REMARKS FOR CAE’S FOURTH-QUARTER AND FULL FISCAL YEAR 2013

May 16, 2013

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 our fourth quarter fiscal 2013 MD&A and in 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, May 16, 2013, 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.

As usual, I'll first go through some of the highlights of the quarter and update our progress against some of the strategic imperatives we set for the year and then Stephane will then provide a detailed look at our segmented results, and I'll come back at the end to talk about the way forward.

Our results for the quarter and the year as a whole reflected the integration of acquisitions in Civil and New Core Markets, as well as the restructuring actions we took in Civil and in Military. These activities caused some noise for us in terms of our results, but we met operational and strategic milestones that position us well for the year ahead and for the longer term.

We maintained our leadership position overall, and although orders continued to be slower than we'd like in Military, we've done very well in Civil. On a combined basis, our backlog exceeded $4 billion for the first time in CAE's history, and a high proportion of that involves recurring services.

Looking specifically at Civil, we acquired Oxford Aviation Academy to strengthen our leadership position in training by giving us a broader portfolio of solutions to offer customers. The integration of Oxford has not been without its challenges, but we made very good progress, having already realized half the targeted $22 million of cost synergies. In view of the consolidation in the civil training market, Oxford was strategically important for CAE to acquire. We've been focussed on getting profitability and return on capital up by eliminating cost overlaps and taking steps to improve asset utilization. During the year we took what we believe to be the best of Oxford's and CAE's people and reduced our combined headcount by 231 employees. As well, we closed and consolidated three redundant training locations. We closed our Heathrow location in the UK, Evora in Portugal, and one of our two locations in Brussels. We've also decided to consolidate two of our U.S. Ab Initio flight schools which are located in Phoenix. Across the total network, we've relocated 13 simulators and seven more are in the process of being moved.

These actions are already translating into better results with nearly $13 million of segment operating income generated by Oxford operations since we bought the company. This is noteworthy since it was near breakeven when we took it over. In terms of revenue synergies, they’ve really only just begun to accrue and will continue to build over the longer term. Already we’ve attracted an increased share of wallet from our existing customers who have embraced CAE’s wider solutions offering, involving crew resourcing services as well as Ab Initio pilot training.

Civil aviation training is a regulated market, and overall, we are very pleased with our progress to enhance our position. With a book to sales ratio of 2.26 times in the fourth quarter and 1.21 for the year, we’ve done well to build up our Civil training backlog.

In Civil products we had a good year as well, meeting our mid-30s full-flight simulator sales target. We sold 10 in the fourth quarter and 35 for the year as a whole. CAE’s brand in simulation-based training is backed by nearly seven decades of innovation and we strive to be our customers’ partner of choice. In a highly competitive market, we’ve maintained our leading position.

Now turning to Military, despite what has continued to be a challenging environment from an order standpoint, we continued to book orders around the globe involving enduring aircraft platforms like the C130-J Hercules transport and MH-60R Seahawk helicopter. Orders in the quarter were made up of simulator products and updates in support of the U.S. Navy and Air Force, the Royal Australian Navy, and the Israeli Air Force. In Military Training and Services we won contracts to provide a range of maintenance and support services for customers including NATO, the U.S. Air Force, the German Armed Forces, and the Taiwanese Air Force.

Also during the quarter, we were awarded an additional contract, as part of the KC-135 Aircrew Training Systems program, to provide operations and maintenance support involving the aircraft’s boom operator trainers.

Book to sales in Military was 0.95 times in the quarter and 0.92 times for the year, which is lower than we’d like, but demonstrates the resiliency of our business, even when faced with widespread delays in procurements.

From an operations standpoint, we've made good progress in Military to adapt to the new realities of the European defence market. During the year we reduced our workforce–mainly in Germany—and the balance of layoffs, which have already been provisioned, will be carried out in the second half of this fiscal year.

In New Core Markets, we also did what we said we expected to do by delivering over $100 million of revenue - $112 million to be exact – and we achieved profitability. We developed new products in both healthcare and mining to expand our portfolio, and we've begun to see some synergies with our core Military and Civil businesses in terms of technology and market reach.

During the quarter, in CAE Healthcare, we continued to make good progress penetrating global markets with sales of our surgical, patient, and ultrasound simulators, as well as centre management systems to customers in Canada, the U.S., Australia, India and Saudi Arabia.

In CAE Mining, we sold our mine planning software to customers in China and Russia and our latest modeling software to customers in South Africa and Chile. We also received a contract to implement a complete suite of geological data management, resource modeling, and mine planning software to a gold mining company operating in Vietnam and Malaysia.

