



REMARKS FOR CAE'S FIRST-QUARTER FISCAL YEAR 2008

August 9, 2007

Time: 12:00 p.m.

Speakers:

Mr. Robert E. Brown, President and Chief Executive Officer

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

Mr. Andrew Arnovitz, Vice President, Investor Relations and Strategy



Andrew Arnovitz, Vice President, Investor Relations and Strategy

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, 2007. 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 August 9, 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 call 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 some observations about the first quarter and then Alain will take you through our results more specifically. Following that, I will conclude with a few words about the way forward.

In summary, we are off to a solid start for the new year. Our financial performance in the first quarter continued to reflect a sound strategy and good execution from all business segments that is in line with our plan.

Revenue increased 19% over last year to \$358 million. On an equivalent basis, net earnings from continuing operations increased 25% to reach nearly \$39 million.

This quarter, we received \$308 million in new orders. We now have a backlog of approximately \$2.6 billion.

In **Simulation Products/Civil**, we announced orders for 13 full-flight simulators during the quarter. This includes our second simulator order for the new Boeing 747-8 Freighter - this time from Cargolux, the launch customer for this aircraft.

Since the end of the quarter, we have announced another three new simulator orders. This includes an Airbus A330/340 for the FAA, which plans to use the simulator to identify ways of improving the safety of the increasingly crowded U.S. national airspace. We also announced orders from Air France and first-time customer Virgin Blue, as well as an order from Japan Airlines for a suite of Boeing 787 maintenance trainers.

We recognized 52% more revenue this quarter compared to last year. We also achieved double-digit growth in our operating margin, which reached 17.4%.



Training & Services/Civil won more than \$66 million in new training contracts during the quarter. We broadened our relationship with another aircraft manufacturer by signing a 20-year agreement with Bombardier to become its authorized training provider for the Global Express and Challenger 300 aircraft.

We marked an important milestone in India with the government's selection of CAE to provide pilot training in two schools. The Indian government's decision to work with CAE validates our unique ability to bring the highest standards of aviation training to this fast growing market. It also recognizes our capability to develop the infrastructure required to address the need for pilots.

Since the end of the quarter, we marked another important milestone by signing an agreement with Air Canada to provide training centre operations services to the airline. We provide similar services to a number of airlines around the world, but this is a first for CAE with a North American legacy carrier.

Average annualized revenue per simulator in the first quarter was \$3.6 million on a base of 105 Revenue Simulator Equivalent Units. Training demand continued to be strong, and revenue increased by 13% year over year. Compared to the already strong fourth quarter, revenue increased by 3% despite the sharp rise in the Canadian dollar during the first quarter.

Our operating margin for the quarter was 20.7%.

In the **combined military segments**, we secured \$76 million worth of contracts for a range of programs including training systems and upgrades for the German, U.S. and British Forces. In Canada, we renewed a support services agreement related to the Canadian Forces' CF18. In the United States, we were awarded support contracts for the Air Force's C-130J and the Army Special Forces' Little Bird as well as Chinook Helicopter simulators. Since the end of the quarter, the U.S. Navy exercised an option for CAE to design another MH-60R helicopter simulator.

CAE's access to global markets in both military and civil segments is unique. During the quarter we signed an agreement to acquire Macmet Technologies in Bangalore, which we expect to provide CAE with greater access and additional capabilities in the fast growing Indian market.



This acquisition builds on our already long history in the Indian market, and demonstrates our commitment to serving both military and civil markets in that region.

On a combined basis, military revenue for the quarter was up 5% and operating margins reached 12.4%.

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



Alain Raquepas, Chief Financial Officer

Thank you, Bob and good afternoon everyone.

In the **first quarter**, consolidated revenue was \$358 million, up 19% from last year and mostly from organic sources of growth.

The consolidated backlog was \$2.6 billion dollars. Our book-to-sales ratio was 0.9 times for the quarter, and 1.1 times for the last 12 months.

