CAE

REMARKS FOR CAE'S SECOND-QUARTER FISCAL YEAR 2009

November 13, 2008

Time: 12:00 p.m.

Speakers:

Mr. Robert E. Brown, President and Chief Executive Officer

Mr. Alain Raquepas, 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, 2008. 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 November 13, 2008 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.”

Robert E. Brown, CAE’s President and Chief Executive Officer, and Alain Raquepas, our Chief Financial Officer, are participating in the call today.

Following the remarks, we will invite questions from financial analysts and institutional investors.

For your convenience, this conference call will be archived on CAE’s Website.

Let me now turn the call over to Bob…

Robert E. Brown, President and Chief Executive Officer

Thank you, Andrew, and thank you everyone for joining us this afternoon.

I will begin with some remarks about our second quarter and then Alain will take you through our results more specifically. Following that, I will conclude with some comments about the way forward.

We performed well in the second quarter and year to date overall with continued revenue and earnings growth supported by positive free cash flow.

Revenue in the second quarter grew 15% over last year to reach $407 million, 45% of this amount was generated from our military segments and 55% from our civil segments. Net earnings increased 25% to $49 million and our consolidated operating margin reached 18.6%.

We took in $390 million in new orders and concluded the quarter with a $2.7 billion backlog.

In **Training & Services/Civil** we signed $79 million in new training contracts and we continued to selectively expand our global training network to an average of 118 Revenue Simulator Equivalent Units. The second quarter is normally slower due to seasonality and it was even more so this quarter as a result of softer demand – specifically in North America. We made good operational progress despite the headwinds with average annualized revenue per simulator increasing to $3.7 million dollars, from $3.4 million last year.

In **Simulation Products/Civil**, we signed orders for 7 full-flight simulators during the quarter from customers including Etihad Airways, Southwest Airlines, Cathay Pacific and Lufthansa. Yesterday we announced an additional **five** full-flight simulator sales, which brings our year-to-date orders announced to **23.** At this point, we still expect 34 orders for the year.

In the **combined military segments**, we won new orders totalling $227 million. We entered a contract to supply the U.S. Navy with a MH-60R tactical operational flight trainer and we made more progress on the NH90 program with the selection of our affiliate, Rotorsim, to provide training solutions to the Netherlands Ministry of Defence. As well, we signed a 10-year deal to provide MRH90 simulator maintenance and support services to the Australian Air Force.

This morning I had the pleasure to announce the appointment of Marc Parent as CAE's Executive Vice President and Chief Operating Officer, which takes effect immediately. Marc also becomes a member of CAE's Board of Directors. Marc's expanded mandate is intended to ensure the building of synergies between all four of CAE's civil and military business segments.

With that, I will now ask Alain to discuss our financial results.

Alain Raquepas, Chief Financial Officer

Thank you, Bob and good afternoon everyone.

In **Training and Services/Civil**, revenue was up 20% over last year to $108 million. We grew the number of RSEUs in our network by 12 units since last year and we incorporated the results from acquired companies, Sabena Flight Academy and Flightscape. Segment operating income was $19.1 million, which is 31% higher than last year and 8% lower than last quarter. The sequential difference is from seasonality. The segment operating margin was 17.7% this quarter compared to 16.2% last year.

In **Simulation Products/Civil**, revenue was stable compared to last year at $114 million. Segment operating income decreased 11% from last year to $23.4 million because of a less beneficial currency hedge position this year compared to last year. This is an important point because the effect of the recent Canadian dollar drop did not benefit us on our product contracts that were hedged several months prior at less beneficial rates. Another difference in the year over year comparison is that we had higher utilization of funds from our government cost sharing programs last year. Despite these differences, the operating margin stayed above 20% (20.5% to be exact), which compares to 20.1% last quarter and 23.3% last year.

In **Simulation Products/Military**, revenue was 30% higher than last year at $126 million. We had higher activity on a number of recently awarded programs, which accounts for the increased performance. Segment operating income was 61% higher than last year at $21.6 million and the operating margin was 17.1% compared to 13.8% last year. Again, the increased performance in the quarter comes from higher volume.

In **Training and Services/Military**, revenue was up 7% over last year to $58.4 million. Segment operating income was up 44% from last year at $11.4 million. The operating margin was 19.5% compared to 14.5% last year.

Capital expenditures were $50.6 million in the quarter. This was comprised of $7.8 million for maintenance expenditures and $42.8 million for growth. The growth portion was mainly related to the expansion of our global civil training network to address additional market share.

Free cash flow this quarter was $43.2 million, up $85.6 million from last quarter. Net cash from continuing operations increased by $88.1 million due in large part to a lower investment in non-cash working capital. As we said last quarter, we continue to expect a portion of the investment in non-cash working capital that we made at the start of the year, to reverse over the balance of the year.

Finally, **Net debt** was stable at $257 million.

Thank you for your attention. I will now turn the call back to Bob.

Robert E. Brown, President and Chief Executive Officer

Thanks, Alain.

The uncertainty of the financial markets in recent months has made forecasting the civil aerospace market more difficult. Conditions that were originally considered by economists to indicate the likelihood of a contained US economic slowdown now appear global-reaching. We could not have predicted the magnitude of the global financial crisis witnessed over the past few months, nor the reverberations that have already been felt in many sectors of the economy. We do not take this situation lightly, but we feel that on balance, we have reason to maintain a degree of cautious optimism. We have lived through difficult times and it is a strategic imperative for CAE to always be prepared for the unexpected.

