



SHAPING THE FUTURE OF TRAINING

About this report

Our approach and scope

This is CAE's first Activity Report. It consolidates information on our company strategy, performance and corporate social responsibility (CSR) into one document.

Integrating our reporting in this way enables us to provide stakeholders with a single source of information in key areas. It also signals that CSR is inseparable from our core business strategy and activities.

This executive summary of the report covers our global operations and, unless otherwise stated, presents quantitative and qualitative information for fiscal year 2016 (ended March 31, 2016). To read the full report, go to cae.com/ActivityReport.

Reporting standards

This report is aligned with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines. An independent institution, the GRI provides a standard framework for sustainability reporting across companies and industries. You will find an index of our alignment to the GRI G4 core reporting requirements and references to other relevant information sources on our website.

All figures in this report are in Canadian dollars.

Feedback

We welcome your views on this report and the topics covered in it. Please send your comments, suggestions and questions to communications@cae.com.



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MARC PARENT
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Shaping the future of training

In fiscal 2016, we continued to deliver next-generation integrated training solutions across the civil aviation, defence and security, and healthcare sectors. We sat at the table with airlines, national and international regulatory bodies, defence forces and medical associations to set new standards and improve regulations. We joined forces with customers and suppliers to translate the latest technologies into innovative products and services. This is how we are shaping the future of training worldwide.

Solid progress

Last year, we strengthened an already solid balance sheet. We delivered double-digit year-over-year increases in both revenue — \$2.5 billion or 12% growth — and net income before specific items — \$230.5 million or 15% growth. Our free cash flow increased to \$248 million, 42% higher than last year, and our backlog grew by over \$1 billion to \$6.4 billion. We raised our shareholder dividend for the fifth consecutive year and introduced a share repurchase plan.

We reinforced our civil aviation leadership and established a new industry benchmark by selling 53 full-flight simulators worldwide. Acquiring Lockheed Martin Commercial Flight Training (LMCFT) supports our “training partner of choice” vision by growing our global training network and assets. We also expanded our live training capabilities by integrating NATO Flying Training in Canada (NFTC), a world-renowned military pilot training program.

Winning the contract to provide the U.S. Army with comprehensive training for its fixed-wing pilots increases our opportunities as a training systems integrator for air forces globally. In healthcare, we made significant headway by building the first turnkey healthcare simulation centre in Turkmenistan and launching five innovative products to enhance our portfolio.

I attribute these many achievements to three key competitive differentiators: our highly knowledgeable, skilled and dedicated employees, an unrivalled global network of aviation training centres, and a thriving culture of innovation that permeates our entire organization.

Innovation and synergies

CAE is a much different company than it was just a few short years ago. We are reinventing ourselves as we are leveraging our leadership in simulation products to sharpen our focus on providing end-to-end integrated training solutions. Nearly 60% of our business now comes from our services. This broader strategic focus is driving sustainable growth in our core segments by giving us access to a much larger

market. It is also enhancing our stability by increasing the mix of recurring business in each segment.

We are leveraging synergies between our three core businesses which share the same six pillars of strength: a high degree of recurring business, a strong competitive moat, headroom in large markets, underlying secular tailwinds, the potential for superior returns and of course our culture of innovation. This unique combination of strengths creates a compelling risk/return investment proposition for CAE.

In fiscal 2016, we started rolling out a process improvement plan to change the way we engineer, build, deploy and support our simulators. Innovation is key to this process; so is our employees' active participation. I am inspired by the results we are seeing. One team used its ingenuity to make our CAE 7000XR simulator lighter, more energy and resource efficient, and easier to maintain.

The strength of our employees

This success story is just one example among many of our employees' innovation, passion and determination to shape the future of training. As we become a more customer-centric organization, our employees are stepping up to the plate to deliver on our vision. This includes our 2,000 flight instructors who are the focus of a new global initiative to accelerate our shift to a training services company.

I would like to take this opportunity to thank our 8,000 employees for actively supporting our vision and for keeping the spirit of innovation alive throughout our organization.

CSR in action

All of us at CAE take pride in the fact that our innovative training solutions make the world a safer, better and cleaner place. Our overriding goal is to amplify our contributions in each of our core markets and communities where we work and live. To achieve this goal, we are increasingly taking the three dimensions of our corporate social

responsibility — environmental, social and economic — into account in every decision and action.

Becoming a signatory of the United Nations Global Compact in fiscal 2016 reinforced our commitment to operating responsibly. We are now one of the 12,000-plus signatories actively working to align their strategies and operations with universal human rights, labour, environmental and anti-corruption principles. One change we immediately made was to integrate our stance on human trafficking and child and forced labour into key supplier documents. Additional changes inspired by the UN Global Compact are under way.

Another achievement of which we are all proud at CAE is our continuously improving health and safety performance across our key performance indicators. Our governance is more rigorous, our metrics are more proactive, and our incidents are decreasing.

Looking ahead

As you will read in this report, we see promising growth opportunities ahead in all of our businesses. We are working from a solid position with a large backlog in Civil Aviation Training Solutions and Defence & Security, and a robust bid pipeline across our businesses including Healthcare. Our unique, comprehensive training solutions and global reach give us the opportunity to increase our share of the overall training market. Looking at the current year, we expect to see growth in all business segments, led primarily by Civil Aviation Training Solutions.

In summary, the prospects ahead of us are both promising and exciting. I want to thank our employees for their contribution to this great success. I would also thank our Board of Directors for their advice and their support, and obviously our shareholders for their trust. Today more than ever, CAE is committed to shaping the future of training.




HÉLÈNE V. GAGNON
VICE PRESIDENT, PUBLIC AFFAIRS AND
GLOBAL COMMUNICATIONS, AND
LEADER OF THE CSR COMMITTEE

Steady progress in CSR

“The essence of what we do at CAE, and how we do it, is fully aligned with the principles of corporate social responsibility. Training is about keeping people safe and simulation protects the environment.

We have made tremendous progress since last year. We formed a cross-functional CSR Committee and consulted with internal stakeholders to complete our materiality matrix and develop a CSR roadmap for our entire organization.

Our next step is to implement the roadmap and track our progress as we increasingly integrate CSR into our everyday processes and activities. As part of this process, we will take steps to enhance our ability to capture data worldwide.”

Profile

Founded in 1947, CAE is the global leader in end-to-end training with virtual-to-live capabilities. Our portfolio includes the world's most comprehensive training solutions in the civil aviation, defence and security, and healthcare sectors. Today we are the training partner of choice for a growing number of airlines, defence forces, and healthcare professionals and institutions. This leadership gives us the ability and responsibility to shape the future of training.

Global reach

With customers in more than 190 countries, we have the industry's broadest geographic reach. Our 8,000 employees work across 160 sites in more than 35 countries. Headquartered in Canada, we derive approximately 90% of our revenues from international activities and global exports. Our shares are traded on the Toronto and New York Stock Exchanges (TSX : CAE; NYSE : CAE).

Widest coverage, largest training network

Our training network, the world's largest, spans more than 65 training centres and flight academies around the globe. In civil aviation, we are the industry leader in cadet-to-captain training. Every year, we train over 120,000 civil and defence crewmembers and work with more than 300 airlines and major business aircraft operators to increase the safety of air travel.

We also provide air, land, naval and public safety training to more than 50 defence forces in approximately 35 countries. As a leader in training systems integration, we prepare military men and women for a range of missions, helping ensure they return home safely. We are also the leader in innovative training solutions for the healthcare sector, helping medical personnel provide better care.

Comprehensive training solutions

Our complete training solutions are anchored in our employees' knowledge and expertise, our world-leading training technologies and a 70-year record of service and innovation. We continue to help define global training standards to make flying safer, maintain defence force readiness and enhance patient safety.

Fiscal year 2016 highlights

\$2.5 BILLION

IN REVENUE

12%

YEAR-OVER-YEAR GROWTH

RECEIVED

53

CIVIL FULL-FLIGHT SIMULATOR ORDERS, SETTING A NEW INDUSTRY RECORD

SIGNED THE

UNITED NATIONS GLOBAL COMPACT

SIGNIFICANT HEALTH AND SAFETY

PERFORMANCE

IMPROVEMENTS

•40%

REDUCTION IN INJURY FREQUENCY (IFR)

•29%

REDUCTION IN DAYS LOST RATE (DLR)

\$6.4 BILLION

BACKLOG, SUPPORTING LONG-TERM SUSTAINABLE GROWTH

WON THE CONTRACT TO PROVIDE THE

U.S. ARMY

WITH COMPREHENSIVE TRAINING FOR FIXED-WING PILOTS

LAUNCHED OUR

PROFESSIONAL WOMEN'S NETWORK

ACQUIRED

LOCKHEED MARTIN COMMERCIAL FLIGHT TRAINING

EXPANDING OUR CUSTOMER INSTALLED BASE BY SOME 50 SIMULATORS

\$7.8 MILLION

IN SPONSORSHIPS AND DONATIONS (INCLUDING \$6 MILLION IN-KIND AND \$1.8 MILLION IN CASH DONATIONS)

