



Presentation by Robert E. Brown,
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“Canada-China-India Partnership Dinner”

The Canada China Business Council (CCBC)
and
The Canada-India Business Council (C-IBC)

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Messrs Chairmen of the Canada China and Canada-India
Business Councils,
Distinguished Head-Table Guests,
Ladies and Gentlemen,

My sincere thanks for this invitation to a groundbreaking event,
which brings together for the first time your respective Business
Councils. It is a pleasure for me to be here.

Our mission at CAE is to make air travel safer through the use of
synthetic training to simulate every possible situation you hope will
never happen while you are a passenger in a plane.

We do this by building simulators and offering training to pilots
around the world. As of today, we have sold over 700 civil and
military simulators in 100 countries and to military forces of 50
national governments.

We also have 27 civil and military training centres on five
continents. Every year, we train more than 75,000 pilots and
crewmembers.

You have probably read about orders for new aircraft that are
reaching record levels particularly at Boeing and Airbus. If you
add the retirement of many pilots to the reduction in military pilots,
you have a pretty clear picture of the worldwide pilot shortage we
face.

This is particularly the case in emerging markets and, in China and India, these shortages are even more acute if not verging on an actual crisis. Boeing and Airbus are predicting that around 3,000 new aircraft will be required in China over the next 20 years. That means an average of 2,500 pilots to train every year between now and 2028. In India, 500 new planes are scheduled to be delivered over the next four years. To meet demand in this country, it is expected that more than 1,000 new pilots a year will be required over the next five years.

Consider for a moment the size of the more mature USA market. The total US commercial fleet stands at 8,400 aircraft and domestic air traffic was 660 million passengers in 2006. Today, both China and India have middle-classes that are larger than the total US population and they are driving the growth of domestic and international travel. Looking at these numbers, the actual demand for new aircraft and trained pilots may be higher than what the industry is predicting today.

The Chinese language symbol for “crisis” is made up of two signs: one meaning “danger” and the other “opportunity”. The danger stems from the consequences of pilot shortages for the safety of air traffic while the opportunity lies in addressing this challenge through the training and provisioning of qualified personnel.

China and India present many similarities and also, significant differences from a business point of view. Both may appear mysterious and daunting to the newcomer from the West. Both these emerging giants are recognized as significant players in the

globalization process and in the growth of our international economy.

These huge countries have a deep-rooted history and strong values. Their respective populations exceed one billion. The Chinese and Indian people are very industrious, hard working and share a thirst for knowledge and technology as well as for individual prosperity.

The big-picture challenge for us is to determine how we can best capitalize on our, and their fundamental differences of language and culture. To this end, we have had to do our homework and become very aware of the sensitivities of each market.

CAE sold its first simulator in India in 1970 and in China in 1988. We have learned many lessons over the ensuing years in dealing in each market.

In both countries, for example, we have had to adapt our sales process to absorb much lengthier timelines. Additionally, as a publicly-listed company, we have had to balance our short-term financial requirements with the common good and long-term benefits China and India wanted for their respective societies.

Both countries are also growing at a very fast pace. If you want to be a world leader, you must have a significant presence in China and in India.

Let's look at China first.

China's share of the world's GDP rose from 1 per cent in 1975 to 6 per cent today and it now contributes a spectacular 11.5 per cent to our global economic growth. Fifteen years ago, three Chinese corporations were ranked among the world's top 500; in 2007, there were 25.

Over the past 10 years, the population kept growing — by close to 94 million people — while the number of urban dwellers rose from 30 per cent to close to 45 per cent today. These days, a “medium-sized city” in China means a population of 5 million people.

Civil aviation in China has also experienced tremendous growth. Since 1997, the number of aircraft operators has grown from 25 to 39 today. Between 1990 and 2005, air passenger traffic rose 700 per cent, to 140 million passengers. Fleet size increased from 320 aircraft to over 1,500 aircraft today and should triple if not quadruple over the next 20 years. But this estimate is still low when you compare it to the 8,400 U.S aircraft. So I would not be surprised if the Chinese market experienced a much stronger growth than anticipated.

CAE's growth in China is the result of two main factors: the quality of its people and products, and the choice of a good partner.

Since 1988, we sold 53 simulators in this market including the prototype simulator for the new Chinese regional jet presently under development, the ARJ21. In 2002, we formed a joint

venture with China Southern Airlines, to operate the Zhuhai Flight Training Centre – the largest independent training facility in China serving 25 airlines. The Centre has been successful to the point that we recently decided to expand our simulator base from 10 to 18.

We learned early on to adjust our western curriculum to the specific Chinese culture and the secular rule of “saving face”. We have adapted by providing what we call a “training enhancement assessment” of our trainees, which allows individuals to improve their skills in a non-threatening context.

The language barrier has become an opportunity as we continue to adapt our methods to improve pilot English-language training. With less than 10 per cent of certified pilots meeting international aviation English standards, China’s airline regulator has called for Chinese pilots to improve their linguistic skills.

On the flip side of our experience in China are some of the restrictions associated with doing business in this market. For instance, China currently offers limited acquisition possibilities and no opportunities for us to serve its military market. Securing intellectual property is another issue although legislation has been introduced in this regard.

As Chinese air carriers absorb all their new aircraft over the coming years, we look forward to continuing to work with Chinese companies and the Government in order to ensure the safety of the air transportation system.

In many respects, growth in India mirrors what we have witnessed in China. Over the last ten years, India's population increased by some 160 million people. The economy grew at a sustained double-digit rate.

