**BOMBARDIER INC. 2002-2003**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**OVERVIEW**

All amounts in this report are in Canadian dollars, unless otherwise stated.

**FORWARD-LOOKING STATEMENTS**

This report includes "forward-looking statements" that are subject to risks and uncertainties. For information identifying legislative or regulatory, economic, climatic, currency, technological, competitive and other important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, see "Risks and Uncertainties."

The Consolidated Financial Statements of Bombardier Inc. present the consolidation of the accounts of the financial services operations with those of the Corporation's manufacturing operations. The consolidated operations of the Corporation are referred to hereafter as the Corporation or Bombardier Inc. consolidated, the manufacturing operations are referred to as Bombardier, and the financial and real estate services as Bombardier Capital (BC). This presentation has no impact on net income and shareholders' equity.

BC's activities and financial position are fundamentally different from those of the manufacturing operations. As such, the capital markets use different performance indicators than those used for the manufacturing operations to analyze and measure these two distinct businesses. The following discussion and analysis segregates these two types of businesses to better highlight their respective characteristics.

The consolidated balance sheets are presented in an unclassified format given that the Corporation carries out its operations in four distinct segments, each one characterized by a specific operating cycle.

The aerospace operating cycle is based on the length of each aircraft program, which is variable, but usually extends over a number of years. In the transportation segment, manufacturing activities are performed for long-term contracts extending for periods of mostly one to five years. The operating cycle for the recreational products segment is seasonal and generally based on cycles of less than one year.

The operating cycle for BC depends on the underlying operations. This segment includes the real estate operations for which the operating cycle extends over many years, and the financing subsidiaries operations which, as is the case for most financial institutions, have operating cycles as short as a few months for short-term lending activities, and as long as several years for long-term financing and asset leasing activities.

The accounting methods used for Bombardier Inc.'s activities are provided in the Summary of Significant Accounting Policies accompanying the Consolidated Financial Statements.

## CONSOLIDATED RESULTS

The Management's discussion and analysis that follows is based on the reported earnings in accordance with Canadian generally accepted accounting principles (GAAP). It is also based on: i) earnings (loss) before net interest of the manufacturing segments and income taxes (EBIT); ii) EBIT before the effect of special items; iii) earnings (loss) before income taxes (EBT); and iv) EBT before the effect of special items. Special items are viewed by Management as items that do not arise as part of the normal day-to-day business operations or that could potentially distort the analysis of trends. These earnings measures do not have a standardized meaning prescribed by GAAP and are therefore not readily comparable to similar measures presented by other corporations.

On April 2, 2003, the Board of Directors of the Corporation approved the sale of the recreational products segment. The following discussion and analysis of results does not reflect this decision.

Consolidated revenues amounted to $23.7 billion for the year ended January 31, 2003, compared to $21.8 billion for the preceding year. This represents an increase of 8.5% mainly due to a higher level of activities in the transportation segment and the consolidation of Bombardier Transportation GmbH (formerly DaimlerChrysler Rail Systems GmbH, hereafter referred to as Adtranz) accounts for the full 12-month period for fiscal year 2003, compared to eight months for the previous year. This increase was also due to higher sales of outboard engines and ATVs, partially offset by lower revenues in the aerospace segment, mainly as a result of the decline in business aircraft deliveries.

Effective in the fourth quarter of fiscal year 2003, the Corporation changed its accounting policies including the adoption of the average cost accounting method for the recognition of cost of sales in the aerospace segment, with retroactive application to all prior periods. This is more fully described in the aerospace section.

The following table provides the reconciliation of net income (loss) to EBIT before the impact of changes in accounting policies and special items:

| (in millions of Canadian dollars) | 2003 | 2002 |
|---|---|---|
| EBIT before the following: | **$ 1,176.1** | $ 1,775.0 |
| Impact of changes in accounting policies for the aerospace segment | **454.1** | 507.6 |
| EBIT before special items | **722.0** | 1,267.4 |
| Special items: | | |
| Aerospace | **1,310.8** | 356.8 |
| Transportation | — | 74.2 |
| BC | — | 662.5 |
| | **1,310.8** | 1,093.5 |
| EBIT | **(588.8)** | 173.9 |
| Interest | **202.4** | 123.8 |
| EBT | **(791.2)** | 50.1 |
| Income tax expense (recovery) | **(176.0)** | 14.1 |
| Net income (loss) | **$ (615.2)** | $ 36.0 |

The following analysis of results reflects the retroactive application of the changes in accounting policies for the aerospace segment for all periods.

EBIT before special items reached $722.0 million for fiscal year 2003, compared to $1.3 billion for the previous year. Lower EBIT before special items in the aerospace segment more than offset higher EBIT before special items in the transportation and BC segments. Before special items, the EBIT margin was 3.1% of revenues for the year ended January 31, 2003, compared to 5.8% of revenues the previous year.

Net interest expense of the manufacturing segments increased to $202.4 million for fiscal year 2003 from $123.8 million the previous year. This increase results from higher average debt, due to the acquisitions of Adtranz and the outboard engine net assets and lower customer advances and higher average inventory levels in the aerospace segment, partly offset by a lower interest rate environment.

As a result, EBT before special items was $519.6 million or 2.2% of revenues for the year ended January 31, 2003, compared to $1.1 billion or 5.2% the previous year.

The Corporation recorded an income tax recovery of $176.0 million for fiscal year 2003, compared to an income tax expense of $14.1 million the previous year. The effective consolidated income tax rate before special items for the Corporation's worldwide operations for the year ended January 31, 2003 was 33.7%, compared to 35.0% for the previous year. The details of the components of the income tax expense are provided in note 22 to the Consolidated Financial Statements.

Net loss was $615.2 million for the year ended January 31, 2003, or $0.47 per share after payment of dividends to preferred shareholders, on an average of 1.4 billion shares outstanding. This compares to a net income of $36.0 million the previous year, or $0.01 per share after payment of dividends to preferred shareholders, on an average of 1.4 billion shares outstanding.

Diluted loss per share amounted to $0.47 for the year ended January 31, 2003 against diluted earnings per share of $0.01 the previous year. The computation of diluted earnings per share gives effect to the exercise of all dilutive elements.

Bombardier's order backlog as at January 31, 2003 totalled $44.4 billion, compared to a backlog of $44.1 billion as at January 31, 2002. The increase in the backlog in the transportation segment was mostly offset by a decline in the aerospace segment.

## SEGMENTED INFORMATION

Management evaluates the performance of each segment based on EBT.

Corporate interest costs are allocated to the manufacturing segments based on each segment's net assets, and are calculated as follows: one half of the Canadian prime rate is charged on gross utilized assets, reduced by interest on customer advances calculated at the Canadian prime rate. The balance of unallocated actual interest costs, if any, is allocated to each manufacturing segment based on its net assets. Net assets exclude cash and cash equivalents, investment in and advances to/from BC and deferred income taxes. These are net of accounts payable and accrued liabilities, advances and progress billings in excess of related costs and accrued benefit liability and "other". Most corporate office charges are allocated based on each segment's revenues. The Corporation does not allocate corporate interest charges to the BC segment.

The following analysis of operating results covers the activities of Bombardier Aerospace, Bombardier Transportation, Bombardier Recreational Products and Bombardier Capital.

## AEROSPACE

Bombardier Aerospace is a manufacturer of business, regional and amphibious aircraft and a provider of related services. It offers comprehensive families of turboprop and regional jet commercial aircraft and a wide range of business jets. It also provides the Bombardier Flexjet business aircraft program, technical services, aircraft maintenance and pilot training.

## CHANGES IN ACCOUNTING POLICIES AND RELATED CHANGES OF ESTIMATES

The ability to reliably predict demand for commercial and business aircraft has been impacted by changing economic conditions affecting the Corporation's markets. It has been further affected by recent difficulties experienced by certain commercial airline companies in the United States. As a result, prices for the Corporation's aircraft products have recently exhibited and are expected to continue to exhibit greater volatility than in the past. Making sufficiently reliable estimates of future sale prices, as required by the program accounting method, has therefore become more difficult. As a result of these changes in circumstances, Management reviewed its program accounting policies and adopted, in particular, the average cost accounting method, as further described below.

Management concluded that this method is preferable under prevailing market conditions. It removes uncertainty associated with the future sale price estimation process and reflects the impact of changing prices on the Corporation's earnings on a more timely basis. Management believes that this new accounting method will enhance investor understanding of the Corporation's performance because financial results will more rapidly reflect changes in production costs and the impact of external factors affecting its business, such as actual demand and selling prices. The effect of revisions of cost estimates and changes in selling prices will be reflected immediately in current income.

## DESCRIPTION OF THE NEW ACCOUNTING POLICIES

Under the average cost accounting method, production quantities for an aircraft program are based on an assessment of prevailing market conditions. This includes anticipated demand for that aircraft, considering, among other factors, firm order backlog and options. Total program production costs are then estimated in order to determine the average unit production cost.

Management conducts quarterly reviews as well as a detailed annual review of its cost estimates and program quantities. The effect of any revisions is accounted for through a cumulative catch-up adjustment to income. Previously, under the program method of accounting, changes in margin estimates were accounted for prospectively over remaining program quantities.

Under the average cost accounting method, estimated average unit production costs are charged to cost of sales. As a result, the margin on each aircraft delivered varies depending on the aircraft selling price. Under the program accounting method, the cost of sale for each delivered aircraft was calculated as a percentage of the actual sale price, achieving a constant program margin percentage, revised from time to time.

Non-recurring costs, including prototype design and development, which were previously deferred as inventory costs and amortized over the initial program quantity or less, are now accounted for as program tooling in property, plant and equipment. Program tooling, which under the new policy includes interest charges incurred during construction, is amortized over its estimated useful life, usually a period of ten years from the date of the first aircraft delivery.

## IMPACT OF CHANGES IN ACCOUNTING POLICIES

These changes in accounting policies, effective in the fourth quarter of fiscal year 2003, were applied retroactively with restatement of prior period financial statements, as required by GAAP. This also provides a better understanding of the impact of the new accounting policies on historical results. Note 1 to the Corporation's audited Consolidated Financial Statements for the year ended January 31, 2003 presents the effect of these changes in accounting policies on the Corporation's consolidated balance sheet and income statement for fiscal years 2003 and 2002.

The effect of these accounting changes was to reduce the Corporation's opening retained earnings as at February 1, 2001 by $399.0 million ($612.5 million pre-tax). This represents the effect of the changes in accounting policies on all periods prior to February 1, 2001. Concurrent with significant revisions of estimates, EBIT was reduced by $1.1 billion for fiscal year 2003 and by $530.9 million for fiscal year 2002 for a total cumulative pre-tax adjustment of $2.2 billion ($1.5 billion after tax).

These changes in accounting policies, concurrent with significant revisions of estimates, resulted in the following reductions:

| (in millions of Canadian dollars) | | **2003** | | 2002 |
|---|---|---|---|---|
| Impact of changes in accounting policies | | | | |
| Effect of change in method for determining cost of sales from a program margin to an average cost method | **$** | **322.5** | $ | 381.2 |
| Net effect of changes in accountingf or program tooling | | **131.6** | | 126.4 |
| Total impact of changes in accounting policies | | **454.1** | | 507.6 |
| Rev ision of program estimates | | **614.7** | | 23.3 |
| Total reduction of EBIT | | **1,068.8** | | 530.9 |
| Interest | | **(35.2)** | | (23.1) |
| Total reduction of EBT | **$** | **1,033.6** | $ | 507.8 |

**IMPACT OF CHANGES IN ACCOUNTING POLICIES**
The adjustments of $322.5 million in fiscal year 2003 and $381.2 million in fiscal year 2002 mainly reflect the yearly impact of variability in margins resulting from the use of the estimated average program cost instead of an estimated program margin. The effect of adopting a straight-line amortization method on all program tooling costs was an additional charge of $131.6 million for fiscal year 2003 and $126.4 million for fiscal year 2002.

**REVISION OF PROGRAM ESTIMATES**
Effective in the fourth quarter of fiscal year 2003, Management revised the assumptions used to estimate the average unit production cost for each program, including the reduction of accounting program quantities. As a result, special charges of $614.7 million for the year ended January 31, 2003 and $23.3 million for the year ended January 31, 2002 were recorded mainly for the Bombardier* Q* Series, Bombardier Global Express* and Bombardier Learjet* 45 programs. The changes in estimates, including revisions of program quantities, reflect the continued uncertainty in the turboprop market and the present weakness in the business aircraft segment.

## PROGRAM INFORMATION

Program cost information is provided by program family. Shared common platforms and costs spent on earlier models benefit models developed subsequently. Excess over-average production costs included in inventory to be recovered from future deliveries and the carrying amount of tooling costs by program family were as follows as at January 31:

| (in millions of Canadian dollars) | | | | **2003** |
|---|---|---|---|---|
| **Program family** | **Excess over-average production costs** | **Program tooling** | | **Total** |
| Regional Aircraft | | | | |
| Bombardier CRJ* Series | **$ 334.1** | **$ 690.0** | **$** | **1,024.1** |
| Bombardier Q Series | **93.3** | **93.9** | | **187.2** |
| Business Aircraft | | | | |
| Bombardier Learjet Series | **379.0** | **320.5** | | **699.5** |
| Bombardier Challenger* 300 | **-** | **500.9** | | **500.9** |
| Bombardier Challenger 604 | **-** | **32.0** | | **32.0** |
| Bombardier Global Series | **483.2** | **679.0** | | **1,162.2** |
| Total | **$ 1,289.6** | **$ 2,316.3** | **$** | **3,605.9** |

| (in millions of Canadian dollars) | | | | 2002 (restated – note 1) |
|---|---|---|---|---|
| Program family | Excess over-average production costs | Program tooling | | Total |
| Regional Aircraft | | | | |
| Bombardier CRJ Series | $ 171.0 | $ 670.4 | $ | 841.4 |
| Bombardier Q Series | 439.3 | 82.8 | | 522.1 |
| Business Aircraft | | | | |
| Bombardier Learjet Series | 448.2 | 370.7 | | 818.9 |
| Bombardier Challenger 300 | - | 347.9 | | 347.9 |
| Bombardier Challenger 604 | - | 43.9 | | 43.9 |
| Bombardier Global Series | 404.6 | 694.2 | | 1,098.8 |
| Total | $ 1,463.1 | $ 2,209.9 | $ | 3,673.0 |

The following table provides current accounting program quantities and the remaining deliveries to achieve the total accounting program quantity by program family:

| Program family | Current quantities | Balance to be delivered[1] |
|---|---|---|
| Regional Aircraft | | |
| Bombardier CRJ Series | 1,050 | 718 |
| Bombardier Q Series | 225 | 81 |
| Business Aircraft | | |
| Bombardier Learjet Series | 725 | 441 |
| Bombardier Challenger 300 | 300 | 300 |
| Bombardier Challenger 604 | 150 | 98 |
| Bombardier Global Series | 450 | 333 |
| Total | 2,900 | 1,971 |

[1] Remaining deliveries for regional aircraft include 380 firm orders for the Bombardier CRJ Series and 15 firm orders for the Bombardier Q Series.

## ANALYSIS OF RESULTS

Bombardier Aerospace's segmented revenues amounted to $11.3 billion for the year ended January 31, 2003, compared to $12.3 billion for the preceding year. This reduction in segmented revenues is mainly due to the decline in business aircraft deliveries and the effect of the change in timing of revenue recognition described below. These reductions were partially offset by higher deliveries of regional jets and sales of used business aircraft, as well as a higher effective exchange rate for the U.S. dollar compared to the Canadian dollar, resulting from the Corporation's hedging activities.

Effective November 1, 2002, the Corporation ceased recognizing revenues on the sale of narrow-body business aircraft (Learjet Series) at green delivery (i.e. before interiors and optional avionics are installed). Revenues are now recognized only on fully completed aircraft due to changes in business practices. The impact is a reduction of revenues of $179.6 million for fiscal year 2003.

The following table provides a reconciliation of EBT to EBIT before the impact of the changes in accounting policies and special items:

| (in millions of Canadian dollars) | | **2003** | | 2002 |
|---|---|---|---|---|
| EBIT before the following: | **$** | **693.7** | $ | 1,457.6 |
| Impact of the changes in accounting policies | | **454.1** | | 507.6 |
| EBIT before special items | | **239.6** | | 950.0 |
| Special items: | | | | |
| Revision of program estimates | | **614.7** | | 23.3 |
| Write-down of used aircraft, production inventory and provision for lower sub-lease revenues | | **587.9** | | - |
| Severance charges | | **67.2** | | 69.5 |
| Claim settlements | | **41.0** | | - |
| Write-off of tooling for the Bombardier Q400* program | | **-** | | 264.0 |
| | | **1,310.8** | | 356.8 |
| EBIT | | **(1,071.2)** | | 593.2 |
| Interest | | **272.0** | | 228.5 |
| EBT | **$** | **(1,343.2)** | $ | 364.7 |

The previously described changes in accounting policies have been accounted for retroactively with restatement of prior periods. Therefore, the following analysis of the aerospace segment results reflects the changes in accounting policies.

EBIT before special items amounted to $239.6 million or 2.1% of revenues for the year ended January 31, 2003, compared to $950.0 million or 7.7% of revenues for the previous year. EBIT for fiscal year 2003 was lower than the previous year, mainly due to lower deliveries of business aircraft. The decrease in the EBIT margin resulted mainly from the change in the mix of aircraft deliveries arising from fewer deliveries of business aircraft, as well as pricing pressure on new and used aircraft deliveries. The margin percentage was also impacted by higher used aircraft sales with lower margins.

Net interest expense totalled $272.0 million for the year ended January 31, 2003, compared to $228.5 million for the previous year. This increase results from lower average customer advances and higher average inventory levels, partly offset by a lower interest rate environment.

As a result, EBT before special items amounted to negative $32.4 million for fiscal year 2003, compared to EBT before special items of $721.5 million for the previous year.

Bombardier Aerospace announced on March 5, 2003 that it is taking additional steps to meet the continuing challenges facing the aviation industry. Measures include a reduction of 3,000 employees at its facilities in Montréal, Toronto and Belfast over the next 12 months. As a result, a charge of approximately $104.1 million is expected to be recorded in connection with this reduction in fiscal year 2004 for severance and other involuntary termination costs.

**SPECIAL ITEMS**

In fiscal years 2003 and 2002, the Corporation recorded the special items described below.

As previously discussed, the impact of the revisions of program estimates made concurrently with the changes in accounting policies amounted to $614.7 million ($434.2 million after tax) for fiscal year 2003, compared to $23.3 million ($16.3 million after tax) for fiscal year 2002.

Special charges for the write-down of used aircraft, the provision for lower than anticipated sub-lease revenues and the write-down of production inventory for the year ended January 31, 2003 amounted to $587.9 million ($443.0 million after tax) for the following:

| | Business aircraft | Turboprop aircraft | Total |
|---|---|---|---|
| Second quarter adjustment | $ **62.7** | $ **107.7** | $ **170.4** |
| Fourth quarter adjustment | **210.4** | **207.1** | **417.5** |
| Total | $ **273.1** | $ **314.8** | $ **587.9** |

In the second quarter of fiscal year 2003, a special charge of $170.4 million was recorded mainly related to the write-down in the value of used aircraft, as well as additional provisions resulting from lower-than-anticipated sub-lease revenues on used turboprop aircraft, which reflected a decrease in market prices in the first half of the year. The used business aircraft market continued to deteriorate through the second half of the year and subsequent to year end as industry inventory levels remained high, causing continued downward pressure on used business aircraft values. In addition, market prices in the used turboprop aircraft market declined as a result of substantial increases in used aircraft inventories over the previous year. As a result, an additional special charge of $385.2 million was recorded in the fourth quarter of fiscal year 2003. This special charge relates to the trade-in portfolio of used aircraft, anticipated losses on trade-in business aircraft as well as lower anticipated sub-lease revenues. A $32.3-million special charge related to the write-down of turboprop production inventory was also recorded.

Special charges of $67.2 million ($52.2 million after tax) for severance and other involuntary termination costs were recorded in fiscal year 2003. These charges relate mainly to the Corporation's September 27, 2002 announcement to reduce employment levels at all Bombardier Aerospace sites.

During the second quarter of fiscal 2003, a charge of $41.0 million ($30.3 million after tax) was recorded in connection with the final settlement of a lawsuit and a contractual dispute with a customer.

Due to the market slowdown, on September 26, 2001, the Corporation announced its decision to reduce employment levels, production rates and deliveries to adjust to market conditions. As a result, in fiscal year 2002 a $69.5-million ($46.6 million after tax) special charge was recorded for severance and other involuntary termination benefits. In addition, in fiscal year 2002, in light of the overall outlook for turboprop aircraft, the Corporation decided to record a special charge of $264.0 million ($176.9 million after tax) relating to the write-off of the carrying value of program tooling costs of the Bombardier Q400 program.

**DELIVERIES AND BACKLOG**

During the year ended January 31, 2003, 220 regional aircraft, 77 business jets and one amphibious aircraft were delivered for a total of 298 units, compared to 206, 162 and two units respectively, for a total of 370 units in fiscal year 2002.

During fiscal year 2003, Bombardier Aerospace carried out significant product development on the Bombardier Global 5000*, the Bombardier Challenger 300 (formerly the Bombardier Continental) the Bombardier Learjet 40, the Bombardier Learjet 45 XR and the Bombardier CRJ900* aircraft programs. The Bombardier CRJ900 aircraft achieved both certification from Transport Canada and from the U.S. Federal Aviation Administration (FAA) in the third quarter of fiscal year 2003. In addition, a letter of recommendation from the European Joint Aviation Authorities (JAA) was received in December 2002. The first aircraft was delivered to launch customer Mesa Air Group Inc. on January 30, 2003.

As at January 31, 2003, the order backlog decreased to $18.7 billion, compared to $23.7 billion as at January 31, 2002, reflecting a lower level of orders of regional aircraft.

## BUSINESS AIRCRAFT

The business jets offered by Bombardier Aerospace include the narrow-body Bombardier Learjet 40, Bombardier Learjet 45, Bombardier Learjet 45 XR and Bombardier Learjet 60, the wide-body Bombardier Challenger 300, Bombardier Challenger 604, Bombardier Global 5000 and Bombardier Global Express, as well as corporate variants of the Bombardier CRJ Series.

### DELIVERIES

In fiscal year 2003, Bombardier Aerospace delivered a total of 77 business aircraft, compared to 162 the previous year. The decrease in deliveries is mainly due to the cycle of new product introduction favouring certain of Bombardier Aerospace's competitors in fiscal year 2003 and to the continuing difficult economic conditions. The cycle of new product introduction favoured Bombardier Aerospace in fiscal year 2002, namely from the initial backlog from the Bombardier Learjet 45 and Bombardier Global Express. In addition, the economic downturn and the delayed recognition of 14 aircraft deliveries arising from the change in timing of revenue recognition on the sale of narrow-body business aircraft also negatively impacted deliveries.

After years of strong industry growth, Bombardier Aerospace responded to the economic downturn affecting the business aircraft market by adjusting its production rate and adapting it to current market conditions. This production rate adjustment is deemed a prudent response to the continued uncertainty in the business aircraft market, and will support the objective of maintaining or restoring the aircraft order backlog and lead-times.

The deliveries detailed in the following table include the aircraft sold to customers of the North American Bombardier Flexjet* program, which enables individuals or companies to purchase a fractional share in a Bombardier business jet.

### BUSINESS AIRCRAFT DELIVERIES

| | **2003** | 2002 |
|---|---|---|
| Bombardier Learjet 31A | **4**[1] | 16 |
| Bombardier Learjet 45 | **20**[1] | 54 |
| Bombardier Learjet 60 | **14**[1] | 26 |
| Bombardier Challenger 604 | **23** | 45 |
| Bombardier Global Express | **16** | 21 |
| Total | **77** | 162 |

(1) One delivery each of completed narrow-body Bombardier Learjet 45 and Bombardier Learjet 60 aircraft were recorded during the fourth quarter of fiscal year 2003 and two cancellations of green Bombardier Learjet 45 aircraft previously recorded as sales were received during the fourth quarter of fiscal year 2003. If revenues had been recognized at green delivery for narrow-body aircraft (Learjet Series) for the fourth quarter of fiscal year 2003, 14 additional green aircraft would have been considered delivered and recorded as revenues, for a total of 91 deliveries.

### MARKET SHARE

Assessment of market share in the business jet industry is based on delivery data for the calendar year from the General Aviation Manufacturers Association, and therefore does not correspond to the number of deliveries recorded during Bombardier Aerospace's fiscal year.

In calendar year 2002, the overall market decreased from 777 units to 683 units. The market segment in which Bombardier Aerospace is active decreased from 520 units in 2001 to 420 units in 2002. Bombardier Aerospace has re-categorized certain of its products in the business aircraft segments in which it competes. For this reason, percentages will not correspond with percentages in last year's annual report. Bombardier Aerospace's market share in the business

aircraft segments in which it competes, including deliveries to customers of the North American Flexjet program, decreased from 34% to 26% in 2002.

The decrease in overall market share for Bombardier Aerospace's product lines is mainly due to the cycle of new product development favouring certain of Bombardier Aerospace's competitors in the past year. The introduction and delivery of new aircraft models normally affects orders and deliveries from year to year. The result of this was a redistribution of market share. With the entry into service of new aircraft models such as the Bombardier Challenger 300, the Bombardier Learjet 40, the Bombardier Learjet 45 XR and the Bombardier Global 5000, Bombardier Aerospace expects to recapture market share.

The Bombardier Learjet 31A market share in the light business jet segment decreased to 9% of 105 total light jet deliveries, down from 13% of 127 total light jet deliveries the previous year. This decrease is largely explained by the ramp-down of the Learjet 31A in preparation for next year's Bombardier Learjet 40 deliveries. Bombardier Learjet 45 deliveries accounted for 29% of a 114-unit market in the superlight segment, compared to 42% of a 146-unit market in 2001. In the midsize business jet segment, the Bombardier Learjet 60 attained 25% of a 73-unit market, compared to 33% of a 89-unit market the previous year.

The Bombardier Challenger 604 share of the large business aircraft segment was 47% of a 66-unit market, compared to 54% of a 76-unit market in 2001.

The Bombardier Global Express obtained 27% of a 62-unit market in the ultra long-range segment, compared to 33% of an 82-unit market in 2001.

**MARKET AND PROSPECTS**

Deliveries for fiscal year 2004 are expected to be at a similar level than fiscal year 2003 because of the entry into service of the Bombardier Challenger 300. A positive effect is also expected from the entry into service, late in fiscal year 2004, of the Bombardier Learjet 40 and the Bombardier Learjet 45 XR, as well as the certification of the Bombardier Global 5000 early in fiscal year 2005.

**PRODUCT DEVELOPMENT**

Bombardier Aerospace's significant investment in new product development has resulted in the most comprehensive line of business aircraft and will position it well for the future as these new products enter service. In fiscal year 2003, Bombardier Aerospace invested $247.8 million in new business aircraft program development, compared to $168.2 million in fiscal year 2002.

Type certification of the Bombardier Challenger 300 is expected in the second quarter of the fiscal year ending January 31, 2004, with initial delivery of completed aircraft to follow thereafter.

The Bombardier Learjet 40 was launched in July 2002 and is scheduled to enter into service in the fourth quarter of the fiscal year ending January 31, 2004. The prototype made its first flight on August 31, 2002 and the first production model flew on September 5, 2002; FAA certification is expected in the third quarter of the fiscal year ending January 31, 2004. The Bombardier Learjet 45 XR, an enhanced version of the Bombardier Learjet 45, was also launched in July 2002. It is scheduled to enter into service in fiscal year 2004.

The Bombardier Global 5000 made its first flight on March 7, 2003. First deliveries will begin in the fourth quarter of the fiscal year ending January 31, 2005.

**BOMBARDIER FLEXJET PROGRAM**

Through the Bombardier Flexjet program in North America, owners purchase a share of a Bombardier Aerospace business aircraft with operations and support managed by Bombardier Aerospace, including flight crew, maintenance, hangar fees and insurance. Through Flexjet's European program, customers purchase hours of flight time instead of a physical share of an

aircraft. In December 2001, Bombardier Aerospace launched Flexjet Asia in partnership with charter operators, maintenance companies and individual aircraft owners.

As at January 31, 2003, the Bombardier Flexjet program included 110 aircraft in service in North America and none in Europe, compared to 105 and eight aircraft respectively, as at January 31, 2002. The reduction in Europe was due to the repositioning of Flexjet Europe to operate similarly to Flexjet Asia, by partnering with charter operators. During the year, the number of customers with annual flight time entitlements rose by 8%, totalling 714 as at January 31, 2003, compared to 661 as at January 31, 2002.

Bombardier's North American Flexjet program sold shares for the equivalent of 12 aircraft, including 5.25 new and 6.75 used aircraft in fiscal year 2003, compared to 22 aircraft, 10 new and 12 used, in the previous year. The decrease in the number of shares sold is attributed to the general economic slowdown in the U.S.

**MARKET AND PROSPECTS**

The North American fractional ownership market experienced an 11% decline in aircraft delivered this year, following a 14% decline last year, mainly attributable to the general economic slowdown in the U.S. Bombardier Flexjet holds the number-three position among the fractional jet ownership programs currently available in this market.

## REGIONAL AIRCRAFT

The Bombardier Aerospace line of regional aircraft includes the 40-, 44- and 50-passenger Bombardier CRJ100/200*, the 70-passenger CRJ700*, the 86-passenger CRJ900 regional jets and the Bombardier Q Series family of turboprops, consisting of the 37-passenger Q100/200*, the 50-passenger Q300* and the 68- to 78-passenger Q400.

**REGIONAL AIRCRAFT DELIVERIES**

| | **2003** | 2002 |
|---|---|---|
| Bombardier CRJ200 | **140** | 136 |
| Bombardier CRJ700 | **50** | 29 |
| Bombardier CRJ900 | **1** | - |
| Bombardier Q100/200 | **1** | 3 |
| Bombardier Q300 | **9** | 15 |
| Bombardier Q400 | **19** | 23 |
| Total | **220** | 206 |

Regional aircraft deliveries increased in fiscal year 2003, primarily due to deliveries of Bombardier CRJ700 aircraft and a slight increase of deliveries in Bombardier CRJ200 aircraft. These increases were offset by reduced turboprop deliveries, which reflected the overall outlook in the turboprop market.

**REGIONAL AIRCRAFT ORDERS**

| | | | | **2003** | 2002 |
|---|---|---|---|---|---|
| | Orders | Swaps | Cancellations | Net orders | Net orders |
| Bombardier CRJ200 | **43** | **12** | **(6)** | **49** | 150 |
| Bombardier CRJ700 | **3** | **(5)** | **(5)** | **(7)** | 20 |
| Bombardier CRJ900 | **-** | **-** | **(5)** | **(5)** | 20 |
| Bombardier Q300 | **4** | **(7)** | **-** | **(3)** | 7 |
| Bombardier Q400 | **4** | **-** | **-** | **4** | 12 |
| Total | **54** | **-** | **(16)** | **38** | 209 |

Orders were lower for fiscal year 2003 compared to fiscal year 2002. This was due to the poor economic conditions and uncertainty in the airline industry. Certain customers elected to swap their orders from one aircraft model to another during fiscal year 2003. Also during fiscal year

2003, cancellations for 16 aircraft were confirmed. As part of the agreement for the cancellation of ten aircraft from one customer, that customer agreed to provide permanent financing to another customer for 20 Bombardier CRJ700 and Bombardier CRJ900 aircraft to be delivered during fiscal year 2004.

As at January 31, 2003, Bombardier Aerospace's order backlog, options and conditional orders for regional aircraft consisted of the following:

**REGIONAL AIRCRAFT ORDER BACKLOG AS AT JANUARY 31, 2003**

| | Aircraft on firm order | Options and conditional orders or letters of agreement | Total |
|---|---|---|---|
| Bombardier CRJ200 | **249** | **796** | **1,045** |
| Bombardier CRJ700 | **107** | **305** | **412** |
| Bombardier CRJ900 | **24** | **62** | **86** |
| Bombardier Q100/200 | **-** | **1** | **1** |
| Bombardier Q300 | **8** | **27** | **35** |
| Bombardier Q400 | **7** | **49** | **56** |
| Total | **395** | **1,240** | **1,635** |

**MARKET SHARE**

In accordance with the method used throughout the industry, the market share for Bombardier Aerospace's regional aircraft is calculated on the basis of order intake and aircraft deliveries during the calendar year, which does not correspond to Bombardier Aerospace's fiscal-year order intake and deliveries.

In calendar year 2002, order intake for the Bombardier CRJ Series in the 20- to 90-seat regional jet segment, was 46 of the 85 units ordered or a 54% market share. This compares to a 76% market share, or 230 of the 301 units ordered in 2001. Bombardier Aerospace's 76% market share in calendar year 2001 reflected two major orders. Based on aircraft deliveries, the Bombardier CRJ Series had a 59% market share or 184 of the 313 units delivered in 2002, compared to a 45% market share in 2001, representing 148 units of 330 delivered overall.

In the turboprop segment, 26 units were ordered in the 20- to 90-seat market during calendar year 2002, compared to 43 units in 2001. The Bombardier Q Series market share was 38% of the turboprop segment, with ten firm orders during calendar year 2002, compared to a 42% market share last year, with 18 firm orders. Based on aircraft deliveries, the Bombardier Q Series market share was 60% with 29 of 48 units delivered in 2002, compared to a 71% share in 2001, or 55 of 77 units delivered.

