BOMBARDIER

Annual Report, Year ended January 31, 2007

THE GLOBAL VIEW

All amounts mentioned in this annual report are in U.S. dollars, unless otherwise indicated.

FINANCIAL HIGHLIGHTS

(in millions of U.S. dollars, except per share and backlog amounts)

FOR THE YEARS ENDED JANUARY 31	**2007**	2006
Revenues	**$ 14,816**	$ 14,726
Income from continuing operations before special items and income taxes	**$ 359**	$ 238
Income taxes	**$ 92**	$ 15
Net income	**$ 268**	$ 249
Earnings per share–basic and diluted	**$ 0.14**	$ 0.13
Dividend per common share (in Canadian dollars)		
Class A	**$ –**	$ –
Class B	**$ –**	$ –

AS AT JANUARY 31	**2007**	2006
Total assets	**$ 18,577**	$ 17,482
Shareholders' equity	**$ 2,733**	$ 2,425
Net additions to property, plant and equipment	**$ 281**	$ 222
Total backlog (in billions of dollars)	**$ 40.7**	$ 31.6
Book value per common share (in dollars)	**$ 1.37**	$ 1.19
Number of common shares		
Class A	**317,044,051**	319,260,212
Class B	**1,421,575,917**	1,425,772,756

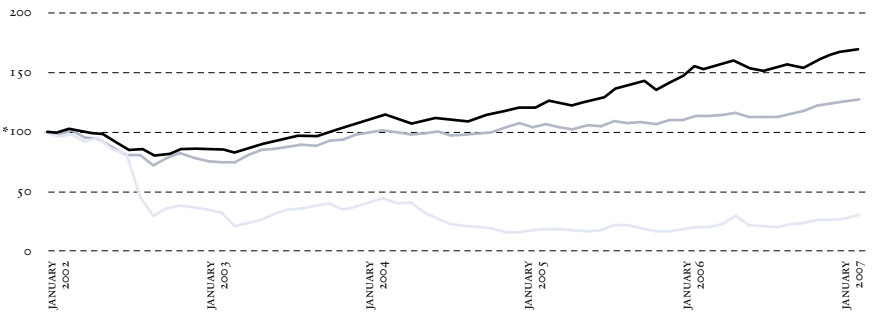
STOCK PRICE RANGES

(in Canadian dollars)

FOR THE YEARS ENDED JANUARY 31	**2007**	2006
CLASS A		
High	**$ 4.61**	$ 3.69
Low	**$ 2.69**	$ 2.34
Close	**$ 4.48**	$ 3.02
CLASS B		
High	**$ 4.62**	$ 3.66
Low	**$ 2.68**	$ 2.28
Close	**$ 4.45**	$ 2.98

BOMBARDIER'S STOCK PERFORMANCE

January 31, 2002 to January 31, 2007



MARKET CAPITALIZATION

$7,746 MILLION CDN

(as at January 31, 2007)

** Index: closing price as at January 31, 2002 = 100*

Bombardier is a world-leading manufacturer of innovative transportation solutions ranging from regional aircraft and business jets to rail transportation equipment, systems and services. Headquartered in Montréal, Canada, Bombardier has a presence in more than 60 countries on five continents, and operates manufacturing facilities in 21 countries. Bombardier has attained its global leadership by exercising foresight, perseverance and innovation. And by designing and making products that answer the customer's need for quality, dependability and cost-effectiveness.

As a leader in aerospace and rail transportation—industries that are fundamental to the way people live and work—Bombardier can help to craft sustainable transportation solutions. Indeed, Bombardier is uniquely positioned to do so. Operating around the world and with the widest product range in two transportation segments, Bombardier has a level of stability and operational flexibility that is virtually unrivalled, thereby benefiting its customers, shareholders, partners and employees.

:: Shanghai is one of the principal industrial centres in China, where Bombardier has had a presence for more than 50 years. Bombardier's wide range of activities in rail transportation and aerospace has contributed to the development of China's transportation infrastructure and will continue to play a role in its growth and in meeting the challenges of the new century.

A GLOBAL PRESENCE

DEAR SHAREHOLDERS AND EMPLOYEES

Viewed within the context of evolving global markets and business conditions, over the past 12 months Bombardier continued to build on the foundation we laid down in recent years. At Bombardier Aerospace, robust demand for our business jets and turboprops, along with our diversified product strategy, offset some of the challenges posed by the regional jet market. Meanwhile, Bombardier Transportation is making solid and sustained progress, building momentum both within legacy European and North American rail markets, as well as in emerging markets. While we believe that the past few years' discipline and hard work are paying off, we nevertheless remain focused on reducing costs, sharpening execution and improving customer service in both organizations.

Over the course of the year, we made substantial progress in strengthening our balance sheet. We completed the winding down of the operations of Bombardier Capital in the third quarter. And in the same quarter, we launched a liability management exercise that included refinancing our bank facilities, two tender offers and a repurchase of notes for respectively €1 billion and $220 million, and a new issue of notes in the amount of 1.9 billion euro equivalent. All in all, we attained our three objectives: to secure bank facilities availability for an extended term while significantly reducing letter-of-credit issuing costs; to exploit favourable conditions in the debt capital markets; and to extend our maturity profile to increase near-term flexibility.

The Corporation's earnings before taxes from continuing operations in fiscal 2007 reached $335 million, compared to $150 million in the previous year. Net income during the same period totalled $268 million, up from $249 million in fiscal 2006, and earnings per share were $0.14, up from $0.13. At the end of fiscal 2007, the Corporation's cash and cash equivalents stood at $2.6 billion, reflecting a free cash flow of $610 million for fiscal year 2007, compared to $532 million for fiscal 2006. As of January 31, 2007, the Corporation's backlog stood at an unprecedented $40.7 billion, compared to $31.6 billion at the end of fiscal 2006.

BOMBARDIER AEROSPACE

Bombardier Aerospace is well positioned in its markets, with a decisive edge in product offering, operating costs, commonalities and installed base. The past year was marked by adjustments to our markets, as well as increases in production of our high-performing turboprops and business jets. It was also a year of lean manufacturing and sharper execution across all our businesses.

Business jets lead the market

Bombardier business jets continue to be the aircraft of choice for corporations, governments and wealthy individuals. We compete in eight out of nine industry categories, and command nearly one-third of the global market in terms of revenue. During the past year, we delivered a total of 212 Bombardier business

Office of the President,
from left to right:

:: Pierre Beaudoin
President and Chief
Operating Officer
Bombardier Aerospace
Executive Vice President
Bombardier Inc.

:: André Navarri
President
Bombardier Transportation
Executive Vice President
Bombardier Inc.

:: Laurent Beaudoin, FCA
Chairman of the Board
and Chief Executive Officer
Bombardier Inc.

UP TO THE CHALLENGE

jets and had net orders for 274. This compares to 197 deliveries and 219 net orders in the previous year. The past year's deliveries include 55 of our new category-leading *Challenger 300* jets, as well as 42 *Global* jets.

The United States has for years been the dominant market for business aircraft. However, we're now seeing Europe, along with other markets—particularly those of Russia, China and India—starting to account for a greater proportion of worldwide sales activity. Sixty-three percent of last year's orders came from markets outside the United States, where historically these markets have accounted for 51% of our sales activity. In 2006, we released Bombardier's business aviation industry forecast, which calls for 600 to 700 annual deliveries of business aircraft by all manufacturers through 2010, a rise from the 540 annual deliveries during the 2001-2005 period.

Given the past year's record orders and deliveries for Bombardier business jets, we enjoy a strong market position. And we are maintaining our edge against fierce and rapidly escalating competition for market share by continually innovating. Early in the past year, for example, our next-generation *Learjet 40 XR* aircraft entered into service, followed in April 2006 by the improved *Learjet 60 XR* midsize aircraft's first flight.

The widebody *Challenger* aircraft also underwent significant upgrades to passenger comfort and performance, with the next-generation *Challenger 605* aircraft expected to enter into customer service during the current year. Also during the past year, we delivered the 100th *Challenger 300* jet. The world's first true super midsize corporate jet, the *Challenger 300* aircraft fleet has achieved 99.5% dispatch reliability since entering into service in January 2004. Meanwhile, the *Global* family of aircraft continued to gain popularity, as we delivered the 200th aircraft during the past year.

Flexjet

Our North American *Flexjet* program enables owners to purchase shares of Bombardier business aircraft, along with operations and support. During the past year, a range of innovations helped to generate a 17% increase in customers. These innovations include an expanded secondary service area—the new *Flexjet* 25 Jet Card, which gives access to our fleet of business aircraft in fixed-hour increments—the *Challenger 604* aircraft reconfigured for 12 passengers, and a larger fleet of *Learjet 40 XR* aircraft.

In addition, we achieved an all-time best performance in the critical areas that drive customer satisfaction. Our highest-ever level of on-time departures, lowest levels of charter, and significant improvements in aircraft cabin amenities, led to best-ever ratings in customer satisfaction surveys.

Regional aircraft deliver bottom line performance

When Bombardier launched the *CRJ100* aircraft in 1992, it was also launching a new era in the regional airline industry. With 1,409 regional jets delivered as of January 31, 2007, the *CRJ* Series is the most successful regional aircraft program in history. Over 1,000 *CRJ100/200* regional jets are in operation worldwide, making this aircraft the backbone of many regional airlines that provide much-needed service between smaller communities and major hubs. As the market evolves, service to new markets is still being added to existing networks, and pre-owned *CRJ100/200* aircraft

:: The new *CRJ1000* regional aircraft program was launched with 38 firm orders and 23 conditional orders and options. Brit Air, the launch customer for the *CRJ700* aircraft in 1997, is once again, a decade later, a launch customer for this new Bombardier aircraft.

:: Since the first delivery in 1994, *Bombardier 415* amphibious aircraft, renowned for their efficiency, have been delivered to firefighting agencies in Croatia, France, Greece, Italy, Canada (Ontario and Québec) and Spain.

are entering secondary markets and countries such as Mexico, South Africa, Nigeria, China and Russia. Some aircraft are also being converted to cargo carriers and corporate shuttles.

In recent years, the U.S. airline industry has been subject to extensive restructuring, with most major operators undergoing bankruptcy protection and adjusting to high fuel costs. While the regional aircraft market remains strong, it is in transition. Today, with operating economies a major factor in their purchase decisions, airlines are opting for larger regional jets. Meanwhile, as turboprops continue their resurgence, our *Q-Series* turboprops are well positioned in the market with their low operating costs and state-of-the-art technology, including our proprietary Noise and Vibration Suppression (NVS) system. During the past year, we delivered 112 regional aircraft and had net orders for 87 aircraft. *CRJ700* and *CRJ900* regional jets accounted for 63 of these deliveries, while *Q-Series* turboprops deliveries rose to 48, up from 28 in the previous year.

In February 2007, we announced the launch of the *CRJ1000* aircraft, which represents the latest chapter in the *CRJ* regional jet success story. Designed specifically to meet the needs of regional airlines for jets up to 100 seats, the new aircraft delivers dramatically lower operating costs, enhanced cabin comforts, and up to 30% lower carbon dioxide emissions. We launched the program with 38 firm orders, including 15 *CRJ900* aircraft conversions from Italy's My Way Airlines, as well as 23 conditional orders and options. Brit Air of Morlaix in France, a subsidiary of Air France, placed a firm order for eight *CRJ1000* aircraft and has taken options on eight more. An undisclosed customer also ordered 15 aircraft and placed a conditional order on another 15. First flight is scheduled for the summer of 2008, with entry into service in the fourth quarter of calendar year 2009.

According to our airline industry forecast, markets are expected to recover and will continue to favour larger regional aircraft. Over the next 20 years, the forecast is for global markets to absorb 11,000 commercial aircraft in the 20- to 149-seat segment, valued at $370 billion. The 60- to 99-seat segment, which represents the current growth phase for regional airlines, will account for 4,100 aircraft. Given the low operating costs of our *CRJ700*, *CRJ900* and *CRJ1000* regional jets, which compete in this segment, we're well positioned to meet a significant share of the demand. Indeed, the factors behind the *CRJ* program success story are more compelling than ever: lower fuel burns, reduced maintenance and airport charges and aircraft commonality in pilot type rating, spares and training. In addition, the loosening of current and future scope clauses (labour agreements that limit the number of regional aircraft that airlines are allowed to operate based on the aircraft's number of seats) will allow carriers to fly a larger number of 70- to 99-seat regional jets on more routes.

We've been successful at expanding our *CRJ900* aircraft customer base internationally, with operators such as Germany's Lufthansa CityLine, Spain's Air Nostrum, Turkey's Atlasjet Airlines, and Macedonian Airlines (MAT). During the past year, Italy's My Way and Air One airlines ordered these aircraft to expand their routes. Both customers say operating costs, passenger comfort and environmental factors were key to their purchase decision. We had a breakthrough order in Africa from Arik Air of Nigeria, as well as a large order from Northwest Airlines.

:: The *Challenger 300* aircraft is the first true super-midsize business jet to offer transcontinental range and superior long-range cruise speed, with eight passengers aboard. The 100th *Challenger 300* aircraft was delivered on October 27, 2006.

:: A *FLEXITY* Outlook tram in Brussels, Belgium. STIB, the Brussels transit authority, operates 68 of the bi-directional trams as a cornerstone of the region's public transit system. Bombardier is the world's leading supplier of light-rail vehicles and trams. In 2006, Bombardier signed a number of important contracts in Europe.

In total, these customers ordered 69 *CRJ900* regional jets during the past year, and placed options on 104 more. The year was also notable for the delivery of our 250th *CRJ700* aircraft to Utah's SkyWest Airlines. A longstanding Bombardier customer, SkyWest was among the first to sign a letter of intent in 1989, before the *CRJ* regional jet program's official launch. At the start of the current fiscal year, Delta Air Lines ordered 30 *CRJ900* regional aircraft and placed options for 30 additional *CRJ900* aircraft for its Delta Connections network.

Increased sales of *Q-Series* turboprops in recent years reflect the market's growing sensitivity to operating costs. Indeed, the past year's delivery of 48 turboprops was a significant rise over the previous year's 28. Our 20-year market forecast calls for turboprops to represent fully 37% of all regional aircraft deliveries in the under 100-seat category. To keep pace with demand, during the past year we increased production of the *Q300* and *Q400* turboprops, which give operators and passengers low cabin noise and high reliability, combined with exceptional airfield performance. To these benefits the *Q400* adds very competitive operating costs and high cruise speed. Among the customers to order *Q400* aircraft were Colorado's Frontier Airlines and a new Canadian operator, Porter Airlines. Luxair, the national carrier of Luxembourg, as well as Algeria's Tassili Airlines also ordered *Q400* aircraft. Tassili is our first Algerian customer for this aircraft and our second in Africa. Together, these four operators ordered 27 *Q400* aircraft, with options on 23 more.

During the past year, we further developed our concept for the *CSeries* aircraft family, as discussions progressed with a limited number of international partners. Specifically targeting the lower end of the 100- to 149-seat commercial mainline market, the *CSeries* is being optimized to meet customer requirements for a more economical, flexible and passenger-oriented airliner. We will continue to evaluate the viability of the *CSeries* program.

The *Bombardier 415* amphibious firefighting aircraft, launched in 1994, remains the industry benchmark. During the past year, we received aircraft orders from France and Spain, while Italy ordered upgrade kits for existing aircraft.

Service supports customers' investment

From manufacturing to training, Bombardier Aerospace delivers the total "nose-to-tail" aircraft experience to its customers. However, our wider product range and continuous innovation are posing their own special challenges. This is why we're making customer service our top priority. We're taking action to reclaim our leadership in service and to provide the support customers deserve. During the past year, we continued to invest in building a world-class parts and material support network for operators of Bombardier business jets and regional aircraft worldwide. Our two high-volume spare parts distribution centres in Chicago and Frankfurt went into full service, complementing parts depots in Dubai, Sydney, Beijing, Montréal and Singapore. We also doubled our service capacity in Dallas, extended our Customer Action Centres' operating hours to 24/7, and appointed Field Service Representatives to more regions.

Optimizing our manufacturing processes

By continuing to deploy lean manufacturing at all our sites, we considerably improved performance. These initiatives

include assessing all manufacturing and assembly operations, and setting improvement targets for each site, while also augmenting our integration of business aircraft interior completion into the final assembly line. Close coordination between our business units has enabled similar efficiency gains among our supplier base. This improved collaborative approach with our suppliers is building on their ideas and expertise, and creating value that benefits both sides of the relationship.

In addition, our Mexican facility, which began operations by producing electrical harnesses, now also manufactures components of the *Challenger 850* jet and *Q400* turboprop. Similarly, we began the process of transferring from another supplier some *Q400* turboprop components to Shenyang Aircraft Corporation in China—a supplier for the *Dash 8/Q-Series* turboprop family since the 1980s.

BOMBARDIER TRANSPORTATION

The past year's steady progress confirms that our rail division's performance improvement program, launched three years ago, is beginning to pay off. EBIT margin before special items has increased as expected from 2.7% to 3.9%, while order intake amounted to a record high of $11.8 billion during fiscal 2007, surpassing our previous record year in fiscal 2004 and representing a book-to-bill ratio of 1.8. Our order backlog adds up to $27.5 billion—the highest in the industry. Equally significant, Bombardier Transportation has made solid efficiency gains to become more competitive in more markets, as reflected by the number of major orders we're winning across product lines and geographies.

While Bombardier Transportation is making significant progress, we recognize that there is still work to be done. We continue to execute our performance improvement program aimed at reducing costs, placing greater emphasis on project management to control risk more effectively and increase our competitive edge. For example, we completed our multi-year restructuring initiative during the past year, achieving better alignment between production capacity and market demand. We continue to overhaul our procurement process, which represents around 60% of costs. Our teams are finding the right number and balance of suppliers for our product families, simplifying parts selection, and seeking low-cost sourcing opportunities. We're also enhancing customer service by being more proactive. And we're continuing to improve our bidding process and quality of backlog.

We're also sharpening Bombardier Transportation's focus on the higher-margin services and signalling businesses. With our industry-leading products and dedicated people, we're confident that the past year's progress is only a harbinger of more to come.

The global leader in rail

We maintained our leadership in the global rail industry during the past year, with a 21% share of the relevant market. Bombardier Transportation's installed base amounts to more than 100,000 vehicles and locomotives worldwide. Occupying the number one position in eight of the ten market segments in which we compete, our rail solutions include rolling stock, propulsion and controls, bogies, services, total transit systems, and rail control solutions. During the past year, we extended our market leadership in light rail, as well as in

commuter and regional trains. We also won several large services contracts—an area we're developing aggressively.

Leading through ideas and products

An innovation powerhouse, Bombardier Transportation brought more new ideas to Berlin's biannual Innotrans rail show—the largest rail industry exhibition in the world—than any other major player. *ORBITA*, our latest services innovation, provides real-time on-board diagnostics and predictive maintenance, enabling identification and repair of potential equipment issues before they impact an operator's service. The United Kingdom's First ScotRail, a launch customer, has entrusted its fleet of diesel multiple units to the *ORBITA* system.

Another example is our new *SEKURFLO* security system, which responds to a growing global concern for public vigilance. In addition to providing video surveillance, *SEKURFLO* answers an operator's security needs, so personnel can launch a rapid response to security issues with minimal risk to life and property.

In Europe, an important focus is on deploying cross-border systems and signalling. To help address these issues, we continue to play a prominent role in developing the European Rail Traffic Management System (ERTMS). ERTMS is a state-of-the-art signalling standard that will eventually replace diverse systems now employed in different countries across Europe and allow trains to cross borders without having to change locomotives or drivers. This universal system is now operational in Italy, Switzerland and Spain, and will soon arrive in the Netherlands. ERTMS is a critical innovation that will greatly facilitate the European vision of seamless cross-border rail capability. We're also bringing ERTMS to fast-growing Asia-Pacific markets.

At InnoTrans, we also unveiled the first diesel-electric entry in our successful *TRAXX* locomotive family, adding to the existing AC-power, DC-power and multi-system *TRAXX* models. Operating on several continents, *TRAXX* products comprise the world's first complete family of locomotives. Customers can order several versions and expect cost-reducing commonalities in parts, documentation, training, logistics and service facilities. Equipped with ERTMS/ETCS (European Train Control System)—which uses an on-board computer to automatically keep the train below the maximum permitted speed on any section of track—*TRAXX* is the most appealing locomotive platform in the emerging trans-European system, where 50% of freight traffic is cross-border.

Key contract wins

During 2006, we landed one of the world's largest-ever contracts, to supply SNCF (French National Railways) and the Greater Paris/Île-de-France suburban network with 372 commuter trains. This landmark win in a highly challenging market is rooted in the longstanding success of our popular high-capacity AGC (Autorail Grande Capacité) trains, which are now being delivered to 21 French regions. SNCF ordered another 112 AGC trains during the past year, bringing their firm order to 612 trains.

In Germany, the Frankfurt Transport Authority awarded us a record contract for light-rail vehicles, while Berlin's Deutsche Bahn ordered additional double-decker coaches, bringing their total double-decker fleet to more than 1,400 coaches. Deutsche Bahn also honoured us with special recognition for the outstanding quality and reliability of our 2003 Series double-decker

:: In Australia, *VLocity* 160 diesel multiple units provide regional transit services for regional Victoria. Bombardier's Australian joint venture is also producing electric multiple units for Queensland and Western Australia.

:: Bombardier Sifang Power (Qingdao) Transportation Ltd. is producing 40 high-speed electric trains at facilities in Qingdao, China. Based on a European design, the new trains will serve China's growing intercity rail network.

coaches. This was followed early in the current year with a landmark framework agreement from Deutsche Bahn for 321 *TALENT* 2 electric trains. Highly flexible in operation and modular in design, *TALENT* 2 trains are slated for regional service throughout Germany.

Our products and services enjoyed great demand across other parts of Europe as well. In addition to Frankfurt, for example, *FLEXITY* trams were the choice for Krakow in Poland, Palermo in Italy, and Porto in Portugal—indeed, we received the order for our 1,500th *FLEXITY* tram during the past year. Palermo also ordered a *CITYFLO* 150 traffic management system, while Porto included a five-year maintenance contract in its deal.

Spanish National Railways (RENFE) awarded us a major contract to supply 100 *TRAXX* locomotives, along with a 14-year maintenance agreement. This order confirms the strong role Bombardier plays in Spain, as a key supplier to this country's high-speed and very high-speed train projects. In the United Kingdom, where we were honoured with the Golden Spanner award for the best modern era diesel and Electrical Multiple Units (EMUs), Transport for London awarded us an order for 152 *Electrostar* EMUs—more than 1,600 of which operate across the country. And, as the year drew to a close, the Netherlands' largest operator, Nederlandse Spoorwagen, awarded us a contract for 50 double-deck electrical multiple units (VIRM type), adding to its existing fleet of 378 VIRM cars.

In North America, we won a major order for metro cars from the Chicago Transit Authority, which operates the second-largest public transportation system in the United States. We also signed key contracts with the Toronto Transit Commission to replace their aging fleet of subway cars, and with the Greater Vancouver Transportation Authority to supply Advanced Rapid Transit (ART) MK II vehicles for the city's SkyTrain automated transit system.

In Asia-Pacific, a Bombardier-led consortium in Kuala Lumpur, Malaysia, won a contract to supply additional ART MK II cars, enlarging the operator's existing fleet. These cars will serve the 29-km Kelana Jaya line—Asia's longest fully automated driverless system, built by a Bombardier-led consortium in 1998. In China, we participate in three joint ventures and have three wholly owned enterprises. Bombardier Sifang Power (Qingdao) Transportation Ltd., one of these joint ventures, completed delivery of high-altitude passenger rail cars for Qinghai-Tibet Railway. We also won several high-profile projects, including one for vehicles that will operate on the rail link between Beijing Capital International Airport, downtown Beijing and the Athletes' Village for the 2008 Summer Olympic Games. The contract, awarded to our long-time partner Changchun Railway Vehicles (CRC), calls for Bombardier ART MK II cars. Bombardier marked the delivery of its 1,000th metro car to China in June 2006—a *MOVIA* car produced by CRC.

In South Africa this past year, as a member of the Bombela consortium, we won a major contract from the Gauteng Provincial Government for a rapid rail system. Our share of the design-build contract includes 96 *Electrostar* vehicles, *CITYFLO* 250 train control technology, and other systems. We will also provide 15 years of maintenance services for the line under a separate contract.

In Australia, we also won two key contracts late in the year. The Western Australian and Queensland Governments

each awarded our Australian joint venture an order for additional three-car electric commuter trains.

Services and systems add value to customer relationships

Bombardier Transportation's wide range of services, signalling systems and other solutions add significant value, enabling customers to focus on their business while we manage maintenance and other non-core operations. During the past year, Italy's Trenitalia awarded us a major contract to maintain its fleet of Bombardier-built locomotives. First Great Western, the United Kingdom's leading transport company, selected us to refurbish more than 400 cars. And in North America, we won a contract to overhaul passenger cars for New York's Metro-North Railroad.

In signalling, we inaugurated the first *INTERFLO* 450 computer-based traffic management system for the Netherlands' Amsterdam-Utrecht line, one of Europe's busiest routes. We also put into service our first *EBI* Lock computer-based interlocking system with Deutsche Bahn in Germany, opening up new market potential in that country. As part of the Metronet Rail consortium, which has a 30-year maintenance and upgrade contract for two-thirds of the London Tube, we also won a contract to supply signalling and other systems for the Waterloo & City line.

A TRIBUTE TO OUR PEOPLE

From a small entrepreneurial company, Bombardier has grown into a global organization that straddles continents and employs tens of thousands of men and women in dozens of communities. We owe this extraordinary transformation to our employees' talent and dedication. Today, however, we operate in global markets that are far more competitive than they were ten or even five years ago. These pressures make it incumbent on every employee and manager to focus on the qualities that got us here. These qualities are ingenuity, integrity, passion and teamwork. But in today's more competitive environment, we must also insist on flawless execution in all we do. Employees are showing leadership and commitment. They're demonstrating an understanding that our shared success hinges on countless personal decisions made daily across the Corporation. That there are no shortcuts, and that the drive to go the extra mile does add up to more satisfied customers, greater market share, investment in new products and markets and, ultimately, renewed growth. We thank all our employees for their outstanding efforts and commitment to our shared future.

Governance and corporate responsibility

Once again this year, we have benefited from the open communication that characterizes our work with the Corporation's Board of Directors. The Office of the President and senior management kept the Directors abreast of issues and opportunities as they arose, and the result has been a well-informed Board, making sound decisions for our future. We would like to thank our Directors for fulfilling their obligation to shareholders with dedication and integrity. Their qualifications and solid background in aerospace, rail transportation, manufacturing and international business have served Bombardier well, and we look forward to working with them in the coming year.

We wish to express our gratitude to our fellow Board member, James E. Perrella, who will step down in May 2007. Mr. Perrella has continuously shared his wealth of knowledge and experience with his Board colleagues and with Bombardier senior management since becoming a Director in 1999, and Lead Director in 2003.

In addition, we welcome to the Board Jean-Pierre Rosso, an independent Director who was elected at our May 2006 annual meeting. Mr. Rosso's wide experience in the senior ranks of international business and manufacturing has already proven to be a definite asset to our company.

Bombardier's corporate governance complies with all reporting and regulatory requirements, and is consistent with the highest ethical standards. We believe that honesty, transparency and fair dealing, as spelled out in our code of ethics, form the backbone of our reputation and success. However, even with these principles entrenched in our culture, we are determined to do more. We invite you to learn more about our formal commitment to corporate responsibility in the following pages of this report.

TAKING THE LONG VIEW

A global transportation company, Bombardier is itself on a journey whose destination is clear. Given our two strong businesses, we believe we have the right products, and we're headed in the right direction. Challenges will continue to present themselves, as they always do. However, the fundamentals we put in place years ago are continuing to pay off in solid progress, and we have no doubt that we will achieve our objective of sustained profitable growth.

(Signed by)

LAURENT BEAUDOIN, FCA
Chairman
of the Board and
Chief Executive Officer
Bombardier Inc.

(Signed by)

PIERRE BEAUDOIN
President and Chief Operating Officer
Bombardier Aerospace
Executive Vice President
Bombardier Inc.

(Signed by)

ANDRÉ NAVARRI
President
Bombardier Transportation
Executive Vice President
Bombardier Inc.

BOARD OF DIRECTORS

LAURENT BEAUDOIN, C.C., FCA
Chairman of the Board
and Chief Executive Officer
Bombardier Inc.

PIERRE BEAUDOIN
President and Chief
Operating Officer
Bombardier Aerospace
Executive Vice President
Bombardier Inc.

ANDRÉ NAVARRI
President
Bombardier Transportation
Executive Vice President
Bombardier Inc.

ANDRÉ BÉRARD
Corporate Director
Chair: Retirement Pension
Oversight Committee
Member: Audit Committee

J.R. ANDRÉ BOMBARDIER
Vice Chairman of the Board
Bombardier Inc.

JANINE BOMBARDIER
President and Governor
J. Armand Bombardier Foundation

L. DENIS DESAUTELS
Corporate Director
Chair: Audit Committee
Member: Retirement Pension
Oversight Committee

MICHAEL J. DURHAM
Corporate Director
Member: Audit Committee,
Retirement Pension
Oversight Committee

JEAN-LOUIS FONTAINE
Vice Chairman of the Board
Bombardier Inc.

DANIEL JOHNSON
Counsel
McCarthy Tétrault LLP
Member: Audit Committee,
Retirement Pension
Oversight Committee

JEAN C. MONTY
Corporate Director
Chair: Human Resources
and Compensation Committee
Member: Corporate Governance
and Nominating Committee

JAMES E. PERRELLA
Retired Chairman and
Chief Executive Officer
Ingersoll-Rand Company
Chair: Corporate Governance
and Nominating Committee
Member: Human Resources
and Compensation Committee

CARLOS E. REPRESAS
Chairman of the Board
Nestlé Group México
Member: Human Resources
and Compensation Committee,
Retirement Pension
Oversight Committee

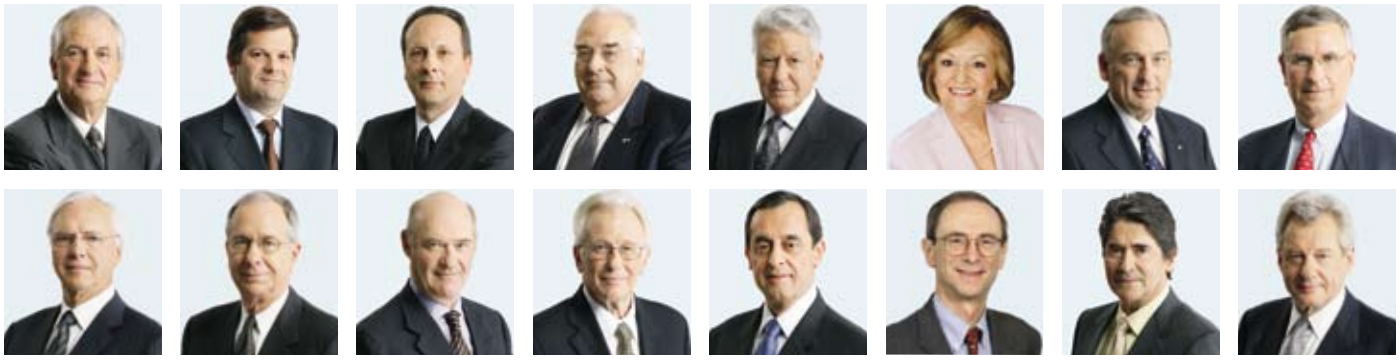
JEAN-PIERRE ROSSO
Chairman
World Economic Forum USA Inc.
Member: Audit Committee

FEDERICO SADA G.
President and
Chief Executive Officer
Vitro, S.A. de C.V.
Member: Corporate Governance
and Nominating Committee

HEINRICH WEISS
Chairman and
Chief Executive Officer
SMS GmbH
Member: Human Resources
and Compensation Committee,
Corporate Governance and
Nominating Committee

From left to right
top row:
Laurent Beaudoin
Pierre Beaudoin
André Navarri
André Bérard
J.R. André Bombardier
Janine Bombardier
L. Denis Desautels
Michael J. Durham

From left to right
bottom row:
Jean-Louis Fontaine
Daniel Johnson
Jean C. Monty
James E. Perrella
Carlos E. Represas
Jean-Pierre Rosso
Federico Sada G.
Heinrich Weiss



Bombardier has achieved success at home and abroad by consolidating its competitive position in traditional markets, while identifying high-potential growth opportunities in newer ones. Ever attentive to current and future challenges, Bombardier is expanding its markets geographically in both of its transportation businesses.

In Aerospace, Bombardier is well entrenched in the U.S. regional and business aircraft markets and continues to diversify its customer base worldwide. While steadily growing its presence in both of these markets in Europe, Bombardier is deepening its penetration of high-potential markets such as in China, India, Russia and Eastern Europe. Bombardier's growing installed base of *CRJ* and *Q-Series* regional aircraft, and industry-leading *Learjet*, *Challenger* and *Global* business jet families, position it well to face the competition and to meet strong international demand.

Similarly, when one of the world's most respected rail operators in one of the most challenging markets chooses Bombardier to fulfill one of the largest rail equipment contracts ever awarded, it speaks volumes about market acceptance and competitive position. It also illustrates the high regard in which Bombardier is held by customers—in this case SNCF (French National Railways), which ordered 372 state-of-the-art commuter trains for the Greater Paris/Île-de-France suburban network. Recent major orders in Malaysia, South Africa and China underscore Bombardier's competitiveness in these markets as well.

:: Greater Paris/Île-de-France commuter train (artistic rendering)

:: *Global Express XRS* business jet

THE RIGHT MARKETS

Recognizing that each market has its own particular needs, which are best served with specific solutions, Bombardier has created one of the world's broadest product portfolios in aerospace and rail transportation.

Take the Bombardier *Q400* turboprop, for example. Launched in 1995, this 68- to 78-seat aircraft is now in service with, or has been ordered by, 20 operators on four continents. Flying more than 220 routes, with some 19,500 departures per month, the *Q400* turboprop's low operating costs are opening up new revenue-generating opportunities for operators worldwide. With its advanced technology, it offers operators and passengers the performance and comfort of jet travel, but without the noise and vibration associated with turboprops. By virtue of its considerable capabilities, the *Q400* turboprop is also an ideal solution for maritime patrol, intelligence gathering, and other non-airline missions.

With a portfolio of 20 intercity and high-speed rail solutions, including seven different high-speed power heads, Bombardier is involved in producing some of the most prominent high-speed and very high-speed trains in operation around the world. This includes more than 540 very high-speed trains in the heart of the world's largest rail market—Europe. Well known examples of European very high-speed products include ICE trains in Germany and the Netherlands, France's TGV, Italy's ETR 500, and Spain's AVE S-102.

:: *Q400* turboprop

:: AVE S-102 very high-speed train

THE RIGHT PRODUCTS

Bombardier's global reputation for excellence and innovation is built on the contributions of some 56,000 dedicated employees—those who work in manufacturing, service and sales facilities around the world. Through their ingenuity, integrity, passion and team spirit, they make Bombardier a world-class company.

Today, as competition becomes ever more intense, Bombardier is fostering a work environment in its manufacturing and service facilities where employees can contribute to their full potential. An environment that encourages initiative, where teams can focus on improving processes by identifying and adopting best practices. An environment where individuals are empowered to make critical decisions every day. A work environment, ultimately, that is more stimulating and rewarding than ever before.

This broad employee commitment, and its attendant impact on the workplace, is producing positive results on Bombardier's people, organization and bottom line. Indeed, this climate of constructive and productive cooperation reflects the kind of exemplary leadership that Bombardier has defined and encourages at all levels of the organization.

:: Michèle Dumont, aircraft assembler (left), and Jonathan Piché, mechanic (right), working on a *Challenger 605* business jet at Bombardier's facility located in Dorval, Canada.

:: Robert Boulanger, pipefitter (left), and Rodolphe Catoire, team leader (right), working on the assembly of a high-capacity AGC at Bombardier's facility located in Crespin, France.

THE RIGHT PEOPLE

OUR COMMITMENT TO CORPORATE RESPONSIBILITY

At Bombardier, we're committed to being a responsible corporate citizen. As a leader in providing worldwide sustainable transportation solutions, we recognize our responsibility to act in harmony with our mission, core values and leadership attributes. Our commitment to corporate responsibility rests on three pillars—Excellence, People and the Environment.

EXCELLENCE

We take pride in our work—in the design, manufacture and servicing of products and systems that facilitate the mobility of people and goods. As a leader, we play a central role in developing transportation solutions that address global mobility challenges and opportunities. We work to achieve excellence in every facet of our business through our interactions with our employees, shareholders, customers, suppliers, communities and other stakeholders.

PEOPLE

We put people first. We communicate openly in our workplace, to create an environment that fosters fairness, respect and diversity, and that rewards effort. A respect for health and safety and labour standards is a fundamental responsibility that governs all of our activities. In the communities where we operate, we contribute positively through activities such as partnering, philanthropy and volunteering.

ENVIRONMENT

We foster sustainability. To maximize our products' inherent environmental advantages, we build energy efficiency into the design phase. We incorporate end-of-life considerations into product research and design. And we customize our management systems and operations to minimize our environmental impacts, setting challenging targets that help us to continuously improve our sustainability performance.

CORPORATE RESPONSIBILITY

OUR PATH FORWARD

WHERE WE WERE

As our policies, programs, code of conduct, values and our Executives' commitment demonstrate, sustainability has always been an important part of how Bombardier conducts its business.

However, even with these practices in place, we recognized that we could do more. We therefore began to explore the possibility of expanding our corporate responsibility through a formalized commitment and renewed communication framework.

As a first step, we spent several months compiling a comprehensive inventory of our corporate responsibility activities and practices to provide us with a clear picture of where we stood.

This inventory includes a report from Bombardier Transportation, published in March 2007, which fulfills our requirements as a signatory to the International Association of Public Transport (UITP) Charter on Sustainable Development.

WHERE WE ARE

The results of our inventory showed that although we already support and meet multiple corporate governance standards and sustainability initiatives, we still have room to improve. We continue to use gap analysis tools to ensure that all key areas of corporate responsibility will be identified and addressed.

Our progress thus far is to define and formalize Bombardier's commitment to corporate responsibility. This commitment will ensure that all our operations—in both our Aerospace and Transportation Groups—share a common understanding and approach to delivering sustainability.

WHERE WE'RE GOING

With our defined commitment statement in place to guide us, we will forge ahead with focus and determination. However, we are realistic in recognizing that a comprehensive and transparent corporate responsibility program is a journey.

As a next step, we're preparing a roadmap to be released within the first half of 2007.

We look forward to sharing our progress with our stakeholders and demonstrating renewed accountability as we advance our commitment to corporate responsibility.

:: Bombardier is proud to support the J. Armand Bombardier Foundation by contributing to the financial resources the Foundation needs to fulfill its mission. In addition to the past year's contribution of $4 million Cdn to the Foundation, Bombardier also directly engaged as a donor and a sponsor of projects that advance the well-being of communities in which it operates. In Canada, as well as in cities such as Washington, Wichita, Mexico, Belfast, and Berlin, these projects amounted to a contribution of almost $5 million during the past year. For more details, we invite you to consult our corporate responsibility roadmap, to be released within the first half of 2007.

THE J. ARMAND BOMBARDIER FOUNDATION CELEBRATES A CENTENNIAL YEAR

Joseph-Armand Bombardier—inventor, entrepreneur, community pillar and company founder—was born 100 years ago in Valcourt, Québec. Mr. Bombardier understood the importance of community investment. He believed that we all share a responsibility to keep our communities vibrant and strong. To honour Mr. Bombardier's humanitarian spirit, his family established in 1965 a foundation that supports educational, health, social, philanthropic and cultural causes in Québec and across Canada. The Foundation has since distributed more than $80 million Cdn to a large number of charitable organizations, as well as $2.6 million Cdn in educational bursaries.

During this centennial year, the Foundation is celebrating at the J. Armand Bombardier Museum and Yvonne L. Bombardier Cultural Centre in Valcourt. A permanent exhibit, "Joseph-Armand Bombardier: 1907-2007—A Passion for Invention and Entrepreneurship," goes on display this year at Québec's only private science and technology museum. The Cultural Centre, named in honour of Mr. Bombardier's wife, is mounting an exhibit devoted to another favourite local son, the painter Frederick S. Coburn (1871-1960). The Cultural Centre helps to nurture local talent and pursues its mission through its library, art gallery and workshops.

During the past year, the Foundation donated more than $5 million Cdn toward a wide range of causes, and joined the Bombardier family and company employees in supporting Centraide/United Way corporate campaigns in Montréal and in other Canadian communities where Bombardier operates. The Foundation also made a major grant to the University of Sherbrooke Foundation's Ensemble Campaign, which comprises six renowned centres of excellence in health and education—two of the four key sectors upon which the Foundation concentrates its support.

EDUCATION

Recognizing that education is the cornerstone of every prosperous society, the Foundation invested more than 56% of its budget in this area, chiefly in major Canadian universities. For example, at the University of British Columbia, a Chair in Urban Transportation is yielding novel insights into the critical linkages between transportation systems, land use and development to help nations build healthier cities. At the Trois-Rivières campus of University of Québec, a J. Armand Bombardier Chair in strategic business alliances and risk management is formulating best practices to help small- and medium-sized companies compete more effectively in the global economy. And at McGill University, a joint Chair in Multidisciplinary Computational Fluid Dynamics is using advanced computer airflow models to help build safer and better performing aircraft. The Foundation also contributed to a major fundraising campaign at the Montréal campus of the University of Québec to help establish a centre where students can better prepare personally, financially and socially for overseas studies, and therefore derive maximum benefit from the experience. The Foundation's five-year $1.75 million Cdn fellowship program, the Bourses Internationalistes J. Armand Bombardier, successfully completed its mandate during the same year, having helped 125 students gain valuable experience during their studies abroad.

THE J. ARMAND BOMBARDIER FOUNDATION

SOCIAL AND HUMANITARIAN DEVELOPMENT

In keeping with Mr. Bombardier's humanitarian spirit, the Foundation disbursed 23% of its budget in support of a broad range of groups dedicated to community development, family and child welfare, as well as to fighting violence, sexual abuse, poverty, addiction and discrimination.

Among the many groups that receive support from the Foundation, PROMIS helps immigrants to integrate into Canadian society, providing access to a range of services and temporary housing. Fondation Ressources Jeunesse gives leadership workshops based on the inspiring career of J. Armand Bombardier to unemployed young adults, helping them take control of their own careers and enter the job market. La Maison l'Escargot provides a loving home and supportive care in Québec's Montérégie region to children aged three to six years, which are abandoned or are at risk of rejection. Often emotionally scarred, these children need professional help to heal and, ultimately, to be welcomed by a foster family. In a more urban setting, Centre 1, 2, 3, GO! works in underprivileged neighbourhoods to provide a supportive environment in which children under the age of three can grow and develop. And, turning its sights outside our borders, the Foundation also supported Oxfam-Québec's humanitarian aid program during the last major crisis in the Middle East.

HEALTH

The Foundation maintained its longstanding support of health care and research during the 2007 fiscal year. Among the beneficiaries was the Juvenile Diabetes Foundation, whose researchers seek to reduce the suffering associated with type 1 diabetes and its complications. The Québec Arthritis Association funds services, treatment, research and public awareness. In the area of prostate cancer, ProCURE Alliance supports patient care, education and awareness, and research into the most common form of cancer among men. Working with four leading universities, ProCURE is also developing a biobank to help researchers and clinicians find a cure. And the Fondation du Centre hospitalier Notre-Dame de la Merci is dedicated to enhancing the quality of life of people confined to their bed or wheelchair.

ARTS AND CULTURE

In support of the performing arts, the Foundation contributed to Les Grands Ballets Canadiens de Montréal's Creation Fund, which invests in new productions, costumes and stage sets. La Maison Théâtre, another Foundation beneficiary, funds dozens of touring troupes that bring the theatre experience to thousands of Québec children and youth from every walk of life and every region. The renowned Montréal Symphony Orchestra also received a grant from the Foundation, in support of its development and continued excellence.

During this centennial year of J. Armand Bombardier's birth, the Foundation will more than ever honour this remarkable man's legacy and a life that celebrated the heart as well as the mind.

INVESTOR INFORMATION

SHARE CAPITAL

Authorized, issued and outstanding as at January 31, 2007

	AUTHORIZED	ISSUED AND OUTSTANDING
Class A shares	1,892,000,000	317,044,051
Class B shares	1,892,000,000	1,433,422,917*
Preferred shares, Series 2	12,000,000	2,597,907
Preferred shares, Series 3	12,000,000	9,402,093
Preferred shares, Series 4	9,400,000	9,400,000

* Including 11,847,000 shares purchased and held in trust for the performance stock unit plan.

STOCK EXCHANGE LISTINGS

Class A and Class B shares	Toronto (Canada)
Preferred shares, Series 2, Series 3 and Series 4	Toronto (Canada)
Stock listing ticker	BBD (Toronto)

PREFERRED DIVIDENDS PAYMENT DATES

For fiscal year 2008 – Payment subject to approval by the Board of Directors

SERIES 2

RECORD DATE	PAYMENT DATE	RECORD DATE	PAYMENT DATE
2007-01-31	2007-02-15	2007-07-31	2007-08-15
2007-02-28	2007-03-15	2007-08-31	2007-09-15
2007-03-30	2007-04-15	2007-09-28	2007-10-15
2007-04-30	2007-05-15	2007-10-31	2007-11-15
2007-05-31	2007-06-15	2007-11-30	2007-12-15
2007-06-29	2007-07-15	2007-12-31	2008-01-15

Convertible on August 1, 2007, into Series 3 Cumulative Redeemable Preferred Shares (See note 11 – Share Capital in the Consolidated Financial Statements)

SERIES 3

RECORD DATE	PAYMENT DATE
2007-04-13	2007-04-30
2007-07-13	2007-07-31
2007-10-19	2007-10-31
2008-01-18	2008-01-31

Convertible on August 1, 2007, into Series 2 Cumulative Redeemable Preferred Shares (See note 11 – Share Capital in the Consolidated Financial Statements)

SERIES 4

RECORD DATE	PAYMENT DATE
2007-04-13	2007-04-30
2007-07-13	2007-07-31
2007-10-19	2007-10-31
2008-01-18	2008-01-31

SHAREHOLDERS

If you wish to obtain a copy of this annual report or other corporate documents, we encourage the download from the Corporation's website at www.bombardier.com, allowing a practical, timely and environmentally friendly access. You can however order paper copies from the Corporation's website by going to Investor Relations, then Contacts, or make a request at the following address:

BOMBARDIER INC.
PUBLIC AFFAIRS
800 René-Lévesque Blvd. West
Montréal, Québec
Canada H3B 1Y8
Telephone: +1 514 861-9481, extension 3390
Fax: +1 514 861-2420

INVESTORS

BOMBARDIER INC.
INVESTOR RELATIONS
800 René-Lévesque Blvd. West
Montréal, Québec Canada H3B 1Y8
Telephone: +1 514 861-9481, extension 3487
Fax: +1 514 861-2420
E-mail: investors@bombardier.com

TRANSFER AGENT AND REGISTRAR

Shareholders with inquiries concerningtheir shares should contact:

COMPUTERSHARE INVESTOR SERVICES INC.
100 University Avenue, 9th Floor
Toronto, Ontario
Canada M5J 2Y1

1500 University Street, Suite 700
Montréal, Québec
Canada H3A 3S8

Telephone: +1 514 982-7555 or +1 800 564-6253 (toll-free, North America only)
Fax: +1 416 263-9394 or +1 888 453-0330 (toll-free, North America only)
E-mail: service@computershare.com

INCORPORATION

The Corporation was incorporated on June 19, 1902, by letters patent and prorogated June 23, 1978, under the Canadian Business Corporations Act.

