



REMARKS FOR CAE'S THIRD-QUARTER FISCAL YEAR 2007

February 8, 2007

Time: 12h00

Speakers:

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

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

Mr. Andrew Arnovitz, Director, Investor Relations



Andrew Arnovitz, Director, Investor Relations

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, 2006. 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 February 8, 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 line 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 by commenting on our third quarter performance and our outlook for the rest of the year, and then Alain will provide some financial highlights. I will conclude with some comments about our current position and the way forward.

Our financial results in the third quarter continued to reflect good market conditions and solid performance from each of our business segments. Revenue increased 20% over last year to \$331 million. Net earnings increased more than 70% year over year to reach \$30 million.

This quarter we received nearly \$330 million of new orders, and we now have a backlog of \$2.7 billion.

We generated close to \$36 million of free cash flow, compared to \$11 million last quarter and our net debt has decreased slightly to just under \$190 million.

Now, let's look at the business segments and our activities for the third quarter.

In **Simulation Products/Civil**, we signed orders for 10 full-flight simulators for customers in Europe, Asia and North America. Since the end of the quarter we signed another two orders, bringing our total year-to-date to 29. While only a month and a half remains in the fiscal year, we expect that full-flight simulator sales will reach 33 by the end of March.

Revenue this quarter was in line with the higher level of activity, and our operating margin reached 16.8%.

Training & Services/Civil was awarded more than \$95 million in new training contracts, including nearly \$70M of opportunities stemming from our showing at the NBAA Convention in Orlando.



Annualized average revenue per simulator was \$3.4 million on a base of 97 Revenue Simulator Equivalent Units. Total revenue was higher than last quarter and last year, and our operating margin was 16.2%. As you may recall, our second and third quarters are usually seasonally slower periods for training. Our margin was up from the second quarter but lower than last year because of some disruption associated with the completion of the activities related to our restructuring program announced two years ago. As well, last year's results included a non-recurring gain following the disposal of some simulators.

We redeployed eight more simulators this quarter and we continue to ramp up others that were previously relocated. Two more simulators remain to be relocated in 2007. In total, we will have moved 28 since the start of our restructuring.

For the **combined military segments**, we received nearly \$125 million of orders this quarter. We won contracts for operational trainers and upgrades from the US Army, the British Army as well as the German Navy and Air Force. On the services front we won contracts for training and support services from the US Air Force and the German Forces.

In the **Simulation Products/Military** segment, we saw more activity on European programs like Eurofighter and from the orders we received in the second quarter. In **Training and Services/Military**, the pace of activity was stable.

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



Alain Raquepas, Chief Financial Officer:

Thank you, Bob. Good afternoon, ladies and gentlemen.

In the **third quarter**, consolidated revenue was \$331 million, up 18% from the second quarter and up 20% from the third quarter last year. This is mainly due to higher activity in both our military and civil simulation products segments.

Net earnings for the quarter were \$29.7 million, or \$0.12 per share, compared to \$17.4 million or \$0.07 per share in the same quarter last year.

Excluding non-recurring items, earnings per share from continuing operations were \$0.13, compared to \$0.12 last quarter and \$0.09 in the third quarter of last year. Our third quarter results included a non-recurring charge of \$2.3 million after tax, which represents the last of the restructuring and related costs under the plan announced in February 2005.

The effective tax rate was 28% this quarter. With the statutory rate reductions effective in Canada and the Netherlands, and the mix of revenue we have forecasted, we expect to conclude fiscal 2007 with an average rate slightly below 30%.

During the quarter, we generated \$78.7 million of net cash from continuing operations. Net cash from continuing operations was \$35.1 million higher than in the second quarter because we invested less in non-cash working capital. Free cash flow was also higher at \$35.6 million.

Growth capital expenditures this quarter were \$33.3 million, mainly related to our Dassault and NH-90 programs. Maintenance capex was another \$9.4 million for a total of \$42.7 million. Total capex for the first nine months of the year was \$124 million and we expect to conclude the year at about \$170 million. At this time, we anticipate a similar level of capital expenditure next fiscal year.

Lastly, I would like to say a few words on the new accounting standard for stock based compensation expenses, known as EIC-162, which we adopted in the third quarter. The standard applies to all public Canadian companies and requires retroactive application. We have restated our prior period numbers to account for minor adjustments resulting from the new standard. The total impact for CAE was \$3.1 million and the total to date for the current fiscal year was immaterial.



Thank you for your attention. Now I'll turn the call back to Bob



Robert E. Brown, President and Chief Executive Officer

Thanks, Alain.

Two years ago, we embarked on a major restructuring effort, which is now complete. We are pleased to have succeeded in restoring CAE's financial condition and improving our competitive position.

We are confident about the future and we are now turning our efforts to growing the Company and consolidating our global leadership position. As Alain mentioned, we are investing some \$170 million in capital expenditures this year and we see opportunity to maintain that pace into next year.

Two years ago we told investors that we thought the current cycle would be longer and that there would be important opportunities in the emerging markets. So far this appears to be the case. Based on forecast aircraft deliveries and demand for infrastructure in the emerging markets, we think the current upswing will be sustained through the end of the decade. Additionally, we expect to see some important changes in the US airline market, but timing is not easy to predict. We have not yet factored the potential of a US commercial fleet renewal into our plans.

