



Presentation by Robert E. Brown,
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Distinguished head-table guests,

Ladies and gentlemen,

My thanks to Nick Morton for his introduction. I would also like to thank RBC Capital Markets for this invitation to speak on one of my favourite topics: our Canadian aerospace industry.

Next year, we will be celebrating the 100th anniversary of the first airplane flight in Canada and the Centennial of aviation in this country. The first aircraft to make it into the Canadian sky was called the “Silver Dart”, designed and flown by a young fellow by the name of J.A.D. McCurdy. The date: February 23, 1909. You can imagine the thrill and excitement of his fellow pioneers of the Aerial Experiment Association that Alexander Graham Bell had formed, and whose goal was to get a powered airplane into the air.

I venture to say that such a sense of excitement prevails today, a century later, within the Canadian aerospace industry. It is a vibrant, vital and highly successful sector of the Canadian economy, generating revenues of \$22 billion a year, providing Canadians with

85,000 direct, high-remuneration jobs and exporting 82% of its production. It stands as the fourth largest in the world after the U.K., France and the USA.

Not too many of our fellow citizens are aware that Canada is part of a very select club of nations that have their own complete aerospace industry, from design to construction.

Montreal is the only city in the world where you can build a complete aircraft. This cannot be done even in the two other global aerospace centres of Toulouse, in France and Seattle, in the U.S. But, it is possible in Montreal, with motors by Pratt & Whitney Canada, landing gears from Héroux Devtek, flight electronics for pilot stations designed by CMC Electronics and assembly by Bombardier.

You might say it is typically Canadian that our aerospace industry is more recognized and renowned internationally than it is at home. Canada leads the world in the production of small engines through Pratt & Whitney, in the manufacture of regional jets through Bombardier and in flight simulation through my own company, CAE. There are also many other examples of our global leadership dating back many years. You may ask yourself how such a small country became the fourth nation in the world in the aerospace and defence industry. Let me go back in time.

The First World War saw Canada become a training ground for British pilots and, almost overnight, a manufacturer of training planes built here, in Toronto. This led to the creation of Canadian Aeroplanes Limited, a dedicated crown corporation that built nearly 3,000 planes at its peak. With the end of the war, a new era of bush aviation opened up and bush plane manufacturing plants were set up in both Montreal and Toronto.

When World War 2 broke out, we had an established aircraft industry turning out some 40 aircraft annually. This number soared to 16,500 aircraft that were produced over the war years.

The return of peace in 1945 marked the emergence of our Canadian civil aviation sector with Canadair producing the “North Star”, Canada’s first modern airliner. De Havilland designed and built the “Beaver”, a first short take-off and landing utility aircraft. At the same time, the newly created Avro Canada specialized in military fighter planes producing some 700 CF-100s and designing the breakthrough CF-105 “Arrow” which never saw the light of day after being cancelled by the government of the day.

Through the various economic cycles of the following decades, our industry thrived. Several milestones, or aviation firsts come to mind that are testimony to the creative and innovative talents of those who came before us and to the strong support of our federal government over the years:

- After the “North Star”, Canadair produced the Tutor, the basic jet trainer for the Royal Canadian Air Force; the Yukon, the first swing-tail cargo plane; the CL-215, the world’s first water bomber; the CL-89 and CL-289, the world’s first surveillance drones; the CL-84, the first vertical take-off and landing aircraft and, and of course, the Challenger, the first purpose-built wide body business aircraft all Canadians take pride in.
- CAE is also part of this historical chain of breakthroughs with its first military flight simulator for the CF-100 dating back to 1952. Several prototype flight simulators followed including the Boeing 747, the Boeing 727 and the Airbus 380.

Many more achievements have marked the progress and continued growth of our Canadian aerospace industry. I will not list them all here because of the short time we have. Suffice it to say that we have indeed come a long way since that initial flight of the “Silver Dart” nearly a century ago.

Like other Canadian industrial sectors today, we face many challenges and opportunities and I am confident about our future. I have personally been very fortunate over the last 25 years to find

myself in a position to contribute to our industry while it grew on the world stage and here at home, to become the global leader it is.

