

BOMBARDIER

SECOND QUARTERLY REPORT

Six-month period ended July 31, 2007



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts in this report are in U.S. dollars and tabular figures are in millions of U.S. dollars, unless otherwise indicated.

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Forward-looking statements

This Management's Discussion and Analysis ("MD&A") includes forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. By their nature, forward-looking statements require Bombardier Inc. (the "Corporation") to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause the Corporation's actual results in future periods to differ materially from forecasted results. While the Corporation considers its assumptions to be reasonable and appropriate based on current information available, there is a risk that they may not be accurate. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, please refer to the respective MD&A sections of the Corporation's aerospace segment ("Aerospace") and the Corporation's transportation segment ("Transportation") in the MD&A section of the Corporation's annual report for fiscal year 2007.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with the Corporation's business environment (such as the financial condition of the airline industry), operational risks (such as risks associated with doing business with partners, risks involved in developing new products and services, warranty and casualty claim losses, risks from legal proceedings, risks relating to the Corporation's dependence on certain key customers and key suppliers, risks resulting from fixed-term commitments, human resource risks and environmental risks), financing risks (such as risks resulting from reliance on government support, risks relating to financing support provided on behalf of certain customers, risks relating to liquidity and access to capital markets, risks relating to the terms of certain restrictive debt covenants) and market risks (including foreign currency fluctuations, changing interest rates and commodity pricing risk). For more details, see the Risks and uncertainties section in the MD&A section of the Corporation's annual report for fiscal year 2007. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect the Corporation's expectations as at the date of this MD&A and are subject to change after such date. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

I OVERVIEW

Highlights of the quarter

- EBIT from continuing operations before special items of \$213 million, or 5.3% of revenues, compared to \$126 million, or 3.6%, for the same period last fiscal year.
- EPS from continuing operations before special items of \$0.05 (\$0.03 for the same period last fiscal year).
- Free cash flow of \$633 million, an improvement of \$487 million compared to the same period last fiscal year.
- Order backlog at a record level of \$47.9 billion, an increase of \$7.2 billion compared to January 31, 2007.
- Write-off of the carrying value of the investment in Metronet, resulting in a special item of \$162 million.

Non-GAAP financial measures

This MD&A is based on reported earnings in accordance with Canadian generally accepted accounting principles ("GAAP") and on the following non-GAAP financial measures, from continuing operations:

EBITDA:	Earnings (loss) before financing income, financing expense, income taxes and depreciation and amortization
EBITDA before special items:	Earnings (loss) before financing income, financing expense, income taxes, depreciation and amortization, and special items
EBIT before special items:	Earnings (loss) before financing income, financing expense, income taxes and special items
EBT before special items:	Earnings (loss) before income taxes and special items
EPS before special items:	Earnings (loss) per share before special items
Free cash flow:	Cash flows from operating activities less net additions to property, plant and equipment

These non-GAAP measures are directly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by GAAP; therefore, others using these terms may calculate them differently.

A reconciliation to the most comparable GAAP measures, from continuing operations, is provided in the following sections:

- EBITDA, EBITDA before special items and EBIT before special items, to EBIT – see the Analysis of results table hereafter.
- EBIT and EBT, before special items, to EBT – see the Analysis of results table hereafter.
- EPS before special items, to EPS – see the Reconciliation of EPS table hereafter.
- Free cash flow to cash flows from operating activities – see the Cash flows table hereafter.

Management believes that a significant portion of the users of its MD&A analyze the Corporation's results based on these performance measures and that this presentation is consistent with industry practice. The special item for the three- and six-month periods ended July 31, 2007 relates to Transportation's write-off of the carrying value of its investment in Metronet. The special item for the six-month period ended July 31, 2006 relates to the restructuring plan initiated in fiscal year 2005 to reduce the cost structure in Transportation. Management views these items as potentially distorting the analysis of trends.

CONSOLIDATED FINANCIAL INFORMATION

Analysis of results

Consolidated results were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Revenues	\$ 4,041	\$ 3,523	\$ 8,008	\$ 7,062
Cost of sales	3,428	2,997	6,798	6,047
Margin	613	526	1,210	1,015
Operating expenses ⁽¹⁾	290	264	576	530
Other expense (income) ⁽²⁾	(19)	3	(22)	(4)
EBITDA from continuing operations before special items	342	259	656	489
Amortization	129	133	260	261
EBIT from continuing operations before special items	213	126	396	228
Financing income	(55)	(39)	(106)	(78)
Financing expense	127	88	247	176
EBT from continuing operations before special items	141	77	255	130
Special items	162	-	162	24
EBT from continuing operations	(21)	77	93	106
Income taxes	50	20	85	28
Income (loss) from continuing operations	(71)	57	8	78
Income from discontinued operations, net of tax ⁽³⁾	-	1	-	4
Net income (loss)	\$ (71)	\$ 58	\$ 8	\$ 82
Basic and diluted earnings (loss) per share (in dollars)				
From continuing operations before special items	\$ 0.05	\$ 0.03	\$ 0.09	\$ 0.05
From continuing operations	\$ (0.05)	\$ 0.03	\$ -	\$ 0.04
Net income (loss)	\$ (0.05)	\$ 0.03	\$ -	\$ 0.04
(as a percentage of revenues, from continuing operations)				
Margin	15.2%	14.9%	15.1%	14.4%
EBITDA before special items	8.5%	7.4%	8.2%	6.9%
EBITDA	4.5%	7.4%	6.2%	6.6%
EBIT before special items	5.3%	3.6%	4.9%	3.2%
EBIT	1.3%	3.6%	2.9%	2.9%
EBT before special items	3.5%	2.2%	3.2%	1.8%
EBT	(0.5%)	2.2%	1.2%	1.5%
Free cash flow	\$ 633	\$ 146	\$ 479	\$ (393)

⁽¹⁾ Comprised of selling, general and administrative ("SG&A") and research and development ("R&D") expenses.

⁽²⁾ Includes settlement of claims, severance and other involuntary termination costs (including changes in estimates), foreign exchange losses (gains), loss (income) from equity accounted investees, the effect of the adjustment of program accounting ending dates for the CRJ700 and CRJ900 aircraft programs and fair value adjustments related to certain financial instruments.

⁽³⁾ Related to Bombardier Capital's operations.

Selected financial information was as follows as at:

	July 31, 2007	January 31, 2007
Order backlog (in billions of dollars)	\$ 47.9	\$ 40.7
Cash and cash equivalents	\$ 2,998	\$ 2,648

Reconciliation of earnings per share from continuing operations before and after special items was as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Income from continuing operations before special items, net of tax	\$ 91	\$ 57	\$ 170	\$ 100
Special items, net of tax	(162)	-	(162)	22
Income (loss) from continuing operations, net of tax	\$ (71)	\$ 57	\$ 8	\$ 78
Basic and diluted earnings (loss) per share (in dollars):				
From continuing operations before special items, net of tax	\$ 0.05	\$ 0.03	\$ 0.09	\$ 0.05
Special items, net of tax	(0.09)	-	(0.09)	(0.01)
From continuing operations, net of tax	\$ (0.05)	\$ 0.03	\$ -	\$ 0.04

Analysis of results

Revenues – The \$518-million and \$946-million increases for the three- and six-month periods mainly reflect:

- higher manufacturing revenues for business aircraft (\$155 million for the three-month period, \$279 million for the six-month period) and regional aircraft (\$61 million for the three-month period, \$135 million for the six-month period);
- higher revenues in Transportation (\$207 million for the three-month period, \$328 million for the six-month period), mainly due to higher mainline, light rail vehicles and system revenues and a positive currency impact, partially offset by a lower level of activities in the North America region and in signalling;
- higher deliveries for pre-owned regional aircraft and a favourable mix for pre-owned business aircraft (\$48 million for the three-month period, \$98 million for the six-month period); and
- higher service revenues in Aerospace (\$27 million for the three-month period, \$69 million for the six-month period).

Margin percentage – The 0.3 and 0.7 percentage-point increases for the three- and six-month periods are due to the following:

- In Aerospace, the higher margin percentage is mainly due to improved selling prices for wide-body business aircraft, higher margins for regional aircraft and improved margin on services activities. These increases were partially offset by higher production costs on certain business aircraft, and a charge of \$22 million following the change in the long-term foreign exchange assumption for the Canadian dollar, which led to a revision of cost estimates for programs under average cost accounting in the three-month period ended July 31, 2007.
- In Transportation, the higher margin percentage is mainly due to procurement initiatives and better overall contract execution as a result of the margin and quality enhancement program, partially offset by negative adjustments for service contracts in the United Kingdom (U.K.).

Operating expenses – The \$26-million and \$46-million increases for the three- and six-month periods are mainly due to:

- higher selling expenses in Aerospace and Transportation, due to a higher level of activities (\$17 million for the three-month period, \$37 million for the six-month period);
- higher general and administration expenses in Transportation (\$9 million for the three- and six-month periods); and
- a negative currency impact in Transportation (\$7 million for the three-month period, \$17 million for the six-month period).

Partially offset by:

- lower R&D costs in Aerospace, as the pre-launch phase of the CRJ1000 regional aircraft is now completed (\$14 million for the three-month period, \$22 million for the six-month period).

Other expense (income) – Net other income for the three- and six-month periods ended July 31, 2007 is mainly related to:

- a gain of \$18 million arising from the settlement of a claim with Northwest;
- a net gain of \$8 million resulting from the reduction in the previously-recorded severance and other involuntary termination cost provision in Transportation; and
- an unfavourable fair value adjustment related to certain financial instruments (\$6 million) in Transportation.

In addition, net other income for the six-month period ended July 31, 2007 is also related to:

- a favourable fair value adjustment related to certain financial instruments (\$11 million) in Aerospace; and
- a loss from equity accounted investees (\$6 million) in Transportation.

Net other expense for the three-month period and net other income for six-month period, ended July 31, 2006 were mainly related to:

- a gain of \$84 million arising from the settlement with a supplier of regional aircraft components;
- a charge of \$74 million arising from the alignment of the CRJ700 and CRJ900 aircraft program accounting ending dates;
- foreign exchange losses (\$11 million) in Transportation; and
- income from equity accounted investees (\$9 million for the three-month period, \$11 million for the six-month period) in Transportation.

In addition, net other income for the six-month period ended July 31, 2006 was also related to:

- a net gain of \$12 million resulting from the reduction in the previously-recorded severance and other involuntary termination cost provision in Aerospace; and
- severance and other involuntary termination cost related to an alignment of production capacity (\$12 million) in Transportation.

Financing income and Financing expense – Net financing expense amounted to \$72 million for the three-month period ended July 31, 2007, compared to \$49 million for the same period last fiscal year. Net financing expense amounted to \$141 million for the six-month period ended July 31, 2007, compared to \$98 million for the same period last fiscal year.

The \$23-million and \$43-million increases for the three- and six-month periods are mainly due to higher interest expense on long-term debt (\$20 million for the three-month period, \$50 million for the six-month period), and net losses on certain financial instruments, including certain call options on long-term debt (\$16 million for the three- and six-month periods), partially offset by higher interest income on loans and lease receivables (\$9 million for the three-month period, \$4 million for the six-month period) and interest income on invested collateral (\$9 million for the three-month period, \$20 million for the six-month period).

Special items – The special item for the three- and six-month periods ended July 31, 2007 relates to the write-off of the carrying value of the investment in Metronet in Transportation.

The special item for the six-month period ended July 31, 2006 was related to the restructuring plan initiated in fiscal year 2005 to reduce the cost structure in Transportation.

Income taxes – For the three-month period ended July 31, 2007, the Corporation recorded an income tax expense of \$50 million on a negative EBT of \$21 million, as a result of the non-recognition of tax benefits on the write-off of the carrying value of the investment in Metronet recorded as a special item. For the three-month period ended July 31, 2006, the effective income tax rate was 26.0%, compared to the statutory income tax rate of 32.7%. The lower effective income tax rate was mainly due to lower effective income tax rates of foreign investees.

For the six-month period ended July 31, 2007, the effective income tax rate was 91%, compared to the statutory income tax rate of 32.9%. The higher effective income tax rate is mainly due to the above-mentioned non-recognition of tax benefits on the write-off of the carrying value of the investment in Metronet, as well as to the net change in the non-recognition of tax benefits related to operating losses and temporary differences, partially offset by lower effective income tax rates of foreign investees. For the six-month period ended July 31, 2006, the effective income tax rate was 26.4%, compared to the statutory income tax rate of 32.7%. The lower

effective income tax rate was mainly due to the lower effective income tax rates of foreign investees, partially offset by the non-recognition of income tax benefits related to the restructuring plan in Transportation.

Cash flows

The following table summarizes the cash flows as reported in the consolidated statements of cash flows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Income (loss) from continuing operations	\$ (71)	\$ 57	\$ 8	\$ 78
Non-cash items	340	119	485	260
Net change in non-cash balances related to operations	407	21	49	(571)
Cash flows from operating activities	676	197	542	(233)
Net additions to property, plant and equipment	(43)	(51)	(63)	(160)
Free cash flow	633	146	479	(393)
Cash flows from investing activities (excluding net additions to property, plant and equipment)	(40)	91	(82)	80
Cash flows from financing activities	(79)	(653)	(94)	(981)
Effect of exchange rate changes on cash and cash equivalents	3	50	47	116
Cash flows from continuing operations	517	(366)	350	(1,178)
Cash flows from discontinued operations	-	6	-	50
Net increase (decrease) in cash and cash equivalents	\$ 517	\$ (360)	\$ 350	\$ (1,128)

Free cash flow

The \$487-million improvement for the three-month period is mainly due to increases in free cash flow of \$305 million in Transportation and of \$184 million in Aerospace.

The \$872-million improvement for the six-month period is mainly due to increases in free cash flow of \$518 million in Aerospace and of \$334 million in Transportation, after payment of a discretionary pension fund contribution of \$174 million during the first quarter of fiscal year 2008.

