

Conference call: CAE INC. Q1 CONFERENCE CALL (Q&A only)

Time: 1:00 p.m. E.T.

Date: August 10, 2011

Operator: Our first question from the line of Cameron Doerksen from National Bank Financial. You may proceed.

Cameron Doerksen: Yeah, good afternoon.

Marc Parent: Hello.

Cameron Doerksen: Question on the military business, I mean you've mentioned specifically, Europe as an area, at least in the last quarter, that there were some delays and some uncertainty. Are there any specific programs you were bidding on that you can point to that have been delayed? And just thinking about the broader military business, is there anything in your existing military business that you perceive as specifically at risk of budget reductions either in Europe or in the U.S.?

Marc Parent: Maybe I'll start with the latter question first. I made the comment about the strong backlog. We feel it's a very healthy backlog because to answer your specific question, we don't see anything in there that's at risk of cancellation. And when we look at the – obviously there's a lot of hints out there what may be cut – and if you look at the programs that we're on, programs like the C130, like the Seahawk, Chinook, programs like that, we feel very strongly that they're looking pretty good in the budget environment that we're living in. So I'm not worried about... although you can never say never, I'm not worried. We haven't had any cancellations, and the integrity of our backlog to us looks very good.

In Germany and the U.K., I think what we've seen recently is basically they've just... it's nothing specific that would point to. They've just basically frozen up in terms of decision making on procurements. Until they decide how many

Tornado airplanes they're going to have, how many troops they're going to have, that's really what's occupying their minds. And over the next few months as those decisions come to fruition, then they go back and saying to figure okay, well, what does that mean for training assets, and to the point that we make and that resonates very well is well how can simulation... an increased use of simulation be used to further help you in reducing costs?

Cameron Doerksen: Okay. That's good. And just one other quick one. I don't know if you mentioned this or not, but the utilization rate in the simulator network in the quarter?

Marc Parent: Yeah, I think it was 75 per cent, right? Yeah, 75 per cent in the network in fiscal '11 first quarter versus, like 59 last year, same time.

Cameron Doerksen: Okay. Great. Thanks very much.

Marc Parent: You're welcome.

Operator: Our next question from the line of David Newman with Cormark Securities. You may proceed.

David Newman: Good afternoon, gentlemen.

Marc Parent: Good afternoon, David.

David Newman: Just on the civil product side, the pricing environment that you're seeing right now, I mean, obviously demand's picking up. You had 11 sims that you sold in the quarter, and I think you took a production rate increase in Q4. So with that all kind of baked in, what do you think the margins could eventually migrate to?

Marc Parent: Well I'm not ready to give margins individually in the product segment. If you look at the last few quarters, I've really been giving an outlook towards combined civil margins when we get back at the peak. What I would tell you is that we have seen some better pricing out there. I think I would still characterize it the same way as I did last time, certainly not the El Dorado. I

still think the margin increase in our business will largely come from the volume that's associated with those new orders.

David Newman: And Marc, was Q1 at the stepped-up production rate level?

Marc Parent: When you say stepped-up production rate, what do you mean?

David Newman: Did you not increase your line rates in Q4?

Marc Parent: Line rates? No. No, I think we're... I'm not sure what you're alluding to there, to be honest.

David Newman: Did the number of sims that you had actually delivered this year versus last year, I guess?

Marc Parent: Yeah, we did. I think what we said is we delivered four in the quarter, in Q1.

David Newman: Okay.

Marc Parent: So I think compares to five last year. I think what you'll see is as we go through quarter by quarter you'll see the volume pickup. And as we said – I think Stéphane mentioned it, and as I did – that I think we pretty much are pretty confident that the low point has been hit in terms of several products and are moving into more a higher territory.

David Newman: Okay. And just a quick one on the military side. The 15 per cent margin that you're alluding to is that from what you see in the backlog in the 70 per cent of revenues that you have booked, and it's just the matter of timing on that backlog as it gets executed on?

Marc Parent: It really is. I mean, when we look at what's in our backlog, and what we're executing, as well as the order that we want to isolate, the project margins that we're running the business at is very similar. It hasn't changed anything appreciably. So really, and we started the year with about 70 per cent of our backlog of our revenue already in backlog. So what we're really... the impact

we're really seeing and the uncertainty around the growth is around the timing, to your question. And I've run out of being able to... thoughts to be able to predict when some of these things will happen. We feel good about winning the orders because in a lot of cases we're sole sourced on the programs. We've been selected. So you think we'd feel pretty good about it, but the thing is I can't predict whether it'll be another continuous resolution, as an example. So that's our uncertainty there. And the timing's what's affecting us.