PARTNERED WITH

JETBLUE

IN ITS GATEWAY SELECT PROGRAM

LAUNCHED

5 PRODUCTS

IN HEALTHCARE

2

PARTNERSHIPS

- AGREEMENT WITH THE AMERICAN SOCIETY OF ANESTHESIOLOGISTS (ASA)
- FELLOWSHIP PROGRAM WITH THE INTERNATIONAL NURSING ASSOCIATION FOR CLINICAL SIMULATION & LEARNING (INACSL)

71%

UTILIZATION RATE OF OUR TRAINING CENTRES

BECAME THE

NATO FLYING TRAINING IN CANADA

PRIME CONTRACTOR, DELIVERING CLASSROOM, SIMULATOR AND LIVE FLYING TRAINING SUPPORT FOR THE ROYAL CANADIAN AIR FORCE (RCAF) AND ALLIED MILITARY PILOTS

FILED

28

PATENTS

SOLD

DATAMINE

MINING DIVISION

Unmatched on a global scale

8,000+
EMPLOYEES

35+
COUNTRIES

120K+
CIVIL AVIATION AND
MILITARY CREWMEMBERS
TRAINED EVERY YEAR

160
LOCATIONS

900+
FULL-FLIGHT SIMULATORS
INSTALLED INCLUDING

65+
TRAINING CENTRES

250+
IN OUR OWN TRAINING
NETWORK

JOINT VENTURES AND
STRATEGIC PARTNERSHIPS
WITH

40+
AIRLINES, OEMS AND
DEFENCE FORCES

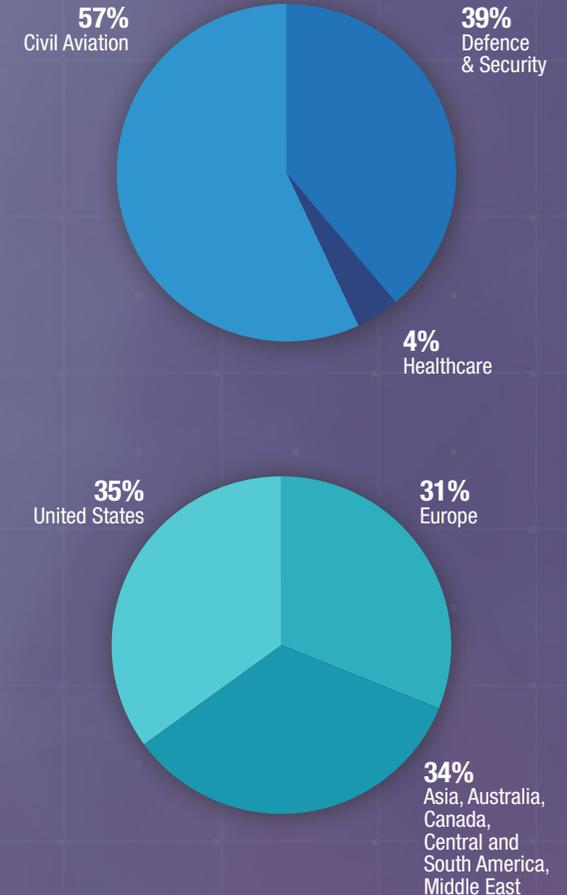
#1
TRAINING EQUIPMENT
SOLUTION PROVIDER FOR
COMMERCIAL
AIRLINES WORLDWIDE

THE
ONLY
TOTAL HEALTHCARE
TRAINING SOLUTION
PROVIDER

Financial highlights

(amounts in millions, except per share amounts)	2016	2015
Operating results		
Revenue	2,512.6	2,246.3
Net income	230.3	204.7
Backlog ¹	6,372.6	5,357.2
Financial position		
Net cash provided by continuing operating activities	345.8	268.6
Capital expenditures	117.8	144.2
Total assets	4,996.7	4,656.9
Total long-term debt, net of cash ²	787.3	949.6
Per share		
Earnings from continuing operations attributable to equity holders of the Company	0.89	0.76
Dividends	0.295	0.27
Equity	7.22	6.36

Revenue distribution



¹ Backlog is a non-GAAP measure that represents the expected value of orders we have received but have not yet executed.

² Net debt is a non-GAAP measure we use to monitor how much debt we have after taking into account liquid assets such as cash and cash equivalents. We use it as an indicator of our overall financial position, and calculate it by taking our total long-term debt, including the current portion of long-term debt, and subtracting cash and cash equivalents.

HIGH DEGREE OF RECURRING BUSINESS

We operate in highly regulated industries that require people to take frequent refresher training to renew their certification. In addition, contractor-provided training is a rising trend in the defence sector. Today nearly 60% of our business is derived from the provision of services compared to approximately 15% in fiscal 2001. Our \$6.4 billion backlog in fiscal 2016 bodes well for long-term sustainable growth.



STRONG COMPETITIVE MOAT

Despite growing competition from large and smaller players alike, we continue to maintain our leadership in training equipment and services. Our unique end-to-end cadet-to-captain training solutions and unrivalled customer intimacy also create a strong competitive moat.



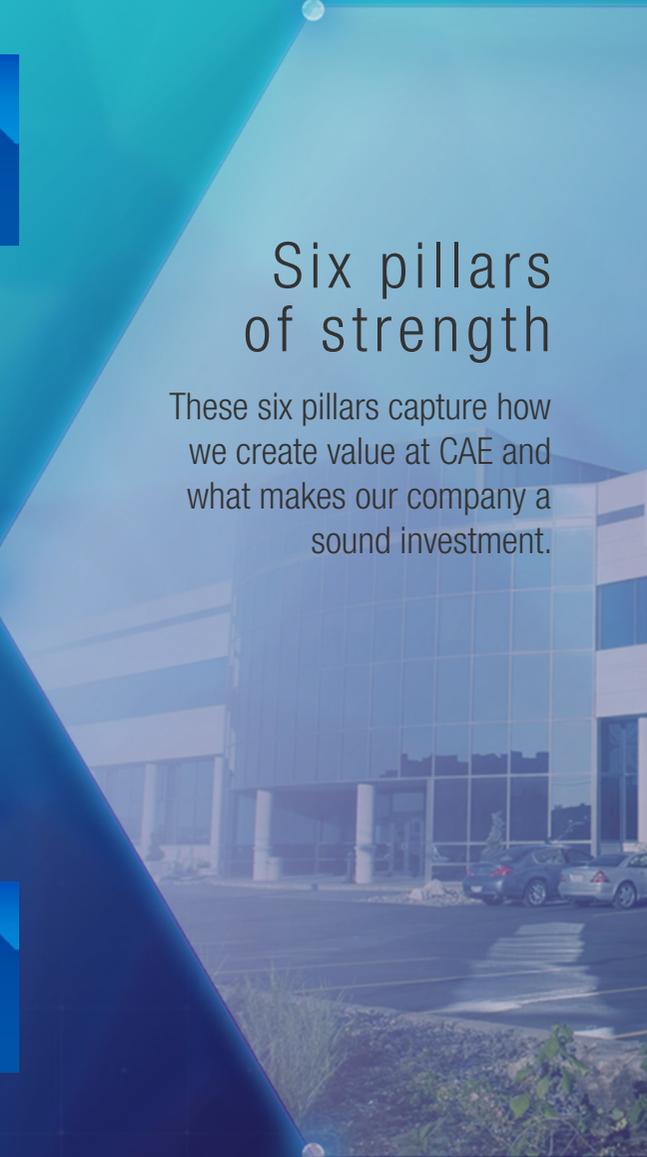
HEADROOM IN LARGE MARKETS

Significant untapped market opportunities exist in our three growing core businesses. In 2015, we divested our mining assets to focus on these three businesses. In Civil Aviation Training Solutions, we address less than 25% of an approximately \$3 billion training market. In Defence & Security, we have an 8% share of the approximately \$9.5 billion training systems integration (TSI) market. In Healthcare, we are a leader in the nascent and fragmented simulation market.



Six pillars of strength

These six pillars capture how we create value at CAE and what makes our company a sound investment.





UNDERLYING SECULAR TAILWINDS

Both the civil aviation and defence sectors are enjoying strong tailwinds. CAE estimates that airlines will need 250,000 new pilots over the next 10 years to address the long-term growth in passenger traffic and the pilot shortfall due to retirements. As the global leader in cadet-to-captain pilot training, this is good news for us. In addition, defence forces are increasingly adopting simulation-based training for more of their overall training curriculum. This training is both safe and cost-effective as well as saves valuable assets for operational requirements. The interest in healthcare simulation is also rising in line with the growing concern around medical errors and patient safety.



POTENTIAL FOR SUPERIOR RETURNS

We leverage our leading market position to deepen and expand our customer relationships. We see an opportunity to further utilize our training network and generate more revenue from existing assets. Training revenue is recurring and less volatile. At CAE, we believe we have the potential to grow faster than the underlying markets.



CULTURE OF INNOVATION

In collaboration with our customers, we design and deliver the most sophisticated training solutions. Through our thought leadership and innovative solutions and partnerships, we are shaping the future of training. At the same time, we are increasingly becoming the recognized global training partner of choice.