Cash flows from investing activities (excluding net additions to property, plant and equipment)

The cash outflows for the three- and six-month periods ended July 31, 2007 mainly reflect an increase in the investment in Metronet (\$31 million for the three-month period, \$55 million for the six-month period).

The cash inflows for the three- and six-month periods ended July 31, 2006 mainly reflected the disposal of discontinued operations, net of cash disposed.

Cash flows from financing activities

The cash outflow for the three- and six-month periods ended July 31, 2007 mainly reflect the \$55 million purchase, in the open market under the terms of a Trust agreement, of 9,426,000 Class B Shares (Subordinate Voting) of the Corporation during the second quarter of fiscal year 2008, in connection with the performance share unit ("PSU") plan.

The cash outflows for the three-month period ended July 31, 2006 mainly reflected the repayments of \$450 million and \$200 million Cdn (\$176 million) of medium-term notes at maturity in June and July 2006 respectively. The cash outflows for the six-month period ended July 31, 2006 mainly reflected the above-mentioned repayments of medium-term notes and the repayment of £175 million (\$305 million) of debentures at maturity in February 2006.

Cash flows from discontinued operations

The cash inflows for the six-month period ended July 31, 2006 mainly reflected cash flows from operating activities (\$52 million).

As a result of the items discussed above, cash and cash equivalents amounted to \$3.0 billion as at July 31, 2007, compared to \$2.6 billion as at January 31, 2007.

Order backlog

The \$7.2-billion increase is due to:

- higher order intake compared to revenues recorded in Aerospace (\$5.0 billion) and Transportation (\$0.8 billion); and
- a net currency impact in Transportation (\$1.4 billion), mainly arising from the strengthening of the euro and the pound sterling compared to the U.S. dollar as at July 31, 2007 compared to January 31, 2007.

II AEROSPACE

OVERVIEW

Highlights of the quarter

- EBIT of \$133 million or 6.0% of revenues, compared to \$66 million or 3.5%, for the same period last fiscal year.
- 103 net orders and 49 deliveries for business aircraft, compared to 67 and 48 respectively for the same period last fiscal year.
- 84 net orders and 29 deliveries for regional aircraft, compared to 9 and 26 respectively for the same period last fiscal year.
- As a result of the increasing number of regional jet firm orders, a decision was made to increase the production rate for the *CRJ700* and *CRJ900* aircraft from a rate of one aircraft every five days to a rate of one aircraft every four days.
- Order backlog at a record level of \$18.2 billion, an increase of \$5.0 billion compared to January 31, 2007.
- Free cash flow of \$477 million, an improvement of \$184 million compared to the same period last fiscal year.

Analysis of results

Aerospace's results were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Revenues				
Manufacturing				
Business aircraft	\$ 1,032	\$ 877	\$ 2,121	\$ 1,842
Regional aircraft	551	490	1,089	954
Other	95	103	199	186
Total manufacturing revenues	1,678	1,470	3,409	2,982
Services ⁽¹⁾	349	322	693	624
Other ⁽²⁾	183	107	368	246
Total revenues	2,210	1,899	4,470	3,852
Cost of sales	1,858	1,602	3,774	3,277
Margin	352	297	696	575
Operating expenses ⁽³⁾	133	131	271	266
Other expense (income) ⁽⁴⁾	(17)	(6)	(27)	(21)
EBITDA	236	172	452	330
Amortization	103	106	207	209
EBIT	\$ 133	\$ 66	\$ 245	\$ 121
(as a percentage of total revenues)				
Margin	15.9%	15.6%	15.6%	14.9%
EBITDA	10.7%	9.1%	10.1%	8.6%
EBIT	6.0%	3.5%	5.5%	3.1%

⁽¹⁾ Includes revenues from parts logistics, aircraft fractional ownership and hourly flight entitlement programs' service activities, aircraft maintenance, commercial training and military aviation training.

⁽²⁾ Includes mainly sales of pre-owned aircraft.

⁽³⁾ Comprised of SG&A and R&D expenses.

⁽⁴⁾ Includes settlement of claims, severance and other involuntary termination costs (including changes in estimates), the effect of the adjustment of program accounting ending dates for the CRJ700 and CRJ900 aircraft programs and fair value adjustments related to certain financial instruments.

Aircraft deliveries

Total aircraft deliveries were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Business aircraft (including those of the fractional ownership program ⁽¹⁾)	49	48	99	101
Regional aircraft	29	26	57	50
Amphibious aircraft	-	1	-	1
	78	75	156	152

⁽¹⁾ An aircraft delivery is included in the above table when the equivalent of 100% of the *Flexjet* fractional shares of an aircraft model have been sold to external customers.

Manufacturing revenues – The \$208-million and \$427-million increases for the three- and six-month periods are mainly due to:

- improved selling prices for wide-body business aircraft and a favourable mix of business aircraft (\$158 million for the three-month period, \$278 million for the six-month period); and
- increased deliveries and improved selling prices for regional aircraft (\$61 million for the three-month period, \$135 million for the six-month period).

Service revenues – The \$27-million and \$69-million increases for the three- and six-month periods are mainly due to:

- higher volume and improved selling prices of spare parts (\$27 million for the three-month period, \$45 million for the six-month period); and

- higher revenues from aircraft maintenance and training services (\$7 million for the three-month period, \$20 million for the six-month period).

Other revenues – The \$76-million and \$122-million increases for the three- and six-month periods are mainly due to:

- higher deliveries for pre-owned regional aircraft (\$29 million for the three-month period, \$47 million for the six-month period); and
- a favourable mix for pre-owned business aircraft (\$19 million for the three-month period, \$51 million for the six-month period).

Margin percentage – The 0.3 and 0.7 percentage-point increases for the three- and six-month periods are mainly due to:

- improved selling prices for wide-body business aircraft;
- higher margins for regional aircraft; and
- improved margins on services activities.

Partially offset by:

- higher production costs on certain business aircraft; and
- a charge of \$22 million following the change in the long-term foreign exchange assumption for the Canadian dollar, which led to a revision of cost estimates for programs under average cost accounting in the three-month period ended July 31, 2007.

Operating expenses – The \$2-million increase for the three-month period is due to:

- higher selling expenses as a result of increased activities (\$13 million); and
- higher costs related to developing technologies with respect to composite materials (\$3 million).

Partially offset by:

- lower R&D costs, as the pre-launch phase of the *CRJ1000* regional aircraft is now completed (\$14 million).

The \$5-million increase for the six-month period is mainly due to:

- higher selling expenses as a result of increased activities (\$29 million); and
- higher costs related to developing technologies with respect to composite materials (\$5 million).

Partially offset by:

- lower R&D costs, as the pre-launch phase of the *CRJ1000* regional aircraft is now completed (\$22 million); and
- lower costs related to the *CSeries* aircraft program activities (\$5 million).

Other expense (income) – Net other income for the three- and six-month periods ended July 31, 2007 is mainly related to:

- a gain of \$18 million arising from the settlement of a claim with Northwest (See Regional aircraft section hereafter for further details); and
- a favourable fair value adjustment related to certain financial instruments for the six-month period ended July 31, 2007 (\$11 million).

Net other income for the three- and six-month periods ended July 31, 2006 was mainly related to:

- a gain of \$84 million arising from the settlement with a supplier of regional aircraft components;
- a charge of \$74 million arising from the alignment of the *CRJ700* and *CRJ900* aircraft program accounting ending dates; and
- a net gain of \$12 million resulting from the reduction in the previously-recorded severance and other involuntary termination cost provision for the six-month period ended July 31, 2006.

Free cash flow

Aerospace's free cash flow was as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
EBIT	\$ 133	\$ 66	\$ 245	\$ 121
Non-cash items:				
Amortization				
Program tooling	71	68	144	137
Other	32	38	63	72
Gain on disposals of property, plant and equipment	-	-	(1)	-
Stock-based compensation	4	2	6	4
Net change in non-cash balances related to operations	266	155	131	(171)
Net additions to property, plant and equipment	(29)	(36)	(45)	(138)
Free cash flow	\$ 477	\$ 293	\$ 543	\$ 25

The \$184-million improvement for the three-month period is mainly due to:

- a positive period-over-period variation in net change in non-cash balances related to operations (\$111 million) (see explanation below); and
- higher profitability (\$67 million).

The \$518-million improvement for the six-month period is mainly due to:

- a positive period-over-period variation in net change in non-cash balances related to operations (\$302 million) (see explanation below);
- higher profitability (\$124 million); and
- lower net additions to property, plant and equipment (\$93 million), as net additions for the six-month period ended July 31, 2006 included the purchase of tooling previously under an operating lease related to the CRJ700 aircraft program (\$50 million).

Net change in non-cash balances related to operations

For the three-month period ended July 31, 2007, the \$266-million cash inflow is mainly due to a decrease in aircraft financing, receivables and inventories, and to an increase in advances in excess of related costs, partially offset by a decrease in accounts payable and accrued liabilities and an increase in other assets. For the six-month period ended July 31, 2007, the \$131-million cash inflow is mainly due to an increase in advances in excess of related costs and to a decrease in aircraft financing and receivables, partially offset by a decrease in accounts payable and accrued liabilities and an increase in other assets.

For the three-month period ended July 31, 2006, the \$155-million cash inflow was mainly due to a decrease in aircraft financing and inventories, partially offset by an increase in receivables and a decrease in advances in excess of related costs. For the six-month period ended July 31, 2006, the \$171-million cash outflow was mainly due to an increase in receivables and inventories, partially offset by a decrease in aircraft financing.

Program information

The carrying amounts of excess-over-average production costs (“EOAPC”), included in Inventories, and program tooling costs, included in Property, plant and equipment, were as follows as at:

Program family	July 31, 2007			January 31, 2007		
	EOAPC	Program tooling	Total	EOAPC	Program tooling	Total
Business aircraft						
<i>Learjet Series</i>	\$ 130	\$ 77	\$ 207	\$ 163	\$ 89	\$ 252
<i>Challenger 300</i>	121	356	477	122	380	502
<i>Challenger 604/ Challenger 605</i>	-	50	50	-	56	56
<i>Global Series</i>	161	238	399	245	268	513
Regional aircraft						
<i>CRJ Series</i>	-	384	384	-	403	403
<i>Q-Series</i>	-	73	73	-	80	80
	\$ 412	\$ 1,178	\$ 1,590	\$ 530	\$ 1,276	\$ 1,806

EOAPC – The \$118-million decrease for the six-month period is mainly due to all program families having reached the point where the actual unit cost is less than the average unit cost recognized in Cost of sales, and to the reduction following the previously-discussed change in the long-term foreign exchange assumption for the Canadian dollar, partially offset by an increase in the second quarter of fiscal year 2008 in connection with the planned purchase of tooling previously under an operating lease related to the *Challenger 300* aircraft program.

For the three- and six-month periods ended July 31, 2007, an EOAPC charge of \$67 million, or 3.0% of total revenues, and \$136 million, or 3.0%, respectively, (\$45 million, or 2.4% of total revenues, and \$87 million, or 2.3%, respectively, for the same periods last fiscal year, before a charge of \$74 million arising from the alignment of the *CRJ700* and *CRJ900* aircraft program accounting ending dates) was recorded in Cost of sales.

Program tooling – The \$98-million decrease for the six-month period is mainly due to the benefit arising from leveraging prior investments in product platforms, resulting in a lower investment in programs under development or in their early phases of production. This decrease was partially offset by investments in the *CRJ1000* regional jet program

Product development

CSeries evaluation and cooperation agreement – Aerospace is still evaluating the feasibility of the *CSeries* aircraft program to address the lower end of the 100- to 149-seat market segment. Aerospace continues to refine the *CSeries* aircraft business plan and to optimize the aircraft configuration in order to meet customer requirements for a more economical, flexible and passenger-oriented airliner.

During the second quarter of fiscal year 2008, China Aviation Industry Corporation (“AVIC I”) and Aerospace signed a memorandum of understanding (“MOU”), subject to the execution of definitive agreements, for a new, long-term strategic cooperation in the pursuit of the five-abreast, 90- to 149-seat commercial aircraft market segment.

The MOU extends the well-established relationship between AVIC I and Aerospace. AVIC I’s Xian unit manufactures components for the *Bombardier 415* amphibious aircraft. AVIC I’s Shenyang Aircraft Corporation (SAC) unit supplies components for the Q-Series turboprop and has been selected as a structural supplier on the *CSeries* aircraft program, should it be launched.

Regional aircraft – In February 2007, Aerospace announced the launch of the *CRJ1000* regional jet, the next major step in the evolution of the *CRJ Series* aircraft family. The *CRJ1000* aircraft is designed specifically to meet the growing needs of regional airlines for jets of up to 100 seats. It provides low operating costs and improvements in cabin comfort. The new *CRJ1000* regional jet, with the first flight expected for mid-fiscal year 2009, is scheduled to enter into service in the fourth quarter of fiscal year 2010. The *CRJ1000* aircraft program was launched with 38 firm orders, 15 of which are *CRJ900* aircraft order conversions. In addition, 23 conditional orders and options have also been received.

In May 2007, Aerospace introduced the next generation versions of its *CRJ* regional jets. These new *CRJ NextGen* aircraft feature an all-new cabin and increased use of composite materials, as well as lower operating costs whereby their nearest competitors will have up to 15% higher trip cash operating costs. With their reduced fuel burn, the *CRJ NextGen* aircraft also respond to today's environmental challenges, offering reduced greenhouse gas emissions compared to their nearest competitors. The first *CRJ900 NextGen* regional jet was delivered during the second quarter of fiscal year 2008.

The new advanced composite flaps, vanes and ailerons for the *CRJ700 NextGen* and *CRJ900 NextGen* aircraft are being produced in a new 20,000-square-foot dedicated facility at Aerospace's plant in Dunmurry, Belfast, using an innovative Resin Transfer Moulding (RTM) technology. This process requires fewer parts, reduces the weight of the aircraft and improves its aerodynamic qualities, which contribute to lowering overall operating costs for airlines and offer environmental benefits.