Before I turn the call over to Stephane, I'll add that I'm also pleased with our progress against the capital allocation priorities we communicated this past year. We prioritized three things: targeting investment in select growth opportunities; deleveraging our balance sheet post the Oxford acquisition; and, enhancing cash returns for shareholders. Since then, we've continued to fund growth on a selective basis, our net debt is lower, and we increased the dividend as an expression of confidence in our business model.

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 16 percent year-over-year at $587.9 million and net income attributable to equity holders was $43.8 million or 17 cents per share. We had a $10.1 million after-tax impact from restructuring, integration and acquisition costs this quarter, and excluding these costs, net income attributable to equity holders was $53.9 million or $0.21 per share.

For the year, consolidated revenue was up 16 percent at $2.1 billion and net income attributable to equity holders was $139.4 million or 54 cents per share. Excluding the impact of restructuring, integration and acquisition costs, this was $190.7 million or $0.74 per share.

Income taxes this quarter were $7.0 million representing an effective tax rate of 13%, compared to 26% last year. The lower effective tax rate was mainly due to the settlement of tax audits as well as the mix of income from various jurisdictions. Excluding the effect of the one-time items in the quarter, the income tax expense would have been $11.5 million.

The impact of these one-time items represents $0.02 of earnings per share in the fourth quarter, and combined with one-time items that added $0.04 in the second quarter, these added $0.06 total to our earnings per share for the year.

In terms of cash performance, we had good free cash flow this quarter at positive $108.6 million, which results mainly from a reversal in non-cash working capital. We have been internally focused on improving our working capital efficiency—specifically getting at amounts tied up in unbilled sales or work-in-progress. For the year, free cash flow was $118.9 million for a conversion of net income of 83 percent. Our free cash flow is generally higher in the second half of the fiscal year and we expect that to be the case again in fiscal 2014.

Capital expenditures totalled $32.4 million this quarter, including $29.5 million for growth and $2.9 million for maintenance. For the year, CAPEX was lower at $155.8 million because of a targeted investment approach and CAPEX synergies from the Oxford acquisition. Of that total CAPEX, $121.2 million was for growth and $34.6 million was for maintenance.

Maintenance CAPEX was lower mainly because of the strategic repositioning of simulators within CAE's global network to optimize simulator configurations with customer requirements.

Net debt was $916.8 million as at March 31, 2013, compared with $965.4 million as at December 31, 2012. The additional borrowing required to make the acquisition of Oxford brought our net debt to total capital up to nearly 50 percent from about one third prior to the acquisition. We are comfortable with this degree of leverage—especially given the increased proportion of recurring revenue and cash flows we now have—but we said that our ideal structure involves about 40 percent net debt. We got this down to 45 percent in the quarter, so we're well on our way to reaching our target.

Now looking at our segmented financial performance...

In our combined **Civil** segments, fourth quarter revenue increased 54 percent year over year, reaching $332 million. Simulation products Civil revenue was higher sequentially because we had some advanced simulator builds in the quarter which turned to revenue upon contract. Combined Civil operating income was up 22 percent to $54 million year over year, for an operating margin of 16.3 percent. Contributing to this overall Civil margin was a strong Simulation Products Civil margin of 17.2 percent. The higher than usual products volume in the quarter and a favorable program mix largely explain this performance.

For the year, combined Civil revenue increased 38 percent, reaching $1.16 billion, while combined operating income was up 12 percent at $195.1 million. The rate of revenue growth exceeded profit growth for a number of reasons. Approximately half the revenue coming from Oxford involves crew sourcing, which is a low single-digit margin business. There were also a number of internal and external factors during the year that combined to affect both revenue and profitability of the base civil training business. These include some disruption caused by the integration of Oxford, lower demand for training in Europe due to recession—especially in countries like Spain, and the redeployment of 13 simulators within our global network, which affects revenue as they're ramped down and back up. In addition to moving existing assets, we also launched eight new training centres last year in support of growth, and we deployed 20 additional simulators, which are also in the process of ramping up.

The utilization rate in our training centres was 66 percent for the quarter, which is a reflection of these factors, and in a positive sense, demonstrates the resiliency of the business which continues to be profitable even at these relatively lower levels of utilization.

In our combined **Military** segments, fourth quarter revenue was 15 percent lower year over year, at $227 million, and we generated a 12.9 percent operating margin. Like last quarter, the operating margin benefited from a favourable mix of programs. We are still in the process of reducing costs in Europe with the ongoing execution of our restructuring in Germany. As Marc indicated earlier, the restructuring provision was already taken in fiscal 2013 for the additional layoffs to come.

