OPERATOR: Our first question's coming from the line of David Newman, with Cormark. Please proceed with your question.

DAVID NEWMAN: Hi, good afternoon, folks.

MARC PARENT (President and Chief Executive Officer, CAE Inc.): Good afternoon, David.

DAVID NEWMAN: Just on the military side, obviously I think you've got the European situation beginning to sort out, but the U.S., we've got the elections behind us. You have the automatic spending cuts coming up ahead I think on January 3rd. There seems to be a political will to kind of derail this and perhaps unfreeze spending. So I guess my question is, you know, does this have an impact? Do you think it'll be derailed? Would it have an impact if the automatic spending cuts go in? How does the U.S. military play out here?

MARC PARENT: Well, a lot of questions and a lot of uncertainty among what you say for anyone in the defence industry.

DAVID NEWMAN: A lot of what ifs, yes.

MARC PARENT: Yes. But I mean, in the end of the day I think that where we are today, procurement is still going to go on. They're operating under a continual resolution. Platforms that we're good at are being funded, any kind of budget scenario that you see, you know, we talk about platforms like the C130, the MH60, and you know I look at… again, I talked about this $2.7 billion of bids and proposals we've got out there. But you know, over a billion of those are in the U.S. alone and they're based, you know, by the fact that they're active bids and proposals, it means that they're programs of record. They're not speculative at all.

So you know, the fact that they're able to continue to procure and that they have... there is a very real requirement for those products and services that we're bidding. You know, I mean, clearly we'll have to see. If the fiscal cliff materializes, I don't think anybody really can really make a prediction of what would actually happen in the short term.

I personally don't think anything will happen in the short term, to be very frank with you, and I think that this will be pushed. You know, I mean we'll operate under continuous resolution. And you know, like everybody, you'd hope that now that the election is over, that cooler heads will prevail and a compromise will be made in the interests not only of the defence industry but, you know, from economy in general. So you know, I don't think in summary this changes our prospects much one way or another for our business.

DAVID NEWMAN: Okay, and just one last one. Just as a realignment of some of your training in Europe to emerging markets and elsewhere, do you think this is the leading edge of a shift or is this just tweaking? In other words, do you think we're going to see more of this in the future where you're going to realign your business towards the emerging markets and shift more of the sims out of that market as it stabilizes, and even maybe the growth prospects aren't there and you'll just shift more down into some of the emerging areas?

MARC PARENT: Are you talking specifically in civil, or…?

DAVID NEWMAN: Yes, civil training. It seems like, you know, you're moving some sims over there into Europe… into, sorry, into Asia, elsewhere?

MARC PARENT: Okay, yeah. No, well, I mean, obviously you go where the market is. If you look at the past few years, you know, the lion's share of the market for new airplanes has gone to emerging markets.

DAVID NEWMAN: Right.

MARC PARENT: Asia-Pacific, China and really, I mean, where there's airplanes, as you know, it's a regulated business. Every 30 narrow-body airplane that gets delivered to an airline, they have to… they need, necessities a need for simulator capacity in the market. And if you have wide bodies, it's about double that, meaning that you need a simulator for every, you know, 15 aircraft.

And in fact, what you see in Asia-Pacific, there's a disproportionate number of wide-body aircraft.

DAVID NEWMAN: Right.

MARC PARENT: So, you know, I think that's where you're seeing the fastest growth. But having said that, the legacy markets or the way we call them, I mean, North America, Europe are still very large and there's a lot of replacement opportunities as people upgrade their fleets to more fuel-efficient airplanes.

So I think what you see us doing specifically in the case of recently is us taking simulators that were in Oxford, for example, where they were unutilized because of... I mean, when we bought Oxford, they had a limited scope for being able to move simulators within a network because they didn't have a global network, barring one centre in Hong Kong. But we have a global network where we can move simulators around cost effectively.

So that's really what you've been seeing us do and we'll continue to do that until we've completed our integration of Oxford and we'll continue to react to the market in placing simulators, where the airplanes go.

