FINANCIAL SECTION

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The following table shows the abbreviations used in the MD&A and the consolidated financial statements.

Term	Description
AFS	Available for sale
AOCI	Accumulated other comprehensive income
BA	Bombardier Aerospace
BT	Bombardier Transportation
CAGR	Compound annual growth rate
CCTD	Cumulative currency translation difference
CGU	Cash generating unit
CIS	Commonwealth of Independent States
DDHR	Derivative designated in a hedge relationship
DSU	Deferred share unit
EBIT	Earnings before financing expense, financing income and income taxes
EBITDA	Earnings before financing expense, financing income, income taxes and amortization
EBT	Earnings before income taxes
EPS	Earnings per share attributable to equity holders of Bombardier Inc.
FVTP&L	Fair value through profit and loss
GAAP	Generally accepted accounting principles
GDP	Gross domestic product
HFT	Held for trading
IAS	International Accounting Standard(s)
IASB	International Accounting Standards Board
IFRIC	IFRS Interpretations Committee Interpretation
IFRS	International Financial Reporting Standard(s)
L&R	Loans and receivables
MD&A	Management's discussion and analysis
NCI	Non-controlling interests
OCI	Other comprehensive income
OEM	Original equipment manufacturer
PP&E	Property, plant and equipment
PSU	Performance share unit
R&D	Research and development
RVG	Residual value guarantee
SG&A	Selling, general and administrative
SPE	Special purpose entity
U.K.	United Kingdom
U.S.	United States of America

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts in this report are expressed in U.S. dollars, and all amounts in the tables are in millions of U.S. dollars, unless otherwise indicated. The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results due to our change of year-end (see the Change of year-end section hereafter).

This MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. The Board of Directors is responsible for ensuring that we fulfill our responsibilities for financial reporting and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the MD&A for issuance to shareholders.

The data presented in this MD&A is structured by manufacturing segment: BA and BT, and then by market segment, which is reflective of our organizational structure. Some financial measures used in this MD&A are not in accordance with IFRS and comparative figures for periods before the Corporation's transition to IFRS (February 1, 2010) have not been restated in accordance with IFRS. When such Canadian GAAP financial measures are presented, a legend has also been added for the benefit of the readers. See also the Non-GAAP financial measures section hereafter for the reconciliation to the most comparable IFRS measures.

Materiality for disclosures

We determine if information is material based on whether we believe a reasonable investor's decision to buy, sell or hold our securities would likely be influenced or changed if the information were omitted or misstated.

Certain totals, subtotals and percentages may not agree due to rounding.

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HIGHLIGHTS OF THE YEAR

Good overall financial performance, despite negative free cash flow

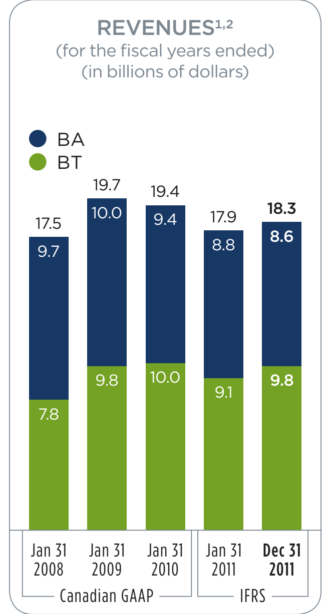
REVENUES[1]	NET INCOME[1]	EPS[1]	FREE CASH FLOW[1]	ORDER BACKLOG
$18.3 billion	**$837** million	**$0.47**	**($1.2)** billion	**$53.9** billion

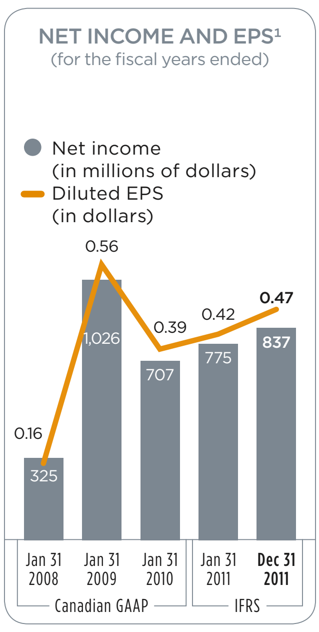
RESULTS

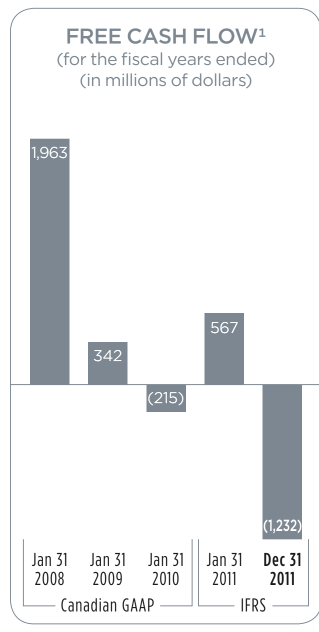
- Revenues of $18.3 billion, an increase of $0.4 billion compared to last fiscal year.
- EBIT of $1.2 billion, or 6.6% of revenues, compared to $1.2 billion, or 6.7%, last fiscal year.
- Net income of $837 million (diluted EPS of $0.47), compared to $775 million (diluted EPS of $0.42) last fiscal year.
- Investment of $1.5 billion in PP&E and intangible assets, compared to $1.1 billion last fiscal year.
- Free cash flow usage of $1.2 billion, compared to a free cash flow of $567 million last fiscal year.
- Strong cash position of $3.4 billion as at December 31, 2011, compared to $4.2 billion as at January 31, 2011.
- Solid order backlog of $53.9 billion as at December 31, 2011, compared to $52.7 billion as at January 31, 2011.

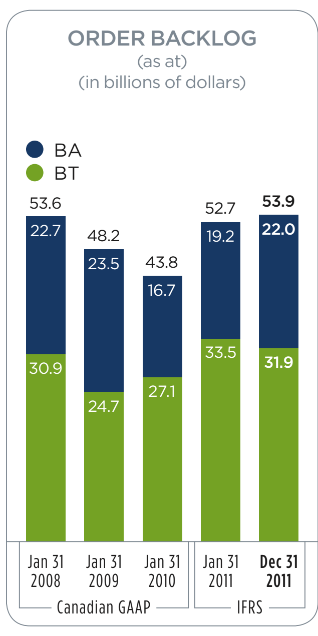
KEY INITIATIVES

- We renewed our unsecured revolving credit facility, increasing the amount available for cash drawing from $500 million to $750 million.
- We renewed the BA and BT letter of credit facilities, which increased our liquidity by $705 million, as these new facilities no longer require any invested collateral.









1 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 Some totals do not agree due to rounding.

FIRST ANNUAL REPORTING UNDER IFRS

The fiscal year ended December 31, 2011 represents our first annual reporting period under IFRS. Previous annual consolidated financial statements were prepared under Canadian GAAP. Comparative figures as at January 31, 2011 and February 1, 2010 and for the fourth quarter and fiscal year ended January 31, 2011 have been restated to comply with IFRS. For a summary of the impact of adoption of IFRS on our consolidated financial statements, see the Accounting and reporting developments section in Other. Note 36 – Adoption of IFRS, to the consolidated financial statements, provides more details on the most significant adjustments to equity, net income, comprehensive income and cash flows. Our choices made with regard to our accounting policies under IFRS have remained unchanged from those presented in previous quarters of the current fiscal year.

Other comparative figures presented in this MD&A for periods and dates prior to our transition date to IFRS have not been restated and are presented as prepared under Canadian GAAP. Consequently, this information is not entirely comparable.

CHANGE OF YEAR-END

On November 30, 2011, the Board of Directors approved the change of our financial year-end from January 31 to December 31, effective December 31, 2011. The change simplifies our internal processes as all business units now use the same reporting periods.

As a result, the fourth quarter ended December 31, 2011 comprises two months and the fiscal year ended December 31, 2011 comprises 11 months of BA's results. This change had no impact on BT's financial reporting as BT's results were already reported on a calendar year basis.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	Profitability	Liquidity	Deliveries/Growth and order intake
BA[1]	EBIT margin for the year ending December 31, 2012 is expected to be approximately 5%. Profitability should be higher in the second half of the year.	For the year ending December 31, 2012, cash flows from operating activities are expected to substantially fund our net additions to PP&E and intangible assets of approximately $2 billion.	We expect to deliver approximately 180 business aircraft and 55 commercial aircraft in the year ending December 31, 2012.
BT[1]	Continue to improve EBIT margin towards our target of 8% by calendar year 2013.	Maintain free cash flow[2] generally in line with EBIT, although it may vary significantly from quarter to quarter.	Maintain a book-to-bill ratio around 1.0, in line with market evolution.

1 See the Forward-looking statements sections in BA and BT.
2 See the Non-GAAP financial measures section hereafter for a definition of this metric.

This MD&A includes forward-looking statements, which may involve, but are not limited to: statements with respect to our objectives, guidance, targets, goals, priorities, our market and strategies, financial position, beliefs, prospects, plans, expectations, anticipations, estimates and intentions; general economic and business outlook, prospects and trends of an industry; expected growth in demand for products and services; product development, including projected design, characteristics, capacity or performance; expected or scheduled entry-into-service of products and services, orders, deliveries, testing, lead times, certifications and project execution in general; our competitive position; and the expected impact of the legislative and regulatory environment and legal proceedings on our business and operations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “anticipate”, “plan”, “foresee”, “believe” “continue” or “maintain”, the negative of these terms, variations of them or similar terminology. By their nature, forward-looking statements require us to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. While we consider our assumptions to be reasonable and appropriate based on information currently available, there is a risk that they may not be accurate. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the respective Guidance and forward-looking statements sections in BA and in BT.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry and major rail operators), operational risks (such as risks related to developing new products and services; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; to the environment; dependence on certain customers and suppliers; human resources; fixed-price commitments and production and project execution), financing risks (such as risks related to liquidity and access to capital markets, exposure to credit risk, certain restrictive debt covenants, financing support provided for the benefit of certain customers and reliance on government support) and market risks (such as risks related to foreign currency fluctuations, changing interest rates, decreases in residual value and increases in commodity prices). For more details, see the Risks and uncertainties section in Other. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements. The forward-looking statements set forth herein reflect our expectations as at the date of this MD&A and are subject to change after such date. Unless otherwise required by applicable securities laws, we expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

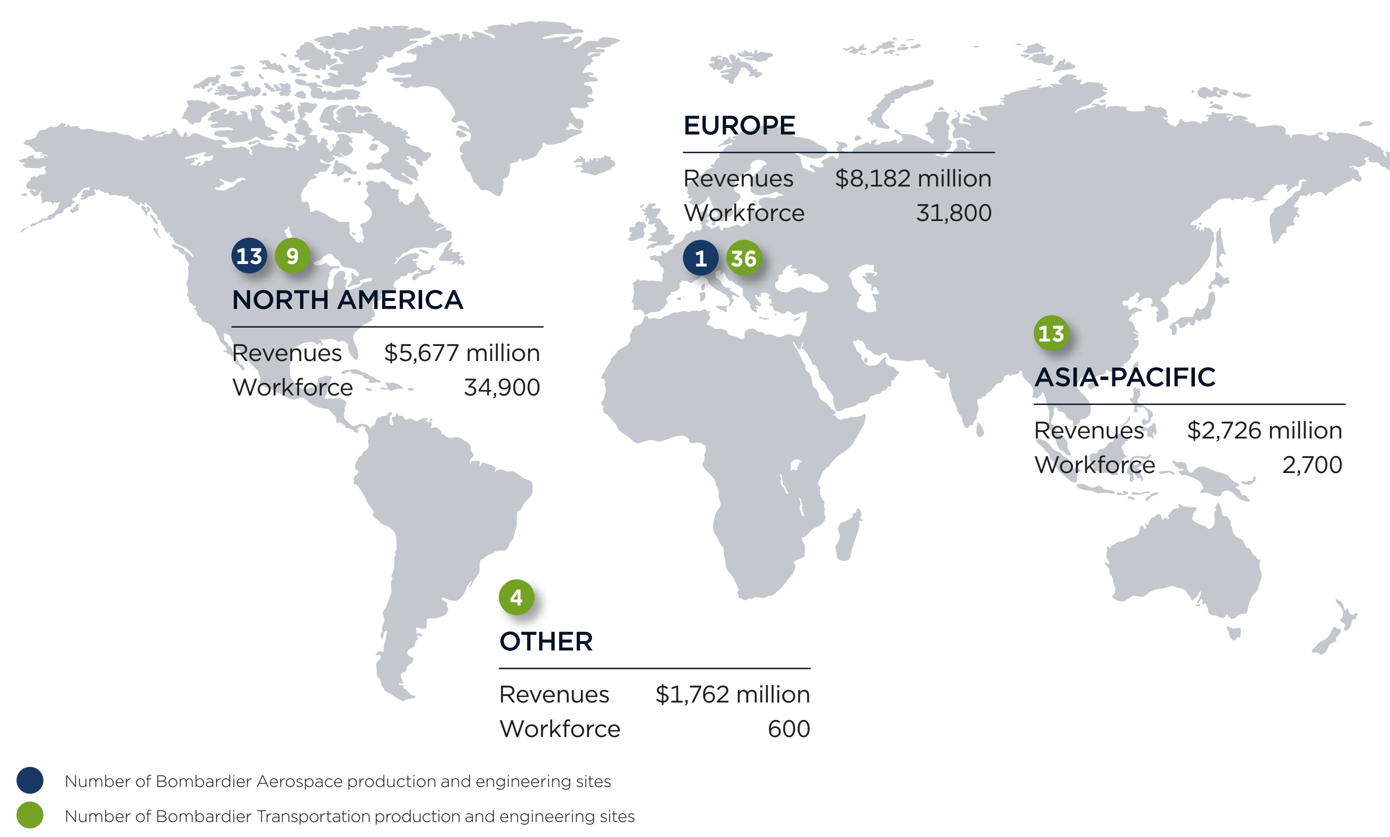
OVERVIEW OF ACTIVITIES

Bombardier is a world leading manufacturer of innovative transportation solutions. We operate in the transportation industry under two broad segments: aerospace (through BA) and rail transportation (through BT).

BA is a world leader in the design, manufacture and support of innovative aviation products for the business, commercial, specialized and amphibious aircraft markets.		**BT is the world leader in the design, manufacture and support of rail equipment and systems.**	
Revenues[1]	$8.6 billion	Revenues[2]	$9.8 billion
EBIT[1]	$502 million	EBIT[2]	$700 million
Free cash flow[1]	($453) million	Free cash flow[2]	($424) million
Order backlog	$22.0 billion	Order backlog	$31.9 billion
Number of employees	33,600	Number of employees	36,200

1 The fiscal year ended December 31, 2011 comprises 11 months of results.
2 The fiscal year ended December 31, 2011 comprises 12 months of results.

Every day around the globe, our 70,000 dedicated employees work diligently to earn our worldwide leadership in aerospace and rail transportation. We have 76 production and engineering sites in 25 countries, and a worldwide network of service centres.



KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and associated metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS

Growth and competitive positioning	• Revenues and delivery units, as measures of growth. • Order backlog, as a measure of future revenues. • Book-to-bill ratios[1], as an indicator of future revenues. • Market share or position, as a measure of our competitive positioning.
Profitability	• Diluted EPS, as a measure of global performance. • EBIT and EBIT margin, as measures of segment performance.
Liquidity	• Free cash flow and average net utilized assets, as measures of liquidity generation. • Available short-term capital resources, defined as cash and cash equivalents and the amount available under the revolving credit facility, as a measure of liquidity adequacy.
Customer satisfaction	• Various customer satisfaction measures, as a measure of our commitment to customers and the reliability of our products.
Execution	• Achievement of product development milestones, as a measure of flawless execution. • Employee engagement and enablement, as measured by the annual employee survey.
Capital structure	• Adjusted EBIT[2] to adjusted interest[2] ratio, as a measure of interest coverage. • Adjusted debt[2] to adjusted EBITDA[2] ratio, as a measure of financial leverage. • Weighted-average long-term debt maturity, as a measure of the term structure.

1 Refer to the respective Key performance measures and metrics sections in BA and BT for definitions of this metric.
2 Refer to the Non-GAAP financial measures section hereafter for definitions of these metrics.

Employee incentive-based compensation is linked to the achievement of targeted results, based on EBIT, free cash flow, average net utilized assets, customer-related metrics, execution in our new product development programs and diluted EPS.

FIVE-YEAR SUMMARY

	IFRS		Canadian GAAP		
	Dec. 31, 2011[3]	Jan. 31, 2011	Jan. 31, 2010	Jan. 31, 2009	Jan. 31, 2008
For the fiscal years ended					
Revenues	**$18,347**	$17,892	$19,366	$19,721	$17,506
EBIT	**$ 1,202**	$ 1,205	$ 1,098	$ 1,429	$ 748
EBIT margin	**6.6%**	6.7%	5.7%	7.2%	4.3%
EBITDA	**$ 1,535**	$ 1,576	$ 1,596	$ 1,984	$ 1,260
EBITDA margin	**8.4%**	8.8%	8.2%	10.1%	7.2%
Effective income tax rate	**19.5%**	22.3%	22.7%	20.5%	27.3%
Net income	**$ 837**	$ 775	$ 707	$ 1,026	$ 325
Diluted EPS (in dollars)	**$ 0.47**	$ 0.42	$ 0.39	$ 0.56	$ 0.16
Free cash flow (usage)	**$ (1,232)**	$ 567	$ (215)	$ 342	$ 1,963
Adjusted EBIT to adjusted interest ratio	**4.7**	5.0	n/c	n/c	n/c
As at					
Order backlog (in billions)	**$ 53.9**	$ 52.7	$ 43.8	$ 48.2	$ 53.6
Cash and cash equivalents	**$ 3,372**	$ 4,195	$ 3,372	$ 3,470	$ 3,602
Adjusted debt to adjusted EBITDA ratio	**3.2**	3.1	n/c	n/c	n/c
Weighted-average long-term debt maturity (in years)	**8.0**	8.9	6.5	7.5	8.5

3 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
n/c: Not comparable. These ratios were redefined during the fiscal year ended December 31, 2011 and as a result, comparable ratios are not available for all periods presented.

FINANCIAL PRIORITIES

To deliver on our growth strategies, we must maintain a strong financial discipline

PROFITABILITY
Increase the level and consistency of profitability

LIQUIDITY
Increase the level and consistency of cash flows from operating activities and ensure sufficient capacity to meet capital requirements

CAPITAL STRUCTURE
Optimize the capital structure to reduce costs and improve our ability to seize strategic opportunities

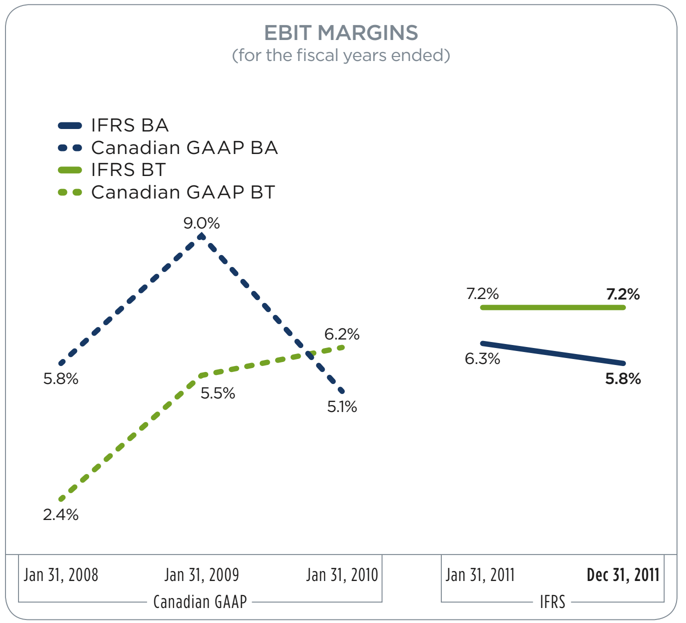
IMPROVING PROFITABILITY REMAINS A KEY FOCUS

Increasing the level and consistency of our profitability remains a key focus. BA achieved an EBIT margin of 5.8% for the fiscal year ended December 31, 2011, compared to 6.3% last fiscal year. BA expects to achieve a 5%[1] EBIT margin in calendar year 2012, in the context of the continuing economic uncertainty affecting the market segments in which it competes. BT achieved an EBIT margin of 7.2% for the fiscal year ended December 31, 2011, unchanged from last fiscal year. BT remains focused on achieving an EBIT margin of 8%[1] by calendar year 2013 and is determined to continue building from the significant increases in EBIT margin achieved in recent years.

Reaching these objectives will require both groups to continue improving their processes to ensure flawless execution. In the current fiscal year, BT experienced execution issues in certain projects for which corrective measures have been taken and progression towards resolution has been made. We are leveraging our project management capabilities and focusing on efficient execution through the implementation of lean initiatives. Meanwhile, we continue to implement cost reduction programs and to capitalize on our worldwide presence in both established and emerging markets to achieve cost savings. This worldwide presence provides us with tremendous opportunities to develop local partners and suppliers. Also refer to the respective Guidance status sections in BA and BT where each group has provided an update on their prior and future guidance.

OUR CASH FLOW FROM OPERATIONS AND OUR STRONG CASH POSITION ALLOW US TO FINANCE OUR AMBITIOUS INVESTMENTS IN NEW PRODUCTS

We continuously monitor our level of liquidity, including available short-term capital resources and cash flows from operations, to meet expected liquidity requirements, support our product development initiatives and ensure financial flexibility. In evaluating our liquidity we take into consideration historic volatility and seasonal needs, the maturity profile of our long-term debt, the funding of our product development programs, the level of customer advances, working capital requirements and access to capital markets.



As at December 31, 2011, we had a strong cash position of $3.4 billion and a $750 million revolving credit facility, which has remained undrawn since its inception in September 2009. During the fiscal year ended December 31, 2011, BT had a free cash flow usage of $424 million, compared to an EBIT of $700 million. Meanwhile BA had a free cash flow usage of $453 million[2], as net capital expenditures of $1.3 billion[2] exceeded cash flows from operating activities. Furthermore, during the current fiscal year we increased our liquidity by $705 million, as the new letter

1 See the Guidance and forward-looking statements sections in BA and BT.
2 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

of credit facilities no longer require any invested collateral. To secure additional access to liquidity, we also maintain factoring and sale and leaseback facilities.

Our level of capital expenditures is expected to remain high until our significant products under development reach entry-into-service ("EIS"). EIS dates for our most significant programs range from calendar years 2013 to 2017. Investment in new products is expected to be funded primarily through our cash flows from operating activities. Depending on the aircraft program, we may also receive government advances and contributions from key suppliers, which increase our financing flexibility as they act as risk-sharing partners for certain projects requiring substantial funding. In addition, BA continues to invest in state-of-the-art facilities to support our product development programs and expand our presence in emerging markets. Our two liability management initiatives (described hereafter) in fiscal year ended January 31, 2011 allowed us to extend our debt maturity profile, with no significant debt maturing before November 2016, and to align debt repayments with our long-term liquidity management outlook. We use scenario analysis to stress-test our revenues and cash flow projections.

For calendar years	Launch date	2012	2013	2014	2015	2016	2017
Debt maturity (in millions of dollars)	Not applicable	$ 151	–	$ 162	–	$ 1,016	–
Learjet 85	October 2007		EIS				
CS100	July 2008		EIS				
CS300	July 2008			EIS			
Global 7000	September 2010					EIS	
Global 8000	September 2010						EIS

For the year ending December 31, 2012, BA's cash flows from operating activities are expected to substantially fund BA's net additions to PP&E and intangible assets of approximately $2 billion[1].

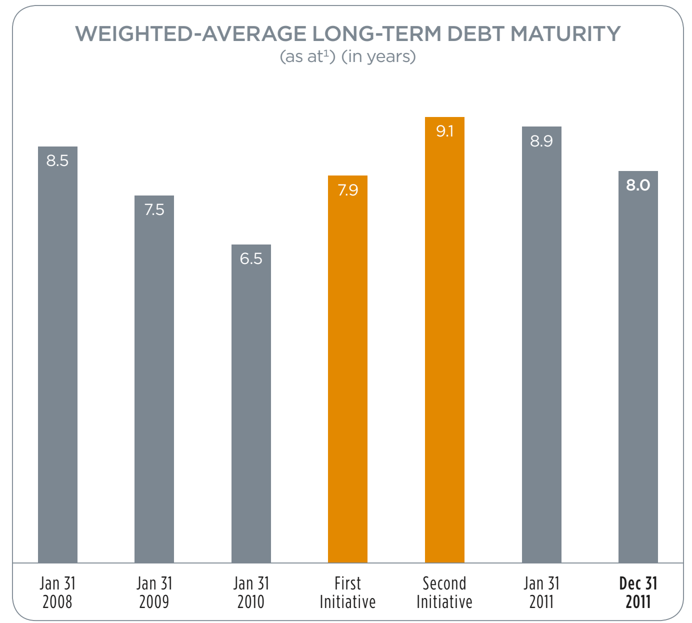
Over the long term, BT's free cash flow should generally be in line with EBIT, although it may vary significantly from quarter to quarter[1]. In the current fiscal year BT's free cash flow was negatively affected by execution issues in certain contracts, resulting in a free cash flow usage of $424 million in the current fiscal year.

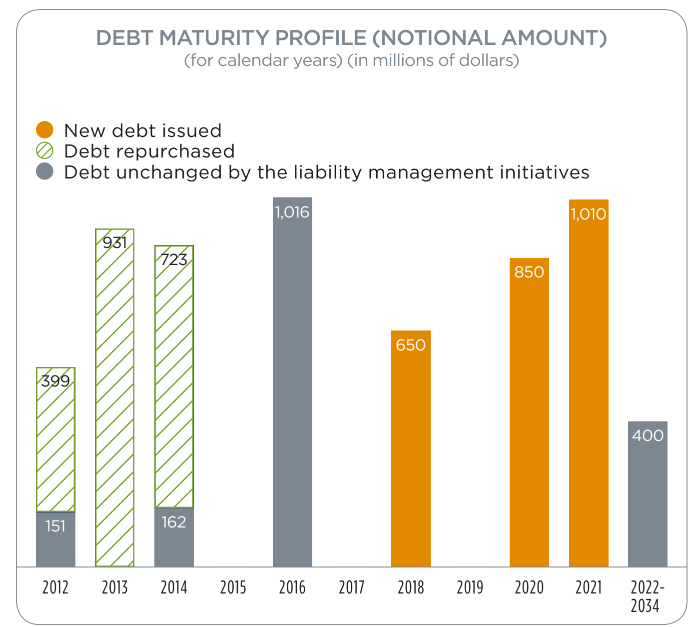
OUR LIABILITIES MANAGEMENT INITIATIVES LAUNCHED LAST YEAR CONTRIBUTE TO OUR ABILITY TO CONTINUE INVESTING IN PRODUCT DEVELOPMENT

Our prudent management of debt maturities allowed us to extend debt maturities, taking advantage of favourable capital market conditions, and to continue investing in our future. During the fiscal year ended January 31, 2011, we implemented two liability management initiatives, consisting of a combination of new issuances and simultaneous retirements of near-term indebtedness, to extend our long-term debt maturity profile and increase available short-term capital resources.

- **First Initiative:** During the first quarter of the fiscal year ended January 31, 2011, we issued $650 million of 7.5% senior notes due in March 2018 and $850 million of 7.75% senior notes due in March 2020. At the same time, we repurchased debt for an aggregate cash consideration of $1,050 million. As a result, we increased our weighted-average long-term debt maturity by 1.4 years (calculated as at March 29, 2010) and our available short-term capital resources by approximately $500 million. Concurrently, we entered into interest-rate swap agreements to convert the effective interest rate on these senior notes from fixed to variable. The interest rate after the effect of these fair value hedges is 3-month Libor + 4.19 for the $650-million senior notes and 3-month Libor + 4.14 for the $850-million senior notes.
- **Second Initiative:** During the fourth quarter of fiscal year ended January 31, 2011, we issued €780 million ($1.1 billion) of 6.125% senior notes due in May 2021 at 99.0422% of par, resulting in an effective interest rate of 6.25%, and repurchased debt for an aggregate cash consideration of $1.1 billion. As a result, we further increased our weighted-average long-term debt maturity profile by 1.7 years (calculated as at October 31, 2010). During the first quarter of the fiscal year ended December 31, 2011, we entered into interest-rate swap agreements to convert the effective interest rate on these senior notes from fixed to variable. The interest rate after the effect of these fair value hedges is 3-month Euribor + 2.87.

