber has become the medium of choice for telecommunications, especially with the deployment of Dense Wavelength Division Multiplexing technology, or DWDM. DWDM involves combining beams of light of slightly different wavelengths through a single fiber, with each wavelength carrying its own stream of information. A single strand of optical fiber can carry as many as 160 distinct channels at today's rates of 10 billion bits per second, which produces a bandwidth capacity of 1.6 trillion bits per second. Commercial networks with a bandwidth capacity of

6.4 trillion bits per second should hit the market in 2001.

At EXFO, we specialize in helping to ensure that optical networks run smoothly. In industry parlance, this is referred to as physical layer testing. The complexity of having several closely spaced channels and higher traffic counts significantly increases testing requirements, but we anticipated this major trend a number of years ago. As a result, we've developed a wide portfolio of products specifically dedicated to DWDM testing, measurement and monitoring.

We pride ourselves on being pioneers in the fiber-optic test, measurement and monitoring industry. During fiscal 2000, our Portable and Monitoring Division and our Industrial and Scientific Division launched more than a dozen innovative products. A strong indicator of technological innovation is the percentage of revenues derived from new products. At EXFO, 32.6% of our revenues in the fourth quarter and 26.9% in fiscal 2000 originated from

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products that have been on the market for less than two years. These numbers speak volumes about the strong growth

potential of our products and our commitment to innovation.

We believe that innovation is the key to gaining a competitive advantage in this industry. A few years ago,

we implemented portfolio management and stage-gate processes to ensure that R&D projects are aligned with our corporate strategies and priorities. These processes have resulted in market-focused products that generate increasing profits. These processes have also earned us recognition from the U.S.-based Product Development and Management Association, which named EXFO winner of the Outstanding Corporate Innovator Award in 2000.

As you can see, innovation and strong market focus drive EXFO!

### Record year

It's been a remarkable year at EXFO. Our focus on DWDM and commitment to innovation enabled us to achieve record revenues and earnings for fiscal 2000. We increased our revenues by 70% to \$71.6 million in fiscal 2000 from \$42.2 million in 1999. Net income, meanwhile, increased 71% to \$9.9 million, or \$0.25 per share, for fiscal 2000 from \$5.8 million, or \$0.14 per share, for 1999.

We also completed a highly successful Initial Public Offering of \$209 million in June 2000. This offering is a key step in providing us with the financial resources to reach our corporate objectives.

### Looking ahead

We are well positioned to capitalize on high-growth market segments in the fiber-optic test, measurement and monitoring industry. Following are some of the key strategies we plan to implement in the upcoming fiscal year:

- **Focus R&D spending on DWDM and high-bandwidth solutions**

DWDM technology and high-bandwidth networks have created a strong demand for our wide portfolio of test and measurement instruments. This year, we launched a number of new DWDM-related products that will play a strategic role in accelerating our growth. These products include our DWDM Passive Component Test System that reduces testing time on the production floor from hours to mere seconds; our second-generation Remote Fiber Test System, which is the first in the industry to feature DWDM monitoring capabilities; our widely tunable laser source to test DWDM components and value-added optical modules; and our second-generation optical spectrum analyzers that characterize critical parameters for DWDM testing in the field and manufacturing plant. We plan to focus more R&D spending in this strategic sector for the next few years.

- **Exploit our Industrial and Scientific market opportunities**

The Industrial and Scientific product market is in full expansion. Ryan, Hankin & Kent estimates that the market for optical components will reach \$23 billion by 2003. Customers in this market include manufacturers of optical components, value-added optical modules and optical networking systems. These customers require higher-end, more complex test instruments for R&D, production and quality control applications. For example, manufacturers of erbium-doped fiber amplifiers, key enablers of DWDM networks, use laser sources, a variable attenuator and an optical spectrum analyzer to test for quality and performance. EXFO plans to dedicate significant resources to develop more solutions that will streamline our customers' production. Accepted orders for our Industrial and Scientific Division increased by more than 100% for the fifth consecutive year in fiscal 2000. By continuing to develop new products for this market segment, we are on schedule to have this division generate more than one-half of our revenues by fiscal 2002.

