MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and MD&A of Bombardier Inc. and all other information in the annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with IFRS as issued by the IASB. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented in the annual report is consistent with that in the consolidated financial statements.

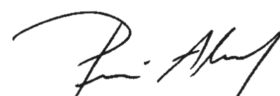
Bombardier Inc.'s Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures and internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to Bombardier Inc. has been made known to them; and information required to be disclosed in Bombardier Inc.'s filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Bombardier Inc.'s CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures and internal controls over financial reporting as of the end of the fiscal year ended December 31, 2011. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures and internal controls over financial reporting were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework. In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of the fiscal year ended December 31, 2011. In compliance with the Canadian Securities Administrators' National Instrument 52-109, Bombardier Inc.'s CEO and CFO have provided a certification related to Bombardier Inc.'s annual disclosure to the Canadian Securities Administrators, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with management, as well as with the internal and external auditors, to review the consolidated financial statements, external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the independence and the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards and International Standards on auditing on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.



Pierre Beaudoin President and Chief Executive Officer	Pierre Alary, FCA Senior Vice President and Chief Financial Officer

February 29, 2012

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the accompanying consolidated financial statements of Bombardier Inc. which comprise the consolidated statements of financial position as at December 31, 2011, January 31, 2011 and February 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the fiscal years ended December 31, 2011 and January 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and International Standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bombardier Inc. as at December 31, 2011, January 31, 2011 and February 1, 2010, and its financial performance and its cash flows for the fiscal years ended December 31, 2011 and January 31, 2011 in accordance with International Financial Reporting Standards.

[1]

Ernst & Young LLP
Chartered Accountants
Montréal, Canada

February 29, 2012

1 CA auditor permit no. 15859

CONSOLIDATED STATEMENTS OF INCOME

For the fiscal years ended
(In millions of U.S. dollars, except per share amounts)

	Notes	**December 31, 2011[1]**	January 31, 2011
Revenues	5	**$18,347**	$17,892
Cost of sales	5, 15	**15,444**	14,955
Gross margin		**2,903**	2,937
SG&A	5	**1,439**	1,377
R&D	5, 6	**271**	319
Other expense (income)	5, 7	**(9)**	36
EBIT		**1,202**	1,205
Financing expense	8	**681**	684
Financing income	8	**(519)**	(476)
EBT		**1,040**	997
Income taxes	10	**203**	222
Net income		**$ 837**	$ 775
Attributable to:			
Equity holders of Bombardier Inc.		**$ 837**	$ 762
NCI		**–**	13
		$ 837	$ 775
EPS (in dollars):	11		
Basic		**$ 0.47**	$ 0.43
Diluted		**$ 0.47**	$ 0.42

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results. See note 1 – Basis of preparation for more details.

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the fiscal years ended
(In millions of U.S. dollars)

	December 31, 2011[1]	January 31, 2011
Net income	$ 837	$ 775
OCI		
Items that may be reclassified to net income		
Net change in cash flow hedges:		
Foreign exchange re-evaluation	16	(6)
Net loss on derivative financial instruments designated as cash flow hedges	(128)	(69)
Reclassification to income or to the related non-financial asset[2,3]	(40)	(79)
Income taxes	54	17
	(98)	(137)
Net unrealized gain on AFS financial assets, net of income tax	17	7
CCTD:		
Net investments in foreign operations	(90)	187
Net gain (loss) on related hedging items	50	(50)
	(40)	137
Items that are never reclassified to net income		
Retirement benefits:		
Net actuarial gains (losses)	(1,489)	35
Income taxes	234	(40)
	(1,255)	(5)
Total OCI	(1,376)	2
Total comprehensive income (loss)	$ (539)	$ 777
Attributable to:		
Equity holders of Bombardier Inc.	$ (535)	$ 763
NCI	(4)	14
	$ (539)	$ 777

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Includes $104 million of gains reclassified to the related non-financial asset for the fiscal year ended December 31, 2011 ($14 million of loss for the fiscal year ended January 31, 2011).
3 $107 million of net deferred loss is expected to be reclassified from OCI to the carrying amount of the related non-financial asset or to income during the fiscal year ending December 31, 2012.

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the fiscal years ended
(In millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.			
	Share capital		Deficit	
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses
As at February 1, 2010[1]	$347	$1,324	$1,150	$(1,973)
Total comprehensive income				
Net income	–	–	762	–
OCI	–	–	–	(5)
	-	–	762	(5)
Options exercised	–	6	–	–
Repurchase of share capital	–	(3)	(13)	–
Dividends				
Common shares	–	–	(173)	–
Preferred shares	–	–	(24)	–
Capital injection	–	–	–	–
Shares distributed - PSU plans	–	47	–	–
Shares purchased - PSU plans	–	(50)	–	–
Share-based expense	–	–	–	–
As at January 31, 2011[1]	$347	$1,324	$1,702	$(1,978)
Total comprehensive income				
Net income	–	–	837	–
OCI	–	–	–	(1,255)
	-	–	837	(1,255)
Options exercised	–	9	–	–
Repurchase of share capital	–	(2)	(12)	–
Dividends				
Common shares	–	–	(179)	–
Preferred shares	–	–	(25)	–
Shares distributed - PSU plans	–	50	–	–
Shares purchased - PSU plans	–	(58)	–	–
Share-based expense	–	–	–	–
Purchase of NCI	–	–	(50)	–
As at December 31, 2011	**$347**	**$1,323**	**$2,273**	**$(3,233)**

1 Given effect to all changes in accounting policies upon adoption of IFRS (see note 36 – Adoption of IFRS).

The notes are an integral part of these consolidated financial statements.

	Attributable to equity holders of Bombardier Inc.					
	Accumulated OCI					
Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total Equity
$ 132	$ 3	$ (81)	$ –	$ 902	$ 58	$ 960
–	–	–	–	762	13	775
–	7	(137)	136	1	1	2
–	7	(137)	136	763	14	777
–	–	–	–	6	–	6
–	–	–	–	(16)	–	(16)
–	–	–	–	(173)	(8)	(181)
–	–	–	–	(24)	–	(24)
–	–	–	–	–	3	3
(48)	–	–	–	(1)	–	(1)
–	–	–	–	(50)	–	(50)
47	–	–	–	47	–	47
$ 131	$10	$ (218)	$ 136	$ 1,454	$ 67	$ 1,521
–	–	–	–	837	–	837
–	17	(98)	(36)	(1,372)	(4)	(1,376)
–	17	(98)	(36)	(535)	(4)	(539)
(1)	–	–	–	8	–	8
–	–	–	–	(14)	–	(14)
–	–	–	–	(179)	–	(179)
–	–	–	–	(25)	–	(25)
(50)	–	–	–	–	–	–
–	–	–	–	(58)	–	(58)
38	–	–	–	38	–	38
–	–	–	–	(50)	(31)	(81)
$ 118	**$27**	**$ (316)**	**$ 100**	**$ 639**	**$ 32**	**$ 671**

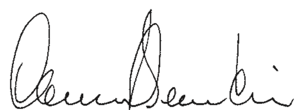
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

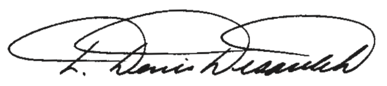
As at
(In millions of U.S. dollars)

	Notes	December 31, 2011	January 31, 2011	February 1, 2010
Assets				
Cash and cash equivalents	13	**$ 3,372**	$ 4,195	$ 3,372
Trade and other receivables	14	**1,408**	1,377	1,141
Inventories	15	**7,398**	7,307	7,630
Other financial assets	16	**526**	705	537
Other assets	17	**559**	648	519
Current assets		**13,263**	14,232	13,199
Invested collateral	29	**–**	676	682
PP&E	18	**1,864**	1,878	1,674
Aerospace program tooling	19	**3,168**	2,088	1,385
Goodwill	19	**2,253**	2,358	2,247
Deferred income taxes	10	**1,506**	1,294	1,373
Other financial assets	16	**1,305**	1,104	1,003
Other assets	17	**505**	462	557
Non-current assets		**10,601**	9,860	8,921
		$23,864	$24,092	$22,120
Liabilities				
Trade and other payables	21	**$ 3,210**	$ 3,073	$ 3,045
Provisions	22	**1,078**	1,198	1,140
Advances and progress billings in excess of long-term contract inventories	15	**1,949**	2,421	1,899
Advances on aerospace programs		**2,788**	2,989	3,055
Other financial liabilities	24	**732**	860	537
Other liabilities	25	**2,198**	2,163	1,987
Current liabilities		**11,955**	12,704	11,663
Provisions	22	**594**	614	675
Advances on aerospace programs		**1,266**	1,193	1,373
Non-current portion of long-term debt	23	**4,748**	4,645	4,134
Retirement benefits	20	**3,226**	1,975	2,181
Other financial liabilities	24	**502**	532	558
Other liabilities	25	**902**	908	576
Non-current liabilities		**11,238**	9,867	9,497
		23,193	22,571	21,160
Equity				
Attributable to equity holders of Bombardier Inc.		**639**	1,454	902
Attributable to NCI		**32**	67	58
		671	1,521	960
		$23,864	$24,092	$22,120
Commitments and contingencies	35			

The notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors,





Laurent Beaudoin, C.C., FCA
Director

L. Denis Desautels, O.C., FCA
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the fiscal years ended
(In millions of U.S. dollars)

	Notes	December 31, 2011[1]	January 31, 2011
Operating activities			
Net income		**$ 837**	$ 775
Non-cash items:			
Amortization		**333**	371
Deferred income taxes	10	**66**	67
Gains on disposals of PP&E	7	**(3)**	(11)
Share-based expense	27	**38**	47
Gain on repurchase of long-term debt	8	**–**	(22)
Impairment charge on PP&E	7	**–**	8
Net change in non-cash balances related to operations	28	**(1,028)**	457
Cash flows from operating activities		**243**	1,692
Investing activities			
Additions to PP&E and intangible assets		**(1,500)**	(1,146)
Disposals of PP&E and intangible assets		**25**	21
Proceeds from disposal of invested collateral		**705**	–
Other		**(28)**	(100)
Cash flows from investing activities		**(798)**	(1,225)
Financing activities			
Proceeds from issuance of long-term debt		**122**	2,625
Repayments of long-term debt		**(15)**	(2,125)
Dividends paid[2]		**(156)**	(197)
Purchase of Class B shares held in trust under the PSU plan		**(58)**	(50)
Repurchase of Class B shares	26	**(14)**	(16)
Purchase of NCI		**(61)**	–
Other		**(45)**	17
Cash flows from financing activities		**(227)**	254
Effect of exchange rate on cash and cash equivalents		**(41)**	102
Net increase (decrease) in cash and cash equivalents		**(823)**	823
Cash and cash equivalents at beginning of year		**4,195**	3,372
Cash and cash equivalents at end of year		**$ 3,372**	$ 4,195
Supplemental information[3,4]			
Cash paid for:			
Interest		**$ 238**	$ 224
Income taxes		**$ 115**	$ 132
Cash received for:			
Interest		**$ 40**	$ 169
Income taxes		**$ 20**	$ 8

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 $20 million of dividends paid relate to preferred shares for the fiscal year ended December 31, 2011 ($24 million for the fiscal year ended January 31, 2011).
3 Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.
4 Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debt or credit facilities. Interest received comprises interest received related to cash and cash equivalents, invested collateral and aircraft loans and lease receivables, after the effect of hedges, if any.

The notes are an integral part of these consolidated financial statements.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2011 and January 31, 2011
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

See MD&A for the abbreviations used in the consolidated financial statements.

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1 BASIS OF PREPARATION

Bombardier Inc. is incorporated under the laws of Canada. The consolidated financial statements include the accounts of Bombardier Inc. and its subsidiaries ("the Corporation"). The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services. The main activities of the Corporation are described in note 5 – Segment disclosure.

On November 30, 2011, the Corporation's Board of Directors approved the change of financial year-end from January 31 to December 31. This change of year-end reporting date was effective in December 2011, and the annual period ended December 31, 2011 comprises 11 months of BA's results. As BT already reports its results using a December 31 year-end, the change had no impact on BT, as the annual period ended December 31, 2011 still comprises 12 months of BT's results. As a result, the Corporation ceased to consolidate the operations of BT with a one-month lag with the remainder of its operations.

The amounts presented in the financial statements for the fiscal years ended December 31, 2011 and January 31, 2011 are not entirely comparable as a result of this change of financial year-end.

STATEMENT OF COMPLIANCE

The Corporation's consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IFRS including IFRS 1, First-time adoption of IFRS, as issued by the IASB. Canadian GAAP has become IFRS effective February 1, 2010 for the Corporation. Note 36 – Adoption of IFRS explains how the transition from Canadian GAAP to IFRS affected the Corporation's reported equity as at February 1, 2010 and January 31, 2011, as well as the financial performance and cash flows for the fiscal year ended January 31, 2011.

The Corporation's consolidated financial statements for the fiscal year ended December 31, 2011 were authorized for issuance by the Board of Directors on February 29, 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated.

BASIS OF CONSOLIDATION

Subsidiaries – Subsidiaries are fully consolidated from the date of acquisition and continue to be consolidated until the date control over the subsidiaries ceases.

The Corporation consolidates SPEs when, based on the evaluation of the substance of the relationship with the Corporation, it concludes that it controls the SPE. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of the entity so that the Corporation obtains benefits from its activities, whether it holds shares or not.

The Corporation's principal subsidiaries, whose revenues represent more than 10% of total revenues of their respective segment, are as follows:

Subsidiary	Location
Bombardier Transportation GmbH	Germany
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Learjet Inc.	U.S.
Bombardier Aerospace Corporation	U.S.
Bombardier Transport France S.A.S.	France

Revenues of these subsidiaries combined with those of Bombardier Inc. totalled 72% of consolidated revenues for the fiscal year ended December 31, 2011 (70% for the fiscal year ended January 31, 2011).

Joint ventures – Joint ventures are those entities over which the Corporation exercises joint control, established by contractual agreement and requiring unanimous consent of the parties sharing control for strategic financial and operating decision making. The Corporation recognizes its interest in joint ventures using the proportionate method of consolidation.

Associates – Associates are entities in which the Corporation has the ability to exercise significant influence over the financial and operating policies. Investments in associates are accounted for using the equity method.

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are expressed in U.S. dollars, the functional currency of Bombardier Inc. The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of most foreign subsidiaries is their local currency, mainly the U.S. dollar in BA, and the euro, various other Western European currencies and the U.S. dollar in BT.

Foreign currency transactions – Transactions denominated in foreign currencies are initially recorded in the functional currency of the related entity using the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Any resulting exchange difference is recognized in income except for exchange differences related to retirement benefits asset and liability, as well as financial liabilities designated as hedges of the Corporation's net investments in foreign operations, which are recognized in OCI. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rate in effect at the date the fair value is determined. Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.

Foreign operations – Assets and liabilities of foreign operations whose functional currency is other than the U.S. dollar are translated into U.S. dollars using exchange rates in effect at year-end. Revenues and expenses, as well as cash flows, are translated using the average exchange rates for the year. Translation gains or losses are recognized in OCI and are reclassified in income on disposal or partial disposal of the investment in the related foreign operation.

The exchange rates for the major currencies used in the preparation of the consolidated financial statements were as follows:

	Exchange rates as at			Average exchange rates for fiscal years	
	December 31, 2011	January 31, 2011	February 1, 2010	**December 31, 2011**	January 31, 2011
Euro	**1.2939**	1.3715	1.3870	**1.3978**	1.3202
Canadian dollar	**0.9791**	0.9978	0.9390	**1.0124**	0.9750
Pound sterling	**1.5490**	1.6040	1.6008	**1.6068**	1.5438

REVENUE RECOGNITION

Long-term contracts – Revenues from long-term contracts related to designing, engineering or manufacturing specifically designed products (including rail vehicle and component overhaul) and service contracts are recognized using the percentage-of-completion method of accounting. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Estimated revenues include revenues from change orders and claims when it is probable that they will result in additional revenues and the amount can be reliably estimated. If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in cost of sales in the period in which the negative gross margin is identified.

Aerospace programs – Revenues from the sale of new aircraft are recognized when the aircraft has been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. All costs incurred or to be incurred in connection with the sale, including warranty costs and sales incentives, are charged to cost of sales or as a deduction from revenues at the time revenue is recognized.

Multiple deliverables – Sales of goods and services sometimes involve the provision of multiple components. In these cases, the Corporation determines whether the contract or arrangement contains more than one unit of accounting. When certain criteria are met, such as when the delivered item has value to the customer on a stand-alone basis, the recognition criteria are applied to the separate identifiable components of a single transaction to reflect the substance of the transaction. Conversely, two or more transactions may be considered together for revenue recognition purposes, when the commercial effect cannot be understood without reference to a series of transactions as a whole. Revenue is allocated to the separate components based on their relative fair value.

Sales of aircraft fractional shares are considered together with the related service agreement for the purpose of revenue recognition. Accordingly, revenues from such sales, are recognized over the period during which the related services are rendered to the customer, generally five years. At the time of sale, the proceeds from the sale are recorded in other liabilities, under *Flexjet* fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to other assets, under *Flexjet* fractional ownership deferred costs, and is charged to cost of sales over the same period.

Other – Revenues from the fractional share ownership program, including flight crew and maintenance support, are recognized at the time the service is rendered to the customer. Revenues from the sale of pre-owned aircraft and spare parts are recognized when the goods have been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT ASSISTANCE AND REFUNDABLE ADVANCES

Government assistance, including investment tax credits, is recognized when there is a reasonable assurance that the assistance will be received and that the Corporation will comply with all relevant conditions. Government assistance related to the acquisition of inventories, PP&E and intangible assets is recorded as a reduction of the cost of the related asset. Government assistance related to current expenses is recorded as a reduction of the related expenses.

Government refundable advances are recorded as a financial liability if there is reasonable assurance that the amount will be repaid.

INCOME TAXES

The Corporation applies the liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future income tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for tax losses carried forward. Deferred income tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect for the year in which the differences are expected to reverse.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

Deferred income tax asset and liability are recognized directly in income, OCI or equity based on the classification of the item to which they relate.

EARNINGS PER SHARE

Basic EPS is computed based on net income attributable to equity holders of Bombardier Inc. less dividends on preferred shares, including taxes, divided by the weighted-average number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the fiscal year.

Diluted EPS are computed using the treasury stock method, giving effect to the exercise of all dilutive elements.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, invested collateral, trade and other receivables, aircraft loans and lease receivables, investments in securities, investments in financing structures, servicing fees, restricted cash and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables, long-term debt, lease subsidies, government refundable advances, vendor non-recurring costs, sale and leaseback obligations and derivative financial instruments with a negative fair value.

Financial instruments are recognized in the statement of financial position when the Corporation becomes a party to the contractual obligations of the instrument. Initially, financial instruments are recognized at their fair value plus, in the case of financial instruments not at FVTP&L, transaction costs that are directly attributable to the acquisition or issue of financial instruments. Subsequent to initial recognition, financial instruments are measured according to the category to which they are assigned, which are: a) financial instruments classified as HFT, b) financial instruments designated as FVTP&L, c) AFS financial assets, d) L&R, or e) other than HFT financial liabilities. Their classification is determined by management on initial recognition based on the purpose for their acquisition. Financial instruments are subsequently measured at amortized cost, unless they are classified as AFS or HFT or designated as FVTP&L, in which case they are subsequently measured at fair value.

a) Financial instruments classified as HFT

Cash and cash equivalents – Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions and money market funds, with maturities of three months or less from the date of acquisition.

Derivative financial instruments – Derivative financial instruments are mainly used to manage the Corporation's exposure to foreign exchange and interest-rate market risks, generally through forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements. Derivative financial instruments include derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts.

Derivative financial instruments are classified as HFT, unless they are designated as hedging instruments for which hedge accounting is applied (see below). Changes in the fair value of derivative financial instruments not designated in a hedging relationship, excluding embedded derivatives, are recognized in cost of sales or financing expense or financing income, based on the nature of the exposure.

