2013 FINANCIAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2013

BOMBARDIER
the evolution of mobility

WE ARE BOMBARDIER

As the world's only manufacturer of planes and trains, we've built an extensive and diverse portfolio of winning mobility solutions. Everywhere people travel by land and in the air, a Bombardier product is ready to transport them. From category-defining business jets and commercial aircraft designed for the challenges of today, to sleek high speed trains and public transit that's smarter than ever.

But it's not just our products that make us a global leader. Our employees—all 76,400 of them—drive our success. Together we're focused on making mobility more efficient, sustainable and inviting than ever before. We call it The Evolution of Mobility.

Bombardier is headquartered in Montréal, Canada, traded on the Toronto Stock Exchange (BBD) and listed on the Dow Jones Sustainability World and North America Indices. In the fiscal year ended December 31, 2013, we posted revenues of $18.2 billion.

Moving towards one integrated report

Our external corporate reporting is evolving. You'll notice that this year's annual report concentrates on our financials. In May 2014, we'll deliver an activity report that covers all aspects of our business, including governance, opportunities/risks, strategy, performance and corporate social responsibility. These changes mark the first steps towards providing clearer, more concise and value-focused information in one integrated document. It's called Integrated Reporting, an approach increasingly adopted by corporations.

All amounts in this financial report are in U.S. dollars unless otherwise indicated.

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DRIVING UP THE BOTTOM LINE

DEAR SHAREHOLDERS,

There was a time, not long ago, when the global economy took no more than four years to fully recover from a pronounced downswing. Today things are different. The current uncertain environment seems to be lasting. While no company would object to a growth-friendly tailwind, at Bombardier we no longer count on it. Instead we're taking decisive steps to ensure our success in the present climate. This includes executing on our operating plans in the short term while seizing the ample opportunities for growth across our businesses in both traditional and new markets.

In 2013, we continued investing to capture this growth. Now our top priority is translating these investments into bottom-line results. Today we're better positioned and equipped to do business in promising non-traditional markets than ever before. We have a portfolio of industry-leading products in both aerospace and rail transportation. Our investments in new mobility solutions will further enhance this leadership. So will our 76,400 employees, all highly dedicated, skilled and engaged in driving profitable growth.

SETTING THE STAGE FOR GREATER GROWTH

At Bombardier, a period of strategic and significant investment in new rail transportation and aerospace solutions is starting to taper off. Concurrently, we're on the cusp of an era of stronger revenue generation as demonstrated by our healthy backlog of $69.7 billion. New category-defining products launched some five years ago are about to enter into service. This will permit us to normalize our annual capital spend and create the conditions for sustainable growth as well as strong free cash flow while continuing to offer state-of-the-art mobility solutions.

From the *CSeries* commercial aircraft and new *Learjet 85* business jet, to our *ZEFIRO* high speed train and *PRIMOVE* wireless charging system for electric vehicles—exciting mobility solutions are waiting in the wings. All are in their final testing phases and performing as expected.

PIERRE BEAUDOIN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

The *CSeries* had a successful maiden flight in 2013 and the *Learjet 85* continues to achieve significant milestones towards its first flight. For all of these solutions, the key now is to finalize the testing and effectively prepare for their entry-into-service.

WHERE WE SHINE

Our advanced technologies, broad portfolio and worldwide presence place us among the best in the aerospace and rail transportation industries. In business aircraft, we're the global leader. Twenty years ago, our *Global Express* aircraft went head to head with the frontrunner in this category. Many people gave us little chance of success. Today competitors are playing catch-up with our largest business jet. We're also delivering more *Global* jets than at any other time and two new family members, the *Global 7000* and *Global 8000*, are under development.

Now our focus is on replicating this success with the *CSeries* commercial aircraft. Designed specifically for the 100- to 149-seat market, the *CSeries* will enter a niche not properly addressed by competitors. When we predicted that we would enter the market with a clean-sheet aircraft meeting ambitious performance criteria, again people doubted us. After five years of development, test flights are demonstrating that the *CSeries* is, in fact, a game-changing single-aisle aircraft—something the industry hasn't seen in close to 30 years.

Other good news in commercial aircraft includes our *Q400 NextGen* turboprops which secured several orders in new markets, opening the door to further growth.

Westjet Encore, the new regional division of Canada's Westjet airline, also began operating our advanced turboprops. Like our *CRJ* regional aircraft, the *Q400 NextGen* delivers compelling competitive advantages as evidenced by its large installed base.

In rail transportation, no matter which international conference I attend, two topics consistently take centre stage: rapid urbanization as the source of serious mobility challenges and the urgent need to invest in urban infrastructure.

WE HAVE THE TECHNOLOGIES, EXPERIENCE AND LOCAL ROOTS TO DRIVE THE EVOLUTION OF MOBILITY IN KEY MARKETS WORLDWIDE.

Virtually all countries are focused on finding more efficient and sustainable ways to move people. Developed economies must upgrade their existing mass transit infrastructure while emerging ones need to build these systems for the first time. This is excellent news for Bombardier.

We also have a growing services footprint in both businesses that generates strong and stable margins. One of several examples in rail transportation is a joint venture with Shanghai Shentong Metro Group. Designed to boost the efficiency and reliability of Shanghai's metros, this project marks a promising services milestone for us in China. In aerospace, we further expanded our services network to better support customers with new facilities recently established in Europe, Asia, Africa and South America for a total of 75 service centres. We also dramatically improved our performance in parts availability worldwide.

TACKLING THE EXECUTION CHALLENGE

In 2013, our rail transportation business did well commercially as significant contracts were signed across all product segments and geographical regions. The business continued to grow with risk diversified among the 300 to 400 contracts under way at any given time. One notable pocket of excellence is our contract to deliver state-of-the-art metro cars for the world's longest driverless mass rapid transit line in Singapore.

Among other projects, we're also performing well on our contracts to supply new trains for London's sub-surface lines. Reliability, passenger capacity and customer satisfaction have all improved on the city's Victoria Line with the recent delivery of a fleet of our new *MOVIA* metros. In October 2013, we were named 'Transport Supplier of the Year' at the U.K.'s 2013 National Transport Awards for our role in the Victoria Line upgrade and our support of train operators during the London 2012 Olympics.

Our objective is to achieve best-in-class execution on all of our contracts despite the complex challenges inherent in our industry. Regardless of the execution issues we face on certain projects, we consistently strive to lead the way in finding innovative solutions while outperforming the competition.

In 2013, André Navarri stepped down after close to a decade at the helm of our Transportation group. On behalf of the Board of Directors and our leadership team, I thank André for helping transform our passenger rail transportation business into a top performer. I also welcome Lutz Bertling as the new head of Transportation. Lutz and his team are taking action to further address our execution challenges and better position our business for the future.

These actions include a reorganization to reinforce our group Global supply chain, Project management and Chief technical officer functions. These functions will bring together customers, suppliers and partners to develop pioneering technologies. On January 1, 2014, we put into effect a new organizational structure to drive innovation, best practices and synergies, shorten lead times as well as reduce our non-recurring costs and our execution risks.

We're also expanding our use of a cost-effective testing tool borrowed from our Aerospace group to ensure the reliability of our trains. We first implemented the 'Iron Bird' full-scale testing system in our *ZEFIRO* high speed train program which today is progressing well in the final 600,000 kilometre testing phase before homologation. On this and other projects, the Iron Bird plays an invaluable role in simulating functionalities, anticipating errors and failures, increasing engineering efficiency and lowering risks.

EXPANDING TO DELIVER RESULTS

We continue to extend our roots, strategically, in non-traditional markets such as African and Asian countries experiencing significant growth, and, as a result, fast-changing commercial landscapes. Having local roots

in these markets is increasing our agility as we leverage new business models to seize opportunities.

In China, this agility took the form of a licensing agreement for our low-floor tram technology. It also translated into an agreement to explore a joint venture aimed at expanding our aircraft maintenance services at the Tianjin Airport Economic Area.

We've made major inroads in Russia where we're taking the time to do things right. Successes in rail transportation include joint ventures in signalling and locomotives along with tangible opportunities in metros.

Tremendous potential also exists in aerospace for companies like us that address the market as a local partner. We signed a series of preliminary agreements related to our *Q400 NextGen* aircraft with the state-controlled corporation Rostec. This included a memorandum of understanding with Rostec and its aircraft leasing subsidiary Avia Capital Services to assess the feasibility of setting up a *Q400 NextGen* aircraft final assembly line in Russia to produce turboprops for the local market. We expect to finalize the agreement, which could lead to an initial sale of at least 100 *Q400 NextGen* turboprops, in 2014. We also partnered with a Russian leasing company that already has two airlines interested in our *CSeries* commercial aircraft.

In the Republic of Azerbaijan, we penetrated the market with the largest rail transportation signalling contract ever awarded in a Commonwealth of Independent States country. In commercial aircraft, strategically re-deploying our sales force in Europe, Asia and Africa is enabling us to capture new opportunities.

In recent years, securing landmark contracts for a monorail and metro in Saudi Arabia signals a gradual shift in thinking towards public transportation in oil-producing countries. Beyond China and Russia, the rest of Asia also requires mass transit solutions to connect cities and move over a billion people. Our extensive portfolio features products that address all of these needs.

Even with its slower-than-expected growth, Brazil continues to face huge congestion challenges. These challenges are driving the demand for advanced urban mobility solutions like ours.

THE NEW FACE OF BOMBARDIER

As we globalize our workforce, the new face of Bombardier is emerging. We're leveraging the strengths of this multicultural talent around the world. We're engaging and empowering people in their own context, equipping them with the best tools, processes and practices. As a result, everyone is winning.

WE SEE TREMENDOUS POTENTIAL IN HIGH GROWTH MEGA-CITIES SUCH AS JAKARTA THAT LACK MOBILITY INFRASTRUCTURE.

Thanks to our employees' passion and dedication, global sites are working together, sharing both knowledge to drive innovation as well as infrastructure to cut costs and increase efficiency. In addition, a dynamic generation of employees at sites in Mexico, China, the Philippines, Romania and Morocco, among others, is developing expertise and trading best practices.

TRANSLATING INVESTMENTS INTO PROFITS

At Bombardier, we're both excited and realistic about the next two years. We've continued to invest during challenging times to improve our position in the marketplace as well as our ability to face fierce competition in both industries. Today our growth potential is significant and our investments are about to pay off. We have the right products, great employees and partners as well as a strong demand for our solutions.

Over the last five years, we've made large investments in new game-changing mobility solutions and their entry-into-service is just around the corner. Around this corner awaits the *CSeries*, *ZEFIRO*, *Learjet 85* and our new *Global* jets, which together will generate billions of dollars in additional revenues. Today our record order backlog, a leading indicator of future growth, represents more than four years of manufacturing revenues.

Across the company, we have one overriding objective and commitment: generating results that are profitable and sustainable. For everyone at Bombardier, it's all about driving up the bottom line.

Pierre Beaudoin
President and Chief Executive Officer
Bombardier Inc.

BOMBARDIER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal year ended December 31, 2013

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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 of Bombardier Inc. (the "Corporation"). 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 reportable segment: BA and BT, and then by market segment, which is reflective of our organizational structure. The results of operations for the fourth quarters are not necessarily indicative of the results of operations for the full fiscal year. The fourth quarter has historically been the strongest in terms of revenues, profitability and cash flows.

As a result of our change of year-end effective December 31, 2011, the fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

IFRS and non-GAAP measures
This MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure (see the Non-GAAP financial measures and Liquidity and capital resources sections in Overview and the Analysis of results sections in BA and BT).

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 the Corporation would likely be influenced or changed if the information were omitted or misstated.

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

Our Financial Report for fiscal year 2013 comprises our President's message to shareholders, this MD&A and our consolidated financial statements.

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

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
CAGR	Compound annual growth rate	IFRIC	International Financial Reporting Interpretation Committee
CCTD	Cumulative currency translation difference	IFRS	International Financial Reporting Standard(s)
CGU	Cash generating unit	L&R	Loans and receivables
CIS	Commonwealth of Independent States	MD&A	Management's discussion and analysis
DB	Defined benefit	NCI	Non-controlling interests
DC	Defined contribution	OCI	Other comprehensive income
DDHR	Derivative designated in a hedge relationship	PP&E	Property, plant and equipment
DSU	Deferred share unit	PSU	Performance share unit
EBIT	Earnings before financing expense, financing income and income taxes	PSG	Performance security guarantee
EBITDA	Earnings before financing expense, financing income, income taxes, amortization and impairment charges on PP&E and intangible assets	R&D	Research and development
EBT	Earnings before income taxes	RVG	Residual value guarantee
EIS	Entry-into-service	SG&A	Selling, general and administrative
EPS	Earnings per share attributable to equity holders of Bombardier Inc.	U.K.	United Kingdom
FVTP&L	Fair value through profit and loss	U.S.	United States of America
GAAP	Generally accepted accounting principles		

OVERVIEW

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OVERVIEW OF ACTIVITIES

We are the world's only manufacturer of both planes and trains, operating under two broad reportable segments: aerospace through BA and rail transportation through BT. We are driving the evolution of mobility worldwide by providing more efficient, sustainable and enjoyable transportation. Our products, services, and most of all our employees, are what make us a global leader in transportation.

BOMBARDIER AEROSPACE		BOMBARDIER TRANSPORTATION	
BA is a world leader in the design, manufacture and support of innovative aviation products for the business, commercial, specialized and amphibious aircraft markets.		**BT is a world leader in the design, manufacture and support of rail equipment and systems.**	
Revenues	**$9.4 billion**	Revenues	**$8.8 billion**
EBIT	**$418 million**	EBIT	**$505 million**
EBIT before special items[1]	**$388 million**	EBIT before special items[1]	**$505 million**
Free cash flow[1]	**($1.2) billion**	Free cash flow[1]	**$668 million**
Order backlog	**$37.3 billion**	Order backlog	**$32.4 billion**
Number of employees[2]	**37,700**	Number of employees[2]	**38,500**

Every day around the globe, our 76,400[3] dedicated employees work diligently to earn our worldwide leadership in aerospace and rail transportation. As at the date of this report, we have 79 production and engineering sites in 27 countries and a worldwide network of service centres.

(1) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section for definitions.
(2) As at December 31, 2013, including contractual and inactive employees.
(3) Includes 200 employees at our corporate office in Canada.

KEY PERFORMANCE MEASURES AND METRICS

BA and BT use multiple key performance measures to evaluate various key metrics. Refer to the respective Key performance measures and metrics sections in BA and BT for descriptions of these measures.

In addition, the table below summarizes other relevant key performance measures and associated metrics evaluated on a consolidated basis.

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Profitability	• Diluted EPS and adjusted EPS[1], as measures of global performance.
Liquidity	• Available short-term capital resources[2], as a measure of liquidity adequacy.
Capital structure	• Adjusted EBIT[1] to adjusted interest[1] ratio, as a measure of interest coverage. • Adjusted debt[1] to adjusted EBITDA[1] ratio, as a measure of financial leverage. • Weighted-average long-term debt maturity, as a measure of debt term structure.

Four-year summary

For the fiscal years ended and as at	**December 31 2013**	December 31 2012	December 31 2011 [5]	January 31 2011
		restated [4]	*restated* [4]	*restated* [4]
Revenues	**$ 18,151**	$ 16,414	$ 17,904	$ 17,497
Order backlog (in billions of dollars)	**$ 69.7**	$ 64.9	$ 53.9	$ 51.9
EBIT	**$ 923**	$ 666	$ 1,166	$ 1,198
EBIT margin	**5.1%**	4.1%	6.5%	6.8%
EBIT before special items[1]	**$ 893**	$ 806	$ 1,166	$ 1,198
EBIT margin before special items[1]	**4.9%**	4.9%	6.5%	6.8%
Effective income tax rate	**25.8%**	12.3%	13.9%	24.5%
Net income	**$ 572**	$ 470	$ 737	$ 671
Adjusted net income[1]	**$ 608**	$ 671	$ 887	$ 772
Diluted EPS (in dollars)	**$ 0.31**	$ 0.25	$ 0.41	$ 0.36
Adjusted EPS (in dollars)[1]	**$ 0.33**	$ 0.36	$ 0.49	$ 0.42
Free cash flow (usage)[1]	**$ (907)**	$ (636)	$ (1,046)	$ 426
Available short-term capital resources[2]	**$ 4,837**	$ 3,967	$ 3,642	$ 4,059
Interest coverage ratio[3]	**2.8**	3.2	4.5	5.0
Financial leverage ratio[3]	**5.4**	4.2	3.3	3.1
Weighted-average long-term debt maturity (in years)	**6.4**	7.4	8.0	8.9

[1] Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.
[2] Defined as cash and cash equivalents plus the amount available under the revolving credit facilities.
[3] Refer to the Capital structure and Non-GAAP financial measures sections for computations of these ratios.
[4] Refer to the Accounting and reporting developments section in Other for detail regarding restatements of prior year figures.
[5] Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.

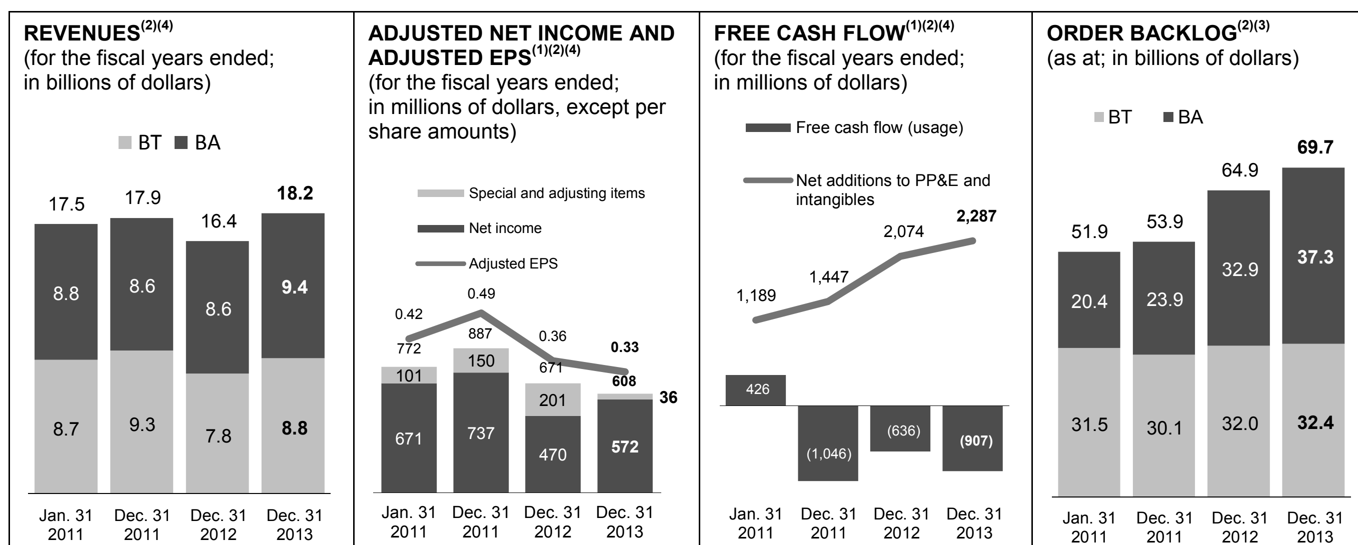
HIGHLIGHTS OF THE YEAR

A period of transition as we prepare for future growth

REVENUES	ADJUSTED NET INCOME[1]	ADJUSTED EPS[1]	FREE CASH FLOW[1]	ORDER BACKLOG
$18.2 billion	**$608 million**	**$0.33**	**($907) million**	**$69.7 billion**

RESULTS

- Revenues of $18.2 billion, an increase of 11% compared to $16.4 billion last fiscal year.[2]
- EBIT of $923 million, or 5.1% of revenues, compared to $666 million, or 4.1%, last fiscal year.[2]
- EBIT before special items[1] of $893 million, or 4.9% of revenues, compared to $806 million, or 4.9%, last fiscal year.[2]
- Net income of $572 million (diluted EPS of $0.31), compared to $470 million (diluted EPS of $0.25) last fiscal year.[2]
- Adjusted net income[1] of $608 million (adjusted EPS[1] of $0.33), compared to $671 million (adjusted EPS of $0.36) last fiscal year.[2]
- Net investment of $2.3 billion in PP&E and intangible assets, including $2.0 billion related to aerospace program tooling, compared to $2.1 billion last fiscal year, including $1.7 billion related to aerospace program tooling.[2]
- Free cash flow usage[1] of $907 million, compared to a usage of $636 million last fiscal year.[2]
- Available short-term capital resources of $4.8 billion as at December 31, 2013, including cash and cash equivalents of $3.4 billion, compared to $4.0 billion and $2.6 billion, respectively, as at December 31, 2012.[2]
- Record level order backlog of $69.7 billion as at December 31, 2013, compared to $64.9 billion as at December 31, 2012.[2]



(1) Non-GAAP financial measures. Refer to the Non-GAAP financial measures and Liquidity and capital resources sections for definitions of these metrics and reconciliations to the most comparable IFRS measures.
(2) Comparative figures have been restated for changes in accounting policies and methods. See Accounting and reporting developments section in Other for details.
(3) Some totals do not agree due to rounding.
(4) Our fiscal year ended December 31, 2011 comprised 11 months of BA's results and 12 months of BT's results.

KEY EVENTS

- The maiden flights of the first and second *CSeries* flight test vehicles were successfully completed on September 16, 2013 and January 3, 2014. The *CS100* aircraft's EIS is now scheduled for the second half of 2015 and the *CS300* aircraft's EIS will follow approximately six months afterwards.
- Our net retirement benefit liability decreased by $974 million in 2013, due mainly to strong returns on plan assets, increases in discount rates in Canada and in the U.S. and employer contributions in excess of service cost.
- In January 2013, we issued an aggregate of $2.0 billion of unsecured Senior Notes, at par, comprised of $750 million due in January 2016 and $1.25 billion due in January 2023.
- On December 4, 2013, we completed the sale of the main assets and related liabilities of our Flexjet activities, resulting in the recognition of a pre-tax gain of $23 million. Also, the acquirer placed firm orders for 85 aircraft of the *Learjet* family and 30 aircraft of the *Challenger* family, with options for 150 additional aircraft. Based on list prices, the value of the firm orders is $2.4 billion.
- BA and BT signed several significant contracts, bringing the consolidated order backlog as at December 31, 2013 to a record level. Also, subsequent to the end of the fiscal year, BA and BT took the following significant steps towards further increasing our consolidated order backlog:
  - As part of a consortium, BT signed a contract with a value of $4.1 billion with the State of Queensland, Australia. BT's share of the contract, which consists of the supply of 75 electrical multiple units (EMUs), construction of a purpose-built maintenance centre and 30 years of maintenance services, is valued at $2.7 billion;
  - BA signed a firm order with Al Qahtani Aviation Company from the Kingdom of Saudi Arabia for 16 *CS300* aircraft, valued at $1.2 billion based on list price;
  - The San Francisco Bay Area Rapid Transit District (BART), U.S., exercised an option for 365 additional rail cars, valued at $639 million; and,
  - We received notification that Transport for London (TfL) and the Department for Transport (DfT), U.K., intend to award BT a contract to deliver 65 trains and a new depot for Crossrail.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

Summary of BA and BT guidance for 2014 and thereafter

	Profitability	Liquidity	Deliveries/ Growth and order intake
BA[1]	We expect to achieve an EBIT margin in fiscal year 2014 of approximately 5%.	In fiscal year 2014, we expect cash flows from operating activities between $1.2 billion and $1.6 billion, while our net additions to PP&E and intangible assets are expected to be between $1.6 billion and $1.9 billion. Our level of net additions to PP&E and intangible assets is expected to be between $1.2 billion and $1.5 billion in 2015 and to be below $1.0 billion in 2016.	In fiscal year 2014, we expect to deliver approximately 200 business aircraft and 80 commercial aircraft.
BT[1]	While an EBIT margin of 8% remains our objective, we expect an EBIT margin of approximately 6% in 2014 as we focus on contract execution improvement.	We expect to maintain free cash flow[2] generally in line with EBIT, although it may vary significantly from quarter to quarter.	Excluding currency impacts, revenues in 2014 are expected to be higher than in 2013, with percentage growth in the mid-single digits. In fiscal year 2014, we expect a book-to-bill ratio[3] in excess of 1.0.

(1) See the Guidance and forward-looking statements sections in BA and BT.
(2) See the Non-GAAP financial measures section for a definition of this metric.
(3) Defined as new orders over revenues.

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”, “maintain” or “align”, the negative of these terms, variations of them or similar terminology. By their nature, forward-looking statements require us to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. While we consider our assumptions to be reasonable and appropriate based on information currently available, there is a risk that they may not be accurate. For additional information with respect to the assumptions underlying the forward-looking statements made in this MD&A, refer to the respective Guidance and forward-looking statements sections in BA and in BT.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with our business environment (such as risks associated with the financial condition of the airline industry and major rail operators), operational risks (such as risks related to developing new products and services; doing business with partners; product performance warranty and casualty claim losses; regulatory and legal proceedings; 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. 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 report 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.

FINANCIAL PRIORITIES

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

PROFITABILITY	LIQUIDITY	CAPITAL STRUCTURE
Increase the level and consistency of profitability	Increase the level and consistency of cash flows from operating activities and ensure sufficient liquidity to meet capital requirements	Optimize the capital structure to reduce costs and improve our ability to seize strategic opportunities

We operate in a competitive and capital intensive environment. In recent years, we continued to invest extensively in industry-leading, cost-optimized products and solutions to improve our position in the marketplace and our ability to face competition in the aerospace and rail transportation industries. The difficult economic environment affecting some of our market segments is intersecting with the peak of our investment cycle, putting pressure on our profitability, liquidity and capital structure. Although the uncertain environment seems to be lasting, we are starting to see signs of stabilization. Challenging economic conditions do not change our long-term priorities and strategies but they do reiterate the importance of continuing to maintain a strong financial discipline and project management governance.

Our priority for the next years is translating our investments into sustainable bottom-line results. New products launched around five years ago are making headway, with the *CSeries*, *Learjet 85*, *Global 7000* and *Global 8000* aircraft programs progressing towards EIS and the *ZEFIRO* very high speed train is progressing towards homologation. Other products launched more recently, notably the *Learjet 70* and *Learjet 75* aircraft which entered into service at the end of 2013, will also contribute to increasing our profitability in the future. Both BA and BT have strong levels of order backlog, a leading indicator of future revenues. Our consolidated backlog reached a record level of $69.7 billion as at December 31, 2013, including a manufacturing backlog of $58.9 billion which represents more than four years of manufacturing revenues, based on revenues for fiscal year 2013.

We have adequate liquidity to continue to finance our product development and our operations in the foreseeable future.

Increasing profitability is closely linked to improved execution and the successful EIS of our products

Increasing the level and consistency of our profitability remains a key financial priority. Our significant investment in mobility solutions in recent years and the approaching EIS of industry-leading products are intended to generate multi-year sustained growth. In the short term, reaching our financial targets will require both BA and BT to continue improving their processes towards achieving flawless execution.

BA achieved an EBIT margin before special items of 4.1% in fiscal year 2013, compared to 4.3% last fiscal year. In fiscal year 2014, BA expects to achieve an EBIT margin of approximately 5%.[1]

BT achieved an EBIT margin before special items of 5.8% in fiscal year 2013, compared to 5.6% last fiscal year. As BT focuses on contract execution improvement, an EBIT margin of approximately 6% is expected in 2014, but achieving an EBIT margin of 8% remains our objective.[1]

[1] See the Guidance and forward-looking statements sections in BA and in BT.

BT continued to implement actions to resolve execution issues faced in recent years in certain large rolling stock contracts and to better position itself in the future. These measures include increasing the level of upfront R&D and creating a centralized product design and development function, which will bring together customers, suppliers and partners to develop pioneering technologies. Once implemented, these measures will reduce execution risk by increasing product standardization, resulting in increased use of proven technologies and processes across contracts. Also, on January 1, 2014, we put into effect a new organizational structure to drive innovation, best practices and synergies, shorten lead times, as well as reduce development costs and execution risks.

We leverage our project management capabilities and focus on efficient execution through the use of streamlined initiatives. Meanwhile, we continue to employ cost reduction programs in both BA and BT and other punctual measures to improve our competitiveness. We also capitalize on our worldwide presence in both established and emerging markets to achieve cost savings. This presence provides us with tremendous opportunities to develop local partners and suppliers.

Our strong financial discipline allows us to support our planned investment in product development

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

In January 2013, we took advantage of strong demand and good pricing conditions in the debt capital market in the U.S. to increase our financial flexibility by issuing an aggregate of $2.0 billion of new unsecured Senior Notes, due in January 2016 and January 2023.

In April and May 2013, respectively, we extended the availability periods under the BT and BA letter of credit facilities by an additional year to May 2016 and June 2016, respectively. And in June 2013, the availability period of the PSG facility was extended by one year to June 2014 and the amount committed reduced from $900 million to $600 million, due to lower utilization levels. In May 2013, the maturity date of our $750-million unsecured revolving credit facility was extended by one year to June 2016. Refer to the Other credit facilities section for further details on these facilities.

On an on-going basis, we manage our liabilities by taking into consideration expected free cash flows, debt repayments and other material cash outlays expected to occur in the future. We have no significant debt maturing before the year 2016.

As at December 31, 2013, our available short-term capital resources were $4.8 billion. Refer to the Liquidity and capital resources section for further details on these resources. We also maintain various other facilities such as factoring facilities and sale and leaseback facilities, which also contribute to securing additional sources of liquidity.

BA's cash flows from operations in 2013 were $1.0 billion, compared to a guidance of approximately $1.4 billion, while net additions to PP&E and intangible assets were $2.2 billion in 2013, compared to a guidance of approximately $2.0 billion. The cash flows from operating activities were lower than expected due to lower customer advances and business aircraft deliveries.

Our level of capital expenditures is expected to gradually return to more normal levels after reaching the peak in our development spending in 2013. Expected EIS dates for our most significant aircraft programs range from 2014 to 2017.[(1)] BA's net additions to PP&E and intangible assets are expected to be between $1.6 billion and $1.9 billion in 2014, between $1.2 billion and $1.5 billion in 2015, and below $1.0 billion in 2016.[(1)]

[(1)] See the Guidance and forward-looking statements sections in BA and in BT.

Investment in product development is expected to be funded through our cash flows from operating activities and our available short-term capital resources. We may receive funding from governments and contributions from key suppliers for certain aircraft programs, which increases our financing flexibility as these parties act as risk-sharing partners. BA expects cash flows from operations in fiscal year 2014 of between $1.2 billion to $1.6 billion.[1] BT expects its free cash flow to be generally in line with EBIT, although it may vary significantly from quarter to quarter.[1]

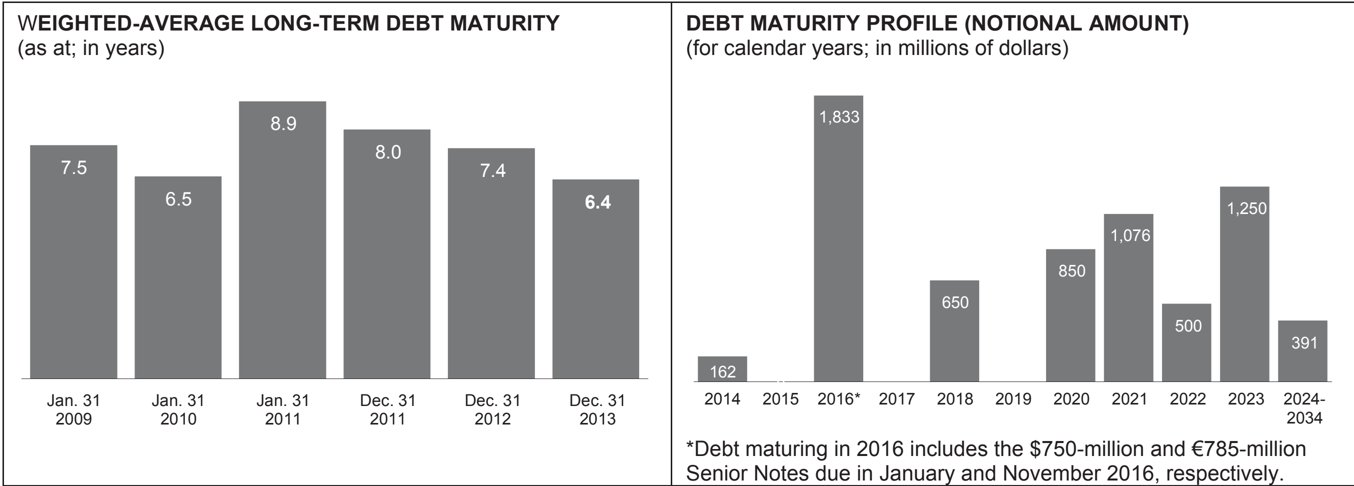
[1] See the Guidance and forward-looking statements sections in BA and in BT.

We remain committed to our global metric targets despite the impact of significant investment in industry-leading products on our capital structure

BA and BT require capital to develop industry-leading products and to seize strategic opportunities to increase competiveness and execute growth strategies. We take advantage of favourable capital market conditions when they materialize to extend debt maturity, reduce cost of funds and increase diversity of capital resources. We assess and manage our creditworthiness using the global metrics as described in the Capital structure section.

The January 2013 issuance of $2.0 billion of unsecured Senior Notes had a negative impact on our global metrics, but we believe that the addition of liquidity in a relatively high investment period warranted the increased leverage.

We are continuously monitoring our capital structure to ensure sufficient liquidity to fund our product development programs. Over the long term, it is our desire to improve our leverage metrics by de-leveraging the balance sheet with strategic long-term debt repayments, in line with active management of consolidated liquidity, weighted-average cost of capital and term structure.



*Debt maturing in 2016 includes the $750-million and €785-million Senior Notes due in January and November 2016, respectively.

Managing our net retirement benefit liability and the security of benefits is also a key part of our overall management of the capital structure. Over the years, we have taken several initiatives to mitigate risks that stem from both pension liabilities and assets and we are continuing to do so. Refer to the Retirement benefits section for details on the risk management initiatives related to our retirement plans.

As at December 31, 2013, our credit ratings were two notches below investment grade. In January 2014, Fitch Ratings Ltd. changed our rating from BB to BB-.

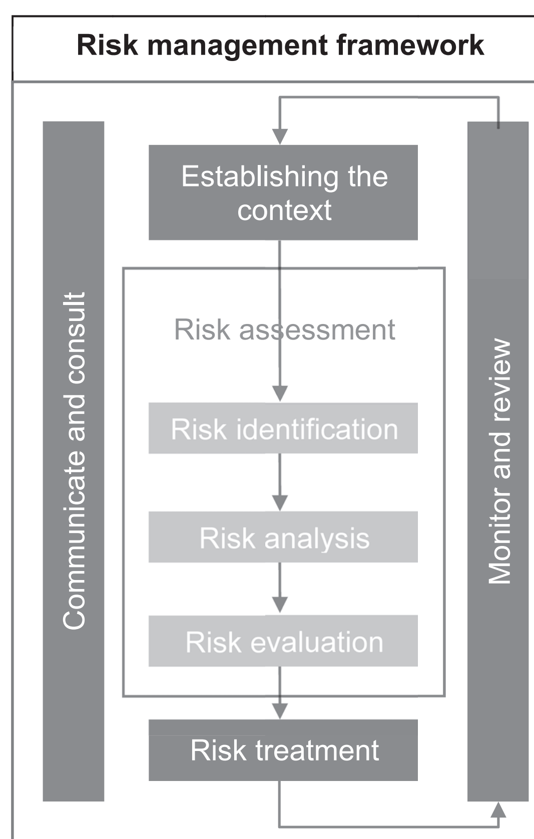
Credit ratings

	Investment-grade rating	Bombardier Inc.'s rating	
		February 11, 2014	December 31, 2012
Fitch Ratings Ltd.	BBB-	**BB-**	BB
Moody's Investors Service, Inc.	Baa3	**Ba2**	Ba2
Standard & Poor's Rating Services	BBB-	**BB**	BB

In the medium to long term, we believe that we will be in a good position to improve our credit ratings as we progress towards our profitability targets and return to a more normalized level of investment in product development.

RISK MANAGEMENT

Active risk management has been one of our priorities for many years and is a key component of our corporate strategy framework. To achieve our risk management objectives, we have embedded risk management activities in the operational responsibilities of management and made these activities an integral part of our overall governance, planning, decision making, organizational and accountability structure.



For each risk or category of risks, our risk management process includes activities performed in a continuous cycle. Risk assessment, including risk identification, analysis and evaluation, ensures that each risk is analyzed to identify the consequence and likelihood of the risk occurring and the adequacy of existing controls. Each reportable segment is responsible for implementing the appropriate structures, processes and tools to allow proper identification of risks. Once the risks have been identified, analyzed, managed and evaluated, risk mitigation identifies the actions to be implemented by management. Each reportable segment has implemented risk management processes that are embedded in our governance and activities to achieve the objectives of our Corporate Risk Management Policy.

In addition, every year our Corporate Audit Services and Risk Assessment (CASRA) team assess our major risks. Senior management reviews this risk assessment and develops action plans to address the identified risks. The Board of Directors is ultimately responsible for reviewing the overall risks faced by the Corporation. The Board exercises its duty through the Finance and Risk Management Committee, consisting of five independent Directors, which reviews our material business risks and the measures that management takes to monitor, control and manage such risks, including the adequacy of policies, procedures and controls designed by management to assess and manage these risks. To complement the annual CASRA review of our major risks, each reportable segment, in coordination with CASRA, has implemented a quarterly review process that results in standardized heat maps.

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

Our key exposures to financing and market risks and related risk mitigation strategies

Our operations are exposed to various financing and market risks. The following is a description of our key exposures to those risks together with the risk management strategies in place to mitigate them. Market risks associated with our pension plans are discussed in the Retirement benefits section.

Exposure to foreign exchange risk

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

Foreign exchange management

Owner	Hedged exposures	Hedging policy[1]	Risk-mitigation strategies
BA	Forecast cash outflows denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars and pounds sterling.	Hedge 85% of the identified exposures for the first three months, 75% for the next 15 months and up to 50% for the following six months.	Use of forward foreign exchange contracts, mainly to sell U.S. dollars and buy Canadian dollars and pounds sterling.
BT	Forecast cash inflows and outflows denominated in a currency other than the functional currency of the entity incurring the cash flows.	Hedge 100% of the identified exposures at the time of order intake.	Use of forward foreign exchange contracts, mainly to sell or purchase Canadian dollars, euros, U.S. dollars, Swiss francs, Swedish kronor and other Western European currencies.
Corporate Office	Forecast cash outflows other than interest, denominated in a currency other than the functional currency of the entity incurring the cash flows, mainly in Canadian dollars.	Hedge 85% of the identified exposures for the first 18 months and up to 75% for the following six months.	Use of forward foreign exchange contracts mainly to sell U.S. dollars and buy Canadian dollars.
	Interest cash outflows in currencies other than the U.S. dollar, i.e. the euro and the Canadian dollar.	Hedge 100% of the identified exposure unless the exposure is recognized as an economic hedge of an exposure arising from the translation of financial statements in foreign currencies to the U.S. dollar.	Use of cross currency interest-rate swaps and forward foreign exchange contracts mainly to sell U.S. dollars and buy euros and Canadian dollars.
	Balance sheet exposures, including long-term debt and net investments in foreign operations with non-U.S. dollar functional currencies.	Hedge 100% of the identified exposures affecting our results.	Asset/liability management techniques. Designation of long-term debt as hedges of our net investments in foreign operations with non-U.S. dollar functional currencies.

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

BA

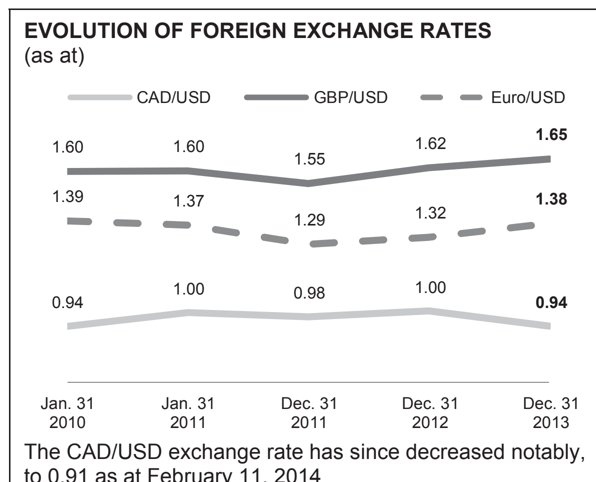
The hedged portion of BA's significant foreign currency denominated costs for the 12-month periods ending December 31, 2014 and 2015 was as follows as at December 31, 2013:

	Canadian dollars		Pounds sterling	
For the 12 month periods ending December 31	**2014**	**2015**	**2014**	**2015**
Expected costs denominated in foreign currency	$2,916	$3,195	£344	£367
Hedged portion of expected costs denominated in foreign currency	81%	58%	76%	51%
Weighted-average hedge rates – foreign currency/USD	0.98	0.95	1.56	1.56

Sensitivity analysis

A U.S. one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact BA's expected costs for the 12-month period ending December 31, 2014 by approximately $29 million before giving effect to forward foreign exchange contracts ($6 million impact after giving effect to such contracts).

A U.S. one-cent change in the value of the pound sterling compared to the U.S. dollar would impact BA's expected costs for the 12-month period ending December 31, 2014 by approximately $3 million before giving effect to forward foreign exchange contracts ($1 million impact after giving effect to such contracts).