David Newman: So just to reiterate then, so the actual margin that you're forecasting is based on what you have today?

Marc Parent: Yeah. Well I mean you have to make... well I mean, if I look into... for example, short term into what you saw this year, this quarter, and what's going to move into the second quarter is that we're operating at less revenue, if you like, driven by the backlog and the orders that we've won, the order delays that we've had. But we're operating at the same cost base in terms of SG&A and R&D.

Moving into the third and fourth quarter, what I see is the backlog that's migrating from the programs we've won in the latter half of the last financial year and the latter end of this quarter, plus a few orders and being quite conservative about the orders that we will win. So the... largely is the part of the backlog and some orders that we have to win.

David Newman: Excellent. Thank you very much.

Operator: Our next question from the line of Ben Cherniavsky from Raymond James. You may proceed.

Ben Cherniavsky: Good morning, guys.

Marc Parent: Hi, Ben.

Ben Cherniavsky: I'm wondering how the impact of IFRS changes the way you look at your full utilization rate margins? And you've talked in the past about getting back to where you were, and I realize there's more margin leverage on the product side, which is less affected by IFRS. But a big change in the margin... in how the margins look on training. And if we look back to the previous peak under GAAP accounting, you had margins, I believe, around 19 per cent or so, which went down in the recession. And as we sort of model a more full recovery, what is that... do you have any idea under IFRS accounting what those numbers kind of look like?

Stéphane Lefebvre: Yes, and if you look at the... comparing what the results that we had under Canadian GAAP last year with the restated result that we're showing in our MD&A for the same quarters, you see that the implementation of IFRS did increase the margin in the training services civil segment.

The biggest impact really was the re-capitalization of our sale and lease back of our operating leases on our balance sheet under IFRS, which were previously operating leases under Canadian GAAP. So what you basically do is you replace the rental expenses with a repayment of capital interest. So the interest is below the segment operating income line that it tends to increase the margin in the training services civil alone.

There's some impact in all of the segments if you do that comparison. But I think overall in the civil business as a whole, we're looking at – and it will vary from quarter to quarter obviously – but you're looking at around a 200 basis point increase on the margin for the civil business as a whole, as I said, under IFRS compared to where we were under Canadian GAAP.

Ben Cherniavsky: And that would be the same magnitude looking backwards? I guess Marc, correct me if I'm wrong, but I think you said previously that you sort of target a 20-per-cent margin. And that was under GAAP accounting. So do we just assume that your new target would be 22?

Marc Parent: Yeah, I think that's correct.

Ben Cherniavsky: Okay. Thanks. And one follow-up, if I may. Just I noticed through the discussion of the MD&A a few mentions of the declining revenue from CAE Academy. Is there something going on there or how material is that and maybe can you just speak to a little bit what that initiative's been doing?

Marc Parent: It must not be too material because... you want to comment, Stéphane? Well I guess none of us know... I know it's... recall in the MD&A, but there's nothing really that I would be worried about there in terms of the operation of the business. I think there is a case that depending on... sometimes even things like weather, the way we book our revenue in that business is airplanes have to fly, and sometimes weather affects us, seasonality. But there's nothing in there that worries me in terms of the business itself.

Ben Cherniavsky: Okay, thanks. Just thought I'd check. Thank you very much.

Marc Parent: Yeah. I mean, overall the way that we look at that, we continue to be encouraged by that business just by the fact is, particularly in the emerging markets of the world, the infrastructure, the trained pilot is not there, and there's for sure going to be an increased demand to the level of 23,000 new pilots a year to be trained. And we're starting to see that. So we're gearing ourselves up to be able to answer that demand.

Operator: Our next question from the line of Hamzah Mazari from Credit Suisse. You may proceed.

Hamzah Mazari: Good afternoon. Thank you. Just a question on your civil training business. It seems like you've signed a number of contracts there. Could you comment on maybe what you're seeing in terms of share gains in that business relative to just the underlying cycle coming back on market growth rate, if you will? Thanks.

Marc Parent: Share gain, you're talking, Hamzah, against the competitors or... is that what you meant?

Hamzah Mazari: Yes. Yeah. Yes.

Marc Parent: Okay. Well I think in products we're over 70 per cent, pretty much on par with what we've seen in the past. In the training business, we do very well in the emerging markets. I'm talking disproportionately well, and that's been our strategy to go out there and be able to set ourselves up as a first... gain the first mover advantage.

