

ANDREW ARNOVITZ (Director, Investor Relations, CAE Inc.): Operator, we'd be happy to take questions from analysts and institutional investors. Following that, we'll take questions from the media.

OPERATOR: Thank you. We will now take questions from the telephone lines. If you have a question, please press * 1 on your telephone keypad. If you are using a speakerphone, please lift the handset and then press * 1. If at any time you wish to cancel your question, please press the # sign. Please press * 1 at this time if you have a question. During the question-and-answer session, please limit yourself to two questions. The first question is from Nick Morton, from RBC Capital Markets. Please go ahead.

NICK MORTON: Good afternoon. Bob, you mentioned the idea of creating shareholder value in additional ways. I wondered if you could expand on that.

ROBERT E. BROWN (President and Chief Executive Officer, CAE Inc.): I think, Nick, what we've been trying to do in the past, I think our plan very clearly is to continue in the standard ways that we have as it relates to investing specifically in the training services business, the simulators that we're adding into that business. And I think as well that we plan on continuing to go forward with the bolt-on acquisition strategy that we've had in the past, I feel confident that we're going to be able to continue doing that again this year.

We talked as well about the dividend that essentially we have restored to our pre-restructuring period of time. And so, you know, I think the only idea or thought that we wanted to leave here is that we're going to continue in all of these things and we thought that the dividend was a good way to signal very clearly the financial health of the company and as well our intention to return to a more traditional way of also returning some value to the shareholder. It was nothing more than that.

NICK MORTON: Okay. What about the idea of using your knowledge to get into different areas, to diversify your product line?

ROBERT E. BROWN: I think that we are being very disciplined and consider ourselves as really the only pure play in the market in modelling and simulation, in both civil and defence. We don't intend to stray very far from that, but we have been using some of our technology as it relates to going into the medical area. We've seen some small gains there. But again, I think I would emphasize that we really want to stay close to what we know and we think that there are many growth initiatives around the world that we can pursue that are

going to allow us to grow our top line in virtually all of our businesses, and it will also help us on the bottom line.

NICK MORTON: Thank you. Alain, just on Project Phoenix, could you update us on what you expect the next couple of years in the way of contribution from that?

ALAIN RAQUEPAS (Vice President, Finance and Chief Financial Officer, CAE Inc.): Yes. There's good disclosure, Nick, in the financial statement. But essentially, the run rate's quite similar to the one we got this year and last year. The program will still benefit for two, almost three years of funding. It was a six-year program. We're halfway through. So the same as this year, in fact.

NICK MORTON: Is there a way of looking at an earnings-per-share contribution basis for fiscal 08?

ROBERT E. BROWN: I don't really think so, Nick. I think in the disclosure, as you go back, I mean, CAE has had these programs for quite a period of time in the past that have gone through DIP and other things of that kind and we've had repayment programs that we've been participating with in the government. And there's a new program called the SADIE program that's there, which if you look at the terms and conditions of the program that we currently have, are almost exactly the same. So I think it's something that'll continue. No reason why it shouldn't continue into the future as it does for Pratt & Whitney, Bell and others. But I think that's basically all we can say.

NICK MORTON: That's great. Well, thank you very much. Great year.

ROBERT E. BROWN: Thank you.

OPERATOR: Thank you. Your next question is from Cameron Doerksen, from Versant Partners. Please go ahead.

CAMERON DOERKSEN: Yes, good afternoon. I don't know if you mentioned this or not, but what was the utilization rate in the training network in Q4?

ROBERT E. BROWN: I think it was about just over 80 per cent, Cameron.

CAMERON DOERKSEN: Okay. Just secondly, I just wondered if you could maybe talk a bit about the training business and the split between I guess business aviation training and I guess airline related training. Do you have sort of a rough order of magnitude what the revenue split was for 2008 and what is your sort of target going

forward with the investments that you're making in the network?

ROBERT E. BROWN: Andrew, do you have the split on revenue for 2008?