The CAD/USD exchange rate has since decreased notably, to 0.91 as at February 11, 2014

BT and Corporate Office

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

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

Sensitivity analysis

For our investments in foreign operations exposed to foreign currency movements, a 1% fluctuation of the relevant currencies as at December 31, 2013 would have impacted equity, before the effect of income taxes, by $16 million before giving effect to the related hedging items ($11 million after giving effect to the related hedging items).

Exposure to credit risk

The effective monitoring and controlling of credit risk is a key component of our risk management activities. Credit risk is monitored on an ongoing basis using different systems and methodologies depending on the underlying exposure.

Credit risk management

Owner	Key risks	Risk mitigation measures initiated by management
Corporate Office	Through our normal treasury activities, we are exposed to credit risk on our derivative financial instruments and on our investing instruments.	Credit risks arising from our treasury activities are managed by a central treasury function in accordance with our Corporate Foreign Exchange Risk Management Policy and our Corporate Investment Management Policy. The objective of these policies is to minimize our exposure to credit risk from our treasury activities by ensuring that we transact strictly with investment-grade financial institutions and money market funds, based on pre-established consolidated counterparty risk limits per financial institution and fund.
BA and BT	We are exposed to credit risk through our trade receivables arising from normal commercial activities and lending activities, related primarily to aircraft loans and lease receivables provided to BA customers in connection with the sale of commercial aircraft.	Credit risks arising from normal commercial activities and lending activities are managed and controlled by BA and BT, in accordance with the Corporate Office policy. Customer credit ratings and credit limits are analyzed and established by internal credit specialists, based on inputs from external rating agencies, recognized rating methods and our experience with the customers. The credit risk and credit limits are dynamically reviewed based on fluctuations in the customers' financial results and payment behaviour. These customer credit ratings and credit limits are critical inputs in determining the conditions under which credit or financing is extended to customers, including obtaining collateral to reduce our exposure to losses. Specific governance is in place to ensure that credit risk arising from large transactions are analyzed and approved by the appropriate level of management before financing or credit support is offered to the customer.
BA	In connection with the sale of certain of our products, mainly commercial aircraft, we may provide credit guarantees in the form of lease and loan payment guarantees. Substantially all financial support involving potential credit risk lies with regional airline customers.	Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are usually triggered if customers do not perform during the term of the financing under the relevant financing arrangements. In the event of default, we usually act as agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. Our exposure arising from credit guarantees is partially mitigated by the net benefit expected from the estimated value of aircraft and other assets available to mitigate our exposure under these guarantees. In addition, our lease subsidy liabilities would be extinguished in the event of credit default by certain customers.

Exposure to liquidity risk

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

Exposure to interest rate risk

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

We are also exposed to gains and losses on some of our assets and liabilities as a result of changes in interest rate, principally on financial instruments carried at fair value and on credit and residual value guarantees. The financial instruments carried at fair value include certain aircraft loans and lease receivables, investments in securities, investments in financing structures, lease subsidies and derivative financial instruments.

Sensitivity analysis
Assuming a 100-basis point increase in interest rates impacting the measurement of financial instruments carried at fair value and credit and residual value guarantees, but excluding net retirement benefit liabilities, EBT for fiscal year 2013 would have been negatively impacted by $33 million.

CONSOLIDATED RESULTS OF OPERATIONS

The results of operations and cash flows for the fourth quarter are not necessarily indicative of the results of operations and cash flows for the full fiscal year. In general, the fourth quarter is the strongest in terms of revenues, profitability and cash flows.

Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated [3]		*restated* [3]
Revenues	**$ 5,324**	$ 4,625	**$ 18,151**	$ 16,414
Cost of sales	**4,698**	4,052	**15,658**	14,053
Gross margin	**626**	573	**2,493**	2,361
SG&A	**351**	358	**1,417**	1,442
R&D	**83**	103	**293**	299
Share of income of joint ventures and associates	**(17)**	(61)	**(119)**	(153)
Other expense (income)	**23**	9	**9**	(33)
EBIT before special items[1]	**186**	164	**893**	806
Special items[2]	**1**	163	**(30)**	140
EBIT	**185**	1	**923**	666
Financing expense	**62**	68	**271**	295
Financing income	**(17)**	(19)	**(119)**	(165)
EBT	**140**	(48)	**771**	536
Income taxes	**43**	(44)	**199**	66
Net income (loss)	**$ 97**	$ (4)	**$ 572**	$ 470
Attributable to				
Equity holders of Bombardier Inc.	**$ 95**	$ (6)	**$ 564**	$ 460
NCI	**$ 2**	$ 2	**$ 8**	$ 10
EPS (in dollars)				
Basic and diluted	**$ 0.05**	$ (0.01)	**$ 0.31**	$ 0.25

Non-GAAP financial measures[1]

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated [3]		*restated* [3]
EBITDA	**$ 291**	$ 108	**$ 1,314**	$ 1,030
EBITDA before special items	**$ 292**	$ 271	**$ 1,284**	$ 1,170
Adjusted net income	**$ 129**	$ 181	**$ 608**	$ 671
Adjusted EPS	**$ 0.07**	$ 0.10	**$ 0.33**	$ 0.36

(1) Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures.
(2) Refer to Analysis of results sections in BA and BT for details.
(3) Refer to the Accounting and reporting developments section in Other for detail regarding restatements of prior period figures.

Revenues, EBIT margin and EBIT margin before special items

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated [2]		*restated* [2]
Revenues				
BA	**$ 2,873**	$ 2,597	**$ 9,385**	$ 8,628
BT	**$ 2,451**	$ 2,028	**$ 8,766**	$ 7,786
Consolidated	**$ 5,324**	$ 4,625	**$ 18,151**	$ 16,414
EBIT margin				
BA	**3.2%**	3.2%	**4.5%**	4.5%
BT	**3.8%**	(4.1%)	**5.8%**	3.5%
Consolidated	**3.5%**	0.0%	**5.1%**	4.1%
EBIT margin before special items[1]				
BA	**3.3%**	3.2%	**4.1%**	4.3%
BT	**3.8%**	3.9%	**5.8%**	5.6%
Consolidated	**3.5%**	3.5%	**4.9%**	4.9%

(1) Refer to the Non-GAAP financial measures section for definitions of these metrics and reconciliations to the most comparable IFRS measures.
(2) Refer to the Accounting and reporting developments section in Other for detail regarding restatements of prior period figures.

Analysis of consolidated results

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

Net financing expense

Net financing expense amounted to $45 million and $152 million for the fourth quarter and fiscal year ended December 31, 2013, compared to $49 million and $130 million for the corresponding periods last fiscal year.

The $4-million decrease for the fourth quarter is mainly due to:

- higher borrowing costs capitalized to PP&E and intangible assets ($23 million)
- lower accretion on retirement benefit obligations ($8 million); and
- higher favourable impact related to changes in discount rates for provisions ($6 million).

Partially offset by:

- higher interest expense on long-term debt, after effect of hedges, as a result of issuance of $2 billion in unsecured Senior Notes in January 2013 ($20 million); and
- a loss on certain financial instruments ($13 million).

The $22-million increase for the fiscal year is mainly due to:

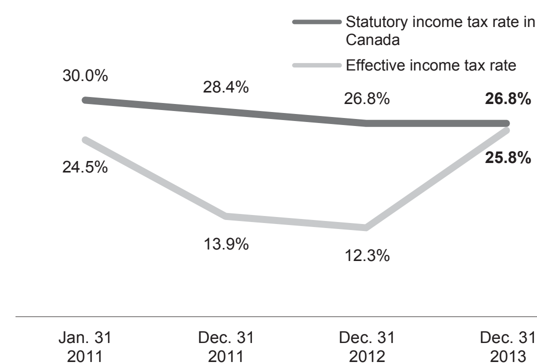
- higher interest expense on long-term debt, after effect of hedges, as a result of issuance of $2 billion in unsecured Senior Notes in January 2013 ($90 million);
- lower net gain on certain financial instruments ($45 million); and
- lower interest income from investment in securities ($22 million).

Partially offset by:

- higher borrowing costs capitalized to PP&E and intangible assets ($93 million);
- lower accretion on retirement benefit obligations ($27 million); and
- higher favourable impact related to changes in discount rates for provisions ($21 million).

Income taxes

The effective income tax rate for the fourth quarter and fiscal year ended December 31, 2013 were 30.7% and 25.8%, respectively, compared to the statutory income tax rate in Canada of 26.8%. For the fourth quarter period, the higher effective tax rate is mainly due to the write down of deferred income tax assets and adjustments to tax provisions, partially offset by the net recognition of income tax benefits. For the fiscal year ended December 31, 2013, the lower effective tax rate is mainly due to the positive impact of income tax rate differential of foreign subsidiaries and other investees, permanent differences and the net recognition of income tax benefits, partially offset by the write down of deferred income tax assets and adjustments to tax provisions.



The effective income tax rate for fiscal year December 31, 2012 was 12.3%, including an income tax recovery for the fourth quarter. Compared to the statutory income tax rate in Canada of 26.8%, the lower effective income tax rate is mainly due to the positive impact of the net recognition of previously unrecognized income tax benefits and permanent differences, partially offset by the write down of deferred income tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities in line with last year

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

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated [2]		*restated* [2]
Segmented free cash flow				
BA	**$ 87**	$ 277	**$ (1,239)**	$ (867)
BT	**767**	675	**668**	488
Segmented free cash flow (usage)	**854**	952	**(571)**	(379)
Net income taxes and net interest paid[1]	**(83)**	(98)	**(336)**	(257)
Free cash flow (usage)	**771**	854	**(907)**	(636)
Add back: Net additions to PP&E and intangible assets	**627**	628	**2,287**	2,074
Cash flows from operating activities	**$ 1,398**	$ 1,482	**$ 1,380**	$ 1,438

(1) Not allocated to reportable segments.
(2) Refer to the Accounting and reporting developments section in Other for detail regarding restatements of prior period figures.

Variation in cash and cash equivalents

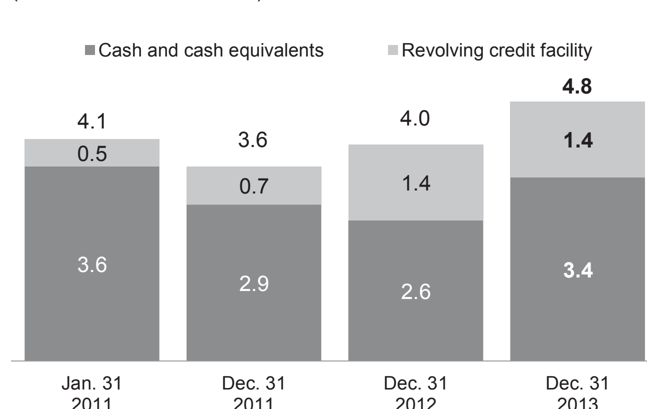
	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated		*restated*
Balance at the beginning of period/year	**$ 2,590**	$ 1,789	**$ 2,557** (1)	$ 2,892
Net proceeds from issuance of long-term debt	**3**	-	**1,983**	509
Free cash flow (usage)	**771**	854	**(907)**	(636)
Dividends paid	**(48)**	(52)	**(196)**	(249)
Net proceeds from disposal of a business	**83**	-	**83**	-
Net variation in AFS investments in securities	**52**	-	**(70)**	133
Repayments of long-term debt	**(15)**	(14)	**(51)**	(186)
Effect of exchange rate changes on cash and cash equivalents	**33**	21	**(2)**	45
Other	**(72)**	(41)	**-**	49
Balance at the end of period/year	**$ 3,397**	$ 2,557	**$ 3,397**	$ 2,557

(1) Restated

Available short-term capital resources

		As at
	December 31, 2013	December 31, 2012
		restated
Cash and cash equivalents	**$ 3,397**	$ 2,557
Available revolving credit facility	**1,440**	1,410
Available short-term capital resources	**$ 4,837**	$ 3,967

Our available short-term capital resources include cash and cash equivalents and the amounts available under our two unsecured revolving credit facilities. These facilities are available for cash drawings for the general needs of the Corporation. Under these facilities, we must meet the same financial covenants as for our BA and BT letter of credit facilities. Refer to the Other credit facilities section for details on these financial covenants.



(1) Comparative figures have been restated for changes in accounting policies and methods. Refer to the Accounting and reporting developments section in Other for details.

In January 2013, we increased our financial flexibility by issuing, at par, an aggregate of $2.0 billion of new unsecured Senior Notes, comprised of $750 million of 4.25% Senior Notes due on January 15, 2016 and $1.25 billion of 6.125% Senior Notes due on January 15, 2023. In August 2013, we entered into interest-rate swap agreements to convert the interest rate of the $1.25-billion Senior Notes from fixed to variable 3-month Libor + 3.4956.

Also, in August 2013, we entered into interest-rate swap agreements to convert the interest rate of our $500-million 5.75% Senior Notes, issued in 2012, from fixed to variable 3-month Libor + 3.3657.

In May 2013, the maturity date of our $750-million unsecured revolving credit facility was extended by one year to June 2016.

We consider that our expected cash flows from operating activities, combined with our available short-term capital resources of $4.8 billion as at December 31, 2013, 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 foreseeable future.

Expected timing of future liquidity requirements

	December 31, 2013				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Long-term debt[1]	$ 6,973	$ 213	$ 1,952	$ 678	$ 4,130
Interest payments	3,008	442	856	617	1,093
Operating lease obligations	1,078	161	230	183	504
Purchase obligations[2]	11,900	8,026	3,315	352	207
Trade and other payables	4,089	4,070	10	1	8
Other financial liabilities	1,558	491	104	213	750
Derivative financial liabilities	408	256	(11)	41	122
	$ 29,014	$ 13,659	$ 6,456	$ 2,085	$ 6,814

(1) Includes principal repayments only. Debt maturing between one to three years includes the $750-million and €785-million Senior Notes due in January and November 2016, respectively.
(2) Purchase obligations represent contractual agreements to purchase goods or services in the normal course of business that are legally binding and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, variable or indexed price provisions; and the appropriate timing of the transaction. These agreements are generally cancellable with a substantial penalty. Purchase obligations are generally matched with revenues over the normal course of operations.

The table above presents the expected timing of contractual liquidity requirements. Other payments contingent on future events, such as payments in connection with credit and residual value guarantees related to the sale of aircraft and product warranties have not been included in the above table because of the uncertainty on the amount and timing of payments arising from their contingent nature. In addition, our required pension contributions have not been reflected in this table, as such contributions depend on periodic actuarial valuations for funding purposes. In 2014, our contributions to retirement benefit plans are estimated at $518 million (see the Retirement benefits section for more details). The amounts presented in the table represent the undiscounted payments and do not give effect to the related hedging instruments, if applicable.

OTHER CREDIT FACILITIES

Letter of credit facilities

Letter of credit facilities are only available for the issuance of letters of credit. As these facilities are unfunded commitments from banks, they typically provide better pricing for the Corporation as compared to credit facilities that are available for cash drawings. Letters of credit are generally issued in support of our performance obligations and advance payments received from customers. As at December 31, 2013, we have $6.0 billion committed under the BA, BT and our PSG facilities ($6.0 billion as at December 31, 2012). Letters of credit issued under these facilities amounted to $4.9 billion as at December 31, 2013 ($4.1 billion as at December 31, 2012). In April and May 2013, respectively, we extended the availability periods of our BT and BA letter of credit facilities by one year each, to May 2016 and June 2016, respectively.

In June 2013, the BT letter of credit facility committed amount increased from €3.4 billion ($4.5 billion) to €3.5 billion ($4.8 billion). Also in June 2013, the availability period of the PSG facility was extended by one year to June 2014 and the amount committed reduced from $900 million to $600 million, due to lower utilization levels.

In addition to the outstanding letters of credit mentioned above, letters of credit of $1.0 billion were outstanding under various bilateral agreements as at December 31, 2013 ($875 million as at December 31, 2012).

We also use numerous bilateral bonding facilities with insurance companies to support BT's operations. An amount of $2.3 billion was outstanding under such facilities as at December 31, 2013 ($2.3 billion as at December 31, 2012).

See Note 32 – Credit facilities, to the consolidated financial statements, for additional information.

Financial covenants
Under the BA and BT letter of credit facilities and our two unsecured revolving credit facilities available for cash drawings, we must maintain various financial covenants, which must be met on a quarterly basis. The BA $600-million letter of credit facility and our $750-million unsecured revolving facility include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio and a minimum liquidity level of $500 million at the end of each quarter, all calculated based on an adjusted consolidated basis (i.e. excluding BT). BT's €3.5-billion ($4.8-billion) letter of credit facility and €500-million ($690-million) unsecured revolving facility financial covenants require a minimum liquidity level of €600 million ($827 million) at the end of each quarter, as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a BT stand-alone basis. These terms and ratios are defined in the respective agreements and do not correspond to our global metrics or to specific terms used in the MD&A. The financial covenants under these credit facilities were all met as at December 31, 2013 and 2012.

On balance sheet sale and leaseback facilities
In addition, BA enters into sale and leaseback facilities with third parties, under which we can sell certain pre-owned business aircraft and lease them back for a period not greater than 24 months. We have the right to buy the aircraft back during the term of the lease for predetermined amounts. As at December 31, 2013, we have two committed sale and leaseback facilities with third parties for an amount of $320 million under which a total of $138 million was outstanding as at December 31, 2013 ($295 million committed and $168 million outstanding as at December 31, 2012).

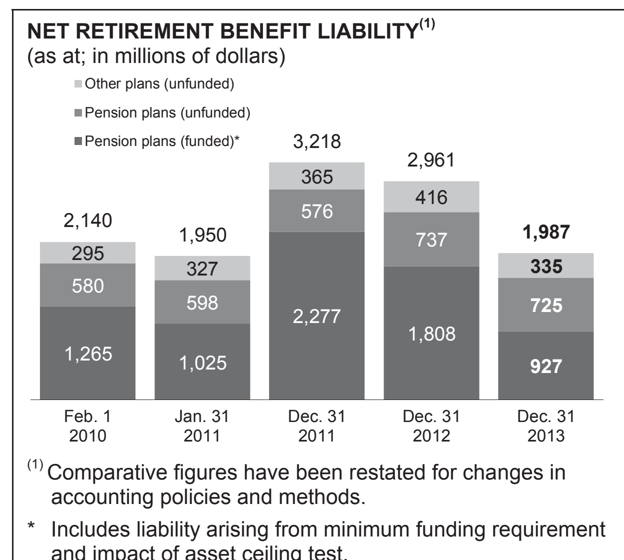
RETIREMENT BENEFITS

Net retirement benefit liability decreases by approximately $1 billion in 2013

Overview of our retirement benefit plans

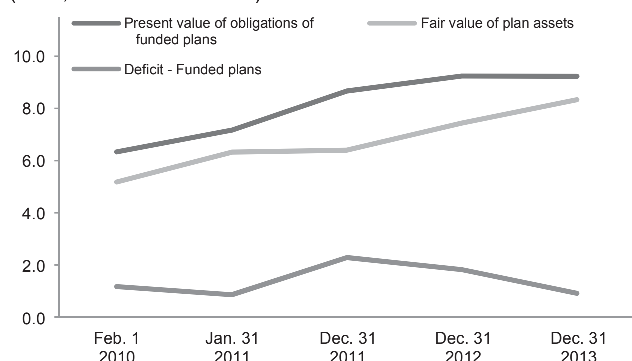
We sponsor several Canadian and foreign retirement benefit plans consisting of funded and unfunded pension plans, as well as other unfunded defined benefit plans. Funded plans are plans for which segregated plan assets are invested in trusts. Unfunded plans are plans for which there are no segregated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

Pension plans are categorized as DB or DC. DB plans specify the amount of benefits an employee is to receive at retirement, while DC plans specify how contributions are determined. As a result, there is no deficit or surplus for DC plans. Hybrid plans are a combination of DB and DC plans.

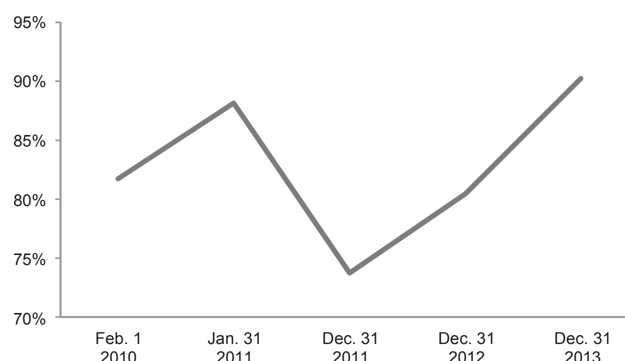


(1) Comparative figures have been restated for changes in accounting policies and methods.
* Includes liability arising from minimum funding requirement and impact of asset ceiling test.

EVOLUTION OF PENSION PLAN ASSETS, FUNDED PLAN OBLIGATIONS AND DEFICIT[1]
(as at; in billions of dollars)



EVOLUTION OF FUNDING RATIO[1]
(as at; plan assets as a percentage of funded plan obligations)



[1] Comparative figures have been restated for changes in accounting policies and methods.

Net retirement benefit liability

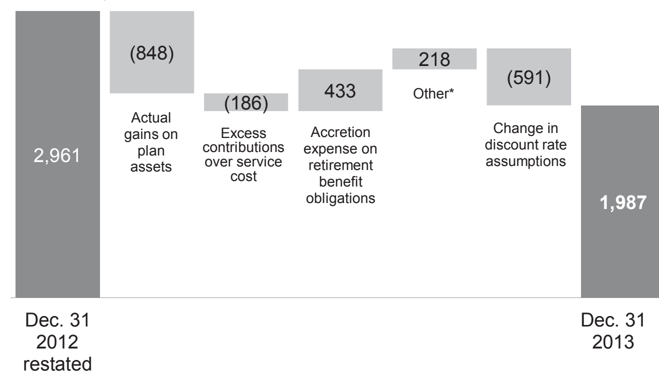
The following table presents the variations in net retirement liability during the fiscal year:

Variation in net retirement benefit liability

Balance as at December 31, 2012 - restated	$	2,961 [1]
Changes in discount rates		(591)
Actuarial gains on pension plan assets		(528)
Employer contributions		(481)
Service costs		295
Net actuarial losses on defined benefit obligations		254
Accretion on net retirement benefit obligation		113
Changes in foreign exchange rates		(48)
Other		12
Balance as at December 31, 2013	**$**	**1,987** [1]

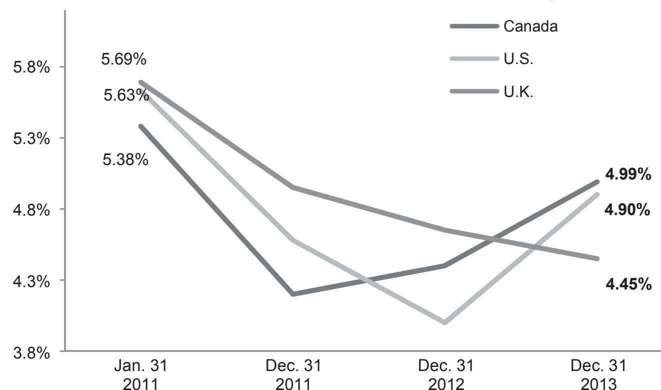
[1] Includes retirement benefit assets of $174 million as at December 31, 2013 ($38 million as at December 31, 2012).

DECREASE IN NET RETIREMENT BENEFIT LIABILITY
(for fiscal year ended December 31, 2013; in millions of dollars)

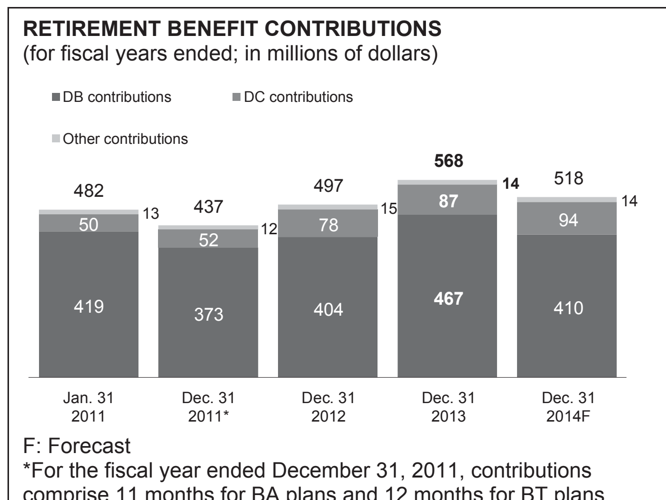


* Other is mainly comprised of the impact of exchange rates and changes in actuarial assumptions

EVOLUTION OF WEIGHTED-AVERAGE DISCOUNT RATE
(as at; used to determine the defined benefit pension obligation)



Bombardier's net retirement benefit liability decreased by $974-million in 2013, due mainly to strong returns on plan assets, increases in discount rates in Canada and the U.S. and employer contributions in excess of service cost. This reduction was partly offset by the use of newer mortality tables in Canada as well as higher inflation and lower discount rate assumptions in the U.K.



RETIREMENT BENEFIT CONTRIBUTIONS
(for fiscal years ended; in millions of dollars)

F: Forecast
*For the fiscal year ended December 31, 2011, contributions comprise 11 months for BA plans and 12 months for BT plans.

The value of plan assets is highly dependent on the pension funds' asset performance and on the level of contributions. The performance of the financial markets is a key driver in determining the funds' asset performance as assets in the plans are composed mostly of publicly traded equity and fixed income securities. IFRS requires that the excess (deficit) of actual return on plan assets compared to the estimated return be reported as an actuarial gain or loss in other comprehensive income. The estimated return on plan assets must be calculated using the discount rate that is used to measure the net retirement benefit liability, which is derived using high-quality corporate bond yields. During fiscal year 2013, the actual gain on plan assets was $848 million, of which $528 million was accounted for as an actuarial gain.

Changes in discount rate assumptions contributed $591 million towards the reduction in net retirement benefit liability. This reduction is explained in large part by increases in discount rates in Canada and the U.S. Refer to the Critical accounting estimates section in Other for information on the methodology used for determining discount rates in Canada.

DB pension contributions are estimated at $410 million for 2014. The future level of contributions will be impacted by the evolution of market interest rates and the actual return on plan assets. DB plan contributions for 2013 of $481 million were in excess of current service cost of $295 million, which also explains a portion of the reduction in defined benefit liability.

In Canada and the U.S., since September 1, 2013, all new non-unionized employees join DC plans (they no longer have the option of joining DB or hybrid plans). In the U.K., seven of nine DB plans are closed to new members. Employees who are members of a DB or hybrid plan closed to new members continue to accrue service in their original plan. As a result of these changes, contributions to DC plans have increased over the past several years.

In fiscal year 2013, we made DC pension contributions totalling $87 million. These contributions are estimated at $94 million for 2014.

Investment Policy

The investment policies are established to achieve a long-term investment return so that, in conjunction with contributions, the plans have sufficient assets to pay for the promised benefits while maintaining a level of risk that is acceptable given the tolerance of plan stakeholders. See below for more information about our risk management initiatives.

The target asset allocation is determined based on expected economic and market conditions, the maturity profile of the plans' liabilities, the funded status of the respective plans and the plan stakeholders' tolerance to risk.

The plans' investment strategy is to invest broadly in fixed income and equity securities and to have a smaller portion of the funds' assets invested in real return asset securities (including global infrastructure and real estate listed securities).

As at December 31, 2013, the average target asset allocation was as follows:

- 49%, 39% and 49% in fixed income securities, for Canadian, U.K. and U.S. plans, respectively;
- 42%, 46% and 46% in equity securities, for Canadian, U.K. and U.S. plans, respectively; and
- 9%, 15% and 5% in real return asset securities, for Canadian, U.K. and U.S. plans, respectively.

In addition, to mitigate interest rate risk, interest rate hedging overlay portfolios (comprised of long-term interest rate swaps and long-term Gilt forwards) averaging 7% and 10% of plan assets have been implemented in 2013 for the Canadian and U.K. plans, respectively.

The plan administrators have also established dynamic de-risking strategies. As a result, asset allocation will likely become more conservative in the future and larger interest rate hedging overlay portfolios are likely to be established as plan funding status and market conditions continue to improve. Our Pension Asset Management Services monitors the de-risking triggers on a daily basis to ensure timely and efficient implementation of these strategies. We and the administrators periodically undertake asset and liability studies to determine the appropriateness of the investment policies and de-risking strategies.

Risk management initiatives

Our pension plans are exposed to various risks, including equity, interest rate, inflation, foreign exchange, liquidity and longevity risks. Several risk strategies and policies have been put in place to mitigate the impact these risks could have on the funded status of DB plans and on the future level of contributions. The following is a description of key risks together with the mitigation measures in place to address them.

Equity risk
Equity risk is the risk that results from fluctuations in equity prices. This risk is managed by maintaining diversification of portfolios across geographies, industry sectors and investment strategies.

Interest rate risk
Interest rate risk is the risk that results from fluctuations in the fair value of plan assets and liabilities due to movements in interest rates. This risk is managed by reducing the mismatch between the duration of plan assets and the duration of pension obligation. This is accomplished by having a portion of the portfolio invested in long-term bonds and interest rate hedging overlay portfolios.

Inflation risk
Inflation risk is the risk that benefits indexed to inflation increase significantly as a result of changes in inflation rates. To manage this risk, we have capped the benefit indexation in certain plans and invested a portion of plan assets in real return asset securities and real return bonds.

Foreign exchange risk
Currency risk exposure arises from fluctuations in the fair value of plan assets denominated in a currency other than the currency of the plan liabilities. Currency risk is managed with foreign currency hedging strategies as per plan investment policies.

Liquidity risk
Liquidity risk is the risk stemming from holding assets which cannot be readily converted to cash when needed for the payment of benefits or to rebalance the portfolios. Liquidity risk is managed through investment in government bonds and equity futures and by having no investments in private placements or hedge funds.

Longevity risk
Longevity risk is the risk that increasing life expectancy results in longer-than-expected benefit payments. This risk is mitigated by using the most recent mortality tables to set the level of contributions.

Retirement benefit cost

The retirement benefit cost for fiscal year 2014 for DB plans is estimated at $377 million, of which $298 million relates to EBIT expense or capitalized cost and $79 million relates to net financing expense, compared to $409 million for fiscal year 2013. This decrease is mainly due to the positive impact of increases in discount rate assumptions and to the return on plan assets in 2013.

	2013			2012 restated [1]		
	Pension benefits	**Other benefits**	**Total**	Pension benefits	Other benefits	Total
DB plans	**$ 380**	**$ 29**	**$ 409**	$ 414	$ 37	$ 451
DC plans	**87**	**-**	**87**	78	-	78
Total retirement benefit cost	**$ 467**	**$ 29**	**$ 496**	$ 492	$ 37	$ 529
Related to						
Funded DB plans	**$ 335**	**n/a**	**$ 335**	$ 370	n/a	$ 370
Unfunded DB plans	**$ 45**	**$ 29**	**$ 74**	$ 44	$ 37	$ 81
DC plans	**$ 87**	**n/a**	**$ 87**	$ 78	n/a	$ 78
Recorded as follows						
EBIT expense or capitalized cost	**$ 371**	**$ 12**	**$ 383**	$ 369	$ 20	$ 389
Financing expense	**$ 96**	**$ 17**	**$ 113**	$ 123	$ 17	$ 140

n/a: Not applicable

[1] Refer to the Accounting and reporting developments section in Other for details regarding the adoption of amended IAS 19, *Employee benefits*, and the restatements for fiscal year 2012.

Sensitivity analysis

The net retirement benefit liability is highly dependent on discount rates, expected inflation rates, expected rates of compensation increase, life expectancy assumptions and actual return on plan assets. The discount rates represent the market rate for high-quality corporate fixed-income investments at the end of the reporting period consistent with the currency and estimated term of the benefit obligations. As a result, discount rates change based on market conditions.

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

Increase (decrease)	**Retirement benefit cost for fiscal year 2014**	**Net retirement benefit liability as at December 31, 2013**
	(Forecast)	
Discount rate	**$ (35)**	**$ (418)**
Inflation rate	**$ 9**	**$ 131**
Rate of compensation increase	**$ 9**	**$ 61**

A one-year increase in life expectancy for all DB plan beneficiaries would impact plans in major countries as follows:

Increase	**Retirement benefit cost for fiscal year 2014**	**Net retirement benefit liability as at December 31, 2013**
	(Forecast)	
Canada	**$ 10**	**$ 114**
U.K.	**$ 6**	**$ 101**
U.S.	**$ 2**	**$ 26**

Details regarding assumptions used are provided in Note 22 – Retirement benefits, to the consolidated financial statements.

CAPITAL STRUCTURE

We analyze our capital structure using global metrics, which are based on a broad economic view of the Corporation. We believe that these metrics should be used to assess the creditworthiness of the Corporation. We manage and monitor our global metrics so as to achieve an investment-grade profile over the medium to long term.

Reconciliations of these measures to the most comparable IFRS financial measures are in the Non-GAAP financial measures section. The adjusted EBIT and adjusted EBITDA exclude special items, such as restructuring charges, significant impairment charges and reversals, as well as other significant unusual items, which we believe are not representative of our core performance.

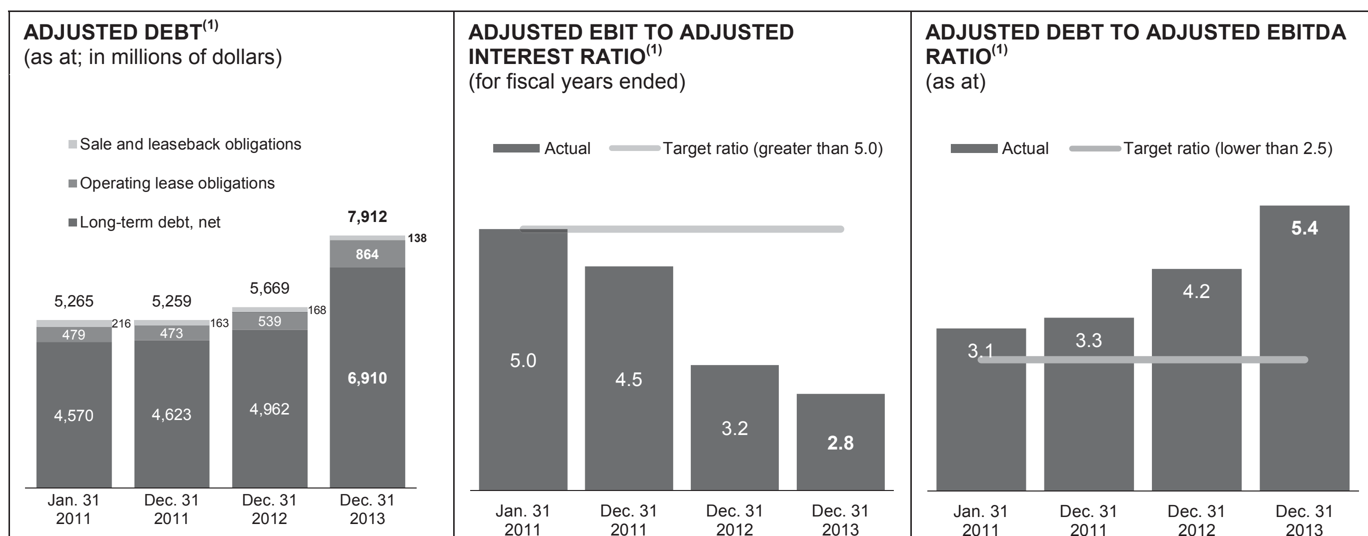
Our objectives with regard to our global metrics are as follows:

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

Global metrics[(1)]

For the fiscal years ended and as at	December 31 2013	December 31 2012	Explanation of significant variances
		restated	
Interest coverage ratio			Deteriorated, mainly due to interest payments on the $2 billion long-term debt issued in January 2013, partially offset by higher adjusted EBIT.
Adjusted EBIT	**$ 967**	$ 916	
Adjusted interest	**$ 346**	$ 288	
Adjusted EBIT to adjusted interest ratio	**2.8**	3.2	
Financial leverage ratio			Deteriorated, mainly due to the issuance of $2 billion of long-term debt in January 2013 and higher operating lease obligations, partially offset by higher adjusted EBITDA.
Adjusted debt	**$ 7,912**	$ 5,669	
Adjusted EBITDA	**$ 1,454**	$ 1,340	
Adjusted debt to adjusted EBITDA ratio	**5.4**	4.2	

(1) Refer to the Non-GAAP financial measures section hereafter for definitions and reconciliations to the most comparable IFRS measures.



(1) Comparative figures have been restated. Refer to the Accounting and reporting developments section in Other for details.

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

In addition to the above global metrics, we separately monitor our net retirement benefit liability which amounted to $2.0 billion as at December 31, 2013 ($3.0 billion as at December 31, 2012). 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. We closely monitor the impact of the net retirement benefit liability on our future cash flows and have introduced significant risk mitigation initiatives in recent years to gradually reduce key risks associated with our retirement benefit plans. (See the Retirement benefits section for further details.)

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, amortization and impairment charges on PP&E and intangible assets.
EBIT before special items	EBIT excluding the impact of restructuring charges, significant impairment charges and reversals, as well as other significant unusual items.
EBITDA before special items	EBIT before special items, amortization and impairment charges on PP&E and intangible assets.
Adjusted net income	Net income excluding special items, accretion on net retirement benefit obligations, certain net gains and losses arising from changes in measurement of provisions and of financial instruments carried at FVTP&L and the related tax impacts of these items.
Adjusted EPS	EPS calculated based on adjusted net income attributable to equity holders of Bombardier Inc., using the treasury stock method, giving effect to the exercise of all dilutive elements.
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 before special items 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 and impairment charges on PP&E and intangible assets, and 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 providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our consolidated financial statements with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of the business. For these reasons a significant number of users of our MD&A analyze our results based on these performance measures. EBIT before special items, EBITDA before special items, adjusted net income and adjusted EPS exclude items that do not reflect, in our opinion, our core performance and help users of our MD&A to better analyze our results, enabling better comparability of our results from one period to another and with peers.

Non-GAAP measures are mainly derived from the consolidated financial statements, but do not have standardized meanings prescribed by IFRS. The exclusion of certain items from non-GAAP performance measures does not imply that these items are necessarily non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities in our industry may define the above measures differently than we do. In those cases, it may be difficult to use similarly named non-GAAP measures of other entities to compare the performance of those entities to our performance.

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

- EBIT before special items to EBIT – see the Results of operations table in BA and the Consolidated results of operations section; and
- free cash flow usage to cash flows from operating activities – see the respective Free cash flow usage tables in BA and in BT and the Reconciliation of segmented free cash flow usage to cash flow from operating activities table in the Liquidity and capital resources section.

Reconciliation of EBITDA before special items and EBITDA to EBIT

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated		*restated*
EBIT	**$ 185**	$ 1	**$ 923**	$ 666
Amortization	**106**	107	**391**	364
EBITDA	**291**	108	**1,314**	1,030
Special items				
Restructuring charges[1] [3]	**-**	119	**-**	119
Gains on resolution of litigations in connection with capital tax[2][4]	**-**	-	**(31)**	(23)
Inventory write-down[2][5]	**24**	-	**24**	-
Gain on disposal of business[2][6]	**(23)**	-	**(23)**	-
Loss related to flooding in New Jersey, U.S.[1]	**-**	19	**-**	19
Foreign exchange hedging loss[1]	**-**	25	**-**	25
EBITDA before special items	**$ 292**	$ 271	**$ 1,284**	$ 1,170

[1] Relates to BT.
[2] Relates to BA.
[3] Restructuring charges for the fourth quarter and fiscal year ended December 31, 2012 include impairment charges on PP&E of $9 million.
[4] Represents a gain upon the successful resolution of a litigation of $43 million in connection with part IV of the Quebec Income Tax Act, the Tax on Capital, of which $12 million represents the interest portion of the gain for fiscal year 2013 ($40 million in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations, of which $17 million represents the interest portion of the gain for fiscal year 2012).
[5] Represents an inventory write-down related to the prolonged production pause of the *Learjet 60* program.
[6] Relates to the sale of the main assets and related liabilities of our Flexjet activities.