Civil Aviation Training Solutions



50+
TRAINING CENTRES
AND FLIGHT ACADEMIES

#1
CADET-TO-CAPTAIN
TRAINING PROVIDER

2,000+
INSTRUCTORS WORLDWIDE



250+
FULL-FLIGHT SIMULATORS
INSTALLED IN OUR OWN
TRAINING CENTRES

900+
SIMULATORS INSTALLED
GLOBALLY AT CUSTOMER
SITES AND ACROSS
CAE'S TRAINING NETWORK
REPRODUCING

150+
AIRCRAFT TYPES



#1
IN COMMERCIAL
AVIATION TRAINING

1,000+
PILOTS CREATED
EVERY YEAR

1,000+
PILOTS ON ASSIGNMENT
EVERY YEAR

Leading the industry

Overview

We provide innovative aviation training solutions, the largest training network, highly skilled flight instructors and world-class customer support. Our flexible end-to-end solutions help airlines and business jet operators meet their professional pilot training needs, from cadet pilot training to specialized courses for experienced pilots.

Our training programs are delivered through our global network of flight academies and training centres. This network includes wholly owned and joint-venture facilities that allow us to be close to our customers. Our best-in-class cadet-to-captain training is complemented by our industry-leading crew sourcing, contracting and recruitment services for operators around the globe.

Latest innovations

We have helped shape the future of training by delivering a number of innovative training technologies and solutions to the market over the years. Customers choose us as their preferred partner due, in part, to our innovation leadership. Some of our key recent innovations include:

- CAE 7000XR full-flight simulators for recurring and type training
- CAE 400/500XR flight training devices for procedures training
- CAE Simfinity™ XR ground school training solutions for aircraft familiarization
- Qualification of the world's first simulators equipped with advanced Upset Prevention and Recovery Training (UPRT) instructor stations

We have developed first-to-market simulators for more than 35 types of commercial and business aircraft models, including the Airbus A350 XWB and A320Neo, ATR 42/72, Bombardier C Series, Global 5000/6000 and Global 7000/8000, the Commercial Aircraft Corporation of China, Ltd (COMAC) ARJ21 and C919, and soon the Mitsubishi Regional Jet MRJ-90 and Dassault Falcon 5X.

We also offer comprehensive training solutions. Some examples include:

- Active Multi-crew Pilot License (MPL) ab-initio pilot training programs with AirAsia, Japan Airlines, Etihad Airways and easyJet; completed MPL training programs for EVA Air, Tigerair, Dragonair and Flybe (Some graduates from the AirAsia MPL training program are now captains.)
- Mitsubishi Regional Jet (MRJ) training partnership
- Authorized Training Provider (ATP) status for Dassault and Bombardier across a range of aircraft platforms
- A competency-based pilot training program in partnership with U.S. airline JetBlue

Year in review

Our Civil Aviation Training Solutions business made significant progress in fiscal year 2016.

Key highlights

10.4% revenue growth

12.8% segment operating income growth¹

1.18 book-to-sales ratio²

\$3.1 billion backlog³

53 full-flight simulators sold, an industry record

7 new simulators deployed across our global network

With our recent acquisition of Lockheed Martin Commercial Flight Training, we have expanded our simulator installed base, at customer sites and across our training network.

Loss of Control In Flight (LOC-I) is the primary cause of aircraft fatalities worldwide. In line with upcoming regulatory changes, we delivered simulators equipped with Upset Prevention and Recovery Training (UPRT) capable instructor stations this year. In April 2016, we began developing UPRT simulators for business aviation.

In March 2016, we partnered with JetBlue in its Gateway Select program. This program will make pilot training more accessible to a broader range of candidates by removing some of the social and economic barriers to becoming a pilot. JetBlue chose CAE to deliver this cadet training, building on our 10-year relationship as the operator of JetBlue University in Orlando.

Training agreements

In fiscal 2016, we signed or renewed numerous training services agreements, including long-term commercial pilot training agreements with leading European airlines such as Turkish Airlines and Air Europa.

We strengthened our longstanding relationship with Vueling Airlines by signing a new pilot and cabin crew training services contract. KLM Cityhopper, KLM Royal Dutch Airlines' regional subsidiary, chose us to support its Embraer 170/190 training needs across Europe. Japan Airlines extended our MPL training agreement to incorporate an additional 100 cadets, further strengthening the "training partner of choice" relationship we have been fostering since 2013.

¹ Segment operating income (SOI) is a non-GAAP measure and our key indicator of each segment's financial performance. This measure gives us a good indication of the profitability of each segment because it does not include the impact of any items not specifically related to the segment's performance. We calculate it by taking the operating profit and excluding the impact of restructuring costs.

² The book-to-sales ratio is a non-GAAP measure calculated as total orders divided by total revenue in a given period.

³ Backlog is a non-GAAP measure that represents the expected value of orders we have received but have not yet executed.



Defence & Security



35
COUNTRIES

80+
SITES

50+
DEFENCE AGENCIES

72
DIFFERENT
TRAINING PLATFORMS



400+
SIMULATORS INSTALLED

1,000+
MQ-1 PREDATOR AND
MQ-9 REAPER REMOTELY
PILOTED AIRCRAFT
PILOTS AND SENSOR
OPERATORS TRAINED
EACH YEAR

350K+
LIVE FLYING TRAINING
HOURS DELIVERED BY THE
NATO FLYING TRAINING IN
CANADA (NFTC) PROGRAM

Training the world's military

Overview

Mission readiness drives the need for military training. At CAE, we help more than 50 national defence forces cost-effectively maintain their mission readiness. As a globally recognized training systems integrator, we deliver live-virtual-constructive (LVC) training solutions for air, land, naval and public safety.

We leverage the full breadth of our technologies and solutions to serve our global customers through regional operations in Canada, the United States/Latin America, Europe/Middle East/Africa and Asia/Pacific. Our global presence includes more than 80 locations worldwide and allows us to be close to customers and government decision-makers. It also enables us to help drive the future of military training.

Defence & Security training services

Our end-to-end training systems integration capabilities incorporate comprehensive training support services that include:

- Training needs analysis
- Instructional systems design
- Learning management information systems
- Curriculum and courseware development
- Classroom and simulator instruction
- Maintenance and logistics support
- Systems integration and engineering
- In-service support for operational platforms

Defence & Security simulation products

We are the market leader in designing training systems for military aviation. We are also increasingly applying our training systems integration expertise to the land, naval and public safety market segments. We have established close business relationships with original equipment manufacturers such as Lockheed Martin, Airbus Defence & Space, Boeing and Leonardo Helicopters (formerly AgustaWestland), among others.

We offer the industry's broadest portfolio of simulation products for the military aviation market, from desktop trainers to the highest fidelity full-mission simulators. This includes simulators and training systems for helicopters, transports, tankers, maritime patrol aircraft, lead-in fighter trainers and combat aircraft.

For the naval market, we provide tactical mission trainers to help sailors and officers train and rehearse naval tactics, procedures and doctrine. We also offer products for training ground forces to protect public safety. This includes training in direct and indirect fire, close air support and forward observation, as well as training for driver, crew gunnery, command and staff.

Year in review

Military forces must maintain their mission readiness through training. That's one of the reasons why, despite defence budgets not increasing in recent years, we managed to deliver a solid performance. Our ability to provide training at a lower cost than live training helped grow our Defence & Security business in fiscal 2016.

Key highlights

13% revenue growth

4% segment operating income growth¹

1.02 book-to-sales ratio²

\$3.3 billion backlog³

In Canada

In fiscal 2016, we made good progress on our training systems integration (TSI) strategy for delivering end-to-end LVC training solutions to defence forces. In October 2015, we became the NFTC's prime contractor and now provide classroom, simulator and live flying training support for the Royal Canadian Air Force (RCAF) and allied military pilots.

In the U.S.

In June 2015, we won a contract to provide the U.S. Army with comprehensive training for fixed-wing pilots. At the new training centre we are building in Dothan, Alabama, we will provide academic and simulator training as well as live flying training on U.S. Army and CAE-owned aircraft.

Our Defence & Security and Healthcare teams joined forces to win another U.S. Air Force (USAF) contract for an end-to-end C-17/KC-135 aeromedical evacuation training system. This followed a previous contract to deliver a C-130 aeromedical trainer. Our Defence & Security professionals design and deliver the high-

fidelity fuselage trainer, with our Healthcare experts providing human patient simulators, training support services and instruction.

The increasing demand for intelligence, surveillance, reconnaissance and strike capabilities provided by remotely piloted aircraft (RPA) means more pilots and sensor operators need to be trained. Our USAF contract to deliver comprehensive MQ-1 Predator and MQ-9 Reaper aircrew training continues, enabling the USAF to create more RPA aircrews.

In Australia

In September 2015, we supported the Royal Australian Air Force (RAAF) in one of the world's largest virtual, multi-national air combat training exercises. Coalition forces trained together in this distributed, integrated LVC exercise. In late fiscal 2016, we further strengthened our long-term relationship with the RAAF as its C-130J training partner of choice with a contract to provide a fuselage trainer for the Hercules aircraft.

In Europe

In fiscal 2016, we expanded a previous contract with the Italian Air Force (ITAF) and are now working with General Atomics Aeronautical Systems, Inc. (GA-ASI) to develop a high-fidelity Predator Mission Trainer.

We also renewed our collaboration agreement with Eurofighter Simulation Systems for visual systems on the Eurofighter Typhoon Aircrew Synthetic Training Aids (ASTA) program.