Aircraft engines – In the second quarter of fiscal year 2008, Aerospace announced its involvement in a five-year U.K. national research program aimed at improving the environmental performance of aircraft engines. The Environmentally Friendly Engine program is focused on developing and validating key technologies to reduce emissions, fuel burn and noise from aircraft. The program also supports the environmental performance targets set by the Advisory Council for Aeronautics Research in Europe.

Order backlog

Aerospace's order backlog was as follows as at:

(in billions of dollars)	July 31, 2007	January 31, 2007
Aircraft programs	\$ 17.2	\$ 12.2
Military aviation training	1.0	1.0
	\$ 18.2	\$ 13.2

The order backlog as at July 31, 2007 is at a record level. The 38% increase mainly reflects strong order intake in regional and business aircraft. The decision to introduce the next generation version of the *CRJ700* and *CRJ900* regional jets, as well as the launch of the *CRJ1000* regional jet, have contributed to this increase. In business aircraft, both narrow-body and wide-body aircraft order backlogs have increased and the order backlog for each product family remains very strong.

Workforce and labour relations

Collective agreements

The International Association of Machinists and Aerospace Workers ("IAMAW") collective agreement, covering approximately 120 Military Aviation Training employees in Moose Jaw, Saskatchewan, and in Cold Lake, Alberta, expired on July 1, 2007. Members of the union have rejected the Corporation's most recent offer for a new collective agreement, and have voted to give their union leadership a strike mandate, which could take effect in early September 2007.

The Amicus, the Amalgamated Transport & General Workers Union and the General Machinists & Boilermakers collective agreements, covering approximately 4,600 employees in Belfast, expired on January 24, 2007. On April 5, 2007, a new three-year collective agreement was ratified, which became effective January 25, 2007.

BUSINESS AIRCRAFT

According to data from the General Aviation Manufacturers Association (“GAMA”), the second quarter of calendar year 2007 was strong in terms of business aircraft deliveries and billings, indicating that the market for business aircraft remains strong. GAMA’s latest report, dated July 27, 2007, confirms that the Corporation is the business aircraft industry leader in terms of revenues on a calendar year-to-date basis.

During the three-month period ended July 31, 2007, the *Learjet 60 XR* business jet entered into service. The new *Learjet 60 XR* aircraft builds on the success of the original *Learjet 60* aircraft platform to offer customers modern technology and comfort in the mid-size segment.

Aircraft deliveries

Business aircraft deliveries were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2006 ⁽¹⁾
Narrow-body business jets				
<i>Learjet 40/40 XR/Learjet 45/45 XR</i>	17	14	29	26
<i>Learjet 60/60 XR</i>	1	4	5	9
Wide-body business jets				
<i>Challenger 300</i>	9	13	21	27
<i>Challenger 604/Challenger 605</i>	7	7	15	15
<i>Bombardier Global 5000/Global Express XRS</i>	12	8	24	17
<i>Challenger 800 Series</i>	3	2	5	7
	49	48	99	101

⁽¹⁾ An aircraft delivery is included in the above table when the equivalent of 100% of the *Flexjet* fractional shares of an aircraft model have been sold to external customers. This resulted in four and five aircraft deliveries for the three- and six-month periods ended July 31, 2007 respectively (two and three aircraft deliveries respectively for the same periods last fiscal year).

Business aircraft deliveries for the three- and six-month periods are essentially at the same level as the prior year. Higher deliveries of the *Global* family of aircraft, *Learjet 40/40 XR* and *Learjet 45/45 XR* aircraft result from the higher production rate for these aircraft in response to strong demand. Lower *Challenger 300* aircraft deliveries are due to the timing of adjustments in the production rate and to more production positions being reserved for *Flexjet* during the three- and six-month periods ended July 31, 2007, compared to the same periods last fiscal year. The decrease in *Learjet 60* aircraft deliveries is due to the transition to the new *Learjet 60 XR* aircraft, which obtained certification and entered into service in July 2007.

Net orders

Aerospace received 103 and 186 net orders for business aircraft during the three- and six-month periods ended July 31, 2007, respectively, compared to 67 and 100, respectively, during the same periods last fiscal year. The order intake remains very strong and is consistent with the continued strength in the business aircraft market.

REGIONAL AIRCRAFT

Aerospace’s *CRJ* Series family continues to be a popular choice with regional airlines, as demonstrated by the increasing number of firm orders. As a result, a decision was made in the second quarter of fiscal year 2008 to increase the production rate for the *CRJ700* and *CRJ900* aircraft from a rate of one aircraft every five days to a rate of one aircraft every four days. Aerospace expects to produce approximately 50 *CRJ700* and *CRJ900* aircraft in fiscal year 2008 and approximately 57 aircraft in fiscal year 2009.

On March 6, 2007, the U.S. Bankruptcy Court for the Southern District of New York entered an order granting the Corporation an allowed general unsecured claim in the amount of \$34 million against Northwest Airlines (“Northwest”). On May 31, 2007, Northwest emerged from a 20-month period under bankruptcy protection, and the Corporation received shares of new equity in the reorganized Northwest as a primary distribution on account of its claim. The shares were monetized for proceeds of \$18 million, resulting in a gain of the same amount,

recorded in Other expense (income) during the second quarter of fiscal year 2008. In addition, on May 3, 2007, Delta Air Lines also emerged from a 19-month period under bankruptcy protection.

Aircraft deliveries

Regional aircraft deliveries were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Regional jets				
CRJ200	-	-	-	1
CRJ700	1	-	4	10
CRJ900	11	16	22	20
Turboprops				
Q200	1	-	2	-
Q300	4	3	8	6
Q400	12	7	21	13
	29	26	57	50

The 12% and 14% increases for the three- and six-month periods are mainly due to higher turboprop deliveries, partially offset by lower deliveries of regional jets. In the second quarter of fiscal year 2008, Aerospace delivered its 800th turboprop.

Orders and backlog

Regional aircraft orders received by aircraft type were as follows for the three-month periods ended July 31:

	Orders	Swaps ⁽¹⁾	2007	2006
			Net orders	Net orders
Regional jets				
CRJ200	-	-	-	(7)
CRJ700	8	2	10	-
CRJ900	46	(2)	44	7
Turboprops				
Q300	7	-	7	1
Q400	23	-	23	8
	84	-	84	9

⁽¹⁾ Mesa Air Group, Inc. has converted its two orders of CRJ900 regional jets to two orders of CRJ700 NextGen regional jets.

Regional aircraft orders received by aircraft type were as follows for the six-month periods ended July 31:

	Orders	Swaps ⁽¹⁾	2007	2006
			Net orders	Net orders
Regional jets				
CRJ200	-	-	-	(15)
CRJ700	8	2	10	(12)
CRJ900	76	(17)	59	40
CRJ1000	23	15	38	-
Turboprops				
Q200	4	-	4	2
Q300	10	-	10	4
Q400	54	-	54	9
	175	-	175	28

⁽¹⁾ My Way Airlines has converted its remaining 15 orders of CRJ900 regional jets to orders of CRJ1000 regional jets.

The above tables for the three- and six-month periods reflect a shift in demand toward larger regional jets and turboprops.

Aerospace received the following significant net orders during the six-month period ended July 31, 2007:

Customer	Aircraft	Number
Regional jets		
Delta Air Lines	CRJ900	44
Deutsche Lufthansa AG	CRJ900	15
Undisclosed customer	CRJ1000	15
Mesa Air Group	CRJ700	10
Brit Air	CRJ1000	8
Pluna Líneas Aéreas Uruguayas S.A.	CRJ900	7
Tatarstan Airlines	CRJ900	6
Turboprops		
Flybe	Q400	15
Horizon Air	Q400	15
Pinnacle Airlines Corp.	Q400	15

The order backlog, as well as options and conditional orders for regional aircraft, consisted of the following as at July 31, 2007:

	Aircraft on firm order ⁽¹⁾	Options and conditional orders
Regional jets		
CRJ200	-	189
CRJ700	11	81
CRJ900	108	198
CRJ1000	38	23
Turboprops		
Q200	6	-
Q300	17	10
Q400	90	126
	270	627

⁽¹⁾ There are 20 firm orders in the order backlog with conversion rights from the CRJ900 aircraft to the CRJ1000 aircraft. In addition, there are nine firm orders in the order backlog with conversion rights from the Q400 turboprops to other regional aircraft.

AIRCRAFT SERVICES

During the second quarter, Aerospace continued to improve Aircraft Services' operational performance while growing its aftermarket business. Customer satisfaction indices improved while revenues and profits grew. Aerospace continued to develop more integrated services demanded by regional aircraft operators, while expanding its already well established price-by-the-hour offering – *Smart Parts*. Aerospace is in line with its plan to increase service levels and offerings and capture a greater share of the \$3.6 billion annual aftermarket business generated from its growing installed base.

Parts Logistics – Aerospace has shown steady operational improvements in the performance of Parts Logistics, with 90% overall off-the-shelf parts availability. Aerospace invested further in the top 25 high-demand parts inventory, opened a new parts depot in Sao Paulo, Brazil in August 2007, in addition to the new Customer Response Centres in Wichita and Montréal opened earlier in fiscal year 2008.

Customer Training – During the second quarter of fiscal year 2008, Aerospace and CAE signed a 20-year agreement under which CAE became an Authorized Training Provider for Aerospace's *Global* family and *Challenger 300* aircraft. Aerospace and CAE will collaborate in providing state-of-the-art training programs for pilots and maintenance technicians worldwide.

III TRANSPORTATION

OVERVIEW

Highlights of the quarter

- EBIT before special items of \$80 million, or 4.4% of revenues, compared to \$60 million, or 3.7%, for the same period last fiscal year.
- Free cash flow of \$296 million, an improvement of \$305 million compared to the same period last fiscal year.
- Write-off of the carrying value of the investment in Metronet, resulting in a special item of \$162 million.

Analysis of results

The results of Transportation operations using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other Western European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. Mainly due to the higher exchange rates of the euro and other European currencies compared to the U.S. dollar for the three- and six-month periods of fiscal year 2008 compared to the same periods last fiscal year, revenues have been positively impacted (“positive currency impact”) and expenses negatively impacted (“negative currency impact”). See the Foreign exchange rates section for the average exchange rates used to translate revenues and expenses.

Transportation’s results were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Revenues				
Rolling stock ⁽¹⁾	\$ 1,163	\$ 992	\$ 2,191	\$ 2,009
Services ⁽²⁾	316	341	690	666
System and signalling ⁽³⁾⁽⁴⁾	352	291	657	535
Total revenues	1,831	1,624	3,538	3,210
Cost of sales	1,570	1,395	3,024	2,770
Margin	261	229	514	440
Operating expenses ⁽⁵⁾	157	133	305	264
Other expense (income) ⁽⁶⁾	(2)	9	5	17
EBITDA before special items	106	87	204	159
Amortization	26	27	53	52
EBIT before special items	80	60	151	107
Special items	162	-	162	24
EBIT	\$ (82)	\$ 60	\$ (11)	\$ 83
(as a percentage of total revenues)				
Margin	14.3%	14.1%	14.5%	13.7%
EBITDA before special items	5.8%	5.4%	5.8%	5.0%
EBITDA	(3.1%)	5.4%	1.2%	4.2%
EBIT before special items	4.4%	3.7%	4.3%	3.3%
EBIT	(4.5%)	3.7%	(0.3%)	2.6%

⁽¹⁾ Comprised of mainline (including very high-speed, high-speed, intercity, regional and commuter trains, as well as locomotives), mass transit (including metro cars and light rail vehicles), propulsion and controls, and bogies revenues, presented in the caption Manufacturing revenues in the consolidated statements of income.

⁽²⁾ Comprised of fleet management, spare parts and logistics management, vehicle refurbishment and overhaul, component refurbishment and overhaul, and technical support revenues.

⁽³⁾ The revenues of system and signalling are presented in the caption Other revenues in the consolidated statements of income.

⁽⁴⁾ Excluding the rolling stock portion of system orders manufactured by other divisions within Transportation.

⁽⁵⁾ Comprised of SG&A and R&D expenses.

⁽⁶⁾ Includes severance and other involuntary termination costs (including changes in estimates), foreign exchange losses (gains), loss (income) from equity accounted investees and fair value adjustments related to certain financial instruments.

Revenues by geographic region

	Three-month periods ended July 31				Six-month periods ended July 31			
	2007		2006		2007		2006	
Europe	\$ 1,348	73%	\$ 1,116	69%	\$ 2,660	75%	\$ 2,199	68%
Asia-Pacific	273	15%	202	12%	440	12%	344	11%
North America	175	10%	266	16%	372	11%	583	18%
Other	35	2%	40	3%	66	2%	84	3%
	\$ 1,831		\$ 1,624		\$ 3,538		\$ 3,210	

Rolling stock revenues – The \$171-million increase for the three-month period is mainly due to:

- a higher level of activities in the regional trains segment (\$130 million), mainly in France and China;
- a higher level of activities in Europe in the locomotive segment (\$31 million) and in the light rail vehicles segment (\$30 million); and
- a positive currency impact (\$66 million).

Partially offset by:

- a lower level of activities in the North America region (\$72 million), mainly due to the phasing out of a major commuter train contract.

The \$182-million increase for the six-month period is mainly due to:

- a higher level of activities in the regional trains segment (\$181 million), mainly in France and China;
- a positive currency impact (\$136 million); and
- a higher level of activities in the light rail vehicles segment (\$89 million).

Partially offset by:

- a lower level of activities in the North America region (\$192 million), mainly due to the phasing out of a major commuter train contract.

Service revenues – The \$25-million decrease for the three-month period is mainly due to negative adjustments for contracts in the U.K., partially offset by a positive currency impact (\$20 million).

The \$24-million increase for the six-month period is mainly due to a positive currency impact (\$52 million) and a higher level of activities in the U.K. (\$19 million), partially offset by the above-mentioned negative adjustments for contracts in the U.K.