What I can tell you is that a lot of our investments going forward are going to be focused on the business aircraft side as opposed to... Because we think that there's some catch-up for us to do, plus there's been a lot of (inaudible) relaunch. So that's really answering the second part of your question. But on a historical basis, Andrew?

ANDREW ARNOVITZ: Yes, the contribution in business aviation training tends to be higher on a per-simulator basis because it is wet training. But on a consolidated basis, Cameron, we'll come back to you with that split. It's roughly equal, and in commercial it's a bit larger. But we'll come back to you with that.

CAMERON DOERKSEN: Okay, that would be great. And just a third quickly, have you seen any impact from the delays in the 787 program, either with potential deliveries with customers you already have or with potential orders from other 787 customers?

ROBERT E. BROWN: It really doesn't impact us that much. We tend to have contracts with people that, you know, as we complete the work we are paid for it; and if you look at our order intake going forward, I think, you know, we've been pretty conservative in terms of what we've included. I think it pretty well matches the delays that are out there. Most of the airplanes that are being ordered are not, right now in any event, are the A-320s, the 737s, the more traditional aircraft.

CAMERON DOERKSEN: Great. Thanks very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from David Tyreman, from Scotia Capital. Please go ahead.

DAVID TYREMAN: Good afternoon. My first question is on the margins. The margins in the civil simulator business and also the training civil were very high in the quarter, even if you back out the small unusual on the training side. Is there anything unusual in the quarter that you would not expect that to continue with the usual seasonality obviously on the civil side, or on the training side?

ROBERT E. BROWN: I think on the civil sim products business, we've always said that be careful on that. There are various things that can be in the margins, that

we're trending more towards the 20 per cent and it's a seasonal... That's on the sim products business.

If you look then at the training business, it varies on a seasonal basis because in the summer, they don't want to train as much. People are flying the aircraft much more. So you see different things happening there, but I think the margin performance that came from that, we're seeing a small incremental gain there and that's our goal going forward.

DAVID TYREMAN: Okay, so just going back to the simulator side, I think this is the third quarter in a row where your miles is above the 20-per-cent level. Are you just on a winning streak here or are you being incredibly conservative with the 20-per-cent number?

ROBERT E. BROWN: The way I would put it is that we're being prudent as we go forward and each quarter's different, depending on the mix of simulators that we're going to have in there. And I think that's basically where we are.

DAVID TYREMAN: Okay, and then my other question is on the 3 million military net gain, kind of unusual items. Could you give me the split between the two segments of that split?

ROBERT E. BROWN: You mean between the two military slides?

DAVID TYREMAN: Yes, please.

ALAIN RAQUEPAS: You're referring to the 3 million net. I mean, the gain was in sim product military and there was a little bit of pain in training services military.

DAVID TYREMAN: Right. I'm just trying to get an idea. I'd like to calculate the margin excluding that.

ALAIN RAQUEPAS: The only thing I could say is the gain, the majority of the gain was in sim product military.

ROBERT E. BROWN: I think that we would encourage you again to look at the military margin as a single number and I think we have obtained a pretty good margin overall in that business and I think with what I've said today, we feel that we're going to be able to sustain that going forward, which is different than what we've sort of been saying in the past.

DAVID TYREMAN: Just to clarify that, the 12 to 13 per cent annual EBIT that you mentioned, Bob, is that for all military or simulation products military?

ROBERT E. BROWN: That's all military.

DAVID TYREMAN: All military.

ROBERT E. BROWN: Yes.

DAVID TYREMAN: Okay, thank you.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Marko Pencak, from GMP Securities. Please go ahead.

MARKO PENCAK: Thank you. What's your cycle time on your Series 5000 simulators?

ROBERT E. BROWN: We really haven't revealed that, Marko, because it's a competitive tool we have. But it's very good.

MARKO PENCAK: Okay.

ALAIN RAQUEPAS: (Off microphone).

MARKO PENCAK: Pardon me?

ALAIN RAQUEPAS: Shorter than the 7000.

MARKO PENCAK: Yes, well, I figured that, but... Okay.

ROBERT E. BROWN: It's quite good. Anyway, please, the next question.