Embedded derivatives of the Corporation include financing rate commitments, call options on long-term debt and foreign exchange instruments. Upon initial recognition, the fair value of financing rate commitments linked to the sale of products is recognized as deferred charge in other assets. The deferred charge is recorded as an adjustment of the sale price of the related products. 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. Upon initial recognition, the fair value of the foreign exchange instruments not designated in a hedge relationship is recognized in cost of sales. Subsequent changes in fair value of embedded derivatives are recorded in cost of sales, other expense (income) or financing expense or financing income, based on the nature of the exposure.

b) Financial instruments designated as FVTP&L

Financial instruments may be designated on initial recognition as FVTP&L if any of the following criteria is met: (i) the financial instrument contains one or more embedded derivatives that otherwise would have to be accounted for separately; (ii) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or liability or recognizing the gains and losses on them on a different basis; or (iii) the financial asset and financial liability are part of a group of financial assets, financial liabilities, or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The Corporation has designated as FVTP&L the invested collateral, certain aircraft loans and lease receivables, certain investment in financing structures, servicing fees, trade-in commitments and lease subsidies, which were all designated as FVTP&L based on the above criterion (iii).

Subsequent changes in fair value of such financial instruments are recorded in other expense (income), except for the fair value changes arising from a change in interest rates which are recorded in financing expense or financing income.

c) AFS financial assets

Investments in securities are usually classified as AFS. They are accounted for at fair value if reliably measurable, with unrealized gains and losses included in OCI, except for foreign exchange gains and losses monetary investments, such as on fixed-income investments which are recognized in income. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

When a decline in the fair value of an AFS financial asset has been recognized in OCI and there is objective evidence that the asset is impaired, the cumulative loss equal to the difference between the acquisition cost of the investments and its current fair value, less any impairment loss on that financial asset previously recognized in net income, is removed from AOCI and recognized in net income. Impairment losses recognized in net income for financial instruments classified as AFS can be reversed, except for investments in equity instruments.

d) L&R

Trade and other receivables, restricted cash, certain aircraft loans and lease receivables, certain investments in financing structures and other financial assets, are classified as L&R. Financial assets classified as L&R are measured at amortized cost using the effective interest rate method less any impairment losses.

Trade receivables as well as aircraft loans and lease receivables classified as L&R are subject to periodic impairment review and are classified as impaired when there is objective evidence that an impairment loss has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

e) Other than HFT financial liabilities

Trade and other payables, long-term debt, government refundable advances, vendor non-recurring costs, sale and leaseback obligations and certain other financial liabilities are classified as other than HFT liabilities and are measured at amortized cost using the effective interest rate method.

HEDGE ACCOUNTING

Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative and non-derivative hedging financial instruments are expected to substantially offset the changes in the fair value of the hedged item attributable to the underlying risk exposure.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There are three permitted hedging strategies.

Fair value hedges – The Corporation generally applies fair value hedge accounting to certain interest-rate derivatives and forward foreign exchange contracts hedging the exposures to changes in the fair value of recognized financial assets and financial liabilities. 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 generally applies cash flow hedge accounting to forward foreign exchange contracts and interest-rate derivatives entered into to hedge foreign exchange risks on forecasted transactions and recognized assets and liabilities. 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 as a reclassification adjustment 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hedge of net investments in foreign operations **–** The Corporation generally designates certain cross-currency interest-rate swap agreements and long-term debt as hedges of its net investments in foreign operations. The portion of gains or losses on the hedging instrument 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 corresponding exchange gains or losses arising from the translation of the foreign operations are recorded in net income.

The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item. Gains and losses on derivatives not designated in a hedge relationship and gains and losses on the ineffective portion of effective hedges are recorded in cost of sales or financing expense or financing income for the interest component of the derivatives or when the derivatives were entered into for interest rate management purposes.

Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risks and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

When the Corporation is the lessee **–** Leases of assets classified as finance leases are presented in the consolidated statements of financial position according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in financing expense. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease.

When the Corporation is the lessor **–** Assets subject to finance leases, mainly commercial aircraft, are initially recognized at an amount equal to the net investment in the lease and are included in aircraft lease receivables. Interest income is recognized over the term of the applicable leases based on the effective interest rate method. Assets under operating leases, mostly pre-owned regional and business aircraft, are included in PP&E. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and is included in revenues.

INVENTORY VALUATION

Long-term contracts **–** Long-term contract inventories include materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition, as well as estimated contract margins. Advances and progress billings received on accounts of work performed for long-term contracts are deducted from related long-term contract inventories. Advances and progress billings received in excess of related long-term contract inventories are shown as liabilities.

Aerospace program and finished products **–** Aerospace program work in progress and finished product inventories are valued at the lower of cost or net realizable value. Cost is generally determined using the unit cost method, except for the cost of spare part inventory that is determined using the moving average method. The cost of manufactured inventories comprises all costs that are directly attributable to the manufacturing process, such as materials, direct labour, manufacturing overhead, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. The Corporation estimates the net realizable value using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

Impairment of inventories **–** Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

RETIREMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

Retirement benefits **–** Retirement benefit plans are classified as either defined benefit plans or defined contribution plans. Contributions to defined contribution plans are recognized in net income when they are due. Defined benefit plans are accounted for as follows:

- The cost of pension and other benefits earned by employees is actuarially determined for each plan using the projected unit credit method, and management's best estimate of long-term rate of return on plan assets, salary escalation, retirement ages, life expectancy and health care costs.
- The defined benefit obligation is determined based on expected future benefit payments discounted using market interest rates at the end of the reporting year.
- Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. These assets are measured at fair value at the end of the reporting period, which is based on published market price information in the case of quoted securities. The value of any plan asset recognized is restricted to the sum of any unrecognized past service costs and the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan ("asset ceiling test").

- A minimum liability is recorded when legal minimum funding requirements for past services exceed economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
- A constructive obligation is recorded as a defined benefit obligation when there is no realistic alternative but to pay employee benefits.
- The actuarial gains and losses (including the foreign exchange impact) arising on the plan assets and defined benefit obligation and the effect of any asset ceiling and minimum liability are recognized directly in OCI in the period in which they occur.
- Past service costs (credits) are recognized on a straight line basis over the average vesting period. Past service costs (credits) relating to benefits already vested are expensed immediately.

The expected return on pension plan assets and accretion on retirement benefit obligations are included in financing income and financing expense respectively. The remaining components of the benefit cost are either capitalized as part of labour costs and included in inventories and in certain PP&E and intangible assets during their construction, or are recognized directly in income. The benefit cost recorded is allocated among functional costs, based on the function of the employee accruing the benefits.

In the case of funded benefit plans, the fair value of plan assets is offset against the benefit obligation. The net amount, determined on a plan-by-plan basis after adjusting for the effects of unrecognized past service costs (credits) and any asset ceiling, is included in retirement benefit liability or retirement benefit asset. In the case of unfunded benefit plans, the benefit obligation, after adjusting for the effects of unrecognized past service costs (credits), is included in retirement benefit liability.

Other long-term employee benefits – The accounting method is similar to the method used for defined benefit plans, except that all actuarial gains and losses and past service costs are recognized immediately in income. Other long-term employee benefits are included in other liabilities.

PROPERTY, PLANT AND EQUIPMENT

PP&E are carried at cost less accumulated amortization and impairment losses. The cost of an item of PP&E includes its purchase price or manufacturing cost, borrowing costs as well as other costs incurred in bringing the asset to its present location and condition. If the cost of certain components of an item of PP&E is significant in relation to the total cost of the item, the total cost is allocated between the various components, which are then separately depreciated over the estimated useful lives of each respective component. The amortization of PP&E is computed on a straight-line basis over the following useful lives:

Buildings	5 to 75 years
Equipment	2 to 15 years
Other	3 to 20 years

The amortization method and useful lives are reviewed on a regular basis and changes are accounted for prospectively. The amortization expense and impairments are recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying asset. Amortization of assets under construction begins when the asset is ready for its intended use.

When a significant part is replaced or a major inspection or overhaul is performed, its cost is recognized in the carrying amount of the PP&E if the recognition criteria are satisfied, and the carrying amount of the replaced part or previous inspection or overhaul is derecognized. All other repair and maintenance costs are charged to income when incurred.

INTANGIBLE ASSETS

Internally generated intangible assets include development costs (mostly aircraft prototype design and testing costs) and internally developed or modified application software. These costs are capitalized when certain criteria for deferral such as proven technical feasibility are met. The costs of internally generated intangible assets include the cost of materials, direct labour, manufacturing overheads and borrowing costs.

Acquired intangible assets include the cost of development activities carried out by vendors for which the Corporation controls the underlying output of the usage of the technology, as well as the cost related to externally acquired licences, patents and trademarks.

Intangible assets are recorded at cost less accumulated amortization and impairment losses and include goodwill, aerospace program tooling, as well as other intangible assets such as licenses, patents and trademarks. Other intangible assets are included in other assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization of aerospace program tooling begins at the date of completion of the first aircraft of the program. Amortization of other intangibles begins when the asset is ready for its intended use. Amortization expense is recognized as follows:

	Method	Estimated useful life
Aerospace program tooling	Unit of production[1]	Expected number of aircraft to be produced[2]
Other intangible assets		
Licenses, patent and trademarks	Straight-line	3 to 20 years
Other	Straight-line and unit of production	3 to 5 years and expected number of units to be produced

1 As of February 1, 2011, the Corporation changed its amortization method prospectively for aerospace program tooling. Before this date, the straight-line method over 10 years was used. Had the Corporation used the straight-line method, the amortization would have been $130 million instead of $91 million for the fiscal year ended December 31, 2011.
2 As at December 31, 2011, the remaining number of units to fully amortize the aerospace program tooling, except for aerospace program tooling under development, is expected to be produced over the next 9 years.

The amortization methods and estimated useful lives are reviewed on a regular basis and changes are accounted for prospectively. The amortization expense is recorded in cost of sales, SG&A or R&D expenses based on the function of the underlying assets.

The Corporation does not have indefinite-lived intangible assets, other than goodwill. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

BORROWING COSTS

Borrowing costs consist of interest on long-term debt and other costs that the Corporation incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset and are deducted from the financing expense to which they relate. All other borrowing costs are expensed in the period they occur.

The Corporation began the capitalization of borrowing costs to qualifying assets on February 19, 2007.

IMPAIRMENT OF PP&E AND INTANGIBLE ASSETS

The Corporation assesses at each reporting date whether there is an indication that a PP&E or intangible asset may be impaired. If any indication exists, the Corporation estimates the recoverable amount of the individual asset, when possible.

When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the CGU level. Most of the Corporation's non-financial assets are tested for impairment at the CGU level. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

- The fair value less costs to sell reflects the amount the Corporation could obtain from the asset's disposal in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. If there is no binding sales agreement or active market for the asset, the fair value is assessed by using appropriate valuation models dependent on the nature of the asset, such as the discounted cash flow models.
- The value in use is calculated using estimated net cash flows, with detailed projections generally over a three-year period and subsequent years being extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

When the recoverable amount is less than the carrying value of the related asset or CGU, the related assets are written down to their recoverable amount and an impairment loss is recognized in net income.

For PP&E and intangible assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. The reversal of impairment losses is limited to the amount that would bring the carrying value of the asset or CGU to the amount that would have been recorded, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years. Such reversal is recognized in the consolidated statements of income in the same line item where the original impairment was recognized.

Intangible assets and PP&E not yet available for use and goodwill are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset might be impaired. Impairment losses relating to goodwill are not reversed in future periods.

PROVISIONS

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. These liabilities are presented as provisions when they are of uncertain timing or amount. Provisions are measured at their present value.

Product warranties – A provision for warranty cost is recorded in cost of sales when the revenue for the related product is recognized. The interest component associated with product warranties, when applicable, is recorded in financing expense. The cost is estimated based on a number of factors, including the historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and in service and counter-warranty coverage available from the Corporation's suppliers. Claims for reimbursement from third parties are recorded if their realization is virtually certain. Product warranties typically range from one to five years, except for aircraft structural and bogie warranties that extend up to 20 years.

Credit and residual value guarantees – Credit and residual value guarantees related to the sale of aircraft are recorded at the amount the Corporation expects to pay under these guarantees when the revenue for the related product is recognized. Subsequent to initial recognition, changes in the value of these guarantees are recorded in other expense (income), except for the changes in value arising from a change in interest rates, which are recorded in financing expense or financing income.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from 1 to 16 years) under the relevant financing arrangements.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value. In most cases, these guarantees (ranging from 1 to 15 years) are provided as part of a financing arrangement.

Onerous contracts – If it is more likely than not that the unavoidable costs of meeting the obligations under a contract, other than a long-term contract, exceed the economic benefits expected to be received under it, a provision for onerous contracts is recorded in cost of sales, except for the interest component, which is recorded in financing expense. Unavoidable costs include anticipated cost overruns, as well as expected costs associated with late delivery penalties and technological problems. Costs incurred to set up an efficient manufacturing process in the early phase of an aircraft program are not considered unavoidable costs related to a specific contract. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

Termination benefits – Termination benefits are usually paid when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes termination benefits when it is demonstrably committed, through a detailed formal plan without possibility of withdrawal, to terminate the employment of current employees. Termination benefits are included in provisions.

Environmental costs – A provision for environmental costs is recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Legal asset retirement obligations and environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate, or prevent environmental contamination that has yet to occur, are included in PP&E and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed and included in cost of sales.

SHARE-BASED PAYMENTS

Equity-settled share-based payment plans – Equity-settled share-based payments are measured at fair value at the grant date. For the PSUs and DSUs, the value of the compensation is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the shares were granted, if any, and is based on the PSUs and DSUs that are expected to vest. For share option plans, the value of the compensation is measured using a Black-Scholes option pricing model, modified to incorporate target prices related to the performance share option plan for options granted before June 1, 2009. The effect of any change in the number of options, PSUs and DSUs that are expected to vest is accounted for in the period in which the estimate is revised. Compensation expense is recognized on a straight-line basis over the vesting period, with a corresponding increase in contributed surplus. Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

Employee share purchase plan – The Corporation's contributions to the employee share purchase plan are measured at cost and accounted for in the same manner as the related employee payroll costs. The value of the compensation is recorded at the time of the employee contribution.

3 FUTURE CHANGES IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

In October 2010, the IASB released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial instruments: Recognition and Measurement*. This first part only covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two parts.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, requirements for measuring a financial liability at fair value have changed, as the portion of the changes in fair value related to the entity's own credit risk must be presented in OCI rather than in the statement of income. IFRS 9 will be effective for the Corporation's fiscal years beginning on January 1, 2015, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

CONSOLIDATION

In May 2011, the IASB released IFRS 10, *Consolidated financial statements*, which replaces SIC-12, *Consolidation - Special Purpose Entities*, and parts of IAS 27, *Consolidated and separate financial statements* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

JOINT ARRANGEMENTS

In May 2011, the IASB released IFRS 11, *Joint Arrangements*, which supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 focuses on the rights and obligations of a joint arrangement, rather than its legal form as is currently the case under IAS 31. The standard addresses inconsistencies in the reporting of joint arrangements by requiring the equity method to account for interests in joint ventures. IFRS 11 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. Although the Corporation has not completed its assessment, it expects that a large part of its investments in joint ventures, currently accounted for under the proportionate consolidation method, will be accounted for using the equity method of accounting under IFRS 11. Under the equity method, the Corporation's share of net assets, net income and OCI of joint ventures will be presented as one-line items on the statement of financial position, the statement of income and the statement of comprehensive income, respectively. In addition, the statement of cash flows under the equity method will include the cash flows between the Corporation and its joint ventures, and not the Corporation's proportionate share of the joint ventures' cash flows.

DISCLOSURE OF INTERESTS IN OTHER ENTITIES

In May 2011, the IASB released IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

FAIR VALUE MEASUREMENT

In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has started to assess the impact the adoption of this standard will have on its consolidated financial statements and the Corporation does not expect to be significantly impacted.

FINANCIAL STATEMENT PRESENTATION

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within OCI that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation does not expect any changes to its consolidated financial statement presentation from this amendment as the items within OCI that may be reclassified to the statement of income are already grouped together.

EMPLOYEE BENEFITS

In June 2011, the IASB amended IAS 19, *Employee Benefits*. Among other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendment to IAS 19 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation has started to assess the impact of the adoption of this standard on its consolidated financial statements and this amendment should result in a higher net financing expense for the Corporation.

4 USE OF ESTIMATES AND JUDGMENT

The application of the Corporation's accounting policies requires management to use estimates and judgments that can have a significant effect on the revenues, expenses, comprehensive income, assets and liabilities recognized and disclosures made in the consolidated financial statements. Estimates and judgments are significant when:

- the outcome is highly uncertain at the time the estimates are made; or
- if different estimates or judgments could reasonably have been used that would have had a material impact on the consolidated financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used, and such differences could be material.

Management's budget and strategic plans cover a three-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. Management prepares a budget and strategic plans on an annual basis, using a process whereby a detailed one-year budget and two-year strategic plan are prepared by each business unit and then consolidated at the segment and Corporation levels. Cash flows and profitability included in the budget and strategic plans are based on the existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and collective agreements. The budget and strategic plans are subject to approval at various levels, including senior management and the Board of Directors. Management uses the budget and strategic plans as well as additional projections or assumptions to derive the expected results for periods thereafter. Management then tracks performance as compared to the budget and strategic plans at various levels within the Corporation. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's most critical estimates and judgments. The sensitivity analyses below should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

Long-term contracts – BT conducts most of its business under long-term contracts with customers, whereby revenues and margins are recognized using the percentage-of-completion method of accounting. The long-term nature of these contracts requires estimates of total contract costs and revenues at completion. In addition, BA has limited long-term maintenance service contracts with customers.

Estimated revenues at completion are adjusted for change orders, claims, penalties and contract terms that provide for the adjustment of prices. Management judgment is applied to determine if realization of additional revenues from contract change orders and claims is probable and such amounts, if probable, are included in estimated revenues at completion.

Estimated contract costs at completion incorporate forecasts for material and labour costs, foreign exchange rates and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and the potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers.

Recognized revenues and margins are subject to revisions as contracts progress towards completion. Management conducts quarterly reviews of estimated costs and revenues to completion on a contract-by-contract basis. In addition, a detailed annual review is performed on a contract-by-contract basis as part of the budget and strategic plan process. The effect of any revision may be significant and is recorded by way of a cumulative catch-up adjustment in the period in which the estimates are revised.

Sensitivity analysis – A 1% increase in the estimated future costs to complete all ongoing production contracts accounted for under the percentage-of-completion method would have decreased BT's gross margin by approximately $68 million for the fiscal year ended December 31, 2011.

4. USE OF ESTIMATES AND JUDGMENT (CONTINUED)

Aerospace program tooling **–** Aerospace program tooling amortization and the calculation of recoverable amounts used in impairment testing require estimates of the expected number of aircraft to be delivered under each program. Such estimates are reviewed in detail as part of the budget and strategic plan process. Management exercises judgment to identify independent cash inflows and allocate aerospace program tooling to CGUs by family of aircraft. The recoverable amount of a CGU is based on the higher of fair value less costs to sell and value in use, generally determined using a discounted cash flow model. Other key estimates used to determine the recoverable amount include the discount rate and the expected future cash flows over the remaining life of the programs as determined in the budget and strategic plans for each family of aircraft.

Goodwill **–** The recoverable amount of the BT reportable segment, the group of CGUs to which goodwill is allocated, is based on the higher of fair value less costs to sell and value in use. The recoverable amount was calculated as at February 1, 2010 based on fair value less costs to sell using a discounted cash flow model. During the fiscal years ended January 31, 2011 and December 31, 2011, the Corporation concluded that all criteria for using the recoverable amount from a previous period were met and the impairment assessments were performed carrying forward the recoverable amount calculated as at February 1, 2010.

Estimated future cash flows for the first three years were based on the budget and strategic plans. A growth rate of 1% was applied to the last year of the strategic plan to derive estimated cash flows beyond the initial three-year period. The post-tax discount rate is also a key estimate in the discounted cash flow model and is based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount as at February 1, 2010 was 7.4%.

Valuation of deferred income tax assets **–** To determine the extent to which deferred income tax assets can be recognized, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized. Such estimates are made as part of the budget and strategic plans by tax jurisdiction on an undiscounted basis and are reviewed on a quarterly basis. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period, the history of taxable profits and availability of tax strategies.

Credit and residual value guarantees **–** The Corporation uses an internal valuation model based on stochastic simulations to estimate the amounts expected to be paid under credit and residual value guarantees. The value is calculated using estimates of fair values of aircraft, current market assumptions for interest rates, published credit ratings when available, default probabilities from rating agencies and the likelihood that the residual value guarantee will be called upon at the expiry of the financing arrangement. The fair value of aircraft is estimated using aircraft residual value curves adjusted to reflect the specific factors of the current aircraft market. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit ratings. The estimates are reviewed on a quarterly basis.