System and signalling revenues – The \$61-million increase for the three-month period is mainly due to:

- higher system revenues, mainly on the London Underground project (\$79 million); and
- a positive currency impact (\$24 million).

Partially offset by:

- a lower level of activities in signalling (\$44 million).

The \$122-million increase for the six-month period is mainly due to:

- higher system revenues, mainly in South Korea and on the London Underground project (\$120 million); and
- a positive currency impact (\$32 million).

Partially offset by:

- a lower level of activities in signalling (\$41 million).

Margin percentage – The 0.2 and 0.8 percentage-point increases for the three- and six-month periods are mainly due to procurement initiatives and better overall contract execution as a result of the margin and quality enhancement program, partially offset by the above-mentioned negative adjustments for service contracts in the U.K.

Operating expenses – The \$24-million increase for the three-month period is due to:

- higher general and administration expenses (\$9 million);
- a negative currency impact (\$7 million);
- higher selling expenses, due to a higher level of activities in services (\$4 million); and
- higher R&D costs (\$4 million).

The \$41-million increase for the six-month period is due to:

- a negative currency impact (\$17 million);
- higher general and administration expenses (\$9 million);
- higher selling expenses, due to a higher level of activities in mainline (Asia) and services (\$8 million); and
- higher R&D costs (\$7 million).

Other expense (income) – Net other income for the three- and six-month periods ended July 31, 2007 is mainly related to:

- a net gain of \$8 million resulting from the reduction in the previously-recorded severance and other involuntary termination cost provision;
- an unfavourable fair value adjustment related to certain financial instruments (\$6 million for the three-month period, \$8 million for the six-month period); and
- a loss from equity accounted investees (\$6 million) for the six-month period ended July 31, 2007.

Net other expense for the three- and six-month period ended July 31, 2006 was mainly related to:

- foreign exchange losses (\$11 million);
- severance and other involuntary termination cost related to an alignment of production capacity (\$4 million for the three-month period, \$12 million for the six-month period); and
- income from equity accounted investees (\$9 million for the three-month period, \$11 million for the six-month period).

Special items – The special item for the three- and six-month periods ended July 31, 2007 relates to the write-off of the carrying value of the investment in Metronet (see section Metronet hereafter).

The special item for the six-month period ended July 31, 2006 was related to the restructuring plan initiated in fiscal year 2005 to reduce the cost structure in Transportation.

Free cash flow

Transportation's free cash flow was as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
EBIT	\$ (82)	\$ 60	\$ (11)	\$ 83
Non-cash items:				
Amortization	26	27	53	52
Gain on disposals of property, plant and equipment	(1)	(1)	(2)	(1)
Stock-based compensation	3	2	5	3
Special items	162	-	162	24
Net change in non-cash balances related to operations	202	(82)	(61)	(345)
Net additions to property, plant and equipment	(14)	(15)	(18)	(22)
Free cash flow	\$ 296	\$ (9)	\$ 128	\$ (206)

The \$305-million and \$334-million improvements for the three- and six-month periods are mainly due to:

- a positive period-over-period variation in net change in non-cash balances related to operations (\$284 million for the three- and six-month periods) (see explanation below); and
- higher profitability before the non-cash special items (\$20 million for the three-month period, \$44 million for the six-month period).

Net change in non-cash balances related to operations

For the three-month period ended July 31, 2007, the \$202-million cash inflow is mainly due to a decrease in inventories, partially offset by a decrease in accounts payable and accrued liabilities. For the six-month period ended July 31, 2007, the \$61-million cash outflow is mainly the result of a decrease in accounts payable and accrued liabilities, a payment of a discretionary pension fund contribution (\$174 million) and an increase in receivables, partially offset by an increase in advances and progress billings in excess of related costs and a decrease in inventories.

For the three-month period ended July 31, 2006, the \$82-million cash outflow was mainly due to a decrease in accounts payable and accrued liabilities and in advances and progress billings in excess of related costs, partially offset by a decrease in inventories. For the six-month period ended July 31, 2006, the \$345-million cash outflow was mainly due to a decrease in accounts payable and accrued liabilities and in advances and progress billings in excess of related costs.

Orders and backlog

Transportation received the following major orders during the first six-month of fiscal year 2008:

Customer	Product/Service	Number of cars	Rolling stock	Services
Trenitalia, Italy	Electric locomotives, type E464	150	\$ 487	\$ -
Dalian Locomotives and Rolling Stock Company Ltd., China	MITRAC propulsion and train control equipment, design and technical support for high-power electric freight locomotives	500	480 ⁽¹⁾	-
Société Nationale des Chemins de fer Français (SNCF), France	High-capacity trains, type AGC	256	416	-
Swiss Federal Railways ("SBB"), Switzerland	Low-floor passenger coaches	140	178	-
SNCF, France	Electric multiple units, type TER 2N NG and power bogies	95 ⁽²⁾	156 ⁽³⁾	-
Green Cargo, Sweden	Modernization of electric locomotives, type Rc2 and diesel locomotives, type T44	104	-	153
Southern Railway and Porterbrook Leasing Limited; U.K.	Electrostar cars	48	115	-

⁽¹⁾ Total contract value, including consortium partner, is \$1.4 billion.

⁽²⁾ Contract includes 150 power bogies in addition to the 95 cars.

⁽³⁾ Total contract value, including consortium partner, is \$646 million.

Transportation and Deutsche Bahn AG ("DB") also signed a framework agreement in February 2007 for the supply of 321 new *TALENT 2* trains, valued at approximately €1.2 billion (\$1.6 billion). The new generation of electric multiple-unit trains will join Bombardier's double-deck trains and *TRAXX* locomotives as the backbone of DB's regional transport service throughout Germany. No orders in connection with this framework agreement have been received yet.

In addition, subsequent to the end of the second quarter, Transportation signed the following contracts, which are not included in the order backlog:

- In July 2007, Transportation received an order for 340 *MOVIA* metro cars from the Delhi Metro Rail Corporation Ltd. (DMRC), totalling €427 million (\$590 million).
- In July 2007, Transportation received an additional order for 19 high-capacity AGC type (Autorail Grande Capacité) trains from the French National Railways (SNCF) valued at €82 million (\$111 million). A total of 698 AGC trains have been ordered to date.
- In August 2007, Transportation won a ground-breaking contract valued at about \$91 million for the implementation of *INTERFLO 450* ERTMS Level 2 in China. The new signalling system will manage very-high-speed traffic up to 300km/h along nearly 1,000 km of rail line between the cities of Wuhan and Guangzhou.

Transportation's order intake was as follows:

(in billions of dollars)	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Rolling stock	\$ 0.6	\$ 1.2	\$ 2.9	\$ 2.2
Services	0.4	0.5	0.9	1.0
System and signalling	0.3	0.2	0.5	0.4
	\$ 1.3	\$ 1.9	\$ 4.3	\$ 3.6

The decrease for the three-month period is mainly due to the lower level of order intake in light rail vehicles (Europe) and mainline (North America), partially offset by a positive currency impact (\$70 million).

The increase for the six-month period is mainly due to higher order intake in mainline (Europe) and propulsion and controls (China), and to a positive currency impact (\$286 million), partially offset by lower level of order in light rail vehicles (Europe).

Transportation's order backlog was as follows as at:

(in billions of dollars)	July 31, 2007	January 31, 2007
Rolling stock	\$ 17.4	\$ 15.9
Services	6.5	5.9
System and signalling	5.8	5.7
	\$ 29.7	\$ 27.5

The increase is due to the strengthening of the euro and the pound sterling compared to the U.S. dollar as at July 31, 2007 compared to January 31, 2007 (\$1.4 billion) and to the higher order intake compared to revenues recorded (\$0.8 billion).

METRONET

Metronet Rail BCV Ltd. and Metronet Rail SSL Ltd. (together Metronet), an equity accounted investee in which the Corporation is a 20% shareholder, is responsible for maintaining and upgrading approximately 75% of the London Underground's rail system as part of a public private partnership ("PPP") under a service contract signed with London Underground Ltd. ("LUL") in April 2003.

As a result of significant cost overruns related to Metronet's capital programs, mainly the modernization and refurbishment of the stations and tracks, and the lack of financial resources to meet such cost overruns, the directors of Metronet requested an Extraordinary Review on June 29, 2007. The purpose of this review was to assess whether some of the cost overruns could be recovered by Metronet. Following an unfavourable interim report issued on July 16, 2007, the directors of Metronet asked the Mayor of London, on July 18, 2007, to appoint a PPP Administrator. The PPP Administrator was appointed on the same day and was given 56 days, from July 28, 2007, to settle all Metronet suppliers' liabilities accrued before the request for its appointment. Over the coming months, the PPP Administrator will have the responsibility to first stabilize Metronet's operations and then to proceed with the transfer of all or part of Metronet activities to LUL, a LUL nominee or a third party. The PPP Administrator has access to additional funding in the amount of £750 million (\$1.5 billion) made available by Transport for London. Such funding should allow Metronet to fulfill its accrued liabilities and carry on its relevant activities for some time.

Given the above events, the Corporation wrote-off the carrying value of £82 million (\$162 million) of its investment in Metronet in the second quarter of fiscal year 2008. The charge was recorded as a special item in the consolidated statements of income.

Transportation is working closely with Metronet, the PPP Administrator and LUL to ensure that the daily operations of the London Underground network remain unaffected. Transportation's turnkey supply contracts with Metronet for new trains, signalling, refurbishment of trains and fleet maintenance activities, valued at approximately £3.3 billion (\$6.7 billion), are progressing well and Transportation continues to work as per the contractual requirements.

In addition, Transportation is currently negotiating with the PPP Administrator for payments of £22 million (\$44 million) for amounts earned in connection with work performed under the turnkey supply contracts prior to the request for appointment of the PPP Administrator. Resolutions of these negotiations are not expected to have a significant impact on Transportation's results. Work performed after that date should be paid in accordance with the contracts.

STRATEGIC COUNTRIES

During the second quarter of fiscal year 2008, Transportation continued its efforts to develop business opportunities in the strategic emerging markets of India, China and Russia. In India, Transportation became one of the first private companies chosen to build complete rail vehicles, with a contract for 340 *MOVIA* metro cars for DMRC. In China, Transportation confirmed its leading position in the mass transit segment, with contracts in the fields of automatic people movers and metro cars, and strengthened its position in the signaling segment with a major contract for wayside and on-board signaling equipment related to very-high speed trains. In Russia, Transportation created two joint ventures with Transmashholding for propulsion technology and manufacturing related to locomotives. In this context, RZD Russian railways and Transmashholding signed a framework agreement for the supply of 806 locomotives through 2015, for which one of the newly-created joint ventures is intended to become a traction converter supplier.

OTHER

In June 2007, Transportation launched the new Bombardier Operations System ("BOS"), a world-class lean production system. BOS will improve process performance, customer delivery and quality levels, contributing to Transportation's major objectives of flawless execution and profitable growth. BOS is currently being deployed to all Transportation sites.

Transportation is making important steps towards developing a truly "Green" train for the U.K., aiming at producing a train that would be 20% lighter, 20% more fuel efficient, with 20% lower CO₂ emissions, be 90% recyclable and capable of being in service 100% of the time. Transportation seeks to optimize the environmental performance of its vehicles, supporting its customers in the achievement of their environmental objectives.

IV LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

The variation in the cash and cash equivalents was as follows for the six-month period ended July 31, 2007:

Balance as at January 31, 2007	\$ 2,648
Free cash flow	479
Purchase of common shares held in trust	(55)
Effect of exchange rate changes on cash and cash equivalents	47
Investment in Metronet	(55)
Other	(66)
Balance as at July 31, 2007	\$ 2,998

The Corporation considers that its cash and cash equivalents will enable the implementation of investment programs, the development of new products, the pursued growth of its activities, the payment of dividends on preferred shares, and allow it to meet other expected financial requirements.

LETTER OF CREDIT FACILITIES

The principal letter of credit facility and its maturity was as follows as at:

	Amounts committed	Amounts available	Maturity (fiscal year) ⁽²⁾
July 31, 2007	\$ 5,896 ⁽¹⁾	\$ 1,365	2012
January 31, 2007	\$ 5,590 ⁽¹⁾	\$ 1,179	2012

⁽¹⁾ €4,300 million.

⁽²⁾ In December 2009, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature up to December 2011.

In addition to the above, letters of credit of \$235 million were outstanding under various bilateral agreements as at July 31, 2007 (\$240 million as at January 31, 2007).

FINANCIAL POSITION

On February 1, 2007, the Corporation adopted the new accounting standards on financial instruments, which require that all derivative financial instruments, including certain embedded derivative instruments, be recognized at fair value on the balance sheet. Also, certain commercial aircraft loans, credit and residual value guarantees and related liabilities are measured at fair value under the new accounting standards. These new accounting standards also introduce Comprehensive income, which is comprised of Net income and Other comprehensive income ("OCI"). See the Changes in accounting policies section hereafter for further details.

