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OPERATOR: Thank you. We will now take questions from the telephone lines. If you have a question and you're using a speakerphone, please lift your handset before making your selection. If you have a question, please press *1 on your telephone keypad. Please press *1 at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Ben Cherniavski, from Raymond James. Please go ahead.

BEN CHERNIAVSKY: Hi, guys. In the past, you guys have made the commitment to grow your installed base of simulators, I believe the number was about 10 per cent a year. Are you still committed to that kind of growth rate through fiscal 2010 at this point? I mean, what should we assume or what are you assuming for your plans on an 18-month basis and on that particular part of your business?

ROBERT E. BROWN (President and Chief Executive Officer, CAE Inc.): Yes, you should continue with that assumption.

BEN CHERNIAVSKY: So that has not changed in spite of what's happened in the market? You guys are still confident that you can put that much more capacity into the system and get people to sign contracts and use your simulators and such?

ROBERT E. BROWN: Yes, and we're concentrating, as we've said in the past, primarily on business aircraft.

BEN CHERNIAVSKY: And with the order rate for business jets looking like its peaked, is that still...? I'm just trying to reconcile the caution you're I think rightfully expressing on the industry with your plans to expand your capacity on that particular part of your business?

ROBERT E. BROWN: Yes, I think, Ben, you know, these are sims that we have already launched and we feel comfortable with what we're doing going into the market. As I said, it's primarily on business aircraft but I would say the other dimension is international where we have an excellent footprint that gives us an advantage and I think we feel quite confident going forward with this.

BEN CHERNIAVSKY: But in your decision to do that, are you then assuming that overall demand for business jet training will go up? Are you assuming you'll get more outsourcing or that you'll take share from someone else?

ROBERT E. BROWN: I think it's a combination of all of those that we have, but it's largely coming from the installed base, although you know there are some deliveries that are taking place over the next period of time as well. But I think we've been conservative in the approach that we've taken, you know, limiting it to primarily what's already out there.

BEN CHERNIAVSKY: Okay, thanks very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Cameron Doerksen, from Versant Partners. Please go ahead.

CAMERON DOERKSEN: Good afternoon. I guess the question I have was just again on the training business, I guess more focusing on the airline customers. Can you talk a bit about geographically what demand for pilot training looks like? Obviously, there's capacity being reduced in the U.S., but it's really a global phenomenon and I'm just wondering if you're seeing any decrease in demand for pilot training in some of your international training centres?

ROBERT E. BROWN: I think, Cameron, the one probably we're seeing a little bit to the decrease is in Europe, because you know, it sort of followed a little bit behind North America. But in the other areas, I think we're seeing a fairly steady demand and you realize we're in start-up mode as it relates to what we're doing in India. So, you know, there's bound to be some build-up there. But as I said in my remarks, this is an area where we've got to be careful and moderate the amount of business that we'll probably be able to do here.

The other thing I think I'd remind you of is that we started out trying to take what I think is a realistic part of the market. We're not going for all of the market here. And so that is going to... that helps us as well I think as people are perhaps scaling back a little bit in the short term.

CAMERON DOERKSEN: Okay, and if I could just squeeze one more in there, the simulation or the training centre utilization rate in the quarter?

ROBERT E. BROWN: Yes, we're at about 71 per cent.

CAMERON DOERKSEN: Okay.

ROBERT E. BROWN: That would be I think overall year to date, something like that.

BEN CHERNIAVSKY: Okay, thanks.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Daniel Kim, from Paradigm Capital. Please go ahead.

DANIEL KIM: Good afternoon. Thank you. Carrying on the training theme, gentlemen, I just want to better understand the potential downside in that business. Bob, could you share with us what you believe to be a split between perhaps training on new aircraft platforms versus pilots that require to maintain minimum training hours?

ROBERT E. BROWN: I think that, you know, going forward, I don't have the exact number but I think that my general feeling is that it's going to be mostly on existing platforms. Certainly the increase in capacity that we're creating will be going to, mostly to the install base but there are some new airplanes coming on. As I mentioned before, like the 7X and the 450 as well.

DANIEL KIM: Thank you very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from Claude Proulx, from BMO Capital Markets. Please go ahead.

CLAUDE PROULX: Thank you. Good afternoon. The question is you talked about the flexibility that your good balance sheet gives you. I guess we have to look at, or you're looking at opportunities in civil training, I assume, a bit like, you know, Sabena. And I suppose you would be looking at small tuck-in acquisitions for your product businesses. Is that the way we should look at it?