AUDITORS

Ernst & Young LLP
1 Place Ville-Marie
Montréal, Québec
Canada H3B 3M9

ANNUAL MEETING

The annual meeting of shareholders will be held on Tuesday, May 29, 2007, at 9:30 a.m. at the following address:

Hyatt Regency Montréal
Grand Salon
1255 Jeanne-Mance Street
Montréal, Québec
Canada H5B 1E5

DUPLICATION: Although Bombardier strives to ensure that registered shareholders receive only one copy of corporate documents, duplication is unavoidable if securities are registered under different names and addresses. If this is the case, please call one of the following numbers: +1 514 982-7555 or +1 800 564-6253 (toll-free, North America only) or send an e-mail to service@computershare.com.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts in the tables of this report are in millions of U.S. dollars, unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

I. PROFILE

Bombardier Inc. is a world-leading manufacturer of innovative transportation solutions operating under two manufacturing segments: Aerospace and Transportation.

– Aerospace is a world leader in the design and manufacture of innovative aviation products and is a provider of related services for the business, regional and specialized aircraft markets. Aerospace offers comprehensive families of regional jets and turboprops and a wide range of business jets. It also offers the *Flexjet* fractional ownership and *Skyjet* hourly flight time entitlement programs, parts logistics, technical services, aircraft maintenance and pilot training. Aerospace accounted for 56% of total revenues in fiscal year 2007.

– Transportation is the global leader in the rail equipment and system manufacturing and a provider of related services, 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. Transportation accounted for 44% of total revenues in fiscal year 2007.

Total revenues amounted to $14.8 billion for fiscal year 2007. The Corporation derives 45% of its revenues from Europe and 32% from the United States ("U.S."). More than 96% of its revenues are generated from markets outside Canada. The Corporation has a global workforce of approximately 56,000 employees as at January 31, 2007.

Net income of

$268

million

Free cash flow of

$610

million

HIGHLIGHTS

> Order backlog of $40.7 billion as at January 31, 2007, an increase of $9.1 billion compared to January 31, 2006.

> EBITDA from continuing operations before special items of $1,095 million ($1,071 million after special items), compared to $990 million ($902 million after special items) last fiscal year.

> Income from continuing operations of $243 million ($0.12 per share), compared to $135 million ($0.06 per share) last fiscal year.

> Net income of $268 million, compared to $249 million last fiscal year.

> Free cash flow of $610 million, an increase of $78 million compared to last fiscal year.

> Repayment of $2.3 billion of long-term debt and issuance of €1.6 billion ($2.1 billion) and $385 million of senior notes and closing of a €4.3-billion ($5.6-billion) letters of credit facility, part of a refinancing plan to provide the Corporation with increased financial and operating flexibility.

II. NON-GAAP FINANCIAL MEASURES

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

EBITDA
Earnings (loss) before financing income, financing expense, income taxes and depreciation and amortization

EBITDA BEFORE SPECIAL ITEMS
Earnings (loss) before financing income, financing expense, income taxes, depreciation and amortization and special items

EBIT BEFORE SPECIAL ITEMS
Earnings (loss) before financing income, financing expense, income taxes and special items

EBT BEFORE SPECIAL ITEMS
Earnings (loss) before income taxes and special items

EPS BEFORE SPECIAL ITEMS
Earnings (loss) per share before special items

FREE CASH FLOW
Cash flows from operating activities less net additions to property, plant and equipment

These non-GAAP measures are directly derived from the Consolidated Financial Statements, but do not have a standardized meaning prescribed by GAAP; therefore, others using these terms may calculate them differently. The reconciliation to the most comparable GAAP measures, from continuing operations, is provided in the following sections:

– EBITDA, EBITDA before special items and EBIT before special items, to EBIT – see the Analysis of results table in the Aerospace and Transportation sections.
– EBIT and EBT, before special items, to EBT – see the Selected financial information table below.
– Earnings per share before special items to earnings per share – see the Reconciliation of earnings per share tables below.
– Free cash flow to cash flows from operating activities – see the Cash flows table below.

Management believes that a significant portion of the users of its MD&A analyze the Corporation's results based on these performance measures and that this presentation is consistent with industry practice. Special items are related to the Transportation's restructuring plan initiated in fiscal year 2005. Management views these items as potentially distorting the analysis of trends.

III. CONSOLIDATED FINANCIAL INFORMATION

SELECTED FINANCIAL INFORMATION

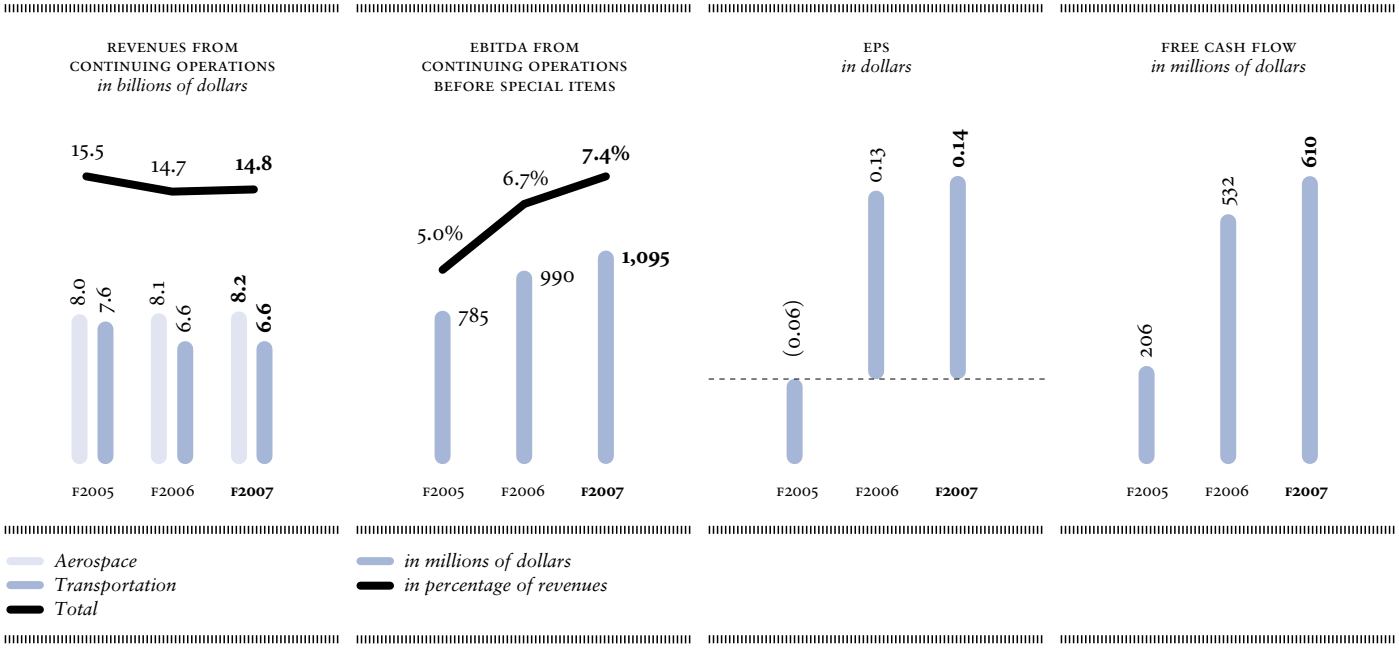
Selected financial information was as follows for fiscal years:

	2007	2006
Revenues	**$14,816**	$14,726
EBITDA from continuing operations before special items	**$ 1,095**	$ 990
Amortization	**518**	545
EBIT from continuing operations before special items	**577**	445
Financing income	**(157)**	(156)
Financing expense	**375**	363
EBT from continuing operations before special items	**359**	238
Special items	**24**	88
EBT from continuing operations	**335**	150
Income taxes	**92**	15
Income from continuing operations	**243**	135
Income from discontinued operations, net of tax[1]	**25**	114
Net income	**$ 268**	$ 249
Basic and diluted earnings per share *(in dollars)*:		
From continuing operations	**$ 0.12**	$ 0.06
Net income	**$ 0.14**	$ 0.13
(as a percentage of revenues)		
EBITDA from continuing operations before special items	**7.4%**	6.7%
EBIT from continuing operations before special items	**3.9%**	3.0%
EBT from continuing operations before special items	**2.4%**	1.6%
EBT from continuing operations	**2.3%**	1.0%
Order backlog *(in billions of dollars)*	**$ 40.7**	$ 31.6
Cash and cash equivalents	**$ 2,648**	$ 2,917
Free cash flow	**$ 610**	$ 532

1 Related to Bombardier Capital's ("BC") inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations (see note 6–Discontinued operations and assets held for sale to the Consolidated Financial Statements), which were all sold as of January 31, 2007.

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

	2007	2006
Income from continuing operations before special items, net of tax	**$ 265**	$ 212
Special items, net of tax	**(22)**	(77)
Income from continuing operations	**$ 243**	$ 135
Basic and diluted earnings per share *(in dollars)*:		
From continuing operations before special items, net of tax	**$ 0.14**	$ 0.11
Special items, net of tax	**(0.01)**	(0.04)
From continuing operations	**$ 0.12**	$ 0.06



ANALYSIS OF RESULTS

Revenues

The $90-million increase mainly reflects:

– higher manufacturing revenues for business aircraft ($528 million);
– higher services and system and signalling revenues in Transportation ($237 million);
– higher service revenues in Aerospace ($85 million); and
– additional fractional share revenues and increased revenues for external subcontracting activities ($64 million).

Partially offset by:

– lower overall deliveries and lower selling prices for regional aircraft ($568 million); and
– lower rolling stock revenues ($290 million).

EBITDA margin from continuing operations before special items

The 0.7 percentage-point increase is mainly due to:

– a higher EBITDA margin in Transportation, mainly due to the rollout of the margin and quality enhancement program, which focused on procurement, engineering and project management; and
– a higher EBITDA margin in Aerospace, mainly due to overall increased deliveries for business aircraft and turboprops, a favourable mix and improved selling prices for business aircraft, lower sales incentive costs and non-recurring items, partially offset by lower deliveries for *CRJ200* aircraft, higher net excess-over-average production costs ("EOAPC") charge, lower overall deliveries, selling prices and margins for *CRJ700* and *CRJ900* aircraft and by lower margins on wide-body business aircraft interior deliveries.

Amortization
The $27-million decrease is mainly due to an impairment charge, recorded in fiscal year 2006, in connection with trademarks.

Financing income and Financing expense
Net financing expense amounted to $218 million, compared to $207 million last fiscal year. The $11-million increase mainly reflects:
– lower financing income from loans and lease receivables related to aircraft financing portfolios, consistent with the reduction in the average balance of these portfolios ($28 million);
– a higher interest expense on long-term debt ($11 million); and
– financing costs related to the refinancing plan ($11 million).
Partially offset by:
– higher interest income on cash and cash equivalents ($16 million); and
– by lower accretion expense on certain sales incentives ($11 million).

Special items
Special items are related to the Transportation's restructuring plan initiated in fiscal year 2005, which is now completed. The final charge related to this plan was recorded in the first quarter of fiscal year 2007.

Income taxes
For fiscal year 2007, the effective income tax rate was 27.5%, compared to the statutory income tax rate of 32.8%. The lower effective tax rate compared to the statutory income tax rate is mainly due to the net change in the recognition of tax benefits related to operating losses and temporary differences, permanent differences and lower income tax rates of foreign investees, partially offset by the write down of tax benefits related to deferred tax assets.

For fiscal year 2006, the effective income tax rate was 10.0%, compared to the statutory income tax rate of 32.0%. The lower effective tax rate compared to the statutory income tax rate is mainly due to the net change in the recognition of tax benefits related to operating losses and temporary differences, lower income tax rates of foreign investees and the impact of the strengthening of the Canadian dollar compared to the U.S. dollar on the Canadian dollar denominated deferred income tax asset, partially offset by permanent differences and the write down of deferred tax assets.

Details of the components of the income tax expense are provided in note 16 – Income taxes to the Consolidated Financial Statements.

Income from discontinued operations, net of tax
For fiscal year 2007, income from discontinued operations, net of tax, includes a net after-tax gain amounting to $17 million and results from operations of $8 million ($90 million and $24 million, respectively, for fiscal year 2006).

CASH FLOWS

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

	2007	2006
Income from continuing operations	**$ 243**	$ 135
Non-cash items	**469**	508
Net change in non-cash balances related to operations	**179**	111
Cash flows from operating activities	**891**	754
Net additions to property, plant and equipment	**(281)**	(222)
Free cash flow	**610**	532
Cash flows from investing activities (excluding net additions to property, plant and equipment)	**(1,138)**	1,556
Cash flows from financing activities	**57**	(907)
Effect of exchange rate changes on cash and cash equivalents	**134**	(174)
Cash flows from continuing operations	**(337)**	1,007
Cash flows from discontinued operations	**63**	(440)
Net increase (decrease) in cash and cash equivalents	**$ (274)**	$ 567

Free cash flow

The $78-million increase is mainly due to:
– the increase in Transportation's free cash flow ($221 million).
Partially offset by:
– the decrease in Aerospace's free cash flow ($86 million); and
– the negative impact of income taxes and net financing expense ($57 million).

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

The cash flows used for fiscal year 2007 mainly reflect:
– the purchase of invested collateral used to secure the Corporation's obligations under the new letters of credit facility of €4.3 billion ($5.6 billion) entered into in December 2006 ("New letters of credit facility") ($1.1 billion); and
– prepayment under an exchange agreement ($150 million).
Partially offset by:
– the disposal of discontinued operations, net of cash disposed ($161 million) (see note 6 – Discontinued operations and assets held for sale to the Consolidated Financial Statements).

The cash flows for fiscal year 2006 mainly reflect the disposal of discontinued operations, net of cash disposed ($1.4 billion) and the proceeds from the settlement of a derivative financial instrument prior to its maturity ($209 million).

Cash flows from financing activities

The cash flows for fiscal year 2007 mainly reflect:
– the issuance, in November 2006, of €1.6 billion ($2.1 billion) and $385 million of senior notes.
Partially offset by:
– the retirement, prior to maturity, of $220 million and the repurchase of €500 million ($640 million) of BC's notes, as well as the repurchase of €218 million ($279 million) of the outstanding €500 million ($640 million) of notes, in November 2006;
– the repayments, at maturity, of $450 million and $200 million Cdn ($176 million) of BC's notes in June and July 2006, respectively; and
– the repayments, at maturity, of £175 million ($305 million) and $150 million Cdn ($130 million) of debentures in February and December 2006, respectively.

The cash flows used for fiscal year 2006 reflect the net repayment of long-term debt ($868 million).

Cash flows from discontinued operations

The cash flows for fiscal year 2007 mainly reflect cash flows from operating activities ($65 million).

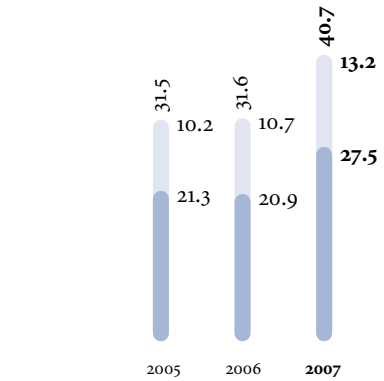
The cash flows used for fiscal year 2006 reflect:
– cash flows used in financing activities ($586 million).
Partially offset by:
– cash flows from investing and operating activities ($146 million).

As a result of the above items, cash and cash equivalents amounted to $2.6 billion as at January 31, 2007, compared to $2.9 billion as at January 31, 2006.

ORDER BACKLOG

The $9.1-billion increase is due to:
– a higher order intake compared to revenues recorded for Transportation ($5.2 billion) and Aerospace ($2.5 billion); and
– the net positive currency adjustment in Transportation ($1.4 billion), mainly arising from the strengthening of the euro and the pound sterling compared to the U.S. dollar as at January 31, 2007 compared to January 31, 2006.

ORDER BACKLOG
(as at January 31, in billions of dollars)



IV. FOURTH QUARTER RESULTS

HIGHLIGHTS

> EBITDA from continuing operations of $372 million, compared to $306 million before special items ($269 million after special items) for the same period last fiscal year.
> Net income of $112 million ($0.06 per share), compared to $86 million ($0.05 per share) for the same period last fiscal year.
> Free cash flow of $1.1 billion, an increase of $473 million compared to the same period last fiscal year.
> Repayment of $2.3 billion of long-term debt and issuance of €1.6 billion ($2.1 billion) and $385 million of senior notes and closing of the New letters of credit facility, part of a refinancing plan to provide the Corporation with increased financial and operating flexibility.

SELECTED QUARTERLY FINANCIAL INFORMATION

Selected financial information was as follows for the three-month periods ended January 31:

	2007			2006		
	BA	BT	TOTAL	BA	BT	TOTAL
Revenues	**$2,558**	**$1,829**	**$4,387**	$2,400	$1,635	$4,035
EBITDA from continuing operations before special items	**$ 253**	**$ 119**	**$ 372**	$ 197	$ 109	$ 306
Amortization	**95**	**33**	**128**	90	56	146
EBIT from continuing operations before special items	**158**	**86**	**244**	107	53	160
Special items	**–**	**–**	**–**	–	37	37
EBIT from continuing operations	**$ 158**	**$ 86**	**244**	$ 107	$ 16	123
Financing income			**(48)**			(52)
Financing expense			**118**			98
EBT from continuing operations			**174**			77
Income tax expense (recovery)			**62**			(8)
Income from continuing operations			**112**			85
Income from discontinued operations, net of tax			**–**			1
Net income			**$ 112**			$ 86
Basic and diluted earnings per share *(in dollars)*:						
From continuing operations			**$ 0.06**			$ 0.05
Net income			**$ 0.06**			$ 0.05
(as a percentage of revenues)						
EBITDA from continuing operations before special items	**9.9%**	**6.5%**	**8.5%**	8.2%	6.7%	7.6%
EBIT from continuing operations before special items	**6.2%**	**4.7%**	**5.6%**	4.5%	3.2%	4.0%
EBIT from continuing operations	**6.2%**	**4.7%**	**5.6%**	4.5%	1.0%	3.0%
EBT from continuing operations			**4.0%**			1.9%
Free cash flow			**$1,120**			$ 647

BA: Aerospace; BT: Transportation.

ANALYSIS OF RESULTS

Revenues

The $352-million increase is mainly due to:
– increased rolling stock revenues ($104 million);
– higher manufacturing revenues for business aircraft ($97 million); and
– higher deliveries and a favourable mix for pre-owned regional aircraft ($76 million).

Partially offset by:
– lower manufacturing revenues for regional aircraft ($99 million).

EBITDA margin from continuing operations before special items

The 0.9 percentage-point increase mainly reflects higher EBITDA in Aerospace and Transportation.

The higher EBITDA margin in Aerospace is mainly due to:
– overall increase in deliveries, favourable mix and improved selling prices for business aircraft;
– a gain of $34 million arising from the settlement of a claim with US Airways Group, Inc. and its subsidiaries; and
– increased deliveries for turboprops.

Partially offset by:
– lower overall deliveries, selling prices and margins for *CRJ700* and *CRJ900* aircraft;
– lower margins on wide-body business aircraft interior deliveries; and
– lower deliveries of *CRJ200* aircraft.

The higher EBITDA in Transportation is mainly due to the roll-out of the margin and quality enhancement program, which focused on procurement, engineering and project management.

Amortization

The $18-million decrease is mainly due to an impairment charge, recorded in the fourth quarter of fiscal year 2006, in connection with trademarks.

Financing income and Financing expense

Net financing expense amounted to $70 million, compared to $46 million for the same period last fiscal year. The $24 million increase is mainly due to:
– higher interest expense on long-term debt ($18 million);
– financing cost related to the refinancing plan ($11 million); and
– lower financing income from loans and lease receivables related to aircraft financing portfolios, consistent with the reduction in the average balance of these portfolios ($11 million).

Partially offset by:
– interest income on invested collateral ($4 million); and
– lower accretion expense on certain sales incentives ($4 million).

Special items

Special items for the three-month period ended January 31, 2006 are related to the Transportation restructuring plan initiated in fiscal year 2005.

Income taxes

For the three-month period ended January 31, 2007, the effective income tax rate was 35.6%, compared to the statutory income tax rate of 32.8%. The higher effective tax rate compared to the statutory income tax rate is mainly due to the write down of deferred tax assets, partially offset by permanent differences and the net change in the recognition of tax benefits related to operating losses and temporary differences.

For the three-month period ended January 31, 2006, the Corporation recorded an income tax recovery of $8 million on an EBT from continuing operations of $77 million as a result of the impact of the increase in enacted tax rates in Québec on deferred income tax assets and the strengthening of the Canadian dollar compared to the U.S. dollar.

Free cash flow

The $473-million increase is mainly due to:
– the increases in free cash flow at Aerospace ($301 million) and Transportation ($213 million).

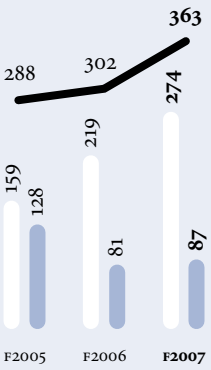
Partially offset by:
– the negative impact of income taxes and net financing expense included in net change in non-cash balances related to operations ($41 million).

AEROSPACE

EBIT

in millions of dollars
in percentage of revenues

NET ORDERS
in units



Business aircraft
Regional aircraft
Total, including amphibious aircraft

Aerospace is a world leader in the design and manufacture of innovative aviation products and is a provider of related services for the business, regional and specialized aircraft markets. Aerospace has production sites in Canada, the U.S., the United Kingdom (Northern Ireland) and, more recently, in Mexico. In addition, Aerospace has maintenance service centres, authorized service facilities, distribution centres and depots for spare parts and several sales and marketing offices around the world. Aerospace has a presence in 20 countries and a workforce of approximately 27,000 employees.

FORWARD-LOOKING STATEMENTS

Forward-looking statements in the Aerospace section of this MD&A are based on:

- *steady real gross domestic product ("GDP") growth and increasing corporate profits in the U.S. and in international markets.*
- *current firm order backlog and estimated future order intake based on:*
  - *similar levels of business aircraft demand (defined as orders) from the U.S. market and continued growth in demand in international markets;*
  - *sustained demand for larger regional jets and turboprops; and*
  - *expected growth in after-market services.*
- *continued deployment and execution of strategic initiatives related to cost reductions.*

363
net orders

Order backlog of
$13.2
billion

EBIT of
$322
million

HIGHLIGHTS

- 363 net orders and 326 new aircraft deliveries, compared to 302 and 337, respectively, last fiscal year.
- Order backlog of $13.2 billion, compared to $10.7 billion as at January 31, 2006.
- EBIT of $322 million or 3.9% of revenues, compared to $266 million or 3.3% last fiscal year.
- Free cash flow of $814 million, compared to $900 million last fiscal year.
- On February 19, 2007, Aerospace launched the *CRJ1000* regional jet designed specifically to address the growing need of airlines for jets of up to 100 seats.

I. PROFILE

MARKET

Business aircraft

The business aircraft market is segmented into narrow-body and wide-body aircraft, based on cabin size, aircraft range and price. Narrow-body aircraft is divided into four categories: very light, light, super light and midsize. Wide-body aircraft is divided into five categories: super midsize, large, super large, ultra long range and corporate airliner. Aerospace competes in eight of the nine categories from light to corporate airliner, which on a revenue basis, represented 97% of the total business aircraft market for calendar year 2006.

According to a report released by the General Aviation Manufacturers Association ("GAMA") on February 9, 2007, shipments of every type of business aircraft increased in calendar year 2006, leading to a record level in industry billings. According to this report, there were 798 business aircraft delivered in the light to corporate airliner categories in calendar year 2006, compared to 679 in calendar year 2005, which represents a new record from the previous peak of 695 reached in calendar year 2000. During calendar year 2006, Aerospace delivered 213 business aircraft, compared to 188 in calendar year 2005. The report confirms that Aerospace was the leader in the business aircraft market in terms of revenues and had a market share of 27% based on deliveries in the market categories in which it competes. Information obtained from GAMA and other sources is generally only available on a calendar year basis.

Business aircraft manufacturing revenues accounted for 47% of total Aerospace revenues in fiscal year 2007, compared to 41% in fiscal year 2006. Aerospace has seven competitors in the business aircraft market categories in which it competes.

Regional aircraft

Regional airlines generally operate regional aircraft (jets and turboprops) of up to 100 seats in domestic and regional route networks. Mainline airlines generally operate aircraft over 100 seats in a network consisting of both domestic and international routes. Regional airlines feed hubs for mainline airlines worldwide and provides high frequency point-to-point services traditionally served by mainline airlines. According to publicly available data, a total of 245 regional aircraft of up to 100 seats were delivered worldwide in calendar year 2006, compared to 288 such aircraft in calendar year 2005. The market is experiencing a continued shift in demand from smaller to larger regional jets and turboprops.

In response to the market's preference for larger regional aircraft, Aerospace launched on February 19, 2007, the 100-seat *CRJ1000* aircraft. As a result, Aerospace now offers comprehensive families of regional jets and turboprops, ranging from 37- to 100-seat capacity. During calendar year 2006, Aerospace delivered 126 regional aircraft, compared to 153 in calendar year 2005, resulting in a market share of 61% in the markets in which it has a product in service. Aerospace has one main competitor in the regional jet market and one main competitor in the turboprop market. Regional aircraft manufacturing revenues accounted for 26% of total Aerospace revenues in fiscal year 2007, compared to 33% in fiscal year 2006.

PRODUCTS AND SERVICES

Aerospace's product portfolio includes a comprehensive line of business aircraft, regional jets, turboprops and amphibious aircraft. The table below presents the business units' main products and services:

BUSINESS AIRCRAFT	REGIONAL AIRCRAFT	AIRCRAFT SERVICES AND NEW COMMERCIAL AIRCRAFT PROGRAM	FLEXJET AND SKYJET
NARROW-BODY BUSINESS JETS - *Learjet 40/40 XR* - *Learjet 45/45 XR* - *Learjet 60/60 XR* WIDE-BODY BUSINESS JETS - *Challenger 300* - *Challenger 604/605* - *Bombardier Global 5000* - *Global Express XRS* - *Challenger 800* Series	REGIONAL JETS - *CRJ200* - *CRJ700* - *CRJ705* - *CRJ900* - *CRJ1000*[1] TURBOPROPS - *Q200* - *Q300* - *Q400*	- Parts logistics - Aircraft maintenance - Commercial training - Military aviation training - Amphibious aircraft - Specialized aircraft solutions	- Aircraft fractional ownership - Hourly flight entitlement programs

1 Program launched on February 19, 2007.

CUSTOMERS

Aerospace customers consist primarily of high net worth individuals and corporations for business aircraft, and regional airlines for regional aircraft. Aerospace's customers are located in over 70 countries, with the U.S. representing 48% of total Aerospace revenues in fiscal year 2007. The competitive factors for both business and regional aircraft include: aircraft price, aircraft operating costs, product quality and reliability, cabin size and comfort, aircraft range and speed, and product and service support.

II. BUSINESS ENVIRONMENT

FISCAL YEAR 2007 BUSINESS CONDITIONS

Business aircraft

There was continued growth in demand in the business aircraft market during fiscal year 2007. The underlying economic conditions that influence business aircraft demand, namely GDP growth and corporate profits, remained healthy during the year. In addition, emerging Eastern European economies, including Russia's, and the strengthening of the euro compared to the U.S. dollar, have supported stronger international demand, to the point where international (non-U.S.) markets represented approximately 50% of the global market in terms of orders in calendar year 2006, compared to approximately 45% in calendar year 2005.

Competition between manufacturers has increased in recent years as new participants have entered various market segments. In calendar year 2006, competitors launched two new products and six derivative products in the business aircraft market. Aerospace defines a derivative product as an aircraft with similar cabin dimensions as its predecessor, but with other significant structural or system changes (longer fuselage, new cockpit, engine or wing). During fiscal year 2007, two Aerospace derivative products entered into service, the *Challenger 605* and *Learjet 40 XR* aircraft, and a third new derivative, the *Learjet 60 XR* aircraft, will enter into service in the first half of fiscal year 2008. The pricing for new business aircraft is still firming up as a result of increased demand, combined with a stable inventory level of pre-owned business aircraft available for sale. Increased demand for aircraft fractional ownership and hourly flight time entitlement has also positively affected demand for business aircraft.

Regional aircraft

According to a report issued by Airline Monitor dated January/February 2007, after five years of significant losses, the worldwide airline industry achieved near break-even results in calendar year 2006 and is expected to realize profits in calendar year 2007. Mainline airlines continue to focus on reducing costs as they respond to high aviation fuel prices and declining yields (defined as average passenger revenue per revenue passenger kilometre), partly brought on by the growth of low-fare carriers in most regions of the world. As a result, new aircraft demand has shifted from smaller to larger regional aircraft, providing greater seating capacity and lower unit (seat-kilometre) costs. Given the superior economics offered by turboprops, which have lower fuel burn and maintenance costs compared to similarly sized jets for short-haul flights of up to 500 nautical miles, this segment has experienced a significant increase in worldwide orders in the past few years.

Mainline airlines have been forced to further reduce costs while maintaining their networks. As a result, it is expected that mainline airlines will continue to outsource short-haul and low-density routes to lower cost operators, currently represented by their regional airline partners. Given this approach, mainline airlines can maintain frequency and schedule on routes that are not otherwise cost-effective with their own aircraft. Pilot scope clauses in the U.S. also continue to relax, thus permitting a higher number of larger regional aircraft to be flown by regional airlines pilots affiliated with mainline airlines through a code-sharing agreement. This allows mainline and regional airlines to compete more effectively in low-yield environments.

International demand for large regional aircraft (jets and turboprops) is increasing as European airlines continue to grow their fleets of these aircraft. Emerging economies are also contributing to the growth of regional airlines, employing both new and pre-owned aircraft. Furthermore, the availability of 50-seat regional jets in secondary markets has helped Aerospace develop new markets such as in Mexico, India and Russia.

Aircraft services

There has been an overall increase in demand for aircraft services, which is influenced by a number of factors, including the following: the size and aging of the fleets, an overall increase in aircraft utilization, and a trend toward outsourcing maintenance, repair and overhaul operations. The rationalization activities initiated by many regional airlines have also provided some opportunities for aircraft maintenance services. In addition, the increased level of business aircraft deliveries during fiscal year 2007 had a positive impact on commercial training services.

See Market drivers sections for further details.

ANTICIPATED TRENDS

Economic growth

A strong economy with steady GDP growth and increasing corporate profits generally translate into increased aircraft demand. According to data provided by Global Insight, Inc. dated January 2007, the U.S. and worldwide GDP growth rates are expected to be 2.3% and 3.3% in calendar year 2007, down from 3.3% and 3.9%, respectively, in calendar year 2006. Over the next three years, the U.S. and worldwide GDP are expected to grow at an average annual rate of 3.0% and 3.5%, respectively. The GDP growth rates for emerging markets such as in China, India and Eastern European countries are expected to remain strong over the next several years.

In this context, Aerospace expects demand to remain strong, especially in international markets for business aircraft. Aerospace expects sustained demand for larger regional jets and turboprops.

Business aircraft

According to a Honeywell survey dated August 2006, the worldwide forecast for all business aircraft categories, except corporate airliners, is 1,085 average annual deliveries from 2006 to 2016, which is estimated to be worth $195 billion. These average annual deliveries compare to 817 in calendar year 2006. In addition, the survey predicts that the percentage of actual owners who intend to purchase a new business aircraft over the next five years is higher internationally than in the U.S. Emerging markets in China, India and Eastern European countries offer the most potential for developing business aircraft operations and associated infrastructure. In the market segments in which Aerospace competes, it is expected that competition will intensify, as manufacturers offer new products or derivatives to stimulate demand.

The sustained high cost of energy and the possible introduction of user fees (a charge for those who utilize the air traffic control system, regardless of aircraft size) in the U.S. could dampen demand for business aircraft in the short- to medium-term. Conversely, the arrival of many new entry-level jets and the development of the air taxi concept will open the market to many new customers.

Regional aircraft

As per data provided by Global Insight, Inc. dated December 2005, the 20-year average of worldwide annual GDP growth rate is expected to be approximately 3.1%. On this basis, Aerospace estimates that worldwide airline capacity, measured in Available Seat Kilometres ("ASK"), will more than double. From 2006 to 2025, Aerospace therefore forecasts 5,200 deliveries of regional aircraft with passenger capacity from 20 to 100 seats, estimated to be worth $150 billion, which represents 260 average annual deliveries. This average compares to 245 deliveries in calendar year 2006. North America (defined as the U.S. and Canada) and Europe will continue to represent the largest markets. The highest capacity growth rate is expected to be in China and India.

In Europe, the combination of a highly competitive environment and increasing focus on environmental issues will require airlines to maintain modern and efficient aircraft through regular fleet renewals. In the U.S., the pilot scope-clause environment continues to evolve to gradually accommodate the integration of larger aircraft in regional airlines. In the medium term, pilot scope relaxation appears to be trending from 50-seat aircraft toward 100-seat aircraft. These changes will progressively affect the industry over the next few years.

See Market drivers sections for further details.

KEY SUCCESS FACTORS

Key success factors in the current business environment include:
- competitive performance of existing products and services in specific target market segments;
- innovative product and service enhancements;
- the ability to deliver an amazing experience at all customer touch-points;
- increased presence in emerging markets; and
- a cost-effective organization as well as a motivated and skilled workforce.

III. GOALS AND STRATEGIES

The primary financial goal of Aerospace is to continue implementing its plan to improve EBIT to 8% within three years. The plan is anchored by three priorities, which have been widely communicated, understood and can be articulated by employees at all levels of the organization:
- engage all employees and provide a safe and rewarding workplace;
- provide an amazing customer experience; and
- reduce operating costs through waste elimination.

The following table presents these priorities, as well as the achievements realized in fiscal year 2007 and the planned actions for fiscal year 2008 for each of these priorities:

AEROSPACE PRIORITIES	2007 ACHIEVEMENTS	2008 PLANNED ACTIONS
Engage all employees and provide a safe and rewarding workplace	EMPLOYEE ENGAGEMENT > Rolled out "Achieving Excellence" program, a process whereby employees can benchmark their team's performance against the highest industry standards and develop plans to achieve those levels. - Majority of employees certified at the Bronze level, the first of five levels under the program. - Increased employee satisfaction resulting from the program, as validated by an annual survey.	EMPLOYEE ENGAGEMENT > Complete full Bronze certification in "Achieving Excellence" program and launch all employees on the process to attain the next level of certification (Silver), a further step in reaching world-class performance.
	TALENT MANAGEMENT > Continued to roll out and improve talent management processes, training programs and succession-planning tools.	TALENT MANAGEMENT > Further develop tools and processes.
	HEALTH AND SAFETY > Implemented new programs and practices leading to a reduction in the frequency and severity of workplace accidents.	HEALTH AND SAFETY > Enhance occupational health and safety standards, and leverage best practices across manufacturing sites.

AEROSPACE PRIORITIES	2007 ACHIEVEMENTS	2008 PLANNED ACTIONS
Provide an amazing customer experience	REORGANIZATION/RESTRUCTURING > Reorganized service centre and parts logistics entities under a new senior leader. > Performed significant management change at operational level in key customer interaction roles.	ON-TIME DELIVERY > Continue to reduce cycle time and improve processes for wide-body aircraft completion.
	CUSTOMER SERVICES > Added field service representatives and authorized line maintenance facilities to the service network. > Introduced 24/7 operations at all Aerospace service centres. > Expanded the service facility in Dallas.	CUSTOMER SERVICES > Launch integrated 24/7 customer response centres for aircraft-on-ground ("AOG") services for business aircraft customers. > Add facilities to the worldwide network of authorized service and maintenance facilities. > Launch dedicated AOG parts delivery service, using the *Flexjet* fleet ("Parts Express").
	PARTS AVAILABILITY > Optimized parts inventory levels–with a special emphasis on high-demand parts for all models in production.	PARTS AVAILABILITY > Pursue parts inventory deployment strategy.
Reduce operating costs through waste elimination	SOURCING STRATEGY > Developed supply chain strategies by major commodity types. > Developed joint multi-disciplinary teams with key suppliers to identify non-value-added activities within the supply chain. > Developed new sources of aerospace-grade aluminum (including one in Russia) for Bombardier and selected suppliers.	SOURCING STRATEGY > Continue to pursue supply chain strategies by commodity types. > Roll out multi-disciplinary teams to additional suppliers. > Mitigate inflation pressures on the cost of components and secure efficiency-improvement commitments from suppliers.
	INDUSTRIAL STRATEGY > Completed a comprehensive evaluation of the industrial network and re-evaluated "make/buy" decisions and production locations for key components. > Began production of electrical harnesses and structural aircraft components at the facility in Querétaro, Mexico. > Transferred production of the *Q400* turboprop fuselage, flight control surfaces and parts from Mitsubishi Heavy Industries to Aerospace's facilities in Mexico, Belfast and Canada, and to Shenyang Aircraft Corporation in China.	INDUSTRIAL STRATEGY > Ramp-up production of electrical harnesses at the facility in Mexico. > Ramp-up production of structural aircraft components transferred to China and the facility in Mexico. > Continue to successfully execute production transfers of major structural aircraft components to China and Mexico. > Investigate further future manufacturing potential in strategic countries.
	LEAN MANUFACTURING > Implemented lean manufacturing initiatives at Montréal and Belfast facilities, leading to improvements in cost, quality and schedule stability.	LEAN MANUFACTURING > Continue to identify potential improvements across the manufacturing network.
	PROCESS OUTSOURCING > Continued ramp-up at the engineering centre in India.	

IV. ANALYSIS OF RESULTS

Aerospace's results were as follows for fiscal years:

	2007	2006
Revenues		
Manufacturing:		
Business aircraft[1]	**$3,858**	$3,330
Regional aircraft[1]	**2,122**	2,690
Other	**400**	332
Total manufacturing revenues	**6,380**	6,352
Services[2]	**1,293**	1,208
Other[3]	**557**	527
Total revenues	**8,230**	8,087
Cost of sales	**7,013**	6,925
Margin	**1,217**	1,162
Operating expenses[4]	**486**	490
EBITDA	**731**	672
Amortization	**409**	406
EBIT	**$ 322**	$ 266
(as a percentage of total revenues)		
Margin	**14.8%**	14.4%
EBITDA	**8.9%**	8.3%
EBIT	**3.9%**	3.3%

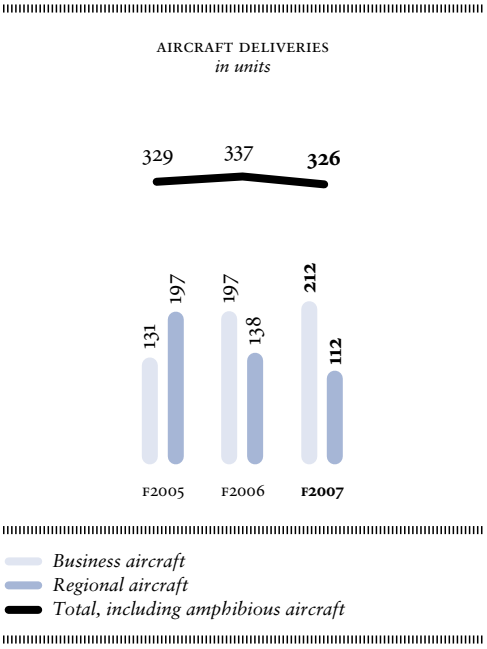
1 Effective the first quarter of fiscal year 2007, orders, deliveries and revenues of the corporate airliner category, represented by the *Challenger 800* Series aircraft, have been reclassified from regional to business aircraft.
2 Includes revenues from parts logistics, fractional ownership and hourly flight entitlement programs' service activities, aircraft maintenance, commercial training and military aviation training.
3 Includes mainly sales of pre-owned aircraft.
4 Comprises selling, general and administrative, and research and development expenses.

Total aircraft deliveries were as follows for fiscal years:

	2007	2006[1]
Business aircraft (including those in the fractional ownership program[2])	**212**	197
Regional aircraft	**112**	138
Amphibious aircraft	**2**	2
	326	337

1 Eleven deliveries of the corporate airliner category have been reclassified from regional aircraft to business aircraft for fiscal year 2006.
2 An aircraft delivery is included in the above table when the equivalent of 100% of the fractional shares of an aircraft model has been sold to external customers.

Aerospace expects total aircraft deliveries to increase for fiscal year 2008.



Manufacturing revenues

The $28-million increase is mainly due to:
– overall increase in deliveries, favourable mix and improved selling prices for business aircraft ($528 million); and
– additional fractional share revenues and increased revenues for external subcontracting activities ($64 million).

Partially offset by:
– lower overall deliveries and lower selling price for regional aircraft ($568 million).

Service revenues

The $85-million increase is mainly due to:
– higher revenues from the sale of spare parts ($70 million);
– higher fractional ownership and hourly flight entitlement programs' service activities ($51 million); and
– higher aircraft maintenance and training services' revenues ($29 million).

Partially offset by:
– lower revenues from Military Aviation Training ("MAT"), mainly as a result of achieving significant milestones on a contract in fiscal year 2006 ($77 million).

Other revenues

The $30-million increase is mainly due to:
– higher deliveries and favourable mix for pre-owned regional aircraft ($71 million).

Partially offset by:
– lower deliveries and an unfavourable mix for pre-owned business aircraft ($29 million).

Margin percentage

The 0.4 percentage-point increase is mainly due to:
– overall increase in deliveries, favourable mix and improved selling prices for business aircraft;
– lower sales incentive costs due to the improvement in the financial condition of certain U.S. customers; and
– increased deliveries for turboprops.

Partially offset by:
– lower deliveries of the *CRJ200* aircraft (one delivery in fiscal year 2007, compared to 36 in fiscal year 2006);
– higher net EOAPC charge, including the net impact of a charge arising from the alignment of the *CRJ700* and *CRJ900* aircraft program accounting end dates and of cost savings for business and *CRJ* Series aircraft, which led to a revision of cost estimates;
– lower overall deliveries, selling prices and margins for *CRJ700* and *CRJ900* aircraft; and
– lower margins on wide-body business aircraft interior deliveries.

The margin percentage for fiscal year 2007 was also positively impacted by the following non-recurring items (see Regional aircraft further details):
– a gain of $84 million arising from the settlement with Mitsubishi Heavy Industries of Japan ("MHI");
– a gain of $34 million arising from the settlement of a claim with US Airways Group, Inc. and its subsidiaries; and
– negative impact of $19 million for severance and other involuntary termination costs.

Operating expenses

The $4-million decrease is mainly due to:
– lower research and development costs related to the *CSeries* evaluation ($55 million).

Partially offset by:
– higher research and development costs, mainly related to the launch of the *CRJ1000* aircraft program and to the development of new composite technologies ($39 million); and
– higher sales and marketing costs related to business aircraft ($12 million).

Amortization

The $3-million increase is mainly due to higher amortization of program tooling resulting from increased tooling expenditures related to recent programs (see Program information section below for further information).

FREE CASH FLOW

Aerospace's free cash flow was as follows for fiscal years:

	2007	2006
EBIT	**$322**	$266
Non-cash items:		
Amortization		
Program tooling	**269**	254
Other	**140**	152
Loss on disposals of property, plant and equipment	**–**	10
Stock-based compensation	**8**	4
Net change in non-cash balances related to operations	**292**	381
Net additions to property, plant and equipment	**(217)**	(167)
Free cash flow	**$814**	$900

The $86-million decrease is mainly due to:
- negative year over year variation in net change in non-cash balances related to operations ($89 million) (see explanation below); and
- higher net additions to property, plant and equipment ($50 million), as a result of the purchase of tooling related to the *CRJ700* aircraft program previously under an operating lease.

Partially offset by:
- higher cash flow from operations before net change in non-cash balances related to operations ($53 million).

Net change in non-cash balances related to operations

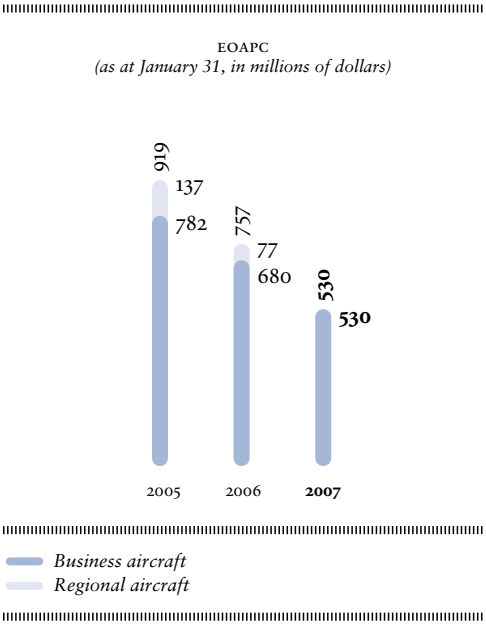
For fiscal year 2007, the $292-million was mainly due to a decrease in aircraft financing and an increase in accounts payable and accrued liabilities.

For fiscal year 2006, the $381-million was mainly due to a decrease in aircraft financing, partially offset by an increase in trade receivables.

PROGRAM INFORMATION

The carrying amounts of EOAPC included in Inventories, and program tooling costs included in Property, plant and equipment, were as follows as at January 31:

			2007			2006
PROGRAM FAMILY	EOAPC	PROGRAM TOOLING	TOTAL	EOAPC	PROGRAM TOOLING	TOTAL
Business aircraft						
Learjet Series	**$163**	**$ 89**	**$ 252**	$221	$ 111	$ 332
Challenger 300	**122**	**380**	**502**	140	414	554
Challenger 604/605	**–**	**56**	**56**	–	38	38
Global Series	**245**	**268**	**513**	319	351	670
Regional aircraft						
CRJ Series	**–**	**403**	**403**	54	413	467
Q-Series	**–**	**80**	**80**	23	64	87
	$530	**$1,276**	**$1,806**	$757	$1,391	$2,148



The decrease in EOAPC is mainly due to all programs having reached the point where the actual unit cost is less than the average unit cost recognized in Cost of sales. The net decrease of $227 million in the EOAPC balance for fiscal year 2007 is mainly due to a net charge of $277 million, or 3.4% of total revenues, partially offset by an increase of $50 million in connection with the purchase of tooling previously under an operating lease related to the *CRJ700* aircraft program. For fiscal year 2006, the net decrease of $162 million in the EOAPC balance represented a charge of 2.0% of total revenues.