DAVID NEWMAN: So it sounds like it's just one time and one time or a couple of quarters worth and then once you've realigned, you're good to go?

MARC PARENT: Well, I think if you're poking at the impact that the integration has had I think it's safe to say that we've had a disproportionate effect, you know, disruption to our operation, I think the large part is behind us. I mean, we will still have some simulators that we're going to move around, and I think we've talked about it when we had the initial calls about the acquisition of Oxford that we were going to move about 12 assets.

DAVID NEWMAN: Right.

MARC PARENT: We're not… we're clearly not going to move them all at the same time. You know, we took advantage of the fact that during summer, you know, airlines aren't flying much. So you try to move... you try to do... you know, shutting down, moving simulators in that period. I mean, we still, you know, we haven't moved 12 clearly, but there's more to be done. But that'll be done over a period of time. So I think the lion's share of disruption, coming back to it, was associated this quarter to moving simulators to the fact that, you know, we've affected literally a third of the workforce within the combined workforce of Oxford plus CAE here, that you know, people worried about losing their jobs, and that has a bearing on the efficiency that we're able to run our operation.

At the same time, you know, when number one buys number three, that it kind of attracts attention and we had an investigation by the Office of Fair Trade in the U.K. which kind of delayed us. What I'm happy to say, that's free and clear. We had a free and clear ruling from them.

But all of these factors is really what hit us here and you know, I certainly don't expect that to reoccur, nowhere near to that level.

DAVID NEWMAN: Okay, very good. Thanks, Marc. Great answers.

OPERATOR: Thank you. Our next question coming from the line of Benoît Poirier, with Desjardins Capital Markets. Please proceed with your question.

BENOÎT POIRIER: Yes, good afternoon. My question is related more about the SPC. Could you maybe provide more colour on the… what impact the summer season and what was the utilization rate in the quarter? And when you say it's back on track, where are you so far in the quarter? Thanks.

MARC PARENT: Okay, Benoît, I think you probably mean TSE, right?

BENOÎT POIRIER: Yeah, yeah, sorry.

MARC PARENT: Okay. And just coming back to saying, we're back to more normal... what we consider normal, in line kind of utilization for this period. I mean, we have October that we're looking at. We're back in the numbers that we usually see and in this period of time, which is a big difference compared to where we were a couple of months there during the summer.

BENOÎT POIRIER: Okay, and what was the number in the summer, Marc?

MARC PARENT: Well, we were 69 per cent. Let me just look at the numbers here. Am I looking at the right number? I'll give you two numbers. One with and without Oxford here for comparison. I'm just getting the numbers off for myself. We had… we had 65-per-cent utilization in the quarter. If you were to normalize that you'd compare say with last year, for example, you know, because Oxford gives you a dilution, it would have been 69. But so the absolute value was 65.

BENOÎT POIRIER: Okay, thanks.

OPERATOR: Thank you. Our next question coming from the line of Hamzah Mazari with Credit Suisse. Please proceed with your question.

ANDREW MOUSSA: Hey, it's actually Andrew here. I just wanted to know, given the strong performance of the new core markets, you know, even though it's off of a smaller base, do you plan on spending more capital growing that business, given that defence is a bit slower right now?

MARC PARENT: No, I don't… Well, I don't think that it'll attract any kind of capital that would really affect our numbers in any material way. We're going to continue to invest in those businesses, in G&A, in R&D. We might do… we might do... I don't have any imminent, I will tell you, but we might do some more bolt-on acquisitions if we see the kind of technology that we're looking at.

But I think we're going to spend in proportion to the size of that business.

ANDREW MOUSSA: Okay, and I guess just more a broad question if you could just talk to us about the impact of, you know, four more years with the Obama Administration, if it has any impact at all on your business?

MARC PARENT: Well, look, I think that the one I was looking at statistics today of what the two presidential candidates, you know, what their platforms were. I mean, an immediate thing, I know that if you look at some analysis I've seen, I saw, you know, a Credit Suisse report just recently, you see under President Obama it's good for helicopters. Good for helicopters, good for CAE. That's one example.