The combined order intake for Bombardier CRJ and Bombardier Q Series aircraft earned Bombardier Aerospace a 50% unit share of the overall 20- to 90-seat segment of the regional airliner market during calendar year 2002, accounting for 56 of the 111 units ordered, compared to 72% of 344 units ordered in 2001. Bombardier's overall market share for Bombardier CRJ and Bombardier Q Series aircraft deliveries was 59% with 213 of 361 units delivered, compared to a 50% market share in calendar year 2001, or 203 of 407 units delivered.

**PRODUCT DEVELOPMENT**

The Bombardier CRJ900 program has progressed as expected. Type certification from Transport Canada was received in September 2002, and from the FAA in October 2002. In addition, a letter of recommendation from the JAA was received in December 2002. The first Bombardier CRJ900 aircraft was delivered to launch customer Mesa Air Group Inc. on January 30, 2003. In fiscal year 2003, Bombardier Aerospace invested $135.5 million in regional aircraft development, compared to $177.0 million in fiscal year 2002.

## MARKET AND PROSPECTS

Bombardier Aerospace expects that its deliveries for fiscal year 2004 will be at a similar level than in fiscal year 2003, reflecting the entry into service of the Bombardier CRJ900 aircraft. Regional airlines continue to experience good performance compared to the major airlines. Historically, the share of regional airline traffic improves during industry downturns, due to regional airlines' lower cost structures and the fact that they operate smaller-capacity aircraft. Even as airlines reduced their total capacity, they added more regional aircraft flights to their networks. Regional aircraft flying increased through new routes, mainline supplement or replacement roles. Mainline supplement and replacement refers to airlines supplementing or replacing narrow-body jets with smaller regional jets in response to falling passenger traffic.

*Airline Monitor* reports that in the United States, for example, regional airline capacity, as measured by Available Seat Miles (ASMs), was up by 24% from October to December 2002, compared to the same period in 2001. Moreover, Revenue Passenger Miles (RPMs), a measure of paying passenger traffic, was up by 35% for the same period. This demand for regional aircraft is expected to remain strong, given the low operating cost benefits that airlines derive from them.

Although the regional jet market is performing well, the overall environment for airlines is clearly difficult. The mainline carriers in the U.S. have seen significant losses during the past two years. United Airlines and US Airways entered into Chapter 11 bankruptcy protection in 2002. Uncertainty surrounding these mainline carriers, plus the impact of the war in Iraq, have resulted in uncertain prospects for some Bombardier Aerospace regional aircraft customers. However, both of these carriers have publicly indicated that adding regional aircraft to their networks is an important component in their overall plan to restructure and exit from Chapter 11 bankruptcy protection.

Bombardier Aerospace is well positioned in the regional jet market with its Bombardier CRJ family of aircraft. In 2003, Bombardier delivered its 800th CRJ aircraft. Bombardier was and remains the first-to-market aircraft manufacturer in the 70- to 90-seat category, giving it a competitive advantage on delivery time for these products.

Bombardier Aerospace is also well positioned with the Bombardier Q Series of new-generation quiet turboprop aircraft. Although industry orders and deliveries for turboprops have fallen in recent years, Management believes there will be a continued requirement for new turboprops, due to their low operating costs and the need for turboprop operators to replace the older aircraft in their fleets.

## AMPHIBIOUS AIRCRAFT

Bombardier Aerospace markets the Bombardier 415* turboprop amphibious aircraft, the only purpose-built firefighting aircraft currently available. The aircraft can also be adapted to a variety of specialized missions such as search and rescue, environmental protection, coastal patrol and transport.

Bombardier Aerospace delivered one Bombardier 415 aircraft in fiscal year 2003, compared to two in fiscal year 2002. The firefighting aircraft market is cyclical in nature and follows governmental procurement cycles. In September 2001, production of the aircraft was suspended until such time as the orderbook warrants. As at January 31, 2003, there was no backlog. However, the CL-215* replacement market represents a medium-term opportunity. There are currently 59 CL-215 aircraft in service worldwide, most of which are coming to the end of their economic life.

## AVIATION SUPPORT AND SERVICES

Bombardier Aerospace provides a broad range of services to customers, including training for pilots and maintenance technicians, aircraft completion services, aircraft maintenance and spare parts.

### CUSTOMER TRAINING

Bombardier Aerospace offers, through joint ventures, a complete range of pilot and maintenance training programs for the Bombardier CRJ Series aircraft in Montréal, Canada, in Qingdao, China and in Berlin, Germany.

Bombardier Aerospace is the only business jet manufacturer to directly provide customized pilot and maintenance training, as well as ancillary training. The training centres are located in Montréal, Canada and at the Dallas/Fort Worth International Airport in Dallas, United States.

In addition, Bombardier Aerospace provides maintenance and support services for military pilot training. The NATO Flying Training in Canada (NFTC) program is in full operation with Canada, Denmark, the U.K., the Republic of Singapore, Italy, and Hungary as participating nations. Hungary joined the program in fiscal year 2003.

### BUSINESS AIRCRAFT COMPLETIONS

During the year, 155 business aircraft were completed at Bombardier Aerospace's two business aircraft completion centres, located in Montréal, Canada and Tucson, United States, as well as at authorized completion centres. By comparison, 173 aircraft were completed in fiscal year 2002.

**BUSINESS AIRCRAFT COMPLETIONS**

| | **2003** | 2002 |
|---|---|---|
| Bombardier Learjet 31A | **12** | 15 |
| Bombardier Learjet 45 | **44** | 53 |
| Bombardier Learjet 60 | **24** | 31 |
| Bombardier Challenger 604 | **43** | 40 |
| Bombardier Global Express | **32** | 34 |
| Total | **155** | 173 |

### AIRCRAFT MAINTENANCE AND SPARE PARTS SERVICES

Bombardier Aerospace has service centres in Fort Lauderdale, Florida; Indianapolis, Indiana; Hartford, Connecticut; Wichita, Kansas; Tucson, Arizona; and Dallas, Texas, in the United States; as well as a service centre in Berlin, Germany, which is a joint venture with Lufthansa. Bombardier Aerospace provides similar services in Europe and in the Middle East, and is also associated with 26 authorized service centres worldwide to provide complete services to operators.

Bombardier Aerospace offers maintenance and modification services to Bombardier CRJ Series operators in Bridgeport, West Virginia in the United States. Maintenance services for military aircraft are carried out mainly at the Mirabel, Canada facility.

Bombardier Aerospace also operates spare parts services through depots strategically located around the world.

## OTHER ACTIVITIES

Other activities carried out by Bombardier Aerospace include component manufacturing for third parties at facilities in Montréal, Canada and in Belfast, Northern Ireland, where most of the design, development and manufacture of major airframe structures is undertaken.

## LABOUR AND WORKFORCE

The total number of employees at the end of the fiscal year was approximately 29,500. In fiscal year 2003, labour agreements covering 7,870 employee members of the International Association of Machinists and Aerospace Workers in Montréal, Canada were ratified. In addition, early in fiscal year 2004, Bombardier Aerospace negotiated new collective agreements with employee members of the International Association of Machinists and Aerospace Workers in Wichita, Kansas, covering 750 employees; and the Canadian Auto Workers in Toronto, Canada covering 1,800 employees. The Wichita and Toronto employees voted in favour of their new collective agreements on March 3, 2003 and March 15, 2003, respectively.

* Trademark(s) of Bombardier Inc. or its subsidiaries.

**BOMBARDIER TRANSPORTATION**

Bombardier Transportation, the global leader in the rail equipment manufacturing and servicing industry, offers a full range of passenger railcars, as well as complete rail transportation systems. It also manufactures locomotives, freight cars, airport people movers, propulsion and controls and provides rail control solutions. Bombardier Transportation is also a provider of maintenance services.

For the year ended January 31, 2003, Bombardier Transportation's segmented revenues amounted to $9.4 billion, compared to $7.0 billion for the year ended January 31, 2002. EBIT for the year ended January 31, 2003 amounted to $207.1 million or 2.2% of revenues, compared to an EBIT before special items of $101.0 million or 1.4% of revenues for the year ended January 31, 2002. These increases in revenues and EBIT are mainly attributable to the consolidation of the Adtranz accounts for the full 12 months of fiscal year 2003, compared to eight months for the previous year. Other factors include the strengthening of the euro compared to the Canadian dollar and a higher level of activities on contracts in Europe.

Net interest income decreased to $102.7 million for the year ended January 31, 2003 from $129.4 million for the year ended January 31, 2002. This was due to a lower interest rate environment and higher average net assets. Bombardier Transportation is in a net interest income position as a result of the Corporation's interest allocation method described in the Overview section.

As a result, EBT reached $309.8 million or 3.3% of revenues for the year ended January 31, 2003, compared to EBT before special items of $230.4 million or 3.3% of revenues last year.

In fiscal year 2002, a special item of $74.2 million ($63.0 million after tax) was recorded relating to restructuring charges as a result of the integration of the manufacturing operations of Bombardier Transportation and Adtranz.

In fiscal year 2003, Bombardier Transportation continued to concentrate its development efforts on modularization and system standardization through product family development for light rail vehicles, metros, locomotives, commuter and regional, and intercity and high-speed trains. In addition, Bombardier Transportation developed common processes related to in-service introduction in order to improve product reliability. These development efforts are expected to reduce material and life-cycle costs for the different vehicles produced by Bombardier Transportation, as well as improve both the reliability and availability of the products. Bombardier Transportation also focused on energy-efficient and environmentally-friendly technologies for modern propulsion applications, as well as on new wayside control solutions, such as the European Rail Traffic Management System (ERTMS), in order to enhance operational safety.

The Bombardier JetTrain* locomotive, powered by a turbine engine and developed in partnership with the U.S. Federal Railroad Administration, has successfully completed a rigorous testing program and was introduced to the market on October 15, 2002.

As at January 31, 2003, Bombardier Transportation's order backlog totalled $25.7 billion, consisting of $19.8 billion for manufacturing operations and $5.9 billion for service businesses. This compares to $16.3 billion for manufacturing operations and $4.1 billion for service businesses, for a total of $20.4 billion as at January 31, 2002. The increase in the value of the backlog as at January 31, 2003 reflects order intake of $11.7 billion and a $3.0 billion adjustment relating to the strengthening of the euro compared to the Canadian dollar.

The year-end backlog provides for a stable inflow of revenues over the coming years. Management anticipates that the transportation market will continue to grow in the years ahead and that Bombardier Transportation will maintain its leadership in market share. However,

Bombardier Transportation operates in an industry characterized by relatively low margins compensated by low investment in net assets. The design and manufacture of complex equipment under tight time and budget constraints, and its introduction into service in often difficult circumstances can constitute significant execution and pricing risks. Bombardier Transportation is a contract-based business with major fluctuations in the size, timing and location of orders. Therefore, this has an impact on the utilization of specific facilities and resources.

Considerable efforts and resources are committed to tightly control the bidding process, to enhance the early identification and management of risks, to accelerate the deployment of common processes and systems infrastructure, and to strengthen project management and the training of personnel. These measures aim to promote greater stability of results and better margins.

In fiscal year 2003, Metronet, in which Bombardier Transportation is a 20% equity partner, was the winning consortium for the renewal, modernization and maintenance of two of the London Underground's infrastructure projects. The financial close is expected in April 2003, which is a condition for the awarding of the contract. At this time, Bombardier Transportation will be awarded firm supply contracts for metro cars, signalling, maintenance and management services. Bombardier Transportation's share of the contracts is valued at $8.6 billion, (£3.4 billion) over 15 years, with deliveries of new products beginning in calendar year 2008. Bombardier Transportation's involvement in the London Underground contracts is excluded from the backlog.

The worldwide market for railway equipment and services is comprised of rolling stock, transportation systems, services and signalling systems. The value of the orders awarded in the worldwide market accessible to the supply industry (i.e. open to competition) was approximately $55.0 billion (€37.0 billion) in calendar year 2002. The growth of the accessible market is dependant upon demand for rolling stock, the outsourcing of services and the participation of the private sector in public transit systems. Last year, Europe remained the largest market with a 50% share of the accessible market, while North America represented approximately 28% and Asia-Pacific 11%.

## ROLLING STOCK

Rolling stock includes commuter and regional trains, intercity and high-speed trains, metro/rapid transit, light rail vehicles, locomotives and freight cars. During fiscal year 2003, Bombardier Transportation received orders for a total of $7.9 billion for all product lines, compared to $5.1 billion the previous year.

### COMMUTER/REGIONAL RAIL

Bombardier Transportation offers a wide range of passenger railcars for suburban and regional markets. The product line includes electrical multiple units (EMUs), diesel multiple units (DMUs), coaches and double-deck trains.

#### Deliveries and work in process

In Germany, Bombardier Transportation delivered 522 regional train cars and 79 double-deck cars to Deutsche Bahn, as well as 124 commuter train cars to the city of Berlin. Elsewhere in Europe, work continued with deliveries of more than 100 double-deck and commuter cars on orders from Société nationale des chemins de fer belge (SNCB), Société Nationale des Chemins de fer Français (SNCF), NS Reizigers and private operators in Europe.

In North America in fiscal year 2003, 19 bi-level commuter cars were completed for GO-Transit in Ontario, Canada and 21 such cars were completed for the Southern California Regional Rail Authority and Central Puget Sound Regional Transit Authority. Work progressed with deliveries of the first 22 cars on the order for 858 commuter cars from New York's Metropolitan Transportation Authority/Long Island Rail Road.

**Major orders**
Major orders received during the year were:

| Client | Product | Number of cars | Value (in millions of dollars) |
|---|---|---|---|
| Long Island Rail Road | Commuter rail cars | 352 | 941.0 |
| Metro-North Commuter Railroad | Commuter rail cars | 180 | 500.0 |
| NJ Transit | Multi-level cars | 100 | 378.0 |
| Deutsche Bahn | Double-deck passenger coaches | 65 | 138.0 |
| Western Australian Government | Three-car electric commuter trains | 93 | 102.0 |

**INTERCITY/HIGH-SPEED TRAINS**
Bombardier Transportation's product line includes DMUs, EMUs, diesel-electric multiple units (DEMUs), coaches and high-speed trains.

**Deliveries and work in process**
In Europe, the balance of the order from Virgin Trains for the United Kingdom's CrossCountry services, representing 224 Voyager and tilting Super Voyager DEMUs cars, was delivered during the year. A total of 231 Bombardier Electrostar* EMUs was delivered to Connex South Eastern and GoVia, both of the United Kingdom. In addition, 100 EMUs were delivered to customers in Sweden, while work continued on orders from SNCF, Deutsche Bahn, the Swiss Federal Railways (SBB) and other European customers.

In North America, the delivery of the remaining Acela Express** cars and Maryland high-speed locomotives was completed during the year.

**Major orders**
Major orders received during the year were:

| **Client** | Product | Number of cars | Value (in millions of dollars) |
|---|---|---|---|
| GoVia | Electrostar electric cars | 460 | 848.0 |
| Connex South Eastern | Electrostar EMUs | 228 | 424.0 |
| HSBC Rail UK Limited, to be operated by Midland Mainline | Diesel-electric multiple unit cars | 127 | 350.0 |
| Connex South Eastern | Suburban Electrostar cars | 180 | 326.0 |
| Deutsche Bahn | Seven-car ICE T high-speed trains | 28 | 144.0 |
| Porterbrook Leasing Company Ltd. | Turbostar DMUs | 45 | 121.0 |

**METRO/RAPID TRANSIT**
Bombardier Transportation offers a full range of vehicle technologies adapted to the needs of urban transit systems.

**Deliveries and work in process**
In Europe, Bombardier Transportation delivered 153 cars to the Stockholm Public Transport Authority in Sweden, 48 cars for the Berlin metro in Germany and 30 cars for the Bucharest metro in Romania. Work progressed on orders for the Hamburg and Munich metros in Germany and the Prague metro in the Czech Republic.

In North America, 270 R-142 rapid transit cars were delivered to the MTA New York City Transit and 16 Advanced Rapid Transit Mark II cars to the government of the province of British Columbia. Work continued on the MTA New York City Transit order and on the monorail system in Las Vegas.

In Asia, through a joint venture, Bombardier Transportation delivered six metro cars for Guangzhou's metro Line 2. Work continued on this order and on an order for the Shenzhen metro, both in China.

**Major orders**
A consortium made up of Bombardier Transportation and CAF was awarded a contract from Mexico City's transit authority, Sistema de Transporte Colectivo-Metro, for 405 subway cars, for which Bombardier's share of the order is valued at $508.0 million. Bombardier Transportation, through a joint venture, received an order for the supply of 60 metro cars (10 six-car trainsets) from the Shanghai Metro Operation Company, for which Bombardier Transportation's share is valued at $78.0 million.

**LIGHT RAIL VEHICLES**
Bombardier Transportation's family of light rail vehicles includes street-trams, city-trams and Tram-Train* vehicles.

**Deliveries and work in process**
In Europe, Bombardier Transportation delivered 39 city-trams to the city of Rotterdam in the Netherlands, 14 street-trams and 22 city-trams to customers in the United Kingdom, 40 city-trams to the city of Cologne, 59 street-trams to other customers in Germany, and 62 city-trams and street-trams to other customers in Europe. Work continued on these orders and began on newly-signed orders.

In North America, work is continuing on the Metropolitan Council of Minneapolis contract.

**Major orders**
A major order was received during the year from the Transport Authority of Frankfurt in Germany for 60 low-floor trams, valued at $157.0 million. The Geneva Transport Authority in Switzerland placed an order for 21 low-floor Cityrunner trams, valued at $90.0 million.

**LOCOMOTIVES AND FREIGHT**
Locomotives are for use in intercity, regional and freight traffic. Bombardier Transportation offers electric and diesel-electric locomotives to suit the specific needs of railway operators. Freight cars are designed and manufactured for private and stated-owned operators.

**Deliveries and work in process**
Bombardier Transportation delivered 66 electric locomotives to Deutsche Bahn, 13 to SBB, 15 to private operators in Germany and Switzerland and 52 to Trenitalia in Italy. Furthermore, 23 electric locomotives were delivered to NJ Transit in the U.S. Pursuant to an agreement with General Motor's Electro-Motive Division in the U.S., Bombardier Transportation assembled 248 diesel-electric locomotives in Mexico.

Bombardier Transportation delivered 139 freight cars to Transwaggon in Germany and 283 to private operators in Europe.

**Major orders**
Bombardier Transportation received an order from Trenitalia of Italy for the supply of 42 electric locomotives Class EU11, valued at $188.0 million. In addition, SBB placed an order for 40 locomotives valued at $171.0 million.

## ROLLING STOCK MARKET AND PROSPECTS

Bombardier Transportation determines its annual market share as an average based on the total value of orders in the industry over the past three years. Bombardier Transportation is the leading passenger rolling stock supplier, having secured more than one-third of worldwide orders over the past three years. In the highly competitive European market, Bombardier Transportation maintained its leading position with a 38% market share for this year and last year. In North America, Bombardier Transportation increased its market share for passenger rolling stock to 42%, compared to 37% last year. In the Asia-Pacific market, Bombardier Transportation's market share accounts for more than 20%. The key drivers in the rolling stock market are vehicle replacement, infrastructure investment, the public policy environment, regionalization in Europe and new entrants such as private operators. Bombardier Transportation expects that the major operators in Europe and North America will continue with fleet replacement programs in fiscal year 2004.

The orders awarded in calendar year 2002 for passenger rolling stock in the worldwide industry were valued at $20.0 billion, compared to $17.0 billion the previous year. With 54% of the orders, Europe remained the most important passenger rolling stock market. The liberalized U.K. rail market contributed significantly to this growth. The second-largest market was North America with 28%, followed by Asia-Pacific with 12%.

With a legislative agenda aimed at liberalizing the European rail industry, the European Union's goals are to open access to freight and passenger traffic for operators and to separate rail infrastructure and rail operations ownership and management, supporting market growth. This process is already underway in several European countries. The combination of renewal and modernization of the large installed fleet for passenger rail and locomotives, as well as a moderate growth of both passenger and freight traffic continue to make this market a prime focus for Bombardier Transportation. Shifts in funding priorities could delay the upgrade and expansion of the rail infrastructure.

The North American passenger rail market is driven by upcoming replacement needs for commuter and metro fleets. Additional market potential will be generated from emerging high-speed projects, where Bombardier Transportation is well positioned with the Bombardier JetTrain technology.

Asia is a promising market for rail equipment and services. A growing population, prosperity and urbanization are expected to result in investments in transportation infrastructures in order to improve quality of life and make Asian cities accessible.

## TOTAL TRANSIT SYSTEMS

Bombardier Transportation develops, designs and markets complete transportation systems from high-capacity urban transit systems to short-distance people movers. Bombardier Transportation also provides the operations and maintenance services for fully automated driverless systems.

## DELIVERIES AND WORK IN PROCESS

During the year, Bombardier Transportation, as part of the Normetro Consortium, delivered 34 light rail vehicles and began deliveries for the Metro do Porto in Portugal. It also supplied 19 CX-100* vehicles for AENA's automated people mover system in Madrid's Barajas Airport and ten CX-100 vehicles and a Central Control/Automatic Train Control System for the Seattle Tacoma STS Airport. The design and supply of all the electrical and mechanical systems for the Vancouver SkyTrain** 20-kilometre Millennium Line was completed ahead of schedule. Work also progressed on the Dallas/Fort Worth automated people mover, Las Vegas Monorail and Nottingham Express Transit Line 1 systems. The fully automated AirTrain System for New York's JFK International Airport is scheduled to open for revenue service in calendar year 2003. The 32 -

vehicle order, designed with extra-wide doors to accommodate on-board luggage carts, has been delivered. AirTrain JFK will connect with two branches of New York's regional transit network.

**MAJOR ORDERS**
A consortium comprised of Bombardier Transportation and a Turkish engineering group was awarded a contract by the Eskisehir Greater City Municipality to supply a 14.2-kilometre light rail transit system, including one year of operations and management support. Bombardier Transportation's share is valued at $117.0 million.

**MARKET AND PROSPECTS**
Bombardier Transportation determines its annual market share as an average based on the total value of orders in this segment of the industry over the past five years, consistent with industry practice. Bombardier Transportation's average market share for the last five years is 20%.

Urbanization, population growth, Asian market recovery, increased federal funding for U.S. mass transit systems and the commitment from many European countries to improve rail transportation systems are expected to drive future growth. The transportation systems market is expected to grow from approximately $3.0 billion in 2002 to $6.0 billion in five years. Nevertheless, global economic uncertainty could delay new transit projects and increase the difficulty in obtaining new orders.

## PROPULSION AND CONTROLS

Bombardier Transportation offers electrical propulsion systems, drives, train control and on-board train computer systems, as well as auxiliary inverters/power systems, mainly to Bombardier Transportation's internal railcar manufacturing divisions, as well as to external railcar manufacturers.

**DELIVERIES AND WORK IN PROCESS**
Deliveries to internal railcar manufacturing divisions included large series of propulsion equipment for EMUs, intercity trains, locomotives, metro and light rail vehicles for customers in Europe (U.K., Germany, Scandinavia and Italy) and China. Bombardier Transportation delivered total propulsion equipment to manufacturers whose cars are destined for New York, Washington D.C., Atlanta and Pittsburgh in the U.S., Madrid in Spain, Merida in Venezuela and Guangzhou and Shenzhen in China.

**MARKET AND PROSPECTS**
The electrical propulsion and train control systems are core capabilities for Bombardier Transportation. Growth in this segment follows the trend in the new-build rolling stock and refurbishment markets. Third-party sales in markets such as China, India and Russia continue to provide growth opportunities in the electrical propulsion and train control business.

The trend towards more powerful and compact equipment will continue, supported by research and development in electrical components and the introduction of standardized and modular products. High-performance train control equipment provides extended possibilities in the area of condition monitoring, fleet management and passenger communication. The capability for managing the integration of these technologies will play a major role in allowing Bombardier Transportation to benefit from this growth potential.

## SERVICES

Bombardier Transportation provides a full range of maintenance services. These services include total train maintenance, technical support, spares and logistics management, car re-engineering/heavy overhaul and component re-engineering/overhaul. During fiscal year 2003, Bombardier Transportation received orders for a total of $2.9 billion, compared to $1.8 billion the previous year.

**WORK IN PROCESS**
In Europe, under a 12-year contract in the U.K., Bombardier Transportation is providing maintenance services for the new Bombardier-built Virgin Trains. Several other maintenance contracts are ongoing in Germany and the U.K. The vehicle re-engineering and overhaul business continues to grow with major orders won in Switzerland and the U.K. In Sweden, through its membership in the Tagia joint venture, Bombardier Transportation is responsible for the maintenance of the Stockholm metro cars.

In North America, maintenance and operations services will be provided for light rail vehicles for southern New Jersey under a 10-year contract. The joint venture between Alstom and Bombardier Transportation to provide maintenance services for Amtrak's Acela** high-speed trainsets under a ten-year contract is ongoing. Maintenance services were also provided on GO-Transit's commuter train fleet in Ontario, Canada, and on commuter trains for the city of Los Angeles in the U.S.

In Australia, Bombardier Transportation is maintaining a fleet of 275 trams operating around Melbourne.

**MAJOR ORDERS**
Major orders received during the year were:

| Client | Product | Number of years/ number of vehicles | Value (in millions of dollars) |
|---|---|---|---|
| GoVia | Material supply and technical support for 700 Electrostar commuter cars | 20 years | 638.0 |
| Connex South Eastern | Maintenance for 228 Electrostar commuter cars | 30 years | 333.0 |
| Connex South Eastern | Maintenance for 180 Suburban Electrostar commuter cars | 30 years | 235.0 |
| HSBC Rail UK Limited | Maintenance for 127 diesel-electric multiple units cars | 4 years | 162.0 |
| HSBC Rail UK Limited | Refurbishment of passenger coaches | 302 cars | 143.0 |
| Eurotunnel operator | Modernization of locomotives | 37 locomotives | 135.0 |

**MARKET AND PROSPECTS**
The growth prospects in the services business are good, due to the fact that the increasing technical complexity of vehicles and systems encourages operators to outsource maintenance to the rolling stock manufacturers. The entry of new commercially-driven private operators coupled with the liberalization of the market, and the fact that operators are expanding their business outside their home countries, increase their need to outsource fleet maintenance.

There is an emerging trend towards outsourcing maintenance to large single service providers rather than a multiplicity of smaller service providers. Bombardier Transportation has redefined its business to meet this new trend.

The services market is valued at approximately $22.0 billion per year. Due to market liberalization, it is expected to grow at an annual rate of 11%. Bombardier Transportation is among the leading suppliers with a 6% market share compared to 5% last year. Bombardier Transportation has redefined the market definition and as such the market share percentage for last year does not correspond with the percentage disclosed in last year’s annual report. In the

U.K., Bombardier Transportation consolidated its leadership position by securing a number of large fleet maintenance contracts in conjunction with rolling stock orders. In Germany, the first major materials supply agreement was awarded to Bombardier Transportation by Deutsche Bahn.

## RAIL CONTROL SOLUTIONS

Bombardier Transportation's product portfolio includes integrated operation control systems, electronic and relay-interlocking, automatic train protection and automatic train operation radio-based signalling systems and wayside equipment.

### DELIVERIES AND WORK IN PROCESS

During the current fiscal year, Bombardier Transportation, in Switzerland, put into operation the world's first Level 2 ERTMS for the Swiss Federal Railways SBB Pilot Line. In the U.K. market, Bombardier Transportation continued to work on a new signalling system for the Horsham area, which will be the first application of Bombardier's EBILOCK interlocking technology, and also commissioned the U.K.'s largest integrated control centre in Leeds. Other major highlights were the completion of automatic train protection testing in Taiwan and the commissioning of computer-based interlocking in Barcelona, Spain.

### MAJOR ORDERS

Bombardier Transportation received an order valued at $138.0 million from Rete Ferroviaria Italiana S.p.A. for the supply of an ERTMS system, designed in response to the need to control rail traffic crossing international borders.

### MARKET AND PROSPECTS

The rail control solutions market is expected to increase from $5.3 billion in 2002 to $7.5 billion in five years. Bombardier Transportation's market share currently stands at 8%.

With the first Level 2 ERTMS in trial service in Switzerland, Bombardier Transportation is positioned to capture opportunities in this new market segment. It is estimated that the ERTMS business will grow annually from $700.0 million of new orders in 2002 to more than $1.5 billion in five years. ERTMS will open new markets, as it replaces large installed country-specific signalling systems and constitutes a prerequisite for European cross-border railway services. Funding limitations for this new infrastructure technology may delay the implementation of this new standard throughout Europe.

## SIGNIFICANT EVENTS

Effective May 1, 2001, the Corporation acquired from DaimlerChrysler AG (DaimlerChrysler) of Stuttgart, Germany, all of the common shares of its subsidiary Adtranz. Pursuant to the terms of the Sale and Purchase Agreement (SPA), a purchase price of $725.0 million US ($1.1 billion) was agreed upon. The SPA also contemplates an adjustment to the purchase price for a maximum of €150.0 million based on the carrying value of the adjusted net assets acquired, established under U.S. generally accepted accounting principles (U.S. GAAP) as at April 30, 2001 (Net Asset Amount), provided that the minimum Net Asset Amount was delivered on the closing date.

Starting in May 2001, Adtranz, under the ownership of the Corporation, prepared its April 30, 2001 closing balance sheet under U.S. GAAP, in accordance with the provisions of the SPA for the purpose of establishing the Net Asset Amount. The resulting Net Asset Amount did not meet the minimum value contemplated in the SPA due to significant adjustments pertaining to the application of U.S. GAAP and to unrecorded costs required to complete contracts with third parties.

The Corporation announced on February 14, 2002 that discussions with DaimlerChrysler had failed to result in an agreement as to the value of the Net Asset Amount delivered at closing. In July 2002, the Corporation filed a request for arbitration with the International Chamber of Commerce in Paris.

Under the SPA, DaimlerChrysler made contractual representations and guarantees to the Corporation, including a written confirmation that the minimum Net Asset Amount was met on the closing date of April 30, 2001. The Corporation's claim for damages is largely based on material breaches of contractual representations and guarantees, including a significant deficiency in the value of the Net Asset Amount. The Corporation's claim under the request for arbitration is for an amount of €960.0 million ($1.6 billion) plus interest and costs, and its resolution will result in a reduction of goodwill, of which $205.6 million (€150.0 million) was recorded by Bombardier in fiscal year 2002.

On November 8, 2001, the Corporation filed a claim against Amtrak in the United States District Court for the District of Columbia. The claim seeks damages in excess of $200.0 million US ($305.8 million) as compensation for additional costs incurred in relation to the Acela high-speed trainsets and locomotives contracts, including costs incurred as a result of Amtrak's failure to upgrade its infrastructure to accommodate the new equipment. On December 3, 2001, Amtrak filed a Motion to Dismiss, alleging that Bombardier had failed to follow contractual dispute resolution proceedings.

The Motion to Dismiss was denied on September 30, 2002. On October 11, 2002, Amtrak gave notice of its intent to appeal the denial of that Motion to Dismiss. On November 20, 2002, Amtrak filed a counterclaim against the Corporation and a claim against Alstom Transportation Inc., alleging damages in excess of $200.0 million US ($305.8 million). A stay on all proceedings has been issued by the Appeals Court.

## LABOUR AND WORKFORCE

During fiscal year 2004, throughout Europe, 16 union agreements will be negotiated for clerical and production employees, which cover 19,000 employees, and of which 11 union agreements are industry-wide and cover 14,000 employees. In Europe, Bombardier Transportation has approximately 26,000 employees.

During fiscal year 2004, seven collective agreements for clerical and production employees are up for renewal in North America, covering 2,000 employees. In North America, Bombardier Transportation has approximately 6,000 employees.

* Trademark(s) of Bombardier Inc. or its subsidiaries.
** Acela and Acela Express are trademarks of Amtrak.
** SkyTrain is a trademark of BC Transit Corp.

## RECREATIONAL PRODUCTS

Bombardier Recreational Products designs, develops, manufactures, distributes and sells snowmobiles, watercraft, all-terrain vehicles (ATVs), outboard engines, snow-grooming equipment and multi-purpose tracked vehicles. It also manufactures Rotax engines that power Bombardier and other manufacturers' products.

For the year ended January 31, 2003, segmented revenues of Bombardier Recreational Products amounted to $2.5 billion, compared to $2.0 billion for the year ended January 31, 2002. This increase is mainly due to higher outboard engines sales and increased deliveries of Bombardier ATVs due to the expansion of the product line.

EBIT amounted to $171.5 million or 6.9% of revenues for fiscal year 2003, compared to $175.0 million or 9.0% of revenues for the year ended January 31, 2002. The decrease in the EBIT margin reflects a different product mix resulting from higher sales of outboard engines and ATVs, which generate lower margins than mature products. In addition, poor snow accumulation in North America, most notably in the central United States, resulted in higher levels of retail sales incentives for snowmobiles.

Despite a lower interest rate environment in fiscal year 2003, growth in average net assets, mainly driven by higher activities in outboard engines, resulted in interest expense increasing to $33.1 million for fiscal year 2003 from $24.7 million the previous year.

As a result, EBT reached $138.4 million or 5.6% of revenues for fiscal year 2003, compared to $150.3 million or 7.7% of revenues for the previous year.

During the year, Bombardier Recreational Products invested $105.9 million in industrial design and product development, compared to $97.2 million in fiscal year 2002. Major projects included the ongoing development of a new family of Rotax* engines with environmentally-friendly technologies, the development of a new E-TEC* direct injection technology for outboard engines and investments in an expanded line of ATVs and outboard engines.