1 See the Guidance and forward-looking statements section in BA.





1 Calculated as at March 29, 2010 for the First Initiative and as at October 31, 2010 for the Second Initiative.

During the course of the year, we renewed our $500-million unsecured revolving credit facility available for cash drawings, which was to mature in August 2011. The new $750-million unsecured revolving credit facility matures in June 2014 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar drawing) plus a margin based on our credit ratings. These unsecured revolving credit facilities were unused since their inception.

In addition, we renewed our BA and BT letter of credit facilities. Under the new BA and BT letter of credit facilities and our new unsecured revolving credit facility available for cash drawings, we must maintain various financial covenants. The financial covenants remained essentially the same under the new facilities but we are no longer required to provide invested collateral as security for the letter of credit facilities. As a result, the invested collateral required under the previous letter of credit facilities, amounting to €406 million ($584 million) for BT and $121 million for BA, has been released leading to a corresponding increase of liquidity during the second quarter of the current fiscal year. Refer to Credit facilities section for further details on these facilities.

In addition, BT intends to enter into a three-year unsecured revolving credit facility of up to €500 million ($647 million converted using the exchange rate as at December 31, 2011), under which the proceeds of drawings will be used for general corporate purposes of BT. Negotiations are currently taking place with the joint book runners and the execution of the definitive agreement is anticipated in late March or April 2012. Although BT is in negotiations to finalize the terms of this facility and the related agreements, there can be no assurance that this facility will be available on mutually acceptable terms.

Investment-grade status remains an objective

We remain committed to further improving our capital structure and regaining our investment-grade status, thus improving our ability to seize strategic opportunities. We manage and monitor our global metrics, which have been redefined to align with management's view of the metrics that should be used to assess the creditworthiness of the Corporation. (Refer to the Capital structure section for details of our global metrics.)

Managing our net retirement benefit liability and the security of benefits is a key part of our overall management of the capital structure. We separately monitor the impacts of our retirement benefit plans on our financial position and on other key performance indicators. (See the Retirement benefits section for details on the risk management initiatives related to our retirement plans). During the fiscal year ended December 31, 2011, we made contributions to pension plans totalling $425 million. Our net retirement benefit liability increased from $1.9 billion as at January 31, 2011, to $3.2 billion as at December 31, 2011, mostly explained by variances in discount rates.

In the near-term, we will closely monitor our capital structure to ensure we have sufficient liquidity to fund our product development programs. Over the long term, we will continue to reduce adjusted debt to improve our leverage metrics by de-leveraging the balance sheet with strategic long-term debt repayments, in line with active management of consolidated liquidity, weighted-average cost of capital and term structure; and by proactively managing opportunities to reduce our retirement benefit liabilities, including an assessment for discretionary contributions to further enhance capital structure and the security of benefits.

Credit ratings are intended to provide investors with an independent measure of credit quality. We are currently rated by three rating agencies: Standard & Poor's Rating Services ("S&P"), Fitch Ratings Ltd. ("Fitch") and Moody's Investors Services ("Moody's").

Our current ratings are one notch below investment grade at S&P and Fitch and two notches below at Moody's. We believe that we will be in a good position to improve our credit ratings as we progress towards our profitability targets. An investment-grade rating would be beneficial as it would generally reduce the cost of our banking activities, improve our access to capital markets and lower the amount and cost of the guarantees we provide. It would also put us in a better position to seize strategic opportunities.

CREDIT RATINGS

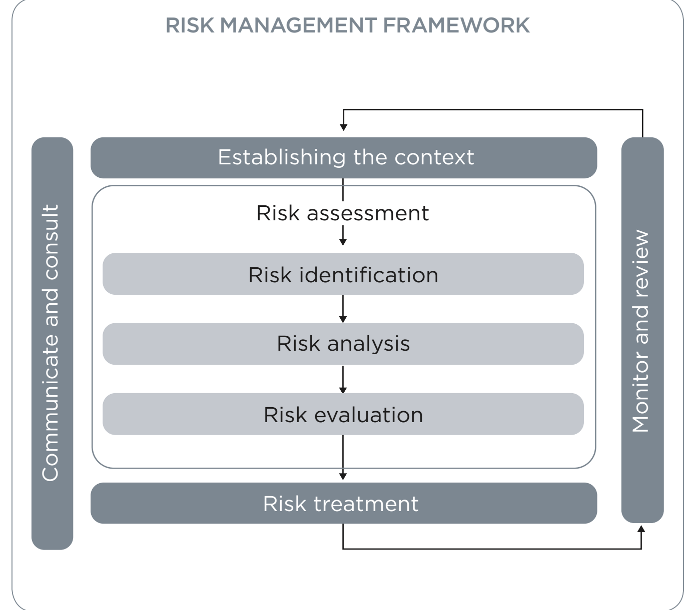
	Investment-grade rating	Bombardier Inc.'s rating	
		December 31 2011	January 31 2011
S&P	BBB-	**BB+**	BB+
Fitch	BBB-	**BB+**	BB+
Moody's	Baa3	**Ba2**	Ba2

RISK MANAGEMENT

Active risk management has been one of our priorities for many years and is a key component of our corporate strategy framework.

Risk management is an integral part of how we plan and monitor our business strategies and results. To achieve our risk management objectives, we have embedded risk management activities in the operational responsibilities of management and made these activities an integral part of our overall governance, organizational and accountability structure.

In calendar year 2010, we introduced a Corporate Risk Management policy and a risk management framework based on the ISO 31000 standard. For each risk or category of risks, our risk management process includes activities performed in a continuous cycle. Each group is responsible for implementing the appropriate structures, processes and tools to allow proper identification of risks (i.e. establishing the context). Risk assessment, including risk identification, analysis and evaluation, ensures that each risk is analyzed to identify the consequence, velocity and likelihood of the risk occurring and the adequacy of existing controls. Once the risks have been identified and assessed, risk treatment identifies the actions to be implemented by management. The risk profile of the Corporation is dynamic and therefore subject to changes that must be monitored and reviewed on a continuous basis. For this reason, our risk management framework involves a continuous communication and consultation process.



Source: ISO 31000 Standard

Every year, our Corporate Audit Services and Risk Assessment (CASRA) team thoroughly assess our major risks. Senior management reviews this risk assessment and develops action plans to address the identified risks. The Board of Directors is ultimately responsible for reviewing the overall risks faced by the Corporation. The Board exercises its duty through the Finance and Risk Management Committee, consisting of four independent Directors, which reviews our material financial risks and the measures that management takes to monitor, control and manage such risks, including the adequacy of policies, procedures and controls designed by management to assess and manage these risks.

Each group has implemented risk management processes that are embedded in our governance and activities to achieve the objectives of our Corporate Risk Management policy. To complement the annual CASRA review of our major risks, each group is implementing a quarterly or bi-annual periodic review of its risks based on a structured bottom-up risk identification, analysis, and evaluation process that results in standardized heat maps at the business unit and group level.

In addition, we have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is properly communicated and that information required to be disclosed in our public filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. Refer to the Controls and procedures section in Other for more details.

We have also developed specific governance and risk management practices to reduce the nature and extent of our exposure to financing and market related risks (see section hereafter).

Our risk management practices address many risks (see the Risks and uncertainties section in Other for further details on these risks). Among the risks faced by the Corporation, we consider the following as the key current risks associated with BA and BT:

Key risks for BA		Risk-mitigation measures initiated by management
Product development initiatives	BA's success depends in part on its ability to deliver new aircraft programs into service according to defined business case requirements.	We mitigate this risk through various means which include following a rigorous gated product development process, our Bombardier Engineering System. See Analysis of results section in BA for further details on risk-mitigation measures initiated by management.
Product demand	BA's success depends in part on its ability to secure sufficient orders to maintain critical mass and sustain aircraft platforms' competitiveness in their market segments.	We mitigate this risk through various means which include positioning our sale teams closer to our customers, introducing product improvements and deploying our Achieving Excellence System. Further details on these initiatives are provided in the BA Profile, strategy and market section contained in our Annual Report for the fiscal year ended December 31, 2011.

Key risks for BT		Risk-mitigation measures initiated by management
Project execution	BT's performance depends in part on its ability to deliver complex projects often requiring the introduction of new products or new technology in emerging or mature markets. Execution issues could lead to lower EBIT margin, lower operating cash flows and higher level of inventories and could weaken our customer relationships.	We mitigate this risk through various levers which include strong project management processes with internal gate reviews to assure better consolidation and synchronization of project deliverables and continuous improvement through our Bombardier Operations System (BOS). Our BOS is driving production improvements and continues to be rolled out across our manufacturing sites. Further details on BOS are provided in the BT Profile, strategy and market section contained in our Annual Report for the fiscal year ended December 31, 2011.
Product design and homologation	BT's competitiveness depends in part on its ability to design and/or homologate multiple new technologies and platforms on time and within budgeted cost.	We mitigate this risk through various means which include close design collaboration with our customers and implementing engineering performance improvement initiatives, such as standardization of product development processes across BT divisions and gate review processes.

Financing and market related risks

FOREIGN CURRENCY FLUCTUATIONS

Our main exposures to foreign currencies are managed in accordance with our Foreign Exchange Risk Management Policy, in order to mitigate the impact of foreign exchange movements. This policy requires each segment's management to identify all actual and potential foreign currency exposures arising from their operations. This information is communicated to the central treasury group, which has the responsibility to execute the hedge transactions in accordance with the policy requirements. In addition, the central treasury function manages balance sheet exposures to foreign currency movements by matching asset and liability positions. This program consists mainly in matching the long-term debt in foreign currency with long-term assets denominated in the same currency.

FOREIGN EXCHANGE MANAGEMENT

Owner	Hedged exposures	Hedging policy[1]	Risk-mitigation strategies
BA	Forecasted cash outflows denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars and pounds sterling.	Hedge 85% of the identified exposures for the first three months, 75% for the next 15 months and up to 50% for the following 9 months.	Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars and pounds sterling.
BT	Forecasted cash inflows and outflows denominated in a currency other than the functional currency of the entity incurring the cash flows.	Hedge 100% of the identified exposures at the time of order intake.	Use of forward foreign exchange contracts, mainly to sell or purchase euros, U.S. dollars, Swiss francs, Canadian dollars, Swedish krona and other Western European currencies.
Corporate Office	Forecasted cash outflows other than interest, denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars.	Hedge 85% of the identified exposures for the first 18 months and up to 75% for the following 6 months.	Use of forward foreign exchange contracts mainly to sell U.S. dollars and buy Canadian dollars.
	Balance sheet exposures, including long-term debt and net investments in foreign operations with non-U.S. dollar functional currencies.	Hedge 100% of the identified exposures affecting our results.	Asset/liability management techniques. Designation of long-term debt as hedges of our net investments in foreign operations with non-U.S. dollar functional currencies.

1 Deviations from the policy are allowed, subject to pre-authorization and maximum pre-determined risk limits.

BA

The hedged portion of BA's significant foreign currency denominated costs for the 12-month period ending December 31, 2012 was as follows as at December 31, 2011:

BA'S FOREIGN CURRENCY DENOMINATED EXPECTED COSTS

	Expected costs	Hedged portion	Weighted-average hedge rates foreign currency/USD
Expected costs denominated in:			
Canadian dollars	2,388	81%	0.9840
Pounds sterling	260	84%	1.5462

Sensitivity analysis

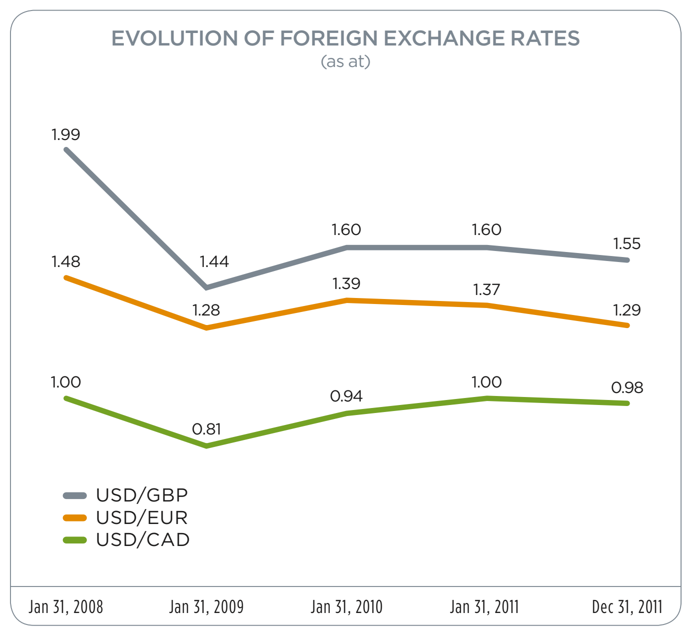
A U.S. one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact BA's expected costs for the 12-month period ending December 31, 2012 by approximately $24 million before giving effect to forward foreign exchange contracts ($5 million impact after giving effect to such contracts).

A U.S. one-cent change in the value of the pound sterling compared to the U.S. dollar would impact BA's expected costs for the 12-month period ending December 31, 2012 by approximately $3 million before giving effect to forward foreign exchange contracts (impact of $0.4 million after giving effect to such contracts).

BT and Corporate Office

BT's foreign currency exposure arising from its long-term contracts spreads over periods extending over many years. Such exposures are generally entirely hedged at the time of order intake, contract-by-contract, for a period that is often shorter than the maturity of the cash flow exposure. Upon maturity of the hedges, BT enters into new hedges in a rollover strategy, for periods up to the maturity of the cash flow exposure. As such, BT's results of operations are not significantly exposed to gains and losses from transactions in foreign currencies, but remain exposed to translation and cash flow risks. However, on a cumulative basis, cash outflows or inflows upon rollover of these hedges are offset by cash inflows or outflows in opposite directions when the cash flow exposure materializes.

Corporate Office's identified cash flow exposures are not significant and mainly arise from expenses denominated in Canadian dollars. Corporate Office's balance sheet exposure arises mainly from investments in foreign operations and long-term debt. Despite our risk mitigation strategies, the impact of foreign currency fluctuations on equity can be significant given the size of our investments in foreign operations with non-U.S. dollar functional currencies, mainly the euro.



Sensitivity analysis

For our investments in foreign operations exposed to foreign currency movements, a 1% fluctuation of the relevant currencies as at December 31, 2011 would have impacted equity, before income taxes, by $18 million before giving effect to the related hedging items ($8 million after giving effect to the related hedging items).

CHANGING INTEREST RATES

Our future cash flows are exposed to fluctuations from changing interest rates, arising mainly from existing assets and liabilities at variable interest rates, including long-term debt synthetically converted to variable interest rates. From time to time, we may also be exposed to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by our central treasury function as part of our overall risk management policy, by matching assets and liability positions

to align exposures, including the use of derivative financial instruments to synthetically convert interest-rate exposures, such as interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements.

We are also exposed to gains and losses arising from changes in interest rates, which includes liquidity risk, through our financial instruments carried at fair value. These financial instruments include certain aircraft loans and lease receivables, investments in securities, lease subsidies and certain derivative financial instruments.

In addition, we are economically exposed to gains and losses on some of our assets and liabilities as a result of changes in interest rates. The most significant on-balance sheet exposure arises from retirement benefits plans, for which there is a duration and nominal mismatch between the plans' assets and liabilities, as well as our credit and residual value guarantees and portfolio of aircraft loans and lease receivables. In recent years, risk reduction initiatives were implemented with regard to our pension plans. For more details on the risks and our risk reduction initiatives, refer to Retirement benefits section. Our exposure arising from credit and residual value guarantees is partially mitigated by offsetting positions from our portfolio of aircraft loans and lease receivables and other financial assets that are carried at fair value, such as our portfolio of investments.

Sensitivity analysis

Assuming a 100-basis point increase in interest rates impacting the measurement of on-balance sheet assets and liabilities carried at fair value, EBT would have been negatively impacted by $47 million for fiscal year ended December 31, 2011.

EXPOSURE TO CREDIT RISK

Through our normal treasury activities, we are exposed to credit risk on our derivative financial instruments and other investing activities. We are also exposed to credit risk through our trade receivables arising from normal commercial activities and lending activities related primarily to aircraft loans and lease receivables provided to BA customers in connection with the sale of aircraft.

The effective monitoring and controlling of credit risk is a key component of our risk management activities. Credit risks arising from our treasury activities are managed by a central treasury function in accordance with our Corporate Foreign Exchange Risk Management Policy and our Corporate Investment Management Policy. The objective of these policies is to minimize our exposure to credit risk from our treasury activities by ensuring that we transact strictly with investment-grade financial institutions and rated money market funds, based on pre-established consolidated counterparty risk limits per financial institution and funds.

In the fiscal year ended December 31, 2011, the Eurozone sovereign debt crisis has had a contagion effect on many European banks resulting from their significant holdings of Greek and other European sovereign debt. Since we have exposure to these banks in the form of credit commitments, services provided and monies placed on deposit, it has become necessary for us to monitor these banks and determine their relative abilities to withstand this sovereign debt crisis. We have developed a quantitative tool that ranks these banks after incorporating metrics such as bank and sovereign CDS, capital shortfalls, as determined by the European Central Bank, and exposure to European sovereign states which are experiencing budgetary and liquidity pressures. We then compared our exposures to these banks relative to their ability to withstand the crisis based on our model and took corrective action, as necessary.

Credit risks arising from normal commercial activities and lending activities are managed and controlled by BA and BT. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and our experience with the customers. The credit risks and credit limits are dynamically reviewed based on fluctuations in the customers' financial results and payment behaviour. These customer credit ratings and credit limits are critical inputs in determining the conditions under which credit or financing is extended to customers, including obtaining collateral to reduce our exposure to losses. Specific governance is in place to ensure that credit risks arising from large transactions are analyzed and approved by the appropriate level of management before financing or credit support is offered to the customer.

Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure.

EXPOSURE TO LIQUIDITY RISK

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

CONSOLIDATED RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[1]	January 31 2011	**December 31 2011[1]**	January 31 2011
Revenues	**$ 4,316**	$ 5,586	**$ 18,347**	$ 17,892
Cost of sales	**3,601**	4,636	**15,444**	14,955
Gross margin	**715**	950	**2,903**	2,937
SG&A	**339**	372	**1,439**	1,377
R&D	**75**	86	**271**	319
Other expense (income)	**8**	65	**(9)**	36
EBIT	**293**	427	**1,202**	1,205
Financing expense	**156**	184	**681**	684
Financing income	**(123)**	(146)	**(519)**	(476)
EBT	**260**	389	**1,040**	997
Income taxes	**46**	94	**203**	222
Net income	**$ 214**	$ 295	**$ 837**	$ 775
Attributable to:				
Equity holders of Bombardier Inc.	**$ 213**	$ 289	**$ 837**	$ 762
Non-controlling interests	**$ 1**	$ 6	**$ –**	$ 13
EPS (in dollars):				
Basic	**$ 0.12**	$ 0.16	**$ 0.47**	$ 0.43
Diluted	**$ 0.12**	$ 0.16	**$ 0.47**	$ 0.42

SUPPLEMENTAL INFORMATION

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[1]	January 31 2011	**December 31 2011[1]**	January 31 2011
EBIT	**$ 293**	$ 427	**$ 1,202**	$ 1,205
Amortization	**75**	91	**333**	371
EBITDA	**$ 368**	$ 518	**$ 1,535**	$ 1,576

REVENUES AND EBIT MARGIN

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[1]	January 31 2011	**December 31 2011[1]**	January 31 2011
Revenues				
BA	**$ 2,016**	$ 3,091	**$ 8,594**	$ 8,809
BT	**$ 2,300**	$ 2,495	**$ 9,753**	$ 9,083
Consolidated	**$ 4,316**	$ 5,586	**$ 18,347**	$ 17,892
EBIT Margin				
BA	**6.3%**	7.2%	**5.8%**	6.3%
BT	**7.2%**	8.2%	**7.2%**	7.2%
Consolidated	**6.8%**	7.6%	**6.6%**	6.7%

1 Our fourth quarter and fiscal year ended December 31, 2011 comprise two and 11 months of BA's results and three and 12 months of BT's results.

The results of operations for the fourth quarters are not necessarily indicative of the results of operations for the full fiscal year. The fourth quarter has historically been the strongest in terms of revenues and profitability.

A detailed analysis of EBIT is provided in the Analysis of results sections in BA and BT.

NET FINANCING EXPENSE

Net financing expense amounted to $33 million and $162 million for the fourth quarter and fiscal year ended December 31, 2011, compared to $38 million and $208 million for the corresponding periods last fiscal year.

The $5-million decrease for the fourth quarter is mainly due to:

- higher net financing income related to certain financial instruments classified as FVTP&L ($33 million); and
- lower interest expense on long-term debt, after effect of hedges ($25 million), in part as a result of the quarter ended December 31, 2011 comprising only two months.

Partially offset by:

- higher financing expense related to changes in discount rates for provisions ($39 million); and
- a gain on repurchase of long-term debt in fiscal year ended January 31, 2011 ($17 million).

The $46-million decrease for the fiscal year is mainly due to:

- lower net financing expense related to retirement benefits ($44 million);
- lower interest expense on long-term debt, after effect of hedges ($34 million), in part as a result of the fiscal year ended December 31, 2011 comprising only 11 months; and
- higher interest income on cash and cash equivalents ($14 million).

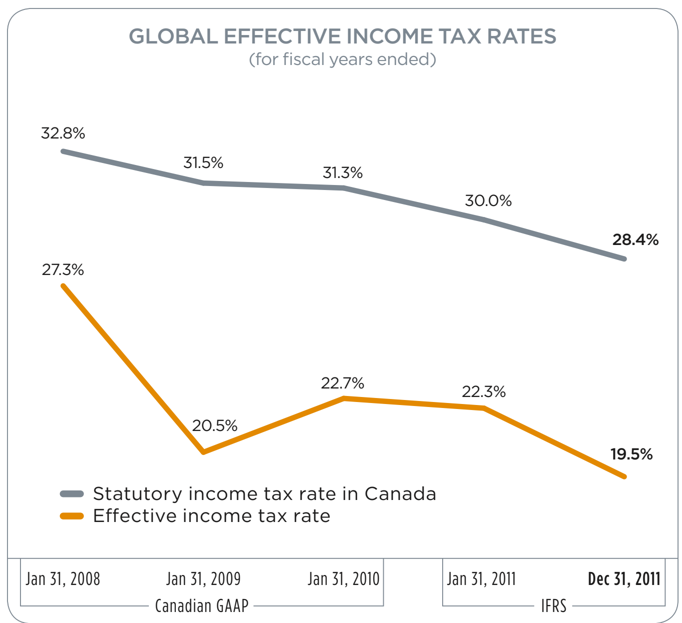
Partially offset by:

- higher financing expense related to changes in discount rates for provisions ($35 million); and
- gains on repurchase of long-term debt in fiscal year ended January 31, 2011 ($22 million).

INCOME TAXES

The effective income tax rate was 17.7% and 19.5%, respectively, for the fourth quarter and fiscal year ended December 31, 2011, compared to the statutory income tax rate in Canada of 28.4%. The effective income tax rate was 24.2% and 22.3%, respectively, for the fourth quarter and fiscal year ended January 31, 2011, compared to the statutory income tax rate in Canada of 30.0%.

The lower effective tax rates in both fiscal years and fourth quarters, compared to the statutory income tax rates in Canada, were mainly due to the positive impact of the recognition of income tax benefits related to tax losses and temporary differences, partially offset by unrecognized tax benefits.



LIQUIDITY AND CAPITAL RESOURCES

We are proactively managing our liquidity

RECONCILIATION OF SEGMENTED FREE CASH FLOW (USAGE) TO CASH FLOW FROM OPERATING ACTIVITIES

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[1]	January 31 2011	**December 31 2011**[1]	January 31 2011
Segmented free cash flow				
BA	**$ 110**	$ 762	**$ (453)**	$ 5
BT	**564**	799	**(424)**	741
Segmented free cash flow (usage)	**674**	1,561	**(877)**	746
Net income taxes and net interest paid[2]	**(84)**	(107)	**(355)**	(179)
Free cash flow (usage)	**590**	1,454	**(1,232)**	567
Add back: Net additions to PP&E and intangible assets	**391**	339	**1,475**	1,125
Cash flow from operating activities	**$ 981**	$ 1,793	**$ 243**	$ 1,692

1 Our fourth quarter and fiscal year ended December 31, 2011 comprise two and 11 months of BA's results and three and 12 months of BT's results.
2 Not allocated to segments.

WE HAVE A STRONG CASH POSITION OF $3.4 BILLION AS AT DECEMBER 31, 2011

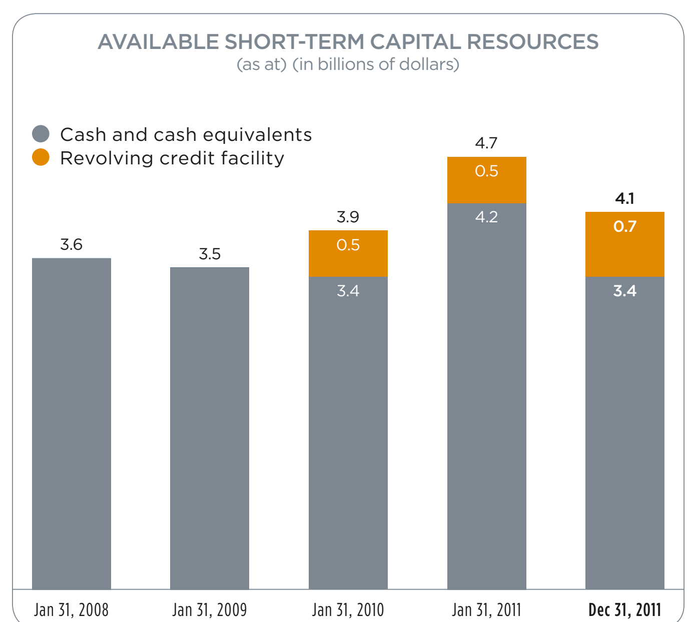
VARIATION IN CASH AND CASH EQUIVALENTS

	Fourth quarters ended		Fiscal years ended	
	December 31 2011[3]	January 31 2011	**December 31 2011**[3]	January 31 2011
Balance as at beginning of period/fiscal year	**$2,708**	$ 2,725	**$ 4,195**	$ 3,372
Free cash flow (usage)	**590**	1,454	**(1,232)**	567
Proceeds from disposal of invested collateral	**–**	–	**705**	–
Dividends paid	**(1)**	(50)	**(156)**	(197)
Proceeds from issuance of long-term debt	**19**	1,100	**122**	2,625
Repayments of long-term debt	**(2)**	(1,067)	**(15)**	(2,125)
Effect of exchange rate changes on cash and cash equivalents	**(76)**	34	**(41)**	102
Purchase of Class B shares held in trust under the PSU plan	**–**	–	**(58)**	(50)
Purchase of NCI	**–**	–	**(61)**	–
Other	**134**	(1)	**(87)**	(99)
Balance as at end of fiscal year	**$3,372**	$ 4,195	**$ 3,372**	$ 4,195

3 Our fourth quarter and fiscal year ended December 31, 2011 comprise two and 11 months of BA's results and three and 12 months of BT's results.

Our available short-term capital resources include cash and cash equivalents and the amount available under our unsecured revolving credit facility (undrawn since its inception in September 2009). This credit facility was renewed in June 2011 and matures in June 2014. The facility is available for cash drawing for the general needs of the Corporation. Under this facility, we must maintain the same financial covenants as for our BA letter of credit facility (see Credit facilities hereafter for more details).

We consider that our expected cash flows from operating activities, combined with our available short-term capital resources of $4.1 billion as at December 31, 2011, will enable the development of new products to enhance our competitiveness and support our growth; allow the payment of dividends, if and when declared by the Board of Directors; and enable us to meet all other expected financial requirements in the near term.



Other facilities

In the normal course of its business, BT has set up factoring facilities in Europe under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €580 million ($751 million) were outstanding under such facilities as at December 31, 2011 (€248 million [$340 million] as at January 31, 2011). Trade receivables of €183 million ($250 million) and €581 million ($812 million) were sold to these facilities during the fourth quarter and fiscal year ended December 31, 2011, respectively, (€122 million [$158 million] and €442 million [$584 million] during the fourth quarter and fiscal year ended January 31, 2011, respectively).

AVAILABLE SHORT-TERM CAPITAL RESOURCES

	Cash and cash equivalents	Available revolving credit facility	Available short-term capital resources
December 31, 2011	**$3,372**	**$750**	**$4,122**
January 31, 2011	$4,195	$500	$4,695

EXPECTED TIMING OF FUTURE LIQUIDITY REQUIREMENTS

					December 31, 2011
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Long-term debt[1]	$ 4,550	$ 189	$ 242	$1,118	$3,001
Interest payments	2,463	293	574	564	1,032
Operating lease obligations	587	100	139	77	271
Purchase obligations[2]	10,045	5,669	3,450	462	464
Trade and other payables	3,210	3,010	27	2	171
Other financial liabilities	896	291	83	153	369
Derivatives financial liabilities	345	257	16	72	–
	$22,096	$9,809	$4,531	$2,448	$5,308

1 Includes principal repayments only.
2 Purchase obligations represent contractual agreements to purchase goods or services in the normal course of business that are legally binding and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, variable or indexed price provisions; and the appropriate timing of the transaction. These agreements are generally cancellable with a substantial penalty. Purchase obligations are generally matched with revenues over the normal course of operations.

