CAE

REMARKS FOR CAE'S 2011 ANNUAL MEETING OF SHAREHOLDERS

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

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Marc Parent, President and Chief Executive Officer

Thank you Mr. Chairman.

Good morning ladies and gentlemen,

Our company achieved solid results in fiscal 2011 as well as for the first quarter of fiscal 2012.

We are growing revenue, earnings and order backlog, while maintaining a very sound financial position. This is the basis for long-term success.

This success rests on four important factors:

- our world-class **innovation**,
- our **focus** on modelling and simulation,
- our **balanced revenue base**,
- and our **global footprint** of customers, operational capacity and people .

The first one, **innovation**. We invest 10% of our revenue in R&D every year. We strive for breakthrough technologies and we constantly refine and enhance our existing products and services and 2011 was no exception.

The expertise that we are building pays off. In fiscal 2011, we won **<u>ALL</u>** of the competed contracts to develop and manufacture the <u>first</u> simulators for new civil aircrafts. You can see them on the screen: the Airbus A350, the Mitsubishi Regional Jet, the ATR-600 and the Bombardier Learjet 85.

In the military market we are developing the world's first simulator for the maritime patrol aircraft, the Boeing P-8. And at the Paris Air Show, we launched the world's first simulator for the Hawker Beechcraft AT-6.

In total, since our company's founding, we have designed simulators for more than 130 civil and military aircraft types. This is one of the reasons we are a trusted <u>partner</u> for the world's original equipment manufacturers.

(Pause)

The second key to our success is **our focus on modelling and simulation**.

This focus on our key competencies has helped us become world leaders in all our civil and military segments. This outstanding position allows us to grow and build value for our shareholders.

Another success factor is **the balance and diversification we have in our business mix.**

- Balance in our geographic revenue distribution -- with one third coming from the U.S., one third from Europe and one third from the rest of the world.

- Balance between our two core operating segments -- with about half of our revenue from civil and about half from defence.

- Balance between products and services – with around 50% of revenue from products and 50% from services.

This balance and diversification allow us to offset a difficult environment in one segment or geography with a sustained performance in the rest of the business.

The fourth factor driving our performance – and one that is becoming more strategic with time – is **our global presence**. No one in our industry has such a global network of operations, offices and people.

That is why the theme of this meeting is **Global First**.

We have been doing business in North America and Europe for more than 60 years. In emerging markets, we have been the first movers in our industry:

- We have a 40-year history of selling products in India.
- More than 30 years in the Middle East, Latin America and Southeast Asia.
- And more than 20 years in China.

We have gone from selling globally to being global. Today, we have a team of over 7,500 dedicated employees of diverse cultures based in 25 countries and serving customers in 150 countries.

Having a local presence has enabled us to develop strong relationships with hundreds of customers and establish successful partnerships and alliances in many of these markets.

In all of these regions, being **Global First** gives CAE a distinct advantage.

As an example, in commercial aviation, in the first quarter of this year, we recorded 11 simulator sales, a very good start to the year. Two-thirds of these sales were in emerging markets for customers such as Aeroflot of Russia, Garuda of Indonesia and Zhuhai Flight Training, our joint venture in China.

And in the commercial training services business, we added four simulators in Brazil and Chile and we are opening a new training location in Peru. As well, we renewed our long-term training agreements with TAM Airlines, the largest carrier in Brazil, and LAN Airlines, the largest airline in Chile.

In China, we expanded our relationship with China's largest airline, China Southern Airlines, by forming a second joint venture for undergraduate pilot training in Perth, Australia.

In the first quarter, we continued our global expansion and announced three pivotal joint ventures: with Air Asia for a training centre in Kuala Lumpur, with InterGlobe for a centre in Delhi and with Mitsui for a training centre in Japan.

In business aviation, we are doubling our training footprint with four new locations, including Amsterdam, Mexico, Sao Paolo and a location to be announced in Asia.

And in helicopter aviation, we made a breakthrough this year when CHC Helicopter, the largest offshore oil and gas operator in the world, and Lider, the largest offshore operator in Brazil, turned to CAE for all their training needs.

(PAUSE)

But civil aviation is only part of our story. Over recent years, we have steadily built our Defence segment into a major provider of simulation products and services to the world's defence forces.