¹ Segment operating income (SOI) is a non-GAAP measure and our key indicator of each segment's financial performance. This measure gives us a good indication of the profitability of each segment because it does not include the impact of any items not specifically related to the segment's performance. We calculate it by taking the operating profit and excluding the impact of restructuring costs.

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³ Backlog is a non-GAAP measure that represents the expected value of orders we have received but have not yet executed.



Healthcare



**INDUSTRY'S
BROADEST
TRAINING
PRODUCTS AND
SERVICES
PORTFOLIO**



10,500+
SIMULATORS INSTALLED
WORLDWIDE

STRONG
**ORIGINAL
EQUIPMENT
MANUFACTURER**
(OEM) RELATIONSHIPS



PREVENTABLE
MEDICAL ERRORS:
**3RD
LEADING**
CAUSE OF DEATH
IN THE U.S.

Increasing patient safety

Overview

Just like passenger safety is the top priority in civil aviation, patient safety and outcomes matter most in healthcare. Medical errors account for 250,000 avoidable deaths every year in the U.S. alone which represents the third-leading cause of death in this country. Launched in 2010, our Healthcare business rapidly became the global leader in technology that enhances training and lowers the risks inherent in delivering healthcare.

Today we are a training partner of choice for medical societies, associations and industry, helping shape the future of healthcare training. We leverage the industry's broadest portfolio of end-to-end solutions and proprietary technologies to improve patient safety in clinical settings. Our leading-edge learning tools include:

- Surgical and ultrasound imaging simulation
- High-fidelity adult, pediatric and baby patient simulators
- Turnkey solutions and systems integration services
- Simulation-based curriculum
- Audiovisual capture and centre management platforms

Growing acceptance

At CAE, we are continually investing in developing innovative technologies that raise the bar on the realism and training effectiveness of medical simulation. We also continue to expand our audiovisual and centre management platforms to enhance educational efficiency and patient safety in clinical settings. Our strategies facilitate the adoption of simulation in educational and professional clinical settings to improve patient safety.

Year in review

Fiscal 2016 brought numerous achievements for our Healthcare business, including:

Key highlights

20% revenue growth

7% segment operating income growth¹

5 new products in our portfolio

2 new partnerships

A total solution provider

In fiscal 2016, we continued to expand from a product to total solution provider. Our training needs analyses, staffing and equipment, curriculum development, and training centre design and management capabilities round out this offering. An example of our complete training solutions is the turnkey healthcare simulation centre that we built and are now actively supporting in Turkmenistan. It provides this Central Asian country with its first multi-disciplinary medical simulation training.

Partnering to improve medical training

In fiscal 2016, we signed an agreement with the American Society of Anesthesiologists (ASA) to develop an interactive screen-based simulation product.

We announced a fellowship program with the International Nursing Association for Clinical Simulation & Learning (INACSL). We partnered with MedAffinity to integrate its Electronic Health Records (EHR) system into our comprehensive LearningSpace centre management system.

In fiscal 2016, we delivered the first integrated medical imaging and physiology simulator to Abimed for its Impella® heart pump training programs.

Five innovations in our portfolio

In January 2016, we launched the NeuroVR™ in collaboration with the National Research Council of Canada (NRC). This neurosurgery simulator offers the world's most realistic training environment for open cranial and endoscopic brain surgery procedures.

We introduced Athena™, the world's most sophisticated, high-fidelity female patient simulator. We enhanced our product portfolio by signing an exclusive distributor agreement with Strategic Operations (STOPS) for its medical simulation trauma surgical cut suits. In March 2016, we launched Apollo™, an update of our most popular adult patient simulator. It now includes cardiopulmonary resuscitation (CPR) performance analysis aligned with 2015 American Heart Association (AHA) guidelines. We also introduced the world's most advanced musculoskeletal (MSK) ultrasound training model for practising MSK joint injections and knee aspirations.

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Corporate social responsibility

CSR matters

Corporate social responsibility (CSR) lies at the heart of our core business. Our employees proudly and passionately deliver training solutions that make the world a safer, better and cleaner place. At CAE, we are proud to contribute to our customers' mission and society in such meaningful ways.

Enabling progress and performance worldwide

Our cost-effective and innovative solutions fuel economic, social and environmental progress. They enhance safety and operating efficiency while minimizing environmental impacts.

As the largest global flight training and medical simulation company, we train pilots and crewmembers, first responders and health practitioners. Our simulated environments safely prepare them for the worst so they can always perform at their best.

CSR benefits in our three markets

In civil aviation, we make air travel even safer by developing innovative solutions to train more pilots than anyone else.

In defence and security, our training helps defence forces and public security authorities around the world remain mission ready and effective. Our simulators also help reduce customers' environmental footprint by saving millions of gallons of fuel every year.

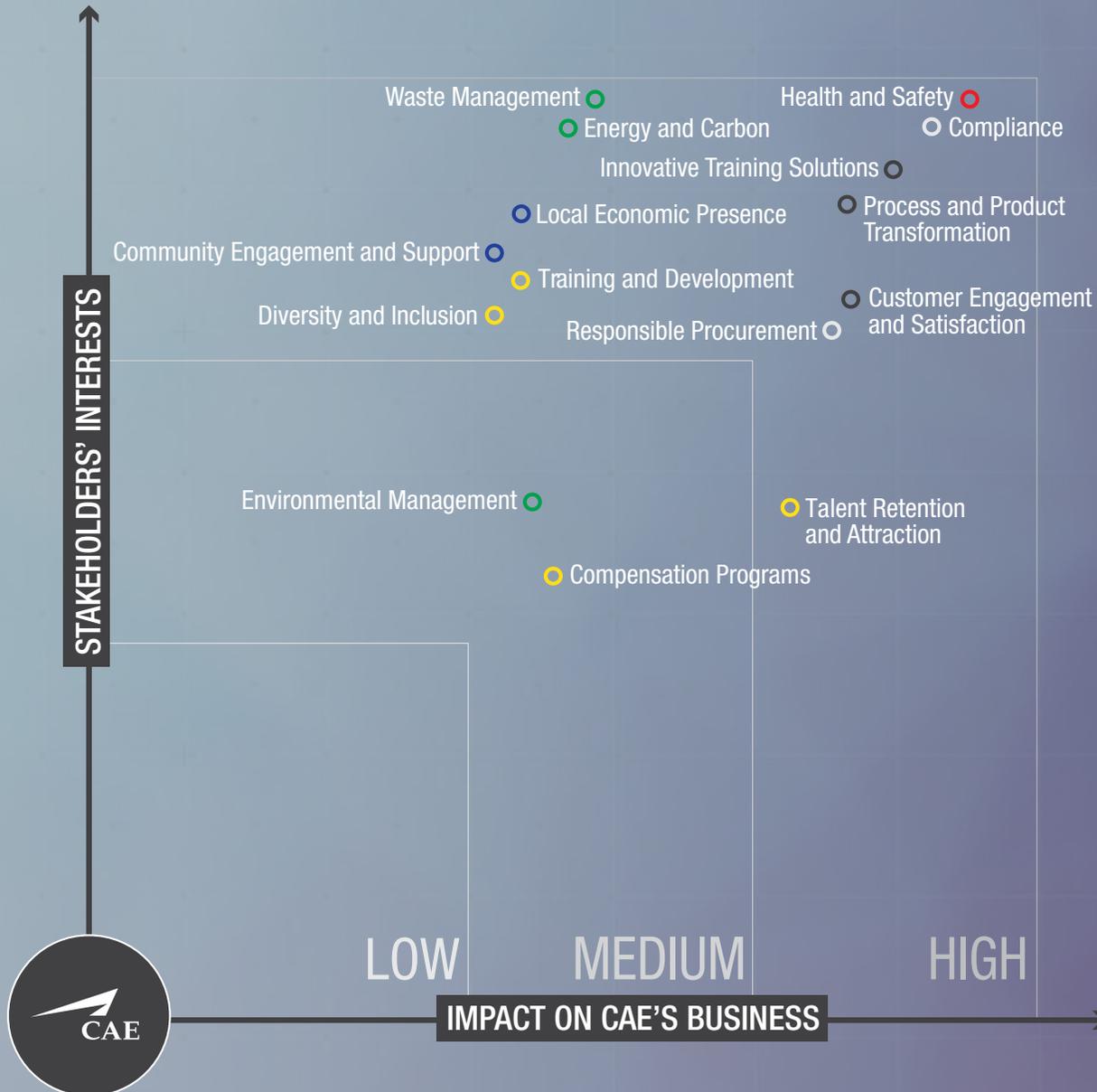
In healthcare, we are playing a key role in reducing the frequency, impact and cost of medical errors, improving patient outcomes in the process.

CSR governance and oversight

Launched in fiscal 2016, our cross-functional CSR Committee is responsible for rolling out and embedding CSR commitments and best practices across CAE. It is also in charge of identifying, reviewing and assessing our performance in ethical, environmental, social and reputational matters. The committee includes members from our major businesses and key geographic locations.

Implementing our 2020 CSR Roadmap

Ensuring the companywide implementation and effectiveness of our 2020 CSR Roadmap will be a key focus of the committee over the next few years. Detailed action plans are in place to engage all our people in supporting roadmap commitments.



CSR materiality matrix

In fiscal 2016, our CSR Committee conducted an extensive materiality assessment process to refine the topics for inclusion in our 2020 CSR Roadmap. The Global Reporting Initiative G4 Materiality Principle guided this assessment process.