The table above presents the expected timing of contractual liquidity requirements. Other payments contingent on future events, such as payments in connection with credit and residual value guarantees related to the sale of aircraft and product warranties, have not been included in the above table because of the uncertainty on the amount and timing of payments arising from their contingent nature. In addition, our required pension contributions have not been reflected in this table, as such contributions depend on periodic actuarial valuations for funding purposes (see the Retirement benefits section hereafter for more details). The amounts presented in the table represent the undiscounted payments and do not give effect to the related hedging instruments, if applicable.

CREDIT FACILITIES

Letter of credit facilities are only available for the issuance of letters of credit. As these facilities are unfunded commitments from banks, they typically provide better pricing for the Corporation as compared to credit facilities that are available for cash drawings. Letters of credit are issued in support of our performance obligations and advance payments received from customers. As at December 31, 2011, we have $5.9 billion committed under the BA, BT and our performance security guarantee facilities ($6.7 billion as at January 31, 2011). Letters of credit issued under these facilities amounted to $4.4 billion as at December 31, 2011 ($4.2 billion as at January 31, 2011).

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

In June 2011, we renewed our unsecured revolving credit facility available for cash drawings, increasing the amount from $500 million to $750 million. This credit facility matures in June 2014 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar drawing) plus a margin based on our credit ratings. These unsecured revolving credit facilities were unused since their inception.

In addition, we renewed our BA and BT letter of credit facilities in May 2011 and June 2011, respectively. Under the new BA and BT letter of credit facilities and our new unsecured revolving credit facility available for cash drawings, we must maintain various financial covenants including a requirement to maintain a minimum BT liquidity of €600 million ($776 million) at the end of each calendar quarter and a requirement to maintain a minimum BA liquidity of $500 million at the end of each fiscal quarter. The financial covenants remained essentially the same under the new facilities but we are no longer required to provide invested collateral as security for the letter of credit facilities. As a result, the invested collateral required under the previous letter of credit facilities, amounting to €406 million ($584 million) for BT and $121 million for BA, has been released leading to a corresponding increase of liquidity during the fiscal year ended December 31, 2011. The financial covenants under these credit facilities were all met as at December 31, 2011 and January 31, 2011.

In addition, BA enters into sale and leaseback facilities with third parties, under which we can sell certain pre-owned business aircraft and lease them back for a period not greater than 24 months. We have the right to buy the aircraft back during the term of the lease for predetermined amounts. As at December 31, 2011, we have $220 million committed in two sale and leaseback facilities with third parties under which a total of $163 million was outstanding as at December 31, 2011 ($216 million as at January 31, 2011).

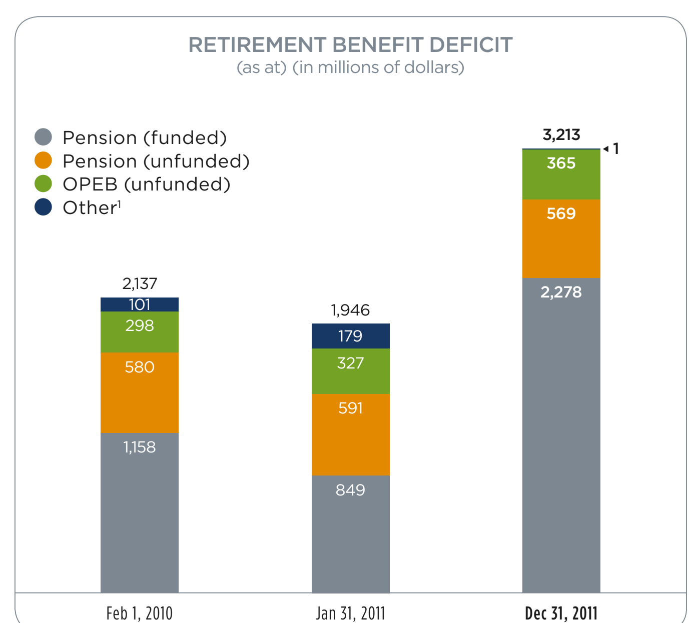
RETIREMENT BENEFITS

Our deficit is largely dependent on global market conditions

Overview of our retirement benefit plans

We sponsor several Canadian and foreign retirement benefit plans consisting of funded and unfunded pension plans, as well as unfunded other post-employment benefit ("OPEB") plans. Funded plans are plans for which segregated plan assets are invested in trusts. Unfunded plans are plans for which there are no segregated plan assets, as the establishment of segregated plan assets is generally not permitted or not in line with local practice. There will therefore always be a deficit for unfunded plans.

Pension plans are categorized as defined benefit ("DB") or defined contribution ("DC"), based on the risk sharing involved in the plan. DC plans specify how contributions are determined, while DB plans specify the amount of benefits an employee is to receive at retirement. As a result, there is no deficit or surplus for DC plans.



1 Comprises unrecognized past service credits, liability arising from minimum funding requirements and impact of asset ceiling test.

Risk management initiatives

We have taken several steps to gradually reduce key risks that stem from both pension liabilities and assets, notably:

- Reduction of equity target allocation by approximately 20%;
- Liquidation of investments in hedge funds and private placements;
- Move to long-term bonds and long-term inflation-linked real return bonds;
- Implementation of nominal and real interest rate hedging overlay strategies;
- Introduction of real return assets exposure (i.e. infrastructure and real estate);
- Implementation of foreign currency exposure hedging strategies;
- Introduction of indexation capping of future benefits (U.K. plans);
- Defined contribution pension plans offered to new employees in several countries; and
- Substantial contributions to amortize deficits.

These steps helped attenuate the volatility of pension deficits related to the volatility of bond yields and equity returns. Future changes in our net retirement benefit costs and liabilities will continue to be nonetheless highly dependent on:

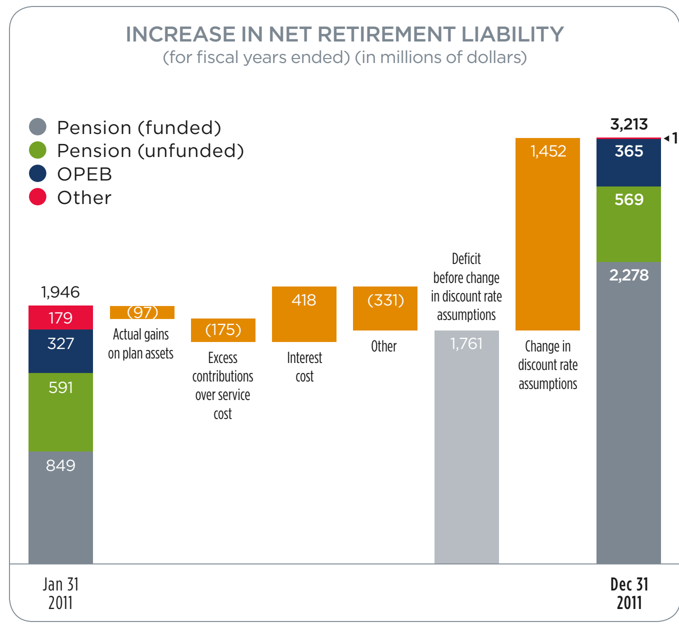
- Changes in discount rates and inflation;
- Volatility in the equity and fixed-income markets; and
- Other factors such as plan amendments, future rate of compensation increases and our level of contributions to these plans.

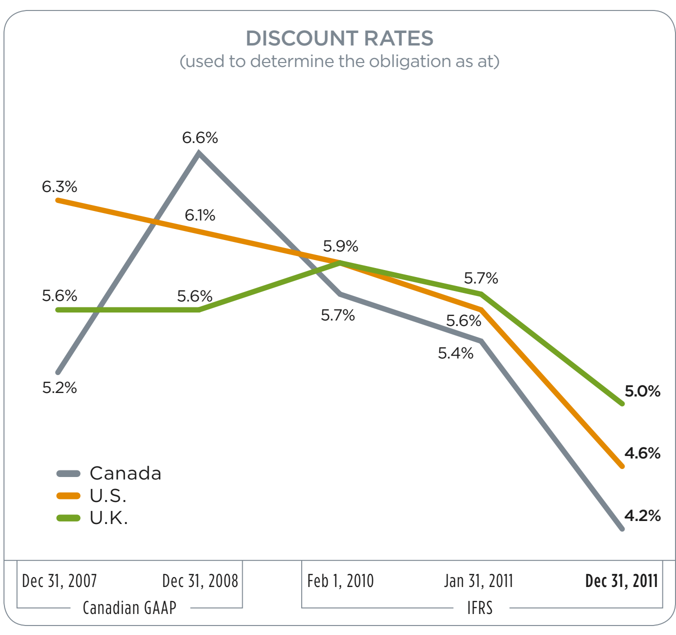
In recent years, our contributions to funded plans amounted to approximately $450 million per year on average. The future level of contributions is expected to increase if bond yields remain at their historical lows or if the expected return on assets is not achieved.

Net retirement benefit liability

The $1,267-million increase in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability	Pension	OPEB	Total
Balance as at January 31, 2011	$1,617	$329	$1,946
Changes in discount rates	1,395	57	1,452
Accretion expense on retirement benefit obligations	402	16	418
Employer contributions	(373)	(12)	(385)
Service costs	201	9	210
Changes in asset ceiling and additional liability	(178)	–	(178)
Actual gains on pension plan assets	(97)	–	(97)
Changes in foreign exchange rates	(88)	(9)	(97)
Other net actuarial gains	(32)	(24)	(56)
Balance as at December 31, 2011	**$2,847**	**$366**	**$3,213**





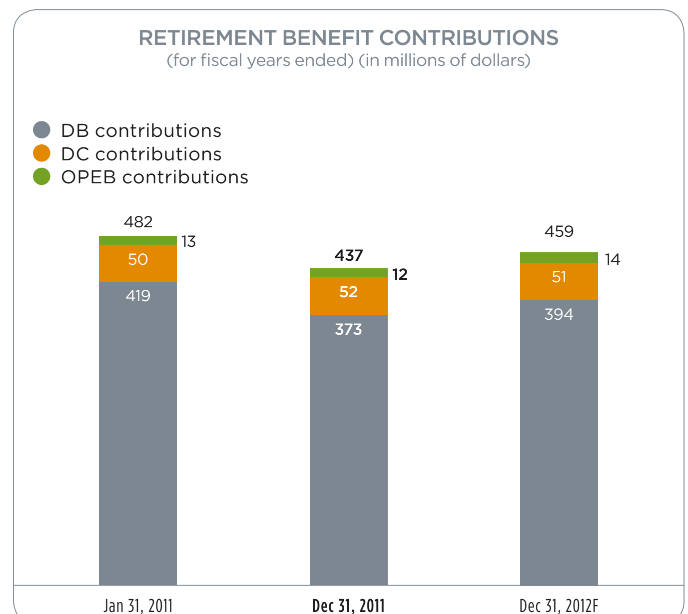
Retirement benefit liabilities

Retirement benefit liability is highly dependent on discount rates, expected inflation rates and expected rates of compensation increase. Discount rates, which are used to determine the present value of estimated future benefit payments, are the most important elements of the calculation. We have little discretion in selecting discount rates, as they must represent the market rate for high-quality corporate fixed-income investments available for the period to maturity of the benefits. As a result, discount rates change based on market conditions. A lower discount rate increases the benefit obligation. Our net retirement benefit liability increased in the current fiscal year by $1,452 million due to decreases in discount rates.

Plan assets and contributions

The value of plan assets is highly dependent on the pension funds' asset performance and on the level of contributions. The performance of the financial markets is a key driver in determining the funds' asset performance as assets in the plans are composed mostly of publicly traded equity and fixed-income securities.

During the fiscal year ended December 31, 2011, we achieved a positive return of $97 million on plan assets and we made DB and DC pension contributions totalling $425 million ($437 million for total retirement benefit contributions). DB and DC pension contributions are estimated at $445 million for calendar year 2012.



F: Forecast

Retirement benefit cost

The retirement benefit cost for the fiscal year ending December 31, 2012 related to DB plans is estimated at $319 million, compared to an actual benefit cost of $198 million for the fiscal year ended December 31, 2011, which comprises 12 months of costs for BT and 11 months for BA. The expected increase mainly results from the negative variation in discount rates during the fiscal year ended December 31, 2011, lower expected return on assets as well as the additional month of expense for BA plans.

RETIREMENT BENEFIT COST

	Fiscal year ended	Fiscal year ending
	December 31, 2011[1] Actual	December 31, 2012 Estimate
DB pension plans	**$ 175**	$ 292
OPEB plans	**23**	27
Total DB plans	**$ 198**	$ 319
DC pension plans	**52**	51
Total retirement benefit cost	**$ 250**	$ 370
Recorded as follows:		
EBIT expense	**$ 250**	$ 357
Financing expense	**$ 418**	$ 435
Financing income	**$(418)**	$(422)

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

SENSITIVITY ANALYSIS

	Impact of a 0.25% increase in:	
Increase (decrease)	**Retirement benefit cost for the fiscal year ending December 31, 2012**	**Retirement benefit deficit as at December 31, 2011**
Discount rate	$(14)	$(396)
Expected return on plan assets	$(16)	n/a
Rate of compensation increase	$ 12	$ 89
Inflation rate	$ 8	$ 118

n/a: Not applicable

Details regarding assumptions used are provided in note 20 – Retirement benefits, to the consolidated financial statements.

CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation. The Corporation manages and monitors its global metrics such that it can achieve an investment-grade profile.

We adjusted our global metrics to align them to those that we believe should be used to assess the creditworthiness of the Corporation and to reflect the new accounting rules under IFRS:

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

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

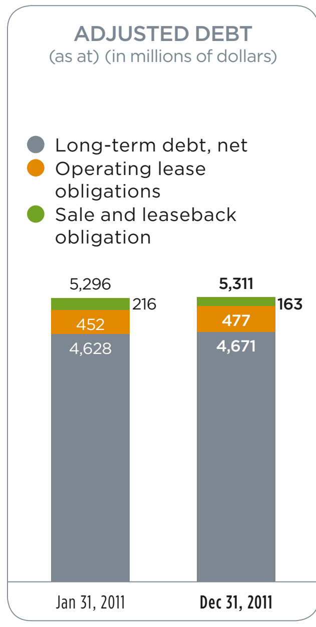
Our objectives with regard to our global metrics are as follows:

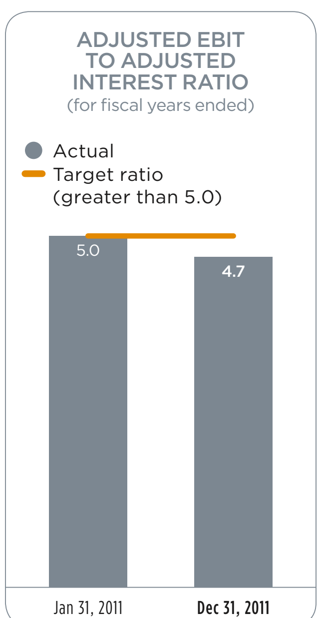
- adjusted EBIT to adjusted interest ratio greater than 5.0; and
- adjusted debt to adjusted EBITDA ratio lower than 2.5.

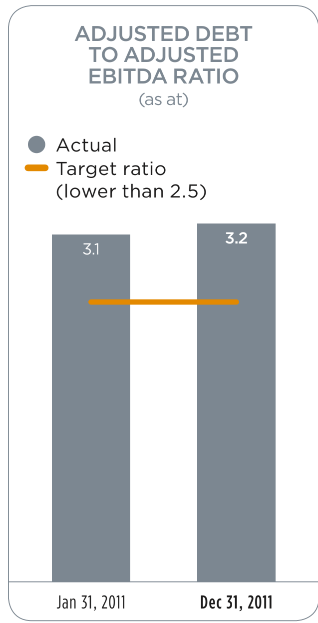
GLOBAL METRICS[1]

	December 31 2011	January 31 2011	**Explanation of major variances**
Interest coverage			
Adjusted EBIT	**$ 1,271**	$ 1,262	Deteriorated, mainly due to higher interest paid and interest adjustment on operating leases.
Adjusted interest	**$ 271**	$ 251	
Adjusted EBIT to adjusted interest ratio	**4.7**	5.0	
Financial leverage			
Adjusted debt	**$ 5,311**	$ 5,296	
Adjusted EBITDA	**$ 1,657**	$ 1,683	
Adjusted debt to adjusted EBITDA ratio[2]	**3.2**	3.1	No significant variance.

1 Refer to the Non-GAAP financial measures section hereafter for definitions and reconciliations to the most comparable IFRS measures.
2 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.







These global metrics do not represent the calculations required for bank covenants. For compliance purposes, we regularly monitor these covenants to ensure that they are all met. However, our global metrics represent our key business metrics and as such are used to analyze our capital structure.

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

NON-GAAP FINANCIAL MEASURES

This MD&A is based on reported earnings in accordance with IFRS and on the following non-GAAP financial measures:

NON-GAAP FINANCIAL MEASURES	
EBITDA	Earnings before financing expense, financing income, income taxes and amortization.
Free cash flow	Cash flows from operating activities less net additions to PP&E and intangible assets.
Adjusted debt	Long-term debt as presented in our consolidated statements of financial position adjusted for the fair value of derivatives designated in fair value hedge relationships plus sale and leaseback obligations and the net present value of operating lease obligations.
Adjusted EBIT	EBIT plus interest adjustment for operating leases and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
Adjusted EBITDA	EBITDA plus amortization and interest, adjusted for operating leases, and interest received (as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates).
Adjusted interest	Interest paid, as per the supplemental information provided in the consolidated statements of cash flows, plus accretion expense on sale and leaseback obligations and interest adjustment for operating leases.

We believe that a significant number of users of our MD&A analyze our results based on these performance measures. These non-GAAP measures are mainly derived from the consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently.

Reconciliations to the most comparable IFRS financial measures are provided in the tables hereafter except for the following reconciliations:

- EBITDA to EBIT — see the respective Results of operations tables in BA and in BT; and
- free cash flow (usage) to cash flows from operating activities — see the Reconciliation of segmented free cash flow (usage) to cash flow from operating activities table in Liquidity and capital resources section.

RECONCILIATION OF ADJUSTED DEBT TO LONG-TERM DEBT

	As at	
	December 31 2011	January 31 2011
Long-term debt	**$4,941**	$4,662
Adjustment for the fair value of derivatives designated in fair value hedge relationships	**(270)**	(34)
Long-term debt, net	**4,671**	4,628
Sale and leaseback obligations	**163**	216
Operating lease obligations[1]	**477**	452
Adjusted debt	**$5,311**	$5,296

RECONCILIATION OF ADJUSTED EBITDA AND ADJUSTED EBIT TO EBIT

	Fiscal years ended	
	December 31 2011[2]	January 31 2011
EBIT	**$1,202**	$1,205
Interest received	**40**	169
Adjustment for the settlement of fair value hedge derivatives before their contractual maturity date	**–**	(133)
Interest adjustment for operating leases[3]	**29**	21
Adjusted EBIT	**1,271**	1,262
Amortization adjustment for operating leases[4]	**53**	50
Amortization	**333**	371
Adjusted EBITDA	**$1,657**	$1,683

RECONCILIATION OF ADJUSTED INTEREST TO INTEREST PAID

	Fiscal years ended	
	December 31 2011[2]	January 31 2011
Interest paid	**$238**	$224
Accretion expense on sale and leaseback obligations	**4**	6
Interest adjustment for operating leases[3]	**29**	21
Adjusted interest	**$271**	$251

1 Discounted using the average five-year U.S. Treasury Notes plus the average credit spread, given our credit rating, for the corresponding period.
2 Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
3 Represents the interest cost of a debt equivalent to the amount included in adjusted debt, bearing interest at the average five-year U.S. swap rate plus the average credit default swap spread for the related eleven-or twelve-month period, given our credit rating.
4 Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

FINANCIAL POSITION

	December 31 2011	January 31 2011	Increase (decrease) Foreign exchange impact	Increase (decrease) Variance excluding foreign exchange	Explanation of major variances other than foreign exchange impact	
Cash and cash equivalents	**$ 3,372**	$ 4,195	$ (41)	$ (782)	See the Variation in cash and cash equivalents table and Free cash flow in BA and BT for details	
Trade and other receivables	**1,408**	1,377	(56)	87	$ 62	Higher level in BT
					25	Higher level in BA
Gross inventories	**12,216**	11,355	(362)	1,223	$1,288	Due to the ramp-up of several BT contracts ahead of deliveries and delays experienced in deliveries for some rolling stock contracts
Advances and progress billings related to long-term contracts	**(6,767)**	(6,469)	(318)	616	Due to higher advances and milestone payments received on new orders and existing contracts	
Advances on aerospace programs	**(4,054)**	(4,182)	–	(128)	Due to higher deliveries than orders received for regional jets and turboprops, partially offset by higher orders received than deliveries of business aircraft	
Invested collateral	**–**	676	29	(705)	Collateral no longer required upon renewal of the BA and BT letter of credit facilities	
PP&E	**1,864**	1,878	(54)	40	$ 218	Net additions
					(178)	Amortization
Aerospace program tooling	**3,168**	2,088	–	1,080	$1,171	Additions. See Analysis of results section in BA
					(91)	Amortization
Goodwill	**2,253**	2,358	(105)	–	No variance	
Deferred income tax asset	**1,506**	1,294	(36)	248	Mainly resulting from the net actuarial losses on retirement benefits recorded in OCI	
Other financial assets	**1,831**	1,809	2	20	No significant variances	
Other assets	**1,064**	1,110	(17)	(29)	No significant variances	

FINANCIAL POSITION (CONTINUED)

	December 31 2011	January 31 2011	Increase (decrease) Foreign exchange impact	Increase (decrease) Variance excluding foreign exchange	Explanation of major variances other than foreign exchange impact	
Trade and other payables	**(3,210)**	(3,073)	(67)	204	$ 274	Higher level in BA
Provisions	**(1,672)**	(1,812)	(43)	(97)	Mainly resulting from the reversal and utilization of provisions for credit and residual guarantees and restructuring	
Non-current portion of long-term debt	**(4,748)**	(4,645)	(129)	232	$ 107	Issuance of long-term debt, net
					300	Effect of fair value hedges
					(153)	Reclassification of long-term debt from non-current to current liabilities
Retirement benefit liability	**(3,226)**	(1,975)	(39)	1,290	See the Variation in net retirement benefit liability table for details	
Other financial liabilities	**(1,234)**	(1,392)	(3)	(155)	$ (333)	Decrease in derivatives
					153	Reclassification of long-term debt from non-current to current liabilities
					(53)	Decrease in sale and leaseback obligations
					33	Increase in government refundable advances
Other liabilities	**(3,100)**	(3,071)	(83)	112	$ 70	Increase in accruals for long-term contract costs
					60	Increase in income & other taxes payable
					(42)	Decrease in employee benefits
					34	Increase in supplier contributions to aerospace programs
Equity	**(671)**	(1,521)	n/a	(850)	$ 837	Net income
					(204)	Dividends
					(1,376)	OCI – mainly due to net actuarial losses
					(58)	Purchase of shares related to PSU plan
					(81)	Purchase of the remaining NCI of a BT subsidiary in Poland

n/a: Not applicable

MANAGEMENT'S DISCUSSION AND ANALYSIS

AEROSPACE

The data presented in this section of the MD&A is structured by market segment (business aircraft, commercial aircraft and services), which is reflective of our organizational structure.

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Highlights of the fiscal year with regard to our results and key events

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Key performance measures and associated metrics that we use to monitor our progress

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Current business environment

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Our financial performance for the fourth quarter and fiscal year ended December 31, 2011

Order backlog and workforce as at December 31, 2011

HIGHLIGHTS OF THE YEAR

Our investment in product development accelerated, laying the ground for future growth

REVENUES[1]	EBIT MARGIN[1]	FREE CASH FLOW[1]	NET ADDITIONS TO PP&E & INTANGIBLE ASSETS[1]	ORDER BACKLOG
$8.6 billion	**5.8%**	**($453)** million	**$1.3** billion	**$22.0** billion

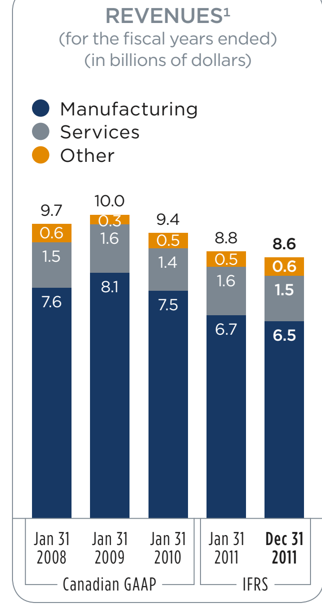
RESULTS

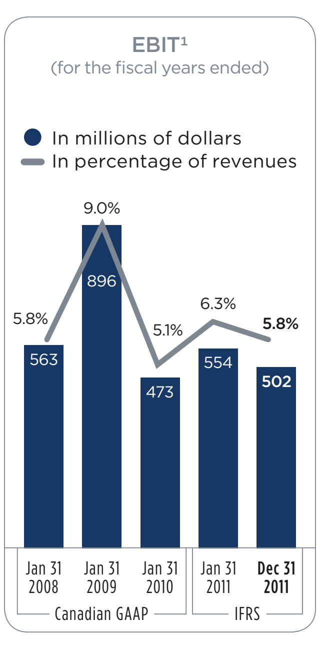
Our fiscal year ended December 31, 2011 comprises 11 months of results, compared to 12 months of results in our fiscal year ended January 31, 2011.

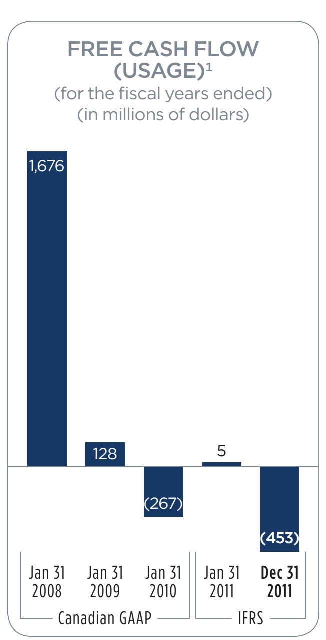
- Revenues of $8.6 billion, compared to $8.8 billion last fiscal year.
- EBIT of $502 million, or 5.8% of revenues, compared to $554 million, or 6.3%, last fiscal year.
- EBITDA of $697 million, or 8.1% of revenues, compared to $799 million, or 9.1% of revenues last fiscal year.
- Free cash flow usage of $453 million, compared to free cash flow of $5 million last fiscal year.
- Net additions to PP&E and intangible assets of $1.3 billion, compared to $1.0 billion last fiscal year.
- 245 aircraft deliveries, compared to 256 last fiscal year.
- 249 net orders, compared to 201 last fiscal year.
- Order backlog of $22.0 billion as at December 31, 2011, compared to $19.2 billion as at January 31, 2011.

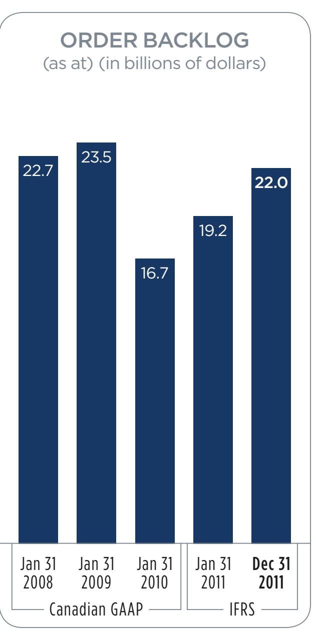
KEY EVENTS

- In March 2011, NetJets Inc. placed a firm order for 50 aircraft of the *Global* family, with options for an additional 70 *Global* aircraft. Based on list prices, the value of the firm order is $2.8 billion, and could increase to $6.7 billion if all options are exercised. This is the largest business aircraft order in our history.
- Signed 43 firm orders for the *CSeries* family of aircraft with a value based on list prices totalling $2.8 billion, which brings the total *CSeries* order backlog to 133 units with 8 customers in 7 countries.
- In the fourth quarter, we signed a memorandum of understanding with the Government of the Kingdom of Morocco for the establishment of a manufacturing facility in Morocco.
- Subsequent to the end of the fiscal year, we signed a memorandum of understanding with AVIC International Leasing Co. Ltd. of the People's Republic of China for co-operation to support the financing of commercial aircraft sales in China and globally.
- Subsequent to the end of the fiscal year, we signed firm orders for six *CRJ1000 NextGen* regional jets and seven *Q400 NextGen* aircraft. Based on list prices, the value of the firm orders is $517 million.









