



CAE'S 2015 ANNUAL MEETING OF SHAREHOLDERS

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Stéphane Lefebvre, Vice President, Finance, and Chief Financial Officer

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Thank you Mr. Chairman

Bonjour à tous

Good morning Ladies and Gentlemen

Je suis heureux des résultats de notre exercice 2015, nous avons atteint la plupart de nos objectifs stratégiques et financiers. Nous avons clôturé l'exercice avec des revenus records et des bénéfices plus élevés, et nous avons atteint un nouveau record au niveau du carnet de commandes qui s'élève maintenant à 5,4 milliards \$. Nous avons conclu d'importants accords de formation de pilotes, y compris trois nouvelles coentreprises, nous avons vendu 41 simulateurs civils dans un marché hautement concurrentiel, et nous avons renforcé notre engagement envers la responsabilité sociale d'entreprise.

What drives those results and makes me very proud, is that our training solutions are beneficial to society: Training Matters. This is the theme of our annual report and of this annual meeting of shareholders. We are very fortunate at CAE to be able to get up in the morning and go to work with a mission to make air travel safer, to allow defence forces to be well prepared and return home safely, and finally to help medical personnel save lives. How many people can really say that what they do makes a difference for millions of people?

(PAUSE) **(Setting the standard)**

Training matters, and we strive to be the best at what we do. Through seven decades of innovation and the passion of our employees, CAE has set the standard of training by simulation and played a key role in making the skies safer.

Nous formons présentement plus de pilotes de ligne partout dans le monde que quiconque, nous sommes un chef de file en formation pour l'aviation d'affaires et sur hélicoptères, et nous sommes la seule entreprise à offrir un si large éventail de solutions complètes, de la formation d'élève-pilote à commandant de bord en passant par le placement de membres d'équipage.

Du côté de la défense, nous sommes un important intégrateur mondial de systèmes de formation sur un large éventail d'aéronefs. Les forces armées de plus de 30 pays s'entraînent avec CAE pour des missions dans le ciel, sur la terre et en mer.

La passion de nos employés et la qualité de nos solutions assurent des retombées positives pour nos clients et la société en général.

(PAUSE) **Innovation Leader**

Chez CAE, l'innovation demeure constante; c'est notre façon de contribuer chaque jour à améliorer la formation.

Nous innovons en réunissant nos capacités provenant de l'ensemble de nos secteurs d'activités. Par exemple, au cours de l'exercice 2015, nous avons combiné nos capacités de formation et de simulation de la mobilité aérienne avec les simulateurs de patients de CAE Santé pour fournir un système intégré d'entraînement aux évacuations aéromédicales à l'U.S. Air Force Reserve Command.

Du côté de l'aviation commerciale, notre innovation au niveau des services de formation a été confirmée par la signature de trois accords importants. Nous avons mis en place des coentreprises avec :

- Japan Airlines, l'une des plus importantes et des plus anciennes compagnies aériennes au monde;
- avec China Eastern pour lui fournir de nouveaux pilotes et appuyer sa croissance;
- et avec Lufthansa Flight Training pour la formation des pilotes et du personnel de cabine sur les avions C Series de Bombardier.

We were also innovators in preparing cadets for the Multi-Crew Pilot Licence --or MPL-- certification, a revolutionary way of training pilots which uses more simulation, allowing CAE to play a bigger role.

And beyond providing training, CAE is a thought leader in our industry. We work closely with regulatory agencies to help draft pilot training certification and aviation safety regulations. Testimony to this thought leadership, we were the only non-airline and non-aircraft manufacturer invited to the industry committee implementing the new industry standards to prevent Loss of Control in-Flight, which is the primary cause of aircraft fatalities worldwide. We were also the first to implement the new standards.

(PAUSE) **World-Class Expertise**

Our people and expertise are at the very heart of our success as a training organization.

Every year highly-qualified CAE instructors and personnel support the training of more than 120,000 civil and military crewmembers.

For example, in Canada, our people established and operate the air mobility training centre in Trenton. It is one of the world's most advanced examples of training systems integration and showcases the full breadth of our capabilities. Many foreign defence forces

have come to Trenton to see how our approach might be implemented back at home. This is just one example of CAE setting the standard.

In the U.S., we continue to deliver classroom, simulator and live flying instruction to all pilots and sensor operators of the Predator and Reaper drones. We are actually responding to an increase in demand for UAV training from the US as well as other forces.

Et nous ajoutons de nouvelles compétences au niveau de l'entraînement en vol des pilotes de chasse. Au Canada, nous deviendrons le maître d'œuvre responsable du programme d'entraînement en vol de l'OTAN. Grâce à ce nouveau savoir-faire, nous serons un partenaire encore plus précieux pour nos clients militaires au cours des années à venir.