So I think we have pretty strong market share, if you look at South America, at Asia and China, India. You saw, I mean, I think with the two JVs that we've announced with the one in IndiGo, InterGlobe was the parent company of IndiGo. I mean, that'll be the fifth training centre that we're going to be putting together in India. So I think we're doing well there.

Hamzah Mazari: Okay, great. Thank you very much.

Marc Parent: You're welcome.

Operator: Our next question from the line of Benoît Poirier with Desjardins Securities. You may proceed.

Benoît Poirier: Yeah, good afternoon. My question is more on the military side. I understand that timing is more difficult these days, but could you maybe provide some colour about the pressure you receive right now from clients on actual contracts that you deliver? I'm just trying to understand if the client is trying to putting pressure on the current rates. Thank you.

Marc Parent: I don't see that, Benoît. Once the contract is signed we typically don't see that. Of course there's huge... in all of the areas of defence, there's huge oversight in terms of how you execute the contracts. You have auditors... we have auditors present in our facilities in Tampa, for example, government auditors. But there's nothing there that results in us having different margin as we execute the project coming from customers. I don't know if Stéphane, you want to add anything?

Stéphane Lefebvre: What I saw, Benoît, is nothing in the very recent past. As a matter of fact, if you go back – and as you know I've been working for that business for quite a while – there certainly have been... that change probably I'd say five, six years ago, and there was more involvement from the U.S. government, for instance, in auditing processes, auditing of our rights and so on. But no specific unusual pressure from our customers in the recent past.

Benoît Poirier: Okay. Thanks for the time. I'll get back in the queue.

Operator: Our next question from the line of Tim James with TD Securities. You may proceed.

Tim James: Thanks. Good afternoon. Just wondering if you can talk about the impact on margins longer term as you look out over the next couple of years, if any from generating an increasing amount of training revenue from developing markets. I'm just wondering whether that's the dynamic in the margin that you can generate from those regions is weaker or stronger than your legacy business and training?

Marc Parent: No, I wouldn't characterize it that way. When we give, Tim, the combined margin there, which I said at the peak I'm pretty confident we can achieve, like the 20 per cent kind of combined margins, more like 22 under IFRS, combined EBIT margins. That takes into account the kind of diversity we see in terms of profit that we can make in various jurisdictions of the world. And looking two years out it's kind of difficult, but having said that, I don't see any... I can't see anything that would change that.

Tim James: Okay. Thank you. And in the training services civil segment, with utilization improving noticeably in Q1 versus last year, what influences caused the decline in margin percentage relative to last year? Of course if you exclude the gain that was reported, is that partly the integration of the CHC business or is there other influences there?

Marc Parent: Okay, so you're backing out the AirAsia contract and you're looking at the underlying profitability.

Tim James: I'm backing out the \$6.8 million and then just comparing the training services civil margin versus last year. And I believe it's down a little bit, and despite the fact that utilization improved quite nicely in the quarter. I'm just curious as to what might have been causing that.

Marc Parent: Yeah. I think there's nothing specific. If you look at apples to apples, taking those JVs out – which I wouldn't do – but anyway, if you look at the underlying performance, I think you go from about 24 per cent to 23. Yeah, and you're right. I think that mix has a lot to do with it. I think business aviation would have a lot to do.

Stéphane, you want to add anything on that one?

Stéphane Lefebvre: No, I think you're absolutely... The difference in margin was not that big, 1 per cent. As we go... as we increase our volume in different parts of that business, a large portion of that business is fixed costs, as you know. So I think you would expect some pickup in the future, as volume keeps increasing.

Marc Parent: Yeah. I think the fact that you haven't this quarter, it's a good question, but it doesn't overly worry me. There is a mix issue. There is an issue of business aviation, maybe some... there's a question about... and it is true it's a little bit lower in the global economy, which factors in. But as Stéphane says, as our training centres become more and more occupied there's... we will see the gearing associated... levers associated with that.

Tim James: Okay. Thank you. My next question, just wondering what the CHC HFTO business, the revenue recognized from that, does it hit any region in particular for you or is it pretty widespread? Just when I'm looking at your geographic breakdown, I'm just wondering if it had a bigger influence on any particular region?

Marc Parent: I think we're looking around. Don't know the specific answer, but the training centres are, there's one in Norway, one in Vancouver, one in the U.K.