1 The fiscal year ended December 31, 2011 comprises 11 months of results.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	What we said	What we did	What's next[1]
Profitability	EBIT margin for the 11-month period ending December 31, 2011 is expected to be approximately 5%. Profitability should be higher in the second half of the year.	EBIT margin of 5.8% for the fiscal year ended December 31, 2011. EBIT margin in the first six months of the fiscal year was 5.8%, increasing slightly to 5.9% the last five months of the year.	EBIT margin for the year ending December 31, 2012 is expected to be approximately 5%. Profitability should be higher in the second half of the year.
	Target EBIT margin of 10% by calendar year 2013.		The prolonged current economic downturn continues to affect the markets in which we compete and has had a negative impact on our targeted delivery levels and selling prices. It has become very difficult to predict the timing of a recovery and as a result we have decided to withdraw previous long-term guidance and not to provide guidance on profitability beyond calendar year 2012.
Liquidity	Free cash flow for the 11-month period ending December 31, 2011 is expected to be essentially neutral, as cash flows from operating activities will be used to finance our net PP&E and product development capital expenditures expected to be at approximately $1.5 billion.	Free cash flow usage of $453 million, as cash flows from operating activities were less than our net additions to PP&E and intangible assets of $1.3 billion mainly because of lower than expected order intake and related customer advances in commercial aircraft.	For the year ending December 31, 2012, cash flows from operating activities are expected to substantially fund our net additions to PP&E and intangible assets of approximately $2 billion.
Deliveries	We expect to deliver approximately 150 business aircraft and 90 commercial aircraft in the 11-month period ending December 31, 2011.	We delivered 163 business aircraft and 78 commercial aircraft.	We expect to deliver approximately 180 business aircraft and 55 commercial aircraft in the year ending December 31, 2012.

1 See Forward-looking statements below.

Forward-looking statements:

Forward-looking statements[2] in this section of the MD&A are based on:

- current firm order backlog and estimated future order intake determined by[3]:
  - significant increase in orders for business and commercial aircraft for the fiscal year ending December 31, 2012 compared to the fiscal year ended December 31, 2011; and
  - growth in after-market services in line with the in-service fleet;
- continued deployment and execution of strategic initiatives related to quality improvement and cost reductions;
- ability to meet scheduled entry-into-service dates for new aircraft programs;
- ability to recruit and retain highly skilled resources to deploy our product development strategy; and
- ability of our supply base to support planned production rates.

2 Also see the Guidance and forward-looking statements section in Overview.
3 Demand forecast is based on the analysis of main market indicators, including real GDP growth, industry confidence, wealth creation and profitability within our customer base, aircraft utilization, pre-owned business jet inventory levels, globalization of trade, replacement demand, new aircraft programs and emerging markets and their accessibility. For more details, refer to the short-term indicators in the Industry and economic environment section.

KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and associated metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Profitability	• EBIT and EBIT margin, as measures of performance.
Liquidity	• Free cash flow and average net utilized assets, as measures of liquidity generation.
Growth and competitive positioning	• Revenues and delivery units, as measures of growth. • Order backlog, as a measure of future revenues. • Book-to-bill ratio, as an indicator of future revenues. The ratio represents the net orders received over aircraft deliveries, measured in units in a given period. • Market shares (in terms of revenues and units delivered), as measures of competitive positioning.
Customer satisfaction	• On-time aircraft deliveries, as a measure of meeting our commitment to customers. • Fleet dispatch reliability, as a measure of our products' reliability.
Execution	• Achievement of product development milestones, as a measure of flawless execution. • Employee engagement and enablement, as measured by the annual employee survey.

Our employee incentive-based compensation plan for non-unionized employees across all BA sites rewards the collective efforts of our employees in achieving our objectives using performance indicator targets. A total of 15,500 employees worldwide now participate in the program. As part of this program, incentive-based compensation is linked to the achievement of targeted results, based on EBIT, average net utilized assets, on-time aircraft deliveries, fleet dispatch reliability and executing according to plan in our new product development programs. The results of the 2011 employee survey ranked BA among the best performing companies in terms of engagement and enablement.

FIVE-YEAR SUMMARY

		IFRS			Canadian GAAP
	December 31 2011[1]	January 31 2011	January 31 2010	January 31 2009	January 31 2008
For the fiscal years ended					
Aircraft deliveries (in units)					
Business aircraft	**163**	155	176	235	232
Commercial aircraft	**78**	97	121	110	128
Amphibious aircraft	**4**	4	5	4	1
	245	256	302	349	361
Revenues	**$ 8,594**	$ 8,809	$ 9,357	$ 9,965	$ 9,713
EBIT	**$ 502**	$ 554	$ 473	$ 896	$ 563
EBIT margin	**5.8%**	6.3%	5.1%	9.0%	5.8%
EBITDA	**$ 697**	$ 799	$ 844	$ 1,327	$ 966
EBITDA margin	**8.1%**	9.1%	9.0%	13.3%	9.9%
Free cash flow (usage)	**$ (453)**	$ 5	$ (267)	$ 128	$ 1,676
Net orders (in units)	**249**	201	11	367	698
Book-to-bill ratio	**1.0**	0.8	–	1.1	1.9
As at					
Order backlog (in billions)	**$ 22.0**	$ 19.2	$ 16.7	$ 23.5	$ 22.7
Total number of employees[2]	**33,600**	30,300	28,900	32,500	28,100

1 The fiscal year ended December 31, 2011 comprises 11 months of results.
2 Including contractual and inactive employees.

INDUSTRY AND ECONOMIC ENVIRONMENT

Our product development activities position us well for future growth

The health of the aerospace industry is a function of general economic conditions, with a lag typically between economic recovery and the time it takes to reflect on the industry deliveries and revenues. Real GDP growth is the widely accepted measure of economic activity. According to a report by IHS Global Insight dated February 15, 2012, worldwide real GDP increased year-over-year by 2.7% in calendar year 2011, compared to an increase of 4.1% in calendar year 2010. IHS Global Insight predicts that the world economy is expected to grow at 2.4% in calendar year 2012. The GDP in the U.S., the most important market for our business and commercial aircraft units, is expected to grow at 2.1% in 2012, compared to 1.7% GDP growth in calendar year 2011. Europe, our second most important market in terms of sales, is struggling and GDP is expected to contract by 0.1% in 2012, while it showed growth of just 1.9% in calendar year 2011. Regions with high growth potential for business and commercial aviation like China, India and the CIS are expected to grow in calendar year 2012 by 8.1%, 7.2% and 3.7%, respectively, as compared to GDP growth in calendar year 2011 of 9.2%, 6.8% and 4.6%, respectively.

We are closely monitoring the economic uncertainty and market volatility in the U.S. and Europe and the possible impact these may have on our business.

BUSINESS AIRCRAFT

Demand is strong in the large business jet segment, while orders are soft in the light jet segment of the market.

Given the market conditions, some aircraft manufacturers opted in 2011 to halt aircraft programs, while other manufacturers, like ourselves, have a number of new business jets in development, with the view that the new models will not only benefit from improved market conditions expected in the future, but also contribute to the recovery by stimulating demand.

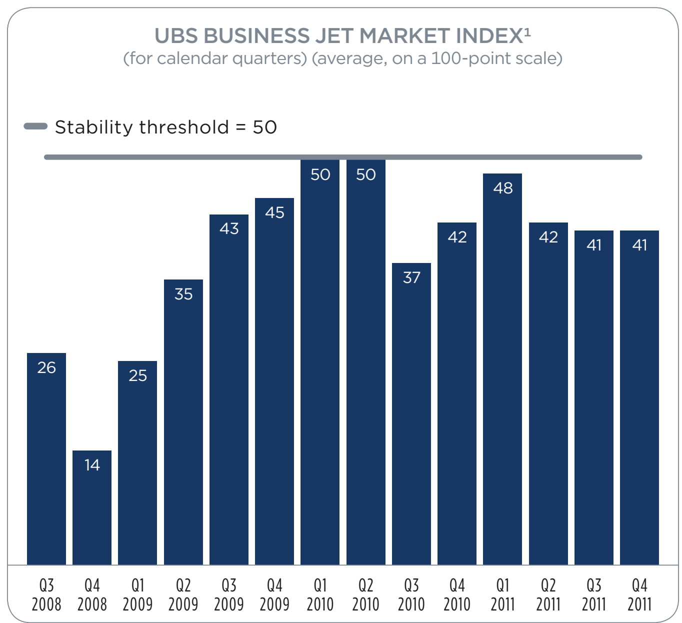
We use the following four types of indicators to monitor the short-term health of the business aviation market:

BUSINESS AIRCRAFT MARKET SHORT-TERM INDICATORS

Indicator	Current situation	Status
Industry confidence	The UBS Business Jet Market Index, which measures the industry confidence, had increased in the first quarter of calendar year 2011 to just under the threshold of market stability, but decreased during the remainder of calendar year.	↓
	Per Flightglobal's 2012 forecast for business aviation, corporate profits remain strong, which should improve industry confidence.	↑
Pre-owned business jet inventory levels	A lower level of pre-owned aircraft inventory is a leading indicator for increases in sales of new aircraft. The number of pre-owned aircraft available for sale as a percentage of the total in-service fleet continued an overall downward trend over the past four consecutive calendar quarters to reach 13.6% in December 2011. The level of pre-owned business aircraft inventory in the light category remained high at 14.8% of the total in-service fleet in December 2011, although the level has decreased by 1.7 percentage points since the beginning of the calendar year. Levels of large pre-owned business aircraft inventory remained at a low level, at 6.3% of the total in-service fleet in December 2011.	↑
Aircraft utilization rates	Business jet utilization in the U.S. and Europe increased in calendar year 2011 compared to calendar year 2010.	↑
Aircraft shipments and billings	Based on delivery data submitted to the General Aviation Manufacturers Association ("GAMA") and other public sources[1], in the business aircraft market categories in which we compete, there has been a 5% increase in business aircraft deliveries and a 2% increase in total billings for calendar year 2011, as compared to calendar year 2010.	↑

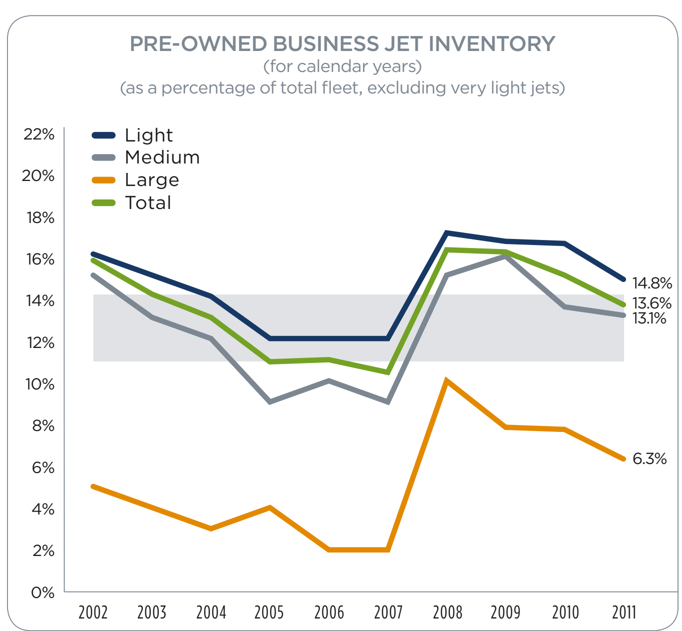
↑ → ↓ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

1 GAMA airplane shipment report dated February 22, 2012, except for Hawker Beechcraft's fourth quarter 2011 deliveries and revenues, which were estimated based on other public sources.



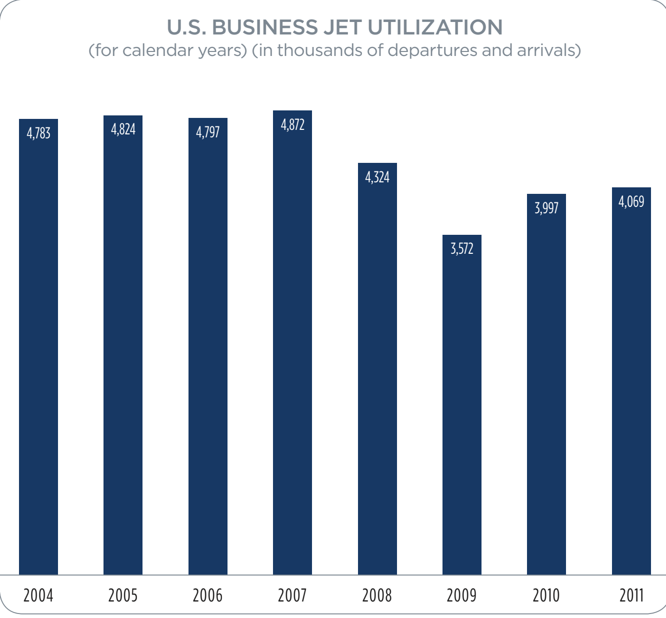
Source: UBS

1 The UBS Business Jet Market Index is a measure of market confidence from industry professionals, gathered through bimonthly surveys of brokers, dealers, manufacturers, fractional providers, financiers and others.

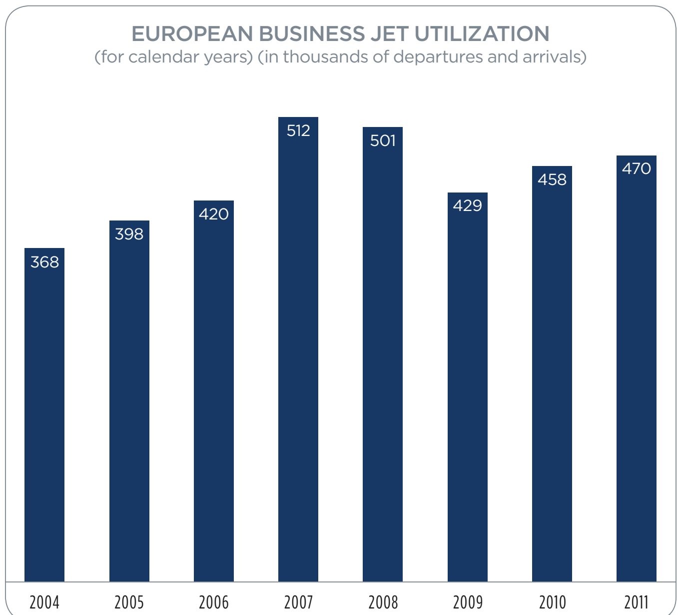


Source: JETNET and Ascend Online

Shaded area indicates what we consider to be a normal range of pre-owned business jet inventory available for sale, between 11% and 14%.



Source: Federal Aviation Administration (FAA) website (for all business jets)



Source: Eurocontrol (for all business jets)

COMMERCIAL AIRCRAFT

We continue to closely monitor the indicators that impact the commercial aircraft market. Per IATA's December 2011 Financial Forecast, the biggest risk facing airline profitability over the next year is the economic turmoil that would result from a failure of governments to resolve the Eurozone sovereign debt crisis. IATA's central forecast for the airline industry is based on further measures being taken to avert the financing problems in Europe. Nevertheless, IATA believes there will be a short-lived recession in Europe. There also remains a risk if the sovereign debt crisis in the Eurozone were to spiral out of control, that scenario could generate a banking crisis and more widespread economic weakness.

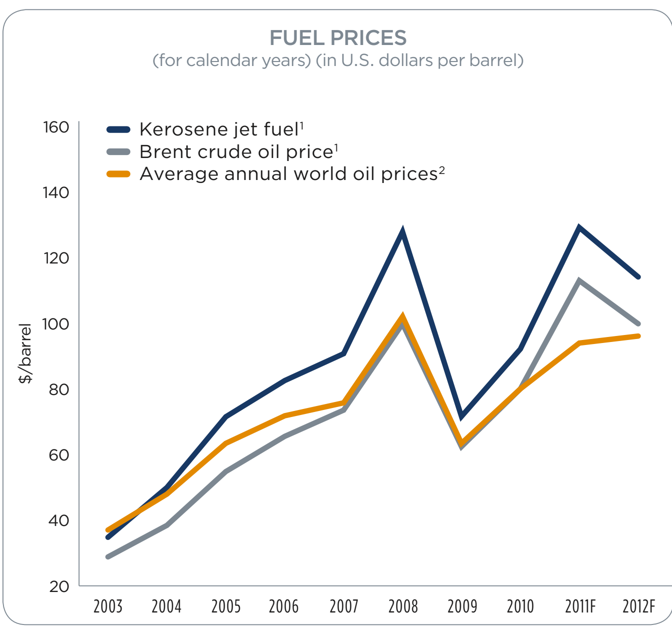
Despite the economic environment, some aircraft manufacturers, like ourselves, have continued to invest in new product development while others have opted to re-engine some of their current aircraft platforms in order to benefit from the eventual growth in passenger air travel.

We use the following indicators to monitor the short-term health of the commercial airline industry:

COMMERCIAL AIRCRAFT MARKET SHORT-TERM INDICATORS

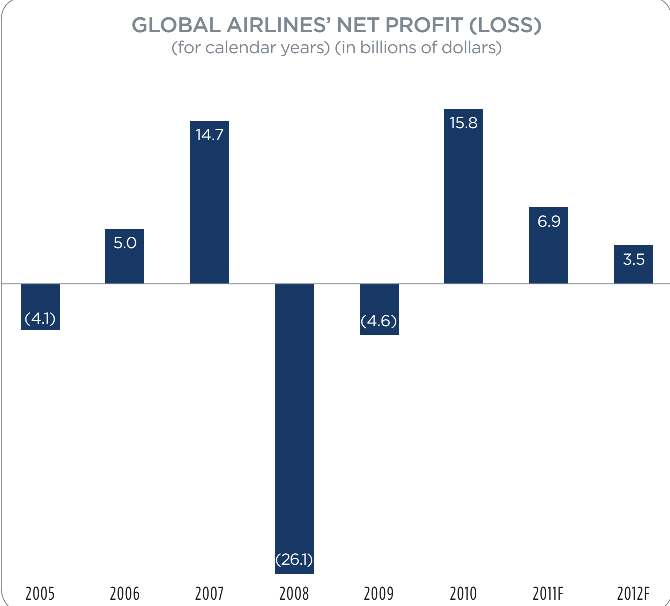
Indicator	Current situation	Status
Passenger traffic levels	Per IATA's Air Market Transport Analysis report for the month of December 2011, scheduled international and domestic air travel, measured by revenue passenger kilometres ("RPK"), was 6.9% and 4.2% higher, respectively, for calendar year 2011 as compared to calendar year 2010. The strongest performances were registered by airlines in Latin America, Europe and the Middle East. Latin American economies have remained vibrant with robust trade activity and domestic demand. Despite the economic concerns in the Eurozone, European airlines have benefitted from robust business travel in long-haul markets, in part related to strong exports from Germany. The emerging markets of China, India and Brazil showed double-digit growth. Japan's airlines saw a decrease in demand mainly due to the impact of the earthquake and tsunami in 2011.	↑
	Commercial airlines worldwide achieved an international and domestic passenger load factor of 76.2% and 77.7%, respectively, in December 2011, with the highest international load factors recorded in North America (76.9% and 77.8%, respectively, in December 2010). In domestic air travel markets, strong passenger load factors were experienced in China, India and Brazil, but the U.S. retained the highest level.	↑
Industry confidence	According to a survey of CFOs and heads of cargo, airline industry confidence has continued to decline, as reported in IATA's January 2012 Airline Business Confidence Index report. There was a particularly sharp decline in expectations for traffic growth for the next 12 months.	↓
Fuel prices	Planning is difficult for airlines when one of the largest components of their operating costs remains volatile. In its December 2011 Financial Forecast, IATA forecasted fuel prices to remain high in calendar year 2012. The financial performance of the airline industry is closely linked to the health of world economies. Per IATA, if economic growth is strong, airlines can cope with high fuel prices. However, whenever economic growth has slowed below 2%, the airline industry has suffered losses.	→
Airline profitability	In its December 2011 Financial Forecast, IATA forecasted a net profit of $6.9 billion in the commercial airline industry in calendar year 2011. This compares to the $16 billion that the airlines earned in calendar year 2010.	↓
	Assuming the Eurozone sovereign debt crisis does not spiral into a full-blown banking crisis, IATA forecasts industry profits of $3.5 billion in 2012 and a marked divergence of financial performance between regions. European airlines are likely to be hardest hit by recessions in their home markets, and IATA now expects to see small losses in this region. When compared to Europe, contrasting performances are expected from North American airlines, where capacity cuts are providing some protection to profitability, and in Asia where IATA expects significant profits generated by high load factors on China's expanding domestic market.	↓

↑ → ↓ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.



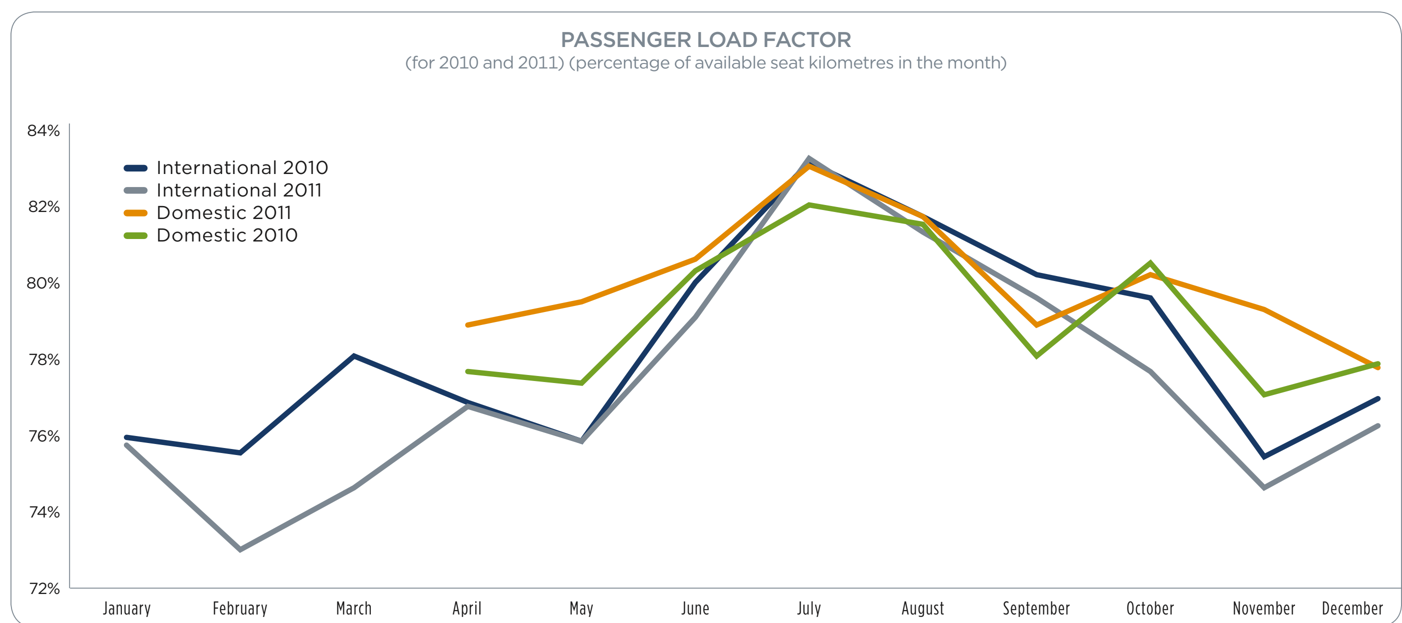
Sources: 1 IATA, Financial Forecast, December 2011
2 Annual Energy Outlook 2012 Early Release report by the U.S. Energy Information Administration

F: Forecast



Source: IATA, Financial Forecast, December 2011

F: Forecast



Source: IATA statistics for international and domestic air travel. IATA began publishing domestic data in April 2011, along with comparative information for 2010.

Passenger load factor is defined as RPK divided by available seat kilometres. RPK is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported one kilometre.

Available seat kilometres are measured as one seat carried for one kilometre, whether a passenger occupied it or not.

ANALYSIS OF RESULTS

Solid financial performance despite a challenging environment in our markets

RESULTS OF OPERATIONS

	Two months ended	Three months ended	**11 months ended**	12 months ended
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
Revenues				
Manufacturing				
Business aircraft	**$ 1,198**	$ 1,362	**$ 4,262**	$ 4,021
Commercial aircraft	**241**	980	**1,721**	2,157
Other	**104**	160	**507**	559
Total manufacturing	**1,543**	2,502	**6,490**	6,737
Services[1]	**282**	422	**1,522**	1,564
Other[2]	**191**	167	**582**	508
Total revenues	**2,016**	3,091	**8,594**	8,809
Cost of sales	**1,717**	2,635	**7,355**	7,495
Gross margin	**299**	456	**1,239**	1,314
SG&A	**132**	182	**621**	623
R&D	**27**	39	**122**	172
Other expense (income)[3]	**13**	13	**(6)**	(35)
EBIT	**127**	222	**502**	554
Amortization[4]	**39**	58	**195**	245
EBITDA	**$ 166**	$ 280	**$ 697**	$ 799
(as a percentage of total revenues)				
Gross margin	**14.8%**	14.8%	**14.4%**	14.9%
EBIT	**6.3%**	7.2%	**5.8%**	6.3%
EBITDA	**8.2%**	9.1%	**8.1%**	9.1%

REVENUES BY GEOGRAPHIC REGION[5]

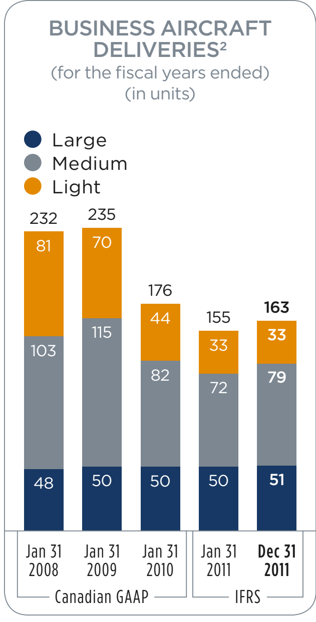
	11 months ended		12 months ended	
	December 31, 2011		January 31, 2011	
North America	**$ 4,281**	**50%**	$ 3,738	42%
Europe	**1,907**	**22%**	2,492	28%
Asia-Pacific	**1,282**	**15%**	952	11%
Other	**1,124**	**13%**	1,627	19%
	$ 8,594	**100%**	$ 8,809	100%

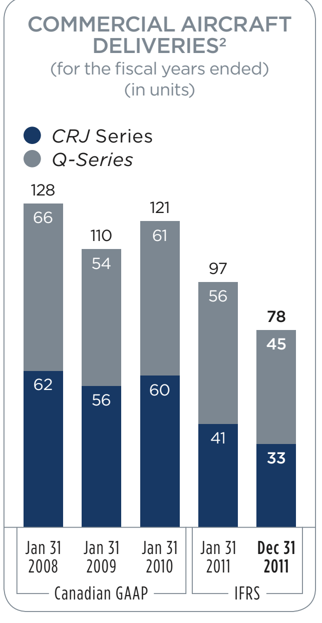
1 Includes revenues from parts services, *Flexjet* fractional ownership and hourly flight entitlement programs' service activities, product support activities (including aircraft maintenance and commercial training), Specialized Aircraft Solutions and Military Aviation Training.
2 Includes mainly sales of pre-owned aircraft.
3 Includes i) net gain on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding the losses (gains) arising from changes in interest rates; ii) severance and other involuntary termination costs (including changes in estimates); iii) gains on disposals of PP&E.
4 Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset.
5 Revenues are attributed to countries based on the location of the customer.

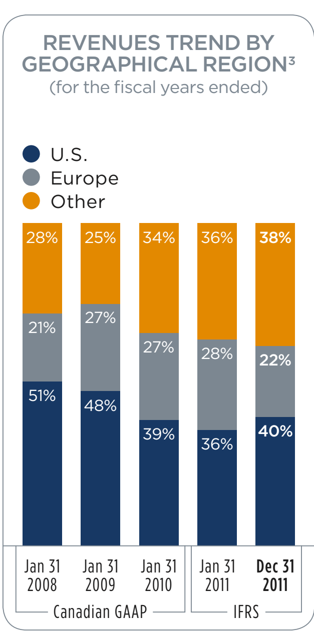
TOTAL AIRCRAFT DELIVERIES

(in units)	**Two months ended December 31 2011**	Three months ended January 31 2011	**11 months ended December 31 2011**	12 months ended January 31 2011
Business aircraft				
Excluding those of the *Flexjet* fractional ownership program	**47**	54	**161**	153
Flexjet fractional ownership program[1]	**1**	1	**2**	2
	48	55	**163**	155
Commercial aircraft	**11**	44	**78**	97
Amphibious aircraft	**1**	1	**4**	4
	60	100	**245**	256

1 An aircraft delivery is included in the above table when the equivalent of 100% of the fractional shares of an aircraft model has been sold to external customers through Flexjet, or when a whole aircraft has been sold to external customers through the *Flexjet* One program.