My career path was not necessarily planned, but it did lead me first into government and then, into the private sector. Throughout, it has been my privilege to work with excellent people and in response to the request made, I would like to briefly share some of the lessons I have learned along the way.

At every opportunity, I have made it my motto to carefully listen to what those I work with have to say. When I first joined CAE, I asked for a survey of our employees, our investors and our clients to obtain an appreciation of whatever insights and expectations existed as to our situation at that moment. It proved invaluable in designing our strategy to get back on track.

Once the course had been set, I have found that ensuring you are supported by the best people, who in turn surround themselves with the best people, will invariably produce superlative results.

It has been my experience that one never regrets having confidence in the people you empower and giving them the means and latitude to deliver. At CAE, the results have been amazing to date. In the last four years, we have achieved financial stability and a strong balance sheet, we have been able to diversify while balancing our products and services in both our civil and military segments, we have

committed to substantial R&D efforts that are already paying off, and we have built a solid training network around the world. I credit these successes to the solidity of our employees' engagement in meeting the everyday challenges of our existing and emerging markets.

Empowering each team member to handle the task at hand is also important. Second-guessing and micro-managing are counterproductive in most situations. Each person has the potential to do well.

Another lesson learned is the importance of a clear vision. Working to set a vision and goals definitely requires a long-term outlook because of the nature of the aerospace industry. Predicting the future demands of the markets is, of course, essential but you also have to take into account the long lead times associated with new initiatives.

You may recall the introduction of Bombardier's RJ concept. I can say that many doubting Toms materialized at the time but the Regional Jet is now part of our recent history. Program development is never totally smooth and the accuracy of market demand is always daunting, but once the vision and the deliverables have been set, to exercise appropriate leadership really means standing back and allowing it to happen, never losing sight of the big picture and letting others worry about the details.

This may not necessarily come easily, but in all my years in government and in industry, I have found that those who lose sight of the forest to concentrate on the trees do not necessarily succeed in creating value nor a meaningful contribution, whatever their goals.

In this 21st century, the aftermath of 9/11 has certainly taught us the invaluable lesson of diversification. If we look at the pace at which companies involved in both commercial aerospace and defence sectors rebounded after 9/11, it is obvious that defence and commercial aerospace are a proper mix.

And those companies who had achieved geographic diversification clearly found themselves better positioned post 9/11. This is definitely a strength of our aerospace and defence sector, which exports more than 82% of its production. To give you an example I know well, today, at CAE, 33% of revenues generated come from the USA, 33% from Europe and 33% from the rest of the world.

Another lesson learned is the importance of having the financial resources necessary to fulfill your vision. When I joined CAE, we were close to breaching our bank covenants. We had to take drastic measures to regain a strong financial footing. We consequently sold our Marine division, generating \$103 million in profit, proceeded with an impairment valued at \$450 million and a major restructuring that involved the lay-off of 450 people— always a difficult decision to make, I can tell you. We also reduced our quarterly dividend from 3

cents to 1 cent per share, which we reverted this year. Through these actions, we improved our cost structure and developed a financial discipline allowing us today to be in a healthy position to face market conditions.

A final point: communication. Letting others know where you stand, what you are trying to achieve with them and for them, and what's in it for them is critical to nurturing the working relationship, motivation and people's buy-in. I spend a substantial proportion of my time trying to communicate with all of our CAE stakeholders. I consider this an essential part of my job. Whether I find myself on the plant floor in Montreal, or with our team in India, or in a meeting with clients or before members of the financial community like you, I am constantly listening and also, conveying our story.

I would now like to turn to the future and review with you some of the factors that should come into play to ensure the continued leadership of our industry globally.

Presently, all Canadian exporters are facing on-going challenges with our strong Canadian dollar, the global fallout of an ailing U.S. economy, higher oil prices, etc. Our sector also has to navigate through the difficult times that world airlines are experiencing, particularly in the United States.

However, as mentioned, at CAE and at other global players of our aerospace industry, we have put all our efforts to be well positioned to work under these particular circumstances and seize opportunities on a global scale.

Given our revenue diversification between military and civil and our geographic diversification, optimism is warranted as several signs of long-term, positive fundamentals worldwide are there.