Bombardier Recreational Products anticipates that the markets for its products will grow modestly over the next few years. For next year, Bombardier Recreational Products anticipates market share gains in the ATV and outboard engine segments.

### SNOWMOBILES

In the snowmobile industry, Bombardier Recreational Products is engaged in the development, design and manufacture of the Ski-Doo* line, as well as the Lynx* line, which is designed specifically for the European market.

#### PRODUCT DEVELOPMENT

The REV* platform is redefining snowmobile riding. It received media attention, was featured in the James Bond movie, *Die Another Day*, and was well received by consumers. Bombardier Recreational Products will leverage the success of the REV by introducing it into new snowmobile segments.

#### MARKET AND PROSPECTS

The poor snow accumulation in the central U.S., Alaska and central Canada, and the weakness of the U.S. economy is expected to result in a decrease in industry retail sales in Canada and the United States. Industry retail sales are expected to decrease to approximately 160,000 units for the selling season ending March 31, 2003, compared to 184,300 units for the previous season.

While there has been an overall decrease in industry sales, Bombardier Recreational Products has strengthened its market share in North America from 30% last season to an estimated

industry-leading 33% in the 2002-03 season. This increase is largely due to the introduction of the new REV platform, which has been positively received in the snowmobile industry. Due to the market slowdown, Bombardier Recreational Products retail unit sales are expected to be 52,000 units for the selling season ending March 31, 2003, compared to 55,550 units last season.

Snowmobile industry sales in Europe are expected to remain stable at an estimated level of 21,000 units for the season ending July 31, 2003. Bombardier Recreational Products is expected to remain the leader in Europe and to maintain its 47% market share with its Lynx and Ski-Doo brands.

It is expected that the key factor continuing to influence snowmobile industry retail sales is snow accumulation. Due to two consecutive winters with poor snow accumulation in North America, end-of-season 2003 dealer inventory will probably be high. In addition, it is anticipated that the replacement rate of used snowmobiles will decline due to lower usage. Given this high level of dealer inventory, industry wholesale levels are expected to be lower next year. Industry retail sales should remain relatively flat.

In Europe, it is anticipated that industry retail and wholesale levels will remain stable.

## WATERCRAFT

The activities of Bombardier Recreational Products in the watercraft industry encompass the development, design and manufacture of Sea-Doo* watercraft.

**PRODUCT DEVELOPMENT**
To maintain and improve its leadership position, Bombardier Recreational Products will continue to introduce watercraft that meet customer expectations and stricter emissions regulations. In the upcoming season, Bombardier Recreational Products is introducing the 2003 Sea-Doo GTX** 4-TEC* Supercharged watercraft.

**MARKET AND PROSPECTS**
The watercraft industry in Canada and the United States decreased to 83,500 units for the season ended September 30, 2002, compared to 85,500 units last season. However, Bombardier Recreational Products was able to improve its leadership position by increasing its market share from 43% to 47%.

The international watercraft industry decreased by 9% to an estimated 21,000 units for the season ended September 30, 2002, compared to 23,000 units last season.

While worldwide industry sales have decreased by 4%, Bombardier Recreational Products was able to increase its worldwide market share to 46%, up from 45% last year.

The stable popularity of watercraft activities and the arrival of cleaner and quieter four-stroke products is expected to stimulate demand. However, poor weather conditions and continued economic uncertainty could adversely affect the market.

## ALL-TERRAIN VEHICLES

Bombardier Recreational Products is active in the ATV industry through the development, design and manufacture of an expanding line of Bombardier* ATVs.

**PRODUCT DEVELOPMENT**
Bombardier Recreational Products continued to broaden its line-up by entering two new ATV segments: the midsize recreational utility segment with the Bombardier Outlander*, and the entry-level segment with the Bombardier Rally*. Bombardier Recreational Products also launched the

first-ever two-passenger ATV, the Bombardier Traxter* MAX, to better respond to a strong trend in the family ATV market.

**MARKET AND PROSPECTS**

Industry retail sales in North America increased by 6% to 863,300 units for the year ended December 31, 2002, compared to 812,300 units for the previous year. Bombardier Recreational Products' ATV retail sales increased by 57% to 21,800 units in 2002, compared to 13,900 units last season.

The international ATV market increased by 18% to an estimated 65,000 units for the year ended December 31, 2002, compared to 55,000 units last year. Bombardier Recreational Products sold 4,300 units, compared to 2,000 units the previous year.

The ATV industry is still growing in North America, but is starting to show signs of slowdown with single-digit growth in 2002. With growth slowing, the competition is intensifying. International markets are expected to continue growing, mainly in Europe.

Bombardier Recreational Products is well positioned to sustain growth in the ATV industry. With the introduction of the Outlander and the Traxter MAX, Bombardier Recreational Products continues to expand its coverage and its product line. Furthermore, Bombardier Recreational Products signed a strategic alliance agreement with Deere & Company, the world leader in agriculture, forestry and utility equipment. This agreement will enable both companies to expand their product offerings for their respective customers and authorized dealers.

## OUTBOARD ENGINES

Bombardier Recreational Products is actively engaged in the development, design and manufacture of Johnson* and Evinrude* outboard engines, which are offered in two- or four-stroke configurations, ranging from three horsepower (hp) to 250 hp.

During fiscal year 2003, Bombardier Recreational Products ramped up production at its new manufacturing and assembly facility in Sturtevant, Wisconsin.

**PRODUCT DEVELOPMENT**

Bombardier Recreational Products is focusing its development efforts on revitalizing these brands, on expanding its product line, and on the continued expansion of its environmentally-friendly line of engines. Bombardier Recreational Products recently launched E-TEC technology, which delivers cleaner, quieter and more efficient power than current industry offerings.

**MARKET AND PROSPECTS**

The retail outboard market in North America reached 316,000 units for the season ended September 30, 2002, compared to 320,000 units last season. The international outboard market was estimated at 374,000 units sold wholesale in the 2002 calendar year, a 6% decrease from 397,000 units the previous year.

To rebuild the worldwide market position of the Johnson and Evinrude brands, Bombardier Recreational Products re-established Johnson and Evinrude dealer networks and signed strategic supply agreements with several boat builders in fiscal year 2003.

The outboard engine industry is mature and industry volume is expected to remain stable. In a very competitive environment, Bombardier Recreational Products is seeking to gain market share through the expansion of its product line and the introduction of new technologies, such as E-TEC.

## ENGINES

Rotax engines are designed, developed and manufactured at Bombardier Recreational Products' Austrian facilities. These engines are used in Ski-Doo and Lynx snowmobiles, in Sea-Doo watercraft, in Bombardier ATVs and in other manufacturers' motorcycles, scooters, karts and small and ultralight aircraft.

**PRODUCT DEVELOPMENT**
To further enhance its objectives of offering environmentally-friendly products, meeting and exceeding the more restrictive European and American emission regulations and broadening its product line-up, Bombardier Recreational Products is actively engaged in designing and developing new-generation four-stroke and cleaner two-stroke engines. Nine new engines went into production in fiscal year 2003.

**MARKET AND PROSPECTS**
In fiscal year 2003, deliveries of Rotax engines totalled 225,000 units, compared to 231,000 the previous year. For Bombardier-manufactured products, unit sales increased by 9% to 150,000 engines, compared to 137,000 the previous year, due to higher Bombardier ATV sales. For other manufacturers' products, Rotax engine unit sales totalled 75,000 for fiscal year 2003, compared to 94,000 the previous year. This reduction is mainly due to a decrease in motorcycle and scooter sales in Europe.

The industry is driven by demand for cleaner engine technologies at an affordable price. Bombardier Recreational Products intends to meet this challenge with the expansion of its 4-TEC engines in ATVs, watercraft and snowmobiles, and through the introduction of cleaner two-stroke engines in snowmobiles.

Growth in the Rotax engine market is expected to be driven primarily by Bombardier Recreational Products' expanding presence in the ATV market and by additional contracts with third parties.

* Trademark(s) of Bombardier Inc. or its subsidiaries.
** GTX is a trademark of Castrol Limited.

**BOMBARDIER CAPITAL**

BC offers secured financing and leasing solutions to manufacturers, retailers and other commercial businesses, primarily in North American markets. BC targets industry sectors and product markets that fit its specialized core competencies, including services provided directly to Bombardier's manufacturing segments.

BC's continued activities are grouped into the following portfolio categories: inventory finance, commercial aircraft and industrial equipment. BC's discontinued activities are grouped into the following portfolio categories: business aircraft, receivable factoring, railcar leasing, manufactured housing, consumer finance and "other" portfolios.

The following table presents total assets under management, including on- and off-balance sheet finance receivables and assets under operating leases, before allowance for credit losses as at January 31:

| (millions of Canadian dollars) | | **2003** | | | | 2002 |
|---|---|---|---|---|---|---|
| | **On-balance sheet** | **Off-balance sheet** | **Total** | On-balance sheet | Off-balance sheet | Total |
| Continued portfolios | | | | | | |
| Inventory finance | **$ 2,953.6** | $ – | **$ 2,953.6** | $ 973.7 | $ 1,890.7 | $ 2,864.4 |
| Commercial aircraft | | | | | | |
| Interim financing | **848.8** | – | **848.8** | 395.9 | – | 395.9 |
| Long-term leasing | **451.0** | – | **451.0** | 630.1 | – | 630.1 |
| | **1,299.8** | – | **1,299.8** | 1,026.0 | – | 1,026.0 |
| Industrial equipment | **115.2** | | **115.2** | 124.8 | – | 124.8 |
| Total continued portfolios | **4,368.6** | – | **4,368.6** | 2,124.5 | 1,890.7 | 4,015.2 |
| Discontinued portfolios | | | | | | |
| Business aircraft | **2,036.3** | – | **2,036.3** | 2,223.2 | – | 2,223.2 |
| Receivable factoring | **1,039.4** | | **1,039.4** | 2,481.7 | – | 2,481.7 |
| Railcar leasing | **61.1** | **1,017.8** | **1,078.9** | 65.8 | 1,067.9 | 1,133.7 |
| Manufactured housing | **434.1** | – | **434.1** | 630.7 | – | 630.7 |
| Consumer finance | **342.3** | **138.0** | **480.3** | 443.9 | 313.8 | 757.7 |
| Other | **233.8** | **40.5** | **274.3** | 533.0 | 90.0 | 623.0 |
| Total discontinued portfolios | **4,147.0** | **1,196.3** | **5,343.3** | 6,378.3 | 1,471.7 | 7,850.0 |
| Total [1] | **$ 8,515.6** | **$ 1,196.3** | **$ 9,711.9** | $ 8,502.8 | $ 3,362.4 | $11,865.2 |

(1) If the securitized inventory finance portfolio had been accounted for off-balance sheet as in the previous year (see description below), the on-balance sheet assets would have amounted to $6.4 billion, for a decrease of 24.4% over the $8.5 billion recorded last year.

To simplify the financial reporting and to provide better visibility of the floorplan receivable activities related to inventory finance, the securitized floorplan receivable portfolios are recorded as financing transactions, and the assets and related debt are presented on the balance sheet, effective June 1, 2002 as a result of certain modifications made to the securitization agreements. This resulted in an increase in on-balance sheet finance receivables of $2.0 billion, relating to the inventory finance portfolio and an equal amount for the related short-term borrowings and long-term debt as at June 1, 2002. The Corporation's credit exposure to the securitized portfolios and the recourse of the lenders against the Corporation have not been affected by these modifications. No gain or loss was recognized as a result of these modifications. All floorplan receivables managed by BC are now presented on-balance sheet.

On September 27, 2002, the Corporation announced its decision to reduce its debt, mainly through the sale and gradual wind-down of the receivable factoring and the business aircraft financing portfolios. On April 2, 2003, the Board of Directors of the Corporation approved the plan to cease origination of BC's railcar leasing activities. BC will concentrate on inventory finance and interim financing for Bombardier Aerospace regional aircraft. Proceeds from the sale and gradual wind-down of the discontinued portfolios will be applied to the reduction of BC's debt.

Assets under management before allowance for credit losses amounted to $9.7 billion as at January 31, 2003, compared to $11.9 billion as at January 31, 2002. This 18.1% decrease was primarily due to the gradual wind-down of the discontinued portfolios, and in particular the receivable factoring portfolio. Due to the significant reduction in its assets under management, BC will be a smaller contributor to overall profits of the Corporation for the next fiscal year.

On-balance sheet finance receivables and assets under operating leases before allowance for credit losses amounted to $8.5 billion as at January 31, 2003, compared to $8.5 billion as at January 31, 2002. The reduction which arose mainly from the gradual wind-down of the discontinued portfolios and, in particular, the receivable factoring portfolio for an amount of $1.4 billion was offset by bringing the securitized floorplan receivables on-balance sheet, effective June 1, 2002.

Average revenue-generating assets, which are defined as average on-balance sheet finance receivables and on- and off-balance sheet operating lease portfolios on which BC earns interest revenues and lease income, amounted to $10.5 billion for the year ended January 31, 2003, a 7.1% increase over the $9.8 billion for the year ended January 31, 2002. This increase is mainly due to the recognition of the securitized floorplan receivables on-balance sheet, effective June 1, 2002, as well as higher interim financing of commercial aircraft, partially offset by the reduction of the discontinued portfolios.

In fiscal year 2003, BC's segmented revenues amounted to $894.9 million, or 8.5% of average revenue-generating assets, compared to $966.8 million, or 9.9% of average revenue-generating assets for fiscal year 2002. This decrease in revenues is primarily due to the wind-down of the discontinued portfolios as well as a declining interest rate environment, partially offset by additional revenues from the securitized floorplan receivable portfolios, brought on-balance sheet effective June 1, 2002.

BC's EBT before special items amounted to $103.8 million, or 11.6% of revenues for fiscal year 2003, an increase over $41.4 million, or 4.3% of revenues in fiscal year 2002. This increase results from improved margins following the discontinuance of the manufactured housing and consumer finance businesses, as well as improved margins in the inventory finance businesses.

As a result of the September 26, 2001 decision to discontinue loan origination activities for the manufactured housing and the consumer products finance businesses, as well as the slowdown in the U.S. economy, which negatively affected the credit quality of the portfolios related to these businesses, a special charge of $540.4 million ($330.4 million after tax) was recorded in the third quarter ended October 31, 2001. In addition, during the same quarter, BC incurred charges of $122.1 million ($74.7 million after tax) for the write-down of the value of other assets related to these discontinued portfolios and for other related restructuring charges.

## CONTINUED PORTFOLIOS

### INVENTORY FINANCE

BC's inventory finance activities provide floorplan financing on a secured basis to retailers purchasing inventory products in the U.S. and Canada. Primary markets are marine products, manufactured housing and motorized recreational vehicles, as well as Bombardier-manufactured recreational products.

As at January 31, 2003, inventory finance portfolios represented $3.0 billion or 34.7% of BC's on-balance sheet finance receivables and assets under operating leases, compared to $1.0 billion or 11.5% the previous year. The increase is mainly due to the recognition of the securitized floorplan receivables as on-balance sheet, effective June 1, 2002. The inventory finance portfolios represented 30.4% of assets under management as at January 31, 2003, compared to 24.1% the previous year. There were no new securitizations during the year ended January 31, 2003. Bombardier's recreational products represent 34.5% of the inventory finance portfolio as at January 31, 2003, compared to 28.1% the previous year.

**COMMERCIAL AIRCRAFT**

BC provides interim financing support to Bombardier Aerospace regional aircraft customers until permanent third-party financing is arranged. BC also provides long-term third-party lease financing for trade-in commercial aircraft, in connection with new commercial aircraft sales.

The commercial aircraft portfolio accounted for $1.3 billion or 15.3% of on-balance sheet finance receivables and assets under operating leases as at January 31, 2003, compared to $1.0 billion or 12.1% as at January 31, 2002. As at January 31, 2003, this portfolio represented 13.4% of assets under management, compared to 8.6% the previous year. This increase in the third-party interim financing portfolios resulted from the slowdown of year-end placement of permanent financing, due to stressed credit conditions within the airline industry. The carrying value of the commercial aircraft portfolio reflects a write-down of $82.7 million resulting mainly from the decrease in the market price of used turboprop aircraft. Pursuant to support agreements with Bombardier Aerospace, the losses arising from the write-down of this portfolio were charged back to the aerospace segment.

BC will continue to provide interim financing support for regional aircraft sales while awaiting permanent financing placement, and expects limited activities in terms of long-term lease financing.

## DISCONTINUED PORTFOLIOS

**BUSINESS AIRCRAFT**

BC's business aircraft portfolio consists of loans and finance leases mainly to third-party purchasers of new and used business aircraft, classified as finance receivables. This portfolio also includes used aircraft with respect to trade-in business aircraft, mainly from affiliates, classified as assets under operating leases.

This portfolio amounted to $2.0 billion and represented 23.9% of BC's on-balance sheet finance receivables and assets under operating leases as at January 31, 2003, compared to $2.2 billion or 26.1% as at January 31, 2002. This portfolio included $1.2 billion of third-party loans and finance leases as at January 31, 2003, compared to $1.1 billion as at January 31, 2002. The loan-to-value ratio of the third-party loans and finance leases portfolio was 92.3% as at January 31, 2003, compared to 83.1% as at January 31, 2002. This portfolio also included $815.0 million of used trade-in business aircraft under operating leases as at January 31, 2003, compared to $1.1 billion as at January 31, 2002. The carrying value of used trade-in business aircraft reflects a write-down of $231.3 million resulting mainly from the decrease in the market price of used business aircraft. Pursuant to support agreements with Bombardier Aerospace, the losses resulting from the write-down of this portfolio were charged back to the aerospace segment.

This portfolio amounted to 21.0% of assets under management as at January 31, 2003, compared to 18.7% the previous year.

On September 27 2002, a decision was made to withdraw from the financing of business aircraft, including leases for new and used business aircraft. BC expects to significantly reduce this portfolio over the next several months through an orderly process combining sales and wind-downs.

**RECEIVABLE FACTORING**

BC's receivable factoring portfolio consists of third-party trade receivables which originated from the Corporation's manufacturing segments.

This portfolio amounted to $1.0 billion or 12.2% of BC's on-balance sheet finance receivables and assets under operating leases as at January 31, 2003, compared to $2.5 billion or 29.2% the previous year. This portfolio represented 10.7% of assets under management as at January 31, 2003, compared to 20.9% as at January 31, 2002. These decreases were due mainly to the Corporation's September 27, 2002 decision to wind down this portfolio. Complete wind-down is expected within fiscal year 2004, based on a typical duration of receivables of between 30 and 180 days.

**RAILCAR LEASING**

On April 2, 2003, the Board of Directors of the Corporation approved the plan to cease origination from BC's railcar leasing activities. These activities consist of third-party freight car leasing as well as full-service maintenance and/or management services to owners and users of freight cars in North American markets. BC purchases freight railcars, typically from a third-party manufacturer, and subsequently entered into a sale and leaseback with a financial institution. The financial institution assumes ownership of the asset with BC as the lessee. BC then sub-leases the asset to the actual user of the equipment, typically for three to seven years. The diversified fleet averages less than five years of age.

On-balance sheet railcar leasing activities amounted to $61.1 million or 0.7% of BC's on-balance sheet finance receivables and assets under operating leases as at January 31, 2003, compared to $65.8 million or 0.8% the previous year. Railcar leasing assets accounted for $1.1 billion or 11.1% of assets under management as at January 31, 2003, compared to $1.1 billion or 9.6% the previous year.

A total of 421 cars were added to the fleet, which now stands at 16,090 units. The average utilization rate was 88% for fiscal year 2003, compared to 89% the previous year.

**MANUFACTURED HOUSING**

On September 26, 2001, BC exited the manufactured housing finance sector due to unfavourable market trends and disappointing operating performance. Manufactured housing finance activities provided U.S. retailers with financing services for consumer purchases of manufactured homes.

This portfolio amounted to $434.1 million or 5.1% of BC's on-balance sheet finance receivables and assets under operating leases as at January 31, 2003, compared to $630.7 million or 7.4% the previous year. This portfolio represented 4.5% of assets under management as at January 31, 2003, compared to 5.3% the previous year.

BC continues the controlled liquidation of the manufactured housing portfolio and expects substantial wind-down to be achieved within several years.

Manufactured housing portfolios in public securitization vehicles amounting to $2.1 billion as at January 31, 2003 ($2.6 billion as at January 31, 2002) are also serviced by BC, but are not considered assets under management following the decision to withdraw from this business, as announced on September 26, 2001.

**CONSUMER FINANCE**
On September 26, 2001, BC also withdrew from the consumer finance segment due to poor performance and a reorientation toward businesses more closely aligned with core competencies. Consumer finance activities involved secured loans designed to enable consumers to acquire recreational products and services.

As at January 31, 2003, the on-balance sheet portfolios amounted to $342.3 million or 4.0% of BC's on-balance sheet finance receivables and assets under operating leases, compared to $443.9 million or 5.2% as at January 31, 2002. These portfolios amounted to $480.3 million or 4.9% of assets under management as at January 31, 2003, compared to $757.7 million or 6.4% as at January 31, 2002.

BC expects the consumer finance portfolios to achieve substantial wind-down within the next two years.

**OTHER**
The technology management and finance, mid-market commercial equipment finance and small ticket finance portfolios were discontinued in fiscal year 2000.

As at January 31, 2003, on-balance sheet portfolios amounted to $233.8 million, compared to $533.0 million the previous year. The on- and off-balance sheet portfolios amounted to $274.3 million as at January 31, 2003, compared to $623.0 million as at January 31, 2002.

The liquidation of these portfolios is expected to be substantially completed within one year.

## ALLOWANCE FOR CREDIT LOSSES

Allowance for credit losses totalled $151.4 million as at January 31, 2003, compared to $273.3 million the previous year. The reduction of the allowance is attributable to the write-off of a portion of the retained interest and related allowance for credit losses associated with the discontinued portfolios. The amount of the allowance for the continuing portfolios increased to $45.1 million as at January 31, 2003, compared to $23.9 million the previous year. The additional allowance for the continuing portfolios is a response to the deterioration of the credit environment. Compared to the discontinued portfolios, the continued portfolios warrant a lower percentage of allowance to finance receivables due to a lower credit risk profile derived from credit enhancements such as repurchase agreements, loan guarantees and better collateral and loan-to-value positions.

## FUNDING HIGHLIGHTS

Funding highlights for BC are detailed in the Capital Resources section.

## RISK MANAGEMENT

Effective risk management is essential for BC to achieve its strategic goal of return commensurate with risks in the businesses. Risks that could affect the performance of BC are regularly identified, measured and monitored. These risks include credit, interest rate, operational and residual value risks.

BC controls the credit risk of its portfolios by setting limits on the total amount outstanding, obtaining collateral, monitoring the size, maturity and structure of the portfolios and by applying appropriate credit standards.

BC strives to minimize its overall debt costs while ensuring that interest margins are protected from adverse interest rate movements. To achieve this objective, BC seeks to match the interest rate characteristics of its assets and liabilities.

BC uses derivatives as part of its asset/liability management program to reduce its overall financial risk. These derivatives, primarily interest-rate swap agreements, are used to alter the interest rate sensitivity of the underlying assets or liabilities to achieve matched funding. BC's activities in the derivatives market are entirely related to accomplishing the risk management objectives arising from normal business operations. BC is not an interest-rate swap dealer, nor is it a trader in derivative securities, and has not used speculative derivative products for the purposes of generating earnings from changes in market conditions.

Operational risk is the risk of loss resulting from inadequate or failed internal controls, systems and people or unforeseen external events. In order to mitigate these risks, BC regularly reviews its operating processes, policies and controls. It continues to proactively refine its risk management processes within the governance structure of the Corporation to effectively identify, measure and mitigate various risk exposures.

Residual value risks, mostly related to the commercial aircraft long-term leasing and to "other" discontinued portfolios, stem from the potential variance between the estimated residual value at lease inception and the actual value of the assets upon termination of the lease. BC regularly assesses its exposure to residual values and has put in place systems and procedures to monitor and mitigate this risk.

The provision for credit losses is maintained at a level that BC considers adequate to absorb probable credit losses inherent in its portfolios as of the date of the financial statements. BC gauges its requirements for provision for credit losses for each portfolio using a Risk-Adjusted Return On Capital methodology (RAROC). RAROC estimates expected credit losses for each portfolio based on default likelihood, as well as the predicted severity of losses in event of default. In addition to RAROC, BC also considers other factors, such as historical loss rates and credit quality, industry, and general economic trends in assessing the level of its provision for credit losses.

BC uses various modelling tools including RAROC to determine an appropriate capital level to cover unexpected losses resulting from credit, interest rate, operational and residual value risk. BC measures its leverage considering both on- and off-balance sheet debt and views subordinated debt from Bombardier as an equity component.

## REAL ESTATE SERVICES

Through Bombardier's real estate services, BC derives revenues from the development of Bombardier real estate assets earmarked for new uses, and from activities aimed at meeting the real estate needs of other Bombardier businesses.

Other revenues are generated from the sale of land to real estate developers, which involves the establishment of an urban residential community with integrated commercial and service infrastructures on land adjacent to the Bombardier Aerospace facilities in Montréal, Canada.

## LIQUIDITY AND CAPITAL RESOURCES

The following discussion of the liquidity of Bombardier gives effect to the retroactive application of the changes in accounting policies for the aerospace segment described in note 1 to the Consolidated Financial Statements.

### FINANCIAL POSITION

**BOMBARDIER**

Consolidated assets for the manufacturing segments amounted to $20.8 billion as at January 31, 2003, compared to $19.3 billion as at January 31, 2002, for an increase of 7%. This change results from an increase in receivables of $592.9 million, mainly due to lower factoring of receivables following the Corporation's September 27, 2002 announcement to discontinue its receivable factoring activities with BC, as well as the strengthening in the value of the euro compared to the Canadian dollar. The euro-denominated goodwill also increased by $532.0 million, resulting mainly from the translation to Canadian dollars.

Inventories are presented net of the related advances and progress billings on contracts and programs. However, advances and progress billings in excess of related costs, determined on a contract-by-contract basis, are reported as liabilities.

Inventories as at January 31, 2003 were $5.8 billion, compared to $6.2 billion the previous year. This decrease is attributable to a reduction of inventories in the aerospace segment, resulting mainly from the revision of aircraft program estimates and related write-down. This decrease was partially offset by higher inventories in the transportation segment, mainly due to the strengthening in the value of the euro compared to the Canadian dollar and a higher level of activity in Europe. Inventories in the aerospace segment, before deducting advances and progress billings, represented $5.1 billion or 49% of total inventory as at January 31, 2003, compared to $6.3 billion or 60% at the end of the previous year. Total inventories in the transportation segment represented $4.8 billion or 46% as at January 31, 2003, compared to $3.7 billion or 35% at the end of the previous year.

Total advances and progress billings amounted to $8.4 billion as at January 31, 2003, compared to $7.6 billion the previous year. This increase was due to higher advances and progress billings in the transportation segment, mainly due to the strengthening in the euro compared to the Canadian dollar. This was partially offset by lower advances in the aerospace segment, resulting from lower activities. An amount of $4.6 billion of advances and progress billings was deducted against inventory as at January 31, 2003, compared to $4.3 billion as at January 31, 2002. Advances and progress billings in excess of related costs, shown as liabilities, increased to $3.8 billion at the end of fiscal year 2003 from $3.3 billion at the end of the previous year.

Property, plant and equipment as at January 31, 2003 amounted to $5.7 billion, compared to $5.5 billion the previous year. This increase is mainly attributable to net additions during the year and the strengthening of the value of the euro compared to the Canadian dollar, partially offset by depreciation.

Bombardier decreased its investment in equity and subordinated debt in BC from $1,343.0 million to $1,286.7 million during fiscal year 2003. BC's financial leverage, determined as the ratio of on- and off-balance sheet debt to shareholders' equity and subordinated debt from Bombardier as at January 31, 2003 was 6.5 to 1 compared to 7.8 to 1 as at January 31, 2002.

Accounts payable and accrued liabilities amounted to $9.2 billion as at January 31, 2003, compared to $7.6 billion as at January 31, 2002, for an increase of $1.5 billion. Before the effect of the variation in exchange rates, this increase was mainly attributable to higher sales incentives and related provisions of $448.0 million and accrued liabilities of $209.4 million. The net effect of variations of foreign currency fluctuations, mainly related to the euro, was $621.5 million.

During fiscal year 2003, the total outstanding amount of long-term debt increased to $3.1 billion from $2.1 billion as at January 31, 2002.

On March 8, 2002, the Corporation issued 9,400,000 Series 4 Cumulative Redeemable Preferred Shares carrying a fixed cumulative preferential cash dividend of 6.25 % per annum, payable quarterly. The net proceeds of the issuance amounted to $227.6 million.

Deferred translation adjustment included in shareholders' equity was a credit amount of $157.1 million as at January 31, 2003, compared to a credit amount of $108.5 million at the end of the previous year. This increase results mainly from the weakening of the Canadian dollar against the euro in fiscal year 2003.

**BC**

The portfolios of finance receivables and assets under operating leases, before allowance for credit losses, amounted to $8.5 billion as at January 31, 2003, essentially the same level as at January 31, 2002. The decrease resulting from the continued liquidation of the discontinued portfolios was offset by the effect of bringing the securitized floorplan receivables on-balance sheet during fiscal year 2003. Notes 4 and 5 to the Consolidated Financial Statements provide the details of the components of the finance receivables and assets under operating leases.

## OTHER SIGNIFICANT CASH FLOW INFORMATION

**BOMBARDIER INC.**

At its meeting on April 2, 2003, the Board of Directors of the Corporation re-affirmed its policy of paying dividends on the Class A Shares (Multiple voting) and Class B Shares (Subordinate voting). However, the Board of Directors resolved that such dividends would be no greater than $0.09 per share (plus, in the case of the Class B Shares (Subordinate voting), a preferential dividend of $0.0015625 per share per annum) on an annual basis for the current year. As a result, the annual dividend per share, if approved by the Board of Directors, will be approximately one half of the dividend paid in fiscal year 2003. The Board of Directors of the Corporation has the discretion to modify its dividend payment policy at any time.

**BOMBARDIER**

Cash flows from operations amounted to $1.5 billion for fiscal year 2003, compared to negative cash flow from operations of $537.2 million the previous year, a year-over-year improvement of $2.0 billion. The positive cash flows for fiscal year 2003 mainly arise from cash flow from operations, before net changes in non-cash balances related to operations of $968.1 million. Also contributing to the cash flow from operations for fiscal year 2003 were increases in accounts payable and accrued liabilities of $1.4 billion, and advances and progress billings in excess of related costs of $524.5 million. These increases were partially offset by higher inventories of $847.7 million and receivables of $592.9 million. The negative cash flows from operations for fiscal year 2002 resulted mainly from higher inventory levels due to changes in production rates in the aerospace segment and lower business aircraft advances, and investment in working capital of Adtranz for $716.9 million. These changes were partially offset by cash flows from operations before net changes in non-cash balances related to operations, amounting to $1.6 billion. Note 23 to the Consolidated Financial Statements provides the details of the net changes in non-cash balances related to operations.

Net investment in property, plant and equipment was $685.9 million in fiscal year 2003. In the aerospace segment, net investment in property, plant and equipment for fiscal year 2003 was $485.5 million, including investments in program tooling for the Bombardier Challenger 300. Net investment amounted to $151.3 million for the transportation segment and $49.1 million for the recreational products segment in fiscal year 2003. Net investment in property, plant and equipment was $1.1 billion in fiscal year 2002. The largest investments were for program tooling, including for the Bombardier Challenger 300, the construction of a new manufacturing facility for the production of the Bombardier CRJ700 and the Bombardier CRJ900, the expansion of production capacity for the Bombardier CRJ200 and for the construction of a new terminal at Belfast City Airport, for total additions of $656.8 million in the aerospace segment. The recreational products segment made additions to property, plant and equipment of $172.7 million in fiscal year 2002, mostly related to new manufacturing facilities and to tooling for Johnson and Evinrude engines. The transportation segment invested $305.5 million in the construction of a service centre in the U.K. for the Virgin Trains contract and to purchase equipment for other new contracts. Note 28 to the Consolidated Financial Statements provides the distribution of property, plant and equipment, intangibles assets and goodwill by geographic location.

As a result, free cash flow, defined as cash flows from operations less net additions to property, plant and equipment, amounted to $801.4 million, compared to a use of $1.7 billion the previous year.

In addition, cash flows from investing activities in fiscal year 2002 included $979.8 million, net of cash acquired, for the acquisition of the shares of Adtranz and the assets of Outboard Marine Corporation. No business acquisitions were made in fiscal year 2003.

Cash flows used in financing activities amounted to $252.8 million in fiscal year 2003, compared to cash flows from financing activities of $1.9 billion in fiscal year 2002. The cash flows used for fiscal year 2003 result mainly from the repayment of short-term borrowings of $1.1 billion, partially offset by the issuance of $866.4 million ($550.0 million US) of notes maturing on May 1, 2012 and other debts amounting to $26.4 million. Cash flows from financing activities reached $1.9 billion in fiscal year 2002, resulting mainly from increases in short-term borrowings of $986.5 million and in long-term debt of $1.2 billion.

During fiscal year 2003, dividend payments of $278.0 million were made, compared to $264.5 million the previous year. Issuance of shares to employees in relation to the share option plans for cash totalled $20.2 million (6.9 million shares) in fiscal year 2003, compared to $26.2 million (4.7 million shares) the previous year. Furthermore, net proceeds from the issuance of preferred shares totalled $227.6 million in fiscal year 2003.

