BOMBARDIER
the evolution of mobility

SECOND QUARTERLY REPORT

Three-month period ended June 30, 2012

GLOSSARY

The following table shows the abbreviations used in this report.

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

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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.

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. See the Non-GAAP financial measures section for reconciliations 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 securities of Bombardier Inc. (the "Corporation") would likely be influenced or changed if the information were omitted or misstated.

FORWARD-LOOKING STATEMENTS

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.

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 values and increases in commodity prices). For more details, see the Risks and uncertainties section in Other in the MD&A of the Corporation's annual report for the fiscal year ended December 31, 2011. 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.

CHANGE OF YEAR-END

Effective December 31, 2011, we changed our financial year-end from January 31 to December 31. Before the change of year-end, we were consolidating the operations of BT on a calendar year basis, i.e. with one-month lag with the remainder of our operations. As a result, the comparative three- and six-month periods ended July 31, 2011 are comprised of three and six months of results of BA for the periods from May to July and from February to July and of BT for the periods from April to June and from January to June.

OVERVIEW

HIGHLIGHTS

- Revenues of $4.2 billion, compared to $4.7 billion for the corresponding period last fiscal year.
- EBIT of $220 million, or 5.3% of revenues, compared to $296 million, or 6.2%, for the corresponding period last fiscal year.
- Net income of $182 million (diluted EPS of $0.10), compared to $211 million (diluted EPS of $0.12) for the corresponding period last fiscal year.
- Free cash flow[(1)] usage of $642 million, compared to usage of $1,067 million for the corresponding period last fiscal year.
- Strong available short-term capital resources of $3.9 billion as at June 30, 2012, including cash and cash equivalents of $2.5 billion, compared to $4.1 billion and $3.4 billion respectively as at December 31, 2011.
- Solid order backlog of $56.9 billion as at June 30, 2012, compared to $53.9 billion as at December 31, 2011.

[(1)] Refer to the Non-GAAP financial measures section for a definition of this metric and the Liquidity and capital resources section for reconciliations to the most comparable IFRS measure.

CONSOLIDATED RESULTS OF OPERATIONS

Seasonality
The results of operations for the three- and six-month periods 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.

Guidance
Excluding currency impacts, we anticipate revenues for the fiscal year ending December 31, 2012 to be in line with last fiscal year's revenues of $18 billion.

Results of operations

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Revenues	**$ 4,170**	$ 4,747	**$ 7,675**	$ 9,408
Cost of sales	**3,523**	4,032	**6,430**	7,957
Gross margin	**647**	715	**1,245**	1,451
SG&A	**371**	364	**735**	727
R&D	**62**	58	**127**	122
Other income	**(6)**	(3)	**(52)**	(6)
EBIT	**220**	296	**435**	608
Financing expense	**155**	179	**307**	352
Financing income	**(166)**	(144)	**(318)**	(281)
EBT	**231**	261	**446**	537
Income taxes	**49**	50	**74**	106
Net income	**$ 182**	$ 211	**$ 372**	$ 431
Attributable to:				
Equity holders of Bombardier Inc.	**$ 182**	$ 210	**$ 367**	$ 430
NCI	**$ -**	$ 1	**$ 5**	$ 1
EPS (in dollars)				
Basic	**$ 0.10**	$ 0.12	**$ 0.21**	$ 0.24
Diluted	**$ 0.10**	$ 0.12	**$ 0.20**	$ 0.24

Supplemental information

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
EBIT	**$ 220**	$ 296	**$ 435**	$ 608
Amortization	**90**	78	**172**	165
EBITDA	**$ 310**	$ 374	**$ 607**	$ 773

Revenues and EBIT margin

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Revenues				
BA	**$ 2,265**	$ 2,085	**$ 3,764**	$ 4,273
BT	**$ 1,905**	$ 2,662	**$ 3,911**	$ 5,135
Consolidated	**$ 4,170**	$ 4,747	**$ 7,675**	$ 9,408
EBIT margin				
BA	**4.5%**	5.0%	**5.1%**	5.8%
BT	**6.2%**	7.2%	**6.2%**	7.0%
Consolidated	**5.3%**	6.2%	**5.7%**	6.5%

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

Net financing (income) expense
Net financing income amounted to $11 million for the three- and six-month periods ended June 30, 2012, compared to net financing expense of $35 million and $71 million for the corresponding periods last fiscal year.

The $46-million improvement in the net financing (income) expense for the three-month period is mainly due to:
- a gain on the sale of AFS investments in securities ($22 million);
- higher net gain on certain financial instruments ($11 million); and
- lower amortization of letter of credit facility costs ($12 million).

The $82-million improvement in the net financing (income) expense for the six-month period is mainly due to:
- a gain on the sale of AFS investments in securities ($22 million);
- an interest income representing the interest portion of a gain of $40 million upon the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations ($17 million);
- lower amortization of letter of credit facility costs ($18 million);
- lower interest expense on long-term debt, after effect of hedges ($17 million); and
- lower accretion on provisions ($10 million).

Income taxes
The effective income tax rates were 21.2% and 16.6%, respectively, for the three- and six-month periods ended June 30, 2012, compared to the statutory income tax rate of 26.8%. The lower effective income tax rates are mainly due to the positive impact of the recognition of previously unrecognized income tax benefits as well as permanent differences, partially offset by unrecognized tax benefits.

For the three- and six-month periods ended July 31, 2011, the effective income tax rates were 19.2% and 19.7%, respectively, compared to the statutory income tax rate of 28.4%. The lower effective income tax rates were mainly due to the positive impact of the recognition of previously unrecognized income tax benefits, partially offset by permanent differences.

LIQUIDITY AND CAPITAL RESOURCES

Reconciliation of segmented free cash flow usage to cash flows from operating activities

	Three-month periods ended		**Six-month periods ended**	
	June 30,2012	July 31,2011	**June 30,2012**	July 31,2011
Segmented free cash flow				
BA	**$ (504)**	$ (448)	**$ (1,076)**	$ (616)
BT	**(78)**	(473)	**(178)**	(641)
Segmented free cash flow usage	**(582)**	(921)	**(1,254)**	(1,257)
Net income taxes and net interest paid[(1)]	**(60)**	(146)	**(100)**	(219)
Free cash flow usage	**(642)**	(1,067)	**(1,354)**	(1,476)
Add back: Net additions to PP&E and intangible assets	**507**	390	**892**	691
Cash flows from operating activities	**$ (135)**	$ (677)	**$ (462)**	$ (785)

[(1)] Not allocated to segments.

Variation in cash and cash equivalents

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Balance as at beginning of period	**$ 3,183**	$ 3,856	**$ 3,372**	$ 4,195
Free cash flow usage	**(642)**	(1,067)	**(1,354)**	(1,476)
Proceeds from issuance of long-term debt	**5**	32	**509**	95
Repayments of long-term debt	**(163)**	(5)	**(167)**	(8)
Dividends paid	**(51)**	(100)	**(144)**	(105)
Proceeds from disposal of AFS investments in securities	**133**	-	**133**	-
Effect of exchange rate changes on cash and cash equivalents	**(46)**	(48)	**5**	62
Purchase of Class B shares held in trust under the PSU plan	**-**	(58)	**-**	(58)
Purchase of NCI	**-**	-	**-**	(53)
Proceeds from disposal of invested collateral	**-**	705	**-**	705
Other	**60**	(89)	**125**	(131)
Balance as at end of period	**$ 2,479**	$ 3,226	**$ 2,479**	$ 3,226

Available short-term capital resources

	Cash and cash equivalents	Available credit facilities	Available short-term capital resources
June 30, 2012	**$ 2,479**	**$ 1,380**	**$ 3,859**
December 31, 2011	$ 3,372	$ 750	$ 4,122

We proactively manage our debt maturities and take advantage of favourable conditions in capital markets when available. In March 2012, we issued $500 million of unsecured Senior Notes bearing interest of 5.75% per year, due in March 2022, of which $151 million was used to repay the 6.75% Notes that matured in May 2012.

In March 2012, BT entered into a three-year unsecured revolving credit facility of €500 million ($630 million), available for cash drawings for the general corporate purposes of BT. The facility matures in March 2015 and bears interest at EURIBOR plus a margin.

In April 2012, the availability periods of our BT and BA letter of credit facilities were extended by one year each, to May 2015 and June 2015, respectively. Also in April 2012, the maturity date of our $750 million unsecured revolving credit facility was extended by one year to June 2015.

Our available short-term capital resources include cash and cash equivalents and the amount available under our unsecured revolving credit facilities (undrawn since their inception). These credit facilities are available for cash drawings for the general needs of the Corporation. Under these facilities, we must maintain the same financial covenants as for our BA and BT letter of credit facilities.

We consider that our expected cash flows from operating activities, combined with our available short-term capital resources of $3.9 billion as at June 30, 2012, will enable the development of new products to enhance our competitiveness and support our growth; will allow the payment of dividends, if and when declared by the Board of Directors; and will enable us to meet all other expected financial requirements in the near term.

Other facilities

In the normal course of our business, BT has set up factoring facilities in Europe, under which it can sell, without credit recourse, qualifying trade receivables. Trade receivables of €727 million ($916 million) were outstanding under such facilities as at June 30, 2012 (€580 million ($751 million) as at December 31, 2011). Trade receivables of €182 million ($235 million) and €296 million ($384 million), respectively, were sold to these facilities during the three- and six-month periods ended June 30, 2012 (€108 million ($156 million) and €262 million ($372 million), respectively, during the three- and six-month periods ended July 31, 2011).

CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation. We manage and monitor our global metrics in such a way as to achieve an investment-grade profile. These global metrics do not represent those required for bank covenants.

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]

	June 30, 2012	December 31, 2011	Explanation of major variances
Interest coverage			
Adjusted EBIT[2]	**$ 1,121**	$ 1,271	
Adjusted interest[2]	**$ 260**	$ 271	
Adjusted EBIT to adjusted interest ratio	**4.3**	4.7	Deteriorated, due to lower profitability in both operating segments.
Financial leverage			
Adjusted debt	**$ 5,713**	$ 5,263	
Adjusted EBITDA[2]	**$ 1,518**	$ 1,657	
Adjusted debt to adjusted EBITDA ratio	**3.8**	3.2	Deteriorated, mainly due to the issuance of $500 million of long-term debt, partially offset by a repayment of $151 million, and lower profitability in both operating segments.

(1) Refer to the Non-GAAP financial measures section hereafter for definitions and reconciliations to the most comparable IFRS measures.
(2) For the four-quarter trailing periods.

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to $3,354 million as at June 30, 2012 ($3,213 million as at December 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. The $141-million increase in the net retirement benefit liability is explained as follows:

Variation in net retirement benefit liability

Balance as at December 31, 2011[1]	**$ 3,213**
Actual gains on pension plan assets	**(281)**
Changes in discount rates	**257**
Accretion expense on retirement benefit obligations	**220**
Employer contributions	**(180)**
Service costs	**162**
Changes in foreign exchange rates	**(17)**
Other net actuarial gains	**(20)**
Balance as at June 30, 2012[1]	**$ 3,354**

(1) Includes a retirement benefit asset of $16 million as at June 30, 2012 and $13 million as at December 31, 2011.

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 (or settled derivatives) designated in related 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	Adjusted EBIT plus amortization, including amortization adjustment for operating leases.
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 interim 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 table 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 flows from operating activities table in the Liquidity and capital resources section.

Reconciliation of adjusted debt to long-term debt

	June 30, 2012	December 31, 2011
Long-term debt	**$ 5,290**	$ 4,941
Adjustment for the fair value of derivatives (or settled derivatives) designated in related hedge relationships	**(347)**	(318)
Long-term debt, net	**4,943**	4,623
Sale and leaseback obligations	**258**	163
Operating lease obligations[1]	**512**	477
Adjusted debt	**$ 5,713**	$ 5,263

[1] Discounted using the average five-year U.S. Treasury Notes plus the average credit spread, given our credit rating, for the corresponding period.

Reconciliation of adjusted EBITDA and adjusted EBIT to EBIT

	Four-quarter trailing periods ended [1]	
	June 30, 2012	December 31, 2011
EBIT	**$ 1,029**	$ 1,202
Interest received	**71**	40
Interest adjustment for operating leases[2]	**21**	29
Adjusted EBIT	**1,121**	1,271
Amortization adjustment for operating leases[3]	**57**	53
Amortization	**340**	333
Adjusted EBITDA	**$ 1,518**	$ 1,657

[1] Includes 11 months of BA's results due to the change of year-end to December 31, and 12 months of BT's results.
[2] 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 period, given our credit rating.
[3] Represents a straight-line amortization of the amount included in adjusted debt for operating leases, based on a nine-year amortization period.

Reconciliation of adjusted interest to interest paid

	Four-quarter trailing periods ended [1]	
	June 30, 2012	December 31, 2011
Interest paid	**$ 236**	$ 238
Accretion expense on sale and leaseback obligations	**3**	4
Interest adjustment for operating leases[2]	**21**	29
Adjusted interest	**$ 260**	$ 271

[1] Includes 11 months of BA's results due to the change of year-end to December 31, and 12 months of BT's results.
[2] Represents the interest cost on 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 period, given our credit rating.