Notre savoir-faire est reconnu au niveau de la formation des pilotes civils et de la préparation des forces armées. Et, notre expertise peut aussi s'avérer inestimable lors d'opérations de secours humanitaires. Par exemple, durant les tremblements de terre qui ont secoué le Népal, nos employés ont développé, en l'espace de quelques heures, des bases de données virtuelles des aérodromes népalais afin de permettre aux forces aériennes de l'Australie et du Royaume-Uni de répéter leurs missions avant le déploiement.

(PAUSE) **World-leading technology**

Au cours des 10 dernières années, nous avons investi plus de 1,2 milliard \$ en recherche et développement pour créer les solutions de formation les plus évoluées. Nos employés sont au cœur de nos innovations grâce à un programme appelé Défis de l'innovation. Nous recevons des centaines d'idées de la part de nos employés chaque année et les idées gagnantes sont intégrées dans nos solutions.

Our latest generation simulator, the CAE 7000XR Series, was developed with some of those ideas. And last September, we qualified the world's first simulator for the Airbus A350, well before the entry into service of the aircraft.

In Defence we launched our latest generation CAE Medallion-6000 image generator.

And in Healthcare we continue to transform the training of medical practitioners. Medical device companies are coming up with revolutionary products to save lives. These technological advances create training needs for healthcare personnel at a faster pace than ever before. CAE is well positioned to create training solutions to teach these new procedures. For example, we introduced this year, in collaboration with medical device manufacturer,

Abiomed, a simulator which allows physicians to practice placement of the Impella heart pump. And just this quarter, we launched CAE VIVO, an innovative tablet-based software which controls our METIman patient simulator.

(PAUSE) (Training Partner of Choice)

Our vision is centered around being the training partner of choice for our customers. The majority of aircraft manufacturers, the defence forces of 30 nations, and all the U.S. military services, award us contracts for this very reason.

Just this quarter, we won a contract to provide comprehensive training for all future U.S. Army fixed-wing pilots. We plan to bring together live and simulation-based training to help ensure safe, high-quality training for army aviators.

In Civil we extended our long-term training agreements with Iberia in Europe and with LATAM in South America. And in the Middle East, where we have a long-standing joint venture with Emirates, we extended our fleet coverage and added capacity. Today more than 400 airlines are CAE customers and we have long-term training service agreements and joint ventures with more than 40 of them.

In healthcare, we also demonstrated our ability to design and deliver a comprehensive training system with our biggest contract ever to provide a turnkey training centre to Turkmenistan. It features the full range of our simulation and centre management solutions.

(PAUSE) (Corporate Social Responsibility matters)

The success of our business is based on the dedication of our people working at more than 160 sites in 35 countries and serving customers in 190 countries, on every continent. It is through their innovative ideas and ongoing commitment that we are shaping our world towards a more sustainable future.

Cette année, nous avons renforcé notre engagement envers la responsabilité sociale d'entreprise. Nous présentons maintenant nos actions en fonction de sept piliers d'après les indicateurs *Global Reporting Initiative* et nous travaillons sur l'élaboration d'une feuille de route pour guider nos efforts futurs. La feuille de route nous aidera à mieux mesurer et à communiquer nos progrès à toutes nos parties prenantes.

En conclusion, nous continuons à faire croître notre entreprise pour atteindre notre vision qui consiste à être reconnu mondialement comme le partenaire de choix en formation en vue de renforcer la sécurité, l'efficacité et la préparation aux missions.

Je cède maintenant la parole à Stéphane Lefebvre, notre chef de la direction financière, qui passera en revue les résultats financiers de l'exercice 2015 et du premier trimestre de l'exercice 2016.

Stephane Lefebvre, Vice President, Finance and CFO

Merci Marc.

Mesdames et Messieurs, bonjour.

Regardons tout d'abord brièvement les points saillants de l'exercice 2015.

Les revenus consolidés se sont établis à 2,2 milliards \$, en hausse de 8 % par rapport à l'exercice 2014 et le résultat net des activités poursuivies attribuable aux détenteurs d'instruments de capitaux propres se situe à 201 millions \$, ou 76 cents par action. Nous avons eu un carnet de commandes total record de 5,4 milliards \$.

Du côté Civil, nos revenus ont atteint 1,3 milliard \$, en hausse de 10 %, et le résultat opérationnel a augmenté de 17 % pour atteindre 210 millions \$ – pour une marge opérationnelle de 16,3 % pour l'exercice. Nous avons enregistré des commandes évaluées à 1,5 milliard \$.