As a result of the above items, Bombardier's cash and cash equivalents amounted to $741.8 million as at January 31, 2003, compared to $462.8 million at the end of the previous year.

**BC**

Cash flows from operating activities amounted to $490.4 million for the year ended January 31, 2003, compared to cash flows from operating activities of $193.8 million for the previous year. Positive cash flows from operations for fiscal years 2003 and 2002 result mainly from cash flows generated by operations, before the net changes in non-cash balances related to operations.

Cash flows from investing activities amounted to $1.1 billion in fiscal year 2003, compared to cash flows used in investing activities of $965.6 million the previous year. The positive cash flows for fiscal year 2003 are mainly due to a net decrease in finance receivables of $1.0 billion, due to the wind-down of the discontinued portfolios. Net disposals of assets under operating leases of $249.9 million also contributed to the positive cash flows, partially offset by repayments of advances and subordinated debt of $184.6 million to Bombardier. For fiscal year 2002, the cash

flows used for investing activities mainly resulted from a net investment in finance receivables of $868.2 million.

Cash flows used in financing activities amounted to $1.4 billion in fiscal year 2003, compared to cash flows from financing activities of $749.7 million in fiscal year 2002. A net repayment of long-term debt of $733.8 million and of $707.8 million of short-term borrowings reduced cash flows in fiscal year 2003. For fiscal year 2002, net issuance of long-term debt of $1.7 billion was partially offset by reductions in short-term borrowings of $960.5 million.

As a result of the above items, BC's cash and cash equivalents amounted to $301.2 million as at January 31, 2003, compared to nil at the end of the previous year.

## CAPITAL RESOURCES

Total committed credit facilities, as at January 31, 2003, were $7.9 billion for Bombardier and $3.5 billion for BC, 62% of which have a maturity of two years or more. Of the total committed credit facilities for Bombardier and BC, $3.3 billion and $1.3 billion respectively, were available. Taking into consideration $1.0 billion of cash and cash equivalents as at January 31, 2003, the Corporation had a total of $5.7 billion of short-term capital resources as at January 31, 2003.

Total availability under Bombardier's lines of credit increased by $973.2 million for the year ended January 31, 2003, and cash and cash equivalents increased by $279.0 million, for an increase in short-term capital resources of $1.3 billion. This increase is mainly due to the July 10, 2002 net increase in its European facilities of approximately €575.0 million, the issuance of long-term debt and preferred shares of $1.1 billion and cash flows generated during fiscal year 2003. These increases were partially offset by the repayment of $802.1 million of floating-rate notes and an increase in outstanding standby letters of credit under the various syndicated bank lines. This represents new letters of credit and the replacement of existing letters of credit resulting from the Adtranz acquisition.

BC's availability under lines of credit decreased by $655.5 million during the year ended January 31, 2003, and cash and cash equivalents increased by $301.2 million, for a net decrease in short-term capital resources of $354.3 million. This net decrease results mainly from the reduction of the two principal syndicated loan facilities of $305.8 million and $230.0 million for Bombardier Capital Inc. and Bombardier Capital Ltd. respectively, as well as the repayment of maturing long-term debt of $2.1 billion. These amounts were partially offset by the issuance of $1.4 billion of notes on the European market, and cash flows generated during fiscal year 2003. The reduction of committed short-term revolving lines, bank loans and other credit facilities is in line with the decrease in assets under management at BC.

### BOMBARDIER

On July 10, 2002, the Corporation entered into a new €3.75-billion syndicated credit facility to refinance its existing €1.7-billion European credit facility and various bilateral facilities resulting from the Adtranz acquisition. The new credit facility has a committed 364-day portion of €600.0 million and a committed five-year portion of €3.15 billion. The Corporation anticipates to renew this facility at maturity. The facility may be used for the issuance of letters of credit and as liquidity back-up for the Corporation's €1.0-billion European Commercial Paper program.

On September 10, 2002, Bombardier renewed the committed 364-day, $750.0-million portion of its syndicated North American credit facility until September 2003. The Corporation anticipates to renew this facility at maturity. The committed five-year $1.0-billion portion matures in September 2005.

In April 2002, the Corporation issued notes amounting to $550.0 million US ($866.4 million) in the term-debt market, which will mature on May 1, 2012. These notes bear interest at 6.75% per annum. Also, on March 8, 2002, 9,400,000 Series 4 Preferred Shares (6.25% dividend rate) were issued for net proceeds of $227.6 million.

As at January 31, 2003, Bombardier had to adhere to a single financial covenant under its two main syndicated credit facilities. The ratio of total debt, defined essentially as short-term borrowings and long-term debt less subordinated debt and cash and cash equivalents, to total capitalization (total debt, as defined, plus shareholders' equity and subordinated debt) must not exceed 60%. As at January 31, 2003, the Corporation was in compliance with this financial covenant. In March 2003, the Corporation entered into amendment agreements with its lenders under its two main syndicated credit facilities, providing that the ratio must not exceed 70% as at April 30, 2003, 60% as at July 31 and October 31, 2003, and 50% as at January 31, 2004 and thereafter at each quarter end.

In February 2001, Bombardier Inc. issued €500.0 million of fixed-rate notes due in February 2008 and £175.0 million of fixed-rate notes due in February 2006. In August 2001, Bombardier Inc. issued $250.0 million of 13-month floating-rate notes in the Canadian markets, and Bombardier Corporation, a wholly-owned subsidiary of Bombardier Inc., issued €200.0 million and ¥20.0 billion of 13-month floating-rate notes in the European market. These notes were repaid in October 2002.

**BC**

On September 11, 2002, Bombardier Capital Inc. renewed its 364-day syndicated credit facility at a committed level of $400.0 million US, down from the existing level of $600.0 million US. Similarly, Bombardier Capital Ltd. renewed its 364-day syndicated credit facility at a level of $470.0 million, down from $700.0 million. These reductions are consistent with the reduced working capital requirements of BC, the continued wind-down of "the discontinued" portfolios and the modest growth expectations over the coming year for continued portfolios. These facilities mature on September 10, 2003 and are not expected to be renewed. BC also reduced a bilateral facility with a bank from $95.0 million US to $50.0 million US in September 2002 and terminated an uncommitted line of credit of $30.0 million US in June 2002.

Committed floorplan credit facilities totalled $1,328.2 million as at January 31, 2003, and the amount drawn was $1,317.0 million. These facilities relate to the securitized floorplan receivables, which were brought on-balance sheet as of June 1, 2002 (see note 10 to the Consolidated Financial Statements).

The commercial paper facilities for which the bank credit facilities act as liquidity back-up in case of a disruption in the commercial paper markets, were reduced to $1.0 billion US (from $1.2 billion US) and $470.0 million (from $700.0 million) for Bombardier Capital Inc. and Bombardier Capital Ltd. respectively.

BC was less active in the capital term-debt markets in fiscal year 2003, compared to the previous year. On May 14, 2002, BC, through an indirectly owned subsidiary of the Corporation, issued notes amounting to €500.0 million ($703.1 million) and £300.0 million ($677.0 million) on the European markets, maturing in May 2007 and May 2009, respectively. The euro notes bear interest at 6.125% and the sterling notes bear interest at 6.75%. The net proceeds from these offerings were swapped into U.S. dollars and were used, in part, to repay the long-term debt maturing at Bombardier Capital Inc. These maturing debts included $1,225.0 million US ($1,873.0 million) and ¥6.0 billion ($73.4 million). At Bombardier Capital Ltd., a $150.0-million bond maturing on June 7, 2002 was repaid. The additional maturities were repaid through cash flow from operations and proceeds from the wind-down of the discontinued portfolios. It is expected that BC will be relatively inactive in the term-debt capital markets in fiscal year 2004.

During fiscal year 2003, BC repaid advances and subordinated debt of $184.6 million to Bombardier.

During fiscal year 2002, Bombardier Capital Ltd. issued the final $100.0-million fixed-rate note under its initial medium-term note program and renewed this program for an additional $1,250.0 million. A total of $200.0 million of fixed-rate notes were issued under the renewed program during the year. Bombardier Capital Inc. completed its initial medium-term note program with the issuance of $750.0 million US of fixed- and floating-rate notes and renewed this program for an additional $4.0 billion US. Under this new program, $510.0 million US and ¥6.0 billion of floating-rate notes were issued as at January 31, 2002. Bombardier Capital Inc.'s funding program was completed with a $220.0-million US five-year private placement in December 2001.

The details of the available and outstanding amounts under the bank credit facilities and the amount of outstanding borrowings as at January 31, 2003 and 2002 are provided in notes 10 and 12 to the Consolidated Financial Statements.

**LIQUIDITY**
The Corporation's term debt maturing in fiscal year 2004 is as follows:

| | Bombardier | | | BC[1] | |
|---|---|---|---|---|---|
| | Amount | Maturity | | Amount | Maturity |
| $ | 150.0 | July 28, 2003 | $ | 250.0 | February 20, 2003 |
| | 13.2 | September 1, 2003 | | 458.7 | May 30, 2003[2] |
| | 40.6 | Other (various dates) | | 100.0 | July 28, 2003 |
| | | | | 359.3 | November 21, 2003 |
| | | | | 8.8 | Other (various dates) |
| $ | 203.8 | | $ | 1,176.8 | |

(1) In addition to the term debt maturing in fiscal year 2004, $611.6 million ($400.0 million US) of long-term debt related to BC's securitized floorplan activities matures in fiscal year 2004.

(2) $300.0 million US ($458.7 million) of Putable/Callable Notes due in 2013. These notes are subject to a call option which entitles the holder thereof to purchase the notes, which are subsequently remarketed with their interest rate reset on each May 30, beginning in May 2003. If the call option is not exercised at each reset date or if the call option is exercised, on any such date, but the subsequent remarketing of the notes is not successful, BC is required to redeem the notes at 100% of their aggregate principal amount. Given the current interest rate environment, the Corporation expects that the call option will be exercised in May 2003 and that, subject to the credit events described below, the notes will be successfully remarketed.

The Corporation expects to reimburse the term debt maturing in fiscal year 2004 out of its liquidities. Of the Corporation's short-term borrowings, €600.0 million ($985.3 million) of Bombardier's European committed credit facility and $750.0 million of its North American committed credit facility mature in fiscal year 2004. At BC, $400.0 million US ($611.6 million) and $470.0 million of committed revolving lines, $1.3 billion of committed short-term borrowings related to securitized floorplan activities (see securitization section below) and $198.5 million of bank loans and other credit facilities mature in fiscal year 2004.

It is expected that working capital requirements at BC arising from lower operating activities will reduce some of the requirements for bank lines in fiscal year 2004. It is expected that ongoing financing requirements will be met through existing bank lines, as well as cash resulting from the wind-down of discontinued portfolios.

The Corporation considers that its current credit facilities as well as expected capital resources will enable the implementation of investment programs, the development of new products, the support of the growth of its activities, the payment of dividends and all other expected financial requirements.

**CREDIT SUPPORT**
All of Bombardier Capital Inc. and Bombardier Capital Ltd. long-term debt and bank lines provide for identical covenant and "Keepwell" packages from the Corporation. These credit enhancements are in line with those applicable to the bank credit facilities. Bombardier's "Keepwell" agreements provide for minimum ownership of 51% in Bombardier Capital Ltd. and Bombardier Capital Inc. It also provides 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. Finally, it provides the undertaking of Bombardier Inc. to maintain certain existing cross-default provisions in all of its future public debt.

**OFF-BALANCE SHEET ARRANGEMENTS**
In the normal course of business, the Corporation finances certain of its off-balance sheet activities through leases, securitizations and other arrangements.

**a) Leases**

The Corporation leases certain of its buildings and equipment and assumes operating lease obligations on trade-in aircraft. BC and Bombardier finance freight cars, used aircraft and transportation equipment through sale and leaseback structures. The Corporation's undiscounted minimum lease payments under such leases amount to $2.2 billion for sale and leaseback transactions and $1.6 billion for operating leases as at January 31, 2003. These are disclosed in note 26 to the Consolidated Financial Statements.

**b) Securitizations**

**Bombardier**
In January 2003, Bombardier entered into a $200.0-million US facility (US facility) and a £50.0-million facility (U.K. facility) with two financial institutions for the securitization of trade receivables generated in the normal course of business. The $200.0-million US facility provides for a 364-day purchase commitment for trade receivables originating from North American manufacturing operations, while the £50.0-million U.K. facility provides for an uncommitted facility to purchase trade receivables from U.K.-based Bombardier Transportation operations. These securitization activities with third parties were part of an announced plan to replace Bombardier receivable factoring activity historically carried out through BC. The Corporation is pursuing additional third-party financing for its trade receivables which originated outside of North America and the U.K. In addition, the Corporation intends to increase the U.K. facility to incorporate receivables generated by Bombardier Aerospace in the U.K. The Corporation received proceeds of $217.2 million and $15.4 million on the sale of trade receivables for the U.S. and U.K. facilities respectively during fiscal year 2003.

**BC**
Bombardier Capital Inc. activities on the securitization market during the year ended January 31, 2003, were limited to the renewal of three private conduits (i.e. special-purpose companies that purchase assets which are financed through the issuance of commercial paper) that securitize inventory finance receivables. Two $150.0-million US facilities were renewed for one year in October 2002, one of which was temporarily increased on January 31, 2003 to $200.0 million US until April 29, 2003 to address the seasonal peak in inventory finance receivables. Also, a $427.0-million US facility was renewed in November 2002 until June 2003. The Corporation is planning to replace the $427.0-million US conduit facility with a public securitization in the first half of fiscal year 2004. In addition to the refinancing of the $427.0-million US facility, it is anticipated that Bombardier Capital Inc. will refinance a $400.0-million US public asset-backed securitization that matures on September 15, 2003. During fiscal year 2003, Bombardier Capital Ltd. renewed its inventory finance securitization facility of $140.0 million in October 2002 to August 31, 2003.

During fiscal year 2002, Bombardier Capital Inc. activities were limited to the renewal of two private conduits that securitized consumer loans, a $147.0-million US facility in December 2001 and a $250.0-million US facility in January 2002. In terms of the inventory finance portfolio, Bombardier Capital Inc. completed the financing of a $427.0-million US conduit in November 2001. During the same year, Bombardier Capital Ltd. renewed its $140.0-million inventory finance securitization facilities in October 2001 with a Canadian chartered bank.

**c) Other Arrangements**

The Corporation's aerospace segment has entered into various agreements with third parties, through which it sells rights under certain manufacturing contracts on an ongoing basis. The amount of the rights sold totals $369.0 million as at January 31, 2003, compared to $424.0 million as at January 31, 2002. These are accounted for as advances received and deducted from inventories or presented as advances in excess of related costs. In connection with these sales, the Corporation has provided recourse to one purchaser amounting to $32.8 million as at January 31, 2003 ($27.9 million as at January 31, 2002).

The Corporation's maximum exposure under this recourse is included in note 26 to the Consolidated Financial Statements. Revenues and related profits on sales of aircraft are recognized on delivery and the sale of rights does not result in acceleration of revenues and profit recognition.

The Corporation provides administrative services to a special-purpose entity created for the purpose of financing certain aircraft sales of the Corporation in return for a market fee. As at January 31, 2003, the Corporation had no outstanding financial support with this special-purpose entity.

BC services a portfolio of loans related to the discontinued manufactured housing business. The outstanding amount of this portfolio as at January 31, 2003 was $2.1 billion ($2.6 billion as at January 31, 2002).

**CREDIT EVENTS**
Certain of the Corporation's financial commitments include provisions that could become effective in the event of the Corporation undergoing rating downgrades. As a result of certain downgrades in the credit rating of the Corporation's unsecured indebtedness, in March 2003, the Corporation may be required to provide certain of its customers with letters of credit, surety bonds or other forms of security to secure the performance of its manufacturing obligations under aircraft or transportation equipment purchase agreements. Accordingly, the Corporation's availability under its credit facilities may be reduced. In order to limit the impact of these events on the Corporation's capital resources, the Corporation is currently in discussions with these customers regarding the amount of security required. The maximum value of the security instruments which the Corporation may be required to provide is $738.6 million under existing agreements.

A rating downgrade below investment grade could result in the reimbursement of advances amounting to $327.5 million in the aerospace segment. In addition, the Corporation may be required to repurchase at fair value ($29.5 million as at January 31, 2003) the call option related to the $458.7 million ($300.0 million US) Putable/Callable notes due in 2013 should the call holder elect early termination. The Putable/Callable notes would become repayable at the next coupon reset date immediately following such downgrade.

Certain securitization agreements include provisions that would require the wind-down of securitization conduits from normal course collection in the event of a credit downgrade which may require the Corporation to replace these sources of financing. As a result of the March 2003 downgrades, an amount of $200.0 million of BC securitization conduits ($160.0 million outstanding as at January 31, 2003) may have to be wound down from normal course collection.

Also, a rating downgrade below investment grade could result in the wind-down of $305.8 million of Bombardier securitization conduits ($153.6 million outstanding as at January 31, 2003).

BC has entered into an agreement which governs certain off-balance sheet derivative contracts. The terms of the agreement require that for both counterparties, the mark-to-market of these contracts respect certain thresholds, depending on the respective counterparty's credit ratings. In the event the mark-to-market of these contracts for either counterparty exceeds these thresholds, the level of exposure must be brought back within the applicable limits. The Corporation currently exceeds the applicable thresholds by approximately $17.3 million.

## PENSION

The Corporation sponsors several domestic and foreign funded and unfunded defined benefit pension plans. The financial position of the Corporation's defined benefit pension plans is presented in note 25 to the Consolidated Financial Statements.

*Funded* plans are plans for which segregated plan assets are invested in trusts. These plans can be in an over- or underfunded position, depending on various factors such as investment returns. The funded plans are mainly located in North America, the United Kingdom 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 practices. The employer cash requirement for these plans corresponds to the benefit payments to be made by the plans.

Bombardier uses an early measurement date of December 31 preceding the fiscal year end for accounting purposes. For example, the pension plan results as of January 31, 2003 are measured as at December 31, 2002.

As at December 31, 2002, the pension plan deficit for the *funded* plans amounted to $2.0 billion ($1.1 billion as at December 31, 2001). The deficit increase is mainly due to return on plan assets of approximately negative 14% (worldwide weighted average return). Actual investment returns on plan assets were $823.1 million lower than expected during the year. Exchange rate fluctuations and the decrease in market discount rates in many countries also contributed to the increase in the deficit. A change of 25 basis points in the weighted average discount rates results in a variation of the accrued benefit obligation of approximately $250.0 million. As at the same date, the *unfunded* plans had a pension obligation of $640.8 million ($504.6 million as at December 31, 2001), and by their nature, were in a deficit of the same amount. The Corporation expects that these events, combined with lower investment return expectations, will increase the pension expense by approximately $75.0 million to approximately $330.0 million for fiscal year 2004.

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 expense is, in general, more conservative than the regulatory requirements in most jurisdictions, the deficit computed to establish cash contributions is smaller than the deficit for accounting purposes for most pension plans (the "funding deficit"). In order to reduce the funding deficit, the Corporation expects to increase its contributions to an estimated $260.0 million in fiscal year 2004, an increase of approximately $50.0 million from fiscal year 2003 contributions. Future contributions will fluctuate depending on actual investment returns in future years. A variation of 8% in fiscal year 2003 actual return would have resulted in a variation in cash contributions of approximately $25.0 million in fiscal year 2004.

For accounting purposes, the Corporation selects country-specific median assumptions after a periodic review of factors, such as long-term return expectations prepared by consultants or economists, historical investment returns, long-term inflation assumptions and input from actuaries. In order to reduce the year-to-year volatility of the pension expense, the Corporation uses a market-related valuation of assets that recognizes investment gains or losses over a three-year period from the year in which they occur. In addition, the Corporation's approach has been to reflect, in advance, the cost of future events, such as future indexing when the plans do not currently provide for such improvements, and an anticipation of future life expectancy improvements.

Due to the poor investment return over the last two years and given the Corporation's expectations of the market conditions, the investment policy is currently under review by the Corporation's pension committees. In addition, the expected long-term return on plan assets has been reduced in Canada, the U.S., the U.K. and Switzerland. In computing pension expense, the historical expected long-term return of 8% (weighted average) will be reduced to a weighted-average rate of 7.4% for fiscal year 2004. The Corporation also expects that the revised return expectations in each country will be at the median for the country. Of the expected $75.0 million pension expense increase for fiscal year 2004, approximately $25.0 million results from this change.

## FINANCING COMMITMENT

Manufacturers of commercial aircraft customarily provide financing support to facilitate their 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. Interim financing may be provided to customers by Bombardier while permanent financing is being arranged.

As at January 31, 2003, Bombardier had outstanding financing commitments to nine customers amounting to $5.2 billion net of third-party financing already arranged. It is anticipated that these aircraft will be delivered during the next three years. Total customer financing arranged by the Corporation in fiscal year 2003 amounted to $5.5 billion.

Bombardier anticipates that it will be able to satisfy its financing commitments to its customers in fiscal year 2004 through third-party financing. However, Bombardier's ability to satisfy its financing commitment may be affected by the financial difficulties of the commercial airline industry in general and of certain of our customers in particular, the economic slowdown in the U.S. and the Corporation's current and future credit condition.

## COMMITMENTS AND CONTINGENCIES

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

Credit guarantees are triggered if customers do not perform during the term of the financing (typically up to 16.5 years) under the relevant financing arrangements. Credit guarantees provide support through limited payments to the guaranteed party to mitigate default-related losses. These guarantees are collateralized by the underlying assets. The value of the underlying assets may be adversely affected by an economic downturn. Upon an 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. A claim under the guarantee may be made only upon sale of the underlying assets to a third party.

Residual value guarantees are one-time guarantees provided at the end of a financing arrangement typically ranging from 12 to 19 years. Such guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset is below the guaranteed value. In order to mitigate the Corporation's exposure, the collateral must meet certain contractual return conditions on the expiry date of the guarantee. If a residual value guarantee is exercised, it provides for a limited payment to the guaranteed parties. A claim under the guarantee may typically be made only upon sale of the underlying asset to a third party in an arms-length transaction. The value of the underlying asset may be adversely affected by an economic downturn.

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

The following table summarizes the Corporation's exposure as at January 31, 2003 in relation to financing support provided in connection with existing aircraft deliveries:

| (millions of Canadian dollars) | |
|---|---|
| Maximum credit risk | $ 1,049.4 |
| Maximum residual value guarantee | 2,871.1 |
| Mutually exclusive exposure[1] | (818.2) |
| Provisions and liabilities | (918.7) |
| Off-balance sheet exposure | $ 2,183.6 |
| Net benefit of the estimated resale value of the underlying assets | $ 2,163.5 |

[1]Certain of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise, and therefore must not be added together to calculate the combined maximum exposure.

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, is performed using a risk-pricing model. Risk monitoring comprises ongoing management reporting of exposures, as well as 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 in order to minimize its exposure to credit and residual value guarantees.

The Corporation is occasionally involved in legal litigation, claims, investigations and other legal matters. It is the Corporation's opinion that these contingencies have not had, and will not have a material impact on its financial position, except for the potential effect of its claims against Amtrak and DaimlerChrysler described in note 26 to the Consolidated Financial Statements.

## RISKS AND UNCERTAINTIES

The Corporation operates in industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties described below are not the only ones facing 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.

Due to any of the risks and uncertainties described below, the Corporation's business, financial condition and results of operations could be materially adversely affected.

**OPERATIONAL RISK**
The activities conducted by the Corporation's segments are subject to operational risks including competition from other businesses, performance of key suppliers, product performance warranty, regulatory risks, successful integration of new acquisitions, dependence on key personnel and reliance on information systems, all of which could affect the ability of the Corporation to meet its obligations.

**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, and update existing products and services and invest in and develop new technologies. Introducing new products requires a significant commitment to research and development, which may not be successful. The Corporation's sales may suffer if it invests in products that are not accepted in the marketplace, are not approved by regulatory authorities, or if the products are not brought to market in a timely manner or become obsolete.

**FIXED-TERM COMMITMENTS**
The Corporation has historically offered and will continue to offer a portion of its products on fixed-term contracts, rather than contracts in which payment is determined solely on a time-and-materials basis, mainly in the transportation segment. The Corporation generally may not terminate these contracts unilaterally. Although the Corporation often relies on tools and methodologies and past experience to reduce the risks associated with estimating, planning and performing these projects, in certain circumstances, the Corporation bears the risk of cost overruns and may be subject to late delivery penalties.

**GENERAL ECONOMIC CONDITIONS**
Unfavourable economic conditions may adversely affect the business of the Corporation. For example, weakness or further deterioration in the financial situation of certain major U.S. carriers which are clients of the Corporation or outbreak of war or hostilities in certain regions of the world (including the escalation of hostilities or the significant prolongation of the war in Iraq), may result in lower orders or the cancellation of part of the existing backlog for certain of the Corporation's products; these could adversely affect the Corporation's financial condition and results of operations. 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.

**FOREIGN CURRENCY FLUCTUATIONS**
The Corporation is exposed to risks resulting from foreign currency fluctuations arising either from carrying its businesses from Canada in foreign currencies or through operations in foreign countries. In an effort to mitigate those risks, the Corporation makes use of derivative contracts to hedge the exposure to future cash flows in various currencies and asset/liability management involving mostly borrowing in foreign currencies to hedge foreign currency exposure arising from permanent investments in foreign countries.

**LIQUIDITY AND ACCESS TO CAPITAL RESOURCES**
The Corporation requires continued access to the capital markets to support its activities, including selling asset-backed securities. To satisfy its financing needs, the Corporation relies on long-term and short-term debt and cash flow generated from operations. Any impediments to the Corporation's ability to access the capital markets, including a decline in credit ratings, the reduction of the surety market global capacity, significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Corporation's financial condition or prospects, could have a material adverse effect on the Corporation's financial condition and results of operations. Credit ratings may be impacted by many external factors

beyond the control of the Corporation 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 syndicated credit facilities contain covenants that, among other things, restrict the Corporation's ability to:

- sell all or substantially all its assets;
- incur secured indebtedness;
- engage in mergers or consolidations; and
- engage in transactions with affiliates.

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, Bombardier is also required to comply with a single financial covenant under its two main syndicated credit facilities. The ratio of total debt, defined essentially as short-term borrowings and long-term debt less subordinated debt and cash and cash equivalents, to total capitalization (total debt, as defined, plus shareholders' equity and subordinated debt) must not exceed certain thresholds, as measured at quarter end. The Corporation's ability to comply with these ratios may be affected by events beyond its control. A breach of any of these agreements or the Corporation's inability to comply with the required financial ratio could also result in a default under its bank lines, which would permit the Corporation's lenders to declare amounts owed to them immediately payable.

**DELINQUENCIES AND LOSSES IN BC'S PORTFOLIO**
Like all finance companies BC faces the risk that it may not be able to collect on its finance receivables, consisting primarily of asset-based financing in the form of receivables, lease receivables and loans mostly related to floorplan financing on a secured basis to retailers purchasing inventory products, third-party interim financing of commercial aircraft and leases for new and pre-owned business and commercial aircraft, as well as third-party financing of business aircraft and related products.

**CHANGING INTEREST RATES**
BC's profitability may be directly affected by the level of and fluctuations in interest rates. BC uses derivatives as an integral part of its asset/liability management program to reduce its overall financial risk. These derivatives, particularly interest-rate swap agreements, are used to alter interest rate exposure arising from mismatches between assets and liabilities.

**EXTERNAL BUSINESS ENVIRONMENT**
The Corporation faces a number of external risk factors, more specifically general economic conditions, government policies related to import and export restrictions, changing priorities and possible spending cuts by government agencies, foreign government support to export sales, volatility of fuel prices and political instability. The recreational products segment is also subject to the risks associated with volatile demand for consumer products, weather conditions as well as legislation and regulations on safety and the environment.

**WARRANTY CASUALTY CLAIM LOSSES**
The products manufactured by the Corporation are highly complex and sophisticated and may contain defects that are difficult to detect and correct. Errors 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 errors 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, errors or failures could have an adverse effect on the Corporation's operating results and business. 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. 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.

**COLLECTIVE BARGAINING AGREEMENTS**
The Corporation is party to several collective bargaining agreements throughout its business segments, which are subject to expiration at various times in the future. If the Corporation is unable to renew these agreements or others as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances, which could have a material adverse effect on the Corporation's business.

## RECENT ACCOUNTING PRONOUNCEMENTS

**IMPAIRMENT OF LONG-LIVED ASSETS**
In December 2002, the Accounting Standards Board (AcSB) issued new accounting recommendations relating to the determination of long-lived asset impairment as well as recognition, measurement and disclosure of the impairment. These recommendations are effective for the Corporation's fiscal year beginning on February 1, 2004. The Corporation will early adopt these new recommendations effective February 1, 2003. The adoption of the new recommendations is not expected to have a material impact on the Corporation's Consolidated Financial Statements.

**DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS**
Also in December 2002, the AcSB issued new accounting recommendations providing accounting guidance for long-lived assets to be disposed of other than by sale, long-lived assets to be disposed of by sale, and presentation and disclosure for discontinued operations. These recommendations are effective for disposal activities initiated by the Corporation on or after May 1, 2003. The Corporation will adopt these new recommendations effective February 1, 2003. The adoption of the new recommendations is not expected to have a material impact on the Corporation's Consolidated Financial Statements.

**DISCLOSURE OF GUARANTEES**
In February 2003, the AcSB issued AcG-14 "Disclosure of Guarantees." AcG-14 addresses the disclosures to be made by a guarantor about its obligations under guarantees. Although the guideline is only effective as of the Corporation's fiscal year beginning on February 1, 2003, the Corporation has decided to adopt the guideline's disclosure requirements in the notes to the Consolidated Financial Statements for the year ended January 31, 2003.

**HEDGING RELATIONSHIPS**
In December 2001, the AcSB issued AcG-13 "Hedging Relationships", as amended. In June 2002, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants also issued EIC-128 "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments". AcG-13 establishes the criteria for identification, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. EIC-128 establishes that a freestanding derivative financial instrument that gives rise to a financial asset or financial liability and is entered into for trading or speculative purposes, or that does not qualify for hedge accounting under AcG-13 should be recognized in the balance sheet and measured at fair value, with changes in fair value recognized in current income. Both AcG-13 and EIC-128 will be effective for the Corporation's 2005 fiscal year. The Corporation has not yet determined the impact, if any, that these new accounting pronouncements will have on its Consolidated Financial Statements once they become applicable.

## FUTURE CHANGES IN ACCOUNTING PRINCIPLES

**CONSOLIDATION OF SPECIAL – PURPOSE ENTITIES**
On January 17, 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (VIEs). This interpretation establishes the

consolidation criteria for VIE's based on a risks and rewards model rather than on a control-based model. The AcSB confirmed its intention to harmonize Canadian accounting practices with the U.S. standard. A new Canadian standard is expected to be issued in April 2003 with an application date within fiscal year 2004.

The impact of the expected standard, if harmonized with the U.S. standard, has not yet been determined, but could be material. However, it is anticipated that unless certain existing agreements are modified prior to the application of the standard, the Corporation will be required to consolidate certain assets previously sold to special purpose entities and the related liabilities and non-controlling interest. The consolidation of the VIEs would not alter the Corporation's financial exposure to the assets and liabilities of the VIEs.

**MULTIPLE DELIVERABLES**
In November 2002, the Emerging Issues Task Force of the U.S. Financial Accounting Standards Board reached a consensus on Issue 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" which addresses how to account for multiple-deliverable revenue arrangements and focuses on when a revenue arrangement should be separated into different revenue-generating deliverables or 'units of accounting' and, if so, how the arrangement consideration should be allocated to the different deliverables or units of accounting. This consensus will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003 with early adoption permitted. The Corporation has not determined whether or not the consensus reached on Issue 00-21 in the United States will result in changes to its current revenue recognition policies under generally accepted accounting principles in Canada.

**SELECTED QUARTERLY FINANCIAL INFORMATION**

(restated-unaudited)
(millions of Canadian dollars, except per share amounts)

| For the year ended January 31, 2003 | | Total | | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | **$** | **23,664.9** | **$** | **5,508.1** | **$** | **5,767.5** | **$** | **5,645.9** | **$** | **6,743.4** |
| Net income (loss) | **$** | **(615.2)** | **$** | **197.2** | **$** | **68.0** | **$** | **168.2** | **$** | **(1,048.6)** |
| Earnings (loss) per share | | | | | | | | | | |
| Basic | **$** | **(0.47)** | **$** | **0.14** | **$** | **0.04** | **$** | **0.12** | **$** | **(0.77)** |
| Diluted | **$** | **(0.47)** | **$** | **0.14** | **$** | **0.04** | **$** | **0.12** | **$** | **(0.77)** |

| For the year ended January 31, 2002 | | Total | | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | $ | 21,815.6 | $ | 4,024.6 | $ | 4,948.4 | $ | 4,998.0 | $ | 7,844.6 |
| Net income (loss) | $ | 36.0 | $ | 183.6 | $ | 217.7 | $ | (442.9) | $ | 77.6 |
| Earnings (loss) per share | | | | | | | | | | |
| Basic | $ | 0.01 | $ | 0.13 | $ | 0.16 | $ | (0.33) | $ | 0.05 |
| Diluted | $ | 0.01 | $ | 0.13 | $ | 0.15 | $ | (0.33) | $ | 0.05 |

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements of **Bombardier Inc.** and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements 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 Inc.'**s policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Consolidated Financial Statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of a majority of outside directors. The committee meets periodically with Management, as well as the internal auditors and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements and the external auditors' report. The committee reports its findings to the Board for consideration by the Board when it approves the Consolidated Financial Statements for issuance to shareholders.

