

**It All
Adds Up...**



Dear Fellow Shareholders,

In my 16 years at the helm of EXFO, fiscal 2001 ranks as one of the most paradoxical. During the first half, which was punctuated by explosive demand for our products, we focused on expanding manufacturing capacity and meeting customer demand for urgent deliveries. In the second half, which was marked by a softening in the economy and telecommunications industry, quality of execution, control of expenses and market share initiatives captured our attention. Despite this ongoing challenging environment, I am very pleased to report that fiscal 2001, our first full year as a public company, heralded our 16th consecutive period of growth. We posted sales of \$146 million, up 104% from 2000. In fact, our compound annual growth rate for sales during the last 10 years was about 50% and we never experienced a year with less than 25% growth in our history. On the other hand, we estimate that the global telecommunications equipment market grew between 10% and 15% annually during the same period.

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EXFO people have been at the heart of our accomplishments over the years. Their relentless pursuit of customer satisfaction, quality of execution and market penetration have made EXFO a genuine success story. This results-driven attitude has been bolstered throughout the entire organization with variable compensation and stock option plans that are aligned with customer and shareholder priorities. In addition, we have continued expanding training programs to enhance the skill sets and management abilities of our people in line with the long-term growth and development of the company.

Innovation was at the forefront of all our initiatives in 2001. We launched more than 20 new products to expand our presence in various markets. Being market-driven, we further improved our best-in-class product development processes to respond quickly and efficiently to the most demanding opportunities. These processes were deployed to our newly acquired subsidiaries, while we expanded our role in driving international measurement standards and filed several major patents. Gross R&D expenses amounted to \$17.6 million in 2001, up 88% over the previous year. Altogether, 46% of our sales in 2001 originated from products that have been on the market for two years or less.

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We demonstrated our commitment to international markets with expanded sales coverage. Asia is strategically important for EXFO due to its long-term growth potential. Consequently, we moved our international sales management team to our EXFO Asia-Pacific office and service center in Singapore, and we further increased our operations with a new sales office and service center in Beijing. All told, we almost tripled sales to \$19 million in Asia, now representing 13% of our global revenue stream.

We relocated our EXFO Europe office to a larger facility in order to strengthen our sales and after-sales support throughout the region. Altogether, 42% of our sales came from outside of North America in 2001, including 21% from Europe and 8% from the rest of the world. We also bolstered our diversification plan in terms of customers and products. Our top three customers accounted for less than 13% of sales in 2001. Following our acquisitions, our comprehensive product portfolio of approximately 40 product families in each of our two divisions makes EXFO a truly global and diversified company.

From a market development standpoint, we expanded our addressable markets with the announcement of three strategic acquisitions to strengthen our technology base in scientific instrumentation, process automation and protocol-layer testing. The integration of these companies is proceeding according to plan and we are leveraging the various synergies to unleash the full potential of our very capable new partners.

With our long-term view, we deployed a Customer Relationship Management (CRM) initiative throughout our global organization. This deployment will help our staff keep better track of the specific interests of all our customers around the world and, therefore, provide them with better and more customized service. We also nearly doubled our combined manufacturing capacity in Quebec City, QC, and Victor, NY, during the first half of 2001 to reduce our delivery lead times and increase customer satisfaction for both of our product divisions.

Considering all of these financial, strategic and operational accomplishments, *it all adds up* to one growing company!

Portable and Monitoring Division

The long-term outlook for the telecommunications industry remains robust with bandwidth demand still growing at remarkable levels. Just take a minute to consider new applications that require a great deal of bandwidth like video conferencing and Web-based video-on-demand. Optical fiber represents the best medium to fulfill these bandwidth-intensive requirements.

There is a major shift in focus from long-haul to metro and access networks in North America and Europe. Due to market conditions and a competitive landscape, several network service providers are lowering their capital expenditures. These carriers are now focusing on extracting the most possible value from their existing optical networks by adding DWDM channels, lighting dark fibers and increasing transmission rates to meet the demand for bandwidth-hungry applications. Furthermore, the traditional boundaries defining the physical, optical and protocol layers of an optical network are becoming blurred due to the complexity of DWDM networks.

EXFO has developed a sound strategy to exploit these market opportunities. We will continue to expand our addressable markets to ensure our long-term growth and leadership position as demonstrated by the acquisition of Avantas Networks. Avantas' field-portable product line represents the only solution on the market that covers protocols like ATM, SONET, SDH, Ethernet and Gigabit Ethernet, as well as data transmission rates from OC-192, or 10 Gb/s, all the way down to DS0, or 64 kb/s, and STM-64 down to E0, all on a single platform.