The decrease of $115 million in program tooling is mainly due to the benefit arising from leveraging prior investments in product platforms, resulting in a lower investment in programs under development or in their early phases of production, compared to amortization of programs under production. This decrease has been partially offset by an increase in program tooling as a result of the transfer of production of certain components relating to the *Q400* turboprop from MHI to Aerospace, as well as the purchase of tooling relating to the *CRJ700* aircraft program previously under an operating lease. Amortization of program tooling amounted to $269 million for fiscal year 2007, compared to $254 million for fiscal year 2006.

The following table presents accounting program quantities and remaining deliveries for programs with an EOAPC balance outstanding as at January 31, 2007:

PROGRAM FAMILY	ACCOUNTING PROGRAM QUANTITIES	REMAINING DELIVERIES
Learjet Series	600	222
Challenger 300	300	158
Global Series	450	222

PRODUCT DEVELOPMENT

During fiscal year 2007, Aerospace invested $329 million in product development, representing 5.2% of manufacturing revenues, compared to $338 million or 5.3% during fiscal year 2006.

Product development costs consisted of the following for fiscal years:

	2007	2006
Program tooling[1]	**$160**	$138
Program change and engineering[2]	**91**	108
Research and development[3]	**78**	92
	$329	$338

1 Capitalized in Property, plant and equipment.
2 Included in Cost of sales.
3 Included in Research and development.

Product development costs were lower during fiscal year 2007, mainly due to reduced research and development costs related to the *CSeries* evaluation and lower program change and engineering expenditures in both regional and business aircraft, partially offset by an increase in research and development costs related to the launch of the *CRJ1000* aircraft program announced on February 19, 2007.

Aerospace is involved in a three-year national research program in the United Kingdom aimed at developing and validating technologies that are expected to lead to a new generation of aircraft wings. Aerospace will be focusing primarily on developing technologies with respect to composite materials, including design and analysis techniques, simulation and modelling, materials selection and advanced manufacturing processes.

CSeries evaluation

Aerospace has been evaluating the feasibility of the *CSeries* program to address the lower end of the 100- to 149-seat market segment.

Aerospace continues to refine the *CSeries* aircraft business plan, and discussions with a limited number of international partners are progressing. The program's team continues to optimize the aircraft configuration to meet customers' requirements for a more economical, flexible and passenger-oriented airliner. New developments under consideration include increased use of composite materials for the wing and fuselage, and next-generation engine technology, which could yield up to 15% better fuel burn than the existing technology on aircraft currently in production. Heightened customer and supplier interest confirms Aerospace's belief in the lower end of the 100- to 149-seat market segment. The target date for entry into service would be 2013.

ORDER BACKLOG

Aerospace's order backlog was as follows as at January 31:

(in billions of dollars)	**2007**	2006
Aircraft programs	**$12.2**	$ 9.6
Military aviation training	**1.0**	1.1
	$13.2	$10.7

The increase of the order backlog is mainly due to higher order intake compared to deliveries recorded for business aircraft.

WORKFORCE AND LABOUR RELATIONS

The total number of employees and the percentage of employees covered by collective agreements were as follows as at January 31:

	2007	2006
Total number of employees	**27,130**	26,800
Percentage of employees covered by collective agreements	**57%**	56%

The increase in total number of employees is mainly due to the opening of the manufacturing facility in Querétaro, Mexico, as well as an increase in the production rate for the *Q400* turboprop at the Toronto site. This increase was partially offset by workforce reductions at the Canadian facilities, mostly relating to the alignment of the *CRJ700* and *CRJ900* aircraft production rates to reflect current market demand. As at January 31, 2007, there were approximately 700 layoffs remaining from the 1,330 announced in the third quarter of fiscal year 2007. The remaining layoffs are planned to take place by July 2007.

Major collective agreements

Montréal– On May 13, 2006, the Corporation reached a new three-year collective agreement with the International Association of Machinists and Aerospace Workers 712 ("IAMAW"), Aerospace's largest union, covering approximately 5,000 employees in the Montréal area. This agreement is effective December 1, 2005 and expires November 20, 2008.

Toronto– On June 23, 2006, the Corporation reached a new three-year collective agreement with the Canadian Auto Workers, covering approximately 3,200 employees in Toronto. This agreement is effective June 23, 2006 and expires June 22, 2009.

Wichita– On October 23, 2006, the Corporation reached a new three-year collective agreement with the IAMAW, covering approximately 1,100 employees in Wichita. This collective agreement is effective October 2, 2006 and expires October 5, 2009. In connection with the renewal of this agreement, a strike occurred in the Wichita facility from October 2, 2006 (the date that the collective agreement had expired) until October 23, 2006.

Belfast– The Amicus, the Amalgamated Transport & General Workers Union and the General Machinists & Boilermakers collective agreements, covering approximately 4,600 employees in Belfast, expired on January 24, 2007. The Corporation is currently in discussion with the unions in Belfast. The terms of the expired collective agreements will be in effect until new collective agreements have been reached.

V. BUSINESS AIRCRAFT

MARKET DRIVERS

U.S. economic performance

The U.S. market still remains the single most important market for the sale of business aircraft; however, the international market has grown rapidly in recent years and represented approximately 50% of the worldwide market in calendar year 2006, as measured by orders. Aerospace is becoming less dependent on the U.S. market and is expanding its customer base internationally.

International market developments

During calendar year 2006, international markets represented approximately 50% of worldwide market orders. The weakening of the U.S. dollar in recent years, most notably against the euro, the stronger economic performance in Europe, and the emergence of new markets, such as in Russia and Eastern Europe, have helped stimulate sales internationally. Aerospace's orders from the international market amounted to approximately 59% in calendar year 2006 compared to approximately 51% in calendar year 2005.

Pre-owned business jet inventory level and fair market values

The price of pre-owned business jets is a key driver for the industry. As the inventory level of pre-owned aircraft available for sale increases, their prices may fall, making it more affordable for buyers to purchase pre-owned aircraft. When the availability of pre-owned aircraft for sale on the market is low, their prices may increase, diminishing the price gap to buy a new aircraft and making the choice of a new aircraft more attractive to potential buyers. According to the Jetnet database, the absolute number of pre-owned business jets available for sale amounted to 1,679 units or 11.9% of the in-service fleet as at December 31, 2006, compared to 1,602 units, or 12.0%, as at December 31, 2005. This decrease has contributed to a firming-up of prices of pre-owned aircraft, making the choice of a new aircraft more attractive to potential buyers.

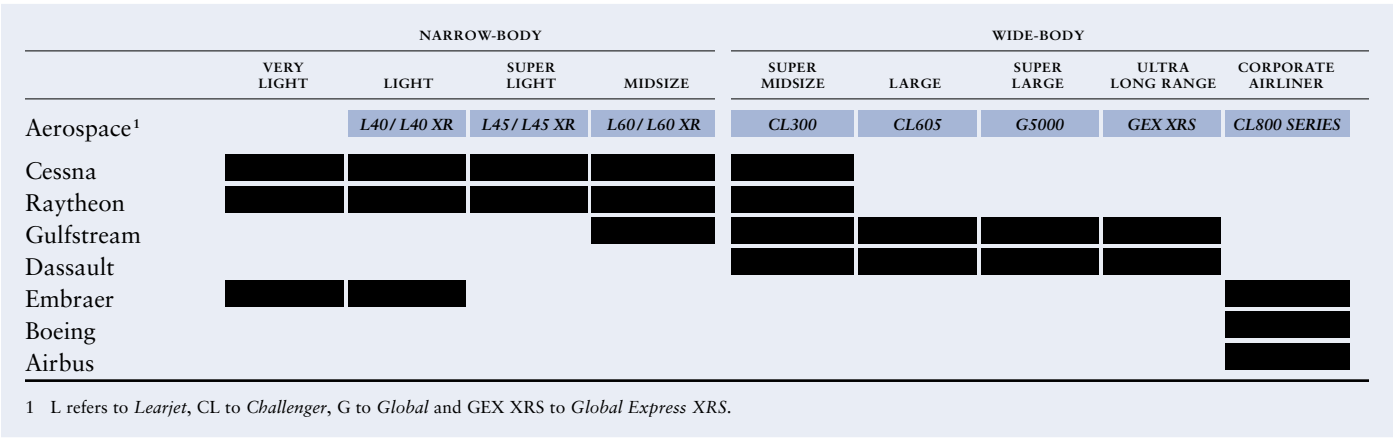
New aircraft model introductions

The introduction of new aircraft models generally stimulates demand for business aircraft. As new products are introduced, the buyer is given more choice of models at varying prices and performance points. A new product introduction may attract new potential buyers to the market if the model meets their needs in terms of price and capability. Potential buyers who already own a business aircraft may be tempted to upgrade their current model with a more advanced one, which offers the latest in terms of technological advances. Other potential buyers may be attracted to a new product offering in a category or segment in which no such product was offered before.

COMPETITION

Aerospace's competitors are: Cessna Aircraft Company ("Cessna"), a subsidiary of Textron Inc., Raytheon Aircraft Company ("Raytheon"), which sold its business aircraft division to Onex Corporation and to GS Capital Partners in March 2007, Gulfstream Aerospace Corporation ("Gulfstream"), a subsidiary of General Dynamics, Dassault Aviation ("Dassault"), Embraer-Empresa Brasileira de Aeronáutica S.A. ("Embraer"), Boeing and Airbus S.A.S. ("Airbus").

The table below illustrates Aerospace's competitors by category. The shaded areas represent categories in which Aerospace's competitors have a product offering.



1 L refers to *Learjet*, CL to *Challenger*, G to *Global* and GEX XRS to *Global Express XRS*.

PRODUCT DEVELOPMENT

During fiscal year 2007:

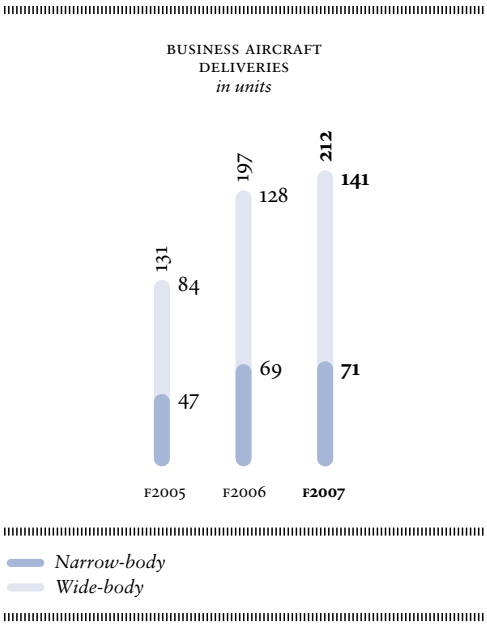
- The *Challenger 605* aircraft received Transport Canada ("TC"), European Aviation Safety Agency ("EASA") and U.S. Federal Aviation Administration ("FAA") type certification and entered into service in January 2007.
- The *Learjet 40 XR* light jet entered into service in February 2006.
- The *Learjet 60 XR* midsize jet had a successful first flight and is expected to enter into service in the first half of fiscal year 2008.

AIRCRAFT DELIVERIES

Business aircraft deliveries were as follows for fiscal years:

	2007			2006		
		FLEXJET [1]	TOTAL		FLEXJET [1]	TOTAL
Narrow-body business jets						
Learjet 40/40 XR/Learjet 45/45 XR	**47**	**5**	**52**	49	6	55
Learjet 60	**18**	**1**	**19**	14	–	14
Wide-body business jets						
Challenger 300	**49**	**6**	**55**	44	8	52
Challenger 604/Challenger 605	**29**	**3**	**32**	35	–	35
Bombardier Global 5000/ Global Express XRS	**42**	**–**	**42**	30	–	30
Challenger 800 Series	**12**	**–**	**12**	11	–	11
	197	**15**	**212**	183	14	197

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



The 8% increase in business aircraft deliveries reflects increased deliveries in both the narrow-body and wide-body business jet segments. The decline in the *Challenger 604* aircraft deliveries is due to the transition to the new *Challenger 605* aircraft, which entered into service in January 2007. The strike in the Wichita facility during the third quarter of fiscal year 2007 had a negative impact on *Learjet* Series aircraft deliveries.

During fiscal year 2007, the 100th *Challenger 300* aircraft, the 200th *Global* family aircraft and the 300th *Learjet 45* aircraft were delivered.

NET ORDERS

During fiscal year 2007, Aerospace received 274 net orders for business aircraft, compared to 219 net orders during fiscal year 2006. The increase reflects the continued strength of the business aircraft market, Aerospace's strong product positioning in the market and investment in product development to meet evolving customers' needs. A new record was set for the number of net business aircraft orders received by Aerospace in fiscal year 2007. The order backlog for business aircraft remains strong for each product family.

MARKET SHARE

Total deliveries and Aerospace's market share of the business aircraft market in which it competes were as follows for calendar years:

		2006			2005		
			AEROSPACE			AEROSPACE	
CATEGORY	PRODUCT	TOTAL MARKET [1] (IN UNITS)	TOTAL DELIVERIES (IN UNITS)	MARKET SHARE [2]	TOTAL MARKET [1] (IN UNITS)	TOTAL DELIVERIES (IN UNITS)	MARKET SHARE [2]
Light/ Super light	*Learjet 40/40 XR/ Learjet 45/45 XR*	**284**	**56**	**20%**	248	49	20%
Midsize	*Learjet 60*	**152**	**15**	**10%**	126	18	14%
Super midsize	*Challenger 300*	**98**	**55**	**56%**	91	50	55%
Large	*Challenger 604/ Challenger 605*	**73**	**29**	**40%**	71	36	51%
Super large/Ultra long range	*Bombardier Global 5000/ Global Express XRS*	**123**	**40**	**33%**	104	30	29%
Corporate airliner [3]	*Challenger 800* Series	**68**	**18**	**26%**	39	5	13%
		798	**213**	**27%**	679	188	28%

1 Deliveries in the very light category (87 units in calendar year 2006 and 71 units in calendar year 2005) are not included in the market total shown above since Aerospace has no product offering in this category.
2 Assessment of market share in the business aircraft industry is based on delivery data from GAMA for the calendar year, and therefore does not correspond with the number of aircraft deliveries recorded during the Corporation's fiscal years ended January 31. For some competitors, GAMA only provides the information by product family. In these cases, Aerospace estimates the deliveries by category using FAA records, other public databases, historical trends and competitive analyses.
3 Corporate airliner category was reclassified from regional aircraft to business aircraft.

The 18% increase in total market deliveries is mainly due to the overall strengthening of the business aircraft market, resulting from robust economic conditions and growth in emerging markets. The 1% decrease in Aerospace's market share reflects mainly a reduction in *Challenger 604* aircraft deliveries as the program transitioned to the *Challenger 605* aircraft. In addition, there was a reduction in Aerospace's share in the midsize category, resulting from the entry into service of two derivative products of competitors during calendar year 2006. The strike at the Wichita facility during the third quarter of fiscal year 2007 also had a negative impact on Aerospace's market share, affecting deliveries of the *Learjet* Series. This was partially offset by increased deliveries of the *Global* family of aircraft as well as increased deliveries of the *Challenger 800* Series of aircraft.

GAMA's latest report on shipments in the business aircraft market, dated February 9, 2007, confirms that the Corporation was the business aircraft industry leader in terms of revenues on a calendar year 2006 basis.

OUTLOOK

A Honeywell Aerospace forecast dated August 2006 for business aircraft indicates that should U.S. GDP growth exceed the 3% range, the strength of the business aircraft market is expected to continue. According to data provided by Global Insight, Inc. dated January 2007, the U.S. and worldwide GDP growth rates are expected to average approximately 3.0% and 3.5%, respectively, over the next three years. With its increasingly international customer base, Aerospace is well positioned to benefit from a sustained strong market for business aircraft.

In the market segments in which Aerospace competes, it is expected that competition will intensify, as manufacturers will be offering new products or derivatives to stimulate demand. Aerospace will enter into service a new derivative, the *Learjet 60 XR* aircraft, in the first half of fiscal year 2008.

VI. REGIONAL AIRCRAFT

MARKET DRIVERS

Economic environment

In calendar year 2006, the worldwide economic environment and the ongoing restructuring of U.S. airlines contributed to improved financial results for airlines when compared to the previous five years. The regional airline market shared in the growth, as mainline airlines continue to rely on regional aircraft and regional airline partners for smaller units of capacity at

competitive costs to supplement mainline aircraft and to open new markets. The U.S. airline industry continues to face financial challenges and has undergone significant restructuring. Two major airlines, Northwest Airlines, Inc. ("Northwest") and Delta Airlines, Inc. ("Delta"), which are currently operating under bankruptcy protection, intend to file their reorganization plans. Regional airline affiliates continue to play a significant role in the restructuring plans of the mainline airlines, as evidenced by recent orders for large regional jets by Northwest and Delta. European airlines are also continuing to increase their fleets of large regional aircraft. In addition, emerging economies are contributing to the growth of regional airlines, employing both new and pre-owned aircraft.

Availability of aircraft financing

The availability of regional aircraft financing continues to be a challenge. Aircraft ownership costs represent a significant portion of operating expenses for most airlines. As a result, the availability of attractive financing is an important part of the business plans of regional airlines. Globally, aircraft financing has been affected by strained airline cash flows. In addition, the U.S. airline industry has been particularly affected by the incidences of major airlines seeking bankruptcy protection in recent years. Aerospace continues to work closely with leading financial institutions and governmental agencies to assist regional airline customers to obtain financing.

Revenue passenger kilometres and available passenger capacity

Mainline airlines continue to outsource routes to their regional airline partners to reduce costs. Regional airlines are shifting new aircraft purchases to larger-capacity aircraft. This shift is due to lower seat-kilometre costs offered by larger aircraft, which help to maintain the airlines' profitability even in a depressed fare environment. Additional seats also allow the airlines to serve more passengers as passenger traffic continues to increase.

According to the Regional Airline Association (RAA), U.S. regional airlines posted a 5.9% increase in Revenue Passenger Kilometres ("RPK") for the 12-month period ended September 2006. RPK is a measure of paying passenger traffic and represents passenger demand for air transport (defined as one fare-paying passenger transported one kilometre). ASK, which is a measure of available passenger capacity (defined by one seat carried for one kilometre, whether a passenger occupies it or not), remained relatively stable with a decrease of 0.2% for the 12-month period ended September 2006 compared with the same period ended September 2005. Although U.S. capacity has remained relatively stable as measured by ASK, the demand for regional air travel as measured by RPK has continued to increase. This resulted in a passenger load factor of 74% for the 12-month period ended September 2006, compared to 70% for the same period ended September 2005. Passenger load factor is defined as the number of passengers flown divided by seat capacity (RPK divided by ASK). Passenger load factor is a measure of the health of the airline industry. High passenger load factors contribute to the demand of larger-capacity regional aircraft in order to satisfy high traffic demand.

According to the European Regions Airline Association (ERAA), the regional airlines in Europe also reported a 10.6% increase in RPK for the period from January to November 2006 compared to the same 11-month period ended November 2005. ASK had an increase of 7.0%. Passenger load factor for regional airlines in Europe amounted to 64% for the 11-month period ended November 2006, compared to 62% for the same period ended November 2005.

Fuel prices and environmental regulations

The sustained high prices of crude oil since mid-2003 continue to put pressure on airline results. As a consequence, mainline airlines continue to outsource routes to their regional partners to reduce costs. Regional airlines are shifting new aircraft purchases to larger-capacity aircraft, which offer lower seat-kilometre costs and help to maintain the airlines' profitability even in a depressed fare environment. Turboprop economics, built on significantly lower maintenance, fuel and acquisition costs for short-haul flights up to 500 nautical miles, compared to similarly sized jets, have become more appealing in a higher fuel price environment. New environmental regulation related to the aviation industry are putting pressure on airlines to renew their fleets with more fuel-efficient and more environmentally friendly aircraft such as turboprops and regional jets. These products offer lower fuel consumption and reduced carbon dioxide emissions than the older-generation aircraft currently in service.

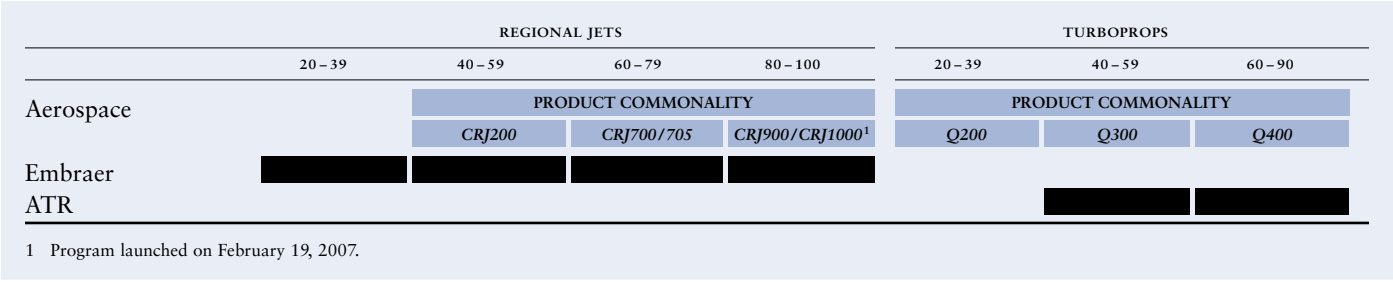
Scope clauses

U.S. scope clauses in pilot union agreements continue to relax, thus permitting a higher number of larger regional jets to be flown by the pilots of regional airlines affiliated with mainline airlines through a code-sharing agreement. Notable examples of more liberalized scope clauses are at Delta, Northwest and US Airways.

COMPETITION

Aerospace's main competitors are Embraer in the regional jet category and Avions de Transport Régional ("ATR") in the turboprop category.

The table below illustrates Aerospace's main competitors by category in the segments in which Aerospace competes. The shaded areas represent categories in which Aerospace's competitors have a product offering.



1 Program launched on February 19, 2007.

Aerospace currently has two proven families of regional aircraft offering commonality in the regional jet and turboprop segments. According to an Air Transport World publication dated January 2007, Aerospace's regional aircraft are in service with 12 of the world's 20 largest airlines, their subsidiaries or affiliated companies.

Regional jets

The *CRJ* Series family of aircraft offers regional airlines a network solution with products ranging from 40 to 100 seats with product commonality, which includes common crew qualifications, spare parts and maintenance procedures. Aerospace maintains that this family has an economic advantage due to its lower operating costs, including better fuel efficiency, lower weight and lower maintenance costs.

Turboprops

The *Q-Series* family of turboprops offers products ranging from 37 to 78 seats with product commonality, which includes common crew qualifications, spare parts and maintenance procedures. *Q-Series* turboprops offer lower operating costs than the regional jets on flights up to 500 nautical miles, thus further satisfying the economic demands of airlines in short-haul sectors. The competitive advantage of the *Q400* aircraft is its superior economics, as it offers the lowest cost per seat in the regional aircraft industry. It also offers jet-like speed on shorter routes and an extended range, which allows regional airlines to operate the *Q400* aircraft in markets not traditionally served by turboprops.

PRODUCT DEVELOPMENT

In February 2007, Aerospace announced the launch of the *CRJ1000* regional jet, the next major step in the evolution of the *CRJ* Series aircraft family. Previously known as the *CRJ900X* project, the *CRJ1000* regional jet is designed specifically to meet the growing needs of regional airlines for jets up to 100 seats. It provides low operating costs and improvements in cabin comfort.

The new *CRJ1000* regional jet, with the first flight scheduled for mid-fiscal year 2009, is scheduled to enter into service in the fourth quarter of fiscal year 2010. With a maximum take-off weight of 41,632 kilograms (91,800 pounds), the *CRJ1000* regional jet will offer a maximum range of up to 3,139 kilometres (1,691 nautical miles) with 100 passengers, under certain operating conditions. Compared to older-generation aircraft of similar seat capacity currently in operation, the *CRJ1000* regional jet will also respond to today's environmental requirements by providing substantially lower fuel consumption and achieving up to 30% reduced carbon dioxide emissions. In addition, this aircraft's closest competitor has up to 15% higher trip cash operating costs.

Further economic benefits include approximately 90% parts commonality with its other *CRJ* aircraft family members and common crew qualifications. The *CRJ1000* regional jet will build on the success of the current *CRJ* aircraft family, which has an installed base of approximately 1,400 aircraft.

The *CRJ1000* aircraft program was launched with 38 firm orders, 15 of which are *CRJ900* aircraft order conversions, in addition to 23 conditional orders and options.

OTHER EVENTS

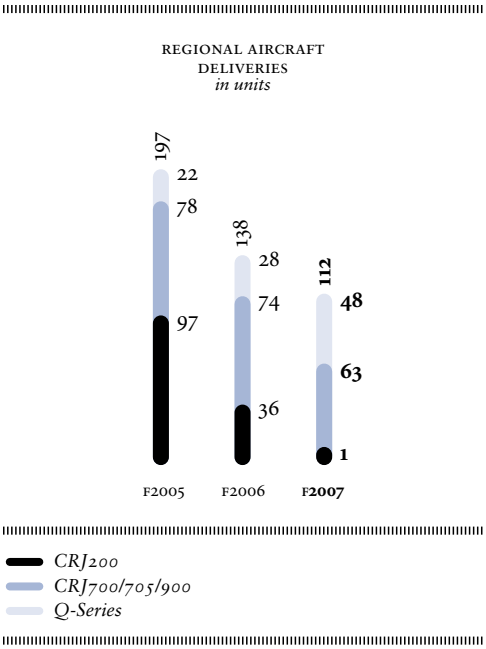
During fiscal year 2007, the following events occurred:

– an agreement was reached with MHI, a supplier of regional aircraft components, to transfer the production of certain components for the *Q400* turboprop to Aerospace's manufacturing facilities in Belfast, Montréal, Querétaro in Mexico and to China's Shenyang Aircraft Corporation ("SAC"). As part of this agreement, a payment of $84 million was made by MHI to the Corporation in connection with the transfer of production, which resulted in gain of the same amount;
– as a result of changing pilot scope clauses in the U.S., there have been increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* aircraft programs. As such, Aerospace decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a charge of $74 million was recorded;
– on December 14, 2006, the U.S. Bankruptcy Court for the Eastern District of Virginia, Alexandria Division, approved a Global Settlement Letter between US Airways Group, Inc. and the Corporation, which had been executed by the parties on November 10, 2006. Under the Global Settlement Letter, all claims of the Corporation asserted against US Airways Group and its subsidiaries in Chapter 11 cases were resolved and the Corporation was granted a general unsecured claim which was subsequently monetized for proceeds of $34 million, resulting in a gain of the same amount;
– in the third quarter of fiscal year 2007, Aerospace announced a reduction in the production rates for its *CRJ700* and *CRJ900* regional jets to reflect current market demand. This will result in a workforce reduction of approximately 1,330 employees. Severance and other involuntary termination costs associated with the layoffs, totalling $31 million, were recorded in the third quarter of fiscal year 2007. In addition, the Corporation disclosed in the first quarter of fiscal year 2007 that the remaining layoffs announced in fiscal year 2006 at the Belfast facilities would not occur as a result of the repatriation of certain work packages related to the *Q400* turboprop from MHI. Consequently, the severance provision of approximately $12 million related to the remaining layoffs was reversed. The net impact of severance and other involuntary termination costs amounted to $19 million for fiscal year 2007;
– on October 26, 2006, the U.S. Bankruptcy Court for the Southern District of New York approved agreements between the Corporation, Northwest, Export Development Canada and General Electric Capital Corporation, in connection with the U.S. bankruptcy-court-approved restructuring arrangements for Northwest. As part of these agreements, the Corporation will pay incentive payments. Some of these incentive payments have given rise to an allowed claim against the estate of Northwest, which was sold for a cash consideration. Also, as part of these agreements, Northwest waived certain of its rights under sales incentive agreements. These agreements had a neutral impact on the results of operations of the Corporation; and
– on June 5, 2006, the Corporation reached an agreement with Delta in connection with the U.S. bankruptcy-court-approved restructuring arrangement for Delta and Comair, Inc. ("Comair"). As a result of this agreement, payments due to Delta and Comair pursuant to sales incentive agreements were offset against interim financing loans, amounting to $171 million, made by the Corporation to these entities. The agreement reached with Delta had a neutral impact on the results of operations of the Corporation.

AIRCRAFT DELIVERIES

Regional aircraft deliveries were as follows for fiscal years:

	2007	2006
Regional jets		
CRJ200	**1**	36
CRJ700	**13**	47
CRJ705	**–**	15
CRJ900	**50**	12
Turboprops		
Q200	**1**	1
Q300	**16**	11
Q400	**31**	16
	112	138



These deliveries reflect a shift in demand toward larger regional jets and turboprops. In response to this shift, Aerospace announced that it would adjust its regional aircraft production rates to reflect current market demand. Starting in November 2006, the production rate for *CRJ700* and *CRJ900* regional jets was therefore reduced from a rate of one aircraft produced every three days to one aircraft produced every five days. This will reduce deliveries from 63 aircraft in fiscal year 2007 to approximately 50 aircraft next fiscal year. This reduction was offset by an increase in the *Q400* turboprop production level in response to growing demand for this type of aircraft. Expected deliveries of the *Q-Series* turboprop family will be approximately 65 deliveries next fiscal year, compared to 48 deliveries in fiscal year 2007.

ORDERS AND BACKLOG

Regional aircraft orders received by aircraft type were as follows as at January 31:

				2007	2006
	ORDERS	SWAPS	CANCELLATIONS/ REMOVALS	NET ORDERS	NET ORDERS
Regional jets					
CRJ200	**–**	**(15)**	**(1)**	**(16)**	(23)
CRJ700	**8**	**(12)**	**(29)**	**(33)**	43
CRJ900	**72**	**27**	**(1)**	**98**	17
Turboprops					
Q200	**3**	**–**	**–**	**3**	2
Q300	**11**	**–**	**–**	**11**	8
Q400	**24**	**–**	**–**	**24**	34
	118	**–**	**(31)**	**87**	81

During fiscal year 2007:

- SkyWest, Inc. and Air Nostrum exercised their conversion rights to swap 17 *CRJ700* and 15 *CRJ200* aircraft, respectively, for 32 *CRJ900* aircraft.
- Mesa Air swapped five *CRJ900* aircraft for five *CRJ700* aircraft.
- As a result of an agreement reached with US Airways in November 2006, Aerospace removed 29 *CRJ700* and one *CRJ200* aircraft from its order backlog (see Other events section above for further information).
- As a result of Styrian Spirit declaring bankruptcy, Aerospace removed one *CRJ900* aircraft from its order backlog.

Aerospace received the following significant net orders during fiscal year 2007:

CUSTOMER	AIRCRAFT	UNITS
Regional jets		
Northwest Airlines	*CRJ900*	36
My Way Airlines	*CRJ900*	19 [1]
Air One	*CRJ900*	10
GE Commercial Aviation Services (GoJet Airlines)	*CRJ700*	5
Arik Air	*CRJ900*	4
Brit Air	*CRJ700*	3
Turboprops		
Frontier Airlines	*Q400*	10
Tassili Airlines	*Q400*	4
National Air Support	*Q300*	3
Air New Zealand	*Q300*	3
Japan Coast Guard	*Q300*	3
Luxair	*Q400*	3

1 With the launch of the *CRJ1000* regional jet program, 15 of these firm orders were converted to *CRJ1000* aircraft orders in February 2007.

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

	AIRCRAFT ON FIRM ORDER	OPTIONS AND CONDITIONAL ORDERS
Regional jets		
CRJ200	–	208
CRJ700	5	121
CRJ705	–	–
CRJ900 [1]	71	150
Turboprops		
Q200	4	–
Q300	15	8
Q400	57	87
	152	574

1 With the launch of the *CRJ1000* aircraft program, 15 of these firm orders were converted to *CRJ1000* aircraft in February 2007.

In addition, on February 8, 2007, Aerospace announced that Delta had placed a firm order for 30 *CRJ900* aircraft and taken options on an additional 30 *CRJ900* aircraft. Approval of this contract was granted by the U.S. Bankruptcy Court for the Southern District of New York.

MARKET SHARE

Market share based on deliveries

Total deliveries and market share in the categories in which Aerospace's products have entered into service were as follows for calendar years:

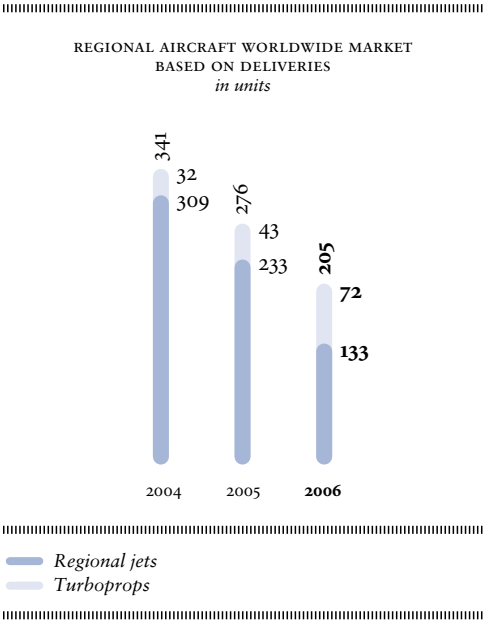
	2006			2005 [1]		
		AEROSPACE			AEROSPACE	
	WORLDWIDE MARKET (IN UNITS)	TOTAL DELIVERIES (IN UNITS)	MARKET SHARE [2]	WORLDWIDE MARKET (IN UNITS)	TOTAL DELIVERIES (IN UNITS)	MARKET SHARE [2]
Regional jets	**133** [3]	**78**	**59%**	233 [3]	125	54%
Turboprops	**72** [4]	**48**	**67%**	43 [4]	28	65%
	205	**126**	**61%**	276	153	55%

1 Market share of the corporate airliner category has been excluded from the above table and is now presented in the Business aircraft section.
2 Assessment of market share in the regional aircraft industry is calculated on the basis of aircraft deliveries recorded during the calendar year, which does not correspond to the number of aircraft deliveries recorded during the Corporation's fiscal years ended January 31.
3 40- to 90-seat aircraft.
4 20- to 90-seat aircraft.

Source: Competitor reports.

The 26% decrease in the worldwide regional aircraft market, measured by deliveries, is mainly due to the decrease in deliveries for the 50- and 70-seat regional jet categories, partially offset by an increase in deliveries in the 90-seat regional jet category and large turboprops.

The 6% increase in Aerospace's market share in categories in which it competes mainly reflects increased deliveries of the *CRJ900* regional jet and *Q-Series* turboprops.



OUTLOOK

According to data provided by Global Insight, Inc. dated January 2007, the U.S. and worldwide GDP are expected to grow at an average annual rate of 3.0% and 3.5%, respectively, over the next three years. In this context, Aerospace expects sustained demand for larger regional jets and turboprops. The International Air Transport Association ("IATA") Economics Briefing dated January 2007 stated that the rate of demand growth for passenger traffic is predicted to slow from the exceptional growth rates seen in the last three calendar years; however, most airlines remain confident that demand growth in passenger traffic will be positive in calendar year 2007.

It is expected that the next 12 months will see a continuing trend toward using larger aircraft, from both mainline and regional airlines, in an effort to reduce costs per seat. Continued growth is also anticipated for low-fare carriers, with a number of operators using large regional jets and turboprops for expanded market opportunities.

Regional airlines will continue to provide low-cost outsourcing opportunities to mainline and low-fare carriers, due to the low overhead cost structure of regional carriers. Regional airlines continue to play a key role in mainline airlines' reorganization plans, particularly in the U.S.

***CRJ* Series** – Competition for the 60- to 100-seat regional jet market categories will continue to be intense. Aerospace believes that it is well positioned in these categories, due to the economic advantage of its products and family commonality benefits across the 40- to 100-seat *CRJ* Series aircraft. Given the large installed base for the *CRJ100/200* aircraft, there is potential that these customers will upsize to larger capacity *CRJ700*, *CRJ900* aircraft and to the recently announced *CRJ1000* regional jet, as demonstrated by recent orders.

Aerospace is expanding its customer base in areas outside the U.S. and Canada, particularly in Europe, the Middle East, Latin America and Russia. The demand for 50-seat regional jets appears to be satisfied by the current fleet. Aerospace continues to pursue opportunities for the re-marketing of pre-owned *CRJ200* aircraft to regional airline markets worldwide. Aerospace is also developing secondary markets for the 50-seat *CRJ200* aircraft, and some are being re-marketed as freighters.

As at the end of fiscal year 2007, there were approximately 27 idled *CRJ100/200* aircraft still available for placement in the secondary market, compared to approximately 100 as at the end of fiscal year 2006. Most of these aircraft have been or are in the process of being put back into service, mostly with U.S. airlines as they emerge from their restructuring.

Q-Series – Given turboprops' superior economics, this segment experienced another year of significant worldwide order activity. With its comprehensive family of *Q-Series* turboprops, Aerospace continues to be well positioned to benefit from market growth. Improved seat-kilometre cost being a necessary response to the continuing decline of airline yields and high fuel prices, Aerospace expects sustained demand for turboprops.

VII. AIRCRAFT SERVICES AND NEW COMMERCIAL AIRCRAFT PROGRAM

CSERIES EVALUATION

See the Product development section for details.

PARTS LOGISTICS

Aerospace provides worldwide 24-hour spare parts support, including regular shipments, aircraft-on-ground service, lease programs, hourly programs, rotable management programs, surplus sales and customer-owned repair. Customers are currently served from:

- main distribution centres in Chicago (238,000 ft^2 – 22,110 m^2) and Frankfurt (50,000 ft^2 – 4,650 m^2); and
- spare parts depots in Montréal, Singapore, Sydney, Dubai and Beijing.

Two new spare parts depots in Sao Paulo, Brazil, and in Narita, Japan, are expected to open in fiscal year 2008 in order to meet the growing demand from international markets. Both of these depots will be serving Aerospace business and regional aircraft customers.

The parts logistics organization supports the parts requirements of substantially all of Aerospace's customers during the life of the aircraft. Spare parts demand is driven by the size of the fleet of Aerospace aircraft, by the number of hours flown and by the number of aircraft exiting the warranty period. The continued growth of the installed fleet will contribute to the growth in spare parts demand.

Aerospace competes with various large and small suppliers of aircraft parts. Aerospace's competitive strengths include the availability of most spare parts for its aircraft, which are managed with the use of an integrated system to meet customer requests. Aerospace is at an advantage by offering Original Equipment Manufacturer ("OEM") certification along with OEM technical advice. Aerospace also offers a number of spare parts programs for customers, including the *Smart Parts* program, which allows customers to purchase spare parts on a cost-per-flight-hour basis. The demand for comprehensive spares parts/services programs ("one-stop shopping") is expected to continue to grow.

AIRCRAFT MAINTENANCE

Aerospace offers maintenance services for its business aircraft customers at its five main OEM centres located in the U.S. at Fort Lauderdale, Hartford, Wichita, Tucson, and Dallas. The Dallas centre has been expanded to increase service capacity.

Aerospace has 34 authorized service and line maintenance facilities for business aircraft. These service facilities are located in North America, Europe, Asia, Australia, Africa, and South America. Included in the 34 authorized service facilities for business aircraft is a service centre located in Berlin, Germany, in which the Corporation holds an equity investment. In addition, Aerospace has three OEM satellite stations where light maintenance services are performed, located in Teterboro and Addison in the U.S., and in Munich, Germany.

Aerospace also offers maintenance services to its regional aircraft customers at two OEM service centres located in the U.S. at Tucson and Bridgeport. Aerospace has three authorized service facilities for regional aircraft located in Europe and Asia.

COMMERCIAL TRAINING

Aerospace offers a complete range of pilot and maintenance training programs for *CRJ* Series aircraft in Montréal, as well as in Berlin through a joint venture. A third-party supplier provides training for turboprops.

Aerospace provides customized business aircraft pilot and maintenance training, as well as ancillary training. The training centres are located in Montréal and at Dallas/Fort Worth International Airport.

MILITARY AVIATION TRAINING

Aerospace's MAT unit, in collaboration with a team of subcontractors, delivers integrated aviation training solutions.

MAT currently has two major Canadian military aviation training contracts: the NATO Flying Training in Canada ("NFTC") program and the CF-18 Advanced Distributed Combat Training System ("ADCTS") program.

Countries currently participating in the NFTC program include Denmark, the United Kingdom, the Republic of Singapore, Italy, Hungary, and Canada. Finland, Sweden, France and Germany have also sent instructor pilots to the program.

The ADCTS program includes the design and construction of purpose-designed facilities, as well as the provision of full instructional and support services for up to 15 years for the Canadian Air Force's CF-18 ADCTS program.

AMPHIBIOUS AIRCRAFT

Aerospace manufactures and markets the *Bombardier 415* amphibious aircraft, a purpose-built firefighting aircraft. This aircraft can also be adapted to a multi-purpose version, the *Bombardier 415* MP aircraft, which can be used in a variety of specialized missions such as search and rescue, environmental protection, coastal patrol and transportation.

In February 2006, Aerospace re-launched the *CL-215 T* aircraft program in response to customer demand, mainly in Canada, for the conversion of *CL-215* piston aircraft to a turboprop engine aircraft. The converted *CL-215 T* aircraft has a performance comparable to that of the *Bombardier 415* aircraft.

SPECIALIZED AIRCRAFT SOLUTIONS

Aerospace continues to identify and provide special mission aircraft solutions to governments and special-requirement organizations worldwide. Aerospace recognizes the potential market for special mission versions of both regional and business aircraft, and is dedicated to further develop this market. Aerospace works with technical and third-party specialists to support the conversion of these aircraft for their specific roles.

VIII. FLEXJET AND SKYJET

FLEXJET

Through the North American *Flexjet* program, owners purchase shares of business aircraft with operations and support, including flight crew, maintenance, hangar fees and insurance. In addition, *Flexjet* markets, on behalf of Jet Solutions L.L.C., the *Flexjet* 25 jet card (25-hour block of flight time entitlement) that was launched in June 2006.

The *Flexjet* program included 93 aircraft in service in North America as at January 31, 2007, compared to 84 aircraft as at January 31, 2006. The 11% increase is mainly due to the increasing popularity of the *Challenger 300* and *Learjet 40* aircraft offered in the *Flexjet* program. *Flexjet* has continued to make operational improvements and has aligned its aircraft fleet in service in relation to the aircraft fractional shares sold.

SKYJET

The North American *Skyjet* program offers both on-demand and flight time entitlement charter services. Through the *Skyjet International* program, which serves the European, Asian, and Middle Eastern markets, customers purchase hours of flight time entitlement instead of shares of business aircraft. The *Skyjet* program arranges for its customers' business jet charters with selected air charter operators.

NUMBER OF CUSTOMERS UNDER THE FLEXJET AND SKYJET PROGRAMS

The number of customers owning or leasing shares of business aircraft, or with an hourly flight time entitlement, was as follows as at January 31:

	2007	2006
Flexjet	**717** [1]	612
Skyjet	**329**	288
	1,046	900

1 The number of customers includes customers of the *Flexjet* 25 jet card marketed on behalf of Jet Solutions, L.L.C. Flights are operated by Jet Solutions, L.L.C.

Flexjet

The net increase of 105 customers is mainly due to *Flexjet* program innovations designed to increase owner value and establish a competitive advantage in the fractional share market. Among the program innovations launched in fiscal year 2007 is an expanded secondary service area for *Challenger* aircraft that now includes Mexico. In addition, increased recognition in the marketplace of *Flexjet*'s service quality has generated confidence in the program from customers who were previously with competitors and who now make up a growing number of *Flexjet*'s new customers.

Skyjet

The net increase of 41 customers with an hourly flight entitlement is mainly due to the success of the *Skyjet* card program (25-hour block of flight time entitlement) and increased brand awareness in Europe and the Middle East.

IX. STRATEGIC COUNTRIES

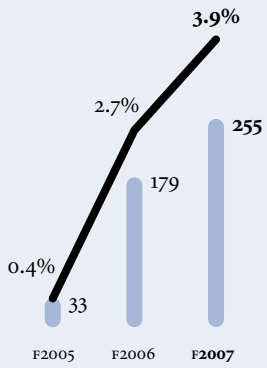
Achieving success in fast-growing international markets is an integral part of Aerospace's long-term strategy. To enable this, in fiscal year 2007, Aerospace appointed Chief Country Representatives ("CCRs") for four strategic countries: China, India, Russia and Mexico. These CCRs are cross-appointed with Transportation and their role is to align Bombardier's efforts in their markets, engage with local business and political leaders, support the Business Aircraft and Regional Aircraft sales teams, and lead and support specific business development activities. For each of these markets, an integrated Aerospace strategy has been prepared, encompassing opportunities for both product/service revenue growth and industrial engagement.

Aerospace has established a manufacturing facility in Querétaro, Mexico, to complement its existing manufacturing sites. Since the start of operations in May 2006, the manufacturing facility has created approximately 300 jobs. At present, this facility manufactures wire harnesses and structural components, which allows Aerospace to develop an in-house low-cost manufacturing capacity that is intended to reduce reliance on third parties for certain aircraft components and to contribute to a reduction in operating costs.

In fiscal year 2007, Aerospace entered into an agreement with SAC, a subsidiary of the state-owned aviation industrial entity China Aviation Industry Corporation I (AVIC I). Under this agreement, SAC will manufacture certain structural aircraft components for the *Q400* aircraft that were previously sourced from MHI. This agreement builds on a longstanding relationship between Aerospace and SAC, under which SAC has produced sub-components for the *Q100/200/300* aircraft.

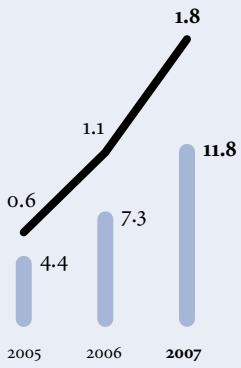
TRANSPORTATION

EBIT BEFORE SPECIAL ITEMS



in millions of dollars
in percentage of revenues

ORDER INTAKE
BOOK-TO-BILL RATIO
(as at January 31)



Order intake – in billions of dollars
Book-to-bill ratio

Transportation is the global leader in the rail equipment and system manufacturing and a provider of related services, 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. Transportation's presence in 21 countries includes 42 production sites and 22 service centres. Transportation has a workforce of approximately 29,000 employees.

FORWARD-LOOKING STATEMENTS

Forward-looking statements in the Transportation section of this MD&A are based on:

- *current order backlog and estimated future order intake;*
- *maintaining market leadership in rolling stock and system;*
- *expected growth in services and signalling businesses;*
- *normal contract execution and continued deployment of strategic initiatives, especially those linked to cost reductions, including procurement and operational improvement initiatives;*
- *market forecasts, using long-term market demand models and future project databases, consistent with publicly available market forecasts;*
- *recent industry trends that are expected to continue in the foreseeable future; and*
- *sustained level of government spending.*

Order intake of

$11.8

billion

Order backlog of

$27.5

billion

EBIT before special items of

$255

million

HIGHLIGHTS

> $11.8 billion in new orders (book-to-bill ratio[1] of 1.8) and order backlog of $27.5 billion, both new records for the rail industry.

> Maintained market leadership position in rolling stock, services and system.

> EBIT before special items of $255 million or 3.9% of revenues, compared to $179 million or 2.7% of last fiscal year.

