CAE

REMARKS FOR CAE'S FOURTH-QUARTER AND FULL FISCAL YEAR 2010

May 13, 2010

Time: 1:30 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

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

Andrew Arnovitz, Vice President, Investor Relations and Strategy

Good afternoon, everyone, and thank you for joining us today. Before we begin I need to read the following:

"Certain statements made during this conference, including, but not limited to, statements that are not historical facts, are forward-looking and are subject to important risks, uncertainties and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events. These statements do not reflect the potential impact of any non-recurring or other special items or events that are announced or completed after the date of this conference, including mergers, acquisitions, or other business combinations and divestitures.

You will find more information about the risks and uncertainties associated with our business in the MD&A section of our annual report and annual information form for the year ended March 31, 2009. 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 13, 2010, and, accordingly, are subject to change after this date.

We do not update or revise forward-looking information even if new information becomes available unless legislation requires us to do so. You should not place undue reliance on forward-looking statements."

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

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

For your convenience, this conference call will be archived on CAE's website:

Let me now turn the call over to Marc…

Marc Parent, President and Chief Executive Officer

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

As we reflect on our results in fiscal year 2010, CAE performed well despite a very difficult civil aviation market:

- we maintained our leadership in civil aerospace in a tough and competitive environment;
- we won more than 70% of competed full-flight simulator orders;
- and, we generated solid margins in Civil overall despite lower utilization in our training centres and lower revenue in our products segment.
- At the same time we had double-digit growth in our defence business and received new orders that give us confidence that we can sustain that kind of momentum going forward.

The period we have just been through was difficult but it validated our diversification strategy. We saw more evidence of how we have become less vulnerable to the civil aviation market cycles:

- more than half of CAE's revenue came from defence products and services;
- about two-thirds of our civil business mix now involves the provision of training and services, which depends more on the installed base than on new aircraft deliveries;
- and, about one-third of our revenue was generated in high growth markets including Asia, the Middle East and South America, which continued to do well during the downturn.

[Pause]

Overall, we generated $396 million of revenue in the fourth quarter and $63 million of operating income for an operating margin of 16 percent. For the year we generated $1.5 billion of revenue and $230 million of operating income for a margin of 15 percent. This includes our restructuring of $34 million, before which our operating margin for the year was 17 percent.

We had good cash flow performance in the quarter and for the year as a whole. We generated annual free cash flow of $179 million and net debt decreased from $285 million to $180 million. Our balance sheet remains in good shape with adjusted net debt-to-capital at 23 percent.

[Pause]

In **Training and Services/Civil** we booked orders during the year with an expected value of $351 million. We reached an important milestone with our first Multi-crew Pilot License program with a contract from AirAsia – the world's largest A320 operator. And we are proud to have been selected by the U.S. Federal Aviation Administration to train its own pilots under a new five-year agreement. Emerging markets performed well despite the downturn. We signed a ten year contract renewal to train LAN pilots at our Santiago training centre.

The average annualized number of RSEUs in our network during the year was 129 which is 11 more than the prior year. Utilization was about 65 percent in the fourth quarter and although this is in line with the third quarter, we generated 11% more revenue mainly because of higher wet training volume.

In **Simulation Products/Civil** we signed contracts worth $255 million including 20 full-flight simulators from customers mainly in Asia and the Middle East. This represents a competed market share of over 70 percent.

On a combined basis our two civil segments generated an operating margin of 17 percent last year.

[Pause]

In our **combined military segments**, we added $969 million of orders to backlog during the year, including a 20-year, $250 million training system contract for Canada's CH-147 Chinook Helicopter. The average size of our next 25 contracts was approximately $16 million, which shows the diversity of our order backlog.

Included in the quarter was a contract with the Netherlands Ministry of Defence for a comprehensive academic training system for C-130 and KDC-10 aircraft. As well we entered a new six-year agreement to continue providing maintenance and support services at the German Army Aviation School in Bueckeburg.

Together our military segments generated 12 percent higher revenue this year at $809 million and an operating margin of approximately 17 percent.

[Pause]

In **New Core Markets** we made more progress during the year to further diversify CAE by leveraging our core capabilities of modelling, simulation and technical training into health care and mining. We entered a risk-sharing agreement with Investissement Québec in support of our research and development investments in these new areas. And we made some small acquisitions to develop our capabilities in the health care field by giving us subject experts, products and channels of distribution. Following the end of the year, we advanced our entry into the mining sector by acquiring Datamine.

With that, I'll now ask Alain to provide a more detailed look at our financials.

Alain Raquepas, Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

We concluded the year with a strong free cash flow performance. The ratio of our free cash flow over our net earnings was about 124 percent driven by a reversal in our non-cash working capital accounts in the fourth quarter and by good operating cash flow given the magnitude of the civil market downturn. This being said, we usually see an increase in working capital requirements at the start of every fiscal year and 2011 will be no exception. This is something that tends to improve as the year progresses.

Along the lines of liquidity, we successfully negotiated the refinancing of our main credit lines right after the year end. Our new facility is a committed three-year revolver of US$450 million dollars with an accordion feature to increase the amount up to US$650 million.