Sensitivity analysis – The Corporation's main exposures to changes in value of credit and residual value guarantees are related to the residual value curves of the underlying aircraft and interest rates. The following are presented in isolation from one another.

Assuming a decrease of 1% in the residual value curves as at December 31, 2011, EBIT would have been negatively impacted by $16 million for the fiscal year ended December 31, 2011.

Assuming an increase of 100 basis points in interest rates as at December 31, 2011, EBT would have been positively impacted by $5 million for the fiscal year ended December 31, 2011.

Retirement benefits **–** The actuarial valuation process used to measure pension and other post-employment benefit costs, assets and obligations is dependent on assumptions regarding discount rates, expected long-term rate of return on plan assets, compensation and pre-retirement benefit increases and inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. Discount rates are reviewed on a quarterly basis. As most other assumptions and estimates are long term in nature, management assesses events and circumstances that could require a change in other assumptions or estimates on a quarterly basis.

Discount rates represent the market rates for high quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit obligations. Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long-term investment returns and target asset allocations. Expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases. See note 20 – Retirement benefits for further details regarding assumptions used and sensitivity to changes in critical actuarial assumptions.

5 SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT.

BA	BT
BA is a world leader in the design, manufacture and support of innovative aviation products. BA's aircraft portfolio includes a comprehensive line of business aircraft, commercial aircraft including regional jets, turboprops and single-aisle mainline jets, as well as specialized and amphibious aircraft. BA also offers aftermarket services as well as *Flexjet* fractional ownership and flight entitlement programs.	BT is the world leader in the design, manufacture and support of rail equipment and systems, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

The segmented information is prepared using the accounting policies described in note 2 – Summary of significant accounting policies.

Management assesses segment performance based on EBIT. Corporate charges are allocated to segments mostly based on each segment's revenues. The segmented results of operations and other information are as follows for fiscal years ended:

		December 31, 2011[1]			January 31, 2011	
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$8,594**	**$9,753**	**$18,347**	$8,809	$9,083	$17,892
Cost of sales	**7,355**	**8,089**	**15,444**	7,495	7,460	14,955
Gross margin	**1,239**	**1,664**	**2,903**	1,314	1,623	2,937
SG&A	**621**	**818**	**1,439**	623	754	1,377
R&D	**122**	**149**	**271**	172	147	319
Other expense (income)	**(6)**	**(3)**	**(9)**	(35)	71	36
EBIT	**$ 502**	**$ 700**	**1,202**	$ 554	$ 651	1,205
Financing expense			**681**			684
Financing income			**(519)**			(476)
EBT			**1,040**			997
Income taxes			**203**			222
Net income			**$ 837**			$ 775
Other information						
Net additions to PP&E and intangible assets	**$1,320**	**$ 155**	**$ 1,475**	$1,008	$ 117	$ 1,125
Amortization	**$ 195**	**$ 138**	**$ 333**	$ 245	$ 126	$ 371
Impairment charge on PP&E	**$ –**	**$ –**	**$ –**	$ –	$ 8	$ 8

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

5. SEGMENT DISCLOSURE (CONTINUED)

Management measures capital employed using net segmented assets. The reconciliation of total assets and total liabilities to segmented assets and liabilities is as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Assets			
Total assets	**$23,864**	$24,092	$22,120
Assets not allocated to segments:			
Cash and cash equivalents	**3,372**	4,195	3,372
Invested collateral	**–**	676	682
Deferred income taxes	**1,506**	1,294	1,373
Segmented assets	**18,986**	17,927	16,693
Liabilities			
Total liabilities	**23,193**	22,571	21,160
Liabilities not allocated to segments:			
Interest payable[1]	**59**	89	56
Income taxes payable[2]	**104**	93	97
Long-term debt	**4,941**	4,662	4,145
Deferred income taxes[2]	**67**	53	65
Segmented liabilities	**$18,022**	$17,674	$16,797
Net segmented assets			
BA	**$ 1,010**	$ 1,171	$ 545
BT	**$ (46)**	$ (918)	$ (649)

1 Included in trade and other payables in the consolidated statements of financial position.
2 Included in other liabilities in the consolidated statements of financial position.

The Corporation's revenues by market segments are as follows for the fiscal years ended:

	December 31, 2011[3]	January 31, 2011
BA		
Manufacturing		
Business aircraft	**$ 4,262**	$ 4,021
Commercial aircraft	**1,721**	2,157
Other	**507**	559
Total manufacturing	**6,490**	6,737
Services[4]	**1,522**	1,564
Other[5]	**582**	508
	8,594	8,809
BT		
Rolling stock[6]	**6,855**	6,385
Services[7]	**1,409**	1,308
Systems and signalling[8]	**1,489**	1,390
	9,753	9,083
	$18,347	$17,892

3 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
4 Includes revenues from parts services, *Flexjet* fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training) and Specialized Aircraft Solutions and Military Aviation Training.
5 Includes mainly sales of pre-owned aircraft.
6 Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls and bogies.
7 Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.
8 Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance systems, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.

5. SEGMENT DISCLOSURE (CONTINUED)

The Corporation's revenues and PP&E and intangible assets are, allocated to countries, as follows:

	Revenues for fiscal years ended[1]		PP&E and intangible assets as at[2]		
	December 31, 2011[3]	January 31, 2011	**December 31, 2011**	January 31, 2011	February 1, 2010
North America					
United States	**$ 4,330**	$ 3,896	**$1,150**	$ 689	$ 545
Canada	**1,289**	1,038	**2,595**	2,087	1,498
Mexico	**58**	31	**39**	35	24
	5,677	4,965	**3,784**	2,811	2,067
Europe					
Germany	**1,835**	1,302	**1,211**	1,296	1,402
United Kingdom	**1,813**	1,583	**495**	526	838
France	**1,289**	1,404	**54**	84	53
Other	**3,245**	4,069	**1,782**	1,646	1,063
	8,182	8,358	**3,542**	3,552	3,356
Asia-Pacific					
China	**1,150**	921	**96**	73	68
India	**425**	465	**40**	54	50
Other	**1,151**	1,201	**17**	13	11
	2,726	2,587	**153**	140	129
Other					
Russia	**218**	602	**1**	–	–
Other	**1,544**	1,380	**32**	64	10
	1,762	1,982	**33**	64	10
	$18,347	$17,892	**$7,512**	$6,567	$5,562

1 Allocated to countries based on the location of the customer.
2 PP&E and intangible assets, excluding goodwill, are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.
3 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

6 RESEARCH AND DEVELOPMENT

R&D expense, net of government assistance, was as follows for the fiscal years ended:

	December 31, 2011[4]	January 31, 2011
R&D expenditures	**$ 1,351**	$1,022
Less: development expenditures capitalized to aerospace program tooling	**(1,171)**	(829)
	180	193
Add: amortization of aerospace program tooling	**91**	126
	$ 271	$ 319

4 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

7 OTHER EXPENSE (INCOME)

Other expense (income) was as follows for the fiscal years ended:

	December 31, 2011[1]	January 31, 2011
Changes in estimates and fair value[2]	$ (10)	$ (14)
Severance and other involuntary termination costs (including changes in estimates)	7	27
Gains on disposal of PP&E	(3)	(11)
Impairment charge on PP&E	–	8
Other	(3)	26
	$ (9)	$ 36

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Includes net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding losses (gains) arising from changes in interest rates.

8 FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows for the fiscal years ended:

	December 31, 2011[3]	January 31, 2011
Financing expense		
Accretion on retirement benefit obligations	$ 418	$ 417
Amortization of letter of credit facility costs	46	39
Changes in discount rates for provisions	36	1
Accretion on other financial liabilities	20	26
Accretion on provisions	18	25
Other	21	20
	559	528
Interest on long-term debt—after effect of hedges	122	156
	$ 681[4]	$ 684[4]
Financing income		
Expected return on pension plan assets	$ (418)	$ (373)
Net gain on certain financial instruments[5]	(19)	(9)
Gain on repurchase of long-term debt	–	(22)
Other	(13)	(11)
	(450)	(415)
Interest on loans and lease receivables—after effect of hedges	(33)	(33)
Interest on cash and cash equivalents	(33)	(19)
Interest on invested collateral	(3)	(9)
	$ (519)[6]	$ (476)[6]

3 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
4 Of which $157 million represents the interest expense calculated using the effective interest rate method for financial liabilities classified as other than HFT for the fiscal year ended December 31, 2011 ($194 million for the fiscal year ended January 31, 2011).
5 Net gain on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.
6 Of which $13 million represents the interest income calculated using the effective interest rate method for financial assets classified as L&R for the fiscal year ended December 31, 2011 ($21 million for the fiscal year ended January 31, 2011).

Borrowing costs capitalized to PP&E and intangible assets totalled $88 million for the fiscal year ended December 31, 2011, using an average capitalization rate of 5.35% ($63 million and 5.52% for the fiscal year ended January 31, 2011). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

9 EMPLOYEE BENEFIT COSTS

Employee benefit costs[1] were as follows for the fiscal years ended:

	Notes	December 31, 2011[2]	January 31, 2011
Wages, salaries and other employee benefits		**$5,185**	$4,739
Retirement benefits[3]	20	**250**	310
Share-based expense	27	**38**	47
Severance and other involuntary termination costs	7	**7**	27
		$5,480	$5,123

1 Employee benefit costs include costs capitalized as part of the cost of inventories and other self-constructed assets.
2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
3 Includes defined benefit and defined contribution plans.

10 INCOME TAXES

ANALYSIS OF INCOME TAX EXPENSE

Details of income tax expense were as follows for the fiscal years ended:

	December 31, 2011[4]	January 31, 2011
Current income taxes	**$137**	$155
Deferred income taxes	**66**	67
	$203	$222

4 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

10. INCOME TAXES (CONTINUED)

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows for the fiscal years ended:

	December 31, 2011[1]	January 31, 2011
EBT	**$ 1,040**	$ 997
Canadian statutory rate	**28.4%**	30.0%
Income tax expense at statutory rate	**295**	299
Increase (decrease) resulting from:		
Recognition of previously unrecognized tax losses or temporary differences	**(204)**	(146)
Non-recognition of tax benefits related to tax losses and temporary differences	**98**	53
Effect of substantively enacted income tax rate changes and tax status changes in certain entities	**11**	4
Permanent differences	**(3)**	7
Write down of deferred income tax assets	**–**	9
Other	**6**	(4)
Income tax expense	**$ 203**	$ 222
Effective tax rate	**19.5%**	22.3%

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

The applicable statutory tax rates are 28.4% for the fiscal year ended December 31, 2011 and 30.0% for the fiscal year ended January 31, 2011. The Corporation's applicable tax rate is the Canadian combined rate applicable in the jurisdictions in which the Corporation operates. The decrease is mainly due to the reduction of the Federal income tax rate applicable to the Corporation for the fiscal year ended December 31, 2011 from 17.9% to 16.5%.

Details of deferred income tax expense were as follows for the fiscal years ended:

	December 31, 2011[2]	January 31, 2011
Origination and reversal of temporary differences	**$ 161**	$ 147
Recognition of previously unrecognized tax losses, tax credits and temporary differences	**(204)**	(146)
Change in unrecognized tax benefits related to tax losses and temporary differences	**98**	53
Effect of substantively enacted income tax rate changes and tax status	**11**	4
Write-down of deferred income tax assets	**–**	9
	$ 66	$ 67

2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

10. INCOME TAXES (CONTINUED)

DEFERRED INCOME TAXES

The significant components of the Corporation's deferred income tax asset and liability were as follows as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Asset	**Liability**	Asset	Liability	Asset	Liability
Operating tax losses carried forward	**$ 1,502**	**$ –**	$ 1,261	$ –	$ 1,226	$ –
Retirement benefits	**894**	**–**	523	–	578	–
Advance and progress billings in excess of long-term contract inventories and advances on aerospace programs	**847**	**–**	412	–	400	–
Inventories	**499**	**(67)**	540	(53)	609	(65)
Provisions	**463**	**–**	461	–	370	–
Other financial assets and Other assets	**(353)**	**–**	(170)	–	(246)	–
PP&E	**(273)**	**–**	(108)	–	(77)	–
Other financial liabilities and Other liabilities	**148**	**–**	186	–	96	–
Intangible assets	**(110)**	**–**	(6)	–	48	–
Other	**30**	**–**	47	–	116	–
	3,647	**(67)**	3,146	(53)	3,120	(65)
Unrecognized deferred tax assets	**(2,141)**	**–**	(1,852)	–	(1,747)	–
	$ 1,506	**$(67)**	$ 1,294	$(53)	$ 1,373	$(65)

The details of changes to deferred income taxes were as follows for the fiscal years ended:

	December 31, 2011[1]	January 31, 2011
Balance at beginning of year, net	**$1,241**	$1,308
In net income	**(66)**	(67)
In OCI		
Retirement benefits	**234**	(40)
Cash flow hedges	**54**	17
Other[2]	**(24)**	23
Balance at end of year, net	**$1,439**	$1,241

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Other mainly comprises foreign exchange rate effects.

The net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to $7,825 million as at December 31, 2011, of which $2,208 million relates to retirement benefits that will reverse through OCI ($6,698 million as at January 31, 2011 of which $1,518 million relates to retirement benefits that will reverse through OCI and $6,400 million as at February 1, 2010 of which $1,607 million relates to retirement benefits that will reverse through OCI). Of these amounts, approximately $7,792 million as at December 31, 2011 have no expiration date ($6,670 million as at January 31, 2011 and $6,383 million as at February 1, 2010) and approximately $964 million relate to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income ($1,167 million as at January 31, 2011 and $1,160 million as at February 1, 2010).

In addition, the Corporation has $206 million of unused investment tax credits, most of which can be carried forward for 20 years and $48 million of net capital losses carried forward for which deferred tax assets have not been recognized ($128 million and $66 million as at January 31, 2011). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

No deferred tax liabilities have been recognized on undistributed earnings of the Corporation's foreign subsidiaries and joint ventures when they are considered to be indefinitely reinvested. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to corporation and/or withholding taxes. Taxable temporary differences for which a deferred tax liability was not recognized amount to approximately $225 million.

11 EARNINGS PER SHARE

Basic and diluted EPS were computed as follows for the fiscal years ended:

	December 31, 2011[1]	January 31, 2011
(Number of shares, stock options, PSUs and DSUs, in thousands)		
Net income attributable to equity holders of Bombardier Inc.	$ 837	$ 762
Preferred share dividends, including taxes	(25)	(24)
Net income attributable to common equity holders of Bombardier Inc.	$ 812	$ 738
Weighted-average number of common shares outstanding	1,724,889	1,727,200
Net effect of stock options, PSUs and DSUs	18,989	17,934
Weighted-average diluted number of common shares	1,743,878	1,745,134
EPS (in dollars):		
Basic	$ 0.47	$ 0.43
Diluted	$ 0.47	$ 0.42

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

The effect of the exercise of stock options, PSUs and DSUs was included in the calculation of diluted EPS in the above table, except for 23,359,926 stock options for the fiscal year ended December 31, 2011 (23,063,554 stock options for the fiscal year ended January 31, 2011) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) or predetermined financial performance targets had not been met.

12 FINANCIAL INSTRUMENTS

Net gains (losses) on financial instruments recognized in income were as follows for the fiscal years ended:

	December 31, 2011[2]	January 31, 2011
Financial instruments measured at amortized cost		
L&R - impairment charges	$ (16)	$ (6)
Other than HFT - gains (losses) from derecognition	$ –	$ 22
Financial instruments measured at fair value		
AFS - gains (losses) from derecognition	$ 5	$ (2)
FVTP&L - changes in fair value		
Designated as FVTP&L	$ 35[3]	$ (2)[3]
Required to be classified as HFT		
Derivatives not designated in hedging relationships[4]	$ (21)	$ (10)
Other[5]	$ (15)	$ 35

2 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
3 Excluding the interest income portion related to the invested collateral of $3 million for the fiscal year ended December 31, 2011 ($9 million for the fiscal year ended January 31, 2011).
4 Incurred in connection with economic hedges.
5 Excluding the interest income portion related to cash and cash equivalents of $33 million for the fiscal year ended December 31, 2011 ($19 million for the fiscal year ended January 31, 2011).

12. FINANCIAL INSTRUMENTS (CONTINUED)

CARRYING AMOUNTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The classification of financial instruments and their carrying amounts and fair value of financial instruments were as follows as at:

	FVTP&L						
	HFT	Designated	AFS	Amortized cost[1]	DDHR	Total carrying value	Fair value
December 31, 2011							
Financial assets							
Cash and cash equivalents	**$3,372**	**$ –**	**$ –**	**$ –**	**$ –**	**$3,372**	**$3,372**
Trade and other receivables	**–**	**–**	**–**	**1,408**	**–**	**1,408**	**1,408**
Other financial assets	**44**	**698**	**399**	**186**	**504**	**1,831**	**1,830**
	$3,416	**$ 698**	**$ 399**	**$1,594**	**$504**	**$6,611**	**$6,610**
Financial liabilities							
Trade and other payables	**$ –**	**$ –**	**n/a**	**$3,210**	**$ –**	**$3,210**	**$3,210**
Long-term debt	**–**	**–**	**n/a**	**4,941**	**–**	**4,941**	**4,649**
Other financial liabilities	**21**	**140**	**n/a**	**557**	**323**	**1,041**	**1,118**
	$ 21	**$ 140**	**n/a**	**$8,708**	**$323**	**$9,192**	**$8,977**
January 31, 2011							
Financial assets							
Cash and cash equivalents	$4,195	$ –	$ –	$ –	$ –	$4,195	$4,195
Invested collateral	–	676	–	–	–	676	676
Trade and other receivables	–	–	–	1,377	–	1,377	1,377
Other financial assets	65	643	388	221	492	1,809	1,807
	$4,260	$1,319	$ 388	$1,598	$492	$8,057	$8,055
Financial liabilities							
Trade and other payables	$ –	$ –	n/a	$3,073	$ –	$3,073	$3,073
Long-term debt	–	–	n/a	4,662	–	4,662	4,747
Other financial liabilities	64	161	n/a	537	613	1,375	1,431
	$ 64	$ 161	n/a	$8,272	$613	$9,110	$9,251
February 1, 2010							
Financial assets							
Cash and cash equivalents	$3,372	$ –	$ –	$ –	$ –	$3,372	$3,372
Invested collateral	–	682	–	–	–	682	682
Trade and other receivables	–	–	–	1,141	–	1,141	1,141
Other financial assets	98	508	328	208	398	1,540	1,539
	$3,470	$1,190	$ 328	$1,349	$398	$6,735	$6,734
Financial liabilities							
Trade and other payables	$ –	$ 9	n/a	$3,036	$ –	$3,045	$3,045
Long-term debt	–	–	n/a	4,145	–	4,145	4,035
Other financial liabilities	77	196	n/a	447	364	1,084	1,111
	$ 77	$ 205	n/a	$7,628	$364	$8,274	$8,191

1 Financial assets are classified as L&R and financial liabilities as other than HFT.
n/a: Not applicable

12. FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVES AND HEDGING ACTIVITIES

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

	December 31, 2011		January 31, 2011		February 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges						
Cross-currency interest-rate swap	$ 12	$ 39	$ 22	$ 68	$ 13	$ 48
Interest-rate swap	297	–	80	–	140	–
	309	39	102	68	153	48
Derivative financial instruments designated as cash flow hedges[1]						
Forward foreign exchange contracts	195	284	390	509	245	278
Derivative financial instruments designated as hedges of net investment						
Cross-currency interest-rate swap	–	–	–	36	–	38
Derivative financial instruments classified as HFT[2]						
Forward foreign exchange contracts	19	14	9	48	31	53
Interest-rate swap	–	4	–	6	–	7
Cross-currency interest-rate swap	–	–	–	–	21	–
Embedded derivative financial instruments:						
Foreign exchange	4	3	16	8	26	8
Call options on long-term debt	21	–	40	–	20	–
Financing rate commitments	–	–	–	2	–	9
	44	21	65	64	98	77
Total derivative financial instruments	$548	$ 344	$557	$677	$496	$441
Non-derivative financial instruments designated as hedges of net investment						
Long-term debt	$ –	$1,029	$ –	$715	$ –	$399

1 The maximum length of time of the derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 22 months as of December 31, 2011.
2 Held as economic hedges, except for embedded derivative financial instruments.