The CSR Committee identified and rated the most important topics for our business, taking into account financial, reputational, legal, societal and environmental impacts. In the future, we expect to conduct a formal stakeholder engagement exercise to further validate our priorities.

CATEGORIES

- Business Integrity
- Customer Service, Product Excellence and Innovation
- Community
- Environmental Stewardship
- Health and Safety
- Our People



CASE 1 - SIM ONLY
CASE 2 - SEVERAL SIMS
CASE 3 - ISM + LS
CASE 4 - SEVERAL SIMS + LS
CASE 5 - LS ONLY

USER MGMT / LICENSING
CASE 2 - ISM
CASE 3 - SIMS
CASE 4 - SIMS + LS

RUNNING

NOT SU 1 DEFINE LEARNING OBJECTIVES
VITALS A
HUMANAL
• Log a
2 CREATE SIM SCENARIO
3

BRIEF / ASSESSMENT - FORMAL
DEFINITION OF LS
DEFINITION OF LS
DEFINITION OF LS
DEFINITION OF LS



BUSINESS INTEGRITY

Our priorities

- Ensuring compliance and solid ethical standards

Future commitments

- Continuing to strengthen our governance, risk management and internal controls
- Establishing a responsible procurement policy

Why it matters

Our commitment to adhering to the highest ethical standards is anchored in our core values of integrity, trust and respect. We believe that proper ethical practices create and preserve shareholder value. They also build goodwill and foster the trust of employees, customers, suppliers, investors and the public. That's why we set high ethical standards and expect our employees and business partners to comply with them.

Compliance and ethical conduct

Our employees and business partners are guided by our Code of Business Conduct, robust compliance systems, training and support. Our compliance framework focuses on export control, security and anti-corruption. The Chief Compliance Officer provides monthly compliance reports to the Executive Management Committee and quarterly reports to the Board.

In fiscal 2016, we began a five-year process of enhancing our Code of Business Conduct. We integrated our CSR core priorities into the Code and trained our managers on the Code. We continued to leverage our compliance review to reinforce our governance, risk management and internal controls.

In fiscal 2016, 30% of our suppliers attested to meeting our Responsible Procurement policy, a percentage we intend to increase substantially over the next few years. We also started to screen new suppliers for labour practices and respect of human rights.

UN Global Compact

In fiscal 2016, we became a signatory of the United Nations Global Compact and began integrating its 10 principles into our CSR approach. One of our first actions was to update our master agreement and request for proposals (RFP) templates in accordance with the UN Global Compact and the United Kingdom Modern Slavery Act. These documents now include compliance with laws prohibiting human trafficking and the use of child or forced labour.

Vendors are now also required to confirm that their code of ethics/business conduct aligns with our Code of Business Conduct commitments. One of our next steps in aligning with the UN Global Compact is to develop a companywide Human Rights policy.

Anti-corruption

At CAE, we have zero tolerance for bribery and corruption.

As a global business, we operate in countries with a potential risk of corruption. We have developed strict controls to limit our exposure to this risk, particularly with respect to foreign representatives working on our behalf. We monitor their activities closely as well as any exchange of gifts and entertainment with customers to ensure no attempt is made to secure an unfair competitive advantage.

In fiscal 2016, as part of the Code of Business Conduct training, all of our managers were trained on anti-corruption rules and our foreign agent representatives attested to complying with these rules. We also rolled out a new anti-corruption manual for our employees, suppliers and partners.

In an effort to strengthen and improve our practices, we conducted an internal audit of our anti-corruption program. The review resulted in several recommendations for improvement that will be implemented by the Compliance Office over the course of fiscal 2017.

Export control training

As part of our Export Control Reform project, 97% of our employees worldwide were trained online on International Traffic in Arms Regulations (ITAR) and Controlled Goods. We reviewed our export control guidelines to reflect regulatory changes related to the US Export Control Reform. We updated our export control business processes across all departments.

Feedback mechanisms

We provide formal mechanisms through our Code of Business Conduct for employees to raise concerns or report violations or breaches of the code. A third-party anonymous ethics hotline also allows employees to report violations (1-866-294-9551). Our Whistleblowing policy protects good-faith whistleblowers from retaliation.



H  L  NE HOUDE
Director of Global Strategic Sourcing

Feature story

Leading next-generation simulation design

March 13, 2015 started out as a typical day of back-to-back meetings for H  l  ne Houde, CAE's Director of Global Strategic Sourcing. In the position just over a year, H  l  ne was settling nicely into her new role as leader of a worldwide team of procurement experts. Then her boss, Vice President of Sourcing Jean-Louis Moreau, walked into her office and handed her the biggest challenge of her career.

"I want you to take on a side project and create a team to completely rethink the 7000XR's non-cockpit parts, processes and procurement. You'll lead a multi-disciplinary team alongside Felice Salvatore from engineering and David Lapointe from continuous improvement," said Jean-Louis. "There's a lot riding on this project. Global competition is growing in the 'sim' market and material costs are rising, so we need to deliver an even better simulator more efficiently. One more thing, you have nine months to complete the project!"

"I must admit, the prospect of working with a blank sheet to redesign the 7000XR in a nine-month timeframe was motivating but also pretty intimidating," recalls the experienced industrial engineer. "I would be leading a team of mechanical and electrical design engineers, which felt far removed from my manufacturing process and sourcing expertise."

H  l  ne adds with a smile: "But I was about to learn."

CAE's design-to-cost team

Hélène jumped into action and, today, looks back with pride at the dynamic Hardware Convergence team that came together to tackle this crucial challenge. The core design team consisted of design engineers, partnered with sourcing, manufacturing and quality professionals. Suppliers were also integrated into the team. Their external viewpoint would prove to be invaluable throughout the process.

“CAE engineers had been used to designing simulators and leaving the cost considerations to be handled by the Global Strategic sourcing team,” explains Hélène. “Now we were bringing everyone together so that, from the outset, we designed the simulator using the best and most cost-effective technology and components available. Standardizing the simulator’s non-cockpit portion was another important objective.”

A lighter, greener, more cost-effective simulator

Hélène is very proud of the team’s achievements: “Designing to cost allowed us to do a deep dive into our requirements and uncover amazing opportunities for improvement. For example, the projectors we use are 75% lighter than they were a few years ago, so there was an opportunity to review the supporting structure for these projectors and make it much lighter.”

The turbo-charged team left no stone unturned in its quest to improve the simulator’s quality, costs and schedule. Mukund Patel and Nuwan Fernando, two young engineers completing CAE-sponsored Master’s degrees at Montreal’s École de technologie supérieure (ÉTS), leveraged their ÉTS experience to integrate the latest manufacturing techniques, including laser cutting and laser tube notching, into the simulator’s design.

As a result of everyone’s efforts, the ‘refreshed and greener’ CAE 7000XR is smaller, lighter and more energy and resource efficient. It is also more ergonomic, faster to manufacture, and easier to assemble and maintain. What’s more, all these improvements translate into a significantly reduced environmental footprint throughout the simulator’s lifecycle. The team also upgraded the simulator’s aesthetics, further enhancing the customer experience.

Communication and collaboration: The keys to success

In a fast-track project of this scope, how well a team communicates and collaborates determines the outcome. Daily scrums, listening carefully to each other, a cooperative spirit and lively team debates generated ingenious solutions and rapid decision-making. Team members’ empowerment, creativity and accountability were off the charts.

“We thought we would only be able to achieve a modest redesign in the nine-month timeframe we were given,” says Hélène. “What we ended up achieving was, at least according to our initial analysis, the impossible. We delivered a major step change!”

Almost nine months to the day after project start-up, the team had completely redesigned the CAE 7000XR. Mission accomplished!

Hélène’s takeaway from this experience? “I now look at things differently. I’m always trying to figure out how we can improve on the status quo. It’s pretty cool!”



Key players in this project: Felice Salvatore, Group Leader, Engineering; David Lapointe, Continuous Improvement Specialist; Nuwan Fernando, Development Lead, Hardware Engineering; Sébastien Labelle, Senior Electrical Engineer

CAE 7000XR: New and improved!

The benefits of these improvements to both customers and CAE are huge.

- Weight reduction
- Part count reduction
- Cabling reduction
- More space in the back of the simulator
- Energy savings



HEALTH AND SAFETY

Our priorities

- Operating with excellence in health and safety
- Continuing to build a health and safety prevention culture

Future commitments

- Reducing our frequency rate by 10% by 2018
- Strengthening our health and safety global governance
- Integrating leading indicators into our yearly objectives to improve our leadership actions

Why it matters

"Safety First" is our central focus and a core value that guides everything we do, everywhere we operate. For us, ensuring the health and safety of our employees, clients, suppliers and surrounding communities is more important than anything else.

Achieving world-class performance

To achieve our vision of world-class health and safety (H&S) performance, including zero injuries, we rolled out a new Global Health and Safety policy in fiscal 2015. Local training and awareness on the policy was deployed in all regions.

We also developed four strategic pillars to support our vision:

- Legal compliance
- Global H&S structure
- Education and development
- Leadership and behaviours

In fiscal 2015, we began implementing a five-year H&S strategic plan to build a solid foundation for achieving world-class H&S performance at all of our sites.