> Free cash flow of $95 million, an improvement of $221 million compared to last fiscal year.

1 Ratio of new orders over revenues.

I. PROFILE

MARKET

The worldwide rail market ("Total market") is comprised of rolling stock, services, system and signalling, including rail-related telecommunication equipment, and infrastructure. According to the "Worldwide rail market study – status quo and outlook 2015" published by the Union of the European Railway Industries in January 2007, ("UNIFE market study"), the Total market amounted to €103.3 billion ($124.6 billion) in calendar year 2006, of which €71.8 billion ($86.6 billion) represents the Total market accessible to open bid competition ("Accessible market").

Market data reported in this MD&A represents, unless otherwise stated, the market in which Transportation has a product offering ("Relevant market"), defined as the Accessible market excluding:

– Japan and share of local contractors in emerging markets, which are not accessible to Transportation; and
– North American locomotives and worldwide freight cars, rail infrastructure, electrification markets and communications equipment segment, where Transportation has no product offering.

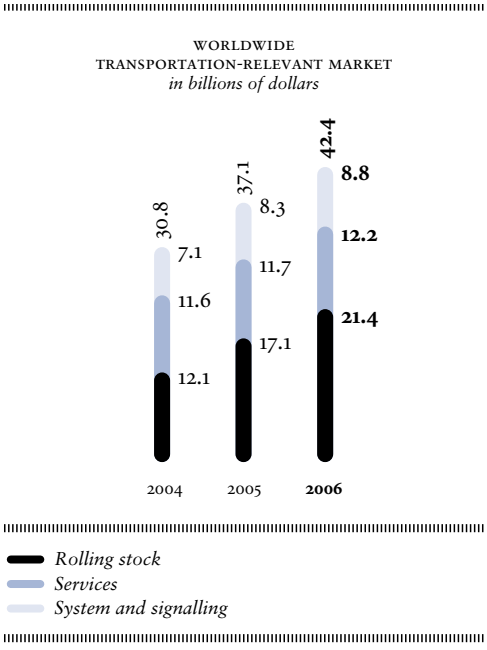
Market data for rolling stock and system is based on annual published orders. For service and signalling, market data is based on the UNIFE market study.

Due to the cyclical nature of the market segments, Transportation's market share for rolling stock, system and signalling represents the three-year average of the value of Transportation's total order intake compared to the three-year average of the total Relevant market. For services, it represents the value of Transportation's total annual revenues compared to the total Relevant market.

The total Relevant market and Transportation's market share were as follows for calendar years:

(in billions of dollars)	**2006**		2005	
	TOTAL MARKET	TRANSPORTATION MARKET SHARE	TOTAL MARKET	TRANSPORTATION MARKET SHARE
Rolling stock	**$21.4**	**28%**	$17.1[1]	31%[1]
Services	**12.2**	**12%**	11.7[2]	11%[2]
System	**2.0**	**34%**[3]	1.8	61%[3,4]
Signalling	**6.8**	**8%**	6.5[5]	8%[5]
	$42.4	**21%**	$37.1	23%[6]

1 Restated to exclude freight cars, a segment that Transportation has exited.
2 Restated based on the UNIFE market study. Figures now exclude the services portion on the North American locomotive and worldwide freight car markets, where Transportation has no product offering.
3 Market share calculation based on Total market of $4.2 billion, of which approximately $2.2 billion relate to the rolling stock, service and signalling portion of the orders, for calendar year 2006 ($2.6 billion and $800 million, respectively, for calendar year 2005).
4 Restated on a three-year average basis to align with industry practice (five-year average basis used last year).
5 Restated based on the UNIFE market study, excluding pure communications equipment, a market where Transportation has no product offering.
6 Excluding the London Underground Project awarded in calendar year 2003, the market share for calendar year 2005 is 27% for rolling stock, 19% for system and 18% for the Total market.



Transportation also analyzes the Relevant market by geographic regions: Europe, North America, Asia-Pacific and Other. Other covers all countries outside Europe, North America and Asia-Pacific and includes the Commonwealth of Independent States ("CIS"). Europe represents the largest market, accounting for 62% of the Relevant market.

On a three-year average (calendar years 2004 to 2006), Transportation remains the market leader in the rail industry with a market share of 21% of the Relevant market. The supplier field serving the rail market is fairly concentrated, with the three largest competitors accounting for approximately 55% of the Relevant market. Transportation's major global competitors are Alstom Transport ("Alstom"), a business unit of Alstom SA and Siemens Transportation Systems ("Siemens"), a business unit of Siemens AG. Both are active in the same markets as Transportation.

PRODUCTS AND SERVICES

Rolling stock still represents the main business of Transportation, accounting for 62% of revenues, down from 66% last fiscal year as there is a business shift toward the higher margin segments of services, system and signalling. Transportation's worldwide installed base of rolling stock exceeds 100,000 cars and locomotives.

The table below presents the main market segments, as well as an overview of the main products and services.

ROLLING STOCK			SERVICES	SYSTEM AND SIGNALLING	
ROLLING STOCK	PROPULSION & CONTROLS	BOGIES	SERVICES	SYSTEM	SIGNALLING
Mainline - Locomotives - Very high-speed trains - High-speed trains - Intercity trains - Regional trains - Commuter trains **Mass Transit** - Metro cars - Light rail vehicles	- Traction converters - Auxiliary converters - Traction drivers - Control and communication	- Portfolio of products to match the entire range of rail vehicles - Full scope of services throughout the life cycle of bogies	- Fleet management - Spare parts and logistics management - Vehicle refurbishment and overhaul - Component refurbishment and overhaul - Technical support	- Automated people movers - Advanced rapid transit - Light rapid transit - Turnkey systems - Automated monorail - Operations and maintenance related to system	- Integrated control systems - Onboard computer systems - Onboard computer systems - Wayside interlocking and equipment

Rail contracts tend to be large in size and relatively complex in design. While equipment manufacturers generally prefer common platforms, the majority of contracts, particularly those in rolling stock, require product customization to fit the unique characteristics of individual rail systems. Projects often demand extensive engineering and design work up front before production can begin, resulting in significant lead times before delivery. Nevertheless, there is a current market shift toward modular platforms, for locomotives in particular, which involve less product customization and will contribute to reduce lead times before delivery.

CUSTOMERS

The rail market consists primarily of customers in the public or quasi-public sectors, such as large national railways, regional railways and municipal transit authorities. Trends toward deregulation in some markets, in particular in regional passenger and freight transportation, are leading to the emergence of private operators. However, public-sector entities still dominate the market, and they benefit from some form of public involvement related to financing of operations or funding of infrastructure. In many countries, investment in rail infrastructure is viewed as a public-sector obligation. With the exception of a few private transnational operators, customers' operations remain mostly national. Transportation's customers are located in 60 countries, with Europe representing 70% of revenues in fiscal year 2007. Customers' key selection criteria include: reliability, availability, maintainability and safety of the vehicle (RAMS), technical compliance with the customer's specific requirements, vehicle price and energy efficiency. For most public operators, local content is also an important criterion.

II. BUSINESS ENVIRONMENT

FISCAL YEAR 2007 BUSINESS CONDITIONS

Urbanization, growing populations and increasing environmental concerns are all factors leading to an increased demand for public transportation.

Rolling Stock

The demand for rolling stock was exceptionally high in calendar year 2006, with orders reaching $21.4 billion. This represents an increase of 25% from the already high demand in calendar year 2005. Europe remained the largest region and the main growth contributor. Demand was mostly driven by the replacement need of existing fleets in Western Europe, mainly for commuter and regional transport, and by increased demand in the freight locomotive market. According to a study published by the United Nations Economic Commission for Europe in February 2007, passenger traffic increased by 3% and rail freight traffic increased by 5% in Europe during the first three quarters of calendar year 2006. There is sustained demand from private operators for multi-system locomotives, supporting their cross-border freight operations. The demand for light rail vehicles remained strong, especially in Germany.

In North America, the demand for mass transit was strong, with major cities replacing and expanding their commuter and metro fleets to respond to increasing ridership. According to data from the American Public Transport Association ("APTA") dated January 2007, passenger traffic increased by 3% for heavy and commuter rail and by 2% for light rail vehicles during the first three quarters of calendar year 2006.

In the Asia-Pacific region, replacement demand was also strong, with Australia being a major contributor. After a very strong demand from China in previous years, mainly driven by the mainline segment, orders for rolling stock came down to a more sustainable level. In calendar year 2006, demand was mainly focused on freight and urban transport. Major investment programs to improve passenger rail transportation systems could also be observed in other emerging markets, such as South Africa, Malaysia and Russia.

Services and System and signalling

In services, the global trend toward outsourcing continued. Nevertheless, as some national railway operators have built up expertise and capability to perform vehicle maintenance and refurbishment in-house, the speed of outsourcing remains at a moderate level. In Europe, the U.K. continues to be the most accessible market. The greatest demand comes from private operators, although public operators in southern Europe, mainly in Italy and Spain, have begun to award maintenance contracts for their new fleets. In North America, the development of new commuter rail services tends to involve private-sector partners in operations and maintenance ("O&M").

In system, Asia-Pacific and Other regions were the main drivers of market growth, where orders for newly built turnkey projects amounted to $3.2 billion (75% of the relevant system market) in calendar year 2006, compared to $1.7 billion (65% of the relevant system market) in calendar year 2005. At the same time, continued pressure on public funding and government budgets contributes to the implementation of new models for financing and operating public transport.

In signalling, the key market drivers remained the use of digital technology, standardization, and the shift toward automation and driverless solutions. Infrastructure providers and operators are optimizing their systems by installing signalling solutions to reach a more reliable and efficient level of service. The European Rail Traffic Management System ("ERTMS"), emerging from the newly agreed European standards for cab signalling train control systems, has become the widely accepted mainline signalling standard, being implemented not only in Europe but also in many different countries around the world.

See Market driver sections for further details.

ANTICIPATED TRENDS

Anticipated trends include further deregulation of rail markets and continuing movement by operators toward outsourcing equipment maintenance and related services. Urbanization, congestion, growing populations and the increasing number of large cities in the Asia-Pacific and Middle Eastern regions are expected to be key catalysts in driving demand for urban transit systems.

In recent months, public and political debate around global warming has intensified. With increasing public awareness, governments are looking for new ways to reduce negative effects on the environment. Discussed measures go from urban toll systems to new automobile tax schemes and higher fuel taxes, positively impacting both passenger and freight traffic. Even a growing economy like China's is putting more emphasis on sustainable development, setting specific targets for reducing energy consumption in its 11th five-year plan. This shift toward ecology-friendly passenger and freight transport is expected to positively impact the rail market.

The need to replace rolling stock and existing infrastructure presents an attractive opportunity for newly built equipment. Rail assets have a long lifetime, usually around 30 years. Many current fleets are approaching the end of their useful lifecycle, making replacement of the existing rolling stock and signalling installed base a primary driver of future demand.

In services, the continuing trend toward outsourcing vehicle maintenance and supporting activities presents an additional growth opportunity. As well, the trend toward longer-term service contracts will help solidify Transportation's revenue base.

Europe's focus on cross-border traffic will be another factor, as development of rail freight and passenger transport on international corridors builds demand for multi-system locomotives and ERTMS. New regulations and trends toward automation and driverless rail systems will provide opportunities for growth in the signalling market. An increasing emphasis on security and safety in all modes of transportation will play a role in defining new rail products and features.

High-potential emerging markets, such as China, India, Russia and Eastern Europe, are also showing great promise. In the Middle East and Africa, increasing growth and development is creating opportunities for activity in the system market. Potential challenges include the risk of delayed or cancelled projects, potential reduction of public funding, increasing competition leading to price erosion, and the possibility of operators outsourcing services at a slower rate than projected.

See Market driver sections for further details.

KEY SUCCESS FACTORS

Key success factors in the current business environment include:

- broad, leading-edge portfolio of products that can be customized;
- superior engineering capability linked with highly evolved project management processes;
- global presence accentuated by established local partners;
- competitive initial purchase cost and attractive lifecycle costs through optimized procurement and improved engineering;
- strong and reliable supply base;
- talent pool of well-trained workers; and
- ability to effectively protect and manage intellectual property.

III. GOALS AND STRATEGIES

The record order intake achieved in fiscal year 2007 illustrates the increased competitiveness of Transportation's product and service portfolio, with a growing number of large contracts won across numerous market segments and geographic areas. The company-wide turnaround program that Transportation launched three years ago has been a major contributor to this success. Structured around ten improvement initiatives, this program has allowed Transportation to improve contract execution, reduce risks and realize profitable growth. The steady progress realized over the last three fiscal years through various initiatives has been a main contributor to the improvement in EBIT margin before special items from 0.4% in fiscal year 2005 to 3.9% in fiscal year 2007.

Transportation reaffirms its goal to improve EBIT margin to 6% within three years. Transportation has now completed the restructuring plan initiated in fiscal year 2005, so the focus is now on six improvement initiatives: market leadership, product portfolio, operational excellence, project management, procurement and human resources. Transportation priorities for fiscal year 2008 will be, among others, to further strengthen the product offering and develop new market opportunities. At the same time, as major new contracts go into production, project management and contract execution will remain key priorities.

The following table presents Transportation's priorities, as well as the achievements realized in fiscal year 2007 and the planned actions scheduled for fiscal year 2008 for each of these priorities.

TRANSPORTATION PRIORITIES	2007 ACHIEVEMENTS	2008 PLANNED ACTIONS
Improve contract execution	> Rolled out margin and quality enhancement program, which focused on procurement, engineering and project management in all divisions. > Intensified focus on project management organization.	> Continue to implement margin and quality enhancement programs on new projects. > Further strengthen project management organization, with intensified training and project audits.
Maintain market leadership in rolling stock and system	> Maintained leadership in passenger rolling stock and locomotives through award of major contracts in the commuter, regional, mass transit and freight segments. > Maintained leadership position in system through award of Gautrain Rapid Rail Link order in South Africa.	> Further develop market position in emerging markets, focusing on China, India, Russia and Eastern Europe.

TRANSPORTATION PRIORITIES	2007 ACHIEVEMENTS	2008 PLANNED ACTIONS
Grow services and signalling businesses	> Increased order intake for services in Europe, with major long-term contracts won with both private and public operators. > Improved market position in services in North America by winning key projects and improving service site footprint.	> In services, continue to roll out predictive maintenance solutions and implement other best practices across sites and projects. > In signalling, establish a profitable growth portfolio in mass transit and mainline applications, and enter new markets.
Leverage strength of current extensive product offering and further improve the portfolio	> Completed modular locomotives product portfolio *TRAXX*. > Launched innovative solutions in the areas of predictive maintenance *(ORBITA)*, integrated rail security *(SEKURFLO)* and train control and management systems *(MITRAC* TCMS*)*.	> Launch new regional platform *TALENT* 2, adaptable to changing customer requirements even after delivery, to further strengthen leadership in regional/commuter segment. > Further develop product portfolio with innovative solutions.
Continue to develop group-wide initiatives	> Successfully completed the restructuring plan initiated in fiscal year 2005. > Reinforced cross-divisional initiatives.	> Further develop cross-divisional opportunities between rolling stock, services, system and signalling divisions.

IV. ANALYSIS OF RESULTS

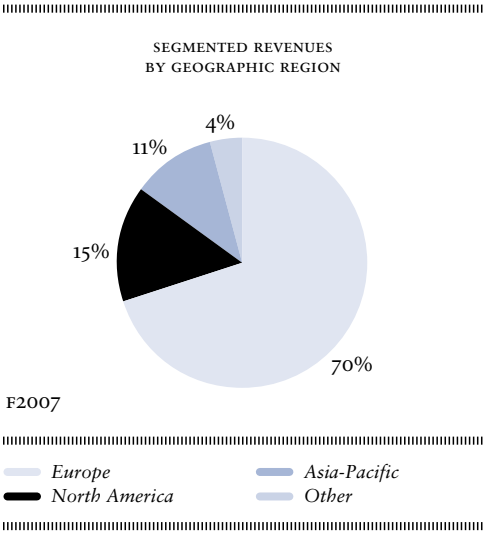
The results of operations of Transportation using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other Western European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. Mainly due to the higher exchange rates of the euro and other European currencies compared to the U.S. dollar for fiscal year 2007 versus fiscal year 2006, revenues have been positively impacted ("Positive currency impact") and expenses have been negatively impacted ("Negative currency impact"). See the Foreign exchange rates section for the average exchange rates used to translate revenues and expenses.

Transportation's results were as follows for fiscal years:

	2007	2006
Revenues		
Rolling stock	**$4,066**	$4,356
Services	**1,404**	1,329
System and signalling[1, 2]	**1,116**	954
Total revenues	**6,586**	6,639
Cost of sales	**5,672**	5,794
Margin	**914**	845
Operating expenses[3]	**550**	527
EBITDA before special items	**364**	318
Amortization	**109**	139
EBIT before special items	**255**	179
Special items	**24**	88
EBIT	**$ 231**	$ 91
(as a percentage of total revenues)		
Margin	**13.9%**	12.7%
EBITDA before special items	**5.5%**	4.8%
EBITDA	**5.2%**	3.5%
EBIT before special items	**3.9%**	2.7%
EBIT	**3.5%**	1.4%

1 The revenues of system and signalling are presented in the caption Other revenues in the Consolidated Statements of Income
2 Excluding the rolling stock portion of system orders manufactured by other divisions within Transportation.
3 Comprised of selling, general and administrative and research and development expenses.

Revenues by geographic region	2007		2006	
Europe	**$4,618**	**70%**	$4,781	72%
North America	**1,015**	**15%**	1,209	18%
Asia-Pacific	**714**	**11%**	495	7%
Other	**239**	**4%**	154	3%
	$6,586		$6,639	



Rolling stock revenues

The $290-million decrease is mainly due to:
- decreased mainline revenues in Europe, mainly in the U.K., Germany and Netherlands, due to a lower level of activities in these markets ($450 million); and
- decreased revenues in North America, due to the completion of two major contracts ($120 million).

Partially offset by:
- higher level of activities in the growing light rail vehicles segment ($134 million);
- higher level of activities in growing emerging markets (China, Taiwan and Korea) ($120 million); and
- a Positive currency impact ($57 million).

Services revenues

The $75-million increase is mainly due to:
- a higher level of activities, mainly in Europe ($45 million); and
- a Positive currency impact ($27 million).

System and signalling revenues

The $162-million increase is mainly due to:
- a higher level of activities related to the London Underground contract ($101 million);
- a higher level of activities in Asia (China, Korea and Taiwan) and Spain ($60 million); and
- a Positive currency impact ($13 million).

Margin percentage

The 1.2 percentage-point increase is mainly due to the rollout of the margin and quality enhancement program, which focused on procurement, engineering and project management.

Operating expenses

The $23-million increase is mainly due to:
- a Negative currency impact ($10 million);
- higher research and development expenses related to product development activities, mostly on the *TALENT* 2 project for future regional and suburban transport ($9 million); and
- higher selling, general and administrative ("SG&A") expenses to support growth, in line with Transportation's strategic vision ($9 million).

Partially offset by:
- lower bid costs in system and mainline ($12 million).

Amortization

The $30-million decrease is mainly due to an impairment charge, in connection with trademarks, recorded in fiscal year 2006.

FREE CASH FLOW

Transportation's free cash flow was as follows for fiscal years:

	2007	2006
EBIT	**$ 231**	$ 91
Non-cash items:		
Amortization	**109**	139
Gain on disposals of property, plant and equipment	**(1)**	(4)
Stock-based compensation	**7**	3
Special items	**24**	88
Net change in non-cash balances related to operations	**(209)**	(388)
Net additions to property, plant and equipment	**(66)**	(55)
Free cash flow	**$ 95**	$(126)

The $221-million increase is mainly due to:
- positive year over year variation in net change in non-cash balances related to operations ($179 million) (see explanation below), mainly due to lower cash outflow related to the restructuring plan initiated in fiscal year 2005 ($93 million); and
- cash flows from operations before net change in non-cash balances related to operations ($53 million).

Net change in non-cash balances related to operations

For fiscal year 2007, the $209-million was mainly due to the decrease in payables. This was partially offset by payments received, advances and progress billings.

For fiscal year 2006, the $388-million was mainly due to the lower level of payments received, advances and progress billings, a decrease in payables and an increase in receivables, partially offset by a lower level of inventory.

ORDERS AND BACKLOG

Transportation received the following major orders during fiscal year 2007:

CUSTOMER	PRODUCT/SERVICE	NUMBER OF CARS	TOTAL	ROLLING STOCK	SERVICES	SYSTEM AND SIGNALLING
Société Nationale des Chemins fer Français ("SNCF"), France	High-capacity commuter trains (Nouvelle Automotrice Transilien or NAT)	**1,321**	**$1,800**	$1,800	$ –	$ –
Gauteng, provincial government of South Africa (referred to as the Gautrain Rapid Rail Link order)	Rapid transit system, including electric multiple units (EMUs), type *Electrostar*, *CITYFLO* 250 signalling and 15-year maintenance	**96**	**1,650** [1]	250	700	700
SNCF, France	High-capacity regional trains, type AGC	**428**	**605**	605	–	–
Chicago Transit Authority, U.S.	Rapid transit vehicles	**406**	**577**	577	–	–
Nederlandse Spoorwegen (NS–Netherlands Railways), Netherlands	Double-deck EMUs, type VIRM	**200**	**569**	569	–	–
Red Nacional de los Ferrocarriles Españoles (RENFE), Spain	*TRAXX* locomotives, type F140 DC and 14-year maintenance	**100**	**549**	327	222	–

CUSTOMER	PRODUCT/SERVICE	NUMBER OF CARS	TOTAL	ROLLING STOCK	SERVICES	SYSTEM AND SIGNALLING
Toronto Transit Commission (TTC), Canada	New Rocket subway trains	**234**	**473**[2]	473	–	–
Transport for London (TfL), U.K.	EMUs, type *Electrostar* and 7.5-year maintenance	**152**	**425**	347	78	–
Verkehrsgesellschaft Frankfurt am Main (VGF), Germany	*FLEXITY* Swift high-floor trams	**146**	**361**	361	–	–
First Great Western (FGW), U.K.	Bogie overhaul of high-speed trains and technical development work	**–**	**160**	–	160	–
CBRail (Euro) Limited, U.K.	*TRAXX* locomotives, type F140 MS/DE	**35**	**156**	156	–	–
Syarikat Prasarana Negara Berhad (SPNB), Malaysia	Advanced rapid transit cars, type ART MK II	**88**[3]	**147**	147	–	–
Metro do Porto, S.A., Portugal	Bi-directional *FLEXITY* Swift low-floor trams	**30**[4]	**114**	105	9	–
Shanghai Shensong Line Mass Transit Company Ltd., China	*MOVIA* metro cars	**306**[5]	**104**	104	–	–
FGW, U.K.	Vehicle renovation of high-speed train trailer cars	**405**	**100**	–	100	–

1 Total contract value, including consortium partner, is $3.3 billion.
2 Total contract value, including spares and additional equipment. Contract value only for cars is $431 million.
3 Total number of contracted cars, Bombardier and Consortium partner combined. Total contract value is $210 million.
4 Total number of contracted cars, Bombardier and Consortium partner combined. Total contract value is $148 million.
5 Total number of contracted cars, Bombardier and Consortium partner combined. Total contract value is $326 million.

In addition, the following key contracts were awarded to Transportation during fiscal year 2007:

- Transportation received an order from First ScotRail in the U.K. for fleet maintenance, introducing the innovative remote monitoring and diagnostic systems *ORBITA*. Transportation expects to roll out this new technology to additional customers.
- Transportation received a five-year fleet maintenance contract for locomotives from the Italian state railway ("Trenitalia"). It is the first time that Trenitalia has contracted out full fleet maintenance.
- In the high speed segment, Transportation received a follow-up order for intermediary cars for the Oslo Airport Express, allowing the customer to increase the capacity per train by over 40%.
- Transportation further strengthened its position in the Chinese mass transit segment with the order for 40 advanced rapid transit cars for the Beijing Capital International Airport link and the order for delivery of Bombardier *MITRAC* propulsion and controls equipment for the Beijing metro.

In addition, subsequent to the end of fiscal year 2007, Transportation signed the following contracts and framework agreement, which are not included in the order backlog as at January 31, 2007:

- Transportation and Deutsche Bahn AG ("DB") signed a framework agreement for the supply of 321 new *TALENT* 2 trains, valued at approximately €1.2 billion ($1.6 billion). The new generation of electric multiple unit trains will join Bombardier double-deck trains and *TRAXX* locomotives as the backbone of DB's regional transport service throughout Germany.
- Transportation signed an order with China's Dalian Locomotives and Rolling Stock Co., Ltd. for the supply of 500 freight electric locomotives to the Chinese Ministry of Railways. The total contract is valued at €1.1 billion ($1.4 billion), $480 million of which represents Transportation's share. The scope of supply encompasses technical design and support, as well as state-of-the-art *MITRAC* propulsion and control equipment.

– Transportation was awarded an order to supply an additional 150 E464 electric locomotives to Trenitalia at a value of $487 million. With 350 locomotives of this type already in service, Trenitalia will be operating one of the largest single vehicle-type fleets in Europe.
– Transportation received a key order from Swedish operator Banverket to equip the Västerdalsbanan line with the state-of-the-art signalling system *INTERFLO* 150, the first ERMTS technology optimized for regional traffic.

Transportation's total order intake was as follows for fiscal years:

(in billions of dollars)	**2007**	2006
Rolling stock	**$ 7.8**	$5.3
Services	**2.5**	1.2
System and signalling	**1.5**	0.8
	$11.8	$7.3

The increase is mainly due to:
– higher order intake in total transit system and services (South Africa), mainline (Europe and the U.S.), light rail vehicles (Europe) and services (Europe).

Partially offset by:
– lower order intake in locomotives compared to exceptionally high order intake in fiscal year 2006 (Europe).

Transportation's order backlog was as follows as at January 31:

(in billions of dollars)	**2007**	2006
Rolling stock	**$15.9**	$11.6
Services	**5.9**	4.4
System and signalling	**5.7**	4.9
	$27.5	$20.9

The increase is due to higher order intake compared to revenue recorded ($5.2 billion), and to the net positive currency adjustment ($1.4 billion). The net positive currency adjustment results mainly from the strengthening of the euro and the pound sterling compared to the U.S. dollar as at January 31, 2007 compared to January 31, 2006.

RESTRUCTURING

The restructuring plan initiated in fiscal year 2005 to reduce the cost structure in Transportation is completed. Net cash outflows are now expected to amount to $452 million, of which $394 million had been disbursed as of January 31, 2007. Net cash outflows amounted to $77 million for fiscal year 2007 ($170 million for fiscal year 2006).

WORKFORCE AND LABOUR RELATIONS

The total number of employees was as follows as at January 31:

	2007	2006
Europe	**22,387**	21,551
North America	**5,690**	6,163
Other	**1,027**	930
	29,104[1]	28,644[1]

1 Including 2,899 and 2,070 contractual employees as at January 31, 2007 and 2006, respectively.

The increase in the total number of employees is mainly due to a net increase in Europe, mainly in Hungary, the U.K., Czech Republic, Poland and Austria, partially offset by a net decrease in North America, mainly in Canada.

In Europe and North America, respectively 80% and 40% of the employees were covered by collective agreements as at January 31, 2007. During fiscal year 2008, most collective agreements in North America are up for renewal. In Europe, collective agreements in force expire on different dates in fiscal years 2008 and 2009.

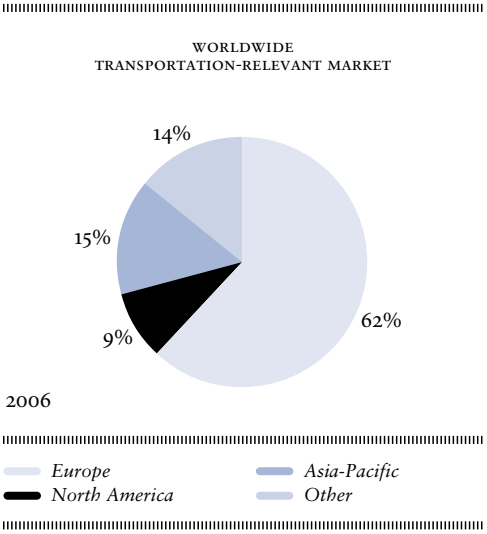
MARKET OVERVIEW

Calendar year 2006 was a record year in terms of rolling stock orders. The demand was mainly driven by the need to replace existing fleets in Western Europe and North America, as well as by the development of new lines in Asia-Pacific, Russia and South Africa.

The Relevant market by geographic region and Transportation's three-year-average market share were as follows for calendar years:

(in billions of dollars)	**2006**		2005	
	TOTAL MARKET		TOTAL MARKET [1]	
Europe	**$26.3**	**62%**	$22.4	60%
Asia-Pacific	**6.2**	**15%**	5.6	15%
North America	**3.9**	**9%**	4.7	13%
Other	**6.0**	**14%**	4.4	12%
	$42.4		$37.1	
Transportation market share	**21%**		23% [2]	

1 Restated (see Profile section).
2 Excluding the London Underground Project awarded in calendar year 2003, the market share for calendar year 2005 is 18%.



- The European market, already at a high level in calendar year 2005, further grew in calendar year 2006 due to major rolling stock replacements and system projects.
- The Asia-Pacific market grew more in calendar year 2006 due to a higher level of investment in new rolling stock and a surge in demand for system projects.
- The North American market decreased due to a decline in demand for system projects, partially offset by an increase in demand for rolling stock replacements.
- Other markets grew, mainly due to the Gautrain Rapid Rail Link order (South Africa), which Transportation won, and an order for a very high-speed train (Russia).

After an exceptionally high demand in calendar year 2006, the Relevant market is expected to return to a more sustainable level of approximately $35 billion.

V. ROLLING STOCK

MARKET DRIVERS

Demand for rolling stock is driven primarily by vehicle replacement needs in the mature European and North American markets. Additional demand is created by the resurgence of the light rail segment and growth in the regional and commuter segment in Europe and North America, and by new lines and transit systems in emerging markets in Asia-Pacific, the CIS, the Middle East and Africa. Infrastructure investment is one of the leading indicators for demand in rolling stock and will drive demand in China, where the network planned is to be extended by 15,600 km to 90,000 km by 2010. In Europe, rail transport will benefit from the trans-European network, a program to improve overall transportation conditions in Europe by 2020, including 25,000 km of newly built or upgraded railway lines. In addition, the liberalization of the rail market continues to have a positive influence, with the emergence of new rail freight and passenger operators.

Mainline

The worldwide mainline rolling stock fleet, essentially unchanged compared to last year, was as follows for calendar year 2006:

	NUMBER OF CARS	
Asia-Pacific	170,400	34%
Europe	168,100	34%
North America	51,100	10%
Other	106,500	22%
	496,100	

Source: based on UNIFE market study.

Western Europe alone accounts for 132,000 cars, with more than 20% of its fleet above the 30-year replacement threshold and another 25% reaching this threshold over the next decade, mainly in high speed, very high speed and multiple units. The construction of high-speed and very high-speed lines throughout Europe and Asia-Pacific is also increasing the demand for these trains, which use the latest technologies in propulsion and train control systems.

A large portion of the Asia-Pacific and Other regions, mainly the CIS, is not accessible to international competition. The ongoing opening of these regions is expected to create further potential for Transportation.

Mass transit

The worldwide mass transit rolling stock fleet consists of approximately 63,000 metro cars (approximately 100 metro systems) and 47,000 light rail vehicles. The worldwide mass transit rolling stock fleet, essentially unchanged compared to last year, was as follows for calendar year 2006:

	NUMBER OF CARS	
Europe	43,000	39%
Asia-Pacific	19,800	18%
North America	18,200	16%
Other	29,300	27%
	110,300	

Source: based on UNIFE market study.

The demand for rolling stock in the mass transit segment is primarily driven by new transit systems in Asia, the Middle East and North Africa, driven by economic growth and urbanization, and by extensions to existing systems and replacement needs in Europe and North America. Between 25% and 30% of the European metros and Light Rail Vehicles ("LRV") fleets are above the 30-year replacement threshold and another 30% will reach this threshold over the next decade. Large LRV systems exist in Eastern Europe; however, demand is growing slowly due to funding challenges. Approximately 40% of the North American metro fleet is above the 30-year replacement threshold and another 30% will reach this threshold over the next decade.

COMPETITION

Transportation has two major global competitors, Alstom and Siemens. Both are active in the same markets as Transportation.

Ansaldobreda Spa Transport ("Ansaldo") is also a full line supplier, with established bases in Italy and other European countries. Construcciones y Auxiliar de Ferrocarriles SA ("CAF"), Patentes Talgo SA, and Stadler Rail AG specialize in the field of passenger cars, mainly in Europe. CAF and Ansaldo are also active in North America. Vossloh AG is active in the field of diesel locomotives and propulsion in Europe. The Russian supplier CJSC Transmashholding is now also becoming active in Europe.

Japanese suppliers such as Kawasaki Heavy Industries Ltd., Kinki Sharyo Co.,Ltd., Mitsubishi Electric Corporation, Nippon Sharyo Ltd., and Toshiba Corporation are competing mostly in Asia and the U.S. in the rolling stock or electric propulsion segments. Rotem Company is a Korean manufacturer of passenger rolling stock active in Asia, North America and Europe. Hitachi Ltd., active in Asia-Pacific, has now also entered the European market.

Transportation has traditionally maintained project-based business relationships with many of its competitors, especially in Europe.

Key competitive advantages

Transportation's key competitive advantage is its broad passenger rolling stock product portfolio, which comprises all train types and major subsystems from urban to very high-speed applications, including single and double-deck trains, multiple units and loco-hauled trains, electric and diesel propulsion, steel and aluminum carbodies, and bogies. It allows Transportation to cover a wide range of customer requirements across all world regions.

Another key competitive advantage is the good reputation of Transportation in the industry due to its customer focus, product reliability and the value for price delivered to its customers. This is shown by the substantial orders received from Transportation's customers in fiscal year 2007, with major incumbent operators in Europe, but also in the system market with follow-up orders in Canada (Vancouver ART), Malaysia (Kuala Lumpur ART) and the U.S. (Las Vegas APM). Also, Transportation won almost every key contract in its core markets: France (Île-de-France NAT), Germany (Frankfurt light rail), U.S. (rapid transit vehicles for Chicago Transit Authority), Canada (subway trains for Toronto Transit Commission) and Spain (freight locomotives for RENFE). In addition, during fiscal year 2007, Transportation's double-deck coaches were ranked as the most reliable vehicles in daily operation by DB, resulting from the high level of satisfaction of the passengers and the customer.

PRODUCT DEVELOPMENT

During fiscal year 2007, Transportation further improved its regional and commuter fleet for the European market. The commuter train developed for the Greater Paris region (Île-de-France) is designed for maximum comfort, safety and security and is based on Bombardier's proven technology already in commercial service, providing a high level of reliability.

The *TALENT* 2, designed for future regional and suburban transport, represents the continuous development of Transportation's modular concept, which has already been successfully introduced in France with the AGC. This design concept offers unparalleled flexibility and modularity in line with customers' needs. These translate into a competitive advantage for operators in a European market that is characterized by growth and liberalization. In February 2007, Transportation signed a framework agreement with DB for the supply of 321 new *TALENT* 2 trains (see Orders and backlog section for further details).

In September 2006, at the most important rail fair in the world (InnoTrans, Germany), Transportation introduced the new diesel-electric *TRAXX* locomotive, which completes the *TRAXX* platform family of locomotives and strengthens Transportation's position in the diesel locomotive market.

As part of the "Green Train" project, Transportation has begun testing the first mechatronic bogie in cooperation with Swedish Banverket. This innovative technological solution is of growing interest to rail operators, as it allows monitoring track condition and reduces track damage. In the U.K., operators pay a fee for track damage caused by their trains, a practice that might be rolled out to other countries.

During fiscal year 2007, Transportation won an order from Neoman Bus GmbH, a leading member of the global bus industry, for the design and manufacture of its *MITRAC* 500 propulsion system to power 80 trolleybuses for Barquisimeto, Venezuela. With this order, Transportation has expanded the application of its highly reliable *MITRAC* propulsion system product portfolio to the trolleybus market. Given its successful experience in this segment, the Bombardier *MITRAC* 500 is now suited to power trams, people movers and trolleybuses.

ORDER BACKLOG

Transportation recognizes revenues using the percentage-of-completion method based on actual costs incurred compared to total cost anticipated for the entire contract, excluding costs that are not representative of the measure of performance. The order backlog segmented by percentage of completion was as follows as at January 31:

(in billions of dollars)	**2007**	2006
0% to 25%	**$10.0**	$ 6.4
25% to 50%	**3.1**	2.4
50% to 75%	**1.6**	1.2
75% to 100%	**1.2**	1.6
	$15.9	$11.6

The evolution of these categories reflects new orders received, more than offsetting contract progress during the year.

MARKET SHARE

The rolling stock Relevant market by geographic region and Transportation's three-year-average market share were as follows for calendar years:

(in billions of dollars)	**2006**		2005	
	TOTAL MARKET	TRANSPORTATION MARKET SHARE	TOTAL MARKET[1]	TRANSPORTATION MARKET SHARE
Europe	**$12.8**	**34%**	$10.3	37%
Asia-Pacific	**3.0**	**13%**	3.1	10%
North America	**2.4**	**41%**	2.5	32%
Other	**3.2**	**7%**	1.2	4%
	$21.4	**28%**	$17.1	31%[2]

1 Restated (see Profile section).
2 Excluding the London Underground Project awarded in calendar year 2003, the market share for calendar year 2005 is 27%.

– Excluding London Underground Project, Transportation has increased its market share to 28%, from 27% last calendar year.
– Europe remained the largest rolling stock market. Annual orders increased by $2.5 billion year over year, mainly driven by vehicle replacement needs, with major orders in the regional and commuter segment (France and Netherlands), locomotive (Spain) and light rail vehicle (Germany) segments. Transportation has confirmed its market leadership position in these segments.

– The Asia-Pacific market remained essentially constant, as the decrease in rolling stock investment in China was offset by large investments in other countries such as Australia and Malaysia. During fiscal year 2007, Transportation, together with its joint venture partner EDI Rail, received two orders in the regional and commuter segment from Australia. With orders in metros, regional trains and commuter segments, Transportation increased its market share in this region.
– In North America, Transportation increased its share of the passenger rolling stock market by winning large contracts from the Chicago Transit Authority and the Toronto Transit Commission.
– The Other region market growth was mainly driven by two large orders: the Gautrain Rapid Rail Link order in South Africa, which Transportation won, and a very high-speed order in Russia.

OUTLOOK

Based on a the UNIFE market study, after the record order intake level of $21.4 billion for calendar year 2006, which included the realization of many major projects, the rolling stock Relevant market is expected to return to a more sustainable level of $14 to $15 billion for calendar year 2007. From a longer perspective, the rolling stock market is expected to grow between 2005 and 2015, at a compound annual growth rate ("CAGR") of 1.5% to 2%. In the short term, the demand for rolling stock is dependent on the timing and materialization of major upcoming projects.

Europe is expected to remain the largest rail market over the next decade, although at a lower level. Large orders are expected in Western Europe, mainly in Germany, France and Italy, and an increase in demand is also expected from the new European Union member states.

In Asia-Pacific, the rolling stock market is mainly dependent on the development of the Chinese market, which is expected to remain at a high level with large orders for locomotives, metros, intercity and high-speed trains. In addition, upward potential depends on the further opening of the Indian market, mainly in mass transit, and the Russian market.

In North America, the rolling stock market should slightly decrease over the next few years, due to fewer large contracts expected in the metro and commuter train segments.

VI. SERVICES

MARKET DRIVERS

The global trend toward outsourcing services is expected to continue at a moderate level. The emergence of rolling stock leasing companies, and new private operators in freight and passenger rail operations remain a key driver for outsourcing. In addition, pressure on public budgets is driving some national operators toward outsourcing. National railways have shown interest in outsourcing solutions that make use of their own workforce. Nevertheless, national railway operators who have built up extensive expertise and capability over the years still perform a major portion of vehicle maintenance and refurbishment in-house. To accelerate outsourcing and capture some of the work done by incumbent major public operators in Europe, providers will have to offer distinctive added value to customers. In addition, stronger regulations accelerate the growth in adjacent markets such as security, safety and energy solutions. Retrofit of these solutions on existing fleets provides a further growth opportunity.

In Europe, the largest market remains the U.K., where new opportunities for fleet maintenance are linked to the ongoing consolidation and re-tendering of rail operations. The operators in the U.K. are facing a high level of competition, and their challenge is to provide greater availability and more reliable vehicles at reduced costs. Transportation is well positioned to assist operators to meet this challenge with a range of value solutions, such as predictive maintenance. Throughout Europe, the high level of activity in vehicle refurbishment and overhaul is expected to continue.

In North America, demographic growth and urban sprawl is driving the development of new commuter rail services. Recent new starts tend to involve private-sector partners in O&M activities. Continuous downward pressure on public transportation budgets is forcing transit agencies to study innovative ways to address maintenance needs. As agencies focus on keeping their fleets in good repair with better on-time performance, customers are beginning to see the benefits of predictive asset maintenance.

In Asia-Pacific, the introduction of new rolling stock with increased technological complexity and the development of new rail lines, in particular in mass transit and high-speed trains, are driving the service market in emerging markets. The accessibility to the service market for third party providers is expected to remain limited to technical support, material solutions and system projects. In more mature markets, such as Australia, outsourcing of fleet maintenance and refurbishment of the existing fleet are the main growth drivers.

COMPETITION

For services of own-built trains, which are the primary focus of Transportation's services activities, Transportation is competing with railway operators, subsystem and component suppliers, as well as with third party service providers. The incumbent national operators still remain the strongest competition for Transportation. Transportation is the world leader on the Relevant market in the field of rail services in Europe and North America. For combined rolling stock and maintenance contracts, Transportation has the same two main competitors as in rolling stock, Alstom and Siemens, and they also offer a full range of services. Most of the other rolling stock manufacturers are also active in the services segment.

Key competitive advantages

Transportation's main strategic advantage is its large rolling stock installed base of over 100,000 cars and locomotives in key markets. This installed base represents an estimated total annual service volume of more than $8.0 billion, of which over $4.0 billion is open to competition. This installed base represents a significant growth opportunity for Transportation, which currently has $1.4 billion in annual service revenues. Customers value Transportation's experience and technological advantage. Transportation's extensive material supply chain and global footprint ensure its competitiveness in the services segment. While its own installed base remains the primary focus, Transportation is also targeting the refurbishment and modernization market on competitors' trains.

During fiscal year 2007, electrical and diesel multiple units manufactured and maintained by Transportation have been ranked as the most reliable in the U.K for the fifth consecutive year.

PRODUCT DEVELOPMENT

During fiscal year 2007, Transportation launched the predictive maintenance system *ORBITA*, which is designed to help operators increase fleet utilization, improve reliability and availability and ultimately enhance the passenger's overall journey experience. *ORBITA* is expected to support Transportation's growth in the services market. Successfully launched in Europe during fiscal year 2007, *ORBITA* will be introduced to the North American market in fiscal year 2008.

MARKET SHARE

Transportation defines the service market as activities in the fields of fleet management, spare parts and logistics management, vehicle and component refurbishment and overhaul, and technical support. The accessible service market comprises the portion of activities outsourced by railway operators to the supply industry or third parties. The Relevant market excludes services for vehicles older than 40 years, since they are far above the average life expectancy of 30 years.

The service Relevant market by geographic region and Transportation's market share were as follows for calendar years:

(in billions of dollars)	**2006**		2005	
	TOTAL MARKET		TOTAL MARKET[1]	
Europe	**$ 8.6**	**70%**	$ 8.3	71%
Asia-Pacific	**1.2**	**10%**	1.1	9%
North America	**0.8**	**7%**	0.8	7%
Other	**1.6**	**13%**	1.5	13%
	$12.2		$11.7	
Transportation market share	**12%**		11%	

1 Restated (see Profile section).

– In Europe, by far the largest accessible market, Transportation has retained its leadership. Transportation won contracts both with private customers (bogie and high-speed passenger cars with First Great Western in the U.K.) and public customers (five-year maintenance of 20 locomotives with Trenitalia in Italy).
– In Asia-Pacific, Transportation will continue to pursue customers in growing markets through its operations in Australia.
– In North America, faced with a slower pace of liberalization, Transportation reinforced its position in vehicle and component overhaul with the overhaul of 64 Comet II coaches for Metro-North Railroad ("MNR") in New York.

OUTLOOK

The accessible services market related to Transportation's fleet is expected to grow at a CAGR of 2% to 3% over the next decade. Factors that will impact demand include the pace of outsourcing, the progress of liberalization and the emergence of new private passenger and freight operators. Transportation is well positioned to benefit from this growth with the largest installed base and the highest new rolling stock delivery rates. Further growth can be achieved through diversification of product offers and penetration of new markets.

VII. SYSTEM AND SIGNALLING

SYSTEM

MARKET DRIVERS

Urbanization, growing populations and increasing environmental concerns are all factors leading to an increased demand for public transportation and hence for new systems. The level of public funding and a growing commitment by countries to improve their rail transportation systems are driving demand for total transit systems. At the same time, continued pressure on public funding and on government budgets contributes to the implementation of new models for financing and operating public transport. The share of turnkey contracts for newly built systems is also expected to increase, due to the spread of new technologies such as driverless operations for mass transit systems.

COMPETITION

Transportation's main global competitors, Mitsubishi Heavy Industries Ltd., Alstom and Siemens, continue to develop system capabilities. In addition, engineering, procurement and construction companies are also active in rail project development. Such firms include Bechtel Corporation, SNC-Lavalin Inc., Dragados S.A., and Washington Group. In the automated people mover market, Doppelmayr Cable Car GmbH is Transportation's main competitor. Hitachi Ltd. and KL Monorail System Sdn Bhd are active in the monorail market.

Key competitive advantages

Transportation is well positioned in this market as a leader in the design, manufacture, commissioning, operation and maintenance of automated people movers and advanced rapid transit systems. These systems allow for highly reliable unattended train operation in high passenger traffic airports and urban areas. Transportation's product portfolio for automated systems comprises rubber tire and steel wheel solutions, as well as conventional and innovative electric propulsion technologies.

The Transportation-built Nottingham Express Transit light rail system won the "Best Operational Transport Project" in the U.K. at the Public Private Finance Awards ceremony.

PRODUCT DEVELOPMENT

During fiscal year 2007, Transportation launched several new products supporting customers around the world in managing their total transit systems:
– *MITRAC* TCMS ("Train Control and Management System"), which demonstrated its uniqueness in the market in terms of advanced Internet protocol technology, open architecture, integration, and train-to-wayside communication capability. The *MITRAC* TCMS is the enabling platform for new solutions such as Transportation's *SEKURFLO*, *ORBITA* and PIES ("Passenger information and entertainment system").
– *SEKURFLO*, an advanced, on-board mobile security management system for the passenger rail market. The *SEKURFLO* solution, the next generation of transit security and surveillance, helps secure the safe, operational flow of passenger traffic. This purpose-built system is designed for both passenger safety and the efficiency of rail operators.

