CAE

REMARKS FOR CAE'S FIRST-QUARTER FISCAL YEAR 2013

August 9, 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

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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. 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, 2012. 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, August 9, 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 go through some of the highlights of the quarter, and then Stephane will provide more details about our results. I'll come back at the end to talk about our outlook and I'll also use this opportunity to make some comments about our strategy.

We made good progress this quarter to strengthen our position and to adapt our business to market conditions. Our results reflect the ongoing efforts associated with the implementation of our restructuring program and the acquisition and integration of Oxford Aviation Academy. On a consolidated basis, we had double-digit revenue growth over last year and before taking into account integration and restructuring costs, we had higher net income as well. We took in $400 million of new orders and our backlog reached a $3.9 billion.

In **Civil,** we continued to see good demand for our products and services in all regions. We announced seven full-flight simulator orders in the quarter, and another three since then, giving us to 10 year to date. Also during the quarter, we obtained training services contracts expected to generate $132 million in future revenue. We signed a multi-year agreement with our new JV customer, Cebu Pacific Air, in the Philippines, and we signed long term contract extensions with existing customers, SilkAir in Singapore and KLM Flight Academy to train Ab-Initio cadets at the CAE Oxford Aviation Academy.

We received $235 million in combined civil segment orders this quarter representing a book-to-sales ratio of 0.94 times. For the last 12 months the ratio was 1.24 times.

We've started to integrate Oxford's operations with CAE's during the quarter and I'm pleased to report that we've made some excellent progress to identify synergies and we've begun to realize them. I'll talk more about this in my outlook.

Turning to our **Defence business**, our first quarter performance reflected the late timing of orders we booked last fiscal year. Even though we had record order intake in the US last year and some big wins in the emerging markets, much of it came late in the fourth quarter. This means that like last year, revenue and earnings this year are again being skewed toward the back half. As we've seen in the past, the Military business is normally lumpy from quarter to quarter and so it's generally more meaningful to evaluate performance on a 12 month basis.

We booked orders during the quarter for a suite of Advanced Jet Trainers simulators and we received a contract to perform upgrades on the U.S. Navy's MH-60S and MH-60R helicopter maintenance trainers. We also got an order from the U.S. Air Force to upgrade a C-5 Galaxy weapons systems trainer. In services, we received a contract to continue providing in-service support for the Canadian Forces CF-18 aircraft, and a contract to provide training support services for the Royal Australian Air Force on C-130H and C-130J aircraft.

We received $146 million in combined military segment orders this quarter representing a book-to-sales ratio of 0.72x. For the last 12 months the ratio was one-times sales.

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In our **New Core Markets,** we generated $26 million of revenue for the quarter and as we expected, we have begun to generate a profit.

We continued to gain traction penetrating global markets with our innovative products and services.

In **CAE Mining**, we sold software solutions to customers including Vale, Polymetal International and Somincor during the quarter and we released new applications and updates to our software and hardware solutions.

In **CAE Healthcare**, we sold solutions within our range of simulator products and centre management systems to defence customers in the U.S. and U.K., and to universities and teaching hospitals in the U.S., Mexico, Slovenia, Poland, UAE and Japan.

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 12 percent year-over-year at $480.1 million and net income attributable to equity holders was $21.3 million or 8 cents per share. We had $32 million (or $25.4 million after tax) of costs during the quarter related to the restructuring of our defence business and the integration and acquisition of Oxford Aviation Academy. Excluding these costs, net income attributable to equity holders was $46.7 million or 18 cents per share.

Our restructuring program is going as planned, with $21.2 million of costs related mainly to severances included in the quarter's net income. We are tracking our $25 million total estimated cost with most of the remainder to be incurred in the second quarter.

Our net income also includes $10.8 million of costs for the restructuring, integration and acquisition of Oxford. We had estimated a total of $18 to $20 million and we're tracking to that range.

Income taxes this quarter were $6.2 million representing an effective tax rate of 22%, compared to 24% last year. The lower rate is mainly due to lower income in higher tax jurisdictions, which was further accentuated by our restructuring measures in Europe.

