

**ANDREW ARNOVITZ (Director, Investor Relations, CAE Inc.):** Thanks. Operator, we would now be pleased to take questions from analysts and institutional investors and following that, from the media. Before we open the line, let me first ask in the interest of fairness, since I know that we have quite a few participants today, that you limit yourself to one question. If you have additional questions and time permits, please feel free to re-enter the queue.

**OPERATOR:** Thank you. We will now take questions from the telephone lines. If you have a question, please press \*1 on your telephone keypad. If you are using a speakerphone, please lift the handset and then press \* 1. If at any time you wish to cancel your question, please press the # sign. Please press \*1 at this time if you have a question. There will be a brief pause while the participants register for questions. We thank you for your patience.

The first question is from James David, from Scotia Capital. Please go ahead.

**JAMES DAVID:** Thanks. Good afternoon, everyone. Just a quick housekeeping question, Alain. I think I saw there was some non-recurrings embedded, 2.4 million, in the training, civil and then another 1.1, I think it was a reversal of a restructuring change at the corporate level, for a total of about 3.5 and after tax, it would be about 2.5. But it was not pulled out as a non-recurring item. I just want to understand what the philosophy was there?

**ALAIN RAQUEPAS (Vice-President, Finance and Chief Financial Officer, CAE Inc.):** Well, James, I think the two first items that you've mentioned in the civil training are not non-recurring items. The first one that we've explained in the MD&A was in regard of a gain we've made in selling one of the old simulators in our fleet, which is part of what we do for a living, managing the fleet when they're getting old. So it's nothing to do with non-recurring items.

The last one that you've mentioned, the reversal of the restructuring, was the unusual item and we've not taken the benefit of that and we've put that in the table of the non-recurring items.

**JAMES DAVID:** Okay. What about the \$1.3 million? It says you're sort of very ambiguously, negotiations with a business partner.

**ALAIN RAQUEPAS:** Yes, that's again coming out of a contract that we have with a partner on training, which is part of our day to day.

**JAMES DAVID:** Okay.

**ALAIN RAQUEPAS:** So that it might not reoccur every quarter but it's part of our regular operation.

**JAMES DAVID:** Okay, fair enough. Bob, you announced some global academy transactions recently. If you could just remind us, how are you structuring those deals exactly and what's the philosophy behind that structure?

**ROBERT E. BROWN (President and Chief Executive Officer, CAE Inc.):** Yes, what we're doing is partnering with some ab initio training schools where we're involved in the curriculum that's set up, the identification of candidates and essentially putting our stamp of approval on the quality of the training program that they undertake and then at the end of the exercise, they obviously require a type certification. So we use the capacity in our simulators wherever it is around the world to be able to give them a type certificate.

And if you look, becoming a pilot probably costs generally I would say around \$100,000 and 20,000 of that \$100,000 is generally associated with a type certificate. That's what we're doing on that side. That's really on the supply side.

On the demand side, we're contracting with airlines to basically, as part of our overall service offering, again trying to make sure we have the broadest service offering, where these pilots then would go in to the airlines, would be hired by the airlines. They're not our employees, they're hired by the airlines, the airline makes the choice. And then, as time goes by, depending on the relationship we have with the carrier, that we get the recurring training, which they have to do every six months. That's the concept behind what we're doing.

**JAMES DAVID:** Okay. In terms of the relationship with the schools, I just want to understand the sort of P&L implications. In other words, you will, as you say, put your stamp of approval but what you're ultimately seeking is that when it comes down to the actual physical training, they will be using your training centres.

**ROBERT E. BROWN:** Yes. So there's no investment there by us. The investments, the airplanes and that – except for the one school we own in Portugal – the assets are all held by the schools, not by us.

**JAMES DAVID:** Okay. Many thanks. Good quarter.

**ROBERT E. BROWN:** Thank you.

**OPERATOR:** Thank you. Your next question is from Daniel Kim, from Paradigm Capital. Please go ahead.

**DANIEL KIM:** Good afternoon. Thank you. Bob, just wondering if you could comment please on the forecast you provided for full-fledged simulators? Given the nature of what's going on in the broader macro environment, understanding you are going to be conservative, but could you at least give us some of your assumptions? Are you assuming any U.S. carriers would be coming into the market this year and can you share with us if you have the data available, what your assumed market share might be in terms of how that overall market's going to shake out for this year, please?

**ROBERT E. BROWN:** Very hard to be specific, Daniel. But I would say that I would characterize it as a few simulators coming in from the U.S. market. So we see it starting, but not a large quantity. I think quite a bit of it will come from the traditional markets where we've been strong in Europe, Middle East, Asia and India. I think that's where you're probably going to see the bulk of the orders coming from. So we're cautious. We're being cautious on what potentially could come out of North America at this time.

