



**REMARKS FOR CAE'S FIRST-QUARTER FISCAL YEAR 2007**

**August 10, 2006**

**Time: 12h00**

**Speakers:**

**Mr. Robert E. Brown, President and Chief Executive Officer**

**Mr. Alain Raquepas, Vice-President, Finance, and Chief Financial Officer**

**Mr. Andrew Arnovitz, Director, Investor Relations**



**Andrew Arnovitz, Director, Investor Relations**

Good afternoon, everyone, and thank you for joining us today. Before we begin I need to read the following:

“Certain statements made during this conference, including, but not limited to, statements that are not historical facts, are forward-looking and are subject to important risks, uncertainties and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events. These statements do not reflect the potential impact of any non-recurring or other special items or events that are announced or completed after the date of this conference, including mergers, acquisitions, or other business combinations and divestitures.

You will find more information about the risks and uncertainties associated with our business in the MD&A section of our annual report and annual information form for the year ended March 31, 2006. These documents have been filed with the Canadian securities commissions and are available on our website ([www.cae.com](http://www.cae.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)). They have also been filed with the US Securities and Exchange Commission under Form 40-F and are available on EDGAR ([www.sec.gov](http://www.sec.gov)). Forward-looking statements in this conference represent our expectations as of August 10, 2006 and, accordingly, are subject to change after this date.

We do not update or revise forward-looking information even if new information becomes available. You should not place undue reliance on forward-looking statements.”

Participating in the call today are Robert E. Brown, CAE’s President and Chief Executive Officer, and Alain Raquepas, our Chief Financial Officer.

Following the remarks, we will invite questions from financial analysts and institutional investors. Once we have concluded the question-and-answer period with analysts and institutional investors, we will then invite questions from the media.

For your convenience, this conference call will be archived on CAE’s Website.

Let me now turn the line over to Bob...



**Robert E. Brown, President and Chief Executive Officer**

Thank you, Andrew, and thank you to everyone for joining us today.

Let me begin with a few comments about our first quarter performance and then Alain will take you through some specific financial highlights. Following Alain's remarks I will conclude with a few words about the way forward.

Financial results for the **first quarter** showed continued improvement across all business segments. Year over year we have achieved double-digit revenue growth, reaching \$302 million. Excluding non-recurring items, earnings reached 12 cents per share -- a 50% improvement compared to last year. Operating margins have also continued to strengthen overall, with EBIT reaching nearly 16% on a normalized basis. Growth has essentially come from our existing base of business where until recently, little investment had been made in new growth initiatives.

Market conditions are favourable and we are seeing the benefits of a business that is operating from a solid financial base and with an effective structure. We have emerged from our restructuring a stronger and more focussed company and we are now concentrating on a number of new growth opportunities to take CAE to the next level. I will elaborate on one such initiative later on the call.

First let's look at the business segments and our activities for the first quarter.

In **Training & Services/Civil**, we signed a high number of new training contracts for \$110 million, involving commercial airlines in Europe and South America with customers like GOL in Brazil and KLM's Transavia in the Netherlands. The business aviation training segment continues to be robust, and during the quarter we signed a total of 50 new training agreements.

Annualized average revenue per simulator was \$3.4 million on a base of 98 revenue simulator equivalent units. Training volume increased in our network but revenue remained in line with last year due to a 10% appreciation of the Canadian dollar against its U.S. and European counterparts. The first quarter is typically active for training, as pilots prepare for the busy summer travel period that follows. Utilization reached 83% in the first quarter. As we have said in the past, this is not the most important metric to follow, but it does give us a sense that things are moving in the right direction. Higher business volume, a better business mix – meaning more wet



training – together with increased operating efficiencies have helped us attain an operating margin of 22%.

In **Simulation Products/Civil**, we announced orders for eight full-flight simulators and other training devices during the quarter from customers in India, Asia and Europe. We have announced another two orders since the end of the quarter for a total of 10 year-to-date. Higher order intake in prior quarters is now translating into higher revenue. Profitability continues to benefit from sharper program execution, synergies between our business segments, and a better mix of programs overall. EBIT margins approached 15 percent in the quarter.

For the **combined military segments**, we received \$99 million of orders during the quarter -- the majority related to Training & Services. For the combined military segments, our book-to-sales ratio in the quarter was low at 0.7-to-1. The two orders announced last week, together with recent activity and the high number of active bids we have in place, give us confidence that bookings should keep pace with revenue for the year as a whole.

During the quarter we won contracts from the US Air Force to supply C130J trainers and also to perform upgrade work on that platform.

We booked a contract to supply a Part Task Trainer in support of the Royal Australian Air Force's A330 tanker program and we were awarded a contract from the German Air Force for a Tornado Visual System.

Also during the quarter, we licensed the use of our intellectual property to the UK Ministry of Defence as the Authority looks beyond AVTS to future procurement solutions for its ground-based training requirements.

On the services side, the Canadian Force's renewed our contract to provide avionics software upgrades and support services for their CF-18 fleet.

And finally, the UK Royal Air Force selected us to provide maintenance and support services for their C-130J training systems.

With that, I will ask Alain to take you through some of the financial highlights.



**Alain Raquepas, Chief Financial Officer:**

Thank you, Bob. Good afternoon, ladies and gentlemen.

We are off to a good start to fiscal 2007.

In the **first quarter**, consolidated revenue was \$302 million, up 13% from Q1 last year and up 6% from the most recent fourth quarter. This is mainly due to revenue increases in Simulation Products. Market conditions continued to improve for the Civil segment, and Military benefited from European programs like the NH90.

Net earnings for the quarter were \$33 million, or \$0.13 per share, compared to \$21 million or \$0.08 per share in the same quarter last year.