2 The fiscal year ended December 31, 2011 comprises 11 months of results.
3 Revenues are attributed to countries based on the location of the customer.

Manufacturing revenues

The $959-million decrease for the fourth quarter is mainly due to:

- lower revenues for commercial aircraft mainly due to lower deliveries, in part as a result of the quarter ended December 31, 2011 comprising only two months ($739 million); and
- lower revenues for business aircraft mainly due to lower deliveries as a result of the quarter ended December 31, 2011 comprising only two months, partially offset by higher net selling prices ($164 million).

The $247-million decrease for the fiscal year is mainly due to:

- lower revenues for commercial aircraft mainly due to lower deliveries, in part as a result of the fiscal year ended December 31, 2011 comprising only 11 months ($436 million).

Partially offset by:

- higher revenues for business aircraft, mainly due to higher deliveries despite the fiscal year ended December 31, 2011 comprising only 11 months and higher net selling prices ($241 million).

Services revenues

The $140-million decrease for the fourth quarter is mainly due to the quarter ended December 31, 2011 comprising only two months.

The $42-million decrease for the fiscal year is mainly due to:

- the fiscal year ended December 31, 2011 comprising only 11 months; and
- lower revenues from Specialized Aircraft Solutions.

Partially offset by:

- higher revenues from parts services and aircraft maintenance, mainly due to higher volume.

Other revenues

The $24-million and $74-million increases for the fourth quarter and fiscal year are mainly due to:

- higher deliveries of pre-owned business aircraft ($47 million for the quarter and $143 million for the fiscal year).

Partially offset by:

- lower deliveries of pre-owned commercial aircraft ($18 million for the quarter and $45 million for the fiscal year).

EBIT margin

The 0.9 percentage-point decrease for the fourth quarter is mainly due to:

- lower absorption of SG&A expenses;
- lower margins for commercial aircraft;
- lower margins from service activities;
- lower liquidated damage payments from customers upon cancellation of orders; and
- an unfavourable mix of business aircraft deliveries.

Partially offset by:

- the mix between business and commercial aircraft deliveries; and
- higher net selling prices for business aircraft.

The 0.5 percentage-point decrease for the fiscal year is mainly due to:

- lower liquidated damage payments from customers upon cancellation of orders;
- higher cost of sales per unit, mainly due to price escalation of materials;
- lower margins from sales of pre-owned aircraft due to an unfavourable mix and higher write-downs of pre-owned business aircraft inventories;
- reduction in other income; and
- lower margins from service activities.

Partially offset by:

- higher net selling prices for business aircraft;
- lower R&D expenses mainly due to lower amortization of program tooling as a result of the change from a straight-line amortization method to a method based on units produced; and
- the mix between business and commercial aircraft deliveries.

Liquidity generated by our operations partially financed our significant product development programs

FREE CASH FLOW (USAGE)

	Two months ended	Three months ended	**11 months ended**	12 months ended
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
EBIT	**$ 127**	$ 222	**$ 502**	$ 554
Amortization	**39**	58	**195**	245
EBITDA	**166**	280	**697**	799
Other non-cash items:				
Gains on disposals of PP&E	**–**	–	**–**	(8)
Share-based expense	**3**	6	**19**	23
Net change in non-cash balances related to operations	**273**	759	**151**	199
Cash flows from operating activities	**442**	1,045	**867**	1,013
Net additions to PP&E and intangible assets	**(332)**	(283)	**(1,320)**	(1,008)
Free cash flow (usage)	**$ 110**	$ 762	**$ (453)**	$ 5

The $652-million decrease for the fourth quarter is mainly due to:

- a negative period-over-period variation in net change in non-cash balances related to operations ($486 million) (see explanation below);
- a lower EBITDA ($114 million); and
- higher net additions to PP&E and intangible assets ($49 million).

The $458-million decrease for the fiscal year is mainly due to:

- higher net additions to PP&E and intangible assets ($312 million), due to our significant investments in product development;
- a lower EBITDA ($102 million); and
- a negative period-over-period variation in net change in non-cash balances related to operations ($48 million) (see explanation below).

Net change in non-cash balances related to operations

For the fourth quarter ended December 31, 2011, the $273-million cash inflow is mainly due to:

- a decrease in aerospace program work-in-process inventories, mainly due to significant deliveries of business aircraft.

Partially offset by:

- a decrease in advances on aerospace programs due to higher deliveries than orders received for business aircraft.

For the fourth quarter ended January 31, 2011, the $759-million cash inflow was mainly due to:

- a decrease in aerospace program work-in-process inventories, mainly due to higher deliveries of business aircraft and the first deliveries of the *CRJ1000 NextGen* aircraft in the fourth quarter ended January 31, 2011; and
- a decrease in finished product inventories, mainly due to the increase in commercial aircraft deliveries in the fourth quarter ended January 31, 2011.

For the fiscal year ended December 31, 2011, the $151-million cash inflow is mainly due to:

- an increase in trade and other payables.

Partially offset by:

- a decrease in advances on aerospace programs due to higher deliveries than orders received for regional jets and turboprops, partially offset by higher orders received than deliveries of business aircraft.

For the fiscal year ended January 31, 2011, the $199-million cash inflow was mainly due to:

- a decrease in aerospace program work-in-process inventories.

Partially offset by:

- a decrease in advances on aerospace programs, resulting mainly from higher deliveries than orders received for business and commercial aircraft.

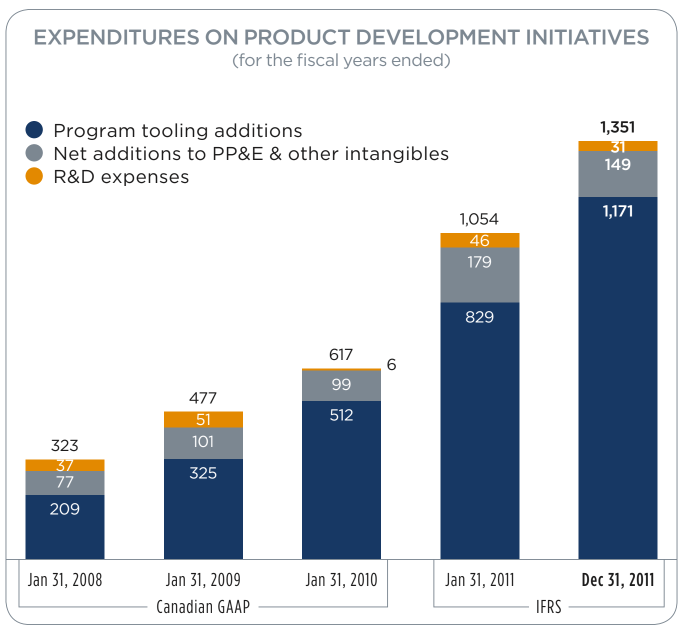
Significant investments in newer, more fuel-efficient aircraft

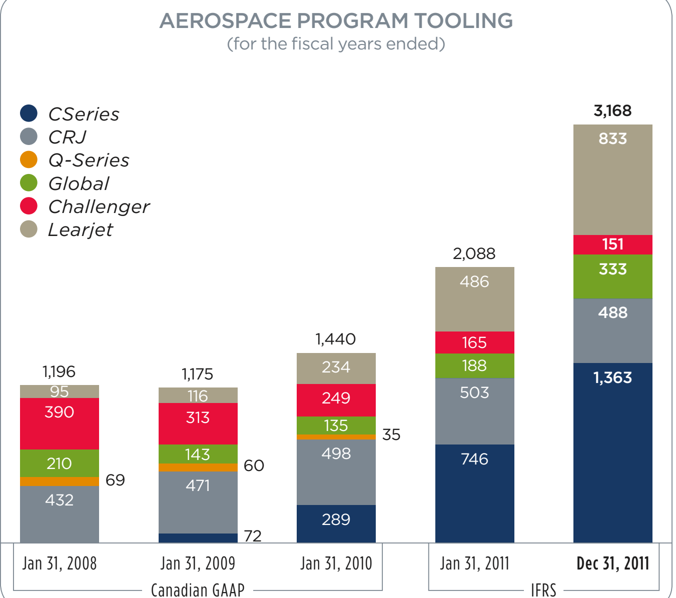
INVESTMENT IN PRODUCT DEVELOPMENT

	Two months ended	Three months ended	**11 months ended**	12 months ended
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
Program tooling[1]	**$303**	$227	**$1,171**	$829
R&D expense[2]	**6**	7	**31**	46
	$309	$234	**$1,202**	$875
As a percentage of manufacturing revenues	**20.0%**	9.4%	**18.5%**	13.0%

1 Capitalized in aerospace program tooling.
2 Excluding amortization of aerospace program tooling of $21 million and $91 million for the fourth quarter and fiscal year ended December 31, 2011 ($32 million and $126 million for the fourth quarter and fiscal year ended January 31, 2011), as the related costs are included in program tooling.

Our program tooling additions essentially relate to the development of the *CSeries* family of aircraft, the *Learjet 85* aircraft, the *Global Vision* program, as well as the *Global 7000* and *Global 8000* aircraft programs. The increase in program tooling additions reflects our commitment to investing in product development.





FOSTERING THE PROPER CONTROL ENVIRONMENT TO ACHIEVE OUR OBJECTIVES

Recognizing the long-term nature of product development activities, as well as the significant human and financial resources required, we follow a rigorous gated product development process focusing on early identification and efficient mitigation of potential risks. All programs follow our Bombardier Engineering System, the heart of the process, throughout the product development cycle. The product development process is constantly refined to integrate the lessons learned from our own programs and from the industry. The stages in the process are described hereafter and specific milestones must be met before a product can move from one stage of development to another. The gates consist of exit reviews with different levels of management and leading experts to demonstrate technical feasibility, customer acceptance and financial return. Designing products with minimal environmental impacts throughout their entire lifecycle is central to our product responsibility strategy. In addition to our Design for Environment approach, we also embed health and safety considerations into our product design.

Stage		Description	Program status
Conceptual definition	**JTAP**	**Joint Technical Assessment Phase** – Preliminary review with our potential partners and suppliers to analyze technologies desired to build or modify an aircraft.	
	JCDP	**Joint Conceptual Definition Phase** – Cooperative effort with our potential partners and suppliers to perform a configuration trade-off study and define the system architecture and functionality.	
Launch preparation		Continuation of the design definition and technical activities. Creation of a project plan to define the schedule, cost, scope, statement of work and resource requirements for the program.	
Preliminary definition	**JDP**	**Joint Definition Phase** – Joint determination with our partners and suppliers of the technical design of the aircraft and sharing of the work required. Optimization of the aircraft design with respect to manufacturing, assembly and total life-cycle costs.	*CS300* *Global 7000* *Global 8000*
Detail definition	**DDP**	**Detailed Design Phase** – Preparation of detailed production drawings and confirmation of the design based on the preliminary design definition agreed upon in the previous phase.	*CS100*
Product definition release		Formal issue of the engineering drawings to manufacturing, allowing for the completion of tool designs and the assembly of the first produced aircraft.	*Learjet 85*
Product certification		Completion of certification activities to demonstrate that the aircraft complies with the original design requirements and all regulatory airworthiness standards.	
Program completion		Conclusion of final design activity. Preparation for entry-into-service.	*Global Vision*

We also follow a thorough review process which starts before an aircraft is launched, by assessing all new programs through the Aircraft Portfolio Strategy Board (APSB). With representation from all key functions involved, APSB ensures that we are internally aligned and capable of delivering on our commitments at all levels of the organization. Among others, this review confirms the availability of human and financial resources, the maturity and manufacturing readiness of new technologies and the overall strength of the business case, by imposing increasingly strict business guidelines as a program approaches launch. This process is performed in parallel with the pre-launch Bombardier Engineering System stages (conceptual definition and launch preparation), and ultimately culminates with the approval of Bombardier's Board of Directors, at which time we usually begin capitalization of product development expenditures as program tooling.

Other key controls are also followed throughout the development process, to ensure that we execute as planned in our product development. We continuously apply what we have learned from one program to other programs, by sharing ideas and learning in our various functional committees as well as through regular peer reviews, bringing together expertise across all platforms to drive alignment and common approaches, establish best practices and leverage the knowledge and experience of our best people.

In order to foster the proper innovative environment in our product development and manufacturing processes, we continue to invest in developing state-of-the-art facilities.

THE *CS100* AND *CS300* AIRCRAFT PROGRAMS ARE DRIVING TOWARDS PLANNED ENTRY-INTO-SERVICE IN 2013 AND 2014, RESPECTIVELY

Testing	During the fiscal year ended December 31, 2011, the final results of a three-phase wind tunnel test program validated the *CSeries* aircraft's overall aerodynamic design and performance.
	The first systems (a collection of components) continue to be developed and tested at partners and vendors in Canada, the U.S. and Europe prior to delivery to our Complete Integrated Aircraft Systems Test Area ("CIASTA"), which is designated as aircraft 0. Installation of system rigs is currently underway, with some parts, including the engine accessory gearbox and flight deck controls, already in the CIASTA. The first block of systems has been commissioned, including the engine control software linked to generators and dummy engines in the CIASTA. 90% of systems are expected to be tested in the first half of 2012, including the fly-by-wire flight control system. The remaining 10% of systems, including heating, cooling and lighting, will be commissioned thereafter. The entire airworthiness testing on the aircraft will be performed on the ground in the facility through simulated flight testing. A flight test program of 2,400 hours is planned on the *CS100* aircraft consisting of five test aircraft and a program of 750 hours is planned on the *CS300* aircraft consisting of two test aircraft.
	The assembling of the *CS100* first flight test aircraft will take place in 2012 and we are preparing for the first flight near the end of calendar year 2012.
Suppliers	The PW1524G engine has completed its first flight test program logging 25 flights with 115 flight hours, and completed more than 1,100 hours for full engine testing, demonstrating the geared architecture's benefits of low fuel consumption and lower noise. The combined results of both the wind tunnel tests and engine flight tests support the overall performance and operating cost advantage offered by the *CSeries* family of aircraft.
	The testing of the fuselage barrel section, built by Shenyang Aircraft Corporation (SAC) from China, was completed in July 2011 on schedule, and was subjected to 180,000 simulated flights (cycles). Further fatigue tests are planned, to determine how the fuselage copes with additional cycles.
	The first test pylon, which is part of the structure used to mount the aircraft's engines to the wing and house fuel and hydraulic lines, was completed by a supplier in July 2011 and will be used in future testing.
	To reduce the cycle time required to assemble a larger and more complex aircraft, we have introduced new advanced processes to ensure that high quality parts are received at the plant on time. Aligned with this strategy, we have trained all the targeted suppliers for advanced quality planning and advanced logistics methodologies. Our focus is now on the implementation of these methodologies with our suppliers.
Facilities	In Belfast, installation of semi-automated jigs is underway in the second phase of the new 56,000 sq. m. (600,000 sq. ft.) facility where manufacturing and assembly of the advanced composite wings of the aircraft will take place.
	At the Saint-Laurent components plant, which will manufacture the carbon-fibre aft fuselage and the cockpit, more than 9,000 sq. m. (100,000 sq. ft.) was upgraded to support production of some of the programs' major components. The assembly process will include a fully automated moving line using the latest lean manufacturing principles, and the upgrades include new machinery, equipment and tooling. The demonstrator aft fuselage (in advanced carbon fibre) was successfully completed at the plant. In the second quarter of the fiscal year ended December 31, 2011, two robots have been delivered to the plant and will be used to fuse together the cockpit with the front section of the fuselage.

THE *LEARJET 85* PROGRAM IS PROGRESSING TOWARDS PLANNED ENTRY-INTO-SERVICE IN 2013

Production & testing	Our development and production teams in Wichita, Montréal, Belfast and Querétaro are actively engaged in manufacturing activities and manufacturing of the first flight test aircraft is underway.
	As part of the Bombardier composite structural technology readiness program, over 12,000 test pieces have been produced and tested to date.
	Manufacture of the first flight test aircraft major structural assemblies has commenced at the Querétaro facility.
	Parts manufacturing is underway at the Belfast site, which is responsible for detailed design and manufacturing of the wing planks and spar structures (main structural member of the wing). The first production wing spars and planks using Resin Transfer Infusion (RTI) technology have been successfully manufactured and were shipped to the Querétaro facility in January 2012.
Certification	The first U.S. Federal Aviation Administration ("FAA") structural certification test project was successfully completed.
Suppliers	All our suppliers have started the manufacturing of components, with approximately 55% of supplier test rigs operational and the balance planned to be operational over the coming months. These test rigs are used to ensure the reliability of systems (a collection of components) prior to shipment of flight worthy parts to the final assembly line in Wichita.
Facilities	The Querétaro facility, which will manufacture and assemble major composite structures, is operational with production tooling in place.
	Construction of the Wichita final assembly line facility, a part of our initial phase of the Wichita site expansion, is complete and the site is ready for the start of final assembly. Phase two of the expansion plan, which includes building a new production flight facility, is scheduled to begin in calendar year 2012. Phase three, the paint facility and new delivery centre, is on track to be completed in calendar year 2013.

THE *GLOBAL 7000* AND *GLOBAL 8000* AIRCRAFT PROGRAMS ARE PROGRESSING TOWARDS PLANNED ENTRY-INTO-SERVICE IN 2016 AND 2017, RESPECTIVELY

Suppliers	In May 2011, we announced suppliers for two major structural packages and six systems.
	During the third quarter of the fiscal year ended December 31, 2011, we selected seven new suppliers for the avionics system and primary flight control computer, the hydraulics system and fly-by-wire technology, the main and nose landing gear system, the wheels and braking system, the air management system, the water and waste system and the ducting system.
	The awarding of supply contracts to renowned aerospace companies, who will design and manufacture key systems, is an important milestone in the programs' development. We are currently actively engaged in the process of selecting additional suppliers.
	Our product development team and our suppliers' representatives are co-located at our Aerospace Product Development Centre in Montréal and are focused on advancing the technical design of the aircraft. We continue to ramp up the programs, increasing resources to meet the programs' needs and milestones.
Key decisions	Final assembly of the aircraft will take place at the Toronto manufacturing site, interior completion will take place at the Global Completion Centre in Montréal and the aft fuselage will be built in Querétaro.
	We will design and manufacture the forward fuselage, aft fuselage and empennage internally for these two aircraft.

THE *GLOBAL VISION* FLIGHT DECK IS PROGRESSING TOWARDS PLANNED ENTRY-INTO-SERVICE IN EARLY 2012

Production & testing	The new avionics suite has been integrated on the *Global 5000* and *Global 6000* final assembly line, and production is taking place in Toronto and Montréal.
	Over 35 production aircraft featuring the *Global Vision* flight deck are in completion, and more than 900 hours of flight testing have been completed to date.
Certification	Certification from Transport Canada (TC) was granted in the second quarter of the fiscal year ended December 31, 2011 and certification from the European Aviation Safety Agency (EASA) was obtained in February 2012.
	Certification from the FAA is progressing in line to support our entry-into-service in 2012.

Overall deliveries in line with our guidance

BUSINESS AIRCRAFT DELIVERIES

(in units)	**Two months ended December 31 2011**	Three months ended January 31 2011	**11 months ended December 31 2011**	12 months ended January 31 2011
Light				
Learjet 40/40 XR/Learjet 45/45 XR	**8**	11	**15**	24
Learjet 60 XR	**5**	3	**18**	9
Medium				
Challenger 300	**8**	9	**34**	29
Challenger 605	**11**	15	**39**	36
Challenger 800 Series	**3**	–	**6**	7
Large				
Global 5000/Global Express XRS	**13**	17	**51**	50
	48	55	**163**	155

As a result of the quarter ended December 31, 2011 comprising only two months, deliveries of business aircraft for the fourth quarter decreased by 13% as compared to last year. Deliveries during the 11-month period ended December 31, 2011 increased by 5%, as a result of higher deliveries of business aircraft in the medium category, despite the fiscal year comprising one less month.

For the third consecutive year, in calendar year 2011, we were the market share leader in terms of deliveries in the categories in which we compete, with a market share of 32%, as compared to 31% in calendar year 2010[1]. Furthermore, for an eighth consecutive year we are in the leadership position in terms of revenues in the business aircraft market categories in which we compete, with a market share of 37%, as compared to 35% in calendar year 2010[1].

1 Based on GAMA airplane shipment report dated February 22, 2012 except for Hawker Beechcraft's fourth quarter 2011 deliveries and revenues, which were estimated from other public sources.

COMMERCIAL AIRCRAFT DELIVERIES

(in units)	**Two months ended December 31 2011**	Three months ended January 31 2011	**11 months ended December 31 2011**	12 months ended January 31 2011
Regional jets				
CRJ700 NextGen	**–**	6	**10**	18
CRJ900 NextGen	**2**	7	**12**	14
CRJ1000 NextGen	**3**	9	**11**	9
Turboprops				
Q400/Q400 NextGen	**6**	22	**45**	56
	11	44	**78**	97

Deliveries of commercial aircraft decreased significantly during the quarter and fiscal year ended December 31, 2011 compared to the same periods last year, because of lower deliveries of both regional jets and turboprops, in part as a result of the current fourth quarter and fiscal year comprising one less month, but also due to the economic uncertainties in the U.S. and Europe.

Our delivery market share slightly reduced from 52% to 50%[2] in the turboprop category, while in the regional jet category, our delivery market share increased from 30% to 35%[2].

2 Based on publicly available competitor reports.

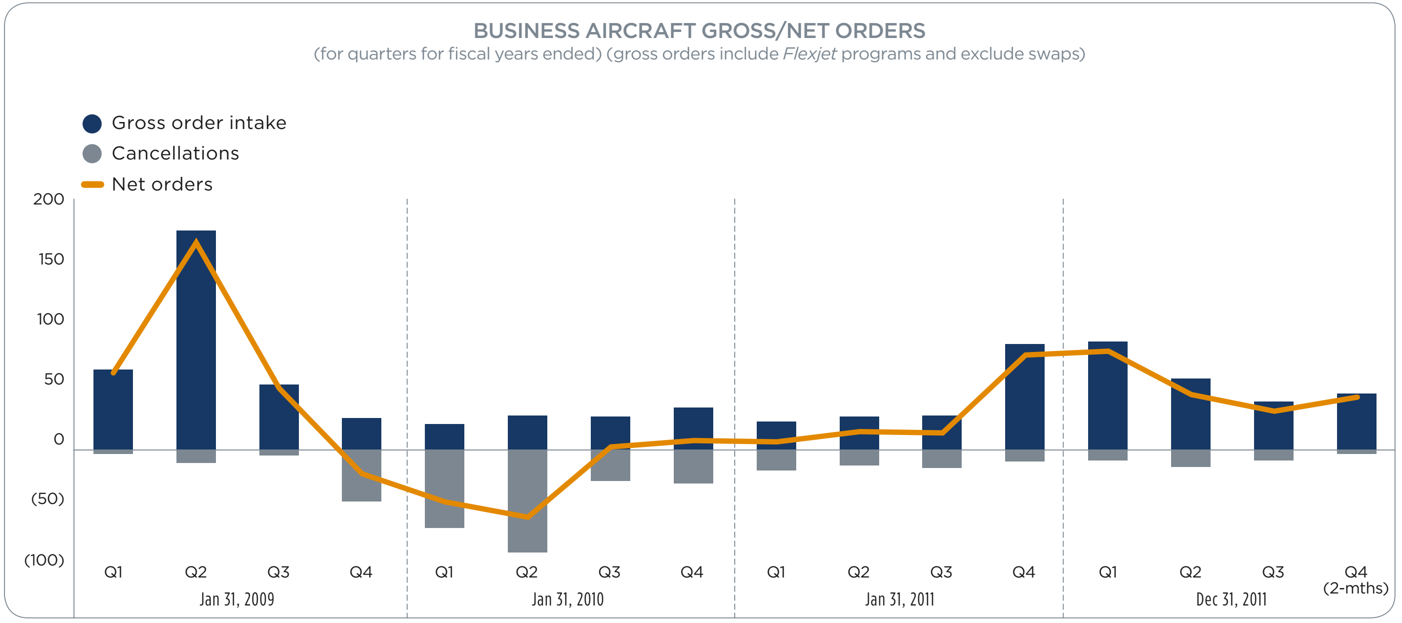
Aircraft orders

TOTAL AIRCRAFT NET ORDERS

	December 31, 2011			January 31, 2011		
	Gross orders	**Cancellations**	**Net orders**	Gross orders	Cancellations	Net orders
Fourth quarters ended			**Two months ended**			Three months ended
Business aircraft (including those of the *Flexjet* fractional ownership program)	**44**	**(3)**	**41**	83	(9)	74
Commercial aircraft	**2**	**–**	**2**	23	(10)	13
Amphibious aircraft	**–**	**–**	**–**	1	–	1
	46	**(3)**	**43**	107	(19)	88
Fiscal years ended			**11 months ended**			12 months ended
Business aircraft (including those of the *Flexjet* fractional ownership program)	**223**	**(32)**	**191**	158	(51)	107
Commercial aircraft	**54**	**–**	**54**	108	(15)	93
Amphibious aircraft	**4**	**–**	**4**	1	–	1
	281	**(32)**	**249**	267	(66)	201

BUSINESS AIRCRAFT

The increase in the net order intake for business aircraft, for the fiscal year ended December 31, 2011 as compared to last fiscal year, is due to significant net orders received during the year for the medium and large jets category and because of lower order cancellations, despite the fact that the fiscal year comprised one less month of results.



The following significant orders were received during the fiscal year ended December 31, 2011:

Customer	Firm order	Options	Value of firm order based on list prices
NetJets Inc.	30 *Global 5000* and *Global 6000* 20 *Global 7000* and *Global 8000*	70 aircraft of the *Global* family	$2.8 billion[1]
VistaJet (Switzerland)	10 *Global 8000*	—	$650 million
AVWest (Australia)	2 *Global 7000* 2 *Global 8000*	—	$265 million
Undisclosed customer	3 *Challenger* 3 *Global*	—	$255 million
Undisclosed customer	5 *Challenger 850*	—	$156 million

1 This is the largest business aircraft order in our history. Based on list prices, the order value could increase to $6.7 billion if all options are exercised.

COMMERCIAL AIRCRAFT

COMMERCIAL AIRCRAFT NET ORDERS

(in units)	**Two months ended December 31 2011**	Three months ended January 31 2011	**11 months ended December 31 2011**	12 months ended January 31 2011
Regional jets				
CRJ700 NextGen	**–**	(4)	**–**	(4)
CRJ900 NextGen	**1**	–	**4**	14
Commercial jets				
CS100	**–**	–	**28**	–
CS300	**–**	–	**15**	40
Turboprops				
Q400 NextGen	**1**	17	**7**	43
	2	13	**54**	93

The economic uncertainties in the U.S. and Europe are having a negative impact on order intake for regional jets and turboprops.

The following significant orders were received during the fiscal year ended December 31, 2011:

Customer	Firm order	Options	Value of firm order based on list prices
Korean Air	10 *CS300*	10 *CS300*	$719 million
Braathens Leasing Limited, a member of Braathens Aviation (Sweden)	5 *CS100*[2] 5 *CS300*[2]	5 *CS100*[2] 5 *CS300*[2]	$665 million
Undisclosed European customer	10 *CS100*	—	$628 million
Undisclosed customer[3]	10 *CS100*	6 *CS100*	$616 million
Undisclosed customer	3 *CS100*	3 *CS100*	$186 million
Luxair Luxembourg Airlines	4 *Q400 NextGen*	4 *Q400 NextGen*	$126 million

2 The customer's firm orders and options contain conversion rights to the other *CSeries* aircraft model.
3 The operator taking delivery of the first *CSeries* aircraft.

On November 29, 2011, AMR Corporation and certain of its U.S.-based subsidiaries (including American Airlines Inc. and AMR Eagle Holding Corporation) filed voluntary petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code. We are monitoring the situation, however, we do not expect a material impact on our results.

Subsequent to the end of the fiscal year, we signed the following significant firm orders, which are not included in the order backlog as at December 31, 2011:

- In January 2012, we signed a firm order with PrivatAir of Geneva, Switzerland for five *CS100* aircraft, with options for an additional five *CS100* aircraft. Based on the list price, the value of the firm order is $309 million.
- In February 2012, we signed a firm order with PT. Garuda Indonesia (Persero) Tbk. for six *CRJ1000 NextGen* regional jets, with options for an additional 18. Based on the list price, the value of the firm order is $297 million.
- In February 2012, we signed a firm order with Ethiopian Airlines for five *Q400 NextGen* aircraft. Based on the list price, the value of the firm order is $160 million.

