



## Dear Fellow Shareholders,

*Obstacles are those frightful things you see when you take your eyes off your goal.*

— Henry Ford, American automotive pioneer

Fiscal 2002 was certainly the most challenging in my 17 years at the helm of EXFO as the unprecedented downturn swept through all sectors of the global telecommunications industry, leaving many companies, employees and shareholders searching for answers. At EXFO, we didn't wait for a market recovery. We swiftly implemented restructuring plans, focused on market-share gains and expanded our addressable market, while maintaining a strong balance sheet.

### Acted decisively

We took decisive actions in 2002 to align our cost structure to deteriorating market conditions. We reduced our workforce by approximately 30%, froze employee salaries and implemented rigorous cost-control measures. We also improved the efficiency of the organization in terms of management, manufacturing operations and supply-chain processes to allow us to get down to a leaner level. In short, we made tough decisions with compassion for departing employees and upheld our unwavering commitment to fulfill customer expectations.

### Focused on market-share gains

As we tackled restructuring responsibilities head-on, we focused on market-share gains to ultimately carry us back to the road of growth and profitability. I am encouraged by the fact we bolstered sales sequentially during the last two quarters of fiscal 2002 and improved net bookings in each of the last three quarters, while most industry players witnessed their top lines drop or remain flat. We plan to continue expanding our market share by innovating our way out of this downturn.

### Expanded our addressable market

With a delicate balance between prudence and risk-taking, we entered the protocol-layer test market in fiscal 2002 to complement our recognized leadership in optical- and physical-layer testing. The acquisitions of Avantas Networks (renamed EXFO Protocol) in November 2001 and of the assets of *gnubi communications* in October 2002 not only enhanced our competitive position with network service providers (NSPs) and system vendors, but they also allowed us to double our addressable market and expand our presence in the healthier data communications test market.

### Maintained a strong balance sheet

Our financial prudence and sound commercial practices over the years have allowed us to maintain a solid balance sheet with practically no debt. This fiscal responsibility, in turn, provides our customers with the assurance that they can count on EXFO as a solid, long-term partner. This is no small consideration when selecting a test and measurement supplier and, as such, it increasingly favors EXFO.

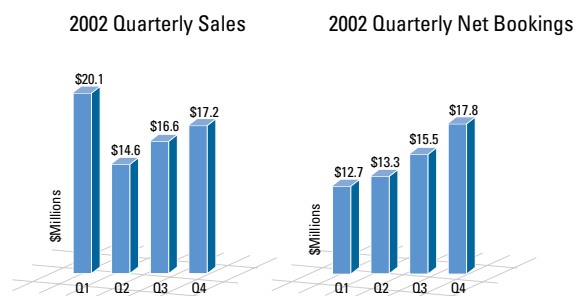
### Actions and results

EXFO completed fiscal 2002 with sales of \$68.3 million compared to \$146.0 million in 2001 and \$71.6 million in 2000. There's no doubt 2002 proved to be very demanding for all team members at EXFO, but I remain encouraged by the following actions:

- We released a record 25 new products in 2002 to enhance our position mainly with NSPs and system vendors.
- Revenue from new products (i.e., two years or less on the market) accounted for 48% of total sales.
- We entered the fully complementary, high-margin protocol-layer test sector with two strategic acquisitions that doubled our addressable market.
- We re-engineered the whole organization to bring us closer to our break-even level.
- We implemented an enterprise resource planning (ERP) system on-time, on-scope and on-budget to improve our supply chain and, ultimately, customer satisfaction.

As a result...

- We increased sales by 12% and 5% sequentially during the last two quarters of 2002.
- We raised our net bookings in the last three quarters of 2002 with bookings of \$13.3 million, \$15.5 million and \$17.8 million, respectively.
- We returned to positive cash-flow-from-operations in the fourth quarter in the amount of \$300,000.
- We improved our operating margins in the last three quarters by more than \$4 million on a pro forma basis.
- We reduced inventory levels by 10% (excluding inventory write-offs).
- We maintained a healthy balance sheet with a cash position of approximately \$50 million and practically no debt.



As we enter 2003, I am confident that EXFO will be among the first telecom companies to recover from this downturn. The reason for my cautious optimism can best be summed up through our theme for this year's annual report: *Well designed. Well diversified. Well positioned.*

**EXFO product lines are well designed.** EXFO has established a strong reputation for quality and innovation over the years. For example, we pioneered modular system designs for optical testing in the mid-1990s, and we continue to build on our first-mover

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advantage through the introduction of next-generation platforms and best-in-class, plug-and-play modules. We recently enhanced our field-testing and manufacturing platforms to enable NSPs, system vendors and component manufacturers to lower costs and increase efficiency in their respective environments. We will

leverage our base of more than 10,000 field-testing and manufacturing platforms to offer the most complete telecom and datacom test solutions in the industry.

In addition, we will increase our competitive advantages—namely time-to-market and product breadth—through the efficient design of new test technologies to meet the emerging requirements of the strategic markets that we address. We will also broaden our presence in metro and access networks with solutions that help customers respond to the demand for bandwidth-intensive applications. Our product offering, among the most advanced and extensive in the industry, combined with our core expertise in fiber optics, sets us apart for handling increasing network complexity.



