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**Conference call: CAE INC. Q2 CONFERENCE CALL (Q&A only)**  
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OPERATOR: Certainly. We will now take questions from the telephone lines, first from analysts. If you have a question and you are using a speakerphone, please lift the handset before making your selection. If you have a question, please press \*1 on your telephone keypad. You may at any time cancel the question by pressing the # sign. Please press \*1 at this time if you have a question.

The first question is from Cameron Doerksen, from Versant Partners. Please go ahead.

CAMERON DOERKSEN: Good afternoon. I guess a question for you on acquisitions. You've been fairly active over the past number of years in making smaller acquisitions. I'm just wondering if you can maybe describe what the pipeline looks like for additional acquisitions and would you consider maybe making something more significant to accelerate your entry into the new markets like healthcare?

MARC PARENT (President and Chief Executive Officer, CAE Inc.): As you said, we've continued to make what I would term as bolt-on acquisitions and I think you'll continue to see that going forward on our part,

including areas such as healthcare. And what we'd be looking to do there is to gather subject matter expertise, because we know we can leverage our core competencies in those areas in what we're A class at, simulation-based training, simulation-based courseware, those kinds of things.

But clearly, and as you've seen us do, we partner with people that do bring that subject matter expertise.

In terms of bigger, in the current environment that we're in right now, we're taking a cautious approach. We've got a good balance sheet. We like that. It's not to say we don't look. We're open. But I would say that going forward, at least in the period that I can see, we're mainly looking at more bolt-on, continuing in our strategy.

OPERATOR: Thank you. The next question is from Ron Epstein, from Bank of America. Please go ahead.

RON EPSTEIN: Yes, good afternoon guys. Just I guess a competitive landscape question for you. Yesterday Rockwell Collins announced that their 737 full-flight simulator achieved Level D certification. What does that mean? Is that a change for you guys in the competitive landscape? Is Collins becoming a more significant competitor in full-flight simulation or not? I'm just trying to understand what that all means.

MARC PARENT: Well, I think Rockwell Collins has made no secret over the past while that they want to be in the market. We don't take

any competitors lightly and we wouldn't take Rockwell Collins lightly either. I don't think it changes anything in the simulation environment. They're active in the military. We see them there as well. So I don't think that changes things.

We've been in the business for a long time. We've created a very strong franchise with airlines all around the world and we would never be over-confident. That's why I say we take everybody seriously. And it's a tough market out there you know. It's clearly a buyer's market today with the airlines where they are, so I wish them well.

OPERATOR: Thank you. The next question is from Ben Cherniavsky, from Raymond James. Please go ahead.

BEN CHERNIAVSKY: Good morning, guys. I'm wondering about the shutdowns. You said there was an extended shutdown on the civil manufacturing side in the most recent quarter. I assume that's got to do with summer holidays, but then which were extended because of the slowdown? I'm just trying to get a sense of how to read the quarterly revenues in that segment on some kind of a going-forward basis. Is there any kind of adjustment there for that seasonality?

MARC PARENT: I think I'd tell you what the actuals were. Usually in Montreal we close our main manufacturing facility, typically two weeks in July. This year, we closed three weeks and involved more of a

general shutdown, i.e. more people than usually. We also had furlough days in the quarter, two furlough days which again removed two effective days.

So if you look at how many days, how many working days out of the quarter that takes, it's quite a considerable point. So to make any adjustments, that's what you would do.

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

NICK MORTON: Good afternoon. I wondered if you could talk about the effect of the higher Canadian dollar in terms of what your hedges [are] today and how you're offsetting that through cost savings, especially since you've got pricing pressure at the same time.

MARC PARENT: I'll let maybe Alain talk about the details of the amount and what the actual numbers or values of the hedges are. But what I would tell you in terms of cost-cutting, I mean, I think you've seen over the past several years that we've been adjusting our cost base all the time. We've seen a high Canadian dollar before and we've been able to adapt and generate relatively good margins. But that was in an up market and we have to remember that. And that's a critical consideration.