Du côté Défense, nous avons généré des revenus de 857 millions \$, en hausse de 4 % comparativement à l'an dernier. Notre résultat opérationnel a augmenté de 7 % pour atteindre 115 millions \$ pour une marge opérationnelle de 13,5 %. Nous avons reçu des commandes totalisant 755 millions \$.

Du côté de CAE Santé, les revenus sont en hausse de 19 % pour atteindre 94,3 millions \$, et le résultat opérationnel s'élève à 6,7 millions \$ au cours de cet exercice, ce qui est quatre fois plus élevé que celui de l'an dernier.

Les dépenses en immobilisations totalisent 144 millions \$ au cours de l'exercice, dont deux tiers consacrés à la croissance et le dernier tiers à la maintenance.

Nous avons généré des flux de trésorerie disponibles des activités poursuivies de 174 millions \$ à la fin de l'exercice. Nos flux de trésorerie nets liés aux activités opérationnelles poursuivies et aux activités d'investissement, se chiffrent à 90 millions \$, en hausse de 9 % par rapport à l'an dernier. Ceci nous a permis de renforcer davantage notre bilan, et ainsi notre ratio de la dette nette sur le capital total était de 36,3 % au 31 mars 2015.

Dans l'ensemble, nous avons franchi des étapes stratégiques et opérationnelles au cours de l'exercice 2015 qui placent l'entreprise en bonne position pour le prochain exercice et les années à venir.

(PAUSE)

Let's now look at our first quarter results for fiscal 2016. We're off to a good start. In Civil, we had a higher margin on higher utilization of our training network and we had a double-digit increase in operating income over last year. We also had higher operating income in Defence, with robust order activity supporting our outlook for growth. Let me give you some details:

The company's consolidated revenue was \$557 million, representing a 6% increase over the first quarter last year.

Net income from continuing operations attributable to equity holders was \$44.9 million or 17 cents per share. Excluding a net after-tax \$5.7 million restructuring expense, incurred this quarter and related to our process improvement plan currently underway, net income before restructuring costs was \$50.6 million, or 19 cents per share, up 16% from the same period last year.

In Civil, revenue totalled \$336.2 million, up 9% compared to last year. The operating margin was \$57.0 million or 17%, up 15% compared to last year. Civil orders during the quarter totalled \$288.3 million for a book-to-sales ratio of 0.86x and a trailing twelve months of 1.09 times.

Defence revenue was \$196.9 million, stable compared to last year. The operating margin was \$23.6 million or 12%, up 8% compared to last year. During the quarter, we received orders valued at \$207 million with a book to sales ratio of 1.05 times and a trailing twelve months of 0.95 times. In addition to those orders, we received another \$211 million of unfunded orders.

Our Healthcare business generated \$23.9 million in revenue for the quarter, and 600-thousand in operating margin, representing in both cases, a double-digit increase over the same quarter last year.

Following the end of the quarter, we announced the sale of CAE's mining business to Constellation Software for \$32 million, plus a potential additional \$10 million earn out. We are pleased with this outcome, especially at this point of the mining cycle, and we believe there is good strategic fit between Constellation and our former mining business.

We want to thank Damian Mackay, CAE Mining's former president, his leadership team and his employees for their dedication and the contribution they brought to CAE and wish them success in the future.

Income taxes this quarter were \$9.8 million, representing an effective tax rate of 18%, compared to 21% last year. The lower rate was mainly attributable to a change in the mix of income from various jurisdictions in which we do business.

Our free cash flow was negative \$61.2 million this quarter, mainly attributable to a high investment in non-cash working capital, typically seen in our first quarter. Net cash used in continuing operating activities and net cash used in investing activities was \$67.4 million, compared to \$51.7 million in the prior year. Net debt was \$1 billion, compared to \$950 million last quarter, resulting in a net debt to total capital ratio at the end of Q1 of 36.6%, showing the robustness of our balance sheet.

Capital expenditures were \$23.6 million during the quarter, which is significantly lower than the \$39.7 million last year and in line with our outlook.

To further strengthen our competitive position, we have begun to implement this quarter a process improvement plan to transform our production processes and product offering.

We anticipate a further \$19 million after-tax expenditure, consisting primarily of severance and other related costs to bring the transformation to fruition. The transformation is expected to be substantially completed in the first half of fiscal 2017, and with all new processes in place, it is expected to result in approximately \$15 to \$20 million of annualized cost savings thereafter, depending on our product mix.

In summary, I am pleased to report that, with its strong balance sheet, the company is in a very healthy position and, with a solid total backlog valued at \$5.4 billion, is well positioned to continue to deliver growth.

I thank you for your attention, and I now turn over the podium to our CEO, Marc Parent.

Marc Parent, President and Chief Executive Officer

Thanks Stéphane.

