REMARKS FOR CAE’S FOURTH-QUARTER AND FULL FISCAL YEAR 2015

May 26, 2015

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Stephane Lefebvre, Vice President, Finance, and Chief Financial Officer

Mr. Andrew Arnovitz, Vice President, Strategy and Investor Relations

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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. These include statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, capital spending, expansions and new initiatives, financial obligations and expected sales. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, listeners are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this presentation are expressly qualified by this cautionary statement.

You will find more information about the risks and uncertainties associated with our business in our fourth quarter fiscal 2015 MD&A and in annual information form for the year ended March 31, 2014. These documents have been filed with the Canadian securities commissions and are available on our website (www.cae.com) and on SEDAR (www.sedar.com). They have also been filed with the U.S. Securities and Exchange Commission under Form 40-F and are available on EDGAR (www.sec.gov). Forward-looking statements in this conference represent our expectations as of today, May 26, 2015, and, accordingly, are subject to change after this date."

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, and Stephane Lefebvre, our Chief Financial Officer.

After comments from Marc and Stephane, we will take questions from financial analysts and institutional investors. Following the conclusion of that Q&A period we will open the call to questions from members of the media.

Let me now turn the call over to Marc…

<u>Marc Parent, President and Chief Executive Officer</u>

Thank you, Andrew, and good afternoon to everyone joining us on the call.

I'll first review some of the highlights of the quarter and the fiscal year, and then Stephane will provide a more detailed summary of our financial results. I'll then come back at the end of the call to discuss our outlook for the year ahead.

We met most of our strategic and financial objectives, and overall, I'm pleased with our fourth quarter and fiscal year 2015 performance. I'm especially pleased with the progress we've made to secure strategic training opportunities in each of our businesses. New joint ventures with Japan Airlines and China Eastern Airlines, the start-up of our defence and security training centre in Brunei, and comprehensive solutions deals in Healthcare are all good examples that underscore the vision of our company, to be the recognized global training partner of choice.

For the quarter and for the year as a whole, we generated record revenues with higher operating profits, and we reached a new record backlog.

In **Civil**, we met our goal for double-digit revenue growth and a higher margin for the year, but we didn't reach the higher peak margin in the fourth quarter as we expected. The slower ramp up in peak margin was largely because of lower than expected simulator utilization in the last two months of the quarter in Europe and in South America, where we thought markets were on track to pick up more quickly than they did.

On the order front in Civil, we signed long-term training services agreements in the quarter with airlines and operators in the Americas, Asia Pacific and Europe, and we received 10 full-flight simulator orders from customers including Southwest Airlines, Westjet Encore and China Airlines, bringing to 41 the total number of full-flight simulator sales. In all, we received approximately $398 million in Civil orders this quarter for a book-to-sales ratio of 1.08x and for the last 12 months it was 1.17x, a value which underscores our leading position in the market. Civil backlog for the quarter was up significantly to $2.9 billion, and now includes our share of the recently operationalized joint venture with Japan Airlines.

In **Defence**, we expected to be resilient and we're proud to have, in fact, delivered top and bottom line growth in a down defence market.

We signed defence contracts during the quarter across a broad range of geographies and platforms, including the provision of a C-130J weapon systems trainer for the US Air Force, M-346 simulators for the Italian Air Force, AW101 helicopter training devices for the Royal Navy, an AW139 helicopter simulator for Australia's Toll Group, and P-8 simulators for the Royal Australian Air Force. In addition to selling new simulators, our defence customers continued to enhance and upgrade legacy training systems as they transition to more virtual training. We signed a range of upgrade contracts, including a major visual system upgrade on the Royal Canadian Air Force's CH-146 helicopter simulator. In total, we won approximately $238 million in Defence orders this quarter, for a book-to-sales ratio of 1.01x. The book-to-sales ratio for the last 12 months was 0.88x and our fourth quarter Defence backlog was $2.5 billion.

Finally, in **Healthcare**, our strategy continued to bear fruit, with strong revenue and operating income growth, further reaffirming our conviction in the potential for simulation-based training solutions in Healthcare.