Reconciliation of adjusted net income to net income

	For the fourth quarters ended December 31			
	2013		2012	
	(in millions of dollars)	**(per share)**	(in millions of dollars)	(per share)
				restated
Net income	**$ 97**		$ (4)	
Adjustments to EBIT related to special items	**1**	**$ -**	163	$ 0.09
Adjustments to net financing expense related to:				
Accretion on net retirement benefit obligations	**28**	**0.02**	36	0.02
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	**7**	**-**	(5)	-
Tax impact of special and other adjusting items	**(4)**	**-**	(9)	-
Adjusted net income	**$ 129**		$ 181	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	2013	2012
Diluted EPS	**$ 0.05**	$ (0.01)
Impact of adjusting items	**0.02**	0.11
Adjusted EPS	**$ 0.07**	$ 0.10

Reconciliation of adjusted net income to net income

	For the fiscal years ended December 31			
	2013		2012	
	(in millions of dollars)	**(per share)**	(in millions of dollars)	(per share)
				restated
Net income	**$ 572**		$ 470	
Adjustments to EBIT related to special items	**(30)**	**$ (0.02)**	140	$ 0.08
Adjustments to net financing expense related to:				
Accretion on net retirement benefit obligations	**113**	**0.06**	140	0.08
Net change in provisions arising from changes in interest rates and net loss (gain) on certain financial instruments	**(22)**	**(0.01)**	(46)	(0.03)
Interest portion of gains related to special items	**(12)**	**-**	(17)	(0.01)
Tax impact of special and other adjusting items	**(13)**	**(0.01)**	(16)	(0.01)
Adjusted net income	**$ 608**		$ 671	

Reconciliation of adjusted EPS to diluted EPS (in dollars)

	2013	2012
Diluted EPS	**$ 0.31**	$ 0.25
Impact of special and other adjusting items	**0.02**	0.11
Adjusted EPS	**$ 0.33**	$ 0.36

Reconciliation of adjusted debt to long-term debt

		As at
	December 31, 2013	December 31, 2012
		restated
Long-term debt	**$ 7,203**	$ 5,405
Adjustment for the fair value of derivatives designated (or settled derivatives) in related hedge relationships	**(293)**	(443)
Long-term debt, net	**6,910**	4,962
Sale and leaseback obligations	**138**	168
Operating lease obligations[1]	**864**	539
Adjusted debt	**$ 7,912**	$ 5,669

[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

		Fiscal years
	2013	2012
		restated
EBIT	**$ 923**	$ 666
Special items[1]	**(30)**	140
Interest received	**36**	86
Interest adjustment for operating leases[2]	**38**	24
Adjusted EBIT	**967**	916
Amortization adjustment for operating leases[3]	**96**	60
Amortization	**391**	364
Adjusted EBITDA	**$ 1,454**	$ 1,340

[1] Refer to Reconciliation of EBITDA before special items and EBITDA to EBIT above for details on these special items. For fiscal year 2012, special items include impairment charges on PP&E of $9 million.
[2] Represents the interest cost of a debt equivalent to operating lease obligations 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

	Fiscal years	
	2013	2012
		restated
Interest paid	**$ 303**	$ 259
Accretion expense on sale and leaseback obligations	**5**	5
Interest adjustment for operating leases[1]	**38**	24
Adjusted interest	**$ 346**	$ 288

[1] Represents the interest cost of a debt equivalent to operating lease obligations 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.

CONSOLIDATED FINANCIAL POSITION

	December 31 2013	December 31 2012 *restated*	Increase (decrease) Foreign exchange impact	Increase (decrease) Variance excluding foreign exchange	Explanation of significant variances other than foreign exchange
Cash and cash equivalents	**$ 3,397**	$ 2,557	$ (2)	$ 842	See the Variation in cash and cash equivalents table and Free cash flow in BA and BT for details
Trade and other receivables	**1,492**	1,311	15	166	$ 112 Higher level in BT 54 Higher level in BA
Gross inventories	**13,659**	11,569	139	1,951	$ 1,558 Increase following ramp-up in production related to BT contracts ahead of deliveries 393 Increase in aerospace program work-in-process inventories mainly in the large business aircraft category and in regional jets and an increase in finished products, mainly due to business aircraft not associated with a firm order
Advances and progress billings related to long-term contracts	**(7,777)**	(5,792)	(110)	2,095	Higher advances and progress billings on existing contracts and new orders
Advances on aerospace programs	**(4,916)**	(4,653)	-	263	Mainly due to higher order intake than deliveries on commercial and large business aircraft.
PP&E	**2,066**	1,933	17	116	$ 298 Net additions (182) Amortization
Aerospace program tooling	**6,606**	4,770	-	1,836	$ 1,983 Net additions (147) Amortization
Goodwill	**2,381**	2,316	65	-	No variance
Deferred income tax asset	**1,231**	1,421	8	(198)	Mainly due to utilization, including the reversal of net actuarial losses on retirement benefits, and a write down of deferred income tax assets
Investments in joint ventures & associates	**318**	311	(1)	8	$ 119 Share of income (81) Dividends declared (30) Capital returns, net of additional investments
Other financial assets	**2,205**	1,782	13	410	$ 319 Increase in long-term contract receivables 92 Increase in investments in securities
Other assets	**1,433**	1,234	10	189	$ 251 Increase in prepaid expenses 136 Increase in retirement benefit assets 61 Increase in sales tax and other taxes (206) Decrease in fractional ownership deferred costs
Trade and other payables	**(4,089)**	(3,310)	18	761	$ 410 Higher level in BA 351 Higher level in BT
Provisions	**(1,465)**	(1,608)	19	(162)	Mostly due to decreases in product warranty provisions for BT contracts nearing the end of their warranty periods and usage of provisions for restructuring measures (BT)
Long-term debt	**(6,988)**	(5,360)	84	1,544	Issuance of $2.0 billion in unsecured Senior Notes, partially offset by a reclass of $221 million to current liabilities and $218 million related to fair value hedge movements
Retirement benefit liability	**(2,161)**	(2,999)	29	(867)	See the Variation in net retirement benefit liability table for details
Other financial liabilities	**(1,726)**	(1,056)	3	667	$ 267 Increase in liabilities related to derivative financial instruments 221 Reclass of long-term debt to current liabilities 83 Increase in government refundable advances
Other liabilities	**(3,217)**	(3,169)	46	2	$ (241) Decrease in fractional ownership deferred revenues 165 Increase in supplier contributions to aerospace programs 107 Increase in income and other taxes payable
Equity	**(2,449)**	(1,257)	not applicable	1,192	$ 834 OCI - mainly due to net actuarial gains on retirement benefits 572 Net income (205) Dividends (9) Other

AEROSPACE

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

We believe that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our MD&A with enhanced understanding of BA's results and related trends and increases transparency and clarity into the core results of the business. EBIT before special items and EBITDA before special items are non-GAAP measures which exclude items which do not reflect, in our opinion, our core performance. Accordingly, these non-GAAP measures provide more transparent disclosures to analyze earnings, enabling better comparability of results from one period to another and better comparability with peers.

		PAGE
KEY PERFORMANCE MEASURES AND METRICS	Key performance measures and associated metrics that we use to monitor our progress Our results over the last four fiscal years	**36**
HIGHLIGHTS OF THE YEAR	Highlights of the fiscal year with regard to our results and key events	**38**
GUIDANCE AND FORWARD-LOOKING STATEMENTS	What we said, what we did and what's next Assumptions and risks related to our forward-looking statements	**40**
INDUSTRY AND ECONOMIC ENVIRONMENT	Industry and economic factors affecting our business	**41**
ANALYSIS OF RESULTS	Our financial performance for the fourth quarter and fiscal year ended December 31, 2013 Update on investments in product development Deliveries, orders, order backlog and workforce	**50**

Supplemental information regarding BA's products and strategy, as well as the aerospace industry and market, can be found in BA's Profile, Strategy and Market presentation available in the Profile section on Bombardier's dedicated investor relations website at ir.bombardier.com.

KEY PERFORMANCE MEASURES AND METRICS

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

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Order backlog, as a measure of future revenues. • Book-to-bill ratio[1], as an indicator of future revenues. • Revenues and delivery units, as measures of growth. • Market share (in terms of revenues and units delivered), as measures of competitive positioning.
Profitability	• EBIT, EBIT margin, EBIT before special items[2] and EBIT margin before special items[2], as measures of performance.
Liquidity	• Free cash flow[2], as a measure of liquidity generation.
Customer satisfaction	• On-time aircraft deliveries, as a measure of meeting our commitment to customers. • Fleet dispatch reliability, as a measure of our products' reliability. • Regional availability of parts and material to support customer requests.
Execution	• Achievement of program development milestones, as a measure of flawless execution. • Achievement of engagement and enablement targets, as a measure of employee engagement and motivation. • The deployment of the Achieving Excellence System (AES), as a measure of our continuous improvement to integrate world-class best practices in all our activities.

Our incentive-based compensation plan for non-unionized employees across all BA sites rewards the collective efforts of our employees in achieving our objectives using performance indicator targets. A total of 17,700 employees worldwide, or 55% of our permanent employees, participate in the program. In 2013, as part of this program, incentive-based compensation was linked to the achievement of targeted results, based on EBIT before special items, free cash flow, executing according to plan in our new product development programs, on-time aircraft deliveries and fleet dispatch reliability.

AES is BA's integrated management system. It fosters both employee and customer engagement in order for us to meet our business objectives. The system is divided into five levels from Bronze to Diamond. Having successfully achieved the Bronze and Silver certifications, all teams are now fully engaged in the implementation of the Gold level. Some teams have obtained Gold level certification and additional teams will obtain Gold level certification in 2014. The results of an independently administered employee survey in 2013 ranked BA among the highest-ranking segment of companies in terms of employee engagement.

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

Four-year summary

For the fiscal years ended and as at	**December 31 2013**	December 31 2012	December 31 2011 [6]	January 31 2011
		restated [5]	*restated* [5]	*restated* [5]
Revenues	**$ 9,385**	$ 8,628	$ 8,594	$ 8,808
Aircraft deliveries (in units)				
Business aircraft	**180**	179	163	155
Commercial aircraft	**55**	50	78	97
Amphibious aircraft	**3**	4	4	4
	238	233	245	256
Net orders (in units)	**388**	481	249	201
Book-to-bill ratio[1]	**1.6**	2.1	1.0	0.8
Order backlog (in billions of dollars)	**$ 37.3**	$ 32.9	$ 23.9	$ 20.4
EBIT	**$ 418**	$ 390	$ 491	$ 546
EBIT margin	**4.5%**	4.5%	5.7%	6.2%
EBIT before special items[2][3]	**$ 388**	$ 367	$ 491	$ 546
EBIT margin before special items[2][3]	**4.1%**	4.3%	5.7%	6.2%
Free cash flow (usage)[2]	**$ (1,239)**	$ (867)	$ (418)	$ 3
Total number of employees[4]	**37,700**	35,500	33,600	30,300

(1) Defined as net orders received over aircraft deliveries, in units.
(2) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics. Refer to the Analysis of results section for reconciliations to the most comparable IFRS measures.
(3) The special items for the fiscal year ended December 31, 2013 relate to a $31-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital, and a $23-million gain on sale of the main assets and related liabilities of our Flexjet activities, partially offset by a $24-million inventory write-down related to the prolonged production pause of the *Learjet 60* program. The special item for the fiscal year ended December 31, 2012 relates to a $23-million gain following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations. Both tax gains are as a result of resolutions of litigations related to similar matters at the Canadian federal and Quebec provincial levels.
(4) Including contractual and inactive employees.
(5) Refer to the Accounting and reporting developments section in Other for detail regarding restatements of prior year figures.
(6) The fiscal year ended December 31, 2011 comprises 11 months of results.

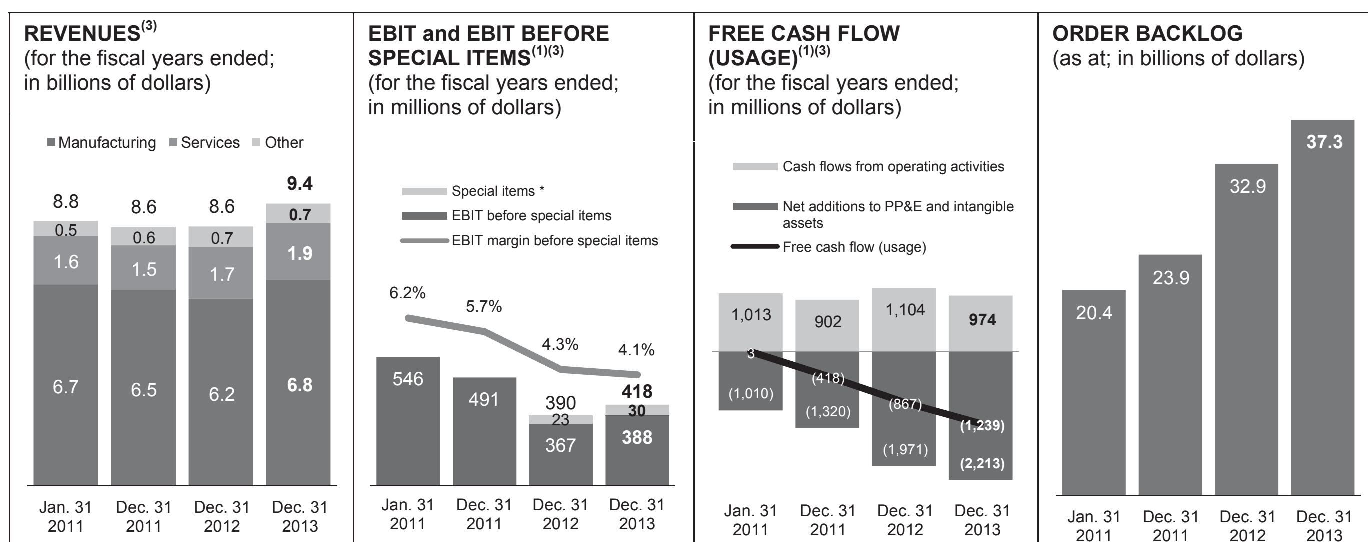
HIGHLIGHTS OF THE YEAR

High level of investment in product development and record order backlog

REVENUES	EBIT MARGIN BEFORE SPECIAL ITEMS(1)	FREE CASH FLOW(1)	NET ADDITIONS TO PP&E & INTANGIBLE ASSETS	ORDER BACKLOG
$9.4 billion	**4.1%**	**($1.2) billion**	**$2.2 billion**	**$37.3 billion**

RESULTS

- Revenues of $9.4 billion, an increase of 8.8% compared to $8.6 billion last fiscal year.
- EBIT of $418 million, or 4.5% of revenues, compared to $390 million, or 4.5%, last fiscal year.
- EBIT before special items(1) of $388 million, or 4.1% of revenues, compared to $367 million, or 4.3%, last fiscal year.
- EBITDA before special items(1) of $655 million, or 7.0% of revenues, compared to $609 million, or 7.1%, last fiscal year.
- Free cash flow usage(1) of $1.2 billion, compared to a usage of $867 million last fiscal year.
- Net investment of $2.2 billion in PP&E and intangible assets, including $2.0 billion related to aerospace program tooling, compared to $2.0 billion last fiscal year, including $1.7 billion related to aerospace program tooling.
- 238 aircraft deliveries, compared to 233 last fiscal year.
- 388 net orders (book-to-bill ratio(2) of 1.6), compared to 481 net orders last fiscal year.
- Record order backlog of $37.3 billion as at December 31, 2013, compared to $32.9 billion as at December 31, 2012.



(1) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section for reconciliations to the most comparable IFRS measures.
(2) Defined as net orders received over aircraft deliveries, in units.
(3) Results for the fiscal years ended December 31, 2012, December 31, 2011 and January 31, 2011 have been restated for changes in accounting policies and methods. The fiscal year ended December 31, 2011 comprises 11 months of results.
* The special items for the fiscal year ended December 31, 2013 relate to a $31-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital, and a $23-million gain on sale of the main assets and related liabilities of our Flexjet activities, partially offset by a $24-million inventory write-down related to the prolonged production pause of the *Learjet 60* program. The special item for the fiscal year ended December 31, 2012 relates to a $23-million gain following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations. Both tax gains are as a result of resolutions of litigations related to similar matters at the Canadian federal and Quebec provincial levels.

KEY EVENTS

Business aircraft

- The *Learjet 75* and *Learjet 70* aircraft have entered into service in November and December 2013, respectively.
- On December 4, 2013, we completed the sale of the main assets and related liabilities of our Flexjet activities, to a newly-created company, Flexjet, LLC, owned by a group led by Directional Aviation Capital (the "Flexjet Transaction"). After taking into account purchase price adjustments and closing adjustments, the final purchase price is $180 million, including the assumption of $71 million of customer advances, resulting in a pre-tax gain of $23 million.
- Upon closing of the Flexjet Transaction, Flexjet, LLC placed firm orders for 85 aircraft of the *Learjet* family and 30 aircraft of the *Challenger* family, with options for 150 additional aircraft. Based on list prices, the value of the firm orders is $2.4 billion.
- In December 2013, an undisclosed customer placed a firm order for 28 aircraft of the *Global* family and 10 *Challenger 605* aircraft. Based on list prices, the value of the firm order is $2.2 billion.
- In May 2013, we launched the new *Challenger 350* aircraft, the evolution of the *Challenger 300* aircraft, expanding our *Challenger* family of business jets. EIS is scheduled for 2014.

Commercial aircraft

- The maiden flights of the first and second *CS100* flight test vehicles were successfully completed on September 16, 2013 and January 3, 2014, respectively. Initial on-the-ground and flight tests performance results are in line with our expectations. The *CS100* aircraft's EIS is now scheduled for the second half of 2015 and the *CS300* aircraft's EIS will follow approximately six months afterwards.
- As at the date of this report, the number of firm orders and other agreements[1] for the *CSeries* family of aircraft reached 445, including 201 firm orders, with 17 customers and operators in 14 countries:
  - In June 2013, shareholders of Ilyushin Finance Co. (IFC) of Russia approved a firm order for 32 *CS300* aircraft and options for an additional 10. Based on list price, the value of the firm order is $2.6 billion.
  - Subsequent to the end of the year, we signed a firm order with Al Qahtani Aviation Company from the Kingdom of Saudi Arabia for 16 *CS300* aircraft, with options for an additional 10. Based on list price, the firm order is valued at $1.2 billion and is not included in our order backlog as at December 31, 2013.
- In December 2013, American Airlines Group Inc. signed a firm order for 30 *CRJ900 NextGen* aircraft with options for an additional 40. Based on list price, the firm order is valued at $1.4 billion.
- In August 2013, agreements were signed with entities based in Russia including a memorandum of understanding to validate the opportunity to set up a *Q400 NextGen* turboprop final assembly line in Russia and letters of intent (LOI) for a total of 100 *Q400 NextGen* turboprops. Based on list price, the LOIs are valued at $3.4 billion.

Expansion of our global presence

- We continued to expand our customer support network across the globe with 20 new service locations for both commercial and business aircraft.
- The construction of our permanent manufacturing facility in Morocco began in the third quarter of 2013 and is scheduled to be completed by mid-2014.

[1] The other agreements consist of conditional orders, letters of intent, options and purchase rights.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

	What we said	What we did	What's next[1]
Profitability	Maintain EBIT margin in fiscal year 2013 at approximately the same level as EBIT margin in fiscal year 2012. We expect to achieve an EBIT margin in fiscal year 2014 of approximately 6%, after an anticipated 2% dilutive impact on EBIT margin from the EIS of the *CSeries* aircraft.	EBIT margin before special items[2] of 4.1% for fiscal year 2013, compared to 4.3% in fiscal year 2012.	We now expect to achieve an EBIT margin of approximately 5% in fiscal year 2014.
Liquidity	Cash flows from operating activities of approximately $1.4 billion, while our net additions to PP&E and intangible assets are expected to be approximately $2.0 billion in fiscal year 2013. Our level of net additions to PP&E and intangible assets is expected to decrease in 2014 by approximately $500 million and in 2015 by approximately another $500 million.	Cash flows from operating activities of $1.0 billion and net additions to PP&E and intangible assets of $2.2 billion in fiscal year 2013. The cash flows from operating activities were lower than expected due to lower customer advances as well as lower business aircraft deliveries.	In fiscal year 2014, we expect cash flows from operating activities between $1.2 billion and $1.6 billion, while our net additions to PP&E and intangible assets are expected to be between $1.6 billion and $1.9 billion. Our level of net additions to PP&E and intangible assets is expected to be between $1.2 billion and $1.5 billion in 2015 and to be below $1.0 billion in 2016.
Deliveries	Deliveries of approximately 190 business aircraft and 55 commercial aircraft in fiscal year 2013.	We delivered 180 business aircraft and 55 commercial aircraft. We delivered 10 fewer business aircraft in 2013 compared to our guidance, mainly due to the late transition from the *Learjet 40 XR* and *Learjet 45 XR* business jets to the *Learjet 70* and *Learjet 75* aircraft, which entered into service in the fourth quarter of 2013.	In fiscal year 2014, we expect to deliver approximately 200 business aircraft and 80 commercial aircraft.

[1] See Forward-looking statements below.

[2] Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics and to the Analysis of results section for reconciliations to the most comparable IFRS measures.

Forward-looking statements:

Forward-looking statements[3] in this section of the MD&A are based on:

- current firm order backlog and estimated future order intake;[4]
- an increase in aircraft deliveries and improved pricing in fiscal year 2014 compared to fiscal year 2013;
- continued deployment and execution of strategic initiatives related to quality improvement and cost reductions;
- our ability to meet scheduled EIS dates and planned costs for new aircraft programs;
- our ability to recruit and retain highly skilled resources to deploy our product development strategy;
- the ability of our supply base to support planned production rates; and
- stability of foreign exchange rates.

[3] Also see the Guidance and forward-looking statements section in Overview.

[4] Demand forecast is based on the analysis of main market indicators, including real GDP growth, industry confidence, wealth creation and profitability within our customer base, aircraft utilization, pre-owned business jet inventory levels, pilot scope clauses, environmental regulations, globalization of trade, replacement demand, new aircraft programs and non-traditional markets and their accessibility. For more details, refer to the market indicators in the Industry and economic environment section.

INDUSTRY AND ECONOMIC ENVIRONMENT

Well-positioned for future growth

The state of the world economy and those of individual countries are key factors in the demand for air travel. As such, the health of the aerospace industry is a function of general economic conditions, with a lag typically between economic recovery and the time it takes to reflect on the original equipment manufacturers' deliveries and revenues. Real GDP growth is a widely accepted measure of economic activity.

Worldwide real GDP increased by 2.4% in 2013, compared to an increase of 2.5% in 2012 and the world economy is predicted to grow by 3.2% in 2014.(1)

The GDP in the U.S., the largest market for our business and commercial aircraft, is expected to grow at 2.7% in 2014, compared to 1.9% GDP growth in 2013. Europe, our second largest market in terms of sales, is experiencing a number of economic challenges as GDP is expected to grow by only 1.5% in 2014, nevertheless higher than the 0.3% GDP growth in 2013.(1)

Regions with high growth potential for business and commercial aviation such as China, India and the CIS are expected to grow in 2014 by 8.0%, 5.4% and 3.2%, respectively, as compared to GDP growth in 2013 of 7.7%, 4.6% and 2.1%, respectively.(1)

(1) According to IHS Global Insight's Comparative World Overview dated January 15, 2014.

Business aircraft

In 2013, we estimate the level of industry orders in the market categories in which we compete increased by 8% compared to last year. During 2013, the industry experienced an increase of 5.4% in deliveries and a 24.7% increase in billings in these market categories when compared to last year.(1)

Some aircraft manufacturers, like us, have a number of new business jets in development, with the view that the new models will not only benefit from improved market conditions expected in the future, but also contribute to the recovery by stimulating demand. Refer to BA's Profile, Strategy and Market presentation on Bombardier's dedicated investor relations website at ir.bombardier.com for additional information.

We have achieved a net order intake of 305 aircraft, for a book-to-bill ratio of 1.7(2), compared to 343 net orders last year. Our overall deliveries in 2013 are essentially at the same level as last year. However, we had higher deliveries in the medium and large market categories while deliveries in the light category were down year-over-year due to the late transition from the *Learjet 40 XR* and *Learjet 45 XR* aircraft to the *Learjet 70* and *Learjet 75* aircraft. Our business aircraft manufacturing revenues increased by 9.8% compared to 2012. In fiscal year 2013, we captured 33% of the market share in the overall market in which we compete, based on revenue, and 32% of the market share based on units delivered. We were the market leader in terms of units delivered and second in terms of revenues.(1) This compares with a market share of 38% and 33%, based on revenues and units delivered respectively, in fiscal year 2012.(1)

(1) Based on our estimates and other public sources.
(2) Defined as net orders received over aircraft deliveries, in units.

We use the following key indicators to monitor the health of the business aviation market in the short term.

Business aircraft market indicators

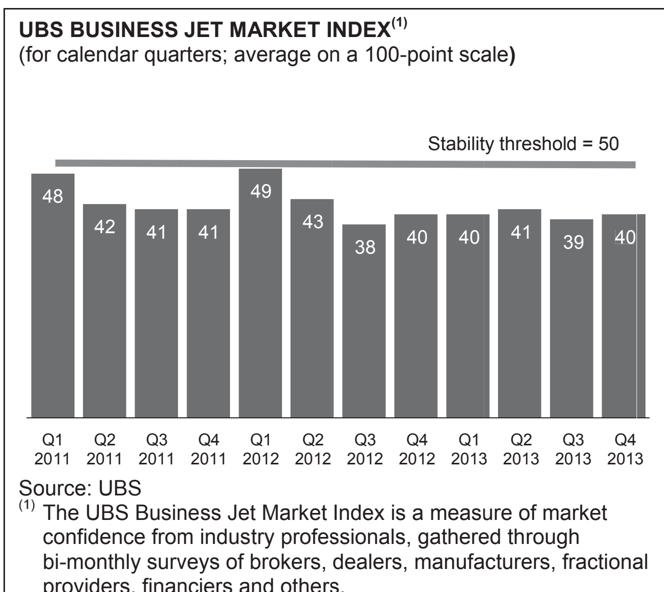
Indicator	Current situation	Status
Industry confidence	The UBS Business Jet Market Index, which measures industry confidence, remains essentially unchanged and continues to be below the threshold of market stability.	►
Corporate profits	U.S. corporate profits increased year-over-year by 5.7% to $2.1 trillion for the first nine months of 2013.[1] Corporate profits are at an all-time high which is anticipated to translate into future demand for aircraft from corporations.	▲
Pre-owned business jet inventory levels	The total number of pre-owned aircraft available for sale as a percentage of the total in-service fleet has been trending downward over the past several years and is at 12.7%. We consider this level of pre-owned inventory to be within the normal range for the overall market. In the light category, the level of pre-owned business aircraft inventory has been trending downward over several years and is now at the upper end of what we consider to be the normal range for the overall market. In the medium category, the level of pre-owned business aircraft inventory decreased in 2013 after remaining stable the previous two years and is within what we consider to be the normal range for the overall market. In the large category, the level of pre-owned business aircraft inventory has moved downward in the current year and remains below what we consider to be the normal range for the overall market.	▲
Aircraft utilization rates	Business jet utilization in the U.S. increased slightly by 1.3% in 2013 compared to 2012. Business jet utilization in Europe decreased slightly by 1.6% in 2013 compared to 2012.	►
Aircraft shipments and billings	In the business aircraft market categories in which we compete, business aircraft deliveries increased by 5.4% and total billings increased by 24.7% in 2013 as compared to 2012.[2]	▲

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

(1) According to the U.S. Bureau of Economic Analysis.

(2) Based on our estimates and other public sources.

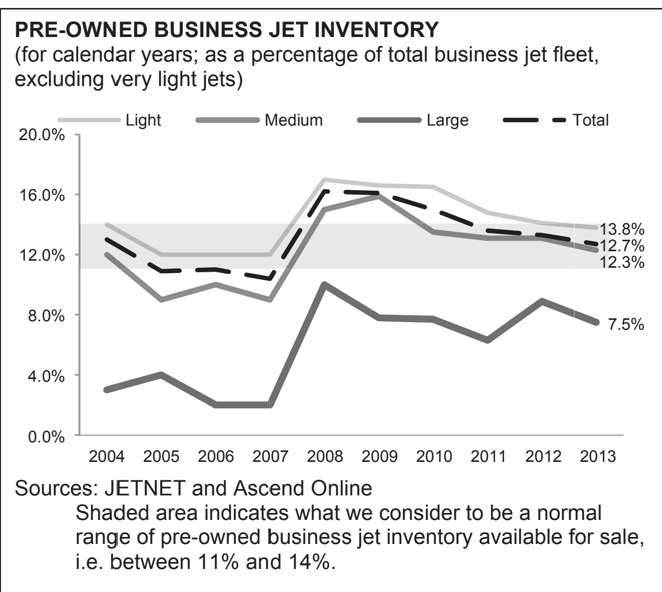
UBS BUSINESS JET MARKET INDEX[1]
(for calendar quarters; average on a 100-point scale)



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.

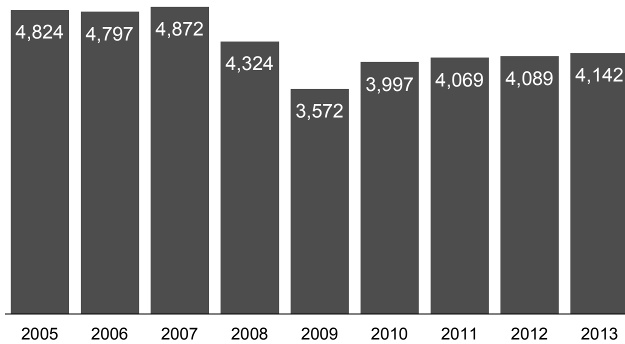
PRE-OWNED BUSINESS JET INVENTORY
(for calendar years; as a percentage of total business jet fleet, excluding very light jets)



Sources: JETNET and Ascend Online

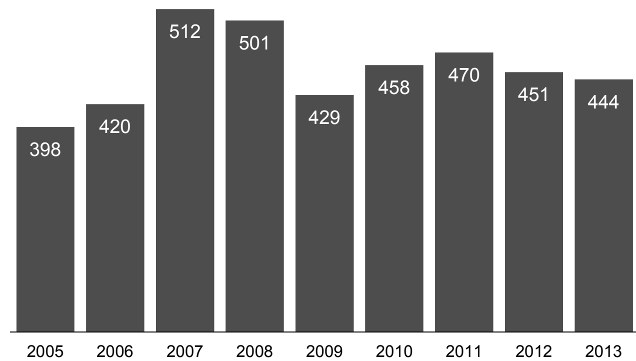
Shaded area indicates what we consider to be a normal range of pre-owned business jet inventory available for sale, i.e. between 11% and 14%.

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



Source: U.S. Federal Aviation Administration (FAA) website

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



Source: Eurocontrol

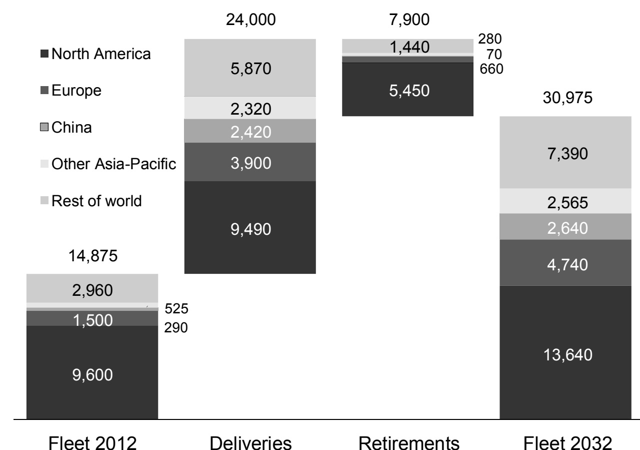
Short-term outlook

Current indicators in the business aviation market remain mixed. Pricing pressure remains, particularly in the light and medium business aircraft categories. We expect to deliver approximately 200 business aircraft in fiscal year 2014 compared to 180 deliveries in 2013.

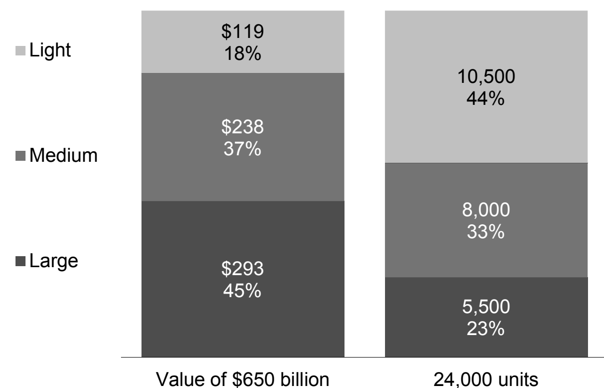
Long-term outlook

We believe that the long-term market drivers of growth for the business jet industry, such as GDP growth, globalization of trade, fleet replacement, new aircraft programs and growth in non-traditional markets, remain solid. The continued wealth creation in major non-traditional markets coupled with aviation infrastructure development is expected to accelerate the use of business aircraft dramatically from levels seen today. We estimate 24,000 aircraft deliveries in the light to large categories for the 20-year period from 2013 to 2032, valued at $650 billion in constant 2012 U.S. dollars. Average worldwide GDP growth for the 20-year period is expected to be 3.2%. The worldwide business aircraft fleet is expected to more than double from 14,875 aircraft at the end of 2012 to 30,975 aircraft in 2032. We predict that North America will receive the greatest number of new business jet deliveries in the 20-year period with 9,490 aircraft, followed by Europe with 3,900 aircraft. Notably, China is expected to become the third largest market for business jet deliveries, with 2,420 deliveries between 2013 and 2032. We also expect other key growth markets in non-traditional economies to receive a significant share of business jet deliveries during the next 20 years.[(1)]

BUSINESS AIRCRAFT FLEET EVOLUTION BY GEOGRAPHIC REGION[(1)]
(for calendar years 2013 to 2032; in units**)**



BUSINESS AIRCRAFT DELIVERIES FORECAST BY CATEGORY[(1)]
(for calendar years 2013 to 2032; in billions of constant 2012 U.S. dollars and in units)



(1) As stated in our Business Aircraft Market Forecast, published in June 2013 and available on Bombardier's dedicated investor relations website at ir.bombardier.com.

Commercial aircraft

The commercial aircraft market is building momentum. Passenger traffic levels and airline financial performance have improved in 2013 and industry deliveries of aircraft in the 20- to 149-seat category have increased compared to last year. The economic environment is improving in the U.S., the largest market for our aircraft, and in most emerging economies, while some countries in Europe continue to lag.

Airline financial performance continued to improve in most regions during the year, particularly in the U.S. where airline mergers have helped improve asset utilization and generate efficiencies.[(1)]

Several U.S. major network carriers have reached agreements with their respective pilot unions to modify scope clauses, thus permitting a higher number of larger regional aircraft (e.g. 70 seats and larger) to be flown by regional airlines' pilots affiliated with mainline airlines. To benefit from these agreements, some airlines have ordered larger and more efficient regional aircraft to replace older and smaller regional jet aircraft. Approximately 70% of the industry's demand in the 20- to 149-seat category in 2013 originated from North America[(2)] and we expect scope clause relaxation will continue to drive option conversions for larger regional aircraft in the near term.

We delivered 10% more commercial aircraft in 2013 compared to 2012. Our net orders decreased by 41% compared to 2012. However, we have geographically diversified our customer base and obtained several orders in key fast-growing countries. For the three-year period ended December 31, 2013, we ranked second, capturing 31% of the market share in the 20- to 99-seat category based on units delivered.[(3)] This compares to a market share of 36% for the three-year period ended December 31, 2012.[(3)]

(1) As stated in the International Air Transport Association ("IATA") December 2013 Financial Forecast.
(2) Based on aircraft order data available from OAG Fleet iNet and other public sources.
(3) Based on delivery data available from OAG Fleet iNet and other public sources.

We use the following key indicators to monitor the health of the commercial airline industry in the short term.

Commercial aircraft market indicators

Indicator	Current situation	Status
Passenger traffic levels	The demand for new aircraft is primarily driven by the demand for air travel. Scheduled domestic and international passenger traffic, measured by revenue passenger kilometres ("RPK"), were 4.7% and 5.3% higher, respectively, for the year-to-date period ended November 2013 compared to the same period last year.[(1)]	▲
	Airlines achieved both domestic and international passenger load factors of 77.7% and 75.5%, respectively, in November 2013 (79.6% and 76.5%, respectively, in November 2012). Continued increases in capacity over recent months have placed downward pressure on load factors. Yields, defined as average passenger revenue per revenue passenger kilometre, remained stable in 2013 compared to 2012.[(1)]	▼
	During 2013, regional passenger traffic measured by RPK for the five leading U.S. network carriers and their affiliates, which represent a major portion of the regional airline passenger traffic in the U.S., our largest market, remained essentially at the same level as last year.	►
	These airlines achieved an average passenger load factor of 81.6% in December 2013, up from the 78.1% experienced in December 2012.	▲
Fuel prices	Planning is difficult for airlines when prices for one of the largest components of their operating costs remain volatile. The price of Brent crude oil decreased from $112 per barrel in 2012 to $109 per barrel in 2013, and is expected to decline gradually to average $105 per barrel and $102 per barrel in 2014 and 2015, respectively.[(2)] In the short term, this should help improve airline profitability. However, the high volatility in crude oil prices should result in continued demand for more fuel-efficient aircraft.	►

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

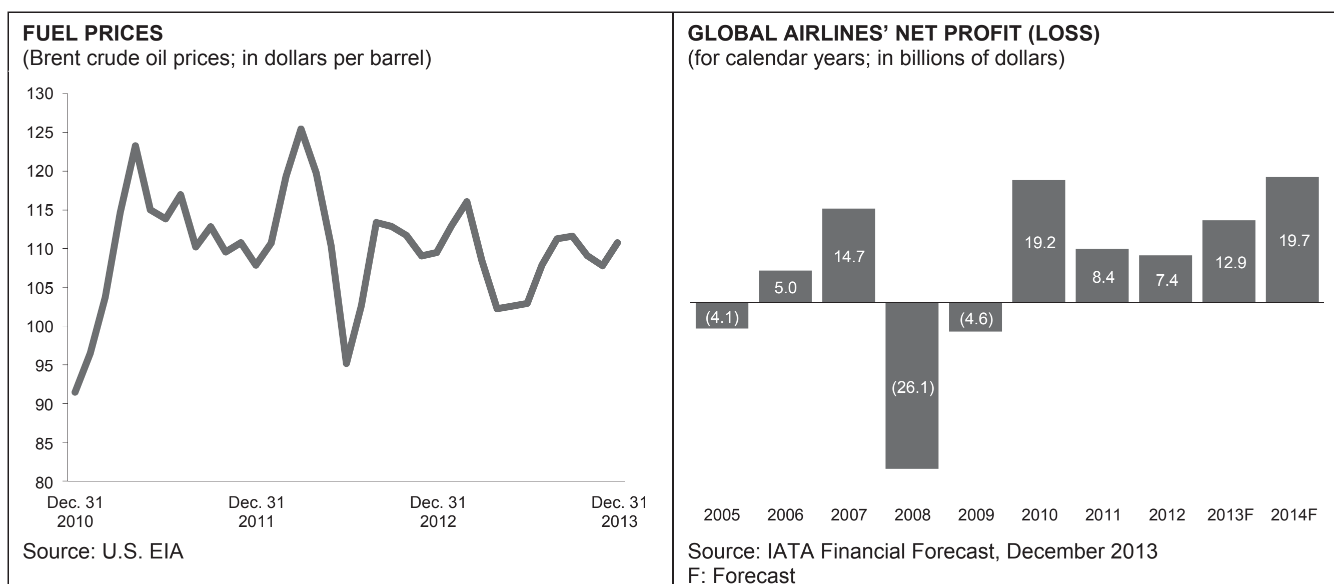
(1) Per IATA's November 2013 Air Passenger Market Analysis report.
(2) According to the U.S. Energy Information Administration's (EIA) January 2014 Short-term Energy Outlook.

Commercial aircraft market indicators (continued)

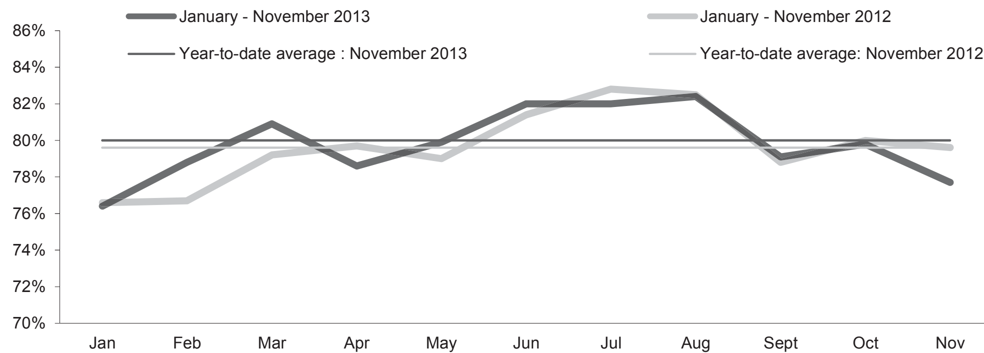
Indicator	Current situation	Status
Airline profitability	Airline financial performance continued to improve in 2013. Airlines' net profit should amount to $12.9 billion in 2013, a fourth consecutive year of positive net profits for the industry. North American airlines are forecast to generate the highest profits in terms of dollars and percentage of revenues due to a combination of consolidation, a more efficient industry and an improving economy, followed by airlines in the Asia-Pacific region. European airlines will generate the third highest net profit but will have lower profit margins than airlines in the Middle East and Latin America.[(1)]	▲
Environ-mental regulations	Stringent environmental regulations speed up the retirement of old generation aircraft as carriers seek lower per-passenger fuel burns and emissions. On the other hand, fees and charges associated with these regulations hamper airline operating economics, adversely impacting airlines' re-fleeting decisions. Although the International Civil Aviation Organization (ICAO) is looking at developing a global market based measure (MBMs) scheme from 2020, Europe has tabled another version of its Emissions Trading System which could apply to intra-European Union flights before 2020. These schemes and other similar ones in other countries are designed to reduce overall environmental impact of aircraft and will likely speed up retirement of older aircraft worldwide over the coming years as airlines and operators will need to account for their carbon dioxide (CO_2) emissions.	▲
Aircraft shipments	In 2013, there were 278 deliveries for the industry of aircraft in the 20- to 149-seat category, an increase of 3.3% compared to 2012.[(2)]	▲
Replace-ment demand	We estimate that most commercial aircraft have life cycles ranging between 15 to 30 years. At the end of 2013, approximately 5,400 aircraft representing an estimated 44% of the world's active fleet in the 20- to 149-seat aircraft category were over 15 years old compared to approximately 5,600 aircraft representing 45% at the end of 2012.[(3)]	▶

▲ ▶ ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

[(1)] Per IATA's December 2013 Financial Forecast.
[(2)] Based on delivery data available from OAG Fleet iNet and other public sources.
[(3)] Based on data obtained from OAG Fleet iNet.