Stéphane Lefebvre: Some operations in Australia.

Marc Parent: So yeah, I think we have to get back to you. Right now it's... so I can't really say right now, offhand.

Tim James: So they're not necessarily sort of equivalent amounts of revenue coming out of each, but those are the regions that would be affected, I guess?

Marc Parent: Yes. Yes. I think the main bases are Stavanger and location in the U.K. as well.

Tim James: Okay.

Marc Parent: Aberdeen.

Tim James: Okay. And then just my last question, revenue from China was up quite significantly year over year, I think in the range of \$15 million. I'm just wondering if you know offhand what the key was to that growth or what drove that performance?

Marc Parent: I haven't looked at it in detail, but I'm sure it's simulators. I mean, two things are up. I think definitely activity in our Zhuhai joint venture training centre is up, definitely. And we sold more simulators there in the past couple of years. So I haven't the numbers broken down, but I'm quite convinced that that's the reason.

Tim James: So would it be a combination of both training and actual equipment sales would it?

Marc Parent: Yes. That's because... yeah, because we don't sell military there.

Tim James: Yeah. Okay. Thanks very much.

Marc Parent: Thank you.

Operator: Our next question from the line of Ron Epstein with Bank of America-Merrill Lynch. You may proceed.

Elizabeth: Hi. Good afternoon. It's Elizabeth in for Ron today.

Marc Parent: Hi, Elizabeth.

Elizabeth: Just a couple of questions. Hi. How are you? First you said the tax rate for the year was going to be lower than originally guided to. What rate should we be thinking of?

Stéphane Lefebvre: Well, as we said it's difficult to pick up a precise number at this point in time. I know we've said that we would be around 28 per cent in the past. I look at the results for the first quarter, we're down to 24 per cent. I guess it really depends on where in the next few quarters the revenue will be generated from. I think we're comfortable at this point in time to say that it will be lower than 28 per cent we've said in the past.

Where I'll be cautious though is that's good news for us. The flip side of it is... depending on where the growth comes from again, we're going to be facing some headwind from FX that may unfortunately offset the benefits that we get from a lower tax rate, which is going back to your initial question. It'll be something lower than 28 per cent, but I wouldn't risk a number at this point in time.

Elizabeth: Okay. And then could you please explain how, if you have order delays, that affects your margins, because aren't you booking revenue associated with your current backlog? So how do order delays impact margins on the defence unit?

Marc Parent: Well it's really just the project margins are similar, but we have lower volume going through, and we're maintaining the same SG&A and R&D costs. That's essentially the issue. And the order delays that we've had just means that we have less revenue going through at this moment in time. And we have to

maintain... the first part of the programs are usually R&D intensive, and they don't result in revenue. So does that answer your question?

Elizabeth: But revenues were up, right?

Marc Parent: Year over year. Right?

Elizabeth: Yeah. Right. Okay.

Marc Parent: Maybe I'm not answering the question right...

Andrew Arnovitz: I think the point is that as we start the year, 30 per cent of our budgeted revenue depends on orders that we expect to win during the year. And it's in that area where we've seen some delays. Some orders have come in, but later than we expected, and others that we're still waiting for that has led to already lower revenue volume than we anticipated in the first quarter.

Elizabeth: Okay. Okay. Thank you.

Marc Parent: Thank you.

Operator: Our next question from the line of Michael Williams with CIBC. You may proceed.

Michael Williams: Thank you. Good afternoon.

Marc Parent: Good afternoon.

Michael Williams: Just to follow up on the previous question, did you say that basically that 30 per cent of the revenue expected in the year is budgeted for, but not fully booked?

Stéphane Lefebvre: Actually if you look for the full year, we typically begin to start a year with 70 per cent of the revenue for the year in our backlog. So what it means is that

we typically have... we need to win 30 per cent of the revenue over the year from the orders that need to be generated to come in.

Michael Williams: Okay. So if...

Stéphane Lefebvre: That's the 30 per cent.

Michael Williams: If there's more hesitation by various governments, U.S., Europe. And could you see revenue come... decline year over year?

Marc Parent: For the full year? For the full year, you're saying?

Michael Williams: Yeah.

Marc Parent: That would be an absolute worst case, which I don't predict. I think, as I said in my remarks, I expect that we're going to have... I feel good that we're going to have growth overall in revenue this year. But I'm just backing off of the actual number that I've given before because of the uncertainty around timing.