We gained more traction during the quarter with our solutions approach, new products, and enhanced global reach. We booked some larger training deals involving a broad range of our patient, surgical and ultrasound simulators, our simulation centre management solutions, as well as our training and support services. In the U.S., we sold patient simulators, simulation centre management solutions and curriculum to customers including Southeastern University. And we sold our patient simulators and a range of other products including ultrasound simulators to customers in Southeast Asia, Eastern Europe and Africa. We also continued to find synergies with Defense this quarter, with patient simulators ordered for the Australian Defence Forces.

With that, I will now turn the call over to Stephane.

Mr. Stephane Lefebvre, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the quarter was up 10% over Q4 last year at $632 million and quarterly operating profit was up 22% to $105 million. This gave us an operating margin of 16.7%, which is 160 basis points better than the same period last year. Fourth quarter net income attributable to equity holders from continuing operations was $63 million, or 24 cents per share. I would note that the effective tax rate in Q4 this year was 23% compared to only 15% last year.

For the fiscal year, revenue increased 8% to $2.2 billion and operating profit grew 15% to $333 million. The operating profit margin for the year expanded 90 basis points to 14.8%. Annual net income attributable to equity holders from continuing operations was $201 million, or 76 cents per share, and the effective tax rate for the year was 22% compared to only 13% last year.

We had $142 million of free cash flow in the fourth quarter up from $108 million in the fourth quarter last year. And for the year, net cash provided by continuing operating activities after deducting net cash used in investing activities, which takes into account all of our CAPEX, was $90 million, up 9% from the prior year.

We continued to execute on our three capital priorities, namely targeted growth investments, higher current returns for shareholders, and deleveraging our balance sheet.

Total capital expenditures were $41 million for the quarter and $144 million for the year. Growth capital expenditures represented two-thirds of the annual total, and maintenance the remainder. Annual capital expenditures were 8 percent lower than the $157 million the year prior and given the investments we have already made to position the business, we expect total capital expenditures to be substantially lower again in fiscal 2016 at approximately $100 million.

Despite a significant translation increase from a lower Canadian dollar, net debt decreased to $950 million as at March 31, 2015, compared to $972 million as at December 31, 2014. Over the course of the fiscal year, higher cash flow from operations and lower capital expenditures enabled us to further strengthen our balance sheet, and so our net debt-to-total capital ratio was 36.3% as of March 31st.

Now looking at our segmented financial performance...

In **Civil**, fourth quarter revenue was $368 million, up 14% compared to the prior year period and fourth quarter operating income was $62 million for a margin of 16.8%. We had a gain on the disposal of some assets in the Quarter, which was offset by some negative FX impacts largely driven by a sharp drop in the Brazilian Real in the last two months of the Quarter and some other non-recurring expenses. Annual Civil revenue was $1.3 billion, up 10% compared to the prior year, while operating income was up 17% to $211 million, giving us an operating margin of 16.3%. Training centre utilization was 70% for the quarter, and 68% for the year.

In **Defence**, revenue for the fourth quarter was $235 million, up 2% compared to last year. Fourth quarter operating income was $40 million, for an operating margin of 16.8%. Annual revenue was $857 million, up 4% from the prior year, and annual operating income was $116 million for an operating margin of 13.5%.

In **Healthcare**, revenue for the quarter was $29 million, up 34% compared to the same quarter last year. Similar to the recent second quarter when we saw the positive impact of higher volume on the Healthcare margin, the fourth quarter also demonstrated the potential for margin expansion once we get above roughly $25 million quarterly revenue. Fourth quarter operating income was up nearly six-fold compared to last year at $4.1 million, giving us a 14.0% margin. Annual revenue was $94 million, up 19%, and annual operating income was up four-fold to $6.7 million for a 7.1% operating margin.

With that, I will turn the call back over to Marc who will discuss the way forward.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

As this is our year-end call and because we recently completed our annual strategic review with CAE's Board of Directors, I will talk about the year ahead as well as provide some comments about our strategic orientations.

