



REMARKS FOR CAE'S FOURTH-QUARTER AND FISCAL YEAR 2007

May 31, 2007

Time: 1h00

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 May 31, 2007 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 the fourth quarter and our performance last year, and then Alain will walk you through some more specific financial highlights. After that, I will say a few words about the way forward.

In summary, we had a very good year. Our results reflect both the strength of our financial condition, and our renewed competitive position. With these advantages, we are benefiting more fully from the positive market conditions we have been experiencing. Our business is well diversified between products and services; across military and civil markets; and geographically. And all of our business segments have combined to contribute to a solid performance for the quarter, and for the year as a whole.

We are making progress by leveraging our core capabilities to grow the Company. Annual revenue increased 13% to reach one-and-a-quarter billion dollars. We also delivered double-digit growth in our order backlog and operating margin. On an apples-to-apples basis, net earnings from continuing operations increased 85% to reach 129 million dollars. And, we generated more than 90 million dollars of free cash during the year. This is a testament to the quality of our earnings.

We took in 1.45 billion dollars of new orders, and concluded the year with a backlog of nearly 2.8 billion dollars.

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

In **Simulation Products/Civil**, we signed orders for 7 full-flight simulators during the fourth quarter with customers in Asia and Europe, including an Airbus A320 order from Lufthansa Flight Training — one of the launch customers for the new CAE 5000 Series full-flight simulator. We sold a total of 34 full-flight simulators during the year, including a long lead time order from Ryanair for six Boeing 737 simulators. We also sold the first simulators ordered by airlines for the new Boeing 787, to Qantas and China Eastern Airlines.



Since the start of the new fiscal year, we have announced another 10 simulator orders, including one recently from Nippon Cargo Airlines for the new Boeing 747-800. This is the first simulator contract to be awarded for this new aircraft model. We also sold two Boeing 787 simulators to Japan Airlines.

We are now two-thirds of the way through our first quarter so it is still too early to accurately forecast the number of orders we expect to receive this year. At this point, we expect to take orders for approximately 30 civil simulators. As we have done in the past, we intend to update you on this estimate as the year progresses.

In keeping with the higher level of activity and our increased efficiencies, revenue for the year was up 35% and our operating margin reached 17.4%.

Training & Services/Civil was awarded more than 450 million dollars in new training contracts during the year, including 50 new business aviation contracts with many Fortune 1,000 companies and government entities. We also signed 20 new commercial and regional aviation training contracts with airlines around the world.

During the quarter we announced plans to open CAE's first Indian flight training centre in Bangalore, and more recently we announced the addition of three new alliance members to the CAE Global Academy, which is designed to address the global shortage of pilots.

Average revenue per simulator in fiscal 2007 was 3.4 million dollars on a base of 99 Revenue Simulator Equivalent Units. We experienced strong demand for training, which saw revenue increase by 5% despite the disruption caused by the redeployment of simulators around our network. Note that the average number of RSEUs remained flat because of this redeployment. As well, we faced a stronger Canadian dollar for the year as a whole. The fourth quarter is typically our strongest for training and it contributed to a 19.1% operating margin for the year.



In the **combined military segments**, our backlog reached a record 1.47 billion dollars last year. We took in nearly 600 million dollars worth of orders, involving a diverse range of product and service programs for the Australian, British, Canadian, German, Italian and U.S. forces.

The War on Terror has presented unique requirements in terms of aircraft platforms and related training systems. We are well positioned on the kinds of medium support and tactical aircraft that are most prevalent for these types of operations.

We continue to make progress on our goal to grow our presence in the U.S. defence market. We are now providing solutions to every branch of the U.S. defence forces. Notably, we received orders during the past year for the U.S. Navy MH-60S and the E-6B Mercury aircraft.

As well, we continued to strengthen our relationships with OEMs. Boeing recently recognized CAE with its Outstanding Supplier Award for our responsiveness and support during the development of new business opportunities and also for the execution of ongoing efforts.