Best-in-class H&S standards

Our vision of excellence is supported by 20 world-class H&S standards. We rolled out the first 10 critical standards in fiscal 2016, with the next 10 to follow in fiscal 2017. These global standards will build the solid foundation needed to create a world-class culture, standardize our operations and improve leadership accountability for H&S performance.

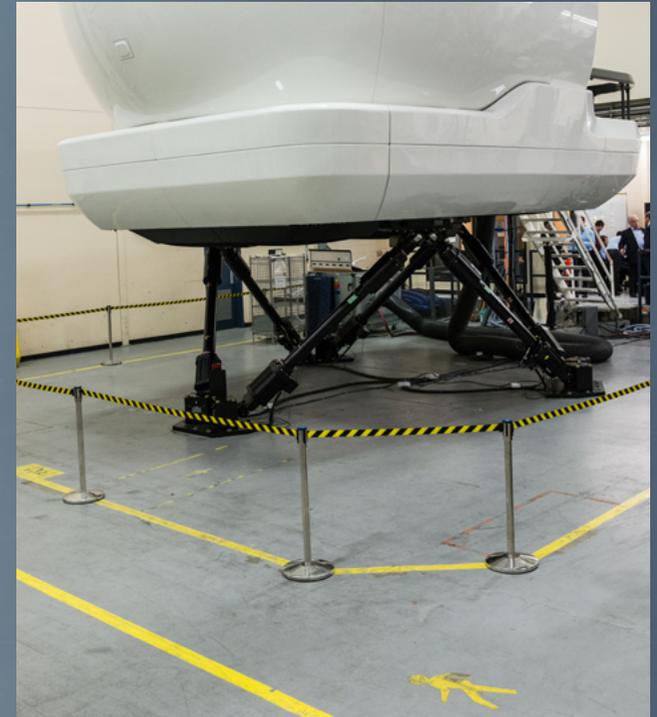
Through our corporate audit program, we are closely tracking integration of the standards into local and regional programs. This audit program monitors an average of 10 sites annually. Three of our sites are certified to OHSAS 18001: two NATO Flying Training in Canada program sites and a Defence & Security site in Australia.

Celebrating Global H&S Day at Work

For the first time, we joined companies around the world to celebrate Global Health and Safety Day at Work, as declared by the United Nations, on April 28, 2016. From more visible propellers to evacuation drills and new processes to better manage contractors, employees implemented health and safety initiatives at some 20 sites worldwide.

H&S results in fiscal 2016

In fiscal 2016, we improved virtually all of our H&S outcomes compared to fiscal 2015. The numbers speak for themselves.



By adding black lines on the propellers, concentric circles are visible when propellers are in motion.

**Feature story**

Simulation In Motion: Driving emergency care training into rural areas

Brad Stiefvater Jr.'s family has been operating a small ambulance service across several communities in a rural county, or as Medicare describes it, "ultra" rural South Dakota since 1977. Hands-on paramedic and Emergency Medicine Technician (EMT) training in the area was limited to say the least. That all changed when the Simulation in Motion – South Dakota (SIM-SD) emergency patient care program literally rolled into Salem, a small South Dakotan community with some 1,350 residents.

Made possible through a grant from The Leona M. and Harry B. Helmsley Charitable Trust, SIM-SD is an innovative and sustainable statewide outreach training program launched in 2010 by the South Dakota Office of Rural Health (ORH). Qualified SIM-SD instructors travel the countryside providing advanced emergency care training to pre-hospital and hospital personnel in rural communities. SIM-SD's 'fleet' consists of three fully equipped mobile learning labs featuring CAE's high-fidelity patient simulators.

Filling the training gap in rural areas

Heidi A. Schultz, Program Officer at The Leona M. and Harry B. Helmsley Charitable Trust, explains the impetus for the Rural Healthcare Program: "In cities, there are 235 to 300 physicians for every 100,000 residents. In rural areas, this number drops to as few as 55 physicians for every 100,000 residents. In South Dakota, 86% of ambulance personnel are volunteers. What's more, time and distance from a speciality trauma centre are as much problem as a patient's specific injuries in a rural landscape. That's why maintaining the overall capability of the responding team is of the utmost importance."

Selecting the right training partner

The Trust teamed up with the South Dakota Department of Health, Office of Rural Health to select the right training partner for this crucial project. After thoroughly assessing several vendors, CAE ultimately came out on top.

"We are very proud to be part of this important healthcare initiative," says Robert Amyot, President of CAE Healthcare. "The 44-foot customized mobile learning labs have the ambulance in the rear and the emergency department in the front. A computerized simulation command centre is located in the middle."

Enhancing patient outcomes

Having a competent and confident first-responder team improves patient outcomes and saves lives. Every year, SIM-SD instructors give hundreds of Emergency Medical Services (EMS) and nursing personnel as well as physicians and their assistants the opportunity to practice complex, time-critical emergency scenarios.

Instructors run dozens of different scenarios, from car wrecks and heart attacks to births and playground accidents. CAE's patient simulators each have their own features, which may include breathing, crying, talking, sweating, reacting to medication and, in some cases, 'dying.' They also come back to life, allowing medical personnel to repeatedly practise their skills.

Barely 30 minutes after an SIM-SD training session on needle chest decompression and intubation, McCook County EMS personnel were called to an emergency that, uncannily, required them to perform this procedure on an elderly woman in severe respiratory distress. Given that Brad and his staff only perform this procedure five to 10 times a year, the timing and content of the hands-on training couldn't have been better.

Growing the program

Since SIM-SD was launched, three other states have come on board: North Dakota, Montana and Nebraska. All have received substantial equipment grants from The Leona M. and Harry B. Helmsley Charitable Trust to start up their programs. The Trust's goal is to have seven Simulation in Motion programs in seven states. The American College of Surgeons has also expressed an interest in the mobile learning labs.

Hospitals and their first responders see tremendous benefits in the cost-effective mobile outreach program. Among the benefits cited by participants are greater confidence in a variety of situations, more rapid patient assessments and improved team communication and collaboration. Some communities have been able to attract more EMS volunteers and even physicians thanks to the program.

Thanks to SIM-SD, Brad and his team are learning how to work better together in emergency situations, some of which they have never or rarely seen before. They are not only honing their skills and staying current, they are improving their team spirit and efficacy. They are also helping enhance patient outcomes, the most important benefit of all.



Between September 1, 2010 and December 31, 2014, SIM-SD instructors delivered 1,160 training events to over 15,600 participants in South Dakota. North Dakota launched its program in early 2014 and, by the end of 2015, had delivered more than 310 training events to more than 4,050 participants.



All SIM-SD mobile learning vehicles are equipped with an iStan™ adult, PediaSim™ child, BabySim™ and Lucina™ maternal fetal patient simulators.




OUR PEOPLE

Our priorities

- Attracting the best talent
- Developing and retaining a skilled and engaged workforce
- Evolving a corporate culture aligned with our new vision
- Providing interesting career opportunities to our employees

Future commitments

- Improving employee engagement
- Strengthening employee recognition with our new web-based recognition platform

Why they matter

As our company shifts from a product to a training service focus, employee engagement is more crucial than ever. Attracting, developing and retaining the best talent will always be critical to our success.



The Colours of CAE

Sometimes, just a simple idea has the power to bring us all together. That is what happened when an employee asked his colleagues to wear the same colour on the same day – just for fun. His idea quickly spread to all our locations around the world. Now a new tradition, the “Colours of CAE” initiative puts a smile on our faces every third Friday of the month!

Creating a great workplace

Creating a great workplace requires committed action and ongoing adjustments to deliver on a clear vision of the culture we want to foster at CAE. We survey employees every two years, with an engagement pulse survey conducted in between, to track progress and focus our improvement efforts in the right areas. In June 2015, our engagement pulse survey did not show the improvement we had hoped for.

These results intensified our commitment to evolve our culture so that we become and remain an employer of choice. We know that changing a culture is a lengthy, non-linear process. We are now working with employees to define what “a great workplace” means for us.

Surveying our directors and vice presidents also gave us a deeper understanding of the challenges and potential solutions.

Improving our recruitment practices

In fiscal 2016, we improved recruitment at CAE by developing a standardized, integrated approach across all territories and business units. Managers now have a flexible, fast and easy way to network, share job postings and source from a broader range of candidates.

The enhanced system puts information at managers’ fingertips along with real-time visibility on recruiting progress. It allows them to better match the right talent with the right position. The new system, which includes tools to connect with talent on social media, features more than 14,500 external candidates from around the world.

Leadership training

Our Leadership Attributes describe the behaviours we expect of all our employees. These attributes challenge all employees, at every level of the company, to think and act as leaders. In fiscal 2016, we reduced these attributes from nine to five, making it easier for employees to focus on what is most important.

Our Leadership for the Future training program promotes skills development among first- and second-level leaders. In fiscal 2016, 123 first-level leaders participated in the four-day program and 27 second-level leaders in the three-day program for a total of just over 4,000 hours of training.

Skills training

Over 1,600 engineering employees are enrolled in our technical career track initiative. This initiative helps them develop and broaden their technical expertise through evaluations on eight technical competencies. It also provides guidance on technical career path criteria from entry to senior levels.