MARKET SHARE

Total market and market share include the complete scope covered by turnkey projects: systems integration, engineering, project-related services and equipment supplies such as rolling stock, automation, signalling and O&M. The construction portion of the projects is not included since Transportation is not active in this field.

Based on this definition, the system Relevant market by geographic region and Transportation's three-year average market share were as follows for calendar years:

(in billions of dollars)	**2006**		2005	
	TOTAL MARKET		TOTAL MARKET	
Asia-Pacific	**$0.8**	**19%**	$0.1	4%
Europe	**0.6**	**14%**	0.1	4%
North America	**0.4**	**10%**	0.8	31%
Other	**2.4**	**57%**	1.6	61%
	$4.2 [1]		$2.6 [1]	
Transportation market share	**34%**		61% [2]	

1 Of which approximately $2.2 billion relate to the rolling stock, service and signalling portion of the orders, compared to $800 million for calendar year 2005. The increase is mainly due to the Gautrain Rapid Rail Link order.
2 Restated (see Profile section). Excluding the London Underground Project awarded in calendar year 2003, the market share for calendar year 2005 is 19%.

– Due to large contract values and the small number of projects in the system market, the geographic split can vary significantly from year to year.
– In Asia-Pacific, demand has increased, in particular for mass transit systems.
– The decline in demand in the North American market was offset by new light rail systems in southern Europe.
– South Africa, included in the Other region, was the largest market with the Gautrain Rapid Rail Link order, which Transportation and its consortium partners won in calendar year 2006.

OUTLOOK

Following the materialization of major orders in South Africa, the overall system market is expected to return to a more sustainable, historic level, exceeding $2.0 billion on average over the next three years.

Continued growth and development in Asia-Pacific, the Middle East and Africa is anticipated to create substantial demand for systems. With a renewed demand for light rail systems, further growth is expected in Europe.

SIGNALLING

MARKET DRIVERS

The move toward digital technology from analog systems, as well as the shift to automation and driverless solutions in the mass transit segment, are key trends expected to impact the signalling market. Also, standardization and the replacement of existing equipment create strong demand, particularly in the mainline segment.

The increasing willingness of railway infrastructure owners to optimize their network operations and replace the aging systems is driving demand for the signalling services business. At the same time, capacity and speed demands on strategic rail routes influence the signalling direction toward more reliable and efficient computer-based technology.

ERTMS, emerging from the newly agreed European standards for a cab signalling train control system, is being widely accepted and implemented not only in Europe but also in the rest of the world. It provides the base for ERTMS-compliant products to become widely accepted as the global mainline signalling standard. Targeted European Union ("EU") funding to infrastructure managers and railway undertakings for cross-border operations are driving the growth in this segment within established and new EU member-states.

The ERTMS wayside technology migration is at the same time influencing the replacement of onboard equipment, which will be undertaken in years to come.

Within the mass transit segment, Transportation continues to see a trend toward greater automation, particularly communication-based train control systems, which satisfy customer demands for increased capacity and minimal disruption during implementation. Transportation expects an increasing number of opportunities in Asia for new mass transit signalling systems, particularly in China and India.

COMPETITION

Major competitors in the market are Alstom, Ansaldo, General Electric, Invensys plc, Siemens and Thales S.A., which acquired the signalling division of Alcatel in January 2007.

Key competitive advantages

Through continuing investment in the ERTMS segment, Transportation has achieved its recognized position in the sector and is embracing future market growth opportunities.

In the mainline segment, Transportation is well positioned with its comprehensive product portfolio to address the needs of customers across Western Europe, as well as Asia and Latin America. Successful strategic alliances in the growing markets of Poland and Russia are providing a competitive advantage to capture new market opportunities.

In the mass transit segment, Transportation secured a major award with the Gautrain Rapid Rail Link order (South Africa), and consolidated its position in existing markets with awards in Italy, Korea, Spain, the U.K. and Brazil.

PRODUCT DEVELOPMENT

The continuous upgrade of equipment to the latest ERTMS standards remained the focus of Transportation's product development activities in fiscal year 2007:

- Transportation finalized the product introduction into Taiwan and Korea of ERTMS Level 1 and the national Automatic Train Protection systems ("ATP"), demonstrating delivery capability for Asian markets.
- Transportation has been the first to enter the *EBI* Cab ERTMS Level 2 Onboard market in the Netherlands and to receive approval for an ERTMS Specific Transmission Module ("STM"), which allows trains to be used for cross-border traffic. Furthermore, country-specific adaptations for the onboard equipment have been completed for the German and Spanish markets.

Further interlocking enhancements were achieved with the computer-based interlocking system *EBI* Lock 950, thus increasing the market penetration of this product.

Other areas of product development include the ongoing improvement and increased functionality of the current Transportation product range, in particular the enhancement of *EBI* Track train detection, *EBI* Light signals and *EBI* Switch point machines. This will allow Transportation to embrace further market opportunities.

MARKET SHARE

The total Relevant market for signalling by geographic region, and Transportation's three-year-average market share were as follows for calendar years:

(in billions of dollars)	**2006**		2005	
	TOTAL MARKET		TOTAL MARKET	
Europe	**$4.0**	**59%**	$3.8	59%
Asia-Pacific	**1.2**	**17%**	1.1	17%
North America	**0.8**	**12%**	0.8	12%
Other	**0.8**	**12%**	0.8	12%
	$6.8		$6.5	
Transportation market share	**8%**		8%[1]	

1 Restated (see Profile section).

- Europe is the largest signalling market, mainly driven by the EU funding of ERTMS and infrastructure renewals in Western Europe, as well as new European Union member states in Eastern Europe. Transportation made significant progress in Eastern Europe in fiscal year 2007, particularly in Poland, as well as in implementing ERTMS technology in Italy, the Netherlands and Nordic countries.
- The Asia-Pacific market is supported by demand in the mass transit segment, the introduction of new technologies in the mainline segment, and the wider acknowledgment of ERTMS technology. In Asia, Transportation has maintained its leading technology position in Thailand, Taiwan and South Korea.
- In North America, the market remains strong, driven by current growth in the freight market segment and expected major mass transit investments.

OUTLOOK

The market is expected to grow at a CAGR between 1% and 2% over the next decade. The main factors driving demand include ERTMS becoming increasingly accepted worldwide, the mass transit market responding to growing demand in Asia and Europe, as well as the further need for infrastructure renewals and updates in the mainline sector.

VIII. STRATEGIC COUNTRIES

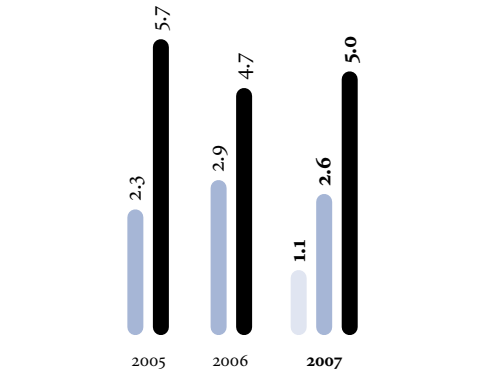
Achieving success in fast-growing international markets is an integral part of Transportation's long-term strategy. To enable this, Transportation strengthened its international network of Chief Country Representatives ("CCRs") for the major and emerging markets in fiscal year 2007. Four CCRs are cross-appointed with Aerospace: China, India, Russia and Mexico. The role of the CCRs is to align Bombardier's efforts in their markets, engage with local business and political leaders, support the sales teams, and lead and support specific business development activities. For each of these markets, integrated strategies have been prepared, encompassing opportunities for both product and service revenue growth and industrial engagement.

LIQUIDITY AND CAPITAL RESOURCES

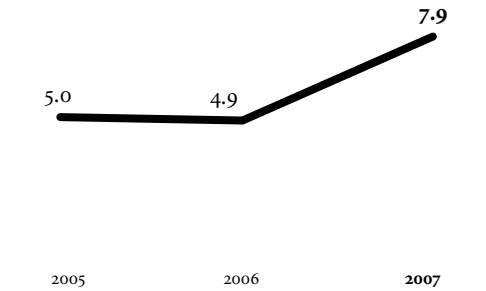
In order to provide increased financial and operating flexibility, the Corporation implemented an important refinancing plan to modify its liability profile. The plan built on the recent strategy of funding working capital needs only from available cash resources. It included replacing major credit facilities, thereby significantly reducing utilization cost, by entering into a New letters of credit facility limited to the issuance of letters of credit, and supporting such issuance with collateral assets. The plan also included the refinancing of long-term debt maturing in the near term, as well as additional borrowing to replenish the liquidity used to fund the collateral asset under the New letters of credit facility. This refinancing has allowed the Corporation to extend the weighted-average maturity of its long-term debt by three years. The sections below explain the various parts of this liability management exercise and the resulting impact on the Corporation's liquidity.

The details of the amounts available under credit facilities and long-term debt as at January 31, 2007 and 2006 are provided in note 8 – Credit facilities and note 10 – Long-term debt to the Consolidated Financial Statements.

INVESTED COLLATERAL,
LIQUIDITY AND LONG-TERM DEBT
in billions of dollars
(as at January 31)



WEIGHTED-AVERAGE MATURITY
OF LONG-TERM DEBT
(as at January 31)



I. LIQUIDITY

As the New letters of credit facility is exclusively for the purpose of issuing letters of credit, while some of the prior credit facilities could be used to draw cash and letters of credit, the Corporation's liquidity is comprised solely of cash and cash equivalents.

The variation in the cash and cash equivalents position was as follows for fiscal year 2007:

Balance as at January 31, 2006[1]	$ 2,917
Proceeds from issuance of long-term debt	2,442
Repayments of long-term debt	(2,306)
Invested collateral	(1,145)
Free cash flow	610
Disposal of discontinued operations, net of cash disposed	161
Effect of exchange rate changes on cash and cash equivalents	134
Cash flows from discontinued operations	63
Other	(228)
Balance as at January 31, 2007	$ 2,648

1 Excludes $5 million in cash and cash equivalents related to discontinued operations.

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

II. CREDIT FACILITIES

In December 2006, the Corporation entered into a New letters of credit facility to replace the existing €3.2-billion European and $1.1-billion North American credit facilities and the €290-million European letters of credit facilities ("Prior credit facilities") before their respective maturities in fiscal years 2008 and 2009. The Corporation had a 90-day transition period from December 18, 2006, the effective date of the agreement, to cancel all Prior credit facilities and roll the related letters of credit drawn into the New letters of credit facility. As of the date of this MD&A, all prior credit facilities have been cancelled.

Credit facilities and maturities were as follows as at:

	AMOUNTS COMMITTED	AMOUNTS AVAILABLE	MATURITY
January 31, 2007	**$5,590**	**$1,179**	**2012**
January 31, 2006	$5,282	$1,033	2008-2009

III. LONG-TERM DEBT REFINANCING

In November 2006, the Corporation issued the following senior notes:
- €800 million ($1.0 billion), floating rate, due in November 2013;
- $385 million, bearing interest at 8%, due in November 2014; and
- €800 million ($1.0 billion), bearing interest at 7.25%, due in November 2016.

The net proceeds from this issue of senior notes were used for the following:
- to retire all of the outstanding $220-million of BC's notes due in March 2007;
- to repurchase all of the outstanding €500-million ($640-million) of BC's notes due in May 2007;
- to repurchase €218 million ($279 million) of the outstanding €500-million ($640-million) notes due in February 2008;
- to fund the €869-million ($1.1-billion) invested collateral to secure the Corporation's obligations to the banks issuing letters of credit under the New letters of credit facility; and
- for general corporate purposes, including the payment of fees and expenses in connection with the issuance of the senior notes.

IV. FUTURE LIQUIDITY REQUIREMENTS

The Corporation's liquidity needs arise principally from working capital requirements, capital expenditures, product development, principal and interest payments on long-term debt, lease payment obligations and distributions to shareholders.

The following table summarizes the Corporation's obligation in connection with its long-term debt, lease obligations and other obligations as at January 31, 2007, as well as the expected timing of payments:

	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	THEREAFTER
Long-term debt[1]	$ 4,974	$ 36	$ 981	$ 28	$3,929
Capital lease obligations[1]	106	8	16	18	64
Operating lease obligations[2]	767	126	220	109	312
Outsourcing commitments	810	208	398	75	129
Purchase obligations[3]	8,260	5,362	2,550	218	130
Other obligations[4]	304	47	100	48	109
	$15,221	$5,787	$4,265	$496	$4,673

1 Includes principal repayments only.
2 Comprises sale and leaseback and operating lease obligations.
3 Purchase obligations represent contractual agreements to purchase goods or services in the normal course of business that are legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, variable or indexed price provisions; and the appropriate timing of the transaction. These agreements are cancellable, with a substantial penalty.
4 Principal repayment requirements in connection with sales incentives offered in Aerospace.

PURCHASE OBLIGATIONS

The Corporation normally enters into certain inventory procurement contracts that specify prices and quantities, as well as long-term delivery time frames. These agreements require suppliers to build and deliver components in time to meet the Corporation's production schedules. Such arrangements arise as a result of the extended production planning horizon for many of the Corporation's products, where the delivery of products to customers arises over an extended period of time. A significant portion of the Corporation's exposure arising from the inventory procurement contracts is mitigated by firm contracts with customers or through risk-sharing arrangements with suppliers. Although there are no plans to do so, if any of the Corporation's aerospace programs or long-term contracts were to be terminated, the Corporation would be exposed to potentially material termination costs.

EMPLOYEE BENEFIT PLAN CONTRIBUTIONS

The Corporation maintains defined benefit and defined contribution pension plans as well as post-retirement benefit plans other than pensions as discussed in note 20 – Employee future benefits to the Consolidated Financial Statements. The Corporation's future cash contributions to the funded pension plans are subject to changes based on actual returns on plan assets and pension assumptions, and have not been reflected in the preceding table (see the Other – Pension section for further details).

V. FINANCIAL POSITION

Assets and liabilities were as follows as at January 31:

ASSETS (LIABILITIES)	**2007**	2006	EXPLANATION OF VARIANCES
Cash and cash equivalents	**$ 2,648**	$ 2,917	See Liquidity section above for details.
Invested collateral	**1,129**	–	Invested collateral under the New letters of credit facility.
Receivables	**1,789**	1,684	This increase is mainly due to a higher level of trade receivables in Aerospace ($76 million), mainly as a result of a higher level of activity in business aircraft.
Aircraft financing	**1,042**	1,457	This decrease is mainly due to the lower level of aircraft interim financing ($192 million), and to an arrangement reached with Delta (see Aerospace's Regional aircraft section for more details) ($171 million).
Gross inventories	**7,168**	6,539	The increase in gross inventories is mainly due to the increase in Aerospace finished products and programs ($617 million), mainly for regional aircraft, and to the translation adjustment arising mainly from the strengthening of the euro and pound sterling compared to the U.S. dollar in Transportation ("Currency impact") ($182 million), partially offset by the net reduction in EOAPC ($227 million). The increase in total payments received, advances and progress billings is mainly due to a higher level of payments in Aerospace ($398 million), higher orders received in Transportation ($160 million), and to the Currency impact ($177 million).
Payments received and progress billings	**(3,207)**	(2,734)	
Inventories	**3,961**	3,805	
Advances and progress billings in excess of related costs	**(2,443)**	(2,191)	
Property, plant and equipment	**2,936**	3,090	This decrease is mainly due to amortization ($475 million) being higher than net additions ($281 million).
Goodwill	**2,286**	2,142	This increase is mainly due to the currency impact ($166 million).
Fractional ownership deferred costs	**390**	270	These increases are mainly due to additional aircraft deliveries related to the fractional ownership program.
Fractional ownership deferred revenues	**(487)**	(325)	
Income tax assets	**813**	653	This net increase reflects the deferred income tax recovery recorded in fiscal year 2007 ($87 million) and the recognition of tax losses in Goodwill ($22 million) and in the Cumulative translation adjustment ($32 million).
Income tax liabilities	**–**	(9)	
Accrued benefit assets	**461**	384	These increases reflect the gradual recognition of the funded status of pension and other benefit plans.
Accrued benefit liabilities	**(995)**	(877)	
Assets held for sale	**–**	237	These decreases result from the sales of BC's discontinued businesses (see note 6–Discontinued operations and assets held for sale to the Consolidated Financial Statements).
Liabilities related to assets held for sale	**–**	(42)	
Other assets	**1,122**	843	This increase is mainly due to a prepayment under an exchange agreement ($150 million) and deferred financing charges mainly in connection with the issuance of the senior notes and the closing of the New letters of credit facility ($90 million).
Accounts payable and accrued liabilities	**(6,839)**	(6,866)	This decrease is mainly due to lower payables and accrued liabilities in Transportation ($250 million), and the above-mentioned arrangement reached with Delta ($171 million), partially offset by the Currency impact ($195 million) and higher payables and accrued liabilities in Aerospace ($164 million).
Long-term debt	**(5,080)**	(4,747)	See Long-term debt refinancing section above for details.

In addition, the cumulative translation adjustment ("CTA") amounted to $178 million as at January 31, 2007, compared to $105 million as at January 31, 2006. This increase is due to the effect of changes in exchange rates during fiscal year 2007 on net investments in self-sustaining foreign operations ($162 million), partially offset by the effect of the related hedges, net of tax ($89 million).

VI. CREDIT SUPPORT

The indenture governing BC's long-term debt provides for a covenant and a "keepwell" arrangement from the Corporation. Bombardier Inc.'s keepwell agreement provides for minimum ownership of 51% in BC and for the injection of equity in the event that certain minimum net worth levels are not met or if a fixed charge coverage ratio falls below 1.2. The Corporation was in compliance with all terms of the indenture as at January 31, 2007 and 2006. Finally, this keepwell provides for the undertaking by the Corporation to maintain the existing cross-default provision in the indenture governing the Corporation's $150-million Cdn ($127-million) debentures due in 2026, as well as to provide for similar cross-default provisions in all of its future debt issuances.

VII. CAPITAL STRUCTURE

The Corporation's capital structure is comprised of long-term debt, the New letters of credit facility and permanent capital, such as preferred and common shares and retained earnings. Permanent capital does not include accumulated other comprehensive income. The total capital structure of the Corporation comprises the capital structure of BC and of its parent, Bombardier Inc., which are managed together. The Corporation does not currently contemplate the return to capital markets through BC.

The Corporation's capital management objective is to maintain sufficient capital to address anticipated and unanticipated requirements, including unforeseen changes in the economic condition, while enhancing returns to shareholders and benefits to other stakeholders. In the absence of credit facilities available for cash draw, the Corporation has decided not to use excess liquidity to prepay its long-term debt, in order to maintain a prudent level of liquidity.

In order to adjust to its capital structure, the Corporation may vary the amount of dividends paid to shareholders, repurchase or issue new capital to shareholders, or issue or reduce long-term debt. In addition to the management of its capital structure, the Corporation also manages working capital in order to minimize its liquidity requirements. Through this management of the capital structure and working capital, the Corporation seeks to maintain and improve its current credit ratings in order to improve its weighted average cost of capital.

Under its New letters of credit facility, Bombardier is subject to various financial covenants, including requirements to maintain (as defined in the related agreements):

- a minimum EBITDA to fixed charges ratio of 3.5 to 1 at the end of each fiscal quarter;
- a maximum adjusted gross debt-to-capitalization ratio of 70% at the end of each fiscal quarter until April 30, 2008, and 65% thereafter; and
- a maximum adjusted net debt to EBITDA ratio of 2.5 to 1 as at January 31, 2007, January 31, 2008 and July 31, 2008; 3.75 to 1 as at April 30, 2007, July 31, 2007 and October 31, 2007; 2.75 to 1 as at April 30, 2008; and 2.0 to 1 as at October 31, 2008 and at the end of each fiscal quarter thereafter.

The indentures governing certain of the Corporation's indebtedness and the New letters of credit facility contain covenants that, among other things, restrict the Corporation's ability to:

- incur additional debt and provide guarantees;
- repay subordinated debt;
- create or permit certain liens;
- use the proceeds from the sale of assets and subsidiary stock;
- pay dividends and make certain other restricted payments;
- create or permit restrictions on the ability of its subsidiaries to pay dividends or make other payments;
- engage in certain transactions with affiliates; and
- enter into certain consolidations, mergers or transfers of all or substantially all of its assets.

As at January 31, 2007, the Corporation was in compliance with all covenants.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

I. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation's main exposures to foreign currencies are managed by the segments and are covered by a central treasury function. Foreign currency exposures are managed in accordance with the Corporation's foreign currency policy and procedures (the "Policy"). The Policy requires each segment to identify all potential foreign currency exposures arising from their operations and to hedge this exposure according to pre-set criteria. Interest rate exposures are managed centrally in order to achieve an appropriate mix of fixed and variable interest rate debt and to reduce the impact of fluctuating interest rates on financial commitments and intercompany loans.

Derivative financial instruments used to manage foreign currency and interest rate exposures consist mainly of:
– forward foreign exchange contracts;
– interest-rate swap agreements;
– cross-currency interest-rate swap agreements; and
– interest-rate cap agreements.

The Corporation's foreign currency and interest rate 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 and interest rates on the hedged item.

The details and fair value of the outstanding derivative financial instruments as at January 31, 2007 and 2006 are presented in note 19 – Financial instruments to the Consolidated Financial Statements.

HEDGING PROGRAMS

Based on the Corporation's guidelines, each segment is required to hedge its foreign currency exposures as follows:

SEGMENT	HEDGED EXPOSURES	HEDGING POLICY [1]
Aerospace	Forecasted cash outflows denominated in a currency other than the functional currency of the entity, mainly the Canadian dollar and the sterling pound.	Hedge a minimum of 85% of the identified exposures for the first three months, a minimum of 75% for the next nine months and a minimum of 50% for the following year.
Transportation	Forecasted cash inflows or outflows resulting from revenues and expenditures denominated in a currency other than the functional currency of the entity.	Hedge 100% of the identified foreign currency exposures.

1 Deviations from the Policy are allowed subject to maximum predetermined risk limits.

Aerospace foreign currency denominated costs

The expected costs denominated in foreign currencies and the hedged portion of these costs for fiscal year 2008 were as follows as at January 31, 2007:

	EXPECTED COSTS	HEDGED PORTION	WEIGHTED-AVERAGE HEDGE RATE
Costs denominated in:			
Canadian dollar	$2,085	78%	0.8632
Pound sterling	$ 260	79%	1.8186

Management conducts quarterly reviews, as well as a detailed annual review as part of its annual budget process, of its cost estimates and program quantities. As part of the detailed annual review, Aerospace maintained the long-term foreign exchange rate assumption this year for its future unhedged expected costs denominated in Canadian dollars at a weighted-average rate of 0.8696.

Sensitivity

A one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact fiscal year 2008 expected costs in Aerospace by approximately $21 million before giving effect to forward foreign exchange contracts, and approximately $5 million after giving effect to the outstanding forward foreign exchange contracts.

A one-penny change in the value of the pound sterling compared to the U.S. dollar would impact fiscal year 2008 expected costs in Aerospace by approximately $3 million before giving effect to forward foreign exchange contracts, and approximately $1 million after giving effect to the outstanding forward foreign exchange contracts.

Forward foreign exchange contracts

The Corporation uses forward foreign exchange contracts to cover foreign currency exposure arising from forecasted foreign currency cash flows. The Corporation also uses forward foreign currency contracts to cover foreign currency exposures arising from long-term debt, intercompany loans, receivables, and its net investments in self-sustaining foreign operations.

Most of the forward foreign exchange contracts are denominated in currencies of major industrial countries:

- In Aerospace, forward foreign exchange contracts are mainly to sell U.S. dollars and buy Canadian dollars and pounds sterling.
- In Transportation, forward foreign exchange contracts are mainly to sell or purchase euros, pounds sterling, U.S. dollars, Swiss francs, Canadian dollars, and other Western European currencies.

The fair value of forward foreign exchange contracts is sensitive to changes in foreign exchange rates. Foreign exchange rate changes result in offsetting gains or losses on forward foreign exchange contracts and the corresponding hedged item attributable to the underlying exposure.

Interest-rate swap agreements

The Corporation enters into interest-rate swap agreements in order to achieve an appropriate mix of fixed and variable interest rate debt. In addition, the Corporation enters into interest-rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments and to cover the interest rate exposure arising from aircraft financing support provided to regional aircraft customers. Swap agreements involve the exchange of interest payments, based on a predetermined notional amount for a specified period of time.

The fair value of interest-rate swaps is sensitive to changes in interest rates. Interest rate changes result in offsetting gains or losses on interest-rate swap agreements and the corresponding hedged item attributable to the underlying exposure.

Cross-currency interest-rate swap agreements

The Corporation enters into cross-currency interest-rate swap agreements to cover foreign currency exposures, and to modify the interest rate characteristics of its hedged items. These swap agreements involve the exchange of interest payment obligations, as well as principal amounts in two different currencies for a specified period of time. The fair value of cross-currency interest-rate swaps varies in the same manner as forward foreign exchange contracts and interest-rate swap agreements.

The Corporation also enters into cross-currency interest rate swap agreements to cover foreign currency exposures on its net investments in self-sustaining foreign operations. These swap agreements involve the exchange of interest payment obligations as well as principal amounts in two different currencies for a specified period of time. Gains and losses related to these cross-currency interest-rate swap agreements designated and effective as hedges are accounted for in the CTA.

Interest-rate cap agreements

The Corporation enters into interest-rate cap agreements to manage its exposure to interest-rate increases arising from protection granted to certain customers in connection with the sale of aircraft.

The fair value of interest-rate caps is sensitive to changes in interest rates and implied volatility. Changes in interest rates and implied volatility result in offsetting gains or losses on interest-rate cap agreements and the corresponding financial obligations attributable to the underlying exposure.

II. COMMITMENTS AND CONTINGENCIES

The Corporation's commitments and contingencies are described in note 21 – Commitments and contingencies to the Consolidated Financial Statements.

CREDIT AND RESIDUAL VALUE GUARANTEES

In connection with the sale of certain of its products, mainly regional aircraft, the Corporation provides financing support in the form of credit and residual value guarantees to enhance the ability of certain customers to arrange third party financing for their asset acquisition.

Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from one to 20 years) under the relevant financing arrangements. Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. In the event of default, the Corporation usually acts as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. The Corporation typically receives a fee for these services.

In most cases, residual value guarantees are guarantees provided at the end of a financing arrangement, ranging from four to 20 years. Such guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset is below the guaranteed value. The value of the underlying asset may be adversely affected by a number of factors, including, but not limited to, an economic downturn. To mitigate the Corporation's exposure, the financing arrangements generally require the collateral to meet certain contractual return conditions on the expiry date of the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically the first loss from a guaranteed level. A claim under the guarantee may typically be made only on the sale of the underlying asset to a third party.

When credit and residual value guarantees are provided in connection with a financing arrangement for the same underlying asset, residual value guarantees can only be exercised if the credit guarantee expires without having been exercised, and as such, are mutually exclusive.

The Corporation's risk management framework for the credit and residual value risks consists of the following: risk control, risk measurement, risk monitoring and risk transfer. The Corporation practices active risk control through inclusion of protective covenants and securities into commercial contracts to mitigate its exposure under these guarantees. Quantitative assessments of the risk relating to these guarantees and the determination of the related provisions to be recorded in the Consolidated Financial Statements, if any, are performed using a risk-pricing model. Risk monitoring comprises ongoing Management reporting of exposures, active credit watch, on-site credit due diligence and active intervention. In addition, asset value trends for the Corporation's products are closely monitored. The Corporation also engages, from time to time, in risk transfer with third party insurers to minimize its exposure to credit and residual value guarantees.

FINANCING COMMITMENTS

The Corporation sometimes provides financing support to facilitate its customers' access to capital. This support may take a variety of forms, including providing assistance to customers in accessing and structuring debt and equity for aircraft acquisitions, or providing assurance that debt and equity are available to finance such acquisitions. The Corporation may provide interim financing to customers while permanent financing is being arranged.

As at January 31, 2007, the Corporation had outstanding financing commitments to seven customers in relation to the future sale of aircraft scheduled for delivery through fiscal year 2010, amounting to $1.7 billion, net of third party financing already arranged. The Corporation mitigates its exposure to credit and interest rate risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefitting from the Corporation's commitment and by entering into interest-rate cap agreements. Total customer financing arranged by the Corporation in fiscal year 2007 amounted to $1.9 billion ($2.9 billion in fiscal year 2006).

The Corporation anticipates that it will be able to satisfy its financing commitments to its customers in fiscal year 2008 through third party financing. However, the Corporation's ability to satisfy its financing commitments may be affected by further financial difficulties in the commercial airline industry in general and of certain customers in particular, and by the Corporation's current and future credit condition.

OTHER COMMITMENTS AND CONTINGENCIES

In connection with its contracts with the Metronet companies for the modernization of the London Underground, the Corporation is committed to provide collateral (surety bonds and letters of credit) in support of its obligations. These commitments extend to 2015. As at January 31, 2007, £181 million ($355 million) of surety bonds maturing in 2011 were outstanding. The period covered by the surety bonds must be extended by one year, every year. In the event that the bonds are not extended, the Corporation could have to provide, within one year, alternate collateral, which could reduce availability under the New letters of credit facility.

Over the years, Aerospace has invested in excess of $3.3 billion in program tooling and other significant amounts in product development and capital assets. The Corporation receives government financial support from various levels of government related to the development of aircraft. Certain of these financial support programs require the Corporation to pay amounts to governments at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment

is delivered. In connection with Aerospace aircraft programs, the Corporation has received cumulative contingently repayable government support amounting to $519 million as at January 31, 2007 ($506 million as at January 31, 2006). The total amount repaid in connection with such government support amounted to $284 million as at January 31, 2007 ($238 million as at January 31, 2006). The remaining undiscounted maximum amount repayable, mostly based on future deliveries of aircraft, amounted to $481 million as at January 31, 2007 ($535 million as at January 31, 2006). The amount repayable based solely on the total of the remaining accounting aircraft program quantities was $207 million as at January 31, 2007 ($226 million as at January 31, 2006).

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. District Court of the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others for alleged violations of federal securities laws relating to BCMSC's Senior/Subordinated Pass-Through Certificates, Series 2000-A, due January 15, 2030. On April 15, 2005, the plaintiffs filed an amended complaint. The amendments include the inclusion of all open market purchasers of BCMSC's Senior/Subordinated Pass-Through Certificates, Series 1998-A, Series 1998-B, Series 1998-C, Series 1999-A, Series 1999-B, Series 2000-A and Series 2000-B as part of the putative class. While the Corporation cannot predict the outcome of any legal proceedings, based on information currently available, the Corporation intends to vigorously defend its position.

The Corporation is also 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 January 31, 2007, 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.

III. FINANCIAL ARRANGEMENTS

In addition to the off-balance sheet lease obligations disclosed elsewhere in this MD&A, the Corporation has access to factoring facilities and other off-balance sheet arrangements.

FACTORING FACILITIES

The Corporation occasionally uses factoring facilities in Europe under which it can sell without recourse qualifying trade receivables in the normal course of business. During fiscal year 2007, the Corporation sold $298 million of trade receivables to such facilities ($408 million during fiscal year 2006), of which $113 million were outstanding as at January 31, 2007 ($2 million as at January 31, 2006).

OTHER ARRANGEMENTS

RASPRO

In September 2005, a $1.7-billion securitization transaction was completed to provide financing in the form of long-term leases for 70 regional aircraft. In connection with this transaction, the Corporation has provided certain credit enhancements and has acquired a subordinated beneficial interest. In addition, the Corporation provides administrative services in return for market fees. Of the $1.7-billion gross proceeds, approximately $500 million was used to pay third parties under off-balance sheet interim financing structures. After giving effect to the payment of expenses and other payments, the Corporation received approximately $1.0 billion.

After the closing of the securitization, it was discovered, that the cash flows of the RASPRO structure would be different from those anticipated. On July 13, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, agreed on certain actions to be taken to adjust the cash flows of RASPRO. These actions consist mainly of additional payments that were made or will be made to the RASPRO structure by various parties (including parties not affiliated with the Corporation). The Corporation's participation in these additional payments consisted of the purchase on July 13, 2006 of $23 million of rights to a portion of the residual value proceeds of certain aircraft financed by the RASPRO structure.

In addition, subsequent to January 31, 2007, the Corporation finalized the terms of its indirect financial support to a government agency in connection with the agency's direct support to RASPRO and to other financing structures related to the sale of regional aircraft.

The impact of the above did not have a significant impact on the Corporation's financial statements.

Sale and leaseback agreement

In fiscal year 2005, the Corporation entered into a $300-million three-year sale and leaseback agreement with third parties. Under this agreement, the Corporation can, among other things, sell pre-owned business aircraft to these parties, which in turn lease back the aircraft to the Corporation for a 24-month period. The Corporation has the right to buy back the aircraft during the term of the lease at pre-determined amounts. Aircraft amounting to $64 million and $41 million were sold and leased back as at January 31, 2007 and 2006, with respect to this sale and leaseback agreement.

IV. VARIABLE INTEREST ENTITIES (''VIEs'')

The following table summarizes by segment the significant VIEs in which the Corporation has a variable interest as at January 31:

	2007		2006	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Aerospace				
Financing structures related to the sale of regional aircraft	**$ 6,985**	**$ 4,245**	$ 6,946	$ 4,106
Sale and leaseback structure	**13**	**13**	15	15
Transportation				
Partnership arrangements	**5,993**	**5,450**	4,805	4,326
Sale support guarantee	**579**	**572**	529	523
Cash collateral accounts	**75**	**75**	70	70
	13,645	**10,355**	12,365	9,040
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	**8**	**7**	67	65
Sale and leaseback structure	**13**	**13**	15	15
Cash collateral accounts	**75**	**75**	70	70
	96	**95**	152	150
Assets and liabilities of non-consolidated VIEs	**$13,549**	**$10,260**	$12,213	$8,890

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. The consolidation of debt resulting from the application of AcG-15 is excluded from the computation of the Corporation's financial covenant ratio for structures existing prior to May 1, 2004 or when the debt of the consolidated VIEs is non-recourse to the Corporation for structures created on or after May 1, 2004. All consolidated debt is related to structures existing prior to May 1, 2004. Additionally, the consolidation of VIEs does not result in any change in the underlying tax, legal or credit exposure of the Corporation.

Aerospace

Financing structures related to the sale of regional aircraft – The Corporation has provided credit or residual value guarantees to certain special purpose entities ("SPEs"), or both, created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional 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's variable interests in these SPEs are in the form of credit and residual value guarantees, subordinated loans and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only one of them, which was consolidated. For all other SPEs, consolidation is not appropriate under AcG-15. The Corporation's maximum potential exposure relating to the non-consolidated SPEs was $2.1 billion, of which $418 million of provisions and liabilities were available to cover the Corporation's exposure as at January 31, 2007 ($2.1 billion and $551 million respectively as at January 31, 2006). The Corporation's maximum exposure under these guarantees is presented in note 21 – Commitments and contingencies to the Consolidated Financial Statements.

Transportation

Partnership arrangements – The Corporation entered into partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long-term services, such as the operation and maintenance of rail equipment.

The Corporation's involvement with entities created in connection with these partnership arrangements is mainly through investments in their equity or in subordinated loans, or both, and through manufacturing, selling and long-term

service contracts. The Corporation concluded that some of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement.

Sale support guarantee – In August 1998, the Corporation provided residual value guarantees on diesel electric multiple unit trains sold to Lombard Leasing Contracts Limited ("Lombard"). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of $134 million as at January 31, 2007 ($124 million as at January 31, 2006). The Corporation's maximum exposure under these guarantees is presented in note 21 – Commitments and contingencies to the Consolidated Financial Statements.

Cash collateral accounts – In connection with the sale of certain rail equipment by Adtranz prior to its acquisition by the Corporation in May 2001, the purchasers have been provided with the right, under certain conditions, to sell back the equipment to the Corporation at predetermined prices on three separate dates, beginning in fiscal year 2009. In addition, the Corporation may be required, beginning in fiscal year 2009, upon customer default on payments to the financing providers, to repurchase the equipment.

As a result of these commitments, Fabian Investments Limited and Lineal Investments Limited were created and cash was deposited in a cash collateral account by the lessee of the equipment. This cash, together with accumulated interest, is expected to entirely cover the Corporation's exposure. The Corporation concluded that these SPEs are VIEs and the Corporation is their primary beneficiary; accordingly, these SPEs were consolidated. Their assets, consisting of restricted cash, are presented in Other assets, and their liabilities, consisting of provisions in connection with the Corporation's repurchase obligations, are included in the provisions and liabilities disclosed in note 21 – Commitments and contingencies to the Consolidated Financial Statements.

OTHER

I. CRITICAL ACCOUNTING ESTIMATES

The Corporation's significant accounting policies are described in the Consolidated Financial Statements. The preparation of financial statements, in conformity with GAAP, requires the use of estimates, judgment and assumptions. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates could have been reasonably used or if changes in the estimate that would have a material impact on the Corporation's financial condition or results of operations are likely to occur from period to period.

The sensitivity analysis included in this section should be used with caution as the changes are hypothetical and the impact of changes in each key assumption may not be linear.

AVERAGE COST ACCOUNTING

Average cost accounting, used in Aerospace for the initial lot of a program, is a method of accounting for the costs associated with the manufacturing of aircraft, whereby the estimated average unit production cost is charged to cost of sales. The determination of the estimated average unit production cost per aircraft involves estimates of accounting program quantities and total production costs for the initial lot of a selected program, as well as the period over which the units can reasonably be expected to be produced.

Accounting program quantities are based on an assessment of prevailing market conditions and anticipated demand for the aircraft, considering, among other factors, firm order backlog.

Production costs include material, direct labour and manufacturing overhead costs. Total production costs are estimated based on actual and forecasted costs of materials, foreign exchange rates, labour productivity and employment levels and salaries. Cost estimates are based mainly on historical performance trends, economic trends, labour agreements and information provided by suppliers. Production costs are also based on the learning curve concept, which anticipates a decrease in costs as tasks and production techniques become more efficient through repetition. As a result, the actual unit production cost, incurred in the early stage of the program, will exceed the estimated average unit production cost for the entire program. This difference, referred to as excess-over-average production costs, is included in inventories and is expected to be recovered from sales of aircraft to be produced later at lower-than-average production costs.

Management conducts quarterly reviews, as well as a detailed annual review as part of its annual budget process, of its cost estimates and program quantities. The effect of any revision is accounted for by way of a cumulative catch-up adjustment in the period in which the revision takes place.

Sensitivity

A 1% change in the estimated future costs to produce the remaining accounting program quantities for all aircraft programs accounted for under the average cost method would have increased or decreased the Corporation's Cost of sales by approximately $30 million in fiscal year 2007, including $21 million relating to cumulative catch-up adjustments for prior years.

AEROSPACE PROGRAM TOOLING

Aerospace program tooling is amortized over ten years and is reviewed for impairment when certain events or changes in circumstances indicate that the carrying amount of the tooling may not be recoverable. The recoverability test is performed using undiscounted expected future net cash flows that are directly associated with the asset's use. An impairment charge is recorded in Amortization when the undiscounted value of the expected future cash flow is less than the carrying value of program tooling. The amount of impairment, if any, is measured as the difference between the carrying value and the fair value of the program tooling. Estimates of net future cash flows, over the remaining useful life of program tooling, are subject to uncertainties with respect to expected selling prices, as well as estimates and judgments as described in the Average cost accounting section above.

SALES INCENTIVES

The Corporation offers sales incentives, including credit and residual value guarantees, mostly in connection with the sale of regional aircraft. Management reviews the maximum exposure related to these commitments relative to the aircraft's expected future value and, in the case of credit guarantees, the creditworthiness of the borrower. Provisions are recorded at the time of sale of the underlying aircraft and are reviewed quarterly. Non-cash sales incentives are included in Cost of sales and cash sales incentives are presented as a reduction of manufacturing revenues. The aircraft's expected future value is estimated using internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. The creditworthiness of borrowers, for which credit guarantees have been provided, is based on credit ratings published by credit rating agencies, when available. The creditworthiness of other borrowers is estimated based on internal evaluation models (see note 21 – Commitments and contingencies to the Consolidated Financial Statements for additional information on these guarantees).

Sensitivity

As at January 31, 2007, had the expected future value of aircraft used to calculate the provision for credit and residual value guarantees provided in connection with aircraft sales decreased by 5%, cost of sales would have increased by approximately $90 million for fiscal year 2007.

LONG-TERM CONTRACTS

Transportation conducts most of its business under long-term contracts with customers. Revenues and margins from long-term contracts relating to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method. Revenues and margins from maintenance contracts entered into on, or after December 17, 2003, are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract. The long-term nature of contracts involves considerable use of estimates in determining total contract costs, revenues and percentage of completion.

Contract costs include material, direct labour, manufacturing overhead and other costs, such as warranty and freight. Total contract costs are estimated based on forecasted costs of materials, inflation rates, foreign exchange rates, labour productivity, and employment levels and salaries, and are influenced by the nature and complexity of the work to be performed, the impact of change orders and the impact of delayed delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and information provided by suppliers.

Revenue estimates are based on the negotiated contract price adjusted for change orders, claims and contract terms that provide for the adjustment of prices in the event of variations from projected inflationary trends. Contract change orders and claims are included in revenue when they can be reliably estimated and realization is probable.

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 for the measure of performance.

Recognized revenues and margins are subject to revisions as the contract progresses to completion. Management conducts quarterly reviews, and a detailed annual review as part of its annual budget process, of its estimated costs to complete, percentage of completion estimates and revenues and margins recognized, on a contract-by-contract basis. The effect of any revision is accounted for by way of a cumulative catch-up adjustment in the period in which the revision takes place.

If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in the period in which the negative gross margin is identified.

Sensitivity

A 1% increase in the estimated future costs to complete all ongoing contracts accounted for under the percentage-of-completion method in Transportation would have decreased margin by approximately $75 million, while a 1% decrease in the estimated future costs would have increased margin by approximately $55 million for fiscal year 2007.

GOODWILL

Goodwill recorded is the result of the purchase of Adtranz.

Goodwill is reviewed for impairment using a two-step test, annually or more frequently if events or 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. Under the first step, the fair value of a reporting unit, based on discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, the second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income. The Corporation selected its fourth quarter as its annual testing period for goodwill.

Future cash flows are forecasted based on the Corporation's best estimate of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, collective agreements and general market conditions, and are subject to review and approval by senior Management.

VARIABLE INTEREST ENTITIES

The Corporation consolidates VIEs for which it assumes a majority of the risk of losses, is entitled to receive a majority of the residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the variable interest holder became the primary beneficiary. See note 22 – Variable interest entities to the Consolidated Financial Statements, for additional information on VIEs. The Corporation revises its initial determination of the accounting for VIEs when certain events occur, such as changes in related governing documents or contractual arrangements.

The Corporation uses a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and to analyze and calculate its expected losses and its expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows from the expected cash flows, and allocating the expected losses and expected returns among the identified parties holding variable interests to then determine who is the primary beneficiary. In addition, there is a significant amount of judgment exercised in applying these consolidation rules to the Corporation's transactions.

Variable interest includes mostly credit and residual value guarantees to certain SPEs created solely to purchase regional aircraft, subordinated loans, as well as partnership arrangements entered into to provide manufactured rail equipment and civil engineering work as well as related long-term services.

PRODUCT WARRANTIES

The Corporation issues warranties for products sold related to systems, accessories, equipment, parts and software developed by the Corporation.

A provision for warranty cost is recorded when revenue for the underlying product is recognized. The cost is estimated based on a number of factors, including historical warranty claims and cost experience, the type and duration of warranty coverage, the nature of products sold and the counter-warranty coverage available from the Corporation's suppliers.

The Corporation reviews its recorded product warranty provisions quarterly, and any adjustment is recognized to income. Warranty expense is recorded as a component of Cost of sales.

EMPLOYEE FUTURE BENEFITS

Pension and certain other employee benefit costs and obligations are dependent on assumptions used in calculating such amounts. The discount rate, the expected long-term rate of return on plan assets and the rate of compensation increase are important elements of cost and obligation measurement. Other assumptions include the inflation rate and the health-care cost trend rate, as well as demographic factors such as retirement ages of employees, mortality rates and turnover. Assumptions are reviewed and updated on an annual basis.

Sensitivity – discount rate

The discount rate allows the Corporation to measure estimated future benefit payments at their present value on the measurement date. Management has little discretion in selecting the discount rate, as it must represent the market rates for high quality fixed income investments available for the period to maturity of the benefits. A lower discount rate increases the benefit obligation and benefit costs.

A 0.25% change in the weighted-average discount rate would increase or decrease expected benefit cost in fiscal year 2008 by approximately $35 million.

Sensitivity – expected long-term rate of return on plan assets

The expected long-term rate of return on plan assets is determined considering historical returns, future estimates of long-term investment returns and asset allocations. A lower return assumption increases benefit cost.

A 0.25% change in the weighted-average return assumption would increase or decrease expected benefit cost in fiscal year 2008 by approximately $11 million.

Sensitivity – rate of compensation increase

The rate of compensation increase is determined considering current salary structure, historical wage increases and anticipated wage increases.

A 0.25% change in the weighted-average rate for compensation increase would increase or decrease expected benefit cost in fiscal year 2008 by approximately $18 million.

INCOME TAXES

The Corporation recognizes deferred income tax assets resulting from operating losses carry-forward and deductible temporary differences.

Management assesses the realization of these deferred tax assets regularly to determine whether a valuation allowance is required. Based on evidence, both positive and negative, the Corporation determines whether it is more likely than not that all or a portion of the deferred income tax assets will be realized. The factors considered include estimated future earnings based on internal forecasts, cumulative losses in recent years, history of losses carry-forward and other tax assets expiring unused, as well as prudent and feasible tax planning strategies.

II. PENSION

The Corporation sponsors several domestic- and foreign-funded and unfunded defined benefit pension plans.

- Funded plans are plans for which segregated plan assets are invested in trusts. These plans can be in an over- or under-funded position, depending on various factors, such as investment returns. The funded plans are mainly located in North America, the U.K. and Switzerland. For these plans, employer cash contributions are determined in accordance with the regulatory requirements of each local jurisdiction.
- Unfunded plans are plans for which there are no segregated plan assets. These plans, for which the Corporation has no prefunding obligations, are located mainly in Continental Europe. In these countries, the establishment of segregated plan assets is either not permitted or not in line with local practice. The employer cash requirement for these plans corresponds to the benefit payments made to participants.

The Corporation uses a measurement date of December 31 for accounting purposes.

The financial position and other information regarding the Corporation's defined benefit pension plans are presented in note 20 – Employee future benefits to the Consolidated Financial Statements.

ASSUMPTIONS

The determination of assumptions is made after a periodic review of factors, such as long-term return expectations prepared by consultants or economists, historical and expected investment returns, long-term interest rate yield curves on high quality corporate bonds, long-term inflation assumptions and recommendations from actuaries. With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values. The Corporation reflects in advance the cost of future discretionary increases of pension benefits, for plans with a history of regular discretionary increases, and the cost of future life expectancy improvements.

