



Press Release

EXFO Reports First-Quarter Results

QUEBEC CITY, CANADA, January 16, 2002—EXFO Electro-Optical Engineering Inc. (NASDAQ: EXFO, TSE: EXF) today announced first-quarter results for fiscal 2002.

EXFO reported sales of US\$20.1 million for the quarter ended November 30, 2001 compared to US\$28.5 million for the same period in fiscal 2001.

Pro forma net loss* for the first quarter of fiscal 2002 was US\$1.9 million, or \$0.03 per share, compared to pro forma net earnings of US\$7.6 million, or \$0.16 per share, for the first quarter of 2001.

EXFO's net loss for the first quarter of 2002 was US\$19.1 million, or \$0.33 per share, compared to net earnings of US\$7.5 million, or \$0.16 per share, for the same period last year.

Gross margin, including an inventory write-off of US\$3.5 million, amounted to 37.8% of sales for the first quarter of 2002 compared to 63.9% of sales for the same period in 2001. Excluding this non-recurring charge, gross margin would have reached 55.1%, in line with management's expectations based on actual sales for this quarter. Altogether, EXFO incurred restructuring charges of US\$3.9 million in the first quarter of fiscal 2002.

"There's no question, these are unprecedented times in the telecommunications industry," said Germain Lamonde, Chairman, President and CEO of EXFO. "We've taken appropriate actions to deal with this current situation, while protecting our long-term capabilities and intensifying our focus on gaining market share."

Business Highlights

EXFO continued to introduce best-of-class products during the first quarter of fiscal 2002, namely the Packet Blazer™ Gigabit Ethernet test module and the FPMD-5600 Femtosecond Polarization Mode Dispersion Analyzer.

The Company also closed its acquisition of Avantas Networks Corporation (renamed EXFO Protocol Inc.) on November 2, 2001. EXFO Protocol is a supplier of leading-edge fiber-optic testing and optical network performance management that supports a wide range of protocols and data transmission rates.

"We have already begun to leverage this acquisition with the introduction of our Gigabit Ethernet test module for metro and access networks," Mr. Lamonde said. "Based upon our newly acquired protocol-testing expertise, we also plan to deliver a fully integrated solution for physical-, optical- and protocol-layer testing in the near future, and we intend to take advantage of our long-established relationships in the carrier market with this new product."



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Fiber-optic test, measurement and monitoring equipment

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Operating Expenses

Selling and administrative expenses amounted to US\$10.3 million, or 51.3% of sales, for the first quarter of fiscal 2002 compared to US\$8.9 million, or 31.3% of sales, for the same period in 2001. Gross research and development expenses totalled US\$4.2 million, or 20.9% of sales, for the first quarter of fiscal 2002 compared to US\$2.8 million, or 10.0% of sales, for the same period last year. The percentage increases in expenses were mainly due to decreased sales during the first quarter of 2002.

To align costs with current market conditions, EXFO implemented additional cost-cutting measures that will provide approximately \$6 million in annualized pre-tax savings. The Company lowered operating expenses, froze employee salaries and reduced its workforce by 10%.

Business Outlook

Due to the prolonged downturn in the telecommunications industry, EXFO forecasted sales between US\$14 million and US\$18 million and a pro forma net loss between \$0.05 and \$0.09 for the second quarter of fiscal 2002.

“The telecommunications industry continues to be challenging, but I believe that our strong product innovation pipeline and synergies from our strategic acquisitions will return us to growth in the second half of fiscal 2002,” Mr. Lamonde said. “We will be launching a number of major leading-edge products in upcoming weeks that will significantly increase our ability to gain market share.”

Conference Call and Webcast

EXFO will host a conference call today at 10:15 a.m. (Eastern time) to review its first-quarter results. To listen to the conference call and participate in the question period via telephone, dial 1 (514) 985-4434.

Germain Lamonde, Chairman, President and CEO, and Pierre Plamondon, CA, Vice-President of Finance and Chief Financial Officer, will participate in the call. A replay of the conference call can be accessed after 1:30 p.m. (Eastern time) today until midnight (Eastern time) on January 23, 2002. The replay number is 1 (416) 626-4100 and the password is 20007553. A Webcast of the conference call will also be available on EXFO’s Web site at www.exfo.com, under the Investors section.



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* *Pro forma net earnings (loss) represent net earnings (loss) excluding amortization of goodwill and the after-tax effect of amortization of intangible assets and restructuring charges.*

	Three Months Ended November 30,	
	2000	2001
<i>Net earnings (loss) in accordance with GAAP</i>	\$ 7,505	\$ (19,055)
<i>Pro forma adjustments:</i>		
<i>Amortization of goodwill</i>	124	12,450
<i>Amortization of intangible assets</i>	14	3,271
<i>Tax effect of amortization of intangible assets</i>	(5)	(1,145)
<i>Restructuring charges</i>	-	3,910
<i>Tax effect of the restructuring charges</i>	-	(1,368)
<i>Pro forma net earnings (loss)</i>	<u>\$ 7,638</u>	<u>\$ (1,937)</u>
<i>Basic and diluted pro forma net earnings (loss) per share</i>	\$ 0.16	\$ (0.03)

EXFO provides pro forma financial information to help the reader better understand its operating results. This information is not in accordance with, or an alternative for, generally accepted accounting principles and may not be comparable to similarly titled measures reported by other companies.