Since 1997, the number of aircraft operators in India has grown from 10 to 18. The fleet size has increased to 700 aircraft today — twice the size of the combined Air Canada and Air Canada Jazz fleet. And more than 500 are expected to be delivered between now and 2012. Compare this again with the US market and its 8,400 aircraft, and you see that these numbers are very conservative.

Rising incomes have made air travel more affordable and domestic air traffic has doubled over the past three years. Last year, Indian air carriers transported 35 million passengers, up 40 per cent year over year. This again compares to 658 million domestic passengers in the USA. Although domestic and international passenger traffic is expected to reach 100 million by the end of 2010, we believe this forecast to be too conservative. Therefore, the estimated number of 1,000 pilots needed per year for the next five years may be higher than anticipated.

Much like China before it, the country is transitioning from railroads to airplanes while it is sorely lacking in road networks and infrastructure. Enormous investments will be required but the approach in India is different when compared to that of China.

We have all seen reports on the upcoming Olympic Games slated for August in Beijing: all the major installations have been completed, months ahead of the actual games.

Contrast this achievement to the down-to-the-wire cliff-hangers that we experienced so many times in those Western countries that have hosted the Olympics over the past decades.

We have witnessed China's leaders proceeding in much the same way in the civil aviation sector: first they build the airports, the hotels and the highways and once the infrastructure is in place, then they add the aircraft and parcel out the routes to the airlines.

In India, the scheme of things presents a different reality: the government grants the licences to several airlines and then adds the routes and proceeds with implementing the infrastructure and the airports. Anyone transiting through Delhi International airport en route to Europe or North America has probably experienced the kind of chaos that 10 international carriers with daily flights create.

Our presence in the Indian market is different when compared to China. Since our initial entry in the early '70s, we have delivered 13 full-flight simulators to four of our Indian airline customers. We have also provided other airlines with pilot training services at our nearby training facility in Dubai. Over the past three years, our footprint in this market has expanded substantially and our

employee base in India has exploded from 13 to 250 in that short time.

What are the driving factors behind our recent growth in this particular market?

One of the key factors is the availability of an enormous pool of English-speaking talent, trained to western standards. As you may know, India produces some 112,000 graduate engineers with at least a bachelor's degree every year, compared to 137,000 in the U.S.A. CAE India employs some 200 engineers and graphic designers working on visual databases and software research.

While there is no language barrier, as the country's standard of living rises, one of the challenges we face is the increasing cost of local talent and resources putting pressure on our bottom line. This may force us in future to consider other centres in Asia that also offer intellectual capabilities and are becoming more attractive.

As is the case in China, one of the lessons learned relates to the importance of partnering locally. It has been our experience in India that to succeed, several local partners are needed.

Another driving factor in our growth has been the access to India's important military sector. Last year, India's Defence budget was the 12th largest in the world and with 1.3 million active troops deployed, India's armed forces rank 4th in the world after China, the European Union and the U.S.

We acquired one of India's leading military simulation companies and established CAE Macmet which employs 90 people specializing in the design of simulators for applications geared to air, land and naval forces.

We also entered into a joint venture to establish a military training centre with Hindustan Aeronautics Limited, a billion dollar company that is now ranked 34th on the list of the world's top 100 defence companies.

We have taken action to anticipate the growing needs of our clients in the civil aviation sector. CAE is currently building a full-service Training Centre in Bangalore with six simulators to provide training to up to 1,000 pilots annually, closer to the operations of our customers.

CAE also entered into an agreement with the Government of India to manage two of India's national flight academies and train between 400 and 600 cadets annually. We have also signed Pilot Provisioning contracts with two airlines, IndiGo and Kingfisher. As in China, CAE through its partnerships is fully engaged to meet present and future pilot requirements in India.

Over the years, we have also made our share of mistakes in India. Probably the most recurring was to underestimate the time required to get things done as well as the complexities involved in managing several initiatives at the same time.

India is also home to some of the world's richest people who have attained world eminence for their business achievements. We have all heard of Mr. Ratan Tata and of his Tata Group, which comprises more than 98 companies. They acquired Teleglobe here, in Canada, a few years ago and just bought the Jaguar and Land-Rover brands while unveiling the Nano, the world's lowest-priced car.

Two other fabulously wealthy compatriots and fellow entrepreneurs have entered the aviation business and grown two of India's largest airlines in the process. Mr. Vijay Mallya, Chairman of the United Breweries Group, producers of Kingfisher Indian Ale, the number one beer in India, launched Kingfisher Airlines in 2005 with all new aircraft and innovative flair focused on maximum comfort for passengers. Kingfisher shuttle buses are rolling salons featuring leather sofas.

The second, Mr. Naresh Goyal, launched Jet Airways in 1993. It has become India's largest private domestic airline with a fleet of over 80 aircraft and now serves several international destinations, including Toronto.

If I could peer into a crystal ball, I might foresee the emergence of similar levels of wealth among today's and tomorrow's entrepreneurs in Mainland China along with an evolution towards an even more liberalized Chinese economy with bountiful opportunities.

Whatever the future holds, CAE will continue to evolve its products and services to remain one step ahead of the ever-changing needs of these two key markets. We are committed to assist our partners and customers in China and India in ensuring the safety of their skies by training their pilots, crewmembers as well as maintenance technicians in a timely fashion.

That both these countries will continue on their tremendous path to growth is a given. What we must all recognize is that their respective trains have long left the station and that any company seeking to grow cannot afford to remain on the platform.

Thank you for your attention.