**DANIEL KIM:** You don't believe your 5000 Series is going to have a material impact on your order rates for this year given the orders have already started to flow in?

**ROBERT E. BROWN:** I think it will have some impact but, I think we're just starting. We'll be starting the build and the deliveries of these as we get towards the end of the fiscal year. You may see a bit of lag on that as it comes out. But it all depends how the market develops. We're well positioned to capitalize on that. So yes, I think it will positive.

**DANIEL KIM:** Okay. Two questions for Alain. There was some discussion in the MD&A with regards to operating income as being impacted by various third-party funding coming through. I'm wondering if you can give us a sense of if that full impact is in fact seen in this quarter or if we're going to see further changes going forward?

**ALAIN RAQUEPAS:** Could you help me, Daniel, where in the MD&A you've seen that (inaudible)?

**DANIEL KIM:** Through various data points, when you talk about your four operating divisions, the operating income was discussed as being positively impacted by third-party funding coming in from technology partnerships and Quebec-related funding.

**ALAIN RAQUEPAS:** Okay, now I got the sense of your question.

**DANIEL KIM:** Anyway, it's sort of a one-liner in each of the four operating segments. I'm wondering if you can quantify or maybe share with us if that in fact has now had the full impact and this is more of a normalized operating margin we will see? Is this quarter indicative of how things will be going forward?

**ALAIN RAQUEPAS:** Yes, I think what you said, probably right now we've ramped up where we think we're going to be in terms of R&D. So what you see in the quarter is probably a good indication of what we're going to continue to do. There's a note on the cost sharing in the statement; but I think, yes, we're almost where we thought we would be and for the next few years, this is the level of R&D we'll continue to conduct.

**DANIEL KIM:** Okay. Very good. And just two last questions. Could you remind me again where you stand in terms of current capacity given you've added some platforms? And secondly, what is your sensitivity to the Canadian dollar on net earnings, please?

**ROBERT E. BROWN:** Okay. On capacity, I think we still have lots more capacity to grow before we'd have to add assets. I think we're working at a shift and a half. And I think the time is coming down on the cycle time for making the machines. I don't think that that is really a concern going forward.

As it relates to the Canadian dollar, Alain, would you like to take that one?

**ALAIN RAQUEPAS:** Yes, sure. There are two major impacts on CAE on the movement of the Canadian dollar. You have a sensitivity in the MD&A. I think we mentioned there it's 400k per movement in the USD (inaudible) to the Canadian on the book business, okay. So we do protect a contract when we win it at CAE. We take a hedge contract to protect the margin. So that's the first impact.

The second impact is on our subsidiaries around the world that operates in USD so there might be a translation impact. Their net profit being translated in Canadian dollars will be impacted if the Canadian dollar strengthens. So these are the two main areas.

The one that is very difficult for us to quantify is on the upcoming business. Will our competitiveness be impacted? And that's right now the difficulty.

**ROBERT E. BROWN:** But I would say that in terms of bidding, you have to look at where our competitors are and if they're in a Euro environment and how the Euro has appreciated against the dollar as well.

And as I've said in the past, you can assume that this is a problem or an opportunity that we've identified as going to be presented to us and we have to take measures to make sure we can continue our performance and absorb anything that happens on exchange.

**OPERATOR:** Thank you. The next question is from Cameron Jeffreys, from Credit Suisse. Please go ahead.

**ANDREW ARNOVITZ:** Operator?

**OPERATOR:** Yes?

**ANDREW ARNOVITZ:** Operator, before we take the next question, I should just remind everyone that in the interest of fairness, please limit yourself to a single, one-part question so that everyone has a chance to ask a question on the conference call. For additional questions, please do feel free to re-enter the queue.

**OPERATOR:** Thank you. So Mr. Jeffreys, please go ahead.

**CAMERON JEFFREYS:** Thanks very much. Just another housekeeping question, I guess. Can you give us some guidance on the number of revenue simulator equivalent units you would expect to have as we run through the year, as the ones which have been redeployed have come back on stream and whether you expect... and what kind of pricing benefit or pricing increase overall in general for the civil training business? You got 5 per cent this past year. Could you have any sense as to whether that's kind of a repeatable number or something higher, lower than that or anything along those lines?

**ROBERT E. BROWN:** I think, Cameron, what we'd say on the RSEUs is I think you saw at the end of the year we were at 99.

**CAMERON JEFFREYS:** Um-hmm.

**ROBERT E. BROWN:** And we've made statements in the past that we're trying to add about 10 per cent to the network. So I would use that assumption for the year.