Avantas' highly talented design team will help EXFO introduce a fully integrated solution that provides efficient and cost-effective testing at the physical-, optical- and protocol-layer levels inside a single box. As a result, field technicians will no longer have to carry separate instruments like an Optical Time Domain Reflectometer (physical layer), Optical Spectrum Analyzer (optical layer) and SONET or SDH Analyzer (protocol layer) for their full testing requirements. Fully integrated testing and protocol-layer testing solutions are expected to be among our key growth vehicles in 2002.

We will continue to leverage our modular platform design to introduce new testing technologies, provide new functionalities, be quicker to market and allow our customers to protect their initial investments. This future-proof approach will benefit our customers tremendously following the market acceptance of the FTB-400 Universal Test System in 2001. This second-generation platform, which covers DWDM networks with higher channel counts and more densely spaced wavelengths, enables carriers to handle all of their testing requirements in long-haul, metro and access areas.

We will further develop the capabilities of our Remote Fiber Test System (RFTS). As telecommunication services are gaining in strategic, economic and security importance, so are network reliability and quality of service. We were first-to-market with DWDM monitoring capabilities on our RFTS, which includes the physical and optical layers, and we will further extend its capabilities to the protocol layer with Avantas' Network Guardian.

Industrial and Scientific Division

Optical component and system manufacturers have been affected by the slowdown in network deployment and resulting buildup of inventories. Leading manufacturers, however, are maintaining their R&D budgets in their quest to spearhead the design of more flexible, higher-capacity networks that can be deployed at a lower cost. Consequently, new production lines are still being rolled out in significant numbers.

To help optical component and system manufacturers respond to these market realities, we will continue to launch disruptive technologies and drive approval of international standards. This initiative has been demonstrated by the introduction of our Femtosecond PMD Analyzer, whose revolutionary technology has been accepted as a reference test method by leading standards bodies. Our Femtosecond PMD Analyzer enables users to measure the smallest PMD values in narrowband DWDM channels and broadband components in the simplest, fastest and most repeatable manner. We also released our Optical Waveguide Analyzer, which represents the industry's first and only commercial refractive index profiler for market-winning planar and arrayed waveguide (AWG) technologies. These latest breakthroughs reflect our commitment to developing leading-edge technologies that have tremendous competitive advantages in high-growth nascent sectors. Tapping into new markets with a first-mover advantage is usually a sure-fire plan for lucrative returns.

We will further enhance our innovative modular design for our Industrial and Scientific platform. We will accomplish this by continuously introducing new test modules and technologies that often trickle down to our field-portable platform. We will also improve this platform's speed, capability, scalability and ease of programming to accelerate the migration from research labs to production engineering and from low-scale manufacturing to full-fledged automation.

We will continue to design automated test systems, such as our DWDM Passive Component Test System, that enable non-skilled workers to characterize increasingly challenging optical parameters with relative ease. This will allow manufacturers to devote their best minds to critical R&D activities. We will also take advantage of leading-edge, interferometric measurement technologies from partners like Burleigh Instruments that produce best-in-class Wavemeter® instruments.

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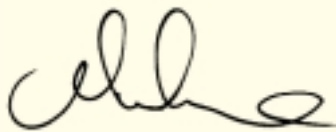
semi-automated manufacturing solutions that help them increase yields and reduce costs on the production floor. We also intend to seek strategic partnerships with leading system integrators in order to allow them to customize EXFO's semi-automated solutions to the specific processes that continue to be unique and proprietary to each manufacturer.

It All Adds Up

I firmly believe we are well-positioned for long-term growth at EXFO. As part of our strategic planning process for fiscal 2002, we are focusing on profitable growth, customer satisfaction, market-driven innovation, workforce development and building strong foundations for the future. At this point, I would like to thank our people for their hard work and commitment during the past year. Fiscal 2001 was particularly exciting for all of us with the integration of our acquired companies. We will continue to foster our core values and common beliefs throughout the company, so they can serve as a guide for our people to make the best decisions based on a market-focused, results-oriented and customer-driven mindset. Without the contribution of our 1,150 employees, EXFO would not be primed to reach new heights.

We will also further strengthen EXFO's brand name recognition to reflect our reputation in the industry by heightening our focus on innovation, quality and customer satisfaction. I am particularly looking forward to launching key products in upcoming months that will shed light on our growth strategy and, ultimately, should impact the industry. These product launches highlight the fact we are working diligently to capture market share in our competitive environment and increase shareholder value. Put this together and *it all adds up* to one unmistakable conclusion—EXFO is ready to fulfill its mission of becoming the global leader in the fiber-optic test, measurement and automation industry.

Sincerely,



Germain Lamonde
Chairman, President and CEO
November 7, 2001