When most people think about the cycle, they concentrate on aircraft orders. We look at aircraft deliveries, which ultimately drive simulator orders. This is an important distinction because aircraft deliveries are what ultimately drive demand in our civil products business.

The profile of CAE's business today is different. We are well diversified between markets and between products and services. We know the most cyclical part of our business involves selling civil flight simulators and we are determined to grow earnings by accelerating our growth in areas we believe can generate earnings that are more predictable and more durable.

All of our investment decisions involve a discussion about our balance sheet. We evaluated our capital structure to determine what is best for CAE — specifically what is the right level of debt to support our growth initiatives and protect us against unforeseen events. We have concluded that the Company should ideally be capitalized with 40% debt (which includes off-balance sheet obligations) and 60% equity. We feel this ratio involves the right amount of



leverage to adequately utilize our assets, while still preserving the high quality of our balance sheet. We intend to keep our solid financial base by taking a measured and disciplined approach.

Looking at how all this relates to our business segments; I will first discuss **Simulation Products / Civil**.

We intend to maintain our leading market share as the premier supplier of civil simulation-based training products for the competed market and we plan to do this by continually working with our customers to deliver innovative solutions that enhance *safety* and help improve the *efficiency* of their operations. Our \$630M R&D program – Project Phoenix – is well underway and we are continuing to improve our product portfolio while lowering our cost base. We have been making investments to strengthen our technology leadership and enable us to improve the way we serve the various segments of the market. In addition to product innovation, our strategic priorities include maintaining our lead in India and China and focussing on deepening relationships with customers and OEMs.

Improving the safety and efficiency of our customers' operations is equally the mission of our **Training and Services / Civil** segment. We intend to be the industry's most trusted partner and **THE standard** for training and services in aviation.

In business aviation, activity remains strong with nearly 6,300 aircraft expected to be delivered over the next five years. As a result, we anticipate that the global installed base of business aircraft will grow about 40%, and notably, a higher proportion of aircraft than usual is slated for delivery outside of North America. That's why we are expanding our business aviation network. Last month we inaugurated a four-bay expansion of our Burgess Hill training centre in the UK and announced plans for another four-bay expansion. In the US, our new North East Training Center is now open for training.

In commercial aviation we see positive signs as well. Aircraft orders hit record levels over the past two years, translating into more than 6,000 commercial jets expected for delivery over the next five years. Growth is especially strong in the emerging markets like India and China, which account for nearly 40% of all new aircraft deliveries forecasted for the period. Last week, we announced that we will open our first training centre in India and we expect to train up to 1,000 pilots annually there when we become fully operational.



Another priority is to address demand stemming from crew shortages through our pilot provisioning initiative and the CAE Global Academy.

A sizable portion of our capital budget is for investments in new simulators to continue growing our civil training business. We plan to increase the number of Revenue Simulator Equivalent Units in our network by an average of about 10% per year in order to maintain our position and address new market opportunities. We are developing our training network to address primarily the long term, steady stream of recurrent training. By building our business that way, we will be less dependent on new aircraft deliveries to drive revenues. We expect these new simulators to begin impacting training revenues in fiscal year 2009.

In our **military business** we intend to sustain our technology leadership and strengthen our position as a provider of modelling, simulation and training systems solutions to militaries and governments.

Among our defence customers worldwide, we see greater use of simulated environments; not only for basic operational type training, but increasingly for highly realistic mission rehearsal. Essentially, our customers want the ability to train ***the way they fight*** and they also want to train ***where they fight***. This means that technology leadership continues to be vital to our ongoing success. We need to provide realistic training solutions that can be networked and even deployed remotely -- right into the theatre of operations.

Broadening relationships with defence OEMs is a key strategic priority. Additional priorities include increasing our presence in the US defence market and positioning ourselves to pursue outsourcing opportunities for training services.

Our military growth strategy also involves **Modelling and Simulation**; an area where we intend to continue leveraging our capabilities across all departments of defence organizations. We are creating and selling Customer Off The Shelf simulation software and providing simulation-based professional services to defence R&D agencies, experimentation centres, and OEMs for systems design and testing. So far, our progress in this business has resulted from R&D investments through Project Phoenix and a series of small strategic acquisitions.



As we conclude the current fiscal year and look ahead into fiscal 2008, our focus will be on setting our growth initiatives into motion. And as we deploy and ramp up our new investments over the year ahead, we should begin to see appreciable and sustainable benefits in the following periods.

Our real challenge now is to execute our growth plan as successfully as we have executed our restructuring. We are well positioned to continue benefiting from the strength of the aerospace and defence markets, and we are confident the time is right for CAE to invest in growth. We are working from a solid financial base with good cash flow; we have a competitive cost structure; and we offer a portfolio of market-leading products and services. We intend to follow a disciplined and measured approach to investing and we expect to grow CAE with greater earning stability into the future.

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

Andrew Arnovitz, Director, Investor Relations

Operator, we would now be pleased to take questions from analysts and institutional investors and following that, from the media.

Before we open the lines, let me first ask in the interest of fairness that you limit yourself to one question. If you have additional questions and time permits, please feel free to re-enter the queue.