FINANCIAL POSITION

	June 30 2012	December 31 2011	Increase (decrease)		Explanation of major variances other than foreign exchange impact
			Foreign exchange impact	Variance excluding foreign exchange impact	
Cash and cash equivalents	**$ 2,479**	$ 3,372	$ 5	$ (898)	See the Variation in cash and cash equivalents table and Free cash flow in BA and BT for details
Trade and other receivables	**1,301**	1,408	(14)	(93)	$ (89) Lower level in BT (4) Lower level in BA
Gross inventories	**12,859**	11,992	(108)	975	$ 801 Mainly due to increase in aerospace program work-in-process inventories and in finished products 114 Due to the ramp-up of several BT contracts in the start-up phase ahead of deliveries
Advances and progress billings related to long-term contracts	**(6,302)**	(6,479)	(103)	(74)	Mainly due to lower advances and progress billings related to existing contracts following deliveries in several contracts, partly compensated by advances on new orders and existing contracts
Advances on aerospace programs	**(4,393)**	(4,054)	-	339	Mainly due to higher order intake than deliveries for business aircraft
PP&E	**1,859**	1,864	(16)	11	$ 101 Net additions (90) Amortization
Aerospace program tooling	**3,871**	3,168	-	703	$ 755 Additions (52) Amortization
Goodwill	**2,219**	2,253	(34)	-	No variance
Deferred income tax asset	**1,500**	1,506	(12)	6	No significant variance
Other financial assets	**1,583**	1,831	(2)	(246)	$ (201) Decrease in investments in securities mainly resulting from sales of AFS investments (29) Decrease in aircraft loans and lease receivables
Other assets	**1,177**	1,064	(5)	118	$ 59 Increase in prepaid expenses 48 Increase in sales tax and other taxes
Trade and other payables	**(3,038)**	(3,210)	(18)	(154)	$ 36 Higher level in BA (156) Lower level in BT
Provisions	**(1,534)**	(1,672)	(15)	(123)	Mainly resulting from a net decrease in product warranty provisions.
Non-current portion of long-term debt	**(5,243)**	(4,748)	(56)	551	$ 509 Issuance of long-term debt
Retirement benefit liabilities	**(3,370)**	(3,226)	(17)	161	See the Variation in net retirement benefit liability table in Capital structure section for details
Other financial liabilities	**(1,173)**	(1,234)	(3)	(58)	$ (146) Decrease mainly due to the repayment of the $151 million Notes due in May 2012. 95 Increase in sale and leaseback obligations
Other liabilities	**(3,059)**	(3,164)	(28)	(77)	$ (103) Reduction of accruals for long-term contract costs with a high percentage of completion 50 Increase in deferred revenues (39) Decrease in income and other taxes payable
Equity	**(736)**	(671)	not applicable	65	$ 372 Net income (206) OCI - Mainly due to net actuarial losses on retirement benefit plans (101) Dividends

AEROSPACE

HIGHLIGHTS

Results of the quarter

- Revenues of $2.3 billion, compared to $2.1 billion for the corresponding period last fiscal year.
- EBIT of $102 million, or 4.5% of revenues, compared to $105 million, or 5.0%, for the corresponding period last fiscal year.
- EBITDA[1] of $160 million, or 7.1% of revenues, compared to $149 million, or 7.1%, for the corresponding period last fiscal year.
- Free cash flow[1] usage of $504 million, compared to a usage of $448 million for the corresponding period last fiscal year.
- Net additions to PP&E and intangible assets of $481 million, compared to $342 million for the corresponding period last fiscal year.
- 62 aircraft deliveries, compared to 56 for the corresponding period last fiscal year.
- 146 net orders (book-to-bill ratio[2] of 2.4), compared to 86 net orders for the corresponding period last fiscal year.
- Order backlog of $25.2 billion as at June 30, 2012, compared to $22.0 billion as at December 31, 2011.

[1] Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section for reconciliations to the most comparable IFRS measures.
[2] Defined as net orders received over aircraft deliveries, in units.

Key events

Business aircraft

- In June 2012, NetJets Inc. placed an order for 100 aircraft of the *Challenger* family, with options for an additional 175 aircraft. Based on the list prices, the value of the firm order is $2.6 billion, and could increase to $7.3 billion if all options are exercised. NetJets Inc. also entered into a long-term service agreement for up to 15 years. Assuming certain aircraft usage projections, the service agreement is valued at $0.8 billion, or $2.3 billion if all options are exercised.
- In May 2012, we launched the *Learjet 70* and *Learjet 75* aircraft programs. These new jets represent the evolution of the *Learjet 40 XR* and *Learjet 45 XR* aircraft, and feature a new interior, new cabin management system, the *Vision Flight Deck* and an improved engine. Entry-into-service for the *Learjet 75* aircraft is scheduled for the first half of 2013 and for the second half of 2013 for the *Learjet 70* aircraft.

Commercial aircraft

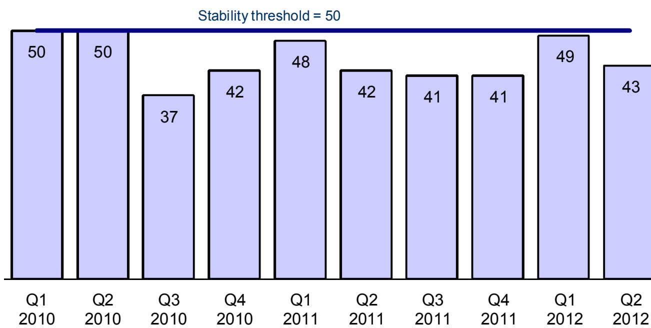
- On the *CSeries* programs, substantially all the main systems are now up and running on “Aircraft 0”, our on-the-ground integrated systems test and certification rig. The progressive commissioning of the systems in “Aircraft 0” allows us to ensure aircraft validation on the ground, prior to first flight.
- In June 2012, a wholly-owned subsidiary of Nordic Aviation Capital A/S placed an order for 12 *CRJ1000 NextGen* aircraft, to be leased to PT. Garuda Indonesia (Persero) Tbk. Based on list price, the firm order is valued at $595 million.
- The conditional order placed by WestJet in June 2012 for 20 *Q400 NextGen* turboprops, with options for an additional 25, was converted into a firm purchase order subsequent to the end of the quarter. Based on list price, the order is valued at $683 million. This order is not included in the order backlog as at June 30, 2012.
- Subsequent to the end of the quarter, we received firm orders for six *CRJ900 NextGen* regional jets and six *Q400 NextGen* aircraft. Based on list prices, the value of the firm orders is $453 million. These orders are not included in the order backlog as at June 30, 2012.
- Subsequent to the end of the quarter, we received a conditional order from an undisclosed customer for 5 *CS100* and 10 *CS300* aircraft and we signed a letter of intent with Air Baltic Corp. for 10 *CS300* aircraft. Based on list prices, firm orders would be valued at $1.02 billion and $764 million, respectively. This conditional order and letter of intent are not included in the order backlog as at June 30, 2012.

INDUSTRY AND ECONOMIC ENVIRONMENT

Business aircraft

Current indicators in the business aviation market are mixed. The UBS Business Jet Market Index, which measures the industry confidence, increased in the first quarter of calendar year 2012 to just under the threshold of market stability, but decreased in the second quarter of 2012 to levels similar to the last three quarters of 2011. The number of pre-owned aircraft available for sale as a percentage of the total in-service fleet decreased slightly in June 2012 to 13.4% from 13.6% in March 2012. The level of pre-owned business aircraft inventory in the light category remains high, at 14.5% of the total in-service fleet in June 2012, although the level has gradually decreased from 16.5% in December 2010. The level of large pre-owned business aircraft inventory increased from 6.7% of the total in-service fleet in March 2012 to 8.1% in June 2012, but remains low. Business jet utilization in the U.S. and Europe have increased in the second quarter of 2012 compared to the previous quarter, to levels similar to the second quarter of 2011.

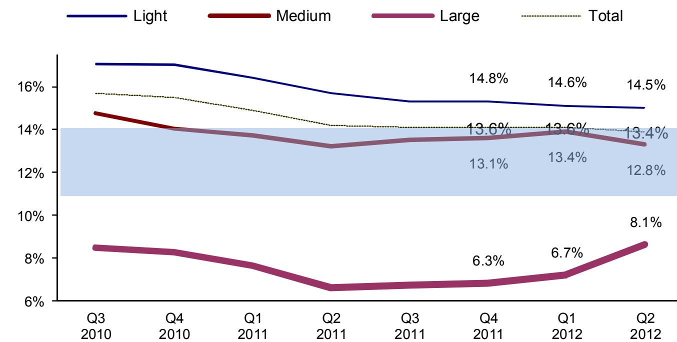
UBS BUSINESS JET MARKET INDEX[1]
(for calendar quarters, average on a 100-point scale)



Source: UBS

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

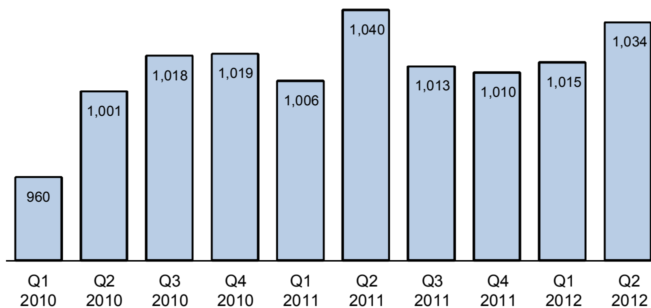
PRE-OWNED BUSINESS JET INVENTORY
(for calendar quarters, as a percentage of total business jet fleet, excluding very light jets)



Source: JETNET and Ascend Online

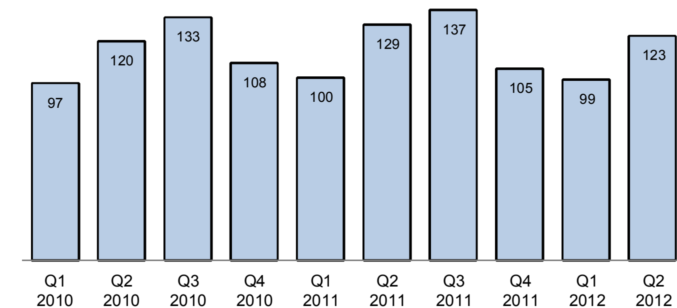
Shaded area indicates what we consider to be a normal range of pre-owned business jet inventory available for sale, between 11% and 14%.

U.S. BUSINESS JET UTILIZATION
(for calendar quarters, in thousands of departures and arrivals for all business jets)



Source: Federal Aviation Administration (FAA) website

EUROPEAN BUSINESS JET UTILIZATION
(for calendar quarters, in thousands of departures and arrivals for all business jets)



Source: Eurocontrol

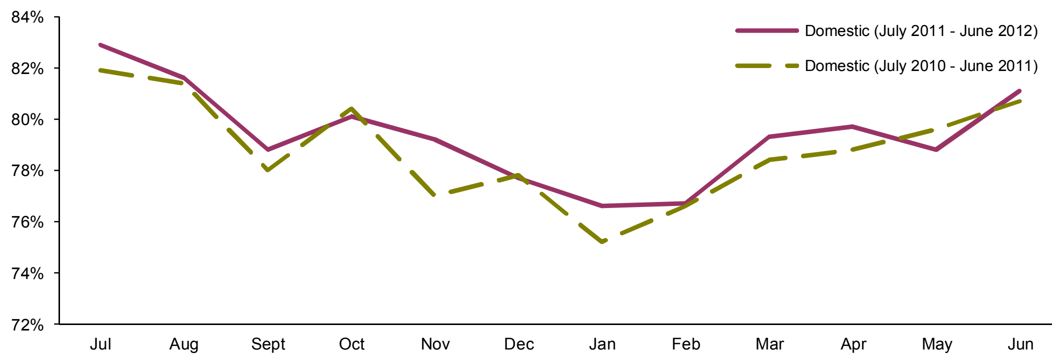
Commercial aircraft

For the commercial aircraft market, the June 2012 Air Transport Market Analysis report issued by the International Air Transport Association ("IATA") indicates that air travel during June 2012 was up compared to the same month a year ago but almost flat compared to May 2012 (after adjustments for seasonal factors). Scheduled international and domestic air travel, measured by revenue passenger kilometres ("RPK"), was 7.5% and 4.8% higher, respectively, during the year-to-date period ended June 2012 than in the same period last year. Commercial airlines worldwide achieved an international and domestic passenger load factor of 81.0% and 81.1%, respectively, in June 2012, higher than the 79.1% and 80.7% respective levels experienced in June 2011.

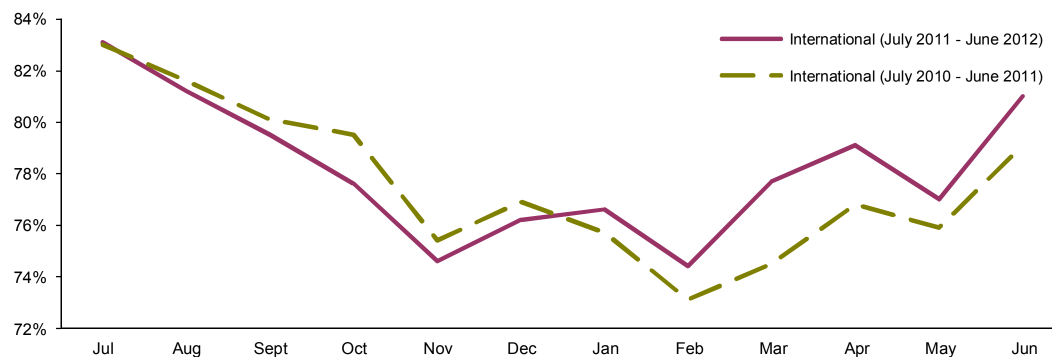
International air travel markets saw increases in all regions, with the largest increase in year-to-date RPK in the Middle East, Africa and Latin America. The highest load factors in June 2012 were attained in North America, Europe and Asia-Pacific. Domestic air travel markets saw increases in all regions, with the largest increase in year-to-date RPK in Brazil and China. The highest load factors in June 2012 were attained in the U.S. and in China.

In its June 2012 Financial Forecast, IATA maintained its 2012 forecast for the commercial airline industry of a net profit of $3.0 billion, as previously projected in its March 2012 Financial Forecast. However, IATA revised the Brent crude oil price forecast to an average of $110 per barrel, down from the previous forecast of $115 per barrel, due to concerns about the Eurozone. The regional composition of the forecast has changed significantly, with US and Latin American airlines expected to generate more profit this year than previously forecast, offset by higher forecasted losses in Europe and smaller forecasted profits in Asia-Pacific.

DOMESTIC PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres in the month)



INTERNATIONAL PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres in the month)



Source: IATA statistics for international and domestic air travel.

Passenger load factor is defined as the percentage of available seat kilometres used (RPK divided by available seat kilometres).