We'll continue to adjust. As I've said, we'll be able to... we'll continue to take some hedge off that through cost-cutting and we hedge

contracts when we get them, but maybe Alain will just provide a bit more clarity of the quarter itself.

ALAIN RAQUEPAS (Vice President, Finance and Chief Financial Officer, CAE Inc.): Yes, sure. First of all, in regards to the quarter, obviously you've seen in the margin of FPC that the hedge program that we've put in place in the last few quarters has helped sustain the margin. The bucket of hedges that we were able to tap in during the quarter was roughly at 115. The spot as I'm speaking today is at 106, 107. I have not looked at the screen recently, but it's 7, 8 per cent apart from our protected hedge rate. So in the future, obviously, it will be a consideration. You know that we're selling in USD in our product civil unit. And we will continue to protect the margin as we win the order, like it has been our policy. **So when** we will secure a stream of cash flow in USD, selling commercial simulators, there will be forward contracts to protect the margins.

But it brings us so far and right now the bucket of hedges we have is emptying.

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

CHRIS MURRAY: Good afternoon, guys.

MARC PARENT: Hi.

CHRIS MURRAY: A quick question on training and services civil. You took another write-down into your backlog and that's the second write-down. You took one in Q4. Can you just explain what's going on there because when we talked about this at Q4, you felt reasonably comfortable. And just listening to your commentary that you see things getting better, I'm just trying to get it sort of aligned, if you would.

MARC PARENT: Yes. It's a process that we go through, Alain, twice a year, right?

ALAIN RAQUEPAS: Yes.

MARC PARENT: Yes. So twice a year, and we do that every year. The backlog in that segment is looked at in quite a lot of detail. And this is the result of that. In terms of the magnitude, it's 4 per cent of the backlog. So it's not large. And really what it is, and what's been taken out, is really customers that either rationalized their fleets... We've seen some business jet departments that have just gone out of business. The companies decided not to use business jets anymore. So clearly where they had a contract with us, they would no longer have a contract. Others just went out of business. So that's really what we're talking about and that's really what this is.

OPERATOR: Thank you. The next question is from Benoît Poirier, from Desjardins Securities. Please go ahead.

BENOÎT POIRIER: Yes, good afternoon.

MARC PARENT: Good afternoon.

ALAIN RAQUEPAS: Good afternoon.

BENOÎT POIRIER: A question on the medical side. You mentioned that you're right now making small initiatives and you expect it to be negative in the short term, but could you maybe provide more details with respect to the impact on the bottom line? And longer term, could you share with us what you would like to achieve with medical in the next two or three years?

MARC PARENT: Okay, I think I've always said and I'll continue to say that it's early days in this segment, so I wouldn't want to create any short-term expectations about adding to revenue and to earnings in a material way. And that's what I've said.

We think the healthcare market itself, and we said this before, is growing over the next three to five years to be a \$1.5 billion market. So if we're in this market, it's because long term we think that this has the potential to be a segment of importance to CAE. So that will be our goal. I'm not saying we'll do that in three to five years, but certainly we will work to establish a position as quickly as we can.

In terms of today, yes, we believe in it, so we're putting people on it. We have people on it. We're making R&D investments. You know, I think if I look maybe, Alain, I think year-to-date, maybe going forward, how much do you see in Q3-Q4?

ALAIN RAQUEPAS: Yes, in fact as we speak, the top line this year, Benoît, will be very small in medical because we're entering that business. Because of the investment, because of people we've hired, in fact, this year, it will be more a drain on our P&L than a contribution because we're investing. We see in the next two quarters that it could in fact take away 4 million of our bottom line in investing in medical. And then we see the ramp-up in the fall.

OPERATOR: Thank you. The next question is from Richard Stoneman, from Dundee Securities. Please go ahead.

RICHARD STONEMAN: Marc, in terms of the competitive landscape, every cycle one or two new players pop up and most of them disappeared. Is the competitive landscape changing at all over what's been seen in prior quarters or prior cycles?