And the other thing I would say on pricing, it's something that's a bit dynamic as we're going through the year. Some of them may be business aircraft simulators, so that generally there's more revenue associated with them. So maybe we'll see a bit of an increase but I would be conservative there as well.

**CAMERON JEFFREYS:** Okay. Thank you very much. I'll jump back in queue.

**OPERATOR:** Thank you. Your next question is from Cameron Doerksen, from Versant Partners. Please go ahead.

**CAMERON DOERKSEN:** Good afternoon. My question, I guess, is sort of related to the balance sheet. You've got a pretty health balance sheet now and you're generating a fair bit of free cash flow even though your capex is pretty high. Just sort of wondering what the company's position might be on potentially increasing dividends or buying back stock? And I guess related to that, do you expect to make any additional sort of tuck-in acquisitions this year?

**ROBERT E. BROWN:** Yes, I think that we'll probably continue with some small, bolt-on acquisitions. As it relates to what we might do with the cash, this is a newfound phenomenon for us at the company and we're going to go slowly, if I can describe it as a way of proceeding forward.

And we're looking at all of the opportunities that we might have. We really haven't landed on any single one right now, but we want to continue to demonstrate that in spite of the high level of capex that we have relates to growth, that we can continue to grow our free cash and improve the quality of our earnings. So you're going to see us continuing to do that and we're looking at the options we have but we really haven't decided which route we're going to take yet.

**CAMERON DOERKSEN:** Okay, thank you.

**OPERATOR:** Thank you. Your next question is from Nick Morton, from RBC Capital Markets. Please go ahead.

**NICK MORTON:** Good afternoon. I wondered if you could talk about non-recourse debt and how important that approach is to you and perhaps expand a little bit in the context on your acquisition strategy, long term?

**ROBERT E. BROWN:** I'll try and answer it and then I think Alain can kick in, Nick. I think non-recourse debt, particularly as it relates to some of our training centres, having people participate in that is a real show of confidence, I think, in the business model that we have come up with and the value of the assets that we've put into that particular facility.

So it really increases our flexibility going forward and allows us to be able to grow, I think, in a more risk-free

fashion. So that's sort of the way we've looked at it from a conceptual point of view.

Alain, have you got anything to add?

**ALAIN RAQUEPAS:** No. In fact, Bob, it's exactly that. It's very important for us and more and more with the potential partnership or JVs we have around the world, we will have to finance these centres on a non-recourse because we're part of it. So it needs to stand on its two feet.

It's important, it's part of our strategy and it's directly contributing to fund the level of capex we have right now that we're thinking about doing this year.

**NICK MORTON:** Does that require government guarantees to get non-recourse financing?

**ALAIN RAQUEPAS:** No.

**ROBERT E. BROWN:** No.

**ALAIN RAQUEPAS:** No.

**ROBERT E. BROWN:** I don't think so. No.

**NICK MORTON:** No.

**ROBERT E. BROWN:** Where are you getting that, Nick?

**NICK MORTON:** Well I was just thinking about that NH90 contract, for example, I think the debt there is non recourse.

**ALAIN RAQUEPAS:** No, you're right.

**NICK MORTON:** That's really supported by a government contract.

**ALAIN RAQUEPAS:** You're right.

**NICK MORTON:** Maybe not a government guarantee but a government contract. In China, I think you've got non-recourse debt on a training facility. It may be that that's a result of government policy that you've got or government support that allows you to do that non-recourse. I don't know.

**ALAIN RAQUEPAS:** It's obviously much easier when you get a strong intake from a government to put a non-recourse financing structure. But like you've pointed out, we've done it in China. Not an easy place to do it. And there might be more to come. We're trying to

demonstrate that it's also feasible around a civil training centre.

**NICK MORTON:** Okay, great. Thanks very much.

**OPERATOR:** Thank you. The next question is from Claude Proulx, from BMO Capital Markets. Please go ahead.

**CLAUDE PROULX:** Thank you. Good afternoon. You know, when we talk with manufacturers of aerospace product these days, the big issue is they'd like to produce more but they can't ramp up more because the supply chain can't follow. I understand in terms of your production capacity is there but what about the supply chain? Is that an issue for you?

**ROBERT E. BROWN:** It's not an issue for us, no. The main thing is you've got to get the data, parts and equipment from the OEM. So that, I think, is probably the biggest hurdle that we have to get over. But if you're assuming that people are selling airplanes, the customer has to be satisfied that they're going to be able to train in the simulators before the airplanes start arriving. On the ongoing products, it has not proved to be a problem.