The 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.

Pierre Alary, CA
Senior Vice President and
Interim Chief Financial Officer

April 2, 2003

**AUDITORS' REPORT**

TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the consolidated balance sheets of **Bombardier Inc.** as at January 31, 2003 and 2002 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Montréal, Canada
March 5, 2003
(except for note 29, which is as at April 2, 2003)

## Consolidated Balance Sheets

| As at January 31 (millions of Canadian dollars) | Notes | Bombardier Inc. consolidated 2003 | Bombardier Inc. consolidated 2002 (restated - note 1) | Bombardier 2003 | Bombardier 2002 (restated - note 1) | BC 2003 | BC 2002 |
|---|---|---|---|---|---|---|---|
| ***Assets*** | | | | | | | |
| Cash and cash equivalents | | **$ 1,043.0** | $ 462.8 | **$ 741.8** | $ 462.8 | **$ 301.2** | $ - |
| Receivables | 3 | **2,349.2** | 1,902.1 | **2,183.6** | 1,590.7 | **165.6** | 311.4 |
| Finance receivables | 4 | **7,013.3** | 6,398.3 | **-** | - | **7,013.3** | 6,398.3 |
| Assets under operating leases | 5 | **1,350.9** | 1,831.2 | **-** | - | **1,350.9** | 1,831.2 |
| Inventories | 6 | **5,821.6** | 6,176.7 | **5,821.6** | 6,176.7 | **-** | - |
| Property, plant and equipment | 7 | **5,871.0** | 5,618.3 | **5,723.6** | 5,455.2 | **147.4** | 163.1 |
| Goodwill | 8 | **3,244.9** | 2,712.9 | **3,244.9** | 2,712.9 | **-** | - |
| Investment in and advances to/from BC | | **-** | - | **1,286.7** | 1,363.0 | **69.1** | - |
| Other assets | 9 | **2,315.5** | 2,140.4 | **1,760.3** | 1,579.8 | **555.2** | 560.6 |
| | | **$ 29,009.4** | $ 27,242.7 | **$ 20,762.5** | $ 19,341.1 | **$ 9,602.7** | $ 9,264.6 |
| ***Liabilities*** | | | | | | | |
| Short-term borrowings | 10 | **$ 2,563.6** | $ 3,037.0 | **$ 380.8** | $ 1,341.7 | **$ 2,182.8** | $ 1,695.3 |
| Advances to/from Bombardier | | **-** | - | **69.1** | - | **-** | 20.0 |
| Accounts payable and accrued liabilities | 11 | **9,575.0** | 8,057.4 | **9,167.2** | 7,638.9 | **407.8** | 418.5 |
| Advances and progress billings in excess of related costs | 6 | **3,816.0** | 3,291.5 | **3,816.0** | 3,291.5 | **-** | - |
| Long-term debt | 12 | **8,815.1** | 7,857.7 | **3,102.5** | 2,080.7 | **5,712.6** | 5,777.0 |
| Other liabilities | 13 | **1,498.7** | 1,663.0 | **1,485.9** | 1,652.2 | **12.8** | 10.8 |
| | | **26,268.4** | 23,906.6 | **18,021.5** | 16,005.0 | **8,316.0** | 7,921.6 |
| ***Shareholders' equity (Investment in BC)*** | | **2,741.0** | 3,336.1 | **2,741.0** | 3,336.1 | **1,286.7** | 1,343.0 |
| | | **$ 29,009.4** | $ 27,242.7 | **$ 20,762.5** | $ 19,341.1 | **$ 9,602.7** | $ 9,264.6 |

Commitments and contingencies 26

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 Shareholders' equity

| For the years ended January 31 (millions of Canadian dollars) | Notes | 2003 Number (in thousands) | 2003 Amount | 2002 Number (in thousands) | 2002 Amount (restated - note 1) |
|---|---|---|---|---|---|
| **SHARE CAPITAL** | 14 | | | | |
| **Preferred shares** | | | | | |
| Series 2 | | **2,598** | **$ 65.0** | 12,000 | $ 300.0 |
| Series 3 | | **9,402** | **235.0** | - | - |
| Series 4 | | **9,400** | **235.0** | - | - |
| **Balance at end of year - preferred shares** | | **21,400** | **535.0** | 12,000 | 300.0 |
| **Common shares** | | | | | |
| **Class A Shares (Multiple Voting)** | | | | | |
| Balance at beginning of year | | **342,367** | **47.4** | 347,426 | 48.1 |
| Converted to Class B | | **(347)** | **(0.1)** | (5,059) | (0.7) |
| Balance at end of year | | **342,020** | **47.3** | 342,367 | 47.4 |
| **Class B Shares (Subordinate Voting)** | | | | | |
| Balance at beginning of year | | **1,028,404** | **848.8** | 1,018,625 | 821.9 |
| Issued under the share option plans | 15 | **6,916** | **20.2** | 4,720 | 26.2 |
| Converted from Class A | | **347** | **0.1** | 5,059 | 0.7 |
| Balance at end of year | | **1,035,667** | **869.1** | 1,028,404 | 848.8 |
| **Balance at end of year - common shares** | | **1,377,687** | **916.4** | 1,370,771 | 896.2 |
| **Total - share capital** | | | **1,451.4** | | 1,196.2 |
| **RETAINED EARNINGS** | | | | | |
| Balance at beginning of year - previously reported | | | **2,785.3** | | 2,660.0 |
| Effect of changes in accounting policies for aerospace programs | 1 | | **(753.9)** | | (399.0) |
| Balance at beginning of year - restated | | | **2,031.4** | | 2,261.0 |
| Net income (loss) | | | **(615.2)** | | 36.0 |
| Dividends: | | | | | |
| Preferred shares | | | **(29.1)** | | (16.5) |
| Common shares | | | **(248.9)** | | (248.0) |
| Share issue costs, net of tax | | | **(5.7)** | | - |
| Other | | | **-** | | (1.1) |
| Balance at end of year | | | **1,132.5** | | 2,031.4 |
| **Deferred translation adjustment** | | | **157.1** | | 108.5 |
| **Total - shareholders' equity** | | | **$ 2,741.0** | | $ 3,336.1 |

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

| For the years ended January 31<br>(millions of Canadian dollars, except per share amounts) | | Bombardier Inc. consolidated | | Bombardier | | BC | |
|---|---|---|---|---|---|---|---|
| | Notes | **2003** | 2002 (restated - note 1) | **2003** | 2002 (restated - note 1) | **2003** | 2002 |
| ***Revenues*** | 27 | **$ 23,664.9** | $ 21,815.6 | **$ 23,172.6** | $ 21,238.2 | **$ 894.9** | $ 966.8 |
| Cost of sales and operating expenses | 18, 19 and 27 | **22,192.1** | 19,892.1 | **21,870.6** | 19,365.6 | **724.1** | 915.9 |
| Depreciation and amortization | | **863.8** | 791.6 | **683.8** | 646.6 | **180.0** | 145.0 |
| Interest expense | 19 | **223.4** | 158.9 | **223.4** | 158.9 | **-** | - |
| Other income | 20 | **(134.0)** | (170.6) | **(21.0)** | (35.1) | **(113.0)** | (135.5) |
| Special items | 21 | **1,310.8** | 1,093.5 | **1,310.8** | 431.0 | **-** | 662.5 |
| Net (income) loss from BC | | **-** | - | **(62.9)** | 380.5 | **-** | - |
| | | **24,456.1** | 21,765.5 | **24,004.7** | 20,947.5 | **791.1** | 1,587.9 |
| Income (loss) before income taxes | | **(791.2)** | 50.1 | **(832.1)** | 290.7 | **103.8** | (621.1) |
| Income tax expense (recovery) | 22 | **(176.0)** | 14.1 | **(216.9)** | 254.7 | **40.9** | (240.6) |
| ***Net income (loss)*** | | **$ (615.2)** | $ 36.0 | **$ (615.2)** | $ 36.0 | **$ 62.9** | $ (380.5) |
| ***Earnings (loss) per share:*** | 16 | | | | | | |
| Basic | | **$ (0.47)** | $ 0.01 | | | | |
| Diluted | | **$ (0.47)** | $ 0.01 | | | | |

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

| For the years ended January 31 | | Bombardier Inc. | | | | | |
|---|---|---|---|---|---|---|---|
| (millions of Canadian dollars) | | consolidated | | Bombardier | | BC | |
| | Notes | **2003** | 2002 (restated - note 1) | **2003** | 2002 (restated - note 1) | **2003** | 2002 |
| ***Operating activities*** | | | | | | | |
| Net income (loss) | | **$ (615.2)** | $ 36.0 | **$ (615.2)** | $ 36.0 | **$ 62.9** | $ (380.5) |
| Non-cash items: | | | | | | | |
| Depreciation and amortization | | **863.8** | 791.6 | **683.8** | 646.6 | **180.0** | 145.0 |
| Net (income) loss from BC | | **-** | - | **(62.9)** | 380.5 | **-** | - |
| Provision for credit losses | 4 | **119.7** | 117.5 | **-** | - | **119.7** | 117.5 |
| Deferred income taxes | 22 | **(314.0)** | (118.8) | **(348.4)** | 120.6 | **34.4** | (239.4) |
| Special items | 21 | **1,310.8** | 1,093.5 | **1,310.8** | 431.0 | **-** | 662.5 |
| Net changes in non-cash balances related to operations | 23 | **612.6** | (2,263.2) | **519.2** | (2,151.9) | **93.4** | (111.3) |
| Cash flows from operating activities | | **1,977.7** | (343.4) | **1,487.3** | (537.2) | **490.4** | 193.8 |
| ***Investing activities*** | | | | | | | |
| Additions to property, plant and equipment, net | | **(683.1)** | (1,184.0) | **(685.9)** | (1,135.0) | **2.8** | (49.0) |
| Net investment in finance receivables | | **1,047.9** | (868.2) | **-** | - | **1,047.9** | (868.2) |
| Additions to assets under operating leases | | **(1,596.9)** | (1,021.1) | **-** | - | **(1,596.9)** | (1,021.1) |
| Disposals of assets under operating leases | | **1,846.8** | 924.2 | **-** | - | **1,846.8** | 924.2 |
| Business acquisitions, net of cash acquired | 2 | **-** | (979.8) | **-** | (979.8) | **-** | - |
| Investment in and advances to/from BC | | **-** | - | **184.6** | (90.4) | **(184.6)** | 90.4 |
| Other | | **(16.8)** | (124.0) | **(23.9)** | (82.1) | **7.1** | (41.9) |
| Cash flows from investing activities | | **597.9** | (3,252.9) | **(525.2)** | (2,287.3) | **1,123.1** | (965.6) |
| ***Financing activities*** | | | | | | | |
| Net variation in short-term borrowings | | **(1,786.9)** | 26.0 | **(1,079.1)** | 986.5 | **(707.8)** | (960.5) |
| Proceeds from issuance of long-term debt | | **2,299.2** | 3,881.9 | **892.8** | 1,210.4 | **1,406.4** | 2,671.5 |
| Repayment of long-term debt | | **(2,178.2)** | (1,009.7) | **(38.0)** | (48.4) | **(2,140.2)** | (961.3) |
| Issuance of shares, net of related costs | 14 | **249.5** | 26.2 | **249.5** | 26.2 | **-** | - |
| Dividends paid | | **(278.0)** | (264.5) | **(278.0)** | (264.5) | **-** | - |
| Cash flows from financing activities | | **(1,694.4)** | 2,659.9 | **(252.8)** | 1,910.2 | **(1,441.6)** | 749.7 |
| Effect of exchange rate changes on cash and cash equivalents | | **(301.0)** | 25.3 | **(430.3)** | 18.3 | **129.3** | 7.0 |
| ***Net increase (decrease) in cash and cash equivalents*** | | **580.2** | (911.1) | **279.0** | (896.0) | **301.2** | (15.1) |
| ***Cash and cash equivalents at beginning of year*** | | **462.8** | 1,373.9 | **462.8** | 1,358.8 | **-** | 15.1 |
| ***Cash and cash equivalents at end of year*** | | **$ 1,043.0** | $ 462.8 | **$ 741.8** | $ 462.8 | **$ 301.2** | $ - |

**Supplemental information**

| Cash paid for: | | |
|---|---|---|
| - Interest | **$ 446.8** | $ 477.3 |
| - Income taxes | **$ 62.8** | $ 79.8 |

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 years ended January 31, 2003 and 2002

***Consolidated financial statement presentation***

Bombardier Inc. is incorporated under the laws of Canada. The consolidated balance sheets are unclassified because Bombardier Inc. and its subsidiaries (the "Corporation") carry out their operations in four distinct segments, each one characterized by a specific operating cycle. Financial services and real estate activities, being distinct from Bombardier's other activities, are shown in a separate column, Bombardier Capital (BC), in the Consolidated Financial Statements.

The following describes the columns shown in these financial statements.

***BOMBARDIER INC. CONSOLIDATED***

This column represents all of the activities of the Corporation on a consolidated basis, after elimination of balances and transactions between Bombardier and BC.

***BOMBARDIER***

This column represents the activities of the Corporation's three manufacturing segments (aerospace, transportation and recreational products). These segments are grouped and referred to as "Bombardier." Intercompany transactions and balances within this column have been eliminated, whereas intercompany transactions and balances between Bombardier and BC have not been eliminated. Bombardier's investment in BC is accounted for in this column under the equity method and comprises BC's equity and the subordinated debt of Bombardier in BC.

***BC***

The BC column represents the financial services and real estate activities of the Corporation. Intercompany transactions and balances within BC have been eliminated, whereas intercompany transactions and balances between BC and Bombardier have not been eliminated.

## Bombardier Inc. consolidated – Significant Accounting Policies

### *Basis of consolidation*

The Consolidated Financial Statements include the accounts of Bombardier Inc. and its subsidiaries, substantially all of which are wholly owned. They also include the Corporation's proportionate share of its joint ventures. Most legal entities of the transportation segment use a December 31 fiscal year end. As a result, the Corporation consolidates these operations with a one-month lag with the remainder of its operations.

### *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (GAAP) requires Management to make estimates and assumptions, particularly as they relate to accounting for long-term contracts and aerospace programs, that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates, and such differences could be material.

### *Translation of foreign currencies*

Foreign operations are classified as integrated or self-sustaining. All significant foreign investees are classified as self-sustaining entities.

a) Self-sustaining foreign operations

All assets and liabilities are translated at exchange rates in effect at year end. Revenues and expenses are translated at the average exchange rates for the period. The resulting net gains or losses are included in "Deferred translation adjustment" in shareholders' equity.

b) Accounts in foreign currencies

Accounts in foreign currencies, including integrated foreign investees, are translated using the temporal method. Under this method, monetary balance sheet items are translated at the exchange rates in effect at year end and non-monetary items are translated at historical exchange rates. Revenues and expenses (other than depreciation and amortization, which are translated at the same exchange rates as the related assets) are translated at the exchange rates in effect on the transaction dates or at the average exchange rates of the period. Translation gains or losses are included in the consolidated statements of income, except those related to debt designated as an effective hedge of the Corporation's net investment in self-sustaining foreign operations, which are included in "Deferred translation adjustment" in shareholders' equity.

### *Cash and cash equivalents*

Cash and cash equivalents consist of cash and highly liquid investments which have maturities of less than three months at the date of acquisition. These securities are only with investment grade financial institutions.

### *Property, plant and equipment*

Property, plant and equipment are recorded at cost. In the aerospace segment, non-recurring costs incurred once technical feasibility is proven and program launch takes place, including prototype design, development and testing, are accounted for as program tooling. Self-constructed aerospace program tooling includes interest charges incurred during construction. Depreciation is computed under the straight-line method over the following estimated useful lives as follows:

| | |
|---|---|
| Buildings | 10 to 40 years |
| Equipment | 2 to 15 years |
| Aerospace program tooling | 10 years |
| Other | 3 to 20 years |

Depreciation of assets under construction begins when they are ready for their intended use.

The Corporation reviews property, plant and equipment for impairment annually or whenever events or circumstances indicate a potential impairment. The carrying value of impaired assets is reduced to its net recoverable amount by way of an additional current period depreciation charge.

### *Income taxes*

Income taxes are provided for using the liability method. Under this method, deferred income tax assets and liabilities are determined based on all significant differences between the carrying amounts and tax bases of assets and liabilities using substantively enacted tax rates and laws expected to be in effect when the differences reverse.

### *Earnings per share*

Basic earnings per share are computed based on net income less dividends on preferred shares, divided by the weighted average number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the year. Diluted earnings per share are computed using the treasury stock method, giving effect to the exercise of all dilutive elements.

### *Employee future benefits*

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and health care costs. Plan obligations are discounted using current market interest rates, and plan assets are presented at fair value. The net actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized to income over the estimated average remaining service life of participants of approximately 16 years.

### *Sales of loans and receivables*

Since April 1, 2001, transfers of loans and receivables in securitization transactions are recognized as sales when control over these assets is deemed to have been surrendered and consideration other than beneficial interests in the transferred assets was received. Assets retained may include interest-only strips, subordinated tranches of securities, servicing rights, over-collateralization amounts, cash reserve accounts and transferors interests, all of which are included in receivables for the Bombardier manufacturing segment and in finance receivables for BC. When the transfer is considered a sale, all assets sold are derecognized, assets received and the liabilities incurred are recognized at fair value, and the gain or loss on the sale is recorded in other income. Such gain or loss depends in part on the previous carrying amount of the financial assets involved in the transfer. The carrying value 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 obtained from quoted market prices, when available. However, quotes are generally not available for retained interests and the Corporation generally estimates fair values based on the present value of future expected cash flows using Management's best estimates for credit losses, rate of prepayment, forward yield curves, and discount rates commensurate with the risks involved.

Prior to April 1, 2001, loans and receivables transferred were recognized as sales when the significant risks and rewards of ownership were transferred to the purchaser. Transactions entered into prior to April 1, 2001 or completed subsequently pursuant to a commitment made prior to April 1, 2001, were accounted for under the former accounting standard.

### *Allowance for credit losses*

Finance receivables and trade 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. Accrual of interest income is suspended when the account becomes 90 days delinquent or may be suspended earlier if collection of an account becomes doubtful.

The Corporation maintains an allowance for credit losses in an amount sufficient to provide adequate protection against losses. The level of allowance is based on Management's assessment of the risks associated with each of the Corporation's portfolios, including loss and recovery experience, industry performance and the impact of current and projected economic conditions.

***Derivative financial instruments***

The Corporation is party to a number of derivative financial instruments, mainly foreign exchange contracts, interest-rate swap agreements and cross-currency interest-rate swap agreements used to manage currency and interest rate risks. Gains and losses on foreign exchange contracts entered into to hedge future transactions are deferred and included in the measurement of the related foreign currency transactions. Payments and receipts under interest-rate and cross-currency interest-rate swap agreements are recognized as adjustments to interest expense.

***Environmental obligations***

Liabilities are recorded when environmental claims or remedial efforts are probable, and the costs can be reasonably estimated. Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to future revenue generation, are expensed.

***Stock-based compensation and other stock-based payments***

The Corporation accounts for its share option plans for key employees and directors as capital transactions. Accordingly, the issuance of options to employees and directors does not give rise to compensation expenses in the Consolidated Statements of Income. The Corporation discloses pro forma net income and earnings per share information using the fair value based method (see note 15).

The Corporation's contributions to the employee share purchase plan are accounted for in the same manner as the related employee payroll costs.

**Bombardier – Significant Accounting Policies**

***Revenue recognition***

Revenues from the sale of commercial aircraft and narrow-body business aircraft (Bombardier Learjet*), fractional interests in business aircraft and other products and services are recognized upon delivery of products or when the services are rendered.

Wide-body business aircraft (Bombardier Challenger* and Bombardier Global Express*) contracts are segmented between green aircraft (i.e. before interiors and optional avionics are installed) and completion of interiors. Revenues are recognized based on green aircraft deliveries and upon final acceptance of interiors and optional avionics by customers.

Revenues from long-term contracts 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," published by the American Institute of Certified Public Accountants (AICPA). The degree of completion is generally determined by comparing the costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative for the measure of performance.

Estimated revenues from long-term contracts include future revenues from claims when it is probable that such claims, resulting from work performed for customers in addition to the work contemplated in the original contracts, will result in additional revenues in an amount that can be reliably estimated.

***Cost of sales***

a) Aerospace programs

Cost of sales for commercial and business aircraft is determined using the average unit cost based on the estimated total production costs for a predetermined program quantity. 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 options. The average unit cost is recorded to cost of sales at the time of each aircraft delivery. Under the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition and management action, excess over-average production costs during the early stages of a program are deferred and recovered from sales of aircraft anticipated to be produced later at lower-than-average costs.

Estimates of average unit production costs and of program quantities are an integral component of average cost accounting. Management conducts quarterly reviews as well as a detailed annual review of its cost estimates, and the effect of any revisions are accounted for by way of a cumulative catch-up adjustment to income in the period in which the revision takes place.

b) Long-term contracts

Cost of sales for long-term contracts is established based on the estimated total contract costs, including material, direct labour and manufacturing overhead costs in relation to the percentage of completion. The effect of changes to total estimated profit for each contract is recognized in the period in which the determination is made and losses, if any, are fully recognized when anticipated.

***Inventory valuation***

a) Aerospace programs

Inventory costs determined under the average cost accounting method include raw materials, direct labour and related manufacturing overhead, as well as excess over-average production costs.

To the extent that inventory costs are expected to exceed the total estimated sales price, charges are made to current period income to reduce inventoried costs to estimated net realizable value.

b) Long-term contracts

Long-term contracts inventory is computed under the percentage-of-completion method of accounting. It includes material, direct labour, related manufacturing overhead costs incurred and related estimated margins.

c) Other inventories

Raw materials, work in process and finished products, other than those included in long-term contracts and aerospace programs, are valued at the lower of cost (specific cost, average cost or first-in, first-out, depending on the segment) and replacement cost (raw materials) or net realizable value. The cost of work in process and finished products includes the cost of raw materials, direct labour and related manufacturing overhead.

d) Advances and progress billings

Advances received and progress billings on long-term contracts and aerospace programs are deducted from related costs in inventories. Advances and progress billings in excess of related contract costs are shown as liabilities.

***Goodwill***

Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is not subject to amortization and is tested for impairment annually, or more

frequently if events or circumstances indicate that the asset might be impaired. Impairment is tested by comparing the fair value of the goodwill to its carrying value. Any excess of carrying value over fair value is charged to income in the period in which the impairment is determined.

### *Intangible assets*

Intangible assets represent the cost of acquired licenses, patents and trademarks and are amortized over their estimated useful lives, not exceeding 20 years. The carrying value of intangible assets is reviewed periodically for impairment based on an estimate of the undiscounted cash flows over the remaining period of amortization. The carrying value of impaired intangible assets is reduced to its net recoverable amount by way of an additional current period depreciation charge.

## BC – Significant Accounting Policies

### *Interest income*

Interest income related to finance receivables is recognized on an accrual basis, computed on the average daily finance receivables balance outstanding and is recorded in revenues.

### *Deferred origination costs*

BC defers the direct origination costs of finance receivables. These costs are amortized on a yield basis over the expected term of the finance receivables.

### *Lease receivables*

Assets leased under terms which transfer substantially all of the benefits and risks of ownership to customers are accounted for as direct financing leases. Income is recognized over the terms of the applicable leases in a manner that produces a constant rate of return on the lease investment and is recorded in revenues.

### *Assets under operating leases*

Assets under operating leases are recorded at cost. Depreciation is computed under the straight-line method over periods representing their estimated useful lives. BC's rental income from assets under operating leases is recognized over the term of the lease on a straight-line basis. BC reviews assets under operating leases for impairment annually or whenever events or circumstances indicate a potential impairment. The carrying value of impaired assets is reduced to its net recoverable amount by way of an additional current period depreciation charge.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended January 31, 2003 and 2002
(tabular figures in millions of Canadian dollars, except share capital, share options and per share amounts)

### 1. CHANGES IN ACCOUNTING POLICIES

#### Aerospace programs

During the year ended January 31, 2003, the Corporation changed its method of accounting for the cost of sales of regional and business aircraft from the program accounting method to the average cost accounting method. Under the average cost accounting method, production quantities for a program are based on an assessment of prevailing market conditions and anticipated demand for that aircraft, considering, among other factors, firm order backlog and options. Total program production costs are then estimated in order to determine the average unit production cost. Management conducts quarterly reviews as well as a detailed annual review of its cost estimates and program quantities, and the effect of any revisions is accounted for by way of a cumulative catch-up adjustment to income in the period in which the revision takes place. Previously, under the program accounting method, changes in estimates were accounted for prospectively over remaining program quantities.

Under the average cost accounting method, estimated average unit production costs are charged to cost of sales. As a result, the margin on each aircraft delivered varies depending on the aircraft selling price. Under the program accounting method, the cost of sale for each delivered aircraft was calculated as a percentage of the actual sale price, achieving a constant program margin percentage, revised on a regular basis.

Non-recurring costs, including prototype design and development, which were previously deferred as inventory costs and amortized over the initial program quantity or less, are now accounted for as program tooling in property, plant and equipment. Program tooling, which under the new policy includes interest charges incurred during construction, is amortized over its estimated useful life, usually a period of ten years.

These changes were adopted retroactively with restatement of prior years, reducing the Corporation's retained earnings as at February 1, 2001 by $399.0 million, representing the cumulative after-tax effect of this change on all prior periods.

The effect of the accounting changes and related revisions of program estimates as well as the reclassification of sales concessions and finance receivables on the Corporation's Consolidated Financial Statements are as follows:

**Consolidated statement of income** **2003**

| | | Accounting changes and related revisions of program estimates | | Reclassifications (note 27) |
|---|---|---|---|---|
| **Revenues** | **$** | **—** | **$** | **201.4** |
| Cost of sales and operating expenses | | **189.8** | | **201.4** |
| Depreciation and amortization | | **264.3** | | **—** |
| Interest expense | | **(35.2)** | | **—** |
| Special items (note 21) | | **614.7**[(1)] | | **—** |
| | | **1,033.6** | | **201.4** |
| Net effect before income tax recovery | | **(1,033.6)** | | **—** |
| Income tax recovery | | **(317.6)** | | **—** |
| **Net effect** | **$** | **(716.0)** | **$** | **—** |
| **Net effect on loss per share:** | | | | |
| Basic | **$** | **(0.52)** | | |
| Diluted | **$** | **(0.52)** | | |

[(1)] Represents the amount resulting from revisions of program estimates.

Consolidated statement of income 2002

| | | Previously reported | | Accounting changes and related revisions of program estimates | | Reclassifications (note 27) | | Restated |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | $ | 21,633.8 | $ | — | $ | 181.8 | $ | 21,815.6 |
| Cost of sales and operating expenses | | 19,480.6 | | 229.7 | | 181.8 | | 19,892.1 |
| Depreciation and amortization | | 513.7 | | 277.9 | | — | | 791.6 |
| Interest expense | | 182.0 | | (23.1) | | — | | 158.9 |
| Other income | | (170.6) | | — | | — | | (170.6) |
| Special items (note 21) | | 1,070.2 | | 23.3 [(1)] | | — | | 1,093.5 |
| | | 21,075.9 | | 507.8 | | 181.8 | | 21,765.5 |
| Income before income taxes | | 557.9 | | (507.8) | | — | | 50.1 |
| Income tax expense | | 167.0 | | (152.9) | | — | | 14.1 |
| **Net income** | $ | 390.9 | $ | (354.9) | $ | — | $ | 36.0 |
| **Earnings per share:** | | | | | | | | |
| Basic | $ | 0.27 | $ | (0.26) | $ | — | $ | 0.01 |
| Diluted | $ | 0.27 | $ | (0.26) | $ | — | $ | 0.01 |

[(1)] Represents the amount resulting from revisions of program estimates.

| **Consolidated balance sheet** | **2003** |
|---|---|
| | **Accounting changes and related revisions of program estimates** |
| **Assets** | |
| Inventories | **$ (3,870.2)** |
| Property, plant and equipment | **2,316.3** |
| | **$ (1,553.9)** |
| **Liabilities** | |
| Accounts payable and accrued liabilities | **$ 294.0** |
| Advances and progress billings in excess of related costs | **306.1** |
| Other liabilities | **(684.1)** |
| | **(84.0)** |
| **Shareholders' equity** | **(1,469.9)** |
| | **$ (1,553.9)** |

| Consolidated balance sheet | | | | 2002 |
|---|---|---|---|---|
| | Previously reported | Accounting changes and related revisions of program estimates | Reclassifications (note 27) | Restated |
| **Assets** | | | | |
| Cash and cash equivalents | $ 462.8 | $ — | $ — | $ 462.8 |
| Receivables | 1,902.1 | — | — | 1,902.1 |
| Finance receivables | 6,461.7 | — | (63.4) | 6,398.3 |
| Assets under operating leases | 1,831.2 | — | — | 1,831.2 |
| Inventories | 8,956.5 | (2,779.8) | — | 6,176.7 |
| Property, plant and equipment | 3,408.4 | 2,209.9 | — | 5,618.3 |
| Goodwill | 2,712.9 | — | — | 2,712.9 |
| Other assets | 2,017.0 | 60.0 | 63.4 | 2,140.4 |
| | $ 27,752.6 | $ (509.9) | $ — | $ 27,242.7 |
| **Liabilities** | | | | |
| Short-term borrowings | $ 3,037.0 | $ — | $ — | $ 3,037.0 |
| Accounts payable and accrued liabilities | 7,779.4 | 278.0 | — | 8,057.4 |
| Advances and progress billings in excess of related costs | 3,019.0 | 272.5 | — | 3,291.5 |
| Long-term debt | 7,857.7 | — | — | 7,857.7 |
| Other liabilities | 1,969.5 | (306.5) | — | 1,663.0 |
| | 23,662.6 | 244.0 | — | 23,906.6 |
| **Shareholders' equity** | 4,090.0 | (753.9) | — | 3,336.1 |
| | $ 27,752.6 | $ (509.9) | $ — | $ 27,242.7 |

**Stock-based compensation and other stock-based payments**

Effective February 1, 2002, the Corporation prospectively adopted the new accounting recommendations published by the Accounting Standards Board (AcSB) relating to stock-based compensation and other stock-based payments made in exchange for goods and services. Under GAAP, certain stock-based compensation arrangements may be accounted for using the fair value based method or treated as capital transactions with no compensation charge to income.

The Corporation has elected to account for its share option plans for key employees and directors as capital transactions, and to disclose pro forma net income (loss) and earnings (loss) per share information using the fair value based method (see note 15). As a result, the adoption of the new recommendations had no effect on the Corporation's consolidated income, financial position and cash flows for the year ended January 31, 2003.

**Goodwill and other intangible assets**

Effective February 1, 2002, the Corporation prospectively adopted the new recommendations of the AcSB relating to goodwill and other intangible assets. Accordingly, the Corporation ceased to amortize goodwill on February 1, 2002 and adopted the goodwill impairment model introduced by the new accounting rules. Previously, goodwill was amortized on a straight-line basis over its useful life of 40 years. Under the previous accounting rules, goodwill amortization expense would have amounted to approximately $75.0 million for the year ended January 31, 2003.

**Foreign currency translation**

Effective February 1, 2002, the Corporation retroactively adopted the new AcSB accounting recommendations relating to foreign currency translation, whereby exchange gains and losses on the translation of foreign currency denominated long-term debt, which were previously deferred and amortized over the remaining term of the debt, are included in income for the current period. The effect of adopting these new recommendations on the Corporation's consolidated income, financial position and cash flows for the previous years and for the year ended January 31, 2003 was not material.

## 2. BUSINESS ACQUISITIONS

**Adtranz**

Effective May 1, 2001, the Corporation acquired from DaimlerChrysler AG (DaimlerChrysler) of Stuttgart, Germany, all of the common shares of its subsidiary DaimlerChrysler Rail Systems GmbH (Adtranz) based in Berlin, an integrated manufacturer of transportation equipment, for a cash consideration of $725.0 million US

($1.1 billion). The Corporation has recorded an initial adjustment of $205.6 million (€150.0 million) as a reduction of goodwill in connection with the purchase price adjustment clause of the Sale and Purchase Agreement (SPA) (see note 26). Resolution of the claim in excess of €150.0 million will be accounted for as an additional reduction of goodwill.

This acquisition has been recorded under the purchase method of accounting. The financial results of Adtranz operations have been consolidated with those of the Corporation as of May 1, 2001. The allocation of the purchase price, including acquisition costs of $40.0 million, to the net assets acquired at fair value is as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | **279.5** |
| Receivables | | **1,195.3** |
| Inventories (net of advances of $1,145.2) | | **618.0** |
| Property, plant and equipment | | **742.8** |
| Deferred income taxes | | **809.8** |
| Other assets | | **396.2** |
| | | **4,041.6** |
| Intercompany balance with DaimlerChrysler | | **(374.3)** |
| Accounts payable and accrued liabilities | | **(3,224.8)** |
| Advances and progress billings in excess of related costs | | **(1,571.0)** |
| Long-term debt | | **(29.1)** |
| Other liabilities | | **(438.5)** |
| | | **(5,637.7)** |
| Identifiable net assets at fair value | | **(1,596.1)** |
| Goodwill | | **2,768.3** |
| Purchase consideration | **$** | **1,172.2** |

A provision for restructuring costs amounting to $165.9 million, $64.4 million of which relates to the write-down of acquired property, plant and equipment, has been recorded in the purchase equation. The remaining amount of the provision relates to anticipated employee severance and other involuntary termination costs, as well as other exit costs.