On a combined basis, military revenue for the year was up 7% and operating margins reached 12.9%.

We made several acquisitions to further consolidate our market position in modelling and simulation. We purchased Kesem International in Australia last year, followed by acquisitions of Engenuity and MultiGen-Paradigm after the year-end. We are building a capability to offer our customers a one-stop shop for their modelling and simulation needs.

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



Alain Raquepas, Chief Financial Officer:

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

In the **fourth quarter**, consolidated revenue was 337 million dollars, up 19% from the fourth quarter of fiscal 2006.

For the year, revenue reached \$1.25 billion, which is 144 million dollars more than in fiscal 2006. All four of our business segments contributed to higher annual revenue.

Net earnings for the quarter were 34.3 million dollars, or \$0.14 per share, compared to \$9.2 million, or \$0.04 per share in the same quarter the year before. For the year, net earnings were 127.4 million dollars, or \$0.51 per share compared to 63.6 million dollars, or \$0.25 per share.

Excluding non-recurring items, earnings per share from continuing operations for the quarter were also \$0.14, but compared to \$0.09 in the fourth quarter of 2006. On the same basis, EPS for the year is still \$0.51 but compares to a normalized \$0.35 per share the year prior.

Income taxes were 50 million dollars for the year, representing an effective tax rate of 28%. Excluding non-recurring items, the effective tax rate was 29% for the year and 28% for the fourth quarter. We expect the average rate for fiscal 2008 will be about 30%.

During the year, we generated 240 million dollars of net cash from continuing operations. We invested 158 million dollars in capital expenditures and we received 34 million dollars in non-recourse financing. As a result, we generated 94 million dollars of free cash.

Growth capital expenditures for the year totalled 119 million dollars, mainly related to our Dassault and NH-90 programs. Maintenance capex was another 39 million dollars. We expect total capex will be comparable in fiscal 2008.

The consolidated backlog was 2.77 billion dollars, up 13% over the prior year and our book-to-sales ratio was 1.2 times.



Finally, I would like to mention that we have completed a review of our Internal Controls over financial reporting as required for Sarbanes Oxley compliance. I am pleased to report that management and CAE's auditor have completed an assessment of the effectiveness of these controls and no significant deficiencies or material weaknesses exist.

This achievement represents more than a year-and-a-half of hard work, and supports the good governance and financial discipline that we value at CAE.

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



Robert E. Brown, President and Chief Executive Officer

Thanks, Alain.

Our outlook continues to be positive. On the civil side we believe that the current market expansion will continue through the end of the decade. International passenger traffic remains robust, particularly in the Middle East, Asia-Pacific and Europe. Aircraft deliveries are expected to remain at a healthy level.

The North American legacy carriers are coming out of restructuring and are likely to need new pilot training programmes as they reinvest in their fleets. Our range of flight training solutions is the most complete on the market and we believe we are well positioned to serve this market opportunity as it evolves. We have the required financial resources and plan to invest in our own network of training centres to increase our service offering.

During the previous market cycle, the majority of CAE's Civil business involved North American carriers. Since 9/11 there has only been one full-flight simulator sale to a US legacy carrier, which we sold to Continental Airlines in September 2006.

As for the emerging markets of China and India, we already have a solid foothold there to meet the fast-growing demand for airline crew training.

Although revenue growth is expected to be more modest in the defence market, it is still expected to offer us profitable opportunities. Our technological leadership allows us to design and offer realistic training solutions that can be used for network or remote training programs. We expect more opportunities will arise from the ramp up of NH90 Programmes in Europe and in Australia. In North America, some opportunities should result from the programmes announced by the Canadian government to reequip its Forces.

Our priority for fiscal 2008 is to execute our business plan and deploy our growth initiatives. And as we increase investments in our business segments over the year ahead, we should begin to see appreciable and sustainable benefits in the periods that follow.

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