Net earnings were \$38.7 million, or \$0.15 per share, compared to \$32.4 million, or \$0.13 per share in the same quarter last year. Excluding non-recurring items, earnings per share from continuing operations were \$0.12 last year.

Foreign exchange movements are a fact of life for CAE and we have been effective at managing our business within this environment. That said, the sudden 7% appreciation of the Canadian dollar during the quarter against the US dollar and the euro had a notable impact on our consolidated balance sheet. Our net assets located abroad in self sustaining entities were re-evaluated downward by \$59 million. The impact of this adjustment is recorded on the balance sheet as required by the new chapter on Comprehensive Income. We also implemented during the quarter the new standards on financials instruments and hedges as mandated by Canadian GAAP since April 1st. Overall, foreign exchange movements did not have a material impact on the P&L during the quarter.

Income taxes were \$16.7 million, representing an effective tax rate of 30% compared to 25% last year. We expect the average rate for fiscal 2008 to be about 30%.

We generated free cash flow of \$10.7 million in the quarter, which is partly the result of a positive contribution from our non-recourse financing. As well we generated \$69 million of cash from continuing operations but this amount was more than offset by a reversal of \$97 million in our working capital account.

We normally anticipate a reversal in working capital at the start of CAE's fiscal year. Our first quarter is always impacted by cash payments for taxes, royalties and world wide employee incentives that are accrued during the prior year.



Additional cash disbursements this quarter involved down payments we made to major suppliers. This follows recent long term deals that our Global Strategic Sourcing Group negotiated in order to get volume and price discounts.

Another notable difference this quarter relates to the increase in our accounts receivable. We reached a number of contract milestones late in the quarter for which we have only recently issued invoices to customers.

As you know, we have been able to pull out a significant amount of cash from working capital over the past three years. We are committed to keeping the same focus and we expect that a good portion of the \$97 million in working capital reversal will come back over the balance of the year.

Thank you for your attention. I will now I turn the call back to Bob.



Robert E. Brown, President and Chief Executive Officer

Thanks, Alain.

We see strong evidence in the market that our strategy is on the right track. On the civil side, we are particularly encouraged by the rate of activity at the recent Paris Air Show. Aircraft demand has been strong so far this year, and combined Boeing and Airbus backlogs are up more than 15% since the end of 2006. Market analysts estimate these major OEMs have more than six years of backlog at current production rates. Business jet demand also remains strong, with a book-to-bill ratio in that segment well over one time. Taken together, these conditions provide us with additional confidence in the current cycle.

We secured US\$105 million of non-recourse financing this quarter in support of our growth in aviation training. This demonstrates that we can finance the business on the strength of the training assets and the expected cash flows.

We are now in the process of building and deploying simulators to grow our training network by approximately 10% per year. We expect to see the benefits from these investments in fiscal 2009 and beyond as we ramp up the utilization of this new capacity.

Our CAE 5000 and 7000 Series full-flight simulators offer the highest fidelity solutions available in the market and our sales campaigns are doing well. It is still too early in the year to provide a precise number, but with 16 sales announced to date, we continue to feel that 30 sales for the year are well within reach.

On the military side, we expect continued modest revenue growth and another solid year for orders. We are currently pursuing a large number of programs, and in particular, we expect new opportunities to arise from the ramp up of NH90 Programmes in Europe and around the world. In North America, we are hopeful that CAE will have an opportunity to play a role in support of the Canadian Airlift program.

The rapid increase in the Canadian dollar over the past quarter is challenging. No company can adapt its business overnight to keep pace with the surging dollar, but we are increasing our efforts to find additional opportunities for cost savings and new ways to improve our processes over time. I am confident that we will find a solution to this problem.



We are nearly half way through our second quarter, and our priority remains the execution of our business plan and the deployment of our growth initiatives. We are making good progress in all areas of our business, and we intend to maintain our positive momentum.

Thank you for your attention. I think we are ready to take questions now. Andrew?

Andrew Arnovitz, Vice President, Investor Relations and Strategy

Operator, we would now be pleased to take questions from analysts and institutional investors. Following that, we will take questions 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.