



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

Wednesday, August 12, 2015

Montreal

ENGLISH copy

Thank you Mr. Chairman

Bonjour à tous

Good morning Ladies and Gentlemen

I am pleased with our fiscal 2015 performance, we achieved most of our strategic and financial objectives. We ended the year with record revenues and higher operating profits, and reached a new record backlog of \$5.4 billion. We established significant agreements for flight training, including 3 new joint ventures, sold 41 civil simulators in a highly competitive market, and strengthened our corporate social responsibility focus.

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.

Today, we train more commercial pilots worldwide than anyone else, we are a leader in business aviation and helicopter training, and we are the only company to offer such a broad range of end-to-end solutions, from cadet to captain training as well as crew sourcing.

In defence, we are a leading global training systems integrator on a wide range of aircraft. Defence forces from more than 30 nations train with CAE for missions in the air, on land and at sea.

The passion of our people and the quality of our solutions drive positive outcomes for our customers and for society.

(PAUSE) (Innovation Leader)

At CAE innovation is constant; this is how we contribute every day to making training better.

We innovate by bringing together capabilities from across our business segments. For example in fiscal 2015 we combined our air mobility simulation and training capabilities with CAE Healthcare's patient simulators to provide the US Air Force Reserve Command with an integrated aeromedical evacuation training system.

In commercial aviation, our innovation in training services was endorsed by three significant agreements. We established joint ventures with

- Japan Airlines, one of the longest standing and largest airlines in the world, ,
- with China Eastern to supply new pilots to the airline and support its growth
- and with Lufthansa Flight Training for pilot and cabin crew training for Bombardier's C Series aircraft

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.

And we are adding new expertise in live flying training for fighter pilots. In Canada we will become the prime contractor responsible for the NATO Flying Training program. With that expertise under our belts, we will be an even more valuable partner to our defence customers in the years ahead.

Our expertise is recognized to train civil pilots and prepare defence forces and our expertise can also be invaluable in humanitarian situations. For example, during the earthquakes in Nepal, our people developed, in a matter of hours, virtual databases of airfields in Nepal to help the air forces of Australia and the U.K. rehearse their deployment missions.

(PAUSE) **(World-leading technology)**

Over the past 10 years we've invested more than \$1.2 billion in research and development to create the most advanced training solutions. Our employees are at the heart of our innovations through a program called Innovation Challenges. We receive hundreds of ideas from our employees every year and the winning ideas are incorporated into our 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.

This year we have enhanced our commitment to Corporate Social Responsibility. We are now reporting our actions in seven pillars based on Global Reporting Initiative metrics and we are working on a roadmap to guide our future efforts. The roadmap will help us better measure and communicate our progress to all our stakeholders.

In conclusion, we are continuing to grow our company to achieve our vision to be the recognized global training partner of choice to enhance safety, efficiency and readiness.

I will now ask Stéphane Lefebvre, our Chief Financial Officer, to review the financial results for fiscal 2015 and for the first quarter of fiscal 2016.

Stephane Lefebvre, Vice President, Finance and CFO

Thank you Marc.

Good morning, ladies and gentlemen.

Let us first look briefly at some financial highlights of fiscal 2015.

Our consolidated revenue was \$2.2 billion, up 8% from fiscal 2014 and net income attributable to equity holders from continuing operations was \$201 million, or 76 cents per share. We had a record total backlog of \$5.4 billion.

In Civil, our revenue reached \$1.3 billion, up 10%, and operating income rose 17% to \$210 million for an operating margin of 16.3% for the year. We booked orders valued at \$1.5 billion.

In Defence, we generated revenue of \$857 million, up 4% compared to last year. Our operating income rose 7% to \$115 million for an operating margin of 13.5%. We received total orders of \$755 million.

In Healthcare, revenue was up 19% to \$94.3 million, and operating income was \$6.7 million this year, four times higher than last year.

Our total capital expenditures were \$144 million during the year, with two-thirds for growth and the balance for maintenance.

We had \$174 million of free cash flow from continuing operations generated to the end of March. Our net cash provided by continuing operating activities and by investing activities, were \$90 million, up 9% from the prior year. This enabled us to further strengthen our balance sheet, and so our net debt to total capital ratio was 36.3% as of March 31st 2015.

Overall, we achieved operational and strategic milestones in fiscal 2015 that position the company well for the year ahead and the long-term.

(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 all of 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.

We are in a position of strength; nevertheless it is a highly competitive market. We have a long history of innovation that has enabled us to remain the market leader. In recent years, we've invested in refining and streamlining our technologies and we have developed new flagship products like our 7000 XR Series full-flight simulator.

The process improvement plan we've just announced, will bring about new production processes that enable us to become more efficient in the way we engineer, manufacture and deliver simulators. This ultimately means that over the next 12 months, at current volumes, we expect 350 employees out of 8,000 worldwide to be affected. We will do everything we can to mitigate the impact on those of our employees and their families who will unfortunately be affected by these changes.

We are the go-to provider for flight simulators, and this is a position we intend to protect. This restructuring will help to create an even bigger gap between CAE and its competitors as they vie for a slice of the simulator products pie. We see this as a necessary and logical step in CAE's long-term transformation in support of our strategy to grow in the larger training market.

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.

Finally, I would like to thank you, our shareholders, for your confidence in our great company.

Thank you for your attention.

We are now ready to take questions from the floor.