MARC PARENT: I haven't been at CAE in the previous cycles. I've been here five years, but my employees and colleagues that have been in there, the direct reports that have been there tell me that, as you say, that every time that the market heats up and everybody sees the

opportunity, new entrants are part of the landscape. I don't think this is any different. As a result of it, when the market does come down, particularly where we are now in the cycle, we're feeling the brunt of it because you could see airlines are in cash preservation mode which means that every capex type of exposure is extremely scrutinized. Everything goes right up to the CFO level, the CEO level.

So even though there may be a training demand out there, airlines are doing everything they possibly can. So to either push that out, because the regulated market has to come through at one time or another... we're trying to push it out as much as they can, make do with what they've got. So clearly, there's less opportunities taking long to do. So clearly, it's a tough market, particularly with the number of competitors who are in the market.

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

DANIEL KIM: Good afternoon, thank you. Gentlemen, thanks for sharing your near-term view on the military market, but I wondered if you could share with us any views you've been hearing in terms of what might be happening in 2010, specifically with the U.S. military, if you've seen any indications of where the budget might be, how much it might be cut?

And this morning, there was an interesting article. It looks like we're seeing defence spending ramping up in the Middle East. I'm wondering if you might benefit from that increase as well. Thank you.

MARC PARENT: Yes, I think our assumptions with regards to the growth that we've talked about do take into account what we see as happening in the U.S. defence budget, and also worldwide. If you look at where our revenues are in defence, I haven't looked maybe at the latest, latest text, but about 40 per cent of our revenue actually in the military comes from the U.S., approximately.

So we are well diversified globally. So opportunities in the Middle East... certainly we see it as a positive for us and probably if I look at what I see as an order potential out there, those are part of it.

OPERATOR: Thank you. The next question is from Scott Ratté, from Blackmont Capital. Please go ahead.

SCOTT RATTÉ: Hi, thank you very much. Sort of continuing along on that military theme, in the press release, you had mentioned that some of the sort of margin pressure was coming in the training services group just related to a higher level of marketing activity. I guess I was wondering, could you maybe sort of provide some colour on is that as a result of just you're trying to capture more sort of business or is it sort of

reflecting the fact that there's an increased level of competition for the business that you're going after?

MARC PARENT: No, I think mainly in the military, it's largely a result of we see a lot of business out there, so there's a lot of... Clearly, you've got to spend the marketing efforts to be able to secure those contracts. And often in the military, the size of the contracts, the type of business it is results inherently in terms of more of a sales and marketing effort, it takes longer. Sometimes you work two or three years to get a contract. But the payback is usually sizeable contracts and therefore they last for quite a lot of years. So that's what I would see there as the dynamic.

SCOTT RATTÉ: Thank you.

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

DAVID TYERMAN: Yes, Mark, I was wondering if you could comment on the civil training outlook at this point. It sounds like you feel it's reached bottom. Are you seeing it at a stable pace now for a while, or are there any signs of it actually starting to pick up?

MARC PARENT: Well, what I see is if you look at the stats of airline traffic, first of all, the year-over-year comparisons in terms of traffic reduction have been steadily decreasing, meaning people are travelling more than they have been for the last few months. In fact, September is the

first month that actually traffic year over year in September was positive. Now I would caveat that by saying September last year was the beginning of the downturn, so the comparison is maybe not very good.

But where we would see like a 10 per cent drop in traffic a few months ago, now we're down to 2 or 3. And maybe on an average-year basis, about 5 per cent. And on cargo, you see the same thing. You're saying it was down hovering from December to April at about down 20, 23 per cent. Now in terms of year-over-year traffic decline in cargo, now it's about 5.

If I look at business aircraft, you know, I was at NBAA at the show, it was very depressing, yes, in terms of attendance. But you know, you can talk anecdotally to people. You see charter traffic starting to come back. I wouldn't characterize it as a sea-change for sure. I'd definitely (inaudible) corporate profits in the U.S. particularly come back for that. But there is an increase in traffic.

So to me, if anything, I would see... I guess what I'm hoping basically here is that what we've seen in this quarter at 60 per cent is around the level that was a low point in the cycle because it was a seasonal low month and seasonal quarter and we bear the brunt.