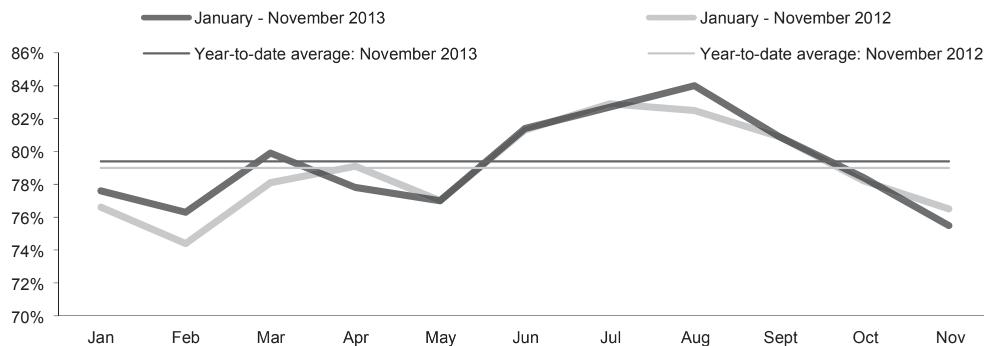


DOMESTIC PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres in the month and year-to-date period)



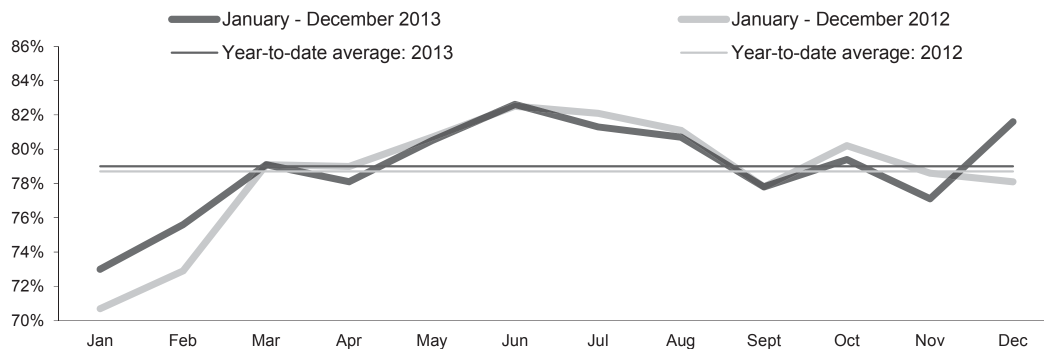
Source: latest available data from IATA statistics for domestic air travel

INTERNATIONAL PASSENGER LOAD FACTOR
(as a percentage of available seat kilometres in the month and year-to-date period)



Source: latest available data from IATA statistics for international air travel

U.S. REGIONAL PASSENGER LOAD FACTOR FOR THE FIVE LEADING U.S. NETWORK CARRIERS AND THEIR AFFILIATES
(as a percentage of available seat kilometres in the month and year-to-date period)



Source: U.S. regional load factors published by the five leading U.S. network carriers (Delta Air Lines, American Airlines, United Airlines, US Airways and Alaska Air) and their affiliates.

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

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

Available seat kilometres are measured as the number of seats multiplied by the kilometres flown, whether a passenger occupied the seat or not.

Short-term outlook

The world economy is predicted to grow by 3.2%, 3.6% and 3.7% over each of the next three years.[(1)] Historically, as the world economy improves, demand for air travel increases and order intake follows. We believe that the market for larger regional aircraft and smaller mainline aircraft will grow in North America as airlines continue to focus on fleet optimization, efficiency and reducing environmental impacts.

In Europe, GDP is expected to grow at only 1.5% in 2014. In this context, we do not expect much growth in demand for regional aircraft in Europe in 2014. European airlines are likely to continue to focus on consolidation and operational restructuring.

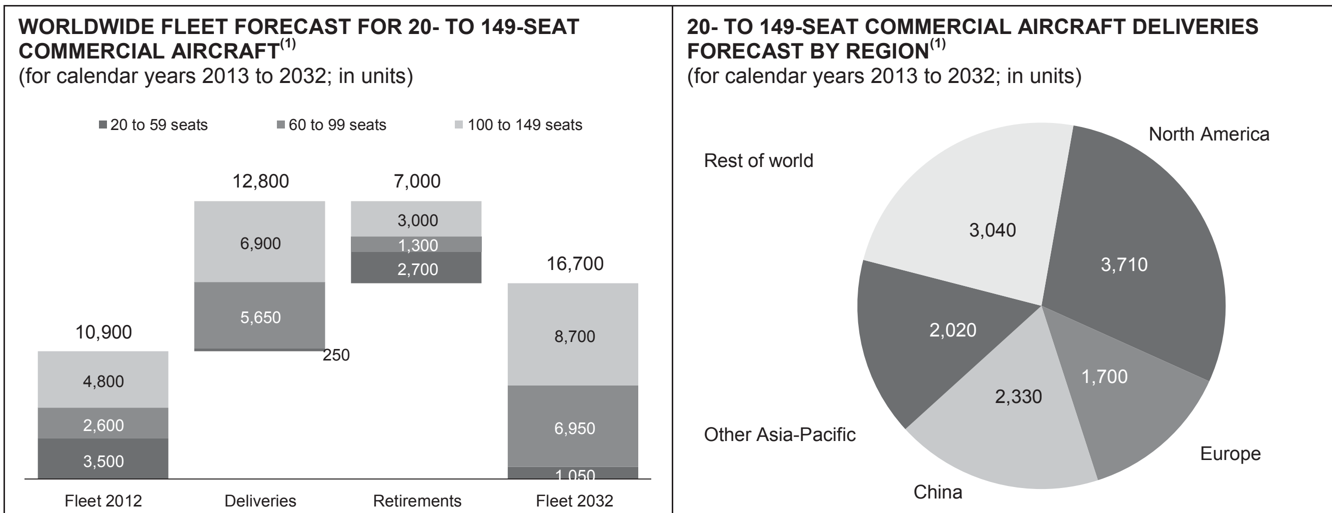
[(1)] According to IHS Global Insight's Comparative World Overview dated January 15, 2014.

The strong correlation between passenger traffic and economic growth in non-traditional markets should translate into continued aircraft demand in the near future. This demand will be met by a combination of pre-owned and new aircraft.

We expect to deliver approximately 80 commercial aircraft in fiscal year 2014 compared to 55 deliveries in 2013.

Long-term outlook

We estimate 12,800 new aircraft deliveries for the 20- to 149-seat commercial aircraft category for the 20-year period from 2013 to 2032, with 250 deliveries in the 20- to 59-seat category, 5,650 deliveries in the 60- to 99-seat category and 6,900 deliveries in the 100- to 149-seat category. The total forecast deliveries are valued at over $646 billion in constant 2012 U.S. dollars. Average worldwide GDP growth for the 20-year period is expected to be 3.2%.[(1)]



Global demand for air travel and new aircraft continues to shift towards non-traditional markets. Nevertheless, North America is expected to lead the way in aircraft deliveries over the forecast period, taking in an expected 3,710 new aircraft, followed by China, the second largest market, with 2,330 new aircraft. The forecast demand for Europe is expected to be 1,700 aircraft.[(1)]

Oil prices are expected to decrease until 2017 and then subsequently increase thereafter as a result of expanding energy demand.[(2)] We believe that high fuel costs will accelerate the retirement of old, less efficient aircraft types increasing demand for new fuel-efficient aircraft.

The 60- to 99-seat category's growth will be driven largely by the evolving relationship between mainline and regional carriers. The outsourcing of regional aircraft operations to carriers with lower-cost structures, namely regional airlines, continues to be the main thrust of network optimization efforts. Furthermore, the attractive economics and operational flexibility of regional aircraft can be used to right-size aircraft capacity according to traffic demand.

Our strategy to occupy the 100-to 149-seat market category with the efficient *CSeries* family of aircraft will help stimulate new aircraft demand and accelerate the retirement of older aircraft in the larger regional and smaller mainline aircraft markets.

[(1)] According to our Commercial Aircraft Market Forecast, published in June 2013 and available on Bombardier's dedicated investor relations website at ir.bombardier.com.
[(2)] As predicted by the U.S. EIA in its Annual Energy Outlook 2014 Early Release report.

Customer services

Our worldwide customer services network includes parts hubs, parts depots, authorized service facilities ("ASF"), line maintenance facilities ("LMF"), service centres, mobile repair parties, regional support offices ("RSO"), customer response centres ("CRC"), as well as training centres and authorized training providers ("ATP").

The customer services market represents a large growth opportunity for Bombardier. In order to capture a larger share of this market and to further improve customer satisfaction, we continue to develop innovative and comprehensive service solutions and to invest in building our international service and support capabilities.

In 2013, we continued to expand our customer service network across the globe by opening new support locations to better serve our customers as well as developing new services to cater to changing needs, including the new *Smart Parts Preferred* option from the portfolio of *Smart Services* cost-per-flight-hour parts and services coverage programs. Currently there are over 1,200 business aircraft enrolled in *Smart Services*. On the commercial side, over 20% of the active *Q400* and *Q400 NextGen* fleet is enrolled in the *Smart Parts* program.

20 new customer support locations	
RSO	
Johannesburg, South Africa[1]	Business and commercial aircraft
Service Centre	
Seletar, Singapore	Business aircraft
ASF / LMF	
Addis Ababa, Ethiopia	Commercial aircraft
Vantaa, Finland	Business aircraft
Luton, U.K.	Business aircraft
Campinas, Brazil	Business aircraft
Le Bourget, France	Business aircraft
Kazan, Russia	Business aircraft
Luqa, Malta	Business aircraft
Belo Horizonte, Brazil	Business aircraft
Line Maintenance Service Agreement	
Beijing, China	Business aircraft
Mobile Repair Parties	
Atlanta, Georgia, U.S.	Business aircraft
Ft. Lauderdale, Florida, U.S.	Business aircraft
Van Nuys, California, U.S.	Business aircraft
Denver, Colorado, U.S.	Business aircraft
Chicago, Illinois, U.S.	Business aircraft
Seattle, Washington, U.S.	Business aircraft
Teterboro, New Jersey, U.S.	Business aircraft
Parts Depot	
Johannesburg, South Africa	Business and commercial aircraft

[1] This RSO counts as two locations because it serves both business and commercial aircraft.

Our customer services network around the world

	Americas	Europe and CIS	Asia-Pacific	Africa and Middle East	Total
Company-owned service centres	8	1	1	-	**10**
RSO	5	3	9	3	**20**
ASF / LMF	23	20	13	9	**65**
Line maintenance service agreement	-	-	1	-	**1**
CRC	4	-	-	-	**4**
Mobile repair parties	7	-	-	-	**7**
Parts depots / hubs	2	1	5	2	**10**
Training centres	2	-	-	-	**2**
ATP	7	3	1	1	**12**
Total	**58**	**28**	**30**	**15**	**131**

In 2013, we remained focused on customer satisfaction and continued to improve fleet reliability (measured in terms of missed departures) and on-time delivery compared to 2012. Our customers are appreciating our efforts as demonstrated by the results of independent industry surveys conducted by Professional Pilot Magazine (ProPilot) and Aviation International News (AIN). The customer satisfaction ranking increased for *Bombardier*

business aircraft overall in the ProPilot survey and increased for both *Learjet* and *Global* aircraft in the AIN survey.

The demand for customer services is driven by the size of the fleet of *Bombardier* aircraft, by the number of hours flown by said fleet (aircraft utilization rates) and the average age of the fleet.

Customer services market indicators

Indicator	Current situation	Status
Installed base	The installed base for active in-service *Bombardier* commercial aircraft increased by 2.2% in 2013 compared to 2012.[(1)] The installed base for active in-service *Bombardier* business aircraft increased by 3.6% in 2013 compared to 2012.[(2)]	▲
Aircraft utilization rates	Based on our estimates, *Bombardier* aircraft fleet utilization, measured by the average hours flown per aircraft, increased by 2.4% for commercial aircraft for the year-to-date period ended October 31, 2013, and by 0.6% for business aircraft for the year-to-date period ended December 31, 2013, compared to the same periods last year.	▲
Average age of fleet	Typically, aircraft direct maintenance costs increase as an aircraft ages. Therefore, the average age of the fleet of *Bombardier* aircraft will impact the size of the maintenance market. There has been a slight increase in the average age of the *Bombardier* commercial aircraft fleet in 2013 compared to 2012.[(1)] There was no significant change in the average age of the *Bombardier* business aircraft fleet in 2013 compared to 2012.[(2)]	►

▲ ► ▼ Identifies a favourable, neutral or negative status, respectively, in the market categories in which we compete, based on the current environment.

[(1)] Based on data obtained from OAG Fleet iNet.

[(2)] Based on data obtained from the Ascend fleet database.

Short-term outlook

Based on the market indicators above, the demand for comprehensive spare parts and service programs is expected to continue growing. We continue to actively seek out strategic locations for expansion in order to move closer to customers, improve response times and build stronger relationships around the globe. Historically, the U.S. represented the largest share of deliveries for both business and commercial aircraft, however, wealth creation and economic development in non-traditional markets is driving a shift in the proportion of business and commercial aircraft delivered outside of the U.S. This trend in demand impacts the geographical layout of our support network. In the non-traditional markets, our strategy is to increase our local customer support presence and leverage our partnerships to deploy our full span of services.

Long-term outlook

The continued growth of the installed base will contribute to growth in demand for customer services. While traditional markets such as North America and Europe will dominate in terms of market size, the fleet growth in non-traditional markets is accelerating and creating new opportunities for customer services.

With respect to the commercial aircraft market, the global air transport maintenance, repair and overhaul (“MRO”) market in 2013 was approximately $59 billion for a current total global fleet of approximately 27,000 aircraft, over 30% of which are turboprops and regional jets. The global MRO market for commercial aircraft is expected to grow to approximately $85 billion by 2022, representing a 4.1% CAGR over 10 years. The growth will vary by region, with the highest CAGRs in the Middle East (8.5%), CIS and Eastern Europe (7.3%), Africa (6.9%) and South America (6.7%). The lowest CAGRs are expected in developed regions such as North America (1.4%) and Western Europe (1.5%). Over the next ten years, MRO growth is expected to be the largest in Asia-Pacific and the Middle East in terms of absolute dollars. However, established markets such as North America and Western Europe, along with Asia-Pacific, will still represent the largest overall MRO markets in 2022.[(1)]

With respect to the business aircraft market, the business and general aviation MRO market in 2012 totaled $12.4 billion.[(2)]

[(1)] According to a report titled Global MRO Market: Forecast & Trends published by ICF SH&E in February 2013.

[(2)] According to a report titled Global MRO Market Economic Assessment published by the Aeronautical Repair Station Association in March 2013.

ANALYSIS OF RESULTS

Good revenue growth and stable EBIT margin

Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated [7]		*restated* [7]
Revenues				
Manufacturing				
Business aircraft	**$ 1,544**	$ 1,448	**$ 5,038**	$ 4,590
Commercial aircraft	**467**	375	**1,248**	1,115
Other	**184**	133	**550**	521
Total manufacturing	**2,195**	1,956	**6,836**	6,226
Services[1]	**508**	458	**1,897**	1,718
Other[2]	**170**	183	**652**	684
Total revenues	**2,873**	2,597	**9,385**	8,628
Cost of sales	**2,535**	2,256	**8,118**	7,427
Gross margin	**338**	341	**1,267**	1,201
SG&A	**176**	190	**699**	705
R&D	**47**	52	**173**	155
Other expense (income)[3]	**21**	15	**7**	(26)
EBIT before special items[4]	**94**	84	**388**	367
Special items[5]	**1**	-	**(30)**	(23)
EBIT	**93**	84	**418**	390
Amortization[6]	**74**	75	**267**	242
EBITDA[4]	**$ 167**	$ 159	**$ 685**	$ 632
EBITDA before special items[4]	**$ 168**	$ 159	**$ 655**	$ 609
(as a percentage of total revenues)				
Gross margin	**11.8%**	13.1%	**13.5%**	13.9%
EBIT before special items	**3.3%**	3.2%	**4.1%**	4.3%
EBIT	**3.2%**	3.2%	**4.5%**	4.5%
EBITDA before special items	**5.8%**	6.1%	**7.0%**	7.1%
EBITDA	**5.8%**	6.1%	**7.3%**	7.3%

(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 losses (gains) arising from changes in interest rates; ii) severance and other involuntary termination costs (including changes in estimates); and iii) (gains) losses on disposals of PP&E and intangible assets.
(4) Non-GAAP financial measures. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.
(5) The special items for the fourth quarter and fiscal year ended December 31, 2013 relate to a $24-million inventory write-down related to the prolonged production pause of the *Learjet 60* program, partially offset by a $23-million gain on sale of the main assets and related liabilities of our Flexjet activities. The special items for the fiscal year ended December 31, 2013 also include a $31-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital. The special item for the fiscal year ended December 31, 2012 relates to a $23-million gain following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations. Both tax gains are as a result of resolutions of litigations related to similar matters at the Canadian federal and Quebec provincial levels.
(6) Amortization is included in cost of sales, SG&A and R&D expense, based on the underlying function of the asset.
(7) Refer to the Accounting and reporting developments section in Other for detail regarding restatements of 2012 figures.

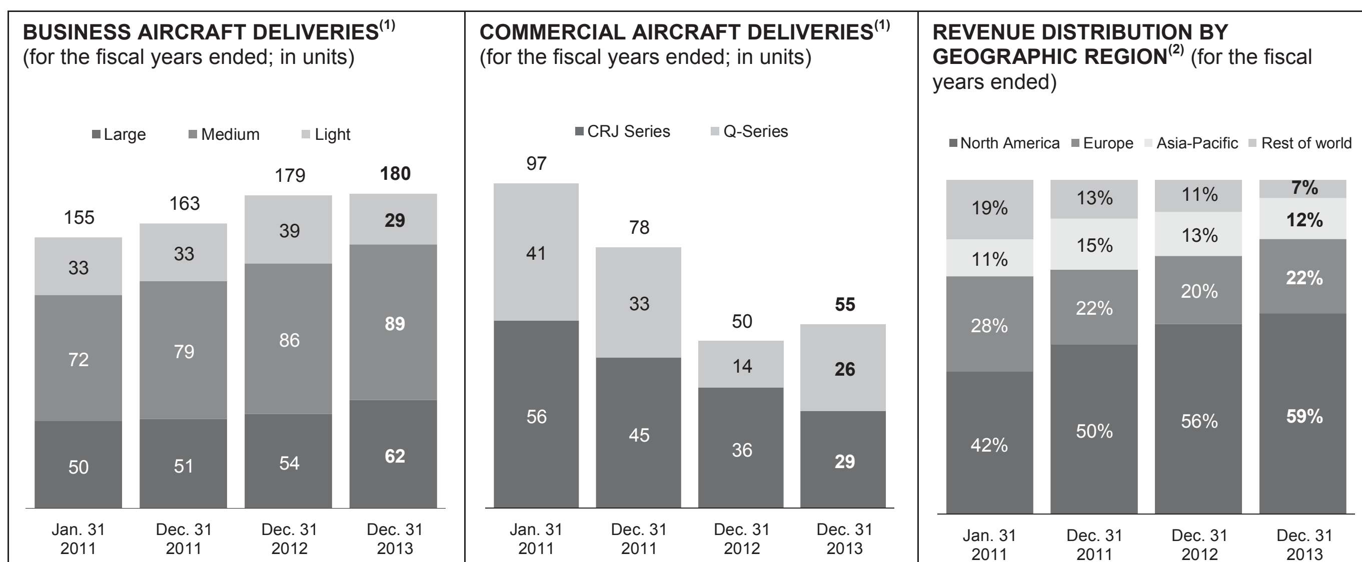
Revenues by geographic region[1]

	Fiscal years ended December 31			
		2013		2012
North America	**$ 5,503**	**59%**	$ 4,811	56%
Europe	**2,036**	**22%**	1,723	20%
Asia-Pacific	**1,170**	**12%**	1,126	13%
Rest of world[2]	**676**	**7%**	968	11%
	$ 9,385	**100%**	$ 8,628	100%

(1) Revenues are attributed to countries based on the location of the customer.
(2) The Rest of world region includes South America, Central America, Africa, the Middle East and the CIS.

Total aircraft deliveries

	Fourth quarters ended December 31		Fiscal years ended December 31	
(in units)	**2013**	2012	**2013**	2012
Business aircraft	**60**	60	**180**	179
Commercial aircraft	**21**	16	**55**	50
Amphibious aircraft	**2**	1	**3**	4
	83	77	**238**	233



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

Manufacturing revenues

The $239-million increase for the fourth quarter is mainly due to:

- higher revenues from business aircraft ($96 million), mainly due to the acceleration of recognition of fractional ownership deferred revenue; and
- higher deliveries of commercial aircraft ($92 million), mainly regional jets.

The $610-million increase for the fiscal year is mainly due to:

- higher revenues from business aircraft ($448 million), mainly due to a favourable mix of large and medium versus light business aircraft deliveries, and to the acceleration of recognition of fractional ownership deferred revenue; and
- higher deliveries of regional jets, partially offset by lower deliveries of turboprops ($133 million).

Services revenues

The $50-million increase for the fourth quarter is due to higher volume of activities from parts services and aircraft maintenance, partially offset by lower revenues from the Flexjet fractional ownership and hourly flight entitlement programs' service activities.

The $179-million increase for the fiscal year is due to higher volume of activities from parts services and aircraft maintenance.

EBIT margin
The EBIT margin percentage for the fourth quarter ended December 31, 2013 was at the same level as the corresponding period last year. The EBIT margin before special items (see explanation of special items below) for the fourth quarter increased by 0.1 percentage points mainly as a result of:

- higher absorption of a lower SG&A expense; and
- the acceleration of recognition of fractional ownership deferred revenues.

Partially offset by:

- write-down of inventory to net realizable value for the *CSeries* aircraft program[1] and higher write-downs of pre-owned aircraft inventory; and
- lower liquidated damage payments from customers upon cancellation of orders.

The EBIT margin percentage for the fiscal year ended December 31, 2013 was at the same level as last year. The EBIT margin before special items (see explanation of special items below) for the fiscal year decreased by 0.2 percentage points mainly as a result of:

- write-down of inventory to net realizable value for the *CSeries* aircraft program[1] and higher write-downs of pre-owned aircraft inventory;
- a net negative variance on provisions for credit and residual value guarantees recognized in other expense (income);
- lower net selling prices for business aircraft; and
- lower liquidated damage payments from customers upon cancellation of orders.

Partially offset by:

- higher absorption of lower SG&A expense;
- a favourable mix of large and medium versus light business aircraft deliveries;
- the acceleration of recognition of fractional ownership deferred revenues; and
- higher margins from service activities.

For the fourth quarter and fiscal year ended December 31, 2013, special items impacted the EBIT margin negatively by 0.1 and positively by 0.4 percentage points, respectively. The special items related to a $23-million gain on sale of the main assets and related liabilities of our Flexjet activities and a $24-million inventory write-down for the *Learjet 60* aircraft program related to the prolonged production pause, recognized in the fourth quarter, and a $31-million gain following the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital recognized in the second quarter.

For the fiscal year ended December 31, 2012, a special item positively impacted the EBIT margin by 0.2 percentage points, related to a $23-million gain following the successful resolution of a litigation in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations.

[1] Early production units in a new aircraft program require higher costs than units produced later in the program and the selling prices of early units are generally lower.

Liquidity generated by our operations partially financed our significant investment in product development

Free cash flow (usage)

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated [1]		*restated* [1]
EBIT	**$ 93**	$ 84	**$ 418**	$ 390
Special items	**1**	-	**(30)**	(23)
Amortization	**74**	75	**267**	242
EBITDA before special items	**168**	159	**655**	609
Other non-cash items				
(Gains) losses on disposals of PP&E and intangible assets	**-**	1	**(1)**	(2)
Share-based expense (income)	**(8)**	2	**5**	3
Cash inflow from special items	**-**	-	**7**	16
Net change in non-cash balances	**518**	690	**308**	478
Cash flows from operating activities	**678**	852	**974**	1,104
Net additions to PP&E and intangible assets	**(591)**	(575)	**(2,213)**	(1,971)
Free cash flow (usage)	**$ 87**	$ 277	**$ (1,239)**	$ (867)

[1] Refer to the Accounting and reporting developments section in Other for details regarding restatements of 2012 figures.

The $190-million decrease for the fourth quarter is mainly due to:

- a negative period-over-period variation in net change in non-cash balances ($172 million) (see explanation below).

The $372-million decrease for the fiscal year is mainly due to:

- higher net additions to PP&E and intangible assets ($242 million), due to our continued significant investment in product development; and
- a negative period-over-period variation in net change in non-cash balances ($170 million) (see explanation below).

Partially offset by:

- higher EBITDA before special items ($46 million).

Net change in non-cash balances

For the fourth quarter ended December 31, 2013, the $518-million cash inflow is mainly due to:

- a decrease in raw material and work-in-process inventories, mainly in the light and medium business aircraft categories;
- an increase in advances on aerospace programs, mainly in the medium business aircraft category; and
- an increase in trade and other payables.

Partially offset by:

- an increase in finished product inventories, mainly due to business aircraft not associated with a firm order.

For the fourth quarter ended December 31, 2012, the $690-million cash inflow was mainly due to:

- an increase in advances on aerospace programs mainly resulting from higher order intake than deliveries for business and commercial aircraft; and
- a decrease in work-in-process and finished goods inventories mainly in the light category in business aircraft and in pre-owned business aircraft.

For the fiscal year ended December 31, 2013, the $308-million cash inflow is mainly due to:

- an increase in other liabilities, mainly related to supplier contributions to aerospace programs under development;
- an increase in advances on aerospace programs in commercial aircraft and in the large business aircraft category; and
- an increase in trade and other payables.

Partially offset by:
- an increase in aerospace program work-in-process inventories, mainly in the large business aircraft category and in regional jets;
- an increase in other assets, mainly in prepaid expenses and retirement benefit assets; and
- an increase in finished product inventories, mainly due to business aircraft not associated with a firm order.

For the fiscal year ended December 31, 2012, the $478-million cash inflow was mainly due to:
- an increase in advances on aerospace programs mainly resulting from higher order intake than deliveries for business and commercial aircraft;
- an increase in trade and other payables; and
- a decrease in pre-owned business aircraft inventories.

Partially offset by:
- an increase in work-in-process inventories mainly for business aircraft.

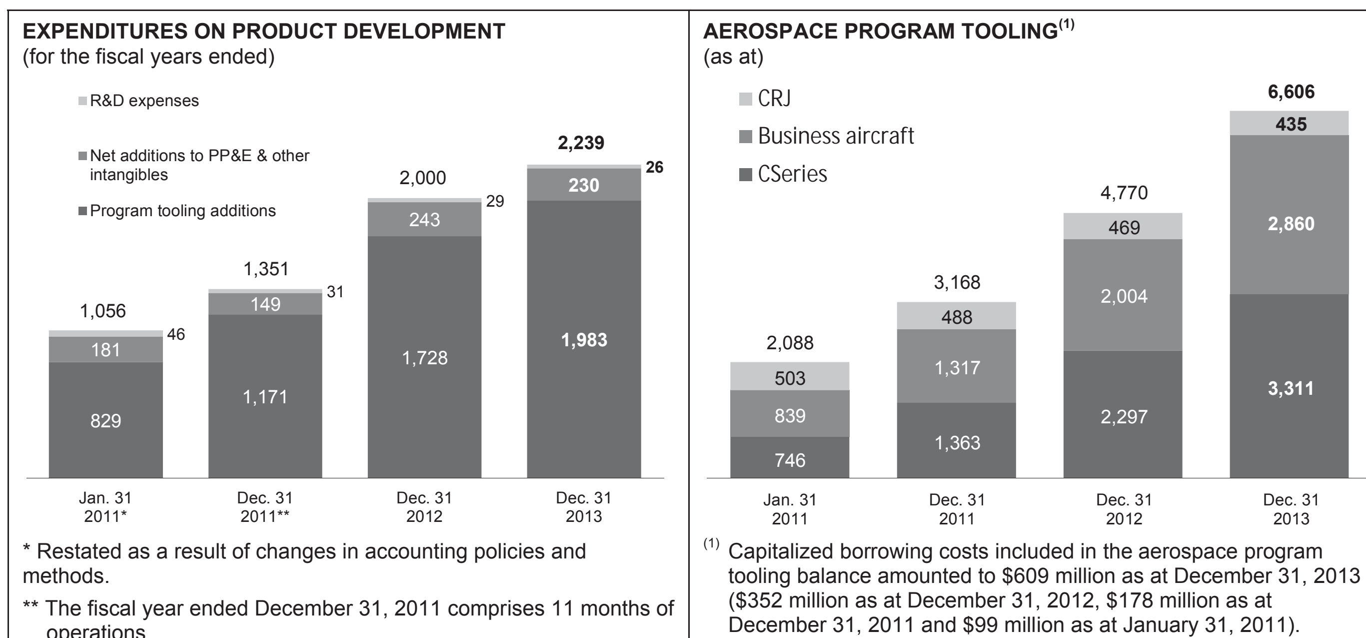
Significant investment in product development

Investment in product development

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
Program tooling[(1)]	**$ 490**	$ 512	**$ 1,983**	$ 1,728
R&D expense[(2)]	**5**	9	**26**	29
	$ 495	$ 521	**$ 2,009**	$ 1,757
As a percentage of manufacturing revenues	**22.6%**	26.6%	**29.4%**	28.2%

(1) Net amount capitalized in aerospace program tooling.
(2) Excluding amortization of aerospace program tooling of $42 million and $147 million, respectively, for the fourth quarter and fiscal year ended December 31, 2013 ($43 million and $126 million, respectively, for the fourth quarter and fiscal year ended December 31, 2012), as the related investments are already included in aerospace 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.



* Restated as a result of changes in accounting policies and methods.

** The fiscal year ended December 31, 2011 comprises 11 months of operations.

(1) Capitalized borrowing costs included in the aerospace program tooling balance amounted to $609 million as at December 31, 2013 ($352 million as at December 31, 2012, $178 million as at December 31, 2011 and $99 million as at January 31, 2011).

Until EIS of the *CS300* aircraft program, we anticipate our *CSeries* aerospace program tooling to increase by approximately $750 million in relation to development spending and approximately $300 million in relation to capitalized borrowing costs.

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

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

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 EIS.

THE *CSERIES* AIRCRAFT PROGRAMS	
The *CS100* aircraft program has moved into the product certification phase, and the *CS300* aircraft program is transitioning from the detailed design phase to the product definition release phase. The *CS100* aircraft's EIS is now scheduled for the second half of 2015 and *CS300* aircraft's EIS will follow approximately six months afterwards.	
Production and testing	The first flight test vehicle (FTV1) completed its successful maiden flight on September 16, 2013, thus beginning the extensive flight test program. FTV2 completed its successful first flight on January 3, 2014. The initial on-the-ground and flight tests performance results are in line with our expectations and no major design changes have been identified.
	In addition to FTV1 and FTV2, the remaining flight test vehicles are currently in various stages of fabrication and assembly and will join the flight test program in the coming months. Additionally, the components for the *CS300* flight test vehicles and the first few *CS100* production aircraft are in various stages of fabrication.
Suppliers	Both our internal and external suppliers are manufacturing production components. Components and systems continue to be tested worldwide, and the data received to date confirms that the aircraft development programs are on track to reach key performance targets.[1]
Facilities	The construction of the final assembly line for the aircraft programs is underway alongside our existing facility in Mirabel, Québec, Canada. Additionally, on October 11, 2013, we officially opened our Belfast Wing Facility in Northern Ireland, U.K., where the assembly of the composite wings will be housed.

[1] Key performance targets, under certain operating conditions, when compared to aircraft currently in production, for flights of 500 nautical miles. See the *CSeries* family of aircraft program disclaimer at the end of this MD&A.

THE *LEARJET 85* AIRCRAFT PROGRAM	
The *Learjet 85* aircraft program is in the product definition release phase. An update on the EIS date of the *Learjet 85* aircraft will be provided once our review of the upcoming first flight activities of FTV1 and of the flight test program timeline have been completed.	
Production and testing	The build of FTV1 is complete. Functional testing procedures are advancing as expected. We have successfully completed auxiliary power unit (APU) and engine runs and low-speed taxiing tests. Additionally, ground vibration and flight control ground testing, requirements for safety-of-flight, have been completed. To date, tests have shown results as expected. We expect to apply for a flight test permit from the U.S. Federal Aviation Administration (FAA) shortly.
	Other flight test vehicles are in various stages of fabrication and assembly.
	The Complete Airframe Static Test (CAST) article testing for structural safety-of-flight was completed at the National Institute for Aviation Research (NIAR). Results to date are aligned with our expectations. As part of the Wichita State University, NIAR is an aviation research centre in the U.S. that specializes in the testing of composite materials.
	As part of the Bombardier composite structural technology readiness program, we are continuing to validate and certify the manufacturing process for our composite technology with the U.S. FAA.
Suppliers	All suppliers are well underway with the manufacturing and delivery of components to the final assembly line. Testing on supplier rigs for safety-of-flight purposes is complete. These test rigs are initially used to ensure that system safety critical tests are conducted for components prior to shipment of flightworthy parts to the final assembly line in Wichita.
Facilities	The final assembly line in Wichita and the new production flight hangar are operational. Plans for other facilities, such as the paint facilities and a new delivery centre to support the *Learjet 85* aircraft program are progressing.

THE *LEARJET 70* AND *LEARJET 75* AIRCRAFT PROGRAMS	
The *Learjet 70* and *Learjet 75* aircraft have entered into service in the fourth quarter of 2013.	
Production and testing	Following certification from the U.S. FAA, the *Learjet 75* and *Learjet 70* aircraft entered into service in November and December 2013, respectively.

THE *GLOBAL 7000* AND *GLOBAL 8000* AIRCRAFT PROGRAMS	
The *Global 7000* and *Global 8000* aircraft programs have transitioned to the detailed design phase. EIS is scheduled in 2016 and 2017, respectively.	
Production and testing	Our product development team and our suppliers' representatives, co-located at our Aerospace Product Development Centre in Montréal, are making progress as planned on the design definition of the aircraft. The experimental and ground test teams are progressing on the design and build of the various ground test rigs that will be used throughout the development and certification of the aircraft.
	The production and assembly of the cockpit and rear fuselage for the first FTV has begun.
Suppliers	Major structural suppliers are active in producing production parts, manufacturing and installing assembly tools, and getting their facilities ready to build the FTVs. The first development engine began its first full engine ground test in June 2013. The integrated propulsion system for the new Passport 20 engine is being developed by GE Aviation specifically for the new *Global* aircraft platform.

THE *CHALLENGER 350* AIRCRAFT PROGRAM	
The *Challenger 350* aircraft program is in the product certification phase and is progressing towards EIS in 2014.	
Production and testing	The *Challenger 350* aircraft program was launched in May 2013. First flight was successfully completed using a modified *Challenger 300* aircraft with upgraded avionics, new winglets and upgraded engines. As at December 31, 2013, the flight test vehicles have logged approximately 75% of the flight test program.
	Certification of the interior was completed on December 19, 2013, on a modified *Challenger 300* aircraft. The first *Challenger 350* production aircraft completed its first flight on December 27, 2013.

Business aircraft deliveries at the same level as last year

Business aircraft deliveries

	Fourth quarters ended December 31		Fiscal years ended December 31	
(in units)	**2013**	2012	**2013**	2012
Light				
Learjet 40 XR/45 XR and Learjet 70/75	**18**	11	**19**	24
Learjet 60 XR	**2**	8	**10**	15
Medium				
Challenger 300	**13**	13	**55**	48
Challenger 605	**8**	7	**32**	34
Challenger 800 Series	**2**	2	**2**	4
Large				
Global 5000/Global 6000	**17**	19	**62**	54
	60	60	**180**	179

Deliveries of business aircraft in the fourth quarter are at the same level compared to the fourth quarter last year, and reflect the transition to the *Learjet 75* and *Learjet 70* aircraft, which entered into service in November and December 2013, respectively. In fiscal year 2013, overall business aircraft deliveries are at a similar level compared to last year, due to an increase in the large and medium business jet categories, offset by a decrease in the light business jet category. Compared to guidance, we delivered 10 fewer business aircraft in fiscal year 2013, mainly due to the late transition to the *Learjet 75* and *Learjet 70* aircraft.

Commercial aircraft deliveries slightly higher than last year

Commercial aircraft deliveries

	Fourth quarters ended December 31		Fiscal years ended December 31	
(in units)	**2013**	2012	**2013**	2012
Regional jets				
CRJ700 NextGen	**-**	-	**1**	1
CRJ900 NextGen	**11**	2	**18**	5
CRJ1000 NextGen	**-**	5	**7**	8
Turboprops				
Q400 NextGen	**10**	9	**29**	36
	21	16	**55**	50

Deliveries of commercial aircraft increased compared to the same periods last year, mainly due to deliveries of *CRJ900 NextGen* aircraft related to the significant orders received in fiscal year 2012. Commercial aircraft deliveries were in line with our guidance.

Strong order intake

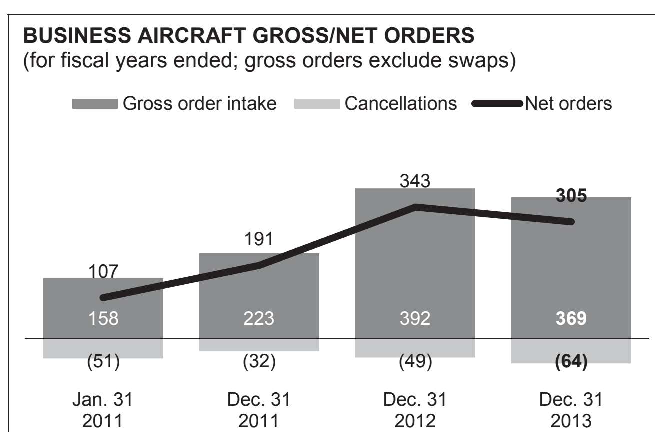
Total aircraft net orders

	December 31, 2013			December 31, 2012		
(in units)	**Gross orders**	**Cancellations**	**Net orders**	Gross orders	Cancellations	Net orders
Fourth quarters ended						
Business aircraft	**231**	**(23)**	**208**	141	(17)	124
Commercial aircraft	**42**	**-**	**42**	60	-	60
Amphibious aircraft	**2**	**-**	**2**	-	-	-
	275	**(23)**	**252**	201	(17)	184
Fiscal years ended						
Business aircraft	**369**	**(64)**	**305**	392	(49)	343
Commercial aircraft	**92**	**(11)**	**81**	138	-	138
Amphibious aircraft	**2**	**-**	**2**	-	-	-
	463	**(75)**	**388**	530	(49)	481

Business aircraft

Order intake was strong during the fourth quarter of fiscal year 2013 in all business aircraft categories mainly due to the two large orders, from Flexjet, LLC and an undisclosed customer.

We have achieved a net order intake of 305 aircraft, for a book-to-bill ratio of 1.7[(1)], compared to 343 net orders last fiscal year.



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

The following significant orders were received during fiscal year 2013:

Customer	Firm order	Value[1]	Options[2]
Flexjet, LLC (U.S.)	25 *Learjet 75* 60 *Learjet 85* 20 *Challenger 350* 10 *Challenger 605*	$ 2,400	35 *Learjet 75* 65 *Learjet 85* 40 *Challenger 350* 10 *Challenger 605*
Undisclosed customer	28 *Global* aircraft 10 *Challenger 605*	$ 2,200	-
Undisclosed customer	12 *Global 8000*	$ 804	-
VistaJet (Switzerland)	20 *Challenger 350*	$ 518	20 *Challenger 350*
Undisclosed customer	5 *Challenger 300* 5 *Challenger 605*	$ 280	-
Undisclosed customer	10 *Challenger 350*	$ 259	-

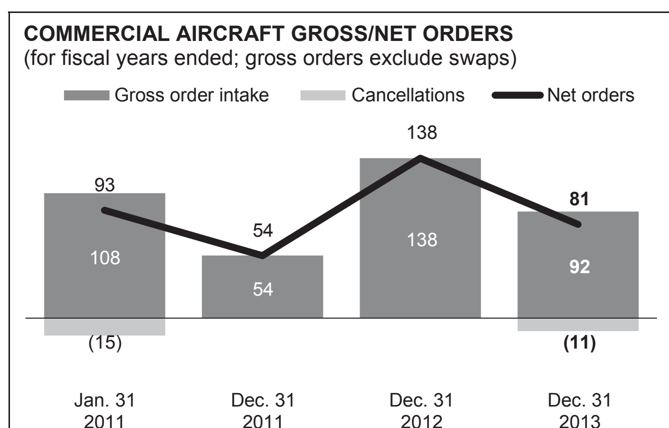
(1) Value of firm order based on list prices.
(2) Not included in the order backlog.

Subsequent to the end of the fiscal year, we signed a firm order with an undisclosed customer for three *Global 6000*, two *Global 7000* and three *Global 8000* business jets. Based on list prices, the value of the firm order is $537 million, and is not included in the order backlog as at December 31, 2013.

