



**REMARKS FOR CAE'S THIRD-QUARTER FISCAL YEAR 2008**

**February 14, 2008**

**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](http://www.cae.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)). They have also been filed with the U.S. Securities and Exchange Commission under Form 40-F and are available on EDGAR ([www.sec.gov](http://www.sec.gov)). Forward-looking statements in this conference represent our expectations as of February 14, 2008 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.

I will begin with some remarks about our third quarter performance and then Alain will take you through our results more specifically. Following that, I will conclude with some comments about the way forward.

Our performance in the third quarter and year to date continues to show that we have successfully diversified our interests between civil and military markets, and among the various regions of the world. Training and services are becoming a larger portion of our business mix, which will provide more stable and predictable results.

Revenue in the third quarter increased 4% over last year to \$345 million. Approximately 60% of our revenues are now being generated outside North America and those originating in high growth areas like Asia, the Middle East and South America have grown by 25% over the same nine-month period last year.

Net earnings in the third quarter increased 33% to reach \$39.5 million.

In the quarter, we received \$567 million in new contracts. Nearly 60 percent of these orders are in our military segments. At the end of the quarter our backlog reached approximately \$2.7 billion.

In **Simulation Products/Civil**, we announced orders for eleven full-flight simulators during the quarter with customers around the world, including: Qantas; Etihad; Air Algerie; Continental Airlines; and US Airways. This brings the total number of simulator announcements to 31 for the year to date.

**Training & Services/Civil** won more than \$104 million in new training contracts during the quarter, including a 10-year agreement with AirAsia to fully manage the airline's pilot training.

We also signed a five-year contract with Dassault Falcon Jet, which names CAE a preferred provider for maintenance training for Dassault employees. Similarly, we reached a five-year deal with Hawker Pacific to provide maintenance training to its employees and customers



within Southeast Asia. Maintenance technician training is less frequently talked about than pilot training, yet the stress on the global supply of qualified technicians is even more acute.

In the **combined military segments**, we secured \$339 million worth of contracts and as a result, our military backlog has increased by 14% from last quarter.

During the quarter, we signed a \$160 million contract with the Australian government to provide MRH90 training systems and services to its forces. As well, Helicopter Training Media International, a company owned equally by CAE and Thales, entered into a contract to supply the French Air Force with an NH90 full mission simulator. To date, 14 nations have ordered the NH90, some of which may require their own dedicated training solution, while others are likely to seek training services. Either way, we are well positioned.

The Royal Netherlands Air Force awarded us contracts for C-130H and KDC-10 full mission simulators and a range of maintenance and support services. And we received a contract to provide the U.S. Air Force with C-130J pilot instruction and courseware.

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 **third quarter**, consolidated revenue was \$345 million, up 4% from last year. Had the Canadian dollar remained level year over year, revenue would have increased by 10%.

Net earnings were \$39.5 million, or \$0.16 per share, compared to \$29.7 million, or \$0.12 per share in the same quarter last year. Excluding non-recurring items, last year's net earnings were \$32 million or \$0.13 per share.

In **Simulation Products/Civil** we recognized 12% more revenue this quarter compared to last year because of higher order activity, which was somewhat offset by a stronger Canadian dollar. Our operating margin reached 24.3% as a result of the mix of programs, higher volume and a good cost performance.

In **Training and Services/Civil**, our average annualized revenue per simulator in the quarter was \$3.4 million on a base of 109 revenue simulator equivalent units. Training demand continued to be strong in most of our training centres. Despite the strong Canadian dollar, revenue increased by 12% year over year because of higher utilization and the addition of 12 more RSEUs.

Our operating margin for the quarter was 16.7%, which is a bit higher than last year despite the drag caused by the launch of new training assets. We normally expect new training assets to take about 18 months to ramp up to their full expected contribution.

In our combined **Military** segments, revenue for the quarter was \$149 million and operating margins reached 14.1%. Year to date, our combined military operating margin reached 13.5%.

Our consolidated backlog increased from \$2.5 billion to \$2.7 billion and our book-to-sales ratio reached 1.6 times sales for the quarter and 1.2 times sales for the trailing 12 month period. As Bob mentioned, order activity was stronger this quarter in our military segments.