Today, working with the defence forces of more than 50 nations, we are the leader in military simulation-based training for pilots and have more than 25% market share. In fiscal 2011, for the third year in a row we had an order intake of about one billion dollars, and key contract wins with the defence forces of 24 nations.

The largest was a 10-year $250 million prime contract to conduct aircrew training on the KC-135 tanker aircraft for the U.S. Air Force. This positions us well as military forces around the world are looking for industry partners to conduct military pilot training, in an effort to reduce training costs.

In the first quarter, we won a contract from the United States Navy to design and manufacture two MH-60R Seahawk helicopter trainers and a letter subcontract by Boeing to provide maintenance and support services for M-346 full-mission simulators being developed for an international customer.

We also received an order from Malaysia's Professional Way to build an AW139 helicopter full-flight simulator, which it will use to support AgustaWestland's new training centre in Asia.

And we are continuing to expand our core beyond air, into the land domain. For example, we were awarded a contract for five Abrams tank maintenance trainers for the United States Army, and we teamed with Force Protection to compete for the Canadian Forces Tactical Armoured Patrol Vehicle project.

Finally, in Unmanned Aerial Systems, we announced an exclusive teaming agreement with General Atomics to offer the Predator to meet the needs of the Canadian Forces.

(PAUSE)

Beyond our Civil and Defence segments, we are continuing to diversify CAE for long-term sustainable growth by leveraging our core capabilities of modelling, simulation and training into New Core Markets.

With healthcare and mining revenues of $38 million in fiscal 2011, we are making notable inroads in both markets with sales around the world.

In CAE Mining, we added 175 customer sites across 50 countries.

In CAE Healthcare, we launched our CAE Caesar trauma patient simulator that is displayed just outside this room. During the year, we sold more than 80 of our surgical simulators and more than 50 ultrasound simulators to healthcare institutions like the Mayo Clinic and Harvard Medical.

Healthcare and Mining continued to make progress in the first quarter. We are in the investment stage but we expect strong growth in the future.

I will now invite Stéphane Lefebvre, our Chief Financial Officer, to review the financial results for fiscal 2011 and the first quarter of fiscal 2012. Stéphane has worked in every sector of activity of CAE since 1997. Most recently he was VP, Finance Military and New Core Markets. He became CFO in May of this year. After his remarks, I will discuss the way forward for our company.

Stephane Lefebvre, Vice President, Finance and CFO

Thank you Marc.

Good morning, ladies and gentlemen.

Let us first look briefly at some financial highlights of fiscal 2011.

Our total revenue increased to $1.63 billion and net earnings reached $170 million for the year. While the high value of the Canadian dollar was a challenge, we had a strong order intake and ended the year with a record backlog of $3.4 billion.

In Civil, excluding Healthcare and Mining, our revenue reached $726 million and we delivered $118 million of operating income for an annual margin of 16.2%. We booked orders with an expected value of $878 million.

In Defence, our military segments generated revenue of $865 million with a combined segment operating income of $148 million for an operating margin of 17.1%. We received total orders of $939 million.

Capital expenditures were $115 million during the year, with $77 million for growth and $38 million for maintenance. As the civil aviation market continues to recover and expand, we will invest more to keep pace with the growth of our customers. We concluded the year with a free cash flow of $147 million and our net debt to total capital was 30%.

(PAUSE).

Let's now look at our fiscal 2012 first quarter results.

Revenue was $428 million, or 17% higher than in the first quarter last year, a strong start to the year. Net earnings were up 16% to $43 million or $0.17 per share. Last year, net earnings were 14 cents per share.

Our good performance was led by our civil business, where we are continuing to benefit from more favourable conditions in commercial aerospace combined with our strong position in rapidly growing emerging markets. The Civil operating margin was 21.5%, with revenues totalling $210 million, reflecting mainly the strong demand for our solutions globally. Combined Civil orders during the quarter totalled $230 million for a book-to-sales ratio of 1.09x.

Defence market conditions are more challenging with delays and reductions in government spending in Continental Europe, the U.K. and the U.S.

Despite these situations, we received orders during the quarter valued at $210 million with a book to sales ratio of 1.02x. Revenue was $206 million, up 14% compared to last year, with a margin of 14.2%.