**CLAUDE PROULX:** And in terms of managing this growth, inflation, is that a problem? I mean, as you keep inflation in terms of your own cost, is there a risk that as you ramp up rapidly that we could see some inflation that would pressure your margin?

**ROBERT E. BROWN:** I don't think so.

**CLAUDE PROULX:** Okay, thank you.

**OPERATOR:** Thank you. The next question is from Marko Pencak, from GMP Securities. Please go ahead.

**MARKO PENCAK:** A question earlier about pricing, but I think you're really talking about revenue per sim. I want to sort of ask the question about pricing specifically. Like what, on the training side, is happening with the hourly rates; and also, if you could make a same comment on the civil equipment side?

**ROBERT E. BROWN:** Yes, I'd say that there has been some movement on the business aircraft side in terms of the pricing. There hasn't been a whole lot on the civil side.

**MARKO PENCAK:** That's on training.

**ROBERT E. BROWN:** That's on training per se, yes.

**MARKO PENCAK:** And on equipment sales?

**ROBERT E. BROWN:** On equipment, it tends to be a very competitive market. So I think, Mark, as we've said in the past, we're approaching margin and profitability here by controlling our cost and the complete solutions that we're providing. So we're not really seeing any movement on the pricing on the equipment.

**MARKO PENCAK:** Okay, and can you just me your simulator utilization rate for the quarter?

**ALAIN RAQUEPAS:** 78 per cent.

**ROBERT E. BROWN:** It was 78 per cent.

**MARKO PENCAK:** Thank you.

**OPERATOR:** Thank you. The next question is from Brian Morrison, from TD Newcrest. Please go ahead.

**BRIAN MORRISON:** Good afternoon. I'm wondering if you might be able to tell us if you had to outsource any of your training demand during the quarter like you did last quarter?

**ROBERT E. BROWN:** Outsourced our training demand. I think there has been a little bit in Europe, but that's it.

**BRIAN MORRISON:** Okay, and then just as a follow up, I'm wondering if you might be able to tell us what the unit deliveries were in your SP civil division for the fiscal year, both externally and I guess just external, really?

**ROBERT E. BROWN:** Five and five.

**BRIAN MORRISON:** I'm sorry. Say that one more time, Bob?

**ROBERT E. BROWN:** I think it's about 25 for the outside and about 5 internally.

**BRIAN MORRISON:** That's great. Thank you kindly.

**OPERATOR:** Thank you. Your next question is from Ihor Danyliuk, from Merrill Lynch. Please go ahead.

**IHOR DANYLIUK:** Quick question with regards to the cash flow statement. Two parts. Could you give us your expected capex for the current year and any thoughts in terms of increasing the dividend going forward?

**ROBERT E. BROWN:** I think we've given the capex number that's already there, have we not? We've made comments on that, that we would be about the same as...

**IHOR DANYLIUK:** As this year.

**ROBERT E. BROWN:** ... as the last year completed.

**IHOR DANYLIUK:** Yes.

**ROBERT E. BROWN:** And as I think I mentioned before, we're considering all options but we really haven't decided any route that we would take. We're continuing to make sure we concentrate on generating the free cash and that we're looking for ideas of things that we can do to improve the profitability of the company. But we haven't reached any determinations yet.

**IHOR DANYLIUK:** Thank you.

**OPERATOR:** Thank you. The next question is from Robert Fay, from Canaccord Adams. Please go ahead.

**ROBERT FAY:** A question for Alain. In the civil sim products you noted that the revenue increase in the year and also in the quarter were due because you achieved some important milestones on several contracts. Can you comment on the numbers there and what that involved?

**ALAIN RAQUEPAS:** On the civil side?

**ROBERT FAY:** Yes, it's on page 37 of the MD&A.

**ALAIN RAQUEPAS:** The rule is, as you know, we bring revenue on the POC formula; so as we incur costs, we book revenue. As you get towards the end of a delivery, there might be more costs coming up, driving the revenue up. Just trying to figure out exactly how we phrased that in the MD&A.

**ROBERT FAY:** Just that the revenues were higher because of orders and because we achieved some important milestones on several projects.

**ROBERT E. BROWN:** I think what that was, Bob, is it depends on the mix of the contracts in the quarter and how well you have done in those particular contracts; and some may be better than others in different quarters.

**ROBERT FAY:** Um-hmm.

**ROBERT E. BROWN:** As Alain said, we try to be conservative in the way that we do the POC accounting to make sure there's no problems at the end and sometimes you're able to take a little bit more in terms of what you've done to try and mitigate risk.

**ROBERT FAY:** Can you quantify that though in the year and the quarter?

**ROBERT E. BROWN:** No. We can't because it changes every quarter. Every contract is different. I think we're following well over 250 different contracts with the POC method and it would be hard to give that a general rule.

