CAE

REMARKS FOR CAE'S FOURTH-QUARTER AND FULL-FISCAL YEAR 2012

May 23, 2012

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, 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, 2011. 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 23, 2012, 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 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 members of the media.

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.

I'll first discuss some highlights from the quarter and the full-year, and then Stephane will provide a bit more detail about our results. I'll come back at the end to talk about our view of the way forward.

I'm pleased with our performance in the fourth quarter and full-year. On a consolidated basis, we delivered double-digit revenue and earnings growth for the year with solid margins combined with a strong order intake. Our backlog reached a record $3.7 billion and we generated $174 million of free cash flow.

In **Civil,** we benefited from our strong market position and healthy demand in all regions. Total civil revenue increased nine percent for the quarter and 16 percent for the year and operating margins exceeded 20 percent in both periods.

We maintained our market leadership with seven additional orders for full-flight simulators to reach a total of 37 sales during the year. In Civil training and services, new agreements signed during the quarter are expected to generate $214 million in future revenue. These include a long term recurring training services deal with Vueling Airlines, the anchor customer for our new centre in Barcelona Spain. We also signed contracts with AirAsia and Vietnam Airlines to train new pilot cadets through our ab intio flight school programs.

Another measure of our success in the Civil market is the $1.1 billion in new orders booked for the year, a new record for CAE, giving us a book-to-sales ratio of 1.29 times. For the quarter, we recorded $284 million in orders for a ratio of 1.32 times.

[PAUSE]

Turning to our **Defence business**, the fourth quarter was much stronger, as we had anticipated, and we achieved four percent revenue growth for both the year and the quarter while maintaining 15-percent-plus operating margins.

In the US, we booked orders during the fourth quarter for five C-130 Hercules aircraft simulators and a UH-72A Lakota helicopter training device for the US Army. We received contracts to upgrade the US Air Force KC-135 tanker aircraft simulators, and we won a contract from the US Army involving upgrades for the High Mobility Artillery Rocket System maintenance training system.

In emerging markets, we booked an order for tank simulators in Asia and we formed a venture with the government of Brunei to develop the CAE Brunei Multi-Purpose Training Centre. Within that venture, CAE was awarded $170 million in initial contracts for long term training services on helicopters and fixed-wing aircraft. This is a good example of government outsourcing of high-end professional services and the tendency toward increased use of modelling and simulation for training and analysis.

While the year was challenging for our Defence business in terms of predicting the timing of orders, we were successful with a solid $960 million in new orders for a book-to-sales ratio of 1.07 times. This includes a record level of US defence contracts and a strong increase in activity in emerging markets. For the quarter we recorded $420 million in orders for a ratio of 1.57 times. At the end of the year, our total backlog for the military segment stood at $2.19 billion.

[PAUSE]

In our **New Core Markets,** we continued to make good progress aligning our resources and structure for future growth, including the integration of acquisitions. Revenue was $24 million for the quarter and $83 million for the year, which is more than double last year.

CAE Mining sold software solutions to Vale and Goldcorp during the quarter and received a contract to provide a workforce development strategy to the University of Saskatchewan. During the year, we broadened our footprint with new offices in Australia and Western Canada and completed the development of a mining simulator, called CAE Terra, which leverages high-fidelity aircraft simulation standards and is intended for training operators of large haul trucks and electric shovels.

CAE Healthcare significantly expanded its market reach through the acquisition of Medical Education Technologies, gaining a direct sales force in the U.S., close customer relationships, innovative marketing initiatives and worldwide distributor network.

During the year we sold a range of simulator products and centre management systems to customers located in the US, Europe, South America, the Middle East and Australia.

Stephane will now take you through the financials.

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

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the quarter was up 9 percent year-over-year at $506.7 million and net income attributable to equity holders was $53.2 million or 21 cents per share. Operating profit in the quarter was $88.7 million for a net operating margin of 17.5 percent.

For the year, consolidated revenue was up 12 percent at $1.82 billion and net income attributable to equity holders was $180.3 million or 70 cents per share. Operating profit in the year was $302.1 million for a net operating margin of 16.6 percent.

We had good cash flow performance in the quarter with free cash flow of $106.7 million. This was mainly the result of favourable changes in our non-cash working capital accounts as we usually expect in CAE's second half. For the year we generated $173.7 million of free cash flow, for a net income to cash conversion of 96 percent.

Net debt was $534.3 million as at March 31, 2012 compared with $593.9 million last quarter. The net debt reduction of $59.6 million was mainly due to increased cash before proceeds and repayments of long-term debt.

Income taxes for the quarter were $18.4 million for an effective tax rate of 26%, which compares to 27% last year. The lower rate reflects a change in the income mix from various jurisdictions.

Capital expenditures were $44.4 million this quarter, including $36.1 million to support growth initiatives and the balance for maintenance. For the year, capital expenditures totalled $165.7 million, including $116.8 million for growth.

Now looking at our segmented financial performance...