Again, it's not my worry about not being able to win orders because in a lot of cases we're a sole source on them. And in a lot of cases we've already been told that we've been selected for those that are competitive. It's just the delays on putting together and the anticipation or the worry that there may be another continuous resolution in the United States. So it's really around the timing of those orders.

Michael Williams: Okay. And then just the question I had was just on the new core markets. You've been at \$11 million in quarterly revenue the last three quarters. When should we think about the next leg up for that market? Because I know there's a lot of growth potential there. I'm just trying to think about how the trajectory looks.

Marc Parent: Well I think we haven't really commented on that. And I think I wouldn't want to comment too much about it right now. I think... But what I've said is that we're in a trajectory in these businesses to be bigger than \$11 million per

quarter. I mean, we're satisfied that, year over year, if you look, we almost had nothing a year ago, and the last full year we had \$38 million in new core markets. So we feel good about that, and we continue to believe that we'll continue to grow at a pretty good rate, so. But I wouldn't want to be specific as to when we will do that. But we're certainly not talking years.

Michael Williams: Okay. Thank you.

Operator: Our next question from the line of Marko Pencak with GMP Securities. You may proceed.

Marko Pencak: Thank you. Good afternoon. I'd like to get some further insight into generically the way that you structure your military contracts. And I'd like to understand if there are differences between your equipment contracts and your training contracts. And what I'm trying to understand here is to the extent that you do experience any scope revisions or deferrals in terms of an annual allotment or an outright cancellation, what kind of penalty clauses have you built into your contracts, if any?

Marc Parent: Well, let's look at the equipment side, very often the customer may have some right for terminating a contract for convenience, and if it is the case then the customer would pay all of our costs plus a margin. I don't recall actually that it has happened.

Andrew Arnovitz: No, but that's what's in our contract.

Marc Parent: But contractually this is the kind of protection that we have.

On the service side, it really depends. We do have some long-term training services agreement where there's no direct way for if you're a customer to terminate the contract. In certain jurisdictions – I'll take the U.S. as an example – the funding is approved on a yearly basis. So our contract is... as good as one year once the funding gets approved. But again, typically – the case of 135 is a very good example – once you're in then the likelihood of the contract being terminated or cancelled is very low.

And just closing off on a more technical point from an accounting standpoint we only recorded in our backlog the funded portion of those orders.

Marko Pencak: Right. Just a question, for example, if you have a multi-year training agreement, and let's say that it has been previously funded, and then let's say for fiscal '12 the customer comes back to you and says oh, by the way, my budget for this particular funding has dropped by 20 per cent, and therefore I'll need 20 per cent less of your services. So at that point in time would you be making any kind of a revision to your backlog, and would you be able to capture any... get any financial benefit akin to what you described in products? Or is it basically just a risk that you bear?

Stéphane Lefebvre: No, it's... Well, typically I think it would be... I'm thinking about a couple of those longer-term services contract where it would be... the customer doesn't contractually have that option to get out of the contract. So I guess we'd need to sit down and see what it means for us, for the customer, and eventually with some other partners, banks or sub-contractors.

If it were the case and we would agree on a termination or a reduction in scope, then we would adjust our backlog, yes.

Marc Parent: I think what's noted as well, Marko is that the trend that we're seeing is actually going the other way because when you typically the only time that you would either cancel programs like that is if they just retire or basically put down the whole fleet of aircraft. You could see some reduction in a number of aircraft.

But more of what we see, particularly in the U.S. is the customers that we have, without going into which one because they wouldn't want to be quoted, but is that the fact is they have to maintain readiness, i.e., fly the aircraft, the same number of aircraft that they have, and do that at a reduced cost. So that really... the trend is towards more use of simulation and we're getting contracts to upgrade simulators that we have under those training contracts to

increase the level of fidelity to allow them to use the simulators more to reduce the amount of real flying time. That's the trend that we're seeing.

Marko Pencak: Great. Thanks for that detail. Appreciate it.

Andrew Arnovitz: Operator, we have only about five minutes left in the time allotted, and we did want to open the lines, of course, to members of the media. I appreciate that there's probably more questions from investors than analysts that I would be happy to take offline the conference call. And I would ask that you please now open the call or the lines over to members of the media.

Operator: Thank you. Ladies and gentlemen from the media, if you'd like to register your questions, please press the 1 followed by the 4. This portion of the Q&A is reserved for media. Please register by pressing 1 followed by the 4.

We have no members from the media at this time, sir. Would you like to proceed back with the analysts?