CAEacademia goes online

In fiscal 2016, we improved our CAEacademia learning management system to enhance our employees’ online experience. Employees can now access the enhanced system and view available training programs from their mobile devices.

Flight instructors: Key to achieving our vision

Our flight instructors are our second largest employee group after engineers as well as our biggest customer-facing group. They are also key to ensuring we become the industry’s gold standard in training.

In fiscal 2016, we sharpened our focus on the flight instructors who are at the heart of our business. We launched an initiative to support our strategic shift to a training services company. We also created the new position of Global Leader in Training Strategy to enhance our value proposition in aviation training and engage instructors in achieving our vision.

Transforming program/project management at CAE

To drive excellence in program/project management and execution (PM&E), we launched a number of initiatives in 2015. We rolled out a training program to increase the competencies of our program/project managers and support staff as well standardize PM&E across CAE.

Using the Project Management Institute (PMI) model and universal project management standard gives us a consistent way of managing projects and interacting with customers. It provides project managers with best-practice tools to meet customer requirements and ensure on-time delivery, ultimately improving customer satisfaction.

To help standardize our PM&E processes, we adopted CMMI (Capability Maturity Model Integration) to implement global best practices in project planning, project monitoring and control, requirements management, risk management and integrated projects management.

Women at CAE

In fiscal 2016, the Board of Directors approved the Policy Regarding Board and Executive Officer Diversity effective May 2015. The policy acknowledges gender diversity as a significant aspect of diversity.

At the time of this report’s publication, two of 10 (or 20%) of current directors on CAE’s Board, and two of nine (or 22%) of our current executive officers, are women. A total of five women occupy senior management positions (i.e. vice president or above), which represents 15% of our total senior management population.



CUSTOMER SERVICE / PRODUCT EXCELLENCE AND INNOVATION

Our priorities

- Ensuring customer engagement and satisfaction
- Designing and delivering quality and responsible next-generation training products and services
- Ensuring customer data protection
- Embedding a strong innovation and collaboration culture

Future commitments

- Continuing to design for safety and environment
- Formalizing sustainability guidelines for the design, development and delivery of our products and services
- Including sustainability principles in the criteria for the next round of Innovation Challenges

Why it matters

Our customers count on us to provide training solutions that keep pace with an ever-changing world and operating environment. Product and service innovations are key elements of our competitive advantage. Our strong innovation culture and commitment to best-in-class customer service drive these innovations and support our vision to be recognized as the global training partner of choice.

We are focused on ensuring a continuous flow of sustainable advanced solutions to help clients deliver societal benefits in a safe, efficient and environmentally responsible way.

Innovation strategy

Our technology leadership is underpinned by a strong innovation culture and longstanding commitment to R&D. Central to our innovation strategy is how we integrate sustainability into the design, development, delivery and end-of-life of our product and service innovations.

Our partnerships with industry organizations, regulatory bodies, suppliers and customers help us remain at the forefront of new safety, operating efficiency and environmental standards and processes.

Customer service

The value we bring

We bring value to our customers by enhancing the safety of their activities, improving their mission readiness for potentially dangerous situations, and lowering their operating costs and environmental footprints.

Civil Aviation: Safety, efficiency and environmental responsibility

Our training and simulation technology solutions enable civil aviation customers to balance safety and efficiency. Our simulated environments avoid fuel consumption and carbon emissions.

Our training centres are helping customers develop greener flights and reduce carbon emissions. We are also actively supporting airlines in adopting the ICAO's Multi-crew Pilot License (MPL) program and implementing Upset Prevention and Recovery Training (UPRT). Our pilot sourcing solutions help airlines address the pilot capacity gap.

Defence & Security: Public safety

Our innovative training systems integration (TSI) solutions are helping the military and government bodies improve training effectiveness, reduce operational demands on aircraft, lower safety risks and environmental impacts, and drive down costs.

Our biggest Defence & Security facilities are rated to Level 3 or above of the Capability Maturity Model Integration (CMMI), an internationally recognized model of industry best practices for process improvement training and appraisal program. CAE Australia, CAE USA and CAE D&S Montreal are rated CMMI 3 while CAE Mirabel is certified CMMI 5, the highest level of recognition.

Healthcare: Saving lives

Simulation-based training is helping our healthcare customers provide a low-risk alternative for practising life-saving procedures, rapid response and inter-professional team training, major disaster response and anesthesia administration. It also helps customers become more adept at the diagnosis of potentially life-threatening illnesses.

Protecting customer data

We are highly sensitive to the importance of ensuring customer data and intellectual property are handled with the utmost care and confidentiality. We have strong controls to ensure compliance with all laws and regulations, including the protection of intellectual property and the exportation and importation of commodities, services and technical data. Employees are trained on handling intellectual property as part of our Code of Business Conduct annual training.

Strong customer relationships

Our customers are drawn to us for many reasons: our technology and cost leadership, the reliability and flexibility of our products and services, our credibility with regulators and our reputation for forging long-term relationships. We have long-term training service agreements and joint ventures with approximately 40 airlines and aircraft operators around the world, and relationships with more than 50 defence operators in approximately 35 countries.

Best-in-class customer support

Our customer support practices include a web-based customer portal, performance dashboards and automated report cards, a 360 Customer Command Centre and various customer support hotlines.

We have an established network of strategically located parts depots across the world. Our broad geographic coverage enables us to respond quickly and effectively to customer needs, while having a deep understanding of local regulations and customs.

Our annual customer advisory board allows customers to share best practices, learn about emerging trends and identify areas for improvement.

Product excellence and innovation

Engaging employees in innovation

We continue to involve employees in the innovation process and embed a strong innovation culture that integrates sustainability principles into our products and services. Our annual "Innovation Challenges" initiative actively engages employees in innovation and drives technology advances in support of our business objectives and strategy.

In fiscal 2016, our fourth annual Innovation Challenges generated 79 ideas from employees around the world.

Many winning ideas from past Innovation Challenges rounds are now part of our products or in the prototype phase in our recently created Innovation Laboratory.



Design for safety and environment

Our Global Engineering Department ensures environmental considerations are included in the design of our simulator technologies and training materials. Their goal is to use resources efficiently, eliminate hazardous materials and increase our customers' energy efficiency.

Without taking into account the full-flight simulators operated by our customers and operated in Defence & Security, the civil full-flight simulators we operate in our network save over five million metric tonnes of CO₂ annually.¹

Our full-flight simulator electromechanical motion systems enable customers to reduce their average annual power consumption per simulator by up to 70% and eliminate 400 gallons of mineral oil per simulator, compared to the hydraulic systems previously used.

Product and process transformation

We continued to implement our process and transformation plan, which includes several initiatives to improve our efficiency.

As part of this broad plan, a highly engaged cross-functional team reviewed our new CAE 7000XR Series simulator. The team succeeded in reducing the simulator's lifecycle environmental footprint, improving procurement and accelerating manufacturing.

In Healthcare alone, we introduced five innovations to the market in fiscal 2016.

¹ This number was calculated using the number of hours of training given internally on flight simulators times at normal burn rate (at cruise) of equivalent real aircraft. The amount of fuel saved is converted into metric tonnes of CO₂ with the conversion factor of jet fuel (source: US Environmental Protection Agency)



Feature story

Training wildfire fighters in Western Canada

Fighting wildfires is not for the faint of heart at the best of times. And these are not the best of times for wildfire control agencies around the world. With the frequency and duration of wildfires on the rise, the human, environmental and economic consequences are increasingly serious.

Most experts point to global warming as a major culprit. Climbing temperatures are creating fire-prone conditions and igniting concerns among wildfire management specialists worldwide. Jeff Berry is one of these specialists.

A 36-year veteran of the British Columbia Forest Service, largely in airtanker or 'waterbomber' operations, Jeff knows a thing or two about fighting fires. He has worked with firefighting agencies around the globe. Today he is an executive at Conair Group, a global leader in aerial firefighting equipment and services. Conair was involved in fighting the huge wildfire that, on May 30, 2016, devastated part of Fort McMurray and, 30 days later, continued to burn, spreading across northern Alberta and into Saskatchewan. It ranks as the costliest disaster in Canadian history.

"Wildlands are turning into kindling in some areas, fuelling fire activity," explains Jeff. "As the season lasts longer and fires become more aggressive, firefighting agencies are struggling to address these new challenges. This is where CAE, with its expertise in full mission training, is going to be an invaluable partner for us."

Blazing the trail in wildfire management

In February 2016, CAE signed an agreement with Conair to create the world's first wildfire training and simulation centre in British Columbia. Together they will develop wildfire-based scenarios to use on a CAE-built Avro RJ85 full-flight simulator qualified to Level D, the highest flight simulator qualification. CAE will also train Conair's Avro RJ85 AT airtanker pilots.

"We're looking forward to applying our experience in providing armies, navies and air forces with integrated training systems services to the world of wildfire suppression," enthuses Mike Greenley, Vice President and General Manager, CAE Canada. "Wildfire fighters work in challenging and often dangerous conditions and, now, we'll be able to help them safely prepare for their missions."

At the same time, CAE is working with Defence Research and Development Canada's Centre for Security Science (DRDC CSS) and the Canadian Interagency Forest Fire Centre (CIFFC) to fully assess wildfire-fighting training needs. This analysis will provide the foundation for developing more effective training solutions for wildfire fighters.