PENSION PLAN DEFICIT

The deficit for the pension plans amounted to $1.8 billion as at December 31, 2006 ("the measurement date") ($2.3 billion as at December 31, 2005). This amount includes the projected benefit obligation of the unfunded plans amounting to $521 million as at December 31, 2006 ($493 million as at December 31, 2005).

The decrease in the deficit is mainly due to:

- excess of contributions, including discretionary contributions made by the Corporation over current service costs ($169 million);
- return on plan assets exceeding interest costs ($160 million);
- net actuarial gain, including the impact of the increase in discount rate in all major countries except Canada, partially offset by change in inflation and salary increase assumptions in Canada and the U.K. ($154 million); and
- net impact of plan amendments ($92 million).

Partially offset by:

- the negative currency impact ($105 million).

Sensitivity

It is estimated that an increase/decrease of 0.25% in the current weighted-average discount rate used to calculate the net present value of the projected benefit obligation would decrease/increase the projected benefit obligation by approximately $310 million.

UNRECOGNIZED AMOUNTS

The net actuarial gains and losses, based on the market-related value of plan assets, of over 10% of the greater of the projected benefit obligation and the market-related value of plan assets, as well as prior service costs, are amortized to income over the estimated weighted-average remaining service life of plan participants. The amortization of the net unrecognized amounts is expected to account for $85 million of the estimated pension cost for fiscal year 2008.

PENSION COST

Pension cost from continuing operations amounted to $366 million for fiscal year 2007, compared to $287 million for fiscal year 2006. The increase is mainly due to the decline in discount rates from December 31, 2004 to December 31, 2005.

Pension cost is capitalized as part of labour costs and included in inventories and Aerospace program tooling, or is recognized directly to income.

Pension cost is estimated to be $259 million for fiscal year 2008. The expected decrease is mainly due to the lower plan deficit, as explained under Pension plan deficit above.

FUNDING

The Corporation complies with the regulatory cash contribution requirements of each local jurisdiction, which are designed to protect participants' rights. Since the measurement basis used to determine the pension cost is, in general, more conservative than the regulatory requirements in most jurisdictions, the deficit computed to establish cash contributions (funding deficit) is smaller than the deficit for accounting purposes for most pension plans.

Cash contributions to the defined benefit pension plans are estimated at $370 million for fiscal year 2008, compared to actual contributions of $375 million for fiscal year 2007. Cash contributions to the defined contribution pension plans are estimated at $22 million for fiscal year 2008, compared to actual contributions of $22 million for fiscal year 2007.

III. ENVIRONMENT

The Corporation's products, as well as its manufacturing and service activities, are subject to environmental regulation by federal, provincial and local authorities in Canada, as well as local regulatory authorities having jurisdiction over the Corporation's foreign operations. In addition, the Corporation has established, and periodically updates, a health, safety and environment policy that defines the Corporation's vision for its worldwide operations. Consistent with this policy, approximately 85% of the Corporation's manufacturing and services locations over 150 employees have been accredited according to the ISO 14001 Standard for Environmental Management by outside auditors.

Consistent with the Corporation's policy stressing environmental responsibility and its desire to maintain legal compliance, the Corporation routinely procures, installs and operates pollution control devices, such as waste-water treatment plants, groundwater monitoring devices, air strippers or separators, and incinerators at new and existing facilities constructed or upgraded in the normal course of business. Future expenditures for pollution control systems are not expected to have a material effect on the Corporation's consolidated financial position.

With respect to environmental matters related to site contamination (historical contamination of soil and groundwater), the Corporation periodically conducts studies, individually at sites owned by the Corporation and jointly as members of industry groups at sites not owned by the Corporation, to determine the feasibility of various remedial techniques, and to define the Corporation's share of liability. The Corporation is currently proceeding with decontamination at a small number of sites in North America and Europe. The historical costs for soil and groundwater decontamination have not been significant.

Estimating future environmental clean-up liabilities is dependent on the nature and the extent of historical information and physical data about the contaminated site, the complexity of the contamination, the uncertainty of which remedy to apply, the timing of the remedial action and the outcome of discussions with regulatory authorities.

Although it appears likely that annual costs for remediation activities may increase over time because of ever more stringent legal requirements, these costs are not expected to be material to the Corporation.

IV. ACCOUNTING AND REPORTING DEVELOPMENTS

FINANCIAL INSTRUMENTS

In April 2005, the Accounting Standards Board ("AcSB") issued three new accounting standards: Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges". Effective February 1, 2007, the Corporation adopted these new accounting standards.

Comprehensive income

Section 1530 introduces Comprehensive income, which is comprised of net income and Other comprehensive income ("OCI") and represents the change in Shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. OCI includes unrealized gains and losses, net of tax, arising from the translation of the financial statements of self-sustaining foreign operations, as well as unrealized gains and losses, net of tax, arising from changes in fair value of available for sale ("AFS") financial assets and the effective portion of changes in fair value of cash flow and net investments in self-sustaining foreign operating hedging instruments.

Financial instruments – recognition and measurement

Section 3855 requires that financial instruments be recognized on the balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments subject to Section 3855 are measured at fair value. After initial recognition, the measurement of financial instruments depends on their classification: held for trading ("HFT"), AFS, loans and receivables ("L&R"), held to maturity ("HTM") or other than HFT liabilities.

Financial assets and financial liabilities classified as HFT are measured at fair value with gains and losses recognized to income for the period in which they arise. Financial assets classified as L&R or HTM and financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method.

Financial assets classified as AFS are measured at fair value. Unrealized gains and losses including changes in foreign exchange rates are recognized directly to OCI, except for impairment losses, which are recognized to income, until the

financial assets are derecognized, at which time the cumulative gains or losses previously recognized in accumulated OCI are recognized in income for the period. Investments in equity instruments classified as AFS that do not have a quoted market price in an active market are measured at cost.

Derivatives, including embedded derivatives that are not closely related to the host contract, are recorded on the balance sheet at fair value. Derivatives qualifying as hedges are accounted for using special hedge accounting rules (see Hedges section hereafter). Derivatives not qualifying for hedge accounting are part of the HFT category.

Section 3855 permits an entity to designate any financial instrument as HFT on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of HFT set out in Section 3855. Instruments that are classified as HFT by way of this "fair value option" must have reliable fair values. Other significant accounting implications arising on adoption of Section 3855 include the measurement of certain guarantees upon initial recognition at fair value.

Hedges

Section 3865 specifies the conditions for applying hedge accounting and how hedge accounting may be applied for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of net investments in self-sustaining foreign operations.

In a fair value hedge relationship, gains or losses from the remeasurement of the derivative hedging item at fair value are recognized to income. Gains or losses on the hedged item attributable to the hedged risk are accounted for as an adjustment to the carrying amount of the hedged item and recognized to income.

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 to OCI, while the ineffective portion is recognized to income. The amounts recognized to OCI are reclassified to income in the period during which the hedged item affects income. However, when a hedge of an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized to OCI are reclassified and are included in the initial carrying amount of the asset.
In a hedge of a net investment in self-sustaining foreign operations, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized to OCI while the ineffective portion is recognized to income. The amounts recognized to OCI are recognized to income in the same period during which corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recognized to income.

Impact of adopting Sections 1530, 3855 and 3865

The Corporation is currently assessing the impact, which may be material, of these recommendations on its Consolidated Financial Statements.

VARIABILITY IN VARIABLE INTEREST ENTITIES

In September 2006, the Emerging Issue Committee ("EIC") issued EIC-163 "Determining the variability to be considered in applying AcG-15" ("EIC-163"). This EIC provides additional clarification on how to analyze and consolidate VIEs. EIC-163 is effective February 1, 2007. The adoption of EIC-163 will not have a significant impact on the Corporation's Consolidated Financial Statements.

V. CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 52-109"), the Corporation has filed certificates signed by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting. The implementation of MI 52-109 represents a continuous improvement process, which has prompted the Corporation to ensure that all relevant processes and controls were formalized.

Disclosure controls and procedures

The CEO and CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation has been made known to them and has been properly disclosed in the annual regulatory filings.

As of January 31, 2007, an evaluation was carried out, under the supervision of the CEO and CFO, of the effectiveness of the Corporation's disclosure controls and procedures as defined in MI 52-109. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into consideration the Corporation's disclosure policy, a cascading certification process and the functioning of its Disclosure Committee.

Internal controls over financial reporting

The CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

As of January 31, 2007, an evaluation was carried out, under the supervision of the CEO and CFO, of the design of the Corporation's internal controls over financial reporting as defined in MI 52-109. Based on this evaluation, the CEO and CFO concluded that the internal controls over financial reporting are designed to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's Consolidated Financial Statements were prepared in accordance with GAAP.

A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in internal controls over financial reporting

There were no changes in the Corporation's internal controls over financial reporting that occurred during the fourth quarter of fiscal year 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

VI. RISKS AND UNCERTAINTIES

RISK MANAGEMENT PRACTICES

The Corporation's risk management practice is to embed risk management activities in the operational responsibilities of its management. Risk management is therefore an integral part of how the Corporation plans and executes its business strategies. Each segment manages its risks in line with the Corporation's overall organizational and accountability structure. The Corporation has developed and applies risk assessment, mitigation and management practices to reduce the nature and extent of its exposure to operational, financial, technical, market and legal risks.

Aerospace

Aerospace's risk management begins prior to program launch. It includes the development of a detailed plan to support a program launch decision, and continues throughout the product cycle. Aerospace's risk management strategy includes a governance process to assess the risk of deviation from the revenue, cost, schedule and technical targets, established as part of a detailed plan with the aim of developing specific risk mitigation plans. Such practices include a sales contract evaluation process ensuring compliance with internal policy. Risk management for product cost includes the development of long-term relationships with key suppliers, together with supplier evaluation and competitive bidding processes. Other risk management practices for cost include foreign exchange hedging, insurance coverage and collective agreements with a significant portion of the workforce. Technical risk is mitigated through strict compliance with the regulatory requirements of various bodies, as well as stringent quality control in the production cycle. The International Standards Organization ("ISO") has established ISO 9001 standards. The Society of Automotive Engineers ("SAE") has used the baseline ISO 9001 standards to establish AS 9100 standards in order to standardize Quality Management Systems requirements specific to the aerospace industry. Aerospace holds five ISO AS9100/9001 certificates in 19 sites located in Canada, U.S. and Europe. These sites include facilities for all stages of the product life cycle including administrative, design, manufacturing, testing, training, spares distribution and service centres. The application of these standards allows Aerospace to improve product quality and reduce costs through the standardization of quality processes and procedures.

Transportation

Transportation's risk management strategy comprises the complete activities of the segment with defined processes for the bid approval, project start-up, design, realization and field support phases.

The bid approval process is managed by senior executives with bids reviewed for compliance with internal policies and guidelines in the areas of commercial and contractual terms and conditions, profitability, engineering and manufacturing resources availability, product strategy, delivery schedule and supply base before tendering.

Bid approval, project start-up and design phases also include a technical risk assessment, legal review of contracts, development of long-term relationships with key suppliers, together with supplier evaluation and cost.

During the realization and field support phases, Transportation performs schedule controls, regular reviews of forecasts, project improvement management and a proactive risk and opportunity management. The principal objective of the risk and opportunity management is to:

- anticipate future events that may harm or benefit a project; and
- identify and quantify potential risks and opportunities so that Transportation can:
  - take action that will decrease the probability of a risk occurring or decrease the impact of the risk, should it occur; and
  - increase the probability of an opportunity occurring or increase the benefits of the opportunity, should it occur.

Risk mitigation is managed by aiming to structure positive cash flow arrangements through the use of customer advances, foreign exchange hedging, insurance, third party guarantees, and other risk mitigating measures, such as collective agreements with a significant portion of the workforce.

In addition, the Corporation has put in place internal audits where the project is assessed both from a project management and a financial perspective. Those audits focus on all key projects in terms of size but also on smaller projects considered more risky. This internal audit process is linked with the external audit process and increases the level of transparency at all levels.

RISK ENVIRONMENT

The Corporation operates in industry segments that have a variety of risk factors and uncertainties, including general economic risk, business environment, operational, financing and market risk. The risks and uncertainties described below are risks that could materially affect the Corporation's business, financial condition and results of operations, but are not necessarily the only risks faced by the Corporation. Additional risks and uncertainties not presently known to the Corporation, or that the Corporation currently believes to be immaterial, may also adversely affect its business.

GENERAL ECONOMIC RISK

Unfavourable economic conditions, such as a macroeconomic downturn in important markets or an increase in commodity prices, may result in lower order intake, which would adversely affect the Corporation's business. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Corporation incurring significant costs associated with temporary layoffs or termination of employees.

BUSINESS ENVIRONMENT RISK

The Corporation faces a number of external risk factors, more specifically the financial condition of the airline industry and major rail operators, government policies related to import and export restrictions, changing priorities and possible spending cuts by government agencies, government support to export sales, world trade policies, competition from other businesses, as well as scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates. In addition, acts of terrorism, global health risks and political instability or the outbreak of war or continued hostilities in certain regions of the world, may result in lower orders, rescheduling or the cancellation of part of the existing order backlog for some of the Corporation's products.

Airline industry environment

Airline industry profitability and viability influence the demand for Aerospace's commercial aircraft. Continued cost pressure in the airline industry puts pressure on the price of Aerospace's products. Aerospace is faced with the challenge of finding ways to reduce costs and improve productivity to sustain a favourable market position at acceptable profit margins. Several of Aerospace's U.S. commercial airline customers are operating under the protection of Chapter 11. The loss of any major commercial airline as a customer or the termination of a contract could significantly reduce the Corporation's revenue.

OPERATIONAL RISK

The activities conducted by the Corporation are subject to operational risks, including business partners, developing new products and services, regulatory and legal risk, product performance warranty, dependence on key customers, suppliers and personnel, risk of problems in supply management, production and project execution, as well as the successful integration of new acquisitions, reliance on information systems and environmental policies, all of which could affect the ability of the Corporation to meet its obligations. In addition, large and complex projects for customers are common for the businesses of the Corporation, including fixed-price contracts.

Business partners

In certain of the projects carried out through consortia or other partnership vehicles in Transportation, all partners are jointly and severally liable to the customer. The success of these partnerships is dependent on the satisfactory performance of the Corporation and the Corporation's business partners. Although, in these situations, partners generally exchange counter-indemnity obligations, often partially or totally backed by guarantee instruments, the failure of the business partners to fulfill their contractual obligations could subject the Corporation to additional financial and performance obligations that could result in increased costs and unforeseen delays. In addition, in the Transportation's systems business, the loss of potential order intake may result from a partner withdrawing from a consortium during the bid phase.

Developing new products and services

The principal markets in which the Corporation's businesses operate experience changes due to the introduction of new technologies. To meet its customers' needs in these businesses, the Corporation must continuously design new products, update existing products and services, and invest and develop new technologies, which may require significant capital investments. Introducing new products requires a significant commitment to research and development, which may not be successful.

The Corporation's sales may be impacted if it invests in products that are not accepted in the marketplace, if customer demand or preferences change, if the products are not approved by regulatory authorities, or if the products are not brought to market in a timely manner or become obsolete. The Corporation is subject to stringent certification or approval requirements, which could differ by country and could delay the certification of the Corporation's products. Non-compliance with regulatory requirements, such as those now or in the future imposed by TC, the FAA, the EASA, International (TSI) and national rail regulatory bodies or other regulatory authorities, could result in the grounding of the Corporation's products, which may materially and adversely affect the Corporation's business, financial condition and results of operations.

Warranty and casualty claim losses

Products manufactured by the Corporation are highly complex and sophisticated and may contain defects that are difficult to detect and correct. Defects may be found in the Corporation's products after they are delivered to the customer. If discovered, the Corporation may not be able to correct them in a timely manner, or at all. The occurrence of defects and failures in the Corporation's products could result in warranty claims or the loss of customers. Correcting such defects could require significant capital investments. Any claims, defects or failures may materially and adversely affect the Corporation's business, financial condition and results of operations. In addition, due to the nature of the Corporation's business, the Corporation may be subject to liability claims arising from accidents or disasters involving the Corporation's products, or products for which the Corporation provided services, including claims for serious personal injuries or death, and these accidents may include accidents caused by climatic factors (such as snow and icy weather), or by pilot or driver error. The Corporation cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Corporation will be able to obtain insurance coverage at acceptable levels and cost in the future.

Legal risks

The Corporation is subject to numerous risks relating to legal proceedings to which it is currently a party or that could develop in the future. In the ordinary course of its business, the Corporation becomes party to lawsuits, including suits involving allegations of improper delivery of goods or services, product liability, product defects, quality problems and intellectual property infringement. There can be no assurance that the results of these or other legal proceedings will not materially and adversely affect the Corporation's business, financial condition or results of operations. The Corporation maintains liability and property insurance for certain legal risks at levels the Corporation's Management believes are appropriate and consistent with industry practice. The Corporation may incur losses relating to litigation beyond the limits, or outside the coverage, of such insurance, and such losses may materially and adversely affect the Corporation's business, financial condition and results of operations, and the Corporation's provisions for litigation related losses may not be sufficient to cover the Corporation's ultimate loss or expenditure.

Key customers and key suppliers

The Corporation's manufacturing operations are dependent on a limited number of customers. As at January 31, 2007, 11% of Aerospace's order backlog related to aircraft programs was attributable to three customers. In Transportation, three customers represented 45% of the order backlog as at January 31, 2007. The Corporation believes that it will continue to depend on a limited number of customers; accordingly, the loss of any such customer could result in lower sales or market share. Since the majority of Transportation's customers are public companies or operate under public contract, Transportation's order intake is dependent on public budgets and spending policies. See Government support below for additional information.

The Corporation's manufacturing operations are dependent on a limited number of key suppliers for the delivery of materials, services and major systems, such as aluminum, titanium, power plants, wings, nacelles and fuselages in Aerospace, and brakes in Transportation. A failure by one or more key suppliers to meet performance specifications, quality standards, and delivery schedules could adversely affect the ability of the Corporation to meet its commitments to customers. If one or more key suppliers are unable to meet their contractual obligations toward the Corporation, this may materially and adversely affect the Corporation's business, financial condition and results of operations. Certain of these suppliers participate in the development of products such as aircraft or rolling stock platforms and the subsequent delivery of materials and major components, and own some of the intellectual property on the key components they develop. Therefore, the Corporation's contracts with these key suppliers are on a long-term basis. Although alternative supplier sources generally exist for the procurement of material and major components, the replacement of certain key suppliers could be costly and could take a significant amount of time.

Fixed-term commitments

The Corporation has historically offered, and will continue to offer, a significant portion of its products on fixed-term contracts, rather than contracts in which payment is determined solely on a time-and-material basis. Generally, the Corporation may not terminate these contracts unilaterally. Although the Corporation often relies on tools, methodologies and past experience to reduce the risks associated with estimating, planning and performing these projects, in most cases, the Corporation is exposed to risks associated with these projects, including unexpected technological problems, difficulties with the Corporation's partners and subcontractors and logistic difficulties that could lead to cost overruns and late delivery penalties.

Human resource risk (including collective agreements)

Human resource risk is the risk that the Corporation is unable to recruit, retain, and motivate highly skilled employees to assist in the Corporation's business, including research and development activities that are essential to the success of the Corporation. Failure to recruit and retain highly skilled personnel may materially and adversely affect the Corporation's business, financial condition and results of operations.

In addition, the Corporation is party to several collective agreements throughout its business segments, which are subject to expiration at various times in the future. If the Corporation is unable to renew these collective agreements as they become subject to renegotiation from time to time, this could result in work stoppages and other labour disturbances and materially and adversely affect the Corporation's business, financial condition and results of operations.

Environmental risk

The Corporation is subject to environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, product performance or content, air and water pollution, the use, disposal, storage, transportation, labelling and release of hazardous substance, human health risks arising from the exposure to hazardous or toxic material and the remediation of soil and groundwater contamination on or under the Corporation's properties (whether or not caused by the Corporation) or on or under other

properties and caused by its current or past operations. Environmental regulatory requirements, or enforcements thereof, may become more stringent in the future, and additional costs may be incurred by the Corporation to be compliant with such future requirements or enforcements. In addition, the Corporation may have contractual or other liability for environmental matters relating to businesses, products or properties that the Corporation has in the past closed, sold or otherwise disposed of, or that the Corporation closes, sells or disposes of in the future. There can be no assurance that limitations imposed by, or costs of compliance with, current or future environmental laws, liabilities arising from a failure to comply with environmental laws, obligations to perform environmental investigations or remediation, or any other environmental problem, will not materially and adversely affect the Corporation's business, financial condition and results of operations.

FINANCING RISK

Government support

From time to time, the Corporation or its customers receive various types of government support. The level of government support reflects government policy and depends on budgets and other political and economic developments. The Corporation cannot predict if future government-sponsored support will be available. The loss or any substantial reduction in the availability of government support could negatively impact the Corporation's cost competitiveness and market share. In addition, any future government support received by the Corporation's competitors may have a negative impact on the Corporation's competitiveness, product development, sales and market share.

Financing support provided on behalf of certain customers

From time to time, the Corporation provides, aircraft financing support to regional aircraft customers. The Corporation also provides interim financing, which includes loans made to customers and the leasing of aircraft to customers. The Corporation faces the risk that certain customers, mainly regional aircraft customers, may not be able to obtain permanent financing. This, in turn, may materially and adversely affect the Corporation's business, financial condition and results of operations.

The Corporation may also provide, directly or indirectly, credit and residual value guarantees to airlines, to support financings for airlines or to support financings by certain special purpose entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airlines, and ii) to purchase financial assets related to regional aircraft manufactured by the Corporation. Under these arrangements, the Corporation is obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make lease or loan payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at an agreed-upon date, generally at the expiry date of related financing and lease arrangements. A substantial portion of these guarantees has been extended to support original debtors or lessees with less than investment-grade credit. The recent financial weakness of certain airlines further exposes the Corporation to loss under credit guarantees. Significant claims under these guarantees could materially and adversely affect the Corporation's business, financial condition and results of operations (see Commitments and contingencies section for a discussion on credit and residual value guarantees).

Liquidity and access to capital markets

The Corporation requires continued access to capital markets to support its activities. To satisfy its financing needs, the Corporation relies on cash resources, debt and cash flow generated from operations. Any impediments to the Corporation's ability to access capital markets, including a decline in credit ratings, a significant reduction of the surety market global capacity, significant changes in market interest rates, general economic conditions, or an adverse perception in capital markets of the Corporation's financial condition or prospects, may materially and adversely affect the Corporation's business, financial condition and results of operations. Credit ratings may be impacted by many external factors beyond the Corporation's control and, accordingly, no assurance can be given that the Corporation's credit ratings will not be reduced in the future.

Restrictive debt covenants

The indentures governing certain of the Corporation's indebtedness and the New letters of credit facility contain covenants that, among other things, restrict the Corporation's ability to:

– incur additional debt and provide guarantees;
– repay subordinated debt;
– create or permit certain liens;
– use the proceeds from the sale of assets and subsidiary stock;
– pay dividends and make certain other restricted payments;
– create or permit restrictions on the ability of its subsidiaries to pay dividends or make other payments;
– engage in certain transactions with affiliates; and
– enter into certain consolidations, mergers or transfers of all or substantially all of its assets.

These restrictions could impair the Corporation's ability to finance its future operations or its capital needs, or to engage in other business activities that may be in its interest.

In addition, the Corporation is subject to various financial covenants under its New letters of credit facility, including the requirement to maintain (as defined in the related agreements):

– a minimum EBITDA to fixed charges ratio of 3.5 to 1 at the end of each fiscal quarter;
– a maximum adjusted gross debt-to-capitalization ratio of 70% at the end of each fiscal quarter until April 30, 2008, and 65% thereafter; and
– a maximum adjusted net debt to EBITDA ratio of 2.5 to 1 as at January 31, 2007, January 31, 2008 and July 31, 2008; 3.75 to 1 as at April 30, 2007, July 31, 2007 and October 31, 2007; 2.75 to 1 as at April 30, 2008; and 2.0 to 1 as at October 31, 2008 and at the end of each fiscal quarter thereafter.

The Corporation's ability to comply with these covenants may be affected by events beyond its control. A breach of any of these agreements or the Corporation's inability to comply with these covenants could also result in a default under its New letters of credit facility, which would permit the Corporation's banks to request the immediate cash collateralization of all outstanding letters of credit and the bond holders and other lenders of the Corporation to declare amounts owed to them immediately payable. If the Corporation's indebtedness is accelerated, it may not be able to repay its indebtedness or borrow sufficient funds to refinance it. In addition, if the Corporation incurs additional debt in the future, it may be subject to additional covenants, which may be more restrictive than those to which the Corporation is now subject.

MARKET RISK

Market risk is defined as a potential loss due to an adverse move in market rates, including the following:

Foreign currency fluctuations

The Corporation's financial results are reported in U.S. dollars and a portion of its sales and operating costs are realized in currencies other than U.S. dollars, in particular euros, Canadian dollars and pounds sterling. The Corporation's results of operations are therefore affected by movements of these currencies against the U.S. dollar. Significant long-term fluctuations in relative currency values could have an adverse effect on its future profitability. Although the Corporation's foreign currency policy is to use derivative financial instruments to manage these foreign currency exposures, given the volatility of currency exchange rates, the Corporation cannot assure that it will be able to manage these risks effectively. Volatility in currency exchange rates may generate losses, which may materially and adversely affect the Corporation's business, financial condition and results of operations. For more detailed information on the Corporation's hedging policies, refer to Derivative financial instrument section.

Changing interest rates

The Corporation is exposed to risks from fluctuating interest rates, as described in the Derivative financial instruments section, which may materially and adversely affect the Corporation's business, financial condition and results of operations. The Corporation uses derivative financial instruments or asset/liability management techniques to manage the impact of fluctuating interest rates, arising mainly on existing assets and liabilities and financial commitments.

Commodity price risk

The Corporation is subject to commodity price risk relating principally to fluctuations in material prices used in the supply chain, such as aluminum and titanium, which could materially and adversely affect the Corporation's business, financial condition and results of operations. In an effort to mitigate these risks, the Corporation seeks to enter into long-term arrangements with its supplier base.

VII. FOREIGN EXCHANGE RATES

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

The year-end exchange rates used to translate assets and liabilities were as follows as at January 31: :

	2007	2006	INCREASE (DECREASE)
Euro	**1.2999**	1.2157	7%
Canadian dollar	**0.8480**	0.8742	(3%)
Pound sterling	**1.9609**	1.7814	10%

The average exchange rates used to translate revenues and expenses were as follows for fiscal years:

	2007	2006	INCREASE
Euro	**1.2628**	1.2374	2%
Canadian dollar	**0.8808**	0.8294	6%
Pound sterling	**1.8581**	1.8121	3%

VIII. SELECTED FINANCIAL DATA

The Consolidated Financial Statements of Bombardier Inc. are prepared in accordance with GAAP and are expressed in U.S. dollars. The result of operations of BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale under separate captions in the consolidated balance sheets (see note 6–Discontinued operations and assets held for sale to the Consolidated Financial Statements).

The following table provides selected financial information for the last three fiscal years.

(in millions of U.S. dollars, except per share amounts)	**2007**	2006	2005
Revenues	**$14,816**	$14,726	$15,546
EBIT from continuing operations before special items	**577**	445	236
EBIT from continuing operations	**553**	357	64
EBT from continuing operations before special items	**359**	238	12
EBT from continuing operations	**335**	150	(160)
Income (loss) from continuing operations	**243**	135	(122)
Income from discontinued operations, net of tax	**25**	114	37
Net income (loss)	**268**	249	(85)
Basic and diluted earnings (loss) per share:			
From continuing operations	**0.12**	0.06	(0.08)
Net income (loss)	**0.14**	0.13	(0.06)
Cash dividends declared per share (Cdn$):			
Class A Shares (Multiple Voting)	**–**	–	0.09
Class B Shares (Subordinate Voting)	**–**	–	0.09
Series 2 Preferred Shares	**1.46**	1.12	1.00
Series 3 Preferred Shares	**1.37**	1.37	1.37
Series 4 Preferred Shares	**1.56**	1.56	1.56
Total assets	**18,577**	17,482	20,130
Long-term debt	**5,080**	4,747	5,716

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

	AUTHORIZED	ISSUED AND OUTSTANDING
Class A Shares (Multiple Voting)[1]	1,892,000,000	317,044,051
Class B Shares (Subordinate Voting)[2]	1,892,000,000	1,421,575,917
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	2,597,907
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	9,402,093
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

1 Ten votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).
2 Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions (see note 11–Share capital to the Consolidated Financial Statements).

The following table provides share option and PSU data:

Options issued and outstanding under share option plans as at February 28, 2007	44,609,150
PSUs issued and outstanding under the PSU plan as at January 31, 2007	8,040,386
Class B Shares held in trust to satisfy PSU obligations	11,847,000

The table containing the quarterly information is shown at the end of this MD&A.

March 27, 2007

QUARTERLY DATA (UNAUDITED)

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

FOR THE FISCAL YEARS ENDED JANUARY 31	2007 TOTAL	2007 FOURTH QUARTER
Revenues		
Aerospace[1]	**$ 8,230**	**$2,558**
Transportation	**6,586**	**1,829**
	$14,816	**$4,387**
Income from continuing operations before special items, financing income and expense and income taxes		
Aerospace[1]	**$ 322**	**$ 158**
Transportation	**255**	**86**
	577	**244**
Special items		
Transportation	**24**	**–**
	24	**–**
Income from continuing operations before financing income and expense and income taxes		
Aerospace	**322**	**158**
Transportation	**231**	**86**
	553	**244**
Financing income	**(157)**	**(48)**
Financing expense	**375**	**118**
Income (loss) from continuing operations before income taxes	**335**	**174**
Income tax expense (recovery)	**92**	**62**
Income (loss) from continuing operations	**243**	**112**
Income (loss) from discontinued operations, net of tax	**25**	**–**
Net income (loss)	**$ 268**	**$ 112**
Earnings (loss) per share:		
Basic and diluted		
From continuing operations	**$ 0.12**	**$ 0.06**
Net income (loss)	**$ 0.14**	**$ 0.06**
Market price range of Class B Shares (*in Cdn dollars)*		
High	**$ 4.62**	**$ 4.62**
Low	**$ 2.68**	**$ 3.67**

1 Historically, Aerospace has higher aircraft deliveries during the fourth quarter compared to the first three quarters of its fiscal year, generating higher revenues and margins.

2007 THIRD QUARTER	2007 SECOND QUARTER	2007 FIRST QUARTER	2006 TOTAL	2006 FOURTH QUARTER	2006 THIRD QUARTER	2006 SECOND QUARTER	2006 FIRST QUARTER
$1,841	**$1,891**	**$1,940**	$ 8,087	$2,400	$1,789	$1,962	$1,936
1,547	**1,624**	**1,586**	6,639	1,635	1,512	1,671	1,821
$3,388	**$3,515**	**$3,526**	$14,726	$4,035	$3,301	$3,633	$3,757
$ 43	**$ 66**	**$ 55**	$ 266	$ 107	$ 31	$ 76	$ 52
62	**60**	**47**	179	53	39	43	44
105	**126**	**102**	445	160	70	119	96
–	**–**	**24**	88	37	25	34	(8)
–	**–**	**24**	88	37	25	34	(8)
43	**66**	**55**	266	107	31	76	52
62	**60**	**23**	91	16	14	9	52
105	**126**	**78**	357	123	45	85	104
(31)	**(39)**	**(39)**	(156)	(52)	(39)	(32)	(33)
81	**88**	**88**	363	98	87	91	87
55	**77**	**29**	150	77	(3)	26	50
2	**20**	**8**	15	(8)	(2)	16	9
53	**57**	**21**	135	85	(1)	10	41
21	**1**	**3**	114	1	(8)	107	14
$ 74	**$ 58**	**$ 24**	$ 249	$ 86	$ (9)	$ 117	$ 55
$ 0.03	**$ 0.03**	**$ 0.01**	$ 0.06	$ 0.05	$ –	$ –	$ 0.02
$ 0.04	**$ 0.03**	**$ 0.01**	$ 0.13	$ 0.05	$ (0.01)	$ 0.06	$ 0.03
$ 4.14	**$ 4.31**	**$ 4.32**	$ 3.66	$ 3.13	$ 3.66	$ 3.39	$ 3.10
$ 2.98	**$ 2.90**	**$ 2.68**	$ 2.28	$ 2.34	$ 2.44	$ 2.41	$ 2.28

HISTORICAL FINANCIAL SUMMARY
CONSOLIDATED BALANCE SHEETS

(in millions of U.S. dollars)

AS AT JANUARY 31	**2007**	2006	2005	2004	2003
Assets					
Cash and cash equivalents	**$ 2,648**	$ 2,917	$ 2,344	$ 1,214	$ 662
Invested collateral	**1,129**	–	–	–	–
Receivables	**1,789**	1,684	1,513	1,730	2,056
Aircraft financing	**1,042**	1,457	1,791	1,463	2,209
Inventories	**3,961**	3,805	4,013	4,340	3,443
Property, plant and equipment	**2,936**	3,090	3,412	3,550	3,523
Goodwill	**2,286**	2,142	2,357	2,290	2,122
Fractional ownership deferred costs	**390**	270	142	–	–
Deferred income taxes	**813**	653	522	401	446
Accrued benefit assets	**461**	384	353	375	173
Assets held for sale	**–**	237	2,582	2,526	3,556
Other assets	**1,122**	843	1,101	1,388	859
	$18,577	$17,482	$20,130	$19,277	$19,049
Liabilities and shareholders' equity					
Short-term borrowings	**$ –**	$ –	$ –	$ –	$ 816
Accounts payable and accrued liabilities	**6,839**	6,866	7,085	6,710	5,772
Advances and progress billings in excess of related costs	**2,443**	2,191	2,359	2,686	2,496
Fractional ownership deferred revenues	**487**	325	163	–	–
Deferred income taxes	**–**	9	41	104	122
Long-term debt	**5,080**	4,747	5,716	5,125	5,331
Accrued benefit liabilities	**995**	877	897	932	753
Liabilities related to assets held for sale	**–**	42	1,571	1,270	1,966
Preferred shares	**347**	347	347	347	347
Common shareholders' equity	**2,386**	2,078	1,951	2,103	1,446
	$18,577	$17,482	$20,130	$19,277	$19,049

HISTORICAL FINANCIAL SUMMARY

(in millions of U.S. dollars, except per share amounts, number of common shares and shareholders of record)

FOR THE FISCAL YEARS ENDED JANUARY 31	**2007**	2006	2005	2004	2003
Revenues					
Aerospace	**$ 8,230**	$ 8,087	$ 7,980	$ 8,261	$ 7,271
Transportation	**6,586**	6,639	7,566	6,940	6,006
	$14,816	$14,726	$15,546	$15,201	$13,277
Income from continuing operations before special items, financing income and expense and income taxes					
Aerospace	**$ 322**	$ 266	$ 203	$ 419	$ 255
Transport	**255**	179	33	43	162
	577	445	236	462	417
Special items					
Aerospace	**–**	–	–	(19)	837
Transportation	**24**	88	172	349	–
	24	88	172	330	837
Income (loss) from continuing operations before financing income and expense and income taxes					
Aerospace	**322**	266	203	438	(582)
Transportation	**231**	91	(139)	(306)	162
	553	357	64	132	(420)
Financing income	**(157)**	(156)	(104)	(96)	(117)
Financing expense	**375**	363	328	327	345
Income (loss) from continuing operations before income taxes	**335**	150	(160)	(99)	(648)
Income tax expense (recovery)	**92**	15	(38)	121	(159)
Income (loss) from continuing operations	**243**	135	(122)	(220)	(489)
Income from discontinued operations, net of tax	**25**	114	37	135	96
Net income (loss)	**$ 268**	$ 249	$ (85)	$ (85)	$ (393)
Earnings (loss) per share:					
Basic and diluted					
From continuing operations	**$ 0.12**	$ 0.06	$ (0.08)	$ (0.15)	$ (0.37)
Net income (loss)	**$ 0.14**	$ 0.13	$ (0.06)	$ (0.07)	$ (0.30)
General information for continuing operations					
Export revenues from Canada	**$ 5,715**	$ 5,271	$ 5,430	$ 5,851	$ 4,764
Additions to property, plant and equipment	**$ 344**	$ 329	$ 305	$ 300	$ 461
Amortization	**$ 518**	$ 545	$ 549	$ 560	$ 512
Dividend per common share *(in Cdn dollars)*					
Class A	**$ –**	$ –	$ 0,09	$ 0,09	$ 0,18
Class B	**$ –**	$ –	$ 0,09	$ 0,09	$ 0,18
Dividend per preferred share *(in Cdn dollars)*					
Series 2	**$ 1.46**	$ 1.12	$ 1.00	$ 1.17	$ 1.19
Series 3	**$ 1.37**	$ 1.37	$ 1.37	$ 1.37	$ 0.68
Series 4	**$ 1.56**	$ 1.56	$ 1.56	$ 1.56	$ 1.40
Number of common shares *(in millions)*	**1,739**	1,745	1,750	1,750	1,378
Book value per common share *(in U.S. dollars)*	**$ 1.37**	$ 1.19	$ 1.11	$ 1.20	$ 1.05
Shareholders of record	**13,539**	13,600	13,008	12,371	11,579
Market price ranges					
(in Cdn dollars)					
Class A					
High	**$ 4.61**	$ 3.69	$ 7.11	$ 6.32	$ 15.67
Low	**$ 2.69**	$ 2.34	$ 2.01	$ 2.95	$ 3.19
Close	**$ 4.48**	$ 3.02	$ 2.80	$ 5.96	$ 5.34
Class B					
High	**$ 4.62**	$ 3.66	$ 7.13	$ 6.28	$ 15.67
Low	**$ 2.68**	$ 2.28	$ 1.87	$ 2.56	$ 3.13
Close	**$ 4.45**	$ 2.98	$ 2.62	$ 5.99	$ 5.12

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and Management discussion and analysis ("MD&A") of Bombardier Inc. and all other information in this Annual Report are the responsibility of Management and have been reviewed and approved by its Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. 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 elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

Bombardier's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Corporation has been made known to them and has been properly disclosed in the Consolidated Financial Statements and MD&A. Bombardier's CEO and CFO have also evaluated the effectiveness of such disclosure controls and procedures as of the end of fiscal 2007 and believe that they effectively provide reasonable assurance that material information related to the Corporation has been disclosed in the Consolidated Financial Statements and MD&A. Bombardier's CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. In compliance with MI 52-109, Bombardier's CEO and CFO have provided a certification related to Bombardier'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 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 on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

(Signed by)

Laurent Beaudoin, FCA
Chairman of the Board and
Chief Executive Officer

(Signed by)

Pierre Alary, CA
Senior Vice President and
Chief Financial Officer

March 27, 2007

AUDITORS' REPORT

To the shareholders of Bombardier Inc.

We have audited the consolidated balance sheets of Bombardier Inc. as at January 31, 2007 and 2006 and the consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed by)

Ernst & Young LLP
Chartered Accountants

Montréal, Canada
March 20, 2007

CONSOLIDATED BALANCE SHEETS

(in millions of U.S. dollars)

AS AT JANUARY 31	NOTES	2007	2006
Assets			
Cash and cash equivalents		**$ 2,648**	$ 2,917
Invested collateral	8	**1,129**	–
Receivables	1	**1,789**	1,684
Aircraft financing	2	**1,042**	1,457
Inventories	3	**3,961**	3,805
Property, plant and equipment	4	**2,936**	3,090
Goodwill	5	**2,286**	2,142
Fractional ownership deferred costs		**390**	270
Deferred income taxes	16	**813**	653
Accrued benefit assets	20	**461**	384
Assets held for sale	6	**–**	237
Other assets	7	**1,122**	843
		$18,577	$17,482
Liabilities			
Accounts payable and accrued liabilities	9	**$ 6,839**	$ 6,866
Advances and progress billings in excess of related costs	3	**2,443**	2,191
Fractional ownership deferred revenues		**487**	325
Deferred income taxes	16	**–**	9
Long-term debt	10	**5,080**	4,747
Accrued benefit liabilities	20	**995**	877
Liabilities related to assets held for sale	6	**–**	42
		15,844	15,057
Shareholders' equity		**2,733**	2,425
		$18,577	$17,482
Commitments and contingencies	21		

The accompanying summary of significant accounting policies and notes are an integral part of these Consolidated Financial Statements and provide information on the financial statement presentation.

On behalf of the Board of Directors,

(Signed by)

Laurent Beaudoin
Director

(Signed by)

L. Denis Desautels
Director

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions of U.S. dollars)

FOR THE FISCAL YEARS ENDED JANUARY 31	NOTES	2007 NUMBER (IN THOUSANDS)	2007 AMOUNT	2006 NUMBER (IN THOUSANDS)	2006 AMOUNT
SHARE CAPITAL	11				
Preferred shares					
Series 2		**2,598**	**$ 51**	2,598	$ 51
Series 3		**9,402**	**148**	9,402	148
Series 4		**9,400**	**148**	9,400	148
		21,400	**347**	21,400	347
Common shares					
Class A Shares (Multiple Voting)					
Balance at beginning of year		**319,260**	**29**	342,000	31
Converted to Class B		**(2,216)**	**–**	(22,740)	(2)
Balance at end of year		**317,044**	**29**	319,260	29
Class B Shares (Subordinate Voting)					
Balance at beginning of year		**1,431,207**	**1,413**	1,408,467	1,411
Converted from Class A		**2,216**	**–**	22 740	2
		1,433,423	**1,413**	1,431,207	1,413
Purchased and held in trust under the performance share unit plan	11	**(11,847)**	**(34)**	(5,434)	(14)
Balance at end of year		**1,421,576**	**1,379**	1,425,773	1,399
Balance at end of year – common shares		**1,738 620**	**1,408**	1,745,033	1,428
Total – share capital			**1,755**		1,775
CONTRIBUTED SURPLUS					
Balance at beginning of year			**20**		13
Stock-based compensation	12		**15**		7
Balance at end of year			**35**		20
RETAINED EARNINGS					
Balance at beginning of year			**525**		301
Net income			**268**		249
Dividends:					
Preferred shares			**(28)**		(25)
Balance at end of year			**765**		525
CUMULATIVE TRANSLATION ADJUSTMENT	13		**178**		105
Total – shareholders' equity			**$2,733**		$2,425

The accompanying summary of significant accounting policies and notes are an integral part of these Consolidated Financial Statements and provide information on the financial statement presentation.

CONSOLIDATED STATEMENTS OF INCOME

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

FOR THE FISCAL YEARS ENDED JANUARY 31	NOTES	2007	2006
Revenues			
Manufacturing		**$10,446**	$10,708
Services		**2,697**	2,537
Other		**1,673**	1,481
		14,816	14,726
Cost of sales		**12,685**	12,719
Selling, general and administrative		**863**	842
Research and development		**173**	175
Amortization		**518**	545
Special items	14	**24**	88
		14,263	14,369
Income from continuing operations before the following:		**553**	357
Financing income	15	**(157)**	(156)
Financing expense	15	**375**	363
Income from continuing operations before income taxes		**335**	150
Income taxes	16	**92**	15
Income from continuing operations		**243**	135
Income from discontinued operations, net of tax	6	**25**	114
Net income		**$ 268**	$ 249
Earnings per share:	17		
Basic and diluted			
From continuing operations		**$ 0.12**	$ 0.06
Net income		**$ 0.14**	$ 0.13

The accompanying summary of significant accounting policies and notes are an integral part of these Consolidated Financial Statements and provide information on the financial statement presentation.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of U.S. dollars)

FOR THE FISCAL YEARS ENDED JANUARY 31	NOTES	2007	2006
Operating activities			
Income from continuing operations		**$ 243**	$ 135
Non-cash items:			
Amortization		**518**	545
Deferred income taxes	16	**(87)**	(138)
Loss (gain) on disposals of property, plant and equipment		**(1)**	6
Stock-based compensation	12	**15**	7
Special items	14	**24**	88
Net change in non-cash balances related to operations	18	**179**	111
Cash flows from operating activities		**891**	754
Investing activities			
Additions to property, plant and equipment		**(308)**	(329)
Disposals of property, plant and equipment		**27**	107
Disposal of discontinued operations, net of cash disposed	6	**161**	1,363
Invested collateral	8	**(1,145)**	–
Other		**(154)**	193
Cash flows from investing activities		**(1,419)**	1,334
Financing activities			
Proceeds from issuance of long-term debt	10	**2,442**	8
Repayments of long-term debt	10	**(2,306)**	(876)
Purchase of common shares - held in trust	11	**(20)**	(14)
Dividends paid		**(28)**	(25)
Other		**(31)**	–
Cash flows from financing activities		**57**	(907)
Effect of exchange rate changes on cash and cash equivalents		**134**	(174)
Cash flows from continuing operations		**(337)**	1,007
Cash flows from discontinued operations	6	**63**	(440)
Net increase (decrease) in cash and cash equivalents		**(274)**	567
Cash and cash equivalents at beginning of year		**2,922**	2,355
Cash and cash equivalents at end of year		**$2,648**	$2,922[1]

1 Including $5 million of cash and cash equivalents related to discontinued operations.

Supplemental information			
Cash paid for:			
Interest		**$ 400**	$ 425
Income taxes		**$ 86**	$ 56

The accompanying summary of significant accounting policies and notes are an integral part of these Consolidated Financial Statements and provide information on the financial statement presentation.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the fiscal years ended January 31, 2007 and January 31, 2006

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

Basis of presentation

The Consolidated Financial Statements are expressed in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Bombardier Inc. and its subsidiaries carry out their operations in two distinct segments, the aerospace segment ("Aerospace") and the transportation segment ("Transportation"), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified.

Basis of consolidation

The Consolidated Financial Statements include:
– the accounts of Bombardier Inc. and its subsidiaries, substantially all of which are wholly owned;
– the accounts of variable interest entities ("VIEs") when the Corporation is the primary beneficiary; and
– the Corporation's proportionate share of the assets, liabilities and results of operations and cash flows of its joint ventures.

Subsidiaries–The principal subsidiaries of the Corporation, whose revenues represent more than 10% of total revenues of each respective segment, are as follows:

SUBSIDIARY	LOCATION
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Learjet Inc.	U.S.
Bombardier Transportation GmbH	Germany
Bombardier Transport France S.A.S.	France
Bombardier Transportation (Bahntechnologie) Germany GmbH & Co. KG	Germany

Most legal entities of Transportation use a December 31 fiscal year-end. As a result, the Corporation consolidates the operations of Transportation with a one-month lag with the remainder of its operations. To the extent that significant transactions or events occur during the one-month lag period, the Corporation's Consolidated Financial Statements are adjusted accordingly.

VIEs – AcG-15 "Consolidation of Variable Interest Entities" ("AcG-15") requires the consolidation of VIEs if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the variable interest holder became the primary beneficiary. However, for variable interest entities created prior to the initial adoption of AcG-15, the assets, liabilities and non-controlling interests of these entities must be initially consolidated as if the entities were consolidated as of the date the Corporation became the primary beneficiary. See note 22 – Variable interest entities, for additional information on VIEs. The Corporation revises its determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

Use of estimates

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions, particularly as they relate to long-term contracts and average cost accounting, accrual of sales incentives, including credit and residual value guarantees offered in Aerospace, actuarial and economic assumptions used in determining employee future benefits, useful lives of long-lived assets and recovery of goodwill, variable interest entities, accrual of product warranties and income taxes. Management's best estimates are based on the facts and circumstances available at the time estimates are made, historical experience, general economic conditions and trends, and Management assessments of probable future outcomes of these matters. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates, and such differences could be material.

