CAE

REMARKS FOR CAE'S THIRD-QUARTER FISCAL YEAR 2013

February 13, 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 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, February 13, 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.

I'll first go through some of the highlights of the quarter, and then Stephane will provide more details about our segmented results. I'll come back at the end to talk about our outlook.

Things went largely the way we expected this quarter given the integration and restructuring efforts underway in both our Civil and Military segments.

We continued to lead the market during the quarter with six more simulator sales in Civil, which contributes to our year to date total of 30. In Civil training, the integration with Oxford is progressing as planned. In Military, our restructuring is underway in Europe and our profitability has improved. The amount of orders we booked in the quarter still reflects the environment we're in, where we've come to expect delays, but we had a good win rate on those contracts that were awarded.

Looking more specifically at **Civil**, revenue for our combined Civil segments was up 41 percent in the quarter to $287 million and our operating margin was 16.4 percent. The integration of Oxford remains a priority and it has continued to occupy a large part of our civil organization over the last couple of quarters. Oxford represented over three and a half percent dilution to our combined Civil operating margin, which we expected given the majority of synergies we target are still to come. Utilization normally picks up in our third quarter and this time was no exception. Overall the rate was 69 percent, up from from 65 percent last quarter, which is a little lighter than normal but understandable since we have been ramping up four recently operationalized training centres and we have four more underway. As well, we've been relocating a number of the Oxford simulators we acquired. It typically takes several months to a year for newly installed simulators to reach a desired level of utilization.

In **Military**, combined segment revenue was down seven percent year over year in the quarter to $206 million and our operating margin was 13.1 percent. Profitability was a little better than we had anticipated, partially helped by the restructuring underway but mainly because of a better mix of programs compared to last quarter.

We won our fair share of contracts on programs that moved forward to award but order delays have been persistent. We had another US FMS order for MH60R Seahawk simulators - this time for the Royal Australian Navy. We got product upgrade and long-term services contracts from the U.K. Ministry of Defence in relation to the Medium Support Aircrew Training Facility at RAF Benson. And we also saw a renewed commitment from customers involving simulation technology updates and aircrew training services contracts on enduring aircraft platforms like the C130, C5 and KC135. These are tangible examples of customers upgrading and extending their training systems to be able to do more training using simulators.

In **New Core Markets,** revenue was up six percent in the quarter to $28.7 million and operating income was $1.7 million.

In CAE Healthcare, we made good progress with international sales of our products to support new simulation centres in China, and we sold surgical simulators in Japan. In the U.S., we continued to have good success with sales of our full suite of patient simulator products and centre management systems to key customers.

In CAE Mining, we sold our resource modeling and mine planning software solutions to major mining customers in Africa, Brazil, Mexico and Russia.

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 15 percent year-over-year at $522 million and net income attributable to equity holders was $37.8 million or 15 cents per share. We had an $8.8 million after-tax impact from restructuring, integration and acquisition costs this quarter, and excluding these costs, net income attributable to equity holders was $46.6 million or 18 cents per share.

During the quarter we incurred expenses of $9.5 million related to the restructuring of our military operations, mainly in Europe. As we announced last quarter, the majority of the restructuring expenses are being incurred in the third and fourth quarters.

Income taxes this quarter were $9.4 million representing an effective tax rate of 20%, compared to 25% last year. The tax rate was lower than usual this quarter because of a change in the mix of income from various jurisdictions and the recognition of a tax asset generated from profits in one of our foreign operations.

We had good free cash flow performance this quarter at positive $90.7 million. Compared to last year, we had favourable changes in non-cash working capital and lower maintenance expenditures. Total capital expenditures this quarter were $32.9 million, including $24 million in support of growth and $8.9 million for maintenance.

Our net debt position also improved, moving down to $965 million at December 31st compared with $995 million at the end of the prior quarter. As a result, our net debt to total capitalization has moved from 49 percent to 47 percent.

At the end of December, we issued $349 million in debt by way of a private placement to refinance our existing debt. The fixed portion of this financing totals nearly $300 million and is in tranches of seven to 15 years, bearing interest rates ranging from 3.6 percent to 4.2 percent. The refinancing enhances our capital structure by giving us a mix of currencies, terms and interest rates that fit our strategy and give us some flexibility to further strengthen our balance sheet in the future.

Now looking at our segmented financial performance...

In our combined **Civil** segments, third quarter revenue increased 41 percent year over year, reaching $287 million. Combined Civil operating income was up 12 percent to $47 million, for an operating margin of 16.4 percent. This compares to a reported 16% in the second quarter, but recall this included a one-time foreign exchange gain so on a comparable basis, the margin this quarter is actually 2.3 percentage points higher.

In our combined **Military** segments, third quarter revenue was seven percent lower year over year, at $206 million, and we generated a 13.1 percent operating margin. The margin last quarter was 10.4 percent before the benefit of non-recurring gains, so here again, we have seen sequential improvement in profitability.

In **New Core Markets**, the third quarter results put us well on track to deliver what we said we could do for the full year. We expected to generate at least $100 million in revenue and to be profitable for the year as a whole. Year to date we generated $83.1 million of revenue and $4.6 million of operating income.

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

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Looking ahead, we're continuing to see the same sort of themes in relation to our market drivers as we saw last quarter.

In **Civil**, we continue to see solid fundamentals, with industry forecasts for long-term annual passenger growth continuing to be around five percent. Growth in regions like the emerging markets is still significantly outpacing developed markets and CAE is well positioned in both. Record aircraft backlogs are translating into record aircraft deliveries, with Airbus and Boeing projecting more than 1,200 deliveries this year. This bodes especially well for our simulation products business and supports our expectation that we will finish this fiscal year with mid-30s full-flight simulator sales. As we get into fiscal 2014, we'll be in a position to provide you with our outlook for the year ahead.

In business aviation, the utilization of aircraft remained stable in 2012 and the percentage of used aircraft for sale decreased, which is a positive sign for the market overall. This is an attractive area for CAE and we will continue to invest in business aviation to keep pace with the market – especially internationally.

Oxford has been and continues to be a top priority for our organization in terms of the integration and deriving the significant cost and revenue synergies we've targeted. Overall, we continue to expect combined Civil segment margins to improve as we move beyond the current fiscal year and into next as synergies with Oxford are realized and utilization improves.

In **Military**, the issues related to government budgeting and persistent contracting delays remain essentially the same. And because of delayed order intake, we still expect to finish the fiscal year with lower revenue than last year. The long-term fundamentals for CAE in the defence market remain attractive and we expect to grow the business over the long term. We have a Military backlog of over $2.1 billion and in terms of future opportunities, we currently have over $2.7 billion of military bids and proposals submitted and pending. As governments eventually make bid decisions, we expect that we'll continue to win our fair share.

Finally, in **New Core Markets**, we're doing more to expand our reach outside of traditional markets and into emerging economies like China. We're tracking above our target of $100 million revenue for the year and while we will continue to invest to grow the business, we expect to remain profitable.

To conclude, our priorities are clear and we have a sharp executional focus:

- We're working diligently to integrate Oxford and derive significant synergies;
- We're in the process of restructuring our European military operations and this will progress well into next fiscal year; and
- We will continue to lead in our markets by offering the best products and services to our customers.

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.