Integration is key

The new training centre will allow Conair to train its RJ pilots at home, as opposed to on simulators in Switzerland. It will also enable the company to simulate, for the first time, entire wildfire-fighting scenarios under a variety of conditions. The benefits to both firefighters and the general public are huge.

"The trickiest part in fighting wildfires is always integrating the different resources working on the fire, from helicopters and airtankers to ground resources," stresses Jeff. "By testing standard operating procedures on real scenarios, we'll be able to improve the entire team's proficiency and better protect the forest, people and their assets on the ground. And because simulation is such a safe and cost-effective way to train, we can keep practising missions and contingencies until they're fully tested and engrained."

The sky is the limit

Jeff and his team see a tremendous opportunity for the centre to become a global training hub on a variety of firefighting aircraft.

"Our partnership with CAE is not only crucial, it's very exciting," says Jeff. "Together we have the potential to become the world leader in full wildfire suppression mission training. That's a prospect that makes me extremely proud."

In the meantime, CAE and Conair expect to have the centre up and running in the fall of 2017, with pilot training scheduled to begin in January 2018.



Jeff Berry, Director of Business Development, Conair Group



CAE Healthcare, Hungary



ENVIRONMENTAL PROTECTION

Our priorities

- Ensuring environmental management system excellence and compliance
- Reducing our energy and carbon footprint
- Improving material and resource efficiency

Future commitments

- Developing and implementing a global energy and waste reduction target
- Implementing our green policy for suppliers
- Implementing composting at Montreal headquarters

Why it matters

As a leading training solutions provider, we have a responsibility to minimize the environmental impact of our operations.

A focus on environmental performance

Our strong commitment to environmental responsibility is anchored in our Environmental policy. This policy captures our philosophy of going beyond regulatory compliance with a focus on pollution prevention, waste minimization and continuous improvement.



Environmental management



In fiscal 2015, we improved and standardized our Environmental Management System (EMS) and began formalizing our environmental objectives, targets and key performance indicators. We also started rolling out this global EMS, which is aligned with the ISO 14001 standard, at all of our sites worldwide.

Today all of our 21 environmental corporate standards have been rolled out at all of our sites. An action plan is drafted when the standards are not fully implemented.

Reducing our operational energy and carbon footprint

At CAE, we are determined to be part of the solution to climate change. Our simulators play a key role in reducing our customers' carbon footprint by avoiding the fuel consumption and CO₂ emissions of live flying training.

We are also taking action to reduce our own carbon and energy footprint. This means increasing our operations' energy efficiency, reducing our buildings' energy impact and exploring renewable energy alternatives where feasible. Together these efforts enabled us to, once again, improve our environmental performance in 2016.

Greenhouse gas emissions (GHG) for Montreal site

	2016	2015	2014
GHG emissions (scope 1 and 2)	710	833	749
Direct GHG emissions scope 1	646	761	669
Energy indirect GHG emissions scope 2	64	72	80

Engaging employees

Initiatives are under way to leverage our local environmental officers to create momentum and foster employee engagement in environmental matters. People are increasingly sharing best practices and initiatives around recycling, energy efficiency and waste reduction.

For the first time, we celebrated Earth Day on April 22, 2016, across our global operations. As part of the celebration, more than 50 sites shared their recent environmental initiatives.



Asian Aviation Centre of Excellence, Malaysia

Recent certifications

In fiscal 2016, our Sale and Silverwater sites in Australia were certified to the ISO 14001 standard. Our Moose Jaw site in Canada passed its ISO 14001 certification renewal process with flying colours.

In Montreal, our head office received BOMA BEST® certification, Level 1, for its energy and environmental performance and management. To reflect its specific activities and address new BOMA criteria, we launched a new local environmental policy for our Montreal headquarters which is aligned with our global policy.

Our head office received Level 3 (Bronze) ICI ON RECYCLE! performance certification for outstanding reuse of residual materials. It also won a Canadian Industry Program for Energy Conservation (CIPEC) Leadership Award in the process and technology improvement category.



New green strategic sourcing criteria

As part of our focus on minimizing the environmental impact of our operations, we launched a green procurement policy in fiscal 2016. From now on, our procurement teams will favour products and services with a low environmental impact and no negative effect on quality and cost.

Managing aircraft noise

At CAE, we take noise complaints seriously. We do everything possible to reduce the noise and the inconvenience of our operations in surrounding neighbourhoods. When we receive a complaint, we contact the concerned individuals to gather all the facts. We then begin our internal verification process to ensure we are in compliance with all official noise abatement guidelines and regulations.

In recent months, we worked closely with airport authorities in the U.S. to better manage aircraft noise. Following this community consultation experience, we are developing a guide of best practices and concrete actions to help managers effectively interact with communities.



LOCAL ECONOMIES AND COMMUNITY INVESTMENT

Our priorities

- Supporting local economies where we operate in line with our policy
- Positioning CAE as a thought leader in training

Future commitments

- Progressively raising the percentage of donations and sponsorships aligned with our policy and vision:
 - Supporting educational facilities, activities and programs developing excellence or interest among young people in science, technology and engineering
 - Encouraging young people to pursue pilot careers
 - Encouraging organizations aimed at improving aviation and patient safety

Why it matters

Helping communities thrive is a key component of acting responsibly. We believe that we can only be successful if the communities and economies in which we operate are prosperous. We are proud of the societal benefits of our training. It increases aviation safety, strengthens public security and improves patient outcomes.

Making a difference

Through our community investment and local economies strategy, we strive to positively impact local communities and economies, reinforce our reputation among stakeholders and increase employee engagement.

Investing in communities

In fiscal 2016, we reviewed our Donations and Sponsorships policy to better align it with our new vision. Our main community investment focus remains:

- Innovation, research and development in areas pertinent to our business
- Engineering and software skills development
- Youth education in science, technology and engineering

Through our policy review process, we also added specific priorities to support our activities in civil aviation, defence and security, and healthcare. These new priorities are:

- Disaster and humanitarian relief in communities where we operate
- Organizations that develop pilots, improve aviation and patient safety, help military families and veterans, and assist local hospitals

In fiscal 2016, we donated close to \$5 million worth of licenses for our modelling and simulation software to 14 universities—six in Canada, four in the U.S. and four in Europe—to help educate students and create a pipeline of prospective employees.

The United Way is one of our key charities. We exceeded our \$650,000 objective for the 2015 CAE-United Way/Centraide campaign, collecting a total of \$660,000 for a grand total of \$9 million since 2000. The Enbridge Ride to Conquer Cancer is another cause supported by many of our employees in Quebec. Over the past four years, CAE teams have pedalled for two days every year, raising a total of more than \$1 million.

Advancing R&D

Innovation is in our DNA. It catalyzes our success. Our commitment to innovation is a key component of what attracts new talent to CAE. Our R&D partnerships with universities also help ensure a constant flow of the best talent while allowing us to leverage the latest technologies and expert knowledge to improve our products and services.

Today we collaborate with more than 15 Canadian universities and colleges. We also fund several university scholarships and sponsor numerous educational initiatives.

Helping Syrian refugees

Our employees are socially engaged in a variety of humanitarian causes around the world. One example is Dominic Joron, a global engineering employee who launched a website to collect donations for Syrian refugees in Montreal. Aline Massouh from the Civil Aviation Training Solutions Marketing team co-founded WeHost, a platform designed to empower Canadians to temporarily host a refugee. More than 800 Canadian families responded to the initiative by offering to temporarily host a refugee in their own home.

ALINE MASSOUH

Marketing Manager, Civil Aviation Training Solutions, and co-founder of WeHost



Dominic Joron's initiative helped the Alkabalani family move to Montreal, Canada.

Thought leadership

As a thought leader, we engage with regulatory bodies and industry around the world. This is one of the ways we continue to actively shape the future of training globally. This includes representing our stakeholders in discussions on civil aviation regulations to ensure the industry's strategic, safe and sustainable evolution.

We have been involved in numerous Federal Aviation Administration (FAA), European Aviation Safety Agency (EASA) and International Civil Aviation Organization (ICAO) regulatory committees and working groups. We have also participated in the following trade associations and initiatives:

- International Air Transport Association (IATA)
- The American Institute of Aeronautics and Astronautics (AIAA)
- Airlines for America (A4A)
- Royal Aeronautical Society
- Aerospace Industries Association of Canada (AIAC)
- Aerospace Industries Association (AIA)
- Canada Business Higher Education Roundtable
- Canada's Global Markets Action Plan
- Aéro Montréal
- Women In Defence and Security Association
- Canadian Association of Defence and Security Industries (CADSI)
- National Training and Simulation Association (NTSA)
- Open Geospatial Consortium (OGC)

Shaping the future of training

CAE is a global leader in the delivery of training for the civil aviation, defence and security, and healthcare markets. We design and integrate the industry's most comprehensive training solutions, anchored by the knowledge and expertise of our 8,000 employees, our world-leading simulation technologies and a track record of service and technology innovation spanning seven decades. Our global presence is the broadest in the industry, with 160 sites and training locations in more than 35 countries, including our joint venture operations, and the world's largest installed base of flight simulators. Each year, we train more than 120,000 civil and defence crewmembers, as well as thousands of healthcare professionals.

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