Income taxes were \$16.8 million, representing an effective tax rate of 30% compared to 28% last year and 31% last quarter. The tax rate this quarter is slightly lower than last quarter because of the mix of income originating from various jurisdictions.

Capital expenditures this quarter totalled \$21.1 million, bringing the total to date to \$141 million. Global market conditions remain supportive of our growth plan and, as a result, we expect to conclude the year with total CAPEX of about \$200 million. This is somewhat lower than our previous estimate because we have realized some cost savings and we have adjusted the mix of platforms being deployed this year.

We generated \$61.0 million of net cash from continuing operations during the quarter and we generated \$46.2 million in free cash flow.

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.

I commented earlier that our performance reflects a healthy level of geographic diversification and balance between civil and military markets, and between products and services.

We are continuing to focus on reducing costs, developing new products, and maintaining our strong financial position.

Despite the current economic and financial market volatility, the fundamentals of the aerospace and defence sector remain strong.

On the civil side, 2007 was another record year for aircraft orders with Boeing and Airbus adding more than 2,800 planes to an already lengthy backlog. As such, we have a good degree of visibility of potential future sales in that market through the end of the decade.

Demand for our commercial full-flight simulators has been steady and we now believe we can slightly exceed our previous full-year estimate of 34 orders. The exact figure will ultimately depend on the timing of a number of contracts.

The U.S. and other developed markets historically represented the lion's share of aircraft demand. Today, emerging markets represent a significant source of demand. The growth in developing markets has guided CAE's aviation training strategy: our long-established and leading positions in China and South America; our recently launched training hub in Southeast Asia; and our rapidly-developing training infrastructure in India are all prime examples of CAE's global focus in commercial aviation training.

Our pilot provisioning initiative has rapidly become a vital part of the solution to the global pilot shortage. We already have the capacity to train annually approximately 1,000 pilots through the CAE Global Academy and we expect to more than double this capacity over the next few years. We are effectively matching supply with the demand for new pilots from our airline customers. Last week we announced a formal agreement with the Indian government to provide



pilot training in two national flight academies, which is expected in time to bring to eight the number of flight schools in our Global Academy.

Business jet demand in 2007 reached unprecedented levels, notably in markets outside North America. With our extensive global reach, we are well positioned in this segment. Our ongoing investments in business aviation will enable us to access previously un-addressable market share. The main driver for business aviation is demand from the existing base of aircraft worldwide. A backlog of more than 6,500 business aircraft orders should further expand global demand for training.

More than 40% of CAE's revenue comes from its military segments. This has provided us with an important level of diversification and has been a focussed area for technology development.

We had a number of impressive wins in the third quarter, which increased our military book-to-sales ratio back to over one time. We continue to expect to conclude the fiscal year with a solid order book. Year to date, we have already taken in more orders than all of last year. The timing of military contract awards is always difficult to predict, but the level of activity remains strong.

As I mentioned earlier, we signed our second significant contract related to the NH90 helicopter to provide comprehensive training systems and services for the Commonwealth of Australia's planned fleet of 46 MRH90 helicopters. This follows the German NH90 program in which CAE plays a major role. The NH90 helicopter program is the largest-ever launched in Europe, with firm orders now reaching 507 units for 19 Armed Forces of 14 nations.

U.S. military spending in 2008 will be an estimated nine percent higher than 2007, and the U.S. is still expected to represent about half of the world's defense market. Given the global conflicts, the U.S. military is continually looking for ways to address its high operational demands as well as personnel readiness. Simulation is seen increasingly as a solution to these challenges and we are working with all branches of the U.S. forces to help identify solutions.

We were pleased to see the Government of Canada sign a contract with Lockheed Martin last month for the purchase of 17 C-130J Hercules aircraft. As we announced last quarter, the CAE-led pan-Canadian team is the sole qualifier to bid for the C-130J and CH-47 aircrew training



capability. We anticipate the government will issue a request for proposal for such training to CAE sometime during the first half of 2008.

To sum up, we had another quarter of good performance. Worldwide demand for air travel continues to be supportive of our globally focussed initiatives. And we will continue to prudently and decisively make investments to grow our market presence and support our global customer base over the long haul. We are well diversified with increasingly more predictable earnings. Our financial position is solid and we believe we have the right people to act on the opportunities ahead.

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.