**ROBERT FAY:** Okay. The other quick question on the project fee, Nick's financing, as well as the Investissement Québec, when I looked at your R&D expenditures in your financial statements on page 25, R&D is pretty consistent, year in, year out at around 90 to 95 million for the last three years. I guess the amount of financing that you've been getting or the amount of support you've been getting under project fees has been up fairly significant and that would represent about a change of about \$23 million, \$24 million over the last two years in the net spending after the funding. Would that be the right number I'm looking at?

**ALAIN RAQUEPAS:** Well, the 95 million, Robert, is at least this year, the right figure for this year. Last year, we were a bit lower than that. We've ramped up the R&D program this year and what you need to consider is in terms of funding, don't forget that if you get more TPC and Investissement Québec, you get less income tax credit because you cannot get both. So I know TPC and IQ contributions were higher this year than last year but you have to subtract also the ITCs that we've not been able to get this year because of that.

**ROBERT FAY:** But when we looked at the chart that you have for project Phoenix, the funding and that, you net out those numbers for the ITC impacts. And the funding, net funding has gone up from 3 to 11 to 28 and your R&D spending has gone from 93 to 91, back to 95.

**ALAIN RAQUEPAS:** That makes sense.

**ROBERT E. BROWN:** Yes, that makes sense what you've described and we're using more of the TPC than the ITC at this particular point in time. As Alain said, we have ramped up a little bit last year for some of the R&D projects that we've been undertaking, but I don't think anything is unusual there.

**ROBERT FAY:** Okay. And I guess the last question, the training business, when we looked at the incremental margin, you had about an \$8.6 million increase in revenue and you had a 5 million, after exclude the two sort of onetime items, you had a \$5.5 million increase in operating earnings. Is that the type of leverage we should be looking now that you've sort of relocated all the assets and stabilized that business going forward?

**ROBERT E. BROWN:** I think as I've said before, our goal is to try and get to 20 if we can, at some point in time, on a consistent basis. That's our first goal.

**ROBERT FAY:** Twenty per cent over the year. Okay, thank you.

**OPERATOR:** Thank you. The next question is from Benoît Poirier from Desjardin Securities. Please go ahead.

**BENOÎT POIRIER:** Good afternoon, gentlemen. Just in terms of cost-saving initiatives, you provided previously a goal of reaching 33 million by fiscal 08. Could you maybe provide an update about the goal and where do you stand right now?

**ROBERT E. BROWN:** Alain?

**ALAIN RAQUEPAS:** Well I guess, Benoît, you're almost bringing us back two and half years ago when we announced the restructuring which I'm not too sure I want to do. But you're right, and you've seen the progress on the P&L and the progress in the margin. We've delivered 60 million more of earnings than two years ago, so the 33 million of cost savings we promised, for sure have been clocking to the bottom line.

**BENOÎT POIRIER:** Okay. Is there any more potential upside with respect to further cost savings?

**ROBERT E. BROWN:** I think we're always looking for cost savings. It's part of way of life here now. But I don't think we're going to provide any specific numbers on it right now.

**BENOÎT POIRIER:** Okay, thanks.

**OPERATOR:** Thank you. The next question is from Cameron Jeffreys, from Credit Suisse. Please go ahead.

**CAMERON JEFFREYS:** Thanks. I just wanted to clarify my first question, just when I spoke of pricing. What I meant was revenue per simulator, Bob, was being conservative. Is that what you were answering in that context in terms of being conservative on what we would expect on revenue per simulator going forward as well, in the civil training business?

**ROBERT E. BROWN:** No. I was talking about the overall pricing on an hourly basis.

**CAMERON JEFFREYS:** On an hourly basis. Okay. What about the revenue per simulator in terms of year over year? Should we expect similar 4 to 5 per cent,

which is I think what you got in the past fiscal year, if I'm not mistaken?

**ROBERT E. BROWN:** Yes, I'm not sure, Cameron. I think that obviously we have a goal to do that, but there's a whole bunch of factors surrounding it. So again, I want to be careful on that. I think we're going to have to see the progress we make as we go forward.

**CAMERON JEFFREYS:** Okay. And my second or my other follow up question would be just on the project Phoenix, back to Bob's question. The differential, I think it was 28 million versus 11 million last year, if you net out some of the ITC things and so on, is the proper way to think about is kind of about a \$0.07 contribution to the bottom line from an earnings perspective on an EPS basis? Is that the right way to think about it or are there other things in there that I'm missing in terms of, before I take it to the bottom line?