ROBERT E. BROWN: Yes, I think that even there, I think you'll find that we're careful in the next period of time. I think a lot of the gains that can come for us will be the investments that we make in our own indigenous products. You know, we're populating our training centres, taking advantage of our global footprint. I think that probably will be the first priority that we have. And I would say that, you know, the other thing is what we can do in the area of the military. We've made great strides in balancing the business and creating a situation where we can have a good margin with a mix of products and the way we've been executing. So there may be some things there as well.

We're going to be careful there as well because we want to see what the orientation of various governments are going to be on military programs going forward. But I can tell you that the great positioning that we have on the platforms that we have and in summary I guess and the opportunities in the civil training business I think give us lots of runway in terms of what we can do going forward.

CLAUDE PROULX: If I can squeeze just a quick housekeeping one, can you provide us with the deliveries for civil simulators for Q2 and also year to date.

ROBERT E. BROWN: Yes, let me see if I've got that. Q2, deliveries, I think it's eight that we have of full flights. We have two for our network and I think two military.

CLAUDE PROULX: That's for Q2. And what about year to date?

ROBERT E. BROWN: Oh, boy, you've got me. We'll have to get back to you.

ALAIN RAQUEPAS (Vice-President, Finance and Chief Financial Officer, CAE Inc.): We'll get back to you on that. We'll get the data.

CLAUDE PROULX: Okay, thank you.

OPERATOR: Thank you. The next question is from Nick Morton, from RBC Capital Markets. Please go ahead.

NICK MORTON: Good day. I wondered if you could talk a little bit more about your balance sheet, what credit is available to you and perhaps discuss a little bit more the working capital requirements?

ROBERT E. BROWN: I'll give the general reply and then I'll let Alain talk. I think we have about 145 million of cash and we've got lines of around $400 million that we have not used. Alain, why don't you...?

ALAIN RAQUEPAS: Yes, we have a revolver facility, Nick, of $400 million U.S. and another one of 100 million Euros that is essentially untapped and fully committed to us at the moment. In these difficult times, it's very good to have access to liquidity and committed sums from our banking consortium. In terms of access of liquidity, this is not an issue. You've seen, as Bob as mentioned the cash balances that we have already on the balance sheet, so very strong. That's why we're confident that if there's some good opportunities showing up, we have the ability to use the revolver appropriately.

ROBERT E. BROWN: Or if the situation deteriorates, we're also protected. So we're trying to look at it from both sides.

NICK MORTON: And could you be forced to buy simulators in joint ventures which would require you to put up substantial cash?

ROBERT E. BROWN: I think that right now, what we do in our joint ventures is the joint venture that's established purchases the simulator and so normally, the joint venture has its own access to capital. So we have not had any experiences of that kind.

NICK MORTON: So your partner couldn't back out and force you to buy them out?

ROBERT E. BROWN: In the arrangements we have now, no.

NICK MORTON: Okay. And could you perhaps, Alain, talk briefly about your working capital? You said that you think it's going to reverse as you go through the year.

ALAIN RAQUEPAS: Yes, we're forecasting a portion of what we have invested since the beginning of the year. You've seen in the financials that we've put $120 million-ish in additional working capital since the beginning of the year. A portion of that will reverse major UBS or unbilled sales have been accumulating on some of our military programs and these customers are very solid customers. It's just a question of meeting the milestones, billing and collecting. So we see that reducing between now and yearend.

NICK MORTON: Great, thank you very much.

ALAIN RAQUEPAS: A portion of it, yes.

OPERATOR: Thank you. The next question is from Tim James, from TD Securities. Please go ahead.

TIM JAMES: Thanks. Good afternoon. Can you talk a little bit about how you see adjusting the organization going forward if conditions do deteriorate more significantly than you kind of currently foresee? You've identified that obviously there is some risk and the visibility is challenging at best. I'm just trying to get an understanding here of what initiatives you might take and if you feel there would be any required, if conditions do get worse.

ROBERT E. BROWN: Yes, I think, Tim, here you've seen the appointment of Marc Parent today and a part of that move is to make sure that we can realize synergies and continue with between all of the four segments. And, you know, we have developed a real culture here now that allows us to adjust very quickly so you've seen, for instance, when the dollar went to 1.10 and from $0.80, we were able to deal with that and accommodate it and still produce good results.