Assets and liabilities were as follows as at:

	July 31, 2007	January 31, 2007	Explanation of variances
Cash and cash equivalents	\$ 2,998	\$ 2,648	See Liquidity section above for details.
Invested collateral	1,195	1,129	Increase mainly due to a translation adjustment ⁽¹⁾ (\$61 million).
Receivables	1,871	1,789	Increase mainly due to a higher level of receivables in Transportation (\$93 million) and to a translation adjustment ⁽²⁾ (\$42 million), partially offset by a lower level of receivables in Aerospace (\$48 million).
Aircraft financing	868	1,042	Decrease mainly due to lower interim financing lease receivables (\$198 million).
Gross inventories	7,526	7,168	Increase in gross inventories mainly due to the increase in Aerospace programs (\$305 million) and long-term contracts inventory (\$195 million), and to a translation adjustment ⁽²⁾ (\$186 million), partially offset by the decrease in finished products inventory (\$328 million).
Payments received and progress billings	(3,749)	(3,207)	
Inventories	3,777	3,961	
Advances and progress billings in excess of related costs	(3,138)	(2,443)	Increase in total payments received, advances and progress billings mainly reflects higher advances and progress billings for long-term contracts (\$658 million) and Aerospace programs (\$383 million), and a translation adjustment ⁽²⁾ (\$196 million).
Property, plant and equipment	2,838	2,936	Decrease mainly due to the amortization (\$231 million), partially offset by net additions (\$63 million) and a translation adjustment ⁽²⁾ (\$50 million).
Fractional ownership deferred costs	401	390	Increases mainly due to additional aircraft deliveries related to the fractional ownership program.
Fractional ownership deferred revenues	(501)	(487)	
Deferred income taxes	828	813	No significant change.
Accrued benefit assets	670	461	Increase in accrued benefit assets mainly reflects a discretionary pension fund contribution to Transportation pension funds (\$174 million).
Accrued benefit liabilities	(974)	(995)	

Derivative financial instruments – assets	\$ 308	\$ 39	These derivative financial instruments, mostly forward foreign exchange contracts, interest-rate swap and cross-currency interest-rate swap agreements used as part of the Corporation's hedging program, as well as embedded derivative financial instruments, are now recognized on the balance sheet as a result of the adoption of the new standards on financial instruments effective February 1, 2007. See Changes in accounting policies hereafter for further details.
Derivative financial instruments – liabilities	(321)	(13)	
Goodwill	2,358	2,286	Increase mainly due to a translation adjustment ⁽²⁾ (\$104 million).
Other assets	1,043	1,083	Decrease mainly due to the write-off of the carrying value of the investment in Metronet (\$162 million) and to the reclassification of deferred financing charges to the carrying amount of long-term debt (\$44 million) as a result of the adoption of the new accounting standards on financial instruments. The decrease was partially offset by the increase in prepaid expense (\$76 million) and restricted cash (\$42 million), as well as to the additional investment in Metronet prior to the write-off (\$55 million).
Accounts payable and accrued liabilities	(6,388)	(6,826)	Decrease mainly due to the lower level of accounts payable and accrued liabilities in Aerospace (\$205 million) and Transportation (\$343 million) and adjustments and reclassifications resulting from the adoption of the new accounting standards (\$73 million), partially offset by a translation adjustment ⁽²⁾ (\$162 million).
Long-term debt	(5,079)	(5,080)	Essentially unchanged as adjustments and reclassifications resulting from the adoption of the new accounting standards (\$116 million) and repayments of long-term debt (\$27 million) were offset by a translation adjustment ⁽³⁾ (\$167 million).

⁽¹⁾ Arising from the strengthening of the euro compared to the U.S. dollar as at July 31, 2007 compared to January 31, 2007.

⁽²⁾ Arising in Transportation mainly from the strengthening of the euro and pound sterling compared to the U.S. dollar as at July 31, 2007 compared to January 31, 2007.

⁽³⁾ Arising mainly from the strengthening of the euro and pound sterling compared to the U.S. dollar as at July 31, 2007 compared to January 31, 2007.

V CHANGES IN ACCOUNTING POLICIES

Financial instruments, Hedges and Comprehensive income

In April 2005, the Accounting Standards Board (“AcSB”) issued three new accounting standards: Section 1530 “Comprehensive Income”; Section 3855 “Financial Instruments – Recognition and Measurement”; and Section 3865 “Hedges”. Effective February 1, 2007, the Corporation adopted these new accounting standards, without restatement of prior periods.

The new accounting standards introduce Comprehensive income, which is comprised of net income and OCI. OCI includes unrealized gains and losses, net of tax, arising from the translation of the financial statements of self-sustaining foreign operations and from changes in the fair value of available-for-sale (“AFS”) financial assets. OCI also includes the effective portion of changes in fair value of cash flow and net investments in self-sustaining foreign operation hedging instruments.

The adoption of these new accounting standards also resulted in changes in accounting for financial instruments and hedges. Under the new standards, financial instruments must be recognized on the balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments, including derivative financial instruments, must be measured at fair value. After initial recognition, the measurement of financial instruments depends on their classification.

- Financial instruments classified as held-for-trading (“HFT”) and AFS are measured at fair value, except for investments in equity instruments classified as AFS that do not have a quoted market price in an active market, which are measured at cost. The HFT category includes mainly cash and cash equivalents, invested collateral, certain commercial aircraft loans, credit and residual value guarantees and related liabilities in connection with the sale of aircraft, and derivative financial instruments not designated in a hedging

relationship. AFS financial assets mainly consist of investments in securities. Gains and losses arising on the re-evaluation of the financial instruments are either recorded in net income or OCI, depending on their classification.

- Financial instruments classified as loans and receivables (“L&R”) and other than HFT liabilities are measured at amortized cost. The L&R category includes mainly trade receivables, certain commercial aircraft loans and lease receivables, business aircraft loans, restricted cash and deposits. Other than HFT liabilities mainly consist of trade payable, accrued liabilities and long-term debt.

The impact of the adoption of the new accounting standards was recognized as an adjustment to the carrying amount of the related financial assets and liabilities and recorded in Shareholders’ equity as at February 1, 2007. The transition adjustment resulted in a decrease of \$12 million recorded to Retained earnings and \$4 million recorded to Accumulated OCI (“AOCI”).

These accounting standards and the impact of these changes on the Corporation’s financial statements are discussed in Note 2 – Changes in accounting policies and Note 4 – Financial instruments to the interim consolidated financial statements.

VI FUTURE CHANGES IN ACCOUNTING POLICIES

In June 2007, the Accounting Standards Board issued a new accounting standard, Section 3031 “Inventories”, which will replace Section 3030 “Inventories”. It provides the Canadian equivalent to International Financial Reporting Standard IAS 2 “Inventories”. Section 3031 prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, including allocation of overheads and other costs to inventories, prohibits the use of the last-in, first-out (LIFO) method, and requires the reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales. The new accounting standard is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2008. The Corporation is currently assessing the impact of this new standard on its Consolidated Financial Statements.

In December 2006, the Accounting Standards Board issued Section 1535 “Capital Disclosures”, which establishes standards for disclosing information about an entity’s capital and how it is managed. The new accounting standard is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2008.

VII CONTROLS AND PROCEDURES

There were no changes to the Corporation’s internal controls over financial reporting during the second quarter of fiscal year 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal controls over financial reporting.

VIII FOREIGN EXCHANGE RATES

The Corporation is subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of its self-sustaining foreign operations using a functional currency other than the U.S. dollar, mainly the euro, pound sterling and other Western European currencies, and from transactions denominated in foreign currencies, mainly the Canadian dollar and the pound sterling.

The period-end exchange rates used to translate assets and liabilities were as follows as at:

	July 31, 2007	January 31, 2007	Increase
Euro	1.3712	1.2999	5%
Canadian dollar	0.9384	0.8480	11%
Pound sterling	2.0361	1.9609	4%

The average exchange rates used to translate revenues and expenses were as follows for the three-month periods ended July 31:

	2007	2006	Increase
Euro	1.3561	1.2704	7%
Canadian dollar	0.9331	0.8950	4%
Pound sterling	2.0022	1.8526	8%

The average exchange rates used to translate revenues and expenses were as follows for the six-month periods ended July 31:

	2007	2006	Increase
Euro	1.3417	1.2393	8%
Canadian dollar	0.8985	0.8824	2%
Pound sterling	1.9837	1.8031	10%

IX SELECTED FINANCIAL DATA

The following table provides selected financial data for the last eight quarters.

	2008	2007			2006			
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter
Revenues	\$ 4,041	\$ 3,967	\$ 4,387	\$ 3,388	\$ 3,515	\$ 3,526	\$ 4,035	\$ 3,301
Income (loss) from continuing operations, net of tax	\$ (71)	\$ 79	\$ 112	\$ 53	\$ 57	\$ 21	\$ 85	\$ (1)
Income (loss) from discontinued operations, net of tax	-	-	-	21	1	3	1	(8)
Net income (loss)	\$ (71)	\$ 79	\$ 112	\$ 74	\$ 58	\$ 24	\$ 86	\$ (9)
Earnings (loss) per share:								
Basic and diluted								
From continuing operations	\$ (0.05)	\$ 0.04	\$ 0.06	\$ 0.03	\$ 0.03	\$ 0.01	\$ 0.05	\$ -
Net income (loss)	\$ (0.05)	\$ 0.04	\$ 0.06	\$ 0.04	\$ 0.03	\$ 0.01	\$ 0.05	\$ (0.01)

X INVESTOR INFORMATION

The following table provides authorized and issued and outstanding share data as at July 31, 2007.

	Authorized	Issued and outstanding
Class A Shares (Multiple Voting) ⁽¹⁾	1,892,000,000	316,962,157
Class B Shares (Subordinate Voting) ⁽²⁾	1,892,000,000	1,413,195,561 ⁽³⁾
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	2,597,907
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	9,402,093
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

⁽¹⁾ Ten votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).

⁽²⁾ Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions.

⁽³⁾ Net of 21,273,000 Class B Shares (Subordinate Voting) purchased and held in trust under the PSU plan.

Subsequent to the quarter ended July 31, 2007, in connection with the conversion privilege for holders of the Corporation's Series 2 Cumulative Redeemable Preferred Shares ("Series 2") and Series 3 Cumulative Redeemable Preferred Shares ("Series 3"), 82,736 Series 2 were converted into Series 3 and 6,949,749 Series 3 were converted into Series 2.

In connection with this conversion privilege, the Corporation announced the basis for resetting the dividend rate on its Series 3 in accordance with the terms applicable to those shares. The annual dividend rate applicable to the Series 3 for the period of five years beginning on August 1, 2007 will be 5.267%.

The following table provides share option and PSU data as at July 31, 2007.

Options issued and outstanding	46,820,250
PSUs issued and outstanding	13,987,142
Class B Shares held in trust to satisfy PSU obligations	21,273,000

The following table provides the issuance date of the Corporation's financial reports for fiscal year 2008:

First Quarterly Report	May 29, 2007
Second Quarterly Report	August 29, 2007
Third Quarterly Report	November 28, 2007
Annual Report	April 3, 2008

Information

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August 28, 2007

Additional information relating to Bombardier, including the Corporation's annual report and annual information form, can be found on SEDAR at www.sedar.com or on Bombardier's website at www.bombardier.com.

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Un exemplaire en français est disponible sur demande adressée auprès du Service des Affaires publiques ou sur le site Internet à l'adresse www.bombardier.com sous Relations avec les investisseurs.

BOMBARDIER INC.**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In millions of U.S. dollars, except number of shares)

	Notes	July 31, 2007 ⁽¹⁾	January 31, 2007
Assets			
Cash and cash equivalents		\$ 2,998	\$ 2,648
Invested collateral	8	1,195	1,129
Receivables		1,871	1,789
Aircraft financing	5	868	1,042
Inventories	6	3,777	3,961
Property, plant and equipment		2,838	2,936
Fractional ownership deferred costs		401	390
Deferred income taxes		828	813
Accrued benefit assets		670	461
Derivative financial instruments	2, 4	308	39
Goodwill		2,358	2,286
Other assets	7	1,043	1,083
		\$ 19,155	\$ 18,577
Liabilities			
Accounts payable and accrued liabilities	9	\$ 6,388	\$ 6,826
Advances and progress billings in excess of related costs	6	3,138	2,443
Fractional ownership deferred revenues		501	487
Long-term debt		5,079	5,080
Accrued benefit liabilities		974	995
Derivative financial instruments	2, 4	321	13
		16,401	15,844
Shareholders' equity			
Preferred shares			
Issued and outstanding:			
Series 2: 2,597,907		51	51
Series 3: 9,402,093		148	148
Series 4: 9,400,000		148	148
Common shares			
Issued and outstanding:			
Class A: 316,962,157 (317,044,051 as at January 31, 2007)		29	29
Class B: 1,434,468,561 (1,433,422,917 as at January 31, 2007)		1,416	1,413
Purchased and held in trust under the performance share unit plan: 21,273,000 Class B (11,847,000 as at January 31, 2007)	10	(89)	(34)
Contributed surplus		45	35
Retained earnings		746	765
Accumulated other comprehensive income, net of tax	11, 20	260	178
		2,754	2,733
		\$ 19,155	\$ 18,577
Commitments and contingencies			
	18		

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

⁽¹⁾ Refer to Note 2 for impact of new accounting policies related to financial instruments, effective February 1, 2007.