**ALAIN RAQUEPAS:** Never forget Uncle Sam. Take the tax out in your calculation.

**CAMERON JEFFREYS:** Right.

**ALAIN RAQUEPAS:** So that's another one.

**CAMERON JEFFREYS:** Okay.

**ALAIN RAQUEPAS:** And the increase this year also, you remember, we've signed the Quebec government this year, which explains the increase of the year.

**CAMERON JEFFREYS:** Yes, okay. Thanks.

**OPERATOR:** Thank you. Your next question is from Marko Pencak, from GMP Securities. Please go ahead.

**MARKO PENCAK:** You comment in the civil equipment division, the development activities on the Series 5000 simulator had an impact on the margins, an unfavourable impact. Can you quantify what that would have been?

**ROBERT E. BROWN:** We don't want to give that number, Marko. I'll be very direct with you. It's not a real big number but it's something we're not ready to provide at this particular point in time.

**MARKO PENCAK:** Okay. My second question is to calculate your orders by segment for the fourth quarter, can I just take the full year numbers that you provided for order intake and subtract your nine months to date as of Q3 and that's going to be the right one for the quarter or are there some other sort of intra quarterly adjustments that would not make that calculation correct?

**ALAIN RAQUEPAS:** The only one, Marko, that I'm thinking of is the foreign exchange. So it's what we had in the quarter that...

**MARKO PENCAK:** So is it possible for you then to send us your actual orders by segment just for the fourth quarter then?

**ALAIN RAQUEPAS:** Yes, we can make that data available.

**MARKO PENCAK:** Super. Thank you.

**ANDREW ARNOVITZ:** Operator, we'd now like to switch over to the media, to give the media some time for questions and answer.

**OPERATOR:** Certainly. So please press \* 1 at this time if you have any questions. The first question is from Ross Marowits from Canadian Press. Please go ahead.

**ROSS MAROWITS:** I have two questions. One is I'm wondering if you have any idea of job impact in this going forward because of being busier?

**ROBERT E. BROWN:** No. I think what we're trying to do is keep the same asset base and keep the same employee base or increase it incrementally and just put more through the system.

**ROSS MAROWITS:** Okay. And secondly, it cut out during your response on the Canadian dollar. I'm wondering if you could quantify how much for each cent of the dollar going up it costs you in revenue?

**ROBERT E. BROWN:** Yes. Alain?

**ALAIN RAQUEPAS:** Well, the easy way is to say half a million per cent on the business we have already booked depending where the Canadian dollar's going to go in the future and the pricing conditions out there because we're selling in U.S. It's difficult to quantify. But on booked business, half a million is a good number.

**ROSS MAROWITS:** Half a million.

**ROBERT E. BROWN:** Per cent.

**ROSS MAROWITS:** Per cent. Okay. Thank you,

**ROBERT E. BROWN:** So you have to look at that just to be clear, where you establish your budget and where that \$0.01 increment starts and we haven't really divulged where we are on our budget on that; but you can assume that we've tried to anticipate the future a little bit in being conservative.

**ROSS MAROWITS:** Thank you.

**OPERATOR:** Thank you. Your next question is from Hugo Miller, from Bloomberg News. Please go ahead.

**HUGO MILLER:** Yes, hello. Just first, a very quick question on that. When you said if the dollar does continue to rise, you will have to take measures. Could you just elaborate on what that might mean? And just secondly, you talked about expanding into all areas of the military sector, what you meant specifically? I'm guessing you mean primarily in the U.S. but if you could elaborate on which sectors within the broad military you're really looking to drum up new business? Thank you.

**ROBERT E. BROWN:** (Inaudible) exercise and we finished the formal exercise but we have not stopped looking at how we can continue to become more productive, more efficient and reduce cost.

We've seen things like the announcement of the deal, what we did with CGI. The outsourcing is an example of that. So we have not just started now. We've been taking measures for a long time to make sure that we can handle any fluctuations in currency that we might have.

And I would say the second thing is when we said we were being able to deal with all areas of the military, the comments were referring mostly to the United States where we did not have much activity with the navy and the marines and so we've expanded our activity now so that we cover the marines, the army, the air force and the navy. And we have activity in all of those particular areas.

**OPERATOR:** Thank you. Your next question is from Daniel Bordeleau, from Radio-Canada. Please go ahead.

**DANIEL BORDELEAU:** Oui, bonjour. Je vais vous poser une question en français pour faire changement. J'aimerais que vous nous parliez un peu des mesures que vous avez prises pour contrer la hausse du dollar canadien et réussir à améliorer vos profits en même temps. Et si jamais le dollar continue à monter, disons un autre \$0.08, 0.10, combien de temps est-ce que vous pouvez supporter cette montée du dollar canadien?