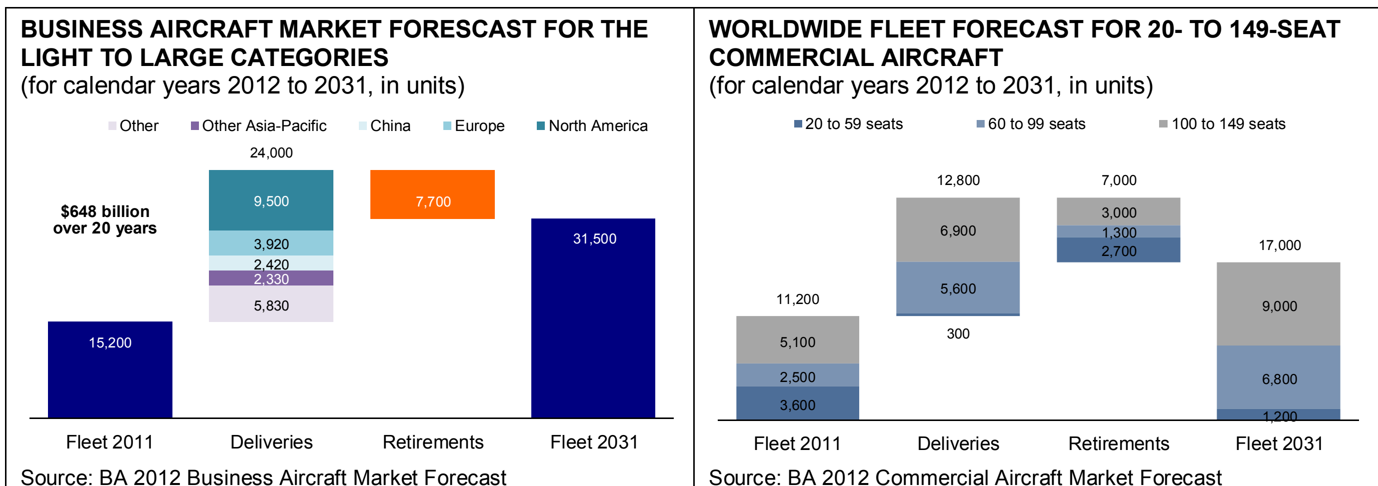
RPK is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported one kilometre.

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

Update on 20-year market forecasts

On June 19, 2012, we released our Business Aircraft Market Forecast and Commercial Aircraft Market Forecast for the 20-year period from calendar years 2012 to 2031. Our Business Aircraft Market Forecast estimates 24,000 aircraft deliveries in the light to large categories, which is the same level of deliveries as our previous forecast for calendar years 2011 to 2030. These deliveries are valued at $648 billion, an increase of 3.5% compared to last year's forecast. Moreover, the worldwide business aircraft fleet is expected to more than double from 15,200 aircraft at the end of 2011 to 31,500 aircraft in calendar year 2031. We predict that North America will receive the greatest number of new business jet deliveries between 2012 and 2031 with 9,500 aircraft, followed by Europe with 3,920 aircraft. Notably, China is expected to become the third largest market for business jet deliveries, with 2,420 deliveries from 2012 to 2031. We also expect other key growth markets in emerging economies to receive a significant share of business jet deliveries during the next 20 years.

Our Commercial Aircraft Market Forecast predicts 12,800 new aircraft deliveries for 20- to 149-seat commercial aircraft in the next 20 years, with 300 deliveries in the 20- to 59-seat category, 5,600 deliveries in the 60- to 99-seat category and 6,900 deliveries in the 100- to 149-seat category. This represents a slight decrease of 300 units compared to last year's forecast for calendar years 2011 to 2030, mainly due to a lower GDP forecast and a sharp increase in the forecasted oil price in the 20-year period. The total forecasted delivery demand is valued at over $630 billion, compared to $639 billion in last year's forecast. North America is expected to lead the way in aircraft deliveries over the forecast period, taking in an expected 4,730 new aircraft, followed by China with 2,220 aircraft. The forecasted delivery demand for Europe (including Russia and the CIS) is expected to be 2,240 aircraft.



BUSINESS AIRCRAFT MARKET FORESCAST FOR THE LIGHT TO LARGE CATEGORIES
(for calendar years 2012 to 2031, in units)
Source: BA 2012 Business Aircraft Market Forecast

WORLDWIDE FLEET FORECAST FOR 20- TO 149-SEAT COMMERCIAL AIRCRAFT
(for calendar years 2012 to 2031, in units)
Source: BA 2012 Commercial Aircraft Market Forecast

ANALYSIS OF RESULTS

Results of operations

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Revenues				
Manufacturing				
Business aircraft	**$ 1,256**	$ 930	**$ 1,899**	$ 1,961
Commercial aircraft	**315**	461	**483**	954
Other	**123**	141	**254**	267
Total manufacturing revenues	**1,694**	1,532	**2,636**	3,182
Services[(1)]	**420**	408	**856**	830
Other[(2)]	**151**	145	**272**	261
Total revenues	**2,265**	2,085	**3,764**	4,273
Cost of sales	**1,932**	1,803	**3,192**	3,660
Gross margin	**333**	282	**572**	613
SG&A	**178**	157	**339**	317
R&D	**35**	24	**66**	57
Other expense (income)[(3)]	**18**	(4)	**(26)**	(7)
EBIT	**102**	105	**193**	246
Amortization[(4)]	**58**	44	**108**	99
EBITDA	**$ 160**	$ 149	**$ 301**	$ 345
(as a percentage of total revenues)				
Gross margin	**14.7%**	13.5%	**15.2%**	14.3%
EBIT	**4.5%**	5.0%	**5.1%**	5.8%
EBITDA	**7.1%**	7.1%	**8.0%**	8.1%

(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 loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding the loss (gain) arising from a change in interest rates; ii) severance and other involuntary termination costs (including changes in estimates); iii) gain on resolution of a litigation; and iv) 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.

Total aircraft deliveries

	Three-month periods ended		Six-month periods ended	
(in units)	**June 30, 2012**	July 31, 2011	**June 30, 2012**	July 31, 2011
Business aircraft				
Excluding those of the Flexjet fractional ownership programs	**46**	34	**74**	71
Flexjet fractional ownership programs[(1)]	**-**	1	**1**	1
	46	35	**75**	72
Commercial aircraft	**15**	20	**22**	43
Amphibious aircraft	**1**	1	**2**	2
	62	56	**99**	117

(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.

Manufacturing revenues

The $162-million increase for the three-month period is mainly due to:

- higher deliveries of business aircraft ($326 million), as a result of higher deliveries in the medium and the large business jet categories.

Partially offset by:

- lower deliveries of commercial aircraft ($146 million), mainly as a result of lower deliveries of regional jets mainly due to lower production rates to reflect current demand and to certain deliveries being pushed to the second half of the year.

The $546-million decrease for the six-month period is mainly due to:

- lower deliveries of commercial aircraft ($471 million), mainly due to lower production rates to reflect current demand and to certain deliveries being pushed to the second half of the year; and
- lower deliveries of business aircraft ($62 million), mainly as a result of lower deliveries of large business aircraft resulting from the transition to the *Global 5000* and *Global 6000* aircraft with the new *Vision Flight Deck,* partially offset by higher deliveries of medium business jets.

EBIT margin

The 0.5 percentage-point decrease for the three-month period is mainly due to:

- lower absorption of higher SG&A expenses mainly due to higher selling expenses for business aircraft;
- the negative impact of higher exchange rates, after giving effect to hedges, for the Canadian dollar against the U.S. dollar;
- lower net selling prices for commercial aircraft;
- a net negative variance on financial instruments carried at fair value and provisions for credit and residual value guarantees, both recorded in other expense (income); and
- higher R&D expenses due to higher amortization of aerospace program tooling.

Partially offset by:

- higher margins from service activities; and
- the mix between business and commercial aircraft deliveries.

The EBIT margin for the six-month period decreased by 0.7 percentage-points. Excluding the impact of this year's litigation gain (see explanation below), the EBIT margin decreased by 1.3 percentage-points mainly as a result of:

- the negative impact of higher exchange rates, after giving effect to hedges, for the Canadian dollar against the U.S. dollar;
- lower absorption of higher SG&A expenses mainly due to higher selling expenses for business aircraft; and
- higher R&D expenses due to higher amortization of aerospace program tooling.

Partially offset by:

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

For the six-month period ended June 30, 2012, the EBIT margin was positively impacted by 0.6 percentage-points, as a result of a $23 million gain recorded in other income following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations.

FREE CASH FLOW

Free cash flow usage

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
EBIT	**$ 102**	$ 105	**$ 193**	$ 246
Amortization	**58**	44	**108**	99
EBITDA	**160**	149	**301**	345
Other non-cash items:				
Gains on disposals of PP&E	**-**	-	**(3)**	-
Share-based expense (income)	**(7)**	5	**(1)**	9
Net change in non-cash balances related to operations	**(176)**	(260)	**(520)**	(338)
Cash flows from operating activities	**(23)**	(106)	**(223)**	16
Net additions to PP&E and intangible assets	**(481)**	(342)	**(853)**	(632)
Free cash flow usage	**$ (504)**	$ (448)	**$ (1,076)**	$ (616)

The $56-million decrease for the three-month period is mainly due to:
- higher net additions to PP&E and intangible assets ($139 million), due to our significant investments in new products.

Partially offset by:
- a positive period-over period variation in net change in non-cash balances related to operations ($84 million) (see explanation below).

The $460-million decrease for the six-month period is mainly due to:
- higher net additions to PP&E and intangible assets ($221 million), due to our significant investments in new products;
- a negative period-over period variation in net change in non-cash balances related to operations ($182 million) (see explanation below); and
- lower EBITDA ($44 million).

Net change in non-cash balances related to operations

For the three-month period ended June 30, 2012, the $176-million cash outflow is mainly due to:
- an increase in aerospace program work-in-process inventories and finished products, mainly due to an increase in pre-owned business aircraft inventories and to certain deliveries of commercial aircraft being pushed to the second half of the year; and
- a decrease in advances on aerospace programs.

For the three-month period ended July 31, 2011, the $260-million cash outflow was mainly due to:
- an increase in inventories, mainly due to an increase in pre-owned business aircraft inventories and in aerospace program inventories; and
- a decrease in advances on aerospace programs, resulting mainly from deliveries of regional jets and turboprops, while there were no new orders for these programs.

Partially offset by:
- an increase in trade and other payables.

For the six-month period ended June 30, 2012, the $520-million cash outflow is mainly due to:
- an increase in aerospace program work-in-process inventories and finished products, mainly due to an increase in pre-owned business aircraft inventories and due to the transition to the *Global 5000* and *Global 6000* aircraft with our new *Vision Flight Deck*, which entered into service on schedule at the end of March 2012. In addition, certain deliveries of commercial aircraft were pushed to the second half of the year.

Partially offset by:
- an increase in advances on aerospace programs, mainly resulting from higher order intake than deliveries for business aircraft.

For the six-month period ended July 31, 2011, the $338-million cash outflow was mainly due to:

- an increase in inventories, mainly due to an increase in pre-owned business aircraft inventories and in aerospace program inventories; and
- a decrease in advances on aerospace programs, mainly due to higher deliveries than orders received for regional jets and turboprops.

Partially offset by:

- an increase in trade and other payables.

PRODUCT DEVELOPMENT

Investment in product development

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Program tooling[1]	**$ 409**	$ 294	**$ 755**	$ 552
R&D expense[2]	**5**	8	**14**	16
	$ 414	$ 302	**$ 769**	$ 568
As a percentage of manufacturing revenues	**24.4%**	19.7%	**29.2%**	17.9%

(1) Capitalized in aerospace program tooling.
(2) Excluding amortization of aerospace program tooling of $30 million and $52 million, respectively, for the three- and six-month periods ended June 30, 2012 ($16 million and $41 million, respectively, for the three- and six-month periods ended July 31, 2011), as the related investments are already included in program tooling.

Our program tooling additions essentially relate to the development of the *CSeries* family of aircraft, the *Learjet 85* aircraft, as well as the *Global 7000* and *Global 8000* aircraft programs.

In May 2012, we launched the *Learjet 70* and *Learjet 75* aircraft programs. These new jets represent the evolution of the *Learjet 40 XR* and *Learjet 45 XR* aircraft, and feature a new interior, new cabin management system, the *Vision Flight Deck* and an improved engine.

In June 2012, the Interstate Aviation Committee, commonly known by its Russian acronym “MAK”, awarded aircraft type certification to the *Q400 NextGen* aircraft for operation in Russia and the CIS.

OUR PRODUCT DEVELOPMENT PROCESS

Stage		Description
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.
Detail definition	**DDP**	**Detailed Design Phase -** Preparation of detailed production drawings and confirmation of the design based on the preliminary design definition agreed in the previous phase.
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.
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.

The *CS100* aircraft program, in the detailed design phase, and the *CS300* aircraft program, in the joint definition phase, are driving towards planned entry-into-service in 2013 and 2014, respectively.	
Testing	Substantially all the main systems are now up and running on “Aircraft 0”, our on-the-ground integrated systems test and certification rig. The progressive commissioning of the systems in “Aircraft 0” allows us to ensure aircraft validation on the ground, prior to first flight.
	Over 200 components and systems for the *CSeries* aircraft are being tested worldwide and the data received to date confirms that the aircraft development programs are on track to reach key performance targets.[(1)]
	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.
	Our first flight test is planned for approximately one year prior to entry-into-service.
Suppliers	Continuing its engine certification program, Pratt & Whitney has completed certification icing testing for its PurePower® PW1524G engine, and anticipates completing engine certification by the end of 2012. The second flight test campaign was completed logging 130 flight hours and 26 flights, and included extensive performance and operability testing at altitudes of up to 41,000 feet. At the date of this report, the test program has run approximately 1,500 hours of full engine testing, including more than 250 flight hours on its flight test aircraft.
Strategic cooperation	Further to the framework agreement signed in March 2011, we signed a definitive agreement with Commercial Aircraft Corporation of China Ltd. (COMAC) in March 2012 covering program commonalities between COMAC’s C919 aircraft and our *CSeries* aircraft. More specifically, we have agreed to cooperate on four distinctive commonality projects to be executed as part of the first phase of COMAC and Bombardier’s long-term collaboration on the C919 aircraft and the *CSeries* family of commercial airliners. The four initiatives in this initial phase are commonality on: i) the cockpit human-machine (crew) interfaces; ii) the electrical system; iii) the development of aluminum-lithium standards and specifications; and iv) areas of customer services in terms of technical publications. All four projects are ongoing. Both parties will continue exploring other possibilities for cooperation with regards to aircraft program commonalities, joint procurement, synergies in development and customer services, as well as collaboration on other existing Bombardier and COMAC programs.

[(1)] Under certain operating conditions, when compared to aircraft currently in service for flights of 500 nautical miles. The *CSeries* programs are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specification and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. See *CSeries* family of aircraft program disclaimer at the end of this MD&A.