**Outboard Marine Corporation**

On March 9, 2001, the Corporation acquired most of the net assets of the engine manufacturing operations of Outboard Marine Corporation for a cash consideration of $53.8 million US ($83.3 million), before acquisition costs of $3.8 million. These assets included the Johnson and Evinrude outboard marine engine brands and Ficht fuel-injection technology.

| Net assets acquired at fair value | | |
|---|---|---|
| Receivables | $ | **8.3** |
| Inventories | | **76.3** |
| Property, plant and equipment | | **73.8** |
| | | **158.4** |
| Accounts payable and accrued liabilities | | **(71.3)** |
| Purchase consideration | $ | **87.1** |

## 3. RECEIVABLES

As at January 31, 2003, Bombardier's receivables comprised trade account receivables of $1,966.0 million ($1,590.7 million as at January 31, 2002) and retained interests amounting to $217.6 million related to securitization activities, which began in January 2003. The retained interests provide credit enhancements for $386.8 million of receivables securitized on a fully-serviced basis. These receivables are not available to pay the Corporation's creditors.

The receivables were concentrated in the transportation and aerospace segments, 77% and 19% respectively, as at January 31, 2003 (86% and 9% respectively, as at January 31, 2002). They were mainly located in Europe and in North America, 56% and 34% respectively, as at January 31, 2003 (72% and 19% respectively, as at January 31, 2002).

## 4. FINANCE RECEIVABLES

BC's finance receivables were as follows:

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Total** | **Weighted average maturity (months)** | **Weighted average rate (%)** | Total | Weighted average maturity (months) | Weighted average rate (%) |
| **Continued portfolios** | | | | | | |
| Inventory finance | | | | | | |
| Securitized to third parties | **$ 2,088.6** | | | $ — | | |
| Other | **865.0** | | | 973.7 | | |
| | **2,953.6** | **5** | **8.8** | 973.7 | 6 | 9.6 |
| Commercial aircraft | | | | | | |
| Interim financing | **785.9** | **6** | **4.5** | 289.6 | 4 | 4.4 |
| Long-term leasing | **135.7** | **73** | **5.6** | 140.9 | 90 | 6.1 |
| | **921.6** | | | 430.5 | | |
| Industrial equipment | **58.9** | **42** | **8.8** | 68.8 | 44 | 8.8 |
| Total [(1)] | **3,934.1** | | | 1,473.0 | | |
| Allowance for credit losses | **(45.1)** | | | (23.9) | | |
| **Total continued portfolios** | **3,889.0** | | | 1,449.1 | | |
| **Discontinued portfolios** | | | | | | |
| Business aircraft [(2)] | **1,221.3** | **55** | **6.2** | 1,169.7 | 61 | 7.2 |
| Receivable factoring [(2)] | **1,039.4** | **3** | **4.3** | 2,481.7 | 12 | 4.6 |
| Manufactured housing [(2) (3)] | **434.1** | **258** | **11.6** | 630.7 | 267 | 11.7 |
| Consumer finance [(2)] | **342.3** | **89** | **11.4** | 443.9 | 98 | 11.5 |
| Other [(4)] | **193.5** | **21** | **9.0** | 472.6 | 28 | 8.6 |
| Total [(5)] | **3,230.6** | | | 5,198.6 | | |
| Allowance for credit losses | **(106.3)** | | | (249.4) | | |
| **Total discontinued portfolios** | **3,124.3** | | | 4,949.2 | | |
| | **$ 7,013.3** | | | $ 6,398.3 | | |

(1) Includes $795.6 million of loans, $2,953.6 million of receivables and $184.9 million of lease receivables as at January 31, 2003 ($147.8 million, $973.7 million and $351.5 million respectively, as at January 31, 2002).

(2) Management decided to exit the business aircraft financing and receivable factoring activities during the year ended January 31, 2003 and the manufactured housing and consumer finance activities during the year ended January 31, 2002. As a result, the related portfolios have been reclassified as discontinued portfolios.

(3) In addition, manufactured housing portfolios in public securitization vehicles amounting to $2,096.1 million as at January 31, 2003 ($2,635.3 million as at January 31, 2002) were serviced by BC.

(4) Includes the technology management and finance, mid-market equipment commercial finance and small ticket finance portfolios.

(5) Includes $1,828.1 million of loans, $1,038.5 million of receivables and $364.0 million of lease receivables as at January 31, 2003 ($2,222.7 million, $2,481.7 million and $494.2 million respectively, as at January 31, 2002).

**Product description**

a) Continued portfolios

The inventory finance portfolio represents mainly floorplan receivables arising primarily from the financing of Bombardier and third-party products owned by retailers. These receivables are generally collateralized by the related inventory and are secured by repurchase agreements with distributors or manufacturers. In the event of default, BC may repossess the products from a retailer within a time period specified in the agreement and may require the distributors or manufacturers to repurchase them for a cash consideration equal to the outstanding balance.

Effective June 1, 2002, certain modifications were made to the securitization agreements related to the floorplan receivable portfolios. As a result, the Corporation regained control, for accounting purposes, over these portfolios and, accordingly, an amount of $1,982.6 million of securitized receivables and the related short-term borrowings and long-term debt were recognized on the balance sheet as of that date. No gains or losses resulted from these transactions.

Finance receivables also include loans and lease receivables related to interim and long-term financing of commercial aircraft as well as industrial equipment. The loans and lease receivables are generally collateralized by the related assets.

b) Discontinued portfolios

The business aircraft portfolio consists of loans and finance lease receivables, mainly with third-party purchasers of new and used business aircraft.

Receivable factoring consists of third-party trade receivables originated from Bombardier's manufacturing segments. They are generally collateralized by the related assets.

Manufactured housing loans consist of contractual promises made by the buyers of manufactured housing units in the United States to pay amounts owed under retail installment sales contracts. BC obtains a security interest in the housing units purchased.

Consumer finance loans relate primarily to the financing of third-party recreational products in the form of revolving credit and installment loans, secured by the related recreational products, to consumers in the United States.

**Lease receivables**

Lease receivables are concentrated in the commercial aircraft long-term leasing and the business aircraft portfolios as well as the "other" discontinued portfolios and consist of the following before allowance for credit losses:

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Continued** | **Discontinued** | Continued | Discontinued |
| Total minimum lease payments | **$ 216.2** | **$ 461.5** | $ 392.0 | $ 563.2 |
| Unearned income | **(31.3)** | **(108.7)** | (40.5) | (103.8) |
| Unguaranteed residual value | **—** | **11.2** | — | 34.8 |
| | **$ 184.9** | **$ 364.0** | $ 351.5 | $ 494.2 |

The minimum lease payments for the next five fiscal years and thereafter are as follows: 2004 – $284.4 million; 2005 – $95.5 million; 2006 – $73.5 million; 2007 – $45.9 million, 2008 – $43.6 million and $134.8 million thereafter.

**Credit facilities**

BC has provided certain of its third-party customers with lines of credit totalling $670.7 million and $2,518.9 million US as at January 31, 2003 ($703.0 million and $2,582.0 million US as at January 31, 2002). The unused portion of these facilities amounted to $168.1 million and $907.4 million US as at January 31, 2003 ($268.9 million and $1,055.7 million US as at January 31, 2002). These lines of credit are generally committed for periods not exceeding one year.

**Allowance for credit losses**

Changes in the allowance for credit losses were as follows:

| | **2003** | 2002 |
|---|---|---|
| Balance at beginning of year | **$ 273.3** | $ 133.0 |
| Provision for credit losses | **119.7** | 657.9 |
| Amounts charged off – net of recoveries | **(241.6)** | (517.6) |
| Balance at end of year | **$ 151.4** | $ 273.3 |

The provision for credit losses included a special charge of $540.4 million for the year ended January 31, 2002 (see note 21).

Impaired finance receivables amounted to $39.8 million and $217.5 million as at January 31, 2003 for continued and discontinued portfolios respectively ($23.7 million and $269.9 million respectively, as at January 31, 2002). Repossessed assets amounted to $30.5 million and $41.3 million as at January 31, 2003 and 2002 respectively. The allowance for credit losses has been established after taking into consideration expected recoveries from impaired finance receivable collections of principal and interest and from collateral realizations.

**Geographic distribution**

The geographic distribution of finance receivables, before allowance for credit losses, was as follows:

| | | | | | **2003** |
|---|---|---|---|---|---|
| | **Canada** | **United States** | **Western Europe** | **Other** | **Total** |
| Loans | **$ 127.8** | **$ 2,231.4** | **$ 207.1** | **$ 57.4** | **$ 2,623.7** |
| Receivables | **774.6** | **2,896.8** | **310.2** | **10.5** | **3,992.1** |
| Lease receivables | **62.1** | **247.1** | **106.0** | **133.7** | **548.9** |
| | **$ 964.5** | **$ 5,375.3** | **$ 623.3** | **$ 201.6** | **$ 7,164.7** |

| | | | | | 2002 |
|---|---|---|---|---|---|
| | Canada | United States | Western Europe | Other | Total |
| Loans | $ 149.6 | $ 1,792.5 | $ 288.3 | $ 140.1 | $ 2,370.5 |
| Receivables | 1,145.0 | 2,090.6 | 219.8 | — | 3,455.4 |
| Lease receivables | 105.8 | 470.1 | 145.7 | 124.1 | 845.7 |
| | $ 1,400.4 | $ 4,353.2 | $ 653.8 | $ 264.2 | $ 6,671.6 |

No single customer represented more than 10% of BC's finance receivables as at January 31, 2003 and 2002.

**Securitizations and other transfers of receivables**

BC periodically transfers inventory finance receivables to third-party special-purpose entities (SPEs). The SPEs issue various asset-backed securities representing interests in the assets transferred. Effective June 1, 2002, BC regained control, for accounting purposes, of these transferred assets. Accordingly, they were recognized on the consolidated balance sheet at that date and any subsequent transfer of receivables to SPEs was not recognized as a sale for accounting purposes. During the years ended January 31, 2003 and 2002, BC sold $1,193.2 million and $3,860.0 million of floorplan finance receivables to revolving securitization SPEs. In addition to the finance receivables presented on its consolidated balance sheet as at January 31, 2002, BC was servicing $1,890.7 million of securitized floorplan finance receivables as at that date. BC was also servicing finance receivables sold to third parties related to its discontinued portfolios, amounting to $178.5 million as at January 31, 2003 ($403.8 million as at January 31, 2002).

BC retains interests in the finance receivables sold to SPEs, including interest-only strips (representing the present value of the SPEs' expected future excess cash flows), subordinated tranches of securities, servicing rights, over-collateralization amounts, cash reserve accounts and transferor interests. BC retained interests amounting to $113.7 million as at January 31, 2003 ($827.5 million as at January 31, 2002) in the

finance receivables sold to SPEs. BC records fee income in connection with the retained servicing rights. BC's retained interests are presented with the related finance receivable portfolios. The credit enhancements provided in order to achieve certain credit ratings for the asset-backed securities issued by the off balance sheet SPEs were not significant as at January 31, 2003.

## 5. ASSETS UNDER OPERATING LEASES

BC's assets under operating leases were as follows:

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Cost** | **Net book value** | Cost | Net book value |
| **Continued portfolios** | | | | |
| Commercial aircraft | **$ 453.4** | **$ 378.2** | $ 645.2 | $ 595.5 |
| Industrial equipment | **73.0** | **56.3** | 61.7 | 56.0 |
| | **526.4** | **434.5** | 706.9 | 651.5 |
| **Discontinued portfolios** | | | | |
| Business aircraft [1] | **907.1** | **815.0** | 1,133.0 | 1,053.5 |
| Freight cars [2] | **79.5** | **61.1** | 81.0 | 65.8 |
| Other | **71.4** | **40.3** | 88.7 | 60.4 |
| | **1,058.0** | **916.4** | 1,302.7 | 1,179.7 |
| | **$ 1,584.4** | **$ 1,350.9** | $ 2,009.6 | $ 1,831.2 |

[1] On September 27, 2002, Management announced its decision to exit the business aircraft financing activities. As a result, this portfolio has been reclassified as a discontinued portfolio.

[2] On April 2, 2003, the Board of Directors of the Corporation approved the plan to cease origination of the railcar leasing portfolio. As a result, this portfolio has been reclassified as a discontinued portfolio.

The weighted average maturity of the operating leases was 56 months as at January 31, 2003 (52 months as at January 31, 2002).

Depreciation of assets under operating leases was $168.5 million for the year ended January 31, 2003 ($132.4 million for the year ended January 31, 2002) and is included in depreciation and amortization.

BC also manages a portfolio of freight cars under operating leases whereby BC is the lessee/sub-lessor. The net present value of the minimum lease payments payable by BC pursuant to these arrangements was $1,017.8 million as at January 31, 2003 ($1,067.9 million as at January 31, 2002). BC's undiscounted minimum lease payments related to this portfolio are included in note 26.

## 6. INVENTORIES

| | | 2003 | | 2002 |
|---|---|---|---|---|
| | | | | (restated – note 1) |
| Raw materials and work in process | $ | **386.9** | $ | 545.4 |
| Aerospace programs | | **2,184.1** | | 2,409.6 |
| Long-term contracts | | **1,711.2** | | 1,793.4 |
| Finished products | | **1,539.4** | | 1,428.3 |
| | $ | **5,821.6** | $ | 6,176.7 |

### Aerospace programs

As at January 31, aerospace program inventory includes the following excess over-average production costs:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| | | | | (restated – note 1) |
| **Regional aircraft** | | | | |
| Bombardier CRJ Series | $ | **334.1** | $ | 171.0 |
| Bombardier Q Series | | **93.3** | | 439.3 |
| **Business aircraft** | | | | |
| Bombardier Learjet Series | | **379.0** | | 448.2 |
| Bombardier Global Series | | **483.2** | | 404.6 |
| | $ | **1,289.6** | $ | 1,463.1 |

The excess over-average production costs recoverable from existing firm orders amounted to $514.5 million as at January 31, 2003. Management expects to recover the balance of excess over-average production costs from future customers orders.

Anticipated proceeds from future sales of aircraft for each program exceeded the related costs in inventory as at January 31, 2003 and 2002, plus the estimated additional production costs still to be incurred for each program. However, substantial amounts of unrecoverable costs may eventually be charged to expense in a given year if fewer than the aircraft program quantity are sold, the proceeds from future sales of aircraft are lower than those currently estimated, or the costs to be incurred to complete the programs exceed current estimates.

As at January 31, 2003, 16 new aircraft amounting to $243.9 million were included in finished products (23 new aircraft amounting to $259.3 million as at January 31, 2002).

### Advances and progress billings

Under certain contracts, title to inventories is vested in the customer as the work is performed in accordance with contractual arrangements and industry practice. In addition, in the normal conduct of its operations, the Corporation provides performance

bonds, bank guarantees and other forms of guarantees to customers, mainly in the transportation segment, as security for advances received from customers pending performance under certain contracts. In accordance with industry practice, the Corporation remains liable to the purchasers for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance.

Costs incurred and accrued margins related to long-term contracts and costs incurred related to ongoing aerospace programs amounted to $5,237.0 million and $3,274.6 million respectively, as at January 31, 2003 ($4,608.6 million and $3,927.3 million respectively, as at January 31, 2002). Advances received and progress billings on long-term contracts and ongoing aerospace programs amounted to $6,566.5 million and $1,865.8 million respectively, as at January 31, 2003 ($5,267.2 million and $2,357.2 million respectively, as at January 31, 2002) of which $3,040.7 million and $775.3 million respectively, represent a liability disclosed as advances and progress billings in excess of related costs as at January 31, 2003 ($2,452.0 million and $839.5 million respectively, as at January 31, 2002).

## 7. PROPERTY, PLANT AND EQUIPMENT

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Cost** | **Net book value** | Cost | Net book value |
| | | | (restated – note 1) | |
| **Bombardier** | | | | |
| Land | **$ 250.3** | **$ 250.3** | $ 213.8 | $ 213.8 |
| Buildings | **2,548.6** | **1,715.4** | 2,062.2 | 1,645.1 |
| Equipment | **2,486.2** | **1,212.8** | 2,295.3 | 1,132.6 |
| Aerospace program tooling | | | | |
| Regional aircraft | **1,397.2** | **783.9** | 1,261.7 | 753.2 |
| Business aircraft | **2,216.3** | **1,532.4** | 1,981.2 | 1,456.7 |
| Other | **308.3** | **228.8** | 367.5 | 253.8 |
| | **9,206.9** | **5,723.6** | 8,181.7 | 5,455.2 |
| **BC** | **200.4** | **147.4** | 213.7 | 163.1 |
| | **$ 9,407.3** | **$ 5,871.0** | $ 8,395.4 | $ 5,618.3 |

During the year ended January 31, 2002, the Corporation wrote off $264.0 million of tooling related to the Bombardier Q400* program.

Included in the above are assets under construction and development amounting to $644.6 million as at January 31, 2003 ($823.8 million as at January 31, 2002). Interest capitalized during the year ended January 31, 2003 amounted to $35.2 million ($23.1 million for the year ended January 31, 2002).

## 8. GOODWILL

Goodwill is related to the Adtranz acquisition as described in note 2. The change in the carrying amount of goodwill during the year is essentially related to the foreign exchange translation of this balance.

## 9. OTHER ASSETS

| | 2003 | | 2002 (restated – note 1) | |
|---|---|---|---|---|
| | **Bombardier** | **BC** | Bombardier | BC |
| Intangible assets [1], net of accumulated amortization of $32.8 million as at January 31, 2003 ($12.3 million as at January 31, 2002) | **$ 286.6** | **$ —** | $ 257.2 | $ — |
| Deferred income taxes (note 22) | **691.8** | **282.9** | 643.2 | 325.5 |
| Prepaid expenses | **194.0** | **78.0** | 159.9 | 86.7 |
| Accrued benefit asset (note 25) | **269.1** | **—** | 246.4 | — |
| Other | **318.8** | **194.3** | 273.1 | 148.4 |
| | **$ 1,760.3** | **$ 555.2** | $ 1,579.8 | $ 560.6 |

[1] Include licences, patents and trademarks.

## 10. SHORT-TERM BORROWINGS

| | 2003 | 2002 |
|---|---|---|
| Bombardier | **$ 380.8** | $ 1,341.7 |
| BC | **2,182.8** | 1,695.3 |
| | **$ 2,563.6** | $ 3,037.0 |

Under banking syndicate agreements, Bombardier Inc. and some of its subsidiaries must maintain certain financial ratios, a condition which had been met as at January 31, 2003 and 2002.

**Bombardier**

Bombardier's credit facilities and borrowings as well as their rates and maturities were as follows:

| | | | | | | | 2003 |
|---|---|---|---|---|---|---|---|
| | Committed | Amounts drawn (1) | Letters of credit drawn | Available | Year-end rate | Average rate for the year | Maturity |
| **Credit facilities:** | | | | | | | |
| European | $ 6,158.7 | $ 380.8 | $ 3,574.0 | $ 2,203.9 | 3.1% | 3.1% | 2004-2008 |
| North American | 1,750.0 | — | 616.3 | 1,133.7 | — | 2.9% | 2004-2006 |
| | $ 7,908.7 | $ 380.8 | $ 4,190.3 | $ 3,337.6 | | | |

(1) The foreign currency components of the amounts drawn were €195.0 million for the European facility.

| | | | | | | | 2002 |
|---|---|---|---|---|---|---|---|
| | Committed | Amounts drawn (1) | Letters of credit drawn | Available | Year-end rate | Average rate for the year | Maturity |
| **Credit facilities:** | | | | | | | |
| European | $ 2,325.9 | $ 414.9 | $ 985.7 | $ 925.3 | 3.6% | 4.2% | 2006 |
| North American | 1,750.0 | 165.4 | 145.5 | 1,439.1 | 2.2% | 3.7% | 2003-2006 |
| | $ 4,075.9 | $ 580.3 | $ 1,131.2 | $ 2,364.4 | | | |
| **Borrowings:** | | | | | | | |
| Notes | | 761.4 | | | 2.4% | 2.7% | 2003 |
| | | $ 1,341.7 | | | | | |

(1) The foreign currency components of the amounts drawn were €300.0 million for the European facility and €200.0 million and ¥20.0 billion for the notes.

In October 2002, Bombardier repaid at maturity $802.1 million (¥20.0 billion, €200.0 million and $250.0 million) of floating-rate notes issued in August 2001. In addition, in September 2002, the Corporation renewed the committed 364-day, $750.0-million short-term portion of its syndicated North American bank credit facility, maturing in September 2003. Amounts may be drawn under the North American facility in Canadian or U.S. dollars or in euros at variable rates based on the Canadian prime rate, U.S. base rate, LIBOR, or banker's acceptance discount rate. The facility may also be used for the issuance of letters of credit or as a liquidity back-up for the Corporation's $1.0-billion Commercial Paper program.

In July 2002, the Corporation entered into a new €3,750.0-million credit facility to refinance its existing €1,700.0-million European credit facility and various bilateral facilities resulting from the Adtranz acquisition. This new credit facility has a committed 364-day portion of €600.0 million and a committed five-year portion of €3,150.0 million. Amounts may be drawn under this credit facility in various currencies including U.S. dollars, euros and sterling pounds at variable rates based on LIBOR or Euribor. The facility may be used for the issuance of letters of credit and as a liquidity back-up for the €1.0-billion European Commercial Paper program.

Remaining bilateral facilities resulting from the Adtranz acquisition amounted to $505.1 million as at January 31, 2003, compared to $2,449.4 million as at January 31, 2002. Bombardier also had $900.2 million of outstanding letters of credit as at January 31, 2003 ($1,213.9 million as at January 31, 2002). These letters of credit are in addition to the outstanding letters of credit shown in the above tables.

The amount drawn under the credit facilities included commercial paper borrowings, with maturities of up to three months amounting to $380.0 million as at January 31, 2003 ($580.3 million as at January 31, 2002).

**BC**

BC's credit facilities and their rates and maturities were as follows:

| | | | | | **2003** |
|---|---|---|---|---|---|
| | **Committed** | **Amount drawn [(1)]** | **Available** | **Year-end rate** | **Average rate for the year** | **Maturity** |
| **Credit facilities:** | | | | | | |
| Revolving lines | **$ 1,999.0** | **$ 726.7** | **$ 1,272.3** | **2.0%** | **2.1%** | **2004-2006** |
| Bank loans | **152.9** | **139.1** | **13.8** | **2.9%** | **3.0%** | **2004** |
| Other | **45.6** | **—** | **45.6** | **—** | **4.8%** | **2004** |
| | **$ 2,197.5** | **$ 865.8** | **$ 1,331.7** | | | |
| Securitized floorplan | **1,328.2** | **1,317.0** | **11.2** | **1.5%** | **1.9%** | **2004** |
| | **$ 3,525.7** | **$ 2,182.8** | **$ 1,342.9** | | | |

(1) The foreign currency components of the amounts drawn were $473.2 million US for the revolving lines, $50.0 million US and various western European currencies for an equivalent Canadian dollar amount of $62.7 million for the bank loans and $777.1 million US for the securitized floorplan.

| | | | | | | 2002 |
|---|---|---|---|---|---|---|
| | Committed | Amount drawn [(1)] | Available | Year-end rate | Average rate for the year | Maturity |
| **Credit facilities:** | | | | | | |
| Revolving lines | $ 2,610.8 | $ 1,277.3 | $ 1,333.5 | 2.1% | 4.3% | 2003-2006 |
| Bank loans | 286.6 | 215.3 | 71.3 | 2.9% | 4.6% | 2003 |
| Other | 796.3 | 202.7 | 593.6 | 2.0% | 2.6% | 2003 |
| | $ 3,693.7 | $ 1,695.3 | $ 1,998.4 | | | |

(1) The US $ components of the amounts drawn were $749.5 million US for the revolving lines, $95.0 million US for the bank loans and $124.4 million US for other.

Effective June 1, 2002, an amount of $1,242.8 million of BC short-term borrowings related to securitized floorplan receivables was brought back on the balance sheet (see note 4).

Bombardier Capital Inc. has a $1.5-billion ($1.0 billion US reduced from $1.2 billion US in September 2002) committed, unsecured, revolving credit facility (U.S. facility) with a syndicate of banks. This facility is composed of two tranches: a 364-day tranche amounting to $400.0 million US (reduced from $600.0 million US in September 2002) maturing September 2003 and a five-year tranche maturing July 2005. Bombardier Capital Ltd. has a $470.0-million (reduced from $700.0 million in September 2002) committed, unsecured, revolving, 364-day credit facility (Canadian facility) with a syndicate of banks maturing in September 2003. These facilities also serve as liquidity back-up for the commercial paper programs for a maximum amount of $1.5 billion ($1.0 billion US) for Bombardier Capital Inc. and $470.0 million for Bombardier Capital Ltd.

Under the U.S. facility, amounts may be drawn at variable rates based on the U.S. base rate or LIBOR, while under the Canadian facility, amounts may be drawn in Canadian dollars or U.S. dollars at variable rates based on the Canadian prime rate, U.S. base rate, LIBOR or banker's acceptance discount rate.

The amounts drawn under the credit facilities included commercial paper borrowings, with maturities of up to one month, amounting to $726.7 million as at January 31, 2003 ($1,277.3 million as at January 31, 2002).

Average rates are based on year-end balances and interest rates, after giving effect to the $1,223.2 million of interest-rate swap agreements (nil as at January 31, 2002) described in note 24.

## 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Bombardier** | **BC** | Bombardier | BC |
| Accounts payable | **$ 3,263.9** | **$ 7.9** | $ 2,990.2 | $ 94.7 |
| Warranty provision | **1,417.3** | **—** | 1,198.6 | — |
| Sales incentives and related provisions | **1,321.8** | **—** | 928.5 | — |
| Accrued liabilities | **1,258.1** | **274.1** | 943.2 | 240.5 |
| Payroll related liabilities | **558.1** | **—** | 447.7 | 0.3 |
| Other | **1,348.0** | **125.8** | 1,130.7 | 83.0 |
| | **$ 9,167.2** | **$ 407.8** | $ 7,638.9 | $ 418.5 |

## 12. LONG-TERM DEBT

The Corporation's long-term debts and their average rates and maturities were as follows:

| | | | | **2003** |
|---|---|---|---|---|
| | **$** | **Currency component** | **Average rate** | **Maturity** |
| **Bombardier** | | | | |
| Debentures | **1,711.2** | **€ 500.0** | **6.3%** | **2004-2027** |
| | | **£ 175.0** | | |
| Notes | **1,127.6** | **$ 708.6 US** | **6.7%** | **2004-2013** |
| Other loans | **263.7** | **$ 77.3 US** | **4.0%** | **2004-2029** |
| | **3,102.5** | | | |
| **BC** | | | | |
| Notes | **4,619.1** | **$ 1,709.0 US** | **4.2%** | **2004-2010** |
| | | **€ 500.0** | | |
| | | **£ 300.0** | | |
| Securitized floorplan | **771.6** | **$ 400.0 US** | **1.8%** | **2004-2005** |
| Debentures | **250.0** | **—** | **3.3%** | **2004** |
| Other loans | **71.9** | **$ 10.4 US** | **9.8%** | **2004-2017** |
| | **5,712.6** | | | |
| | **8,815.1** | | | |

| | | | | 2002 |
|---|---|---|---|---|
| | $ | Currency component | Average rate | Maturity |
| **Bombardier** | | | | |
| Debentures | 1,527.6 | € 500.0 | 6.4% | 2004-2027 |
| | | £ 175.0 | | |
| Notes | 315.4 | $ 167.3 US | 6.6% | 2004-2012 |
| Other loans | 237.7 | $ 64.9 US | 4.0% | 2003-2029 |
| | | € 32.6 | | |
| | 2,080.7 | | | |
| **BC** | | | | |
| Notes | 5,047.0 | $ 2,730.0 US | 3.0% | 2003-2008 |
| Capital trust securities | 310.5 | $ 195.0 US | 2.4% | 2033 |
| Debentures | 250.0 | — | 2.9% | 2004 |
| Other loans | 169.5 | $ 70.0 US | 6.6% | 2003-2017 |
| | 5,777.0 | | | |
| | 7,857.7 | | | |

Effective June 1, 2002, an amount of $739.8 million of BC's long-term debt related to securitized floorplan receivables was brought back on the balance sheet (see note 4).

BC's securitized floorplan debt bears interest at variable rates based on LIBOR and banker's acceptance discount rate, unless remarketed as a junior fixed rate subordinated security. As at January 31, 2003, the remainder of the Corporation's long-term debt bears interest at fixed rates except for $91.0 million of Bombardier's other loans, $359.3 million of BC's notes and $14.6 million of other loans ($172.1 million of Bombardier's other loans, $1,360.1 million of BC's notes and $26.0 million of other loans as at January 31, 2002).

Average rates are based on year-end balances and interest rates, after giving effect to the $3,485.6 million of interest-rate and cross-currency interest-rate swap agreements ($5,683.9 million as at January 31, 2002) presented in note 24.

As of January 31, 2002, BC no longer presents the asset-backed bonds related to the discontinued manufactured housing portfolios, previously securitized to third parties on its balance sheet.

The repayment requirements on the long-term debt during the next five fiscal years are as follows:

| | **Bombardier Inc. consolidated** | **Bombardier** | **BC** |
|---|---|---|---|
| 2004 | **$ 1,992.2** | **$ 203.8** | **$ 1,788.4** |
| 2005 | **897.3** | **22.5** | **874.8** |
| 2006 | **573.0** | **260.0** | **313.0** |
| 2007 | **1,503.0** | **610.1** | **892.9** |
| 2008 | **1,120.0** | **22.9** | **1,097.1** |

As at January 31, 2003 and 2002, the Corporation had complied with the restrictive covenants contained in its various financing agreements.

## 13. OTHER LIABILITIES

| | **2003** | | 2002 (restated - note 1) | |
|---|---|---|---|---|
| | **Bombardier** | **BC** | Bombardier | BC |
| Accrued benefit liability (note 25) | **$ 1,215.2** | **$ 4.2** | $ 1,036.2 | $ 3.3 |
| Deferred income taxes (note 22) | **206.4** | **4.1** | 561.5 | 4.9 |
| Income taxes payable | **28.8** | **4.5** | 29.1 | 2.6 |
| Other | **35.5** | **—** | 25.4 | — |
| | **$ 1,485.9** | **$ 12.8** | $ 1,652.2 | $ 10.8 |

## 14. SHARE CAPITAL

### Preferred shares

An unlimited number of preferred shares, without nominal or par value, issuable in series, of which the following series have been authorized:

12,000,000 Series 2 Cumulative Redeemable Preferred Shares, non-voting, redeemable at the Corporation's option at $25.00 per share on August 1, 2002 or at $25.50 per share thereafter, convertible on a one-for-one basis on August 1, 2002 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 Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Preferred Shares. Additionally, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Preferred Shares, then no Series 2 Preferred Shares may be converted. Until July 31, 2002, the quarterly dividend rate was equal to $0.34375 per share. Commencing on August 1, 2002, floating adjustable cumulative preferential cash dividends are payable monthly, if declared, with the annual floating dividend rate equal to 80% of the Canadian prime rate. The dividend rate will float 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 the Series 2 Preferred Shares is less than $24.90 per share or more than $25.10 per share; and

12,000,000 Series 3 Cumulative Redeemable Preferred Shares, non-voting, redeemable at the Corporation's option at $25.00 per share on August 1, 2007 and on August 1 of every fifth year thereafter, 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 Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Preferred Shares. Additionally, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Preferred Shares, then no Series 3 Preferred Shares may be converted. The Series 3 Cumulative Redeemable Preferred Shares carry an annual dividend rate of 5.476% for the initial five-year period payable quarterly, if declared. The initial dividend was paid on October 31, 2002. Each five-year fixed dividend rate selected by the Corporation shall not be less than 80% of the Government of Canada bond yield as defined in the Articles of Amendment creating the Series 3 Preferred Shares; and

9,400,000 Series 4 Cumulative Redeemable Preferred Shares, non-voting, redeemable at the Corporation's option, at any time on or after March 31, 2007, at $26.00 per share if

redeemed prior to March 31, 2008, $25.75 if redeemed on or after March 31, 2008 but prior to March 31, 2009, $25.50 if redeemed on or after March 31, 2009 but prior to March 31, 2010, $25.25 if redeemed on or after March 31, 2010 but prior to March 31, 2011 and $25.00 if redeemed on or after March 31, 2011. 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 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 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. The holders of the 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 per share per annum, payable quarterly on the last day of July, October, January and April of each year at a rate of $0.390625 per share.

On March 8, 2002, the Corporation issued 9,400,000 Series 4 Cumulative Redeemable Preferred Shares carrying a fixed cumulative preferential cash dividend of 6.25% per annum, payable quarterly. The gross proceeds of the issuance were $235.0 million.

On August 1, 2002, 9,402,093 Series 2 Cumulative Redeemable Preferred Shares were converted into 9,402,093 Series 3 Cumulative Redeemable Preferred Shares leaving 2,597,907 Series 2 Cumulative Redeemable Preferred Shares issued and outstanding out of the authorized 12,000,000 Series 2 Cumulative Redeemable Preferred Shares which had all been issued and outstanding until that date.

**Common shares**

1,792,000,000 Class A Shares (Multiple Voting) have been authorized, without nominal or par value, 10 votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting); and

1,792,000,000 Class B Shares (Subordinate Voting) have been authorized, without nominal or par value, one vote each, with an annual non-cumulative preferential dividend of $0.001563 per share, and convertible, at the option of the holder, into one Class A Share (Multiple Voting), after the occurrence of one of the following events: (i) an offer

made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); (ii) such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.