Translation of foreign currencies

The Corporation's functional currencies are mainly the U.S. dollar in Aerospace and various Western European currencies and the U.S. dollar in Transportation.

All significant foreign operations are classified as self-sustaining foreign operations.

Self-sustaining foreign operations – All assets and liabilities are translated using the exchange rates in effect at year-end. Revenues and expenses are translated using the average exchange rates for the period. Translation gains or losses are included in Cumulative translation adjustment.

Accounts denominated in foreign currencies – Accounts denominated in foreign currencies are translated using the temporal method. Under this method, monetary balance sheet items are translated using the exchange rates in effect at year-end and non-monetary items are translated using the historical exchange rates. Revenues and expenses (other than amortization, which is translated using the same exchange rates as the related assets) are translated using the average exchange rates for the period.

Hedging items designated as hedges of net investments in self-sustaining foreign operations – Translation gains or losses, net of tax, related to the hedging items designated as hedges of the Corporation's net investments in self-sustaining foreign operations are included in Cumulative translation adjustment.

Cash and cash equivalents

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

Invested collateral

Invested collateral consists mainly of bonds (corporate bonds and asset backed bonds), commercial paper and certificates of deposit, held with a custodian. The portfolio weighted-average maturity is not to exceed one year and should have a minimum average rating of A. The Invested collateral is carried at amortized cost. These investments serve as collateral for the new €4.3-billion ($5.6-billion) letters of credit facility ("New credit facility") (see note 8 – Credit facilities).

Securitization transactions

Transfers of loans and receivables in securitization transactions are recognized as sales when control over these assets has been surrendered and consideration other than beneficial interests in the transferred assets was received. Assets retained may include subordinated interests, servicing rights and over-collateralization amounts, all of which are included in Receivables or Aircraft financing.

When the transfer is considered a sale, all assets sold are derecognized. Assets received and the liabilities incurred, such as those arising from credit enhancement support, are recognized at fair value. Gains and losses are recognized upon the sale of assets. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair values as at the date of transfer. Fair values are generally estimated based on the present value of future expected cash flows using Management's best estimates for credit losses, forward yield curves and discount rates commensurate with the risks involved.

Retained interests are accounted for as loans, lease receivables or investments in accordance with their substance. When the carrying value exceeds the fair value of the retained interests accounted for as investments and the decline in fair value is other than temporary, the retained interest is written down to its fair value. Other retained interests are accounted for in accordance with applicable accounting policies for similar asset classifications.

Lease receivables

Aircraft leased under terms which transfer substantially all of the benefits and risks of ownership to customers are accounted for as sales-type leases and are presented in Aircraft financing.

Allowance for credit losses

Loans and lease receivables are classified as impaired when, in the opinion of Management, there is reasonable doubt as to the ultimate collectibility of a portion of principal and interest, generally when contractually due payments are 90 days in arrears or customers have filed for bankruptcy.

The Corporation maintains an allowance for credit losses in an amount sufficient to absorb losses. The level of allowance is based on Management's assessment of the risks associated with each of the Corporation's portfolios, including delinquencies, loss and recovery experience, collateral-specific factors, including age and type of aircraft, risk of individual customer credit, published historical default rates for different credit rating categories, commercial airline industry performance, and the impact of current and projected economic conditions.

Long-term investments

Investments in entities over which the Corporation exercises significant influence are accounted for under the equity method and are presented in Other assets. Other long-term investments are carried at amortized cost including investments in financing structures, which are presented in Aircraft financing. All other investments are presented in Other assets.

When the carrying value exceeds the fair value and the decline in fair value is other than temporary, long-term investments are written-down to their fair value.

Inventory valuation

Aerospace programs–Inventory, determined under the average cost accounting method for the initial lot of a program and under the unit cost method thereafter, is recorded at the lower of cost or net recoverable value. It includes materials, direct labour and manufacturing overhead.

Average cost accounting is a method of accounting that reflects higher unit costs at the early phase of a program and lower unit costs at the end of the program (the learning curve concept). The difference between actual and average costs in the early stage of a program is recorded as excess-over-average production costs ("EOAPC") and is included in Inventories.

To the extent that inventory costs are expected to exceed their net recoverable amount, charges are recorded in Cost of sales to reduce inventoried costs to their estimated net recoverable value.

Long-term contracts–Long-term contract inventory accounted for under the percentage-of-completion method includes materials, direct labour and manufacturing overhead as well as estimated contract margins. Inventory related to long-term service contracts accounted for as services are rendered includes materials, direct labour and manufacturing overhead.

Finished products–Finished product inventories, which include spare parts and new and pre-owned aircraft, are valued at the lower of cost or net realizable value. The cost of finished products includes the cost of materials, direct labour and related manufacturing overhead. A provision for excess or inactive spare parts inventories is recorded based upon an analysis of current inventory levels, historical usage patterns, future sale expectations and salvage value.

New and pre-owned aircraft available for sale are valued at the lower of cost or net realizable value. The Corporation estimates net realizable value by using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

Payments, advances and progress billings–Payments received on account of work performed for long-term contracts and aerospace programs are deducted from related costs in inventories. Advances received and progress billings in excess of related costs are shown as liabilities.

Long-lived assets

Long-lived assets comprise assets under operating leases, property, plant and equipment, and finite-life intangible assets.

Assets under operating leases–Assets under operating leases are recorded at cost. Amortization is computed under the straight-line method over periods representing their estimated useful lives. Assets under operating leases related to aircraft, most of which are pre-owned, are presented in Aircraft financing. All other assets under operating leases are presented in Other assets.

Property, plant and equipment–Property, plant and equipment are recorded at cost. Equipment leases where the risks and rewards of ownership are transferred to the Corporation are included in Property, plant and equipment. Costs related to aerospace programs incurred once technical feasibility is proven and program launch takes place, including prototype design, development and testing costs, are accounted for as aerospace program tooling. Aerospace program tooling consists mostly of engineering labour and manufacturing overhead costs, testing and certification costs, and purchased tooling. Self-constructed aerospace program tooling includes interest charges incurred during construction.

Amortization is computed under the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Equipment	2 to 15 years
Aerospace program tooling	10 years
Other	3 to 20 years

Amortization of assets under construction begins when they are ready for their intended use. Amortization of aerospace program tooling costs begins at the date of delivery of the first aircraft of the program.

Improvements to existing property, plant and equipment that significantly extend the useful life or utility of the assets are capitalized, while maintenance and repair costs are charged to income when incurred.

Finite-life intangible assets–Finite-life intangible assets represent the cost of acquired licences, patents and trademarks and are amortized on a straight-line basis over their estimated useful lives, not exceeding 20 years.

Impairment–Long-lived assets are tested for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets and is recorded in Amortization.

Long-lived assets held for sale are stated at the lower of cost or fair value, less cost to sell.

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of the identifiable net assets acquired.

Goodwill is reviewed for impairment annually, or more frequently if events or 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.

The Corporation evaluates the recoverability of goodwill using a two-step test approach at the segment level ("reporting unit"). Under the first step, the fair value of the reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income.

Stock-based compensation and other stock-based payments

Share option plans–All awards granted or modified after January 31, 2003, are accounted for under the fair value method. Under this method, the value of the compensation is measured at the grant date using a modified Black-Scholes option pricing model. The value of the compensation expense is recognized over the vesting period of the stock options with a corresponding increase in Contributed surplus.

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. No compensation expense is recorded in income for these awards.

Any consideration paid by plan participants on the exercise of stock options is credited to Share capital.

Performance stock unit plan ("PSUs")–The value of the compensation for PSUs that are expected to vest is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange on the date of grant. The value of the compensation expense is recognized on a straight-line basis over the vesting period with a corresponding increase in Contributed surplus. The effect of any change in the number of PSUs that are expected to vest is accounted for in the period in which the estimate is revised.

Employee share purchase plan–The Corporation's contributions to the employee share purchase plan are accounted for in the same manner as the related employee payroll costs.

Revenue recognition

Aerospace programs – Revenues from the sale of regional aircraft and narrow-body business aircraft (*Learjet* Series) are recognized upon final delivery of products and presented in Manufacturing revenues.

Wide-body business aircraft (*Challenger* and *Global* Series) contracts are segmented between green aircraft (i.e. before exterior painting and installation of customer-selected interiors and optional avionics) and completion. Revenues are recognized based on green aircraft deliveries (when certain conditions are met), and upon final acceptance of interiors and optional avionics by customers. Revenues for green aircraft delivery and completion are presented in Manufacturing revenues.

Fractional shares – Revenues from the sale of aircraft fractional shares are recognized over the period during which the related services are rendered to the customer, generally five years, and are included in Manufacturing revenues. At the time of sale, the proceeds from the sale are recorded as Fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to 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 and are presented in Services revenues.

Long-term contracts – Revenues from long-term contracts related to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method of accounting consistent with Statement of Position 81-1 *"Accounting for Performance of Construction-Type and Certain Production-Type Contracts"* ("SOP 81-1") published by the American Institute of Certified Public Accountants. 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. Vehicle and component overhaul revenues are presented in Services revenues. System and signalling revenues are presented in Other revenues. All other long-term manufacturing contract revenues are presented in Manufacturing revenues.

Revenues from maintenance service contracts entered into on or after December 17, 2003 are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract and are presented in Services revenues. Maintenance service contracts entered into before this date are recognized using the percentage-of-completion method of accounting.

Revenues from other long-term service contracts are generally recognized as services are rendered and are presented in Services revenues.

Estimated revenues from long-term contracts include revenues from change orders and claims when it is probable that they will result in additional revenues in an amount that can be reliably estimated.

Other – Revenues from the sale of pre-owned aircraft and spare parts are recognized upon delivery. Pre-owned aircraft revenues are presented in Other revenues and spare parts revenues are included in Services revenues. Operating lease income, mainly from pre-owned aircraft, is recognized on a straight-line basis over the term of the lease and is included in Other revenues. Interest income related to aircraft financing is recognized over the terms of the applicable loans or leases in a manner that produces a constant rate of return on the investment and is included in Financing income.

Cost of sales

Aerospace programs – The Corporation follows the average cost accounting method for the initial lot of a program and the unit cost thereafter.

Average unit cost for regional and business aircraft is determined based on the estimated total production costs for a predetermined program quantity for the initial lot of a program. Estimates of total production costs and of program quantities are an integral component of average cost accounting. Production costs include material, direct labour and manufacturing overhead costs. Total production costs are estimated based on actual and forecasted costs of materials, foreign exchange rates, labour productivity, and employment levels and salaries. Cost estimates are based mainly on historical performance trends, economic trends, labour agreements and information provided by suppliers. Program quantities are established based on Management's assessment of market conditions and foreseeable demand at the beginning of the production stage for each program, taking into consideration, among other factors, existing firm orders and the expected learning curve period.

The average unit cost is recorded in Cost of sales at the time of each aircraft delivery. Under the learning curve concept, which anticipates a decrease in costs as tasks and production techniques become more efficient through repetition and management action, EOAPC during the early stages of a program are deferred in inventories and recovered from sales of aircraft to be produced later at lower-than-average costs.

Management conducts quarterly reviews, as well as a detailed annual review as part of its annual budgeting process, of its cost estimates and program quantities. The effect of any revision is accounted for by way of a cumulative catch-up adjustment to Cost of sales in the period in which the revision takes place.

Subsequent to the completion of the initial lot, the actual unit cost is recorded in Cost of sales at the time of each aircraft delivery. Actual unit cost comprises the same costs as those included in average cost but no deferral of costs arises as a result of the learning curve concept.

Long-term contracts– Cost of sales for long-term contracts is established based on actual costs incurred, including materials, direct labour, manufacturing overhead costs and other costs such as warranty and freight costs. If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in the period in which the negative gross margin is identified.

Management conducts quarterly reviews as well as a detailed annual review of its cost estimates, as part of its annual budget process. The effect of any revision is accounted for by way of a cumulative catch-up adjustment to Cost of sales in the period in which the revision takes place.

Sales incentives

In connection with the sale of new aircraft, the Corporation may provide sales incentives in the form of credit guarantees, residual value guarantees ("RVGs"), financing commitments, trade-in commitments and conditional repurchase obligations to customers.

The provision relating to credit guarantees and RVGs is recorded at the time of the sale based on the present value of expected net payments to be made under the guarantees. The provision relating to trade-in commitments is based on the anticipated losses from the purchase of pre-owned aircraft. The Corporation records the difference between the specified price of the trade-in aircraft and its fair value at the date of signing of a firm order as a reduction of Manufacturing revenues upon delivery of the related aircraft. Subsequent changes in the fair value of the trade-in aircraft are recorded in Cost of sales as they occur.

No provision is recorded for conditional repurchase obligations until they become trade-in commitments. Conditional repurchase obligations become trade-in commitments at the time the Corporation enters into an agreement from the sale of a new aircraft and the customer exercises its right to partially pay for the new aircraft by trading in its pre-owned aircraft.

The Corporation determines the fair value of the trade-in aircraft using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

The provisions are reviewed quarterly, and the effect of any revision is recognized in the period in which the revision takes place. Non-cash sales incentives are included in Cost of sales and cash sales incentives are presented as a reduction of Manufacturing revenues.

Research and development

Development costs are capitalized when certain criteria are met for deferral and their recovery is reasonably assured. Capitalized development costs related to aerospace programs are included in Property, plant and equipment under aerospace program tooling. Research and development costs related to long-term contracts are recorded as inventory costs and charged to Cost of sales under long-term contract accounting. When the recoverability of capitalized costs is no longer reasonably assured, these costs are written off. Research and development expenses presented in the consolidated statements of income exclude those incurred under long-term contracts and development costs capitalized to program tooling.

Government assistance

Government assistance, including investments tax credits, relating to the acquisition of inventory and/or property, plant and equipment, is recorded as a reduction of the cost of the related asset. Government assistance, including investment tax credits, related to current expenses is recorded as a reduction of the related expenses.

Product warranties

A provision for warranty cost is recorded in Cost of sales when revenue for the underlying product is recognized. 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.

The Corporation reviews its recorded product warranty provisions quarterly and any adjustment is recorded in Cost of sales.

Income taxes

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

A valuation allowance is recorded to reduce the carrying amount of deferred income tax assets when it is more likely than not that these assets will not be realized.

Earnings per share

Basic earnings per share are computed based on net income less dividends on preferred shares, net of tax, divided by the weighted-average number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the fiscal year.

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

Derivative financial instruments

In accordance with its risk management strategy, the Corporation uses derivative financial instruments to manage its foreign currency and interest rate exposures. The derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements.

Forward foreign exchange contracts– The Corporation uses forward foreign exchange contracts to hedge foreign currency exposures arising from forecasted foreign currency cash flows. Unrealized gains or losses on forward foreign exchange contracts designated and effective as hedges are not recognized in the consolidated statements of income until the anticipated transactions occur.

The Corporation also uses forward foreign exchange contracts to hedge foreign currency exposures arising from third-party long-term debt, intercompany loans and receivables. Unrealized gains or losses on these forward foreign exchange contracts are immediately recognized in income, offsetting unrealized gains or losses arising from foreign currency fluctuations on the hedged items.

The Corporation also enters into forward foreign exchange contracts to manage foreign currency exposures on its net investments in self-sustaining foreign operations. Gains and losses related to these forward foreign exchange contracts designated and effective as hedges are recorded in the Cumulative translation adjustment.

Interest-rate swap agreements– The Corporation enters into interest-rate swap agreements in order to achieve an appropriate mix of fixed and variable interest rate long-term debt. In addition, the Corporation enters into interest-rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments and to manage the interest rate exposure arising from aircraft financing support provided to regional aircraft customers. Swap agreements involve the exchange of interest payments, based on a predetermined notional amount for a specified period of time. Swap agreements designated and effective as hedges are accounted for using the accrual method. Under this method, unrealized gains or losses are not recognized and net payments due or receivable on the derivative financial instruments are accounted for as an adjustment to Financing income or Financing expense.

Cross-currency interest-rate swap agreements– The Corporation enters into cross-currency interest-rate swap agreements to hedge foreign currency exposures and to modify the interest rate characteristics of its hedged items. These swap agreements involve the exchange of interest payment obligations, as well as principal amounts in two different currencies for a specified period of time. Gains and losses related to these cross-currency interest-rate swap agreements designated and effective as hedges are accounted for on the same basis as the above-described accounting rules for forward exchange contracts and interest-rate swap agreements.

The Corporation also enters into cross-currency interest-rate swap agreements to manage foreign currency exposures on its net investments in self-sustaining foreign operations. These swap agreements involve the exchange of interest payment obligations as well as principal amounts in two different currencies for a specified period of time. Gains and losses related to these cross-currency interest-rate swap agreements designated and effective as hedges are accounted for in the Cumulative translation adjustment.

Interest-rate cap agreements– The Corporation enters into interest-rate cap agreements to hedge its exposure to interest-rate increases arising from protection granted to certain customers in connection with the sale of aircraft. Gains and losses related to interest-rate cap agreements are recognized at the time the aircraft is sold.

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 financial instrument 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 foreign currency 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 derivative financial instruments that are used in hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the hedged items.

Gains and losses related to derivative financial instruments, which have been settled prior to maturity, are deferred and included in Other assets or Accounts payable and accrued liabilities. If the underlying hedged item is still probable of occurring, these gains or losses are recognized in income as an adjustment to the related revenues or costs, in the same period in which the related hedged transaction is recognized. If the underlying hedged item is not probable of occurring, these gains or losses are recognized in income.

A hedging relationship is terminated if the hedge ceases to be effective and the unrealized gain or loss on the related derivative financial instrument is recognized in income along with subsequent changes in the fair value of the derivative financial instruments.

For economic hedges that are not part of a hedging relationship, any change in the fair value of the derivative instrument is recognized directly through income.

Employee future benefits

The defined benefit plans are accounted for as follows:

– Plan assets are measured at fair value.
– With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values.
– The net actuarial gains and losses, based on the market-related value of plan assets, over 10% of the greater of the projected benefit obligation and the market-related value of plan assets as well as past service costs are amortized over the estimated weighted-average remaining service life of plan participants of approximately 15 years.
– Plan obligations are determined based on expected future benefit payments discounted using current market interest rates.
– When an event, such as the sale of a segment, gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's obligation.
– The cost of pension and other benefits earned by employees is actuarially determined using the projected benefit method prorated on services, and Management's best estimate of expected plan investment performance, salary escalation, retirement ages, mortality and health care costs.
– Benefit cost is capitalized as part of labour costs and included in inventories and aerospace program tooling or is recognized directly through income.
– The Corporation uses a December-31 measurement date.

Environmental obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable, and the costs can be reasonably estimated. Environmental costs that relate to current operations are expensed or capitalized, as appropriate. 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 Property, plant and equipment 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended January 31, 2007 and January 31, 2006
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

NOTE 1. RECEIVABLES

Receivables were as follows as at January 31:

	2007	2006
Trade receivables[1]		
Aerospace		
U.S. dollar	**$ 660**	$ 603
Other currencies	**45**	26
Transportation		
Euro	**322**	384
U.S. dollar	**291**	171
Sterling pound	**86**	145
Various Western European currencies	**105**	67
Other currencies	**121**	123
	1,630	1,519
Sales tax	**49**	57
Other	**189**	209
	1,868	1,785
Allowance for doubtful accounts	**(79)**	(101)
	$1,789	$1,684

1 Trade receivables are presented based on the invoicing currency.

NOTE 1. RECEIVABLES (CONT'D)

The Corporation has access to factoring facilities in Europe, under which it can sell without recourse trade receivables in the normal course of business. Under these facilities, the Corporation received proceeds of $298 million during fiscal year 2007 ($408 million during fiscal year 2006). As at January 31, 2007, the outstanding balance of receivables transferred under these facilities amounted to $113 million ($2 million as at January 31, 2006).

NOTE 2. AIRCRAFT FINANCING

Aircraft financing was as follows as at January 31:

	2007				2006			
		WEIGHTED-AVERAGE				WEIGHTED-AVERAGE		
	TOTAL	MATURITY (IN MONTHS)	RATE [1] (%)	FIXED/ VARIABLE RATE [1]	TOTAL	MATURITY (IN MONTHS)	RATE [1] (%)	FIXED/ VARIABLE RATE [1]
Commercial aircraft								
Interim financing[2]								
Loans	**$ 206**	**56**	**8.4**	**Variable**	$ 435	79	7.1	Variable
Lease receivables	**254**	**212**	**8.8**	**Variable**	388	211	7.3	Variable
	460				823			
Long-term financing								
Loans	**362**	**127**	**7.8**	**Fix./var.**	278	107	6.2	Fix./var.
Lease receivables[3]	**55**	**20**	**8.0**	**Fix./var.**	104	21	6.0	Fix./var.
	417				382			
Business aircraft loans[4]	**36**	**36**	**7.8**	**Fix./var.**	58	41	5.7	Fix./var.
Total loans and lease receivables	**913**				1,263			
Allowance for credit losses	**(111)**				(84)			
	802				1,179			
Assets under operating leases	**185**				230			
Investment in financing structures	**55**				48			
	$1,042				$1,457			

1 Interest rates are before giving effect to the related hedging derivative financial instruments.
2 The commercial aircraft interim financing portfolio consists of bridge financing to customers until third-party permanent financing is put in place.
3 Includes $8 million of lease receivables related to consolidated VIEs as at January 31, 2007 ($67 million as at January 31, 2006).
4 This portfolio is being wound down.

NOTE 2. AIRCRAFT FINANCING (CONT'D)

Loans and lease receivables – Financing with three airlines represents approximately 45% of the total loans and lease receivables as at January 31, 2007 (three airlines represented 41% as at January 31, 2006). 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. The value of the collateral also fluctuates with economic cycles.

Lease receivables consist of the following, before allowance for credit losses, as at January 31:

	2007	2006
Total minimum lease payments	**$ 825**	$ 978
Unearned income	**(518)**	(538)
Unguaranteed residual value	**2**	52
	$ 309	$ 492

Allowance for credit losses – Changes in the allowance for credit losses were as follows as at January 31:

	2007	2006
Balance at beginning of year	**$ 84**	$ 94
Provision for credit losses	**29**	(7)
Amounts charged off, net of recoveries	**(2)**	(4)
Effect of foreign currency exchange rate changes	**–**	1
Balance at end of year	**$ 111**	$ 84

Impaired loans and lease receivables amounted to $49 million as at January 31, 2007 ($237 million as at January 31, 2006).

Assets under operating leases – Assets under operating leases were as follows as at January 31:

	2007		2006	
	COST	NET BOOK VALUE	COST	NET BOOK VALUE
Pre-owned commercial aircraft	**$187**	**$143**	$ 292	$ 190
Pre-owned business aircraft	**48**	**42**	42	40
	$235	**$185**	$ 334	$ 230

Rental income from operating leases and amortization of assets under operating leases amounted to $47 million and $26 million respectively for fiscal year 2007 ($44 million and $24 million respectively for fiscal year 2006).

NOTE 3.
INVENTORIES

Inventories were as follows as at January 31:

	2007	2006
Long-term contracts		
Costs incurred and recorded margins	**$ 3,430**	$ 3,199
Less: payments received and progress billings[1]	**(1,893)**	(1,818)
	1,537	1,381
Aerospace programs		
Costs incurred	**2,597**	2,520
Less: payments received[2]	**(1,314)**	(916)
	1,283	1,604
Finished products[3]	**1,141**	820
	$ 3,961	$ 3,805

1 Payments received and progress billings on account of work performed have been deducted from long-term contract inventories. Advances received and progress billings in excess of related costs, amounting to $1,882 million as at January 31, 2007 ($1,640 million as at January 31, 2006), represent a liability presented as Advances and progress billings in excess of related costs in the consolidated balance sheets.

2 Payments received on account of work performed have been deducted from aerospace program inventories. Advances received in excess of related costs, amounting to $561 million as at January 31, 2007 ($551 million as at January 31, 2006), represent a liability presented as Advances and progress billings in excess of related costs in the consolidated balance sheets.

3 Finished products include six new aircraft not associated with a firm order and 23 pre-owned aircraft, totalling $230 million as at January 31, 2007 (six new aircraft and eight pre-owned aircraft, totalling $155 million as at January 31, 2006).

Anticipated proceeds from future sales of aircraft for each program, net of estimated additional production costs to be incurred, exceeded the related costs in inventories as at January 31, 2007. However, substantial costs may eventually be charged to Cost of sales in a given year if fewer than the aircraft program quantities are sold, the proceeds from future sales of aircraft are lower than those anticipated or the costs to be incurred to complete the program exceed current estimates.

Aerospace programs – Aerospace program inventories included the following "EOAPC" as at January 31:

	2007	2006
Business aircraft		
Learjet Series	**$ 163**	$ 221
Challenger 300	**122**	140
Global Series	**245**	319
Regional aircraft		
CRJ Series	**–**	54
Q-Series	**–**	23
	$ 530	$ 757

During fiscal year 2007, due to increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* aircraft programs as a result of changing scope clauses in the United States ("U.S."), the Corporation decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a charge of $74 million related to EOAPC was recorded in Cost of sales.

NOTE 3. INVENTORIES (CONT'D)

Net recoverable amounts of EOAPC, based solely on existing firm orders as at January 31, 2007, defined as expected net undiscounted cash flows from the sale of aircraft under firm orders, amounted to $455 million. The remaining balance of EOAPC, amounting to $75 million, is expected to be entirely recovered from future orders.

Payments, advances and progress billings–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 Transportation, as security for payments and 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.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were as follows as at January 31:

	2007		2006	
	COST	NET BOOK VALUE[1]	COST	NET BOOK VALUE[1]
Land	**$ 112**	**$ 112**	$ 112	$ 112
Buildings	**1,795**	**873**	1,759	885
Equipment	**1,448**	**555**	1,429	560
Aerospace program tooling				
Business aircraft	**1,917**	**793**	1,854	914
Regional aircraft	**1,346**	**483**	1,249	477
Other	**132**	**120**	168	142
	$6,750	**$2,936**	$6,571	$3,090

1 Includes $13 million related to consolidated VIEs as at January 31, 2007 ($15 million as at January 31, 2006).

Included in the above table are capital lease assets with a cost and net book value amounting to $105 million and $84 million respectively as at January 31, 2007 ($67 million and $56 million respectively as at January 31, 2006).

Also included in the above table are assets under construction and development amounting to $69 million as at January 31, 2007 ($37 million as at January 31, 2006).

Amortization of property, plant and equipment was as follows for fiscal years:

	2007	2006
Aerospace program tooling	**$ 269**	$ 254
Buildings, equipment and other	**206**	220
	$ 475	$ 474

NOTE 5.
GOODWILL

Goodwill is related to the DaimlerChrysler Rail Systems GmbH ("Adtranz") acquisition in May 2001. Changes in the goodwill balance were as follows for fiscal years:

	2007	2006
Balance at beginning of year	**$2,142**	$2,357
Recognition of previously unrecognized tax losses	**(22)**	(53)
Effect of foreign currency exchange rate changes	**166**	(162)
Balance at end of year	**$2,286**	$2,142

The Corporation completed the required annual impairment test during the fourth quarter of fiscal year 2007 and did not identify any impairment.

NOTE 6.
DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During fiscal year 2007, the Corporation continued with its strategy of reducing the former Bombardier Capital segment ("BC") operations and the following portfolios have been sold:
– In October 2006, the Corporation sold its on- and off-balance sheet freight car operations for cash proceeds of $94 million.
– In May 2006, the Corporation sold its consumer finance operations for cash proceeds of $67 million.

In March 2006, the Corporation completed the transfer of the servicing rights and obligations of its off-balance sheet manufactured housing operations to Green Tree Servicing LLC.

During fiscal year 2006, discontinued operations also included the following operations of BC:
– on-balance sheet manufactured housing, sold in July 2005; and
– inventory finance, sold in May 2005.

The related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale in separate captions in the consolidated balance sheets and the related results of operations have been presented as discontinued operations in the consolidated statements of income and cash flows for all periods presented.

NOTE 6. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (CONT'D)

The assets held for sale and the related liabilities were as follows as at January 31, 2006:

Assets	
Cash and cash equivalents	$ 5
Receivables	58
Deferred income taxes	33
Other assets[1]	141
	$ 237
Liabilities	
Accounts payable and accrued liabilities	$ 40
Long-term debt	2
	$ 42

1 Includes $77 million of finance receivables and $31 million of assets under operating leases.

The results of operations, including allocated interest expense, were as follows for fiscal years:

	2007	2006
Revenues – Other	**$ 64**	$ 177
Cost of sales	**46**	103
Selling, general and administrative	**6**	34
Amortization	**–**	2
	52	139
Income before income taxes	**12**	38
Income taxes	**4**	14
	8	24
Gain (loss), net of tax, on sale of:		
On- and off-balance sheet freight car operations	**19**	(2)
Consumer finance operations	**(2)**	(1)
Inventory finance operations	**–**	121
On-balance sheet manufactured housing operations	**–**	(18)
Off-balance sheet manufactured housing operations	**–**	(10)
	$ 25	$ 114

The cash flows from discontinued operations were as follows for fiscal years:

	2007	2006
Operating activities	**$ 65**	$ 76
Investing activities	**–**	70
Financing activities	**(2)**	(586)
	$ 63	$(440)

NOTE 7.
OTHER ASSETS

Other assets were as follows as at January 31:

	2007	2006
Prepaid expenses	**$ 169**	$ 178
Prepayment under an exchange agreement	**150**	–
Finite-life intangible assets, net of accumulated amortization of $118 million as at January 31, 2007 ($94 million as at January 31, 2006)	**141**	148
Investment in companies subject to significant influence[1]	**123**	97
Deferred financing charges	**105**	15
Investment in securities	**90**	91
Restricted cash[2]	**81**	81
Servicing fees	**50**	46
Derivative financial instruments	**39**	42
Loans	**28**	14
Deposits	**21**	14
Wind-down portfolios[3]	**19**	41
Investment in preferred shares of the Corporation's former recreational products segment ("BRP")	**–**	30
Other	**106**	46
	$1,122	$ 843

1 Related mostly to Transportation.
2 Includes $75 million of restricted cash related to consolidated VIEs as at January 31, 2007 ($70 million as at January 31, 2006).
3 Comprised mainly of BC's industrial equipment portfolio.

Included in the amortization of finite-life intangible assets for fiscal year 2006 is an impairment charge of $17 million in connection with trademarks in Transportation.

NOTE 8. CREDIT FACILITIES

In December 2006, the Corporation entered into a New letters of credit facility agreement to replace prior North American and European credit facilities ("Prior credit facilities") scheduled to mature in fiscal years 2008 and 2009. The New letters of credit facility is only available for the issuance of letters of credit. The Corporation had a 90-day transition period from December 18, 2006, the date of the agreement, to cancel all Prior credit facilities and roll the related letters of credit issued into the New letters of credit facility. Until such cancellation, the outstanding amounts committed under Prior credit facilities reduces the amount available under the New letters of credit facility.

The New letters of credit facility and its maturity were as follows as at January 31, 2007:

	AMOUNT COMMITTED	LETTERS OF CREDIT ISSUED	AMOUNT COMMITTED UNDER PRIOR CREDIT FACILITIES	AMOUNT AVAILABLE	MATURITY (FISCAL YEAR)
New letters of credit facility	**$5,590**[1]	**$4,121**	**$ 290**[2]	**$1,179**	**2012**

1 €4,300 million.
2 Including $140 million (€108 million) of issued letters of credit.

Under the New letters of credit facility, the Corporation must maintain certain financial covenants, including an invested collateral of €869 million ($1,129 million). The applicable financial covenants were met as at January 31, 2007.

Credit facilities and their maturities were as follows as at January 31, 2006:

	AMOUNTS COMMITTED	AMOUNTS DRAWN	LETTERS OF CREDIT ISSUED	AMOUNTS AVAILABLE	MATURITY (FISCAL YEAR)
European	$3,829[1]	$ –	$3,160	$ 669	2008
European letters of credit	353[2]	n/a	327	26	2008-2009
North American	1,100	–	762	338	2008
	$5,282	$ –	$4,249	$1,033	

n/a: not applicable.

1 €3,150 million.
2 €290 million.

Under the Prior credit facilities, the Corporation had to maintain certain financial covenants, including a minimum liquidity of $1.0 billion in cash and cash equivalents at the end of each quarter. The applicable financial covenants (calculated excluding BC) were met as at January 31, 2006.

In addition to the outstanding letters of credit shown in the above tables, letters of credit of $240 million were outstanding under various bilateral agreements as at January 31, 2007 ($79 million as at January 31, 2006).

NOTE 9.
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows as at January 31:

	2007	2006
Trade accounts payable	**$1,904**	$1,947
Accrued liabilities	**1,112**	1,031
Sales incentives[1]	**1,040**	1,241
Product warranties	**985**	970
Payroll-related liabilities	**400**	395
Income and other taxes	**234**	240
Interest	**109**	130
Severance and other involuntary termination costs	**105**	151
Provision for repurchase obligations[2]	**75**	70
Non-controlling interest	**47**	28
Other	**828**	663
	$6,839	$6,866

1 Comprises provision for credit and residual value guarantees and trade-in commitments, as well as other related provisions and liabilities in connection with the sale of aircraft (see note 21–Commitments and contingencies).
2 See note 21–Commitments and contingencies.

Product warranties–Product warranties typically range from one to five years, except for aircraft structural warranties that extend up to 20 years.

Changes in the product warranty provision were as follows for fiscal years 2007 and 2006:

	AEROSPACE	TRANSPORTATION	TOTAL
Balance as at January 31, 2005	$ 257	$ 798	$1,055
Current expense	122	332	454
Changes in estimates	15	(41)	(26)
Cash paid	(121)	(348)	(469)
Effect of foreign currency exchange rate changes	–	(44)	(44)
Balance as at January 31, 2006	273	697	970
Current expense	104	300	404
Changes in estimates	3	(30)	(27)
Cash paid	(89)	(313)	(402)
Effect of foreign currency exchange rate changes	–	40	40
Balance as at January 31, 2007	**$ 291**	**$ 694**	**$ 985**

NOTE 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (CONT'D)

Severance and other involuntary termination costs and other related costs – Changes in the provision for severance and other involuntary termination costs and other related costs were as follows for fiscal years 2007 and 2006:

	SEVERANCE AND OTHER INVOLUNTARY TERMINATION COSTS	OTHER	TOTAL
Balance as at January 31, 2005	$251	$ 17	$268
Current expense[1]	52	86	138
Changes in estimates[1]	7	(27)	(20)
Non-cash items	–	(4)	(4)
Cash paid	(146)	(40)	(186)
Effect of foreign currency exchange rate changes	(13)	–	(13)
Balance as at January 31, 2006	151	32	183
Current expense[2]	61	22	83
Changes in estimates[2]	(31)	–	(31)
Cash paid	(83)	(36)	(119)
Effect of foreign currency exchange rate changes	7	1	8
Balance as at January 31, 2007	**$105**	**$ 19**	**$124**

1 Of which $88 million has been recorded in Special items (see note 14 – Special items) and $24 million in Cost of sales of Transportation, and $6 million in Cost of sales of Aerospace.
2 Of which a charge of $24 million has been recorded in Special items of Transportation (see note 14 – Special items) and $7 million in Cost of sales of Transportation, and $21 million in Cost of sales of Aerospace.

NOTE 10. LONG-TERM DEBT

In November 2006, the Corporation issued the following senior notes:
– €800 million ($1,025 million), floating rate, due in November 2013;
– $385 million, bearing interest at 8%, due in November 2014; and
– €800 million ($1,025 million), bearing interest at 7.25%, due in November 2016.

The net proceeds from the senior notes have been used for the following:
– to retire all of the outstanding $220-million of BC's notes due in March 2007;
– to repurchase all of the outstanding €500-million ($640-million) of BC's notes due in May 2007;
– to repurchase €218 million ($279 million) of the outstanding €500-million ($640-million) notes due in February 2008;
– to fund the €869-million ($1,145-million) of invested collateral to secure the Corporation's obligations to the banks issuing letters of credit, under the new credit facility; and
– for general corporate purposes, including the payment of fees and expenses in connection with the issuance of the senior notes.

NOTE 10. LONG-TERM DEBT (CONT'D)

Long-term debt was as follows as at January 31:

	AMOUNT IN CURRENCY OF ORIGIN 2007/2006	CURRENCY	FIXED/ VARIABLE[1]	INTEREST RATE[1] 2007/2006	MATURITY	PAYMENT OF INTEREST[2]	2007 AMOUNT	2006 AMOUNT
Senior notes	800/nil	EUR	Variable	6.71%/nil	Nov. 2013	Q	**$1,040**	$ –
	385/nil	USD	Fixed	8.00%/nil	Nov. 2014	SA	**385**	–
	800/nil	EUR	Fixed	7.25%/nil	Nov. 2016	SA	**1,040**	–
Notes	nil/450[3]	USD	Fixed	nil/6.13%	Jun. 2006	SA	**–**	450
	nil/200[3]	CAD	Fixed	nil/6.35%	Jul. 2006	SA	–	175
	nil/220[3]	USD	Fixed	nil/7.09%	Mar. 2007	SA	–	220
	nil/500[3]	EUR	Fixed	nil/6.13%	May 2007	A	**–**	608
	24/29	CAD	Fixed	7.00%	2008-2012	A	**21**	26
	282/500	EUR	Fixed	5.75%	Feb. 2008	A	**367**	608
	300[3]	GBP	Fixed	6.75%	May 2009	A	**588**	534
	550	USD	Fixed	6.75%	May 2012	SA	**550**	550
	500	USD	Fixed	6.30%	May 2014	SA	**500**	500
	250	USD	Fixed	7.45%	May 2034	SA	**250**	250
Debentures	nil/175	GBP	Fixed	nil/6.25%	Feb. 2006	A	**–**	311
	nil/150	CAD	Fixed	nil/6.40%	Dec. 2006	SA	**–**	131
	150	CAD	Fixed	7.35%	Dec. 2026	SA	**127**	131
VIEs	20/80	USD	Fixed	6.77%/5.98%	2008-2014	SA	**20**	80
Other[4]	147/114[5]	Various	Fix./var.	6.72%/6.73%	2008-2026	Various	**147**	114
	45/59	USD	Fix./var.	5.57%/4.92%	2008-2027	Various	**45**	59
							$5,080	$4,747

1 Interest rates are before giving effect to the related hedging derivative financial instruments (see note 19–Financial instruments) and, for variable-rate debt, represent the average rate for the fiscal year.
2 Quarterly (Q), semi-annually (SA) and annually (A).
3 Long-term debt related to BC.
4 Includes $106 million relating to obligations under capital leases as at January 31, 2007 ($68 million as at January 31, 2006).
5 Amounts are expressed in U.S. dollars and include a portion related to BC.

All long-term debt items rank pari-passu and are unsecured, except for the debt of consolidated VIEs which are secured borrowings.

The repayment requirements of the long-term debt during the next five fiscal years and thereafter are as follows:

	DEBT	CAPITAL LEASES	TOTAL
2008	$ 36	$ 8	$ 44
2009	380	8	388
2010	601	8	609
2011	13	8	21
2012	15	10	25
Thereafter	3,929	64	3,993
	$4,974	$ 106	$5,080

NOTE 11. SHARE CAPITAL

PREFERRED SHARES

An unlimited number of non-voting preferred shares, without nominal or par value, issuable in series are authorized. The following series have been issued as at January 31, 2007 and 2006:

12,000,000 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, 2007 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. Additionally, 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.

12,000,000 SERIES 3 CUMULATIVE REDEEMABLE PREFERRED SHARES	
Redemption	Redeemable, at the Corporation's option, at $25.00 Cdn per share on August 1, 2007 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, 2007 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. Additionally, 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	Until July 31, 2007, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.476% or $1.369 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.34225 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.

NOTE 11. SHARE CAPITAL (CONT'D)

9,400,000 SERIES 4 CUMULATIVE REDEEMABLE PREFERRED SHARES	
Redemption	Redeemable, at the Corporation's option, any time on or after March 31, 2007, at $26.00 Cdn per share if redeemed prior to March 31, 2008; $25.75 Cdn if redeemed on or after March 31, 2008 but prior to March 31, 2009; $25.50 Cdn if redeemed on or after March 31, 2009 but prior to March 31, 2010; $25.25 Cdn if redeemed on or after March 31, 2010 but prior to March 31, 2011; and $25.00 Cdn if redeemed on or after March 31, 2011.
Conversion	On or after March 31, 2007, 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

The following classes of common shares, without nominal or par value, were authorized as at January 31, 2007 and 2006:

1,892,000,000 CLASS A SHARES (MULTIPLE VOTING)	
Voting rights	10 votes each.
Conversion	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

1,892,000,000 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 January, April, July and October of each year at a rate of $0.000390625 Cdn per share, if declared.

In connection with the performance share unit plan, the Corporation provided instructions to a trustee under the terms of a Trust Agreement to purchase 6,413,000 Class B Shares (Subordinate Voting) of the Corporation in the open market for $20 million during fiscal year 2007 (5,434,000 Class B Shares for $14 million during fiscal year 2006) (see note 12 – Share-based plans).

NOTE 12. SHARE-BASED PLANS

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, 60,650,446 were available for issuance under these share option plans as at January 31, 2007. The Corporation did not issue Class B Shares (Subordinate Voting) during fiscal years 2007 and 2006, following the exercise of options.

Current performance share option plan–Effective May 27, 2003, the Corporation amended prospectively the share option plan for key employees. This plan was further amended prospectively on March 30, 2004. The 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 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.
- As at January 31, 2007, target prices ranged between $4 Cdn and $11 Cdn.
- The options terminate no later than seven years after the grant date.

The summarized information on the performance share option plan is as follows as at January 31, 2007:

	ISSUED AND OUTSTANDING			EXERCISABLE	
EXERCISE PRICE RANGE (CDN$)	NUMBER OF OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE (CDN$)	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CDN$)
2 to 4	18,712,500	5.30	3.12	2,678,750	3.07
4 to 6	10,281,500	4.35	4.33	19,750	5.52
6 to 7	359,000	4.08	6.83	89,750	6.83
	29,353,000			2,788,250	

NOTE 12. SHARE-BASED PLANS (CONT'D)

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

	2007		2006	
	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CDN$)	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CDN$)
Balance at beginning of year	**23,216,000**	**3.72**	19,759,270	4.22
Granted	**7,792,500**	**3.23**	7,224,000	2.53
Cancelled	**(1,655,500)**	**3.68**	(3,767,270)	4.08
Balance at end of year	**29,353,000**	**3.59**	23,216,000	3.72
Options exercisable at end of year	**2,788,250**	**3.21**	1,204,250	4.18

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 vest at 25% per year during a period beginning two years following the grant date, except for 80,000 outstanding options granted to directors, which vest at 20% per year beginning on the grant date. The options terminate no later than 10 years after the grant date.

The summarized information on these options is as follows as at January 31, 2007:

	ISSUED AND OUTSTANDING			EXERCISABLE	
EXERCISE PRICE RANGE (CDN$)	NUMBER OF OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE (CDN$)	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CDN$)
5 to 7	2,229,400	2.78	6.06	1,979,400	6.17
7 to 10	902,000	0.99	8.13	902,000	8.13
10 to 12	5,034,500	2.23	10.77	5,034,500	10.77
12 to 15	2,753,000	5.06	14.51	2,090,750	14.48
15 to 25	4,337,250	3.63	20.10	4,337,250	20.10
	15,256,150			14,343,900	

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

	2007		2006	
	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CDN$)	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (CDN$)
Balance at beginning of year	**30,107,900**	**11.58**	33,703,270	11.50
Cancelled	**(9,349,750)**	**12.66**	(3,355,370)	11.32
Expired	**(5,502,000)**	**5.11**	(240,000)	3.77
Balance at end of year	**15,256,150**	**13.25**	30,107,900	11.58
Options exercisable at end of year	**14,343,900**	**13.33**	26,826,588	11.15

NOTE 12. SHARE-BASED PLANS (CONT'D)

STOCK-BASED COMPENSATION EXPENSE FOR OPTIONS

The weighted-average grant date fair value of stock options granted during fiscal year 2007 was $1.44 per option ($0.81 per option for fiscal year 2006). 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, the share price at the grant date and the following weighted-average assumptions for fiscal years:

	2007	2006
Risk-free interest rate	**4.20%**	3.36%
Expected life	**5 years**	5 years
Expected volatility in the market price of the shares	**53.01%**	49.95%
Expected dividend yield	**0.00%**	1.20%

Compensation expense of $8 million was recorded during fiscal year 2007 with respect to share option plans ($5 million during fiscal year 2006).

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. Therefore no compensation expense is recorded to income for these awards.

PERFORMANCE SHARE UNIT PLAN

During fiscal year 2006, the Board of Directors of the Corporation approved a performance share unit plan under which performance share units ("PSUs") may be granted to executives and other designated employees ("beneficiaries"). During fiscal year 2007, a total of 4,500,000 PSUs were authorized for issuance (4,180,000 PSUs during fiscal year 2006). The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting).

The number of PSUs has varied as follows for fiscal years:

	2007	2006
Balance at beginning of year	**4,014,082**	–
Granted	**4,314,500**	4,165,500
Cancelled	**(288,196)**	(151,418)
Balance at end of year	**8,040,386**	4,014,082

NOTE 12. SHARE-BASED PLANS (CONT'D)

– The PSUs granted during fiscal year 2007 vest on June 7, 2009, if a financial performance threshold is met. The conversion ratio for vested PSUs ranges from 70% to 150%.
– The PSUs granted during fiscal year 2006 vest on June 10, 2008, if a financial performance threshold is met. The conversion ratio for vested PSUs ranges from 70% to 130%.

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 11 – Share capital). These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of the purchase has been deducted from share capital.

Compensation expense of $7 million was recorded during fiscal year 2007 with respect to the PSUs plan ($2 million during fiscal year 2006).

EMPLOYEE SHARE PURCHASE PLAN

Under the employee share purchase plan, employees of the Corporation are eligible to purchase the Corporation's Class B Shares (Subordinate Voting) up to a maximum of 20% of their base salary and 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 $4 million for fiscal year 2007 ($4 million for fiscal year 2006). Shares purchased are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

NOTE 13. CUMULATIVE TRANSLATION ADJUSTMENT

The components of net change in the cumulative translation adjustment were as follows for fiscal years:

	2007	2006
Balance at beginning of year	**$ 105**	$ 195
Effect of changes in exchange rates during the year:		
On net investments in self-sustaining foreign operations	**162**	(163)
On hedging items designated as hedges of net investments in self-sustaining foreign operations, net of tax	**(89)**	73
Balance at end of year	**$ 178**	$ 105

NOTE 14. SPECIAL ITEMS

Special items were as follows for fiscal years:

	2007	2006
Severance and other involuntary termination costs	**$ 4**	$ 35
Other[1]	**20**	53
	24	88
Income tax recovery	**(2)**	(11)
	$ 22	$ 77

1 Comprised of lease termination and environmental costs, as well as other costs. For fiscal year 2006, also comprised of non-taxable gains on the sale of land and buildings, amounting to $27 million.