**EXFO is well diversified.** Our global diversification strategy represented one of our greatest strengths this year. In terms of our product portfolio, we had more than 90 product families with

no family accounting for more than 5% of sales in 2002. We further diversified our product portfolio into protocol-, optical- and physical-layer test solutions following our strategic acquisitions. With regard to our base of 2000-plus customers in 70 countries around the world, our top three represented 15% of sales last year and our top customer 10% of sales. Geographically, 43% of sales came from outside North America in 2002, including 19% from Asia, 14% from Europe and 10% from the rest of the world. We intend to pursue this multi-faceted diversification plan to increasingly capture market share and expand our global leadership as per our corporate history and mission statement.

**EXFO is well positioned.** We significantly improved our competitive positioning in 2002 with new product introductions, an all-in-one concept for protocol-, optical- and physical-layer testing and timely acquisitions. In the process, we fully integrated mission-critical 10 Gb/s SONET/SDH and Gigabit Ethernet technologies into our FTB-400 field-testing platform to create value-added solutions that led to several product approvals among Tier 1 NSPs around the world. Following the year-end, we further strengthened our strategic positioning with the acquisition of the assets of *gnubi communications*, a leading supplier of multi-channel telecom and datacom testing solutions for system manufacturers. *gnubi's* EPX systems share a similar modular design to EXFO's since both platforms are PC-centric, Windows-driven, highly flexible and fully scalable.

Clearly, I am enthusiastic about the synergies that will be generated on the protocol-testing side between *gnubi* and EXFO, including the access to *gnubi's* products for a larger customer base

## Delivering on our promises

November 2001	December 2001	January 2002	February 2002
<ul style="list-style-type: none"> <li>Completes acquisition of Avantas Networks</li> </ul>  <ul style="list-style-type: none"> <li>Releases FTB-8500 Packet Blazer™ test module for Gigabit Ethernet networks</li> </ul>	<ul style="list-style-type: none"> <li>Establishes strategic alliance with ATS Automation Tooling Systems</li> </ul>  <ul style="list-style-type: none"> <li>Implements enterprise resource planning (ERP) system</li> </ul>	<ul style="list-style-type: none"> <li>Adds second-order measurement capability to FPMD-5600 Femtosecond PMD Analyzer</li> </ul>	<ul style="list-style-type: none"> <li>Launches FTB-5800 Chromatic Dispersion Analyzer</li> <li>Releases IQS-500 Intelligent Test System</li> </ul>



FPMD-5600  
Femtosecond  
PMD Analyzer



FTB-5800  
Chromatic  
Dispersion Analyzer



IQS-500 Intelligent  
Test System

through our global sales channels; the possibilities it creates for accelerating time-to-market of new field-testing solutions; and the new opportunities it produces for datacom testing. With our global R&D development teams and award-winning

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continue to undergo restructuring and consolidation in the near future. Some competitors will opt for a strategic retreat, redirect their R&D dollars to other sectors, or consider divestiture and merger-and-acquisition alternatives. EXFO intends to take full advantage of this changing marketplace by providing customers around the world with the comfort of a stable and solid partner. In addition, we plan to make the most of this buyer's market by continuing to selectively acquire strategic companies or product lines that further strengthen our competitive position.

### Wrap-up

To summarize, we have reduced our cost structure to fit our operating model and achieved positive cash-flow-from-operations in the fourth quarter of 2002; we have gained market share and expanded our addressable market despite a challenging environment; we have maintained a healthy balance sheet with a strong cash position and practically no debt; and we

portfolio-review process, we will continue to deliver strategic and innovative solutions that customers worldwide have come to expect from EXFO.

As for the telecommunications industry, the fiber-optic test and measurement sector will

have strengthened our competitive advantages with key product launches and strategic acquisitions. As a result, I believe we enjoy a privileged situation compared to our industry peers and, more importantly, we are well positioned to return to profitable growth and further increase our market share. Certainly, relentless efforts are being deployed throughout the organization to reach these goals.

In conclusion, I would like to thank our employees for their commitment to EXFO and for their quality of execution during this challenging period. I also want to express my gratitude to customers for their unwavering confidence in EXFO as the vendor of choice. Finally, I want to thank our shareholders for believing in a company that has never lost sight of its ultimate goal—becoming the global leader in the fiber-optic test, measurement, monitoring and automation industry.

Sincerely,



Germain Lamonde  
Chairman, President and CEO  
October 30, 2002

#### March 2002

- Introduces FTB-8000 SONET/SDH Analyzer for 10 Gb/s networks
- Offers Fiber Guardian and Optical Guardian for network reliability and quality of service
- Launches IQS-12001B Cable Assembly Test System with mandrel-free reflection measurements
- Releases IQS-1700 High-Performance Power Meter
- Introduces ProAlign™ 5000 Component Assembly Workstation

#### May 2002

- Lowers break-even level

#### June 2002

- Releases Acticure® 4000 Ultraviolet/Visible Spot Cure System

#### August 2002

- Records sales growth for second consecutive quarter

#### October 2002

- Purchases assets of *gnubi communications*



FTB-8000 SONET/SDH Analyzer



ProAlign™ 5000 Component Assembly Workstation



Acticure® 4000 Ultraviolet/Visible Spot Cure System