REMARKS FOR CAE'S FOURTH-QUARTER AND FULL FISCAL YEAR 2014

May 15, 2014

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, Strategy and Investor Relations

Andrew Arnovitz, Vice President, Strategy and Investor Relations

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. These include statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, capital spending, expansions and new initiatives, financial obligations and expected sales. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management’s expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, listeners are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this presentation are expressly qualified by this cautionary statement.

You will find more information about the risks and uncertainties associated with our business in our fourth quarter fiscal 2014 MD&A and in annual information form for the year ended March 31, 2013. 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 15, 2014, and, accordingly, are subject to change after this date.”

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 take a few minutes to review some highlights of the quarter and for the year, and then Stephane will provide a detailed look at our financial results. I'll conclude the formal portion of the call by talking about the way forward.

I'm pleased with our performance in the fourth quarter and the overall progress we made during the year. Our operational discipline and customer focus continued to drive positive results in terms of higher profitability, and we continued to lead in a competitive market. In the last half of the year, we reached the key performance milestones in Civil and Military that we provided in our outlook, and we set new records with $2.1 billion of annual revenue and a $4.2 billion order backlog. We also had good cash performance this year, with 105% conversion of net income to free cash flow, which gave us the ability to further strengthen our already solid balance sheet.

In **Civil**, we're back on track with operating margins in the high-teens for the second half, and nearly 18 percent in the fourth quarter. We continued to ramp up recently deployed assets in our training network as well as simulators that had been moved to new locations. We had fewer simulator moves during the quarter, and while there are still relocations remaining to be completed, the vast majority are now behind us. The higher margin in the quarter comes from our ongoing operational improvements, higher volume, and the seasonally strong Q4. Training utilization increased from 69 percent last quarter to 71 percent this quarter.

We're proud to have reached an all-time record of 48 full-flight simulator sales this year, which included eight in the fourth quarter for longstanding customers such as Southwest Airlines and Lufthansa Flight Training. The face of the competition has changed quite a bit over the last couple of years. In that context, our continued market leadership is testament to the strength of the CAE brand, which is synonymous with technology leadership, quality and reliability, and best-in-class customer support. We strive to be our customers' Partner of Choice and they value the fact that we are the only company of our kind, solely dedicated to their simulation-based training needs.

Together with long-term training and services agreements with airlines and operators in Europe and the Americas, we received $350 million in Civil orders this quarter for a book-to-sales ratio of 1.08 times. This enabled us to reach a new record $2.2 billion of Civil backlog.

In **Military**, the challenges for the industry, involving defence budget constraints and sluggish procurements, are well known. In that context, we’ve been communicating the ways our Military business is unique in terms of the intrinsic benefits of simulation-based training; the range of geographies we serve; and the enduring platforms that make up most of our business. Owing to these CAE-specific attributes and our solid backlog, we remained resilient with fourth quarter revenue increasing by six percent and full year revenue by two percent. We’ve been executing a strategy to develop more revenue sources involving long term, recurring contracts.

The Military operating margin was 12.2 percent this quarter, reflecting the mix of business for the period. Trailing 12-month results usually give a better picture of Military performance, and for the year as a whole, Military’s operating margin was 13.1%. This is where we expected it to be on average at current volume levels.

In terms of new business, we booked orders during the quarter for four more P-8A operational flight trainers for the U.S. Navy, which is a prime example of the kind of enduring platforms that underlie our business. We also saw more demand for upgrades globally on the C130 Hercules, another key enduring platform for CAE. We also signed long-term training support and maintenance services contracts in Germany and in Malaysia, and we continued to expand our platform coverage with contracts for a comprehensive ground-based training system for the T-6C aircraft –for the Royal New Zealand Air Force and the Mexican Air Force. We also sold an SW-4 helicopter full-flight simulator to the Polish Air Force.

In total, we received $189 million in military orders this quarter; representing a book-to-sales ratio of 0.82x. Fourth quarter Military backlog was $2 billion and in addition to that, we had another $407 million of unfunded backlog.

Looking now at **New Core Markets,** in CAE Healthcare, we continued to invest in the development of new products and in broadening our sales capabilities. We introduced our new maternal fetal simulator earlier this year and we have already pre-sold more than 40 of them in advance of production. Also in Healthcare, we booked product sales with universities and hospitals in the U.K., U.S., and the Middle East for a range of solutions including our ultrasound, surgical, and patient simulators as well as our centre management systems. In CAE Mining, we sold resource modeling and mine planning systems to customers globally.

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 three percent year-over-year at $583.4 million and net income attributable to equity holders was $60.0 million or 23 cents per share. For the year, revenue was $2.1 billion, up four percent, and net income was $191.1 million or 73 cents per share.

We had very good cash performance in the quarter and for the year, with $200.6 million of free cash flow generated to the end of March, which is $117.1 million higher than last year. The improvement came mainly from favourable changes in non-cash working capital and an increase in cash provided by our operating activities.

Fourth quarter capital expenditures totaled $65.7 million and for the year it was $157.4 million, which is in line with our outlook. Growth capital expenditures represented 71% of total capital expenditures this year.