BOMBARDIER INC.**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(Unaudited)

(In millions of U.S. dollars)

	Notes	Three-month periods ended July 31		Six-month periods ended July 31	
		2007 ⁽¹⁾	2006	2007 ⁽¹⁾	2006
Preferred shares		\$ 347	\$ 347	\$ 347	\$ 347
Common shares					
Balance at beginning of period		1,408	1,428	1,408	1,428
Issuance of Class B shares		3	-	3	-
Purchase of Class B shares - held in trust	10	(55)	-	(55)	-
		1,356	1,428	1,356	1,428
Contributed surplus					
Balance at beginning of period		39	23	35	20
Stock-based compensation expense		7	4	11	7
Stock options exercised		(1)	-	(1)	-
		45	27	45	27
Retained earnings					
Balance at beginning of period		825	542	765	525
Transition adjustment - Financial instruments	2	-	-	(12)	-
Net income (loss)		(71)	58	8	82
Dividends on preferred shares		(8)	(7)	(15)	(14)
		746	593	746	593
Accumulated other comprehensive income, net of tax					
Balance at beginning of period	20	231	154	178	105
Transition adjustment - Financial instruments	2	-	-	(4)	-
Other comprehensive income		29	26	86	75
		260	180	260	180
		\$ 2,754	\$ 2,575	\$ 2,754	\$ 2,575

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

⁽¹⁾ Refer to Note 2 for impact of new accounting policies related to financial instruments, effective February 1, 2007.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In millions of U.S. dollars, except per share amounts)

	Notes	Three-month periods ended July 31		Six-month periods ended July 31	
		2007 ⁽¹⁾	2006	2007 ⁽¹⁾	2006
Revenues					
Manufacturing		\$ 2,841	\$ 2,462	\$ 5,600	\$ 4,991
Services		665	663	1,383	1,290
Other		535	398	1,025	781
		4,041	3,523	8,008	7,062
Cost of sales		3,428	2,997	6,798	6,047
Selling, general and administrative		257	223	507	444
Research and development		33	41	69	86
Other expense (income)	12	(19)	3	(22)	(4)
Amortization		129	133	260	261
Special items	13	162	-	162	24
		3,990	3,397	7,774	6,858
Income from continuing operations before the following:		51	126	234	204
Financing income	14	(55)	(39)	(106)	(78)
Financing expense	14	127	88	247	176
Income (loss) from continuing operations before income taxes		(21)	77	93	106
Income taxes		50	20	85	28
Income (loss) from continuing operations		(71)	57	8	78
Income from discontinued operations, net of tax		-	1	-	4
Net income (loss)		\$ (71)	\$ 58	\$ 8	\$ 82
Earnings (loss) per share:					
Basic and diluted					
From continuing operations		\$ (0.05)	\$ 0.03	\$ -	\$ 0.04
Net income (loss)		\$ (0.05)	\$ 0.03	\$ -	\$ 0.04

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

(1) Refer to Note 2 for impact of new accounting policies related to financial instruments, effective February 1, 2007.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(In millions of U.S. dollars)

	Notes	Three-month periods ended July 31		Six-month periods ended July 31	
		2007 ⁽¹⁾	2006	2007 ⁽¹⁾	2006
Net income (loss)		\$ (71)	\$ 58	\$ 8	\$ 82
Other comprehensive income					
Net unrealized loss on available for sale financial assets, net of tax		(1)	-	(2)	-
Net changes in cash flow hedges:					
Foreign exchange Re-evaluation		(1)	-	(1)	-
Net gain		100	-	198	-
Reclassification to income		(49)	-	(38)	-
Tax adjustment		(15)	-	(52)	-
		35	-	107	-
Cumulative translation adjustment:	20				
Net investments in self-sustaining foreign operations		(14)	20	150	103
Net gain (loss) on related hedging items, net of tax		9	6	(169)	(28)
		(5)	26	(19)	75
Total Other comprehensive income		29	26	86	75
Total Comprehensive Income		\$ (42)	\$ 84	\$ 94	\$ 157

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

⁽¹⁾ Refer to Note 2 for impact of new accounting policies related to financial instruments, effective February 1, 2007.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions of U.S. dollars)

	Notes	Three-month periods ended July 31		Six-month periods ended July 31	
		2007	2006	2007	2006
Operating activities					
Income (loss) from continuing operations		\$ (71)	\$ 57	\$ 8	\$ 78
Non-cash items:					
Amortization		129	133	260	261
Deferred income taxes		43	(17)	55	(31)
Gain on disposals of property, plant and equipment		(1)	(1)	(3)	(1)
Stock-based compensation		7	4	11	7
Special items		162	-	162	24
Net change in non-cash balances related to operations	16	407	21	49	(571)
Cash flows from operating activities		676	197	542	(233)
Investing activities					
Additions to property, plant and equipment		(46)	(54)	(87)	(164)
Disposals of property, plant and equipment		3	3	24	4
Disposal of discontinued operations, net of cash disposed		-	67	-	67
Other		(40)	24	(82)	13
Cash flows from investing activities		(83)	40	(145)	(80)
Financing activities					
Repayments of long-term debt		(19)	(646)	(27)	(967)
Purchase of common shares - held in trust	10	(55)	-	(55)	-
Issuance of shares, net of related cost		3	-	3	-
Dividends paid		(8)	(7)	(15)	(14)
Cash flows from financing activities		(79)	(653)	(94)	(981)
Effect of exchange rate changes on cash and cash equivalents		3	50	47	116
Cash flows from continuing operations		517	(366)	350	(1,178)
Cash flows from discontinued operations		-	6	-	50
Net increase (decrease) in cash and cash equivalents		517	(360)	350	(1,128)
Cash and cash equivalents at beginning of period		2,481	2,154	2,648	2,922
Cash and cash equivalents at end of period		\$ 2,998	\$ 1,794	\$ 2,998	\$ 1,794

Supplemental information

Cash paid for:

Interest	\$	179	\$	128	\$	244	\$	201
Income taxes	\$	54	\$	30	\$	77	\$	50

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended July 31, 2007

(Unaudited)

(Tabular figures in millions of U.S. dollars, unless otherwise indicated)

Bombardier Inc. (the "Corporation") is incorporated under the laws of Canada and is a manufacturer of transportation equipment, including business and regional aircraft and rail transportation equipment and systems, and is a provider of related services.

1. BASIS OF PRESENTATION

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim consolidated financial statements, and follow the same accounting policies and methods in their application as the most recent annual Consolidated Financial Statements, except for the changes in accounting policies described in Note 2 – Changes in accounting policies. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim consolidated financial statements. Such adjustments are of a normal and recurring nature. The interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Corporation's annual report for fiscal year 2007.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full fiscal year. Historically, the aerospace segment ("Aerospace") has had higher aircraft deliveries during the fourth quarter compared to the first three quarters of the fiscal year, generating higher revenues and gross margin in this quarter.

The Corporation and its subsidiaries carry out their operations in two distinct segments, Aerospace and the transportation segment ("Transportation"), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified. Most legal entities of Transportation use a December 31 fiscal year-end. As a result, the Corporation consolidates the operations of Transportation with a one-month lag with the remainder of its operations. To the extent that significant unusual transactions or events occur during the one-month lag period, the Corporation's interim consolidated financial statements are adjusted accordingly.

2. CHANGES IN ACCOUNTING POLICIES

In April 2005, the Accounting Standards Board ("AcSB") issued three new accounting standards: Section 1530 "Comprehensive Income"; Section 3855 "Financial Instruments – Recognition and Measurement"; and Section 3865 "Hedges". Effective February 1, 2007, the Corporation adopted these new accounting standards. The comparative consolidated financial statements have not been restated. The effect of adopting the new accounting standards as at February 1, 2007 are presented as Transition adjustment – Financial instruments in the consolidated statements of shareholders equity.

Comprehensive income

Section 1530 introduces Comprehensive income, which is comprised of Net income and Other comprehensive income ("OCI"). OCI comprises all changes in Shareholders' equity from transactions and other events and circumstances from non-owner sources, and includes unrealized gains and losses arising from the translation of the financial statements of self-sustaining foreign operations, unrealized gains and losses, net of tax, arising from changes in the fair value of available-for-sale ("AFS") financial assets, as well as the portion of gains or losses, net of tax, on the hedging item that is determined to be an effective cash flow hedge or hedge of net investments in self-sustaining foreign operations.

Financial instruments – recognition and measurement

Section 3855 requires that financial assets and financial liabilities, including derivative financial instruments, be recognized on the balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments subject to Section 3855, including embedded derivative financial instruments that are not closely related to the host contract, must be measured at fair value. The Corporation has selected February 1, 2003 as the date for identification of embedded derivatives. Derivatives qualifying as hedges are accounted for using special hedge accounting rules (see Hedges section hereafter).

After initial recognition, the measurement of financial instruments depends on their classification: held-for-trading (“HFT”); AFS; loans and receivables (“L&R”); or other than HFT liabilities. See Note 4 – Financial Instruments for the details of their classification.

- **Held for trading** – Financial assets and financial liabilities required to be classified or designated as HFT are measured at fair value, with gains, losses and transaction costs recorded in net income for the period in which they arise. Section 3855 allows an entity to designate any financial instrument as HFT on initial recognition or adoption of the accounting standard if reliable fair values are available, even if that instrument would not otherwise satisfy the definition of HFT (“fair value option”).

Financing rate commitments, credit and residual value guarantees and related liabilities, in connection with the sale of aircraft, are measured at fair value. The fair value of financing rate commitments upon initial recognition is recognized as deferred charge in Other assets until revenue recognition of the underlying aircraft. The fair value of credit and residual value guarantees and related liabilities upon initial recognition is recognized as an adjustment of cost of sales upon revenue recognition of the underlying aircraft. Call options on long-term debt that are not closely related to the host contract are measured at fair value, with the initial value recognized as an increase of the related long-term debt and amortized to net income using the effective interest method. Gains and losses arising on the re-evaluation of financial instruments classified as HFT are mostly recorded in Cost of sales or Other expense (income), except for the interest portion of the gains and losses, which is recorded in Financing income or Financing expense.

- **Available for sale** – Financial assets classified as AFS are measured at fair value, except for investments in equity instruments classified as AFS that do not have a quoted market price in an active market, which are measured at cost. Unrealized gains and losses, including the effect of changes in foreign exchange rates, are recognized directly in OCI, except for impairment losses, which are recognized in net income. Upon derecognition of the financial asset, the cumulative gains or losses, previously recognized in Accumulated other comprehensive income (“AOCI”) are reclassified to net income. Transaction costs are added to the carrying amount of the financial instrument.
- **Loans and receivables** – Financial assets classified as L&R are measured at amortized cost using the effective interest method. Interest income, calculated using the effective interest method, is recorded in Financing income in the period. Transaction costs are added to the carrying amount of the financial asset.
- **Other than HFT liabilities** – Financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method. Interest expense, calculated using the effective interest method, is recorded in Financing expense in the period. Transaction costs are added to the carrying amount of the financial liability.

See section Accounting rules upon transition on February 1, 2007 hereafter for the accounting rules applicable upon adoption of the new accounting standards.

Hedges

Section 3865 specifies the conditions for applying hedge accounting and how hedge accounting may be applied for each of the following permitted hedging strategies.

- **Fair value hedges** – The Corporation has designated certain interest-rate swap, cross-currency interest-rate swap agreements and forward foreign exchange contracts as fair value hedges. In a fair value hedge relationship, gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income.
- **Cash flow hedges** – The Corporation has designated forward foreign exchange contracts and interest-rate swap agreements as cash flow hedges. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income. However, when an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized in OCI are reclassified in the initial carrying amount of the related asset.
- **Hedge of net investments in self-sustaining foreign operations** – The Corporation has designated certain forward foreign exchange contracts, cross-currency interest-rate swap agreements, long-term debt and intercompany loans as hedges of its net investments in self-sustaining foreign operations. The portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified to net income when corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recorded in net income.

The portion of gains or losses on the hedging item that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item. Other gains and losses on derivative financial instruments are recorded in Other expense (income), or in Financing income or Financing expense for the interest component of the derivatives or when the derivatives were entered into for interest rate management purposes.

See section Accounting rules upon transition on February 1, 2007 hereafter for the accounting rules applicable upon adoption of the new accounting standards.

Accounting rules upon transition on February 1, 2007 (“transition date”)

Financial instruments

The accounting rules to account for gains and losses arising from the remeasurement of financial instruments at the transition date are as follows:

- All derivative financial instruments, including embedded derivatives that are not closely related to the host contract, are recorded on the balance sheet at fair value. Gains and losses, net of tax, related to financial instruments classified as HFT, including derivatives not qualifying for hedge accounting under the new accounting standards and that were not previously recorded at fair value, are recognized in the opening balance of retained earnings.
- Gains and losses, net of tax, arising from the difference at transition between the carrying amount of financial assets classified as L&R and financial liabilities classified as other than HFT, using the effective interest method, and their carrying value as at January 31, 2007, are recognized in the opening balance of retained earnings.
- Gains and losses, net of tax, related to financial instruments classified as AFS, including changes in foreign exchange rates, are recognized in the opening balance of AOCI.

Hedges

The accounting rules for hedges that have not been discontinued prior to the transition date and that qualify for hedge accounting under the new accounting standards are as follows:

- **Fair value hedges** – Any gain or loss on the hedging item is included in the opening balance of retained earnings, net of tax, at the transition date. The carrying amount of the hedged item is adjusted by the portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk. The adjustment is recognized in the opening balance of retained earnings, net of tax, at the transition date.

- **Cash flow hedges** – The component of AOCI associated with the hedged item is adjusted to the extent of the lesser of: 1) the cumulative change in the fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge and 2) the cumulative gain or loss on the hedging item from inception of the hedge, less the component of such gain or loss excluded from the assessment of hedge effectiveness. Any remaining gain or loss on the hedging item is included in the opening balance of retained earnings, net of tax, at the transition date.

Impact upon adoption on February 1, 2007

The impact on the consolidated balance sheet was as follows as at February 1, 2007:

	Reclassification	Increase (decrease)	Total
Assets			
Invested collateral	\$ 5	\$ -	\$ 5
Receivables	(5)	-	(5)
Aircraft financing	5	(25)	(20)
Inventories	(24)	(2)	(26)
Deferred income taxes	-	18	18
Derivative financial instruments	61	116	177
Other assets	(91)	16	(75)
	\$ (49)	\$ 123	\$ 74
Liabilities			
Accounts payable and accrued liabilities	\$ (51)	\$ (22)	\$ (73)
Long-term debt	(44)	(72)	(116)
Derivative financial instruments	46	233	279
	(49)	139	90
Shareholders' equity			
Retained earnings	-	(12)	(12)
Accumulated other comprehensive income	-	(4)	(4)
	\$ (49)	\$ 123	\$ 74

The detail of the Shareholders' equity adjustments was as follows as at February 1, 2007:

	Transition adjustment	
	AOCI	Retained earnings
Derivative financial instruments designated as cash flow hedges, net of tax of \$4 million	\$ (8)	\$ -
AFS financial assets, net of tax of nil ⁽¹⁾	4	-
HFT financial assets, net of tax of \$3 million ⁽¹⁾	-	(6)
HFT financial liabilities, net of tax of \$6 million ⁽¹⁾	-	13
Portion excluded from the assessment of effectiveness in hedged relationships, net of tax of \$7 million	-	(15)
Others, net of tax of \$10 million	-	(4)
	\$ (4)	\$ (12)

⁽¹⁾ Represents the fair value adjustment on financial instruments not previously recorded at fair value.