The net gains on the hedging instruments designated in fair value hedge relationships and the net losses on the related hedged items attributable to the hedged risk recognized in financing expense, amounted to $311 million and $304 million respectively for the fiscal year ended December 31, 2011 ($123 million and $119 million respectively for the fiscal year ended January 31, 2011).

The methods and assumptions used to measure the fair value of financial instruments are described in note 32 – Fair value of financial instruments.

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Cash	**$1,091**	$1,529	$ 649
Cash equivalents			
Term deposits	**750**	832	714
Money market funds	**1,531**	1,834	2,009
Cash and cash equivalents	**$3,372**	$4,195	$3,372

See note 29 – Credit facilities for details on covenants related to cash and cash equivalents.

14 TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Trade receivables[1,2]	**$1,341**	$1,293	$1,103
Other	**109**	136	90
	1,450	1,429	1,193
Allowance for doubtful accounts	**(42)**	(52)	(52)
	$1,408	$1,377	$1,141

1 Of which $415 million and $349 million are denominated in euro and other foreign currencies, respectively, as at December 31, 2011 ($472 million and $393 million, respectively, as at January 31, 2011 and $312 million and $443 million, respectively, as at February 1, 2010).
2 Of which $172 million represents customer retentions relating to long-term contracts as at December 31, 2011 based on normal terms and conditions.

Allowance for doubtful accounts **–** Changes in the allowance for doubtful accounts were as follows as at:

	December 31, 2011	January 31, 2011
Balance at beginning of year	**$(52)**	$(52)
Provision for doubtful accounts	**(11)**	(4)
Amounts written off	**5**	4
Effect of foreign currency exchange rate changes	**16**	–
Balance at end of year	**$(42)**	$(52)

Receivables that are past due but not impaired **–** The trade receivables that are past due but not impaired for BA amounted to $94 million, of which $25 million were more than 90 days past due as at December 31, 2011 ($63 million as at January 31, 2011, of which $14 million were more than 90 days past due and $53 million as at February 1, 2010, of which $14 million were more than 90 days past due).

In addition, $272 million of trade receivables related to BT long-term contracts are past due but not impaired as at December 31, 2011, of which $137 million were more than 90 days past due ($330 million as at January 31, 2011 of which $196 million were more than 90 days past due and $350 million as at February 1, 2010, of which $160 million were more than 90 days past due). BT assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole.

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

Receivables that are impaired **–** The Corporation has determined that a gross amount of $38 million of trade receivables are individually impaired as at December 31, 2011 ($43 million as at January 31, 2011 and $38 million as at February 1, 2010). The factors that the Corporation considers to classify trade receivables as impaired are as follows: the customer is in bankruptcy or under administration, payments are in dispute, or payments are in arrears for over 90 days.

Further information on financial risk is provided in note 31 – Financial risk management.

FACTORING

In the normal course of its business, BT has factoring facilities in Europe to which it can sell, without recourse, qualifying trade receivables. Trade receivables of €580 million ($751 million) were outstanding under such facilities as at December 31, 2011 (€248 million [$340 million] as at January 31, 2011 and €140 million [$194 million] as at February 1, 2010). Trade receivables of €581 million ($812 million) were sold to these facilities during the fiscal year ended December 31, 2011 (€442 million [$584 million] during the fiscal year ended January 31, 2011).

15 INVENTORIES

Inventories were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Aerospace programs	**$ 3,845**	$ 4,146	$ 4,748
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**6,510**	5,452	5,190
Less: advances and progress billings	**(4,773)**	(3,975)	(4,070)
	1,737	1,477	1,120
Service contracts			
Cost incurred and recorded margins	**380**	512	616
Less: advances and progress billings	**(45)**	(73)	(85)
	335	439	531
Finished products[1]	**1,481**	1,245	1,231
	$ 7,398	$ 7,307	$ 7,630

1 Finished products include 5 new aircraft not associated with a firm aircraft order and 95 pre-owned aircraft, totalling $691 million as at December 31, 2011 (8 new aircraft and 68 pre-owned aircraft, totalling $532 million as at January 31, 2011 and 5 new aircraft and 55 pre-owned aircraft, totalling $524 million as at February 1, 2010).

Finished products as at December 31, 2011 include $162 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities, which are accounted for as sale and leaseback obligations ($209 million as at January 31, 2011 and $167 million as at February 1, 2010).

The amount of inventories recognized as cost of sales totalled $14,381 million for the fiscal year ended December 31, 2011 ($13,606 million for the fiscal year ended January 31, 2011). These amounts include $66 million of write-down for the fiscal year ended December 31, 2011 ($48 million for the fiscal year ended January 31, 2011).

Under certain contracts, title to inventories is vested to the customer as the work is performed, in accordance with contractual arrangements and industry practice. In addition, in the normal course of business, the Corporation provides performance bonds, bank guarantees and other forms of guarantees to customers, mainly in BT, as security for advances received from customers pending performance under certain contracts. In accordance with industry practice, the Corporation remains liable to the purchasers for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance.

Advances and progress billings received on long-term contracts in progress were $6,767 million as at December 31, 2011 ($6,469 million as at January 31, 2011 and $6,054 million as at February 1, 2010). Revenues include revenues from BT long-term contracts, which amounted to $7,537 million for the fiscal year ended December 31, 2011 ($7,002 million for the fiscal year ended January 31, 2011).

16 OTHER FINANCIAL ASSETS

Other financial assets were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Derivative financial instruments[1]	**$ 548**	$ 557	$ 496
Aircraft loans and lease receivables[2,3]	**472**	432	312
Investments in securities[2,4]	**423**	415	328
Investments in financing structures[2]	**243**	242	233
Servicing fees	**57**	49	48
Restricted cash	**51**	58	40
Other	**37**	56	83
	$1,831	$1,809	$1,540
Of which current	**$ 526**	$ 705	$ 537
Of which non-current	**1,305**	1,104	1,003
	$1,831	$1,809	$1,540

1 See note 12 – Financial instruments.
2 Carried at fair value, except for $32 million of aircraft loans and lease receivables, $24 million of investments in securities and $42 million of investments in financing structure carried at amortized cost as at December 31, 2011 ($25 million, $27 million and $55 million, respectively, as at January 31, 2011 and $32 million, nil and $53 million, respectively, as at February 1, 2010).
3 Financing with three airlines represents 47% of the total aircraft loans and lease receivables as at December 31, 2011 (three airlines represented 46% as at January 31, 2011 and 55% as at February 1, 2010). Aircraft loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors.
4 Includes $167 million of securities ceded as collateral for guarantees issued in connection with the sale of aircraft as at December 31, 2011 ($152 million as at January 31, 2011 and $148 million as at February 1, 2010).

17 OTHER ASSETS

Other assets were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Prepaid expenses	**$ 298**	$ 327	$ 226
Intangible assets other than aerospace program tooling and goodwill[5]	**227**	243	256
Flexjet fractional ownership deferred costs	**186**	156	227
Sales tax and other taxes	**185**	183	137
Deferred financing charges	**85**	65	99
Investments in associates[6]	**37**	57	40
Retirement benefits[7]	**13**	29	44
Other	**33**	50	47
	$1,064	$1,110	$1,076
Of which current	**$ 559**	$ 648	$ 519
Of which non-current	**505**	462	557
	$1,064	$1,110	$1,076

5 See note 19 – Intangible assets.
6 The Corporation has pledged shares in investees subject to significant influence, with a carrying value of $30 million as at December 31, 2011 ($33 million as at January 31, 2011 and $26 million as at February 1, 2010).
7 See note 20 – Retirement benefits.

18 PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows as at:

	Land	Buildings	Equipment	Construction in progress	Other	Total
Cost						
Balance as at January 31, 2011	**$102**	**$ 2,046**	**$1,181**	**$ 175**	**$ 564**	**$ 4,068**
Additions	**–**	**45**	**61**	**128**	**72**	**306**
Disposals	**(2)**	**(44)**	**(138)**	**–**	**(75)**	**(259)**
Transfers	**–**	**22**	**111**	**(138)**	**5**	**–**
Effect of foreign currency exchange rate changes	**(5)**	**(67)**	**(26)**	**(2)**	**(5)**	**(105)**
Balance as at December 31, 2011	**$ 95**	**$ 2,002**	**$1,189**	**$ 163**	**$ 561**	**$ 4,010**
Depreciation and impairment						
Balance as at January 31, 2011	**$ –**	**$(1,121)**	**$ (788)**	**$ –**	**$(281)**	**$(2,190)**
Amortization	**–**	**(60)**	**(102)**	**–**	**(16)**	**(178)**
Disposals	**–**	**42**	**117**	**–**	**12**	**171**
Effect of foreign currency exchange rate changes	**–**	**42**	**9**	**–**	**–**	**51**
Balance as at December 31, 2011	**$ –**	**$(1,097)**	**$ (764)**	**$ –**	**$(285)**	**$(2,146)**
Net carrying value	**$ 95**	**$ 905**	**$ 425**	**$ 163**	**$ 276**	**$ 1,864**
Cost						
Balance as at February 1, 2010	$ 99	$ 1,901	$1,103	$ 157	$ 442	$ 3,702
Additions	–	48	86	117	116	367
Disposals	–	(5)	(49)	–	(4)	(58)
Transfers	–	86	14	(104)	4	–
Effect of foreign currency exchange rate changes	3	16	27	5	6	57
Balance as at January 31, 2011	$102	$ 2,046	$1,181	$ 175	$ 564	$ 4,068
Depreciation and impairment						
Balance as at February 1, 2010	$ –	$(1,058)	$ (705)	$ –	$(265)	$(2,028)
Amortization	–	(53)	(102)	–	(16)	(171)
Impairment	–	(8)	–	–	–	(8)
Disposals	–	5	41	–	3	49
Effect of foreign currency exchange rate changes	–	(7)	(22)	–	(3)	(32)
Balance as at January 31, 2011	$ –	$(1,121)	$ (788)	$ –	$(281)	$(2,190)
Net carrying value	$102	$ 925	$ 393	$ 175	$ 283	$ 1,878

Included in the above table are assets under finance lease, where the Corporation is the lessee, presented in Other, with cost and accumulated depreciation amounting to $214 million and $88 million, respectively, as at December 31, 2011 ($185 million and $75 million as at January 31, 2011 and $147 million and $68 million as at February 1, 2010).

Also included in the above table are aircraft under operating leases where the Corporation is the lessor, presented in Other, with a cost and accumulated depreciation amounting to $88 million and $10 million, respectively, as at December 31, 2011 ($144 million and $22 million as at January 31, 2011 and $60 million and $15 million as at February 1, 2010). Rental income from operating leases

and depreciation of assets under operating leases amounted to $14 million and $6 million respectively for the fiscal year ended December 31, 2011 ($11 million and $10 million, respectively, for the fiscal year ended January 31, 2011).

19 INTANGIBLE ASSETS

Intangible assets were as follows as at:

	Aerospace program tooling			Goodwill	Other[1,2]	Total
	Acquired	Internally generated	Total[3]			
Cost						
Balance as at January 31, 2011	**$ 949**	**$ 4,076**	**$ 5,025**	**$2,358**	**$ 864**	**$ 8,247**
Additions	**142**	**1,029**	**1,171**	**–**	**49**	**1,220**
Disposals	**–**	**–**	**–**	**–**	**(182)**	**(182)**
Effect of foreign currency exchange rate changes	**–**	**–**	**–**	**(105)**	**(27)**	**(132)**
Balance as at December 31, 2011	**$1,091**	**$ 5,105**	**$ 6,196**	**$2,253**	**$ 704**	**$ 9,153**
Accumulated amortization and impairment						
Balance as at January 31, 2011	**$ (578)**	**$(2,359)**	**$(2,937)**	**$ –**	**$(621)**	**$(3,558)**
Amortization	**(10)**	**(81)**	**(91)**	**–**	**(59)**	**(150)**
Disposals	**–**	**–**	**–**	**–**	**182**	**182**
Effect of foreign currency exchange rate changes	**–**	**–**	**–**	**–**	**21**	**21**
Balance as at December 31, 2011	**$ (588)**	**$(2,440)**	**$(3,028)**	**$ –**	**$(477)**	**$(3,505)**
Net carrying value	**$ 503**	**$ 2,665**	**$ 3,168**	**$2,253**	**$ 227**	**$ 5,648**
Cost						
Balance as at February 1, 2010	$ 814	$ 3,382	$ 4,196	$2,247	$ 820	$ 7,263
Additions	135	694	829	–	47	876
Disposals	–	–	–	–	(3)	(3)
Effect of foreign currency exchange rate changes	–	–	–	111	–	111
Balance as at January 31, 2011	$ 949	$ 4,076	$ 5,025	$2,358	$ 864	$ 8,247
Accumulated amortization and impairment						
Balance as at February 1, 2010	$ (551)	$(2,260)	$(2,811)	$ –	$(564)	$(3,375)
Amortization	(27)	(99)	(126)	–	(58)	(184)
Disposals	–	–	–	–	2	2
Effect of foreign currency exchange rate changes	–	–	–	–	(1)	(1)
Balance as at January 31, 2011	$ (578)	$(2,359)	$(2,937)	$ –	$(621)	$(3,558)
Net carrying value	$ 371	$ 1,717	$ 2,088	$2,358	$ 243	$ 4,689

1 Presented in note 17 – Other assets.
2 Includes internally generated intangible assets with a cost and accumulated amortization of $294 million and $176 million, respectively, as at December 31, 2011 ($433 million and $328 million as at January 31, 2011 and $273 million and $228 million as at February 1, 2010).
3 Includes intangible assets under development with a cost of $2,489 million as at December 31, 2011 ($1,347 million as at January 31, 2011 and $949 million as at February 1, 2010).

19. INTANGIBLE ASSETS (CONTINUED)

AEROSPACE PROGRAM TOOLING

The net carrying value of aerospace program tooling comprises $1,851 million for commercial aircraft and $1,317 million for business aircraft as at December 31, 2011 ($1,249 million and $839 million, respectively, as at January 31, 2011 and $789 million and $596 million, respectively, as at February 1, 2010).

GOODWILL

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT reportable segment as a group of CGUs. The Corporation carried out an impairment test as of February 1, 2010. During the fourth quarters of the fiscal years ended December 31, 2011 and January 31, 2011 the Corporation completed an impairment assessment carrying forward the recoverable amount calculated as at February 1, 2010. The Corporation did not identify any impairment.

20 RETIREMENT BENEFITS

DEFINED BENEFIT PLANS

The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering the majority of its employees. Defined benefits are generally based on salary and years of service. The Corporation also provides other defined benefit plans, consisting essentially of post-retirement health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the components of the retirement benefits costs and financing expense and financing income for the fiscal years ended:

	December 31, 2011[1]		January 31, 2011	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
EBIT or capitalized costs[2]				
Current service cost	**$ 201**	**$ 9**	$ 201	$ 9
Past service costs (credit)	**3**	**(1)**	3	(1)
Curtailment	**(10)**	**–**	4	–
Settlement	**(3)**	**(1)**	(1)	–
Other	**–**	**–**	1	–
	191	**7**	208	8
Financing expense and financing income				
Accretion on retirement benefit obligations	**402**	**16**	399	18
Expected return on pension plan assets	**(418)**	**–**	(373)	–
	(16)	**16**	26	18
Total retirement benefits costs	**$ 175**	**$23**	$ 234	$26

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Costs capitalized as part of the cost of inventories and other self-constructed assets.

Net actuarial losses of $1,489 million recognized directly in OCI in the fiscal year ended December 31, 2011 include $1,728 million of actuarial losses, a gain of $178 million resulting from the reversal of asset ceiling and additional liability arising from the minimum funding requirement and a gain of $61 million related to foreign exchange re-evaluation of plans not denominated in the functional currency of the operation to which they relate (net actuarial gains of $35 million in the fiscal year ended January 31, 2011, include $161 million of actuarial gains, a loss of $70 million resulting from the asset ceiling and additional liability arising from the minimum funding requirement and a loss of $56 million related to foreign exchange re-evaluation).

20. RETIREMENT BENEFITS (CONTINUED)

The following tables present the changes in the defined benefit obligation and fair value of pension plan assets for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
Change in benefit obligation				
Obligation at beginning of year	**$ 7,762**	**$327**	$ 6,919	$ 298
Accretion	**402**	**16**	399	18
Current service cost	**201**	**9**	201	9
Plan participants' contributions	**38**	**–**	35	–
Past service cost	**3**	**–**	3	–
Actuarial losses (gains)	**1,372**	**35**	165	(3)
Benefits paid	**(268)**	**(11)**	(260)	(13)
Curtailment	**(10)**	**–**	4	–
Settlement	**(4)**	**(2)**	(8)	–
Other	**–**	**–**	2	–
Effect of exchange rate changes	**(254)**	**(9)**	302	18
Obligation at end of year	**$ 9,242**	**$365**	$ 7,762	$ 327
Change in plan assets				
Fair value at beginning of year	**$ 6,322**	**$ –**	$ 5,181	$ –
Employer contributions	**373**	**12**	419	13
Plan participants' contributions	**38**	**–**	35	–
Expected return	**418**	**–**	373	–
Actuarial (losses) gains	**(321)**	**–**	323	–
Benefits paid	**(268)**	**(11)**	(260)	(13)
Settlement	**(1)**	**(1)**	(7)	–
Other	**–**	**–**	1	–
Effect of exchange rate changes	**(166)**	**–**	257	–
Fair value at end of year	**$ 6,395**	**$ –**	$ 6,322	$ –

20. RETIREMENT BENEFITS (CONTINUED)

The following table presents the reconciliation of the funded status to the amount recognized in the consolidated statements of financial position as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Funded status - deficit						
Present value of obligations of funded plans	**$ 8,673**	**$ –**	$ 7,171	$ –	$ 6,339	$ –
Fair value of plan assets	**(6,395)**	**–**	(6,322)	–	(5,181)	–
	2,278	**–**	849	–	1,158	–
Present value of obligations of unfunded plans	**569**	**365**	591	327	580	298
Unrecognized past service credits	**–**	**1**	–	2	–	3
Impact of asset ceiling test	**–**	**–**	97	–	8	–
Liability arising from minimum funding requirement[1]	**–**	**–**	80	–	90	–
Net amount recognized	**$ 2,847**	**$366**	$ 1,617	$329	$ 1,836	$301
Amounts included in:						
Retirement benefit						
liability	**$ 2,860**	**$366**	$ 1,646	$329	$ 1,880	$301
asset[2]	**(13)**	**–**	(29)	–	(44)	–
Net liability	**$ 2,847**	**$366**	$ 1,617	$329	$ 1,836	$301

1 Comprises the effect of exchange rate changes.
2 Presented in note 17 – Other assets.

The following table presents the allocation by major countries as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Benefit obligation	**Plan assets**	Benefit obligation	Plan assets	Benefit obligation	Plan assets
Canada	**$5,019**	**$3,125**	$3,929	$3,078	$ 3,324	$2,462
U.K.	**2,855**	**2,496**	2,605	2,483	2,466	2,077
U.S.	**864**	**521**	677	497	602	423
Germany	**389**	**–**	428	–	406	–
Switzerland	**301**	**222**	277	228	237	186
Other	**179**	**31**	173	36	182	33
	$9,607	**$6,395**	$8,089	$6,322	$ 7,217	$5,181

20. RETIREMENT BENEFITS (CONTINUED)

Plan assets are held in trust and their weighted-average allocations were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Cash and cash equivalents	**3%**	3%	5%
Publicly traded investments:			
Equity securities	**46%**	54%	55%
Fixed-income securities	**41%**	37%	35%
Global infrastructure and real estate assets	**10%**	6%	5%

Actual return on plan assets was $97 million for the fiscal year ended December 31, 2011 ($696 million for the fiscal year ended January 31, 2011). Plan assets did not include any of the Corporation's shares, nor any property occupied by the Corporation or other assets used by the Corporation as at December 31, 2011, January 31, 2011 and February 1, 2010.

Contributions to funded defined benefit pension plans and benefit payments related to unfunded defined benefit pension plans are estimated at $394 million for calendar year 2012, compared to actual contributions of $373 million for the fiscal year ended December 31, 2011. Benefit payments to other retirement benefit plans are estimated at $14 million for calendar year 2012, compared to actual benefits paid of $12 million for the fiscal year ended December 31, 2011.