Andrew Arnovitz: We have time for one more question.

Operator: Thank you. Our next question is from the line of David Tyerman from Canaccord Genuity. You may proceed.

David Tyerman: Yes, good afternoon, gentlemen. I'll try and keep it really quick. Just first on the \$6.8 million at training and services civil, I'm guessing that also ran through the sales line or did it not?

Marc Parent: It did not.

David Tyerman: It did not.

Stéphane Lefebvre: It's a product...

Marc Parent: Sorry, just before, was that the end of your question? Was that it?

David Tyerman: That was the question. I have another question, but...

Marc Parent: Oh, I'm sorry. Sorry, I thought we cut you off. Sorry. Go ahead.

Stéphane Lefebvre: No, I was just going to say, but it's a very valid one. It's product sales that have gone through our civil segment because those simulators had been put in operation before being sold. Had not been put in production you would have seen the same sales going through our product segment, and then yes, we would have recognized revenue and gain on it.

David Tyerman: Okay. So sorry, did the \$6.8 million go through somewhere, at some point?

Stéphane Lefebvre: It did. It went as additional margins on the training and services segment.

David Tyerman: Right. So was there never any sales recorded related to that sale?

Stéphane Lefebvre: The simulators were in our fixed assets.

David Tyerman: Okay. Got you.

Stéphane Lefebvre: Sales, they were accounted for as disposal of assets.

David Tyerman: Okay. Understood. And then the other question... The other question I had was just on the non-cash working capital. It was a really large use of non-cash working capital. I'm not sure if it was the largest ever in Q1, but I looked back a bunch of them and it was certainly very big. So I'm wondering why was it so large? And then would we see an unusually large recovery in the remainder of the year just given the size of the draw in Q1?

Stéphane Lefebvre: It was a large utilization of non-cash working cap. I'm not sure if it was the largest ever. I don't know.

But if I compare it to the first quarter of last year, the investment in non-cash working cap this quarter was \$160 million. And in the first quarter of last year we had invested \$115 basically, \$115 million. So there's kind of a \$45 million

more investment in this quarter compared to the same quarter last year. And this is a trend that we typically see every first quarter because of some specific payments that we have to do in the first quarter of our years. But we definitely haven't seen that kind of magnitude in the first quarter of last year.

The volume has gone up, so it's certainly one of the factors. But it really is mainly driven by the accounts that we've paid in the first quarter. So it's mainly, mainly driven by a drop in our accounts payable in accrued liability, as well as in our DOC, our deposits on contracts.

David Tyerman: So would you expect a larger than normal normalization through the remainder of the year?

Stéphane Lefebvre: No. I think, as I said, we definitely expect a portion of that to reverse by the end of the year.

David Tyerman: Okay.

Stéphane Lefebvre: Too early to say.

David Tyerman: Thank you.

Marc Parent: Too early to say, David. Hey one thing, I'd like to come back on your first question there because I think it's important that we clarify what we're doing there.

I think we've been talking to analysts and investors for quite a while that in civil and the military business, we operate this business very much from a combined solution selling process. And that really gives us an edge in the market because if you think about it the civil business, we're the only company that can offer products, services, training, provide pilots, operate through training centres. So we use all of those weapons at our disposal in this kind of market.

So when you look at this, I think what would make it akin to often what we'll do is we'll have... in our products business we'll have advanced-built simulators, meaning that we'll have simulators that are half-built in our inventory that, because we want to be able to seize the opportunity for a customer that needs a short delivery time. So then when you see that, and we've seen that in past quarters, not recently, but we've seen that product segment that you get a quarter that you get a bump because you've had these advance builds, that suddenly they were half-built, so they get turned into revenue very quickly rather than say the 12 to 18 months that a traditional simulator takes.

In the products... in the training sector, what you're seeing us increasingly doing – and in this case we have three such joint ventures this quarter – what you're seeing us doing is go after the customers and in some of these cases, is to say putting assets into their training centre, sort of like advanced builds, except on the training side. We put in there in anticipation of being able to grow and create a joint venture around it. And when that happens, okay, we crystallize that by basically recognizing, if you like the sale all at once or the EBIT all at once, this is what happens. And that could happen in the future as well. And that's why we disclosed the number.

But I think you... just in the same way that I talk about combined margins of... you know, that the peak expected to be 22 per cent, I would really basically advise you to look at this on a combined basis. It would have been the same as if we've done... in our minds, as if we've done an advanced build in our products segment.

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