## 15. SHARE-BASED PLANS

### Share option plans

Under share option plans, options are granted to key employees and directors to purchase Class B Shares (Subordinate Voting). Of the 135,782,688 Class B Shares (Subordinate Voting) initially reserved for issuance, 66,592,560 were available for issuance under these share option plans as at January 31, 2003. The exercise price is equal to the average of the closing 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 commencing two years following the grant date, except for 353,000 outstanding options granted to directors, which vest at 20% per year commencing on the grant date. The options terminate no later than 10 years after the grant date.

The summarized information on options issued and outstanding and exercisable as at January 31, 2003 is as follows:

| | Issued and outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| **Exercise price range** | **Number of options** | **Average remaining life (years)** | **Average exercise price** | **Number of options** | **Average exercise price** |
| $0 to $5 | **11,478,466** | **3.31** | **$ 4.50** | **10,478,466** | **$ 4.43** |
| $6 to $10 | **12,791,870** | **5.47** | **9.11** | **7,366,980** | **8.40** |
| $11 to $15 | **7,220,250** | **8.21** | **13.42** | **1,955,000** | **11.30** |
| $16 to $20 | **6,115,000** | **7.67** | **19.15** | **1,007,250** | **18.62** |
| $21 to $25 | **3,741,500** | **8.04** | **22.99** | **202,375** | **24.09** |
| | **41,347,086** | | | **21,010,071** | |

The number of options has varied as follows:

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Number of options** | **Average exercise price** | Number of options | Average exercise price |
| Balance at beginning of year | **43,841,984** | **$ 9.95** | 44,227,634 | $ 8.14 |
| Granted | **5,855,000** | **12.98** | 5,827,000 | 21.68 |
| Exercised | **(6,916,032)** | **2.91** | (4,720,150) | 5.55 |
| Cancelled | **(1,433,866)** | **16.64** | (1,492,500) | 16.15 |
| Balance at end of year | **41,347,086** | **$ 11.32** | 43,841,984 | $ 9.95 |
| Options exercisable at end of year | **21,010,071** | **$ 7.33** | 22,104,131 | $ 4.86 |

The weighted average grant date fair value of options granted during the year ended January 31, 2003, amounted to $4.64 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

| | |
|---|---|
| Risk-free interest rate | 5.26% |
| Expected life | 6 years |
| Expected volatility in the market price of the shares | 30.55% |
| Expected dividend yield | 0.90% |

The Corporation has elected to account for its share option plans as capital transactions. If the share option plans had been accounted for based on the fair value method, pro forma net loss for the year ended January 31, 2003 would have increased from $615.2 million to $621.8 million and pro forma basic and diluted loss per share would have remained as reported. The pro forma figures do not give the effect to stock options granted prior to February 1, 2002.

**Employee share purchase plan**

Under the Employee Share Purchase Plan, employees of the Corporation may set aside funds through payroll deductions up to a maximum of 20% of their base salary to a yearly maximum of $30,000 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. The Corporation's contribution to the plan for the year ended January 31, 2003 amounted to $11.1 million ($14.1 million for the year ended January 31, 2002).

## 16. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were as follows. The number of shares and options are expressed in thousands.

| | | **2003** | | 2002 |
|---|---|---|---|---|
| | | | | (restated - note 1) |
| Net income (loss) | **$** | **(615.2)** | $ | 36.0 |
| Preferred share dividends, after tax | | **29.1** | | 17.6 |
| Net income (loss) available to common shareholders | **$** | **(644.3)** | $ | 18.4 |
| Weighted average number of common shares outstanding | | **1,372,747** | | 1,368,516 |
| Net effect of stock options | | **7,263** | | 21,683 |
| Weighted average diluted number of common shares outstanding | | **1,380,010** | | 1,390,199 |
| Earnings (loss) per share: | | | | |
| Basic | **$** | **(0.47)** | $ | 0.01 |
| Diluted | **$** | **(0.47)** | $ | 0.01 |

For the year ended January 31, 2003, a total of 22,980 stock options (9,119 stock options for the year ended January 31, 2002) were excluded from the calculation of diluted earnings per share, since the exercise price of these options exceeded the average market value of the Corporation's Class B Shares (Subordinated Voting) for the year. For fiscal year 2003, the effect of stock options potentially exercisable on loss per common share was anti-dilutive, therefore basic and diluted loss per share are the same.

## 17. ADJUSTED NET INCOME

Net income before the effect of goodwill amortization ("adjusted net income") and adjusted earnings per share were as follows:

| | | 2002 |
|---|---|---|
| | | (restated – note 1) |
| Net income | $ | 36.0 |
| Goodwill amortization | | 46.6 |
| Adjusted net income | $ | 82.6 |
| Earnings per share: | | |
| Basic – as reported | $ | 0.01 |
| – adjusted | $ | 0.05 |
| Diluted – as reported | $ | 0.01 |
| – adjusted | $ | 0.05 |

## 18. RESEARCH AND DEVELOPMENT EXPENSES

Bombardier's cost of sales and operating expenses include research and development expenses amounting to $284.6 million for the year ended January 31, 2003 ($233.5 million for the year ended January 31, 2002) excluding those incurred under contracts and aerospace programs.

## 19. INTEREST EXPENSE

| | | **2003** | | | | 2002 |
|---|---|---|---|---|---|---|
| | | | | (restated – note 1) | | |
| | | **Bombardier** | | **BC** | | Bombardier | | BC |

| | | **2003** | | | | | | 2002 |
|---|---|---|---|---|---|---|---|---|
| | | | | | (restated – note 1) | | | |
| | | **Bombardier** | | **BC** | | Bombardier | | BC |
| Long-term debt | **$** | **154.1** | **$** | **230.0** | $ | 107.7 | $ | 320.0 |
| Short-term borrowings | | **69.3** | | **41.5** | | 51.2 | | 101.2 |
| | **$** | **223.4** | **$** | **271.5** | $ | 158.9 | $ | 421.2 |

BC's interest expense is classified as cost of sales and operating expenses.

## 20. OTHER INCOME

Other income includes the following:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| **BC** | | | | |
| Gain on sale of finance receivables | **$** | **30.3** | $ | 51.7 |
| Servicing and other fees | | **47.0** | | 66.5 |
| Other | | **35.7** | | 17.3 |
| | | **113.0** | | 135.5 |
| **Bombardier** | | | | |
| Interest | | **21.0** | | 35.1 |
| | **$** | **134.0** | $ | 170.6 |

## 21. SPECIAL ITEMS

The Corporation recorded the following special items:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| | | | | (restated – note 1) |
| Aerospace | **$** | **1,310.8** | $ | 356.8 |
| Transportation | | — | | 74.2 |
| BC | | — | | 662.5 |
| | | **1,310.8** | | 1,093.5 |
| Income tax recovery | | **351.1** | | 385.6 |
| | **$** | **959.7** | $ | 707.9 |

**For the year ended January 31, 2003**

Effective in the fourth quarter of fiscal year 2003, Management revised the assumptions used to estimate the average unit production cost for each program, including the reduction of accounting program quantities. As a result, special charges of $614.7 million were recorded mainly for the Bombardier Q Series, Bombardier Global Express and Bombardier Learjet 45 programs. The changes in estimates, including revisions of program quantities, reflect the continued uncertainty in the turboprop market and the present weakness of the business aircraft segment.

Special charges for the write-down of used aircraft, the provision for lower than anticipated sub-lease revenues and the write-down of production inventory amounted to $587.9 million for fiscal year 2003. In the second quarter, a special charge of $170.4 million was recorded mainly related to the write-down in the value of used aircraft, as well as additional provisions resulting from lower-than-anticipated sub-lease revenues on used turboprop aircraft, which reflected a decrease in market prices in the first half of the year. The used business aircraft market continued to deteriorate through the second

half of the year and subsequent to year end as inventory levels remained high, causing downward pressure on used business aircraft values. In addition, market prices in the used turboprop aircraft market declined as a result of substantial increases in used aircraft inventory over the previous year. As a result, an additional special charge of $385.2 million was recorded. This special charge relates to the trade-in portfolio of used aircraft, anticipated losses on trade-in business aircraft, as well as lower anticipated sub-lease revenues of which $210.4 million related to business aircraft and $174.8 million related to turboprop aircraft. A $32.3 million special charge related to the write-down of turboprop production inventory was also recorded.

The Corporation recorded a special charge of $67.2 million for severance and other involuntary termination costs. These charges relate mainly to the Corporation's September 27, 2002 announcement to reduce employment levels at all Bombardier Aerospace sites.

In the second quarter of fiscal year 2003, the Corporation recorded a special charge of $41.0 million in connection with the final settlement of a lawsuit and a contractual dispute with a customer.

**For the year ended January 31, 2002**

Special charges in the aerospace segment totalled $356.8 million. These included $264.0 million relating to the write-off of the carrying value of the program tooling costs of the Bombardier Q400 program and $69.5 million relating to severance and other involuntary termination benefits as a result of the reduced employment levels, production rates and deliveries in the segment. Also included was the effect of the current year cumulative catch-up of $23.3 million related to the adoption of the average unit production cost method.

The Corporation also recorded a special charge of $74.2 million in the transportation segment for restructuring costs related to severance and other involuntary termination costs and to the write-down in the value of certain manufacturing assets in Europe and North America. These charges resulted from the integration of the transportation manufacturing operations with those of Adtranz. In addition, restructuring costs amounting to $165.9 million have been provided for in the Adtranz purchase price allocation (see note 2).

The Corporation also discontinued loan origination activities for the manufactured housing and the consumer products finance businesses in the BC segment. As a result of this decision and the slowdown of the U.S. economy, which negatively affected the credit quality of the portfolios related to these businesses, BC recorded a special charge of $540.4 million related to the impairment of the value of these on- and off-balance sheet portfolios. BC also incurred charges of $122.1 million for the write-down of the value of

other assets related to the discontinued portfolios and for other related restructuring charges.

## 22. INCOME TAXES

The reconciliation of income taxes computed at the Canadian statutory rates to income tax expense (recovery) was as follows:

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | | | (restated - note 1) | |
| | **$** | **%** | $ | % |
| Income taxes calculated at statutory rates | **(284.0)** | **35.9** | 19.2 | 38.4 |
| Increase (decrease) resulting from: | | | | |
| Manufacturing and processing credit | **39.7** | | (24.0) | |
| Income tax rates differential of foreign investees | **(31.0)** | | (52.6) | |
| Non-recognition of tax benefits related to foreign investees' losses and temporary differences | **205.9** | | 78.4 | |
| Recognition of previously unrecorded tax benefits | **(25.6)** | | (2.7) | |
| Tax-exempt items | **(149.3)** | | 11.2 | |
| Effect of income tax rate changes | **(10.1)** | | (30.4) | |
| Other | **78.4** | | 15.0 | |
| Income tax expense (recovery) | **(176.0)** | **22.2** | 14.1 | 28.1 |

Details of income tax expense (recovery) were as follows:

| | | **2003** | | 2002 |
|---|---|---|---|---|
| | | | (restated - note 1) | |
| Current income taxes | **$** | **138.0** | $ | 132.9 |
| Deferred income taxes | | | | |
| - Temporary differences | | **(278.3)** | | (85.7) |
| - Effect of income tax rate changes | | **(10.1)** | | (30.4) |
| - Recognition of previously unrecorded tax benefits | | **(25.6)** | | (2.7) |
| | | **(314.0)** | | (118.8) |
| Income tax expense (recovery) | **$** | **(176.0)** | $ | 14.1 |

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) as at January 31 were as follows:

| | **2003** | 2002 |
|---|---|---|
| | | (restated - note 1) |
| Loss carry-forwards | **$ 1,931.5** | $ 2,144.0 |
| Warranty and other provisions | **437.2** | 469.0 |
| Accrued benefit liability | **316.0** | 262.1 |
| Finance receivables | **159.1** | 169.2 |
| Intangible assets | **138.2** | (91.3) |
| Inventories | **(57.5)** | (530.6) |
| Assets under operating leases | **(72.5)** | (281.9) |
| Property, plant and equipment | **(193.1)** | (192.6) |
| Other | **(120.2)** | (164.1) |
| | **2,538.7** | 1,783.8 |
| Valuation allowance | **(1,774.5)** | (1,381.5) |
| Net amount | **$ 764.2** | $ 402.3 |

The net amount of deferred income tax is presented on the Corporation's balance sheet as follows:

| | **2003** | 2002 |
|---|---|---|
| | | (restated – note 1) |
| Deferred income tax asset | **$ 974.7** | $ 968.7 |
| Deferred income tax liability | **(210.5)** | (566.4) |
| | **$ 764.2** | $ 402.3 |

Losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which no related income tax benefits have been recognized, amounted to $4,965.8 million as at January 31, 2003 ($3,773.9 million as at January 31, 2002), approximately $1,170.0 million of which have expiry dates between four and 20 years, while the remaining have no specified expiry dates. Approximately $2,700.0 million of these losses carry forward and other temporary differences relate to business acquisitions. Any subsequent recognition of these unrecorded future tax benefits will be recorded as a reduction of the goodwill related to these acquisitions.

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.

## 23. NET CHANGES IN NON-CASH BALANCES RELATED TO OPERATIONS

The net changes in non-cash balances related to operations were as follows:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| | | | | (restated – note 1) |
| **Bombardier** | | | | |
| Receivables | $ | **(592.9)** | $ | 239.4 |
| Inventories | | **(847.7)** | | (1,420.2) |
| Accounts payable and accrued liabilities | | **1,416.2** | | 156.9 |
| Income taxes payable | | **(0.3)** | | (78.9) |
| Advances and progress billings in excess of related costs | | **524.5** | | (1,106.3) |
| Other | | **19.4** | | 57.2 |
| | | **519.2** | | (2,151.9) |
| **BC** | | | | |
| Receivables | | **145.8** | | (119.3) |
| Accounts payable and accrued liabilities | | **(63.4)** | | 23.8 |
| Other | | **11.0** | | (15.8) |
| | | **93.4** | | (111.3) |
| | **$** | **612.6** | $ | (2,263.2) |

## 24. FINANCIAL INSTRUMENTS

### Derivative financial instruments

The Corporation uses derivative financial instruments to manage foreign exchange risk and interest rate fluctuations. The Corporation does not trade in derivatives for speculative purposes.

a) Foreign exchange contracts

The Corporation enters into foreign exchange contracts to hedge future cash flows in various currencies whereby it sells or buys specific amounts of currencies at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in various currencies, the amounts of which are estimated based on existing orders from customers, current conditions in the Corporation's markets and past experience.

The following table sets out the notional amounts outstanding under foreign exchange contracts, the average contractual exchange rates and the settlement periods of these contracts. The amounts represent U.S. dollars to be paid (to be received) against other currencies as at January 31:

| Maturity | 2003 Cdn $ | 2003 £ | 2003 € | 2002 Cdn $ | 2002 £ | 2002 € |
|---|---|---|---|---|---|---|
| Less than 1 year | **1,674.9** | **819.9** | **960.3** | 2,798.3 | 995.5 | 162.1 |
| | **(776.2)** | **(206.2)** | **(436.6)** | (184.3) | — | (100.7) |
| Weighted average rate | **1.56** | **0.67** | **1.01** | 1.50 | 0.68 | 1.06 |
| | **(1.52)** | **(0.67)** | **(0.98)** | (1.52) | — | (1.14) |
| One to three years | **12.6** | **324.0** | **57.5** | 1,316.5 | 402.0 | 28.7 |
| | **(4.6)** | **—** | **(118.8)** | (25.4) | — | (55.5) |
| Weighted average rate | **1.55** | **0.66** | **0.98** | 1.55 | 0.67 | 1.13 |
| | **(1.56)** | **—** | **(1.02)** | (1.45) | — | (1.09) |

In addition, the Corporation is party to foreign exchange contracts for the sale of sterling pounds against the euro amounting to £147.1 million at an average rate of 1.55 as at January 31, 2003 (£372.9 million at an average rate of 1.62 as at January 31, 2002). The Corporation is also party to various other contracts mostly involving exchanges of western European currencies with an equivalent total nominal value of $2,692.7 million as at January 31, 2003 ($2,138.1 million as at January 31, 2002).

b) Interest-rate swap agreements

Bombardier entered into an interest-rate swap agreement to convert from variable to fixed rates a long-term debt. The notional amount is £33.4 million ($84.0 million) and the interest-rate swap matures in periods between 2004 and 2012. In addition, Bombardier entered into an interest-rate swap agreement to convert from variable to fixed rates a future firm cash flow commitment. The notional amount is $101.9 million US ($155.9 million) and the interest-rate swap matures in periods between 2004 and 2012.

BC enters into interest-rate swap agreements to convert from fixed to variable interest rates certain long-term debts and certain finance receivables. As at January 31, 2003 and 2002, the interest-rate swap agreements were as follows:

| | | | | **2003** |
|---|---|---|---|---|
| **Purpose** | **Notional amount (US $ component)** | **Range of fixed rates** | **Variable rates** | **Maturity** |
| **Asset hedge** | **$ 481.3 ($ 264.8)** | **3.1% - 8.7%** | **LIBOR, EURIBOR or Banker's acceptance** | **2004-2016** |
| **Debt hedge** | **$ 2,777.6 ($ 1,555.0)** | **2.8% - 6.3%** | **US Prime, LIBOR or Banker's acceptance** | **2004-2008** |

| | | | | | 2002 |
|---|---|---|---|---|---|
| Purpose | | Notional amount (US $ component) | Range of fixed rates | Variable rates | Maturity |
| Asset hedge | $ 1,308.3 | ($ 702.6) | 5.1%-8.7% | LIBOR or Banker's acceptance | 2003-2016 |
| Debt hedge | $ 5,057.5 | ($ 2,925.0) | 4.9%-6.8% | LIBOR or Banker's acceptance | 2003-2008 |

c) Cross-currency interest-rate swap agreements – BC

BC enters into cross-currency interest-rate swap agreements that modify the characteristics of certain long-term debts from the Canadian dollar, euro and sterling pounds to the U.S. dollar and, for the year ended January 31, 2002, to modify the characteristics of short-term borrowings from the yen to the U.S. dollar. These contracts also change the interest rate from fixed to variable to match the variable interest of its finance receivables. The notional amount of the cross-currency interest-rate swap agreements outstanding as at January 31, 2003 was an equivalent of $1,872.2 million ($626.4 million as at January 31, 2002). These contracts mature between 2004 and 2010.

**Fair value of financial instruments**

***Cash and cash equivalents, receivables, short-term borrowings and accounts payable and accrued liabilities:*** The carrying amounts reported on the consolidated balance sheet approximate the fair values of these items due to their short-term nature.

***Finance receivables:*** The fair values of variable-rate finance receivables that reprice frequently and have no significant change in credit risk approximate the carrying values. The fair values of fixed-rate finance receivables are estimated using discounted cash flow analyses, using interest rates offered for finance receivables with similar terms to borrowers of similar credit quality. The fair value of finance receivables as at January 31, 2003 was $7,053.8 million, compared to a carrying amount of $7,013.3 million ($6,435.8 million compared to $6,398.3 million as at January 31, 2002).

***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 value of long-term debt as at January 31, 2003 was $8,207.8 million, compared to a carrying amount of $8,815.1 million ($7,980.6 million compared to $7,857.7 million as at January 31, 2002).

***Foreign exchange contracts and interest-rate and cross-currency interest-rate swap agreements:*** 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 or quotes from the Corporation's bankers are available for substantially all of the Corporation's foreign exchange contracts and interest-rate and cross-currency interest-rate swap agreements.

| | | 2003 | | 2002 |
|---|---|---|---|---|
| Fair values of foreign exchange contracts | | | | |
| Favourable | **$** | **349.5** | $ | 34.7 |
| Unfavourable | **$** | **192.5** | $ | 574.5 |
| Fair values of interest-rate and cross-currency interest-rate swap agreements | | | | |
| Favourable | **$** | **282.0** | $ | 153.6 |
| Unfavourable | **$** | **47.3** | $ | 83.8 |

***Credit support and guarantees:*** The determination of the fair values of bank guarantees and other forms of guarantees related to long-term contracts is not practicable within the constraints of timeliness and cost, but such guarantees usually decrease in value in relation to the percentage of completion of the related contracts and usually expire without being exercised. The fair values of credit support and guarantees provided to purchasers of manufactured products are not readily determinable.

**Credit risk**

In addition to the credit risk described elsewhere in these Consolidated Financial Statements, the Corporation is subject to risk related to the off-balance sheet nature of derivative financial instruments, whereby counterparty failure would result in economic losses on favourable contracts. However, the counterparties to these derivative financial instruments are major financial institutions which the Corporation anticipates will satisfy their obligations under the contracts.

## 25. EMPLOYEE FUTURE BENEFITS

The Corporation sponsors several defined benefit registered and non-registered pension plans and other post-retirement benefit plans for its employees.

The significant actuarial assumptions adopted to determine the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as at the December-31 measurement date preceding the fiscal year end):

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Pension benefits** | **Other benefits** | Pension benefits | Other benefits |
| **Actuarial assumptions** | | | | |
| Discount rate | **5.83%** | **6.51%** | 6.10% | 6.63% |
| Expected long-term rate of return on plan assets | **8.00%[(1)]** | **—** | 8.00% | — |
| Rate of compensation increase | **3.78%** | **4.30%** | 4.02% | 4.41% |
| Health care and other benefits cost trend | **—** | **5.38% [(2)]** | — | 5.11% |

(1) This rate of return was used to determine the net benefit plan cost for the year ended January 31, 2003. The corresponding expected rate of return for the year ending January 31, 2004 based on managements current best estimates is 7.39%.

(2) In Canada and the U.S., the health care costs were assumed to increase to 9.50% for fiscal year 2004, decreasing gradually to 5.50% in fiscal year 2008 and remaining at that level thereafter. Other benefit costs were assumed to increase at price inflation.

The following tables provide a reconciliation of the changes in the plans' accrued benefit obligations and fair value of assets and a statement of the funded status as at the December-31 measurement date preceding the fiscal year end:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Pension benefits** | **Other benefits** | Pension benefits | Other benefits |
| **Accrued benefit obligations** | | | | |
| Obligation at beginning of year | **$ 4,987.6** | **$ 272.4** | $ 2,886.8 | $ 242.5 |
| Current service cost | **205.3** | **13.3** | 158.3 | 14.7 |
| Employee contributions | **56.2** | **—** | 50.4 | — |
| Interest cost | **325.5** | **19.9** | 264.6 | 18.0 |
| Plan amendments | **39.7** | **2.0** | 21.6 | — |
| Actuarial loss (gain) | **(8.8)** | **29.0** | 168.5 | (0.7) |
| Benefits paid | **(182.1)** | **(17.8)** | (182.7) | (12.2) |
| Business acquisition | **—** | **—** | 1,559.8 | 14.8 |
| Transfers | **8.0** | **—** | — | — |
| Curtailment | **(17.9)** | **(4.7)** | (15.9) | (8.1) |
| Settlement | **(6.5)** | **—** | — | — |
| Special termination benefits | **10.8** | **—** | 3.6 | — |
| Effect of foreign currency exchange rate changes | **387.9** | **(1.1)** | 72.6 | 3.4 |
| Obligation at end of year | **$ 5,805.7** | **$ 313.0** | $ 4,987.6 | $ 272.4 |

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Pension benefits** | **Other benefits** | Pension benefits | Other benefits |
| **Plan assets** | | | | |
| Fair value at beginning of year | **$ 3,378.4** | **$ —** | $ 2,488.7 | $ — |
| Actual return on plan assets | **(504.2)** | **—** | (335.9) | — |
| Employer contributions | **209.5** | **—** | 88.5 | — |
| Employee contributions | **56.2** | **—** | 50.4 | — |
| Benefits paid | **(182.1)** | **—** | (182.7) | — |
| Business acquisition | **—** | **—** | 1,206.7 | — |
| Transfers | **8.0** | **—** | — | — |
| Settlement | **(8.2)** | **—** | — | — |
| Effect of foreign currency exchange rate changes | **194.6** | **—** | 62.7 | — |
| Fair value at end of year | **$ 3,152.2** | **$ —** | $ 3,378.4 | $ — |
| **Funded status** | | | | |
| Plan deficit | **$(2,653.5)** | **$ (313.0)** | $(1,609.2) | $ (272.4) |
| Unrecognized amounts | **1,979.4** [1] | **36.8** | 1,081.8 [1] | 6.7 |
| Net recognized amount | **$ (674.1)** | **$ (276.2)** | $ (527.4) | $ (265.7) |

[1] Includes $1,878.5 million of actuarial loss for fiscal year 2003 ($1,005.1 million for fiscal year 2002) and $100.9 million of prior service costs for fiscal year 2003 ($76.7 million for fiscal year 2002).

The following table provides the amounts recognized on the consolidated balance sheets as at January 31:

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Pension benefits** | **Other benefits** | Pension benefits | Other benefits |
| **Amounts recognized** | | | | |
| Accrued benefit asset | **$ 269.1** | **$ —** | $ 246.4 | $ — |
| Accrued benefit liability | **(943.2)** | **(276.2)** | (773.8) | (265.7) |
| | **$ (674.1)** | **$ (276.2)** | $ (527.4) | $ (265.7) |

The accrued benefit obligations and fair value of plan assets for pension plans with accrued benefit obligations in excess of plan assets were $5,614.1 million and $2,933.0 million respectively, as at January 31, 2003 ($4,777.3 million and $3,140.4 million as at January 31, 2002 respectively). The Corporation's plans for post-retirement benefits other than pensions are all unfunded.

Plan assets include $6.8 million of the Corporation's common shares as at January 31, 2003 ($16.7 million as at January 31, 2002).

The following table provides components of the net benefit plan cost for the years ended January 31:

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **Pension benefits** | **Other benefits** | Pension benefits | Other benefits |
| **Net benefit plan cost** | | | | |
| Current service cost | **$ 205.3** | **$ 13.3** | $ 158.3 | $ 14.7 |
| Interest cost | **325.5** | **19.9** | 264.6 | 18.0 |
| Expected return on plan assets | **(318.9)** | **—** | (281.8) | — |
| Amortization of prior service costs | **9.4** | **0.1** | 7.0 | — |
| Amortization of net actuarial loss | **13.0** | **0.6** | 0.1 | 0.3 |
| Curtailment loss (gain) | **5.5** | **(4.6)** | (1.3) | (5.2) |
| Settlement loss | **1.7** | **—** | — | — |
| Special termination benefits | **10.8** | **—** | 3.6 | — |
| Other | **1.4** | **—** | 1.4 | — |
| Net benefit plan cost | **$ 253.7** | **$ 29.3** | $ 151.9 | $ 27.8 |

## 26. COMMITMENTS AND CONTINGENCIES

In addition to the commitments and contingencies described elsewhere in these Consolidated Financial Statements, the Corporation is subject to the following (all amounts presented are undiscounted):

### Aircraft sales

a) Credit and residual value guarantees

In connection with the sale of aircraft, Bombardier provides credit guarantees in the form of guarantees of lease payments, as well as services related to the remarketing of aircraft. These guarantees are issued for the benefit of certain customers or providers of financing to customers. The maximum credit risk as at January 31, 2003 from these guarantees, maturing in different periods up to 2022, was $1,049.4 million. Substantially all financial support involving potential credit risk lies with commercial airline customers. The credit risk relating to two commercial airline customers accounted for 33% of the total maximum credit risk as at January 31, 2003.

In addition, Bombardier provides guarantees of the residual value of aircraft at the expiry date of certain financing and lease agreements. The following table summarizes the outstanding residual value guarantees as at January 31, 2003 and the period in which they can be exercised:

| Total amounts committed | | Less than 1 year | | 1 – 5 years | | 6 – 10 years | | 11 – 15 years | | Thereafter |
|---|---|---|---|---|---|---|---|---|---|---|
| $ | 2,871.1 | $ | 4.9 | $ | 107.4 | $ | 618.1 | $ | 969.7 | $ 1,171.0 |

Certain of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, must not be added together to calculate the combined maximum exposure for the Corporation. The amount to be deducted in computing the total maximum combined exposure is $818.2 million as at January 31, 2003.

The provisions and liabilities recorded in connection with the credit and residual value guarantee exposure, available to offset potential claims, were $918.7 million as at January 31, 2003.

b) Credit and residual value guarantees – future sales

Bombardier is also committed to provide credit and residual value guarantees for future sales of aircraft on firm orders. As at January 31, 2003, the amount of the committed credit guarantees was $655.2 million. The committed residual value guarantees as at January 31, 2003 and the periods in which they can be exercised are as follows:

| Total amounts committed | | Less than 1 year | | 1 – 5 years | | 6 – 10 years | | 11 – 15 years | | Thereafter |
|---|---|---|---|---|---|---|---|---|---|---|
| $ | 1,347.6 | $ | — | $ | — | $ | 4.0 | $ | 90.3 | $ 1,253.3 |

The amount to be deducted in computing the future total maximum combined exposure from credit and residual value guarantees is $635.3 million.

Any provision in relation to the credit and residual value guarantees for future sales will be recorded at the time of the corresponding sale of aircraft.

c) Trade-in options

In connection with the sale of new aircraft, the Corporation provides, from time to time, trade-in options to customers. These options allow customers to trade in their used aircraft at a pre-determined amount and during a pre-determined period, conditional upon purchase of a new aircraft. As at January 31, 2003, the Corporation's commitment to purchase used aircraft was as follows:

| | Total | | Less than 1 year | | 1 – 3 years | | 4 – 5 years | | Thereafter |
|---|---|---|---|---|---|---|---|---|---|
| $ | 3,586.2 | $ | 2,125.9 | $ | 1,016.3 | $ | 149.2 | $ | 294.8 |

The Corporation reviews its trade-in aircraft purchase commitments relative to the aircraft's anticipated fair value and records anticipated losses as a charge to earnings. Fair value is determined using both internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. As at January 31, 2003, the Corporation recorded $29.5 million of provisions relating to anticipated losses on trade-in options, based on the likelihood that these options will be exercised. In addition, the Corporation recorded a provision of $91.3 million related to trade-in commitments in connection with firm orders of new aircraft.

d) Fractional ownership put options

Under the Bombardier Flexjet* fractional ownership program, customers purchase fractional shares of an aircraft. The Corporation provides customers with an option to sell back their portion of the aircraft at estimated fair value if the option is exercised within a period of five years from the date of purchase. As at January 31, 2003, the Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled $985.3 million.

In addition, certain customers can trade in their fractional shares of aircraft for a fractional share of a larger model at predetermined amounts. The total commitment to repurchase fractional shares of aircraft, in exchange for a fractional share of a larger model, was $151.6 million as at January 31, 2003. The Corporation recorded $32.1 million of provision attributable to anticipated losses on the purchase commitments at predetermined amounts.

e) Financing commitments

The Corporation has committed to provide financing in relation to orders on hand which, net of third-party financing already arranged, amount to $5.2 billion as at January 31, 2003. These commitments are provided under certain terms and conditions, and are related to aircraft on firm orders, scheduled for delivery through fiscal year 2006. These commitments have scheduled expiration dates.

**Sale and leaseback**

BC and Bombardier concluded third-party sale and leaseback transactions mostly relating to freight cars, used aircraft and transportation equipment, which in most instances were simultaneously leased to operators. Details of minimum lease payments as at January 31, 2003 were as follows:

| | Rental payments | Residual value guarantees | Total |
|---|---|---|---|
| 2004 | $ 117.8 | $ 264.6 | $ 382.4 |
| 2005 | 110.5 | — | 110.5 |
| 2006 | 110.7 | — | 110.7 |
| 2007 | 110.5 | 34.8 | 145.3 |
| 2008 | 104.6 | — | 104.6 |
| Thereafter | 1,342.3 | — | 1,342.3 |
| | $ 1,896.4 | $ 299.4 | $ 2,195.8 |

Minimum lease payments include $1,846.4 million for freight cars, $295.1 million for used aircraft, $46.2 million for transportation equipment and $8.1 million for other equipment.

Expected minimum sub-lease rentals from operators and the net benefit of the estimated resale value of the equipment approximate the amount of minimum lease payments. Expected minimum sub-lease rentals include an amount for anticipated sub-leases of $1,777.6 million, established based on current and expected future market conditions for each type of equipment. The net benefit of the estimated resale value of the equipment is $223.0 million. This amount represents the anticipated fair value of the related equipment based on analyses conducted by third parties.

**Operating leases**

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations on the sale of new aircraft. The related minimum lease payments and residual value guarantees for the next five years and thereafter are as follows:

| | Buildings and equipment | Aircraft | Residual value guarantees | Total |
|---|---|---|---|---|
| 2004 | $ 195.8 | $ 68.8 | $ 1.6 | $ 266.2 |
| 2005 | 156.4 | 66.9 | 0.9 | 224.2 |
| 2006 | 122.9 | 55.4 | 0.2 | 178.5 |
| 2007 | 105.6 | 39.2 | — | 144.8 |
| 2008 | 98.0 | 23.6 | — | 121.6 |
| Thereafter | 558.9 | 32.8 | 114.7 | 706.4 |
| | $ 1,237.6 | $ 286.7 | $ 117.4 | $ 1,641.7 |

**Other guarantees**

In connection with the sale of certain transportation and recreational products, Bombardier provides credit guarantees of lease payments. The credit risk as at January 31, 2003 from these guarantees, maturing in different periods up to 2020, totalled $74.5 million. In addition, at the expiry date of certain financing and lease

agreements, the Corporation provided residual value guarantees totalling $180.4 million, mainly relating to the transportation segment. These residual value guarantees are mostly exercisable in 2014.