MARKO PENCAK: Pricing. I ask you this often. Any movement in pricing at all, up or down, by very different businesses?

ROBERT E. BROWN: I would say civil, pretty stable. I would say regionally, depending on the region, on the business aircraft side, you may see a slight increase, but otherwise stable.

MARKO PENCAK: Okay. We talked about that. No, I think I'm good. Thank you.

ROBERT E. BROWN: Thank you.

OPERATOR: Thank you. The next question is from Ihor Danyliuk, from Merrill Lynch. Please go ahead.

IHOR DANYLIUK: Thank you. Hi, Bob. With regards to the RSEUs, you increased from 99 to 108 going from 07 to 08. That kind of increase, sort of nine units, do you expect that increase to continue in 09 and 10?

ROBERT E. BROWN: Yes.

IHOR DANYLIUK: So that's a reasonable estimate going forward?

ROBERT E. BROWN: Yes. I think if you look in my remarks, you'll see that we expect that to increase again for 2009 and 2010 and that may be slightly higher after that.

IHOR DANYLIUK: Okay, thank you.

OPERATOR: The next question comes from Tim James, from TD Newcrest. Please go ahead.

TIM JAMES: Thank you. Can you provide us with a bit of an update on what you're seeing in the market as far as the acceptance of MPL goes, in particular in Asia and Europe?

ROBERT E. BROWN: Yes, I think that it's coming along, I would say incrementally, gradually, but we really don't see any big increases taking place there.

TIM JAMES: Following on that, in terms of the market in Asia and the pilot training market, you've been very active building your presence there.

ROBERT E. BROWN: Yes.

TIM JAMES: What are you seeing on the competitive landscape? I mean, I know there's a number of players in the market that are targeting that as well. Is there anything in particular that's sort of built into your strategy to deal with the growing presence of others in the market?

ROBERT E. BROWN: We don't see a lot of direct competition to ourselves. There are some others that are involved, but we still see the airlines as being the major source of where a lot of the training is taking place. You're still seeing some people I think moving from the military and I think I really couldn't say much more than that. I think that anybody that's building up right now, we're not seeing any push-back. You basically can absorb or take in whatever, and the system will basically handle it. So far there hasn't been any real indication that we're limited in the space that we have.

TIM JAMES: Okay, thanks very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Chris Murray, from CIBC World Markets. Please go ahead.

ROBERT E. BROWN: Are you there, Chris?

CHRIS MURRAY: Yes. Sorry, can you hear me?

ROBERT E. BROWN: Yes, I can.

CHRIS MURRAY: Okay, thanks. I was wondering if you could give me some thoughts on the dividend increase and sort of the process internally in terms of either the rate of increase or when you're going to do it, maybe looking forward?

ROBERT E. BROWN: Okay. The process for doing it was the review of our financial position, the strength of the balance sheet, our capability to be able to fund both on acquisitions going forward to support our capex program and that we felt that we had reached a turning point in terms of the company and we felt that it was the appropriate time to put the dividend increase in place. And I think we announced in the results that we have, that we put out that this dividend increase – I'm just looking for it here – I think if you find in the press release, it will be "increase of \$0.03 per share on June 30th, 2008 to shareholders of record at the close of business on June the 13th, 2008".

CHRIS MURRAY: Now, I guess what I'm trying to get at is are you trying to target some particular payout ratio to earnings or is this just something that you will review based on every year's financial plan?

ROBERT E. BROWN: We're reviewing this, you know, basically annually as we look at, as we do our planning going forward.

CHRIS MURRAY: The other question I have for you is back to the training services side. Looking at the deployed full flights versus the RSEUs, is there anything that you can do to speed up bringing basically the simulators into service quicker? You've got about 15 per cent more deployed than actually operating, kind of just doing a quick ratio. Is there anything you think you can do to speed that up or is there any flexibility that you may have with that?

ROBERT E. BROWN: I think we want to be very careful in doing this. Executing against our plan is extremely important. I think we've built up a lot of credibility doing it. I think the plan that we've got right now to get them in the field, to get them deployed is appropriate. Maybe over time, as we do more of these, we'll be able to come down the learning curve a little bit. But I think for where we are right now, we're achieving a satisfactory result.