For instance, forecasts in the civil aviation sector call for the doubling of worldwide air traffic over the next 20 years and accordingly, the size of the fleet is expected to double. The pace of growth in emerging markets in the Asia-Pacific region and the Middle East remains high. Equipment manufacturers report a strong backlog with approximately 13,000 new commercial and business aircraft to be delivered over the next five years, largely outside of North America.

The impact of high jet fuel prices is leading legacy airlines particularly in North America and Western Europe to rationalize their older fleets of aircraft. This should eventually lead to re-fleeting with new, more fuel-efficient aircraft.

Manufacturers of commercial and business aircraft continue to launch new models. Embraer has strong orders for its existing models and is developing new light jets and very light jets. Here at home, Bombardier continues to do well and recently created excitement with the news it is going ahead with its new C-Series aircraft.

Closer to our own CAE interests, the outlook for pilot and crew training is at an all-time high with Airbus and Boeing forecasting that the industry will require 17,000 to 18,000 new pilots per year for the next 20 years.

Moreover, the Canadian government announced a program worth \$20 billion over the next 20 years to re-equip our troops in the armed forces. This in turn, must bring quality contracts to Canadian firms, either directly or indirectly through industrial regional benefits.

While Canadian aerospace companies do not rely on a domestic military market to drive demand nor to fund their research and development, they successfully compete with companies from other countries who do. The changing realities of the global industry will soon include even more competitors in a crowded field who are supported by their national governments. New players like China, Russia, India, Korea and Japan have announced their intention to build their own aerospace industries.

How is it then that our Canadian aerospace sector can successfully compete not only against other international companies, but also with countries?

We must be able to rely on our government to keep the doors of international trade open so that we continue as Canadian companies to have access to foreign markets.

I mentioned earlier how a contract from our military to develop a flight simulator for the CF-100 fighter plane back in 1952 was the spark that ignited CAE's development into the world leader in simulation and pilot training it is today.

We must recognize that over the years, Ottawa's interventions on behalf of the aerospace industry have helped to keep Canadian companies on a level playing field and that Canada must continue to do so.

In this regard, the new SADI program, in place since April 2007, is now an important partner to companies like Pratt and Whitney Canada, Bombardier and Heroux-Devtek. Also, the investment tax credit is a key factor in determining where in the world, companies will perform their R&D projects.

Government support is necessary to keep our companies on a level-playing field but also to ensure we keep our incredible pool of talent, the people responsible for the R&D and the innovation that has built our leadership position over all these years. Canada and its aerospace industry have been extremely fortunate in attracting and keeping the brain power it needed to excel on a global scale. To remain successful in the future, we must keep our talent pool here and continue to innovate in a stable, supportive environment.

I know that this can be achieved. Having worked in government and with the private sector partners of this formidable industry, I believe we will achieve the continuity we need as we move forward.

The past and recent events in Canada point to a new era of exciting developments, continued innovation and stability in our industry-government partnership that will propel us to even greater heights as the second century of our Canadian aerospace industry dawns.

In closing, I will say that, at CAE, we have taken several steps in recent years to face the challenges and opportunities brought on by current market conditions.

Taking lessons from companies who recovered fast after 9/11, we have worked hard to diversify and balance our portfolio between products and services, civil and military, and across the globe. CAE now has a strong geographic footprint and an unparalleled global

reach—clearly the best in the world. We have also grown proficient at doing business across the globe and in emerging markets such as India and China. We remain close to our clients around the world and work to stay ahead of their expectations.

As a result of these on-going efforts, CAE today has the solid financial foundation and strong financial discipline to sustain our long-term vision. Our cost structure is good, and through continuous innovation, as well as constantly seeking out cost-effective solutions around the world, such as in India, we continue to improve our cost structure.

We expect the demand for our portfolio of products and services to continue in both the civil and military segments.

We remain committed to sustaining our technological and innovation leadership and we continue to invest in research and development.

Finally, we can rely on our highly motivated work force that has absolute determination to execute all of our projects and ensure that we can deliver superior returns to our shareholders.

CAE is in a good place right now, and we are well positioned to ensure its stability and durability moving forward.

I thank you for your attention and I am ready to entertain your questions.