The significant actuarial assumptions reflect the economic situation of each country. The weighted-average assumptions used to determine the benefit cost and obligation were as follows as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
(in percentage)	**Pension benefits**	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit cost						
Discount rate	**5.40%**	**5.40%**	5.64%	5.74%	n/a	n/a
Expected long-term rate of return on plan assets	**6.89%**	**n/a**	7.00%	n/a	n/a	n/a
Rate of compensation increase	**3.72%**	**3.50%**	3.73%	3.50%	n/a	n/a
Inflation rate	**2.61%**	**n/a**	2.71%	n/a	n/a	n/a
Ultimate health care cost trend rate	**n/a**	**5.00%**	n/a	5.00%	n/a	n/a
Benefit obligation						
Discount rate	**4.44%**	**4.25%**	5.40%	5.40%	5.64%	5.74%
Rate of compensation increase	**3.71%**	**3.50%**	3.72%	3.50%	3.73%	3.50%
Inflation rate	**2.24%**	**n/a**	2.61%	n/a	2.71%	n/a
Ultimate health care cost trend rate	**n/a**	**5.00%**	n/a	5.00%	n/a	5.00%

n/a: Not applicable

During the fourth quarter of the fiscal year ended December 31, 2011, the Corporation changed certain estimates for future discretionary increase in benefits of certain of its defined benefit pension plans. This change resulted in a pre-tax increase of $235 million in the pension benefits liability which was accounted for in OCI in accordance with the Corporation's accounting policy for actuarial gains and losses.

20. RETIREMENT BENEFITS (CONTINUED)

A 0.25 percentage point increase in one of the following actuarial assumptions would have the following effects, all other actuarial assumptions remaining unchanged:

Increase (decrease)	Retirement benefit cost for the year ended December 31, 2011	Net retirement benefit liability as at December 31, 2011
Discount rate	$(12)	$(396)
Expected return on plan asset	$(15)	n/a
Rate of compensation increase	$ 9	$ 89
Inflation rate	$ 8	$ 118

n/a: Not applicable

As at December 31, 2011, the health care cost trend rate for retirement benefits other than pension, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 7.5% and to decrease progressively to 5% by calendar year 2018 and then remain at that level for all participants. A one percentage point change in assumed health care cost trend rates would have the following effects as at December 31, 2011 and for the fiscal year ended December 31, 2011:

	One percentage point increase	One percentage point decrease
Effect on the net retirement benefit liability	$33	$(29)
Effect on the retirement benefit cost	$ 3	$ (2)

Changes in the cumulative amount of net actuarial losses recognized in OCI, and presented as a separate component of retained earnings (deficit), were as follows for the fiscal years ended:

Gains (losses)	
February 1, 2010 - Transition adjustment, net of taxes	$(1,973)[1]
Net actuarial gains	35
Incomes taxes	(40)
January 31, 2011	(1,978)
Net actuarial losses	(1,489)
Incomes taxes	234
December 31, 2011	**$(3,233)**

1 Net of income taxes of $177 million.

As permitted under IFRS 1, the Corporation has not determined the amount of actuarial gains and losses that would have been recognized in OCI prior to the adoption of IFRS on February 1, 2010.

DEFINED CONTRIBUTION PENSION PLANS

The Corporation also offers Canadian and Foreign defined contribution plans covering a portion of its employees. Defined contribution plan formulas are based on a percentage of salary.

Contributions to defined contribution pension plans, which correspond to the benefit cost recognized, amounted to $52 million for the fiscal year ended December 31, 2011 ($50 million for the fiscal year ended January 31, 2011). Contributions to defined contribution pension plans are estimated at $51 million for calendar year 2012.

21 TRADE AND OTHER PAYABLES

Trade and other payables were as follows as at:

	December 31 2011	January 31 2011	February 1 2010
Trade payables	**$2,144**	$2,045	$2,139
Accrued liabilities	**582**	597	543
Interest	**59**	89	56
Other	**425**	342	307
	$3,210	$3,073	$3,045

22 PROVISIONS

Changes in provisions were as follows for the fiscal years ended:

	Product warranties	Credit and residual value guarantees	Restructuring	Other[1]	Total
Balance as at January 31, 2011	**$ 1,120**	**$493**	**$ 70**	**$ 129**	**$ 1,812**
Additions	**485**	**–**	**32**	**23**	**540**
Utilization	**(437)**	**(60)**	**(37)**	**(16)**	**(550)**
Reversals	**(59)**	**(27)**	**(26)**	**(29)**	**(141)**
Accretion expense	**1**	**16**	**–**	**1**	**18**
Effect of changes in discount rates	**1**	**34**	**–**	**1**	**36**
Effect of foreign currency exchange rate changes	**(38)**	**–**	**(1)**	**(4)**	**(43)**
Balance as at December 31, 2011	**$ 1,073**	**$456**	**$ 38**	**$ 105**	**$ 1,672**
Of which current	**$ 929**	**$ 52**	**$ 33**	**$ 64**	**$ 1,078**
Of which non-current	**144**	**404**	**5**	**41**	**594**
	$ 1,073	**$456**	**$ 38**	**$ 105**	**$ 1,672**
Balance as at February 1, 2010	$ 1,009	$536	$ 82	$ 188	$ 1,815
Additions	460	12	38	59	569
Utilization	(299)	(42)	(35)	(80)	(456)
Reversals	(83)	(31)	(16)	(38)	(168)
Accretion expense	4	20	–	1	25
Effect of changes in discount rates	3	(2)	–	–	1
Effect of foreign currency exchange rate changes	26	–	1	(1)	26
Balance as at January 31, 2011	$ 1,120	$493	$ 70	$ 129	$ 1,812
Of which current	$ 985	$ 85	$ 64	$ 64	$ 1,198
Of which non-current	135	408	6	65	614
	$ 1,120	$493	$ 70	$ 129	$ 1,812

1 Includes litigations and claims, as well as environmental liabilities.

23 LONG-TERM DEBT

Long-term debt was as follows as at:

						December 31 2011	January 31 2011	February 1 2010
	Amount in currency of origin C2011/ 2011/2010	Currency	Interest rate Contractual C2011/ 2011/2010[1,2]	Interest rate After effect of fair value hedges	Maturity	Amount	Amount	Amount
Senior notes	nil/nil/679	EUR	nil/nil/3.90%[3]	n/a	n/a	**$ –**	$ –	$ 933
	nil/nil/385	USD	8.00%	3-month Libor + 2.91	n/a	**–**	–	429
	785	EUR	7.25%	3-month Libor + 4.83	Nov. 2016	**1,146**	1,152	1,128
	650/ 650/nil	USD	7.50%	3-month Libor + 4.19	Mar. 2018	**714**	660	–
	850/ 850/nil	USD	7.75%	3-month Libor + 4.14	Mar. 2020	**962**	864	–
	780/ 780/nil	EUR	6.13%	3-month Euribor + 2.87	May 2021	**1,082**	1,042	–
Notes	151/ 151/550	USD	6.75%	3-month Libor + 2.26	May 2012	**153**	158	585
	162/162/ 500	USD	6.30%	3-month Libor + 1.59	May 2014	**176**	178	546
	250	USD	7.45%	n/a	May 2034	**247**	247	247
Debentures	150	CAD	7.35%	n/a	Dec. 2026	**146**	149	139
Other[4]	315/ 212/138[5]	Various	4.39%/ 5.54%/7.42%	n/a	2012-2026	**315**	212	138
						$ 4,941	$ 4,662	$ 4,145
Of which current[6]						**$ 193**	$ 17	$ 11
Of which non-current						**4,748**	4,645	4,134
						$ 4,941	$ 4,662	$ 4,145

1 As at December 31, 2011, the contractual interest rates are fixed, except for a portion of our other long-term debts which are variable.
2 For variable-rate debt, the interest rate represents the average rate for the fiscal year. Interest on long-term debt as at December 31, 2011 is payable semi-annually, except for the other debts for which the timing of interest payments is variable.
3 Floating rate Senior notes.
4 Includes obligations under finance leases.
5 Amounts are expressed in U.S. dollars.
6 See note 24 – Other financial liabilities.
n/a: Not applicable
C2011 refers to December 31, 2011, 2011 refers to January 31, 2011, and 2010 refers to February 1, 2010.

All Senior notes and notes rank pari-passu and are unsecured.

23. LONG-TERM DEBT (CONTINUED)

The carrying value of long-term debt includes principal repayments, transaction costs, unamortized discounts and the basis adjustments related to derivatives designated in fair value hedge relationships. The following table presents the contractual principal repayments of the long-term debt:

	December 31, 2011	January 31, 2011	February 1, 2010
Within one year	**$ 189**	$ 17	$ 11
Between one and five years	**1,360**	404	2,414
More than five years	**3,001**	4,151	1,570
	$4,550	$4,572	$3,995

24 OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Derivative financial instruments[1]	**$ 344**	$ 677	$ 441
Government refundable advances	**317**	284	238
Current portion of long-term debt[2]	**193**	17	11
Sale and leaseback obligations	**163**	216	179
Lease subsidies[3]	**140**	161	196
Vendor non-recurring costs	**13**	15	9
Other	**64**	22	21
	$1,234	$1,392	$1,095
Of which current	**$ 732**	$ 860	$ 537
Of which non-current	**502**	532	558
	$1,234	$1,392	$1,095

1 See note 12 – Financial instruments.
2 See note 23 – Long-term debt.
3 The amount contractually required to be paid is $158 million as at December 31, 2011 ($215 million as at January 31, 2011, and $228 million as at February 1, 2010).

SALE AND LEASEBACK OBLIGATIONS

The Corporation has set up sale and leaseback facilities, which may be used to sell pre-owned business aircraft. For accounting purposes, amounts outstanding under these arrangements are considered financial obligations secured by the pre-owned business aircraft. The arrangements are generally for a term no longer than 24 months. The Corporation may settle the obligation at any time during the arrangement.

25 OTHER LIABILITIES

Other liabilities were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Accruals for long-term contract costs	**$ 816**	$ 796	$ 675
Employee benefits[1]	**672**	714	544
Supplier contributions to aerospace programs	**348**	314	150
Income and other taxes payable	**216**	166	203
Flexjet fractional ownership deferred revenues	**212**	196	306
Deferred income taxes[2]	**67**	53	65
Other	**769**	832	620
	$3,100	$3,071	$2,563
Of which current	**$2,198**	$2,163	$1,987
Of which non-current	**902**	908	576
	$3,100	$3,071	$2,563

1 Comprised of all employee benefits excluding those related to retirement benefits, which are reported under retirement benefits (see note 20 – Retirement benefits).
2 See note 10 – Income taxes.

26 SHARE CAPITAL

PREFERRED SHARES

The preferred shares authorized and issued and fully paid were as follows as at December 31, 2011, January 31, 2011 and February 1, 2010:

	Authorized for the specific series	**Issued and fully paid**
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,464,920
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,535,080
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

Series 2 Cumulative Redeemable Preferred Shares	
Redemption:	Redeemable, at the Corporation's option, at $25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than $24.90 Cdn per share or more than $25.10 Cdn per share.

26. SHARE CAPITAL (CONTINUED)

Series 3 Cumulative Redeemable Preferred Shares	
Redemption:	Redeemable, at the Corporation's option, at $25.00 Cdn per share on August 1, 2012 and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one for one basis, at the option of the holder, on August 1, 2012 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2007 and including July 31, 2012, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.267% or $1.31675 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.32919 Cdn, if declared. For each succeeding five year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

Series 4 Cumulative Redeemable Preferred Shares	
Redemption:	The Corporation may, subject to certain provisions, on not less than 30 nor more than 60 days' notice, redeem for cash the Series 4 Cumulative Redeemable Preferred Shares at $25.00 Cdn if redeemed on or after March 31, 2011.
Conversion:	The Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of $2.00 Cdn and 95% of the weighted average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or $1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.390625 Cdn per share.

COMMON SHARES

All common shares are without nominal or par value.

Class A Shares (Multiple Voting)	
Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

26. SHARE CAPITAL (CONTINUED)

Class B Shares (Subordinate Voting)	
Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.
Dividend:	Annual non-cumulative preferential dividend of $0.0015625 Cdn per share, in priority to the Class A Shares (Multiple Voting), payable quarterly on the last day of March, June, September and December of each year at a rate of $0.000390625 Cdn per share, if declared.

The change in the number of common shares issued and fully paid, and in the number of common shares authorized, was as follows as at:

CLASS A SHARES (MULTIPLE VOTING)

	December 31, 2011	January 31, 2011
Issued and fully paid		
Balance at beginning of year	**316,109,537**	316,231,937
Converted to Class B	**(1,572,300)**	(122,400)
Balance at end of year	**314,537,237**	316,109,537
Authorized	**1,892,000,000**	1,892,000,000

CLASS B SHARES (SUBORDINATE VOTING)

	December 31, 2011	January 31, 2011
Issued and fully paid		
Balance at beginning of year	**1,436,997,894**	1,438,517,706
Issuance of shares	**2,112,862**	1,357,788
Repurchase of shares	**(2,006,000)**	(3,000,000)
Converted from Class A	**1,572,300**	122,400
	1,438,677,056	1,436,997,894
Held in trust under the PSU plan		
Balance at beginning of year	**(27,459,674)**	(25,098,637)
Purchased	**(8,275,000)**	(10,539,000)
Distributed	**6,413,195**	8,177,963
Balance at end of year	**(29,321,479)**	(27,459,674)
Balance at end of year	**1,409,355,577**	1,409,538,220
Authorized	**1,892,000,000**	1,892,000,000

During the fiscal year ended December 31, 2011, 2,006,000 Class B Shares (Subordinate Voting) were repurchased and cancelled in connection with the DSU plan, for a total amount of $14 million (3,000,000 Class B Shares [Subordinate Voting] and $16 million during the fiscal year ended January 31, 2011).

26. SHARE CAPITAL (CONTINUED)

DIVIDENDS

Dividends declared were as follows:

	Dividend declared for the fiscal years ended				Dividend declared after	
	December 31, 2011		January 31, 2011		December 31, 2011	
	Per share (Cdn$)	Total (in millions of U.S.$)	Per share (Cdn$)	Total (in millions of U.S.$)	Per share (Cdn$)	Total (in millions of U.S.$)
Class A common shares	**0.10**	**$ 32**	0.10	$ 31	0.03	$ 7
Class B common shares	**0.10**	**147**	0.10	142	0.03	36
		179		173		43
Series 2 preferred shares	**0.69**	**7**	0.66	6	0.13	1
Series 3 preferred shares	**1.32**	**3**	1.32	3	0.33	1
Series 4 preferred shares	**1.56**	**15**	1.56	15	0.39	4
		25		24		6
		$ 204		$197		$49

27 SHARE-BASED PLANS

PSU AND DSU PLANS

The Board of Directors of the Corporation approved a PSU plan under which PSUs may be granted to executives and other designated employees. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting). The Board of Directors of the Corporation has also approved a DSU plan under which DSUs may be granted to senior officers. The DSU plan is similar to the PSU plan, except that their exercise can only occur upon retirement or termination of employment. During the fiscal year ended December 31, 2011, a combined total of 8,835,000 PSUs and DSUs were authorized for issuance (a combined total of 10,576,000 PSUs and DSUs during the fiscal year ended January 31, 2011).

The number of PSUs and DSUs has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	PSU	DSU	PSU	DSU
Balance at beginning of year	**18,225,184**	**2,966,000**	15,888,267	1,124,000
Granted	**6,824,306**	**1,562,000**	8,181,500	1,842,000
Performance adjustment	**1,156,478**	**–**	2,725,988	–
Exercised	**(6,413,195)**	**–**	(8,177,963)	–
Cancelled	**(643,769)**	**(161,000)**	(392,608)	–
Balance at end of year	**19,149,004**	**4,367,000**	18,225,184	2,966,000

PSUs and DSUs granted will vest if a financial performance threshold is met. The conversion ratio for vested PSUs and DSUs ranges from 70% to 150%. PSUs and DSUs generally vest three years following the grant date if the financial performance thresholds are met. For grants issued between February 1, 2009 and December 31, 2011, the vesting dates range from June 10, 2012 to June 10, 2014.

The weighted-average grant date fair value of PSUs and DSUs granted during the fiscal year ended December 31, 2011 was $7.04 ($4.31 during the fiscal year ended January 31, 2011). The fair value of each PSU and DSU granted was measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange and is based on the PSUs and DSUs that are expected to vest.

27. SHARE-BASED PLANS (CONTINUED)

The Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (Subordinate Voting) of the Corporation in the open market (see note 26–Share capital) in connection with the PSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of $31 million was recorded during the fiscal year ended December 31, 2011 with respect to the PSU and DSU plans ($39 million during the fiscal year ended January 31, 2011).

SHARE OPTION PLANS

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 70,135,175 were available for issuance under these share option plans as at December 31, 2011.

Current share option plan– Effective June 1, 2009, the Corporation amended the share option plan for key employees for options granted after this date. The most significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted.
- The options vest at the expiration of the third year following the grant date.
- The options terminate no later than seven years after the grant date.

The summarized information on the current share option plan is as follows as at December 31, 2011:

		Issued and outstanding	
Exercise price range (Cdn$)	**Number of options**	**Weighted-average remaining life (years)**	**Weighted-average exercise price (Cdn$)**
2 to 4	2,435,983	4.44	3.45
4 to 6	3,805,000	5.45	4.72
6 to 8	3,484,000	6.44	7.01
	9,724,983		

The number of options issued and outstanding under the current share option plan has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**6,388,414**	**4.22**	2,580,000	3.45
Granted	**3,598,000**	**6.99**	3,870,000	4.72
Cancelled	**(261,431)**	**5.13**	(61,586)	3.45
Balance at end of year	**9,724,983**	**5.22**	6,388,414	4.22
Options exercisable at end of year	**–**	**–**	–	–

Performance share option plan– For options issued to key employees after May 27, 2003, and before June 1, 2009, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted. These options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective. The options terminate no later than seven years after the grant date. As at December 31, 2011, target prices ranged between $4 Cdn and $11 Cdn.

27. SHARE-BASED PLANS (CONTINUED)

The summarized information on the performance share option plan is as follows as at December 31, 2011:

	Issued and outstanding				Exercisable	
Exercise price range (Cdn$)	Number of options	Weighted-average target price (Cdn$)	Weighted-average remaining life (Cdn$)	Weighted-average exercise price (Cdn$)	Number of options	Weighted-average exercise price (Cdn$)
2 to 4	5,712,725	4.41	1.09	2.98	5,637,725	2.99
4 to 6	4,805,938	6.01	2.45	5.50	4,785,938	5.50
6 to 8	90,000	8.00	3.46	7.90	67,500	7.90
8 to 10	5,189,200	8.00	3.44	8.53	3,891,900	8.53
	15,797,863				14,383,063	

The weighted average share price of options exercised during the fiscal year ended December 31, 2011 was $6.70 ($5.13 during the fiscal year ended January 31, 2011).

The number of options has varied as follows for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Number of options	Weighted-average exercise price (Cdn$)	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**26,497,775**	**5.06**	31,254,075	4.90
Exercised	**(2,112,862)**	**3.11**	(1,357,788)	3.32
Cancelled	**(630,550)**	**6.44**	(860,000)	5.04
Expired	**(7,956,500)**	**4.40**	(2,538,512)	3.99
Balance at end of year	**15,797,863**	**5.60**	26,497,775	5.06
Options exercisable at end of year	**14,383,063**	**5.35**	14,240,338	4.75

Prior share option plans – For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options are all vested, and terminate no later than 10 years after the grant date.

The number of options issued, outstanding and exercisable amounted to 1,727,000 as at December 31, 2011, and the exercise prices of these options range from $12 Cdn to $15 Cdn with a weighted-average remaining life of 0.23 years and a weighted-average exercise price of $14.58 Cdn (1,828,000 options and $14.58 Cdn as at January 31, 2011 and 2,143,000 options and $14.58 Cdn as at February 1, 2010). For options ranging from $15 Cdn to $25 Cdn, the number of options issued, outstanding and exercisable amounted to 1,197,000 and $21.63 Cdn as at January 31, 2011 and 3,024,000 options and $20.45 Cdn as at February 1, 2010).