CHRIS MURRAY: Okay, thank you very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Ben Cherniavski, from Raymond James. Please go ahead.

BEN CHERNIAVSKY: Hi, guys. Good year.

ROBERT E. BROWN: Thank you.

BEN CHERNIAVSKY: You mentioned, Bob, that you have negotiated the contracts with Montreal labour.

ROBERT E. BROWN: Yes.

BEN CHERNIAVSKY: Can you talk a little bit about what the terms were there, if there's anything material?

ROBERT E. BROWN: Yes, there's really nothing material. It's a five-year agreement, which I think that is very good. There's a one-time payment that goes to them I think upfront of \$1,000. We had I think an approval rating just in excess of 70 per cent, which I think is very good, and I think the increases basically on an annualized basis are in line with the industry that's here.

And I would say that the best thing to come out of all of this is I think this is a vote of confidence in the company and that everybody is working as hard as they can together in a very collaborative fashion to make sure that we come up with a system and a process and products to win. And it's part of the change in culture that we've been trying to bring along for the last three and a half years of making sure that we control our own destiny and everybody who is a stakeholder is very actively getting involved.

So I'm very pleased with the result for the employees and I'm very pleased with the results for the company.

BEN CHERNIAVSKY: And what was during that process your observation of labour's acknowledgement of, or willingness to accept the structural changes that have taken place in Canadian manufacturing sector as a result of the higher Canadian dollar? I mean, are they recognizing that you have to get more productivity out of your workforce to remain competitive and was any of that factored in to some of the agreements you managed to negotiate?

ROBERT E. BROWN: I think that everybody in the company – and it's not just unionized employees, it's everybody – realizes that we are in a very competitive business with big global competitors. And we have over, we, on a regular basis have communications or meetings with all of our employees to tell people about what's happening in the marketplace, what the realities

are, and the best way for us to be successful as a company and the best way for people to secure their employment going forward is for all of us to collaborate and for all of us to find more ways to be innovative, to be efficient.

I think that we've been doing that. When you look at the reduction in cycle times, you look at the reduction in our procured parts, if you look at the number of snags, our zero-target in snags on shippings that we're basically achieving, all of that's a testimony to the commitment and involvement of the employees. So I don't see it as people have... Everybody knows what's going on out there and everybody likes their association with the company and everybody wants to be successful and everybody wants to have a job. So I think all of that's contributing to what's happening here.

BEN CHERNIAVSKY: And is that what gives you confidence in your ability to maintain your profitability, as some of your hedge positions are going to wear off and that dynamic will change?

ROBERT E. BROWN: Yes, precisely. Well, you know, we've gone from \$0.80 to par. You can see in our notes that basically a lot of the hedges are disappearing going forward and we feel confident that with the time that we bought with those hedges, that we're going to be able to replace that with productivity gains to allow us to continue to grow and give returns to shareholders.

BEN CHERNIAVSKY: Great. And one final question, if I may. The Global Academy initiative was kick-started I believe well over a year ago now.

ROBERT E. BROWN: Yes.

BEN CHERNIAVSKY: I know you had some targets in mind of revenues that might contribute and can you maybe give us an update on that specific initiative and where it is now relative to what you envisioned when it started?

ROBERT E. BROWN: Yes, it's coming along and I think we've got about 1,000 cadets in the system now and it's basically progressing at the rate that we had planned.

BEN CHERNIAVSKY: Okay. Thanks a lot.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. Once again, please press * 1 at this time if you have a question. The next question is from David Tyreman, from Scotia Capital. Please go ahead.

DAVID TYREMAN: Yes, I just wanted to follow up on Simulation Products/Civil. So if I understand your comments correctly, it sounds like you think that the order rate will stabilize at a very high level, given airliner production is going to be relatively stable. Does that imply then that you expect the backlog to stabilize too because I note the backlog went up last year despite a relatively similar level of orders?