In our combined **Civil segments,** fourth quarter revenue increased nine percent year over year, reaching $215.4 million. For the year, revenue grew by 16 percent to $840.9 million. Our combined Civil operating income for the quarter was up 28 percent to $44.3 million, for an operating margin of 20.6 percent. For the year, operating income reached $173.8 million for a margin of 20.7 percent. Utilization in our training centres for the quarter increased to 75 percent from 73 percent last quarter and 74 percent in Q4 last year. The utilization for the year as a whole increased to 73 percent from 70 percent last year. Our trailing twelve-month revenue per simulator increased to $3.57 million from $3.46 million last year.

[PAUSE]

In our combined **Military** segments, fourth quarter revenue was four percent higher year over year, at $267.1 million, and also up 4 percent for the year at $897.3 million. We generated a 17.1 percent operating margin in the fourth quarter, and 15.8 percent for the year.

[PAUSE]

In **New Core Markets,** fourth quarter revenue increased 118 percent year over year to $24.2 million. Operating loss was $1.2 million in the quarter. And for the year, revenue reached $83 million and operating loss was $13.8 million. This included the integration costs associated with the METI acquisition in the second quarter.

With that, I will turn the call back over to Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Fiscal 2012 was a good year for CAE with record performance in a number of areas. We made significant moves in all of our businesses to further strengthen their positioning and growth potential. Our strong cash flow, record backlog, and strong pipeline of opportunities give us a solid start to the new fiscal year and continued confidence in the way forward.

[PAUSE]

In **Civil** aviation, the acquisition of Oxford Aviation Academy accelerates the progression of our long-term strategy. It strengthens CAE's leadership position in Civil with the addition of two of the industry's foremost brands in Ab-Initio flight training and crew sourcing services. With this move, we have a broader footprint, increased capacity and an even wider set of capabilities with which to differentiate CAE in the market.

Civil aerospace market fundamentals are strong and we believe we've increased our leverage to the civil cycle at an opportune time. With the projected doubling of the global aircraft fleet over the next 15-20 years and a record commercial OEM backlog of more than 9,500 aircraft, we feel very good about CAE's prospects for continued growth.

For the new fiscal year which began in April, we are looking to capitalize on our broader training footprint resulting from the initiatives completed or announced last year while ramping up expected synergies from the integration of Oxford, a process that will take 12 to 15 months. Despite the economic difficulties in Southern Europe and the high cost of jet fuel, we see continued strong demand for our civil training and services as a result of a robust commercial market, and the potential of a broader recovery in business aviation training. For our Civil business, we expect sustained growth with solid margins.

In **defence**, the market continues to be challenging in terms of predicting the timing of orders but we remain confident in CAE's outlook. Through our success last year, we have demonstrated the strength of CAE's position in terms of platform exposure, global footprint; and the fundamental value of our simulation-based solutions. In fact, CAE is among a select few defence companies that continued to show topline growth and good profitability last year. We are looking to sustain our momentum in the current fiscal year on the strength of a solid backlog, a large opportunity pipeline and proactive measures to address new market realities.

As you have seen from our orders this year, our business is increasingly coming from high growth regions like Asia and the Middle East, which are steadily modernizing their forces. At the same time, we are seeing lower activity in Europe, where force reductions are continuing. We are taking measures to refocus our resources and capabilities in response to this change in the defence market. As a result, CAE's current workforce of 8,000 is being reduced by approximately 300 employees, most of whom have already been advised. We regret the hardship this will cause to those affected and we intend to do what we can to assist them. In relation to this activity, we estimate a total restructuring expense of approximately $25 million to be recorded mainly in the first half of fiscal year 2013.

[PAUSE]

Now turning to the **New Core Markets**, we're making excellent progress we're well on our way to meeting our goal of to have a material business that leverages our core competencies outside our core. We're confident that we will turn the corner to profitability this year and I continue to expect New Core Markets to become as large in the years ahead as any of our four other segments today.

To conclude, our business has performed well in the past year and we're taking steps to get the most out of a strong civil aviation market and to ensure our continued success in defence. With the acquisition of Oxford, we've increased our leverage to a strong market at the right time. And in defence, we offer customers a unique value proposition. With the proactive measures we're taking, we can continue to grow and generate sector-leading margins.

Lastly, I would like to recognize the contributions of CAE's employees who are the very best professionals in our industry, and to thank them for their continued hard work and dedication. I would also like to welcome the Oxford employees who are a great addition to our team.

[PAUSE]

Speaking of great people…

Before we take your questions, I'd like to comment on the leadership succession in our military business. We announced today that Martin Gagné is retiring from his position as Military Group President and staying on as a consultant in order to ensure a smooth transition and to continue to provide support on a number of strategic initiatives. Since I took over the Military business in 2006 I worked very closely with Martin and I am sad to see him go. He is a solid leader with a strong track record. I wish to thank him for his 16 years of devoted service to CAE and congratulate him for his many successes. At the same time, I am very pleased to announce the appointment of Gene Colabatistto as the new Military Group President. He joins us from SAIC, where he was Senior Vice President, responsible for their Intelligence, Surveillance and Reconnaissance business. He brings more than 25 years' experience in a number of leadership positions within the industry and the military. Prior to his corporate career; he served in the United States Marine Corps. I am very confident that Gene brings a unique skill set to CAE that will help us to continue to grow our presence in our core military market as well as to develop our position in adjacent markets.

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