



EXFO Reports Significant Year-over-Year Increases in Sales, Net Earnings and Gross Margin

- *Sales increase 31.4% to \$35.5 million from \$27.0 M in Q1 2006*
- *GAAP net earnings reach \$3.5 million vs. \$0.4 million in Q1 2006, best quarter in six years*
- *Gross margin improves to 57.2% compared to 55.4% in Q1 2006, best quarter in five years*
- *Five new products launched, including 10 GigE module for FTB-200 Compact Platform*

QUEBEC CITY, CANADA, January 9, 2007—EXFO Electro-Optical Engineering Inc. (NASDAQ: EXFO; TSX: EXF) reported today significant year-over-year growth in sales, net earnings and gross margin for the first quarter ended November 30, 2006.

Sales increased 31.4% to US\$35.5 million in the first quarter of fiscal 2007 from US\$27.0 million in the first quarter of 2006, but decreased 0.5% from US\$35.7 million in the fourth quarter of 2006. Excluding Consultronics, which was acquired in January 2006, sales increased organically 21.8 % year-over-year. Net bookings improved by 21.0% year-over-year to US\$37.0 million for a book-to-bill ratio of 1.04 in the first quarter of fiscal 2007 from US\$30.6 million in the same period last year and 13.3% from US\$32.6 million in the fourth quarter of 2006.

Gross margin increased to its highest level in five years to 57.2% of sales in the first quarter of fiscal 2007 from 55.4% in the first quarter of 2006 and 54.3% in the fourth quarter of 2006.

GAAP net earnings in the first quarter of fiscal 2007 totaled US\$3.5 million, or US\$0.05 per diluted share, compared to US\$0.4 million, or US\$ 0.01 per diluted share, in the same period last year and US\$2.9 million or US\$0.04 per diluted share, in the fourth quarter of 2006. GAAP net earnings in the first quarter of fiscal 2007 included US\$0.9 million in amortization of intangible assets and US\$0.3 million in stock-based compensation costs.

“We continue to execute our profitable growth strategy with solid year-over-year progression in terms of sales, gross margin and net earnings, without sacrificing our long-term plan as we keep strengthening our global sales organization and accelerating our new product development programs,” said Germain Lamonde, EXFO’s Chairman, President and CEO. “Within our Telecom Division, our protocol business unit, which generated more than 80% sales growth from 2005 to 2006, continued to demonstrate solid traction in the first quarter on the strength of our strong product offering, accelerating roadmap and developments in the triple-play test market. Overall, the sale of new products contributed about one-third to our revenues in the first quarter, while five new test solutions were released with several major product launches still to come. Given these data points, I am optimistic about the full fiscal year and our long-term prospects.”

Selected Financial Information
(In thousands of US dollars)

Segmented results:	Q1 2007	Q4 2006	Q1 2006
	(unaudited)	(unaudited)	(unaudited)
Sales:			
Telecom Division	\$ 29,522	\$ 30,111	\$ 22,076
Life Sciences and Industrial Division	6,025	5,622	4,968
Total	\$ 35,547	\$ 35,733	\$ 27,044
Earnings from operations:			
Telecom Division	\$ 1,803	\$ 1,275	\$ 488
Life Sciences and Industrial Division	956	1,088	195
Total	\$ 2,759	\$ 2,363	\$ 683
Other selected information:			
GAAP net earnings	\$ 3,533	\$ 2,910	\$ 355
Amortization of intangible assets	\$ 882	\$ 1,043	\$ 1,221
Stock-based compensation costs	\$ 285	\$ 213	\$ 274

Operating Expenses

Selling and administrative expenses amounted to US\$11.5 million, or 32.5% of sales, in the first quarter of fiscal 2007 compared to US\$9.1 million, or 33.5% of sales, in the same period last year and US\$10.9 million, or 30.4% of sales, in the fourth quarter of 2006.

Gross research and development expenses totaled US\$5.5 million, or 15.5% of sales, in the first quarter of fiscal 2007 compared to US\$4.0 million, or 14.8% of sales, in the first quarter of 2006 and US\$5.2 million, or 14.6% of sales, in the fourth quarter of 2006.

Net R&D expenses totaled US\$4.4 million, or 12.2% of sales, in the first quarter of fiscal 2007 compared to US\$3.1 million, or 11.6% of sales, in the same period last year and US\$4.3 million, or 12.0% of sales, in the fourth quarter of 2006.