About EXFO

EXFO, which derives its name from *EX*pertise in *Fiber Optics*, is a leading designer and manufacturer of fiber-optic test, measurement and automation solutions for the global telecommunications industry. EXFO markets its products to more than 2000 customers in 70 countries around the world.

EXFO and its subsidiaries develop products for two main markets. The Portable and Monitoring Division provides handheld and modular instruments for the physical-, optical- and protocol-layer testing needs of telecommunications carriers and network service providers. The Industrial and Scientific Division offers an extensive line of high-performance instruments, test systems and automated manufacturing equipment for optical component and system vendors as well as for research and development labs.



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This news release may contain statements that constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements other than historical information or statements of current condition. These statements may appear in a number of places in this news release and include statements concerning our intent, belief, or current expectations regarding future events. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, we cannot assure you that the expectations will prove to have been correct. Accordingly, you should not place undue reliance on these forward-looking statements. In any event, these statements speak only as of the date of this news release.

We undertake no obligation to revise or update any of them to reflect events or circumstances after the date of this news release, or to reflect new information or the occurrence of unanticipated events. Readers are referred to our Annual Report on Form 20-F and our other filings with the U.S. Securities and Exchange Commission and the Canadian securities commissions for a discussion of the various factors that may affect our future performance and other important risk factors concerning us and our operations.

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EXFO Electro-Optical Engineering Inc.

Interim Consolidated Balance Sheet

(in thousands of US dollars)

	<u>As at August 31, 2001</u>	<u>As at November 30, 2001</u> (unaudited)
Assets		
Current assets		
Cash and cash equivalents	\$ 7,729	\$ 20,876
Short-term investments	66,861	37,334
Accounts receivable		
Trade, less allowance for doubtful accounts of \$854 (\$893 as at August 31, 2001)	24,531	15,757
Other	3,660	3,864
Income taxes receivable	-	7,778
Inventories (note 3)	44,345	44,820
Prepaid expenses	1,265	1,553
Future income taxes	1,423	1,382
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	149,814	133,364
Property, plant and equipment	27,140	29,738
Intangibles assets and goodwill	264,242	308,932
Future income taxes	1,381	2,475
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	\$ 442,577	\$ 474,509
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 4)	\$ 16,180	\$ 16,283
Income taxes payable	2,623	-
Deferred revenue	616	491
Current portion of long-term debt	106	91
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	19,525	16,865
Deferred grants	1,002	766
Long-term debt	664	642
Future income taxes	6,581	5,940
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	27,772	24,213
Contingency (note 7)		
Shareholders' Equity		
Share capital	429,995	489,611
Contributed surplus	1,457	1,483
Cumulative translation adjustment	(8,333)	(13,429)
Deficit	(8,314)	(27,369)
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	414,805	450,296
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	\$ 442,577	\$ 474,509

EXFO Electro-Optical Engineering Inc.
Interim Unaudited Consolidated Statements of Earnings

(in thousands of US dollars, except share and per share data)

	Three Months Ended November 30,	
	2000	2001
Sales	\$ 28,519	\$ 20,138
Cost of sales (including restructuring charges of \$3,500, note 6)	10,308	12,532
Gross margin	18,211	7,606
Operating expenses		
Selling and administrative	8,920	10,325
Net research and development (note 5)	1,972	3,145
Amortization of property, plant and equipment	514	1,348
Amortization of intangible assets	14	3,271
Restructuring charges (note 6)	-	410
Total operating expenses	11,420	18,499
Earnings (loss) from operations	6,791	(10,893)
Interest income, net	2,631	699
Foreign exchange gain	2,359	33
Earnings (loss) before income taxes and amortization of goodwill	11,781	(10,161)
Income taxes		
Current	3,520	(2,574)
Future	632	(982)
	4,152	(3,556)
Earnings (loss) before amortization of goodwill	7,629	(6,605)
Amortization of goodwill	124	12,450
Net earnings (loss) for the period	\$ 7,505	\$ (19,055)
Basic and diluted earnings (loss) per share		
Earnings (loss) before amortization of goodwill	\$ 0.16	\$ (0.11)
Net earnings (loss)	\$ 0.16	\$ (0.33)
Basic weighted average number of shares outstanding (000's)	46,757	58,341
Diluted weighted average number of shares outstanding (000's) (note 8)	46,846	58,341