Our Healthcare and Mining businesses posted a 48 percent increase in revenue, reaching $11.4 million. We had an operating loss of $2.6 million as we continued to invest in creating a larger business for the future.

Free cash flow was negative $88.5 million, primarily because of lower cash provided by operating activities and negative movements this quarter over last in our non-cash working capital. We normally see significant negative changes in non-cash working capital in the first quarter due to the nature of our operations and we expect an improvement over the course of the year.

Capital expenditures were $30.5 million during the quarter, with $19.6 million for growth initiatives and the balance for maintenance.

In summary, CAE is in good financial health. We have an excellent backlog and good results overall.

I thank you for your attention. I now turn over the podium to our CEO, Marc Parent.

Marc Parent, President and Chief Executive Officer

Thank you Stephane,

Looking ahead into the rest of this year and beyond, with both our Civil and Defence segments well-positioned in their respective markets, we continue to be confident about the future.

In the past, CAE has been successful in navigating volatile market conditions by being agile, diversified and financially prudent. We plan on using the same approach. We have a strong balance sheet, a solid order backlog in both our military and civil markets, and our simulation solutions offer a way for customers to reduce training costs while maintaining readiness, which gives us confidence in the long term.

In commercial aviation, passenger demand and airline capacity have continued to increase. Last year, during the Farnborough Air Show, the order for aircraft was two and a half times higher than the previous year. And this year, during the Paris Air Show, the momentum continued with more than twice the number of firm orders announced compared to last year. These orders are mostly from airlines in the Asia Pacific region, where we have a leadership position. Just as an example, our partner AirAsia ordered 200 A320 jets in Paris.

As well, last month, American Airlines ordered 460 narrow body aircraft -- the largest commercial aircraft order in history.

These orders have led both Airbus and Boeing to raise their production rates to unprecedented levels.

Looking further ahead, the future for commercial aviation training looks bright. The number of passengers increased by an average of 5% per year for the last 20 years and is expected to continue at very similar rates for the next 20. This means, by 2020 the global fleet of aircraft would more than double, creating a need for more than 23,000 new pilots every year, and even more maintenance technicians.

In business aviation, the market has improved but a considerable upside remains for it to recover to the pre-2008 market peak. We expect continued growth in business aviation and, as usual, corporate profitability will be a key demand driver. We are well positioned, particularly overseas where more than half of all aircraft orders and deliveries are expected.

As Stéphane mentioned, in Defence, governments are facing budget pressures, mainly in the U.S and Europe, and this is having an impact on both the timing and scale of spending decisions. However, we are well positioned on highly relevant platforms including helicopters, transport aircraft, tankers, maritime patrol aircraft and jet trainers.

As well, not only do we have an important footprint in the United States and Europe – the largest defence markets – but we also have a well-established presence in other key global markets that are growing and where we are addressing new opportunities.

Based on what we see today, we continue to expect good order intake this year to support the continued growth of our defence business.

Over the longer term, the good news is that our Defence customers are telling us they intend to move more training hours from aircraft to simulators to maintain readiness at lower cost.

(PAUSE)

In conclusion,

- We have a strong company and we are growing
- Our Civil business is benefiting from a civil aviation market recovery, and growth in emerging markets;

- Market conditions are more difficult for Defence however we have a healthy backlog, we are well positioned in key growth defence markets;
- Our Healthcare and Mining businesses are still at their beginnings but we are building what will become one day material and profitable businesses for CAE.

Overall, we remain confident that CAE will achieve good growth in the period ahead. We are diversified, strong and agile. While there is no shortage of macroeconomic uncertainty which we continue to monitor closely, we have a strong management team and a track record of adapting to change. We have the benefit of a solid order backlog and good exposure in the growth markets.

Our team is doing a great job in seizing opportunities to strengthen our competitive position. We are listening to our customers and responding efficiently to their needs. I would like to thank all CAE team members, our 7,500 employees, for their winning attitude, their entrepreneurship, and their contribution to our strong performance. I also want to thank them for their involvement either financially or personally in their community. I am extremely proud to lead such a dedicated group of people who continue to keep us **Global First**.

Finally, I want to thank the Board for its continued counsel and support and you, our shareholders, for your confidence.

Thank you.