In addition, the Corporation has provided certain financing providers and customers, mainly in the transportation segment, the right, under certain conditions, to sell back equipment to the Corporation at pre-determined prices. As at January 31, 2003, the Corporation's commitment to repurchase equipment amounted to $261.7 million. Of this amount, $233.4 million relates to one agreement whereby the Corporation may be required, beginning in 2008, upon customer default on payments to the financing provider, to repurchase the equipment. In addition, on three separate dates, beginning in 2008, the Corporation may also be required to repurchase the equipment. In connection with this commitment, funds have been deposited in a cash collateral account by the customer which, together with accumulated interest, is expected to entirely cover the Corporation's exposure.

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 potential liability under these indemnities.

**Other commitments**

As at January 31, 2003, the Corporation had commitments under an agreement to outsource a significant portion of its information technology function in the transportation segment requiring annual payments as follows:

| | | |
|---|---|---|
| 2004 | $ | **185.7** |
| 2005 | | **197.1** |
| 2006 | | **193.6** |
| 2007 | | **167.8** |
| 2008 | | **153.5** |
| Thereafter | | **243.7** |
| | **$** | **1,141.4** |

**Claims**

a) Adtranz

Effective May 1, 2001, the Corporation acquired from DaimlerChrysler all of the common shares of its subsidiary Adtranz. Pursuant to the terms of the SPA, a

purchase price of $725.0 million US ($1.1 billion) was agreed upon. The SPA also contemplates an adjustment to the purchase price for a maximum of €150.0 million based

on the carrying value of the adjusted net assets acquired, established under U.S. generally accepted accounting principles (U.S. GAAP) as at April 30, 2001 (Net Asset Amount), provided that the minimum Net Asset Amount was delivered on the closing date.

Starting in May 2001, Adtranz, under the ownership of the Corporation, prepared its April 30, 2001 closing balance sheet under U.S. GAAP, in accordance with the provisions of the SPA for the purpose of establishing the Net Asset Amount. The resulting Net Asset Amount did not meet the minimum value contemplated in the SPA due to significant adjustments pertaining to the application of U.S. GAAP and to unrecorded costs required to complete contracts with third parties.

The Corporation announced on February 14, 2002 that discussions with DaimlerChrysler had failed to result in an agreement as to the value of the Net Asset Amount delivered at closing. In July 2002, the Corporation filed a request for arbitration with the International Chamber of Commerce in Paris.

Under the SPA, DaimlerChrysler made contractual representations and guarantees to the Corporation, including a written confirmation that the minimum Net Asset Amount was met on the closing date of April 30, 2001. The Corporation's claim for damages is largely based on material breaches of contractual representations and guarantees, including a significant deficiency in the value of the Net Asset Amount. The Corporation's claim under the request for arbitration is for an amount of €960.0 million ($1,576.4 million) plus interest and costs, and its resolution will result in a reduction of goodwill, $205.6 million (€150.0 million) of which was recorded during the year ended January 31, 2002.

b) Amtrak

On November 8, 2001, the Corporation filed a claim against Amtrak in the United States District Court for the District of Columbia. The claim seeks damages in excess of $200.0 million US ($305.8 million) as compensation for additional costs incurred in relation to the Acela** high-speed trainsets and locomotives contracts, including costs incurred as a result of Amtrak's failure to upgrade its infrastructure to accommodate the new equipment. On December 3, 2001, Amtrak filed a Motion to Dismiss, alleging that Bombardier had failed to follow contractual dispute resolution proceedings.

The Motion to Dismiss was denied on September 30, 2002. On October 11, 2002, Amtrak gave notice of its intent to appeal the denial of that Motion to Dismiss. On November 20, 2002, Amtrak filed a counterclaim against the Corporation and a claim against Alstom Transportation Inc., alleging damages in excess of $200.0 million US ($305.8 million). A stay on all proceedings has been issued by the Appeals Court.

c) Other litigations

The Corporation is a defendant in certain legal cases 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. Management believes the Corporation has set up adequate provisions to cover potential losses and amounts not recoverable under insurance coverage, if any, in relation to these legal actions.

## 27. RECLASSIFICATION

Certain of the 2002 figures have been reclassified to conform to the presentation adopted in 2003. Revenues as well as cost of sales and operating expenses have been adjusted as a result of reclassifying certain sales concessions to customers or resellers of Bombardier products. The accounting treatment of the sales concessions complies with the requirements of the *Emerging Issues Task Force* Issue number 01-09, published in November 2001 by the *Financial Accounting Standards Board*. Also, amounts were reclassified from finance receivables for Bombardier to other assets (see note 1).

## 28. SEGMENT DISCLOSURE

The Corporation operates in the four reportable segments described below. Each reportable segment offers different products and services, requires different technology and marketing strategies and is headed by a president and chief operating officer.

The aerospace segment is engaged in the design, development, manufacture and sale of business and regional aircraft for individuals, corporations and commercial airline customers. It is also engaged in the manufacture of major airframe components for aircraft designed and built by other American and European aircraft manufacturers. In addition, it provides commercial and military aviation services, including maintenance and spare parts services and customer training. Furthermore, it offers the Flexjet fractional ownership program.

The transportation segment is the world leader in the passenger rail equipment manufacturing and servicing industry. It designs, develops, manufactures and sells passenger railcars and complete rail transportation systems. It also manufactures locomotives,freight cars, airport people movers, propulsion and controls systems and provides rail control solutions.

The recreational products segment designs, develops, manufactures and sells snowmobiles, watercraft, all-terrain vehicles, outboard engines, utility vehicles and Rotax* engines.

The capital segment (BC) includes financial services and real estate activities. The financial services segment offers secured financing and leasing solutions to manufacturers, retailers and other commercial businesses, primarily in North American markets. BC also services the discontinued portfolios described in note 4. The real estate activities of this segment consist of selling land to real estate developers and renting office buildings to Bombardier.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. Management evaluates performance based on income or loss before income taxes. Previously, special items were not allocated to each segment. In order to conform to the presentation adopted in 2003, comparative segment figures have been reclassified to include special items. Intersegment services are accounted for at current market prices as if the services were provided to third parties.

Net corporate interest costs are allocated to the manufacturing segments based on each segment's net assets, and are computed as follows: one half of the Canadian prime rate is charged on gross utilized assets reduced by interest on customer advances calculated at the Canadian prime rate. The balance of unallocated actual interest costs, if any, is allocated to each manufacturing segment based on its net assets. The Corporation does not allocate corporate interest charges to the BC segment. Net assets exclude cash and cash equivalents, investment in and advances to/from BC and deferred income taxes, and are net of accounts payable and accrued liabilities, advances and progress billings in excess of related costs and accrued benefit liability and other. Most corporate office charges are allocated based on each segment's revenues.

The table containing the detailed segmented data is shown after note 29.

## 29. SUBSEQUENT EVENTS

### Workforce reductions

Bombardier Aerospace announced on March 5, 2003 that it is taking measures to meet the continuing challenges facing the aviation industry including a reduction of 3,000 employees at its facilities in Montréal, Toronto and Belfast over the next 12 months. As a result, a charge of approximately $104.1 million is expected to be recorded in connection with this reduction in fiscal year 2004 for severance and other involuntary termination costs.

**Bank covenant**

As at January 31, 2003, Bombardier had to adhere to a single financial covenant under its two main syndicated credit facilities. The ratio of total debt, essentially defined as short-term borrowings and long-term debt less subordinated debt and cash and cash equivalents, to total capitalization (total debt, as defined, plus shareholders' equity and subordinated debt) must not exceed 60%. In March 2003, the Corporation entered into amendment agreements with its lenders under its two main syndicated credit facilities, providing that the ratio must not exceed 70% as at April 30, 2003, 60% as at July 31 and October 31, 2003, and 50% as at January 31, 2004 and thereafter at each quarter end.

**Public offering and divestitures**

On April 2, 2003, the Board of Directors of the Corporation approved the following:

a) The filing with the Securities Regulatory Authority of each province of Canada of a preliminary prospectus for the issuance of Class B Shares (Subordinated Voting). The net proceeds of the issuance will be used for working capital and general corporate purposes.

b) The sale of the recreational products segment.

In addition to the sale of the recreational products segment, the disposal of Defence Services and Belfast City Airport are already underway. Net proceeds from the disposals will be used for working capital and general corporate purposes. The Corporation will also cease origination of BC's railcar leasing activities.

**Credit events**

As a result of certain downgrades in the credit rating of the Corporation's unsecured indebtedness, in March 2003, the Corporation may be required to provide certain of its customers with letters of credit, surety bonds or other forms of security to secure the performance of its manufacturing obligations under aircraft or transportation equipment purchase agreements. Accordingly, the Corporation's availability under its credit facilities may be reduced. In order to limit the impact of these events on the Corporation's capital resources, the Corporation is currently in discussions with these customers regarding the amount of security required. The maximum value of the security instruments which the Corporation may be required to provide is $738.6 million.

Furthermore, as a result of the March 2003 downgrades, an amount of $200.0 million of BC securitization conduits ($160.0 million outstanding as at January 31, 2003) may have to be wound-down from normal course collection. The Corporation believes it maintains available and committed alternate liquidity for these situations.

* Trademark of Bombardier Inc. or its subsidiaries.
**Registered trademark of Amtrak.

## SEGMENT DISCLOSURE

**Industry segments**

| (millions of Canadian dollars) | Bombardier Inc. consolidated 2003 | Bombardier Inc. consolidated 2002 (restated - note 1) | Aerospace 2003 | Aerospace 2002 (restated - note 1) | Transportation 2003 | Transportation 2002 | Recreational Products 2003 | Recreational Products 2002 | BC 2003 | BC 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| **External revenues** | **$ 23,664.9** | $ 21,815.6 | **$ 11,294.4** | $ 12,289.2 | **$ 9,401.9** | $ 6,996.4 | **$ 2,476.3** | $ 1,952.6 | **$ 492.3** | $ 577.4 |
| Intersegment revenues | **-** | - | **-** | - | **19.9** | 23.1 | **-** | - | **402.6** | 389.4 |
| **Segmented revenues** | **23,664.9** | 21,815.6 | **11,294.4** | 12,289.2 | **9,421.8** | 7,019.5 | **2,476.3** | 1,952.6 | **894.9** | 966.8 |
| Cost of sales and operating expenses | **22,192.1** | 19,892.1 | **10,630.8** | 10,920.8 | **9,012.3** | 6,733.1 | **2,247.4** | 1,734.8 | **724.1** | 915.9 |
| Depreciation and amortization | **863.8** | 791.6 | **424.0** | 418.4 | **202.4** | 185.4 | **57.4** | 42.8 | **180.0** | 145.0 |
| Interest expense (income) and other income | **89.4** | (11.7) | **272.0** | 228.5 | **(102.7)** | (129.4) | **33.1** | 24.7 | **(113.0)** | (135.5) |
| Special items | **1,310.8** | 1,093.5 | **1,310.8** | 356.8 | **-** | 74.2 | **-** | - | **-** | 662.5 |
| | **24,456.1** | 21,765.5 | **12,637.6** | 11,924.5 | **9,112.0** | 6,863.3 | **2,337.9** | 1,802.3 | **791.1** | 1,587.9 |
| **Income (loss) before income taxes** | **$ (791.2)** | $ 50.1 | **$ (1,343.2)** | $ 364.7 | **$ 309.8** | $ 156.2 | **$ 138.4** | $ 150.3 | **$ 103.8** | $ (621.1) |
| **Net segmented assets** | **$ 5,095.0** | $ 6,223.1 | **$ 3,314.7** | $ 4,169.2 | **$ 133.0** | $ 322.7 | **$ 360.6** | $ 388.2 | **$ 1,286.7** | $ 1,343.0 |
| Accounts payable and accrued liabilities | **9,167.2** | 7,638.9 | | | | | | | | |
| Advances and progress billings in excess of related costs | **3,816.0** | 3,291.5 | | | | | | | | |
| Accrued benefit liability and other | **1,250.7** | 1,061.6 | | | | | | | | |
| Advances to BC | **-** | 20.0 | | | | | | | | |
| Deferred income taxes | **691.8** | 643.2 | | | | | | | | |
| Cash and cash equivalents | **741.8** | 462.8 | | | | | | | | |
| **Total assets – Bombardier** | **20,762.5** | 19,341.1 | | | | | | | | |
| Investment in and advances to BC | **(1,286.7)** | (1,363.0) | | | | | | | | |
| Advances from BC | **(69.1)** | - | | | | | | | | |
| Total assets – BC | **9,602.7** | 9,264.6 | | | | | | | | |
| **Total assets – Bombardier Inc. consolidated** | **$ 29,009.4** | $ 27,242.7 | | | | | | | | |
| **Additions to property, plant and equipment, intangible assets and goodwill, net** | | | | | | | | | | |
| - excluding business acquisitions | **$ 683.1** | $ 1,184.0 | **$ 485.5** | $ 656.8 | **$ 151.3** | $ 305.5 | **$ 49.1** | $ 172.7 | **$ (2.8)** | $ 49.0 |
| - business acquisitions | **-** | 3,567.1 | **-** | - | **-** | 3,493.3 | **-** | 73.8 | **-** | - |
| | **$ 683.1** | $ 4,751.1 | **$ 485.5** | $ 656.8 | **$ 151.3** | $ 3,798.8 | **$ 49.1** | $ 246.5 | **$ (2.8)** | $ 49.0 |

**GEOGRAPHIC INFORMATION**

| (millions of Canadian dollars) | Revenues 2003 | Revenues 2002 | Property, plant and equipment, intangible assets and goodwill 2003 | Property, plant and equipment, intangible assets and goodwill 2002 (restated - note 1) |
|---|---|---|---|---|
| United States | **$ 11,103.4** | $ 11,193.9 | **$ 994.8** | $ 1,120.5 |
| Germany | **2,573.5** | 2,179.0 | **1,097.3** | 837.5 |
| United Kingdom | **2,336.1** | 1,750.0 | **487.3** | 438.5 |
| Canada | **1,836.3** | 1,400.5 | **6,280.3** | 5,765.7 |
| Sweden | **758.7** | 348.1 | **73.1** | 62.0 |
| Switzerland | **645.5** | 451.5 | **11.5** | 28.9 |
| Spain | **539.5** | 473.8 | **12.2** | 9.9 |
| Italy | **506.4** | 473.0 | **31.6** | 27.7 |
| France | **451.0** | 499.8 | **42.2** | 35.2 |
| Japan | **273.4** | 139.5 | **0.3** | 0.3 |
| Portugal | **245.2** | 99.8 | **62.7** | 57.0 |
| Netherlands | **215.9** | 91.3 | **-** | - |
| China | **215.8** | 432.8 | **46.8** | 22.9 |
| Austria | **201.5** | 256.2 | **113.9** | 83.4 |
| Other – Europe | **957.7** | 1,107.7 | **107.1** | 59.4 |
| Other – Asia | **272.0** | 401.2 | **5.2** | 6.1 |
| Other – Americas | **229.8** | 72.5 | **26.1** | 24.4 |
| Other | **303.2** | 445.0 | **10.1** | 9.0 |
| | **$ 23,664.9** | $ 21,815.6 | **$ 9,402.5** | $ 8,588.4 |

## HISTORICAL FINANCIAL SUMMARY

For the years ended January 31

### Operations Summary

(restated)

| (millions of Canadian dollars, except per share amounts) | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Segmented revenues** | | | | | |
| Aerospace | **$ 11,294.4** | $ 12,289.2 | $ 10,689.8 | $ 8,217.9 | $ 6,527.6 |
| Transportation | **9,421.8** | 7,019.5 | 3,043.3 | 3,446.1 | 2,966.3 |
| Recreational Products | **2,476.3** | 1,952.6 | 1,687.1 | 1,473.0 | 1,628.1 |
| BC | **894.9** | 966.8 | 935.9 | 536.5 | 356.7 |
| Intersegment revenues | **(422.5)** | (412.5) | (284.2) | (165.3) | (109.0) |
| **External revenues** | **$ 23,664.9** | $ 21,815.6 | $ 16,071.9 | $ 13,508.2 | $ 11,369.7 |
| **Income (loss) before special items and income taxes** | | | | | |
| Aerospace | **$ (32.4)** | $ 721.5 | $ 1,027.9 | $ 695.0 | $ 605.2 |
| Transportation | **309.8** | 230.4 | 120.5 | 174.4 | 147.9 |
| Recreational Products | **138.4** | 150.3 | 86.0 | 17.7 | (45.5) |
| BC | **103.8** | 41.4 | (15.4) | 28.0 | 42.6 |
| | **519.6** | 1,143.6 | 1,219.0 | 915.1 | 750.2 |
| Special items | **1,310.8** | 1,093.5 | 29.7 | 51.1 | - |
| **Income (loss) before income taxes** | | | | | |
| Aerospace | **$ (1,343.2)** | $ 364.7 | $ 1,077.7 | $ 761.6 | $ 605.2 |
| Transportation | **309.8** | 156.2 | 120.5 | 56.7 | 147.9 |
| Recreational Products | **138.4** | 150.3 | 86.0 | 17.7 | (45.5) |
| BC | **103.8** | (621.1) | (94.9) | 28.0 | 42.6 |
| | **(791.2)** | 50.1 | 1,189.3 | 864.0 | 750.2 |
| Income tax expense (recovery) | **(176.0)** | 14.1 | 350.0 | 281.3 | 246.1 |
| **Net income (loss)** | **$ (615.2)** | $ 36.0 | $ 839.3 | $ 582.7 | $ 504.1 |
| **Earnings (loss) per share** | **$ (0.47)** | $ 0.01 | $ 0.60 | $ 0.41 | $ 0.35 |

### General Information

| (millions of Canadian dollars, except per share amounts) | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Export revenues from Canada | **$ 7,568.0** | $ 9,219.8 | $ 8,541.0 | $ 6,276.2 | $ 6,092.5 |
| Additions to property, plant and equipment, net | **$ 683.1** | $ 1,184.0 | $ 1,178.5 | $ 765.1 | $ 1,071.4 |
| Depreciation and amortization | **$ 863.8** | $ 791.6 | $ 794.3 | $ 411.0 | $ 312.1 |
| Dividend per common share | | | | | |
| Class A | **$ 0.180000** | $ 0.180000 | $ 0.135000 | $ 0.110000 | $ 0.085000 |
| Class B | **$ 0.181563** | $ 0.181563 | $ 0.136563 | $ 0.111563 | $ 0.086563 |
| Number of common shares (millions) | **1,377.7** | 1,370.8 | 1,366.1 | 1,377.6 | 1,366.3 |
| Book value per common share | **$ 1.60** | $ 2.21 | $ 2.28 | $ 2.21 | $ 2.24 |
| Shareholders of record | **11,579** | 11,310 | 12,666 | 11,168 | 10,097 |

### Market price range

| (in Canadian dollars) | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Class A** | | | | | |
| High | **$ 15.67** | $ 24.60 | $ 26.80 | $ 16.12 | $ 11.77 |
| Low | **3.19** | 9.25 | 14.05 | 9.55 | 7.02 |
| Close | **5.34** | 14.72 | 24.70 | 14.97 | 11.07 |
| **Class B** | | | | | |
| High | **$ 15.67** | $ 24.65 | $ 26.70 | $ 16.10 | $ 11.87 |
| Low | **3.13** | 9.19 | 13.90 | 9.47 | 7.02 |
| Close | **5.12** | 14.70 | 24.54 | 14.65 | 11.25 |

**CONSOLIDATED BALANCE SHEETS**
(restated)
(millions of Canadian dollars)

| | As at January 31 | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| **BOMBARDIER INC. CONSOLIDATED** | Cash and cash equivalents | **$ 1,043.0** | $ 462.8 | $ 1,373.9 | $ 1,664.0 | $ 1,738.7 |
| | Receivables | **2,349.2** | 1,902.1 | 851.2 | 641.5 | 693.8 |
| | Finance receivables | **7,013.3** | 6,398.3 | 7,140.7 | 6,250.6 | 4,529.2 |
| | Assets under operating leases | **1,350.9** | 1,831.2 | 1,768.1 | 887.2 | 519.5 |
| | Inventories | **5,821.6** | 6,176.7 | 4,101.4 | 3,285.4 | 2,943.5 |
| | Property, plant and equipment | **5,871.0** | 5,618.3 | 4,481.6 | 3,986.0 | 3,784.0 |
| | Goodwill | **3,244.9** | 2,712.9 | - | - | - |
| | Other assets | **2,315.5** | 2,140.4 | 765.8 | 330.6 | 377.8 |
| | **Total assets** | **$ 29,009.4** | $ 27,242.7 | $ 20,482.7 | $ 17,045.3 | $ 14,586.5 |
| | Short-term borrowings | **$ 2,563.6** | $ 3,037.0 | $ 2,531.2 | $ 2,002.7 | $ 2,363.5 |
| | Accounts payable and accrued liabilities | **9,575.0** | 8,057.4 | 4,263.6 | 3,538.2 | 3,247.7 |
| | Advances and progress billings in excess of related costs | **3,816.0** | 3,291.5 | 2,826.8 | 2,848.6 | 2,683.9 |
| | Long-term debt | **8,815.1** | 7,857.7 | 6,131.2 | 4,795.0 | 2,575.9 |
| | Other liabilities | **1,498.7** | 1,663.0 | 1,316.4 | 511.8 | 353.8 |
| | Convertible notes – equity component | **-** | - | - | - | 180.5 |
| | Preferred shares | **535.0** | 300.0 | 300.0 | 300.0 | 300.0 |
| | Common shareholders' equity | **2,206.0** | 3,036.1 | 3,113.5 | 3,049.0 | 2,881.2 |
| | **Total liabilities and shareholders' equity** | **$ 29,009.4** | $ 27,242.7 | $ 20,482.7 | $ 17,045.3 | $ 14,586.5 |
| **BOMBARDIER** | Cash and cash equivalents | **$ 741.8** | $ 462.8 | $ 1,358.8 | $ 1,548.7 | $ 1,706.3 |
| | Receivables | **2,183.6** | 1,590.7 | 626.5 | 570.7 | 670.3 |
| | Inventories | **5,821.6** | 6,176.7 | 4,101.4 | 3,285.4 | 2,943.5 |
| | Property, plant and equipment | **5,723.6** | 5,455.2 | 4,348.8 | 3,863.7 | 3,689.2 |
| | Goodwill | **3,244.9** | 2,712.9 | - | - | - |
| | Investment in and advances to BC | **1,286.7** | 1,363.0 | 1,581.5 | 1,531.2 | 1,285.2 |
| | Other assets | **1,760.3** | 1,579.8 | 483.6 | 203.4 | 269.4 |
| | **Total assets** | **$ 20,762.5** | $ 19,341.1 | $ 12,500.6 | $ 11,003.1 | $ 10,563.9 |
| | Short-term borrowings | **$ 380.8** | $ 1,341.7 | $ - | $ - | $ 49.3 |
| | Advances from BC | **69.1** | - | - | - | - |
| | Accounts payable and accrued liabilities | **9,167.2** | 7,638.9 | 4,067.0 | 3,328.2 | 2,993.5 |
| | Advances and progress billings in excess of related costs | **3,816.0** | 3,291.5 | 2,826.8 | 2,848.6 | 2,683.9 |
| | Long-term debt | **3,102.5** | 2,080.7 | 879.4 | 971.4 | 1,121.7 |
| | Other liabilities | **1,485.9** | 1,652.2 | 1,313.9 | 505.9 | 353.8 |
| | Convertible notes – equity component | **-** | - | - | - | 180.5 |
| | Preferred shares | **535.0** | 300.0 | 300.0 | 300.0 | 300.0 |
| | Common shareholders' equity | **2,206.0** | 3,036.1 | 3,113.5 | 3,049.0 | 2,881.2 |
| | **Total liabilities and shareholders' equity** | **$ 20,762.5** | $ 19,341.1 | $ 12,500.6 | $ 11,003.1 | $ 10,563.9 |
| **BC** | Cash and cash equivalents | **$ 301.2** | $ - | $ 15.1 | $ 115.3 | $ 32.4 |
| | Receivables | **165.6** | 311.4 | 224.7 | 70.8 | 23.5 |
| | Finance receivables | **7,013.3** | 6,398.3 | 7,140.7 | 6,250.6 | 4,529.2 |
| | Assets under operating leases | **1,350.9** | 1,831.2 | 1,768.1 | 887.2 | 519.5 |
| | Property, plant and equipment | **147.4** | 163.1 | 132.8 | 122.3 | 94.8 |
| | Advances to Bombardier | **69.1** | - | - | - | - |
| | Other assets | **555.2** | 560.6 | 282.2 | 127.2 | 108.4 |
| | **Total assets** | **$ 9,602.7** | $ 9,264.6 | $ 9,563.6 | $ 7,573.4 | $ 5,307.8 |
| | Short-term borrowings | **$ 2,182.8** | $ 1,695.3 | $ 2,531.2 | $ 2,002.7 | $ 2,314.2 |
| | Advances from Bombardier | **-** | 20.0 | 205.5 | 459.8 | 458.5 |
| | Accounts payable and accrued liabilities | **407.8** | 418.5 | 196.6 | 210.0 | 254.2 |
| | Long-term debt | **5,712.6** | 5,777.0 | 5,251.8 | 3,823.6 | 1,454.2 |
| | Other liabilities | **12.8** | 10.8 | 2.5 | 5.9 | - |
| | Investment in BC | **1,286.7** | 1,343.0 | 1,376.0 | 1,071.4 | 826.7 |
| | **Total liabilities and shareholders' equity** | **$ 9,602.7** | $ 9,264.6 | $ 9,563.6 | $ 7,573.4 | $ 5,307.8 |

| For the years ended January 31 | 2003<br>TOTAL | 2002<br>TOTAL | 2003<br>FIRST<br>QUARTER | 2002<br>FIRST<br>QUARTER | 2003<br>SECOND<br>QUARTER | 2002<br>SECOND<br>QUARTER | 2003<br>THIRD<br>QUARTER | 2002<br>THIRD<br>QUARTER | 2003<br>FOURTH<br>QUARTER | 2002<br>FOURTH<br>QUARTER |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segmented revenues** | | | | | | | | | | |
| Aerospace | $ **11,294.4** | $ 12,289.2 | **$ 2,655.6** | $ 2,671.1 | **$ 2,747.5** | $ 2,767.0 | **$ 2,499.0** | $ 2,615.2 | **$ 3,392.3** | $ 4,235.9 |
| Transportation | **9,421.8** | 7,019.5 | **2,314.1** | 840.7 | **2,399.0** | 1,612.7 | **2,294.2** | 1,733.8 | **2,414.5** | 2,832.3 |
| Recreational Products | **2,476.3** | 1,952.6 | **445.1** | 356.9 | **500.4** | 409.4 | **722.4** | 525.4 | **808.4** | 660.9 |
| BC | **894.9** | 966.8 | **192.0** | 256.8 | **222.3** | 262.1 | **234.6** | 233.0 | **246.0** | 214.9 |
| Intersegment revenues | **(422.5)** | (412.5) | **(98.7)** | (100.9) | **(101.7)** | (102.8) | **(104.3)** | (109.4) | **(117.8)** | (99.4) |
| **External revenues** | $ **23,664.9** | $ 21,815.6 | **$ 5,508.1** | $ 4,024.6 | **$ 5,767.5** | $ 4,948.4 | **$ 5,645.9** | $ 4,998.0 | **$ 6,743.4** | $ 7,844.6 |
| **Income (loss) before special items and income taxes** | | | | | | | | | | |
| Aerospace | $ **(32.4)** | $ 721.5 | **$ 158.0** | $ 228.0 | **$ 136.7** | $ 228.7 | **$ 49.8** | $ 132.1 | **$ (376.9)** | $ 132.7 |
| Transportation | **309.8** | 230.4 | **90.6** | 26.4 | **108.5** | 67.1 | **106.7** | 65.3 | **4.0** | 71.6 |
| Recreational Products | **138.4** | 150.3 | **26.7** | 19.0 | **36.0** | 28.6 | **57.6** | 44.9 | **18.1** | 57.8 |
| BC | **103.8** | 41.4 | **20.6** | 3.0 | **31.2** | (3.0) | **37.9** | 12.9 | **14.1** | 28.5 |
| | **519.6** | 1,143.6 | **295.9** | 276.4 | **312.4** | 321.4 | **252.0** | 255.2 | **(340.7)** | 290.6 |
| Special items | **1,310.8** | 1,093.5 | **-** | - | **211.4** | - | **-** | 958.6 | **1,099.4** | 134.9 |
| **Income (loss) before income taxes** | | | | | | | | | | |
| Aerospace | **(1,343.2)** | 364.7 | **158.0** | 228.0 | **(74.7)** | 228.7 | **49.8** | (164.0) | **(1,476.3)** | 72.0 |
| Transportation | **309.8** | 156.2 | **90.6** | 26.4 | **108.5** | 67.1 | **106.7** | 65.3 | **4.0** | (2.6) |
| Recreational Products | **138.4** | 150.3 | **26.7** | 19.0 | **36.0** | 28.6 | **57.6** | 44.9 | **18.1** | 57.8 |
| BC | **103.8** | (621.1) | **20.6** | 3.0 | **31.2** | (3.0) | **37.9** | (649.6) | **14.1** | 28.5 |
| | **(791.2)** | 50.1 | **295.9** | 276.4 | **101.0** | 321.4 | **252.0** | (703.4) | **(1,440.1)** | 155.7 |
| Income tax expense (recovery) | **(176.0)** | 14.1 | **98.7** | 92.8 | **33.0** | 103.7 | **83.8** | (260.5) | **(391.5)** | 78.1 |
| **Net income (loss)** | $ **(615.2)** | $ 36.0 | **$ 197.2** | $ 183.6 | **$ 68.0** | $ 217.7 | **$ 168.2** | $ (442.9) | **$ (1,048.6)** | $ 77.6 |
| **Earnings (loss) per share** | | | | | | | | | | |
| Net income | $ **(0.47)** | $ 0.01 | **$ 0.14** | $ 0.13 | **$ 0.04** | $ 0.16 | **$ 0.12** | $ (0.33) | **$ (0.77)** | $ 0.05 |
| Dividend - Class B Share | **0.181563** | 0.181563 | **0.046563** | 0.046563 | **0.045000** | 0.045000 | **0.045000** | 0.045000 | **0.045000** | 0.045000 |
| Market price range of Class B Share | | | | | | | | | | |
| High | **15.67** | 24.65 | **15.67** | 24.35 | **15.05** | 24.65 | **11.94** | 22.40 | **6.77** | 17.39 |
| Low | **3.13** | 9.19 | **12.70** | 18.80 | **9.92** | 21.26 | **3.13** | 9.19 | **4.46** | 9.80 |
| **Net segmented assets** | | | | | | | | | | |
| Aerospace | | | **$ 5,122.2** | $ 3,614.4 | **$ 5,500.1** | $ 4,534.2 | **$ 5,562.9** | $ 4,996.9 | **$ 3,314.7** | $ 4,169.2 |
| Transportation | | | **416.9** | 512.5 | **796.1** | 479.3 | **890.3** | 294.7 | **133.0** | 322.7 |
| Recreational products | | | **567.0** | 261.3 | **711.1** | 374.8 | **541.9** | 399.1 | **360.6** | 388.2 |
| BC | | | **1,338.4** | 1,405.5 | **1,378.8** | 1,394.3 | **1,189.2** | 1,238.2 | **1,286.7** | 1,343.0 |
| | | | **7,444.5** | 5,793.7 | **8,386.1** | 6,782.6 | **8,184.3** | 6,928.9 | **5,095.0** | 6,223.1 |
| Accounts payable and accrued liabilities | | | **7,137.9** | 4,064.7 | **7,361.6** | 6,441.0 | **7,721.8** | 6,866.9 | **9,167.2** | 7,638.9 |
| Advances and progress billings in excess of related costs | | | **3,787.7** | 2,683.6 | **4,081.0** | 3,678.0 | **3,329.0** | 3,708.2 | **3,816.0** | 3,291.5 |
| Accrued benefit liability and other | | | **1,090.9** | 509.7 | **1,163.6** | 880.7 | **1,171.7** | 1,007.0 | **1,250.7** | 1,061.6 |
| Advances to BC | | | **92.7** | 522.0 | **165.0** | 99.6 | **66.8** | 83.0 | **-** | 20.0 |
| Deferred income taxes | | | **581.3** | 82.0 | **608.8** | 430.4 | **571.0** | 767.4 | **691.8** | 643.2 |
| Cash and cash equivalents | | | **510.5** | 411.0 | **392.1** | 647.1 | **1,332.3** | 259.7 | **741.8** | 462.8 |
| **Total assets – Bombardier** | | | **20,645.5** | 14,066.7 | **22,158.2** | 18,959.4 | **22,376.9** | 19,621.1 | **20,762.5** | 19,341.1 |
| Investment in and advances to BC | | | **(1,431.1)** | (1,927.5) | **(1,543.8)** | (1,493.9) | **(1,256.0)** | (1,321.2) | **(1,286.7)** | (1,363.0) |
| Advance from BC | | | **-** | - | **-** | - | **-** | - | **(69.1)** | - |
| Total assets – BC | | | **9,271.3** | 10,253.9 | **10,737.5** | 10,993.2 | **10,977.5** | 9,481.7 | **9,602.7** | 9,264.6 |
| **Total assets – Bombardier Inc. consolidated** | | | **$ 28,485.7** | $ 22,393.1 | **$ 31,351.9** | $ 28,458.7 | **$ 32,098.4** | $ 27,781.6 | **$ 29,009.4** | $ 27,242.7 |