**ROBERT E. BROWN:** OK, au niveau du dollar canadien, on a pris des mesures durant notre programme de restructuration pour essayer de confronter les situations comme ça et du fait que le programme normal est terminé, on a décidé l'année passée de continuer avec un programme où on peut

trouver les façons d'être plus efficace et d'impliquer tous les employés dans les programmes et de donner les idées. Et puis ça, c'était fait.

Et il faut assumer que le dollar canadien fera monter dans une façon plus agressive dans les prochains mois, dans les prochaines années. Avec ça, il est nécessaire pour nous de trouver une façon d'absorber les coûts parce qu'il faut aussi assumer que les prix vont rester au même niveau.

Une chose qu'on a fait concrète, c'était le protocole d'entente que nous avons signé avec CGI pour faire le "outsourcing" de notre IT. Alors ça, c'est une démonstration concrète d'une des mesures qu'on a prises pour essayer de confronter les fluctuations pour le dollar.

As-tu des commentaires aussi, Alain?

**ALAIN RAQUEPAS:** D'autres éléments qu'on a faits, on a réduit le temps de cycle pour réduire les coûts, on a pris l'input de tous nos employés. Alors, c'est...

**ROBERT E. BROWN:** Et le fait que la moitié de nos coûts c'est avec nos fournisseurs, nous avons des programmes pour la négociation avec eux. Et l'autre chose au niveau de nos produits, la façon qu'on a décidé récemment de développer le 5000, un simulateur, le 5000, la Série 5000 qui est beaucoup moins dispendieux et que c'est fabriqué dans une autre façon, on a essayé d'anticiper les changements dans le marché pour introduire les produits qui peuvent nous donner un avantage par rapport à nos concurrents. Alors, c'est une gamme de choses qu'on a fait pour essayer de confronter la situation.

**DANIEL BORDELEAU:** Et est-ce que vos concurrents sont aussi affectés, vos concurrents, ils sont plus aux États-Unis ou en Europe?

**ROBERT E. BROWN:** Ça dépend du produit. Par exemple, notre concurrent principal pour les simulateurs aux partis tiers, c'est Alèze(?) qui est en Europe. Alors si vous regardez, par exemple, la livre sterling et aussi le euro, c'est clair qu'aussi, c'est un problème pour eux. Avec les Américains, pour la formation, c'était aussi que c'est plus facile pour eux mais du fait que nous avons un "natural hedge" du fait que nos revenus sont aux États-Unis et nos coûts sont aux États-Unis, ça ne pose pas le même niveau de problème pour nos opérations aux États-Unis.

**DANIEL BORDELEAU:** Et donc en fait, vous pouvez continuer, si ça continue à monter, il n'y a pas de catastrophe en vue, là.

**ROBERT E. BROWN:** On ne voit pas une catastrophe mais il est nécessaire pour nous d'être vigilant et de la suivre dans une façon très agressive parce que c'est pas facile d'absorber les coûts et d'avoir les changements non anticipés qui se passent avec le dollar maintenant.

**DANIEL BORDELEAU:** Merci.

**OPERATOR:** Merci. The next question is from Marie Tison, from La Presse. Please go ahead.

**MARIE TISON:** Oui, bonjour Monsieur Brown. Cette semaine, M. Laurent Beaudoin a parlé de la question de l'achat d'entreprises canadiennes de la part d'étrangers et sur peut-être le besoin de réfléchir à ce phénomène-là. De votre côté, est-ce que c'est une préoccupation?

**ROBERT E. BROWN:** C'est une préoccupation dans le sens que je pense que nous sommes le seul où il n'y a pas un contrôle par une famille dans le marché qui sont cotés à la bourse. Par exemple, dans le domaine de l'aéronautique et si vous regardez, peut-être, il y a Bell Helicoptère, même CMC maintenant, il y a Pratt & Whitney. Il y a juste nous et Bombardier qui restent. Alors, à mon avis, il faut regarder ça de près. Est-ce qu'on voudrait avoir toutes nos sociétés ici surtout qui sont impliquées dans le domaine de l'aéronautique et les fournisseurs pour la défense aussi, est-ce qu'on voudrait avoir une situation où tout ça c'est contrôlé à l'extérieur?

Si on regardait les politiques des autres pays, l'Angleterre, la France, l'Italie, les États-Unis, c'est clair qu'ils pensent que c'est important d'avoir une certaine influence au niveau des secteurs clé dans l'économie. Alors ça, c'est un point.

