



Notes for remarks by

Mr. Robert E. Brown  
President and Chief Executive Officer

And

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

2008 Annual and Special Meeting of Shareholders

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## **Mr. Robert E. Brown, President and CEO**

Good morning Ladies and Gentlemen,

We concluded 2008 with strong order activity and financial results.

In fiscal 2008, CAE experienced strong growth in all of our market segments. Revenues were up 14% to reach \$1.4 billion and our earnings from continued operations were \$164.8 million, an increase of 28% over last year.

With earnings supported by free cash flow and our net debt reduced to \$124 million, we ended the year with a solid financial position.

These results reflect the balance between our business segments as orders generated were closely divided with 45% military and 55% civil.

The continued geographic diversification of our activities during the year produced revenues originating one third from the United States, one-third from Europe and the remaining third from the rest of the world including the fast-growing regions of Asia-Pacific, the Middle East and South America.

Fiscal 2008 saw CAE's global position strengthened on several fronts. In the Asia-Pacific region, we signed a 10-year pilot training agreement with Air Asia. At the same time, we established our South East Asian training hub in Kuala Lumpur and we expanded our training centre in China.

We expanded our activities in India with a training centre in Bangalore and a partnership with the Government of India for the training of pilots at two national flight academies. On the military side, we acquired Macmet, one of India's leading military simulation companies and we developed a joint venture with HAL, the largest defence company in India, for a helicopter training centre.

We increased our training capacity in Dubai, in the U.K., in the Netherlands as well as in Brazil and Chile and we opened a new business training center in the USA. We announced additional training programs, that, when fully implemented, will enable us to address 90% of all business aviation aircraft fleets.

In our simulation products/civil segment, a near record was set in 2008, with the sale of 37 full-flight simulators to airlines, OEMs and aircraft operators around the world.

Our new breakthrough simulator, the CAE 5000 Series was put into service and we now have received 14 orders. This highly innovative R&D effort came to fruition in under two years and has started paying off.

On the military side, we enjoyed strong order growth in the U.S, and signed new contracts with the Australian Defence Forces and the German Armed Forces. We also won contracts with the Netherlands, Singapore, France, and the U.K. and signed new NH90 contracts in Australia as well as Europe.

Closer to home, the Government of Canada qualified our CAE-led team as the only one to comply for the C-130J and CH-47 aircrew training capability. We received the request for proposal and we are working diligently with the government to finalize the contract.

We achieved significant milestones in 2008 in expanding our presence in the U.S. defence market as well as increasing our global footprint with our operations in Canada, the U.K., Germany, India and Australia.

We concluded fiscal 2008 with a strong balance sheet and are confident that we have the flexibility to adjust quickly to challenges and opportunities.

Once again, fiscal 2008 was a good year in terms of our successful execution and performance. In summary,

- We have continued to strengthen our relationships with OEMs and our customers
- We have continued to expand selectively our training centres and our pilot training capabilities around the world
- We have maintained our R&D efforts and investment to develop innovative, more realistic training products and services
- We have strengthened our leadership and geographic diversification through strategic acquisitions
- We have continued to nurture our entrepreneurial spirit and to engage employees throughout the organization
- And, we have continued to enhance our financial position.

Our CFO, Alain Raquepas will now review our fiscal 08 financial results. I will be back with our Q1 results and to provide an outlook of CAE prospects and priorities for fiscal 2009.

### **Mr. Alain Raquepas, Vice President, Finance and CFO**

Thank you, Mr. Brown. Good morning, ladies and gentlemen.

Let us now look briefly at the highlights of fiscal 2008.

Again this year, we continued to make good progress on all fronts.

The company received \$1.7 billion of new contracts during the year bringing our year-end backlog to \$2.9 billion which is almost the equivalent of 2 full years of sales.

Annual revenues in FY 2008 reached \$1.4 billion compared to \$1.2 billion in 2007, with the four segments all contributing to that 14% growth.

We recorded \$251.5 million of EBIT representing an increase of 33% from last year. Our EBIT margin now represents 17.7% of our consolidated revenues. Volume and our constant preoccupation to reduce costs have contributed to this achievement.

Earnings per share from continuing operations increased from \$0.51 to \$0.65.

In our Training and Services/Civil segment we operated an average of 108 Simulators during the year and revenue grew 13% to \$382 million. Segment operating income increased by 14% to \$73.5 million. Growth over last year was achieved despite an appreciation of the Canadian dollar against the British pound, the U.S. dollar and the euro.

Looking at Simulation Products/Civil, revenue was \$435 million, up 25%. Segment operating income was \$94.9 million, a 57% increase over last year. This improvement is a testament to our positive sustained cost performance as well as strong demand for CAE's products and services.

Total revenue for the combined military segments was \$606 million and combined operating income was \$83.1 million, resulting in an operating margin of 13.7%. Results from our military divisions add strength and stability to our company.

We concluded the year with a free cash flow of \$173 million. We generated \$261 million of net cash from our operations around the world. We reinvested \$190 million in Capital Expenditures, a substantial portion of which was invested to grow our training network. And financial institutions lent \$138 million on a non recourse basis to new training centers.