Now, it's very volatile out there. So again, we're taking a cost approach. You saw that we're able to make money at that level and that's where we sized ourselves to assume.

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

MARKO PENCAK: Kind of a big-picture question. If you look at the backlogs that Boeing and Airbus have today, and if you look at some of your historical airline customers that are in that backlog, and if we assume that the deferrals and cancellations have abated, and if we further assume that the typical timing difference between when they are to deliver, or when they are to receive new aircraft deliveries and when they purchase simulators, when would you expect to see a rebound in order intake? And I'm just more curious, not to sort of hold you specifically accountable, but I'm just curious, when you look at your highest-prospect customers, where their deliveries are in Boeing and Airbus backlogs and when that could theoretically then translate into orders for your simulators?

MARC PARENT: Yes, I think it's inherent that there are a lot of assumptions in what you're asking, but what I would tell you is that we're not assuming a quick recovery here. And as I've said, we're expecting and my assumption is GDP will start to recover next year. Traffic maybe, you know, if there's a lag to it, maybe 12 months, and then traffic starts to pick

up in a more positive way year over year, then the airline profits are after that, a few months to a year after that, for sure.

So deliveries of aircraft are one thing and that's the main driver, you're right. We'll see what happens on that side in terms of delivery rates out of the OEMs. But the dynamic that we see at a time like this, that we are in the market right now, as I said, you know, airlines are in a cash crunch and they're pushing back as much as they possibly can.

So we're not banking on a big increase at the moment. We're going to update that as we always do at the beginning of the year. Typically, what we do, really to your question,...whether a few months out... we basically talk to all of our customers one by one where they are in the backlog. And we see, we form a good opinion about what they're going to be able to do and then that's the basis that we've gone in with the outlook that we've given for this year.

OPERATOR: Thank you. As a reminder for analysts, you may press \*1 if you have a question. The next question is from Ben Cherniavsky, from Raymond James. Please go ahead.

BEN CHERNIAVSKY: Hi, just a follow-up question as I listen to all the discussion about your outlook, is it fair to say that your view of the market has tempered at all in the last three, six months on the commercial

side? Did you become a little more cautious about margins and order activity on the commercial side, at least?

MARC PARENT: I don't think so, Ben. To me, I maintain that I really believe that, again, as I explained, the two parts of our business... and we're really learning by the way this for the really first time, the impact of us being in training... whereas because it's early cycle business, when the pickup starts, we expect to see pretty quick and the parts business we know, it's a late-cycle business and we're bearing the brunt of it now and we will bear the brunt in the next few quarters. But by and large, as I look at those two together, with the assumption we make on the market, I still see out there that we should be able, on an average annual basis, to generate mid-teens profitability in that combined civil segment.

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

MARKO PENCAK: Yes, thanks. I basically want to ask my previous question again because you commented, Mark, you know, your outlook for this year. I'm not at all sort of... that's not where my question was. What I'm trying to understand is in the context of the backlogs as they sit today and certainly recognizing that airlines have been pushing things to the right, what I'm trying to understand is based on your most prospective customers, is the bulk of their deliveries, if you were to aggregate your

prospects, are they 2011-2012, 2013? I'm just trying to gauge where in a long-term scheme of things your most prospective customers are?

And I guess secondly, I'm curious by your comments being so focused on traditional growth metrics in terms of overall passenger because a lot of the backlog has to do with replacing basically new aircraft for existing older aircraft and fleet size isn't really going to change. So even if the passenger metrics don't improve, there's still going to be some replacement which given the change in aircraft type, is going to stimulate some demand for you guys. So I mean, I don't know if you're comfortable adding or expanding on your question, but I'm really just trying to understand the bigger picture, longer term, where the bulk of your most prospective customers might be.

MARC PARENT: You know, I'd really like to tell you that we have as good a crystal ball as that at the moment, but it's a very volatile environment out there. You know, some of the information you asked for, (inaudible) customers' sensitive information, we may know where they're at and discussions they maybe have with the OEMs are not very purview to us for a lot of reasons. So I really believe we're going to just have to wait to see what deliveries look like in the next couple of years to be able to really figure out what deliveries of and orders of simulators are going to be.