For the year, combined Military revenue was down seven percent and our operating margin was 13.6 percent.

In **New Core Markets**, fourth quarter revenue was up 20 percent to $29 million and operating income was $1.8 million. For the year, revenue was up 35 percent to $112 million and operating income was $6.4 million.

Before we move on, I would like to provide a brief update on some of the changes in IFRS accounting standards which affect us in fiscal year 2014 and onwards. Specifically, there are two changes that I wish to highlight, which deal with joint ventures and employee benefits obligations. The key takeaway is that these are changes in accounting policies and not changes in the economics or the fundamentals of the business. The overall impact on EPS is minimal.

With respect to joint ventures, we previously accounted for them using proportionate consolidation, which meant consolidating results by individual line. Under the new standard we must account for them under the equity method, meaning that we record our investment as a single line on the balance sheet and our share of income from joint ventures on one line of the P&L.

This has no impact on profitability or earnings per share, but it does result in lower revenue. When applied to our fiscal 2013 results, the impact on EPS is nil while revenue is $69.3 million lower.

As for employee benefits obligations, there is a change in how the interest cost of pension expenses is calculated, which results in a higher expense. In addition, the interest cost component will now be presented within the financing expense line of the income statement.

For fiscal 2013, the impact of higher pension costs is $3.5 million, which represents a $0.01 impact on EPS.

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

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

Thanks, Stephane.

We undertook a lot of activity in fiscal 2013 which put CAE in a stronger position for the future and enables us to resume earnings growth in fiscal 2014.

In **Civil**, the secular growth in global air travel combined with the regulated requirement for aviation training gives further credence to the CAE investment thesis. The recession in Europe is affecting demand for air travel and the capacity being flown by airlines, but market drivers globally continue to be positive overall though not as strong as last year. Effectively, worldwide passenger traffic growth, as measured by revenue passenger kilometers, for the first quarter of 2013 was 4.2 percent, down from 7.6 percent during the same period in 2012. If we break it down, emerging markets continued to lead with 6.8 percent growth vs. 10.7 percent last year. Passenger growth in North America slowed to 1.8 percent from 2.7, and in Europe, the growth rate decelerated from 7.2 to 1.8 percent on the same basis.

In Civil training, the global diversity of our business means that we will continue to see training demand vary by region and market segment. During the quarter, we saw the effects of recession in Europe on training demand, while emerging markets continued to outperform. As such, we continue to optimize the supply of training capacity with customer demand across our global training network. Oxford itself will be accretive to earnings in fiscal 2014 and we fully expect to realize the remaining half of our targeted $22 million cost synergies during the year. In products, high sustained levels of aircraft deliveries bode well for another strong year in full-flight simulator sales. The competitive field is sharp, which affects pricing, but we continue to adapt to a dynamic market and we’re confident that we’ll maintain our leading share. Overall, we remain focused on winning new business by strengthening our solutions approach, completing the integration of Oxford, ramping up new and redeployed assets, and finding ways to maintain and improve profitability.

In **Military**, our 2013 order bookings and $2.1 billion backlog give us a decent start for fiscal 2014 but signing contracts remains the order of the day. Broad delays in U.S. procurements continue to be a factor, but the fundamentals for CAE in the defence market remain attractive and we expect to grow the business over the long term.

We have a well-diversified business geographically with over 50 national defence forces and in terms of the broad range of programs we pursue. The average value of our top 20 contracts won this year was about $20 million. And looking forward, we see a similar profile.

From an opportunities pipeline perspective, we currently have over $2 billion of proposals already submitted with customers. And as we've said before, bidding on defence programs is costly and we only bid where we believe we have a good chance of winning.

In **New Core Markets**, we expect continued double-digit growth as we ramp up our new and expanded sales capabilities and further realize synergies with our core. We've found ways to leverage both the technology and global reach of our Civil and Military businesses and we expect our initiatives to bear fruit in the period ahead.

To summarize, fiscal 2013 was a noisy year but involved a number of measures to ensure our future growth and enhance the CAE investment thesis:

- We invested to reinforce our leadership in Civil aviation training and we expect to continue building on our position in what is a regulated market, supported by positive secular trends in air travel;
- We took steps to adapt our military business to new market realities and we expect to continue demonstrating resiliency in the near term and growth over the long term; and,
- In New Core Markets, we've been meeting our goals and we expect continued success as we ramp up our new products and enhanced sales capabilities.

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.