The number of options cancelled and expired amounted to 111,000 and 1,187,000 with a weighted-average exercise price of $15.08 Cdn and $21.64 Cdn, respectively, for the fiscal year ended December 31, 2011 (260,500 and 1,881,500 options and $14.26 Cdn and $19.57 Cdn for the fiscal year ended January 31, 2011).

27. SHARE-BASED PLANS (CONTINUED)

SHARE-BASED COMPENSATION EXPENSE FOR OPTIONS

The weighted-average grant date fair value of stock options granted during the fiscal year ended December 31, 2011 was $2.43 per option ($1.63 per option for the fiscal year ended January 31, 2011). The fair value of each option granted was determined using a modified Black-Scholes option pricing model, which incorporates target prices related to the performance share option plan in the fair value calculation for options issued before June 1, 2009, the share price at the grant date, and the following weighted-average assumptions for the fiscal years ended:

	December 31, 2011	January 31, 2011
Risk-free interest rate	**2.21%**	2.65%
Expected life	**5 years**	5 years
Expected volatility in market price of shares	**44.53%**	48.04%
Expected dividend yield	**1.81%**	2.09%

A compensation expense of $7 million was recorded during the fiscal year ended December 31, 2011 with respect to share option plans ($8 million during the fiscal year ended January 31, 2011).

EMPLOYEE SHARE PURCHASE PLAN

Under the employee share purchase plan, employees of the Corporation are eligible to purchase Class B Shares (Subordinate Voting) of the Corporation up to a maximum of 20% of their base salary to a yearly maximum of $30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to $7 million for the fiscal year ended December 31, 2011 ($6 million for the fiscal year ended January 31, 2011). Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

28 NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

Net change in non-cash balances related to operations was as follows for the fiscal years ended:

	December 31, 2011	January 31, 2011
Trade and other receivables	**$ (87)**	$(190)
Inventories	**(148)**	303
Other financial assets and liabilities, net	**(193)**	26
Other assets	**(8)**	(43)
Trade and other payables	**156**	(32)
Provisions	**(97)**	(28)
Advances and progress billings in excess of related long-term contract inventories	**(422)**	392
Advances on aerospace programs	**(128)**	(247)
Retirement benefits liability	**(178)**	(209)
Other liabilities	**77**	485
	$(1,028)	$ 457

29 CREDIT FACILITIES

LETTER OF CREDIT FACILITIES

In May 2011 and June 2011, the Corporation renewed the BT and the BA letter of credit facilities, respectively. The letter of credit facilities and their maturities were as follows as at:

	Amount committed	Letters of credit issued	Amount available	Maturity (calendar year)
December 31, 2011				
BT facility	**$4,399[1]**	**$3,805**	**$ 594**	**2016[2]**
BA facility	**600**	**264**	**336**	**2014[3]**
PSG facility	**900**	**318**	**582**	**2012[4]**
	$5,899	**$4,387**	**$1,512**	
January 31, 2011				
BT facility	$5,212[1]	$3,633	$1,579	2013
BA facility	600	211	389	2011
PSG facility	900	352	548	2011[4]
	$6,712	$4,196	$2,516	
February 1, 2010				
BT facility	$5,201[1]	$3,921	$1,280	2013
BA facility	600	484	116	2011
PSG facility	900	377	523	2010[4]
	$6,701	$4,782	$1,919	

1 €3,400 million as at December 31, 2011 (€3,800 million as at January 31, 2011 and €3,750 million as at February 1, 2010).
2 The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment amount of the facility, plus a two-year amortizing period during which new letters of credit cannot be issued. The final maturity date of the facility is May 2016. The facility can be extended in May 2012 and May 2013 each for an additional year subject to approval by a majority of the bank syndicate members.
3 The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment of the facility. The facility can be extended annually on the anniversary date for an additional year subject to approval by a majority of the bank syndicate members.
4 The performance security guarantee facility ("PSG facility") is renewed and extended annually if mutually agreed. In June 2011, the facility was extended until June 2012 and is intended to be renewed in annual increments thereafter. If the facility is not extended, the letters of credit issued under this facility will amortize over their maturity.

In addition to the outstanding letters of credit shown in the above table, letters of credit of $753 million were outstanding under various bilateral agreements as at December 31, 2011 ($708 million as at January 31, 2011 and $453 million as at February 1, 2010).

The Corporation also uses numerous bilateral facilities with insurance companies to support BT's operations. An amount of $2.1 billion was outstanding under such facilities as at December 31, 2011 ($2.0 billion as at January 31, 2011 and $1.5 billion as at February 1, 2010).

REVOLVING CREDIT FACILITY

In June 2011, the Corporation also renewed its unsecured revolving credit facility, increasing the amount available from $500 million to $750 million. The $750-million unsecured revolving credit facility matures in June 2014 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar drawing) plus a margin based on the Corporation's credit ratings. This facility is available for cash drawings for the general working capital needs of the Corporation and the unsecured revolving credit facilities were unused since their inception.

FINANCIAL COVENANTS

The Corporation is subject to various financial covenants under its BA and BT letter of credit facilities and its revolving credit facility, which must be met on a quarterly basis. The BA letter of credit and revolving credit facilities include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio all calculated based on an adjusted consolidated basis i.e. excluding BT. The BT financial covenants require minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on BT standalone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics as described in note 30 – Capital management or to the specific terms used in the MD&A.

29. CREDIT FACILITIES (CONTINUED)

In addition, the Corporation must maintain a minimum BT liquidity of €600 million ($776 million) at the end of each calendar quarter and a minimum BA liquidity of $500 million at the end of each fiscal quarter. These conditions were all met as at December 31, 2011, January 31, 2011 and February 1, 2010.

The Corporation regularly monitors these ratios to ensure it meets all financial covenants, and has controls in place to ensure that contractual covenants are met.

INVESTED COLLATERAL

These investments were used as collateral for the previous €3.8-billion ($5.2-billion) BT letter of credit facility and for the previous $600-million BA letter of credit facility. Under the BA and BT letter of credit facilities, invested collateral is no longer required. As a result, the invested collateral required under the previous letter in credit facilities, amounting to €406 million ($584 million) for BT and $121 million for BA, has been released leading to an increase of liquidity during the fiscal year ended December 31, 2011. Invested collateral consisted mainly of bonds (government and agency notes and bonds, corporate bonds and covered bonds), commercial paper and certificates of deposit, held with a custodian.

30 CAPITAL MANAGEMENT

The Corporation's capital management strategy is designed to maintain strong liquidity and to optimize its capital structure in order to reduce costs and improve its ability to seize strategic opportunities. The Corporation analyzes its capital structure using global metrics, which are based on a broad economic view of the Corporation. The Corporation manages and monitors its global metrics such that it can achieve an investment-grade profile.

The Corporation adjusted its global metrics to align them to those that the Corporation's believe should be used to assess its creditworthiness and to reflect the new accounting rules under IFRS:

- Adjusted debt now includes the sale and leaseback obligation, as this obligation is recognized on the consolidated statements of financial position under IFRS. In addition, adjusted debt now excludes:
  - the fair value of derivatives designated in fair value hedge relationships, as such derivatives are related to our interest rate hedging program (i.e. they do not represent a principal repayment obligation); and
  - the net retirement benefit liability which is now monitored separately from our global metrics (see below).
- Adjusted interest was redefined to include interest paid (as per the supplemental information provided in the consolidated statements of cash flows), an interest adjustment for operating leases and accretion expense on sale and leaseback obligations.

Furthermore, the Corporation no longer monitors the capitalization metric as such metrics have become less relevant, in particular in the context of the volatile equity measurement that arises under IFRS.

The Corporation's objectives with regard to its global metrics are as follows:

- adjusted EBIT to adjusted interest ratio greater than 5.0; and
- adjusted debt to adjusted EBITDA ratio lower than 2.5.

Global metrics – The following global metrics do not represent the ratios required for bank covenants. A reconciliation of the global metrics to the most comparable IFRS financial measures are provided in the Non-GAAP financial measures section of the MD&A for the fiscal year ended December 31, 2011.

GLOBAL METRICS

	December 31, 2011	January 31, 2011
Adjusted EBIT[1]	**$1,271**	$1,262
Adjusted interest[2]	**$ 271**	$ 251
Adjusted EBIT to adjusted interest ratio	**4.7**	5.0
Adjusted debt[3]	**$5,311**	$5,296
Adjusted EBITDA[4]	**$1,657**	$1,683
Adjusted debt to adjusted EBITDA ratio[5]	**3.2**	3.1

1 Represents EBIT plus interest adjustment for operating leases, and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
2 Represents interest paid (as per the supplemental information provided in the consolidated statements of cash flows), plus accretion expense on sale and leaseback obligations and interest adjustments for operating leases.
3 Represents long-term debt adjusted for the fair value of derivatives designated in fair value hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.
4 Represents EBITDA plus amortization and interest, adjusted for operating leases, and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of derivatives before their contractual maturity dates).
5 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

In addition to the above global level metrics, the Corporation separately monitors its net retirement benefit liability which amounted to $3,213 million as at December 31, 2011 ($1,946 million as at January 31, 2011). The measurement of this liability is dependent on numerous key long-term assumptions such as those regarding future compensation increases, inflation rates, mortality rates and current discount rates. In recent years, this liability has been particularly volatile due to changes in discount rates. Such volatility is exacerbated by the long-term nature of the obligation. For example, discount rates have reached an historical low during the fiscal year ended December 31, 2011 resulting in a net retirement benefit liability increase of $1.5 billion. The Corporation closely monitors the impact of the net retirement benefit liability on its future cash flows and has introduced significant risk mitigation initiatives in recent years in this respect. For details on the increase in the net benefit retirement liability due to changes in discount rate assumptions and risk mitigation initiatives, see the Retirement benefits section of the MD&A.

In order to adjust its capital structure, the Corporation may issue or reduce long-term debt, make discretionary contributions to pension funds, repurchase or issue share capital, or vary the amount of dividends paid to shareholders.

See note 29 – Credit facilities for a description of bank covenants.

31 FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

Credit risk	Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Liquidity risk	Risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.
Market risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to foreign exchange risk and interest rate risk.

CREDIT RISK

The Corporation is exposed to credit risk through its normal treasury activities on its derivative financial instruments and other investing activities. The Corporation is also exposed to credit risk through its trade receivables arising from its normal commercial activities. Credit exposures arising from lending activities relate primarily to aircraft loans and lease receivables provided to BA customers in connection with the sale of aircraft.

The effective monitoring and controlling of credit risks is a key component of the Corporation's risk management activities. Credit risks arising from the treasury activities are managed by a central treasury function in accordance with the Corporate Foreign Exchange Risk Management Policy and Corporate Investment Management Policy (the "Policy"). The objective of the policy is to minimize the Corporation's exposure to credit risk from its treasury activities by ensuring that the Corporation transacts strictly with investment-grade financial institutions and rated money market funds based on pre-established consolidated counterparty risk limits per financial institution and funds.

Credit risks arising from the Corporation's normal commercial activities, lending activities and under indirect financing support are managed and controlled by the two manufacturing segments, BA and BT. The main credit exposure managed by the segments arises from customer credit risk. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and the Corporation's experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customer's financial results and payment behaviour.

These customer credit risk assessments and credit limits are critical inputs in determining the conditions under which credit or financing will be offered to customers, including obtaining collateral to reduce the Corporation's exposure to losses. Specific governance is in place to ensure that financial risks arising from large transactions are analyzed and approved by the appropriate management level before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure. Various accounting and reporting systems are used to monitor trade receivables, lease receivables and other direct financings.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maximum exposure to credit risk – The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in note 12 – Financial instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Aircraft loans and lease receivables	**$432**	$397	$279
Derivative financial instruments	**$523**	$501	$450
Investment in securities	**$341**	$325	$279
Investment in financing structures	**$192**	$205	$204

Credit quality – The credit quality, using external and internal credit rating systems, of financial assets that are neither past due nor impaired is usually investment grade, except for BA receivables and aircraft loans and lease receivables and servicing fees. BA receivables are usually not externally or internally quoted, however the credit quality of customers is dynamically reviewed and is based on the Corporation's experience with the customers and payment behaviour. The Corporation usually holds underlying assets or security deposits as collateral or letters of credit for the receivables. The Corporation's customers for aircraft loans and lease receivables are mainly regional airlines with a credit rating below investment grade. The credit quality of the Corporation's aircraft loans and lease receivables portfolio is strongly correlated to the credit quality of the regional airline industry. The financed aircraft is used as collateral to reduce the Corporation's exposure to credit risk.

Refer to note 35 – Commitment and Contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

LIQUIDITY RISK

The Corporation manages liquidity risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows, which is achieved through a detailed forecast of the Corporation's liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is continually monitored, taking into consideration historical volatility and seasonal needs, the maturity profile of indebtedness, access to capital markets, the level of customer advances, working capital requirements and the funding of product developments and other financial commitments. The Corporation also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility.

Maturity analysis – The maturity analysis of financial assets and financial liabilities, excluding derivative financial instruments, was as follows as at December 31, 2011:

	Carrying amount	Undiscounted cash flows (before giving effect to the related hedging instruments)						
		Less than 1 year	**1 to 3 years**	**3 to 5 years**	**5 to 10 years**	**Over 10 years**	**With no specific maturity**	**Total**
Cash and cash equivalents	$3,372	$3,372	$ –	$ –	$ –	$ –	$ –	$ 3,372
Trade and other receivables	$1,408	1,375	21	–	–	–	12	1,408
Other financial assets[1]	$1,283	170	204	136	324	623	92	1,549
Assets		4,917	225	136	324	623	104	6,329
Trade and other payables	$3,210	3,010	27	2	17	–	154	3,210
Other financial liabilities[1]	$ 697	291	83	153	228	141	–	896
Long-term debt								
Principal	$4,941	189	242	1,118	2,586	415	–	4,550
Interest		293	574	564	738	294	–	2,463
Liabilities		3,783	926	1,837	3,569	850	154	11,119
Net amount		$1,134	$(701)	$(1,701)	$(3,245)	$(227)	$ (50)	$ (4,790)

1 The carrying amount of other financial assets excludes the carrying amount of derivative financial instruments and the carrying amount of other financial liabilities excludes the carrying amount of derivative financial instruments and the current portion of long-term debt.

Other financial liabilities include government refundable advances. Under the respective agreements, the Corporation is required to pay amounts to governments at the time of the delivery of aircraft. Due to uncertainty about the number of aircraft to be delivered and the timing of delivery of aircraft, the amounts shown in the table above may vary.

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows as at December 31, 2011:

	Nominal value (USD equivalent)	Undiscounted cash flows[2]					
		Less than 1 year	**1 year**	**2 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Derivative financial assets							
Forward foreign exchange contracts	$ 9,884	$ 203	$ 21	$ –	$ –	$ –	$ 224
Interest-rate derivatives	2,822	65	73	106	50	18	312
	$12,706	$ 268	$ 94	$106	$ 50	$18	$ 536
Derivative financial liabilities							
Forward foreign exchange contracts	$ 9,955	$(267)	$ (40)	$ –	$ –	$ –	$(307)
Interest-rate derivatives	1,016	10	11	13	(72)	–	(38)
	$10,971	$(257)	$ (29)	$ 13	$(72)	$ –	$(345)

2 Amounts denominated in foreign currency are translated at the period end exchange rate.

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

MARKET RISK

Foreign exchange risk

The Corporation is exposed to significant foreign exchange risks in the ordinary course of business through its international operations, in particular to the Canadian dollar, pound sterling and euro. The Corporation employs various strategies, including the use of derivative financial instruments and by matching asset and liability positions, to mitigate these exposures.

The Corporation's main exposures to foreign currencies are managed by the segments and covered by a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's Foreign Exchange Risk Management Policy (the "FX Policy"). The objective of the FX Policy is to mitigate the impact of foreign exchange movements on the Corporation's consolidated financial statements. Under the FX Policy, potential losses from adverse movements in foreign exchange rates should not exceed pre-set limits. Potential loss is defined as the maximum expected loss that could occur if an unhedged foreign currency exposure was exposed to an adverse change of foreign exchange rates over a one-quarter period. The FX Policy also strictly prohibits any speculative foreign exchange transactions that would result in the creation of an exposure in excess of the maximum potential loss approved by the Board of Directors of the Corporation.

Under the FX Policy, it is the responsibility of the segments' management to identify all actual and potential foreign exchange exposures arising from their operations. This information is communicated to the central treasury group, which has the responsibility to execute the hedge transactions in accordance with the FX Policy.

In order to properly manage their exposures, each segment maintains long-term cash flow forecasts in each currency. BA has adopted a progressive hedging strategy while BT hedges all its identified foreign currency exposures to limit the effect of currency movements on their results. The segments also mitigate foreign currency risks by maximizing transactions in their functional currency for their operations such as material procurement, sale contracts and financing activities.

In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching the long-term debt in foreign currency with long-term assets denominated in the same currency.

The Corporation mainly uses forward foreign exchange contracts to manage the Corporation's exposure from transactions in foreign currencies and to synthetically modify the currency of exposure of certain balance sheet items. The Corporation applies hedge accounting for a significant portion of anticipated transactions and firm commitments denominated in foreign currencies, designated as cash flow hedges. Notably, the Corporation enters into forward foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments.

The Corporation's foreign currency hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates on the hedged item.

Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in foreign currencies. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments recorded in its statement of financial position. The following impact on EBT for the fiscal year ended December 31, 2011, is before giving effect to cash flow hedge relationships.

						Effect on EBT
		CAD/USD	GBP/USD	EUR/USD	EUR/SEK	Other
Gain (loss)	+10%	$21	$(3)	$14	$25	$19

The following impact on OCI for the fiscal year ended December 31, 2011 is for derivatives designated in a cash flow hedge relationship. For derivatives that qualify for hedge accounting, any change in fair value is mostly offset by the re-measurement of the underlying exposure.

						Effect on OCI before income taxes
	Variation	CAD/USD	GBP/USD	EUR/USD	EUR/SEK	Other
Gain (loss)	+10%	$190	$4	$49	$29	$74

Interest rate risk

The Corporation is exposed to fluctuations in its future cash flows arising from changes in interest rates through its variable-rate financial assets and liabilities including long-term debt synthetically converted to variable interest rates (see note 23 – Long-term debt). The Corporation is exposed from time to time to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer in the future. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by a central treasury function as part of an overall risk management policy, by matching asset and liability positions, including the use of financial instruments, such as interest-rate swap agreements. Derivative financial instruments used to synthetically convert interest-rate exposures consist mainly of interest-rate swap agreements, cross currency interest-rate swap agreements and interest-rate cap agreements.

In addition, the Corporation is exposed to gains and losses arising from changes in interest rates, which includes marketability risk, through its financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, investments in securities, lease subsidies and certain derivative financial instruments.

The Corporation's interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity to ensure proper assets/liabilities management matching, consistent with the objective to reduce risks arising from interest rates movements.

Sensitivity analysis

The interest rate risk primarily relates to financial instruments carried at fair value. Assuming a 100-basis point increase in interest rates impacting the measurement of these financial instruments, excluding derivative financial instruments in a hedge relationship, as of December 31, 2011 and January 31, 2011, the impact on EBT would have been a negative adjustment of $52 million for December 31, 2011 ($69 million for January 31, 2011).

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value amounts disclosed in these consolidated financial statements represent the Corporation's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which the Corporation has immediate access. However, there is no active market for most of the Corporation's financial instruments. 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 and discounted cash flow models. Fair value determined using valuation models requires 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, generic industrial bond spreads and marketability risk. In determining these assumptions, the Corporation uses primarily external, readily observable market inputs, including factors such as interest rates, credit ratings, credit spreads, default probability, 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. These calculations represent management's best estimates based on a range of methods and assumptions. Since they are based on estimates, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

METHODS AND ASSUMPTIONS

The methods and assumptions used to measure the fair value are as follows:

Financial instruments whose carrying value approximates fair value – The fair values of trade and other receivables, certain aircraft loans and lease receivables, restricted cash, trade and other payables, and sales and leaseback obligations measured at amortized cost, approximate their carrying value due to the short-term maturities of these instruments or because they bear variable interest rates or because the terms and conditions are comparable to current market terms and conditions for similar items.