First-Quarter Business Highlights

Market expansion — EXFO delivered sales growth of 31.4% year-over-year due to market-share gains in optical testing, the contribution from Consultronics' offering in xDSL, IPTV and VoIP testing, increased success of the company's protocol test solutions, as well as accelerated traction from select products in the Life Sciences and Industrial Division. This sales performance is aligned with the company's objective to achieve at least 20% revenue growth year-over-year for fiscal 2007.

Profitability — EXFO generated GAAP net earnings of \$3.5 million, or \$0.05 per diluted share, which includes a charge of US\$0.02 per diluted share for amortization of intangible assets and stock-based compensation costs. Profitability was positively affected by an increase in the company's gross margin in the first quarter. In terms of earnings from operations, it reached 7.8% in the first quarter versus the company's stated goal of 7% for the fiscal year.

Innovation — EXFO launched five new products in the first quarter including a 10 Gigabit Ethernet test module for the FTB-200 Compact Platform; a new software suite for its 1/10 Gigabit Ethernet test modules on the FTB-200, FTB-400 and IQS-500 test platforms; an IPTV quality-of-service (QoS) assessment package for the CoLT-450P DSL test set; the next-generation Cable Assembly and Component Test System for production testing of short fiber assemblies and fiber-to-the-x (FTTx) components; as well as FiberFinder™, a new breed of test instrument for the efficient and safe management of high-count, live and dark optical fibers. Sales from products that have been on the market for two years or less represented 32.8% of total sales in the first quarter of fiscal 2007, while the company's published goal is 35% for the fiscal year.

Business Outlook

EXFO forecasted sales between US\$34.0 million and US\$37.0 million and GAAP net earnings between US\$0.02 and US\$0.05 per diluted share for the second quarter ending Feb. 28, 2007. GAAP net earnings include US\$0.01 per diluted share in amortization of intangible assets and stock-based compensation costs.

“We are maintaining sales guidance between \$34 and \$37 million despite a typically weak start of a new calendar year, which indicates our confidence in reaching our growth metric of 20% or more for fiscal 2007,” Mr. Lamonde added.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (Eastern time) to review its financial results for the first quarter of fiscal 2007. To listen to the conference call and participate in the question period via telephone, dial 1-416-620-5690. Germain Lamonde, Chairman, President and CEO, and Pierre Plamondon, CA, Vice-President of Finance and Chief Financial Officer, will participate in the call. An audio replay of the conference call will be available one hour after the event until 7 p.m. on January 16, 2007. The replay number is 1-402-977-9141 and the reservation number is 21310947. The audio Webcast and replay of the conference call will also be available on EXFO’s Website at www.EXFO.com, under the Investors section.

About EXFO

EXFO is a recognized test and measurement expert in the global telecommunications industry. The Telecom Division, which represents the majority of the company’s business, offers a full suite of test solutions and monitoring systems to network service providers, cable TV operators, telecom system vendors and component manufacturers in approximately 70 countries. EXFO is the global market leader for portable optical test solutions and a leading supplier of protocol and access test solutions to enable triple-play deployments and converged IP networking. Its PC/Windows-based modular FTB-200; FTB-400 and IQS-500 test platforms host a wide range of modular test solutions across optical, physical, data and network layers, while maximizing technology reuse across several market segments. The Life Sciences and Industrial Division, which leverages several core telecom technologies, offers value-added solutions in the life sciences and high-precision assembly sectors based on advanced spot-curing, fluorescence microscopy and nanositioning solutions. For more information about EXFO, visit www.EXFO.com.

Forward-Looking Statements

This news release contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, and we intend that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are statements other than historical information or statements of current condition. Words such as *may, will, expect, believe, anticipate, intend, could, estimate, continue*, or the negative or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events and circumstances are considered forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in forward-looking statements due to various factors including consolidation in the global telecommunications test and measurement industry; capital spending levels in the telecommunications, life sciences and high-precision assembly sectors; concentration of sales; fluctuating exchange rates and our ability to execute in these uncertain conditions; the effects of the additional actions we have taken in response to such economic uncertainty (including our ability to quickly adapt cost structures with anticipated levels of business, ability to manage inventory levels with market demand); market acceptance of our new products and other upcoming products; limited visibility with regards to customer orders and the timing of such orders; our ability to successfully integrate our acquired and to-be-acquired businesses; the retention of key technical and management personnel; and future economic, competitive and market conditions. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict and many of which are beyond our control. Other risk factors that may affect our future performance and operations are detailed in our Annual Report, on Form 20-F, and our other filings with the U.S. Securities and Exchange Commission and the Canadian securities commissions. We believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, but 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. These statements speak only as of the date of this document. We undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document.

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For more information

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