ROBERT E. BROWN: I wouldn't disagree with that statement. Again, we always emphasize this, that the growth is going to come more from the civil training and the growth is going to come more from the military side of the business. So again, our broad diversified base and our geographic diversification as well are going to help us a lot here.

DAVID TYREMAN: Sure. And then just on that military side, so as you noted, Bob, the award growth has been very strong recently. Do you see that continuing or has it been unusually strong in the last year or two?

ROBERT E. BROWN: I think it's been strong, particularly the last couple of years. I think that, as I mentioned before, is because it's in the products area. You're going to see, as opposed to services, you're going to see more of that translate into revenue sooner; and which I think will be helpful to us. And with what we can see right now, I think we see still a fairly strong order position coming forward in the year we're in.

DAVID TYREMAN: Okay, so a good pipeline, it sounds like.

ROBERT E. BROWN: Yes, there's a lot of activity.

DAVID TYREMAN: Okay, and then on that FX side, I'm sorry if I've missed this in the notes, but I'm just trying to understand where you are in Simulation Products/Civil on FX right now. I know you hedge everything as you do it and those are rolling off I guess as you finish the projects. Where would you be roughly at this point?

ROBERT E. BROWN: I think we can actually refer you to the page.

DAVID TYREMAN: Sure.

ROBERT E. BROWN: Have you got it, Alain?

ALAIN RAQUEPAS: Yes, there's the summary of our hedge position, David, is all well laid out at page 37 of the financial statements. So you can get a pretty good sense of what the forward rate is on all of these contracts...

ROBERT E. BROWN: And I think it's as I said before, that the 25 million that we've had in hedges is basically where most of it is wearing off, has worn off. So we've got to make up that difference going forward. And as I've said before, we've taken actions to make sure we can continue to deliver to the shareholders.

DAVID TYREMAN: So would that have been the case in the previous, in Q4, or is it really hitting increasingly hard this year?

ROBERT E. BROWN: No, I think this has been a reality of life for us since we started the restructuring when we were at \$0.80.

DAVID TYREMAN: Right.

ROBERT E. BROWN: To where we are now, it's something that we have to continually adjust to all the time.

DAVID TYREMAN: Right. And then on the Montreal employee agreement, was there any significant impact on pension or OPEP(ph) there?

ROBERT E. BROWN: No.

DAVID TYREMAN: No? Okay. And, sorry, I missed the capex number for the year.

ROBERT E. BROWN: About the same as this year.

DAVID TYREMAN: Okay. And does that include any sale lease-back purchases or do you have any plans on that side?

ROBERT E. BROWN: Alain?

ALAIN RAQUEPAS: No, at this stage, we do not intend to buy back any of the leases, as I'm speaking to you.

DAVID TYREMAN: Okay, and the last question I had was just on the C-130 and I guess the CH-47. Could you just run us through where that is and any sense of what you think of timelines?

ROBERT E. BROWN: Yes, we're just in the process of finalizing the RFP with the government people and we're hopeful that some time this year we'll be in a position where we can get contract finalization, which follows the normal process in a contract of this size.

DAVID TYREMAN: Great. Thank you.

ANDREW ARNOVITZ: Operator, I think we'll use the 10 minutes we have remaining in the call now to open up the lines to the media.

OPERATOR: Certainly. So once again, please press * 1 if you have a question. The first question from the media is from Hugo Miller, from Bloomberg News. Please go ahead.

HUGO MILLER: Yes, good morning. Two questions. The first, if you could just reiterate, if any, the impact that the delays with both Airbus and Boeing are having on your order backlog? It wasn't clear to me if that was having an impact or not?

ROBERT E. BROWN: No, we're not having an impact for either the 787 or the 380. At the current stage that we're at right now, most of our activity is in the other products from these two companies.

HUGO MILLER: Okay. And then secondly, you were just talking about bolt-on acquisitions. You said there aren't too many competitors at the moment. Short of identifying who your actual targets are, can you just tell us a little bit more about where the possible acquirees might be? What kind of small targets are we talking, what kind of companies and where?