- **Innovate with automated test systems**

The demand for optical components is growing at a phenomenal rate. Optical component manufacturers, who are faced with a scarcity of qualified technical staff, are increasingly relying on automated test systems to increase yields, reduce costs, improve productivity and reduce human intervention on the production floor. EXFO provides several off-the-shelf systems, such as our DWDM Passive Component Test System, Environmental Test System and Optical Fiber Amplifier Test System, to meet these needs. We plan to work with technical experts to develop new solutions for this rapidly growing market.

- **Increase our manufacturing capacity**

Demand for our products accelerated throughout fiscal 2000 with sequential growth quarter to quarter. We accepted orders in the amount of \$86.7 million in fiscal 2000, representing an increase of more than 100% over last year. To meet this increase in demand, we are ramping up manufacturing. Subsequent to the year-end, we announced an agreement that provides us with an option to purchase 4.2 million square feet of land in the Quebec Metro High-Tech Park. A facility will be built to house administrative services, research and development, marketing and some manufacturing. Our main manufacturing activities, however, will remain at their current location. With the purchase of a new facility in June 2000, EXFO makes use of

182,000 square feet—including 55,000 square feet dedicated to manufacturing—among three buildings. Once the first phase of construction, which includes a 150,000 square-foot building, is completed in the High-Tech Park in the fall of 2001, the former buildings will be used exclusively for manufacturing. As a result, we intend not only to fulfill demand for our products but also reduce our lead time.

- **Pursue acquisitions**

Subsequent to our year-end, we acquired Burleigh Instruments, Inc. for \$235 million in EXFO stock and \$40 million in cash. Burleigh is a leading supplier of DWDM wavelength measurement instruments and precision positioning equipment. This acquisition increases the breadth and scope of our Industrial and Scientific product line with a number of complementary, high-performance DWDM test instruments. In addition, Burleigh's precision positioning technology provides us with a competitive advantage by offering precision as well as testing during the assembly and packaging of optical components. Following this acquisition, we believe we are one of the best-positioned companies in the industry to offer a broad range of automated solutions for testing and alignment. Prior to our Initial Public Offering, we acquired Nortech Fibronic Inc. for \$2.8 million to complement our Portable and Monitoring product line.

Our acquisition strategy targets complementary businesses with leading-edge technologies. We plan to leverage these technologies through our marketing resources and global sales channels to increase our market coverage. Our solid balance sheet and strong cash position will enable us to aggressively pursue acquisitions that will enhance our competitive position and increase shareholder value.

### **EXFO culture and values**

We have been on the move during the past year, especially with the transition from a private to a public company. This year alone, the number of people working at EXFO has almost doubled to more than 750. I'm proud that our corporate culture remains as strong as ever with a high priority on innovation, customer satisfaction and teamwork. We've reinforced these values by including every employee in our stock option plan. In expanding our company, we've implemented measures to transmit our best practices to newcomers. We widely apply internal training and continuous improvement programs.

In addition, employee diversity matters to EXFO because we benefit from valuable knowledge about global markets.

### **Acknowledgments**

I want to thank our employees for their strong commitment in providing quality products and services to our customers. I also want to express my gratitude to our customers for the confidence they have shown in EXFO. Finally, I want to thank our Board of Directors for its wise counsel and our shareholders for their continued support in building the premier fiber-optic test, measurement and monitoring company in the world. Being No. 1, after all, has been the single-minded aim of this company since we opened our doors 15 years ago. In the not too distant future, I hope to report that we have become the prime mover in the fiber-optic test, measurement and monitoring industry.

Sincerely,



Chairman, CEO and President  
November 8, 2000