La deuxième chose, c'est que du fait que nous sommes un des leaders mondiaux, nous sommes le leader mondial dans le domaine civil et de défense dans la simulation et modélisation. Est-ce que ça c'est un ajout pour le pays, pour le Québec et pour Montréal? Pour moi, la réponse, c'est oui. Est-ce que voudrait la garder? Est-ce qu'on voudrait essayer de les encourager? Je pense que oui. Notre siège social vient de déménager de Toronto à ici, à Montréal. On l'a fait pour trouver une façon d'augmenter nos activités, pas de la vendre à quelqu'un d'autre.

**MARIE TISON:** Um-hum. Est-ce qu'il y a quelque chose à faire, si le gouvernement devrait faire quelque chose?

**ROBERT E. BROWN:** C'est toujours difficile de dire quoi faire, mais à mon avis, il est nécessaire et le gouvernement ne peut pas avoir une attitude de laisser-faire dans toutes les affaires comme ça. Sinon, à la fin

de la période au niveau où nous sommes supportés par les ressources, le secteur des ressources, on va être dans une situation où il n'y a pas des autres jobs de qualité, par exemple, dans le domaine manufacturier.

Alors il faut regarder ça de près et aussi, c'est difficile de faire une transition entre une économie qui est basée sur le domaine manufacturier et une qui est basée sur les services. Alors il faut être vraiment prudent et à mon avis, il est nécessaire pour le gouvernement de surveiller ça de près et de voir si nous avons les options comme Canadiens de contrôler nos propres moyens, de contrôler notre propre destinée et aussi, de voir comment en même temps on peut être concurrentiel dans un monde qui change constamment et où la concurrence est féroce.

**MARIE TISON:** Je vous remercie.

**OPERATOR:** Thank you. Your next question is from Robert Gibbons from the Montreal Gazette. Please go ahead.

**ROBERT GIBBONS:** Mr. Brown, could you kind of highlight a little bit on the NH90, how serious are the delivery delays? Have you got any orders yet? How long will it take before you will get some orders and what is the potential in reality?

**ROBERT E. BROWN:** Yes, I think Bob, we don't control the development of the airplane. That's done by the manufacturer and we're following that very closely and we have very good collaboration as it relates to getting the data, parts and equipment for the simulators.

We're following some contract opportunities very closely around the world and I think it's very much like military contracts. The baby arrives when the baby arrives and you don't have a lot of control over how that's going to happen. It's a natural phenomenon with government or military contracts.

I would hope by the second half of this fiscal year that there might be a clear window or identification of when the specific contracts will arrive for the simulators.

**ROBERT GIBBONS:** Okay, thanks.

**ROBERT E. BROWN:** You're welcome.

**OPERATOR:** Thank you. We have a question from Robert Fay, from Canaccord Adams. Please go ahead.

**ROBERT FAY:** Couple of questions. Alain, one question on the foreign exchange. Your hedge book has gone up from 322 to 604 year-over-year. Has most of

your hedging or most of your deliveries this year been hedged on that and at what rate in year-over-year did you hedge them?

**ALAIN RAQUEPAS:** Yes, like we said in the past, Robert, every contract we win, we do hedge.

**ROBERT FAY:** Um-hmm.

**ALAIN RAQUEPAS:** So at least we protect the margin.

**ROBERT FAY:** Okay.

**ALAIN RAQUEPAS:** So everything coming in that is foreign is protected to at least deliver the margin we had when our marketers calling, is bringing back the sale.

**ROBERT FAY:** What were the rates year over year, the average rates?

**ALAIN RAQUEPAS:** I don't have that data in front of me.

**ROBERT FAY:** Sorry?

**ALAIN RAQUEPAS:** I do not have that data in front of me, Robert. I could not answer that.

**ROBERT FAY:** Okay. The last question, there's a comment about the evolution of technology in the civil sim business and a potential impact on your fleet of full flight simulators. Can you comment on what that impact is?

**ROBERT E. BROWN:** Where is that comment?

**ROBERT FAY:** The comment's on page 58 of the MD&A. It says the evolution of the technology could also have an impact on the value of our fleet of full flight simulators.

**ROBERT E. BROWN:** Yes, I think probably what's being referred to there is there has been some talk of B level simulators and when they would come into the market. I think you're just stating that as a risk. I don't really see that quite frankly it's a big factor.

**ROBERT FAY:** Sorry, it's just the first time I've seen that.

**ROBERT E. BROWN:** Yes. Okay, good.

**ANDREW ARNOVITZ:** Operator, I think we're out of questions from media and I want to thank all participants for joining us today and remind you as well that a

transcript of today's remarks can be found on CAE's website at [www.cae.com](http://www.cae.com). Thank you.

**OPERATOR:** Thank you, Mr. Arnovitz. The conference has now ended. Please disconnect your line at this time. We thank you for your participation and have a great day.

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