



REMARKS FOR CAE'S SECOND-QUARTER FISCAL YEAR 2007

November 9, 2006

Time: 13h00

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) and on SEDAR (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). Forward-looking statements in this conference represent our expectations as of November 9, 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 unless legislation requires us to do so. You should not place undue reliance on forward-looking statements.”

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

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 everyone for joining us today.

Let me begin with a few comments about our second quarter performance and then Alain will take you through some specific financial results. Following Alain's remarks I will conclude with a few words on the remainder of the fiscal year.

Overall, our financial results reflect a strong aerospace industry and our solid market position. Revenues remained in line with last year at \$280 million. Net earnings increased 81% year over year to reach \$31million. Earnings from continuing operations reached 12 cents per share, a 50% improvement over last year on a normalized basis. These positive results were achieved while we continued to redeploy our simulators and we were impacted by a stronger Canadian dollar.

This quarter we received more than \$420 million of new orders, which included some new customers, which I will discuss later.

We generated close to \$11 million of free cash flow this quarter, compared to a negative free cash flow of \$6 million last quarter.

Now, let's look at the business segments and our activities for the second quarter.

In **Simulation Products/Civil**, we had announced orders for 11 full-flight simulators and other training devices from customers in Europe and the United States. We welcomed UPS as a first-time customer, and we won a contract from a longstanding customer, Continental Airlines. This is the first order from a US legacy carrier since 9/11. Also, we continued to broaden our relationship with Ryanair with whom we signed a long-term contract for five simulators. On November 7th, FedEx announced it was cancelling its order for A380s, and was ordering B777s. We are in discussion with FedEx concerning the two A380 simulators they ordered from us in July. Considering this situation, our total simulator orders year-to-date is 17.



Higher order intake in previous quarters is now translating into higher revenue, particularly since we have shortened our cycle times.

Our operating margin this quarter was higher than average at 22.1%, due to several factors: we delivered a high number of simulators, coupled with a favourable mix of programs and improvements in program execution. We also received a contribution from Investissement Québec for our Phoenix project relating to costs incurred since June 2005. We do not anticipate benefiting from all of these factors on a regular basis going forward.

In **Training & Services/Civil**, we signed more than \$100 million in new training contracts, including a four-year contract extension with Flight Options for approximately \$33 million and a series of contracts valued at more than \$10 million from new customers for our training centre in Dubai.

Annualized average revenue per simulator was \$3.2 million on a base of 99 revenue simulator equivalent units. Training volume increased in our network, but revenue was consistent with the same period last year due in part to the appreciation of the Canadian dollar against the US dollar and the Euro. We redeployed two more simulators this quarter, and we are in the process of ramping up others we have already moved. As a result, the operating margin was 14.4% for the quarter, similar to last year's 14.6%. High operating leverage is characteristic of the training segment in general, and our second and third quarters are usually softer as flight crews train less during the busy travel season.

For the **combined military segments**, we received nearly \$220 million of orders this quarter. Most of this was related to Simulation Products. We won contracts for operational trainers and upgrades from the US Navy and Air Force, and from The UK Royal Navy. We were also awarded a contract for land-based trainers for the British Army. We hope to leverage this program as the UK continues to assess its training requirements for armored vehicles.

For the combined military segments, our book-to-sales ratio this quarter was higher than usual at 1.9-to-1.



In the Military segments, we normally experience variations in revenues and order flow from one quarter to the next, and we see a more stable performance over a full year. This quarter was no exception as revenue from programs in simulation products was lower than last quarter and the second quarter of last year, which saw higher activity on the German NH90 program and some North American programs.

With that, I will ask Alain to take you through some of our financial results.

Alain Raquepas, Chief Financial Officer:

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

In the **second quarter**, consolidated revenue was \$280.4 million, consistent with the second quarter of last year and down 7% from the first quarter of this year. This is mainly due to lower revenue in the Simulation Products / Military segment because of variations in revenue from large programs from one quarter to the next. Also, as Bob mentioned, revenues were seasonally lower in Training and Services / Civil, which we expect at this time of year.

Net earnings for the quarter were \$30.9 million, or \$0.12 per share, compared to \$17.1 million or \$0.07 per share in the same quarter last year.

Non-recurring items this quarter included after-tax restructuring and related costs of \$1.1 million mainly for the ongoing redeployment of simulators. This charge was offset by interest revenue on the early repayment of a note receivable for \$1.4 million.