Book-to-bill ratio and order backlog

BOOK-TO-BILL RATIO[1]

	Two months ended	Three months ended	**11 months ended**	12 months ended
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
Business aircraft	**0.9**	1.3	**1.2**	0.7
Commercial aircraft	**0.2**	0.3	**0.7**	1.0
Total	**0.7**	0.9	**1.0**	0.8

1 Defined as net orders received over aircraft deliveries, in units.

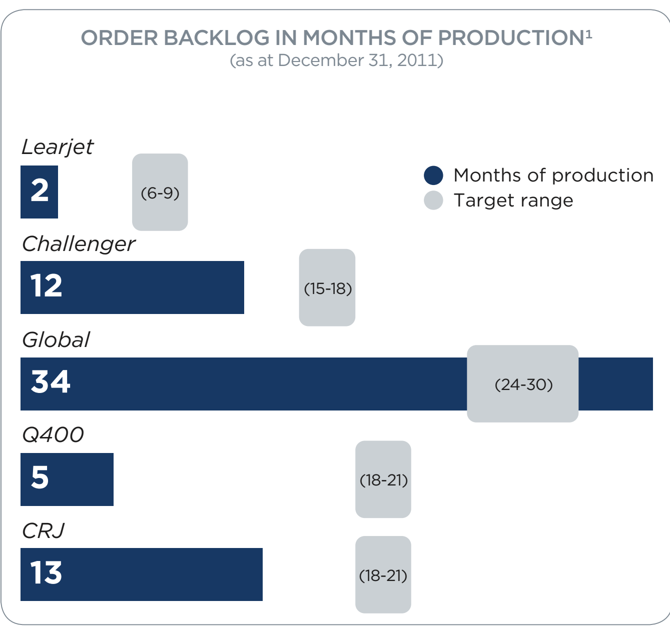
For the fiscal year ended December 31, 2011, the book-to-bill ratio for business aircraft mainly reflects the positive impact of orders received for our new programs under development. The book-to-bill ratio for commercial aircraft mainly reflects orders received for the *CSeries* family of aircraft, and is lower as compared to the last fiscal year because of lower orders for regional jets and turboprops.

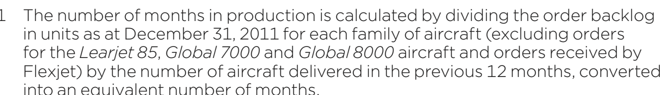
TOTAL ORDER BACKLOG

(in billions of dollars)	**December 31 2011**	January 31 2011
Aircraft programs	**$21.4**	$18.4
Military Aviation Training	**0.6**	0.8
	$22.0	$19.2

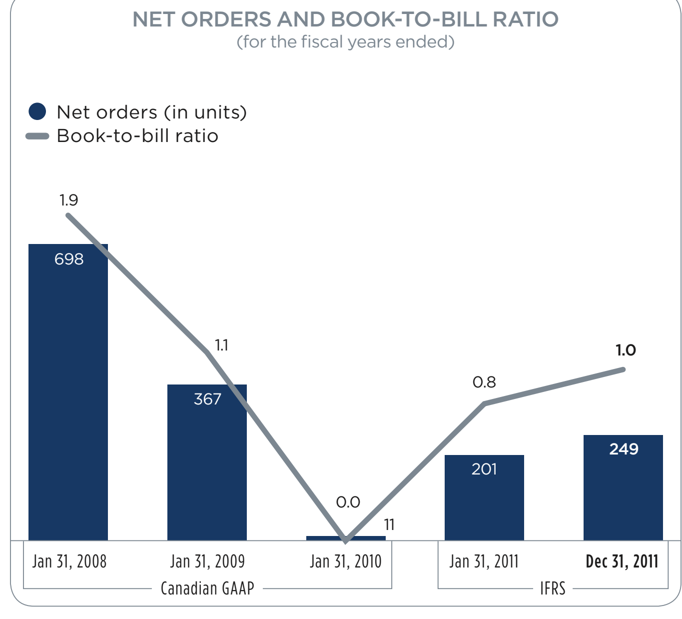
The order backlog as at December 31, 2011 increased by 15% compared to January 31, 2011. This is mainly due to an increase in orders for large business aircraft and the *CSeries* family of aircraft, partially offset by a lower order backlog for turboprops and regional jets. We continue to monitor our order backlog and the production horizon for our programs, and to align our production rates to reflect market demand.

In addition, BA has various long-term maintenance and spares support agreements, not included in the order backlog, amounting to $1.9 billion as at December 31, 2011. Generally, revenues from such agreements will be recognized over the next five to 15 years.





1 The number of months in production is calculated by dividing the order backlog in units as at December 31, 2011 for each family of aircraft (excluding orders for the *Learjet 85*, *Global 7000* and *Global 8000* aircraft and orders received by Flexjet) by the number of aircraft delivered in the previous 12 months, converted into an equivalent number of months.



Our order backlog in months of production provides insight on the depth of our order backlog based on the last 12-month production rates. This metric is not forward looking, and does not take into account the ability of our customers to take delivery of the aircraft and the timing of such delivery.

COMMERCIAL AIRCRAFT ORDER BACKLOG AND OPTIONS

	December 31, 2011		January 31, 2011	
	Firm orders	**Options**	Firm orders	Options
Regional jets				
CRJ700 NextGen	**9**	**2**	19	2
CRJ900 NextGen	**10**	**24**	18	93
CRJ1000 NextGen	**29**	**4**	40	4
Commercial jets				
CS100	**61**[2]	**47**	33[3]	33
CS300	**72**[2]	**72**	57[3]	57
Turboprops				
Q400/Q400 NextGen	**24**	**118**	62	124
	205	**267**	229	313

2 The total of 133 orders includes 79 firm orders with conversion rights to the other *CSeries* aircraft model.
3 The total of 90 orders includes 60 firm orders with conversion rights to the other *CSeries* aircraft model.

Workforce

TOTAL NUMBER OF EMPLOYEES

	December 31 2011	January 31 2011
Permanent[1]	**30,600**	28,700
Contractual	**3,000**	1,600
	33,600	30,300
Percentage of permanent employees covered by collective agreements	**47%**	50%

1 Including inactive employees.

The increase in the number of employees is mainly due to new hires related to the *CSeries* and the *Global 7000* and *Global 8000* aircraft programs. Our long-term human resources strategy is to maintain a mix of permanent and contractual employees to allow increased flexibility in periods of fluctuation while ensuring the stability of our permanent workforce.

MAJOR COLLECTIVE AGREEMENTS

Location	Union	Approximate number of permanent employees covered as at December 31, 2011	Expiration of current collective agreement
Belfast	Unite the Union and the General Machinists & Boilermakers	4,200	January 24, 2013
Montréal	International Association of Machinists and Aerospace Workers (IAMAW) 712	4,300	November 28, 2014
Toronto	Canadian Auto Workers (CAW)	2,300	June 22, 2012
Montréal *Global* Aircraft Completion Centre	National Automobile, Aerospace, Transport and Other Workers of Canada (CAW)	1,300	December 5, 2013
Querétaro	Confederación de Trabajadores de México	1,100	April 30, 2012
Wichita	International Association of Machinists and Aerospace Workers (IAMAW) 639	800	October 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRANSPORTATION

The data presented in this section of the MD&A is structured by market segment (rolling stock, services, system and signalling) and by geographic region (Europe, North America, Asia-Pacific and Other), which is reflective of our organizational structure.

Despite the Corporation's change of financial year-end from January 31 to December 31, the financial data in this section of the MD&A is comparable as BT was previously consolidated into Bombardier Inc. with a one month lag, i.e. all financial data presented was prepared on a calendar year basis.

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Highlights of the fiscal year with regard to our results and key orders

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What we said, what we did and what's next

Assumptions and risks related to our forward-looking statements

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Key performance measures and associated metrics that we use to monitor our progress

Our results over the last five fiscal years

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Current business environment

ANALYSIS OF RESULTS **107**

Our financial performance for the fourth quarter and fiscal year ended December 31, 2011

Order backlog and workforce as at December 31, 2011

HIGHLIGHTS OF THE YEAR

Continued strong performance building on the success of past years

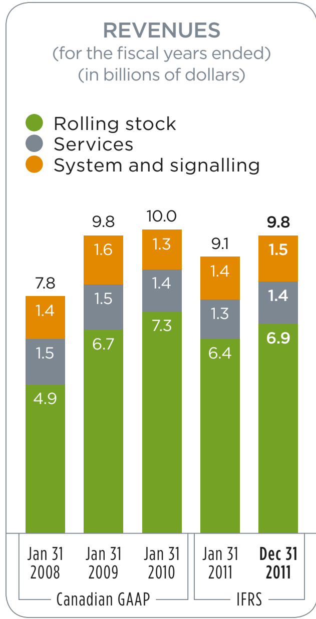
REVENUES	EBIT MARGIN	FREE CASH FLOW	ORDER INTAKE	ORDER BACKLOG
$9.8 billion	**7.2%**	**($424)** million	**$9.7** billion	**$31.9** billion

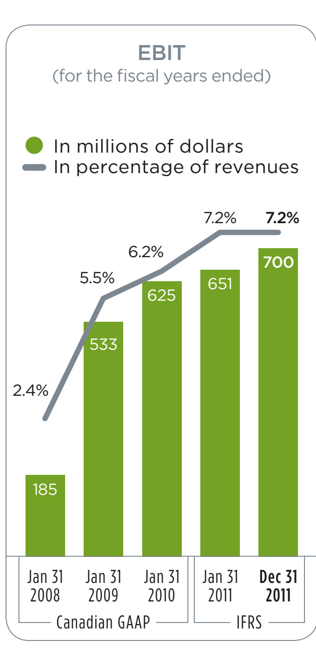
RESULTS

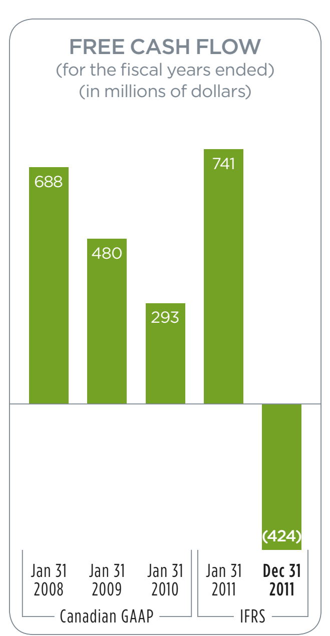
- Revenues of $9.8 billion, compared to $9.1 billion last fiscal year.
- EBIT of $700 million, compared to $651 million, a strong EBIT margin of 7.2% for the second consecutive year.
- EBITDA of $838 million, or 8.6% of revenues, compared to $777 million, or 8.6% of revenues, last fiscal year.
- Free cash flow usage of $424 million, compared to a free cash flow of $741 million last fiscal year.
- $9.7 billion in new orders, compared to $14.3 billion last fiscal year, resulting in a book-to-bill ratio of 1.0.
- Order backlog of $31.9 billion as at December 31, 2011, compared to $33.5 billion as at January 31, 2011.

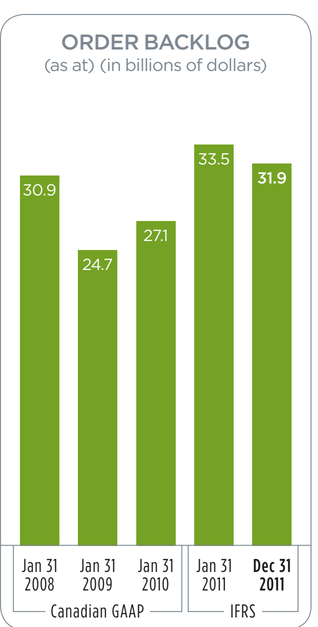
KEY ORDERS

- We signed a framework agreement with Siemens AG, Germany, to be a partner to develop and supply important components for up to 300 ICx high speed trains for Deutsche Bahn AG ("DB"). A firm order for 130 trains valued at $1.8 billion for BT was obtained under this framework agreement.
- We signed several significant contracts, with: Deutsche Bahn Regio AG, Germany, for 90 electrical multiple units (EMUs) of the ET430 series, valued at $648 million; London Underground, U.K., for a *CITYFLO* 650 CBTC signalling system, valued at $577 million; and Chicago Transit Authority, U.S., for 300 additional rapid transit cars, valued at $331 million.
- We also signed a framework agreement with Deutsche Bahn Regio AG, Germany, for 200 *TRAXX* diesel locomotives, with a value estimated at $867 million, if all options are exercised.









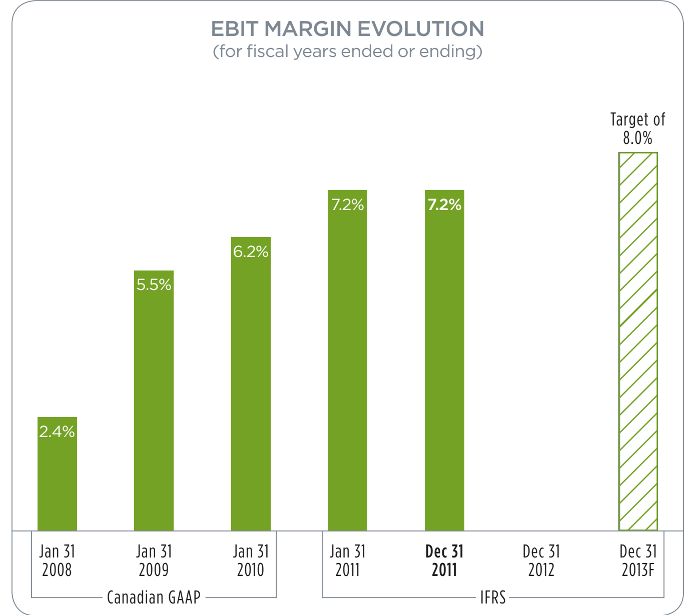
GUIDANCE AND FORWARD-LOOKING STATEMENTS

	What we said	What we did	What's next[1]
Profitability	Continue to improve EBIT margin towards our target of 8% by calendar year 2013.	EBIT margin of 7.2%, the same level as last fiscal year.	Continue to improve EBIT margin towards our target of 8% by calendar year 2013.
Liquidity	Maintain free cash flow generally in line with EBIT, although it may vary significantly from quarter to quarter.	Free cash flow usage of $424 million, compared to EBIT of $700 million.	Maintain free cash flow generally in line with EBIT, although it may vary significantly from quarter to quarter.
Growth and order intake	Maintain a book-to-bill ratio around one in the future, in line with market evolution.	Book-to-bill ratio of 1.0.	Maintain a book-to-bill ratio around 1.0, in line with market evolution.

WE CONTINUE TO FOCUS ON OUR ROAD TO 8% EBIT MARGIN[1]

Our strong level of order activity across all segments and geographies is an expression of our customers' continued confidence in our innovative products and services. We ended the year with a solid backlog of $31.9 billion. Our commitment to continued customer support and our focus on flawless execution are expected to enable us to reach our target of 8% EBIT margin by calendar year 2013[1].

Our project management capability will be a key component of our road to 8% EBIT margin[1]. The continued rollout of lean operations under our Bombardier Operations System (BOS) will support our objectives in cost reduction, as will our emphasis on reducing our general administration expenses and increasing efficiency. Paramount to delivering flawlessly on our project objectives is an emphasis on quality. In 2011, we launched an initiative on quality, with two core elements. The first element involves advanced quality planning throughout all phases of project management. The other core element is an effective process of problem identification, problem solving and prevention and process improvement.



Levers
- Focus on flawless execution.
- Leverage our project management capability.
- Continue to reduce costs (SG&A).
- Capitalize on our worldwide presence (mature and emerging markets).

F: Forecast

1 See Forward-looking statements below.

Forward-looking statements

Forward-looking statements[2] in this section of the MD&A are based on:

- our current order backlog;
- the realization of upcoming tenders and our ability to capture them;
- normal contract execution and continued deployment and execution of leading initiatives, especially those linked to cost reductions, including procurement and operational improvement initiatives;
- recent industry trends based on main market drivers analysis;
- a sustained level of public sector spending; and
- the ability of our supply base to support the execution of our projects.

2 Also see the Guidance and forward-looking statements section in Overview.

KEY PERFORMANCE MEASURES AND METRICS

The table below summarizes our most relevant key performance measures and associated metrics.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Profitability	• EBIT and EBIT margin, as measures of performance.
Liquidity	• Free cash flow, as a measure of liquidity generation.
Growth and competitive positioning	• Revenues, as a measure of growth. • Order backlog, as a measure of future revenues. • Book-to-bill ratio, as an indicator of future revenues. The ratio represents new orders over revenues, measured in dollars in a given period. • Market position, as a measure of competitive positioning.
Customer satisfaction	• Various customer satisfaction metrics, focusing on the four main dimensions: sales and prices, customer orientation, project execution and product offering.

Our employee incentive-based compensation is linked to the achievement of targeted results, based on EBIT and free cash flow.

FIVE-YEAR SUMMARY

	IFRS		Canadian GAAP		
	December 31 2011	January 31 2011	January 31 2010	January 31 2009	January 31 2008
For the fiscal years ended					
Revenues					
Rolling stock	**$ 6,855**	$ 6,385	$ 7,264	$ 6,663	$ 4,894
Services	**1,409**	1,308	1,408	1,529	1,474
System and signalling	**1,489**	1,390	1,337	1,564	1,425
	$ 9,753	$ 9,083	$10,009	$ 9,756	$ 7,793
EBIT	**$ 700**	$ 651	$ 625	$ 533	$ 185
EBIT margin	**7.2%**	7.2%	6.2%	5.5%	2.4%
EBITDA	**$ 838**	$ 777	$ 752	$ 657	$ 294
EBITDA margin	**8.6%**	8.6%	7.5%	6.7%	3.8%
Free cash flow (usage)	**$ (424)**	$ 741	$ 293	$ 480	$ 688
Order intake (in billions)	**$ 9.7**	$ 14.3	$ 9.6	$ 9.8	$ 11.3
Book-to-bill ratio	**1.0**	1.6	1.0	1.0	1.5
As at					
Order backlog (in billions)	**$ 31.9**	$ 33.5	$ 27.1	$ 24.7	$ 30.9
Number of employees[1]	**36,200**	34,900	34,950	35,450	32,600

1 Including contractual and inactive employees.

INDUSTRY AND ECONOMIC ENVIRONMENT

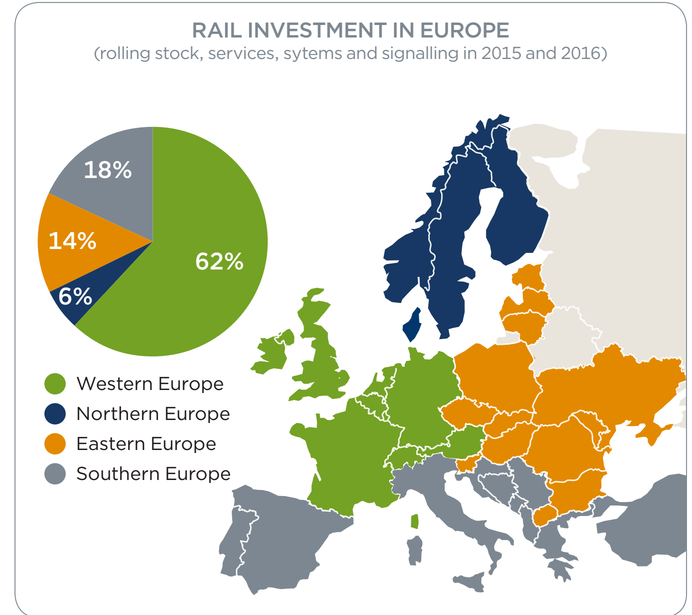
The rail industry is resilient with orders continuing across all markets

The rail industry has historically remained resilient in times of economic turbulence. In the last five years the industry has continued to grow as governments have invested in anticipation of longer term increases in rail demand. Our worldwide rail market accessible to external suppliers continued to have high levels of activity, reaching $96.9 billion on average over calendar years 2009 to 2011, higher than the previous average of $94.6 billion for calendar years 2008 to 2010. This steady growth in investment shows that rail is less subject to short-term volatility than other industries.

Once again, in calendar year 2011 the market for rail equipment was resilient across all segments, including near record orders in rolling stock. Despite economic uncertainty in some regions, we have continued to win orders with our focused strategy.

In Europe, orders remained at a high level after record orders in calendar year 2010, despite economic uncertainty in some countries. The fourth quarter ended the year with high order activity, mainly due to high activity in Germany in the regional trains and light rail vehicles segments. Furthermore, European operators are experiencing encouraging levels of activity in freight and passenger volumes as of the third quarter of 2011, the latest information available, as compared to 2010.

We continue to be well positioned for future growth in Europe. For the purpose of analyzing the rail market, we choose to segment Europe into four regions, as depicted in the graph, as each region has different fundamentals. In our core markets of Western Europe and Northern Europe, we expect to see continued investment in rail with various new orders and options on the horizon. In the past three years we have won significant frame contracts with large options attached. We expect that a good portion of these options will be exercised, which provides us good visibility on future order potential in our core markets. In Eastern Europe, network signalling and fleet modernization plans will continue across the region with the support of European funding. In Southern Europe, where our historical market share is small, new investments may be constrained, though we anticipate a limited impact on our business.



Source: UNIFE 2010

The Asia-Pacific market continued to grow, confirming the region's strong commitment to investment in rail. For example, mass transit investment continues in India with orders for metro cars. In China, we see continued growth in mass transit investment and a need for investment in mainline products such as locomotives. We expect growth in rail investment to continue in these markets, driven by the strong need for mobility on the back of rapid urbanization and continued economic growth.

In North America, the rail market shows positive developments. In mass transit, rail orders have been placed to renew fleets for suburban services and urban centers across Canada and the U.S.

In other markets growth in rail investment is driven by the Middle East, Brazil and Russia. The building of new rail systems, such as a recently announced high speed rail system in Saudi Arabia, demonstrates the momentum for new advanced rail infrastructure in this region.

We are closely monitoring the general economic uncertainty, but at this point we do not see any trend towards a shift of planned tenders.

ANALYSIS OF RESULTS

EBIT margin remained at a high level

We delivered good profitability with a strong EBIT margin of 7.2% for the second consecutive year. Our order intake of $9.7 billion (book-to-bill ratio of 1.0) has resulted in an order backlog of $31.9 billion, which represents an average of 3.3 years of revenues.

RESULTS OF OPERATIONS[1]

	Three months ended		12 months ended	
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
Revenues				
Rolling stock[2]	**$ 1,532**	$ 1,716	**$ 6,855**	$ 6,385
Services[3]	**366**	363	**1,409**	1,308
System and signalling[4]	**402**	416	**1,489**	1,390
Total revenues	**2,300**	2,495	**9,753**	9,083
Cost of sales	**1,884**	2,001	**8,089**	7,460
Gross margin	**416**	494	**1,664**	1,623
SG&A	**207**	190	**818**	754
R&D	**48**	47	**149**	147
Other expense (income)[5]	**(5)**	52	**(3)**	71
EBIT	**166**	205	**700**	651
Amortization[6]	**36**	33	**138**	126
EBITDA	**$ 202**	$ 238	**$ 838**	$ 777
(as a percentage of total revenues)				
Gross margin	**18.1%**	19.8%	**17.1%**	17.9%
EBIT	**7.2%**	8.2%	**7.2%**	7.2%
EBITDA	**8.8%**	9.5%	**8.6%**	8.6%

1 The results of operations of entities using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other Western European currencies) are translated into U.S. dollars using the average exchange rates for the relevant periods. The impact of lower exchange rates of other currencies compared to the U.S. dollar negatively affects revenues and positively affects expenses, while higher exchange rates have the opposite impacts (defined as "negative currency impact" and "positive currency impact"). See the Foreign exchange rates section in Other for the average exchange rates used to translate revenues and expenses.
2 Comprised of revenues from light rail vehicles, metros, commuter and regional trains, intercity trains, high speed and very high speed trains, locomotives, propulsion and controls and bogies.
3 Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.
4 Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance systems, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.
5 Includes i) severance and other involuntary termination costs (including changes in estimates); ii) gains on disposals of PP&E; and iii) impairment charge on PP&E.
6 Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset.

REVENUES BY GEOGRAPHIC REGION

	Three months ended				12 months ended			
	December 31 2011		January 31 2011		**December 31 2011**		January 31 2011	
Europe	**$ 1,467[1]**	**64%**	$ 1,580	63%	**$ 6,275[1]**	**64%**	$ 5,866	65%
Asia-Pacific	**257[1]**	**11%**	486	19%	**1,444[1]**	**15%**	1,635	18%
North America	**373**	**16%**	314	13%	**1,396**	**14%**	1,227	13%
Other[2]	**203**	**9%**	115	5%	**638**	**7%**	355	4%
	$ 2,300	**100%**	$ 2,495	100%	**$ 9,753**	**100%**	$ 9,083	100%

1 The changes in foreign exchange rates, period-over-period, result in a positive currency impact of $36 million in Europe and $3 million in Asia-Pacific for the fourth quarter ended December 31, 2011 and $437 million in Europe and $56 million in Asia-Pacific for the fiscal year ended December 31, 2011.
2 The region Other includes South America, Central America, Africa, the Middle East and the CIS.

Rolling stock revenues

The $184-million decrease for the fourth quarter is mainly explained by lower activities due to the phasing out of existing contracts ahead of ramping-up production on new contracts in:

- commuter and regional trains in Europe and Asia ($154 million);
- intercity and high speed trains in Asia ($142 million);
- metro cars in Asia and Europe ($116 million);
- locomotives in Europe ($55 million); and
- propulsion and controls, mainly in Asia and Europe ($26 million).

Partially offset by higher activities due to the ramp-up of production on existing contracts and new orders in:

- commuter and regional trains in region Other ($95 million);
- light rail vehicles, mainly in Europe and Asia ($86 million);
- mass transit and locomotives in North America ($68 million); and
- intercity, high speed and very high speed trains in Europe and in very high speed trains in Asia ($63 million).

The decrease also reflects a positive currency impact ($14 million).

The $470-million increase for the fiscal year reflects a positive currency impact ($344 million). Excluding this currency impact, revenues increased by $126 million. This increase is mainly explained by higher activities due to the ramp-up of production on existing contracts and new orders in:

- intercity, high speed and very high speed trains in Europe and in very high speed trains in Asia ($197 million);
- metro cars in Europe ($153 million);
- mass transit and locomotives in North America ($149 million);
- commuter and regional trains in region Other ($137 million); and
- light rail vehicles, mainly in Europe and Asia ($56 million).

Partially offset by lower activities due to the phasing out of existing contracts ahead of ramping-up production on new contracts in:

- commuter and regional trains in Europe and Asia ($230 million);
- intercity and high speed trains in Asia ($185 million);
- metro cars in Asia ($102 million);
- propulsion and controls, mainly in Asia and Europe ($99 million); and
- locomotives in Europe ($35 million).

Services revenues

The $101-million increase for the fiscal year reflects a positive currency impact ($71 million). Excluding this currency impact, revenues increased by $30 million. This increase is mainly due to:

- higher activities in region Other and Europe ($51 million).

Partially offset by:

- lower activities in North America ($18 million).

System and signalling revenues

The $14-million decrease for the fourth quarter is mainly due to:

- lower activities due to the phasing out of existing contracts ahead of ramping-up production on new contracts in systems in Asia, region Other and North America ($110 million).

Partially offset by:

- higher activities in signalling, mainly in Europe ($49 million).

The decrease also reflects a positive currency impact ($19 million).

The $99-million increase for the fiscal year reflects a positive currency impact ($82 million). Excluding this currency impact, revenues increased by $17 million. This increase is mainly due to:

- higher activities in signalling in Europe, Asia and region Other ($73 million); and
- the ramp-up of production on existing contracts and new orders in systems in North America ($10 million).