We have all kinds of ideas inside of the organization in terms of how we can continue to reduce our costs and given the shortened cycle time, it allows us as well to be able to react and deal with that. So I think we're... you never know what's going to happen and so the balance sheet obviously helps us to be able to adjust to it, but I think the mentality and the approach that we've got with people helps us a lot. And I also don't believe that all of the segments would go negative at the same time. For instance, I think the backlog and the book to bill that we've got in military is going to be very good for us and may even get better.

And the training revenues, they may be affected to a certain extent and, you know, obviously you take people out if those market conditions are there. And we're keeping a very, very close eye on what's happening in the simulation products. So there's no easy answer. It's more a process and the way that we're approaching the business that is allowing us to be able to adapt and produce the results as we've done in previous challenging periods.

TIM JAMES: Does the increased diversity in the organization in terms of the markets that you're in, does that help you or provide a benefit in that you can reallocate resources if you will, if one of those segments weakens?

ROBERT E. BROWN: Well, certainly between, you know, building the simulators in the military and the civil area whether it's engineering, it's procurement, it's manufacturing. Those resources now are basically allocated amongst the various areas. So that's already ongoing.

And, yes, so there is some benefits there. And you know I think with the new organization structure, we're going to be able to even take more advantage of that.

TIM JAMES: Great. Just one quick housekeeping question. You mentioned continuing to expect 10-per-cent growth in the network. Does that include the additions from the Sabena acquisition or would that be incremental to that 10 per cent?

ROBERT E. BROWN: That was, I believe, for last year I think I was making the comment about next year that we would still expect to grow by 10 per cent on the new base that we have.

TIM JAMES: Okay, thank you.

OPERATOR: Thank you. The next question is from Marko Pencak, from GMP Securities. Please go ahead.

MARKO PENCAK: Thank you. Good afternoon. Bob, I didn't quite catch, what was the utilization number that you provided earlier?

ROBERT E. BROWN: It was 71 per cent.

MARKO PENCAK: Seventy-one per cent year to date?

ROBERT E. BROWN: No, that's for the quarter.

MARKO PENCAK: Okay, because this is your seasonally weak one.

ROBERT E. BROWN: Yes.

MARKO PENCAK: Okay, thank you. My question, I just wanted to get a sense of, you know, what's happening with your customer base in two regards. First, on the civil side, whether you've seen any deferrals or cancellations in either equipment or training, and secondly, if you could just talk about pricing in terms of trying to capture new orders, new training contracts?

ROBERT E. BROWN: Yes, in terms of orders that we have taken, we have not seen any deferrals. We have one customer where we've been having a bit of a financing issue but I think we have alternatives and for getting around that problem and/or reallocating the simulator. As we look at pricing, you know, you would expect right now that it's a very competitive market. We've been able to maintain a win rate of just under 70 per cent, so we're still winning at the same rate. I would say the market's competitive but, you know, that's life and we like competition and we're adapting the organization to make sure that we can continue to provide the margins that we've been able to in the past.

MARKO PENCAK: And is there a particular part of the business where the pricing is more intense than others?

ROBERT E. BROWN: I would say that probably on the civil simulation of products, not business aircraft but....

MARKO PENCAK: Commercial?

ROBERT E. BROWN: Yes, the commercial side, sorry, and in North America, in the training business, you know, we're seeing a bit of a tightening up there as well. The military side I think we're getting quite effective in the way we bid and, you know, so we always have to be competitive but, you know, you don't really, at the end, you have to put the price there to win. But what you control is your cost base and you've got to make sure that your cost base is continually aligned in a way that it's going to produce margins and that you've got a base in the business and an overhead that as you get more incremental business, you're going to be able to make more money. And that's what we've been trying to do.

MARKO PENCAK: Great, okay. Thank you very much.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. The next question is from David Tyreman, from Scotia Capital. Please go ahead.

DAVID TYREMAN: Yes, good afternoon. I'd like to ask about SVC, and I think also probably TSC margins and foreign exchange. First, is your sensitivity that you showed in the fiscal 2008 report still broadly correct?

ROBERT E. BROWN: Alain?

ALAIN RAQUEPAS: Yes, David, we're rerun the sensitivity, so you're probably referring to the one in the MD&A that we provide annually.

DAVID TYREMAN: Yes.

ALAIN RAQUEPAS: So if you looked at the impact of $0.01 on the hedged business, it went down a little bit. So 500K is probably a better number as I'm speaking to you than the 800K we've given in the MD&A.