Meanwhile, you know, we've aligned ourselves to deal with the market that we're in in terms of our cost structure. And going back to what we were saying, replacement is a factor but passenger growth is also an important factor as well.

So I think you're going to have to be patient with us and live unfortunately with the visibility that we live with and we're going to update this as we always do at the beginning of the year.

OPERATOR: Thank you. The next question is from Ron Epstein, from Bank of America. Please go ahead.

RON EPSTEIN: Hi, guys, just a follow up. You discussed the pricing pressure a little bit. I just want to better understand where the pricing pressure comes from on the commercial side. Is it because it's just more of a buyer's environment or can you just give us more colour there?

MARC PARENT: Well, I think one of the factors is that. The number of competitors for the level of opportunities is one. The level of potential orders out there to market is much reduced. The number of competitors hasn't. So I mean, obviously airlines are in a cash crunch. They're not going to leave any dollars on the table because they need every cent. They're our customers and that's where this is all coming from.

RON EPSTEIN: Okay, good. Thank you.

ANDREW ARNOVITZ (Director, Investor Relations, CAE Inc.):  
Operator, we want to ensure that we have enough time left in the call for members of the media, so I would call the investor portion closed and I'd like anyone who has any additional questions to contact me personally or any member of the team here.

And so now we would like to open the call to members of the media.

OPERATOR: Certainly. From the media, if you have a question, please press \*1 at this time. The first question is from Ross Marovitz, from Canadian Press. Please go ahead.

ROSS MAROVITZ: Yes, I'm wondering if you've had any impact in this quarter or up until now from the Buy American Act? And if so, what has been the impact? And do you expect any going forward?

MARC PARENT: No, I think the answer will be no to that. Certainly nothing that I'm remotely aware of. We're a very international kind of company. I haven't seen any of that. Wouldn't expect it either.

OPERATOR: Thank you. The next question is from Marie Tison, from La Presse. Please go ahead.

MARIE TISON: Oui, bonjour. En mai dernier, vous aviez annoncé un certain nombre de mises à pied. J'aimerais savoir si elles ont été toutes effectuées ou s'il y a eu des rappels. Et à partir de maintenant, est-ce que

vous prévoyez d'autres mises à pied dans un avenir proche ou moyen ou plus long?

MARC PARENT: Merci, Marie. Les mises à pied qu'on a annoncées à ce moment-là, on est encore à les faire. On pense finir ça d'ici la fin décembre. C'est notre horizon en ce moment pour finir les travaux qu'on avait en cours. Mais on a ajusté notre main-d'œuvre en fonction de ce qu'on voit devant nous, ce qu'on croyait à ce moment-là.

Les choses n'ont pas sensiblement changées. Mais écoute, mon habitude a toujours été la même dans ça. Malheureusement, c'est nos clients qui décident le nombre d'employés qui travaillent chez CAE, de n'importe quelle compagnie. C'est vraiment le marché qui va nous guider. Est-ce qu'on va être capable d'aller chercher nos commandes? On a guidé le marché et puis nous-mêmes, nos attentes vers 20 simulateurs cette année. C'est important qu'on aille chercher ça.

Mais par contre, c'est un business militaire, c'est un vase communicant. Donc si on réussit bien dans le militaire, si on réussit à avoir d'autres commandes importantes du côté du militaire, on va pouvoir mettre des employés de ce côté-là, comme on a fait. Le fait d'être dans le militaire a vraiment minimisé les mises à pied qu'on a faites, annoncées en mai.

La même chose... les programmes de recherche qu'on a avec l'aide du gouvernement canadien, du gouvernement québécois nous aident à protéger les emplois. Sensiblement, c'est ça la situation en ce moment.

OPERATOR: Merci. Thank you. For members of the media, you may still press \*1 if you have a question.

ANDREW ARNOVITZ: Operator, if that's all the calls we have from the media, we'll conclude the conference call. I'd like to remind everyone that a transcript of today's call is available on our website at [cae.com](http://cae.com), as well as in audio replay and thank everybody for their participation.

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

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