Partially offset by:

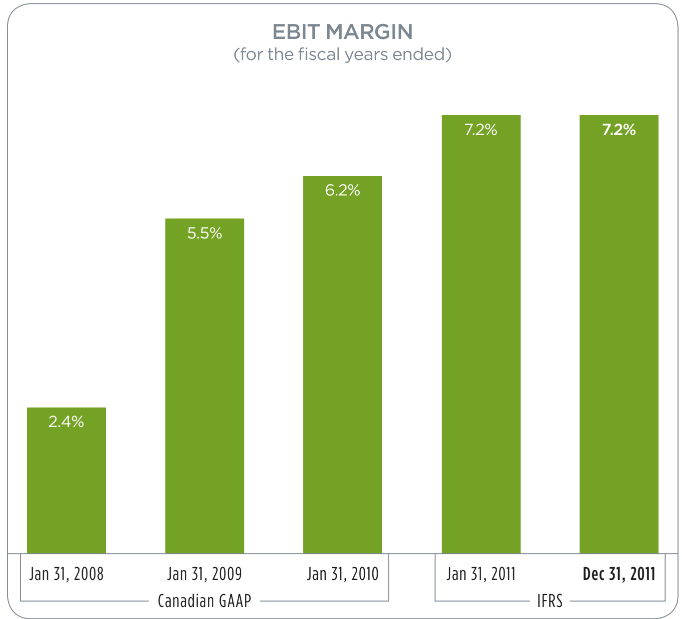
- lower activities due to the phasing out of existing contracts ahead of ramping-up production on new contracts in systems in Asia and Europe ($86 million).

EBIT margin

The EBIT margin for the fourth quarter decreased by 1.0 percentage point. Excluding the impact of last year's non-recurring items (see explanations below), the EBIT margin decreased by 2.8 percentage points mainly as a result of:

- higher SG&A expenses;
- a lower gross margin due to execution issues in certain projects; and
- a lower net gain related to foreign exchange fluctuations and certain financial instruments carried at fair value recorded in cost of sales.

The EBIT margin for the fiscal year remained unchanged at 7.2%. Excluding the impact of last year's non-recurring items (see explanation below), the EBIT margin decreased by 0.7 percentage points mainly as a result of a lower gross margin due to execution issues in certain contracts.



For the fourth quarter and fiscal year ended January 31, 2011, the EBIT margins were negatively impacted by the following non-recurring items recorded in other expense (income):

- by 1.4% and 0.3%, respectively, due to provisions related to capacity adjustments mainly for the optimization of our footprint in Europe ($35 million for the fourth quarter and $28 million for the fiscal year);
- by 0.4% and 0.1%, respectively, related to a $10 million equity pick-up for our share of an impairment loss of an associate in Asia;
- by 0.2% for the fiscal year, due to a $20 million loss in connection with the flooding of our site in Bautzen, Germany; and
- by 0.1% for the fiscal year, due to a $8 million impairment of real estate as a result of the continued effort to optimize our footprint, mainly in Europe.

Overall free cash flow usage for the year with positive free cash flow in the fourth quarter

FREE CASH FLOW (USAGE)

	Three months ended		12 months ended	
	December 31 2011	January 31 2011	**December 31 2011**	January 31 2011
EBIT	**$166**	$205	**$ 700**	$ 651
Amortization	**36**	33	**138**	126
EBITDA	**202**	238	**838**	777
Other non-cash items:				
Gains on disposals of PP&E	**(2)**	(1)	**(3)**	(3)
Share-based expense	**3**	7	**19**	24
Impairment charge on PP&E	**–**	–	**–**	8
Net change in non-cash balances related to operations	**420**	611	**(1,123)**	52
Cash flows from operating activities	**623**	855	**(269)**	858
Net additions to PP&E and intangible assets	**(59)**	(56)	**(155)**	(117)
Free cash flow (usage)	**$564**	$799	**$ (424)**	$ 741

The $235-million decrease for the fourth quarter is mainly due to a negative period-over-period variation in net change in non-cash balances related to operations ($191 million) (see explanation below) and a lower EBITDA ($36 million).

The $1,165-million decrease for the fiscal year is mainly due to a negative period-over-period variation in net change in non-cash balances related to operations ($1,175 million) (see explanation below).

Net change in non-cash balances related to operations

For the fourth quarter of the fiscal year ended December 31, 2011, the $420-million cash inflow is mainly due to a reduction in inventories following deliveries in several contracts, mainly in some rolling stock contracts where we experienced delays in previous quarters.

For the fourth quarter of the fiscal year ended January 31, 2011, the $611-million cash inflow was mainly due to:

- an increase in advances and progress billings related to new orders and existing contracts; and
- higher trade and other payables.

Partially offset by:

- an increase in inventories resulting from the higher level of activities; and
- an increase in trade and other receivables following increased deliveries in several contracts.

For the fiscal year ended December 31, 2011, the $1,123-million cash outflow is mainly due to:

- an increase in inventories due to the ramp-up of several contracts ahead of deliveries and delays experienced in deliveries for some rolling stock contracts; and
- the impact of settlements of derivatives used in roll-forward cash flow hedge relationships.

Partially offset by:

- an increase in advances and progress billings related to new orders and existing contracts.

For the fiscal year ended January 31, 2011, the $52-million cash inflow was mainly due to:

- an increase in advances and progress billings related to new orders and existing contracts.

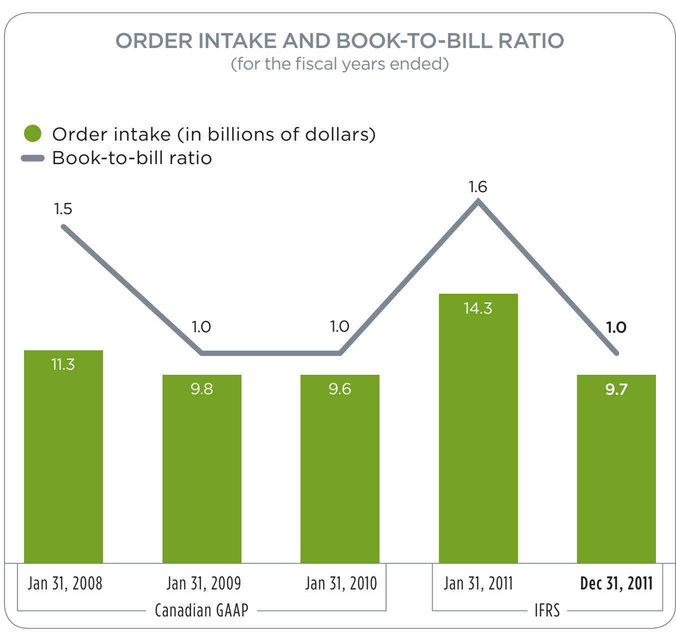
Partially offset by:

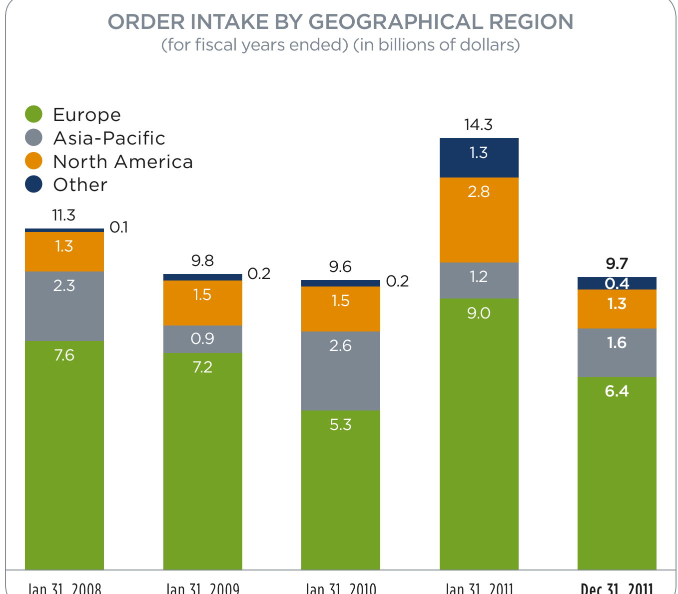
- an increase in trade and other receivables following the increased deliveries in several contracts.

BT continues to secure significant orders

ORDER INTAKE AND BOOK-TO-BILL RATIO

	Three months ended		12 months ended	
(in billions of dollars)	**December 31 2011**	January 31 2011	**December 31 2011**	January 31 2011
Rolling stock	**$2.1**	$2.6	**$6.4**	$10.9
Services	**0.5**	0.4	**1.1**	1.4
System and signalling	**0.4**	0.4	**2.2**	2.0
	$3.0	$3.4	**$9.7**	$14.3
Book-to-bill ratio	**1.3**	1.4	**1.0**	1.6





Our level of order intake for the fourth quarter ended December 31, 2011 includes orders from Deutsche Bahn Regio AG, Germany, for ET430 series electrical multiple units (EMUs) ($648 million), and from Southern Railways, U.K., for *ELECTROSTAR* cars ($296 million).

The order intake for the fourth quarter and fiscal year ended December 31, 2011 reflect positive currency impacts of $24 million and $468 million, respectively, as a result of changes in foreign exchange rates, period-over-period.

We received the following significant orders during the fiscal year ended December 31, 2011:

Customer	Country	Product or service	Number of cars	Market segment	Value
Siemens AG	Germany	Development and supply of components for ICx high speed trains for a Deutsche Bahn AG (DB) contract	1,165	Rolling stock	$1,800
Deutsche Bahn Regio AG	Germany	ET430 series electrical multiple units (EMUs)	360	Rolling stock	$648
London Underground	U.K.	*CITYFLO* 650 CBTC signalling system	n/a	System and signalling	$577
Chicago Transit Authority (CTA)	U.S.	Rapid transit cars	300	Rolling stock	$331
Southern Railways	U.K.	*ELECTROSTAR* cars	130	Rolling stock	$296
Government of South Australia	Australia	Supply and maintenance of 25kV electric trains	66	Rolling stock	$278
Queensland Government	Australia	Light Rail Rapid Transit system, and 15-year maintenance	14	System and signalling	$265[1]
Frankfurt Transport Authority (VGF)	Germany	*FLEXITY* trams	88	Rolling stock	$249
Mumbai Railway Vikas Corporation (MRVC)	India	*MITRAC* propulsion and control equipment for commuter trains	n/a	Rolling stock	$214
Trenitalia	Italy	E464 electric locomotives	50	Rolling stock	$186
Dallas/Fort Worth (DFW) International Airport	U.S.	10-year maintenance of *INNOVIA* APM 200 system	n/a	System and signalling	$165
Maryland Transit Administration (MTA)	U.S.	MultiLevel commuter cars	54	Rolling stock	$154
Metrolinx	Canada	*BiLevel* commuter cars	50	Rolling stock	$128
Delhi Metro Rail Corporation Ltd (DMRC)	India	*MOVIA* metro cars	76	Rolling stock	$120
Terminal 2 Betriebsgesellschaft mbH & Co oHG (Munich Airport)	Germany	*INNOVIA* APM 300 system, and operations and 9 years maintenance	n/a	System and signalling	$120
Västtrafik	Sweden	*REGINA* high speed trains	18	Rolling stock	$101

1 Contract performed through a consortium. Only the value of our share is stated.
n/a: Not applicable

We are building on our signalling presence in a growing mass transit market. During the third quarter of the current fiscal year, we signed a $96-million contract for a state-of-the-art *CITYFLO* 650 complete mass transit solution with Companhia do Metropolitano de São Paulo (CMSP), Brazil. The scope of the project comprises the turnkey design, supply, installation and commissioning for both the existing part of Line 5 and its extension.

During the second quarter of the current fiscal year, we signed the following agreements:

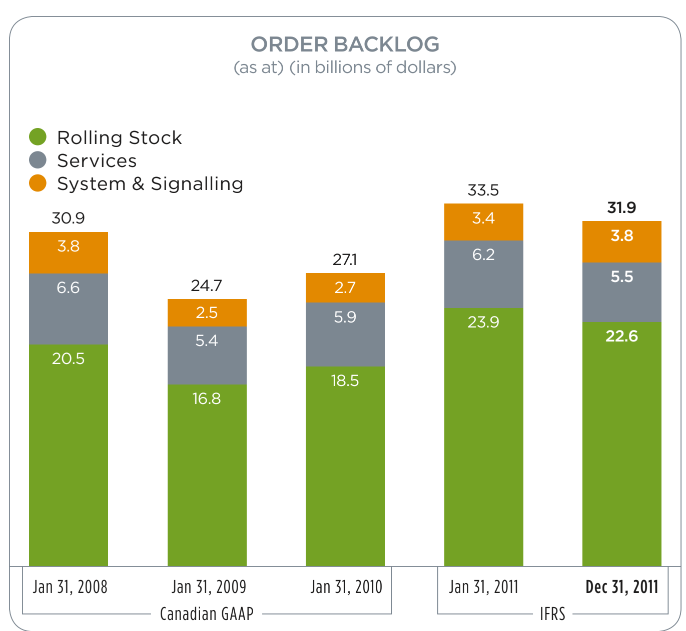
- A framework agreement with Siemens AG, Germany, to be a partner to develop and supply important components for up to 300 ICx high speed trains for DB. A firm order for 130 trains valued at $1.8 billion for BT was obtained under this framework agreement. The remaining trains can be ordered at any time until 2030.
- A nine-year framework agreement with Deutsche Bahn Regio AG, Germany, for 200 *TRAXX* diesel locomotives with multi-engine propulsion, estimated at $867 million. A firm order for a total of 20 locomotives valued at $90 million was obtained under this framework agreement.

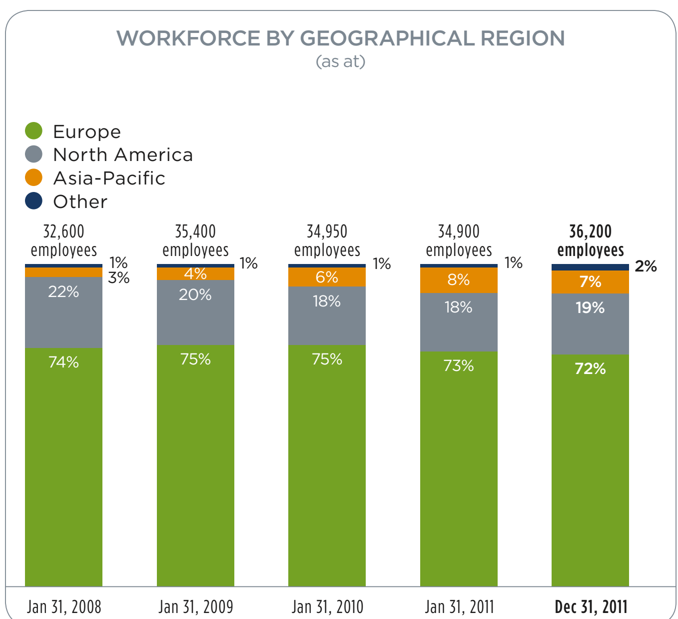
ORDER BACKLOG

(in billions of dollars)	December 31, 2011	January 31, 2011
Rolling stock[1]	**$22.6**	$23.9
Services	**5.5**	6.2
System and signalling	**3.8**	3.4
	$31.9	$33.5

1 Of which $15.3 billion, or 68% of rolling stock order backlog, had a percentage of completion from 0% to 25% as at December 31, 2011 ($16.4 billion, or 69%, as at January 31, 2011).

The 5% decrease in order backlog is mainly due to the weakening of most foreign currencies versus the U.S. dollar ($1.5 billion).





Slight increase in workforce following record level of order intake in calendar year 2010

TOTAL NUMBER OF EMPLOYEES

	December 31, 2011	January 31, 2011
Permanent[2]	**31,300**	30,400
Contractual	**4,900**	4,500
	36,200	34,900
Percentage of permanent employees covered by collective agreements	**60%**	57%

2 Including inactive employees.

Since January 31, 2011 our number of employees has increased by 4%, mainly as a result of major orders received in North America and Brazil in the current fiscal year. The increase in employees was also partially due to the hiring of contractual employees to temporarily increase work on delayed contracts in Europe.

We continue to optimize our footprint and align capacity where needed to sustain our competitiveness. The completion of some contracts ahead of receipt of new orders and the loss of one major bid led to reductions in workforce in the U.K. We have also reduced workforce in South Africa following completion of the build-phase of a systems contract. The number of employees in Asia-Pacific remained relatively stable.

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OFF-BALANCE SHEET ARRANGEMENTS

CREDIT AND RESIDUAL VALUE GUARANTEES

In connection with the sale of certain of our products, mainly commercial aircraft, we have provided financing support in the form of credit and residual value guarantees to enhance the ability of certain customers to arrange third-party financing for their acquisitions.

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing (ranging from 1 to 15 years) under the relevant financing arrangements. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value at an agreed-upon date. In most cases, these guarantees are provided as part of a customer financing arrangement (ranging from 1 to 14 years). The value of the underlying asset may be adversely affected by a number of factors. To mitigate our exposure, the financing arrangements generally require the aircraft used as collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically a specified maximum amount of the first losses incurred by the guaranteed party. A claim under the guarantee may typically be made only upon the sale of the underlying asset to a third party.

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

For more details, refer to note 35 – Commitments and contingencies, to the consolidated financial statements.

FINANCING COMMITMENTS

We sometimes provide financing support to facilitate our 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.

As at December 31, 2011, we were not committed to arrange financing for customers in relation to the future sale of aircraft.

FINANCING STRUCTURES RELATED TO THE SALE OF COMMERCIAL AIRCRAFT

In connection with the sale of commercial aircraft, BA has provided credit and/or residual value guarantees to certain entities created solely to provide financing related to the sale of commercial aircraft.

Typically, these entities are financed by third-party long-term debt and equity. Often, equity investors benefit from tax incentives. The aircraft serve as collateral for the entities' long-term debt. We retain certain interests in the form of credit and residual value guarantees, subordinated debt and residual interests. We also provide administrative services to certain of these entities in return for a market fee.

For more details, refer to note 34 – Unconsolidated special purpose entities, to the consolidated financial statements.

FINANCIAL ARRANGEMENTS

In the normal course of its business, BT has set up factoring facilities in Europe, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €580 million ($751 million) were outstanding under such facilities as at December 31, 2011 (€248 million [$340 million] as at January 31, 2011). Trade receivables of €183 million ($250 million) and €581 million ($812 million), respectively, were sold to these facilities during the fourth quarter and fiscal year ended December 31, 2011 (€122 million [$158 million] and €442 million [$584 million], respectively, during the fourth quarter and fiscal year ended January 31, 2011).

RISKS AND UNCERTAINTIES

We operate in industry segments which present a variety of risk factors and uncertainties. The risks and uncertainties described below are risks that could materially affect our business activities, financial condition and results of operations; but these are not necessarily the only risks we face. Additional risks and uncertainties, presently unknown to us or that we currently believe to be immaterial, may also adversely affect our business. To the extent possible, we perform risk assessment and apply mitigation practices to reduce the nature and extent of our exposure to these risks to a level acceptable to us.

General economic risk	Potential loss due to unfavourable economic conditions, such as a macroeconomic downturn in key markets, could result in potential buyers postponing the purchase of our products or services, lower order intake, order cancellations or deferral of deliveries, lower availability of customer financing, downward pressure on selling prices, increased inventory levels, decreased level of customer advances, reduction in production activities, discontinued production of certain products, termination of employees and adverse impacts on our suppliers.
Business environment risk	Business environment risk is the risk of potential loss due to external risk factors. More specifically, external risk factors may include the financial condition of the airline industry, business aircraft customers and major rail operators; government policies related to import and export restrictions; changing priorities and possible spending cuts by government agencies; government support for export sales; world trade policies; increased competition from other businesses, including new entrants in market segments in which we compete; as well as scope clauses in pilot union agreements restricting the operation of smaller jetliners by major airlines or by their regional affiliates. In addition, acts of terrorism, natural disasters, global health risks, political instability or the outbreak of war or continued hostilities in certain regions of the world could result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of our products.
Operational risk	Operational risk is the risk of potential loss due to risks related to the nature of our operations. Sources of operational risk include development of new products and services; actions of business partners; product performance warranty and casualty claim losses; regulatory and legal conditions; environmental, health and safety issues; as well as dependence on customers, suppliers, partners and human resources. In addition, large and complex projects are common in our businesses, structured as fixed-price contracts, and thus exposed to production and project execution risks. We are also subject to risks related to problems with supply chain management, reliance on information systems, reliance on intellectual property rights as well as the successful integration of new business acquisitions.
Financing risk	Financing risk is the risk of potential loss related to liquidity of our financial assets, including counterparty credit risk; access to capital markets; restrictive debt covenants; financing support provided for the benefit of certain customers; and government support.
Market risk	Market risk is the risk of potential loss due to adverse movements in market factors, including foreign currency fluctuations, changing interest rates, decreases in residual values of assets and increases in commodity prices.

Business environment risk

FINANCIAL CONDITION OF THE AIRLINE INDUSTRY AND BUSINESS AIRCRAFT CUSTOMERS

The airline industry's financial condition and viability, including airlines' ability to secure financing, influence the demand for BA's commercial aircraft. The nature of the airline industry makes it difficult to predict when economic downturns or recoveries will impact the industry and economic cycles may be longer than expected. Continued cost pressures and effort to achieve acceptable profitability in the airline industry constrain the selling price of BA's products.

The purchase of our products and services is a significant investment for a corporation, an individual or a government. When economic or business conditions are unfavourable, potential buyers may delay the purchase of our products and services. The availability of financing is also an important factor and credit scarcity can cause customers to either defer deliveries or cancel orders.

An increased supply of used aircraft as companies restructure, downsize or discontinue operations also adds downward pressure on the selling price of new and used business and commercial aircraft. We are faced with the challenge of finding ways to reduce costs and improve productivity to sustain a favourable market position at acceptable profit margins. The loss of any major commercial airline or fractional ownership or charter operator as a customer or the termination of a contract could significantly reduce our revenues and profitability.

FINANCIAL CONDITION OF THE RAIL INDUSTRY

The challenging worldwide economic and financial environment may have a negative impact on some rail operators. As governments respond to economic crises with austerity measures or by increasing their level of indebtedness to fund economic stimulus plans, it may become more difficult for publicly owned rail operators to obtain government funding. Funding shortages may result in selected projects being reduced in size, postponed or even cancelled. Such actions by rail operators or governments would negatively impact BT's order intake and revenues and put pressure on our cost structure and on prices and could reduce our competitiveness. In addition, payment terms, including the level and timing of advance payments from our customers, may deteriorate and negatively impact our cash flows.

POLITICAL INSTABILITY

Political unrest in certain regions of the world in which we operate may be prolonged and unpredictable. A prolongation of political instability could lead to delays or cancellation of orders or projects in which we have invested significant resources.

FORCE MAJEURE EVENT OR NATURAL DISASTER

The risk of force majeure or natural disaster (including seismic and severe weather related events such as ice storms, hurricanes, flooding, tornadoes or other calamity) is unpredictable and may have significant adverse results, such as personal injury or fatality; damage to or destruction of on-going projects, facilities or equipment; environmental damage; delays or cancellations of orders and deliveries; delays in the receipt of materials from our suppliers; delays in projects; and possible legal liability.

Operational risk

DEVELOPING NEW PRODUCTS AND SERVICES

Changes as a result of global trends such as climate change, oil scarcity, the rising cost of energy, urbanization, population growth and demographic changes influence customer demands in our main markets of operation. To meet our customers' needs, we must continuously develop and design new products, improve existing products and services and invest in and develop new technologies. Introducing new products or technologies requires a significant commitment to R&D capital investment, including a significant level of highly skilled employees, and may or may not be successful.

Our results may be impacted if we invest in products that are not accepted in the marketplace, if customer demand or preferences change, if new products are not approved by regulatory authorities or are not brought to market in a timely manner or if our products become obsolete. We may incur cost overruns in developing our new products and there is the risk that our products will not meet performance specifications to which we have committed. Despite measures used to protect our proprietary information such as confidentiality agreements and licenses, we may not always be able to enforce our rights to our intellectual property or preclude misuse of our technology.

We are subject to stringent certification and approval requirements, as well as the capacity of regulatory bodies to perform these assessments on a timely basis, which vary by country and can delay the certification of our products. Non-compliance with current or future regulatory requirements imposed by Transport Canada (TC), the Federal Aviation Administration (FAA), the European Aviation Safety Agency (EASA), the Transport Safety Institute, national rail regulatory bodies or other regulatory authorities could result in service interruption of our products, fewer sales, reduction in inventory values or impairment of assets.

In the market categories in which BA competes, our competitors are currently developing numerous aircraft programs, with expected entries-into-service over the next decade. We face the risk that our market share may be eroded if potential customers opt for the competition's aircraft models. We may also be negatively impacted if we are not able to meet product support expectations or provide an international presence for our diverse customer base.

Customer acceptance of BT's highly customized products may be delayed for various reasons, including customer requirements not being met or a divergence in interpretation of customer requirements, which may result in delayed deliveries, a build-up of inventories and a consequential financial impact. BT's results may also be negatively impacted if we fail to design or obtain accreditation for new technologies and platforms on budget and in a timely manner. Further, our long-term growth, competitiveness and continued profitability are dependent on our ability to continue to develop our product mix and to align our footprint with worldwide market opportunities.

FIXED-PRICE COMMITMENTS AND PRODUCTION AND PROJECT EXECUTION

We have historically offered, and will continue to offer, virtually all of our products on fixed-price contracts, rather than contracts under which payment is determined solely on a time-and-material basis. Generally, we may not terminate contracts unilaterally.

We are exposed to risks associated with fixed-price contracts, including unexpected technological problems, difficulties with our partners and subcontractors, logistical difficulties and other execution issues, that could lead to cost overruns, late delivery penalties or delays in receiving milestone payments. We may also incur late delivery penalties in periods when BA is increasing production rates. In addition, due to the nature of the bidding process, long-term contract revenues are based, in part, on cost estimates which in turn are subject to a number of assumptions, such as forecasted costs of materials, inflation rates, foreign exchange rates, labour productivity, employment levels and salaries, and are influenced by the nature and complexity of the work to be performed. Long-term contract revenues and costs may also vary from initial forecasts due to the impact of change orders and delayed deliveries.

BUSINESS PARTNERS

In some of the projects carried out through consortia or other partnership vehicles in which we participate, partners are jointly and severally liable to the customer. The success of these partnerships is dependent on satisfactory performance from us and our business partners. Failure of the business partners to fulfill their contractual obligations could subject us to additional financial and performance obligations that could result in increased costs, unforeseen delays or impairment of assets. In addition, a partner withdrawing from a consortium during the bid phase, in particular in the BT Systems business, may result in the loss of potential order intake.

PRODUCT PERFORMANCE WARRANTY AND CASUALTY CLAIM LOSSES

The products that we manufacture are highly complex and sophisticated and may contain defects that are difficult to detect and correct. Our products are subject to detailed specifications listed in the individual contracts with customers and are subject to stringent certification or approval requirements. Defects may be found in our products before and after they are delivered to the customer. When discovered, we may incur significant additional cost to modify and/or retrofit our products, and we may not be able to correct defects in a timely manner, or at all. The occurrence of defects and failures of our products could give rise to non-conformity costs, including warranty and damage claims, negatively affect our reputation and profitability and result in the loss of customers. Correcting such defects could require significant capital investment.

In addition, due to the nature of our business, we may be subject to liability claims arising from accidents, incidents or disasters involving our products or products for which we have provided services, including claims for serious personal injuries or death. These accidents may include misfortunes caused by climatic factors or human error. We cannot be certain that our insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that we will be able to obtain insurance coverage at acceptable levels and costs in the future.

REGULATORY AND LEGAL RISKS

We are subject to numerous risks relating to new regulations or legal proceedings to which we are currently a party or that could arise in the future. We become party to lawsuits in the ordinary course of our business, including those involving allegations of late deliveries of goods or services, product liability, product defects, quality problems and intellectual property infringement. We may incur material losses relating to litigation beyond the limits or outside the coverage of our insurance and our provisions for litigation-related losses may not be sufficient to cover the ultimate loss or expenditure.

ENVIRONMENTAL, HEALTH AND SAFETY RISKS

Our products, as well as our manufacturing and service activities, are subject to environmental laws and regulations in each of the jurisdictions in which we operate, governing among other things: product performance or content; energy use and greenhouse gas emission; air, water and noise pollution; the use, storage, transportation, labelling and disposal or release of hazardous substances; human health risks arising from the exposure to hazardous or toxic materials; and the remediation of soil and groundwater contamination on or under our properties (whether or not caused by us), or on or under other properties and caused by our current or past operations.

Environmental regulatory requirements, or enforcements thereof, may become more stringent in the future, and we may incur additional costs to be compliant with such future requirements or enforcements. In addition, we may have contractual or other liabilities for environmental matters relating to businesses, products or properties that we have in the past closed, sold or otherwise disposed of, or that we close, sell or dispose of in the future.

DEPENDENCE ON CUSTOMERS

For some of our products, we depend on a limited number of customers and we believe that we will continue to depend on a limited number of customers. Consequently, the loss of such a customer could result in fewer sales and/or a lower market share. Since the majority of BT's customers are public-sector companies or operate under public contracts, BT's order intake is also dependent on public-sector budgets and spending policies.

BUSINESS DEVELOPMENT

BA and BT's businesses are dependent on obtaining new customers and continuously replenishing our order backlog. BA and BT's results may be negatively impacted if we are unable to effectively execute our strategies to capture growth and successfully establish local roots in new or emerging markets.