Non-recurring items in the quarter included after-tax restructuring costs of \$4.7 million for the ongoing redeployment of simulators within our global training network and the completion of footprint reductions in Montreal. This charge was offset by a payment of \$4.4 million from the UK government as a release of all claims related to the AVTS program. You may remember that in the first quarter last year we wrote down \$5.9 million in deferred bid costs accrued on certain programs, \$4.4 million of which related to AVTS. Finally, non-recurring items also included a \$2 million tax recovery from UK tax losses.

Adjusting for non-recurring items, Earnings from continuing operations were \$0.12 per share compared to \$0.08 last year.

The appreciation of the Canadian dollar since the first quarter last year was challenging but we achieved double-digit growth despite a 10% appreciation against the US dollar and the Euro.

Total CAPEX for the quarter was \$41 million, related mainly to ongoing investments in the Dassault and NH90 programs. Our CAPEX budget this year is higher than the \$130 million last year. The precise amount of CAPEX will depend on decisions about new growth initiatives and our ability to secure non-recourse financing.



To provide investors with a clear view of our operating cash flow performance and to continuously improve our disclosure, we have begun to distinguish Growth CAPEX and Maintenance CAPEX.

Growth CAPEX involves investments that increase our capacity and that are expected to yield additional revenue and profits. This may include expenditures related to new business initiatives or the expansion of the simulator fleet within our training business.

Approximately 75% of our total CAPEX this quarter involved Growth CAPEX.

Maintenance CAPEX consists of expenditures like computers, plant machinery and equipment and updates on simulators.

As of the end of the quarter, we generated \$59 million of cash from continuing operations. The level of payables and accruals decreased from year-end, resulting in a reversal of working capital of \$27 million. This together with \$41 million of capital expenditures resulted in free cash flow for the quarter of minus \$5.5 million.

Both the level of CAPEX and working capital reversal are in line with our budget for the quarter. And we continue to forecast positive free cash flow for the fiscal year.

Thank you for your attention. Now I'll turn the call back to Bob.



Thanks, Alain. We expect to maintain the positive momentum we have seen both in terms of financial performance and our reorientation to growth.

The **civil training market** continues to be competitive but we have been making good headway in developing our business and leveraging CAE's capabilities, brand and reputation.

We are now focussed on a number of new growth initiatives, the first being the CAE Global Academy, which we launched last month at Farnborough. We have created a global alliance between CAE and various flight training organizations around the world in order to address the global shortage of pilots. Boeing has estimated that 18,000 new pilots will be required annually over the next 18 years. It is clear that demand for pilots is increasing globally and an acute shortage already exists in fast-growing, emerging markets like China and India where infrastructure also needs to be established. CAE is well positioned by offering a total array of training solutions and is ideally suited to bring infrastructure to these new markets. The CAE Global Academy is initially expected to see more than 500 cadets train through CAE's network to receive their type-rating certifications, which means more wet training revenue. Over the next 24 to 36 months, as the alliance expands to include additional partners and service to the emerging markets, we expect to train 1,500 to 2,000 cadets annually.

This is but one example of the growth avenues we intend to pursue and we plan to make additional announcements about our growth in the coming months.

Conditions in business aviation are good and trends in the commercial airline industry are improving. The primary driver for the training business is demand for air travel, which is experiencing modest, steady growth in passenger traffic. Passenger traffic ultimately determines the required size of the global in-service fleet of passenger aircraft. Aircraft require flight crews to operate them and they are required to train at regular intervals just to maintain their currency. This segment of our business exists within the broader commercial aerospace cycle but is less dependent on the delivery of new aircraft than our simulation products/civil segment.

Since joining the Company two years ago, I have noted that when people think of CAE, they generally think of commercial flight simulators. The **Simulation products/Civil** segment today represents only about 25% of our total business but it stands as a vital part of the total array of training solutions that we bring to market. It is the segment of CAE's business that is most closely related to the commercial aerospace cycle and we plan our strategy accordingly. A priority in this segment is to continue to reduce costs and shorten delivery cycles for simulators,



which increases our competitiveness and enables us to better meet customers' needs. We have the benefit of more than five decades of broad-reaching customer relationships and a strong reputation. And we intend to enhance our suite of products to meet the evolving needs of the market with the highest fidelity and best value solutions.

CAE's capabilities and products extend across all major commercial aircraft makes including all platforms from Boeing, Airbus, Embraer and Bombardier. We continue to expect to sell more than 21 simulators this year and next year, commensurate with higher aircraft deliveries worldwide. The timing of simulator orders will become more predictable as the year progresses and we will continue to update you on our outlook.

In our **Military segments** we are seeing a number of opportunities for which CAE is well positioned. We continue to expect modest top line growth and low double-digit EBIT margins.

The global military helicopter market is expected to be robust over the next five years and CAE's rotary-wing experience and expertise is valuable in this area. In the key U.S. market, where our military business has approximately doubled over the past five years, we continue to see opportunities with all the U.S. military services and large OEMs.

We are also pleased to see Canada making a commitment to equip the Canadian Forces with new transport aircraft and heavy-lift helicopters, which we anticipate will provide opportunities for Canadian companies such as CAE.

**In summary**, we believe that our core markets are on sustained runs and that we can now capitalize on CAE's capabilities and restructured base. We will carefully consider new opportunities related to growth in our area of core competency.

Thank you for your attention. I think we are ready to take questions now. Andrew?



**Andrew Arnovitz, Director, Investor Relations**

Operator, we would now be pleased to take questions from analysts and institutional investors and following that, from the media.

Before we open the lines, let me first ask in the interest of fairness that call participants limit themselves to one question. Should participants have additional questions and time permits, please feel free to re-enter the queue.