ROBERT E. BROWN: I think that my comment on not having competitors related more to at the pilot training where there are some activities, where we're not really seeing an impact. It's more the bolt-on acquisitions is something that we've been doing for quite a while.

HUGO MILLER: Um-hmm.

ROBERT E. BROWN: And I think you would assume that the acquisition activity would be in the areas where we're looking for growth, which would be in the military modelling and simulation and would basically be in that area as we've done in the past. Nothing unusual.

HUGO MILLER: Okay, and so what it seems as though in terms of the competition that's out there for civilian training, it's really... The competition almost sounds like it's dropping as more airlines and more training centres look to CAE to outsource that training role.

ROBERT E. BROWN: We're really not outsourcing our training role.

HUGO MILLER: No, no, sorry, they are looking to you as they outsource.

ROBERT E. BROWN: Yes. I think that basically, we have a situation here with the demand for pilots is so

high that anybody who can put some initiative into place is going to have a demand for those cadets coming out of the system. The demand in all areas of the world and particularly in the developing world for new pilots is very, very high.

HUGO MILLER: Okay.

ROBERT E. BROWN: And so we feel confident that we're going to be able to grow our business but at the same time, because it's an attractive field, other people are going to be there as well.

HUGO MILLER: Okay, thanks a lot.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Ross Marowitz, from the Canadian Press. Please go ahead.

ROSS MAROWITS: Yes, two things. First of all, I'm wondering if you expect any impact from mergers of airlines in the United States?

ROBERT E. BROWN: Yes, the mergers of airlines, I think those are basically the legacy carriers. And if you look at since 9/11, I think we've had four or five orders and most of them have come recently. There's clearly, with the increase in the fuel price, the older aircraft, specifically the MD-80s, I don't think you can make money in operating them. It's very, very difficult. So there clearly is a requirement to refleet, but I think the talk of all of the mergers that are going on, it may delay some of the decisions to refleet. So that's not something that's really been built very strongly into our plans going forward in the short to medium term.

ROSS MAROWITS: Any idea of how long it may delay things and what impact?

ROBERT E. BROWN: Well, you know, I don't know. People have been speculating for a long time what the U.S. legacy carriers are going to do to get organized, and I really think it's very hard to plan your business on that basis in the short term. And we've been building our business and focusing very much in Asia and Europe and the Middle East.

ROSS MAROWITS: And secondly, I'm wondering about the dividend. From what I understand, you're restoring it to the 2004 level?

ROBERT E. BROWN: Correct.

ROSS MAROWITS: Going forward, are you looking at increasing that beyond that, or are you looking at share buyback, or how are you going to return...?

ROBERT E. BROWN: We're always looking at ways to improve return for shareholder, but we don't have any plans at this time. But it's something that we continue to review on an annual basis.

ROSS MAROWITS: Is the dividend increase, is it you think a stronger message than share buyback, or why did you not pursue that as an option?

ROBERT E. BROWN: Well, we felt at this time that the dividend increase was the best approach to take.

ROSS MAROWITS: Okay, thank you.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. Once again, please press * 1 if you have any questions.

ANDREW ARNOVITZ: Operator, if there are no more questions...

OPERATOR: There is one more question from Monica Gutsch, from Dow Jones. Please go ahead.

MONICA GUTSCHI: Yes, good afternoon. Mr. Brown, there has been recently some speculation that CAE may be a target for acquisition; and I just wondered if you could comment a little bit about whether there has been any interest in the company.

ROBERT E. BROWN: You know, the only comment I could make is we're a company that's widely held, no controlling shareholders. So there's always going to be speculation. I think speculation is speculation and I think it's sort of a situation that you really don't comment unless there's something concrete that's out there. And there's not.

MONICA GUTSCHI: Okay, thank you.

OPERATOR: Thank you. Mr. Arnovitz, there are no further questions registered at this time. I would now like to turn the meeting back over to you.

ANDREW ARNOVITZ: Thank you. I'd like to thank everyone for their time this afternoon in joining us on the conference call and to remind everyone that a transcript of the call can be found on our website at cae.com.

OPERATOR: Thank you, gentlemen. The conference call has now ended.