Last year we introduced measures to contend with the global recession and to size our business to the current and expected market conditions. We completed in the fourth quarter our restructuring program for which we incurred a total charge of $34.1 million for the year with the last $1.9 million in the fourth quarter. In addition to the restructuring, we introduced temporary measures including a salary freeze and furlough days which are now at their conclusion. As we move forward, we will have some additional costs as we reinstitute normal salary increases for employees and we do not foresee any more furlough days. These temporary measures amounted to about $12 million of savings last year.

From a **foreign exchange standpoint**, we saw significant moves in our main operating currencies – the US dollar, the euro and the British pound - and even more so since the start of the year. Revenue and income generated by our foreign subsidiaries is mostly self-hedged and accordingly we do not hedge currency translation exposure that results from Canadian dollar reporting. We have provided a currency sensitivity table in our annual MD&A which illustrates the approximate impact of a one cent Canadian change against these currencies. The continued strength of the Canadian dollar against its US counterpart and more recently against the euro and British pound will continue to present challenges.

We concluded the year with an **average tax rate** of 30% in the fourth quarter, which is not a bad number for planning purposes.

Our net interest expense was $26 million, which we expect will increase in fiscal 2011 by about 10 to 15%, commensurate with the cost of debt and our average expected credit usage.

Finally **CAPEX** last year was about $130 million, which is a good estimate of what we expect in fiscal 2011 as well. Maintenance CAPEX should continue to account for about $50 million of that total.

Thank you for your attention and back to you Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Alain.

We're encouraged by the continued positive signs in civil aerospace that reaffirm the worst of the downturn is now behind us and that the sector has *begun* to recover. In commercial air transport, growth in both passenger and cargo traffic has increased, resulting in higher loads, but aircraft capacity is increasing at a slower pace and it will likely still be a while before the sector fully recovers from that standpoint.

Global demand for air travel declined significantly in the recent downturn but we see it is already trending back toward long-term growth as global GDP recovers. Supporting this is the widely held view that the global fleet will need to double over the next two decades to meet travel demand. The possible effects of government credit issues make the pace of recovery in Europe in particular a bit more elusive but long-term demand drivers remain intact.

In **commercial aviation** the expected recovery in global passenger traffic likely explains in part the positive news from Boeing and Airbus that they will increase production for both wide-body and narrow-body aircraft. These increases will take some time to implement and then ultimately translate into higher demand for training products and services, but this is yet another positive sign that gives us reason for optimism.

In **business aviation**, aircraft utilization improved again in March so we feel pretty good the bottom is behind us in this segment as well, and that a modest recovery is already underway. Aircraft utilization is still off about 20 percent from its 2007 peak so full recovery will also take time and should be in line with corporate profit growth and equity market performance.

[Pause]

The improved market fundamentals that we're already seeing, lead us to expect to sell slightly more than 20 full-flight simulators by March 31, 2011. As usual, we'll provide updates to this estimate as the year progresses and opportunities become better defined. We have already announced two new sales -- a Challenger 605 simulator for Bombardier and a Dassault Falcon 900EX/2000EX for Emirates-CAE Flight Training.

Tough pricing and lower production volume resulting from last year's market conditions will continue to affect us this year as we work our way through our Civil/Simulation Products backlog. The margin in our Civil/Training and Services segment should provide some relief to offset the lower products margin -- especially since training services makes up two-thirds our total civil activity. That said, we're confident we can deliver an average annual operating margin in the mid-teens in our combined civil products and services segments throughout this period.

[Pause]

The outlook for our **combined military segments** continues to be encouraging. Our continued strong order intake and a book-to-sales ratio of 1.20 times add to our confidence that we can maintain 10 to 12 percent combined revenue growth and 15 percent operating margins.

In addition to our backlog, the underlying drivers for more simulation-based training in defence give us reason to believe our growth in this area is sustainable over the long term. Simulation-based training is far less expensive and is often even more effective than live training using real aircraft. Government budgetary pressures serve to make the cost savings potential of simulation-based training even more compelling. Our ability to work efficiently and effectively with governments and defence forces, and our focus as a pure play simulation and training company should lead to more possibilities for outsourcing of training and maintenance services. We have already demonstrated leadership in this area on a number of programs around the world, such as the Operational Training Systems Provider program in Canada and we see more opportunities on this front. In addition, our experience and past performance on key growth platforms – including helicopters such as the NH90 and MH-60R, transports such as the C-130J, lead-in fighter trainers such as the M-346, and maritime patrol aircraft such as the new P-8, help to underlie our growth assumptions for CAE's defence business.

That said, the timing of government contracts is never easy to predict but we have a healthy pipeline of market opportunities ahead of us which should continue to support our long term revenue growth outlook.

[Pause]

In our **New Core Markets** activities, we will continue to build our position. The health care and mining sectors meet our criteria for critical mission needs where the cost of failure is very high. And like our core civil and defence markets, customers in these sectors value the capabilities CAE can bring to bear to improve the safety and efficiency of their operations. Although the market potential in these areas is sufficiently large that they can one day contribute materially to CAE, our new core market initiatives are still very much in their infancy.

[Pause]

For **CAE overall**, we are increasingly optimistic about the future. Patience will still be required as the civil aerospace market works it way back from a profound downturn but recovery is certainly underway. Ultimately, we believe our combined Civil business can achieve the kind of performance it did during the last cycle. And we expect our defence business to continue to deliver good growth and profitability. Taken together we believe CAE is in a good position to prosper in the years ahead.

Thank you for your attention. We are now ready to take your questions. Andrew?

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 yourself 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.