Commercial aircraft

Commercial aircraft net orders

	Fourth quarters ended December 31		Fiscal years ended December 31	
(in units)	**2013**	2012	**2013**	2012
Regional jets				
CRJ700 NextGen	**-**	7	**2**	7
CRJ900 NextGen	**33**	40	**25**	48
CRJ1000 NextGen	**-**	-	**3**	18
Commercial jets				
CS100	**-**	-	**(3)**	5
CS300	**5**	10	**37**	10
Turboprops				
Q400 NextGen	**4**	3	**17**	50
	42	60	**81**	138



The following significant orders were received during fiscal year 2013:

Customer	Firm order	Value[1]	Options[2]
Ilyushin Finance Co. (IFC) (Russia)	32 *CS300*	$ 2,560	10 *CS300*
American Airlines Group Inc. (U.S.)	30 *CRJ900 NextGen*	$ 1,420	40 *CRJ900 NextGen*
Iraqi Airways (Iraq)	5 *CS300*	$ 387	11 *CS300*
Arik Air (Nigeria)	3 *CRJ1000 NextGen* 4 *Q400 NextGen*	$ 297	-

(1) Value of firm order based on list prices.
(2) Not included in the order backlog.

During the first quarter of fiscal year 2013, we terminated and removed from the order backlog an order from an undisclosed customer for three *CSeries* aircraft due to financial difficulties of the customer. This customer also had options for three additional *CSeries* aircraft.

During the second quarter of fiscal year 2013, we terminated and removed from the order backlog orders from two customers for a total of eight *CRJ900 NextGen* aircraft along with options for a total of four aircraft.

During the third quarter of fiscal year 2013, we signed a memorandum of understanding with Rostec to validate the opportunity to set up a *Q400 NextGen* turboprop final assembly line in Russia, which would be managed by a joint venture between BA and Rostec, and would be incremental to our current *Q400 NextGen* turboprop production operations in Toronto, Canada. We are working with Rostec towards definitive agreements to be concluded in 2014, subject to obtaining the required internal, governmental and third-party approvals, as well as meeting other customary conditions. We also signed LOIs for a total of 100 *Q400 NextGen* turboprops with Rostec and IFC.

Subsequent to the end of the fiscal year, we signed a firm order with Al Qahtani Aviation Company from the Kingdom of Saudi Arabia for 16 *CS300* aircraft with options for an additional 10. The aircraft will be operated by SaudiGulf Airlines, a newly launched national carrier. Based on list price, the firm order is valued at $1.2 billion and could increase to $2.0 billion if the 10 options are converted into firm orders. This order is not included in the order backlog as at December 31, 2013.

Record order backlog and robust book-to-bill ratio

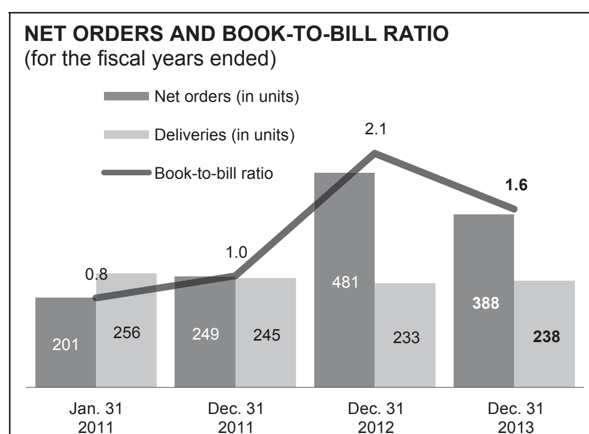
Book-to-bill ratio[1]

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
Business aircraft	**3.5**	2.1	**1.7**	1.9
Commercial aircraft	**2.0**	3.8	**1.5**	2.8
Total	**3.0**	2.4	**1.6**	2.1

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

For fiscal year 2013, the book-to-bill ratio for business aircraft mainly reflects a good order intake in all business aircraft categories.

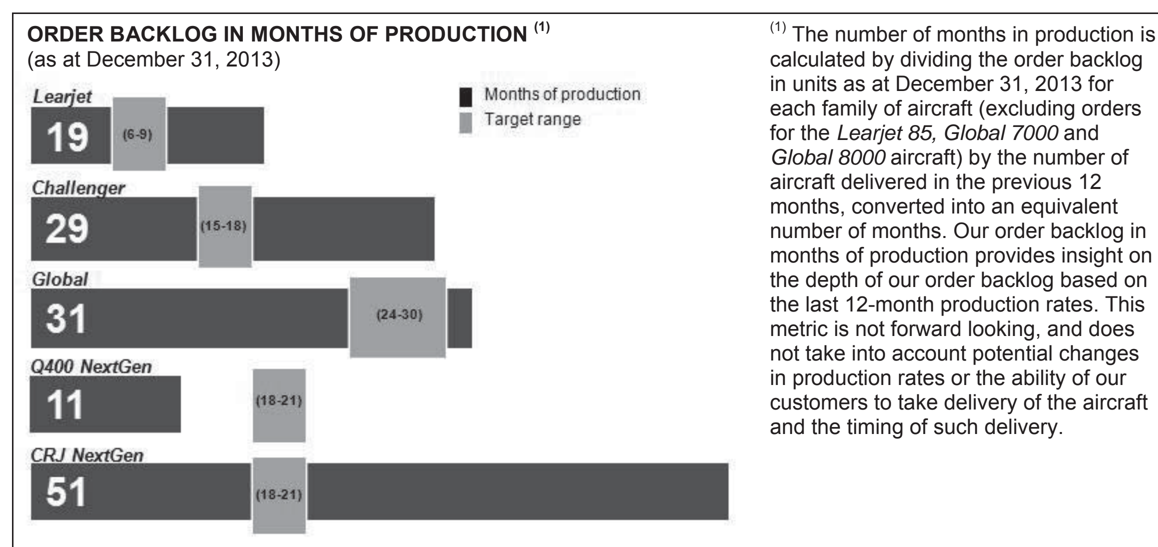
The book-to-bill ratio for commercial aircraft for fiscal year 2013 mainly reflects the significant orders from IFC for 32 *CS300* aircraft and from American Airlines Group Inc. for 30 *CRJ900 NextGen* aircraft.



Order backlog

		As at
(in billions of dollars)	**December 31, 2013**	December 31, 2012
Aircraft programs	**$ 33.9**	$ 29.5
Long-term maintenance and spares support agreements	**2.9**	2.8
Military Aviation Training	**0.5**	0.6
	$ 37.3	$ 32.9

Our order backlog reflects higher net orders than deliveries for all business jet categories and an increase in the net order intake for the *CSeries* family of aircraft, partly offset by lower order intake than deliveries for turboprops. We continue to monitor our order backlog and the production horizon for our programs and to align our production rates to reflect market demand.



[1] The number of months in production is calculated by dividing the order backlog in units as at December 31, 2013 for each family of aircraft (excluding orders for the *Learjet 85, Global 7000* and *Global 8000* aircraft) 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
	December 31, 2013		December 31, 2012	
(in units)	**Firm orders**	**Options**	Firm orders	Options
Regional jets				
CRJ700 NextGen	**16**	**-**	15	2
CRJ900 NextGen	**60**	**73**	53	42
CRJ1000 NextGen	**35**	**22**	39	22
Commercial jets				
CS100	**63** [1]	**49**	66 [2]	52
CS300	**119** [1]	**93**	82 [2]	72
Turboprops				
Q400 NextGen	**26**	**90**	38	101
	319	**327**	293	291

The total *CSeries* firm order backlog comprises 182 aircraft with 11 customers as at December 31, 2013. As at the date of this report, we have signed firm orders and other agreements[3] for a total of 445 *CSeries* aircraft, including 201 firm orders, with 17 customers and operators.

The following significant conditional orders, options, letters of intent and purchase rights are not included in our order backlog, as they are not firm orders:

Customer	**Conditional Order**	**Letter of Intent**	**Options**	**Purchase Rights**	**Total aircraft**	**Value**[4]
Porter Airlines (Canada)	12 *CS100*		18 *CS100*	6 *Q400 NextGen*	30 *CS100* 6 *Q400 NextGen*	$2,290
CDB Leasing Co., Ltd (China)	5 *CS100* 10 *CS300*		5 *CS100* 10 *CS300*		10 *CS100* 20 *CS300*	$2,070
Rostec (Russia)		50 *Q400 NextGen*			50 *Q400 NextGen*	$1,695
Ilyushin Finance Co. (IFC) (Russia)		50 *Q400 NextGen*			50 *Q400 NextGen*	$1,695
Nantong Tongzhou Bay Aviation Industry Co., Ltd (China)		30 *Q400 NextGen*			30 *Q400 NextGen*	$ 995
China Express Airlines (China)[5]	5 *CRJ900 NextGen*		8 *CRJ900 NextGen*		13 *CRJ900 NextGen*	$ 599
Middle East and Africa-based undisclosed customer		12 *CRJ900 NextGen*			12 *CRJ900 NextGen*	$ 563

(1) The total of 182 orders includes 80 firm orders with conversion rights to the other *CSeries* aircraft model.
(2) The total of 148 orders includes 83 firm orders with conversion rights to the other *CSeries* aircraft model.
(3) The other agreements consist of conditional orders, letters of intent, options and purchase rights.
(4) Total value based on list prices.
(5) In addition to the conditional order for five *CRJ900 NextGen* and options for an additional eight, China Express Airlines also placed a firm order for three *CRJ900 NextGen* aircraft in December 2013. The firm order is included in our order backlog as at December 31, 2013.

Expansion of our global presence

In February 2013, production started at our transitional facility in Casablanca, Morocco. The facility is currently producing smaller aerostructures including flight controls for the *CRJ* Series aircraft. In September 2013, we celebrated the opening of the Midparc Casablanca Free Zone with a groundbreaking celebration on the site of our future manufacturing facility in the presence of King Mohammed VI of Morocco. The construction of our permanent manufacturing facility in Morocco has begun and is scheduled to be completed by mid-2014.

In August 2013, a LOI was signed with Russian aircraft manufacturer Irkut Corporation to explore business opportunities centred around customer support for Irkut's MC-21 aircraft. This LOI could lead to an agreement for joint customer support of the MC-21 and our *CSeries* aircraft in Russia and/or other markets.

Workforce

Total number of employees

		As at
	December 31, 2013	December 31, 2012
Permanent[1]	**32,400**	31,400
Contractual	**5,300**	4,100
	37,700	35,500
Percentage of permanent employees covered by collective agreements	**47%**	47%

[1] Including inactive employees.

The increase in the number of employees is mainly due to new hires related to the *CSeries*, *Global 7000* and *Global 8000* and *Learjet 85* aircraft programs, partially offset by the exclusion of Flexjet employees (800 Flexjet employees as at December 31, 2012) as a result of the sale of our Flexjet activities. Our long-term human resources strategy is to maintain a mix of permanent and contractual employees to allow increased flexibility in periods of fluctuation while ensuring the stability of our permanent workforce.

In January 2014, we announced a reduction in our workforce by approximately 1,700 positions, located mostly in Canada and the U.S., affecting both contractual and permanent employees. These reductions will be completed in the coming weeks. A provision of approximately $20 million will be recorded during the first quarter of fiscal year 2014.

Major collective agreements

Location	Union	Approximate number of permanent employees covered as at December 31, 2013	Expiration of current collective agreement
Montréal	International Association of Machinists and Aerospace Workers (IAMAW) – Local 712	5,000	November 28, 2014
Belfast	Unite the Union and the General Machinists & Boilermakers	4,200	January 24, 2015
Toronto	Canadian Auto Workers (CAW)	2,400	June 22, 2015
Montréal *Global* aircraft completion centre	National Automobile, Aerospace, Transport and Other Workers of Canada (CAW) – Local 62	1,700	December 5, 2016
Querétaro	Confederación de Trabajadores de México	900	April 30, 2014
Wichita	International Association of Machinists and Aerospace Workers (IAMAW) – Local 639	900	October 9, 2017

TRANSPORTATION

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

We believe that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our MD&A with enhanced understanding of BT's results and related trends and increases transparency and clarity into the core results of the business. EBIT before special items and EBITDA before special items are non-GAAP measures which exclude items which do not reflect, in our opinion, our core performance. Accordingly, these non-GAAP measures provide more transparent disclosures to analyze earnings, enabling better comparability of results from one period to another and better comparability with peers.

		PAGE
KEY PERFORMANCE MEASURES AND METRICS	Key performance measures and associated metrics that we use to monitor our progress Our results over the last four fiscal years	**65**
HIGHLIGHTS OF THE YEAR	Highlights of the fiscal year with regard to our results and key events	**66**
GUIDANCE AND FORWARD-LOOKING STATEMENTS	What we said, what we did and what's next Assumptions and risks related to our forward-looking statements	**67**
INDUSTRY AND ECONOMIC ENVIRONMENT	Industry and economic factors affecting our business	**69**
ANALYSIS OF RESULTS	Our financial performance for the fourth quarter and fiscal year ended December 31, 2013 Orders, order backlog and workforce	**72**

Supplemental information regarding BT's products and strategy, as well as the rail industry and market, can be found in BT's Profile, Strategy and Market presentation available in the Profile section on Bombardier's dedicated investor relations website at ir.bombardier.com.

Changes in the presentation of our results of operations for joint ventures

Upon the adoption of IFRS 11, *Joint arrangements,* effective January 1, 2013, we are using the equity method to account for our interests in joint ventures and presenting our pro rata share of net income arising from joint ventures as a net of tax one-line item in the results of operations. Prior to the adoption of IFRS 11, our share of revenues and expenses of joint ventures was consolidated line-by-line in our results of operations using the proportionate consolidation method. IFRS 11 was adopted retrospectively and comparative figures have been restated.

As a result of the application of the equity method, certain transactions between us and our joint ventures, such as inter-company sales, are no longer eliminated, but transactions entered into by our joint ventures are not included in each line item. Accordingly, our revenues include the sales between us and our joint ventures, but exclude the sales of our joint ventures to their final customers. Also as a result of this change, we present our order intake and order backlog on a basis consistent with the presentation of our revenues, i.e. our order intake and order backlog include firm orders between us and our joint ventures, but exclude our pro rata share of our joint ventures' order intake and order backlog. This change in presentation impacts how the results of our joint ventures are presented in the MD&A, but does not affect the economics of our underlying businesses.

KEY PERFORMANCE MEASURES AND METRICS

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

KEY PERFORMANCE MEASURES AND ASSOCIATED METRICS	
Growth and competitive positioning	• Order backlog, as a measure of future revenues. • Book-to-bill ratio[(1)], as an indicator of future revenues. • Revenues and geographic diversification of revenues, as measures of growth and sustainability of our competitive positioning. • Market position, as a measure of our competitive positioning.
Profitability	• EBIT, EBIT margin, EBIT before special items[(2)] and EBIT margin before special items[(2)], as measures of performance.
Liquidity	• Free cash flow[(2)], as a measure of liquidity generation.
Customer satisfaction	• Various customer satisfaction metrics, focusing on the four main dimensions: sales and prices, customer orientation, project execution and product offering.
Execution	• Achievement of product development and delivery milestones, as a measure of flawless execution. • Achievement of engagement and enablement targets, as a measure of employee engagement and motivation.

In 2013, our employee incentive-based compensation was linked to the achievement of targeted results, based on EBIT before special items, free cash flow and employee engagement.

Four-year summary

For the fiscal years ended and as at	**December 31 2013**	December 31 2012	December 31 2011	January 31 2011
		restated [(5)]	*restated [(5)]*	*restated [(5)]*
Revenues				
Rolling stock	**$ 5,511**	$ 5,071	$ 6,412	$ 5,991
Services	**1,596**	1,437	1,409	1,308
System and signalling	**1,659**	1,278	1,489	1,390
	$ 8,766	$ 7,786	$ 9,310	$ 8,689
Order intake (in billions of dollars)	**$ 8.8**	$ 9.2	$ 9.5	$ 13.9
Book-to-bill ratio[(1)]	**1.0**	1.2	1.0	1.6
Order backlog (in billions of dollars)	**$ 32.4**	$ 32.0	$ 30.1	$ 31.5
EBIT	**$ 505**	$ 276	$ 675	$ 652
EBIT margin	**5.8%**	3.5%	7.3%	7.5%
EBIT before special items[(2)(3)]	**$ 505**	$ 439	$ 675	$ 652
EBIT margin before special items[(2)(3)]	**5.8%**	5.6%	7.3%	7.5%
Free cash flow (usage)[(2)]	**$ 668**	$ 488	$ (296)	$ 586
Number of employees[(4)]	**38,500**	36,000	36,200	34,900

(1) Defined as new orders over revenues.
(2) Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics. Refer to the Analysis of results section for reconciliations to the most comparable IFRS measures.
(3) The special items for the fiscal year ended December 31, 2012 include restructuring charges of $119 million related to the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by 1,200 employees; a foreign exchange hedging loss of $25 million; and a loss of $19 million related to flooding in New Jersey, U.S.
(4) Including contractual and inactive employees.
(5) Refer to the Accounting and reporting developments section in Other for detail regarding restatements of prior year figures.

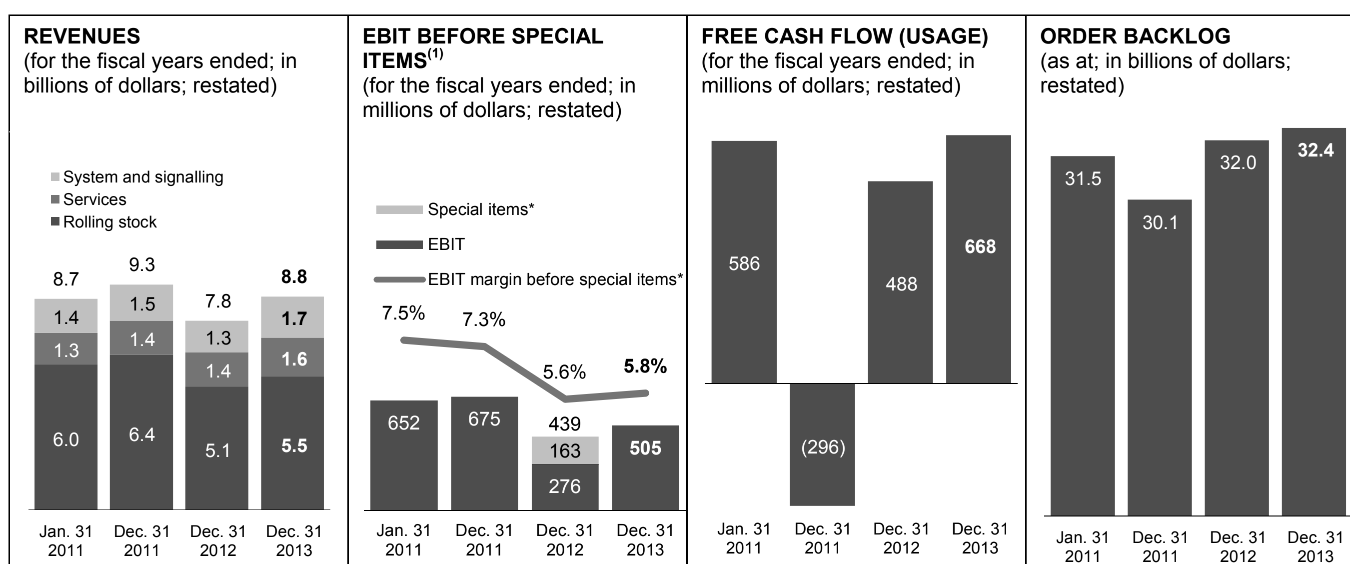
HIGHLIGHTS OF THE YEAR

Improved revenues and a strong order backlog

REVENUES	EBIT MARGIN	FREE CASH FLOW[1]	ORDER INTAKE	ORDER BACKLOG
$8.8 billion	**5.8%**	**$668 million**	**$8.8 billion**	**$32.4 billion**

RESULTS

- Revenues increased by 11% excluding currency impacts to $8.8 billion, compared to $7.8 billion last fiscal year.
- EBIT of $505 million, or 5.8%, of revenues, compared to $276 million, or 3.5%, last fiscal year.
- EBIT before special items[1] of $505 million, or 5.8% of revenues, compared to $439 million, or 5.6%, last fiscal year.
- EBITDA before special items[1] of $629 million, or 7.2% of revenues, compared to $561 million, or 7.2%, last fiscal year.
- Free cash flow[1] of $668 million, compared to $488 million last fiscal year.
- $8.8 billion in new orders (book-to-bill ratio[2] of 1.0), compared to $9.2 billion last fiscal year.
- Strong order backlog of $32.4 billion as at December 31, 2013, compared to $32.0 billion as at December 31, 2012.



[1] Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics. Refer to the Analysis of results section for reconciliations to the most comparable IFRS measures.
[2] Defined as new orders over revenues.
* The special items for the fiscal year ended December 31, 2012 include restructuring charges of $119 million related to the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by 1,200 employees; a foreign exchange hedging loss of $25 million; and a loss of $19 million related to flooding in New Jersey, U.S.

KEY EVENTS

- Significant contracts were signed across all product segments and geographic regions. Refer to the significant order table in Analysis of results for more information.
- We entered the growing tram market in China through our technology-licensing agreement with CSR Nanjing Puzhen Rolling Stock Co. Ltd. (CSR Puzhen). CSR Puzhen won orders for 18 low-floor trams and 15 catenary-free low-floor trams, for which we will act as a key supplier. With our support, CSR Puzhen will build these trams based on our *FLEXITY* 2 technology.
- We signed agreements with Russian rail manufacturer Uralvagonzavod (UVZ) establishing a partnership for joint development of metros for the CIS and with Russian First Locomotive Company (FLC) to develop and produce locomotives in Russia.
- On April 10, 2013, the *ZEFIRO* 380 very high speed train reached 385 km/h during testing in China, the fastest speed in BT's history.
- On June 3, 2013, Lutz Bertling replaced André Navarri as President and Chief Operating Officer of BT.
- Subsequent to the end of the fiscal year, we took the following steps towards increasing our order backlog:
  - As part of a consortium, we signed a contract with a value of $4.1 billion with the State of Queensland, Australia for the New Generation Rollingstock Project. Our share of the contract, which consists of the supply of 75 electrical multiple units (EMUs), construction of a purpose-built maintenance centre and 30 years of maintenance services, is valued at $2.7 billion;
  - The San Francisco Bay Area Rapid Transit District (BART), U.S., exercised an option for 365 additional rail cars, valued at $639 million, thus increasing the firm order to 775 cars with a total value of $1.5 billion; and
  - We have been notified by Transport for London (TfL) and the Department for Transport, U.K., of their intention to award us a contract for Crossrail. The intended contract between TfL and BT covers the supply, delivery and maintenance of 65 trains and a new depot at Old Oak Common.

GUIDANCE AND FORWARD-LOOKING STATEMENTS

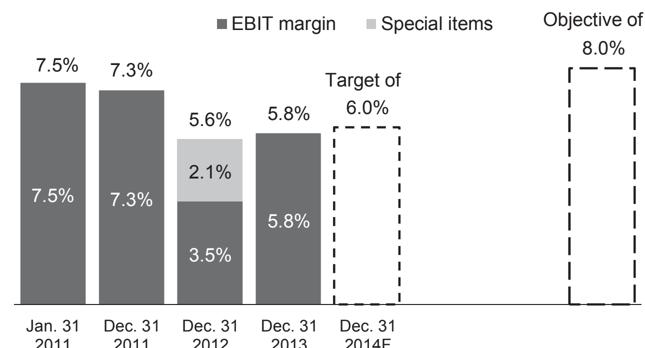
	What we said	What we did	What's next[1]
Profitability	We have extended our target date to achieve an EBIT margin of 8% by 2014.	EBIT of 5.8%.	While an EBIT margin of 8% remains our objective, we expect an EBIT margin of approximately 6% in 2014 as we focus on contract execution improvement.
Liquidity	Maintain free cash flow generally in line with EBIT, although it may vary significantly from quarter to quarter.	Free cash flow[2] of $668 million, above EBIT of $505 million.	We expect to maintain free cash flow generally in line with EBIT, although it may vary significantly from quarter to quarter.
Growth and order intake	Excluding currency impacts, revenues in 2013 are expected to be higher than in 2012, with percentage growth in the high-single digits. Maintain a book-to-bill ratio[3] around 1.0, in line with market evolution.	Revenue growth of 11% excluding currency impacts. Book-to-bill ratio[3] of 1.0.	Excluding currency impacts, revenues in 2014 are expected to be higher than in 2013, with percentage growth in the mid-single digits. In fiscal year 2014, we expect a book-to-bill[3] ratio in excess of 1.0.

[1] See Forward-looking statements below.
[2] Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for definitions of these metrics.
[3] Defined as new orders over revenues.

We have built the foundation for sustainable profitability

Our strong level of order activity across all segments and geographies, is an expression of our customers' continued confidence in our innovative products and services.

EVOLUTION OF EBIT MARGIN
(EBIT margin before special items and target EBIT margins; comparative periods restated)



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

The special items for the fiscal year ended December 31, 2012 include restructuring charges of $119 million; a foreign exchange hedging loss of $25 million; and a flooding related loss of $19 million.

We ended the year with a strong backlog of $32.4 billion. In 2013 we experienced a modest increase in EBIT margin before special items as a result of higher absorption of lower SG&A and R&D expenses, while we had a lower overall gross margin in the rolling stock segment as a result of continuing execution issues in a few large contracts.

To address these execution issues, we are creating a centralized product design and development function and increasing the level of upfront R&D. These measures, combined with a higher share of options in the order intake, will reduce execution risk by increasing product standardization, resulting in increased use of proven technologies and processes across contracts.

Our project management capability continues to be a key component of achieving our EBIT margin targets. Under the Bombardier Operations System (BOS), we have made good progress in our lean operations approach, which supports our ongoing objectives of improved execution and cost reduction. We are now further expanding such efforts by adopting initiatives from BA's Achieving Excellence System program.

In addition, we established a new organisational structure on January 1, 2014 to further empower project management, reduce organisational layers and overhead costs, speed up decision making, implement leaner processes and foster upfront product development and standardization. These measures are also expected to significantly reduce execution risks.

BT's new organisational structure is an initiative aimed at securing our long-term competitiveness and improving our cost structure. Our commitment to customer support and flawless execution remains our focus. An 8% EBIT margin continues to be our objective and, based on our order backlog and order intake prospects, we are confident it can be achieved.

Forward-looking statements

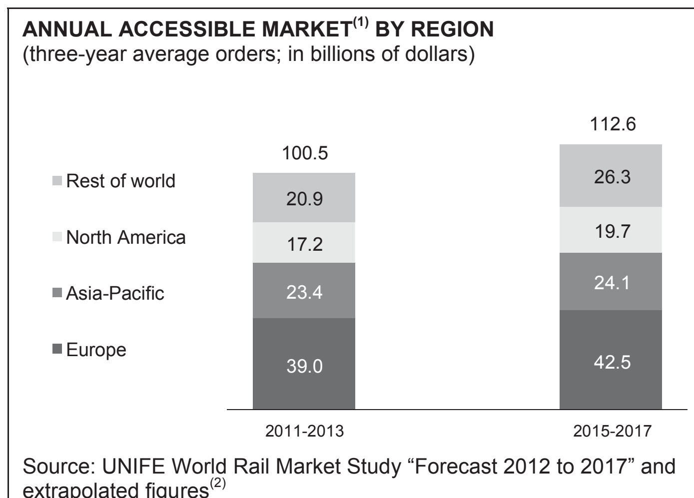
Forward-looking statements[1] in this section of the MD&A are based on:
- our current order backlog;
- the realization of upcoming tenders and our ability to capture them;
- normal contract execution and continued deployment and execution of leading initiatives, especially those linked to cost reductions, including operational improvement initiatives;
- a sustained level of public sector spending; and
- the ability of our supply base to support the execution of our projects.

[1] Also see the Guidance and forward-looking statements section in Overview.

INDUSTRY AND ECONOMIC ENVIRONMENT

The rail industry continues to be solid and the outlook is promising

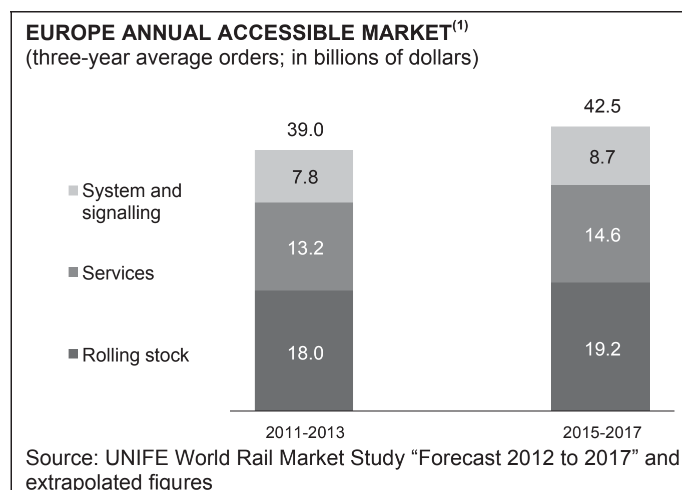
Over the past few years, the rail industry has been resilient despite economic uncertainty. The rail market continued to have high order levels, showing that it is less subject to short-term volatility than other industries.



Source: UNIFE World Rail Market Study "Forecast 2012 to 2017" and extrapolated figures[2]

In the next few years, we continue to expect a growing level of activity in our accessible markets[1] as the fundamental drivers for the rail industry, such as the global trend towards urbanization and a rising need for mobility, remain positive. Good demand for rail solutions, which is evidenced today by concrete investment plans to be realized over the next three years, is expected[2]. Numerous turnkey projects in emerging markets as well as large fleet replacement-driven projects in mature markets are encouraging indicators for the continued growth of the industry.

In **Europe**, the rail market remained very dynamic in 2013, driven by major projects awarded in Germany, France, Sweden and the U.K. The economic uncertainty which still affects some European countries, such as Greece, Spain and Portugal, does not impact BT significantly as these are not key markets for us. Furthermore, European operators have experienced growth both in freight and passenger transport. We produce locomotives for freight transport by rail, the only method of freight transport which is growing at the moment, recovering after a steep decline in 2008[3]. Non-urban passenger transport and urban transport by metro and tram have continuously increased since 1995, except for a slight decrease in non-urban passenger transport in 2009. This data shows the stability and resiliency of the European rail passenger market.

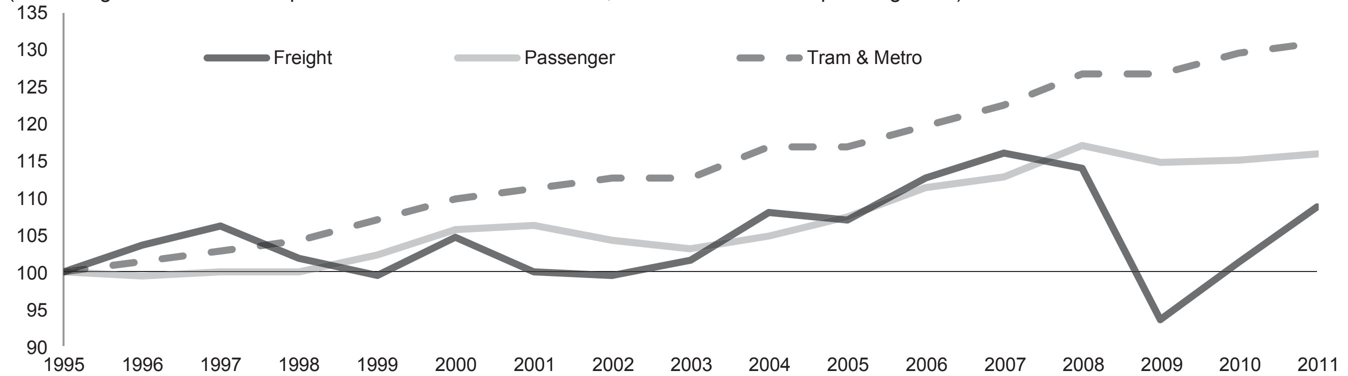


Source: UNIFE World Rail Market Study "Forecast 2012 to 2017" and extrapolated figures

[1] Our accessible market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Our accessible market also excludes the infrastructure, freight wagon and shunter segments.

[2] Based on data from the UNIFE World Rail Market Study "Forecast 2012 to 2017" published in September 2012 for our accessible markets only. UNIFE data is updated every two years based on a survey conducted in the 50 largest rail markets worldwide. UNIFE figures are published in euro. An exchange rate of 1€ = $1.33746, the average cumulative exchange rate over the 2011-13 period, was used to convert all figures. Figures for 2011-2013 were extrapolated based on UNIFE data for 2009-2011 and 2012-2014.

[3] Based on the latest available data as per the "EU transport in figures – Statistical pocketbook 2013". EU-27 refers to the 27 member-states of the European Union prior to July 1, 2013.



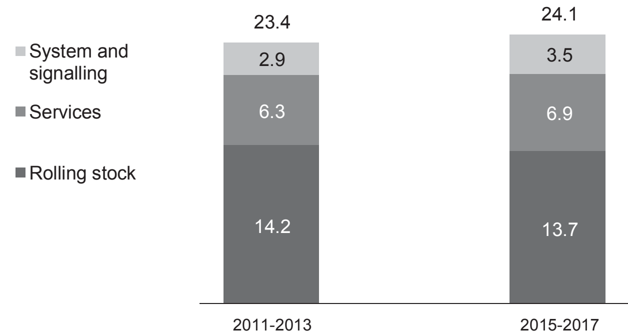
Source: latest available data as per the "EU transport in figures – Statistical pocketbook 2013". EU-27 refers to the 27 member-states of the European Union prior to July 1, 2013

We continue to be well positioned for future growth in Western Europe, which remains our largest market. Several large projects are planned in the next years across the continent and in different market segments, such as a new commuter rail line for London, several metro projects in Paris and London and commuter and regional trains in Germany, Belgium and the Netherlands.

The **Asia-Pacific** market showed dynamic growth over the past years, mainly driven by large orders in China in the high speed and very high speed segment, and the outlook remains positive, confirming the region's strong commitment to investment in rail.

In China, new high speed and light rail orders are expected in the near future and additional growth potential exists in the opening of new rolling stock segments, such as the commuter segment. We also expect new opportunities to be awarded in the growing signalling and services businesses in the years to come.

The recent large order from the state of Queensland, Australia, proves the commitment of Australian authorities to rail systems.



Source: UNIFE World Rail Market Study "Forecast 2012 to 2017" and extrapolated figures

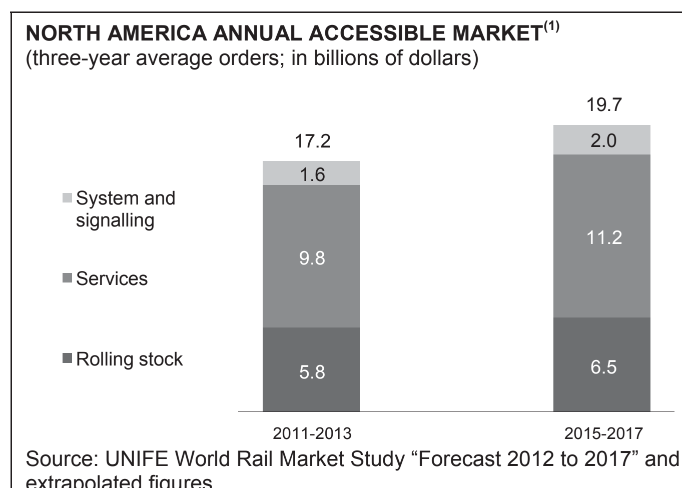
In India, several rail projects are planned and the market potential remains very attractive, although concrete realization dates are sometimes difficult to forecast. The demand in India is mainly driven by active mass transit and locomotives segments as well as by regional train projects.

In Southeast Asia, we expect growth in rail investment to continue, mainly driven by metro projects in large urban areas, where a strong need for mobility exists due to the rapid urbanization.

(1) Our accessible market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Our accessible market also excludes the infrastructure, freight wagon and shunter segments.

The **North American** rail market is forecast to show positive trends after an already high level of activity in recent years. In mass transit, rail orders have been placed to renew fleets for suburban services and urban centres across Canada and the U.S. In the future, urban train projects (metros, light rail vehicles and commuter trains) are expected to continue. In addition, the deployment of new signalling standards in the U.S. is forecast to trigger a wave of investments across the country. Finally, in the long term, we continue to see potential for very high speed corridors and keep tracking these projects. In Mexico, new opportunities are on the horizon, especially for urban transport in several cities, ranging from light rail solutions to metros and commuter trains.

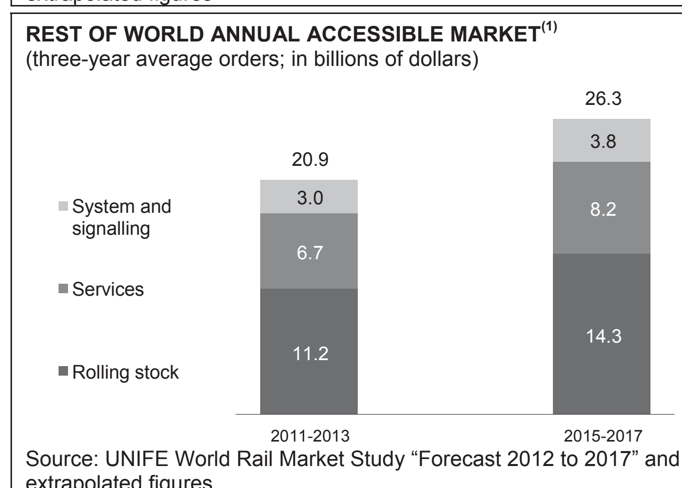
NORTH AMERICA ANNUAL ACCESSIBLE MARKET(1)
(three-year average orders; in billions of dollars)



Source: UNIFE World Rail Market Study “Forecast 2012 to 2017” and extrapolated figures

In the **Rest of world**(2) region, growth in rail investment is driven by upcoming projects across all geographies. The building of new rail systems and the replacement of ageing fleets continues.

REST OF WORLD ANNUAL ACCESSIBLE MARKET(1)
(three-year average orders; in billions of dollars)



Source: UNIFE World Rail Market Study “Forecast 2012 to 2017” and extrapolated figures

In South America, Brazil remains the largest market. The 2016 Olympic Games in Rio de Janeiro are triggering new investments in rail solutions, but other countries like Peru, Chile and Colombia are also investing in new urban transport systems or upgrading existing ones.

In South Africa, further opportunities for locomotives will arise, while the government continues its railway modernisation program. In the North African region, public investments are expected to grow in all segments during the upcoming years, especially in Egypt, Morocco and Tunisia.

In the Middle East, the 2022 FIFA World Cup in Qatar is driving new investments in rail solutions, while other countries in the region are also upgrading their transport systems.

In the CIS, particularly in Russia, the modernization of ageing fleets and infrastructure continues and represents a large market potential across all segments.

(1) Our accessible market is the world rail market, excluding the share of markets associated with contracts that are awarded to local players without open-bid competition. Our accessible market also excludes the infrastructure, freight wagon and shunter segments.
(2) The Rest of world region includes South America, Central America, Africa, the Middle East and the CIS.

ANALYSIS OF RESULTS

Increase in revenues and free cash flow

Results of operations

	Fourth quarters ended December 31		Fiscal years ended December 31	
	2013	2012	**2013**	2012
		restated (8)		*restated* (8)
Revenues				
Rolling stock[1]	**$ 1,480**	$ 1,290	**$ 5,511**	$ 5,071
Services[2]	**450**	414	**1,596**	1,437
System and signalling[3]	**521**	324	**1,659**	1,278
Total revenues	**2,451**	2,028	**8,766**	7,786
Cost of sales	**2,163**	1,796	**7,540**	6,626
Gross margin	**288**	232	**1,226**	1,160
SG&A	**175**	168	**718**	737
R&D	**36**	51	**120**	144
Share of income of joint ventures and associates	**(17)**	(61)	**(119)**	(153)
Other expense (income)[4]	**2**	(6)	**2**	(7)
EBIT before special items[5]	**92**	80	**505**	439
Special items[6]	**-**	163	**-**	163
EBIT	**92**	(83)	**505**	276
Amortization[7]	**32**	32	**124**	122
EBITDA[5]	**$ 124**	$ (51)	**$ 629**	$ 398
EBITDA before special items[5]	**$ 124**	$ 112	**$ 629**	$ 561
(as a percentage of total revenues)				
Gross margin	**11.8%**	11.4%	**14.0%**	14.9%
EBIT before special items	**3.8%**	3.9%	**5.8%**	5.6%
EBIT	**3.8%**	(4.1%)	**5.8%**	3.5%
EBITDA before special items	**5.1%**	5.5%	**7.2%**	7.2%
EBITDA	**5.1%**	(2.5%)	**7.2%**	5.1%

(1) 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.

(2) Comprised of revenues from fleet maintenance, refurbishment and overhaul and material solutions.

(3) Comprised of revenues from mass transit and airport systems, mainline systems, operation and maintenance services, e-mobility solutions, mass transit signalling and mainline signalling. Excludes the rolling stock portion of system orders manufactured by our other divisions.

(4) Includes i) severance and other involuntary termination costs (including changes in estimates); and ii) (gains) losses on disposals of PP&E; except when such items are reported as special items.

(5) Non-GAAP financial measure. Refer to the Non-GAAP financial measures section in Overview for a definition of this metric.

(6) The special items for the fourth quarter and fiscal year ended December 31, 2012 include a restructuring charge of $119 million related to the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by 1,200 employees (including Aachen); a foreign exchange hedging loss of $25 million; and a loss of $19 million related to flooding in New Jersey, U.S.