In addition, the cumulative translation adjustment ("CTA"), previously presented as a separate component of Shareholders' equity, was reclassified to AOCI.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

In June 2007, the Accounting Standards Board issued a new accounting standard, Section 3031 "Inventories", which will replace Section 3030 "Inventories". It provides the Canadian equivalent to International Financial Reporting Standard IAS 2 "Inventories". Section 3031 prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, including allocation of overheads and other costs to inventories, prohibits the use of the last-in, first-out (LIFO) method, and requires the reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales. The new accounting standard is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2008. The Corporation is currently assessing the impact of this new standard on its Consolidated Financial Statements.

In December 2006, the Accounting Standards Board issued Section 1535 "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard is effective, for the Corporation, for interim and annual financial statements beginning on February 1, 2008.

4. FINANCIAL INSTRUMENTS

The classification of financial instruments under the new accounting standards effective February 1, 2007, and their carrying amounts and fair values were as follows as at:

	July 31, 2007					January 31, 2007 ⁽¹⁾		
	Carrying value				Fair value	Carrying value		Fair value
	HFT	AFS	L&R	Total ⁽²⁾		HFT ⁽²⁾	AFS ⁽²⁾	
Financial assets								
Cash and cash equivalents	\$ 2,998	\$ -	\$ -	\$ 2,998	\$ 2,998	\$ 2,648	\$ -	\$ 2,648
Invested collateral	1,195 ⁽³⁾	-	-	1,195	1,195	1,129	-	1,134
Receivables	-	-	1,721 ⁽⁴⁾	1,721	1,721	-	-	-
Aircraft financing	241 ⁽³⁾⁽⁵⁾	-	331 ⁽⁶⁾	572	591	233	-	221
Derivative financial instruments	43 ⁽⁷⁾	-	-	43	43	-	-	-
Other assets	227 ⁽³⁾⁽⁸⁾	94 ⁽⁹⁾	219 ⁽¹⁰⁾	540	540	223	90	317
	\$ 4,704	\$ 94	\$ 2,271	\$ 7,069	\$ 7,088	\$ 4,233	\$ 90	\$ 4,320

(1) Includes only financial instruments classified as HFT and AFS as at February 1, 2007.

(2) Represents only the carrying value of financial assets included in the corresponding balance sheet caption.

(3) The Corporation has chosen to designate these financial assets as HFT under the fair value option.

(4) Comprised of trade receivables and certain other receivables.

(5) Comprised of certain commercial aircraft loans.

(6) Comprised of certain commercial aircraft loans and lease receivables, investments in financing structures and business aircraft loans.

(7) Comprised of derivative financial instruments not designated in a hedging relationship but that are economic hedges, and embedded derivatives accounted for separately.

(8) Comprised of a prepayment under an exchange agreement and servicing fees.

(9) Represents investments in securities.

(10) Comprised of restricted cash, loans, deposits and wind-down portfolios.

	July 31, 2007				January 31, 2007 ⁽¹⁾	
	Carrying value			Fair value	Carrying value	Fair value
	HFT	Other than HFT	Total ⁽²⁾		HFT ⁽²⁾	
Financial liabilities						
Accounts payable and accrued liabilities	\$ 771 ⁽³⁾	\$ 3,121 ⁽⁴⁾	\$ 3,892	\$ 3,892	\$ 757	\$ 738
Long-term debt	-	5,079	5,079	5,083	-	-
Derivative financial instruments	63 ⁽⁵⁾	-	63	63	3	3
	\$ 834	\$ 8,200	\$ 9,034	\$ 9,038	\$ 760	\$ 741

(1) Includes only financial instruments classified as HFT as at February 1, 2007.

(2) Represents only the carrying value of financial liabilities included in the corresponding balance sheet caption.

(3) Comprised of credit and residual value guarantees and related liabilities in connection with the sale of regional aircraft designated as HFT under the fair value option.

(4) Comprised of trade accounts payable, accrued liabilities, interest and certain payroll-related liabilities.

(5) Comprised of derivative financial instruments not designated in a hedging relationship but that are economic hedges, and embedded derivatives accounted for separately.

Financial instruments classified as HFT

For the three-month period ended July 31, 2007, the net loss on financial instruments designated as HFT amounted to \$5 million (net gain of \$12 million for the six-month period ended July 31, 2007), excluding the interest income portion related to the prepayment under an exchange agreement and invested collateral of \$11 million (\$24 million for the six-month period ended July 31, 2007). For the three-month period ended July 31, 2007, the net loss on financial instruments required to be classified as HFT amounted to \$4 million (\$44 million for the six-month period ended July 31, 2007), excluding the interest income portion related to cash and cash equivalents of \$17 million (\$35 million for the six-month period ended July 31, 2007). For the three-month period ended July 31, 2007, a net loss of \$8 million (\$51 million for the six-month period ended July 31, 2007), included in the above net loss of \$4 million (\$44 million for the six-month period ended July 31, 2007), was incurred in connection with economic hedges not designated in a hedging relationship.

Fair value of financial instruments

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous active market for that instrument to which the Corporation has immediate access. When bid and ask prices are unavailable, the Corporation uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Corporation determines fair value based on internal or external valuation models, such as stochastic models, option-pricing models (modified Black Scholes model) and discounted cash flow analysis, using observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability table and generic industrial bond spreads. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, default probability tables, interest-rate spreads, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable.

Derivative and non-derivative financial instruments

The carrying amounts of all derivative and of non-derivative financial instruments in a hedge relationship were as follows as at July 31, 2007:

	Assets	Liabilities
Derivative financial instruments designated as fair value hedges		
Interest-rate swap agreements	\$ 2	\$ 131
Cross-currency interest-rate swap agreements	47	-
	49	131
Derivative financial instruments designated as cash flow hedges		
Forward foreign exchange contracts	216	96
Derivative financial instruments designated as hedges of net investments		
Cross-currency interest-rate swap agreements	-	31
Derivative financial instruments classified as held for trading		
Forward foreign exchange contracts	6	11
Interest-rate cap agreements	19	19
Interest-rate swap agreements	-	1
Cross-currency interest-rate swap agreements	-	9
Embedded derivative financial instruments:		
Call options on long-term debt	14	-
Foreign exchange	4	4
Financing rate commitments	-	19
	43	63
Total derivative financial instruments	308	321
Non-derivative financial instruments designated as hedges of net investments		
Long-term debt	-	2,594
Inter-company loans	-	929
Total non-derivative financial instruments	-	3,523
Total derivative and non-derivative financial instruments	\$ 308	\$ 3,844

5. AIRCRAFT FINANCING

Aircraft financing was as follows as at:

	July 31, 2007	January 31, 2007
Commercial aircraft		
Interim financing ⁽¹⁾		
Loans	\$ 108	\$ 206
Lease receivables	56	254
	164	460
Long-term financing		
Loans	270	362
Lease receivables ⁽²⁾	162	55
	432	417
Business aircraft loans ⁽³⁾	34	36
Total loans and lease receivables	630	913
Allowance for credit losses	(15)	(111)
	615	802
Assets under operating leases	207	185
Investments in financing structures	46	55
	\$ 868	\$ 1,042

⁽¹⁾ The commercial aircraft interim financing portfolio consists of bridge financing to customers until third party permanent financing is put in place.

⁽²⁾ Includes \$17 million of lease receivables related to consolidated variable interest entities ("VIEs") as at July 31, 2007 (\$8 million as at January 31, 2007).

⁽³⁾ This portfolio is being wound down.

Allowance for credit losses – Changes in the allowance for credit losses were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Balance at beginning of period	\$ 16	\$ 84	\$ 111	\$ 84
Reclassification to long-term financing – Loans ⁽¹⁾	-	-	(95)	-
Provision for credit losses	-	14	-	14
Amounts charged off, net of recoveries	(1)	1	(1)	1
Balance at end of period	\$ 15	\$ 99	\$ 15	\$ 99

⁽¹⁾ As part of the fair value adjustment upon adoption of the new accounting standards on financial instruments effective February 1, 2007.

Impaired loans and lease receivables amounted to \$5 million as at July 31, 2007 (\$49 million as at January 31, 2007).

Assets under operating leases – Assets under operating leases were as follows as at:

	July 31, 2007		January 31, 2007	
	Cost	Net book value	Cost	Net book value
Pre-owned commercial aircraft	\$ 213	\$ 169	\$ 187	\$ 143
Pre-owned business aircraft	41	38	48	42
	\$ 254	\$ 207	\$ 235	\$ 185

6. INVENTORIES

Inventories were as follows as at:

	July 31, 2007	January 31, 2007
Long-term contracts		
Costs incurred and recorded margins	\$ 3,811	\$ 3,430
Less: payments received and progress billings ⁽¹⁾	(2,352)	(1,893)
	1,459	1,537
Aerospace programs		
Costs incurred	2,902	2,597
Less: payments received ⁽²⁾	(1,397)	(1,314)
	1,505	1,283
Finished products ⁽³⁾	813	1,141
	\$ 3,777	\$ 3,961

⁽¹⁾ Payments received and progress billings on account of work performed have been deducted from long-term contract inventories. Advances received and progress billings in excess of related costs, amounting to \$2,277 million as at July 31, 2007 (\$1,882 million as at January 31, 2007), represent a liability presented as Advances and progress billings in excess of related costs in the consolidated balance sheets.

⁽²⁾ Payments received on account of work performed have been deducted from Aerospace program inventories. Advances received in excess of related costs, amounting to \$861 million as at July 31, 2007 (\$561 million as at January 31, 2007), represent a liability presented as Advances and progress billings in excess of related costs in the consolidated balance sheets.

⁽³⁾ Finished products include one new aircraft not associated with a firm order and seven pre-owned aircraft, totalling \$76 million as at July 31, 2007 (six new aircraft and 23 pre-owned aircraft, totalling \$230 million as at January 31, 2007).

7. OTHER ASSETS

Other assets were as follows as at:

	July 31, 2007	January 31, 2007
Prepaid expenses	\$ 245	\$ 169
Prepayment under an exchange agreement	150	150
Finite-life intangible assets, net of accumulated amortization of \$137 million as at July 31, 2007 (\$118 million as at January 31, 2007)	140	141
Restricted cash ⁽¹⁾	123	81
Investments in securities	94	90
Servicing fees	52	50
Investments in companies subject to significant influence ⁽²⁾	47	138
Deferred financing charges	47	105
Wind-down portfolios	15	19
Other	130	140
	\$ 1,043	\$ 1,083

⁽¹⁾ Includes \$82 million of restricted cash related to consolidated VIEs as at July 31, 2007 (\$75 million as at January 31, 2007).

⁽²⁾ Related mostly to Transportation, including \$10 million of loans as at July 31, 2007 (\$15 million as at January 31, 2007).

8. LETTER OF CREDIT FACILITIES

The principal letter of credit facility and its maturity were as follows:

	Amount committed	Letters of credit issued	Amount committed under prior credit facilities	Amount available	Maturity (fiscal year) ⁽³⁾
July 31, 2007	\$ 5,896⁽¹⁾	\$ 4,531	\$ -	\$ 1,365	2012
January 31, 2007	\$ 5,590 ⁽¹⁾	\$ 4,121	\$ 290 ⁽²⁾	\$ 1,179	2012

⁽¹⁾ €4,300 million.

⁽²⁾ Including \$140 million (€108 million) of issued letters of credit. As of July 31, 2007, all prior credit facilities had been cancelled.

⁽³⁾ In December 2009, the committed amount will be reduced to the notional amount of letters of credit outstanding at that time and will amortize thereafter as the outstanding letters of credit mature up to December 2011.

Under the principal letter of credit facility, the Corporation must maintain certain financial covenants. In addition, the Corporation must maintain €869 million (\$1,192 million) of invested collateral to secure the obligations to the banks issuing letters of credit under the principal letter of credit facility. These conditions were all met as at July 31, 2007 and January 31, 2007.

In addition to the outstanding letters of credit shown in the above table, letters of credit of \$235 million were outstanding under various bilateral agreements as at July 31, 2007 (\$240 million as at January 31, 2007).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows as at:

	July 31, 2007	January 31, 2007
Trade accounts payable	\$ 1,601	\$ 1,904
Accrued liabilities	1,116	1,112
Sales incentives ⁽¹⁾	982	1,040
Product warranties	945	985
Payroll-related liabilities	445	400
Income and other taxes	200	234
Interest	100	109
Provision for repurchase obligations	82	75
Non-controlling interest	58	47
Severance and other involuntary termination costs	40	105
Other	819	815
	\$ 6,388	\$ 6,826

⁽¹⁾ Comprised of provision for credit and residual value guarantees and trade-in commitments, as well as other related provisions and liabilities in connection with the sale of aircraft (see Note 18 – Commitments and contingencies).

10. SHARE-BASED PLANS

Share option plans

The number of stock options granted to purchase Class B Shares (Subordinate Voting) and the related weighted-average grant date fair value were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Number of stock options granted	6,009,000	7,367,500	6,149,000	7,367,500
Weighted-average grant date fair value	\$ 2.90	\$ 1.44	\$ 2.88	\$ 1.44

The fair value of each option granted was determined using an option pricing model and the following weighted-average assumptions:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Risk-free interest rate	4.59%	4.21%	4.58%	4.21%
Expected life	5 years	5 years	5 years	5 years
Expected volatility in market price of shares	51.59%	53.06%	51.59%	53.06%
Expected dividend yield	nil	nil	nil	nil

During the three- and six-month periods ended July 31, 2007, 884,500 and 963,750 options respectively were exercised (no options were exercised during the three- and six-month periods ended July 31, 2006). There were 46,820,250 and 44,609,150 options issued and outstanding as at July 31, 2007 and January 31, 2007, respectively.