The *Learjet 85* aircraft program is in the product definition release phase and is progressing towards planned entry-into-service in 2013.	
Production & testing	As part of the Bombardier composite structural technology readiness program, we are validating the manufacturing process for our composite technology.
	Four flight test aircraft are in various stages of fabrication. Work on the two first flight test aircraft and on the Complete Aircraft Static Test (CAST) article (an aircraft destined for ground testing only) is well underway with the production of hundreds of composite components, including the unique 32-foot composite pressure fuselage. The first complete pressure fuselage, including the nose and aft fuselage, is undergoing final validation before being shipped from Querétaro to Wichita. The Wichita site is ready for the start of the final assembly line.
	Work on the first wing internal structure was completed in Querétaro and has been moved into the final assembly position for wing plank installation. Wing spars and skins for the second aircraft have now arrived in Querétaro for the wing assembly. The assembly of a second wing, which will be part of the CAST, is well underway.
	Initial bird strike testing on the aircraft nose section has been successfully achieved.
Suppliers	All our suppliers have started the manufacturing of components. Ninety per cent of supplier test rigs have been commissioned and the balance will 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 flightworthy parts to the final assembly line in Wichita.
	Components such as the aircraft’s Pratt & Whitney Canada PW307B engines are now on site at the final assembly line in Wichita.
Facilities	A ground breaking ceremony on April 30, 2012 marked the official start of the next phase of the *Learjet* Wichita site expansion plan. The site expansion includes building a new hangar to hold completed aircraft that are in the process of obtaining their certificate of airworthiness, paint facilities and a new delivery centre to support the *Learjet 85* aircraft program.

The *Learjet 70* and *Learjet 75* aircraft programs are in the detailed design phase and are progressing towards entry-into-service in the first half of 2013 for the *Learjet 75* aircraft and in the second half of 2013 for the *Learjet 70* aircraft.	
Production and Testing	The first two flight test aircraft have already logged more than 135 flights. These two aircraft are a modified *Learjet 40 XR* aircraft and a modified *Learjet 45 XR* aircraft and are used to continue the development of the avionics that provide the core of the *Learjet* aircraft's *Vision Flight Deck.* We are currently planning for the start of avionics certification testing in the third quarter of 2012. Assembly of the three remaining flight test aircraft is on track, with the interior installations for the third test aircraft underway. Engine aircraft testing began in July 2012 on the fourth and fifth test aircraft. The assembly of the first production aircraft has begun in Wichita.
Suppliers	A number of new suppliers have been selected for the avionics, the cabin management system and for the interior. Critical Design Review, the milestone that marks the review of the final design against certain technical requirements as well as cost, weight, and performance targets, has been conducted for all major suppliers, leading to design freeze.
Facilities	The aircraft will use the same manufacturing and assembly processes as the *Learjet 40 XR* and *Learjet 45 XR* aircraft.

The *Global 7000* and *Global 8000* aircraft programs are in the joint definition phase and are progressing towards planned entry-into-service in 2016 and 2017, respectively.	
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. Having completed the selection of major suppliers on the programs, we are now actively engaged in the selection of the interior suppliers and the remaining suppliers. During this phase of the program, we are focused on determining jointly with our suppliers the technical design of the aircraft and defining interfaces between suppliers. We are also optimizing the aircraft design with respect to manufacturing, assembly and total life-cycle costs.

The *Vision Flight Deck* has entered into service.	
Certification	Following certification from the European Aviation Safety Agency (EASA) and the U.S. Federal Aviation Administration (FAA), the *Vision Flight Deck* entered into service in March 2012 on *Global 5000* and *Global 6000* aircraft.

Carrying amount of program tooling

		As at
	June 30, 2012	December 31, 2011
Business aircraft		
Learjet Series	**$ 1,040**	$ 833
Challenger Series	**147**	151
Global Series	**423**	333
Commercial aircraft		
CRJ Series	**484**	488
CSeries	**1,777**	1,363
	$ 3,871	$ 3,168

AIRCRAFT DELIVERIES

Business aircraft deliveries

	Three-month periods ended		Six-month periods ended	
(in units)	**June 30, 2012**	July 31, 2011	**June 30, 2012**	July 31, 2011
Light business jets				
Learjet 40 XR/Learjet 45 XR	**3**	3	**5**	6
Learjet 60 XR	**3**	3	**6**	6
Medium business jets				
Challenger 300	**13**	6	**24**	14
Challenger 605	**12**	11	**20**	18
Challenger 800 Series	**1**	2	**2**	3
Large business jets				
Global 5000/Global Express XRS/Global 6000	**14**	10	**18**	25
	46	35	**75**	72

The increase in business aircraft deliveries for the three-month period ended June 30, 2012 is in the *Challenger* and *Global* families of aircraft and for the six-month period ended June 30, 2012 the increase is in the *Challenger* family of aircraft. The transition to the *Global 5000* and *Global 6000* aircraft with our new *Vision Flight Deck*, which entered into service at the end of March 2012, pushed deliveries from the first quarter of 2012 into the rest of the year.

Commercial aircraft deliveries

	Three-month periods ended		Six-month periods ended	
(in units)	**June 30, 2012**	July 31, 2011	**June 30, 2012**	July 31, 2011
Regional jets				
CRJ700 NextGen	**1**	2	**1**	7
CRJ900 NextGen	**-**	6	**1**	8
CRJ1000 NextGen	**-**	1	**3**	4
Turboprops				
Q400 NextGen	**14**	11	**17**	24
	15	20	**22**	43

The decrease in commercial aircraft deliveries is mainly due to lower production rates to reflect current demand and to certain deliveries being pushed to the second half of the year.

AIRCRAFT ORDERS

Total aircraft net orders

	June 30, 2012			July 31, 2011		
	Gross orders	**Cancellations**	**Net orders**	Gross orders	Cancellations	Net orders
Three-month periods ended						
Business aircraft (including those of the Flexjet fractional ownership programs)	**147**	**(13)**	**134**	56	(13)	43
Commercial aircraft	**12**	**-**	**12**	43	-	43
	159	**(13)**	**146**	99	(13)	86
Six-month periods ended						
Business aircraft (including those of the Flexjet fractional ownership programs)	**196**	**(22)**	**174**	141	(21)	120
Commercial aircraft	**40**	**-**	**40**	48	-	48
Amphibious aircraft	**-**	**-**	**-**	4	-	4
	236	**(22)**	**214**	193	(21)	172

Business aircraft

In the three- and six-month periods ended June 30, 2012, business aircraft net orders increased, with 134 and 174 net orders, respectively, compared to 43 and 120 net orders, respectively, for the same periods last fiscal year. The increase is mainly due to a firm order by NetJets Inc. during the three-month period ended June 30, 2012, for 100 aircraft of the *Challenger* family (during the three-month period ended April 30, 2011, NetJets Inc. placed a firm order of 50 aircraft of the *Global* family).

The following significant orders were received during the six-month period ended June 30, 2012:

Customer	Firm order	Options	Value of firm order based on list prices
NetJets Inc.	75 *Challenger 300* Series 25 *Challenger 605* Series	125 *Challenger 300* Series 50 *Challenger 605* Series	$2.6 billion
Undisclosed customer	3 *Global 6000* 5 *Global 8000*	-	$507 million
AVWest (Australia)	5 *Global 6000*	-	$293 million

Commercial aircraft

Commercial aircraft net orders

	Three-month periods ended		Six-month periods ended	
(in units)	**June 30, 2012**	July 31, 2011	**June 30, 2012**	July 31, 2011
Regional jets				
CRJ900 NextGen	**-**	-	**2**	3
CRJ1000 NextGen	**12**	-	**18**	-
Commercial jets				
CS100	**-**	28	**5**	28
CS300	**-**	15	**-**	15
Turboprops				
Q400 NextGen	**-**	-	**15**	2
	12	43	**40**	48

We have progressively improved our local presence in emerging markets, including the inauguration of our new sales and marketing office in Shanghai, China in April 2012, to adapt to a shift in demand towards non-U.S. customers. In the six-month period ended June 30, 2012, many of the new orders were obtained in emerging markets, including the order from Nordic Aviation Capital A/S for aircraft that will be leased to PT. Garuda Indonesia (Persero) Tbk.

The following significant orders were received during the six-month period ended June 30, 2012:

Customer	Firm order	Options	Value of firm order based on list prices
Nordic Aviation Capital A/S (Denmark)	12 *CRJ1000 NextGen*	-	$595 million
PrivatAir (Switzerland)	5 *CS100*	5 *CS100*	$309 million
PT. Garuda Indonesia (Persero) Tbk.	6 *CRJ1000 NextGen*	18 *CRJ1000 NextGen*	$297 million
Eurolot S.A. (Poland)	8 *Q400 NextGen*	12 *Q400 NextGen*	$246 million
Ethiopian Airlines	5 *Q400 NextGen*	-	$160 million

Subsequent to the end of the second quarter, we received the following orders, conditional orders and letters of intent, none of which are included in the order backlog as at June 30, 2012:

- WestJet converted a previously announced conditional order for 20 *Q400 NextGen* turboprops into a firm order, with options to purchase an additional 25. This order follows a letter of intent and a conditional order that were signed during the second quarter of 2012. Based on list price, the order is valued at $683 million, and could increase to $1.59 billion should the 25 options be converted to firm orders.
- China Express Airlines converted a previously announced conditional order for six *CRJ900 NextGen* regional jets into a firm order. The transaction includes options on an additional five *CRJ900 NextGen* aircraft. Based on the list price, the value of the firm order is $264 million, and could increase to $491 million should the five options be converted to firm orders.
- We signed a firm order with Chorus Aviation Inc. of Canada, the parent company of Jazz Aviation LP (Jazz), for six *Q400 NextGen* airliners. The transaction involves the conversion to firm orders of six of the 15 options taken by Jazz with its original order for 15 *Q400 NextGen* airliners, announced on April 30, 2010. Based on the list price, the order is valued at $189 million.
- We received a conditional order from an undisclosed customer for five *CS100* and 10 *CS300* aircraft. Based on list prices, the conditional order is valued at $1.02 billion.
- Air Baltic Corp. signed a letter of intent to acquire 10 *CS300* aircraft, with purchase rights on an additional 10. Based on list price, the letter of intent for the 10 aircraft is valued at $764 million, and could increase to $1.57 billion should the 10 purchase rights be converted to firms orders.

Since the beginning of the year, up to the date of this report, we signed a total of 174 firm orders and other agreements for commercial aircraft. The other agreements consist of conditional orders, letters of intent, options and purchase rights.

BOOK-TO-BILL RATIO AND ORDER BACKLOG

Book-to-bill ratio[(1)]

	Three-month periods ended		**Six-month periods ended**	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Business aircraft	**2.9**	1.2	**2.3**	1.7
Commercial aircraft	**0.8**	2.2	**1.8**	1.1
Total	**2.4**	1.5	**2.2**	1.5

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

The high book-to-bill ratios for business aircraft for the three- and six-month periods ended June 30, 2012 are due to the significant order received from NetJets Inc. for 100 aircraft of the *Challenger* family.

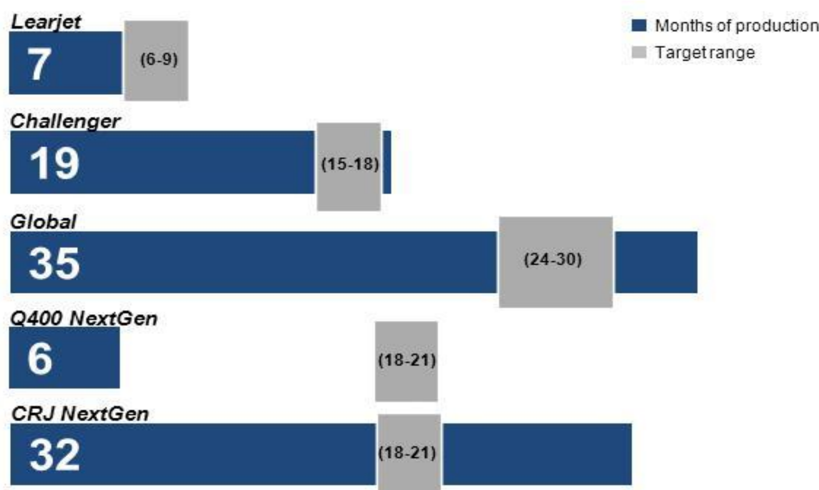
Total order backlog

		As at
(in billions of dollars)	**June 30, 2012**	December 31, 2011
Aircraft programs	**$ 24.6**	$ 21.4
Military Aviation Training	**0.6**	0.6
	$ 25.2	$ 22.0

The order backlog as at June 30, 2012 increased by 14.5% compared to December 31, 2011, mainly due to business aircraft, as a result of orders for the *Challenger* and *Global* families of aircraft. We continue to closely monitor our order backlog and the production horizon for our programs and to align our production rates to reflect market demand.

In addition, we have various long-term maintenance and spares support agreements with customers, not included in the order backlog above, amounting to $2.7 billion as at June 30, 2012 and $1.9 billion as at December 31, 2011. This amount includes a recent long-term service agreement signed with NetJets Inc. related to the firm order for 100 aircraft of the *Challenger* family. Generally, revenues from such agreements will be recognized over the next five to 15 years.

ORDER BACKLOG IN MONTHS OF PRODUCTION
(as at June 30, 2012)



The number of months in production is calculated by dividing the order backlog in units as at June 30, 2012 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 potential changes in production rates or the ability of our customers to take delivery of the aircraft and the timing of such delivery.

Commercial aircraft order backlog and options

				As at
		June 30, 2012		December 31, 2011
	Firm orders	**Options**	Firm orders	Options
Regional jets				
CRJ700 NextGen	**8**	**2**	9	2
CRJ900 NextGen	**11**	**26**	10	24
CRJ1000 NextGen	**44**	**22**	29	4
Commercial jets				
CS100	**66** [(1)]	**52**	61 [(2)]	47
CS300	**72** [(1)]	**72**	72 [(2)]	72
Turboprops				
Q400 NextGen	**22**	**99**	24	118
	223	**273**	205	267

(1) Total of 138 orders includes 81 firm orders with conversion rights to the other *CSeries* aircraft model.
(2) Total of 133 orders includes 79 firm orders with conversion rights to the other *CSeries* aircraft model.

OTHER

In April 2012, we inaugurated our new Engineering Service Office in Bangalore, India, which will support our in-production and in-development aircraft programs.

In April 2012, we also inaugurated our new office in Shanghai, China, which will house our teams working with COMAC, as well as our local supply chain, commercial aircraft sales and marketing and regional support groups.

In June 2012, we announced the site of our new manufacturing plant in the Midparc Casablanca Free Zone in Nouaceur, Morocco.

In July 2012, we announced the opening of a Regional Support Office in Farnborough, U.K., which will provide regional support to our business aircraft customers in Europe.