Net debt was $988.9 million as at June 30, 2012 compared with $534.3 million last quarter. The increase was mainly due to the financing of our acquisition of Oxford and higher investment in our non-cash working capital, which normally occurs in the first quarter of the year and tends to partially reverse in the second half.

On the subject of financing, I am pleased to report that we recently amended our revolving unsecured term credit facilities with more favourable interest rates, and we extended the maturity date from April 2015 to April 2017. I believe this is a good reflection of the investment quality of CAE's business. The available facility amount was increased from $450 million to $550 million so that we could refinance $100 million of the 2-year banking facility we put in place specifically for the Oxford acquisition.

Net Debt to EBITDA stood at 2.4 times as of the end of the quarter, which includes relatively little EBITDA from Oxford. On a proforma basis, net debt to EBITDA is approximately 2.2 times. By both measures, we are well within an investment grade profile, and since the Oxford acquisition gives CAE an even greater proportion of recurring revenue and cash flows, a somewhat higher debt level is appropriate.

Capital expenditures totalled $46.5 million this quarter, including $34.3 million for growth and $12.2 million for maintenance. We are continuing to invest selectively—only where we have secured demand. We have several good investment opportunities in our core business that are being driven by specific customers in high growth markets. For the vast majority of the CAPEX plan for Civil this year involves keeping pace with the growth of our JV partners like China Southern and Interglobe and anchor customers like TAM with long term service agreements. Another point of interest is that nearly two-thirds of our planned investments are for growth and emerging markets. With the synergies we will derive from the acquisition of Oxford, we expect total capital expenditures for the company to be in the range of $150 million, which is lower than the $166 million invested last year,

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Now looking at our segmented financial performance...

In our combined Civil segments, first quarter revenue increased 20 percent year over year, reaching $251.2 million. Combined Civil operating income was up six percent to $47.7 million, for an operating margin of 19 percent. The last six weeks of the quarter included performance from Oxford, before which our operating margin would have been 21.4%. Utilization for the quarter was 77 percent, up from 75 percent last quarter.

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In our combined **Military** segments, first quarter revenue was two percent lower year over year, at $202.8 million, and we generated a 14.0 percent operating margin as a result of the lower volume. This is a very similar situation to what we experienced last year and we again expect volume to ramp up in the second half.

In **New Core Markets,** first quarter revenue increased 129 percent year over year to $26.1 million and we moved into the black with a small operating profit of $700 thousand.

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

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

The start of fiscal year 2013 is progressing the way we had expected. Our civil business continues to show the strength of our global franchise, and in defence we expect to see orders, revenue, earnings and margins—all ramp up toward the back half of the year. We expect continued double-digit growth in Civil and higher margins in the second half as we continue the integration of Oxford. The order pipeline remains robust and we continue to expect civil full-flight simulator orders in the mid-30s by March 31st. In military, we also have a large pipeline of order opportunities, although predicting the timing of contract awards continues to be a challenge. Nevertheless, we again expect modest growth in Military with 15 percent-plus average margins this year. All in all, we remain confident in the way forward.

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As you will have read in this morning's release, CAE has increased its quarterly dividend for the second time in as many years—this time to five cents per share. This is an expression of the Board's and management's confidence in CAE's business model, which involves more recurring revenue and cash flows.

The dividend increase, as well as our recent M&A activity, all fit within our overall capital allocation strategy and the decisions we make are oriented to short, medium and long term returns.

The priorities that come out of our capital allocation strategy are meant to balance the needs of our customers by keeping pace with their growth, and the needs of our shareholders with respect to current returns and long term capital appreciation.

We intend to continue to use free cash flow to fund growth CAPEX, but as Stephane has said, only where we have already secured demand and have clear visibility to our target return on capital employed.

Beyond funding growth, our next priority is to keep our balance sheet strong to maintain an investment grade profile.

Next, we will continue to balance shareholder needs for current returns and long term capital appreciation. As our business continues to grow, CAE's Board of Directors can again consider options like dividends to optimize that balance.

