



REMARKS FOR CAE'S FOURTH-QUARTER FISCAL YEAR 2008

May 14, 2008

Time: 1:00 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 U.S. 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 May 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 performance last year and then Alain will take you through our quarterly and annual results more specifically. Following that, I will conclude with our outlook for the period ahead.

In summary, we had a very good year. All segments of our business contributed to an overall strong performance. We experienced steady growth in revenue, earnings and new order bookings in both the military and civil sectors. We continued to strengthen our financial position and we maintained a healthy level of diversification.

Revenue increased 14% over the prior year to \$1.4 billion. Approximately 60% of that was generated outside North America, and revenues from high growth areas like Asia, the Middle East and South America have grown by 25% year over year.

Annual earnings from continuing operations grew by 28% to reach \$165 million, which was matched by strong free cash flow of \$173 million.

Total order intake for the year was \$1.7 billion, which is up 14%. We previously announced in our year end summary that our military segments concluded the year with more than \$730 million in new orders. In fact we booked \$746 million in new military orders, which is 25% more than the prior year. This gives us a solid base for the period ahead.

In **Training & Services/Civil** we were awarded more than \$450 million in new training contracts, including new long term agreements with OEMs like Bombardier, Embraer, and Dassault. We also entered long term contracts to provide management and operations services to major airlines including Air Canada and Air Asia. The latter involves CAE taking responsibility for all of the airline's pilot training activity.

We expanded our global training network to an average of 108 RSEUs, up from 99 the prior year. Average revenue per simulator was 3.5 million dollars.



In **Simulation Products/Civil**, we announced orders for 37 full-flight simulators from customers around the world. Since the start of the new fiscal year, we have announced another five simulator orders –all from customers outside North America.

In the **combined military segments**, our backlog reached \$1.6 billion last year.

We continued to demonstrate technology leadership and our ability to execute successfully on complex programs. We recently announced a contract to design a prototype simulator for the new P-8A Poseidon. The maritime patrol and anti-submarine aircraft is being developed for the U.S. Navy and should find success with other militaries over the next decade. This follows our extensive know-how on the P-3C maritime patrol aircraft for which we were most recently awarded a contract by Korea Aerospace Industries to assist the Korean Navy. We announced another prototype order for Alenia Aermacchi's new M-346 fighter trainer aircraft. This contract adds to our portfolio of fast jet experience.

The Government of Canada qualified a CAE-led team as the only team compliant for C-130J and CH-47 aircrew training capability that is expected to soon be required by Canada. We look forward to developing an industry leading solution with our partners.

We won a series of orders from various branches of U.S. military – notably from the U.S. Navy, which accounted for over 10% of our total military bookings this year. Other significant program wins involved training solutions for Australia on the NH90, as well as the Netherlands, Singapore, France, Germany, and the U.K.

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 **fourth quarter**, consolidated revenue was \$367 million, up 9% from last year. Consolidated revenue was \$1.424 billion for the year, up 14% from last year. If the Canadian dollar had remained the same over the course of the year, revenue would have been \$47.5 million higher.

Earnings from continuing operations were \$47 million, or \$0.19 per share in the fourth quarter, up 34% from last year, which was \$0.14 per share. For the year, earnings from continuing operations were \$165 million, or \$0.65 per share up 28% from last year, which was \$0.51 per share.

Net earnings were \$35.6 million in the fourth quarter, compared to \$34.3 million in the same quarter last year. For the year, net earnings were \$153 million compared to \$127 million the year before.

In **Training and Services/Civil**, our average annualized revenue per simulator in the quarter was \$3.8 million on a base of 110 revenue simulator equivalent units. Our fourth quarter is usually the strongest for training demand. For the year we generated \$3.5 million of revenues per RSEU.

Despite the strong Canadian dollar, revenue increased in the fourth quarter by 14% year over year because of higher utilization and the addition of 9 more RSEUs. For the year, revenue increased by 13%.

This quarter, segment operating income was \$23.8 million, providing an EBIT margin of 22.8%, compared to \$15.5 million, or 16.7% margin in the last quarter and \$21.3 million, or 23.2% in the same period last year. The significant increase over last quarter is mainly due to strong demand in our established training centres.

For the year, Training and Services Civil segment operating income was \$73.5 million, compared to \$64.3 million, the prior year. The higher volume would have translated into a higher EBIT margin if not for the costs associated with the expansion of our network and the ramp-up of



new training programs. We expect this to improve as these new assets ramp up to their intended levels.

In **Simulation Products/Civil**, fourth quarter revenue increased by 9% year over year on higher order volume partly offset by a stronger Canadian dollar.

Revenue was \$435.3 million for the year, which is 25% or \$87.2 million higher than last year. Higher order volume throughout the year and the recognition of sales on some advanced builds contributed to our performance. Our growth in the SP/C segment has essentially been commensurate with the growth in aircraft deliveries. Given the current aircraft backlogs and the OEMs' stated production rates, we expect the future level of aircraft deliveries to be sustained at about the current rate for a number of years.

Fourth quarter segment operating income was up by 56% year over year on higher volume, better program execution and lower costs. For the year, segment operating income was \$94.9 million, which is 57% or \$34.5 million higher than last year. SP/C's operating margin was 21.8%, compared to 17.4% last year, reflecting our positive sustained cost performance as well as strong demand and volume.

In our combined **Military** segments, revenue for the quarter was \$156 million and the operating margin was 14%. For the year, revenue was \$606 million and our operating margin was 13.7%.

The military business was impacted this quarter by a customer contract change order resulting from a technology refresh clause. As part of the change order negotiation the contract currency was aligned with the customer's own currency. The resulting gain from this change order was partially offset by charges incurred on our cost reduction initiatives in reorganizing our military operations. Overall, these two events resulted in a net \$3 million gain for the military business.