DEPENDENCE ON SUPPLIERS

Our manufacturing operations are dependent on a limited number of suppliers for the delivery of raw materials (mainly aluminum, advanced aluminum alloy and titanium) and major systems (such as engines, wings, nacelles, landing gear, avionics, flight controls and fuselages) at BA, and raw materials (mainly steel and aluminum), services (mainly engineering, civil and electrical subcontracts) and major systems (such as brakes, doors, heating, ventilation and air conditioning) at BT. A failure by one or more suppliers to meet performance specifications, quality standards or delivery schedules could adversely affect our ability to meet our commitments to customers.

Some of our suppliers participate in the development of products such as aircraft or rolling stock platforms. They subsequently deliver major components to us and own some of the intellectual property on key components they developed. Our contracts with these suppliers are therefore on a long-term basis. The replacement of suppliers could be costly and take a significant amount of time.

HUMAN RESOURCES (INCLUDING COLLECTIVE AGREEMENTS)

Human resource risk includes the risk that we may incur delays to recruit or be unable to retain and motivate highly skilled employees, including those involved in the R&D and manufacturing activities that are essential to our success. In addition, we are party to several collective agreements that are due to expire at various times in the future. Our inability to renew these collective agreements on mutually agreeable terms as they become subject to renegotiation from time to time could result in work stoppages or other labour disturbances, such as strikes, walk-outs or lock-outs, and/or increased costs of labour.

Financing risk

LIQUIDITY AND ACCESS TO CAPITAL MARKETS

We require sufficient capital resources and continued access to capital markets to support our operating activities and the development of new products. To satisfy our financing needs, we rely on cash on hand, cash flow generated from operations, capital market resources such as debt and equity issuance and other financing arrangements such as revolving credit facilities. A decline in credit ratings, a significant reduction in the surety or financing market global capacity, widening credit spreads, significant changes in market interest rates or general economic conditions or an adverse perception in bank and capital markets of our financial condition or prospects could all significantly increase our cost of financing or impede our ability to access financial markets. Also, new regulatory requirements on bank capital adequacy and market liquidity risk may impact the availability of financing whereby access to credit may become more difficult and borrowing costs are likely to increase. In addition, our right to convert into cash certain deposits or investments, made in financing structures to guarantee our obligations, may be subject to restrictions. Credit ratings may be impacted by many external factors beyond our control and, accordingly, no assurance can be given that our credit ratings may not be reduced in the future.

We are required to make contributions to certain pension plans, many of which are presently in a deficit position. If our requirements to make contributions increase, this may reduce the funds available for operating purposes and may weaken our liquidity position. Additionally, in some countries, cash generated from operations may be subject to restrictions on the right to convert and/or repatriate money and may not be available for immediate use.

CREDIT RISK

We are exposed to credit risk on our derivative financial instruments and other investing activities carried out through our normal treasury activities, as well as through our trade receivables arising from normal commercial activities and financing activities provided to BA customers in connection with the sale of aircraft primarily in the form of aircraft loans and lease receivables. If our customers or other counterparties are unable to make payment of amounts owed to us, or delay payments, we may be subject to reduced liquidity and may incur impairment losses on these assets. Furthermore, if our customers experience deteriorating credit quality, we may need to: i) provide additional direct or indirect financing support to maintain sales, increasing our credit risk, or ii) reduce our customers' credit limits, which could negatively affect our revenues.

We also have exposure to solvency of banks in the form of credit commitments. In the event the banks with which we transact are unable to withstand regulatory or liquidity pressures, credit facilities, including letter of credit facilities, may become unavailable or we may not be able to extend such facilities upon their maturity.

RESTRICTIVE DEBT COVENANTS

The indentures governing certain of our indebtedness, revolving credit facility and letter of credit facilities contain covenants that, among other things, restrict our ability to:

- incur additional debt and provide guarantees;
- repay subordinated debt;
- create or permit certain liens;
- use the proceeds from the sale of assets and capital stock of subsidiaries;
- pay dividends and make certain other disbursements;
- allow our subsidiaries to pay dividends or make other payments;
- engage in certain transactions with affiliates; and
- enter into certain consolidations, mergers or transfers of all or certain assets.

These restrictions could impair our ability to finance our future operations or capital needs, or engage in other business activities that may be in our interest.

We are subject to various financial covenants under our BA and BT letter of credit facilities and our unsecured revolving credit facility, which must be met on a quarterly basis. The BA letter of credit facilities and our unsecured revolving facility include financial covenants requiring a minimum EBITDA to fixed-charges ratio, a maximum net debt to EBITDA ratio and a minimum liquidity level, all calculated based on an adjusted consolidated basis (i.e. excluding BT). The BT financial covenants require minimum equity and liquidity levels as well as a maximum debt to EBITDA ratio, all calculated on a BT standalone basis. These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to the specific terms used in the MD&A.

Our ability to comply with these covenants may be affected by events beyond our control. A breach of any of these agreements or our inability to comply with these covenants could result in a default under these facilities, which would permit our banks to request the immediate cash collateralization of all outstanding letters of credit, and our bond holders and other lenders to declare amounts owed to them to be immediately payable. If repayment of our indebtedness is accelerated, we may not be able to repay or borrow sufficient funds to refinance it.

FINANCING SUPPORT PROVIDED FOR THE BENEFIT OF CERTAIN CUSTOMERS

From time to time, we provide aircraft financing support to customers. We may provide, directly or indirectly, credit and residual value guarantees or guarantee a maximum credit spread, to support financing for airlines or to support financings by certain special purpose entities created solely i) to purchase our commercial aircraft and to lease those aircraft to airline companies or ii) to purchase financial assets such as loans and lease receivables related to the sale of our commercial aircraft. Under these arrangements, we are obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make the loan or lease payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at an agreed-upon date. A substantial portion of these guarantees has been extended to support original debtors or lessees with less than investment-grade credit ratings.

GOVERNMENT SUPPORT

From time to time, we receive various types of financial government support. Some of these financial support programs require that we repay amounts to the government at the time of delivery of products. The level of government support reflects government policy and depends on fiscal spending levels and other political and economic factors. We cannot predict if future government-sponsored support will be available. The loss of or any substantial reduction in the availability of government support could negatively impact our liquidity assumptions related to the development of aircraft or rail products and services. In addition, any future government support received by our competitors could have a negative impact on our competitiveness, sales and market share.

Market risk

FOREIGN EXCHANGE RISK

Our financial results are reported in U.S. dollars and a significant portion of our sales and operating costs are realized in currencies other than U.S. dollars, most often euros, Canadian dollars and pounds sterling. Our results of operations are therefore affected by movements of these currencies against the U.S. dollar. Significant fluctuations in relative currency values against the U.S. dollar could therefore have a significant impact on our future profitability.

INTEREST RATE RISK

Changes in interest rates may result in fluctuations in our future cash flows related to variable-rate financial assets and liabilities, including long-term debt synthetically converted to variable interest rates and retirement benefit obligations. Changes in interest rates may also affect our future cash flows related to commitments to provide financing support to facilitate our customers' access to capital. For these items, cash flows could be impacted by changes in benchmark rates such as Libor, Euribor or Bankers' Acceptance. In addition, we are exposed to gains and losses arising from changes in interest rates, including marketability risk, through our retirement benefit obligations and financial instruments carried at fair value, such as certain aircraft loans and lease receivables, investments in securities and certain derivatives.

RESIDUAL VALUE RISK

We are exposed to residual value risks through residual value guarantees ("RVGs") provided in support of commercial aircraft sales. We may provide RVGs either directly to the airline or to the financing party that participates in the long-term financing associated with the sale of commercial aircraft. RVGs are offered as a strip of the value of the aircraft with a ceiling and a floor. If the underlying aircraft is sold at the end of the financing period (or during this period in limited circumstances), the resale value is compared to the RVG strip. We are required to make payments under these RVGs when the resale value of the aircraft falls below the ceiling of the strip covered by the guarantee, but our payment is capped at the floor of the strip if the resale value of the aircraft is below the floor of the strip.

COMMODITY PRICE RISK

We are exposed to commodity price risk relating principally to fluctuations in the cost of materials used in the supply chain, such as aluminum, advanced aluminum alloy, titanium and steel, which could adversely affect our business activities, financial condition and results of operations.

ACCOUNTING AND REPORTING DEVELOPMENTS

Changes in accounting policies

IFRS

Canadian GAAP for all publicly accountable entities has changed to IFRS, with a few exceptions, effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. This change was effective for our interim and annual financial statements beginning on February 1, 2011. Choices made with regard to our accounting policies under IFRS have remained unchanged from those presented in previous quarters of the current fiscal year.

Other comparative figures presented in this MD&A for periods and dates prior to our transition date to IFRS have not been restated and are presented as prepared under Canadian GAAP. Consequently, this information is not entirely comparable.

For a more detailed explanation of the impacts as a result of our conversion to IFRS, refer to note 36 – Adoption of IFRS, to the consolidated financial statements.

The following is a summary of the most significant adjustments to the opening balance sheet as at February 1, 2010 arising from the adoption of IFRS. All adjustments are presented before income taxes, and the combined income tax impact of all adjustments is presented separately.

A. Retirement benefits

We elected to account for the entire net retirement benefit liability, amounting to $2.1 billion as at February 1, 2010, in our statement of financial position under IFRS. A significant portion of this net liability was not recorded on the statement of financial position under Canadian GAAP and its recognition under IFRS, together with related IFRS adjustments, resulted in a decrease in equity of $2.2 billion.

B. Revenues

We standardized our revenue recognition policy to account for revenues from the sale of all aircraft upon delivery of the completed aircraft to customers. Under Canadian GAAP, revenue from the sale of medium and large business aircraft (*Challenger* and *Global* families) were segmented between two milestones: green aircraft delivery (i.e. before exterior painting and installation of interiors and optional avionics) and upon final acceptance of the completed aircraft by customers. Revenues of 113 medium and large business aircraft for which we had reached the green stage of completion but had not yet achieved final delivery were reversed at transition.

Other changes in revenue recognition policy include the application of new rules to account for BT contract options signed in connection with long-term contracts, as well as changes in accounting for certain contractual losses, penalties in connection with late deliveries of aircraft and provisions for aircraft warranties.

The combined impact of the changes described above resulted in a $554 million decrease in equity under IFRS as at February 1, 2010.

C. Aerospace program tooling

As an incentive to stimulate R&D, some governments provide advances during the development period, which are usually refundable conditional upon delivery of the underlying aircraft to customers.

Under Canadian GAAP, contingently repayable advances received were deducted from aerospace program tooling or R&D expense, while, under IFRS, a liability is recorded for the expected repayment of advances received if it is probable that the conditions for repayment will be met.

We also made accounting policy changes related to R&D expenditures incurred by vendors on our behalf and repaid by us and to the capitalization of borrowing costs to aerospace program tooling.

The combined main impacts of these adjustments as at February 1, 2010 was the recognition of a $238-million government refundable advances liability, a decrease of aerospace program tooling of $54 million and a decrease in equity of $246 million.

D. Sales and leaseback of pre-owned business aircraft

Sales and leaseback facilities for pre-owned business aircraft were not recognized on the statement of financial position under Canadian GAAP (the corresponding leases were treated as operating leases), but are recorded as liabilities under IFRS due to more restrictive rules. The main impacts of this adjustment as at February 1, 2010 were an increase in inventories of $167 million and the recognition of a sale and leaseback obligation of $179 million.

E. Income tax impact of all restatements

In connection with the IFRS restatements to equity at transition, $207 million of additional deferred income tax assets were recognized, with a corresponding increase in equity.

Presentation of the statement of financial position

A classified statement of financial position has been presented under IFRS, based on the operating cycle for operating items and based on a 12-month period for non-operating items. In addition, the statement of financial position has been streamlined to remove less significant components and add visibility on aerospace program tooling.

Statement of income and EPS

The following is a summary of the most significant IFRS adjustments to the statement of income for the fiscal year ended January 31, 2011.

Under IFRS, BA EBIT increased by $105 million and by $49 million for BT, for a consolidated increase of $154 million. These increases are mainly due to lower retirement benefit costs, arising mainly from the recognition of actuarial gains and losses in OCI as incurred and the reclassification of expected return on pension plan assets and interest cost accretion on retirement benefit liabilities from EBIT to financing expense (income). BA EBIT was also impacted by lower expenses related to aerospace program tooling and a positive impact arising from the change in the revenue recognition policy.

Overall, the impact of the adoption of IFRS on net income and the diluted EPS for fiscal year ended January 31, 2011 was minimal.

With regard to presentation, amortization expense is no longer presented separately under IFRS and is classified between cost of sales, SG&A and R&D based on the function of the underlying assets. Other accounts were also reclassified between cost of sales and other expense (income), based on a review of the nature of these items.

Statement of cash flows

Total cash flows remained the same under IFRS and Canadian GAAP. For the fiscal year ended January 31, 2011, cash flows from investing activities decreased by $52 million as government refundable advances received were classified as cash flows from operating activities, and cash flows from financing activities increased by $38 million as amounts received from the sales and leaseback facilities and repayments to the facilities are no longer classified as cash flows from operating activities.

Future changes in accounting policies

FINANCIAL INSTRUMENTS

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

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

CONSOLIDATION

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

JOINT ARRANGEMENTS

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

DISCLOSURE OF INTERESTS IN OTHER ENTITIES

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

FAIR VALUE MEASUREMENT

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

FINANCIAL STATEMENT PRESENTATION

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

EMPLOYEE BENEFITS

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

FINANCIAL INSTRUMENTS

An important portion of our consolidated balance sheets is composed of financial instruments. Our financial assets include cash and cash equivalents, trade and other receivables, derivative financial instruments with a positive fair value, aircraft loans and lease receivables, investment in securities, investments in financing structures, restricted cash and servicing fee assets. Our financial liabilities include trade and other payables, long-term debt, derivative financial instruments with a negative fair value, government refundable advances, lease subsidies, sale and leaseback obligations, and vendor non-recurring cost liabilities. Derivative financial instruments are mainly used to manage our exposure to foreign exchange and interest rate risks. They consist mostly of forward foreign exchange contracts, interest rate swap agreements and cross-currency interest-rate swap agreements. The classification of our financial instruments as well as the revenues, expenses, gains and losses associated with these instruments is provided in note 2 – Summary of significant accounting policies and in note 12 – Financial instruments, to the consolidated financial statements.

The use of financial instruments exposes us primarily to credit, liquidity and market risks, including foreign exchange and interest rate risks. A description on how we manage these risks is included in Overview and in note 31 – Financial risk management, to the consolidated financial statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

All financial instruments are required to be recognized at their fair value on initial recognition, plus certain transaction costs for financial instruments not at FVTP&L. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as FVTP&L or AFS are carried at fair value, while all others are carried at amortized cost.

Fair value amounts disclosed in the consolidated financial statements represent our estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which we have immediate access. However, there is no active market for many of our financial instruments. In the absence of an active market, we determine fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. In determining these assumptions, we use primarily external, readily observable market inputs such as interest rates, credit ratings, credit spreads, default probability, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are not available. These calculations represent our best estimates based on a range of methodologies and assumptions. Since they are based on estimates, these fair values may not be realized in an actual sale or immediate settlement of the instruments.

A detailed description of the methods and assumptions used to measure the fair value of our financial instruments and their fair value hierarchy are discussed in note 32 – Fair value of financial instruments, to the consolidated financial statements.

Sensitivity analysis

Our main exposures to changes in fair value of financial instruments are related to changes in foreign exchange and interest rates. Note 31 – Financial risk management, to the consolidated financial statements, presents sensitivity analyses assuming variations in foreign exchange and interest rates.

RELATED PARTY TRANSACTIONS

Our related parties, as defined by IFRS, are our joint ventures, associates and key management personnel. A description of our transactions with these related parties is included in note 33 – Transactions with related parties, to the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies and use of estimates and judgment are described in note 2 – Summary of significant accounting policies and note 4 – Use of estimates and judgment, to the consolidated financial statements. The preparation of financial statements, in conformity with IFRS, requires the use of estimates and judgment. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if:

- the estimate requires us to make assumptions about matters that are highly uncertain at the time the estimate is made; or
- we could have reasonably used different estimates in the current period, or changes in the estimate are reasonably likely to occur from period to period, that would have a material impact on our financial condition, our changes in financial condition or our results of operations.

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

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

LONG-TERM CONTRACTS

BT conducts most of its business under long-term contracts with customers and BA has limited long-term maintenance service contracts with customers. Revenues and margins from long-term contracts relating to the designing, engineering or manufacturing of specially designed products (including rail vehicles and component overhaul) and service contracts are recognized using the percentage-of-completion method of accounting. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. The long-term nature of these contracts requires estimates of total contract costs and revenues at completion.

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

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

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

Sensitivity analysis

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

AEROSPACE PROGRAM TOOLING

BA amortizes aerospace program tooling over an expected number of aircraft to be produced, beginning on the delivery date of the first aircraft of the program. As of February 1, 2011, we changed our amortization method prospectively from the straight-line method over ten years to unit of production. The impact of this change is explained in the notes to the consolidated financial statements.

An impairment test is performed at least annually for aircraft programs under development and, for all programs, when there is an indication that the asset may be impaired and an impairment charge is recorded when the recoverable amount of a group of assets generating independent cash inflows is less than the carrying value of those assets.

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

GOODWILL

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT reportable segment. We carried out an impairment test as of February 1, 2010. During the fiscal years ended January 31, 2011 and December 31, 2011 we completed an impairment assessment carrying forward the recoverable amount calculated as at February 1, 2010.

A goodwill impairment assessment is performed at least annually. An impairment assessment is also performed whenever circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that goodwill might be impaired. We selected the fourth quarter as the period in which we perform our annual impairment assessment for goodwill. The recoverable amount of the BT reportable segment, the group of assets to which goodwill is allocated, is based on the higher of fair value less costs to sell and value in use.

The recoverable amount used in our impairment assessments in fiscal years ended January 31, 2011 and December 31, 2011 was calculated as at February 1, 2010 based on fair value less costs to sell using a discounted cash flow model. Estimated future cash flows for the first three years were based on the budget and strategic plans. A growth rate of 1% was applied to the last year of the strategic plan to derive estimated cash flows beyond the initial three-year period. The post-tax discount rate is also a key estimate in the discounted cash flow model and is based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount as at February 1, 2010 was 7.4%.

VALUATION OF DEFERRED INCOME TAX ASSETS

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

CREDIT AND RESIDUAL VALUE GUARANTEES

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

Sensitivity analysis

Our main exposures to changes in value of credit and residual value guarantees are related to the residual value curves of the underlying aircraft and interest rates. The following are presented in isolation from one another.

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

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

RETIREMENT BENEFITS

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

Discount rates are used to determine the present value of the expected future benefit payments and represent the market rates for high quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit obligations. A lower discount rate increases the benefit obligation and generally increases the cost of pension and other retirement benefits.

Expected long-term rates of return on plan assets are determined considering historical returns, future estimates of long term investment returns and target asset allocations. A lower expected rate of return increases the cost of pension and other retirement benefits.

Expected rates of compensation increases are determined considering the current salary structure, as well as historical and anticipated wage increases.

A sensitivity analysis is presented in the Retirement Benefits section in Overview. Details regarding assumptions used are provided in note 20 – Retirement benefits, to the consolidated financial statements.

CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' National Instrument 52-109, we have filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Corporation has been made known to them; and
- information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our internal controls over financial reporting. Based on this evaluation, the CEO and the CFO concluded that the internal controls over financial reporting are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to our internal controls over financial reporting that occurred during the quarter and fiscal year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FOREIGN EXCHANGE RATES

We are subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of our foreign operations with non-U.S. dollar functional currencies, mainly the euro, pound sterling and other Western European currencies, and from transactions denominated in foreign currencies, mainly the Canadian dollar and pound sterling.

The foreign exchange rates used to translate assets and liabilities into U.S. dollars were as follows as at:

	December 31, 2011	January 31, 2011	Increase (decrease)
Euro	**1.2939**	1.3715	(6%)
Canadian dollar	**0.9791**	0.9978	(2%)
Pound sterling	**1.5490**	1.6040	(3%)

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows for the fourth quarters ended:

	December 31, 2011	January 31, 2011	Increase (decrease)
Euro	**1.3394**	1.3428	(0%)
Canadian dollar	**0.9765**	0.9953	(2%)
Pound sterling	**1.5728**	1.5799	(0%)

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows for the fiscal years ended:

	December 31, 2011	January 31, 2011	Increase (decrease)
Euro	**1.3978**	1.3202	6%
Canadian dollar	**1.0124**	0.9750	4%
Pound sterling	**1.6068**	1.5438	4%

INVESTOR INFORMATION

AUTHORIZED, ISSUED AND OUTSTANDING SHARE DATA AS AT FEBRUARY 29, 2012

	Authorized	Issued and outstanding
Class A Shares (Multiple Voting)[1]	1,892,000,000	314,537,162
Class B Shares (Subordinate Voting)[2]	1,892,000,000	1,409,355,652[3]
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,464,920
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,535,080
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

1 Ten votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).
2 Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions.
3 Net of 29,321,479 Class B Shares (Subordinate Voting) purchased and held in trust in connection with the PSU plan.

Normal course issuer bid

Our Board of Directors authorized the repurchase for cancellation, in the normal course of our activities from June 17, 2011 to June 16, 2012, of up to 2,006,000 Class B Shares (Subordinate Voting) and up to 438,263 Class A Shares (Multiple Voting) (from April 9, 2010 to April 8, 2011, of up to 3,000,000 Class B Shares [Subordinate Voting] and up to 660,000 Class A Shares [Multiple Voting]) in connection with the DSU plan (see note 27 – Share-based plans).

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

Shareholders may obtain a free copy of the documents filed with the Toronto Stock Exchange concerning this normal course issuer bid by writing to our Corporate Secretary.

SHARE OPTION, PSU AND DSU DATA AS AT DECEMBER 31, 2011

Options issued and outstanding under the share option plans	27,249,846
PSUs and DSUs issued and outstanding under the PSU and DSU plans	23,516,004
Class B Shares held in trust to satisfy PSU obligations	(29,321,479)

EXPECTED ISSUANCE DATE OF OUR FINANCIAL REPORTS FOR THE NEXT 12 MONTHS

First Quarterly Report, for the period ending March 31, 2012	May 10, 2012
Second Quarterly Report, for the period ending June 30, 2012	August 9, 2012
Third Quarterly Report, for the period ending September 30, 2012	November 7, 2012
Financial Report, for the fiscal year ending December 31, 2012	February 28, 2013

Information

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SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from, and should be read in conjunction with the consolidated financial statements for fiscal years ended January 31, 2010, January 31, 2011 and December 31, 2011.

The table below provides selected financial information for the last three fiscal years. The comparative information for the fiscal year ended January 31, 2010 has been prepared in accordance with Canadian GAAP and has not been restated in accordance with IFRS. Consequently, the information is not entirely comparable.

(in millions of U.S. dollars, except per share amounts)		**IFRS**	Canadian GAAP
For fiscal years ended	**December 31 2011[1]**	January 31 2011	January 31 2011
Revenues	**$18,347**	$17,892	$19,366
Net income attributable to equity holders of Bombardier Inc.	**$ 837**	$ 762	$ 698
EPS (in U.S. dollars):			
Basic	**$ 0.47**	$ 0.43	$ 0.39
Diluted	**$ 0.47**	$ 0.42	$ 0.39
Cash dividends declared per share (in Canadian dollars):			
Class A Shares (Multiple Voting)	**$ 0.10**	$ 0.10	$ 0.10
Class B Shares (Subordinate Voting)	**$ 0.10**	$ 0.10	$ 0.10
Series 2 Preferred Shares	**$ 0.69**	$ 0.66	$ 0.59
Series 3 Preferred Shares	**$ 1.32**	$ 1.32	$ 1.32
Series 4 Preferred Shares	**$ 1.56**	$ 1.56	$ 1.56

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

(in millions of U.S. dollars)			**IFRS**
As at	**December 31 2011**	January 31 2011	February 1 2010
Total assets	**$23,864**	$24,092	$22,120
Non-current financial liabilities	**$ 5,250**	$ 5,177	$ 4,692

The quarterly data table is shown hereafter.

February 29, 2012

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

QUARTERLY DATA (UNAUDITED)

(The quarterly data has been prepared in accordance with IAS 34, Interim financial reporting)

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

For the fiscal years ended	Total[1]	Fourth quarter[2]	Third quarter
Revenues			
BA	$ 8,594	$ 2,016	$ 2,305
BT	9,753	2,300	2,318
	$ 18,347	$ 4,316	$ 4,623
EBIT			
BA	$ 502	$ 127	$ 129
BT	700	166	172
	1,202	293	301
Financing expense[3]	681	156	192
Financing income[3]	(519)	(123)	(134)
EBT	1,040	260	243
Income taxes	203	46	51
Net income	$ 837	$ 214	$ 192
Attributable to:			
Equity holders of Bombardier Inc.	$ 837	$ 213	$ 194
NCI	–	1	(2)
	$ 837	$ 214	$ 192
EPS (in dollars):			
Basic	$ 0.47	$ 0.12	$ 0.11
Diluted	$ 0.47	$ 0.12	$ 0.11
Market price range of Class B Shares (in Canadian dollars)			
High	$ 7.29	$ 4.40	$ 5.84
Low	$ 3.30	$ 3.30	$ 3.42

1 The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
2 The fourth quarter ended December 31, 2011 comprises two months of BA's results and three months of BT's results.
3 The amounts presented on a yearly basis do not correspond to the sum of the four quarters as certain reclassifications to quarterly figures from/to financing income and financing expense are required on a cumulative basis.

December 31, 2011		January 31, 2011				
Second quarter	**First quarter**	Total	Fourth quarter	Third quarter	Second quarter	First quarter
$2,085	**$2,188**	$ 8,809	$3,091	$1,829	$1,932	$1,957
2,662	**2,473**	9,083	2,495	2,168	2,113	2,307
$4,747	**$4,661**	$17,892	$5,586	$3,997	$4,045	$4,264
$ 105	**$ 141**	$ 554	$ 222	$ 98	$ 101	$ 133
191	**171**	651	205	152	148	146
296	**312**	1,205	427	250	249	279
179	**177**	684	184	182	179	164
(144)	**(141)**	(476)	(146)	(121)	(113)	(121)
261	**276**	997	389	189	183	236
50	**56**	222	94	42	45	41
$ 211	**$ 220**	$ 775	$ 295	$ 147	$ 138	$ 195
$ 210	**$ 220**	$ 762	$ 289	$ 145	$ 134	$ 194
1	**–**	13	6	2	4	1
$ 211	**$ 220**	$ 775	$ 295	$ 147	$ 138	$ 195
$ 0.12	**$ 0.12**	$ 0.43	$ 0.16	$ 0.08	$ 0.07	$ 0.11
$ 0.12	**$ 0.12**	$ 0.42	$ 0.16	$ 0.08	$ 0.07	$ 0.11
$ 7.25	**$ 7.29**	$ 6.24	$ 6.02	$ 5.33	$ 5.50	$ 6.24
$ 5.54	**$ 5.65**	$ 4.25	$ 4.54	$ 4.25	$ 4.31	$ 5.05

HISTORICAL FINANCIAL SUMMARY

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

	IFRS		Canadian GAAP		
For the fiscal years ended	**December 31 2011[1]**	January 31 2011	January 31 2010	January 31 2009	January 31 2008
Revenues					
BA	**$ 8,594**	$ 8,809	$ 9,357	$ 9,965	$ 9,713
BT	**9,753**	9,083	10,009	9,756	7,793
	$ 18,347	$ 17,892	$ 19,366	$ 19,721	$ 17,506
EBIT before special items					
BA	**$ 502**	$ 554	$ 473	$ 896	$ 563
BT	**700**	651	625	533	347
	1,202	1,205	1,098	1,429	910
Special items					
BT	**–**	–	–	–	162
EBIT					
BA	**502**	554	473	896	563
BT	**700**	651	625	533	185
	1,202	1,205	1,098	1,429	748
Financing expense	**681**	684	279	408	526
Financing income	**(519)**	(476)	(96)	(270)	(225)
EBT	**1,040**	997	915	1,291	447
Income taxes	**203**	222	208	265	122
Net income	**$ 837**	$ 775	$ 707	$ 1,026	$ 325
Attributable to:					
Equity holders of Bombardier Inc.	**$ 837**	$ 762	$ 698	$ 1,008	$ 317
NCI	**–**	13	9	18	8
	$ 837	$ 775	$ 707	$ 1,026	$ 325
EPS (in dollars):					
Basic	**$ 0.47**	$ 0.43	$ 0.39	$ 0.57	$ 0.17
Diluted	**$ 0.47**	$ 0.42	$ 0.39	$ 0.56	$ 0.16

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