But so look, we had four years of that administration. I think we're going to have four years.. I think that you know, in large part, I think… I don't see much change one way or another.

You know, what I will say is that the day that the U.S. defence budget... the day that sees revenue as a proxy for the size of the U.S. defence budget, then I'll kind of worry about that kind of issue. But we're not there yet. I think there's still lots of opportunity for us to grow within the largest defence market in the world.

ANDREW MOUSSA: Okay, great. Thank you very much.

OPERATOR: Thank you. Our next question coming from the line of Steve Arthur, with RBC Capital Markets. Please proceed with your question.

STEVE ARTHUR: Yes, hi, thank you. Just shifting gears a little bit, if we look at capex expectations of around 150 for the year, that's implying something lower for the second half. So if we look at that, without getting into any specific numbers, is it fair to say that capex might be trending lower over the coming years, that is still expansion but less aggressively in favour of cash flow? Is that the right way to think about it?

MARC PARENT: Well, I think you've got to go back to the outlook that we gave in the last call which haven't changed. We haven't changed much and you know, I think that what you're seeing is pretty much what we've indicated. And our priorities for cash remain that we're going to invest our capex. We're going to continue to grow our business and that's our first priority. We're going to invest our capex where we see specific opportunities to grow. I mean, there's going to be a lot less speculative than it has been in the past. You know, target, for example, specific joint ventures where we are growing with our customers. You know, for example, we did joint ventures last year with Fasco(ph) and carriers like Cebu Pacific, like Indigo, through InterGlobe, their parents, like Air Asia. So as they add airplanes, you know, we'll be adding simulators and therefore capex to those joint ventures. But you know, there's an anchor customer. There's a guaranteed return.

So those are the kinds of things we're looking at.

The second priority is to deleverage. And you know, we're not uncomfortable with it, and Stéphane can talk more about that if you ask him, but you know, we're not uncomfortable. Well, we are but having said that, you know, after the acquisition of Oxford, we're more levered than we were. Certainly not unreasonable levels. But you know, we think somewhere between where we were before the acquisition and where we are today is somewhere we'd like to trend.

And finally, you know, you saw us do a dividend increase in the first quarter and you know, third priority is to share with shareholders, either by dividends or through looking at – although we haven't done any – looking at potential share buybacks. But again we haven't done any so we're not indicating anything here except that it's a priority we'll look at.

STEVE ARTHUR: Okay, great. Thanks very much.

OPERATOR: Thank you. Our next question coming from the line of Cameron Doerksen, with National Bank Financial. Please proceed with your question.

CAMERON DOERKSEN: Yes, thanks. I just want to go back to the civil training segment and you talked a bit about the fairly weak or unusually weak summer, I guess. I was just wondering if you could maybe talk about why you think there was an unusually weak summer period and if that was, you know, a CAE-specific issue or was that really an industry issue? And I guess sort of secondarily to that, you know, in what regions did you see that weakness and are you seeing any, you know, pockets of weakness still in various geographies?

MARC PARENT: What we saw, and to put it in context there, it's best to look at it apples to apples because the dilution of Oxford tends to skew things. But really what you saw is if we compare normally what you see in summer periods is about a 5-per-cent drop in utilization. What we saw apples to apples this year is about 8 per cent. So you're about 3 per cent worse and that's what affected us. Plus, as I said, you know, all the other disruptions that we talked with the integration of Oxford.

But really, I mean certainly there's not a… we don't see an industry issue here. The issues we specifically had was what actually just a couple airlines located in India, Asia and Europe. And frankly, they're all airline-specific issues. And I call them issues. They're just… they did, you know, their pattern of initials versus recurrent training changed during that period.

In one specific case, in India, you had Kingfisher Airlines, I'll use their name just because, you know, they went out of business and we were training them. So that affected us specifically there. But now all those pilots that work at Kingfisher redeployed to other regions, to airlines in the region. So we'll see a pickup. But I mean, those are issues that affected us.