Let's just take a few seconds to look at the screen behind me. This is what a typical day looks like for commercial air travel: over 100,000 aircraft carrying 8.6 million passengers every single day. And chances are, the pilots on your next flight will have been trained on CAE simulators, or in one of our training centres. That's our market. And it's growing.

The world's airlines are in a race to recruit and train enough pilots to support passenger growth and retirements. In the first half of 2015, global passenger traffic increased more than 6% compared to the same period last year, with increases as high as 9% in Asia and 11% in the Middle-East. Commercial aircraft manufacturers continue to work through record backlog levels of over 14,000 aircraft – and this represents more than 9 years of future deliveries, even at today's unprecedented production rates.

To support this growth, it is estimated that for the next 20 years, the aviation industry will need to supply 558,000 commercial airline pilots –that's more than 27,000 pilots a year for 20 years. As the worldwide leader in training, CAE is well positioned as the airlines' trusted partner to train their new pilots to the highest standards, and reap the benefits of this growth.

Nous sommes dans une position de force, bien que ce soit un marché hautement concurrentiel. Nous avons une longue tradition d'innovation qui nous a permis de demeurer le chef de file du marché. Au cours des dernières années, nous avons investi dans l'amélioration de nos technologies et nous avons développé de nouveaux produits phares comme notre simulateur de vol, le 7000 XR.

Le plan d'amélioration des processus que nous venons tout juste d'annoncer amènera de nouveaux processus de production qui nous permettront d'être encore plus efficaces dans notre façon de concevoir, de construire et de livrer nos simulateurs. Cela signifie qu'au cours des 12 prochains mois, en fonction des volumes actuels, nous prévoyons que 350 employés sur 8 000, répartis partout dans le monde seront touchés. Nous ferons tout ce que nous pouvons pour atténuer les répercussions sur les employés et leur famille qui seront malheureusement affectés par ces changements.

Nous sommes le fournisseur reconnu en matière de simulateurs de vol, et il s'agit d'une position que nous voulons protéger. Ce programme d'amélioration des processus nous aidera à creuser l'écart entre CAE et ses concurrents. Nous voyons cela comme une étape nécessaire et logique dans la transformation à long terme de CAE.

We are the leader in virtually all of our markets, so where do we see the growth coming from? Clearly, it's from training.

In Civil, we estimate the total global civil aviation training market to be nearly six times larger than the market for selling simulators, and this is where we believe we can grow our business over the longer term. As you can see on the screen, the training market is worth more than \$3 billion today. While we are the leader with a market share of 25%, it provides us with a lot of room to grow. The market will develop at the rate of passenger traffic growth, which is estimated at a 5% rate every year, to support globalization. That effectively means it will double in the next 20 years.

The price of admission to properly service this market however, is credibility; credibility for airlines to turn over the responsibility of training, which to them is absolutely synonymous with safety. You can't buy this credibility, you have to earn it, and CAE has earned it. Our contracts with Japan Airlines, China Southern and Indigo --to cite just three-- are testimony to that. We will continue to lead in the sale of simulators and at the same time grow our share in training.

(Pause)

In Defence, we're seeing more nations increasingly turning to simulation because it allows them to maintain the highest level of mission readiness in a constrained budget environment. Our current submitted and pending proposals reflect that: they are in excess of \$2.5 billion. And like for Civil, we are focusing our strategy on **training** and being a training systems integrator. That means leveraging our unique expertise to provide our customers with turnkey training centres and integrating live and simulation-based training. This opens up a market for CAE which is approximately 50% bigger than just selling products and services.

(Pause)

In Healthcare, we have gained more of a critical mass in FY15 and we expect to continue building on this in the current year. Our simulators represent the future of healthcare training and patient safety. They provide doctors and nurses the opportunity to practice their skills with no risk to patients, therefore reducing the potential for human error. Already, we are seeing more medical device manufacturers and medical societies adopting the use of simulation, in the course of training, assessing and certifying practitioners.

(Pause)

In conclusion, we are very proud of the impact of our solutions on society, and we are well positioned for higher investment returns in the period ahead. We have a leading position in growth markets and the strength of dedicated and experienced professionals.

In testimony to the confidence in our business, I am pleased to announce that our Board of Directors has approved again this year a 7% increase to CAE's quarterly dividend to 7.5 cents per share. This is the fifth year in a row that we've increased the dividend.

(Pause)

I wish to thank our customers for their continued trust in CAE and our employees for their dedication.

I also thank members of our Board of Directors for their support, and members of the U.S. Board for their good counsel.

Enfin, j'aimerais vous remercier, vous, nos actionnaires, pour votre confiance dans notre entreprise.

Merci de votre attention.

Nous pouvons maintenant passer à la période de questions.