Aircraft loans and lease receivables designated as FVTP&L – The Corporation uses an internal valuation model based on stochastic simulations and discounted cash flow analysis to estimate the fair value. The fair value is calculated using market data for interest rates, published credit ratings when available, yield curves and default probabilities. The Corporation uses market data to determine the marketability adjustments and also uses internal assumption to take into account factors that market participants would consider when pricing these financial assets. The Corporation also uses internal assumptions to determine the credit risk of customers without published credit rating. In addition, the Corporation uses aircraft residual value curves reflecting the specific factors of the current aircraft market.

Lease subsidies – The Corporation uses an internal valuation model based on stochastic simulations to estimate the fair value of lease subsidies incurred in connection with the sale of commercial aircraft. The fair value is calculated using market data for interest rates, published credit ratings when available, default probabilities from rating agencies and the Corporation's credit spread. The Corporation also uses internal assumptions to determine the credit risk of customers without a published credit rating.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments – The fair value of derivative financial instruments generally reflects the estimated amounts that the Corporation would receive to sell favourable contracts i.e. taking into consideration the counterparty credit risk, or pays to transfer unfavourable contracts i.e. taking into consideration the Corporation's credit risk, at the reporting dates. The Corporation uses discounted cash flow analyses and market data to estimate the fair value of forward agreements and interest-rate derivatives. The fair value is calculated using market data such as interest rates, credit spreads and foreign exchange spot rates.

The Corporation uses an option-adjusted spread model to estimate the fair value of the call feature on long-term debt, using market data such as interest-rate swap curves and external quotations.

Long-term debt – The fair value of long-term debt is estimated using public quotations or discounted cash flow analyses, based on the current corresponding borrowing rate for similar types of borrowing arrangements.

Government refundable advances and Vendor non-recurring costs – The Corporation uses discounted cash flow analyses to estimate the fair value. The fair value is calculated using market data for interest rates and credit spreads.

FAIR VALUE HIERARCHY

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis categorized using the fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs from observable markets other than quoted prices included in Level 1, including indirectly observable data (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows as at December 31, 2011:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	$ 440	$ –	$ –	$440
Derivative financial instruments[1]	548	–	548	–
Servicing fees	57	–	–	57
Investment in securities	384[2]	155	229	–
Investment in financing structures	201	–	150	51
	$1,630	$155	$927	$548
Financial liabilities				
Lease subsidies	$ 140	$ –	$ –	$140
Derivative financial instruments[1]	344	–	344	–
	$ 484	$ –	$344	$140

1 Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, and cross-currency interest-rate swap agreements and embedded derivatives.
2 Excludes $15 million of investments held at cost.

Changes in fair value of Level 3 financial instruments were as follows for the fiscal years ended December 31, 2011 and January 31, 2011:

	Aircraft loans and lease receivables	Servicing fees	Investment in financing structures	Lease subsidies
Balance as at February 1, 2010	$280	$48	$30	$(196)
Gains (losses) included in net income	18	2	4	(11)
Issuances	131	–	3	(5)
Settlements	(22)	(1)	–	51
Balance as at January 31, 2011	407	49	37	(161)
Gains (losses) included in net income	41	9	12	1
Issuances	38	–	–	(14)
Settlements	(46)	(1)	2	34
Balance as at December 31, 2011	**$440**	**$57**	**$51**	**$(140)**

Sensitivity to selected changes of assumptions for Level 3 hierarchy

When measuring Level 3 financial instruments at fair value, some assumptions may not be derived from an observable market. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows as at December 31, 2011:

Impact on EBT	Change in carrying value		Change of assumption
Gain (loss)	**Change in fair value recognized in net income during the fiscal year ended December 31, 2011**	**Downgrade the internally assigned credit rating of unrated customers by 1 notch**	**Increase the liquidity risk by 100 bps**
Aircraft loans and lease receivables	$(10)	$(18)	$(28)

33 TRANSACTIONS WITH RELATED PARTIES

The Corporation's related parties are its joint ventures, associates and key management personnel.

JOINT VENTURES AND ASSOCIATES

The Corporation buys and sells products and services on arm's length terms with some of its joint ventures and associates in the ordinary course of business. The following table presents the portion of these transactions that is attributable to the interests of the other venturers, and transactions with associates for the fiscal years ended:

	December 31, 2011		January 31, 2011	
	Joint ventures	**Associates**	Joint ventures	Associates
Sales of products and services, and other income	**$59**	**$218**	$143	$262
Purchase of products and services, and other expenses	**$10**	**$ 95**	$ 12	$ 26

The following table presents the Corporation's outstanding balances with joint ventures and associates as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Joint ventures	**Associates**	Joint ventures	Associates	Joint ventures	Associates
Receivables	**$59**	**$32**	$93	$36	$31	$14
Payables	**$ 1**	**$ 2**	$ 3	$ 2	$ 4	$ 1
Advances and progress billing in excess of long-term contract inventories	**$ –**	**$ –**	$ –	$60	$ –	$18

33. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL

The annual remuneration and related compensation costs of the executive and non-executive board members and key Corporate management, defined as the President and Chief Executive Officer of Bombardier Inc., the Presidents and Chief Operating Officers of BA and BT, and the Senior Vice Presidents of Bombardier Inc., were as follows for the fiscal years ended:

	December 31, 2011	January 31, 2011
Share-based payments	**$13**	$ 9
Salaries, bonuses and other short-term benefits	**12**	12
Retirement benefits	**4**	4
Other long-term benefits	**1**	1
	$30	$26

34 UNCONSOLIDATED SPECIAL PURPOSE ENTITIES

The following table summarizes the assets and liabilities of unconsolidated SPEs in which the Corporation had a significant exposure as at:

	December 31, 2011		January 31, 2011		February 1, 2010	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Financing structures related to the sale of regional aircraft	**$9,071**	**$6,603**	$9,992	$7,293	$10,948	$8,405

The Corporation has provided credit and/or residual value guarantees to certain SPEs created solely to provide financing related to the sale of commercial aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs long-term debt. The Corporation retains certain interests in the form of credit and residual value guarantees, subordinated debt and residual interests. Residual value guarantees typically cover a percentage of the first loss from a guaranteed value upon the sale of the underlying aircraft. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation's maximum potential exposure was $1.9 billion, of which $350 million was recorded as provisions and related liabilities as at December 31, 2011 ($2.0 billion and $439 million, respectively, as at January 31, 2011 and $2.1 billion and $573 million, respectively, as at February 1, 2010). The Corporation's maximum exposure under these guarantees is included in note 35–Commitments and contingencies.

The Corporation concluded that it did not control these SPEs.

35 COMMITMENTS AND CONTINGENCIES

In relation to the sale of commercial 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. These off-balance sheet risks are in addition to the commitments and contingencies described elsewhere in these consolidated financial statements. Some of these off-balance sheet risks are also included in note 34–unconsolidated special purposes entities. 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:

	December 31, 2011	January 31, 2011	February 1, 2010
Aircraft sales			
Credit (a)	**$1,389**	$1,453	$1,524
Residual value (a)	**2,108**	2,239	2,425
Mutually exclusive exposure[1]	**(771)**	(806)	(894)
Total credit and residual value exposure	**$2,726**	$2,886	$3,055
Trade-in commitments (b)	**$1,619**	$1,214	$ 761
Conditional repurchase obligations (c)	**$ 605**	$ 594	599
Other[2]			
Credit and residual value (e)	**$ 156**	$ 159	$ 157
Performance guarantees (f)	**$ 36**	$ 34	$ 44

1 Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise. Therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.
2 The Corporation has also provided other guarantees (see section g) below).

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 $456 million as at December 31, 2011 ($493 million as at January 31, 2011 and $536 million as at February 1, 2010) 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 adjusted to reflect specific factors of the current aircraft market, and the anticipated proceeds from other assets covering such exposures. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $140 million as at December 31, 2011 ($161 million as at January 31, 2011 and $196 million as at February 1, 2010). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the underlying aircraft and lease subsidies.

AIRCRAFT SALES

a) Credit and residual value guarantees – The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2026. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 66% of the total maximum credit risk as at December 31, 2011 (64% as at January 31, 2011 and 62% as at February 1, 2010).

In addition, the Corporation may provide a guarantee for the residual value of aircraft at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. The arrangements generally include operating restrictions such as maximum usage and minimum maintenance requirements. The guarantee provides for a contractually limited payment to the guaranteed party, which is typically a percentage of the first loss from a guaranteed value. In most circumstances, a claim under such guarantees may be made only upon resale of the underlying aircraft to a third party.

35. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following table summarizes the outstanding residual value guarantees, at the earliest exercisable date, and the period in which they can be exercised as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	**$ 59**	$ 58	$ 35
From 1 to 5 years	**840**	758	634
From 5 to 10 years	**1,094**	1,257	1,415
From 10 to 15 years	**115**	166	341
	$2,108	$2,239	$2,425

b) Trade-in commitments – In connection with the signing of firm orders for the sale of new aircraft, the Corporation enters into specified-price trade-in commitments with certain customers. These commitments give customers the right to trade in their pre-owned aircraft as partial payment for the new aircraft purchased.

The Corporation's trade-in commitments were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	**$ 694**	$ 468	$377
From 1 to 3 years	**330**	417	384
Thereafter	**595**	329	–
	$1,619	$1,214	$761

c) Conditional repurchase obligations – In connection with the sale of new aircraft, the Corporation enters into conditional repurchase obligations with certain customers. Under these obligations, the Corporation agrees to repurchase the initial aircraft at predetermined prices, during predetermined periods or at predetermined dates, conditional upon mutually acceptable agreement for the sale of a new aircraft. At the time the Corporation enters into an agreement for the sale of a subsequent aircraft and the customer exercises its right to partially pay for the subsequent aircraft by trading in the initial aircraft to the Corporation, a conditional repurchase obligation is accounted for as a trade-in commitment.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Less than 1 year	**$496**	$345	$524
From 1 to 3 years	**35**	140	40
Thereafter	**74**	109	35
	$605	$594	$599

d) Fractional ownership put options – Under the U.S. *Flexjet* fractional ownership program, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled $396 million as at December 31, 2011 ($498 million as at January 31, 2011 and $598 million as at February 1, 2010). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

OTHER GUARANTEES

e) Credit and residual value guarantees – In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to $47 million as at December 31, 2011, as at January 31, 2011 and as at February 1, 2010. This guarantee matures in 2025. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements, amounting to $109 million as at December 31, 2011 ($112 million as at January 31, 2011 and $110 million as at February 1, 2010), in BT. These guarantees are mainly exercisable in 2012.

f) Performance guarantees – In certain projects carried out through consortia or other partnership vehicles in BT, partners may be jointly and severally liable to the customer for a default by the other partners. In such cases partners would normally provide counter indemnities to each other. These obligations and guarantees typically extend until final product acceptance by the customer and in some case to the warranty period.

The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to $36 million as at December 31, 2011 ($34 million as at January 31, 2011 and $42 million as at February 1, 2010), assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's net exposure is not significant, assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

g) Other – In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

OPERATING LEASES

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. Future minimum lease payments, mostly related to buildings and equipment, under non-cancellable operating leases are due as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Within 1 year	**$100**	$108	$ 98
Between 1 and 5 years	**216**	248	258
More than 5 years	**271**	227	230
	$587	$583	$586

Rent expense was $123 million for the fiscal year ended December 31, 2011 ($115 million for the fiscal year ended January 31, 2011).

OTHER COMMITMENTS

The Corporation also has purchase obligations, under various agreements, made in the normal course of business. The purchase obligations are as follows as at:

	December 31, 2011	January 31, 2011	February 1, 2010
Within 1 year	**$ 5,669**	$ 5,975	$5,111
Between 1 and 5 years	**3,912**	3,711	3,333
More than 5 years	**464**	426	398
	$10,045	$10,112	$8,842

The purchase obligations of the Corporation include capital commitments for the purchase of PP&E and intangible assets amounting to $195 million and $50 million, respectively, as at December 31, 2011 ($184 million and $7 million, respectively, as at January 31, 2011).

LITIGATIONS

In the normal course of operations, the Corporation is a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of legal proceedings pending as at December 31, 2011, based on information currently available, management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

36 ADOPTION OF IFRS

The Corporation has adopted IFRS effective for its annual consolidated financial statements beginning February 1, 2011. These consolidated financial statements are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS. For all periods up to and including the fiscal year ended January 31, 2011, the Corporation prepared its consolidated financial statements in accordance with previous Canadian GAAP.

This note explains how the transition from previous Canadian GAAP to IFRS affected the Corporation's reported equity as at February 1, 2010 and January 31, 2011, as well as net income, comprehensive income and cash flows for the fiscal year ended January 31, 2011. References to Canadian GAAP in this note refer to Canadian GAAP applicable to the Corporation for reporting periods up to and including the fiscal year ended January 31, 2011.

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, requires a first-time adopter to retrospectively apply all IFRS effective as at the end of its first annual reporting period (December 31, 2011 for the Corporation). IFRS 1 also provides a first-time adopter certain optional exemptions and requires certain mandatory exemptions from full retrospective application. Most of these exemptions, if elected or mandatory, must be applied as at the beginning of the required comparative period (the transition date). The Corporation's transition date to IFRS is February 1, 2010.

The Corporation has not modified the choices made with regard to elections under IFRS 1 or its accounting policies under IFRS during the fiscal year ended December 31, 2011, except for the additional exemption for retirement benefits to recognize all cumulative actuarial gains and losses as at February 1, 2010 in retained earnings as described in the following section.

EXEMPTIONS FROM FULL RETROSPECTIVE APPLICATION OF IFRS

In accordance with the mandatory exemptions from retrospective application of IFRS, the consolidated statement of financial position as at February 1, 2010 does not reflect any hedge relationships which did not satisfy the hedge accounting criteria in IAS 39, *Financial Instruments: Recognition and Measurement*, as of the transition date.

Under IFRS 1, the Corporation elected to apply the following optional exemptions in preparing its opening statement of financial position as at the transition date.

1. Business combinations – The Corporation elected to apply IFRS prospectively for business combinations from the date of transition to IFRS. Accordingly, the Corporation has not restated the accounting for acquisitions of subsidiaries, interests in joint ventures or associates that occurred before February 1, 2010.

2. CCTD – At the transition date, the Corporation transferred all cumulative foreign exchange losses, amounting to $117 million, from CCTD to retained earnings. There was no impact on equity as at February 1, 2010 as a result of this election.

3. Borrowing costs – The Corporation elected to begin capitalization of borrowing costs to qualifying assets under IFRS effective February 19, 2007, the launch date of the *CRJ1000 NextGen* aircraft program. Borrowing costs of $32 million, capitalized under Canadian GAAP prior to that date, were derecognized and applied against retained earnings at the transition date.

4. Share-based compensation – The Corporation did not apply IFRS 2, *Share-based payment*, to equity instruments granted prior to November 7, 2002 and those that have vested before February 1, 2010. At transition date, there was no adjustment related to these instruments as a result of this election.

5. Retirement benefits – The Corporation elected to disclose the defined benefit obligations, plan assets, deficit and experience adjustments on retirement benefit liabilities and assets prospectively from the date of transition, progressively building the data to present the four years of comparative information required under IFRS.

6. Retirement benefits – The Corporation elected to recognize all cumulative actuarial gains and losses as at February 1, 2010 in retained earnings.

RECONCILIATIONS OF EQUITY AND NET INCOME FROM CANADIAN GAAP TO IFRS

The following reconciliations illustrate the measurement and recognition differences in restating equity and net income reported under Canadian GAAP to IFRS for the dates and period indicated.

RECONCILIATION OF EQUITY

	Item	January 31, 2011	February 1, 2010
Equity under Canadian GAAP (as reported)		**$ 4,352**	$ 3,769
Measurement and recognition differences:			
Retirement benefits	A	**(2,110)**	(2,198)
Revenues	B	**(552)**	(554)
Aerospace program tooling	C	**(195)**	(246)
Sale and leaseback obligations	D	**(1)**	(6)
Other		**(92)**	(12)
		(2,950)	(3,016)
Income tax impact of all restatements	E	**119**	207
Total restatements		**(2,831)**	(2,809)
Equity under IFRS		**$ 1,521**	$ 960

RECONCILIATION OF EBIT, NET INCOME AND DILUTED EPS

		Fiscal year ended January 31, 2011				
	Item	BA	BT	EBIT	Net financing expense	Net income
As reported under Canadian GAAP		**$448**	**$602**	**$1,050**	**$(119)**	**$ 769[1]**
Reclassifications		1	–	1	(1)	–
Restatements to income before income taxes						
Retirement benefits	A	31	66	97	(44)	53
Revenues	B	24	(15)	9	(7)	2
Aerospace program tooling	C	55	–	55	(4)	51
Sale and leaseback obligations	D	10	–	10	(5)	5
Other		(15)	(2)	(17)	(28)	(45)
		105	49	154	(88)	66
Income tax impact of all restatements	E					(60)
Total restatements		105	49	154	(88)	6
As restated under IFRS		**$554**	**$651**	**$1,205**	**$(208)**	**$ 775**
Diluted EPS under Canadian GAAP (as reported)						**$0.42**
Impact of IFRS restatements to net income						–
Diluted EPS under IFRS						**$0.42**

1 Net of income taxes of $162 million.

36. ADOPTION OF IFRS (CONTINUED)

The following items explain the most significant restatements to equity and net income resulting from the change in accounting policies upon adoption of IFRS.

A. RETIREMENT BENEFITS

The equity adjustment before income taxes was as follows as at February 1, 2010:

Net unrecognized actuarial loss recorded in deficit	$(1,826)
Vested past service credits	(32)
Asset ceiling and additional liability test	(97)
Measurement date	(227)
Allocation of retirement benefit costs to inventories and aerospace program tooling	(16)
Equity adjustment, before income taxes	$(2,198)

The transition date adjustments related to net unrecognized actuarial loss, change of measurement date and asset ceiling and additional liability test, net of income taxes of $177 million, totalled $1,973 million and have been presented as a separate item of the deficit as at February 1, 2010. Cumulative net actuarial gains and losses since February 1, 2010 are also presented in this separate item of the deficit.

The impact on EBT for the fiscal year ended January 31, 2011 was as follows:

Increase in EBIT	$ 97
Increase in net financing expense	(44)
Increase in EBT	$ 53

Actuarial gains and losses

Under Canadian GAAP, actuarial gains and losses were amortized through net income using a corridor approach over the estimated average remaining service life ("EARSL") of employees. Under IFRS, the Corporation has elected to recognize all actuarial gains and losses in OCI as incurred. As a result of this election, foreign exchange gains and losses on the translation of plan assets and liabilities are also recorded in OCI under IFRS.

Vested past service costs (credits)

Under Canadian GAAP, vested past service costs (credits) of defined benefit plans were amortized over the EARSL of plan participants from their grant date. Under IFRS, vested past service costs (credits) of defined benefit plans must be recognized in net income immediately as granted.

Asset ceiling and additionally liability test

Under IFRS, IFRIC 14, *The limit on a defined benefit asset, minimum funding requirements and their interaction*, requires entities to consider minimum funding requirements when assessing the financial position of defined benefit plans. This interpretation may require either a reduction of the retirement benefit asset or the recognition of an additional liability. Canadian GAAP also set limits on the recognition of the retirement benefit asset, but did not consider minimum funding requirements and as such could not create an additional liability.

Under Canadian GAAP, an adjustment arising from the asset ceiling was recognized in net income. Since the Corporation has elected to recognize all actuarial gains and losses in OCI under IFRS, variations arising from this test are also recognized in OCI in the period in which they occur.

Measurement date

Canadian GAAP allowed entities to use a measurement date for defined benefit obligations and plan assets up to three months prior to the financial year-end date. December 31 was used as the measurement date for all of the Corporation's defined benefit plans under Canadian GAAP.

Measurement of the defined benefit obligations and plan assets is performed at the reporting date under IFRS. Accordingly, defined benefit plans at BA and Corporate Office were measured using a January 31 measurement date under IFRS during the fiscal year ended January 31, 2011. Defined benefit plans at BT continued to use a December 31 measurement date as this is the financial year-end date of BT.

Allocation of retirement benefit costs to inventories and aerospace program tooling

The adjustment to inventories and aerospace program tooling arises from changes in the presentation of retirement benefit costs. The Corporation elected to segregate retirement benefit costs into three components under IFRS:

- retirement benefit expense (including current and past service costs or credits) recorded in EBIT;
- accretion on retirement benefit obligations and expected return on retirement plan assets recorded in financing expense and financing income; and
- actuarial gains and losses, asset ceiling and additional liability test and gains and losses on foreign exchange recorded in OCI.