Although results from **discontinued operations** have no bearing on current or future operational performance, I would like to explain the loss of \$11.4 million that we booked in the quarter. The majority of this amount comes from the write-off of a balance receivable of \$8.5 million related to the sale, in fiscal 2003, of assets from the sawmill division of our discontinued Forestry unit. The buyer recently filed for bankruptcy and since recovery of this sum is now more



uncertain, we wrote it off. The balance of the loss from discontinued operations this quarter comes from our divestiture of a non-core telecommunications business in Germany.

Capital expenditures totalled \$48 million for the quarter and \$190 million for the year. We expect to maintain about the same rate of CAPEX in the new fiscal year, mainly in support of our growing training center network. We expect growth CAPEX to account for about 75% of total CAPEX.

We generated \$173 million of free cash flow as of the end of the year. We normally see fluctuations in the level of our working capital accounts, which tend to reverse somewhat at the start of each new year. Notwithstanding, we believe our strong positive cash flow is a testament to the quality of our earnings.

Income taxes for the year were \$69 million, representing an effective tax rate of 30%, compared to 28% for the same period last year. The rate was lower last year mainly because of a reduction in the valuation allowance in the U.K. We expect the effective income tax rate for fiscal 2009 to be about 30%.

Our consolidated **backlog** increased from \$2.8 billion to \$2.9 billion and our book-to-sales ratio reached 1.2 times sales for the quarter and 1.2 times sales for the trailing 12 month period.

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 place a high degree of importance on maintaining a balanced business. We also recognize the value of balance in terms of delivering shareholder value. As you read in our release this morning, we are pleased to announce that CAE's Board of Directors has approved a threefold increase in our quarterly dividend. We are generating consistent growth in earnings and free cash flow and we are confident about our ability to face the future. We have the flexibility to pursue our growth initiatives and at the same time consider additional ways to enhance shareholder value.

Despite the current economic uncertainty and financial market volatility, the fundamentals of the aerospace and defence sector, on balance, remain positive – specifically in the areas involving CAE. Soaring oil prices, tighter credit markets and economic gyrations are factors we consider carefully, but we believe the fundamental long term trend continues to support growth in air travel globally.

We have a number of initiatives underway to grow our base of business – particularly in the training and services area. And we are continuing to focus on reducing costs, developing new products, and maintaining our strong financial position. CAE's people are situated around the world and we are committed to sustaining our competitive position. Just this week, we reached a deal to renew the collective agreement of our Montreal unionized employees for five years.

We realized more than three years ago that to be the master of our own destiny, we needed to have a culture of continuous improvement and cost reduction. We restored profitability over a three year period that saw a precipitous rise in the Canadian dollar, from 80 cents to par. Foreign exchange hedging has given us additional time to adjust and we are continuously in pursuit of new efficiencies to help stay ahead of the stronger dollar.



In terms of the year ahead, we expect to see a continued high level of activity in all segments of our business.

On the civil side, we are coming off of two back-to-back years of record aircraft orders. While few expect this pace to continue this year, Boeing and Airbus together have already announced nearly 740 aircraft orders in the first quarter, which by any historical measure would already be a very good year. Backlogs for both commercial and business aircraft extend well past the end of the decade and we expect this to result in sustained high rates of aircraft deliveries for the foreseeable future.

As Alain mentioned, demand for our commercial full-flight simulators depends mostly on the volume and timing of aircraft deliveries. We will continue to maintain our discipline of only going after profitable business. We currently expect to receive approximately 34 orders for the year as a whole. And as usual we intend to update this estimate as the year progresses.

In the past, CAE's fortunes have depended mainly on the ups and downs of the commercial simulator market. As of the year just ended, this segment accounted for only about 30% of our business. Barring a major global economic downturn, we expect Simulation Products / Civil to continue enjoying the benefits of an extended aerospace cycle. The segment's top line growth is limited by the number of aircraft to be delivered over a period of time. This is the main reason for broadening CAE's capabilities into the rapidly growing and much larger training and services segments. In recent years, we have also deliberately balanced our interests between the civil and military markets. And we have diversified our exposure geographically to capitalize on emerging markets and lessen our dependence on the mature, legacy markets.

In civil training and services we had an average of 108 RSEUs last year and we expect this number to grow by slightly more than 10% in the new fiscal year and slightly more than that thereafter. As well, we should begin to see some of the more recently deployed simulators and new facilities begin to ramp up to their intended levels. We have begun the construction of our first training centre in India and work is underway to expand a number of our other facilities.



43% of our revenue came from our military business last year. Military provides a level of diversification that makes our earnings more defensive than is probably recognized. Given the long gestation period for most military programs, our performance trends are more easily identified over spans of 4 quarters or more. Going forward, we expect military to become a more important contributor to our overall growth. We have made considerable progress in terms of positioning CAE on key programs and winning training solutions contracts in major global markets.

New military order bookings of \$746 million in 2008 compare to \$596 million in 2007. Most of this increase has come from Simulation Products / Military orders, which generally run about 24 to 30 months. Over the past couple of years, orders in this segment have increased at an annual rate of more than 20%. We expect this rate of order activity to translate into higher revenue growth for our military business overall. We have improved profitability in this area as well, and we expect to sustain our annual EBIT margin at approximately 12 to 13 percent.

To sum up, we had another year of good performance and our employees worldwide should feel proud about their contribution. We believe that we are operating from a position of strength. Our solid financial condition gives us the flexibility to react quickly to changes and opportunities in the market. Our people share an entrepreneurial spirit and they are committed to taking CAE to the next level.

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.