Special items relate to restructuring activities to reduce the cost structure in Transportation. The restructuring plan is completed. Net cash outflows are expected to amount to $452 million, of which $394 million had been disbursed as at January 31, 2007. Net cash outflows amounted to $77 million for fiscal year 2007 ($170 million for fiscal year 2006).

NOTE 15. FINANCING INCOME AND FINANCING EXPENSE

The Corporation's financing income and financing expense were as follows for fiscal years:

	2007	2006
Financing income		
Cash and cash equivalents	**$ (71)**	$ (55)
Loans and lease receivables – after effect of hedges	**(65)**	(93)
Dividends on preferred shares	**(7)**	–
Invested collateral	**(4)**	–
Other	**(10)**	(8)
	$(157)	$(156)
Financing expense		
Interest on long-term debt – after effect of hedges	**$ 287**	$ 276
Accretion expense on certain sales incentives	**54**	65
Other	**34**	22
	$ 375	$ 363

NOTE 16.
INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred income tax asset (liability) were as follows as at January 31:

	2007	2006
Operating losses carried forward	**$ 1,738**	$ 1,763
Warranty and other provisions	**535**	558
Inventories	**440**	196
Accrued benefit liabilities	**164**	155
Intangible assets	**22**	22
Property, plant and equipment	**(313)**	(360)
Other	**2**	(1)
	2,588	2,333
Valuation allowance	**(1,775)**	(1,689)
Net amount	**$ 813**	$ 644

The net amount of deferred income tax is presented in the consolidated balance sheets as follows as at January 31:

	2007	2006
Deferred income tax asset	**$ 813**	$ 653
Deferred income tax liability	**–**	(9)
	$ 813	$ 644

Details of income tax expense allocated to continuing operations were as follows for fiscal years:

	2007	2006
Current income taxes		
Canada	**$ 93**	$ 81
Foreign	**86**	72
	179	153
Deferred income taxes		
Temporary differences and operating losses carried forward	**(44)**	(21)
Effect of substantively enacted income tax rate changes	**2**	(20)
Write down of deferred income tax assets	**125**	38
Recognition of previously unrecognized tax benefits	**(170)**	(135)
	(87)	(138)
Income tax expense	**$ 92**	$ 15

NOTE 16. INCOME TAXES (CONT'D)

The reconciliation of income taxes allocated to continuing operations computed at the Canadian statutory rates of 32.8% in fiscal year 2007 and 32.0% in fiscal year 2006 to income tax expense was as follows for fiscal years:

	2007	2006
Income tax expense at statutory rates	**$ 110**	$ 48
Increase (decrease) resulting from:		
Income tax rates differential of foreign investees	**(38)**	(44)
Foreign exchange revaluation of deferred income tax	**6**	(25)
Non-recognition of tax benefits related to foreign investees' losses and temporary differences	**106**	41
Write down of deferred income tax assets	**125**	38
Recognition of previously unrecognized tax benefits	**(170)**	(135)
Permanent differences	**(60)**	108
Effect of substantively enacted income tax rate changes	**2**	(20)
Other	**11**	4
Income tax expense	**$ 92**	$ 15

The net operating losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which a valuation allowance has been recognized, as well as the period in which they can be exercised, are as follows as at January 31, 2007:

Less than 1 year	$ 56
From 1 to 5 years	267
From 6 to 10 years	399
No expiration date	4,578
	$5,300

Approximately $1.5 billion of the above net operating losses carried forward and other temporary differences relate to business acquisitions. Any subsequent recognition of these future tax benefits will be recorded as a reduction of the goodwill related to these acquisitions.

Approximately $2.0 billion of the above operating losses carried forward relate to the Corporation's operations in Germany, where a minimum income tax is payable on 40% of taxable income.

In addition, the Corporation has approximately $500 million of available net capital losses, most of which can be carried forward indefinitely. Net capital losses can only be used against future taxable capital gains, and therefore no deferred tax benefit has been recognized.

Undistributed earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for income taxes has been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

NOTE 17.
EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows for fiscal years:

(Number of shares and stock options in thousands)	**2007**	2006
Income from continuing operations	**$ 243**	$ 135
Preferred share dividends, net of tax	**(28)**	(25)
Income from continuing operations attributable to common shareholders	**215**	110
Income from discontinued operations, net of tax	**25**	114
Income attributable to common shareholders	**$ 240**	$ 224
Weighted-average number of common shares outstanding	**1,742,628**	1,748,429
Net effect of stock options	**1,822**	–
Weighted-average diluted number of common shares outstanding	**1,744,450**	1,748,429
Basic and diluted earnings per share:		
From continuing operations	**$ 0.12**	$0.06
From discontinued operations	**0.01**	0.07
	$ 0.14	$0.13

The effect of the exercise of stock options was excluded from the calculation of diluted earnings per share in the above table except for 6,565,250 stock options for fiscal year 2007, since the average market value of the underlying shares was less than the exercise price or the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) for the respective periods.

NOTE 18.
NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

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

	2007	2006
Receivables	**$ (60)**	$(194)
Aircraft financing	**198**	306
Inventories	**(47)**	143
Fractional ownership deferred costs	**(120)**	(128)
Accounts payable and accrued liabilities	**(86)**	(90)
Advances and progress billings in excess of related costs	**159**	(80)
Fractional ownership deferred revenues	**162**	162
Accrued benefit liabilities, net	**11**	(14)
Other assets	**(38)**	6
	$ 179	$ 111

NOTE 19. FINANCIAL INSTRUMENTS

The Corporation is subject to foreign currency and interest rate fluctuations. The Corporation is party to a number of derivative financial instruments, mainly forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements to hedge a portion of its foreign currency and interest rate risk. These derivative financial instruments are used to manage foreign currency and interest rate risks on assets, liabilities and financial commitments, as well as on forecasted foreign currency cash flows.

FOREIGN CURRENCY RISK

Forward foreign exchange contracts–The forward foreign exchange contracts, by major currency, were as follows as at January 31:

					2007
BUY CURRENCY	NOTIONAL AMOUNT[1]	U.S. DOLLAR EQUIVALENT	SELL CURRENCY	RATE [2]	MATURITY (FISCAL YEAR)
CAD	**3,748**	**3,179**	**USD**	**1.1477**	**2008-2010**
SEK	**5,968**	**856**	**EUR**	**9.0616**	**2008-2011**
GBP	**355**	**697**	**USD**	**0.5445**	**2008-2010**
EUR	**479**	**622**	**USD**	**0.7672**	**2008-2011**
USD	**575**	**575**	**CAD**	**0.8467**	**2008**
SEK	**3,050**	**438**	**GBP**	**13.0732**	**2008-2011**
EUR	**313**	**407**	**GBP**	**1.4697**	**2008-2012**
CHF	**494**	**396**	**EUR**	**1.5779**	**2008-2010**
USD	**384**	**384**	**Other**	**–**	**2008-2010**
USD	**217**	**217**	**EUR**	**1.3094**	**2008-2011**
Other	**503**	**503**	**Other**	**–**	**2008-2011**
Other	**251**	**251**	**EUR**	**–**	**2008-2010**

1 Notional amounts are expressed in the buy currency, except for the categories "Other" that are expressed in U.S. dollars.
2 The rate represents the weighted-average committed foreign exchange rate.

					2006
BUY CURRENCY	NOTIONAL AMOUNT[1]	U.S. DOLLAR EQUIVALENT	SELL CURRENCY	RATE[2]	MATURITY (FISCAL YEAR)
CAD	3,679	3,216	USD	1.2399	2007-2010
EUR	1,288	1,565	USD	0.8135	2007-2011
GBP	406	723	USD	0.5604	2007-2008
SEK	3,751	493	EUR	9.2754	2007-2010
EUR	383	466	GBP	1.4402	2007-2012
CHF	522	408	EUR	1.5264	2007-2010
USD	340	340	CAD	0.7664	2007-2008
SEK	2,496	328	GBP	12.847	2007-2011
USD	206	206	Other	–	2007-2010
USD	174	174	EUR	1.2331	2007-2011
Other	455	455	Other	–	2007-2011
Other	189	189	EUR	–	2007-2009

1 Notional amounts are expressed in the buy currency, except for the categories "Other" that are expressed in U.S. dollars.
2 The rate represents the weighted-average committed foreign exchange rate.

NOTE 19. FINANCIAL INSTRUMENTS (CONT'D)

– In Aerospace, forward foreign exchange contracts are mainly used to sell U.S. dollars and buy Canadian dollars and pounds sterling to hedge forecasted foreign currency cash flows.
– In Transportation, forward foreign exchange contracts are mainly used to sell or purchase euros, pounds sterling, U.S. dollars, Swiss francs, Canadian dollars and other Western European currencies to hedge forecasted foreign currency cash flows.

INTEREST-RATE RISK

Interest-rate swap agreements – Interest-rate swap agreements were as follows as at January 31:

2007

NOTIONAL AMOUNT [1] (U.S. DOLLAR EQUIVALENT)	CURRENCY	RECEIVE RATE [2]	PAY RATE [2]	MATURITY (FISCAL YEAR)	HEDGED ITEM
		FIXED RATE	VARIABLE RATE		
800(1040)	**EUR**	**7.25%**	**6-month EUROLIBOR + 3.36%**	**2017**	**Long-term debt**
550	**USD**	**6.75%**	**3-month LIBOR + 2.28%**	**2013**	**Long-term debt**
500	**USD**	**6.30%**	**3-month LIBOR + 1.60%**	**2015**	**Long-term debt**
200(392)	**GBP**	**6.75%**	**6-month LIBOR + 1.85%**	**2010**	**Long-term debt [3]**
385	**USD**	**8.00%**	**3-month LIBOR + 2.91%**	**2015**	**Long-term debt**
		VARIABLE RATE	FIXED RATE		
34(67)	**GBP**	**3-month LIBOR**	**5.61%**	**2013**	**Financial commitments**
13	**Other**	**CDOR or LIBOR**	**6.13% – 13.54%**	**2009–2012**	**Financial commitments**
47	**Other**	**LIBOR or EUROLIBOR**	**5.52% – 8.69%**	**2010–2016**	**Interim financing**

1 Notional amounts are expressed in the currency of origin, except for the categories "Other" that are expressed in U.S. dollars.
2 LIBOR: London Interbank offered rate; EUROLIBOR: Euro Area Interbank offered rate and CDOR: Canadian Deposit offered rate.
3 Long-term debt related to BC.

2006

NOTIONAL AMOUNT [1] (U.S. DOLLAR EQUIVALENT)	CURRENCY	RECEIVE RATE	PAY RATE	MATURITY (FISCAL YEAR)	HEDGED ITEM
		FIXED RATE	VARIABLE RATE		
500(608)	EUR	6.13%	6-month EUROLIBOR + (3.01% – 3.69%)	2008	Long-term debt [2]
550	USD	6.75%	3-month LIBOR + 2.28%	2013	Long-term debt
500	USD	6.30%	3-month LIBOR + 1.60%	2015	Long-term debt
450	USD	2.07% – 2.15%	1-month LIBOR	2007	Long-term debt [2]
200(356)	GBP	6.75%	6-month LIBOR + 1.85%	2010	Long-term debt [2]
220	USD	4.96%	1-month LIBOR	2008	Long-term debt [2]
200(175)	CAD	6.35%	1-month CDOR + 3.42%	2007	Long-term debt [2]
		VARIABLE RATE	FIXED RATE		
120	USD	1-month LIBOR	5.24% – 5.28%	2023	Interim financing
89	USD	6-month LIBOR	6.61%	2014	Financial commitments
33(59)	GBP	3-month LIBOR	5.62%	2013	Financial commitments
19	USD	1-month LIBOR + 5.24%	8.69%	2016	Long-term financing
17	USD	1-month LIBOR	5.02%	2019	Interim financing
26	Other	CDOR, LIBOR or EUROLIBOR	5.08% – 7.97%	2007-2014	Long-term financing
18	Other	CDOR or LIBOR	6.13% – 12.28%	2009-2012	Financial commitments

1 Notional amounts are expressed in the currency of origin, except for the categories "Other" that are expressed in U.S. dollars.
2 Long-term debt related to BC.

NOTE 19. FINANCIAL INSTRUMENTS (CONT'D)

Cross-currency interest-rate swap agreements – Cross-currency interest-rate swap agreements were as follows as at January 31:

							2007
BUY CURRENCY	NOTIONAL AMOUNT	PAY CURRENCY	NOTIONAL AMOUNT	RECEIVE RATE	PAY RATE	MATURITY (FISCAL YEAR)	HEDGED ITEM
GBP	**100**	**USD**	**164**	**6.75%**	**1-month LIBOR + 2.28%**	**2010**	**Long-term debt[1]**
USD	**164**	**EUR**	**124**	**1-month LIBOR + 2.28%**	**6-month EUROLIBOR + 2.40%**	**2010**	**Net foreign investments**
USD	**385**	**EUR**	**299**	**3-month LIBOR**	**3-month EUROLIBOR + 0.30%**	**2015**	**Net foreign investments**
GBP	**19**	**USD**	**20**	**Fixed**	**6-month LIBOR**	**2019**	**Operating lease**
AUD	**95**	**GBP**	**38**	**6.39%**	**5.32%**	**2012**	**Investment**

1 Long-term debt related to BC.

							2006
BUY CURRENCY	NOTIONAL AMOUNT	PAY CURRENCY	NOTIONAL AMOUNT	RECEIVE RATE	PAY RATE	MATURITY (FISCAL YEAR)	HEDGED ITEM
GBP	100	USD	164	6.75%	1-month LIBOR + 2.28%	2010	Long-term debt[1]
USD	164	EUR	124	1-month LIBOR + 2.28%	6-month EUROLIBOR + 2.40%	2010	Net foreign investments

1 Long-term debt related to BC.

Interest-rate cap agreements – The notional amount of the interest-rate cap agreements was $321 million as at January 31, 2007 ($340 million as at January 31, 2006). The interest-rate cap strike rates compare to one-month LIBOR and vary between 2.22% and 5.70%. The notional amounts amortize monthly until fiscal year 2013 when the last outstanding agreement terminates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments for which the carrying amount reported differs from the fair value was as follows as at January 31:

	2007		2006	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Invested collateral	**$1,129**	**$1,134**	$ –	$ –
Loans and lease receivables[1]	**802**	**797**	1,179	1,265
Long-term debt	**5,080**	**5,075**	4,747	4,589
Derivative financial instruments:				
Forwards				
Favourable	**6**	**83**	14	296
Unfavourable	**(4)**	**(137)**	(10)	(130)
Interest-rate cap	**–**	**23**	–	29
Swaps[2]				
Favourable	**33**	**44**	28	36
Unfavourable	**(9)**	**(107)**	(7)	(48)

1 Included in Aircraft financing.
2 Includes interest-rate and cross-currency interest-rate swap agreements.

NOTE 19. FINANCIAL INSTRUMENTS (CONT'D)

The fair values disclosed are based on information available to management as at January 31, 2007 and 2006. The estimated fair value of certain financial instruments has been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Corporation could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair values of financial instruments have been established as follows:
- ***Cash and cash equivalents, receivables and accounts payable and accrued liabilities*** – The carrying amounts reported in the consolidated balance sheets approximate the fair values.
- ***Loans and lease receivables*** – The fair values of variable-rate loans and lease receivables that reprice frequently and have no significant change in credit risk approximate the carrying values. The fair values of fixed-rate loans and lease receivables are estimated based on discounted cash flow analyses, using discount rates applicable to financial assets with similar terms as those of the borrowers and similar credit quality.
- ***Long-term debt*** – The fair values of long-term debt are estimated using public quotations or discounted cash flow analyses, based on current corresponding borrowing rates for similar types of borrowing arrangements. The fair values of publicly traded debt are obtained from investment dealers.
- ***Derivative financial instruments*** – The fair values generally reflect the estimated amounts that the Corporation would receive upon the settlement of favourable contracts or be required to pay to terminate unfavourable contracts at the reporting dates. Investment dealers' quotes from the Corporation's bankers are available for substantially all of the Corporation's derivative financial instruments.

In connection with the adoption of new accounting standards on financial instruments, effective for the first quarter of fiscal year 2008, the Corporation is developing new models to measure the fair value of certain long term components of its loans and lease receivables and accounts payable and accrued liabilities. The assessment of the fair value of these financial instruments as at January 31, 2007 was made using different fair value measurement techniques. As a result, the fair value to be used in connection with the adoption of the new accounting rules on financial instruments will differ from the fair value disclosed above and such differences could be material.

CREDIT RISK

In addition to the credit risk described elsewhere in these Consolidated Financial Statements, the Corporation is subject to risks related to the off-balance sheet nature of derivative financial instruments, whereby counter-party failure would result in economic losses on favourable contracts. However, the counter-parties to these derivative financial instruments are investment-grade financial institutions that the Corporation anticipates will satisfy their obligations under the contracts.

NOTE 20. EMPLOYEE FUTURE BENEFITS

Defined benefit pension plans – The Corporation sponsors several funded and unfunded defined benefit pension plans in Canada and abroad, covering a majority of its employees. Defined benefits under salaried plans are generally based on salary and years of service. Some of the hourly plans provide benefits based on stated amounts for each year of service.

The most recent actuarial valuation for funding purposes of the Corporation's funded pension plans, excluding U.K. plans, was prepared with an effective date of December 31, 2005. The next actuarial valuation will be completed during the second and third quarters of fiscal year 2008 with an effective date of December 31, 2006. The most recent actuarial valuation dates for funding purposes of the United Kingdom ("U.K.") plans range between December 2004 and December 2005. The next required actuarial valuation dates range between December 2007 and June 2008.

Defined contribution pension plans – The Corporation offers Canadian and foreign defined contribution pension plans covering a portion of its employees, mainly in Aerospace. Defined contributions are based on a percentage of salary.

NOTE 20. EMPLOYEE FUTURE BENEFITS (CONT'D)

Benefits other than pension–The Corporation provides post-employment and post-retirement benefit plans. These benefit plans consist essentially of self-insured long-term disability plans in Canada and post-retirement health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the accrued benefit assets and liabilities recognized in the consolidated balance sheets as at January 31:

Amounts recognized	2007			2006		
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Accrued benefit assets						
Pension plans	**$ 368**	**$ 93**	**$ 461**	$ 293	$ 91	$ 384
Accrued benefit liabilities						
Pension plans	**$ (58)**	**$(628)**	**$(686)**	$ (56)	$(539)	$(595)
Benefits other than pension	**(258)**	**(51)**	**(309)**	(233)	(49)	(282)
	$(316)	**$(679)**	**$(995)**	$(289)	$(588)	$(877)

DEFINED BENEFIT PENSION PLANS

The significant actuarial assumptions adopted to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December 31 measurement date preceding the fiscal year end):

Actuarial assumptions	2007			2006		
(IN PERCENTAGE)	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Projected benefit obligation						
Discount rate	**5.00**	**4.99**	**4.99**	5.00	4.61	4.77
Rate of compensation increase	**3.50**	**3.72**	**3.64**	3.25	3.53	3.43
Benefit cost						
Discount rate	**5.00**	**4.61**	**4.77**	6.00	5.06	5.39
Expected long-term rate of return on plan assets	**7.15**	**7.30**	**7.23**	7.12	7.26	7.20
Rate of compensation increase	**3.25**	**3.53**	**3.43**	3.50	3.61	3.57

NOTE 20. EMPLOYEE FUTURE BENEFITS (CONT'D)

The following tables present the changes in the projected benefit obligation and fair value of plan assets for the 12-month period ended December 31, and their allocation by major countries as at the December 31 measurement date preceding the fiscal year-end:

Projected benefit obligation			**2007**			2006
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Obligation at beginning of period	**$2,434**	**$3,733**	**$6,167**	$1,843	$3,404	$5,247
Current service cost	**88**	**118**	**206**	60	106	166
Interest cost	**123**	**180**	**303**	112	171	283
Plan participants' contributions	**22**	**26**	**48**	21	28	49
Plan amendments	**60**	**(152)**	**(92)**	11	(3)	8
Actuarial loss (gain)	**(20)**	**(134)**	**(154)**	289	338	627
Benefits paid	**(102)**	**(107)**	**(209)**	(88)	(107)	(195)
Curtailment	**–**	**(3)**	**(3)**	–	(10)	(10)
Settlement	**–**	**(11)**	**(11)**	–	(10)	(10)
Effect of exchange rate changes	**(76)**	**309**	**233**	186	(184)	2
Obligation at end of period	**$2,529**	**$3,959**	**$6,488**	$2,434	$3,733	$6,167

U.K.	**$2,771**	$2,530
Canada	**2,529**	2,434
U.S.	**449**	445
Germany	**400**	382
Switzerland	**177**	220
Other	**162**	156
	$6,488	$6,167

Plan assets			**2007**			2006
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Fair value at beginning of period	**$1,783**	**$2,133**	**$3,916**	$1,402	$1,919	$3,321
Actual return on plan assets	**243**	**220**	**463**	159	228	387
Employer contributions	**199**	**176**	**375**	153	174	327
Plan participants' contributions	**22**	**26**	**48**	21	28	49
Benefits paid	**(102)**	**(107)**	**(209)**	(88)	(107)	(195)
Settlement	**–**	**(7)**	**(7)**	–	(10)	(10)
Effect of exchange rate changes	**(62)**	**190**	**128**	136	(99)	37
Fair value at end of period	**$2,083**	**$2,631**	**$4,714**	$1,783	$2,133	$3,916

U.K.	**$2,085**	$1,664
Canada	**2,083**	1,783
U.S.	**356**	291
Switzerland	**163**	154
Other	**27**	24
	$4,714	$3,916

NOTE 20. EMPLOYEE FUTURE BENEFITS (CONT'D)

The reconciliation of the funded status of the pension plans to the amounts recorded on the consolidated balance sheets was as follows as at January 31:

Funded status			**2007**			2006
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Fair value of plan assets	**$ 2,083**	**$ 2,631**	**$ 4,714**	$ 1,783	$ 2,133	$ 3,916
Projected benefit obligation	**(2,529)**	**(3,959)**	**(6,488)**	(2,434)	(3,733)	(6,167)
Funded status–deficit	**(446)**	**(1,328)**	**(1,774)**	(651)	(1,600)	(2,251)
Unamortized net actuarial loss	**625**	**936**	**1,561**	812	1,145	1,957
Unamortized past service costs	**117**	**(156)**	**(39)**	64	(1)	63
Contributions paid in January	**14**	**13**	**27**	12	8	20
Accrued benefit assets (liabilities)	**$ 310**	**$ (535)**	**$ (225)**	$ 237	$ (448)	$ (211)

Included in the above table are plans with projected benefit obligation in excess of plan assets as follows:

Projected benefit obligation in excess of plan assets			**2007**			2006
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Fair value of plan assets	**$ 1,390**	**$ 2,335**	**$ 3,725**	$ 1,300	$ 1,976	$ 3,276
Projected benefit obligation	**(1,912)**	**(3,679)**	**(5,591)**	(1,996)	(3,603)	(5,599)
	$ (522)	**$(1,344)**	**$(1,866)**	$ (696)	$(1,627)	$(2,323)

Plan assets are held in trust and their weighted-average allocations were as follows as at the December 31 measurement date:

Plan assets	TARGET ALLOCATION		ACTUAL ALLOCATION
ASSET CATEGORY	2008	**2007**	2006
Cash and cash equivalents	2%	**5%**	4%
Publicly traded equity securities	58%	**60%**	62%
Publicly traded fixed income securities	35%	**35%**	34%
Global infrastructure and real estate assets	5%	**–**	–

As at December 31, 2006 and 2005, the publicly traded equity securities did not include any of the Corporation's shares.

NOTE 20. EMPLOYEE FUTURE BENEFITS (CONT'D)

The following table provides the components of the benefit cost for fiscal years:

Benefit cost	2007			2006		
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Current service cost	**$ 88**	**$ 118**	**$ 206**	$ 60	$ 106	$ 166
Interest cost	**123**	**180**	**303**	112	171	283
Actual return on plan assets	**(243)**	**(220)**	**(463)**	(159)	(228)	(387)
Actuarial loss (gain)	**(20)**	**(134)**	**(154)**	289	338	627
Plan amendments	**60**	**(152)**	**(92)**	11	(3)	8
Curtailment loss (gain)	**1**	**–**	**1**	–	(6)	(6)
Other	**–**	**–**	**–**	–	1	1
Benefit cost before adjustments to recognize the long-term nature of the plans	**9**	**(208)**	**(199)**	313	379	692
Difference between actual and expected return on plan assets	**115**	**62**	**177**	56	94	150
Difference between actual actuarial loss (gain) and the amount recognized	**56**	**230**	**286**	(265)	(288)	(553)
Difference between plan amendments and amounts recognized	**(53)**	**155**	**102**	(5)	3	(2)
Benefit cost recognized	**$ 127**	**$ 239**	**$ 366**	$ 99	$ 188	$ 287

DEFINED CONTRIBUTION PENSION PLANS

Cash contributions to the defined contribution pension plans, which correspond to the benefit cost recognized, amounted to $22 million for fiscal year 2007 ($26 million for fiscal year 2006).

BENEFITS OTHER THAN PENSION

The significant actuarial assumptions used to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December 31 measurement date preceding the fiscal year-end):

Actuarial assumptions	2007			2006		
(IN PERCENTAGE)	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Projected benefit obligation						
Discount rate	**5.00**	**5.57**	**5.08**	5.00	5.32	5.04
Rate of compensation increase	**3.50**	**3.93**	**3.62**	3.25	3.92	3.43
Benefit cost						
Discount rate	**5.00**	**5.32**	**5.04**	6.00	5.75	5.96
Rate of compensation increase	**3.25**	**3.92**	**3.43**	3.50	4.00	3.64

NOTE 20. EMPLOYEE FUTURE BENEFITS (CONT'D)

As at December 31, 2006, the health care cost trend rate, 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 9.5% and to decrease to 5.5% by fiscal year 2011 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:

	ONE PERCENTAGE POINT INCREASE	ONE PERCENTAGE POINT DECREASE
Effect on projected benefit obligation	$ 30	$ (35)
Effect on the annual benefit cost recognized	$ 2	$ (4)

The following table presents the changes in the projected benefit obligation for the 12-month period ended December 31 and its allocation by major countries as at the December 31 measurement date preceding the fiscal year-end:

Projected benefit obligation			**2007**			2006
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Obligation at beginning of period	**$ 361**	**$ 59**	**$ 420**	$ 270	$ 58	$ 328
Current service cost	**11**	**2**	**13**	9	2	11
Interest cost	**16**	**3**	**19**	15	3	18
Plan amendments	**(40)**	**–**	**(40)**	(1)	–	(1)
Actuarial loss (gain)	**6**	**(6)**	**–**	53	1	54
Benefits paid	**(14)**	**(2)**	**(16)**	(13)	(3)	(16)
Curtailment gain	**–**	**–**	**–**	–	(1)	(1)
Effect of exchange rate changes	**(10)**	**1**	**(9)**	28	(1)	27
Obligation at end of period	**$ 330**	**$ 57**	**$ 387**	$ 361	$ 59	$ 420

Canada	**$ 330**	$ 361
U.S.	**37**	40
U.K.	**13**	12
Other	**7**	7
	$ 387	$ 420

The reconciliation of the funded status of the benefit plans other than pensions to the amounts recorded in the consolidated balance sheets was as follows for fiscal years:

Funded status			**2007**			2006
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Deficit	**$(330)**	**$ (57)**	**$(387)**	$(361)	$ (59)	$(420)
Unamortized net actuarial loss	**112**	**6**	**118**	129	10	139
Unamortized past service costs	**(41)**	**–**	**(41)**	(2)	–	(2)
Benefits paid in January	**1**	**–**	**1**	1	–	1
Accrued benefit liabilities	**$(258)**	**$ (51)**	**$(309)**	$(233)	$ (49)	$(282)

NOTE 20. EMPLOYEE FUTURE BENEFITS (CONT'D)

The following table provides the components of the benefit cost for fiscal years:

Benefit cost	2007			2006		
	CANADA	FOREIGN	TOTAL	CANADA	FOREIGN	TOTAL
Current service cost	**$ 11**	**$ 2**	**$ 13**	$ 9	$ 2	$ 11
Interest cost	**16**	**3**	**19**	15	3	18
Actuarial loss (gain)	**6**	**(6)**	**–**	53	1	54
Plan amendments	**(40)**	**–**	**(40)**	(1)	–	(1)
Curtailment gain	**–**	**–**	**–**	–	(1)	(1)
Benefit cost before adjustments to recognize the long-term nature of the plans	**(7)**	**(1)**	**(8)**	76	5	81
Difference between actual actuarial loss for the year and the amount recognized	**6**	**5**	**11**	(39)	–	(39)
Difference between plan amendments and amounts recognized	**39**	**–**	**39**	1	–	1
Benefit cost recognized	**$ 38**	**$ 4**	**$ 42**	$ 38	$ 5	$ 43

NOTE 21. COMMITMENTS AND CONTINGENCIES

In addition to the commitments and contingencies described elsewhere in these Consolidated Financial Statements, the Corporation is subject to other off-balance sheet risks. The table below presents the maximum potential exposure for each major group of exposure, as at January 31. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

Some of these off-balance sheet risks are also included in note 22 – Variable interest entities.

	2007		2006	
	MAXIMUM POTENTIAL EXPOSURE	PROVISIONS AND LIABILITIES[1]	MAXIMUM POTENTIAL EXPOSURE	PROVISIONS AND LIABILITIES[1]
Aircraft sales				
Credit (a)	**$1,407**		$1,409	
Residual value (a)	**2,727**		2,565	
Mutually exclusive exposure[2]	**(915)**		(892)	
Total credit and residual	**$3,219**	**$ 756**	$3,082	$ 952
Trade-in commitments (b)	**894**	**5**	494	1
Conditional repurchase obligations (c)	**1,031**	**–**	1,202	–
Other[3]				
Credit and residual value (f)	**182**	**–**	170	–
Repurchase obligations (g)	**182**	**75**	165	70
Performance guarantees (h)	**129**	**–**	938	–

1 Included in Accounts payable and accrued liabilities.
2 Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.
3 In addition, the Corporation has also provided other guarantees (see section i) below).

NOTE 21. COMMITMENTS AND CONTINGENCIES (CONT'D)

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. The provisions for anticipated losses 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, the anticipated proceeds from other assets covering such exposures, as well as liabilities available to mitigate the exposures. The anticipated proceeds from the collaterals are expected to cover the Corporation's total credit and residual value exposure, after taking into account the provisions and liabilities.

AIRCRAFT SALES

a) Credit guarantees and residual value guarantees–The Corporation may provide credit guarantees in the form of lease and loan payments 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 2025. Substantially all financial support involving potential credit risk lies with commercial airline customers. The credit risk relating to three commercial airline customers accounted for 61% of the total maximum credit risk as at January 31, 2007.

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.

The following table summarizes the outstanding residual value guarantees as at January 31, 2007, and the period in which they can be exercised:

Less than 1 year	$ 44
From 1 to 5 years	232
From 6 to 10 years	730
From 11 to 15 years	1,180
Thereafter	541
	$2,727

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 January 31, 2007:

Less than 1 year	$ 367
From 1 to 3 years	493
Thereafter	34
	$ 894

The Corporation records the difference between the specified-price of the trade-in aircraft and its fair value at the date of signing a firm order as a reduction of Manufacturing revenues upon delivery of the related aircraft. Subsequent changes in the fair value of the trade-in aircraft are recorded in Cost of sales as they occur.

The fair value of the trade-in aircraft is determined using both external and internal aircraft valuations, including information developed from the sale of similar aircraft in the secondary market.

NOTE 21. COMMITMENTS AND CONTINGENCIES (CONT'D)

*c) **Conditional repurchase obligations*** – In connection with the sale of new aircraft ("Initial 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 purchase of a new aircraft ("Subsequent aircraft"). The Corporation's repurchase of the Initial aircraft is conditional upon a future, mutually acceptable agreement for the sale of a Subsequent 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 becomes a trade-in commitment as described above. No provision is recorded for conditional repurchase obligations until they become trade-in commitments.

The Corporation's conditional repurchase obligations, as at the earliest exercise date, were as follows as at January 31, 2007:

Less than 1 year	$ 736
From 1 to 3 years	226
From 4 to 5 years	34
Thereafter	35
	$1,031

*d) **Fractional ownership put options*** – Under the North American *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 $733 million as at January 31, 2007 ($573 million as at January 31, 2006). 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.

*e) **Financing commitments*** – The Corporation has committed to provide financing in relation to the future sale of aircraft scheduled for delivery through fiscal year 2013. The Corporation's total financing commitment amounted to $1.7 billion as at January 31, 2007 net of third party financing already arranged ($2.2 billion as at January 31, 2006). The Corporation mitigates its exposure to interest and credit risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment and by entering into interest-rate cap agreements.

OTHER GUARANTEES

*f) **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 $46 million as at January 31, 2007 and 2006. This guarantee matures in 2026 and relates to one customer. In addition, at the expiry date of certain financing and other agreements, the Corporation has provided residual value guarantees amounting to $136 million as at January 31, 2007 ($124 million as at January 31, 2006), mostly in Transportation. These guarantees are mainly exercisable in 2012.

*g) **Repurchase obligations*** – In Transportation, the Corporation has provided certain financing providers the right, under certain conditions, to sell back equipment to the Corporation at predetermined prices. An amount of $182 million as at January 31, 2007 ($165 million as at January 31, 2006), relates to two agreements whereby the Corporation may be required to repurchase the equipment, beginning in fiscal year 2009, upon customer default on payments to the financing providers. In addition, on three separate dates, beginning in fiscal year 2009, the Corporation may also be required to repurchase the equipment. In connection with this commitment, funds have been deposited in cash collateral accounts by the customer, which, together with accumulated interest, are expected to entirely cover the Corporation's exposure.

*h) **Performance guarantees*** – In certain projects carried out through consortia or other partnership vehicles in Transportation, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for a default by the other partners. These projects normally provide counter indemnities among the partners. These obligations and guarantees typically extend until final product acceptance by the customer. The Corporation's maximum exposure to projects for which the exposure of the Corporation is capped amounted to $48 million as at January 31, 2007 ($178 million as at January 31, 2006). For projects where the Corporation's exposure is not capped, such exposure has been determined in relation

NOTE 21. COMMITMENTS AND CONTINGENCIES (CONT'D)

to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's exposure would amount to $81 million as at January 31, 2007 ($760 million as at January 31, 2006). Such joint and several obligations and guarantees have been rarely called upon in the past.

i) 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.

SALE AND LEASEBACK

The Corporation concluded third-party sale and leaseback transactions relating to pre-owned aircraft and other equipment.

Details of minimum lease payments for the next five fiscal years and thereafter are as follows:

	RENTAL PAYMENTS	RESIDUAL VALUE GUARANTEES	TOTAL
2008	$ 17	$ 13	$ 30
2009	10	44	54
2010	3	–	3
2011	3	–	3
2012	3	–	3
Thereafter	10	–	10
	$ 46	$ 57	$103

Minimum lease payments include $21 million for pre-owned aircraft and $25 million for other equipment.

Rent expense related to sale and leaseback arrangements was $12 million for fiscal year 2007 ($83 million for fiscal year 2006).

OPERATING LEASES

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations in connection with the sale of new aircraft. The related minimum lease payments for the next five fiscal years and thereafter are as follows:

	BUILDINGS AND EQUIPMENT	AIRCRAFT	RESIDUAL VALUE GUARANTEES	TOTAL
2008	$ 73	$ 23	$ –	$ 96
2009	73	22	–	95
2010	53	15	–	68
2011	45	10	–	55
2012	40	8	–	48
Thereafter	242	4	56	302
	$526	$ 82	$ 56	$664

Rent expense related to operating leases was $129 million for fiscal year 2007 ($165 million for fiscal year 2006).

NOTE 21. COMMITMENTS AND CONTINGENCIES (CONT'D)

OTHER COMMITMENTS

The Corporation has commitments under agreements to outsource a significant portion of its information technology function in Aerospace and Transportation as well as the logistics for the centrally located spare parts warehouses in Aerospace. The related minimum payments for the next five fiscal years and thereafter are as follows:

2008	$208
2009	202
2010	196
2011	49
2012	26
Thereafter	129
	$810

The Corporation receives government financial support from various levels of government, related to the development of aircraft. Certain of these financial support programs require the Corporation to pay amounts to governments, at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. The remaining undiscounted contingently repayable government support mostly based on future deliveries of aircraft, amounted to $481 million as at January 31, 2007 ($535 million as at January 31, 2006). The amount repayable based solely on the total of the remaining accounting aircraft program quantities was $207 million as at January 31, 2007 ($226 million as at January 31, 2006).

SETTLEMENT WITH A SUPPLIER

During fiscal year 2007, the Corporation reached an agreement with Mitsubishi Heavy Industries of Japan ("MHI"), a supplier of aircraft components, to transfer the production of certain components for the Q400 turboprop to the Corporation's manufacturing facilities in Belfast, Montréal and Querétaro in Mexico, and to China's Shenyang Aircraft Corporation. As part of this agreement, a payment of $84 million was made by MHI to the Corporation in connection with the transfer of production. As a result, the Corporation recorded a gain of the same amount in Cost of sales during fiscal year 2007.

LITIGATIONS

On February 7, 2005, the Teamsters Local 445 Freight Division Pension Fund filed a class action complaint in the U.S. district court of the Southern District of New York against the Corporation, Bombardier Capital Inc., Bombardier Capital Mortgage Securitization Corporation ("BCMSC") and others for alleged violations of federal securities laws relating to BCMSC's Senior/Subordinated Pass-Through Certificates, Series 2000-A, due January 15, 2030. On April 15, 2005, the plaintiffs filed an amended complaint. The amendments provide for the inclusion of all open market purchasers of BCMSC's Senior/Subordinated Pass-Through Certificates, Series 1998-A, Series 1998-B, Series 1998-C, Series 1999-A, Series 1999-B, Series 2000-A and Series 2000-B as part of the putative class. While the Corporation cannot predict the outcome of any legal proceedings, based on information currently available, the Corporation intends to vigorously defend its position.

The Corporation is also 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 January 31, 2007, 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.

NOTE 22. VARIABLE INTEREST ENTITIES

The following table summarizes by segment the significant VIEs in which the Corporation has a variable interest as at January 31:

	2007		2006	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Aerospace				
Financing structures related to the sale of regional aircraft	**$ 6,985**	**$ 4,245**	$ 6,946	$ 4,106
Sale and leaseback structure	**13**	**13**	15	15
Transportation				
Partnership arrangements	**5,993**	**5,450**	4,805	4,326
Sale support guarantee	**579**	**572**	529	523
Cash collateral accounts	**75**	**75**	70	70
	13,645	**10,355**	12,365	9,040
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	**8**	**7**	67	65
Sale and leaseback structure	**13**	**13**	15	15
Cash collateral accounts	**75**	**75**	70	70
	96	**95**	152	150
Assets and liabilities of non-consolidated VIEs	**$13,549**	**$10,260**	$12,213	$8,890

The liabilities recognized as a result of consolidating certain VIEs do not represent additional claims on the Corporation's general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating certain VIEs do not represent additional assets that could be used to satisfy claims against the Corporation's general assets. The consolidation of debt resulting from the application of AcG-15 is excluded from the computation of the Corporation's financial covenant ratio for structures existing prior to May 1, 2004 or when the debt of the consolidated VIEs is non-recourse to the Corporation for structures created on or after May 1, 2004. All consolidated debt is related to structures existing prior to May 1, 2004. Additionally, the consolidation of VIEs does not result in any change in the underlying tax, legal or credit exposure of the Corporation.

AEROSPACE

Financing structures related to the sale of regional aircraft – The Corporation has provided credit and/or residual value guarantees to certain special purpose entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional 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's variable interests in these SPEs are in the form of credit and residual value guarantees, subordinated debt and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only one of them, which was consolidated. For all other SPEs, consolidation is not appropriate under AcG-15. The Corporation's maximum potential exposure relating to the non-consolidated SPEs was $2.1 billion, of which $418 million of provisions and liabilities were available to cover the Corporation's exposure as at January 31, 2007 ($2.1 billion and $551 million respectively as at January 31, 2006). The Corporation's maximum exposure under these guarantees is presented in note 21 – Commitments and contingencies.

NOTE 22. VARIABLE INTEREST ENTITIES (CONT'D)

RASPRO – In September 2005, a $1.7-billion securitization transaction was completed to provide financing in the form of long-term leases for 70 regional aircraft. In connection with this transaction, the Corporation has provided certain credit enhancements and has acquired a subordinated beneficial interest. In addition, the Corporation provides administrative services in return for market fees. Of the $1.7-billion gross proceeds, approximately $500 million was used to pay third parties under off-balance sheet interim financing structures. After giving effect to the payment of expenses and other payments, the Corporation received approximately $1.0 billion.

After the closing of the securitization, it was discovered, that the cash flows of the RASPRO structure would be different from those anticipated. On July 13, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, agreed on certain actions to be taken to adjust the cash flows of RASPRO. These actions consist mainly of additional payments that were made or will be made to the RASPRO structure by various parties (including parties not affiliated with the Corporation). The Corporation's participation in these additional payments consisted of the purchase on July 13, 2006 of $23 million of rights to a portion of the residual value proceeds of certain aircraft financed by the RASPRO structure.

In addition, subsequent to January 31, 2007, the Corporation finalized the terms of its indirect financial support to a government agency in connection with the agency's direct support to RASPRO and to other financing structures related to the sale of regional aircraft.

The impact of the above did not have a significant impact on the Corporation's financial statements.

TRANSPORTATION

Partnership arrangements – The Corporation entered into partnership arrangements to provide manufactured rail equipment and civil engineering work as well as related long-term services, such as the operation and maintenance of rail equipment.

The Corporation's involvement with entities created in connection with these partnership arrangements is mainly through investments in their equity and/or in subordinated loans and through manufacturing, selling and long-term service contracts. The Corporation concluded that some of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement.

Sale support guarantee – In August 1998, the Corporation provided residual value guarantees on diesel electric multiple unit trains sold to Lombard Leasing Contracts Limited ("Lombard"). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of $134 million as at January 31, 2007 ($124 million as at January 31, 2006). The Corporation's maximum exposure under these guarantees is presented in note 21 – Commitments and contingencies.

Cash collateral accounts – In connection with the sale of certain rail equipment by Adtranz prior to its acquisition by the Corporation in May 2001, the purchasers have been provided with the right, under certain conditions, to sell back the equipment to the Corporation at predetermined prices on three separate dates, beginning in fiscal year 2009. In addition, the Corporation may be required, beginning in fiscal year 2009, upon customer default on payments to the financing providers, to repurchase the equipment.

As a result of these commitments, Fabian Investments Limited and Lineal Investments Limited were created and cash was deposited in a cash collateral account by the lessee of the equipment. This cash, together with accumulated interest, is expected to entirely cover the Corporation's exposure. The Corporation concluded that these SPEs are VIEs and the Corporation is their primary beneficiary; accordingly, these SPEs were consolidated. Their assets, consisting of restricted cash, are presented in Other assets, and their liabilities, consisting of provisions in connection with the Corporation's repurchase obligations, are included in the provisions and liabilities disclosed in note 21 – Commitments and contingencies.

NOTE 23. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year presentation.

NOTE 24. SEGMENT DISCLOSURE

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

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

The accounting policies of the segments are the same as those described in the Summary of significant accounting policies.

Management assesses segment performance based on income before financing income, financing expense and income taxes. Corporate charges are allocated to segments mostly based on each segment's revenues. Net segmented assets exclude cash and cash equivalents, invested collateral, deferred income taxes and assets held for sale, and are net of accounts payable and accrued liabilities (excluding interest and income taxes payable), advances and progress billings in excess of related costs, fractional ownership deferred revenues and accrued benefit liabilities.

The tables containing the detailed segmented data are shown hereafter.

NOTE 24. SEGMENT DISCLOSURE (CONT'D)

INDUSTRY SEGMENTS

		BOMBARDIER INC. CONSOLIDATED		AEROSPACE		TRANSPORTATION	
	NOTES	**2007**	2006	**2007**	2006	**2007**	2006
Revenues							
Manufacturing		**$10,446**	$10,708	**$6,380**	$6,352	**$4,066**	$4,356
Services		**2,697**	2,537	**1,293**	1,208	**1,404**	1,329
Other		**1,673**	1,481	**557**	527	**1,116**	954
		14,816	14,726	**8,230**	8,087	**6,586**	6,639
Cost of sales		**12,685**	12,719	**7,013**	6,925	**5,672**	5,794
Selling, general and administrative		**863**	842	**408**	398	**455**	444
Research and development		**173**	175	**78**	92	**95**	83
Amortization		**518**	545	**409**	406	**109**	139
Special items	14	**24**	88	**–**	–	**24**	88
		14,263	14,369	**7,908**	7,821	**6,355**	6,548
Income from continuing operations before financing income and expense, and income taxes		**$ 553**	$ 357	**$ 322**	$ 266	**$ 231**	$ 91
Net segmented assets		**$ 3,447**	$ 3,637	**$2,845**	$3,205	**$ 602**	$ 432
Liabilities allocated to segments:							
Accounts payable and accrued liabilities[1]		**6,615**	6,645				
Advances and progress billings in excess of related costs		**2,443**	2,191				
Fractional ownership deferred revenues		**487**	325				
Accrued benefit liabilities		**995**	877				
Assets not allocated to segments:							
Cash and cash equivalents		**2,648**	2,917				
Invested collateral		**1,129**	–				
Deferred income taxes		**813**	653				
Assets held for sale		**–**	237				
Total consolidated assets		**$18,577**	$17,482				
Additions to property, plant and equipment		**$ 344**	$ 329	**$ 264**	$ 228	**$ 80**	$ 101

1 Excluding interest and income taxes payable amounting to $109 million and $115 million respectively as at January 31, 2007 ($130 million and $91 million as at January 31, 2006) which were not allocated to segments.

NOTE 24. SEGMENT DISCLOSURE (CONT'D)

GEOGRAPHIC INFORMATION

	REVENUES [1]		PROPERTY, PLANT AND, EQUIPMENT, INTANGIBLE, ASSETS AND GOODWILL [2]	
	2007	2006	**2007**	2006
United States	**$ 4,746**	$ 5,810	**$ 270**	$ 391
Germany	**1,558**	1,529	**1,384**	1,287
United Kingdom	**1,419**	1,573	**817**	714
France	**890**	707	**32**	34
Italy	**682**	387	**135**	127
Spain	**587**	346	**8**	8
Canada	**559**	825	**1,809**	1,975
Other – Europe	**1,578**	1,515	**872**	809
Other – Asia	**1,342**	1,001	**18**	18
Other – Americas	**761**	649	**11**	10
Other – Oceania	**386**	314	**7**	7
Other – Africa	**308**	70	**–**	–
	$14,816	$14,726	**$5,363**	$5,380

1 Revenues are attributed to countries based on the location of the customer.
2 Property, plant and equipment and intangible assets 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.

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