And like I said, you know, when we look at underlying that we don't see an industry issue here is that we're back to more normal levels as early as October.

CAMERON DOERKSEN: Okay, and are you seeing any changes from… in this quarter versus previous quarters on the business aircraft side? I mean, is it still the same trends soft on the mid and light side, they're still pretty strong on the large side?

MARC PARENT: Yes, that's what we see. I think we're actually starting to see maybe a little bit of weakness on the … you know, further weakness on the light side. But the large cabin is still very strong. The seasonal disruptions specifically in business aircraft, you know, was pretty much in line with what it usually is. So I don't see any big changes so far. Nothing terrible good, nothing terribly bad.

CAMERON DOERKSEN: Okay, thanks very much.

OPERATOR: Thank you. Our next question coming from the line of Fadi Chamoun, with BMO Capital Markets. Please proceed with your question.

FADI CHAMOUN: Thank you. Good afternoon. A question on the military. I hear you in terms of your comments about the outlook and you sound fairly comfortable and confident and… but we're still coming off here two rounds of restructuring back to back in Europe. How comfortable are you that this is not likely to get worse or occur in some other regions in terms of your military business?

MARC PARENT: I think I'd start with what happened in Germany specifically. You know, what we had in Germany is we had an operation there which is the only operation outside of the mother ship, say Montreal and Tampa, where we actually had a sizeable... quite sizeable engineering operations program management, you know, full operation. And that's a legacy. It's a legacy, you know, way of doing business that we're not in in other regions now. And we've kept it because we… because there's orders in the European region and in Germany specifically that underpin that.

But the market's changed, you know, quite dramatically. I mean, the restructuring of the German Armed Forces specifically is the most pronounced, I mean, now that's coming to light, it's the most pronounced since the end of the Second World War.

So, you know, unfortunately, when we did our first restructuring, you know, we were taking the view that we were going to be able to continue to win orders and there was programs out there that we could see and that would sustain our operations. Although we'd be at a lower level, we'd still be able to sustain that operation.

The reality is, you know, the depth of the cuts, it means the orders just aren't there. Certainly not on products, and to sustain the level of activity. So what we've taken... you know, taken the view is that we are sizing that operation now to a conservative view of what that market will be and we're consolidating now the operations, you know, in Germany, to be in line with we'll say for example what we do in other countries like the United Kingdom. We will have still... we are certainly not abandoning that market. It's a strong market. We will do services. We will do... we will have personnel to be able to do support to the customer, customer service running a few platforms that we have over there, like the Tornado as an example.

So, and coming off the second part of your question there, I think Germany and Europe as a whole I think we've sized ourselves what I would hope to be pretty conservatively. You can never be totally sure, but I feel pretty good that we've done, we've taken an aggressive view here, a conservative standpoint.

Now when you look at the rest of the world, I take your point. And look, in the end of the day we've got to win orders. But that's no different than we ever have been. We have been operating the last couple of years in this kind of environment where delays in procurement have been, you know, kind of the order of the day. But you know, where I take the strength, Fadi, and where I take my confidence is again, I'm looking at this backlog of business. Sorry, not backlog but my biz, and I have… we have, I'm looking at, and believe me, we looked at this in a very detailed manner: $2.7 billion of biz written and proposals written against real customer requirements.

Now there's always… so if those come to fruition, I have absolutely no problem of growing and growing strongly.

Now do I expect that to happen the way it will? No. I fully expect that things will continue to get delayed and that those will… those $2.7 billion will be stretched over a longer period than we currently anticipate. So I'm taking the view that we're going to be … you know, we have to get through this period of uncertainty, but I feel confident that with the backlog of proposals we have out there, the pipeline is strong and that we'll be able to continue to be successful.