Net debt was $856.2 million as at March 31, 2014, compared to $886.5 million at the end of December, further strengthening our balance sheet with our net-debt-to-total-capital ratio decreasing to 36.6%.

Income taxes this quarter were $10 million, representing an effective tax rate of 14%, which compares to 19% last quarter and 8% last year. The decrease from last quarter was mainly due to the favorable settlement of tax audits, an adjustment resulting from future changes in the statutory tax rates for Germany, the UK, and Norway, as well as a change in the mix of income from various jurisdictions. Excluding the effect of the changes in tax rates and the settlement of tax audits, the income tax rate for the quarter would have been 21%.

Now looking at our segmented financial performance...

For **Civil**, fourth quarter revenue was $323.5 million, stable year over year. Operating income for the quarter was up 14% year over year to $58 million, owing mainly to operational improvements realized over the course of the year as well as higher volume and utilization. This represents an operating margin of 17.9 percent. For the year, Civil revenue was up five percent at $1.2 billion, and operating income was five percent lower at $179.8 million for a margin of 15.3 percent.

In **Military**, fourth quarter revenue was up six percent year over year at $230.3 million. Operating income for the quarter was stable year over year at $28 million for a margin of 12.2 percent. For the year, Military revenue was up two percent at $822 million, and operating income was stable at $107.8 million for a margin of 13.1 percent. This reflects the operational improvements we made over the prior year.

Finally, looking at **New Core Markets**, revenue was $29.6 million for the quarter, compared to $29.0 million in the fourth quarter last year. Operating income was $200 thousand compared to $1.8 million last year. For the year, New Core Markets generated revenue of $116.2 million, up four percent over last year. Operating income was $4.2 million compared to $6.4 million last year. Revenue growth and profits have been somewhat constrained by current market conditions in the mining sector, as well, we have continued to invest profits back into Healthcare's SG&A and new products with a view to a larger business in future.

Before we move on, I want to mention that starting with our first quarter 2015 report, we will report our segments to reflect the way we manage our business, which is solutions-oriented with customers requiring a mix of both products and services. Beginning in August, we will report on our three core businesses, specifically: <u>Defence and Security</u>; <u>Civil Simulation and Training</u>; and <u>Healthcare and Mining</u>. We have, in fact, already been providing financial disclosure and outlook on this basis in our MD&A for a number of years, and in order to ensure continuity, we will continue to report on key operational metrics that we believe are the most relevant drivers of our business.

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

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Our progress in fiscal 2014 positions us well for the period ahead and we have a positive outlook for each of our three core businesses.

In **Civil,** we expect to continue to lead the market and we anticipate more growth as we work our way through our record backlog. We expect higher utilization in our training centres on higher market demand and the ramp up of new and re-deployed simulators in the network. The commercial aerospace cycle remains strong with robust air travel growth and high levels of aircraft deliveries coming off manufacturers' production lines. We see strong demand for our training solutions in North America, improving demand in Europe, and stable demand in the emerging markets. Taken together, we are in a prime position globally as the market leader within a highly regulated industry.

In **Military**, our key success factors, including our multi-year backlog involving enduring platforms; our geographic reach; and the intrinsic value of simulation-based training, all remain highly relevant as we go forward. Notwithstanding the challenges in the mature defence markets, we're continuing to build our bid pipeline with a wide range of comprehensive programs in both defence and security. We continue to find opportunities involving enduring platforms like the P-8, C130 and MH-60, and we expect to continue to add new platforms to our order book. Our Military business has proven to be resilient through some challenging market conditions, and as we consider our market position and the unique nature of CAE's business, we expect to continue to be resilient and deliver good performance for the year as a whole.

In **New Core Markets**, notwithstanding the cyclical downturn in the mining sector, we expect to see growth, mainly in the second half, as we release new products like the maternal fetal simulator. We now have a leading position in a healthcare simulation market that has historically been limited to medical education. We believe that, like in aviation, future regulations will see the use of simulation expand beyond education and into the clinical domain in order to help improve the quality of patient outcomes. We look forward to a larger market opportunity to come.

To recap, we had a good quarter and a good year in terms of achieving our operational and strategic milestones:

- We forecast Civil margins to reach the high teens in the second half of the year—and they did;
- We expected Military to be resilient in the face of a challenging defence market—and it was;
- We maintained our market leadership in the face of sharper competition and we booked record full-flight simulator sales with a record backlog for the company overall.

And, we stayed true to our capital allocation priorities:

- We continued to invest in market-led growth opportunities with attractive return profiles;
- We increased cash returns to shareholders with a dividend increase for the third year in a row last August; and,
- We deleveraged our balance sheet with net debt-to-capital now at an even lower level than we originally targeted.

To conclude, our progress in fiscal 2014 puts us in an even stronger position, and I look forward to more success in fiscal 2015. We continue to expect solid growth for CAE overall, with strong market conditions in Civil, continued resilience in Military, and the resumption of growth in New Core Markets.

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.