



EXFO Reports Strong Sales Growth and Record Bookings

- ***Sales increased 11.4% sequentially to US\$39.2 million***
- ***Bookings improved 19.9% sequentially to a record-high US\$43.7 million***
- ***Six new products launched, including NQMS fiber monitoring system for optical networks***

QUEBEC CITY, CANADA, June 26, 2007—EXFO Electro-Optical Engineering Inc. (NASDAQ: EXFO; TSX: EXF) reported today strong sequential sales growth and record bookings for the third quarter ended May 31, 2007.

Sales increased 10.7% to US\$39.2 million in the third quarter of fiscal 2007 from US\$35.4 million in the third quarter of 2006 and 11.4% from US\$35.2 million in the second quarter of 2007. Net bookings improved 15.2% to a record-high US\$43.7 million for a book-to-bill ratio of 1.12 in the third quarter of fiscal 2007 from US\$37.9 million in the same period last year and 19.9% from US\$36.5 million in the second quarter of 2007.

Gross margin amounted to 57.1% of sales in the third quarter of fiscal 2007 compared to 56.4% in the third quarter of 2006 and 57.5% in the second quarter of 2007.

GAAP net earnings in the third quarter of fiscal 2007 reached US\$2.6 million, or US\$0.04 per diluted share, compared to US\$3.5 million, or US\$ 0.05 per diluted share, in the same period last year and US\$2.7 million, or US\$0.04 per diluted share, in the second quarter of 2007. Given that the Canadian dollar increased more than 9% compared to the US dollar in the third quarter of 2007, EXFO incurred a foreign-exchange loss of US\$0.6 million or US\$0.01 per diluted share.

GAAP net earnings in the third quarter of 2007 included US\$0.7 million in amortization of intangible assets as well as US\$0.2 million in stock-based compensation costs.

“I am pleased with our strong sequential sales growth and record bookings that resulted in a book-to-bill ratio of 1.12 for the third quarter,” said Germain Lamonde, EXFO’s Chairman, President and CEO. “This robust performance is due to strong execution across the Americas and EMEA, the diversification of revenue over a wider customer base, as well as market-share gains in protocol and optical testing. We’re increasingly exploiting our competitive advantages in next-generation IP testing and optical access test markets.”

“Thanks to strong bookings, we expect significant growth in the fourth quarter as reflected by a \$5 million sequential increase in sales guidance,” Mr. Lamonde added. “Based on these projections, we should conclude fiscal 2007 with nearly 20% sales growth, almost double the industry average, and an even higher increase in GAAP net earnings. These figures are in line with our long-term objectives to grow revenues faster than our end-markets and increase earnings faster than revenues. As a result, EXFO should increase market-share gains for a 22nd consecutive year based on superior market-leading innovation and quality of execution.”

Selected Financial Information
(In thousands of US dollars)

Segmented results:	Q3 2007	Q3 2006	Q2 2007
	(unaudited)	(unaudited)	(unaudited)
Sales:			
Telecom Division	\$ 33,821	\$ 29,935	\$ 29,297
Life Sciences and Industrial Division	5,384	5,475	5,910
Total	\$ 39,205	\$ 35,410	\$ 35,207
Earnings (loss) from operations:			
Telecom Division	\$ 2,143	\$ 3,696	\$ 1,078
Life Sciences and Industrial Division	697	(88)	1,003
Total	\$ 2,840	\$ 3,608	\$ 2,081
Other selected information:			
GAAP net earnings	\$ 2,574	\$ 3,504	\$ 2,684
Amortization of intangible assets	\$ 653	\$ 994	\$ 630
Stock-based compensation costs	\$ 178	\$ 264	\$ 241
Impairment of long-lived assets	\$ —	\$ 604	\$ —
Grants revenue	\$ —	\$ 1,307	\$ —

Operating Expenses

Selling and administrative expenses amounted to US\$12.8 million, or 32.7% of sales, in the third quarter of fiscal 2007 compared to US\$11.1 million, or 31.3% of sales, in the same period last year and US\$12.2 million, or 34.6% of sales, in the second quarter of 2007.

Gross research and development expenses totaled US\$6.6 million, or 16.9% of sales, in the third quarter of fiscal 2007 compared to US\$5.3 million, or 15.1% of sales, in the third quarter of 2006 and US\$5.9 million, or 16.9% of sales, in the second quarter of 2007.

Net R&D expenses totaled US\$5.3 million, or 13.6% of sales, in the third quarter of fiscal 2007 compared to US\$4.1 million, or 11.6% of sales, in the same period last year and US\$4.7 million, or 13.3% of sales, in the second quarter of 2007.

Third-Quarter Business Highlights

Market expansion — EXFO continued gaining market share in its core optical testing segment and technology-leading protocol segment aimed at next-generation IP test solutions. After nine months into the fiscal year, EXFO increased its sales 18.8% and bookings 21.0% year-over year, while its corporate objective for fiscal 2007 is 20% sales growth. Given projected sales between US\$41.0 and US\$44.0 million for the fourth quarter, the company now expects to achieve a growth rate between 17.7% and 20.0% for fiscal 2007.

Profitability — EXFO generated GAAP net earnings of US\$2.6 million, or US\$0.04 per diluted share, which included a charge of US\$0.01 for amortization of intangible assets and stock-based compensation costs. As well, the strength of the Canadian dollar during the third quarter produced a foreign-exchange loss of US\$0.6 million or US\$0.01 per diluted share. In terms of earnings from operations, it reached 7.2% in the third quarter of 2007 and 7.0% after nine months into the fiscal year, while the goal for fiscal 2007 is 7%.

Innovation — EXFO launched six new products in the third quarter and 18 after nine months into fiscal 2007. New product introductions in the third quarter included amongst others the NQMS*fiber* Network Quality Monitoring System for the surveillance of optical networks, IPTV quality-of-service test capabilities for the Packet Blazer Ethernet product line, enhanced test capabilities for the 10 Gigabit Ethernet test solution and FastReporter software for the post-processing, analysis and reporting of OTDR and other optical test results. Following the quarter end, the company introduced the NQMS*packet* quality assurance system for the monitoring of triple-play IP services. Sales derived from products that have been on the market two years or less accounted for 31.6% of total sales in the third quarter of fiscal 2007 and 33.7% after nine months, while the published goal for fiscal 2007 is 35%.

Business Outlook

EXFO forecasted sales between US\$41.0 million and US\$44.0 million for the fourth quarter ending August 31, 2007. Based on this sales outlook, GAAP net earnings should range between US\$0.06 and US\$0.09 per diluted share, assuming stability in the Canadian dollar. GAAP net earnings include US\$0.01 per diluted share in amortization of intangible assets and stock-based compensation costs.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (EDT) to review its financial results for the third quarter of fiscal 2007. To listen to the conference call and participate in the question period via telephone, dial 1-416-641-6654. 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 July 3, 2007. The replay number is 1-402-977-9141 and the reservation number is 21339852. 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 nanopositioning 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

Vance Oliver
Manager, Investor Relations
(418) 683-0913, Ext. 3733
vance.oliver@exfo.com