And in terms of, you know, if it doesn't, you know, I think when you look at what we had to do in Germany, it's … you know, it's quite costly to reduce your operations in the European context. It takes a lot of time to be able to unfortunately be able to lower your workforce. It takes a lot of time to negotiate with worker counsels, for example, and take the time and there's a process. There's laws to be done. And it's very costly.

You know, I don't see that same… if we have, and heaven forbid, to reduce more in the rest of our operations, I'm not… first of all, I don't anticipate that. But should it happen, I'm not seeing... I'm not anticipating that level of costs.

So look, a long-winded answer, but look, it comes back. We have to win orders. I'm looking at this pipeline, I believe we're going to win orders. I can't... I just can't predict. I'm not the one writing, as I've always said, I don't predict when the government procurement will actually, you know, press the button and give the order. I don't think nobody can.

FADI CHAMOUN: Okay, that's helpful. And Stéphane, maybe a quick question. Do you expect to be working capital neutral this year?

STÉPHANE LEFEBVRE (Vice President, Finance and Chief Financial Officer, CAE Inc.): Well, definitely I'm expecting some reversal of non-cash working cap. What we… we've seen this quarter, I think last quarter, last year at the same quarter we started reversing some non-cash working cap earlier in the year and this time around, I can see the reversal starting in the third quarter as opposed to the second quarter.

So I'll see a portion, maybe not all of it, Fadi, in the remainder of the year. I don't think we'll be non-cash working cap neutral by the end of the year but you'll see a portion of that reversing.

I'm quite… I mean, I'm quite… I'm quite pleased with certain areas of our non-cash working cap that we've managed, especially in looking at our receivables, the aging is better than it was a year ago. Even the DSOs are better than last quarter.

But we, going through this quarter we had to... Q2, we had to pay some payables that were … that we inherited from the acquisition of Oxford and the other drag to the non-cash working capital is the delay in some military procurement that reduced the deposit of contract that we typically have.

But just going back to my initial answer, I don't see it all reversing towards the end of the year, but a portion of it will reverse in the second half of the year.

FADI CHAMOUN: Okay, and related to the restructuring in military, if I take out the gain this quarter, your margins were in the low 10, around I guess between 11 and 10. How do we… should we think about the progression back, sort of mid teens in the next few quarters?

STÉPHANE LEFEBVRE: You know, Fadi, I think, I mean, you need two things to go back to where we were before. Marc just talked about the impact that the restructuring in Germany will have. I guess the issue we have is you know what you have to do, but it takes time before costs are actually, you know, out of the plan. So you end up with a much lower volume of business in a location where you still have to absorb your fixed overhead.

So the first thing that will need to happen is well actually cutting costs and having those costs out the… our manufacturing plant in Germany.

And the second thing is volume. In the past year, you're looking at the 15 per cent plus that we've guided last, you know, that we've been guiding for quite a while. And we had a second half of the year in our military business where the volume increased quite… by quite a bit.

So once you got both, you get back to the 15-per-cent types of margins that we've guided.

FADI CHAMOUN: Okay, thank you.

OPERATOR: Thank you. Next question from…

ANDREW ARNOVITZ (Vice President, Investor Relations, CAE Inc.): Yes, Operator, so I will… we'll have time I think for one more question from investors so that we have some time for members of the media.

OPERATOR: Thank you. Our next question coming from the line of Chris Bowes, with Canaccord Genuity. Please proceed with your question.

CHRIS BOWES: Thank you. I just have a housekeeping question. I'm wondering if you can help me with how those unusual gains run through the segments?

STÉPHANE LEFEBVRE: Sure I can. Well, the biggest... I mean, there are two main ones. One of them is specific to military and it's a 5-million reversal of a provision that we booked on an acquisition that dates back to 2009 for call it an earn-out provision that we reversed as the contractual deadline came up for us to make that payment in the quarter. So we didn't have to make the payment. We reversed the provision.

The other big item is some FX gains, and I'll… there's 8.3 million of FX gains in the quarter. I'll split that in two parts. The first one is specific to … specific to Oxford and when we acquired the business, we looked at the basket of currencies that the company Oxford had and the exposure on different currencies, more specifically in relation with some lease obligations.