As we look to fiscal 2016 and beyond, we remain encouraged by our prospects for growth—especially in training. Last year, we continued to demonstrate how the unique combination of CAE's comprehensive training solutions, global presence, and know-how in training, makes CAE the ideal training partner of choice in all three of our markets. And we see much more opportunity ahead for CAE to grow its position in the global training market. We've made significant investments in recent years to build out the world's largest and broadest network of civil aviation training centres and our priorities are squarely focussed on filling training centre capacity and driving returns on those investments. At the same time, we will continue to selectively fund growth by investing with our partners in lockstep with their prospective demand and we will continue to invest to support our business aviation customers. We've already funded the majority of our growth investments, which is the principal reason why we're able to substantially reduce total CAPEX plans for fiscal 2016 to approximately $100 million. We will also continue to strengthen our position by developing new solutions like our 7000 XR Series full-flight simulator, and innovate processes to become even more competitive and offer an even more compelling alternative to our customers.

Long-term civil aviation market fundamentals remain strong, notwithstanding the near-term softness in Europe and South America. IATA predicts approximately 5% continued passenger traffic growth and we believe this is the overarching market driver for our solutions. Whatever the actual rate of passenger growth, there's no doubt the skies are becoming more crowded and safety remains paramount. With nearly seven decades behind us, the highest share of annual simulator sales, and the largest customer installed base, CAE's brand is well recognized the world over.

It's fair to say, we are the go-to provider for flight simulators, and this is a position we intend to protect, by creating an even wider gap between the competition and CAE. We expect to see demand for about the same number of civil simulators in fiscal 2016 as we did in fiscal 2015.

We've transformed the company over a long period of time to become a globally recognized leader in training solutions because we believe this is where we can add the most value and it represents a very large market. The total global civil aviation training market is nearly six times larger than the products market, and this is where we believe we can make major strides to grow our business over the long term and fill our available capacity. We will continue to lead in the sale of simulators and at the same time we will grow our share in training.

For the fiscal year ahead, we expect to make more progress on this front with our training solutions and we expect to see annual Civil margins continue to expand from the 16.3% level reached this fiscal year.

In **Defence,** we proved we can grow in a down defence market and we continue to expect modest revenue growth with operating margins in the 12-13% range. The rate of defence procurement is still challenging to forecast, but we maintain a positive outlook based on a number of factors. Our current submitted and pending proposals are in excess of $2.5 billion, which is a near all-time high for our company, and our enhanced capabilities in integrated live, virtual and constructive training systems opens up an even larger market potential for us longer term. We see growth opportunities for CAE as defence forces transition from their legacy training systems to more virtual training. And we're also well positioned on enduring platforms with good geographic diversity. Also giving us confidence is our solid $2.5 billion backlog and the increasing proportion of our revenue coming from long-term, recurring training and support services.

And finally, in **Healthcare**, we draw on CAE's strengths of unique comprehensive solutions and global presence. We've gained more of a critical mass in fiscal 2015 and we expect to build on this base in the year ahead. Our long-term aspiration for Healthcare is to be a leader in an increasingly regulated market for simulation-based training.
We think we have an excellent position, and we continue to make inroads with medical device OEMs and medical societies to adopt the use of simulation in the course of training, assessing and certifying practitioners. We have good momentum in Healthcare and we expect to see continued top and bottom line growth in the year ahead.

To summarize, we look forward to increased success in fiscal year 2016. We’ll continue to invest to protect our leadership position in simulation products, and we’re especially encouraged by the long term potential for CAE as a leader in training solutions. We expect growth in all segments for the year, with performance continuing to follow CAE’s usual pattern, involving a stronger second half of the fiscal year than the first. We’ve put a lot of capital to work in recent years and we are clearly positioned to fill capacity and harvest investment returns. We expect that our continued profit growth together with substantially lower capital expenditures, next year, will yield higher returns on capital. And looking beyond, we believe our performance will continue to improve over the long term as we as we bring our training partner of choice vision to fruition.

Thank you for your attention. We are now ready to answer your questions.

Andrew Arnovitz, Vice President, Investor Relations and Strategy

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

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