Performance share unit plan

In June and April 2007, the Corporation granted 6,156,000 and 12,000 performance stock units ("PSU"), respectively, to executives and other key employees. These PSU vest on June 4, 2010 and June 7, 2009, respectively, if certain financial performance targets are met. The conversion ratio for vested PSU ranges from 70% to 150%. In June 2007, the Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase 9,426,000 Class B Shares (Subordinate Voting) of the Corporation in the open market for \$55 million. These shares are held in trust by the trustee for the benefit of the beneficiaries until the PSU become vested or are cancelled. The cost of the purchase has been deducted from share capital.

There were 13,987,142 and 8,040,386 PSU issued and outstanding as at July 31, 2007 and January 31, 2007, respectively.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in the AOCI were as follows for the three- and six-month periods ended July 31, 2007:

	AFS financial assets	Cash flow hedges	CTA	Total
Balance as at January 31, 2007	\$ -	\$ -	\$ 178	\$ 178
Transition adjustment – Financial instruments	4	(8)	-	(4)
Change during the period	(1)	72	(14)	57
Balance as at April 30, 2007	3	64	164	231
Change during the period	(1)	35	(5)	29
Balance as at July 31, 2007	\$ 2	\$ 99	\$ 159	\$ 260

12. OTHER EXPENSE (INCOME)

Other expense (income) was as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Settlement of claims	\$ (18)	\$ (84)	\$ (18)	\$ (84)
Severance and other involuntary termination costs (including changes in estimates)	(8)	4	(13)	-
Foreign exchange losses	3	15	4	14
Loss (income) from equity accounted investees	1	(9)	6	(11)
Adjustment of program accounting ending dates for the CRJ700 and CRJ900 aircraft programs	-	74	-	74
Other	3	3	(1)	3
	\$ (19)	\$ 3	\$ (22)	\$ (4)

13. SPECIAL ITEMS

Special items were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Write-off of investment in Metronet	\$ 162	\$ -	\$ 162	\$ -
Costs related to the Transportation restructuring plan initiated in fiscal year 2005	-	-	-	24
	162	-	162	24
Income tax recovery	-	-	-	(2)
	\$ 162	\$ -	\$ 162	\$ 22

Metronet Rail BCV Ltd. and Metronet Rail SSL Ltd. (together Metronet), an equity accounted investee in which the Corporation is a 20% shareholder, is responsible for maintaining and upgrading approximately 75% of the London Underground's rail system as part of a public private partnership ("PPP") under a service contract signed with London Underground Ltd. ("LUL") in April 2003.

As a result of significant cost overruns related to Metronet's capital programs, mainly for the modernization and refurbishment of the stations and tracks, and the lack of financial resources to meet such cost overruns, the directors of Metronet asked the Mayor of London, on July 18, 2007, to appoint a PPP Administrator. The PPP Administrator was appointed on the same day and was given 56 days, from July 28, 2007, to settle all Metronet suppliers' liabilities accrued before the request for appointment of the PPP Administrator. Over the coming months, the PPP Administrator will have the responsibility to first stabilize Metronet's operations and then to proceed with the transfer of all or part of Metronet activities to LUL, a LUL nominee or a third party.

As a result, the Corporation wrote-off the carrying value of £82 million (\$162 million) of its investment in Metronet, which was recorded as a special item in the consolidated statements of income for the three- and six-month periods ended July 31, 2007.

Transportation is currently negotiating with the PPP Administrator for payments of £22 million (\$44 million) for amounts earned in connection with work performed under the turnkey supply contracts prior to the request for appointment of the PPP Administrator. Resolutions of these negotiations are not expected to have a significant impact on Transportation's results. Work performed after that date should be paid in accordance with the contracts.

14. FINANCING INCOME AND FINANCING EXPENSE

Financing income and financing expense were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Financing income				
Loans and lease receivables – after effect of hedges	\$ (22)	\$ (13)	\$ (39)	\$ (35)
Cash and cash equivalents	(17)	(16)	(35)	(31)
Invested collateral	(9)	-	(20)	-
Dividends on preferred shares	-	(7)	-	(7)
Other	(7)	(3)	(12)	(5)
	\$ (55)⁽¹⁾	\$ (39)	\$ (106)⁽¹⁾	\$ (78)
Financing expense				
Interest on long-term debt – after effect of hedges	\$ 91	\$ 71	\$ 185	\$ 135
Accretion expense on certain sales incentives	10	13	25	29
Net losses on financial instruments ⁽²⁾	16	-	16	-
Other	10	4	21	12
	\$ 127⁽³⁾	\$ 88	\$ 247⁽³⁾	\$ 176

⁽¹⁾ Of which \$21 million for the three-month period and \$39 million for the six-month period represent the interest income calculated using the effective interest method for financial assets classified as L&R.

⁽²⁾ Net losses on certain financial instruments required to be classified as HFT, including certain call options on long-term debt.

⁽³⁾ Of which \$116 million for the three-month period and \$225 million for the six-month period represent the interest expense calculated using the effective interest method for financial liabilities classified as other than HFT before hedging.

15. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were computed as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
(Number of shares and stock options in thousands)				
Income (loss) from continuing operations	\$ (71)	\$ 57	\$ 8	\$ 78
Preferred share dividends, net of tax	(8)	(7)	(15)	(14)
Income (loss) from continuing operations attributable to common shareholders	(79)	50	(7)	64
Income from discontinued operations, net of tax	-	1	-	4
Net income (loss) attributable to common shareholders	\$ (79)	\$ 51	\$ (7)	\$ 68
Weighted-average number of common shares outstanding, basic and diluted	1,734,424	1,745,033	1,735,824	1,745,033
Basic and diluted earnings (loss) per share:				
From continuing operations	\$ (0.05)	\$ 0.03	\$ -	\$ 0.04
From discontinued operations	-	-	-	-
	\$ (0.05)	\$ 0.03	\$ -	\$ 0.04

For the three- and six-month periods ended July 31, 2007, the effect of the exercise of stock options on loss per share was anti-dilutive. For the three- and six-month periods ended July 31, 2006, the effect of the exercise of stock options was also excluded from the calculation of diluted earnings per share, since the average market value of the underlying shares was less than the exercise price for the respective periods, or the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) had not been met.

16. NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

Net change in non-cash balances related to operations was as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2007	2006	2007	2006
Receivables	\$ 152	\$ (197)	\$ (45)	\$ (253)
Aircraft financing	215	278	156	173
Inventories	439	218	232	(152)
Fractional ownership deferred costs	(28)	(5)	(12)	(10)
Derivative financial instruments, net	8	-	10	-
Accounts payable and accrued liabilities	(482)	(181)	(548)	(296)
Advances and progress billings in excess of related costs	168	(94)	604	(72)
Fractional ownership deferred revenues	33	6	14	14
Accrued benefit liabilities, net	(46)	(9)	(253)	18
Other	(52)	5	(109)	7
	\$ 407	\$ 21	\$ 49	\$ (571)

17. EMPLOYEE FUTURE BENEFITS

The components of the benefit cost were as follows for the three-month periods ended July 31:

	2007		2006	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Current service cost	\$ 51	\$ 4	\$ 51	\$ 8
Interest cost	87	4	77	5
Expected return on plan assets	(93)	-	(73)	-
Amortization of past service costs	-	(1)	3	(1)
Amortization of actuarial loss	21	4	31	4
Other	-	-	2	-
	\$ 66	\$ 11	\$ 91	\$ 16

The components of the benefit cost were as follows for the six-month periods ended July 31:

	2007		2006	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Current service cost	\$ 100	\$ 7	\$ 102	\$ 11
Interest cost	171	9	151	10
Expected return on plan assets	(182)	-	(143)	-
Amortization of past service costs	-	(2)	5	(1)
Amortization of actuarial loss	42	8	55	8
Other	(3)	-	2	-
	\$ 128	\$ 22	\$ 172	\$ 28

18. COMMITMENTS AND CONTINGENCIES

In relation to the sale of regional aircraft and related financing commitments, the Corporation enters into various sale support arrangements including credit and residual value guarantees and financing rate commitments. The Corporation is also subject to other off-balance sheet risks described in the following table, in addition to the commitments and contingencies described elsewhere in these interim consolidated financial statements. The maximum potential exposure does not reflect payments expected to be made by the Corporation. The table below presents the maximum potential exposure for each major group of exposure, as at:

	July 31, 2007	January 31, 2007
Aircraft sales		
Credit	\$ 1,656	\$ 1,407
Residual value	2,808	2,727
Mutually exclusive exposure ⁽¹⁾	(1,002)	(915)
Total credit and residual value exposure	\$ 3,462	\$ 3,219
Trade-in commitments	957	894
Conditional repurchase obligations	1,018	1,031
Other		
Credit and residual value	188	182
Repurchase obligations	189	182
Performance guarantees	107	129

⁽¹⁾ Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, these guarantees must not be added together to calculate the combined maximum exposure for the Corporation.

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to \$495 million as at July 31, 2007 (\$456 million as at January 31, 2007) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third party evaluations, and the anticipated proceeds from other assets covering such exposures. The anticipated proceeds from collaterals are expected to cover the Corporation's total credit and residual value exposure, after taking into account the provisions for anticipated losses. In addition, related liabilities, which would be extinguished in event of credit default by certain customers, amount to \$275 million as at July 31, 2007 (\$300 million as at January 31, 2007).

Financing commitments – The Corporation is committed to provide financing in relation to the future sale of aircraft scheduled for delivery through fiscal year 2013. The Corporation's total financing commitment amounted to \$2.4 billion as at July 31, 2007, net of third party financing already arranged (\$1.7 billion as at January 31, 2007). The Corporation mitigates its exposure to interest and credit risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment.

19. SEGMENT DISCLOSURE

The Corporation has two reportable segments: Aerospace and Transportation. Each reportable segment offers different products and services and requires different technology and marketing strategies.

Aerospace	Transportation
Aerospace is a manufacturer of business, regional and amphibious aircraft and a provider of related services. It offers comprehensive families of regional jet and turboprop aircraft and a wide range of business jets. It also provides the <i>Flexjet</i> fractional ownership and hourly flight time entitlement programs, parts logistics, technical services, aircraft maintenance and pilot training.	Transportation is the global leader in the rail equipment manufacturing and servicing industry and offers a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides electrical propulsion and control equipment, as well as complete rail transportation systems and rail control solutions. Transportation is also a provider of maintenance services.

The accounting policies of the segments are the same as those described in the Corporation's annual report for the fiscal year ended January 31, 2007, except for changes in accounting policies (see Note 2 – Changes in accounting policies). Management assesses segment performance based on income before financing income, financing expense and income taxes. Corporate charges are allocated to segments mostly based on each

segment's revenues. Net segmented assets exclude cash and cash equivalents, invested collateral and deferred income taxes, and are net of accounts payable and accrued liabilities (excluding interest and income taxes payable), advances and progress billings in excess of related costs, fractional ownership deferred revenues, accrued benefit liabilities and derivative financial instruments.

The tables containing the detailed segmented data are shown hereafter.

20. RECLASSIFICATIONS

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period. The most significant change consists of the reclassification of the CTA balance previously presented as a separate component of Shareholders' equity, to AOCI.

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SEGMENTED INFORMATION

INDUSTRY SEGMENTS	Bombardier Inc. consolidated			
	2007	2006	2007	2006
For the three-month periods ended July 31				
Revenues				
Manufacturing	\$ 2,841	\$ 2,462	\$ 1,678	\$ 1,470
Services	665	663	349	322
Other	535	398	183	107
	4,041	3,523	2,210	1,899
			1,831	1,624
Cost of sales	3,428	2,997	1,858	1,602
Selling, general and administrative	257	223	127	113
Research and development	33	41	6	18
Other expense (income)	(19)	3	(17)	(6)
Amortization	129	133	103	106
Special items	162	-	-	-
	3,990	3,397	2,077	1,833
			1,913	1,564
Income (loss) from continuing operations before financing income and expense, and income taxes	\$ 51	\$ 126	\$ 133	\$ 66
Additions to property, plant and equipment	\$ 46	\$ 54	\$ 30	\$ 37
			16	\$ 17

SEGMENTED INFORMATION

INDUSTRY SEGMENTS	Bombardier Inc. consolidated			
	For the six-month periods ended July 31		Transportation	
	2007	2006	2007	2006
Revenues			Aerospace	Transportation
Manufacturing	\$ 5,600	\$ 4,991	\$ 3,409	\$ 2,191
Services	1,383	1,290	693	690
Other	1,025	781	368	657
	8,008	7,062	4,470	3,538
Cost of sales	6,798	6,047	3,774	3,024
Selling, general and administrative	507	444	255	252
Research and development	69	86	16	53
Other expense (income)	(22)	(4)	(27)	5
Amortization	260	261	207	53
Special items	162	24	-	162
	7,774	6,858	4,225	3,549
Income (loss) from continuing operations before financing income and expense, and income taxes	\$ 234	\$ 204	\$ 245	\$ (11)
As at	July 31, 2007	January 31, 2007	July 31, 2007	January 31, 2007
Net segmented assets	\$ 2,988	\$ 3,447	\$ 2,618	\$ 370
Liabilities allocated to segments:				
Accounts payable and accrued liabilities ⁽¹⁾	6,212	6,602	6,212	6,602
Advances and progress billings in excess of related costs	3,138	2,443	3,138	2,443
Fractional ownership deferred revenues	501	487	501	487
Accrued benefit liabilities	974	995	974	995
Derivative financial instruments	321	13	321	13
Assets not allocated to segments:				
Cash and cash equivalents	2,998	2,648	2,998	2,648
Invested collateral	1,195	1,129	1,195	1,129
Deferred income taxes	828	813	828	813
Total consolidated assets	\$ 19,155	\$ 18,577	\$ 19,155	\$ 18,577
Additions to property, plant and equipment	\$ 87	\$ 164	\$ 64	\$ 139

⁽¹⁾ Excluding interest and income taxes payable amounting to \$100 million and \$76 million respectively as at July 31, 2007 (\$109 million and \$115 million as at January 31, 2007) which were not allocated to segments.