Under Canadian GAAP these three components were eventually all recorded in EBIT. As a result, only current service costs are considered for capitalization in aerospace program tooling and inventories under IFRS, whereas under Canadian GAAP all three components were considered for capitalization.

B. REVENUES

Bombardier Aerospace

Under Canadian GAAP, revenues from the sale of light business (*Learjet* family), commercial and amphibious aircraft were recognized at delivery of the completed aircraft. Revenues from the sale of medium and large business aircraft (*Challenger* and *Global* families) were segmented between two milestones: green aircraft delivery (i.e. before exterior painting and installation of interiors and optional avionics) and upon final acceptance of the completed aircraft by customers.

Under IFRS, revenues from the sale of all aircraft are recognized upon delivery of the completed aircraft to customers. At transition, revenues for 113 medium and large business aircraft for which final delivery had not taken place were reversed, resulting in an order backlog increase of $2.9 billion. For the fiscal year ended January 31, 2011, revenues for 109 medium and large business aircraft for which final delivery had not taken place were reversed and revenues for 121 medium and large business aircraft for which final delivery took place during the year were recognized. The order backlog under IFRS as at January 31, 2011 increased by $2.6 billion as compared to Canadian GAAP.

The following tables show the restatements in the number of aircraft deliveries for the fiscal year ended January 31, 2011.

(In units)	Aircraft deliveries Canadian GAAP	Reversal of green aircraft	Recognition of completed aircraft	Aircraft deliveries IFRS
Learjet Series	**33**	–	–	**33**
Challenger 300	**29**	(29)	29	**29**
Challenger 605	**33**	(33)	36	**36**
Challenger 800 Series	**1**	–	6	**7**
Global 5000/Global Express XRS	**47**	(47)	50	**50**
Commercial	**97**	–	–	**97**
Amphibious	**4**	–	–	**4**
	244	(109)	121	**256**

As part of the operations of the Corporation, unavoidable costs of meeting contractual obligations may exceed the economic benefits expected from a contract, resulting in an onerous contract. Under Canadian GAAP, no provision was recorded in such circumstances, unless the contract was accounted for under long-term contract accounting rules. Under IFRS, a provision must be recorded when a contract becomes onerous. This difference resulted in a decrease in equity at transition.

Under most contracts for the sale of aircraft, penalties must be paid if the aircraft is delivered after an agreed timeline. Under Canadian GAAP, such late-delivery penalties were recognized directly in net income, based on the total expected penalty. Under IFRS, such penalties are recognized in inventories, when incurred, since they are seen as an integral component of the cost of the asset. This difference resulted in an increase in equity at transition.

Under Canadian GAAP, provisions for product warranties related to the sale of aircraft did not take into account the time value of money. Under IFRS, aircraft warranty provisions must be discounted and an accretion expense is recorded over the passage of time. This difference resulted in an increase in equity at transition.

As a result of these restatements, BA revenues increased by $252 million, EBIT increased by $24 million and financing expense increased by $7 million for the fiscal year ended January 31, 2011.

36. ADOPTION OF IFRS (CONTINUED)

Bombardier Transportation

In connection with BT's operations, a base contract is often granted with options that can be exercised by the customer to order more quantities of the same product. The margin earned on these options is often higher than the margin on the base contract, mainly due to the learning curve effect decreasing production costs over time.

Canadian GAAP did not allow accounting for the base contract and an exercised option as a single unit of accounting, using a combined margin, if the margins of the base contract and option differed significantly. This criterion does not exist under IFRS and therefore base contracts must always be combined with exercised options if they relate to a single project and the product is similar in design, technology and function; the price of the options was negotiated as part of the base contract; and production is performed on a continuous basis. Consequently, under IFRS, more base contracts are combined with options. Such combining generally increases the profit on the base contract through a cumulative adjustment recorded when the option contract is signed and reduces the profit during the execution of the option contract, as the combined margin is used instead of only the higher margin of the option contract.

This difference resulted in an increase in equity at transition. As a result of this difference, BT's revenues, EBIT and EBT under IFRS all decreased by $15 million for the fiscal year ended January 31, 2011.

C. AEROSPACE PROGRAM TOOLING

Restatements related to aerospace program tooling are attributed to the following three elements.

Government refundable advances

As an incentive to stimulate R&D, some governments provide advances during the development period, which are usually conditionally repaid upon delivery of the related product.

Under Canadian GAAP, contingently repayable advances received were deducted from aerospace program tooling or R&D expenses, and any repayments were recorded as an expense in cost of sales upon delivery of the aircraft. Under IFRS, a liability is recorded for the expected repayment of advances received if it is probable that the conditions for repayment will be met. Repayments are recorded as a reduction of the liability. Revisions to the estimate of amounts to be repaid result in an increase or decrease in the liability and aerospace program tooling or R&D expense, and a cumulative catch-up adjustment to amortization is recognized immediately in net income.

As a result, aerospace program tooling is recorded gross of government refundable advances under IFRS, resulting in a higher amortization expense in the earlier stages of an aircraft program's life. Recording of government refundable advances as a liability at transition decreased equity by $148 million as a significant portion of the related aerospace program tooling was amortized prior to February 1, 2010 under IFRS.

R&D expenditures incurred by vendors on behalf of the Corporation

As a new aircraft is developed, some vendors invest in the development of new technology (vendor non-recurring costs or "VNR costs"). These costs may be repaid to the vendor as part of the purchase price of the vendor's product, and the technology is transferred to the Corporation once an agreed amount is repaid.

Under Canadian GAAP, the amounts repaid to vendors were recognized as aerospace program tooling ratably as the vendor developed product was purchased. Under IFRS, upon evidence of successful development, which generally occurs at a program's entry-into-service, such VNR costs must be recognized as a liability based on the best estimate of the amount to be repaid to the vendor, with a corresponding increase in aerospace program tooling.

As a result, VNR costs are recorded earlier under IFRS, based on the present value of the best estimate of the amounts repayable, with consequential higher amortization of aerospace program tooling early in the program life. Repayments to vendors are recorded as a reduction of the liability.

The adjustment at transition decreased equity by $70 million as a significant portion of the related aerospace program tooling was amortized prior to February 1, 2010.

Borrowing costs

As noted in the section "Exemptions from full retrospective application of IFRS", the Corporation has elected under the IFRS 1 exemption to begin capitalization of borrowing costs to qualifying assets effective February 19, 2007, the launch date of the *CRJ1000 NextGen* aircraft program. Borrowing costs of $32 million capitalized under Canadian GAAP prior to that date were derecognized and applied against retained earnings at the transition date.

As noted above, aerospace program tooling is recorded gross of government refundable advances under IFRS. As a result, aerospace program tooling for programs under development is higher under IFRS and therefore the amount of capitalized borrowing costs is also higher.

Under Canadian GAAP, interest charges incurred during the development period were capitalized as part of aerospace program tooling based on the general borrowing rate as there were no specific borrowings. Under IFRS, government refundable advances recorded during the development period are considered specific borrowings and are included in borrowing costs capitalized to aerospace program tooling beginning February 19, 2007.

At transition, the $32 million write-off of capitalized borrowing costs was offset by an increase of $4 million in borrowing costs capitalized to aerospace program tooling as a result of these accounting policy differences.

COMBINED IMPACT ON EBT OF ADJUSTMENTS TO AEROSPACE PROGRAM TOOLING

Increase (decrease) in EBT	Fiscal year ended January 31, 2011
Decrease in amortization resulting from overall lower aerospace program tooling balance	$ 33
Repayments of government refundable advances no longer recorded in EBIT	47
Change in estimates of the liability for government refundable advances	(14)
Foreign exchange loss upon translation of the liability for government refundable advances	(11)
Accretion expense on the liability for government refundable advances	(19)
Additional capitalization of borrowing costs due to a higher capitalization base for programs under development	15
	$ 51

D. SALE AND LEASEBACK OBLIGATIONS

Under Canadian GAAP, contracts under sale and leaseback facilities for pre-owned business aircraft were classified as operating leases based on the quantitative tests for lease classification. IFRS requires a qualitative and quantitative assessment of lease classification and, as a result, these lease contracts are now accounted for as financial obligations secured by the pre-owned business aircraft.

Under Canadian GAAP, revenue was recorded when the aircraft was transferred to a facility. Under IFRS, the pre-owned aircraft remain in inventories and no revenue is recorded until the aircraft is sold outside the facilities to a third-party customer. Also, interest expense is recognized on the liability under IFRS based on the effective interest rate of the sale and leaseback obligation.

Under IFRS, revenues and cost of sales for the fiscal year ended January 31, 2011 decreased by $39 million as 18 sales of pre-owned aircraft to these facilities were reversed and 16 sales outside the facilities to third-party customers of different pre-owned aircraft were recognized. As these sales are generally made at low margins, the adjustment to revenues had minimal impact on EBIT.

Under IFRS, lease payments to the facilities are recorded as capital repayments or interest expense, rather than as a lease expense in EBIT under Canadian GAAP. EBIT for the fiscal year ended January 31, 2011 increased by $10 million under IFRS, while interest expense increased by $5 million, resulting in an increase in EBT of $5 million.

E. INCOME TAX IMPACT OF ALL RESTATEMENTS

The restatements to equity as at February 1, 2010 totalling $3,016 million affected the accounting values of assets and liabilities but not their tax bases. Applying the Canadian statutory tax rate of 31.3% to these restatements would trigger the recognition of a deferred income tax asset of $944 million at the transition date. However, IFRS allows recognition of a deferred income tax asset only to the extent it is probable that taxable profit will be available against which the deductible temporary differences or unused income tax losses can be utilized. The deferred income tax asset has not been fully recognized under IFRS, as some of the income tax benefits are expected to materialize in periods subsequent to the period meeting the probability of recovery test necessary to recognize such assets. In connection with IFRS restatements to equity at transition, $207 million of additional deferred income tax assets were recognized.

Applying the Canadian statutory tax rate of 30.0% to the IFRS adjustments for the fiscal year ended January 31, 2011 would result in an income tax expense of $20 million. However, the probable future taxable profit that will be available to utilize operating losses and deductible temporary differences is lower under IFRS mainly due to the change in revenue recognition policy for medium and large business aircraft, which delays revenue recognition until completion of the aircraft. As a result, less deferred income tax benefits were recognized under IFRS during the fiscal year ended January 31, 2011. The additional income tax expense as a result of all restatements for the fiscal year ended January 31, 2011 was $60 million.

36. ADOPTION OF IFRS (CONTINUED)

RECONCILIATIONS OF STATEMENTS OF FINANCIAL POSITION AND INCOME FROM CANADIAN GAAP TO IFRS

The following reconciliations illustrate the reclassifications and restatements from Canadian GAAP to IFRS to the opening statement of financial position and to the statement of income for the fiscal year ended January 31, 2011.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT FEBRUARY 1, 2010

Canadian GAAP line items	Cdn GAAP	Reclassi-fications	Restate-ments	Items	IFRS	IFRS line items
Assets						**Assets**
Cash and cash equivalents	3,372				3,372	Cash and cash equivalents
Invested collateral	682	(682)				
Receivables	1,897	(137)	(619)	B	1,141	Trade and other receivables
Aircraft financing	473	(473)				
Inventories	5,268	62	2,300	A, B, D	7,630	Inventories
		547	(10)		537	Other financial assets
		500	19	B	519	Other assets
	11,692	**(183)**	**1,690**		**13,199**	**Current assets**
		682	–		682	Invested collateral
PP&E	1,643	46	(15)		1,674	PP&E
		1,439	(54)[1]	C	1,385	Aerospace program tooling
Intangible assets	1,696	(1,696)				
Fractional ownership deferred costs	271	(271)				
Deferred income taxes	1,166		207	E	1,373	Deferred income taxes
Accrued benefit assets	1,070	(44)	(1,026)	A		
Derivative financial instruments	482	(482)				
Goodwill	2,247				2,247	Goodwill
		1,003			1,003	Other financial assets
Other assets	1,006	(455)	6	C, D	557	Other assets
	9,581	**222**	**(882)**		**8,921**	**Non-current assets**
	21,273	**39**	**808**		**22,120**	

1 Restatements include effect of IFRS 1 optional exemptions.

36. ADOPTION OF IFRS (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT FEBRUARY 1, 2010 (CONTINUED)

Canadian GAAP line items	Cdn GAAP	Reclassi-fications	Restate-ments	Items	IFRS	IFRS line items
Liabilities						**Liabilities**
Accounts payable and accrued liabilities	7,427	(4,230)	(152)	B, D	3,045	Trade and other payables
		1,180	(40)	B	1,140	Provisions
Advances and progress billings in excess of related long-term contract costs	1,899				1,899	Advances and progress billings in excess of long-term contract inventories
Advances on aerospace programs	2,092	(1,374)	2,337	B	3,055	Advances on aerospace programs
Fractional ownership deferred revenues	346	(346)				
		359	178	D	537	Other financial liabilities
		1,989	(2)	D	1,987	Other liabilities
	11,764	**(2,422)**	**2,321**		**11,663**	**Current liabilities**
		677	(2)		675	Provisions
		1,373			1,373	Advances on aerospace programs
Deferred income taxes	65	(65)				
Long-term debt	4,162	(11)	(17)		4,134	Non-current portion of long-term debt
Accrued benefit liabilities	1,084	(59)	1,156	A	2,181	Retirement benefits
Derivative financial instruments	429	(429)				
		358	200	C	558	Other financial liabilities
		617	(41)		576	Other liabilities
	5,740	**2,461**	**1,296**		**9,497**	**Non-current liabilities**
	17,504	**39**	**3,617**		**21,160**	
Preferred shares	347				347	Preferred shares
Common shares	1,324				1,324	Common shares
Contributed surplus	132				132	Contributed surplus
Retained earnings	2,087		(937)	A-E	1,150	Deficit - Other earnings
			(1,973)	A, E	(1,973)	Deficit - Net actuarial losses
Accumulated OCI - AFS and cash flow hedges	(72)		(6)		(78)	Accumulated OCI - AFS and cash flow hedges
Accumulated OCI - CTA	(117)		117[1]		–	Accumulated OCI - CCTD
Equity attributable to equity holders of Bombardier Inc.	3,701		(2,799)		902	Equity attributable to equity holders of Bombardier Inc.
Equity attributable to NCI	68		(10)		58	Equity attributable to NCI
	3,769		**(2,809)**		**960**	
	21,273	**39**	**808**		**22,120**	

1 Restatements include effect of IFRS 1 optional exemptions.

36. ADOPTION OF IFRS (CONTINUED)

CONSOLIDATED STATEMENT OF INCOME FOR THE FISCAL YEAR ENDED JANUARY 31, 2011

Canadian GAAP line items	Cdn GAAP	Reclassi-fications	Restate-ments	Items	IFRS	IFRS line items
Revenues	17,712		180	B, D	17,892	Revenues
Cost of sales	14,668	249	38	A-D	14,955	Cost of sales
	3,044	**(249)**	**142**		**2,937**	**Gross margin**
SG&A	1,369	7	1	A, B	1,377	SG&A
R&D	193	160	(34)	A, C	319	R&D
Other expense (income)	22	(7)	21	C	36	Other expense (income)
Amortization	410	(410)				
EBIT	**1,050**	**1**	**154**		**1,205**	**EBIT**
Financing income	(137)	3	(342)	A	(476)	Financing income
Financing expense	256	(2)	430	A-D	684	Financing expense
EBT	**931**	**–**	**66**		**997**	**EBT**
Income taxes	162		60	E	222	Income taxes
Net income	**769**	**–**	**6**		**775**	**Net income**
Attributable to shareholders of Bombardier	755		7		762	Attributable to equity holders of Bombardier
Attributable to NCI	14		(1)		13	Attributable to NCI
Basic EPS	0.42		0.01		0.43	Basic EPS
Diluted EPS	0.42		–		0.42	Diluted EPS

RECLASSIFICATIONS FROM CANADIAN GAAP REPORTING TO IFRS

A classified statement of financial position has been presented under IFRS, based on the operating cycle for operating items and based on a 12-month period for non-operating items.

The following are mandatory reclassifications of items in the statement of financial position upon transition to IFRS:

- Financial assets and financial liabilities are presented separately from non-financial assets and non-financial liabilities.
- Provisions are presented separately from other payables.
- Other long-term employment benefits, such as long-term disability and service awards, are segregated from retirement benefits and are presented in other liabilities.

The Corporation has also made the following elective reclassification of items in the statements of financial position to place focus on key accounts under IFRS:

- Aerospace program tooling is presented separately from goodwill and other intangibles.
- *Flexjet* fractional ownership deferred costs and fractional ownership deferred revenues are no longer presented separately and are included in other assets and other liabilities, respectively.
- Aircraft financing is no longer presented separately and is included in other financial assets, except for assets under operating leases which are presented as non-financial assets classified according to their nature.
- Derivative financial instruments are no longer presented separately and are included in other financial assets and other financial liabilities.

The Corporation has made the following mandatory reclassification of items in the statement of income:

- Amortization expense is no longer presented separately and is classified between cost of sales, SG&A and R&D based on the function of the underlying assets.

The Corporation has made the following elective reclassifications of items in the statement of income:

- Expected return on pension plan assets and accretion on retirement benefit obligations are presented in financing expense and financing income and are no longer included in EBIT.
- Other income and expenses related to operations, such as foreign exchange gains and losses, are no longer included in other expense (income) and are instead classified as cost of sales unless the item is unusual and material.
- Under Canadian GAAP, changes in valuation of credit and residual value guarantees, loans and lease receivables, lease subsidies, investments in financing structures and servicing fees are presented in cost of sales or other expense (income). Under IFRS, changes in the value of these items are presented in financing expense or financing income if the changes arise from variation in interest rates. Other changes in valuation of these items are presented in other expense (income) under IFRS.

RECONCILIATION OF COMPREHENSIVE INCOME FROM CANADIAN GAAP TO IFRS

The following reconciliation illustrates the restatements to comprehensive income reported under Canadian GAAP to IFRS for the fiscal year ended January 31, 2011.

RECONCILIATION OF COMPREHENSIVE INCOME

	Item	
Comprehensive income under Canadian GAAP (as reported)		**$799**
Differences on net income		6
Differences on OCI		
Retirement benefits	A	35
Other		(35)
Income tax impact of all restatements	E	(28)
		(28)
Comprehensive income under IFRS		**$777**

36. ADOPTION OF IFRS (CONTINUED)

The following items explain the significant restatements to OCI resulting from the change in accounting policies upon adoption of IFRS.

A. RETIREMENT BENEFITS

A net actuarial gain of $35 million was recognized during the fiscal year ended January 31, 2011. This net actuarial gain was comprised of:

Actuarial gains, mainly due to changes in discount rates	$161
Loss arising from variations in the asset ceiling and additional liability	(70)
Foreign exchange losses on the translation of plan assets and liabilities	(56)
Net actuarial gain	$ 35

Actuarial gains and losses are recognized in OCI under IFRS in accordance with the Corporation's choice of accounting policy.

E. INCOME TAX IMPACT OF ALL RESTATEMENTS

The related deferred income tax assets have not been fully recognized in some countries, as it is not probable that all of the income tax benefits will be realized, and additional income tax expense was recorded in other countries.

CHANGES TO THE STATEMENT OF CASH FLOWS FROM CANADIAN GAAP TO IFRS

The net impact on the statement of cash flows as a result of adoption of IFRS was as follows for the fiscal year ended January 31, 2011:

Cash flows from operating activities	$ 14
Cash flows from investing activities	(52)
Cash flows from financing activities	38
	$ –

The following items explain the most significant restatements to the statement of cash flows, resulting from the changes in accounting policies upon adoption of IFRS:

- Under Canadian GAAP, payments to and from sale and leaseback facilities for pre-owned aircraft were classified as cash flows from operating activities. Under IFRS, such payments are treated as financing transactions and are classified as cash flows from financing activities. For the fiscal year ended January 31, 2011, cash flows from financing activities increased by $38 million as amounts received from these facilities exceeded repayments to the facilities.
- Under Canadian GAAP, inflows from government refundable advances were netted against additions to PP&E and intangible assets and classified as cash flows from investing activities, with any repayments classified as cash flows from operating activities. Under IFRS, all transactions related to the government refundable advances are classified as cash flows from operating activities. During the fiscal year ended January 31, 2011, $52 million in government refundable advances was received and classified as cash flows from operating activities under IFRS.