(7) Amortization is included in cost of sales, SG&A and R&D expense, based on the nature of the underlying function of the asset. For the fourth quarter and fiscal year ended December 31, 2012, impairment charges on PP&E of $9 million are included in the restructuring charges of $119 million reported as special items.

(8) Refer to the Accounting and reporting developments section in Other for detail regarding restatements of 2012 figures.

Revenues by geographic region

	Fourth quarters ended December 31				Fiscal years ended December 31			
	2013		2012		**2013**		2012	
				restated				*restated*
Europe[1]	**$ 1,677**	**68%**	$ 1,325	65%	**$ 5,874**	**67%**	$ 5,139	66%
North America	**429**	**18%**	359	18%	**1,581**	**18%**	1,454	19%
Asia-Pacific[1]	**189**	**8%**	201	10%	**770**	**9%**	658	8%
Rest of world[2]	**156**	**6%**	143	7%	**541**	**6%**	535	7%
	$ 2,451	**100%**	$ 2,028	100%	**$ 8,766**	**100%**	$ 7,786	100%

(1) The increases in Europe reflect positive currency impacts of $109 million and $176 million, respectively, for the fourth quarter and fiscal year ended December 31, 2013, while the variances in Asia-Pacific reflect negative currency impacts of $6 million and $23 million respectively.
(2) The Rest of world region includes South America, Central America, Africa, the Middle East and the CIS.

Foreign exchange impact on revenues[1]

	Fourth quarter ended December 31, 2013			Fiscal year ended December 31, 2013		
	Revenues	Foreign exchange impact	Revenues excluding foreign exchange	Revenues	Foreign exchange impact	Revenues excluding foreign exchange
Revenues						
Rolling stock	$ 1,480	$ 65	$ 1,415	$ 5,511	$ 105	$ 5,406
Services	450	18	432	1,596	18	1,578
System and signalling	521	20	501	1,659	18	1,641
	$ 2,451	**$ 103**	**$ 2,348**	**$ 8,766**	**$ 141**	**$ 8,625**

(1) The results of operations of entities using functional currencies other than the U.S. dollar (mainly the euro, pound sterling and other 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.

Total revenues for the fourth quarter and fiscal year have increased due to ramp-up of production. In the fourth quarter, the increase was mostly related to contracts in Europe and North America, while for the fiscal year, it was driven by contracts in Europe, North America and Asia-Pacific.

The following analysis is based on revenues excluding the impact of foreign exchange.

Rolling stock revenues

The $125-million increase for the fourth quarter is explained by higher activities in Europe and North America, mainly due to the ramp-up of production related to some commuter and regional train and metro contracts, partially offset by a lower level of activities for some locomotive contracts in Europe and North America nearing completion ($135 million).

The $335-million increase for the fiscal year is mainly explained by higher activities in Europe, North America and Asia-Pacific, mainly due to the ramp-up of production related to some commuter and regional train and high speed train contracts in these regions as well as metro contracts in North America, partially offset by a lower level of activities for some locomotive contracts in Europe and North America and some intercity train, light rail vehicle and metro contracts in Europe nearing completion ($353 million).

Service revenues

The $18-million increase in service revenues for the fourth quarter mainly arose from higher activities in Europe ($46 million), partially offset by lower activities in the Rest of world, North America and Asia-Pacific regions ($28 million).

The $141-million increase in service revenues for the fiscal year mainly arose from higher activities in Europe and North America ($168 million), partially offset by lower activities in the Rest of world and Asia-Pacific regions ($27 million).

System and signalling revenues
The $177-million increase for the fourth quarter and $363-million increase for the fiscal year are mainly due to higher activities in all regions, better performance in systems in Europe as well as the ramp-up of production related to some systems and signalling contracts.

EBIT margin
The EBIT margin for the fourth quarter increased by 7.9 percentage points. The EBIT margin before special items (see explanations of special items below) decreased by 0.1 percentage point mainly as a result of:
- a lower share of income of joint ventures and associates;
- a lower gross margin in rolling stock due to execution issues in a few large contracts;
- a lower gross margin in services due to an unfavourable contract mix in the quarter; and
- a net loss related to foreign exchange fluctuations and certain financial instruments carried at fair value recorded in cost of sales compared to a net gain in the same period last fiscal year.

Partially offset by:
- a higher gross margin in system and signalling due to overall better contract execution;
- higher absorption of SG&A expenses; and
- higher absorption of lower R&D expenses.

The EBIT margin for the fiscal year increased by 2.3 percentage points. The EBIT margin before special items (see explanations of special items below) increased by 0.2 percentage point mainly as a result of:
- a higher gross margin in system and signalling and services due to overall better contract execution; and
- higher absorption of lower SG&A and R&D expenses.

Partially offset by:
- a lower gross margin in rolling stock due to execution issues in a few large contracts;
- a lower share of income of joint ventures and associates; and
- a higher net loss related to foreign exchange fluctuations and certain financial instruments carried at fair value recorded in cost of sales.

For the fourth quarter and fiscal year ended December 31, 2012, the EBIT margins were negatively impacted by the following special items:
- a restructuring charge of $119 million related to measures to improve our competitiveness and cost structure, mainly the closure of a plant in Aachen, Germany, and the reduction of worldwide direct and indirect personnel by approximately 1,200 employees, including Aachen, negatively impacting EBIT margin by 5.5% and 1.5%, respectively;
- a $25 million foreign exchange hedging loss, negatively impacting EBIT margin by 1.2% and 0.3%, respectively; and
- a $19 million loss related to the flooding in New Jersey, U.S., negatively impacting EBIT margin by 0.9% and 0.2%, respectively.

Free Cash Flow above EBIT

Free cash flow

		Fourth quarters ended December 31				Fiscal years ended December 31		
		2013		2012		**2013**		2012
				restated [1]				*restated* [1]
EBIT	**$**	**92**	$	(83)	**$**	**505**	$	276
Special items[2]		**-**		163		**-**		163
Amortization		**32**		32		**124**		122
EBITDA before special items		**124**		112		**629**		561
Other non-cash items								
Share of income of joint ventures and associates		**(17)**		(61)		**(119)**		(153)
(Gains) losses on disposals of PP&E		**-**		(1)		**1**		(4)
Share-based expense (income)		**(6)**		2		**6**		4
Dividends received from joint ventures and associates		**18**		59		**115**		94
Net change in non-cash balances		**684**		617		**110**		89
Cash flows from operating activities		**803**		728		**742**		591
Net additions to PP&E and intangible assets		**(36)**		(53)		**(74)**		(103)
Free cash flow	**$**	**767**	$	675	**$**	**668**	$	488

[1] Refer to the Accounting and reporting developments section in Other for details regarding restatements of 2012 figures.
[2] For the fourth quarter and fiscal year ended December 31, 2012, special items include impairment charges on PP&E of $9 million.

The $92-million improvement for the fourth quarter is mainly due to:

- a positive period-over-period variation in net change in non-cash balances ($67 million) (see explanation below);
- lower negative impact arising from other non-cash items, mainly from lower share of income of joint ventures and associates ($37 million); and
- lower net additions to PP&E and intangible assets ($17 million).

Partially offset by:

- lower dividends received from joint ventures and associates ($41 million).

The $180-million improvement for the fiscal year is mainly due to:

- higher EBITDA before special items ($68 million);
- lower negative impact arising from other non-cash items, mainly from lower share of income of joint ventures and associates ($41 million);
- lower net additions to PP&E and intangible assets ($29 million);
- higher dividends received from joint ventures and associates ($21 million); and
- a positive period-over-period variation in net change in non-cash balances ($21 million) (see explanation below).

Net change in non-cash balances

For the fourth quarter ended December 31, 2013, the $684-million cash inflow is mainly due to:

- deliveries in several contracts as well as the impact of orders recently received, which led to an increase in advances and progress billings for new orders and existing contracts and a reduction in inventories; and
- an increase in trade and other payables.

For the fourth quarter ended December 31, 2012, the $617-million cash inflow was mainly due to deliveries in several contracts as well as the impact of orders recently received, which led to:

- a reduction in inventories, ahead of the ramp-up of contracts in the start-up phase; and
- an increase in advances and progress billings for new orders and existing contracts, ahead of the impact from deliveries.

For the fiscal year ended December 31, 2013, the $110-million cash inflow is mainly due to:
- deliveries in several contracts as well as the impact of orders recently received which led to an increase in advances and progress billings on existing contracts and new orders; and
- an increase in trade and other payables.

Partially offset by:
- an increase in inventories due to ramp-up of production ahead of deliveries; and
- lower provisions, mostly as a result of a decrease in product warranty provisions, mainly for contracts nearing the end of their warranty periods.

For the fiscal year ended December 31, 2012, the $89-million cash inflow was mainly due to deliveries in several contracts which led to:
- a reduction in inventories, ahead of the ramp-up of contracts in the start-up phase.

Partially offset by:
- a reduction in advances and progress billings related to existing contracts, partly compensated by advances on new orders and existing contracts.

The net cash inflow from the above-mentioned items is partly compensated by:
- the impact of settlements of derivative financial instruments used in roll-forward cash flow hedge relationships; and
- lower provisions, mostly as a result of a decrease in product warranty provisions for contracts nearing the end of their warranty periods.

We continue to secure significant orders

Order intake and book-to-bill ratio

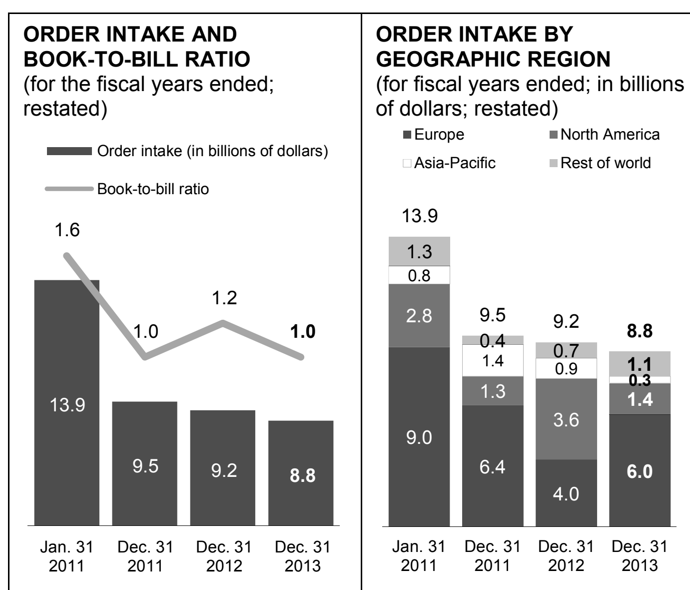
	Fourth quarters ended December 31		Fiscal years ended December 31	
Order intake (in billions of dollars)[1]	**2013**	2012	**2013**	2012
		restated		*restated*
Rolling stock	**$ 1.4**	$ 0.6	**$ 5.4**	$ 4.9
Services	**0.5**	1.5	**2.0**	2.5
System and signalling	**-**	0.8	**1.4**	1.8
	$ 1.9	$ 2.9	**$ 8.8**	$ 9.2
Book-to-bill ratio[2]	**0.8**	1.4	**1.0**	1.2

[1] Including any new orders between BT and its joint ventures, but excluding the order intake of our joint ventures.
[2] Ratio of new orders over revenues.

The order intakes for the fourth quarter and fiscal year ended December 31, 2013 reflect a positive currency impact of $63 million and $132 million respectively.

BT is a leader in the worldwide rail industry[1] with a cumulative order intake of $27.5 billion over the past three years.

[1] Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.



In the fourth quarter of 2013, we won several orders across all divisions and geographies and maintained a leading position in the rail industry.[1] The significant orders during the fiscal year ended December 31, 2013 were as follows:

Customer	Country	Product or service	Number of cars	Market segment	Value	
Fourth quarter						
Société Nationale des Chemins de fer Français (SNCF)	France	Double-deck electrical multiple units (EMUs)	234	Rolling stock	$ 379	
Third quarter						
Arriyadh Development Authority (ADA)	Saudi Arabia	System interface management, project management, design, and *INNOVIA* Metro 300 trains	94	System and signalling	$ 383	(2)
Deutsche Bahn AG (DB)	Germany	*TWINDEXX* double-deck trains	102	Rolling stock	$ 289	
Southern Railway	U.K.	*ELECTROSTAR* EMUs and spares supply agreement	116	Rolling stock	$ 274	
Azerbaijan Railways CJSC	Azerbaijan	*INTERFLO* 200 signalling	n/a	System and signalling	$ 203	(2)
Second quarter						
Stockholm Public Transport Authority (SL)	Sweden	*MOVIA* metro cars	384	Rolling stock	$ 771	
Deutsche Bahn AG (DB)	Germany	*TRAXX* electric locomotives	130	Rolling stock	$ 573	
S-Bahn Hamburg GmbH	Germany	ET490 series EMUs	180	Rolling stock	$ 427	
National Express Rail GmbH	Germany	*TALENT* 2 EMUs	155	Rolling stock	$ 221	
State of Florida Department of Transportation	U.S.	Mobilization and 10 years operations and maintenance services of commuter rail system	n/a	Services	$ 195	
Transport for London (TfL)	U.K.	*ELECTROSTAR* rail cars	57	Rolling stock	$ 137	
First quarter						
Siemens AG	Germany	Development and supply of components for ICx high speed trains for a DB contract	170	Rolling stock	$ 440	
Deutsche Bahn AG (DB)	Germany	*TWINDEXX* double-deck trains	48	Rolling stock	$ 145	

(1) Based on a rolling 36-month order intake with latest data published by companies publishing order intake for at least 36 months.
(2) Contract signed as part of a consortium. Only the value of our share is stated.
n/a: Not applicable

Subsequent to the end of the fiscal year, we won the following orders which are not included in our order backlog as at December 31, 2013:

- As part of a consortium with John Laing, ITOCHU Corporation and Uberior, we have entered into a contract valued at approximately $4.1 billion with the State of Queensland, Australia, for the New Generation Rollingstock Project. Our share of the contract, which consists of the supply of 75 EMUs, construction of a purpose-built maintenance centre and 30 years of maintenance services, is valued at $2.7 billion.
- The San Francisco Bay Area Rapid Transit District (BART), U.S., exercised an option for 365 additional rail cars, valued at $639 million, thus increasing the firm order to 775 cars with a total value of $1.5 billion.
- We have been notified by Transport for London (TfL) and the Department for Transport, U.K., of their intention to award us a contract for Crossrail. The intended contract between TfL and BT covers the supply, delivery and maintenance of 65 trains and a new depot at Old Oak Common.

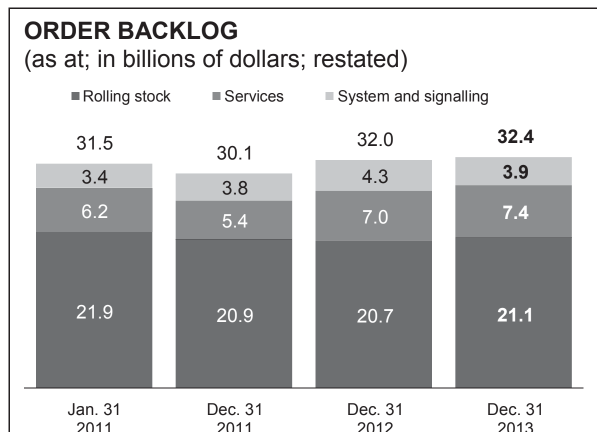
Order backlog[1]

(in billions of dollars)		December 31, 2013		As at December 31, 2012
				restated
Rolling stock[2]	$	**21.1**	$	20.7
Services		**7.4**		7.0
System and signalling		**3.9**		4.3
	$	**32.4**	$	32.0

(1) Including the order backlog for contracts between BT and its joint ventures, but excluding our share of joint ventures' backlog.
(2) Of which $12.0 billion, or 57% of rolling stock order backlog, had a percentage of completion from 0% to 25% as at December 31, 2013 ($12.9 billion, or 62%, as at December 31, 2012).

The increase in order backlog includes the impact of the strengthening of some foreign currencies versus the U.S. dollar as at December 31, 2013 compared to December 31, 2012, mainly the euro ($0.4 billion).

Upon adoption of IFRS 11, *Joint arrangements*, effective January 1, 2013, we began using the equity method to account for interests in joint ventures instead of using proportionate consolidation. We restated our backlog by removing our proportionate share of backlog of joint ventures, to align with the presentation of revenues.



Increase in workforce across all regions in line with higher level of activities

Total number of employees

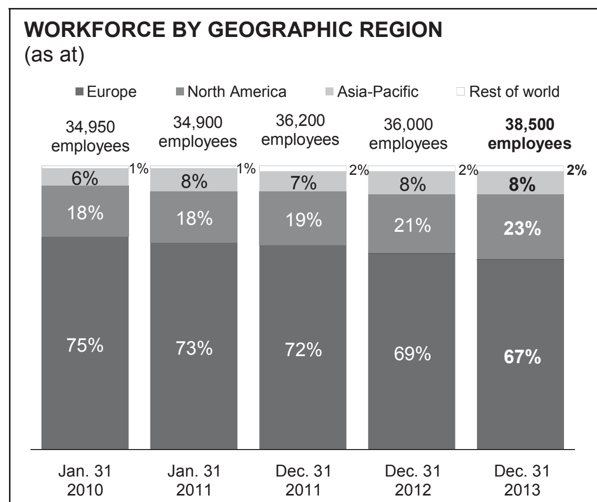
	December 31, 2013	As at December 31, 2012
Permanent[1]	**34,250**	32,350
Contractual	**4,250**	3,650
	38,500	36,000
Percentage of permanent employees covered by collective agreements	**55%**	60%

(1) Including inactive employees.

Since December 31, 2012 the number of employees has increased in all regions by 7% or 2,500 employees.

Headcount in North America, Asia-Pacific and the Rest of world region has increased mainly as a result of the start of work on major orders received in these regions in previous fiscal years.

The increase in Europe is mostly due to the hiring of contractual employees to support increased workload in connection with the development of new products as well as the start of work on major orders received this year and in previous years. At the same time, this increase in contractual workforce was partially offset by reduction of permanent headcount related to the measures announced last fiscal year.



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OFF-BALANCE SHEET ARRANGEMENTS

Factoring facilities

In the normal course of its business, BT has set up factoring facilities in Europe under which it can sell, without credit recourse, qualifying trade receivables. For more details, refer to Note 16 – Trade and other receivables, to the consolidated financial statements.

Credit and residual value guarantees

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

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing under the relevant financing arrangements. The remaining terms of these financing arrangements range from 1 to 13 years. In the event of default, we usually act as an agent for the guaranteed parties for the repossession, refurbishment and re-marketing of the underlying assets. We typically receive a fee for these services.

Residual value guarantees provide protection to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value at an agreed-upon date. In most cases, these guarantees are provided as part of a customer financing arrangement (these arrangements have remaining terms ranging from 1 to 13 years). The value of the underlying asset may be adversely affected by a number of factors. To mitigate our exposure, the financing arrangements generally require the aircraft used as collateral to meet certain contractual return conditions in order to exercise the guarantee. If a residual value guarantee is exercised, it provides for a contractually limited payment to the guaranteed parties, which is typically a specified maximum amount of the first losses incurred by the guaranteed party. A claim under the guarantee may typically be made only at the end of the financing arrangement, upon the sale of the underlying asset to a third party.

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

For more details, refer to Note 39 – Commitments and contingencies, to the consolidated financial statements.

Financing commitments

We sometimes provide financing support to facilitate our customers' access to capital. This support may take a variety of forms, including providing assistance to customers in accessing and structuring debt and equity for aircraft acquisitions or providing assurance that debt and equity are available to finance such acquisitions.

As at December 31, 2013, we had no commitments to arrange financing for customers in relation to the future sale of aircraft.

Financing structures related to the sale of commercial aircraft

In connection with the sale of commercial aircraft, BA has provided credit and/or residual value guarantees and subordinated debt to, and retained residual interests in, certain entities created solely to provide financing related to the sale of commercial aircraft. BA also provides administrative services to certain of these entities in return for a market fee.

Typically, these entities are financed by third-party long-term debt and equity. Often, equity investors benefit from tax incentives. The aircraft serve as collateral for the entities' long-term debt.

For more details, refer to Note 38 – Unconsolidated structured entities, to the consolidated financial statements.

RISKS AND UNCERTAINTIES

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

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

Business environment risk

Financial condition of the airline industry and business aircraft customers

The airline industry's financial condition and viability, including airlines' ability to secure financing, can influence the demand for BA's commercial aircraft. The nature of the airline industry makes it difficult to predict when economic downturns or recoveries will impact the industry and economic cycles may be longer than expected. Continued cost pressures and efforts to achieve acceptable profitability in the airline industry may constrain the selling price of BA's products. Scope clauses in pilot union agreements in the U.S. restrict the operation of smaller jetliners by major airlines or by their regional affiliates and, therefore, may restrict demand in the regional aircraft market.

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

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

Financial condition of the rail industry

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

Political instability

Political unrest in certain regions of the world may be prolonged and unpredictable. A prolongation of political instability could lead to delays or cancellation of orders, deliveries or projects in which we have invested significant resources, particularly when our customers are state-owned or state-controlled entities.

Force majeure events or natural disasters

Force majeure events or natural disasters (including seismic and severe weather-related events such as ice storms, hurricanes, flooding, tornadoes or other calamities) are unpredictable and may have significant adverse results such as: personal injury or fatality; damage to or destruction of ongoing projects, facilities or equipment; environmental damage; delays or cancellations of orders and deliveries; delays in the receipt of materials from our suppliers; delays in projects; or legal liability.

Operational risk

Developing new products and services

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

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

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

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

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

Fixed-price commitments and production and project execution

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

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

Business partners

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

Product performance warranty and casualty claim losses

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

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

Regulatory and legal risks

We are subject to numerous risks relating to current and future regulations, as well as legal proceedings to which we are currently a party or that could arise in the future. We become party to lawsuits in the ordinary course of our business, including those involving allegations of late deliveries of goods or services, product liability, product defects, quality problems and intellectual property infringement. We may incur material losses relating to litigation beyond the limits or outside the coverage of our insurance and our provisions for litigation-related losses may not be sufficient to cover the ultimate loss or expenditure. In addition, employee, agent, supplier or partner misconduct or failure to comply with anti-bribery and other government laws and regulations could harm our reputation, reduce our revenues and profitability, and subject us to criminal and civil enforcement actions.

Also refer to Note 39 – Commitments and contingencies, to the consolidated financial statements, for information regarding current litigation proceedings, related to the S-Bahn claim and the investigation in Brazil.

Environmental, health and safety risks

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

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

Dependence on customers

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

Business development

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

Dependence on suppliers

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

Some of our suppliers participate in the development of products such as aircraft or rolling stock platforms. The advancement of many of our new product development programs also relies on the performance of these key suppliers and, therefore, supplier delays which we are not able to mitigate could result in delays to a program as a whole. These suppliers subsequently deliver major components to us and own some of the intellectual property related to key components they have developed. Our contracts with these suppliers are therefore on a long-term basis. The replacement of such suppliers could be costly and take a significant amount of time.

Human resources (including collective agreements)

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

Financing risk

Liquidity and access to capital markets

We require sufficient capital resources and continued access to capital markets to support our operating activities and the development of new products. To satisfy our financing needs, we rely on cash and cash equivalents, cash flows generated by operations, capital market resources such as debt and equity and other financing arrangements such as revolving credit facilities. A decline in credit ratings, a significant reduction in the surety or financing market global capacity, widening credit spreads, significant changes in market interest rates or general economic conditions or an adverse perception in bank and capital markets of our financial condition or prospects could all significantly increase our cost of financing or impede our ability to access financial markets. Our credit ratings may be impacted by many factors and, accordingly, no assurance can be given that they may not be downgraded in the future. Also, new regulatory requirements on bank capital adequacy and market liquidity risk may reduce the availability of financing causing access to credit to become more difficult and borrowing costs to increase.

Our right to convert into cash certain deposits or investments, held in financing structures to guarantee our obligations, may be subject to restrictions. Additionally, in some countries, cash generated by operations may be subject to restrictions on the right to convert and/or repatriate money and may thus not be available for immediate use.

Retirement benefit plan risk

We are required to make contributions to a number of pension plans, most of which are presently in a deficit position. Our funding requirements are dependent on regulatory requirements and on the valuations of our plans' assets and liabilities, which are subject to a number of factors, including expected returns on plan assets, long-term interest rates, as well as applicable actuarial practices and various other assumptions. The potential requirement to make additional contributions as a result of changes to regulations or other factors may reduce the amount of funds available for operating purposes, thus weakening our financial condition.

We have no assurance that our retirement benefit plan assets will earn the expected rates of return. The ability of our retirement benefit plan assets to earn the expected rates of return depends in large part on the performance of capital markets. Market conditions also affect the discount rates used to calculate our net retirement benefit liabilities and could also impact our retirement benefit costs, cash funding requirements and liquidity position.

Credit risk

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

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

Restrictive debt covenants

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

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

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

We are subject to various financial covenants under our BA and BT letter of credit facilities and our unsecured revolving credit facilities which must be met on a quarterly basis. The BA $600-million letter of credit facility and the $750-million unsecured revolving facility include financial covenants requiring a minimum EBITDA to fixed charges ratio, a maximum net debt to EBITDA ratio and a minimum liquidity level of $500 million, all calculated based on an adjusted consolidated basis (i.e. excluding BT). BT's €3.5-billion letter of credit facility and €500-million unsecured revolving facility require a minimum liquidity level of €600 million as well as a minimum equity level and a maximum debt to EBITDA ratio, all calculated on a BT stand-alone basis. These terms and ratios are defined in their respective agreements and do not correspond to our global metrics or to specific terms used in the MD&A.

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

Financing support provided for the benefit of certain customers

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

Government support

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

Market risk

Foreign exchange risk

Our financial results are reported in U.S. dollars and a significant portion of our sales and operating costs are transacted in currencies other than U.S. dollars, most often euros, Canadian dollars, pounds sterling, Swiss francs and Swedish kronor. Our results of operations are therefore affected by movements in these currencies against the U.S. dollar. Significant fluctuations in relative currency values against the U.S. dollar could thus have a significant impact on our future profitability. Additionally, the settlement timing of our foreign currency derivatives could significantly impact our liquidity.

Interest rate risk

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

Residual value risk

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

Commodity price risk

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

ACCOUNTING AND REPORTING DEVELOPMENTS

Changes in accounting policies and methods

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 amended IAS 1 was adopted effective January 1, 2013. The presentation of our consolidated financial statement was not impacted by these amendments as the items within OCI that may be reclassified to the consolidated statement of income are already disclosed together.

Fair value measurement
In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS when another IFRS requires or permits the item to be measured at fair value. IFRS 13 was adopted effective January 1, 2013. The adoption of this standard had no significant impact on our consolidated financial statements other than to give rise to additional disclosures, see Note 35, Fair value of financial instruments, to the 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 to assess whether an entity should be included in an entity's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 was adopted effective January 1, 2013. The adoption of this standard had no impact on our consolidated financial statements.

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 was adopted effective January 1, 2013. See Note 36 – Investments in joint ventures and associates and Note 38 – Unconsolidated structured entities, to the 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 was the case under IAS 31. IFRS 11 classifies joint arrangements into two types: joint ventures and joint operations. Joint ventures are arrangements whereby the parties have rights to the net assets, while joint operations are arrangements whereby the parties have rights to the assets and obligations for the liabilities. The standard eliminates choices in the reporting of joint arrangements by requiring the use of the equity method to account for interests in joint ventures, and by requiring joint operators to recognize assets and liabilities in relation to their interests in the arrangements. IFRS 11 was adopted effective January 1, 2013 and the change has been accounted for retroactively in accordance with the transition rules of IFRS 11.

A large part of our investments in joint arrangements qualify as joint ventures and are now accounted for using the equity method of accounting. These investments were previously accounted for using the proportionate consolidation method. Under the equity method of accounting, our share of net assets, net income and OCI of joint ventures are presented as one-line items on the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income, respectively. In addition, the consolidated statement of cash flows under the equity method of accounting includes the cash flows between us and our joint ventures, and not our proportionate share of the joint ventures' cash flows.

Employee benefits

In June 2011, the IASB amended IAS 19, *Employee benefits*. Among other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Under the previous IAS 19, interest income was presented separately from interest expense and calculated based on the expected return on the 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 amended IAS 19 was adopted effective January 1, 2013. The changes in accounting policy have been accounted for retroactively in accordance with the transition rules of the amended IAS 19 and the required disclosures are provided in Note 22 – Retirement benefits, to the consolidated financial statements.

Change in methods of measurement of certain financial assets

We revised our methods of measurement of certain financial assets carried at fair value, mainly investments in financing structures. The carrying value of these financial assets is determined using a valuation model based on stochastic simulations and discounted cash flow analysis. In the past, the methods used to determine the discount rate did not include all the components that market participants would consider as inputs to establish fair value. Therefore, the impacted financial assets have been re-measured using revised discount rates and the change of method has been accounted for retroactively. Also, certain of these remeasured financial assets have been reclassified on the consolidated statements of financial position to present them separately from related provisions.

Impact of adopting the above-mentioned changes in accounting policies and methods

The following tables summarize the retroactive restatements to our consolidated financial statements resulting from the adoption of the amended IAS 19, *Employee benefits*, IFRS 11, *Joint arrangements* and the change in methods of measurement of certain financial assets, including the impact of reclassification.

The impacts on the consolidated statement of income are as follows:

					Fourth quarter ended December 31, 2012
		Restatements			
	As presented	Joint arrangements [1]	Employee benefits	Remeasurement of certain financial assets	As restated
Revenues	$ 4,755	$ (130)	$ -	$ -	$ 4,625
Cost of sales	4,129	(80)	3	-	4,052
Gross margin	626	(50)	(3)	-	573
SG&A	357	(3)	4	-	358
R&D	103	-	-	-	103
Share of income of joint ventures and associates	(18)	(43)	-	-	(61)
Other expense	9	-	-	-	9
Special items	163	-	-	-	163
EBIT	12	(4)	(7)	-	1
Financing expense	144	-	(75)	(1)	68
Financing income	(111)	2	108	(18)	(19)
EBT	(21)	(6)	(40)	19	(48)
Income taxes	(35)	(6)	(5)	2	(44)
Net income	$ 14	$ -	$ (35)	$ 17	$ (4)
EPS (in dollars)					
Basic and diluted	$ -				$ (0.01)

The impacts on the consolidated statement of income are as follows, for fiscal year:

					2012
		Restatements			
	As presented	Joint arrangements [1]	Employee benefits	Remeasurement of certain financial assets	As restated
Revenues	$ 16,768	$ (354)	$ -	$ -	$ 16,414
Cost of sales	14,269	(230)	14	-	14,053
Gross margin	2,499	(124)	(14)	-	2,361
SG&A	1,443	(8)	7	-	1,442
R&D	299	-	-	-	299
Share of income of joint ventures and associates	(45)	(108)	-	-	(153)
Other income	(33)	-	-	-	(33)
Special items	140	-	-	-	140
EBIT	695	(8)	(21)	-	666
Financing expense	596	-	(301)	-	295
Financing income	(599)	12	427	(5)	(165)
EBT	698	(20)	(147)	5	536
Income taxes	100	(20)	(16)	2	66
Net income	$ 598	$ -	$ (131)	$ 3	$ 470
EPS (in dollars)					
Basic and diluted	$ 0.32				$ 0.25

[1] Adjustments resulting from the application of the equity method:

i. Impact of ceasing to consolidate proportionally our share of revenues and expenses of joint ventures;
ii. Impact of not eliminating certain transactions between us and our joint ventures; and
iii. Impact of recording our pro-rata share of net income arising from joint ventures as a one-line item under the caption share of income of joint ventures and associates.

The impacts on the consolidated statements of financial position are as follows, as at:

					December 31, 2012
		Restatements			
	As presented	Joint arrangements	Employee benefits	Remeasurement of certain financial assets [1]	As restated
Assets					
Cash and cash equivalents	$ 2,896	$ (339)	$ -	$ -	$ 2,557
Other current assets	9,937	(406)	-	-	9,531
Investments in joint ventures and associates	66	245	-	-	311
Other financial assets	1,759	(6)	-	29	1,782
Other non-current assets	11,132	(128)	-	(10)	10,994
	$ 25,790	$ (634)	$ -	$ 19	$ 25,175
Liabilities					
Other current liabilities	$ 11,312	$ (578)	$ -	$ 59	$ 10,793
Provisions	1,586	(58)	-	80	1,608
Retirement benefits	2,997	(2)	4	-	2,999
Other non-current liabilities	8,518	-	-	-	8,518
	24,413	(638)	4	139	23,918
Equity	1,377	4	(4)	(120)	1,257
	$ 25,790	$ (634)	$ -	$ 19	$ 25,175

					January 1, 2012
		Restatements			
	As presented	Joint arrangements	Employee benefits	Remeasurement of certain financial assets [1]	As restated
Assets					
Cash and cash equivalents	$ 3,372	$ (480)	$ -	$ -	$ 2,892
Other current assets	9,365	(159)	-	-	9,206
Investments in joint ventures and associates	37	238	-	-	275
Other financial assets	1,831	(15)	-	17	1,833
Other non-current assets	9,259	(118)	-	(8)	9,133
	$ 23,864	$ (534)	$ -	$ 9	$ 23,339
Liabilities					
Other current liabilities	$ 10,877	$ (479)	$ -	$ -	$ 10,398
Provisions	1,672	(59)	-	132	1,745
Retirement benefits	3,226	-	5	-	3,231
Other non-current liabilities	7,418	-	-	-	7,418
	23,193	(538)	5	132	22,792
Equity	671	4	(5)	(123)	547
	$ 23,864	$ (534)	$ -	$ 9	$ 23,339

[1] Including reclassification.

The employee benefit restatement on the consolidated statements of financial position is not significant because the cumulative impact of the higher net interest expense under the revised standard is mostly offset by the reversal of accumulated actuarial losses on plan assets previously recognized in AOCI.

The impacts on the consolidated statements of comprehensive income, net of income taxes, are as follows:

	Fourth quarter ended December 31, 2012		Fiscal year 2012	
Comprehensive income as presented	$	191	$	904
Net income				
Employee benefits		(35)		(131)
Remeasurement of certain financial assets		17		3
OCI				
Employee benefits		35		132
Net increase in comprehensive income		17		4
Comprehensive income as restated	$	208	$	908

The impacts on the consolidated statement of cash flows are as follows, for fiscal year:

						2012
			Restatements			
	As presented		Joint arrangements		As restated	
Cash flow from operating activities	$	1,348	$	90	$	1,438
Cash flow from investing activities		(1,950)		51		(1,899)
Cash flow from financing activities		77		4		81
Effect of exchange rates		49		(4)		45
Net increase (decrease) in cash and cash equivalents		(476)		141		(335)
Cash and cash equivalents at beginning of year		3,372		(480)		2,892
Cash and cash equivalents at end of year	$	2,896	$	(339)	$	2,557

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. The other two parts, impairment of financial assets and hedge accounting, are still under development. The IASB is currently considering making limited modifications to the first part of IFRS 9. Those limited modifications include the introduction of a fair value through OCI category for debt instruments that would be based on an entity's business model.

The first part of IFRS 9 uses a new 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, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at FVTP&L, will be presented in OCI rather than in the statement of income. The mandatory effective date of IFRS 9, initially set for our fiscal year beginning on January 1, 2015, is currently under review by the IASB. IFRS 9 is still available for early adoption. We have not yet assessed the impact of the adoption of this standard on our consolidated financial statements.

In June 2013, the IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment will be effective for our fiscal year beginning on January 1, 2014. Similar relief will be included in IFRS 9.

Employee benefits
In November 2013, the IASB has amended IAS 19, *Employee benefits*, in order to simplify the accounting for contributions of defined benefit plans that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment will be effective for our fiscal year 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.

FINANCIAL INSTRUMENTS

An important portion of our consolidated balance sheets is composed of financial instruments. Our financial assets include cash and cash equivalents, trade and other receivables, derivative financial instruments with a positive fair value, aircraft loans and lease receivables, investments in securities, investments in financing structures and restricted cash. Our financial liabilities include trade and other payables, long-term debt, derivative financial instruments with a negative fair value, government refundable advances, lease subsidies, sale and leaseback obligations and vendor non-recurring cost liabilities. Derivative financial instruments are mainly used to manage our exposure to foreign exchange and interest rate risks. They consist mostly of forward foreign exchange contracts, interest rate swap agreements and cross-currency interest rate swap agreements.

The use of financial instruments exposes us primarily to credit, liquidity and market risks, including foreign exchange and interest rate risks. A description on how we manage these risks is included in the Risk management section of Overview and in Note 34 – Financial risk management, to the consolidated financial statements.

Fair value of financial instruments

All financial instruments are required to be recognized at their fair value on initial recognition, plus transaction costs for financial instruments not at FVTP&L. Subsequent measurement is at amortized cost or fair value depending on the classifications of the financial instruments. Financial instruments classified as FVTP&L or AFS are carried at fair value, while all others are carried at amortized cost. The classification of our financial instruments as well as the revenues, expenses, gains and losses associated with these instruments is provided in Note 2 – Summary of significant accounting policies and in Note 14 – Financial instruments, to the consolidated financial statements.

Note 35 - Fair value of financial instruments, to the consolidated financial statements, provides a detailed description of the methods and assumptions used to determine the fair values of financial instruments. Fair values are determined by reference to quoted prices in the principal market at the measurement date under current market conditions. They are point-in-time estimates that may change in subsequent reporting periods due to changes in market conditions or other factors. When quoted prices are unavailable, which is the case for most of our financial assets and liabilities, we determine fair value based on internal or external valuations. We use stochastic models, option-pricing models and discounted cash flow models when cash flow modeling is required. Fair value determined using internal valuation models requires the use of assumptions regarding the amount and timing of estimated future cash flows, discount rates, the creditworthiness of the borrower, the aircraft's expected future value, default probability, generic industrial bond spreads and marketability risk. When available, we use external readily observable market inputs, such as interest rates, credit ratings, credit spreads, default probabilities, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are not available. Since they are based on estimates, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

Note 35 provides a three level fair value hierarchy, categorizing financial instruments by the inputs used to measure their fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). In cases where the inputs used to measure fair value are categorized within different levels of hierarchy, the fair value measurement is reported at the lowest level of the input that is significant to the entire measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, taking into account factors specific to the asset or liability. The fair value hierarchy is not meant to provide insight on the liquidity characteristics of a particular asset or on the degree of sensitivity of an asset or liability to other market inputs or factors.

We consider gains and losses arising from certain changes in fair value of financial instruments incidental to our core performance, such as those arising from changes in market yields, as our intention is to continue to hold these instruments for the foreseeable future. These gains and losses are excluded from our measures of adjusted net income and adjusted EPS to provide users of our financial statements a better understanding of the core results of our business and enable better comparability of our results from one period to another and with peers.

In recent years, the call option attached to the €785-million Senior Notes maturing in November 2016 gave rise to significant accounting gains or losses. This financial instrument is in an asset position. The unrealized gain on this instrument could only be materialized from the early repayment of the notes.

In connection with the sale of commercial aircraft, we hold financial assets and have incurred financial liabilities, measured at fair value, some of which are reported as Level 3 financial instruments, including certain aircraft loans and lease receivables, certain investments in financing structures and lease subsidies. The fair values of these financial instruments are determined using various assumptions, with the assumption on marketability risk being the most likely to change the fair value significantly from period to period. The fair value of aircraft loans and lease receivables was also moderately impacted by credit rating changes in the recent past.

Sensitivity analysis
Our main exposures to changes in fair value of financial instruments are related to changes in foreign exchange, interest rates, aircraft residual value curves, credit ratings and marketability adjustments. Note 34 – Financial risk management and Note 35 – Fair value of financial instruments, to the consolidated financial statements, present sensitivity analyses assuming variations in foreign exchange and interest rates.

RELATED PARTY TRANSACTIONS

Our related parties, as defined by IFRS, are our joint ventures, associates and key management personnel. A description of our transactions with these related parties is included in Note 37 – Transactions with related parties, to the consolidated financial statements.

CRITICAL JUDGMENTS AND ACCOUNTING ESTIMATES

Our significant accounting policies and use of estimates and judgment are described in Note 2 – Summary of significant accounting policies and Note 5 – Use of estimates and judgment, to the consolidated financial statements. The preparation of financial statements, in conformity with IFRS, requires the use of estimates and judgment. Critical accounting estimates, which are evaluated on a regular ongoing basis and can change from period to period, are described in this section. An accounting estimate is considered critical if:

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

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

Our budget and strategic plan cover a three-year period and are fundamental information used as a basis for many estimates necessary to prepare financial information. We prepare a budget and strategic plan covering a three-year period, on an annual basis, using a process whereby a detailed one-year budget and two-year strategic plan are prepared by each business unit and then consolidated at the reportable segment and Corporation levels. Cash flows and profitability included in the budget and strategic plan are based on existing and future contracts and orders, general market conditions, current cost structures, anticipated cost variations and in-force collective agreements. The budget and strategic plan are subject to approval at various levels, including senior management and the Board of Directors. We use the budget and strategic plan, as well as additional

projections or assumptions, to derive the expected results for periods thereafter. We then track performance as compared to the budget and strategic plan at various levels within the Corporation. Significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

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

Long-term contracts

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

Estimated revenues at completion are adjusted for change orders, claims, performance incentives and other contract terms that provide for the adjustment of prices. If it is probable that additional revenues will occur, they are included in estimated revenues at completion.