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From a strategic standpoint, following our acquisitions of METI in Healthcare last year and Oxford in Civil this year, we have further solidified two of our three very strong business platforms. With no further material acquisition plans in the near term, we are focussed on the integration and execution of our business.

We seeded **New Core Markets** with long-term investment capital to provide CAE with future growth avenues in emerging industries beyond the core of aviation. With METI, we have the right platform in the healthcare simulation market and we are now at a size where we can effectively leverage CAE's core competencies to create a much larger business in the years ahead. We'll still look at acquisition opportunities in this area to develop our portfolio of products and capabilities, but anything we consider will be much smaller in size.

In **Civil**, the acquisition of Oxford Aviation Academy presented us with an opportunity to accelerate our short to medium term strategy and we have the right business platform to maintain our leadership and answer the growing needs of our customers. From a market stand-point, we were already number one in commercial aviation training and since acquiring Oxford, the third largest, we are even stronger. In a market that seems to be consolidating quite rapidly due to its favourable operating characteristics and exposure to the secular growth in civil aviation, we at CAE believe the position we have built up over the last decade represents the best in class assets for our customers and stakeholders.

The acquisition of Oxford Aviation Academy gives us more recurring revenue and greater cash flow predictability. It will result in more synergies than we originally expected and it will be more accretive sooner as a result. We indicated an expected $15 million in annual savings and with the benefit of a closer analysis since taking ownership, we now have visibility to more than $22 million of annual savings. We also see more opportunities in terms of revenue and CAPEX synergies. For example, the acquisition has alleviated some of the investments we would have had to make to keep pace with the growth of our customers.

We're also very encouraged by the positive response we've seen already from existing customers vis-à-vis their ability to source more comprehensive solutions from CAE.

Just this past month, U.K.-based, EasyJet selected CAE as a preferred training supplier and agreed a new long-term, $60 million solutions deal with CAE. We are leveraging the combination of both CAE's and Oxford's resources to provide EasyJet with simulation-based training, Ab-Initio pilot training and crew sourcing. To me, this is a perfect example of how well CAE is now differentiated in the market with its comprehensive portfolio of training services.

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In **defence**, the market continues to be challenging in terms of predicting the timing of orders and we recognize the uncertainties around U.S. government budget process and European force structures that will likely persist for some time. Nevertheless, we remain committed to the business and we are optimistic given the strength of CAE's position in terms of platform exposure, global footprint; and the fundamental value of our simulation-based solutions. Our restructuring activities this quarter are helping us to manage our costs in line with our backlog and expected orders – specifically in Europe. We continue to see higher levels of activity in the emerging markets with programs like our recent deal in Brunei for a Multi-Purpose Training Centre. And in the U.S., the pipeline continues to look good notwithstanding the cloudy environment. CAE is by no means a proxy for top line U.S. defence spending and we continue to see good opportunities within our defence niche. Even within the current context, The U.S. has continued to enter procurements that bode well for our industry. For example, the U.S. Navy last month ordered more than 250 additional Seahawk helicopters, which is a key platform for CAE.

We continue to see evidence that the aircraft platforms that matter most to CAE such as the Seahawk are durable. The US military has said that it expects two of the biggest export platforms over the next decade to be the MH-60R helicopter and the C-130J transport—both of which CAE leads in terms of simulation-based training solutions.

The takeaway is that there are things in the period ahead that quite frankly nobody really can predict, and while budgets may be constrained, they're still very large. What's most important is where *specifically* and when governments ultimately decide to appropriate funds. Timing is the variable that remains difficult to predict but we remain encouraged by our position. CAE is at the intersection of both the most efficient way to train, and aircraft platforms with long legs which continue to be funded in this environment.

Finally, in the **New Core Markets**, we're meeting the milestones we set for ourselves with our first profitable quarter now under our belt and we expect to continue seeing profitability improve as scale increases.

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To conclude, CAE's growth opportunities remain robust and with our three best-in-class business platforms in Civil, Military and New Core Markets well established, we believe we can strike a balance for all constituents with respect to growth, income, capital appreciation, commitment and service.

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 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.