Our net debt decreased to \$124.1 million as of March 31<sup>st</sup>. Our Capital employed at year end was \$1.1billion and our return on capital employed was 16.8% still improving year over year.

CAE is in good financial health. We have a strong balance sheet, we have quality earnings, we generate free cash flow and our borrowing capacity and net debt level provide us flexibility that will allow us to seize opportunities and create value.

I thank you for your attention and will now turn the microphone back to Mr. Brown.

**Mr. Robert E. Brown, President and CEO**

Thank you Alain.

Let me first go over our Q1 results.

Consolidated revenue was \$392 million this quarter, 9% higher than the same quarter last year. Net earnings were \$46.1 million, or 18 cents per share, compared to \$38.7 million, or 15 cents per share, in the first quarter of last year, representing an increase of 20%.

Revenue for Training and Services/Civil reached \$110 million compared to \$95 million for the same quarter last year, a 16% increase. Segment operating income was \$21 million versus \$20 million last year.

For Simulation Products/Civil, revenue increased 21% year over year to \$137 million; segment operating income was \$27 million, an increase of 39% over last year.

For the combined military segments, revenue was \$145 million, a decrease of \$5 million over last year. Segment operating income was \$23 million compared to \$19 million last year, an increase of 24%. Just this last week and this morning, we announced military contracts valued at more \$146 million for CAE.

Our backlog is still strong at \$2.8 billion.

Overall, we performed well this quarter, and this is once again proof that our strategy both geographically, as well as between military and civil segments and products and services, is paying off.

(PAUSE)

CAE has done well these past few years, as well as in this first quarter of fiscal 09; looking forward, we face a new environment:

- high oil prices
- an uncertain and changing world economy
- the continuing difficulties experienced by some airlines and
- a strong Canadian dollar,

While we are operating in a challenging environment, we are optimistic about the future. We have been preparing over the last few years to ensure that we are well positioned to work under these circumstances, and there are signs that warrant our optimism, especially given that the civil and military sectors continue to be supportive by long-term fundamentals.

Let us first review the civil sector.

- Emerging markets are still growing at a fast pace.
- Revenue per passenger mile has increased in North America year over year.
- Worldwide air traffic is expected to double over the next two decades and accordingly, the size of the fleet is also expected to double.
- The current backlog is strong with approximately 13,000 commercial and business aircraft to be delivered over the next five years with an unprecedented level of aircraft forecasted to be delivered outside North America.
- New models continue to be launched for commercial and business jets.

- Airbus and Boeing are forecasting that the industry will require 17,000 to 18,000 new pilots a year for the next 20 years.
- In response to the high price of jet fuel, legacy airlines announced they will rationalize their older fleets – particularly in North America and Western Europe. This should *eventually* lead to re-fleeting with new, more fuel-efficient aircraft.

Presently, we face challenges in selected civil markets; however, as the review of the sector indicates, we remain optimistic and expect the demand for our portfolio of products and services to continue.

The defence sector, from which we derive nearly 45% of our revenues, continues to experience increasing demand. With the evolving nature of warfare, national and international forces continue to migrate to synthetic training for the following reasons:

- **To prepare military personnel for mission rehearsal:** As an example, at our facility in the U.K, we do mission rehearsal for The Royal Air Force and other NATO nations
- **To lower risk and increase safety:** The experience in one of CAE's military simulators allows pilots to test different situations in a safe environment
- **To reduce wear and tear:** Because of current conflicts and high operational use, aircraft are wearing out at a much quicker pace. Using simulation will help prolong the life of the equipment and free the aircraft for operational use.
- **To reduce costs:** The US Air Force estimates that training in a simulator costs about one tenth of the cost of flying the actual aircraft.

Therefore, we believe we are well positioned to capitalize on the increasing adoption of simulation and modelling-based techniques.

Over the years, we have grown our military presence and capability and we now have customers in more than 50 nations around the world. In addition, we have increased our operational footprint in seven countries. Just last week, we announced the signing of an agreement to acquire Bell Aliant's xwave Defence Security and Aerospace division, which will complement our military products and services.

We know that the coming year will bring both challenges and opportunities for CAE. Our ability to deal with challenges and capitalize on opportunities are supported by

- Our sound financial situation
- The diversification of our products and services
- Our geographic diversification
- Our leadership positions in both military and civil aviation markets and
- Our global reach.

These provide us with stability and ensure durability.

Looking forward to fiscal year 2009, our priorities are to:

- Deliver top-line and bottom-line growth;
- Deliver superior returns for our shareholders;
- Listen to our customers and find imaginative solutions to support them;
- Keep our balance sheet strong;
- Continue to reduce our costs and maintain our financial discipline;
- Continue to invest in Research and Development;
- Continue to be first movers in emerging markets;
- Continue to maintain employee engagement and
- Continue to seek bolt-on acquisitions.

In closing, I extend my thanks to our CAE employees around the world for their dedicated efforts and to our Board members for their counsel. I also want to thank you, our shareholders for your continued support and confidence in CAE.

I am now open to answer your questions. Please come to the microphones and identify yourself. Thank you.