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 second quarter of last year was a challenge, but our revenue remained level despite a 7% appreciation against the US dollar and a 3% appreciation against the Euro.

We had capital expenditures of \$41 million during the quarter, mainly for the Dassault program and additional spending related to the NH90 program.



As we indicated at the beginning of the fiscal year, our budget for capital spending is higher than the \$130 million of capex we recorded last year, because we are experiencing favorable market conditions and are looking at a number of growth initiatives requiring additional investment. Our level of capital expenditure will also be dependant upon our ability to secure non-recourse financing.

During the quarter, we generated \$59.6 million of cash from continuing operations. Higher investment in non-cash working capital for \$16 million, together with \$40.9 million of capital expenditures, partly off-set by \$6.9 million of non-recourse financing, resulted in free cash flow of \$10.7 million for the quarter.

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

Robert E. Brown, President and Chief Executive Officer

Thanks, Alain. We are beginning to see tangible signs that our structure is working effectively. A main objective of our restructuring was to establish a well diversified base of business, balanced between civil and military markets, and between products and services.

The first half of our fiscal year benefited from a number of factors that are part of our ongoing business but that we do not anticipate on a regular quarterly basis going forward:

First, we received a contribution from Investissement Québec in the second quarter, which relates to R&D costs incurred since June 2005. This contribution enhanced the operating performance of civil and military products segments. Going forward, the quarterly contribution from Investissement Québec and TPC will be in line with our quarterly R&D costs.

Second, we delivered a higher than usual number of civil full-flight simulators in the second quarter, and we benefited from a particularly good mix of programs since the start of the fiscal year. As a result, our operating margin this quarter, and the first half of the year, was higher than average.



Finally, in the first quarter, our Training & Services Military segment was awarded a high margin UK contract involving the sale of intellectual property rights. Normally, operating margins on military programs are in the low double-digit range.

The **civil training market** continues to be active and our growth initiatives are progressing well. These include a broad scope of value-added services for customers, as well as our ability to leverage our global presence by taking advantage of new simulator deployment opportunities.

As part of our restructuring plan, we have redeployed 18 full-flight simulators to new locations and the remaining 10 will be moved over the balance of the fiscal year. Once the simulators are re-installed in new locations, additional time is required to ramp them back up to their expected capacity. In total, we will have redeployed about one-third of our installed base by the end of the fiscal year. We planned the redeployments with the objective of minimizing disruption to customers and to our business. We expect some disruption, however, as we complete this exercise.

Last quarter we discussed the launch of the CAE Global Academy -- a global alliance between CAE and flight training organizations designed to address the global shortage of pilots. There are now more than 650 cadets enrolled in training programs throughout the CAE Global Academy. The alliance currently consists of three flight-training organizations, and we expect to double that number by the end of the fiscal year. As we sign new training schools, we will update you on our progress.

In **business aviation**, there was considerable market interest in our service-based solutions at the recent NBAA convention, where we launched our global training joint venture with Embraer to provide comprehensive pilot and ground crew training services to operators of the new Phenom series of aircraft. This marks the first training program for CAE in the Very Light Jet and Light Jet markets.

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In **Simulation products/Civil**, we are enjoying the benefits of a positive commercial aerospace cycle and we continue to bring CAE's best-in-class solutions to the market. We remain focused on reducing costs and shortening delivery cycles for simulators. This increases our competitiveness and allows us to better meet the needs of our customers. We are also committed to continuing our development of new products to further enhance our customers' operational efficiency and the safety of their operations.

To date, we have orders for 17 full-flight simulators. Market conditions remain strong. Given our current assessment of market opportunities, we are revising our outlook for the year to 25 full-flight simulators. We will continue to update you as the year progresses.

In our **Military segments** we continue to monitor the trend toward the increasing use of synthetic training, which presents a range of opportunities where CAE is well positioned. We feel the military segment should operate to achieve modest top-line growth and low double-digit EBIT margins.

We continue to enjoy success in the critical US defence market as the US services acquire new aircraft and perform major upgrades on existing platforms -- both of which trigger a requirement for new or upgraded training systems. The US Navy and US Air Force contracts that we secured this quarter are consistent with this trend.

In summary, we are well positioned to continue benefiting from the strength of the aerospace and defence markets. We will build on our diversified structure and we will focus on growth and execution. Our objective is to reduce cyclicalities and secure CAE's future, by offering our clients the full range of products and services to meet their specific needs.

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 you limit yourself to one question. If you have additional questions and time permits, please feel free to re-enter the queue.