DAVID TYREMAN: Right.

ALAIN RAQUEPAS: And for the... If you looked at the business, if it would be unhedged, the 2.5 million on the net earnings per cent appreciation or depreciation of the Canadian dollar is still a good one.

DAVID TYREMAN: Okay. And it looks to me like your backlog is about two to three quarters long. So given the huge decrease in the Canadian dollar, it sounds like you're going to have a pretty big tailwind two or three quarters down the road. Does that make sense or am I missing something here?

ROBERT E. BROWN: No, I think the way to look at it is that we are prudent, we hedge contracts as they come along.

DAVID TYREMAN: Right.

ROBERT E. BROWN: And we also, you know, we establish budgets at certain levels and we, as exchange changes and is favourable to us, we will take bites of it. We're not going to gamble on things moving up and down. We lock in certainty. So I think you're probably right, that as we get into the new fiscal year, you'll see that we probably will have some advantage that's going to come through to us on exchange, as we're bidding on new contracts. And I think the backlog you were... if you were talking about the backlog generally, I think it's longer than the period that you outlined. If you're looking at the civil simulators, it probably is a touch longer than what you said.

DAVID TYREMAN: I'm just looking, you got around 343 million there and you're producing at 100 and some. So I just thought, okay, two or three quarters.

ROBERT E. BROWN: Yes, okay.

ALAIN RAQUEPAS: Close to a year.

DAVID TYREMAN: So if I understand correctly then, the orders let's say you just announced, you would have been hedging those presumably at the current exchange rate. I don't know if you changed your bidding parameters in terms of target margins but if you are, presumably when those come, you're doing the math, say 1.23 Canadian to U.S. dollar, 1.20, whatever the number is, and the old contracts that were rolling off are probably at par or worse.

ROBERT E. BROWN: Yes. No, I wish that were the case, but again, we're very prudent and it's normally based, the exchange will be based in the way we bid at the time of the offer that we make.

DAVID TYREMAN: Right.

ROBERT E. BROWN: And we'll normally do it with a contingency for exchange that can go either way, and so it won't match what you're saying. It won't be as good as what you say because we prefer to have the certainty rather than the fluctuation from the time we bid to the time we win.

DAVID TYREMAN: Right. How long would that typically be, Bob?

ROBERT E. BROWN: It really varies, you know. Some can take six months, some can take a month, weeks. It really varies and you know, what we've been trying to do is be able to deal with people that want things on a short-term basis, people that want to have a negotiation over a longer period. Other cases where we're the preferred supplier or the recognized preferred supplier because of our quality of product, the quality of our product support and so it's different with almost every client in terms of how we deal with it. There's no specific rule.

DAVID TYREMAN: So it sounds like it would take a year, a year and a half before the full effect of a big thing like what we've seen would flow into your statements.

ROBERT E. BROWN: Yes, I would say more the second half of next year, something like that.

DAVID TYREMAN: Yes, okay. Okay, great. Thank you. I'll get back in queue.

OPERATOR: Thank you. The next question is from Chris Murray, from CIBC World Markets. Please go ahead.

CHRIS MURRAY: Thank you. Good afternoon.

ROBERT E. BROWN: Good afternoon.

CHRIS MURRAY: I guess the first question I'd like to talk a little bit about is military spending trends. And if you could touch maybe a little bit on your expectations with a change in administration in the U.S., and if you could also talk a little bit about some European spending trends. I know France has increased their defence budget and there's been some discussions with the NATO countries about increasing theirs. So if you can just maybe touch on any new opportunities you may be seeing and certain programs that you may have opportunities on.

ROBERT E. BROWN: Yes, well, you know, if I deal with military spending trends, our assumption is that basically, they're going to be flat.

There may be some marginal increases but I don't think they'll be able to adjust too much in the short to medium term. And, you know, that's addressed I guess specifically to the U.S. But, you know, all countries right now are under pressure for spending that they're having to have to support their financial systems. And so I think that we should be prudent here in terms of what we expect to come.

We are seeing in some areas that there are increases. Yes, France is one and I would say generally Europe probably is quite good. But it relates more to the platforms, I think, than to the specific countries. You know, for instance, the NH90, I think there's 13 countries that have ordered the machine so far and I think only two countries have signed up for training and finalized their deals. So, you know, there's a number more to come there. We're seeing the C130s as well where we're well-established some platforms. There's things that are coming forward there. We see the Canadian government, we believe, will follow through on the announcement where we are the sole supplier for the Hercules and the CH47 helicopter coming forward. So, you know, I think it's mixed.