Contract costs include material, direct labour, manufacturing overhead and other costs, such as warranty and freight. Estimated contract costs at completion incorporate forecasts for material and labour usage and costs, foreign exchange rates (including the effect of hedges) and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers. We apply judgment to determine the probability that we will incur additional costs from delays or other penalties and such costs, if probable, are included in estimated costs at completion.

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

Sensitivity analysis
A 1% increase in the estimated future costs to complete all ongoing long-term contracts would have decreased BT's gross margin for fiscal year 2013 by approximately $89 million.

Aerospace program tooling

BA capitalizes development costs as aerospace program tooling when certain criteria for deferral are met. Aerospace program tooling is amortized over the expected number of aircraft to be produced, beginning on the delivery date of the first aircraft of a program, and an impairment test is performed at least annually for aircraft programs under development and, for all programs, when there is an indication that the asset may be impaired. An impairment charge is recorded when the recoverable amount of a group of assets generating independent cash inflows (a CGU) is less than the carrying value of those assets. The recoverable amount of a group of assets is based on the higher of fair value less costs to sell and value in use, generally determined using a discounted cash flow model.

If key estimates change significantly, amortization expense may be understated or capitalized costs may not be recoverable and aerospace program tooling may be overstated.

Aerospace program tooling amortization and the calculation of recoverable amounts used in impairment testing require estimates of the expected number of aircraft to be delivered over the life of each program. The expected number of aircraft is based on management's aircraft market forecasts and our expected share of each market. Such estimates are reviewed in detail as part of the budget and strategic plan process. For purposes of impairment testing, we exercise judgment to identify independent cash inflows to identify CGUs by family of aircraft. Other key estimates used in determining the recoverable amount include the applicable discount rate and the expected future cash flows over the remaining life of each program.

The discount rate is based on a weighted average cost of capital calculated using market-based inputs, available directly from financial markets or based on a benchmark sampling of representative publicly traded companies.

Forecast future cash flows are based on management's risk-adjusted best estimate of future sales under existing firm orders, expected future orders, timing of payments based on expected delivery schedule, revenues from related services, procurement costs based on existing contracts with suppliers, future labour costs, general market conditions and applicable income tax rates.

The recoverable amounts were established during the fourth quarter of fiscal year 2013 based on fair value less costs to sell using a discounted cash flow model. In applying the discounted cash flow model, the estimated future cash flows for the first three years are based on the budget and strategic plan and on long-range forecasts thereafter. A post-tax discount rate of 7.5% was used.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

A 10% decrease in the expected future net cash inflow for all programs, evenly distributed over future periods, would have resulted in an impairment charge of approximately $300 million in fiscal year 2013 for programs under development.

An increase of 100 basis points in the discount rate used to perform the impairment test would have resulted in an impairment charge of approximately $280 million in fiscal year 2013 for programs under development.

Goodwill

Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT reportable segment. An impairment assessment is performed at least annually, and whenever circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that goodwill might be impaired. We selected the fourth quarter to perform our annual impairment assessment of goodwill. The recoverable amount of the BT reportable segment is based on the higher of fair value less costs to sell and value in use.

During the fourth quarter of fiscal year 2012 we completed an impairment test and in the fourth quarter of fiscal year 2013, we concluded that all criteria for using the recoverable amount from a previous period were met and the impairment assessment was performed by carrying forward the recoverable amount calculated in fiscal year 2012. No impairment was identified. The recoverable amount calculated in fiscal year 2012 was based on fair value less costs to sell using a discounted cash flow model. Estimated future cash flows were based on the budget and strategic plan for the first three years and a constant growth rate of 1% was applied to derive estimated cash flows beyond the initial three-year period. For purposes of this test, we used a 15-year period to project future cash flows. The post-tax discount rate is also a key estimate in the discounted cash flow model and was based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount in fiscal year 2012 was 6.8%. A 100-basis point change in the post-tax discount rate would not have resulted in an impairment charge in fiscal year 2013.

Valuation of deferred income tax assets

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

Tax contingencies

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. We establish tax provisions for possible consequences of audits by the tax authorities of the respective counties in which we operate. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the legal entities.

Credit and residual value guarantees

Credit and residual value guarantees are generally provided to airlines or to participants in financing structures created in connection with the sale of commercial aircraft. A corresponding provision is recorded, measured at the amounts expected to be paid under the guarantees, using an internal valuation model based on stochastic simulations.

The amounts expected to be paid under the guarantees depend on whether credit defaults occur during the term of the original financing. When a credit default occurs, the credit guarantee may be called upon. In the absence of a credit default, the residual value guarantee may be triggered. In both cases, the guarantees can only be called upon if there is a loss upon the sale of the aircraft. Therefore, the value of the guarantee is in large part impacted by the future value of the underlying aircraft. Aircraft residual value curves, prepared by management based on information from external appraisals and adjusted to reflect specific factors of the current aircraft market and a balanced market in the medium and long term, are used to estimate this future value. The amount of the liability is also significantly impacted by the current market assumption for interest rates since payments under these guarantees are mostly expected to be made in the medium to long term. Other key estimates in calculating the value of the guarantees include default probabilities, estimated based on published credit ratings when available or, when not available, on internal assumptions regarding the credit risk of customers, as well as on the likelihood that credit or residual value guarantees will be called upon at the expiry of the financing arrangements. The estimates are reviewed on a quarterly basis.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

Assuming a decrease of 5% in the residual value curves of all aircraft as at December 31, 2013, EBIT for fiscal year 2013 would have been negatively impacted by $26 million.

Assuming a 100-basis point decrease in interest rates as at December 31, 2013, EBT for fiscal year 2013 would have been negatively impacted by $15 million. Assuming a 100-basis point increase in interest rates as at December 31, 2013, EBT for fiscal year 2013 would have been positively impacted by $16 million.

Retirement and other long-term employee benefits

The actuarial valuation process used to measure pension and other post-employment benefit costs, assets and obligations is dependent on assumptions regarding discount rates, compensation and pre-retirement benefit increases, inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. The impacts from changes in discount rates and, when significant, from key events and other circumstances, are recorded quarterly.

Discount rates are used to determine the present value of the expected future benefit payments and represent the market rates for high-quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit liabilities.

As the Canadian high-quality corporate bond market, as defined under IFRS, includes relatively few medium- and long-term maturity bonds, we established the discount rate for our Canadian pension and other post-employment plans by constructing a yield curve using four maturity ranges. The first maturity range of the curve is based on observed market rates for AA-rated corporate bonds with maturities of less than six years. In the longer maturity ranges, due to the smaller number of high-quality bonds available, the curve was derived using market observations and extrapolated data. The extrapolated data points were created by adding a term-based yield spread over long-term provincial bond yields. This spread is based on the observed spreads between AA-rated corporate bonds and AA-rated provincial bonds in the last three maturity ranges of the curve.

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

A sensitivity analysis to changes in critical actuarial assumptions is presented in the Retirement Benefits section in Overview. Details regarding assumptions used are provided in Note 22 – Retirement benefits, to the consolidated financial statements.

Consolidation

We consolidate entities when, based on an evaluation of the substance of our relationship, we establish that we control the investee. We control an investee when we are exposed to, or have rights to, variable returns from our involvement with the investee and the ability to use power over the investee to affect the amount of our returns. We reassess our initial determination of control if facts or circumstances indicate that there may be changes to one or more elements of control.

From time to time, we participate in structured entities where voting rights are not the dominant factor in determining control. In these situations, we may use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether we are exposed to, or have rights to, significant variable returns. The quantitative analyses involve estimating the future cash flows and performance of the investee and analyzing the variability in those cash flows. The qualitative analyses involve consideration of factors such as the purpose and design of the investee and whether we are acting as an agent or principal. There is a significant amount of judgment exercised in evaluating these analyses as well as in determining if we have power to affect the investee's returns, including an assessment of the impact of potential voting rights, contractual agreements and de facto control.

CONTROLS AND PROCEDURES

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

Disclosure controls and procedures

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

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

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

Internal controls over financial reporting

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

An evaluation was carried out, under the supervision of the CEO and the CFO, of the design and effectiveness of our internal controls over financial reporting. Based on this evaluation, the CEO and the CFO concluded that the internal controls over financial reporting are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (1992 Framework).

Changes in internal controls over financial reporting

No changes were made to our internal controls over financial reporting that occurred during the quarter and fiscal year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

FOREIGN EXCHANGE RATES

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

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

	December 31, 2013	December 31, 2012	Increase (decrease)
Euro	**1.3791**	1.3194	5%
Canadian dollar	**0.9400**	1.0043	(6%)
Pound sterling	**1.6542**	1.6167	2%

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

	December 31, 2013	December 31, 2012	Increase (decrease)
Euro	**1.3616**	1.2980	5%
Canadian dollar	**0.9537**	1.0096	(6%)
Pound sterling	**1.6194**	1.6069	1%

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

	December 31, 2013	December 31, 2012	Increase (decrease)
Euro	**1.3285**	1.2860	3%
Canadian dollar	**0.9717**	1.0008	(3%)
Pound sterling	**1.5654**	1.5854	(1%)

SHAREHOLDER INFORMATION

Authorized, issued and outstanding share data, as at February 11, 2014

	Authorized	**Issued and outstanding**
Class A Shares (multiple voting)[1]	1,892,000,000	314,530,462
Class B Shares (subordinate voting)[2]	1,892,000,000	1,424,759,510 [3]
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	9,692,521
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	2,307,479
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 18,736,908 Class B Shares (subordinate voting) purchased and held in trust in connection with the PSU plan.

Share option, PSU and DSU data as at December 31, 2013

Options issued and outstanding under the share option plans	29,355,757
PSUs and DSUs issued and outstanding under the PSU and DSU plans	31,766,531
Class B Shares held in trust to satisfy PSU obligations	18,736,908

Information

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SELECTED FINANCIAL INFORMATION

The following selected financial information has been derived from, and should be read in conjunction with, the consolidated financial statements for fiscal years ended December 31, 2011, 2012 and 2013.

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

Fiscal years	**2013**	2012	2011 [1]
		restated [2]	*restated* [2]
Revenues	**$ 18,151**	$ 16,414	$ 17,904
Net income attributable to equity holders of Bombardier Inc.	**$ 564**	$ 460	$ 737
EPS (in dollars)			
Basic and diluted	**$ 0.31**	$ 0.25	$ 0.41
Cash dividends declared per share (in Canadian dollars)			
Class A Shares (multiple voting)	**$ 0.10**	$ 0.10	$ 0.10
Class B Shares (subordinate voting)	**$ 0.10**	$ 0.10	$ 0.10
Series 2 Preferred Shares	**$ 0.75**	$ 0.75	$ 0.69
Series 3 Preferred Shares	**$ 0.78**	$ 1.05	$ 1.32
Series 4 Preferred Shares	**$ 1.56**	$ 1.56	$ 1.56

As at	**December 31 2013**	December 31 2012	January 1 2012
		restated [2]	*restated* [2]
Total assets	**$ 29,363**	$ 25,175	$ 23,339
Non-current financial liabilities	**$ 7,705**	$ 5,961	$ 5,250

(1) Our fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
(2) Refer to the Accounting and reporting developments section for detail regarding restatements of prior year figures.

The quarterly data table is shown hereafter.

February 12, 2014

BOMBARDIER INC.
QUARTERLY DATA (UNAUDITED)
(the quarterly data has been prepared in accordance with IAS 34, Interim financial reporting, except market price ranges)
(in millions of U.S. dollars, except per share amounts)

Fiscal years	**2013**					2012 restated[2]				
	Total	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**	Total	Fourth quarter	Third quarter	Second quarter	First quarter
Revenues										
BA	**$ 9,385**	**$ 2,873**	**$ 1,999**	**$ 2,255**	**$ 2,258**	$ 8,628	$ 2,597	$ 2,267	$ 2,265	$ 1,499
BT	**8,766**	**2,451**	**2,059**	**2,175**	**2,081**	7,786	2,028	1,944	1,832	1,982
	$ 18,151	**$ 5,324**	**$ 4,058**	**$ 4,430**	**$ 4,339**	$ 16,414	$ 4,625	$ 4,211	$ 4,097	$ 3,481
EBIT										
BA	**$ 418**	**$ 93**	**$ 86**	**$ 138**	**$ 101**	$ 390	$ 84	$ 118	$ 99	$ 89
BT	**505**	**92**	**124**	**150**	**139**	276	(83)	122	115	122
	923	**185**	**210**	**288**	**240**	666	1	240	214	211
Financing expense[1]	**271**	**55**	**58**	**83**	**75**	295	68	67	89	82
Financing income[1]	**(119)**	**(10)**	**(22)**	**(47)**	**(40)**	(165)	(19)	(52)	(60)	(45)
EBT	**771**	**140**	**174**	**252**	**205**	536	(48)	225	185	174
Income taxes	**199**	**43**	**27**	**72**	**57**	66	(44)	53	38	19
Net income	**$ 572**	**$ 97**	**$ 147**	**$ 180**	**$ 148**	$ 470	$ (4)	$ 172	$ 147	$ 155
Attributable to										
Equity holders of Bombardier Inc.	**$ 564**	**$ 95**	**$ 145**	**$ 181**	**$ 143**	$ 460	$ (6)	$ 169	$ 147	$ 150
NCI	**8**	**2**	**2**	**(1)**	**5**	10	2	3	-	5
	$ 572	**$ 97**	**$ 147**	**$ 180**	**$ 148**	$ 470	$ (4)	$ 172	$ 147	$ 155
EPS (in dollars)										
Basic and diluted	**$ 0.31**	**$ 0.05**	**$ 0.08**	**$ 0.10**	**$ 0.08**	$ 0.25	$ (0.01)	$ 0.09	$ 0.08	$ 0.08
Market price range of Class B Shares (in Canadian dollars)										
High	**$ 5.43**	**$ 5.43**	**$ 5.18**	**$ 5.00**	**$ 4.35**	$ 4.93	$ 3.84	$ 4.25	$ 4.31	$ 4.93
Low	**$ 3.80**	**$ 4.32**	**$ 4.55**	**$ 3.80**	**$ 3.81**	$ 2.97	$ 2.97	$ 3.37	$ 3.53	$ 3.86

[1] The amounts presented on a yearly basis may not correspond to the sum of the four quarters as certain reclassifications to quarterly figures to or from financing income and financing expense may be required on a cumulative basis.
[2] Refer to the Accounting and reporting developments section for detail regarding restatements of prior year figures.

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

For the fiscal years ended	December 31 2013	December 31 2012	December 31 2011 [1]	January 31 2011
Revenues		restated [2]	restated [2]	restated [2]
BA	**$ 9,385**	$ 8,628	$ 8,594	$ 8,808
BT	**8,766**	7,786	9,310	8,689
	$ 18,151	$ 16,414	$ 17,904	$ 17,497
EBIT before special items				
BA	**$ 388**	$ 367	$ 491	$ 546
BT	**505**	439	675	652
	893	806	1,166	1,198
Special items				
BA	**(30)**	(23)	-	-
BT	**-**	163	-	-
	(30)	140	-	-
EBIT				
BA	**418**	390	491	546
BT	**505**	276	675	652
	923	666	1,166	1,198
Financing expense	**271**	295	380	395
Financing income	**(119)**	(165)	(70)	(86)
EBT	**771**	536	856	889
Income taxes	**199**	66	119	218
Net income	**$ 572**	$ 470	$ 737	$ 671
Attributable to				
Equity holders of Bombardier Inc.	**$ 564**	$ 460	$ 737	$ 658
NCI	**$ 8**	$ 10	$ -	$ 13
Adjusted net income	**$ 608**	$ 671	$ 887	772
EPS (in dollars)				
Basic	**$ 0.31**	$ 0.25	$ 0.41	$ 0.37
Diluted	**$ 0.31**	$ 0.25	$ 0.41	$ 0.36
Adjusted	**$ 0.33**	$ 0.36	$ 0.49	$ 0.42
General information				
Export revenues from Canada	**$ 6,767**	$ 6,129	$ 5,866	$ 6,285
Net additions to PP&E and intangible assets	**$ 2,287**	$ 2,074	$ 1,447	$ 1,189
Amortization	**$ 391**	$ 364	$ 325	$ 413
Impairment charges on PP&E	**$ -**	$ 9	$ -	$ 8
Dividend per common share (in Canadian dollars)				
Class A	**$ 0.10**	$ 0.10	$ 0.10	$ 0.10
Class B	**$ 0.10**	$ 0.10	$ 0.10	$ 0.10
Dividend per preferred share (in Canadian dollars)				
Series 2	**$ 0.75**	$ 0.75	$ 0.69	$ 0.66
Series 3	**$ 0.78**	$ 1.05	$ 1.32	$ 1.32
Series 4	**$ 1.56**	$ 1.56	$ 1.56	$ 1.56
Market price ranges (in Canadian dollars)				
Class A				
High	**$ 5.42**	$ 5.00	$ 7.29	$ 6.24
Low	**$ 3.81**	$ 3.08	$ 3.41	$ 4.28
Close	**$ 4.60**	$ 3.83	$ 4.06	$ 5.72
Class B				
High	**$ 5.43**	$ 4.93	$ 7.29	$ 6.24
Low	**$ 3.80**	$ 2.97	$ 3.30	$ 4.25
Close	**$ 4.61**	$ 3.76	$ 4.06	$ 5.70
As at				
Number of common shares (in millions)	**1,739**	1,730	1,724	1,726
Book value per common share (in dollars)	**$ 1.20**	$ 0.50	$ 0.10	$ 0.58
Shareholders of record	**13,503**	13,544	13,427	13,591

[1] The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.
[2] Refer to the Accounting and reporting developments section for detail regarding restatements of prior year figures.

BOMBARDIER INC.
HISTORICAL FINANCIAL SUMMARY (CONTINUED)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in millions of U.S. dollars)

As at	December 31 2013	December 31 2012	December 31 2011	January 31 2011	February 1 2010
Assets		*restated* [(1)]	*restated* [(1)]	*restated* [(1)]	*restated* [(1)]
Cash and cash equivalents	**$ 3,397**	$ 2,557	$ 2,892	$ 3,559	$ 2,887
Trade and other receivables	**1,492**	1,311	1,342	1,356	1,043
Inventories	**8,234**	7,540	7,305	7,191	7,644
Other financial assets	**637**	443	522	690	511
Other assets	**881**	680	559	648	517
Current assets	**14,641**	12,531	12,620	13,444	12,602
Invested collateral	**-**	-	-	676	682
PP&E	**2,066**	1,933	1,779	1,816	1,637
Aerospace program tooling	**6,606**	4,770	3,168	2,088	1,385
Goodwill	**2,381**	2,316	2,244	2,349	2,237
Deferred income taxes	**1,231**	1,421	1,476	1,210	1,335
Investments in joint ventures and associates	**318**	311	275	259	226
Other financial assets	**1,568**	1,339	1,311	1,111	1,011
Other assets	**552**	554	466	403	512
Non-current assets	**14,722**	12,644	10,719	9,912	9,025
	$ 29,363	$ 25,175	$ 23,339	$ 23,356	$ 21,627
Liabilities					
Trade and other payables	**$ 4,089**	$ 3,310	$ 3,032	$ 2,857	$ 2,836
Provisions	**881**	1,000	1,019	1,136	1,107
Advances and progress billings in excess of long-term contract inventories	**2,352**	1,763	1,638	1,971	1,654
Advances on aerospace programs	**3,228**	3,053	2,788	2,989	3,055
Other financial liabilities	**1,009**	455	732	860	537
Other liabilities	**2,227**	2,212	2,208	2,168	2,001
Current liabilities	**13,786**	11,793	11,417	11,981	11,190
Provisions	**584**	608	726	709	733
Advances on aerospace programs	**1,688**	1,600	1,266	1,193	1,373
Long-term debt	**6,988**	5,360	4,748	4,645	4,134
Retirement benefits	**2,161**	2,999	3,231	1,978	2,184
Other financial liabilities	**717**	601	502	532	558
Other liabilities	**990**	957	902	908	576
Non-current liabilities	**13,128**	12,125	11,375	9,965	9,558
	26,914	23,918	22,792	21,946	20,748
Equity					
Attributable to equity holders of Bombardier Inc.	**2,426**	1,211	515	1,343	821
Attributable to NCI	**23**	46	32	67	58
	2,449	1,257	547	1,410	879
	$ 29,363	$ 25,175	$ 23,339	$ 23,356	$ 21,627

[(1)] Refer to the Accounting and reporting developments section for detail regarding restatements of prior year figures.

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2013 and 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

Bombardier Inc.'s CEO and CFO have also evaluated the effectiveness of Bombardier Inc.'s disclosure controls and procedures and internal controls over financial reporting as of the end of the fiscal year 2013. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures and internal controls over financial reporting were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (1992 framework). In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of the end of the fiscal year 2013. In compliance with the Canadian Securities Administrators' National Instrument 52-109, Bombardier Inc.'s CEO and CFO have provided a certification related to Bombardier Inc.'s annual disclosure to the Canadian Securities Administrators, including the consolidated financial statements and MD&A.

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

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

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

Pierre Beaudoin,
President and Chief Executive Officer

Pierre Alary, FCPA, FCA
Senior Vice President and Chief Financial Officer

February 12, 2014

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the accompanying consolidated financial statements of Bombardier Inc. which comprise the consolidated statements of financial position as at December 31, 2013, 2012 and January 1, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for fiscal years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bombardier Inc. as at December 31, 2013, 2012 and January 1, 2012, and its financial performance and its cash flows for fiscal years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

[1]

Ernst & Young LLP
Montréal, Canada

February 12, 2014

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[1] CPA auditor, CA, public accountancy permit no. A112431

CONSOLIDATED FINANCIAL STATEMENTS

For fiscal years 2013 and 2012

(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF INCOME
For the fiscal years ended December 31
(in millions of U.S. dollars, except per share amounts)

	Notes		**2013**		2012
					restated [1]
Revenues		**$**	**18,151**	$	16,414
Cost of sales	17		**15,658**		14,053
Gross margin			**2,493**		2,361
SG&A			**1,417**		1,442
R&D	7		**293**		299
Share of income of joint ventures and associates	36		**(119)**		(153)
Other expense (income)	8		**9**		(33)
Special items	9		**(30)**		140
EBIT			**923**		666
Financing expense	10		**271**		295
Financing income	10		**(119)**		(165)
EBT			**771**		536
Income taxes	12		**199**		66
Net income		**$**	**572**	$	470
Attributable to					
Equity holders of Bombardier Inc.		**$**	**564**	$	460
NCI			**8**		10
		$	**572**	$	470
EPS (in dollars)	13				
Basic and diluted		**$**	**0.31**	$	0.25

[1] Refer to Note 3 for the impact of changes in accounting policies and methods.

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the fiscal years ended December 31
(in millions of U.S. dollars)

		2013		2012 restated [1]
Net income	**$**	**572**	$	470
OCI				
Items that may be reclassified to net income				
Net change in cash flow hedges				
Foreign exchange re-evaluation		**(6)**		(5)
Net gain on derivative financial instruments		**26**		163
Reclassification to income or to the related non-financial asset[2][3]		**(32)**		25
Income taxes		**6**		(64)
		(6)		119
AFS financial assets				
Net unrealized gain (loss)		**(5)**		6
Reclassification to income		**-**		(29)
Income taxes		**-**		6
		(5)		(17)
CCTD				
Net investments in foreign operations		**36**		75
Net loss on related hedging items		**(15)**		(18)
		21		57
Items that are never reclassified to net income				
Retirement benefits				
Net actuarial gains		**911**		318
Income taxes		**(87)**		(39)
		824		279
Total OCI		**834**		438
Total comprehensive income	**$**	**1,406**	$	908
Attributable to				
Equity holders of Bombardier Inc.	**$**	**1,399**	$	895
NCI		**7**		13
	$	**1,406**	$	908

[1] Refer to Note 3 for the impact of changes in accounting policies and methods.
[2] Include $10 million of gain reclassified to the related non-financial asset for fiscal year 2013 ($22 million of gain for fiscal year 2012).
[3] $104 million of net deferred loss is expected to be reclassified from OCI to the carrying amount of the related non-financial asset or to income during fiscal year 2014.

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

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

	Notes	**December 31 2013**	December 31 2012	January 1 2012
Assets			*restated* (1)	*restated* (1)
Cash and cash equivalents	15	**$ 3,397**	$ 2,557	$ 2,892
Trade and other receivables	16	**1,492**	1,311	1,342
Inventories	17	**8,234**	7,540	7,305
Other financial assets	18	**637**	443	522
Other assets	19	**881**	680	559
Current assets		**14,641**	12,531	12,620
PP&E	20	**2,066**	1,933	1,779
Aerospace program tooling	21	**6,606**	4,770	3,168
Goodwill	21	**2,381**	2,316	2,244
Deferred income taxes	12	**1,231**	1,421	1,476
Investments in joint ventures and associates	36	**318**	311	275
Other financial assets	18	**1,568**	1,339	1,311
Other assets	19	**552**	554	466
Non-current assets		**14,722**	12,644	10,719
		$ 29,363	$ 25,175	$ 23,339
Liabilities				
Trade and other payables	23	**$ 4,089**	$ 3,310	$ 3,032
Provisions	24	**881**	1,000	1,019
Advances and progress billings in excess of long-term contract inventories	17	**2,352**	1,763	1,638
Advances on aerospace programs		**3,228**	3,053	2,788
Other financial liabilities	25	**1,009**	455	732
Other liabilities	26	**2,227**	2,212	2,208
Current liabilities		**13,786**	11,793	11,417
Provisions	24	**584**	608	726
Advances on aerospace programs		**1,688**	1,600	1,266
Long-term debt	27	**6,988**	5,360	4,748
Retirement benefits	22	**2,161**	2,999	3,231
Other financial liabilities	25	**717**	601	502
Other liabilities	26	**990**	957	902
Non-current liabilities		**13,128**	12,125	11,375
		26,914	23,918	22,792
Equity				
Attributable to equity holders of Bombardier Inc.		**2,426**	1,211	515
Attributable to NCI		**23**	46	32
		2,449	1,257	547
		$ 29,363	$ 25,175	$ 23,339
Commitments and contingencies	39			

(1) Refer to Note 3 for the impact of changes in accounting policies and methods.

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

On behalf of the Board of Directors,

Laurent Beaudoin, C.C., FCPA, FCA
Director

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the fiscal years ended
(in millions of U.S. dollars)

	Attributable to equity holders of Bombardier Inc.										
	Share capital		Retained earnings (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 January 1, 2012[1]	$ 347	$ 1,323	$ 1,988	$ (3,073)	$ 118	$ 27	$ (316)	$ 101	$ 515	$ 32	$ 547
Total comprehensive income											
Net income	-	-	460	-	-	-	-	-	460	10	470
OCI	-	-	-	279	-	(17)	119	54	435	3	438
	-	-	460	279	-	(17)	119	54	895	13	908
Options exercised	-	5	-	-	(2)	-	-	-	3	-	3
Dividends											
Common shares	-	-	(177)	-	-	-	-	-	(177)	-	(177)
Preferred shares	-	-	(29)	-	-	-	-	-	(29)	-	(29)
Capital distribution	-	-	-	-	-	-	-	-	-	(2)	(2)
Shares distributed - PSU plans	-	14	-	-	(14)	-	-	-	-	-	-
Share-based expense	-	-	-	-	7	-	-	-	7	-	7
Purchase of NCI	-	-	(3)	-	-	-	-	-	(3)	3	-
As at December 31, 2012[1]	$ 347	$ 1,342	$ 2,239	$ (2,794)	$ 109	$ 10	$ (197)	$ 155	$ 1,211	$ 46	$ 1,257
Total comprehensive income											
Net income	-	-	564	-	-	-	-	-	564	8	572
OCI	-	-	-	824	-	(5)	(6)	22	835	(1)	834
	-	-	564	824	-	(5)	(6)	22	1,399	7	1,406
Options exercised	-	13	-	-	(3)	-	-	-	10	-	10
Dividends											
Common shares	-	-	(173)	-	-	-	-	-	(173)	-	(173)
Preferred shares	-	-	(32)	-	-	-	-	-	(32)	-	(32)
Capital distribution	-	-	-	-	-	-	-	-	-	(30)	(30)
Shares distributed - PSU plans	-	25	-	-	(25)	-	-	-	-	-	-
Share-based expense	-	-	-	-	11	-	-	-	11	-	11
As at December 31, 2013	**$ 347**	**$ 1,380**	**$ 2,598**	**$ (1,970)**	**$ 92**	**$ 5**	**$ (203)**	**$ 177**	**$ 2,426**	**$ 23**	**$ 2,449**

[1] Restated, refer to Note 3 for the impact of changes in accounting policies and methods.

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the fiscal years ended December 31
(in millions of U.S. dollars)

	Notes	2013	2012
Operating activities			*restated* [1]
Net income		**$ 572**	$ 470
Non-cash items			
Amortization		**391**	364
Impairment charges on PP&E	9	**-**	9
Deferred income taxes	12	**74**	(41)
Gains on disposal of PP&E and intangible assets	8	**-**	(6)
Gain on disposal of a business	28	**(23)**	-
Share of income of joint ventures and associates		**(119)**	(153)
Share-based expense	30	**11**	7
Dividends received from joint ventures and associates		**115**	94
Net change in non-cash balances	31	**359**	694
Cash flows from operating activities		**1,380**	1,438
Investing activities			
Additions to PP&E and intangible assets		**(2,357)**	(2,125)
Proceeds from disposals of PP&E and intangible assets		**70**	51
Additions to AFS investments in securities		**(122)**	-
Proceeds from disposal of AFS investments in securities		**52**	133
Net proceeds from disposal of a business	28	**83**	-
Other		**13**	42
Cash flows from investing activities		**(2,261)**	(1,899)
Financing activities			
Net proceeds from issuance of long-term debt		**1,983**	509
Repayments of long-term debt		**(51)**	(186)
Dividends paid[2]		**(196)**	(249)
Other		**(13)**	7
Cash flows from financing activities		**1,723**	81
Effect of exchange rates on cash and cash equivalents		**(2)**	45
Net increase (decrease) in cash and cash equivalents		**840**	(335)
Cash and cash equivalents at beginning of year		**2,557** [1]	2,892
Cash and cash equivalents at end of year		**$ 3,397**	$ 2,557
Supplemental information[3][4]			
Cash paid for			
Interest		**$ 303**	$ 259
Income taxes		**$ 80**	$ 87
Cash received for			
Interest		**$ 36**	$ 86
Income taxes		**$ 20**	$ 19

[1] Restated, refer to Note 3 for the impact of changes in accounting policies and methods.
[2] $23 million of dividends paid relate to preferred shares for fiscal year 2013 ($25 million for fiscal year 2012).
[3] Amounts paid or received for interest are reflected as cash flows from operating activities, except if they were capitalized in PP&E or intangible assets, in which case they are reflected as cash flows from investing activities. Amounts paid or received for income taxes are reflected as cash flows from operating activities.
[4] Interest paid comprises interest on long-term debt after the effect of hedges, if any, excluding up-front costs paid related to the negotiation of debts or credit facilities. Interest received comprises interest received related to cash and cash equivalents, investments in securities, loans and lease receivable after the effect of hedges, if any, gain on the sale of AFS investments in securities and the interest portion of a gain related to the resolution of a litigation in connection with part 1.3 of the Canadian Income Tax Act, the Tax on Large Corporations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended December 31, 2013 and 2012
(Tabular figures are in millions of U.S. dollars, unless otherwise indicated)

1. BASIS OF PREPARATION

Bombardier Inc. is incorporated under the laws of Canada. The consolidated financial statements include the accounts of Bombardier Inc. and its subsidiaries ("the Corporation"). The Corporation is a manufacturer of transportation equipment, including business and commercial aircraft and rail transportation equipment and systems, and is a provider of related services. The Corporation carries out its operations in two distinct segments, the aerospace segment (BA) and the transportation segment (BT). The main activities of the Corporation are described in Note 6 – Segment disclosure.

The Corporation's consolidated financial statements for fiscal years 2013 and 2012 were authorized for issuance by the Board of Directors on February 12, 2014.

Statement of compliance

The Corporation's consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with IFRS, as issued by the IASB.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated. See also Note 3 – Changes in accounting policies and methods.

Basis of consolidation

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

The Corporation consolidates investees, including structured entities when, based on the evaluation of the substance of the relationship with the Corporation, it concludes that it controls the investees. The Corporation controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

Revenues of these subsidiaries combined with those of Bombardier Inc. totalled 69% of consolidated revenues for fiscal year 2013 (67% for fiscal year 2012).

Joint ventures – Joint ventures are those entities over which the Corporation exercises joint control, requiring unanimous consent of the parties sharing control for strategic financial and operating decision making and where the parties have rights to the net assets of the arrangement. The Corporation recognizes its interest in joint ventures using the equity method of accounting.

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

Foreign currency translation

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

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

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

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

			Exchange rates as at		**Average exchange rates for fiscal years**
	December 31 2013	December 31 2012	January 1 2012	**2013**	2012
Euro	**1.3791**	1.3194	1.2939	**1.3285**	1.2860
Canadian dollar	**0.9400**	1.0043	0.9791	**0.9717**	1.0008
Pound sterling	**1.6542**	1.6167	1.5490	**1.5654**	1.5854

Revenue recognition

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

When a contract covers a number of products, the construction of each product is treated as a separate contract when (1) separate proposals have been submitted for each product, (2) each product has been subject to separate negotiation, and (3) the costs and revenues of each product can be identified. A group of contracts, whether with a single customer or with several customers, are treated as a single contract when (1) the group of contracts is negotiated as a single package, (2) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin, and (3) the contracts are performed concurrently or in a continuous sequence. Options for additional assets are treated as a separate contract when (1) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract or (2) the price of the asset is negotiated without regard to the original contract price.

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

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

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

Other – Revenues from the sale of pre-owned aircraft and spare parts are recognized when the goods have been delivered, risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

Government assistance and refundable advances

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

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

Income taxes

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

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

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

Earnings per share

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

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

Financial instruments

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

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

a) Financial instruments classified as HFT

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

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

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

Embedded derivatives of the Corporation include financing rate commitments related to the sale of aircraft, call options on long-term debt and foreign exchange instruments included in sale or purchase agreements. Upon initial recognition, the fair value of financing rate commitments linked to the sale of products is recognized as deferred charge in other assets. The deferred charge is recorded as an adjustment of the sale price of the related products. Call options on long-term debt that are not closely related to the host contract are measured at fair value, with the initial value recognized as an increase of the related long-term debt and amortized to net income using the effective interest method. Upon initial recognition, the fair value of the foreign exchange instruments not designated in a hedge relationship is recognized in cost of sales. Subsequent changes in fair value of embedded derivatives are recorded in cost of sales, other expense (income) or financing expense or financing income, based on the nature of the exposure.

b) Financial instruments designated as FVTP&L

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

receivables, certain investments in financing structures, trade-in commitments and lease subsidies, which were all designated as FVTP&L based on the above criterion (iii).

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

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

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

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

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

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

Hedge accounting

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

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

Fair value hedges – The Corporation generally applies fair value hedge accounting to certain interest-rate derivatives and forward foreign exchange contracts hedging the exposures to changes in the fair value of recognised financial assets and financial liabilities. In a fair value hedge relationship, gains or losses from the measurement of derivative hedging instruments at fair value are recorded in net income, while gains or losses on hedged items attributable to the hedged risks are accounted for as an adjustment to the carrying amount of hedged items and are recorded in net income.

Cash flow hedges – The Corporation generally applies cash flow hedge accounting to forward foreign exchange contracts and interest-rate derivatives entered into to hedge foreign exchange risks on forecasted transactions and recognized assets and liabilities. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income as a reclassification adjustment when the hedged item affects net income. However, when an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized in OCI are reclassified in the initial carrying amount of the related asset.

Hedge of net investments in foreign operations – The Corporation generally designates certain long-term debt as hedges of its net investments in foreign operations. The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when corresponding exchange gains or losses arising from the translation of the foreign operations are recorded in net income.

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

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

Leases

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

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

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

Inventory valuation

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

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

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

Retirement and other long-term employee benefits

Retirement benefit plans are classified as either defined benefit plans or defined contribution plans.

Defined benefit plans

Retirement benefit liability or asset recognised on the consolidated statement of financial position is measured at the difference between the present value of the defined benefit obligation and the fair value of plan asset at the reporting date. When the Corporation has a surplus in a defined benefit plan, the value of any plan asset recognized is restricted to the asset ceiling - i.e. the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan ("asset ceiling test"). A minimum liability is recorded when legal minimum funding requirements for past services exceed economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. A constructive obligation is recorded as a defined benefit obligation when there is no realistic alternative but to pay employee benefits. Retirement benefit liability or asset includes the effect of any asset ceiling, minimum liability and constructive obligation.

The cost of pension and other benefits earned by employees is actuarially determined for each plan using the projected unit credit method, and management's best estimate of salary escalation, retirement ages, life expectancy, inflation, discount rates and health care costs. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. These assets are measured at fair value at the end of the reporting period, which is based on published market mid-price information in the case of quoted securities. The discount factors are determined at each reporting date by reference to market yields at the end of the reporting period on high quality corporate fixed-income investments consistent with the currency and the estimated terms of the related retirement benefit liability.

The actuarial gains and losses (including the foreign exchange impact) arising on the plan assets and defined benefit obligation and the effect of any asset ceiling and minimum liability are recognized directly in OCI in the period in which they occur and are never reclassified to net income. Past service costs (credits) are recognized directly in income in the period in which they occur.

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

Defined contribution plans

Contributions to defined contribution plans are recognized in net income when they are earned by the employees.

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

Property, plant and equipment

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

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

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

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

Intangible assets

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

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

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

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

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

(1) As at December 31, 2013, the remaining number of units to fully amortize the aerospace program tooling, except for aerospace program tooling under development, is expected to be produced over the next seven years.

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

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

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

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

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

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

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

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

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

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

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

Credit and residual value guarantees – Credit and residual value guarantees related to the sale of aircraft are recorded at the amount the Corporation expects to pay under these guarantees when the revenue for the related product is recognized. Subsequent to initial recognition, changes in the value of these guarantees are recorded in

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

Credit guarantees provide support through contractually limited payments to the guaranteed party to mitigate default-related losses. Credit guarantees are triggered if customers do not perform during the term of the financing.

Residual value guarantees provide protection, through contractually limited payments, to the guaranteed parties in cases where the market value of the underlying asset falls below the guaranteed value. In most cases, these guarantees are provided as part of a financing arrangement.

Restructuring provisions – Restructuring provisions are recognised only when the Corporation has an actual or a constructive obligation. The Corporation has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline. Furthermore, the affected employees or worker councils must have been notified of the plan's main features.

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

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

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

Litigation – A provision for litigation is recorded in case of legal actions, governmental investigations or proceedings when it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated.

Share-based payments

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

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

3. CHANGES IN ACCOUNTING POLICIES AND METHODS

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 amended IAS 1 was adopted effective January 1, 2013. The presentation of the Corporation's consolidated financial statement was not impacted by these amendments as the items within OCI that may be reclassified to the consolidated statement of income are already disclosed together.

Fair value measurement
In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS when another IFRS requires or permits the item to be measured at fair value. IFRS 13 was adopted effective January 1, 2013. The adoption of this standard had no significant impact on the Corporation's consolidated financial statements other than to give rise to additional disclosures, see Note 35 – Fair value of financial instruments.

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 to assess whether an entity should be included in an entity's consolidated financial statements. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. IFRS 10 was adopted effective January 1, 2013. The adoption of this standard had no impact on the consolidated financial statements of the Corporation.

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 was adopted effective January 1, 2013. See Note 36 – Investments in joint ventures and associates and Note 38 – Unconsolidated structured entities.

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 was the case under IAS 31. IFRS 11 classifies joint arrangements into two types: joint ventures and joint operations. Joint ventures are arrangements whereby the parties have rights to the net assets, while joint operations are arrangements whereby the parties have rights to the assets and obligations for the liabilities. The standard eliminates choices in the reporting of joint arrangements by requiring the use of the equity method to account for interests in joint ventures, and by requiring joint operators to recognize assets and liabilities in relation to their interests in the arrangements. IFRS 11 was adopted effective January 1, 2013 and the change has been accounted for retroactively in accordance with the transition rules of IFRS 11.

A large part of the Corporation's investments in joint arrangements qualify as joint ventures and are now accounted for using the equity method of accounting. These investments were previously accounted for using the proportionate consolidation method. Under the equity method of accounting, the Corporation's share of net assets, net income and OCI of joint ventures are presented as one-line items on the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income, respectively. In addition, the consolidated statement of cash flows under the equity method of accounting includes the cash flows between the Corporation and its joint ventures, and not the Corporation's proportionate share of the joint ventures' cash flows.

Employee benefits
In June 2011, the IASB amended IAS 19, *Employee benefits*. Among other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Under the previous IAS 19, interest income was presented separately from interest expense and calculated based on the expected return on the 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 amended IAS 19 was adopted effective January 1, 2013. The changes in accounting policy have been accounted for retroactively in accordance with the transition rules of the amended IAS 19 and the additional disclosures are provided in Note 22 – Retirement benefits.

Change in methods of measurement of certain financial assets
The Corporation revised its methods of measurement of certain financial assets carried at fair value, mainly investments in financing structures. The carrying value of these financial assets is determined using a valuation model based on stochastic simulations and discounted cash flow analysis. In the past, the methods used to determine the discount rate did not include all the components that market participants would consider as inputs to establish fair value. Therefore, the impacted financial assets have been re-measured using revised discount rates and the change of method has been accounted for retroactively. Also, certain of these remeasured financial assets have been reclassified on the consolidated statements of financial position to present them separately from related provisions.