In the past four years CAE has had to react quickly in the face of number of major challenges including the impact of a surging Canadian dollar, aircraft program delays, and the sudden dearth of business from the U.S. legacy carriers, which were once CAE's biggest customers. As a company, we have shown our capability and willingness to adapt to whatever the market has presented us and to take decisive actions that have enabled us to achieve high levels of growth despite the headwinds. The period ahead will be more challenging, but we are confident that we will again be able to make the most of the situation.

We have talked a lot over the past few years about our strategic priorities and I would like to remind you of some of them because they are particularly relevant today. We have a long history in commercial aerospace and defence, and we realize that in this business, things do not always proceed as expected. We determined a number of years ago that for CAE to be durable and flexible, we had to become financially strong and disciplined. A few months ago, our capital structure was regarded as one of many CAE strengths. In today's climate, we believe it is a major advantage. We have the flexibility to seize opportunities arising from current conditions and at the same time we can continue to uphold our priority for a conservative capital structure.

The recent commercial market data shows a decrease in global demand for air travel. This is not surprising given the news flow this fall in the midst of the financial market meltdown. Despite the relief from cheaper fuel, current economic conditions may lead some airlines to reduce capacity further. Much speculation exists about what this means for the OEM aircraft backlogs, which stand at more than 8,000 aircraft for Boeing and Airbus, combined. We know that the availability of financing is the single most critical factor. Both of these OEMs recently announced that they will make some financing available to facilitate aircraft purchases, but it will first take a general recovery in the credit markets to solve the larger problem. Customer demand may still support a good proportion of new aircraft deliveries, but unless airlines are able to obtain financing, it will be difficult for them to access the supply of new aircraft. Some OEMs of smaller business and commercial aircraft types have already announced that they intend to curb production, but whether this will become a more widespread response across all the OEMs is still unclear. As a result of these dynamics, we do not know how much of the current aircraft backlog is at risk of delay or cancellation. What we do know is that the commercial and business aircraft backlogs are exceptionally large by any historical measure and that the OEMs have acted conservatively by not taking production levels up the way they have in previous up-cycles.

What does this mean for CAE and the way forward? We have been executing a strategy, since the last market down-cycle, to increase the proportion of our business that is generated from the existing global installed base of aircraft as opposed to business that comes from the delivery of new aircraft alone. Our civil training business is backstopped by the recurrent training that active flight crews are required to undergo on a regular basis by the aviation authorities. As I mentioned earlier, the training business is certainly not immune to the current market conditions, but it is relatively more stable and is only partially dependent on new aircraft deliveries to drive revenue. The rate of pilot attrition is likely to moderate in the short term but only to a point. Notwithstanding the market volatility, the pilot population – particularly in the mature markets of North America and Europe -- is not getting any younger and will reach retirement in increasing numbers. Pilot shortages resulting from retirements and the long term growth trend in air travel continue to support our business model. We see opportunities for continued growth for CAE in this segment.

In business aviation, the number of hours flown has decreased compared to last year and there is a strong correlation with corporate profits. We are already experiencing the impact on our customers from volatile oil prices and weaker economic conditions. Used aircraft inventories have increased and the time used aircraft spend on the market is longer. On the positive side, training demand for newer and larger business aircraft is holding up relatively well and our recently launched assets and facilities are ramping up. The mid- to large-cabin business jet segments tend to be less economically sensitive. And the vast majority of simulator assets that we have been adding to our network - and that we plan to add in the future - like the Falcon 7X and the Gulfstream 450 - are in this category of aircraft.

We said last quarter that we expected total CAPEX this year to be around $170 million and this is still a good estimate. We are in the process of developing a number of assets that need to be completed, and we are continuing to invest in certain new growth initiatives — but more selectively. Despite the market environment, we continue to see specific opportunities to enhance our competitive position within certain market segments that give us more exposure to the already in-service base of aircraft. We are reviewing our growth options critically, and on a case by case basis. Our priority is to maintain a conservative financial position – especially in these uncertain times -- but if there is a good, long-term business case to be made to invest despite the market pressure, then we will use our flexibility to our advantage.

Another essential part of our strategy is to maintain a balanced position in **military**, which already represents nearly half of our business. Given the growth in military orders over the past few years, and our outlook for future business, we expect this segment to grow in excess of 10% annually. We achieved an EBIT margin of 17.9% this quarter, and we believe that we can sustain a margin in the 15-percent range for the foreseeable future. We are benefiting from the higher volume of military orders received over the past few years and improved program execution. As well, our military contract mix includes a greater proportion of solutions that are more highly differentiated and more value-added.

We are a global entity in the defence industry with a major presence in key markets around the world. There is a growing tendency for defence forces to adopt more simulation-based training – particularly when budgets become stretched – and we expect to continue to benefit from this trend. The high relative cost of training in live assets; the increased emphasis on mission rehearsal and the emergence of risk reduction doctrines are all positive factors that support our expectations for continued growth.

The credit crisis, global economic malaise and the recent decreases in air travel give us reasons for additional caution, but we remain optimistic about our position. We are well balanced between civil and military markets; between products and services, and we are broadly diversified globally. We will continue to invest prudently and selectively as market conditions permit. We have flexibility to seize opportunities in the current environment and at the same time we can continue to maintain a conservative capital structure.

In summary, our outlook for defence -- more specifically the modelling and simulation niche that we operate within -- remains positive. Civil market conditions have become more challenging, and they will likely get worse before they get better. We are in uncertain times but we will continue to adapt as necessary to the constantly changing conditions. This is the way that we have consistently been able to make the most of whatever opportunities the market has presented us with in the past. We believe that we are well equipped to withstand the market turbulence and to continue to find ways to prosper.

Thank you for your attention. I think we are ready to take questions now.

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 limit yourself to a single, one-part question. If you have additional questions and time permits, please feel free to re-enter the queue.