TRANSPORTATION

HIGHLIGHTS

Results of the quarter

- Revenues of $1.9 billion, compared to $2.7 billion for the same period last fiscal year.
- EBIT of $118 million, or 6.2% of revenues, compared to $191 million, or 7.2%, for the same period last fiscal year.
- EBITDA[(1)] of $150 million, or 7.9% of revenues, compared to $225 million, or 8.5%, for the same period last fiscal year.
- Free cash flow[(1)] usage of $78 million, compared to a usage of $473 million for the same period last fiscal year.
- $2.9 billion in new orders (book-to-bill ratio[(2)] of 1.5), compared to $3.9 billion (book-to-bill ratio of 1.5) for the same period last fiscal year. On a year-to-date basis, we obtained $4.1 billion in new orders resulting in a book-to-bill ratio of 1.1.
- Order backlog of $31.7 billion as at June 30, 2012, compared to $31.9 billion as at December 31, 2011.

(1) Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and the Analysis of results section for reconciliations to the most comparable IFRS measures.
(2) Defined as new orders over revenues.

Key events

- We signed several significant contracts, with: San Francisco Bay Area Rapid Transit District (BART), U.S., for 410 metro cars, valued at $897 million; Metropolitan Transportation Authority (MTA) of New York City, U.S., for 300 metro cars, valued at $599 million; and Régie Autonome des Transports Parisiens (RATP) and Syndicat des Transports d'Île de France (STIF), France, for 210 double-deck commuter train cars, valued at $417 million.
- We continued our long-term investment in emerging markets, with: the opening of the monorail facility in Hortolândia, Brazil, in April 2012; the signature of a 10-year Technology Licence Agreement in July 2012 with CSR Puzhen, under which we will provide CSR Puzhen with a licence to manufacture and sell 100% low-floor trams with Bombardier technology in China; and, also in July 2012, the signature of a co-operation agreement with Russian rail manufacturer Uralvagonzavod (UVZ) to jointly develop and sell state-of-the-art metros and trams for Moscow Metro and other cities in the CIS.

INDUSTRY AND ECONOMIC ENVIRONMENT

The rail industry continued to be resilient during the first half of 2012 with significant order flows in our core markets. In this context, we continued to lead the industry by pursuing our focused strategy.

In North America, the level of activities increased due to major metro contracts awarded in New York and San Francisco, which represent a significant share of this market. In Europe, the market remains resilient despite economic uncertainty in some countries. After starting the year on a positive note, the European rail market continued to show strong order activity in the second quarter of calendar year 2012, mainly due to orders in Western Europe.

We continue to be well positioned for future growth in Europe. In our core markets of Western Europe and Northern Europe we expect to see continued investment in rail with various new orders and exercise of options attached to large framework contracts already in place. In Eastern Europe, network signalling and fleet modernization plans should continue across the region with the support of European funding. In Southern Europe, new investments may be constrained, though we continue to anticipate a limited impact on our business as our historical market share in this region is small.

In the second quarter of 2012, the regions Asia-Pacific and Other had moderate levels of activity mainly explained by a temporary slow-down of rail investment in China. We expect growth in rail investment to resume in China as well as in other emerging markets, driven by the strong need for mobility to support rapid urbanization and continued economic growth. In India, investment in mass transit continues to be promising with multiple cities expected to invest in metros and monorails. Growth in rail investment in the region Other will continue to be driven by the Middle East, Brazil and Russia. The building of new rail infrastructure and the major tenders to be awarded in those three geographies demonstrate the momentum for new advanced rail investment in this region.

ANALYSIS OF RESULTS

Results of operations[1]

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Revenues				
Rolling stock[2]	**$ 1,265**	$ 1,958	**$ 2,603**	$ 3,750
Services[3]	**339**	331	**711**	656
System and signalling[4]	**301**	373	**597**	729
Total revenues	**1,905**	2,662	**3,911**	5,135
Cost of sales	**1,591**	2,229	**3,238**	4,297
Gross margin	**314**	433	**673**	838
SG&A	**193**	207	**396**	410
R&D	**27**	34	**61**	65
Other expense (income)[5]	**(24)**	1	**(26)**	1
EBIT	**118**	191	**242**	362
Amortization[6]	**32**	34	**64**	66
EBITDA	**$ 150**	$ 225	**$ 306**	$ 428
(as a percentage of total revenues)				
Gross margin	**16.5%**	16.3%	**17.2%**	16.3%
EBIT	**6.2%**	7.2%	**6.2%**	7.0%
EBITDA	**7.9%**	8.5%	**7.8%**	8.3%

[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 foreign 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) share of income of associates; and ii) severance and other involuntary termination costs (including changes in estimates).
[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-month periods ended				Six-month periods ended			
	June 30, 2012		July 31, 2011		**June 30, 2012**		July 31, 2011	
Europe[1]	**$ 1,214**	**64%**	$ 1,726	65%	**$ 2,563**	**66%**	$ 3,311	64%
North America	**334**	**17%**	374	14%	**722**	**18%**	706	14%
Asia-Pacific	**239**	**13%**	403	15%	**330**	**8%**	922	18%
Other[2]	**118**	**6%**	159	6%	**296**	**8%**	196	4%
	$ 1,905	**100%**	$ 2,662	100%	**$ 3,911**	**100%**	$ 5,135	100%

[1] The decrease in Europe reflects a negative currency impact of $125 million and $216 million, respectively, for the three- and six-month periods ended June 30, 2012.
[2] The region Other includes South America, Central America, Africa, the Middle East and the CIS.

Revenues for the three- and six-month periods ended June 30, 2012 have been affected by the completion of some contracts, mostly in Asia-Pacific and Europe while major orders received in these regions in the last quarters are still in the start-up phase. This lead to a drop in overall revenues of $757 million, or 28%, in the three-month period and $1,224 million, or 24%, in the six-month period, as compared to the same periods last fiscal year. Excluding a negative currency impact of $137 million and $227 million, revenues decreased by $620 million, or 23%, and $997 million, or 19%, respectively, compared to the same periods last fiscal year.

Rolling stock revenues
The $693-million decrease for the three-month period reflects a negative currency impact ($90 million). Excluding this currency impact, revenues decreased by $603 million. This decrease is mainly due to lower activities in Europe and Asia-Pacific ($604 million), as some commuter and regional train, locomotive, metro, intercity train and propulsion contracts are nearing completion, partially offset by increased production in some light rail vehicle contracts.

The $1,147-million decrease for the six-month period reflects a negative currency impact ($148 million). Excluding this currency impact, revenues decreased by $999 million. This decrease is due to:

- lower activities in Europe and Asia-Pacific ($1,133 million), as some commuter and regional train, metro, locomotive, high speed train, propulsion and intercity train contracts are nearing completion, partially offset by increased production in some light rail vehicle contracts.

Partially offset by:

- higher activities in region Other and North America ($134 million) mainly due to the ramp-up in production of commuter and regional train contracts in Israel and the U.S., and metro contracts in Canada.

Services revenues
The $8-million increase for the three-month period reflects a negative currency impact ($23 million). Excluding this currency impact, revenues increased by $31 million. This increase arose mainly from higher activities in Asia-Pacific ($29 million).

The $55-million increase for the six-month period reflects a negative currency impact ($40 million). Excluding this currency impact, revenues increased by $95 million. This increase arose from higher activities in all regions, with the largest increase in Asia-Pacific ($47 million).

System and signalling revenues
The $72-million decrease for the three-month period reflects a negative currency impact ($24 million). Excluding this currency impact, revenues decreased by $48 million. This decrease is due to lower activities in all regions, with the largest decrease in North America ($39 million), mostly due to completion of some systems contracts while orders received in these regions in past quarters are still in the start-up phase.

The $132-million decrease for the six-month period reflects a negative currency impact ($39 million). Excluding this currency impact, revenues decreased by $93 million. This decrease is due to:

- lower activities in Asia-Pacific and North America ($107 million), mostly due to completion of some contracts while orders received in these regions in past quarters are still in the start-up phase.

Partially offset by:

- higher activities in Europe ($14 million), mostly due to the ramp-up in production of some signalling contracts received in past quarters.

EBIT margin
The 1.0 percentage point decrease in the EBIT margin for the three-month period and the 0.8 percentage point decrease in the EBIT margin for the six-month period are mainly due to:

- lower absorption of SG&A and R&D expenses; and
- a lower overall gross margin in rolling stock, due to execution issues in some contracts.

Partially offset by:

- a higher gross margin in services due to overall better contract execution;
- a $24 million gain following the finalisation of the build-phase of a system and hand-over to the customer, recorded in other expense (income) as part of our share of income of associates; and
- a favourable product mix.

FREE CASH FLOW

Free cash flow usage

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
EBIT	**$ 118**	$ 191	**$ 242**	$ 362
Amortization	**32**	34	**64**	66
EBITDA	**150**	225	**306**	428
Other non-cash items:				
Share-based expense (income)	**(7)**	4	**(2)**	9
Net change in non-cash balances related to operations	**(195)**	(654)	**(443)**	(1,019)
Cash flows from operating activities	**(52)**	(425)	**(139)**	(582)
Net additions to PP&E and intangible assets	**(26)**	(48)	**(39)**	(59)
Free cash flow usage	**$ (78)**	$ (473)	**$ (178)**	$ (641)

The $395-million improvement for the three-month period is mainly due to:

- a positive period-over-period variation in net change in non-cash balances related to operations ($459 million) (see explanations below); and
- lower net additions to PP&E and intangible assets ($22 million).

Partially offset by:

- a lower EBITDA ($75 million).

The $463-million improvement for the six-month period is mainly due to:

- a positive period-over-period variation in net change in non-cash balances related to operations ($576 million) (see explanations below); and
- lower net additions to PP&E and intangible assets ($20 million).

Partially offset by:

- a lower EBITDA ($122 million).

Net change in non-cash balances related to operations

For the three-month period ended June 30, 2012, the $195-million cash outflow is mainly due to:

- an increase in inventories due to the ramp-up of several contracts in the start-up phase ahead of deliveries;
- lower other liabilities mostly as a result of the reduction in accruals for long-term contract costs in contracts with a high percentage of completion; and
- lower trade and other payables as a result of a lower level of activities in the second quarter as compared to the first quarter.

Partially offset by:

- an increase in advances and progress billings on new orders and existing contracts, partly compensated by a reduction related to existing contracts following deliveries in several contracts.

For the six-month period ended June 30, 2012, the $443-million cash outflow is mainly due to:

- lower trade and other payables as a result of a lower level of activities in the second quarter of 2012 as compared to the fourth quarter of the fiscal year ended December 31, 2011;
- lower other liabilities mostly as a result of the reduction in accruals for long-term contract costs in contracts with a high percentage of completion;
- an increase in inventories due to the ramp-up of several contracts in the start-up phase ahead of deliveries; and
- a reduction in advances and progress billings related to existing contracts following deliveries in several contracts, partly compensated by advances on new orders and existing contracts.

For the three- and six-month periods ended July 31, 2011, the $654-million and $1,019-million cash outflows were 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;
- an increase in receivables as a result of high deliveries in several projects; and
- a settlement impact for derivative financial instruments used in a roll-forward cash flow hedge.

Partially offset by:

- higher advances and progress billings on new orders and existing contracts.

ORDERS AND BACKLOG

Order intake and book-to-bill ratio

	Three-month periods ended		**Six-month periods ended**	
Order intake (in billions of dollars)	**June 30, 2012**	July 31, 2011	**June 30, 2012**	July 31, 2011
Rolling stock	**$ 2.5**	$ 2.5	**$ 3.1**	$ 3.2
Services	**0.3**	0.2	**0.6**	0.5
System and signalling	**0.1**	1.2	**0.4**	1.4
	$ 2.9	$ 3.9	**$ 4.1**	$ 5.1
Book-to-bill ratio[(1)]	**1.5**	1.5	**1.1**	1.0

[(1)] Ratio of new orders over revenues.

The order intake for the three- and six-month periods ended June 30, 2012 reflect negative currency impacts of $124 million and $178 million.

We received the following significant orders during the first half of the current fiscal year:

Customer	**Country**	**Product or service**	**Number of cars**	**Market segment**	**Value**
San Francisco Bay Area Rapid Transit District (BART)	U.S.	Metro cars	410[(1)]	Rolling stock	$ 897[(1)]
Metropolitan Transportation Authority (MTA) of New York City	U.S.	Metro cars	300	Rolling stock	$ 599
Régie Autonome des Transports Parisiens (RATP) & Syndicat des Transports d'Île de France (STIF)	France	Double-deck commuter trains	210[(2)]	Rolling stock	$ 417[(2)]
Deutsche Bahn AG	Germany	*TWINDEXX* double-deck trains	64	Rolling stock	$ 208
Berliner Verkehrsbetriebe (BVG)	Germany	*FLEXITY* trams	39	Rolling stock	$ 168

[(1)] Consists of base contract and first option exercised in June 2012.
[(2)] Contract performed through a consortium. Only the value of our share is stated.

Subsequent to the end of the second quarter, we signed a contract with the Port Authority of New York and New Jersey (PANYNJ), U.S., for a further 10 years of operations and maintenance services and a capital asset replacement program, valued at approximately $243 million, which is not included in our order backlog as at June 30, 2012.

Order backlog

		As at
(in billions of dollars)	**June 30, 2012**	December 31, 2011
Rolling stock	**$ 22.4**	$ 22.6
Services	**5.7**	5.5
System and signalling	**3.6**	3.8
	$ 31.7	$ 31.9

The $0.2 billion decrease is due to the weakening of most foreign currencies versus the U.S. dollar as at June 30, 2012 compared to December 31, 2011, mainly the euro and Brazilian real ($0.4 billion), partially offset by higher order intake than revenues recorded ($0.2 billion).

OTHER

RISKS AND UNCERTAINTIES

We operate in industry segments that have a variety of risk factors and uncertainties. The risks and uncertainties that could materially affect our business, financial condition and results of operations are described in our Annual Report for the fiscal year ended December 31, 2011 in Other, but are not necessarily the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, may also adversely affect our business.

There was no significant change to these risks and uncertainties during the six-month period ended June 30, 2012, other than those described elsewhere in this MD&A.

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 the parts of IAS 27, *Consolidated and separate financial statements,* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We are assessing 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 use of 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 are assessing 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 begun 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 items within OCI that may be reclassified to the statement of income. The amendments also reaffirmed existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments 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 these amendments as the items within OCI that may be reclassified to the statement of income are already disclosed together.