The other thing I think that we're going to see is that if military budgets do tighten up, a lot of it may relate to what are called supplementals, especially in the United States where those supplementals are essentially used to fund the war in Iraq and the effort in Afghanistan. It doesn't deal with the sort of the base of military activity.

So, you know, we see there as well that the requirements for training in fact could increase because as we've said before, it's a lot cheaper. I think the U.S. Air Force says it's one tenth the cost to train on a simulator than to fly a live aircraft.

So, you know, I think it'll be a mix, but so far the activity level that we've seen has been very good and the other thing I would remind you of is the contracts that we're bidding on are quite a bit below the radar of the very, very big large political contracts that tend to involve the political activity. So, you know, I think we'll be okay here over the next few years.

CHRIS MURRAY: Okay, thank you. I'll get back in queue.

ROBERT E. BROWN: Thank you.

OPERATOR: Thank you. Once again, please press * 1 for any questions.

ANDREW ARNOVITZ (Vice-President, Investor Relations and Strategy, CAE Inc.): Operator, if there are no more immediate questions from investors at this time, because we are getting close to one o'clock, I would like to open the call to the media.

OPERATOR: There is one more question.

ANDREW ARNOVITZ: Okay, great. Let's address that, please.

OPERATOR: Benoît Poirier, from Desjardins Securities. Please go ahead.

BENOIT POIRIER: Yes, good afternoon. My question is more related to simulation products, military. Your revenues were up 43 per cent sequentially from 88 to 126 million. I understand you got new contracts with NH90 and also the C130, but I was wondering if you could maybe quantify a little bit and also I'm wondering if it's kind of sustainable level at this time.

ROBERT E. BROWN: Yes, I think while the general question here, Benoît, would be we do think that the level of revenues are sustainable and as I mentioned, we think that we can have a 10-per-cent annual increase going forward here. As we look at the mix of contracts, I think that it's basically the ones that you have mentioned where we have been seeing more activity and you know, we had some contracts as well that have come in from Australia, that have positioned us well. We have a great recurring business that we have in Germany. And, you know, things that I see coming forward I think that we're going to be well positioned to do some things in India as well with the foothold that we've established in that market with the investments that we've made.

So it's no one single thing. I think it's just an accumulation of all of the things with some of the large efforts that are coming forward as well on the NH90 type product.

BENOIT POIRIER: Okay, and for the NH90, only two countries chose their training. What are your expectations for let's say the next year?

ROBERT E. BROWN: Yes, I made a mistake here. Maybe three. It's either two or three, but I think that there's a chance that there will be another couple of countries that will be signing in the next year. They tend to be very sizeable contracts that also involve a service component to it. And, you know, the fact that we're teamed here with Dallas, we have a pretty good view on the market and I think a very, very good positioning.

BENOIT POIRIER: Okay, thanks.

ANDREW ARNOVITZ: Okay, I want to thank investors for their questions. We'll now open the line to the media, please.

OPERATOR: Thank you. The first question is from Lee Ann Tegtmeier, from Aviation Week. Please go ahead.

LEE ANN TEGTMEIER: Good afternoon. You mentioned pilot training and attrition. What about on the maintenance side, and how will new technologies and new aircraft such as maintaining aircraft with laptops affect CAE's training?

ROBERT E. BROWN: Yes, well, I think we've said the maintenance training we think is as large an issue as the pilot training. And I think it will basically... this is a growth market area where we're just getting started and so I think that we can continue, we can continue to have our growth in this area. And as you mentioned, the new technologies that are being brought to bear are related to integrated computer technology that allows you to forecast the problems that you're going to have or be able to actually recognize and fix problems when in flight I think are things that are going to become more developed over time.

LEE ANN TEGTMEIER: Thank you.

ROBERT E. BROWN: You're welcome.

OPERATOR: Thank you. Once again, please press * 1 if you have any questions.

ANDREW ARNOVITZ: Okay, if there are no other questions from media, I would like to thank everyone for joining us this afternoon on CAE's conference call and remind you that a transcript of the call can be found on our website at www.cae.com. Thank you very much.

OPERATOR: Thank you. The conference has now ended. Please disconnect your lines at this time. Thank you for your participation.

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