We've applied our hedging program to those obligations and those leases are now hedged and along the way we crystallized some FX gains.

The other part is not in relation with Oxford but in relation with our internal loan financing structure that we have in place like many companies, a double-dip structure and we had restructured some companies during the second quarter.

The company that we bought, Oxford, also had a similar vehicle, so we'll… in preparation for merging the two vehicles, we reorganized some companies and some gains were crystallized along the way.

CHRIS BOWES: Fair enough. So the 5 million fair enough to assume that it went through SPM and the FX is all training, civil?

STÉPHANE LEFEBVRE: So the 5 million went to SPM and the FX, the first part that I talked about for Oxford leases went to TSC. That's a 2 million FX gain. And the rest was not specific to a segment, so it spread across all four segments.

CHRIS BOWES: Okay, thank you.

OPERATOR: Thank you.

ANDREW ARNOVITZ: Operator, we'll now want to open the lines to members of the media.

OPERATOR: Thank you. So for the members of the media, as a reminder to register for a question, please press the 1 followed by the 4. One moment, please. Our first question coming from the line of Ross Marowits, with Canadian Press. Please proceed with your question.

ROSS MAROWITS: Yes, hello. I'm wondering if you could first, the restructuring in Germany, is there any impact on Canada?

MARC PARENT: If there's… not immediately. If there is some, we don't anticipate now. We don't know, but I can't categorically rule it out but don't anticipate some right now.

ROSS MAROWITS: So you don't anticipate any job losses as a result in Canada?

MARC PARENT: No, don't anticipate some right now.

ROSS MAROWITS: And is there a number as to how many job losses will be in Germany?

MARC PARENT: Yeah. Well, I mean, it's… it's in the neighbour of… I'm just hesitating here because of what we've told our own population here. But I think the total job losses, not only in Germany, we're sizing at approximately 100.

ROSS MAROWITS: A hundred, okay. And you talked about in terms of the U.S. election that there isn't much difference with the result. But if the Republican... if Romney had won, where might you have seen potential for increases?

MARC PARENT: It's hard for me to get in that level of detail because you know, we're talking so much what if there. For us, you know, what I look at is no matter what kind of administration was coming in, the kind of platforms that are important to us, you know, helicopters and transport aircraft, are being funded.

And, but as a broader answer to your question is, you know, I mean, a question like you have, you know, has obviously a very big impact if you're a major defence contractor in the United States, a company, I don't know, like Lockheed Martin, like Northrop Grumman, like Boeing. I mean obviously those kinds of questions are very material because you know, depending on their view of their major platforms, whether it be a Joint Strike Fighter, nuclear submarine, whatever, it matters; but us, I mean, we have a strong military business. But let's be honest. We operate at the margin of defence spending in the U.S., which is… which is actually good in the sense that it's a great, big market for us and we can go… so we can go get more.

I think what the effect for us – and it really doesn't matter which administration it is – is that you know, there's delays that are being caused because of difficulty in reaching decisions.

I mean, perversely, I mean, the fact that we have the same administration means that you don't have a big disruption time that's caused when a new administration comes in. As you can well imagine, all the personnel changes. All the people in the White House change, the people supporting them change and that whole administration, by the time it changes, that in itself causes, you know, anything from a six to a nine-month, you know, lag in some decisions being made.

So clearly we're not having a change in administration, so on that basis alone, that would be a positive.

ROSS MAROWITS: Okay, thank you.

OPERATOR: Thank you. Once again, for press and media, if you wish to ask a question, please press the 1 followed by the 4. One moment, please.

There are no further questions from the press at this time.

ANDREW ARNOVITZ: Operator, thank you very much for handling the call. And I'd like to thank members of the investment community and the media for joining us today for the second quarter conference call and remind you that a transcript of the call can be found on our website at CAE.com.

Thank you.

OPERATOR: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines. Have a great day.

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