Employee benefits
In June 2011, the IASB amended IAS 19, *Employee benefits*. Amongst 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 amendments to IAS 19 will be effective for our fiscal years beginning on January 1, 2013, with earlier application permitted. We are currently assessing the impact of the adoption of this revised standard on our consolidated financial statements. The main impact is expected to be an increase in the net financing expense. The adjustment will be measured as the difference between the financing cost component, calculated based on the net benefit liability, as prescribed by the revised standard, and the accretion expense on retirement benefit obligations net of expected return on pension plan assets, that would have been computed under current accounting rules.

CONTROLS AND PROCEDURES

No changes were made to our internal controls over financial reporting during the six-month period ended June 30, 2012 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 currency, 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:

	June 30, 2012	December 31, 2011	Increase (decrease)
Euro	**1.2590**	1.2939	(3%)
Canadian dollar	**0.9782**	0.9791	0%
Pound sterling	**1.5605**	1.5490	1%

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows for the three-month periods ended:

	June 30, 2012	July 31, 2011	Decrease
Euro	**1.2851**	1.4333	(10%)
Canadian dollar	**0.9916**	1.0345	(4%)
Pound sterling	**1.5850**	1.6230	(2%)

The average foreign exchange rates used to translate revenues and expenses into U.S. dollars were as follows for the six-month periods ended:

	June 30, 2012	July 31, 2011	Decrease
Euro	**1.2975**	1.4181	(9%)
Canadian dollar	**0.9947**	1.0305	(3%)
Pound sterling	**1.5774**	1.6221	(3%)

SELECTED FINANCIAL INFORMATION

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

Fiscal years	**2012**		2011				F2011 [1]	
	Second	First	Fourth [2]	Third	Second	First	Fourth	Third
Revenues	**$ 4,170**	$ 3,505	$ 4,316	$ 4,623	$ 4,747	$ 4,661	$ 5,586	$ 3,997
Net income	**$ 182**	$ 190	$ 214	$ 192	$ 211	$ 220	$ 295	$ 147
EPS (in dollars):								
Basic and diluted	**$ 0.10**	$ 0.10	$ 0.12	$ 0.11	$ 0.12	$ 0.12	$ 0.16	$ 0.08

[1] Refers to the fiscal year ended January 31, 2011.
[2] The fourth quarter ended December 31, 2011 comprised two months of BA's results and three months of BT's results.

INVESTOR INFORMATION

Authorized, issued and outstanding share data as at August 7, 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	1,415,809,854 [(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 24,542,027 Class B Shares (Subordinate Voting) purchased and held in trust in connection with the PSU plan.

Normal course issuer bid

As authorized by the Board of Directors, the Corporation intends to repurchase for cancellation, in connection with, inter alia, the DSU plan, from June 21, 2012 to June 20, 2013, up to 6,000,000 Class B Shares (subordinate voting) and up to 1,310,334 Class A Shares (multiple voting) (from June 17, 2011 to June 16, 2012, up to 2,006,000 Class B Shares (subordinate voting) and 438,263 Class A Shares (multiple voting)).

During the three- and six-month periods ended June 30, 2012, no Class B Shares (subordinate voting) were repurchased and cancelled (2,006,000 Class B Shares (subordinate voting) were repurchased and cancelled for a total amount of $14 million during the three- and six-month period ended July 31, 2011) (see note 15 – Share-based plans to the interim consolidated financial statements).

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 June 30, 2012

Options issued and outstanding under the share option plans	22,883,969
PSUs and DSUs issued and outstanding under the PSU and DSU plans	18,641,168
Class B Shares held in trust to satisfy PSU obligations	24,542,027

Expected issuance date of our financial reports for the next 12 months

Third Quarterly Report, for the period ending September 30, 2012	November 7, 2012
Financial Report, for the fiscal year ending December 31, 2012	February 21, 2013
First Quarterly Report, for the period ending March 31, 2013	May 2, 2013
Second Quarterly Report, for the period ending June 30, 2013	August 1, 2013

Information

Bombardier Inc.
Investor Relations
800 René-Lévesque Blvd. West
Montréal, Québec, Canada H3B 1Y8
Telephone: +1 514 861 9481, extension 13273
Fax: +1 514 861 2420
E-mail: investors@bombardier.com

August 8, 2012

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

The *CSeries* family of aircraft, *Learjet 85* aircraft and *Global 7000* and *Global 8000* aircraft programs are currently in development, and as such are subject to changes in family strategy, branding, capacity, performance, design and/or systems. All specification and data are approximate, may change without notice and are subject to certain operating rules, assumptions and other conditions. This document does not constitute an offer, commitment, representation, guarantee or warranty of any kind.

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Bombardier Inc., 800 René-Lévesque Blvd. West, Montréal, Québec, Canada H3B 1Y8
Telephone: +1 514 861 9481; fax: +1 514 861 2420; website: www.bombardier.com

Un exemplaire en français est disponible sur demande adressée auprès du service des Affaires publiques ou sur notre site Internet à l'adresse ri.bombardier.com.

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In millions of U.S. dollars, except per share amounts)

		Three-month periods ended		Six-month periods ended	
		June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
	Notes				
Revenues	3	**$ 4,170**	$ 4,747	**$ 7,675**	$ 9,408
Cost of sales	3, 8	**3,523**	4,032	**6,430**	7,957
Gross margin		**647**	715	**1,245**	1,451
SG&A	3	**371**	364	**735**	727
R&D	3, 4	**62**	58	**127**	122
Other income	3, 5	**(6)**	(3)	**(52)**	(6)
EBIT		**220**	296	**435**	608
Financing expense	6	**155**	179	**307**	352
Financing income	6	**(166)**	(144)	**(318)**	(281)
EBT		**231**	261	**446**	537
Income taxes		**49**	50	**74**	106
Net income		**$ 182**	$ 211	**$ 372**	$ 431
Attributable to:					
Equity holders of Bombardier Inc.		**$ 182**	$ 210	**$ 367**	$ 430
NCI		**-**	1	**5**	1
		$ 182	$ 211	**$ 372**	$ 431
EPS (in dollars)	7				
Basic		**$ 0.10**	$ 0.12	**$ 0.21**	$ 0.24
Diluted		**$ 0.10**	$ 0.12	**$ 0.20**	$ 0.24

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In millions of U.S. dollars)

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Net income	**$ 182**	$ 211	**$ 372**	$ 431
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges:				
Foreign exchange re-evaluation	**17**	3	**8**	(18)
Net gain (loss) on derivative financial instruments designated as cash flow hedges	**(182)**	(143)	**(38)**	217
Reclassification to income or to the related non-financial asset	**61**	(8)	**(8)**	(153)
Income taxes	**40**	6	**7**	(67)
	(64)	(142)	**(31)**	(21)
AFS financial assets:				
Net unrealized gain	**4**	1	**4**	18
Reclassification to income	**(22)**	-	**(29)**	-
Income taxes	**5**	(1)	**6**	(1)
	(13)	-	**(19)**	17
CCTD:				
Net investments in foreign operations	**(110)**	(260)	**(20)**	83
Net gain (loss) on related hedging items	**56**	216	**24**	(48)
	(54)	(44)	**4**	35
Items that are never reclassified to net income				
Retirement benefits:				
Net actuarial loss	**(526)**	(378)	**(166)**	(485)
Income taxes	**91**	34	**6**	54
	(435)	(344)	**(160)**	(431)
Total OCI	**(566)**	(530)	**(206)**	(400)
Total comprehensive income (loss)	**$ (384)**	$ (319)	**$ 166**	$ 31
Attributable to:				
Equity holders of Bombardier Inc.	**$ (383)**	$ (318)	**$ 160**	$ 28
NCI	**(1)**	(1)	**6**	3
	$ (384)	$ (319)	**$ 166**	$ 31

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(In millions of U.S. dollars)
As at

	Notes	**June 30, 2012**	December 31, 2011	February 1, 2011
Assets				
Cash and cash equivalents		**$ 2,479**	$ 3,372	$ 4,195
Trade and other receivables		**1,301**	1,408	1,377
Inventories	8	**8,330**	7,398	7,307
Other financial assets	9	**324**	526	705
Other assets	10	**645**	559	648
Current assets		**13,079**	13,263	14,232
Invested collateral		**-**	-	676
PP&E		**1,859**	1,864	1,878
Aerospace program tooling		**3,871**	3,168	2,088
Goodwill		**2,219**	2,253	2,358
Deferred income taxes		**1,500**	1,506	1,294
Other financial assets	9	**1,259**	1,305	1,104
Other assets	10	**532**	505	462
Non-current assets		**11,240**	10,601	9,860
		$ 24,319	$ 23,864	$ 24,092
Liabilities				
Trade and other payables		**$ 3,038**	$ 3,210	$ 3,073
Provisions	11	**982**	1,078	1,198
Advances and progress billings in excess of long-term contract inventories		**1,773**	1,885	2,370
Advances on aerospace programs		**2,790**	2,788	2,989
Other financial liabilities	12	**623**	732	860
Other liabilities	13	**2,099**	2,262	2,214
Current liabilities		**11,305**	11,955	12,704
Provisions	11	**552**	594	614
Advances on aerospace programs		**1,603**	1,266	1,193
Non-current portion of long-term debt	14	**5,243**	4,748	4,645
Retirement benefits		**3,370**	3,226	1,975
Other financial liabilities	12	**550**	502	532
Other liabilities	13	**960**	902	908
Non-current liabilities		**12,278**	11,238	9,867
		23,583	23,193	22,571
Equity				
Attributable to equity holders of Bombardier Inc.		**695**	639	1,454
Attributable to NCI		**41**	32	67
		736	671	1,521
		$ 24,319	$ 23,864	$ 24,092

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
(In millions of U.S. dollars)
For the three-month periods ended

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Deficit			Accumulated OCI					
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total equity
As at March 31, 2012	$ 347	$ 1,323	$ 2,408	$ (2,958)	$ 129	$ 21	$ (283)	$ 156	$ 1,143	$ 39	$ 1,182
Total comprehensive income											
Net income	-	-	182	-	-	-	-	-	182	-	182
OCI	-	-	-	(435)	-	(13)	(64)	(53)	(565)	(1)	(566)
	-	-	182	(435)	-	(13)	(64)	(53)	(383)	(1)	(384)
Options exercised	-	5	-	-	(2)	-	-	-	3	-	3
Dividends	-	-	(51)	-	-	-	-	-	(51)	-	(51)
Shares distributed - PSU plans	-	14	-	-	(14)	-	-	-	-	-	-
Share-based expense (income)	-	-	-	-	(14)	-	-	-	(14)	-	(14)
Purchase of NCI	-	-	(3)	-	-	-	-	-	(3)	3	-
As at June 30, 2012	**$ 347**	**$ 1,342**	**$ 2,536**	**$ (3,393)**	**$ 99**	**$ 8**	**$ (347)**	**$ 103**	**$ 695**	**$ 41**	**$ 736**
As at April 30, 2011	$ 347	$ 1,328	$ 1,820	$ (2,065)	$ 140	$ 27	$ (97)	$ 211	$ 1,711	$ 40	$ 1,751
Total comprehensive income											
Net income	-	-	210	-	-	-	-	-	210	1	211
OCI	-	-	-	(344)	-	-	(142)	(42)	(528)	(2)	(530)
	-	-	210	(344)	-	-	(142)	(42)	(318)	(1)	(319)
Options exercised	-	3	-	-	-	-	-	-	3	-	3
Repurchase of share capital	-	(2)	(12)	-	-	-	-	-	(14)	-	(14)
Dividends	-	-	(53)	-	-	-	-	-	(53)	-	(53)
Shares distributed - PSU plans	-	50	-	-	(50)	-	-	-	-	-	-
Shares purchased - PSU plans	-	(58)	-	-	-	-	-	-	(58)	-	(58)
Share-based expense	-	-	-	-	9	-	-	-	9	-	9
As at July 31, 2011	$ 347	$ 1,321	$ 1,965	$ (2,409)	$ 99	$ 27	$ (239)	$ 169	$ 1,280	$ 39	$ 1,319

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
(In millions of U.S. dollars)
For the six-month periods ended

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Deficit			Accumulated OCI					
	Preferred shares	Common shares	Other retained earnings	Net actuarial losses	Contributed surplus	AFS financial assets	Cash flow hedges	CCTD	Total	NCI	Total equity
As at December 31, 2011	$ 347	$ 1,323	$ 2,273	$ (3,233)	$ 118	$ 27	$ (316)	$ 100	$ 639	$ 32	$ 671
Total comprehensive income											
Net income	-	-	367	-	-	-	-	-	367	5	372
OCI	-	-	-	(160)	-	(19)	(31)	3	(207)	1	(206)
	-	-	367	(160)	-	(19)	(31)	3	160	6	166
Options exercised	-	5	-	-	(2)	-	-	-	3	-	3
Dividends	-	-	(101)	-	-	-	-	-	(101)	-	(101)
Shares distributed - PSU plans	-	14	-	-	(14)	-	-	-	-	-	-
Share-based expense (income)	-	-	-	-	(3)	-	-	-	(3)	-	(3)
Purchase of NCI	-	-	(3)	-	-	-	-	-	(3)	3	-
As at June 30, 2012	**$ 347**	**$ 1,342**	**$ 2,536**	**$ (3,393)**	**$ 99**	**$ 8**	**$ (347)**	**$ 103**	**$ 695**	**$ 41**	**$ 736**
As at February 1, 2011	$ 347	$ 1,324	$ 1,702	$ (1,978)	$ 131	$ 10	$ (218)	$ 136	$ 1,454	$ 67	$ 1,521
Total comprehensive income											
Net income	-	-	430	-	-	-	-	-	430	1	431
OCI	-	-	-	(431)	-	17	(21)	33	(402)	2	(400)
	-	-	430	(431)	-	17	(21)	33	28	3	31
Options exercised	-	7	-	-	-	-	-	-	7	-	7
Repurchase of share capital	-	(2)	(12)	-	-	-	-	-	(14)	-	(14)
Dividends	-	-	(105)	-	-	-	-	-	(105)	-	(105)
Shares distributed - PSU plans	-	50	-	-	(50)	-	-	-	-	-	-
Shares purchased - PSU plans	-	(58)	-	-	-	-	-	-	(58)	-	(58)
Share-based expense	-	-	-	-	18	-	-	-	18	-	18
Purchase of NCI	-	-	(50)	-	-	-	-	-	(50)	(31)	(81)
As at July 31, 2011	$ 347	$ 1,321	$ 1,965	$ (2,409)	$ 99	$ 27	$ (239)	$ 169	$ 1,280	$ 39	$ 1,319

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions of U.S. dollars)

		Three-month periods ended		Six-month periods ended	
	Notes	**June 30, 2012**	July 31, 2011	**June 30, 2012**	July 31, 2011
Operating activities					
Net income		**$ 182**	$ 211	**$ 372**	$ 431
Non-cash items:					
Amortization		**90**	78	**172**	165
Deferred income taxes		**15**	12	**27**	22
Gains on disposals of PP&E	5	**-**	-	**(3)**	-
Share-based expense (income)	15	**(14)**	9	**(3)**	18
Net change in non-cash balances related to operations	16	**(408)**	(987)	**(1,027)**	(1,421)
Cash flows from operating activities		**(135)**	(677)	**(462)**	(785)
Investing activities					
Additions to PP&E and intangible assets		**(507)**	(398)	**(924)**	(700)
Disposals of PP&E and intangible assets		**-**	8	**32**	9
Proceeds from disposal of invested collateral		**-**	705	**-**	705
Proceeds from disposal of AFS investments in securities	6	**133**	-	**133**	-
Other		**(7)**	(56)	**25**	(47)
Cash flows from investing activities		**(381)**	259	**(734)**	(33)
Financing activities					
Proceeds from issuance of long-term debt		**5**	32	**509**	95
Repayments of long-term debt		**(163)**	(5)	**(167)**	(8)
Dividends paid[1]		**(51)**	(100)	**(144)**	(105)
Purchase of Class B shares held in trust under the PSU plan	15	**-**	(58)	**-**	(58)
Repurchase of Class B shares	15	**-**	(14)	**-**	(14)
Purchase of NCI		**-**	-	**-**	(53)
Other		**67**	(19)	**100**	(70)
Cash flows from financing activities		**(142)**	(164)	**298**	(213)
Effect of exchange rate on cash and cash equivalents		**(46)**	(48)	**5**	62
Net decrease in cash and cash equivalents		**(704)**	(630)	**(893)**	(969)
Cash and cash equivalents at beginning of period		**3,183**	3,856	**3,372**	4,195
Cash and cash equivalents at end of period		**$ 2,479**	$ 3,226	**$ 2,479**	$ 3,226
Supplemental information [2] [3]					
Cash paid for:					
Interest		**$ 80**	$ 85	**$ 122**	$ 124
Income taxes		**$ 20**	$ 29	**$ 33**	$ 73
Cash received for:					
Interest		**$ 45**	$ 13	**$ 53**	$ 22
Income taxes		**$ 11**	$ 3	**$ 18**	$ 4

[1] $6 million and $12 million of dividends paid relate to preferred shares for the three- and six-month periods ended June 30, 2012 ($8 million and $13 million for the three- and six-month periods ended July 31, 2011).
[2] Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.
[3] Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, invested collateral, investments in securities, loans and lease receivable after the effect of hedges, if any, and a gain on the sale of AFS investments in securities.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2012
(Unaudited)
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

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1. BASIS OF PREPARATION

Bombardier Inc. ("the Corporation") is incorporated under the laws of Canada. The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services. The Corporation carries out its operations in two distinct segments, the aerospace segment (BA) and the transportation segment (BT).

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IAS 34, *Interim financial reporting*, as issued by the IASB. The interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report for the fiscal year ended December 31, 2011.

These interim consolidated financial statements for the three- and six-month periods ended June 30, 2012 were authorized for issuance by the Board of directors on August 8, 2012.

Effective December 31, 2011, the Corporation changed its financial year-end from January 31 to December 31. Before the change of year-end, the Corporation was consolidating the operations of BT on a calendar year basis, i.e. with one-month lag with the remainder of its operations. As a result, the comparative three- and six-month periods ended July 31, 2011 are comprised of three and six months of results of BA for the periods from May to July and from February to July and of BT for the periods from April to June and from January to June.

The results of operations for the interim periods 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.

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

			Exchange rates as at
	June 30, 2012	December 31, 2011	February 1, 2011
Euro	**1.2590**	1.2939	1.3715
Canadian dollar	**0.9782**	0.9791	0.9978
Pound sterling	**1.5605**	1.5490	1.6040

		Average exchange rates for the three-month periods ended		**Average exchange rates for the six-month periods ended**
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Euro	**1.2851**	1.4333	**1.2975**	1.4181
Canadian dollar	**0.9916**	1.0345	**0.9947**	1.0305
Pound sterling	**1.5850**	1.6230	**1.5774**	1.6221

2. FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

Consolidation
In May 2011, the IASB released IFRS 10, *Consolidated financial statements*, which replaces SIC-12, *Consolidation – special purpose entities*, and the parts of IAS 27, *Consolidated and separate financial statements* related to the preparation and the presentation of consolidated financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in a company's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation is assessing the impact of the adoption of this standard on its consolidated financial statements.

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

Disclosure of interests in other entities
In May 2011, the IASB released IFRS 12, *Disclosure of interests in other entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation is assessing the impact of the adoption of this standard on its consolidated financial statements.

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

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

Employee benefits
In June 2011, the IASB amended IAS 19, *Employee benefits*. Amongst 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 amendments to IAS 19 will be effective for the Corporation's fiscal years beginning on January 1, 2013, with earlier application permitted. The Corporation is assessing the impact of the adoption of this revised standard on its consolidated financial statements. The main impact is expected to be an increase in the net financing expense. The adjustment will be measured as the difference between the financing cost component, calculated based on the net benefit liability, as prescribed by the revised standard, and the accretion expense on retirement benefit obligations net of expected return on pension plan assets, that would have been computed under current accounting rules.

3. SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT.

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

The segmented information is prepared using the same accounting policies as those described in the annual consolidated financial statements for the fiscal year ended December 31, 2011.

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

	Three-month period ended June 30, 2012			Three-month period ended July 31, 2011		
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$ 2,265**	**$ 1,905**	**$ 4,170**	$ 2,085	$ 2,662	$ 4,747
Cost of sales	**1,932**	**1,591**	**3,523**	1,803	2,229	4,032
Gross margin	**333**	**314**	**647**	282	433	715
SG&A	**178**	**193**	**371**	157	207	364
R&D	**35**	**27**	**62**	24	34	58
Other expense (income)	**18**	**(24)**	**(6)**	(4)	1	(3)
EBIT	**$ 102**	**$ 118**	**220**	$ 105	$ 191	296
Financing expense			**155**			179
Financing income			**(166)**			(144)
EBT			**231**			261
Income taxes			**49**			50
Net income			**$ 182**			$ 211
Other information						
Net additions to PP&E and intangible assets	**$ 481**	**$ 26**	**$ 507**	$ 342	$ 48	$ 390
Amortization	**$ 58**	**$ 32**	**$ 90**	$ 44	$ 34	$ 78

	Six-month period ended June 30, 2012			Six-month period ended July 31, 2011		
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$ 3,764**	**$ 3,911**	**$ 7,675**	$ 4,273	$ 5,135	$ 9,408
Cost of sales	**3,192**	**3,238**	**6,430**	3,660	4,297	7,957
Gross margin	**572**	**673**	**1,245**	613	838	1,451
SG&A	**339**	**396**	**735**	317	410	727
R&D	**66**	**61**	**127**	57	65	122
Other income	**(26)**	**(26)**	**(52)**	(7)	1	(6)
EBIT	**$ 193**	**$ 242**	**435**	$ 246	$ 362	608
Financing expense			**307**			352
Financing income			**(318)**			(281)
EBT			**446**			537
Income taxes			**74**			106
Net income			**$ 372**			$ 431
Other information						
Net additions to PP&E and intangible assets	**$ 853**	**$ 39**	**$ 892**	$ 632	$ 59	$ 691
Amortization	**$ 108**	**$ 64**	**$ 172**	$ 99	$ 66	$ 165

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

	June 30, 2012	December 31, 2011	February 1, 2010
Assets			
Total assets	**$ 24,319**	$ 23,864	$ 24,092
Assets not allocated to segments:			
Cash and cash equivalents	**2,479**	3,372	4,195
Invested collateral	**-**	-	676
Deferred income taxes	**1,500**	1,506	1,294
Segmented assets	**$ 20,340**	$ 18,986	$ 17,927
Liabilities			
Total liabilities	**$ 23,583**	$ 23,193	$ 22,571
Liabilities not allocated to segments:			
Interest payable[(1)]	**67**	59	89
Income taxes payable[(2)]	**108**	104	93
Long-term debt[(3)]	**5,290**	4,941	4,662
Deferred income taxes[(2)]	**69**	67	53
Segmented liabilities	**$ 18,049**	$ 18,022	$ 17,674
Net segmented assets			
BA	**$ 2,051**	$ 1,010	$ 1,171
BT	**$ 240**	$ (46)	$ (918)

(1) Included in trade and other payables in the consolidated statements of financial position.
(2) Included in other liabilities in the consolidated statements of financial position.
(3) The current portion of long-term debt is included in other financial liabilities.

The Corporation's revenues by market segments are as follows:

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
BA				
Manufacturing				
Business aircraft	**$ 1,256**	$ 930	**$ 1,899**	$ 1,961
Commercial aircraft	**315**	461	**483**	954
Other	**123**	141	**254**	267
Total manufacturing	**1,694**	1,532	**2,636**	3,182
Services[(1)]	**420**	408	**856**	830
Other[(2)]	**151**	145	**272**	261
	2,265	2,085	**3,764**	4,273
BT				
Rolling stock[(3)]	**1,265**	1,958	**2,603**	3,750
Services[(4)]	**339**	331	**711**	656
Systems and signalling[(5)]	**301**	373	**597**	729
	1,905	2,662	**3,911**	5,135
	$ 4,170	$ 4,747	**$ 7,675**	$ 9,408

(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) 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.
(4) Comprised of revenues from fleet maintenance, refurbishment and overhaul, and material solutions.
(5) Comprised of revenues from mass transit and airport systems, mainline systems, operations 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.

4. RESEARCH AND DEVELOPMENT

R&D expense, net of government assistance, was as follows:

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
R&D expenditures	**$ 441**	$ 336	**$ 830**	$ 633
Less: development expenditures capitalized to aerospace program tooling	**(409)**	(294)	**(755)**	(552)
	32	42	**75**	81
Add: amortization of aerospace program tooling	**30**	16	**52**	41
	$ 62	$ 58	**$ 127**	$ 122

5. OTHER INCOME

Other income was as follows:

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Share of income of associates[1]	**$ (25)**	$ -	**$ (26)**	$ -
Gain on resolution of a litigation[2]	**-**	-	**(23)**	-
Changes in estimates and fair value[3]	**4**	(8)	**(14)**	(11)
Severance and other involuntary termination costs (including changes in estimates)	**5**	1	**4**	1
Gains on disposals of PP&E	**-**	-	**(3)**	-
Other	**10**	4	**10**	4
	$ (6)	$ (3)	**$ (52)**	$ (6)

(1) Includes a $24 million gain following the finalisation of the build-phase of a system and hand-over to the customer, which was recorded through our share of income of associates.
(2) Represents a portion of a gain of $40 million upon the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations. The remaining $17 million of the gain was recorded in financing income.
(3) Includes net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions, excluding the losses (gains) arising from a change in interest rates.

6. FINANCING EXPENSE AND FINANCING INCOME

Financing expense and financing income were as follows:

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Financing expense				
Accretion on retirement benefit obligations	**$ 110**	$ 113	**$ 220**	$ 225
Amortization of letter of credit facility costs	**7**	19	**14**	32
Accretion on other financial liabilities	**6**	4	**12**	11
Changes in discount rates of provisions	**1**	3	**2**	6
Accretion on provisions	**-**	5	**1**	11
Other	**4**	-	**8**	-
	128	144	**257**	285
Interest on long-term debt, after effect of hedges	**27**	35	**50**	67
	$ 155	$ 179	**$ 307**	$ 352
Financing income				
Expected return on pension plan assets	**$ (107)**	$ (114)	**$ (213)**	$ (224)
Net gain on certain financial instruments[1]	**(17)**	(6)	**(19)**	(13)
Interest related to the resolution of a litigation[2]	**-**	-	**(17)**	-
Other	**-**	(5)	**(6)**	(3)
	(124)	(125)	**(255)**	(240)
Income from investment in securities[3]	**(25)**	(3)	**(29)**	(5)
Interest on loans and lease receivables, after effect of hedges	**(10)**	(8)	**(19)**	(17)
Interest on cash and cash equivalents	**(7)**	(7)	**(15)**	(16)
Interest on invested collateral	**-**	(1)	**-**	(3)
	(42)	(19)	**(63)**	(41)
	$ (166)	$ (144)	**$ (318)**	$ (281)

[1] Includes net gains on certain financial instruments classified as FVTP&L, including losses (gains) arising from changes in interest rates.
[2] Represents the interest portion of a gain of $40 million upon the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations. The remaining $23 million of the gain was recorded in other income.
[3] Includes a gain of $22 million on a sale of a zero coupon bond investment classified as AFS, prior to its maturity.

Borrowing costs capitalized to PP&E and intangible assets totalled $40 million and $78 million for the three- and six-month periods ended June 30, 2012, using average capitalization rates of 5.58% and 5.71%, respectively ($22 million and $42 million using average capitalization rates of 5.38% and 5.59% for the three- and six-month periods ended July 31, 2011, respectively). Capitalized borrowing costs are deducted from the related interest expense (i.e. interest on long-term debt or accretion on other financial liabilities, if any).

7. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows for:

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
(Number of shares, stock options, PSUs and DSUs, in thousands)				
Net income attributable to equity holders of Bombardier Inc.	**$ 182**	$ 210	**$ 367**	$ 430
Preferred share dividends	**(6)**	(7)	**(12)**	(13)
Net income attributable to common equity holders of Bombardier Inc.	**$ 176**	$ 203	**$ 355**	$ 417
Weighted-average number of common shares outstanding	**1,730,809**	1,725,729	**1,730,680**	1,725,710
Net effect of stock options, PSUs and DSUs	**6,283**	22,479	**6,994**	24,404
Weighted-average diluted number of common shares	**1,737,092**	1,748,208	**1,737,674**	1,750,114
EPS (in dollars):				
Basic	**$ 0.10**	$ 0.12	**$ 0.21**	$ 0.24
Diluted	**$ 0.10**	$ 0.12	**$ 0.20**	$ 0.24

The effect of the exercise of stock options, PSUs and DSUs was included in the calculation of diluted EPS in the above table, except for 25,255,992 and 26,020,852 stock options, PSUs and DSUs for the three- and six-month periods ended June 30, 2012 (14,330,183 and 15,208,795 stock options, for the three- and six-month periods ended July 31, 2011) since the average market value of the underlying shares was lower than the exercise price or because predetermined target market price thresholds of the Corporation's Class B Shares (subordinate voting) or predetermined financial performance targets had not been met.

8. INVENTORIES

Inventories were as follows as at:

	June 30, 2012	December 31, 2011	February 1, 2011
Aerospace programs	**$ 4,456**	$ 3,845	$ 4,146
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**6,275**	6,286	5,213
Less: advances and progress billings	**(4,500)**	(4,549)	(3,736)
	1,775	1,737	1,477
Service contracts			
Cost incurred and recorded margins	**432**	380	512
Less: advances and progress billings	**(29)**	(45)	(73)
	403	335	439
Finished products[(1)]	**1,696**	1,481	1,245
	$ 8,330	$ 7,398	$ 7,307

[(1)] Finished products include 12 new aircraft not associated with a firm aircraft order and 97 pre-owned aircraft, totalling $830 million as at June 30, 2012 (5 new aircraft and 95 pre-owned aircraft, totalling $691 million as at December 31, 2011 and 8 new aircraft and 68 pre-owned aircraft, totalling $532 million as at February 1, 2011).

Finished products as at June 30, 2012 include $246 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities ($162 million as at December 31, 2011 and $209 million as at February 1, 2011). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled $3,230 million and $5,837 million for the three- and six-month periods ended June 30, 2012 ($3,746 million and $7,375 million for the three- and six-month periods ended July 31, 2011). These amounts include $17 million and $31 million of write-down for the three- and six-month periods ended June 30, 2012 ($18 million and $33 million for the three- and six-month periods ended July 31, 2011).

9. OTHER FINANCIAL ASSETS

Other financial assets were as follows as at:

	June 30, 2012	December 31, 2011	February 1, 2011
Derivative financial instruments	**$ 543**	$ 548	$ 557
Aircraft loans and lease receivables	**443**	472	432
Investments in financing structures	**246**	243	242
Investments in securities[1]	**222**	423	415
Servicing fees	**58**	57	49
Restricted cash	**38**	51	58
Other	**33**	37	56
	$ 1,583	$ 1,831	$ 1,809
Of which current	**$ 324**	$ 526	$ 705
Of which non-current	**1,259**	1,305	1,104
	$ 1,583	$ 1,831	$ 1,809

[1] Includes nil securities ceded as collateral for guarantees issued in connection with the sale of aircraft as at June 30, 2012 ($167 million as at December 31, 2011 and $152 million as at February 1, 2011).

10. OTHER ASSETS

Other assets were as follows as at:

	June 30, 2012	December 31, 2011	February 1, 2011
Prepaid expenses	**$ 354**	$ 298	$ 327
Sales tax and other taxes	**232**	185	183
Intangible assets other than aerospace program tooling and goodwill	**213**	227	243
Flexjet fractional ownership deferred costs	**190**	186	156
Deferred financing charges	**83**	85	65
Investments in associates[1]	**51**	37	57
Retirement benefits	**16**	13	29
Other	**38**	33	50
	$ 1,177	$ 1,064	$ 1,110
Of which current	**$ 645**	$ 559	$ 648
Of which non-current	**532**	505	462
	$ 1,177	$ 1,064	$ 1,110

[1] The Corporation has pledged shares in associates, with a carrying value of $45 million as at June 30, 2012 ($30 million as at December 31, 2011 and $33 million as at February 1, 2011).

11. PROVISIONS

Changes in provisions for the three- and six-month periods ended were as follows:

	Product warranties	Credit and residual value guarantees	Restructuring	Other [1]	Total
Balance as at December 31, 2011	**$ 1,073**	**$ 456**	**$ 38**	**$ 105**	**$ 1,672**
Additions	**60**	**-**	**2**	**4**	**66**
Utilization	**(86)**	**-**	**(8)**	**(1)**	**(95)**
Reversals	**(34)**	**(18)**	**(4)**	**(2)**	**(58)**
Accretion expense	**-**	**1**	**-**	**-**	**1**
Effect of changes in discount rates	**-**	**1**	**-**	**-**	**1**
Effect of foreign currency exchange rate changes	**24**	**-**	**1**	**-**	**25**
Balance as at March 31, 2012	**1,037**	**440**	**29**	**106**	**1,612**
Additions	**70**	**-**	**8**	**2**	**80**
Utilization	**(95)**	**-**	**(3)**	**(4)**	**(102)**
Reversals	**(9)**	**(3)**	**(2)**	**(3)**	**(17)**
Effect of changes in discount rates	**-**	**1**	**-**	**-**	**1**
Effect of foreign currency exchange rate changes	**(37)**	**-**	**(1)**	**(2)**	**(40)**
Balance as at June 30, 2012	**$ 966**	**$ 438**	**$ 31**	**$ 99**	**$ 1,534**
Of which current	**823**	**70**	**27**	**62**	**982**
Of which non-current	**143**	**368**	**4**	**37**	**552**
	$ 966	**$ 438**	**$ 31**	**$ 99**	**$ 1,534**

	Product warranties	Credit and residual value guarantees	Restructuring	Other [1]	Total
Balance as at February 1, 2011	$ 1,120	$ 493	$ 70	$ 129	$ 1,812
Additions	95	-	-	4	99
Utilization	(81)	(46)	(15)	(5)	(147)
Reversals	(27)	(9)	(1)	(1)	(38)
Accretion expense	1	5	-	-	6
Effect of changes in discount rates	-	3	-	-	3
Effect of foreign currency exchange rate changes	60	-	5	6	71
Balance as at April 30, 2011	1,168	446	59	133	1,806
Additions	102	-	1	-	103
Utilization	(99)	(12)	(11)	(6)	(128)
Reversals	(11)	(11)	(2)	-	(24)
Accretion expense	-	5	-	-	5
Effect of changes in discount rates	1	2	-	-	3
Effect of foreign currency exchange rate changes	(35)	-	(3)	(4)	(42)
Balance as at July 31, 2011	$ 1,126	$ 430	$ 44	$ 123	$ 1,723
Of which current	$ 976	$ 58	$ 38	$ 60	$ 1,132
Of which non-current	150	372	6	63	591
	$ 1,126	$ 430	$ 44	$ 123	$ 1,723

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

12. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows as at:

	June 30, 2012	December 31, 2011	February 1, 2011
Government refundable advances	**$ 348**	$ 317	$ 284
Derivative financial instruments	**318**	344	677
Sale and leaseback obligations	**258**	163	216
Lease subsidies	**134**	140	161
Current portion of long-term debt	**47**	193	17
Vendor non-recurring costs	**11**	13	15
Other	**57**	64	22
	$ 1,173	$ 1,234	$ 1,392
Of which current	**$ 623**	$ 732	$ 860
Of which non-current	**550**	502	532
	$ 1,173	$ 1,234	$ 1,392

13. OTHER LIABILITIES

Other liabilities were as follows as at:

	June 30, 2012	December 31, 2011	February 1, 2011
Accruals for long-term contract costs	**$ 694**	$ 816	$ 796
Employee benefits[1]	**668**	672	714
Deferred revenues	**467**	424	450
Supplier contributions to aerospace programs	**348**	348	314
Flexjet fractional ownership deferred revenues	**217**	212	196
Income and other taxes payable	**176**	216	166
Deferred income taxes	**69**	67	53
Other	**420**	409	433
	$ 3,059	$ 3,164	$ 3,122
Of which current	**$ 2,099**	$ 2,262	$ 2,214
Of which non-current	**960**	902	908
	$ 3,059	$ 3,164	$ 3,122

(1) Comprised of all employee benefits excluding those related to retirement benefits, which are reported in the line items retirement benefits on the consolidated statements of financial position and in other assets.

14. LONG-TERM DEBT

The Corporation’s long-term debt has not changed significantly, except as described below.

On March 8, 2012, the Corporation issued $500 million of unsecured Senior Notes, at par, due in March 2022, bearing interest at 5.75%. During the three-month period ended June 30, 2012, the Corporation used $151 million of the net proceeds of $492 million to repay at maturity the 6.75% Notes due in May 2012.

15. SHARE-BASED PLANS

PSU and DSU plans
The number of PSUs and DSUs has varied as follows:

	Three-month period ended		Three-month period ended	
	June 30, 2012		July 31, 2011	
	PSU	**DSU**	PSU	DSU
Balance at beginning of period	**19,023,015**	**4,412,000**	18,061,419	2,966,000
Granted	**-**	**97,012**	6,752,306	1,527,000
Performance adjustment	**47,359**	**10,960**	1,156,478	-
Exercised	**(4,783,276)**	**-**	(6,413,195)	-
Cancelled	**(48,902)**	**(117,000)**	(163,894)	(161,000)
Balance at end of period	**14,238,196**	**4,402,972** [1]	19,393,114	4,332,000

	Six-month period ended		Six-month period ended	
	June 30, 2012		July 31, 2011	
	PSU	**DSU**	PSU	DSU
Balance at beginning of period	**19,149,004**	**4,367,000**	18,225,184	2,966,000
Granted	**53,000**	**167,012**	6,752,306	1,527,000
Performance adjustment	**47,359**	**10,960**	1,156,478	-
Exercised	**(4,783,276)**	**-**	(6,413,195)	-
Cancelled	**(227,891)**	**(142,000)**	(327,659)	(161,000)
Balance at end of period	**14,238,196**	**4,402,972** [1]	19,393,114	4,332,000

[1] Of which 1,203,972 DSUs are vested.

The compensation revenue recorded during the three- and six-month periods ended June 30, 2012 with respect to the PSU and DSU plans, amounted to $16 million and $7 million, respectively, due to the revision of assumptions related to future performance (a compensation expense of $8 million and $15 million was recorded during the three- and six-month periods ended July 31, 2011).

As authorized by the Board of Directors, the Corporation intends to repurchase for cancellation, in connection with, inter alia, the DSU plan, from June 21, 2012 to June 20, 2013, up to 6,000,000 Class B Shares (subordinate voting) and up to 1,310,334 Class A Shares (multiple voting) (from June 17, 2011 to June 16, 2012, up to 2,006,000 Class B Shares (subordinate voting) and 438,263 Class A Shares (multiple voting)). During the three- and six-month periods ended June 30, 2012, no Class B Shares (subordinate voting) were repurchased and cancelled (2,006,000 Class B Shares (subordinate voting) were repurchased and cancelled for a total amount of $14 million during the three- and six-month period ended July 31, 2011).

In connection with the PSU plan, the trustee purchased nil Class B Shares (subordinate voting) of the Corporation in the open market during the three- and six-month periods ended June 30, 2012 (8,275,000 Class B Shares (subordinate voting) for $58 million during the three- and six-month periods ended July 31, 2011). As at June 30, 2012, 24,542,027 Class B Shares (subordinated voting) were held in trust under the PSU plan (29,321,479 as at December 31, 2011 and 27,459,674 as at February 1, 2011).

Share option plans
The number of options issued and outstanding to purchase Class B Shares (subordinate voting) has varied as follows:

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Balance at beginning of period	**25,083,777**	33,789,784	**27,249,846**	35,911,189
Granted	**-**	3,573,000	**90,000**	3,573,000
Exercised	**(1,534,750)**	(719,638)	**(1,674,750)**	(1,896,612)
Cancelled	**(337,058)**	(490,050)	**(731,127)**	(762,981)
Expired	**(328,000)**	(7,810,000)	**(2,050,000)**	(8,481,500)
Balance at end of period	**22,883,969**	28,343,096	**22,883,969**	28,343,096

A compensation expense of $2 million and $4 million was recorded during the three- and six-month periods ended June 30, 2012 with respect to share option plans ($1 million and $3 million for the three- and six-month periods ended July 31, 2011).

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

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

	Three-month periods ended		Six-month periods ended	
	June 30, 2012	July 31, 2011	**June 30, 2012**	July 31, 2011
Trade and other receivables	**$ 38**	$ (109)	**$ 93**	$ (170)
Inventories	**29**	(362)	**(885)**	(790)
Other financial assets and liabilities, net	**93**	(92)	**59**	(60)
Other assets	**28**	(69)	**(117)**	(60)
Trade and other payables	**(78)**	161	**(112)**	111
Provisions	**(37)**	(42)	**(123)**	(119)
Advances and progress billings in excess of long-term contract inventories	**(180)**	(201)	**(103)**	(158)
Advances on aerospace programs	**(62)**	(240)	**339**	(155)
Retirement benefit liability	**(10)**	(23)	**11**	13
Other liabilities	**(229)**	(10)	**(189)**	(33)
	$ (408)	$ (987)	**$ (1,027)**	$ (1,421)

17. CREDIT FACILITIES

The Corporation's credit facilities have not changed significantly, except as described below.

In March 2012, the Corporation entered into a new three-year unsecured revolving credit facility amounting to €500 million ($630 million), available to BT for cash drawings. The facility matures in March 2015 and bears interest at EURIBOR plus a margin. This facility has not been drawn on to date.

In April 2012, the availability periods of the BT and the BA letter of credit facilities were extended by one year each, to May 2015 and June 2015, respectively. Also in April 2012, the maturity date of the $750 million unsecured revolving credit facility was extended by one year to June 2015.

18. COMMITMENTS AND CONTINGENCIES

The table below presents the maximum potential exposure for each major group of exposure, as at:

	June 30, 2012	December 31, 2011	February 1, 2011
Aircraft sales			
Residual value	**$ 2,052**	$ 2,108	$ 2,239
Credit	**1,312**	1,389	1,453
Mutually exclusive exposure[1]	**(704)**	(771)	(806)
Total credit and residual value exposure	**$ 2,660**	$ 2,726	$ 2,886
Trade-in commitments	**2,129**	1,619	1,214
Conditional repurchase obligations	**546**	605	594
Other			
Credit and residual value	**157**	156	159
Performance guarantees	**35**	36	34

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

Provisions for anticipated losses amounted to $438 million as at June 30, 2012 ($456 million as at December 31, 2011 and $493 million as at February 1, 2011). In addition, lease subsidy liabilities, which would be extinguished in the event of credit default by certain customers, amounted to $134 million as at June 30, 2012 ($140 million as at December 31, 2011 and $161 million as at February 1, 2011).

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

While the Corporation cannot predict the final outcome of legal proceedings pending as at June 30, 2012, based on information currently available, management believes that the resolution of these legal proceedings will not have a material adverse effect on its financial position.

19. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period, mainly a reclassification from advances and progress billings in excess of long-term contract inventories to other liabilities.