Impact of adopting the above-mentioned changes in accounting policies and methods
The following tables summarize the Corporation's retroactive restatements to its consolidated financial statements resulting from the adoption of the amended IAS 19, *Employee benefits,* IFRS 11, *Joint arrangements* and the change in methods of measurement of certain financial assets, including the impact of reclassification.

The impacts on the consolidated statement of income are as follows, for fiscal year:

					2012
		Restatements			
	As presented	Joint arrangements [1]	Employee benefits	Remeasurement of certain financial assets	As restated
Revenues	$ 16,768	$ (354)	$ -	$ -	$ 16,414
Cost of sales	14,269	(230)	14	-	14,053
Gross margin	2,499	(124)	(14)	-	2,361
SG&A	1,443	(8)	7	-	1,442
R&D	299	-	-	-	299
Share of income of joint ventures and associates	(45)	(108)	-	-	(153)
Other income	(33)	-	-	-	(33)
Special items	140	-	-	-	140
EBIT	695	(8)	(21)	-	666
Financing expense	596	-	(301)	-	295
Financing income	(599)	12	427	(5)	(165)
EBT	698	(20)	(147)	5	536
Income taxes	100	(20)	(16)	2	66
Net income	$ 598	$ -	$ (131)	$ 3	$ 470
EPS (in dollars)					
Basic and diluted	$ 0.32				$ 0.25

[1] Adjustments resulting from the application of the equity method:

i. impact of ceasing to consolidate proportionally the Corporation's share of revenues and expenses of joint ventures;
ii. impact of not eliminating certain transactions between the Corporation and the joint ventures; and
iii. impact of recording the Corporation's pro-rata share of net income arising from joint ventures as a one-line item under the caption share of income of joint ventures and associates.

The impacts on the consolidated statements of financial position are as follows, as at:

					December 31, 2012
		Restatements			
	As presented	Joint arrangements	Employee benefits	Remeasurement of certain financial assets [1]	As restated
Assets					
Cash and cash equivalents	$ 2,896	$ (339)	$ -	$ -	$ 2,557
Other current assets	9,937	(406)	-	-	9,531
Investments in joint ventures and associates	66	245	-	-	311
Other financial assets	1,759	(6)	-	29	1,782
Other non-current assets	11,132	(128)	-	(10)	10,994
	$ 25,790	$ (634)	$ -	$ 19	$ 25,175
Liabilities					
Other current liabilities	$ 11,312	$ (578)	$ -	$ 59	$ 10,793
Provisions	1,586	(58)	-	80	1,608
Retirement benefits	2,997	(2)	4	-	2,999
Other non-current liabilities	8,518	-	-	-	8,518
	24,413	(638)	4	139	23,918
Equity	1,377	4	(4)	(120)	1,257
	$ 25,790	$ (634)	$ -	$ 19	$ 25,175

					January 1, 2012
		Restatements			
	As presented	Joint arrangements	Employee benefits	Remeasurement of certain financial assets [1]	As restated
Assets					
Cash and cash equivalents	$ 3,372	$ (480)	$ -	$ -	$ 2,892
Other current assets	9,365	(159)	-	-	9,206
Investments in joint ventures and associates	37	238	-	-	275
Other financial assets	1,831	(15)	-	17	1,833
Other non-current assets	9,259	(118)	-	(8)	9,133
	$ 23,864	$ (534)	$ -	$ 9	$ 23,339
Liabilities					
Other current liabilities	$ 10,877	$ (479)	$ -	$ -	$ 10,398
Provisions	1,672	(59)	-	132	1,745
Retirement benefits	3,226	-	5	-	3,231
Other non-current liabilities	7,418	-	-	-	7,418
	23,193	(538)	5	132	22,792
Equity	671	4	(5)	(123)	547
	$ 23,864	$ (534)	$ -	$ 9	$ 23,339

[1] Including reclassifications.

The impacts on the consolidated statement of comprehensive income and on the consolidated equity position, net of income taxes, are as follows:

	Fiscal year 2012
Comprehensive income as presented	$ 904
Net income	
Employee benefits	(131)
Remeasurement of certain financial assets	3
OCI	
Employee benefits	132
Net increase in comprehensive income	4
Comprehensive income as restated	$ 908

	As at December 31, 2012
Equity as presented	$ 1,377
Joint arrangements	4
Employee benefits	(4)
Remeasurement of certain financial assets	(120)
Equity as restated	$ 1,257

The impacts on the consolidated statement of cash flows are as follows, for fiscal year:

			2012
		Restatements	
	As presented	Joint arrangements	As restated
Cash flow from operating activities	$ 1,348	$ 90	$ 1,438
Cash flow from investing activities	(1,950)	51	(1,899)
Cash flow from financing activities	77	4	81
Effect of exchange rates	49	(4)	45
Net increase (decrease) in cash and cash equivalents	(476)	141	(335)
Cash and cash equivalents at beginning of year	3,372	(480)	2,892
Cash and cash equivalents at end of year	$ 2,896	$ (339)	$ 2,557

4. 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. In November 2013, the IASB released the hedge accounting part, which introduced a new hedge accounting model, together with corresponding disclosures about risk management activity. The third part, impairment of financial assets, is still under development. The IASB is currently considering making limited modifications to the first part of IFRS 9. Those limited modifications include the introduction of a fair value through OCI category for debt instruments that would be based on an entity's business model.

The first part of IFRS 9 uses a new 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, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at FVTP&L, will be presented in OCI rather than in the statement of income. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

The mandatory effective date of IFRS 9, initially set for the Corporation's fiscal year beginning on January 1, 2015, has been removed by the IASB. The new mandatory effective date will be determined by the IASB when the entire IFRS 9 project is closer to completion. IFRS 9 is still available for early adoption. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

In June 2013, the IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment will be effective for the Corporation's fiscal year beginning on January 1, 2014. Similar relief will be included in IFRS 9.

Employee benefits
In November 2013, the IASB has amended IAS 19, *Employee benefits*, in order to simplify the accounting for contributions of defined benefit plans that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment will be effective for the Corporation's fiscal year 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.

5. USE OF ESTIMATES AND JUDGMENT

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

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

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

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

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

Long-term contracts – BT conducts most of its business under long-term manufacturing and service contracts and BA has some long-term maintenance service contracts, as well as design and development contracts for third parties. Revenues and margins from long-term contracts relating to the designing, engineering or manufacturing of specially designed products (including rail vehicles and component overhaul) and service contracts are recognized using the percentage-of-completion method of accounting. The long-term nature of these contracts requires estimates of total contract costs and revenues at completion.

Estimated revenues at completion are adjusted for change orders, claims, performance incentives and other contract terms that provide for the adjustment of prices. If it is probable that additional revenues will occur, they are included in estimated revenues at completion.

Estimated contract costs at completion incorporate forecasts for material and labour usage and costs, foreign exchange rates (including the effect of hedges) and labour productivity. These costs are influenced by the nature and complexity of the work to be performed, as well as the impact of change orders and potential delays in delivery. Cost estimates are based mainly on historical performance trends, economic trends, collective agreements and contracts signed with suppliers. Management applies judgment to determine the probability that the Corporation will incur additional costs from delays or other penalties and such costs, if probable, are included in estimated costs at completion.

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

Sensitivity analysis
A 1% increase in the estimated future costs to complete all ongoing long-term contracts would have decreased BT's gross margin for fiscal year 2013 by approximately $89 million.

Aerospace program tooling – Aerospace program tooling amortization and the calculation of recoverable amounts used in impairment testing require estimates of the expected number of aircraft to be delivered over the life of each program. The expected number of aircraft is based on management's aircraft market forecasts and the Corporation's expected share of each market. Such estimates are reviewed in detail as part of the budget and strategic plan process. For purposes of impairment testing, management exercises judgment to identify independent cash inflows to identify CGUs by family of aircraft. The recoverable amount of a group of assets is based on the higher of fair value less costs to sell and value in use, generally determined using a discounted cash flow model. Other key estimates used to determine the recoverable amount include the applicable discount rate and the expected future cash flows over the remaining life of each programs. The inputs used in the discounted cash flow model are Level 3 inputs (inputs for the asset that are not based on observable market data).

The discount rate is based on a weighted average cost of capital calculated using market-based inputs, available directly from financial markets or based on a benchmark sampling of representative publicly traded companies.

Forecast future cash flows are based on management's risk-adjusted best estimate of future sales under existing firm orders, expected future orders, timing of payments based on expected delivery schedule, revenues from related services, procurement costs based on existing contracts with suppliers, future labour costs, general market conditions and applicable income tax rates.

The recoverable amounts were established during the fourth quarter of fiscal year 2013 based on fair value less costs to sell using a discounted cash flow model. In applying the discounted cash flow model, the estimated future cash flows for the first three years are based on the budget and strategic plan and on long-range forecasts thereafter. A post-tax discount rate of 7.5% was used.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

A 10% decrease in the expected future net cash inflow for all programs, evenly distributed over future periods, would have resulted in an impairment charge of approximately $300 million in fiscal year 2013 for programs under development.

An increase of 100-basis points in the discount rate used to perform the impairment test would have resulted in an impairment charge of approximately $280 million in fiscal year 2013 for programs under development.

Goodwill – The recoverable amount of the BT reportable segment, the group of CGUs to which goodwill is allocated, is based on the higher of fair value less costs to sell and value in use. The recoverable amount was calculated during the fourth quarter of fiscal year 2012 based on fair value less costs to sell using a discounted cash flow model. The inputs used in the discounted cash flow model are Level 3 inputs (inputs that are not based on observable market data). During fiscal year 2013, the Corporation concluded that all criteria for using the recoverable amount from a previous period were met and the impairment assessment was performed by carrying forward the recoverable amount calculated during the fourth quarter of fiscal year 2012. The Corporation did not identify any impairment.

Estimated future cash flows were based on the budget and strategic plan for the first three years and a constant growth rate of 1% was applied to derive estimated cash flows beyond the initial three-year period. For purposes of this test, management used a 15-year period to project future cash flows.

The post-tax discount rate is also a key estimate in the discounted cash flow model and was based on a representative weighted average cost of capital. The post-tax discount rate used to calculate the recoverable amount in fiscal year 2012 was 6.8%. A 100-basis point change in the post-tax discount rate would not have resulted in an impairment charge in fiscal year 2013.

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

Tax contingencies **–** Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Corporation establishes tax provisions for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the legal entities.

Credit and residual value guarantees **–** The Corporation uses an internal valuation model based on stochastic simulations to measure the amounts expected to be paid under credit and residual value guarantees. The amounts expected to be paid under the guarantees depend on whether credit defaults occur during the term of the original financing. When a credit default occurs, the credit guarantee may be called upon. In the absence of a credit default the residual value guarantee may be triggered. In both cases, the guarantees can only be called upon if there is a loss upon the sale of the aircraft. Therefore, the value of the guarantee is in large part impacted by the future value of the underlying aircraft. Aircraft residual value curves, prepared by management based on information from external appraisals and adjusted to reflect specific factors of the current aircraft market and a balanced market in the medium and long term, are used to estimate this future value. The amount of the liability is also significantly impacted by the current market assumption for interest rates since payments under these guarantees are mostly expected to be made in the medium to long term. Other key estimates in calculating the value of the guarantees include default probabilities, estimated based on published credit ratings when available or, when not available, on internal assumptions regarding the credit risk of customers, as well as on the likelihood that credit or residual value guarantees will be called upon at the expiry of the financing arrangements. The estimates are reviewed on a quarterly basis.

Sensitivity analysis
The following analyses are presented in isolation from one another, i.e. all other estimates left unchanged:

Assuming a decrease of 5% in the residual value curves of all aircraft as at December 31, 2013, EBIT for fiscal year 2013 would have been negatively impacted by $26 million.

Assuming a 100-basis point decrease in interest rates as at December 31, 2013, EBT for fiscal year 2013 would have been negatively impacted by $15 million. Assuming a 100-basis point increase in interest rates as at December 31, 2013, EBT for fiscal year 2013 would have been positively impacted by $16 million.

Retirement and other long-term employee benefits – The actuarial valuation process used to measure pension and other post-employment benefit costs, assets and obligations is dependent on assumptions regarding discount rates, compensation and pre-retirement benefit increases, inflation rates, health-care cost trends, as well as demographic factors such as employee turnover, retirement and mortality rates. The impacts from changes in discount rates and, when significant, from key events and other circumstances, are recorded quarterly.

Discount rates are used to determine the present value of the expected future benefit payments and represent the market rates for high-quality corporate fixed-income investments consistent with the currency and the estimated term of the retirement benefit liabilities. As the Canadian high-quality corporate bond market, as defined under IFRS, includes relatively few medium- and long- term maturity bonds, the discount rate for our Canadian pension and other post-employment plans is established by constructing a yield curve using four maturity ranges. The first maturity range of the curve was based on observed market rates for AA-rated corporate bonds with maturities of less than six years. In the longer maturity ranges, due to the smaller number of high-quality bonds available, the curve is derived using market observations and extrapolated data. The extrapolated data points were created by adding a term-based yield spread over long-term provincial bond yields. This spread is based on the observed spreads between AA-rated corporate bonds and AA-rated provincial bonds in the last three maturity ranges of the curve.

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

See Note 22 – Retirement benefits for further details regarding assumptions used and sensitivity to changes in critical actuarial assumptions.

Consolidation – From time to time, the Corporation participates in structured entities where voting rights are not the dominant factor in determining control. In these situations, management may use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether the Corporation is exposed to, or has rights to, significant variable returns. The quantitative analyses involve estimating the future cash flows and performance of the investee and analyzing the variability in those cash flows. The qualitative analyses involve consideration of factors such as the purpose and design of the investee and whether the Corporation is acting as an agent or principal. There is a significant amount of judgment exercised in evaluating the results of these analyses as well as in determining if we have power to affect the investee's returns, including an assessment of the impact of potential voting rights, contractual agreements and de facto control. Management reassesses its initial determination of control if facts or circumstances indicate that there may be changes to one or more elements of control.

6. SEGMENT DISCLOSURE

The Corporation has two reportable segments: BA and BT. Each reportable segment offers different products and services and requires different technology and marketing strategies.

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. Refer to Note 28 – Disposal of a business for the sale of main assets and related liabilities of the Corporation's Flexjet activities.	BT is a world leader in the design, manufacture and support of rail equipment and systems, offering a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides bogies, electric propulsion, control equipment and maintenance services, as well as complete rail transportation systems and rail control solutions.

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

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

			2013			2012
	BA	**BT**	**Total**	BA	BT	Total
Results of operations						
Revenues	**$ 9,385**	**$ 8,766**	**$ 18,151**	$ 8,628	$ 7,786	$ 16,414
Cost of sales	**8,118**	**7,540**	**15,658**	7,427	6,626	14,053
Gross margin	**1,267**	**1,226**	**2,493**	1,201	1,160	2,361
SG&A	**699**	**718**	**1,417**	705	737	1,442
R&D	**173**	**120**	**293**	155	144	299
Share of income of joint ventures and associates	**-**	**(119)**	**(119)**	-	(153)	(153)
Other expense (income)	**7**	**2**	**9**	(26)	(7)	(33)
EBIT before special items	**388**	**505**	**893**	367	439	806
Special items[1]	**(30)**	**-**	**(30)**	(23)	163	140
EBIT	**$ 418**	**$ 505**	**923**	$ 390	$ 276	666
Financing expense			**271**			295
Financing income			**(119)**			(165)
EBT			**771**			536
Income taxes			**199**			66
Net income			**$ 572**			$ 470

Other information						
Net additions to PP&E and intangible assets[2]	**$ 2,213**	**$ 74**	**$ 2,287**	$ 1,971	$ 103	$ 2,074
Amortization	**$ 267**	**$ 124**	**$ 391**	$ 242	$ 122	$ 364
Impairment charges on PP&E	**$ -**	**$ -**	**$ -**	$ -	$ 9	$ 9

[1] See Note 9 – Special items for more details.
[2] As per the consolidated statements of cash flows.

The reconciliation of total assets and total liabilities to segmented assets and liabilities is as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Assets			
Total assets	**$ 29,363**	$ 25,175	$ 23,339
Assets not allocated to segments			
Cash and cash equivalents	**3,397**	2,557	2,892
Income tax receivable[1]	**27**	-	-
Deferred income taxes	**1,231**	1,421	1,476
Segmented assets	**24,708**	21,197	18,971
Liabilities			
Total liabilities	**26,914**	23,918	22,792
Liabilities not allocated to segments			
Interest payable[2]	**116**	66	59
Income taxes payable[3]	**198**	109	106
Long-term debt[4]	**7,203**	5,405	4,941
Deferred income taxes[3]	**-**	46	67
Segmented liabilities	**$ 19,397**	$ 18,292	$ 17,619
Net segmented assets			
BA	**$ 4,921**	$ 2,618	$ 899
BT	**$ 390**	$ 287	$ 453

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

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

	2013	2012
BA		
Manufacturing		
Business aircraft	**$ 5,038**	$ 4,590
Commercial aircraft	**1,248**	1,115
Other	**550**	521
Total manufacturing	**6,836**	6,226
Services[1]	**1,897**	1,718
Other[2]	**652**	684
	9,385	8,628
BT		
Rolling stock[3]	**5,511**	5,071
Services[4]	**1,596**	1,437
System and signalling[5]	**1,659**	1,278
	8,766	7,786
	$ 18,151	$ 16,414

(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, 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.

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

	Revenues for fiscal years [1]		PP&E and intangible assets as at [2]		
			December 31	December 31	January 1
	2013	2012	**2013**	2012	2012
North America					
United States	**$ 5,640**	$ 5,011	**$ 2,003**	$ 1,517	$ 1,150
Canada	**1,351**	1,130	**4,746**	3,565	2,595
Mexico	**93**	124	**151**	106	39
	7,084	6,265	**6,900**	5,188	3,784
Europe					
Germany	**1,954**	1,717	**1,235**	1,214	1,211
United Kingdom	**1,913**	1,472	**1,767**	1,501	1,135
France	**960**	897	**50**	52	54
Switzerland	**575**	534	**398**	387	379
Other	**2,508**	2,242	**803**	797	763
	7,910	6,862	**4,253**	3,951	3,542
Asia-Pacific					
China	**560**	442	**7**	8	9
India	**224**	345	**27**	34	40
Other	**1,156**	997	**22**	23	17
	1,940	1,784	**56**	65	66
Other					
Russia	**240**	270	**1**	1	1
Other	**977**	1,233	**29**	24	23
	1,217	1,503	**30**	25	24
	$ 18,151	$ 16,414	**$ 11,239**	$ 9,229	$ 7,416

(1) Allocated to countries based on the location of the customer.
(2) PP&E and intangible assets, excluding goodwill, are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the related purchase price.

7. RESEARCH AND DEVELOPMENT

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

		2013		2012
R&D expenditures	$	**2,130**	$	1,901
Less: development expenditures capitalized to aerospace program tooling		**(1,984)**		(1,728)
		146		173
Add: amortization of aerospace program tooling		**147**		126
	$	**293**	$	299

8. OTHER EXPENSE (INCOME)

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

		2013		2012
Changes in estimates and fair value[(1)]	$	**17**	$	(23)
Gain on disposals of PP&E and intangible assets		**-**		(6)
Severance and other involuntary termination costs (including changes in estimates)[(2)]		**(2)**		-
Other		**(6)**		(4)
	$	**9**	$	(33)

(1) Includes net loss (gain) on certain financial instruments measured at fair value and changes in estimates related to certain provisions or certain financial instruments, excluding losses (gains) arising from changes in interest rates.
(2) Excludes those presented in special items for fiscal year 2012.

9. SPECIAL ITEMS

Special items comprise items which do not reflect, in management's opinion, the Corporation's core performance such as the impact of restructuring charges, significant impairment charges and reversals, as well as other significant unusual items.

Special items were as follows, for fiscal years:

		2013		2012
Gains on resolution of litigations[(1)]	$	**(43)**	$	(40)
Inventory write-down[(2)]		**24**		-
Gain on disposal of a business[(3)]		**(23)**		-
BT restructuring charges[(4)]		**-**		119
Loss related to flooding in New Jersey, U.S.		**-**		19
Foreign exchange hedging loss[(5)]		**-**		25
	$	**(42)**	$	123
Of which is presented in				
Special items in EBIT	$	**(30)**	$	140
Financing income - interest related to the resolution of a litigation		**(12)**		(17)
	$	**(42)**	$	123

(1) Represents a gain upon the successful resolution of a litigation of $43 million in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital, of which $12 million represents the interest portion of the gain for fiscal year 2013 ($40 million in connection with Part I.3 of the Canadian Income Tax Act, the Tax on Large Corporations, of which $17 million represents the interest portion of the gain for fiscal year 2012).
(2) Represents a BA inventory write-down related to the prolonged production pause for the *Learjet 60* program.
(3) Related to the sale of Flexjet activities, see Note 28 – Disposal of a business for more details.
(4) During the fourth quarter of 2012, BT announced measures to improve its competitiveness and cost structure. A restructuring charge of $119 million related to these planned measures was recorded, which includes $9 million of impairment charge on PP&E.
(5) Relates to a change of currency for a large contract.

10. FINANCING EXPENSE AND FINANCING INCOME

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

		2013		2012
Financing expense				
Accretion on net retirement benefit obligations	$	**113**	$	140
Accretion on other financial liabilities		**29**		28
Amortization of letter of credit facility costs		**16**		20
Accretion on provisions		**4**		5
Changes in discount rates of provisions		**-**		3
Other		**21**		26
		183		222
Interest on long-term debt, after effect of hedges		**88**		73
	$	**271** [(1)]	$	295 [(1)]
Financing income				
Changes in discount rates of provisions	$	**(18)**	$	-
Interest related to the resolution of litigations[(2)]		**(12)**		(17)
Net gain on certain financial instruments[(3)]		**(4)**		(49)
Other		**(27)**		(13)
		(61)		(79)
Interest on loans and lease receivables - after effect of hedges		**(33)**		(34)
Interest on cash and cash equivalents		**(14)**		(19)
Income from investment in securities		**(11)**		(33)
	$	**(119)** [(4)]	$	(165) [(4)]

(1) Of which $125 million represents the interest expense calculated using the effective interest rate method for financial liabilities classified as other than HFT for fiscal year 2013 ($121 million for fiscal year 2012).
(2) Represents the interest portion of a gain of $43 million for fiscal year 2013 upon the successful resolution of a litigation in connection with Part IV of the Quebec Income Tax Act, the Tax on Capital ($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 for fiscal year 2012). The remaining $31 million of the gain was recorded in special items for fiscal year 2013 ($23 million for fiscal year 2012).
(3) Net gains on certain financial instruments classified as FVTP&L, including (gains) losses arising from changes in interest rates.
(4) Of which $16 million represents the interest income calculated using the effective interest rate method for financial assets classified as L&R for fiscal year 2013 ($9 million for fiscal year 2012).

Borrowing costs capitalized to PP&E and intangible assets totalled $271 million for fiscal year 2013, using an average capitalization rate of 5.48% ($178 million and 5.65% for fiscal year 2012). 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).

11. EMPLOYEE BENEFIT COSTS

Employee benefit costs [(1)] were as follows, for fiscal years:

	Notes		2013		2012
Wages, salaries and other employee benefits		$	**5,961**	$	5,485
Retirement benefits[(2)]	22		**496**		529
Share-based expense	30		**11**		7
Restructuring, severance and other involuntary termination costs	8, 9		**(2)**		110
		$	**6,466**	$	6,131

(1) Employee benefit costs include costs capitalized as part of the cost of inventories and other self-constructed assets.
(2) Includes defined benefit and defined contribution plans.

12. INCOME TAXES

Analysis of income tax expense

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

	2013	2012
Current income taxes	**$ 125**	$ 107
Deferred income taxes	**74**	(41)
	$ 199	$ 66

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

	2013	2012
EBT	**$ 771**	$ 536
Canadian statutory tax rate	**26.8%**	26.8%
Income tax expense at statutory rate	**207**	144
Increase (decrease) resulting from		
Recognition of previously unrecognized tax losses or temporary differences	**(211)**	(245)
Non-recognition of tax benefits related to tax losses and temporary differences	**200**	131
Effect of substantively enacted income tax rate changes and tax status changes in certain entities	**(6)**	15
Permanent differences	**(40)**	(34)
Write-down of deferred income tax assets	**51**	76
Income tax rates differential of foreign subsidiaries and other investees	**(29)**	(30)
Other	**27**	9
Income tax expense	**$ 199**	$ 66
Effective tax rate	**25.8%**	12.3%

The Corporation's applicable Canadian statutory tax rate is the Federal and Provincial combined tax rate applicable in the jurisdiction in which the Corporation operates.

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

	2013	2012
Origination and reversal of temporary differences	**$ 40**	$ (18)
Recognition of previously unrecognized tax losses or temporary differences	**(211)**	(245)
Non-recognition of tax benefits related to tax losses and temporary differences	**200**	131
Effect of substantively enacted income tax rate changes and tax status changes in certain entities	**(6)**	15
Write-down of deferred income tax assets	**51**	76
	$ 74	$ (41)

Deferred income taxes

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

	December 31, 2013				December 31, 2012				January 1, 2012			
	Asset		**Liability**		Asset		Liability		Asset		Liability	
Operating tax losses carried forward	**$**	**1,985**	**$**	**-**	$	1,788	$	-	$	1,501	$	-
Retirement benefits		**444**		**-**		714		-		894		-
Advance and progress billings in excess of long-term contract inventories and advances on aerospace programs		**927**		**-**		900		-		847		-
Inventories		**240**		**-**		305		(46)		422		(67)
Provisions		**370**		**-**		448		-		498		-
Other financial assets and other assets		**(172)**		**-**		(183)		-		(360)		-
PP&E		**(63)**		**-**		(36)		-		(12)		-
Other financial liabilities and other liabilities		**155**		**-**		61		-		127		-
Intangible assets		**(821)**		**-**		(591)		-		(371)		-
Other		**167**		**-**		166		-		128		-
		3,232		**-**		3,572		(46)		3,674		(67)
Unrecognized deferred tax assets		**(2,001)**		**-**		(2,151)		-		(2,198)		-
	$	**1,231**	**$**	**-**	$	1,421	$	(46)	$	1,476	$	(67)

The changes in the net deferred income tax asset were as follows for the fiscal years:

		2013		2012
Balance at beginning of year, net	**$**	**1,375**	$	1,409
In net income		**(74)**		41
In OCI				
Retirement benefits		**(87)**		(39)
Cash flow hedges		**6**		(64)
AFS financial assets		**-**		6
Other[(1)]		**11**		22
Balance at end of year, net	**$**	**1,231**	$	1,375

(1) Mainly comprises foreign exchange rate effects.

The net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to $7,121 million as at December 31, 2013, of which $954 million relates to retirement benefits that will reverse through OCI ($7,852 million as at December 31, 2012 of which $1,678 million relates to retirement benefits that will reverse through OCI and $8,046 million as at January 1, 2012 of which $1,890 million relates to retirement benefits that will reverse through OCI). Of these amounts, approximately $6,506 million as at December 31, 2013 has no expiration date ($7,390 million as at December 31, 2012 and $8,013 million as at January 1, 2012) and approximately $2,066 million relates to the Corporation's operations in Germany where a minimum income tax is payable on 40% of taxable income ($1,636 million as at December 31, 2012 and $1,033 million as at January 1, 2012) and $338 million relate to the Corporation's operations in France where a minimum income tax is payable on 50% of taxable income (no minimum tax prior to year ended December 31, 2013).

In addition, the Corporation has $517 million of unused investment tax credits, most of which can be carried forward for 20 years and $57 million of net capital losses carried forward for which deferred tax assets have not been recognized ($360 million and $50 million as at December 31, 2012). Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

Net deferred tax assets of $639 million were recognized as at December 31, 2013 ($821 million as at December 31, 2012 and $545 million as at January 1, 2012) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income, projections for future taxable income and tax planning strategies, management believes it is probable the Corporation will realize the benefits of these deductible differences and operating tax losses carried forward. See Note 5 – Use of estimates and judgment for more information on how the Corporation determines the extent to which deferred income tax assets are recognized.

No deferred tax liabilities have been recognized on undistributed earnings of the Corporation's foreign subsidiaries, joint ventures and associates when they are considered to be indefinitely reinvested, unless it is probable that these temporary differences will reverse. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to corporation and/or withholding taxes. Taxable temporary differences for which a deferred tax liability was not recognized amount to approximately $364 million as at December 31, 2013 ($269 million as at December 31, 2012 and $225 million as at January 1, 2012).

13. EARNINGS PER SHARE

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

		2013		2012
(Number of shares, stock options, PSUs and DSUs, in thousands)				
Net income attributable to equity holders of Bombardier Inc.	**$**	**564**	$	460
Preferred share dividends, including taxes		**(32)**		(29)
Net income attributable to common equity holders of Bombardier Inc.	**$**	**532**	$	431
Weighted-average number of common shares outstanding		**1,738,916**		1,730,767
Net effect of stock options, PSUs and DSUs		**2,213**		7,082
Weighted-average diluted number of common shares		**1,741,129**		1,737,849
EPS (in dollars)				
Basic and diluted	**$**	**0.31**	$	0.25

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 45,300,120 stock options, PSUs and DSUs for fiscal year 2013 (30,353,637 stock options, PSUs and DSUs for fiscal year 2012) since the average market value of the underlying shares was lower than the exercise price, or because the predetermined target market price thresholds of the Corporation's Class B Shares (subordinate voting) or predetermined financial performance targets had not been met.

14. FINANCIAL INSTRUMENTS

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

		2013		2012
Financial instruments measured at amortized cost				
L&R - impairment charges	**$**	**(13)**	$	(9)
Financial instruments measured at fair value				
AFS - gains from disposal	**$**	**-**	$	29
FVTP&L - changes in fair value				
Designated as FVTP&L				
Financial assets	**$**	**(37)**	$	(20)
Financial liabilities	**$**	**(13)**	$	(20)
Required to be classified as HFT				
Derivatives not designated in hedging relationships	**$**	**(20)**	$	(15)
Other[1]	**$**	**37**	$	65

[1] Excluding the interest income portion related to cash and cash equivalents of $14 million for the fiscal year 2013 ($19 million for fiscal year 2012).

Carrying amounts and fair value of financial instruments

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

	FVTP&L						
	HFT	Designated	AFS	Amortized cost [1]	DDHR	Total carrying value	Fair value
December 31, 2013							
Financial assets							
Cash and cash equivalents	**$ 3,397**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 3,397**	**$ 3,397**
Trade and other receivables	**-**	**-**	**-**	**1,492**	**-**	**1,492**	**1,492**
Other financial assets	**129**	**673**	**315**	**425**	**663**	**2,205**	**2,203**
	$ 3,526	**$ 673**	**$ 315**	**$ 1,917**	**$ 663**	**$ 7,094**	**$ 7,092**
Financial liabilities							
Trade and other payables	**$ -**	**$ -**	**n/a**	**$ 4,089**	**$ -**	**$ 4,089**	**$ 4,089**
Long-term debt[2]	**-**	**-**	**n/a**	**7,203**	**-**	**7,203**	**7,346**
Other financial liabilities	**25**	**142**	**n/a**	**958**	**386**	**1,511**	**1,656**
	$ 25	**$ 142**	**n/a**	**$ 12,250**	**$ 386**	**$ 12,803**	**$ 13,091**
December 31, 2012							
Financial assets							
Cash and cash equivalents	$ 2,557	$ -	$ -	$ -	$ -	$ 2,557	$ 2,557
Trade and other receivables	-	-	-	1,311	-	1,311	1,311
Other financial assets	92	697	217	133	643	1,782	1,782
	$ 2,649	$ 697	$ 217	$ 1,444	$ 643	$ 5,650	$ 5,650
Financial liabilities							
Trade and other payables	$ -	$ -	n/a	$ 3,310	$ -	$ 3,310	$ 3,310
Long-term debt[2]	-	-	n/a	5,405	-	5,405	5,272
Other financial liabilities	15	158	n/a	712	126	1,011	1,146
	$ 15	$ 158	n/a	$ 9,427	$ 126	$ 9,726	$ 9,728
January 1, 2012							
Financial assets							
Cash and cash equivalents	$ 2,892	$ -	$ -	$ -	$ -	$ 2,892	$ 2,892
Trade and other receivables	-	-	-	1,342	-	1,342	1,342
Other financial assets	44	713	399	173	504	1,833	1,832
	$ 2,936	$ 713	$ 399	$ 1,515	$ 504	$ 6,067	$ 6,066
Financial liabilities							
Trade and other payables	$ -	$ -	n/a	$ 3,032	$ -	$ 3,032	$ 3,032
Long-term debt[2]	-	-	n/a	4,941	-	4,941	4,649
Other financial liabilities	21	140	n/a	557	323	1,041	1,118
	$ 21	$ 140	n/a	$ 8,530	$ 323	$ 9,014	$ 8,799

[1] Financial assets are classified as L&R and financial liabilities as other than HFT.
[2] Includes the current portion of long-term debt.
n/a: Not applicable

Offsetting financial assets and financial liabilities

Following the amendment to IFRS 7, *Financial instruments: disclosures,* the Corporation is now required to disclose information about rights to set-off financial instruments on its consolidated statements of financial position and related arrangements.

The Corporation is subject to enforceable master netting agreements related mainly to its derivative financial instruments and cash and cash equivalents which contain a right of set-off in case of default, insolvency or bankruptcy. The amounts that are subject to the enforceable master netting agreements, but which do not meet some or all of the offsetting criteria, are as follows as at December 31, 2013:

Description of recognized financial assets and liabilities	**Amount recognized in the financial statements**	**Amounts subject to master netting agreements**	**Net amount not subject to master netting agreements**
Derivative financial instruments - assets	$ 792	$ (304)	$ 488
Derivative financial instruments - liabilities	$ (411)	$ 316	$ (95)
Cash and cash equivalents	$ 3,397	$ (12)	$ 3,385

Derivatives and hedging activities

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

	December 31, 2013		December 31, 2012		January 1, 2012	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as fair value hedges						
Cross-currency interest-rate swaps	**$ 36**	**$ -**	$ 17	$ 6	$ 12	$ 39
Interest-rate swaps	**296**	**67**	394	-	297	-
	332	**67**	411	6	309	39
Derivative financial instruments designated as cash flow hedges[1]						
Forward foreign exchange contracts	**331**	**319**	232	120	195	284
Derivative financial instruments classified as HFT[2]						
Forward foreign exchange contracts	**27**	**22**	13	12	19	14
Interest-rate swaps	**-**	**2**	-	2	-	4
Embedded derivative financial instruments						
Foreign exchange	**1**	**1**	3	1	4	3
Call options on long-term debt	**101**	**-**	76	-	21	-
	129	**25**	92	15	44	21
Total derivative financial instruments	**$ 792**	**$ 411**	$ 735	$ 141	$ 548	$ 344
Non-derivative financial instruments designated as hedges of net investment						
Long-term debt	**$ -**	**$ 517**	$ -	$ 1,042	$ -	$ 1,029

[1] The maximum length of time of derivative financial instruments hedging the Corporation's exposure to the variability in future cash flows for anticipated transactions is 23 months as at December 31, 2013.
[2] Held as economic hedges, except for embedded derivative financial instruments.

The net losses on hedging instruments designated in fair value hedge relationships and net gains on the related hedged items attributable to the hedged risk recognized in financing expense, amounted to $205 million and $213 million respectively for fiscal year 2013 (net gains of $101 million and net losses of $95 million respectively for fiscal year 2012).

The methods and assumptions used to measure the fair value of financial instruments are described in Note 35 - Fair value of financial instruments.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows, as at:

		December 31, 2013		December 31, 2012		January 1, 2012
Cash	**$**	**1,475**	$	916	$	613
Cash equivalents						
Term deposits		**762**		656		748
Money market funds		**1,160**		985		1,531
Cash and cash equivalents	**$**	**3,397**	$	2,557	$	2,892

See Note 32 – Credit facilities for details on covenants related to cash and cash equivalents.

16. TRADE AND OTHER RECEIVABLES

Trade and other receivables were as follows, as at:

					Past due but not impaired [3]					
		Total		**Not past due**		**less than 90 days**		**more than 90 days**		**Impaired [4]**
December 31, 2013[1][2]										
Trade receivables, gross	**$**	**1,430**	**$**	**796**	**$**	**194**	**$**	**359**	**$**	**81**
Allowance for doubtful accounts		**(44)**		**-**		**-**		**-**		**(44)**
		1,386	**$**	**796**	**$**	**194**	**$**	**359**	**$**	**37**
Other		**106**								
Total	**$**	**1,492**								
December 31, 2012[1][2]										
Trade receivables, gross	$	1,256	$	813	$	204	$	200	$	39
Allowance for doubtful accounts		(34)		-		-		-		(34)
		1,222	$	813	$	204	$	200	$	5
Other		89								
Total	$	1,311								
January 1, 2012[1][2]										
Trade receivables, gross	$	1,284	$	932	$	172	$	134	$	46
Allowance for doubtful accounts		(42)		-		-		-		(42)
		1,242	$	932	$	172	$	134	$	4
Other		100								
Total	$	1,342								

[1] Of which $465 million and $411 million are denominated in euros and other foreign currencies, respectively, as at December 31, 2013 ($396 million and $356 million, respectively, as at December 31, 2012 and $432 million and $274 million, respectively, as at January 1, 2012).

[2] Of which $392 million represents customer retentions relating to long-term contracts as at December 31, 2013 based on normal terms and conditions ($240 million as at December 31, 2012 and $172 million as at January 1, 2012).

[3] Of which $509 million of trade receivables relates to BT long-term contracts as at December 31, 2013, of which $353 million were more than 90 days past due ($335 million as at December 31, 2012 of which $190 million were more than 90 days past due and $211 million as at January 1, 2012, of which $109 million were more than 90 days past due). BT assesses whether these receivables are collectible as part of its risk management practices applicable to long-term contracts as a whole.

[4] Of which a gross amount of $73 million of trade receivables are individually impaired as at December 31, 2013 ($34 million as at December 31, 2012 and $38 million as at January 1, 2012).

The factors that the Corporation considers to classify trade receivables as impaired are as follows: the customer is in bankruptcy or under administration, payments are in dispute, or payments are in arrears. Further information on financial risk is provided in Note 34 – Financial risk management.

Allowance for doubtful accounts – Changes in the allowance for doubtful accounts were as follows, for fiscal years:

	2013	2012
Balance at beginning of year	**$ (34)**	$ (42)
Provision for doubtful accounts	**(13)**	(9)
Amounts written-off	**3**	15
Recoveries	**3**	2
Effect of foreign currency exchange rate changes	**(3)**	-
Balance at end of year	**$ (44)**	$ (34)

Off-balance sheet factoring facilities
In the normal course of its business, BT has factoring facilities in Europe to which it can sell, without recourse, qualifying trade receivables. Trade receivables of €1,084 million ($1,495 million) were outstanding under such facilities as at December 31, 2013 (€886 million ($1,169 million) as at December 31, 2012 and €580 million ($751 million) as at January 1, 2012). Trade receivables of €1,213 million ($1,611 million) were sold to these facilities during fiscal year 2013 (€963 million ($1,239 million) during fiscal year 2012).

17. INVENTORIES

Inventories were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Aerospace programs	**$ 4,847**	$ 4,345	$ 3,845
Long-term contracts			
Production contracts			
Cost incurred and recorded margins	**7,064**	5,387	5,940
Less: advances and progress billings	**(5,406)**	(4,014)	(4,296)
	1,658	1,373	1,644
Service contracts			
Cost incurred and recorded margins	**420**	408	380
Less: advances and progress billings	**(19)**	(15)	(45)
	401	393	335
Finished products[1]	**1,328**	1,429	1,481
	$ 8,234	$ 7,540	$ 7,305

[1] Finished products include 11 new aircraft not associated with a firm aircraft order and 43 pre-owned aircraft, totalling $535 million as at December 31, 2013 (3 new aircraft and 74 pre-owned aircraft, totalling $551 million as at December 31, 2012 and 5 new aircraft and 95 pre-owned aircraft, totalling $691 million as at January 1, 2012).

Finished products as at December 31, 2013 include $134 million of pre-owned aircraft legally sold to third parties and leased back under sale and leaseback facilities ($147 million as at December 31, 2012 and $162 million as at January 1, 2012). The related sales proceeds are accounted for as sale and leaseback obligations.

The amount of inventories recognized as cost of sales totalled $14,106 million for fiscal year 2013 ($12,810 million for fiscal year 2012). These amounts include $147 million of write-downs for fiscal year 2013 ($104 million for fiscal year 2012). An additional write-down of $24 million is recognized in special items.

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

Advances and progress billings received on long-term contracts in progress were $7,777 million as at December 31, 2013 ($5,792 million as at December 31, 2012 and $5,979 million as at January 1, 2012). Revenues include revenues from BT long-term contracts, which amounted to $6,409 million for fiscal year 2013 ($5,839 million for fiscal year 2012).

18. OTHER FINANCIAL ASSETS

Other financial assets were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Derivative financial instruments[1]	**$ 792**	$ 735	$ 548
Aircraft loans and lease receivables[2] [3]	**400**	423	467
Investments in securities[2] [4]	**335**	243	423
Investments in financing structures[2]	**331**	329	320
Long-term contract receivables	**319**	-	-
Restricted cash	**19**	25	44
Other	**9**	27	31
	$ 2,205	$ 1,782	$ 1,833
Of which current	**$ 637**	$ 443	$ 522
Of which non-current	**1,568**	1,339	1,311
	$ 2,205	$ 1,782	$ 1,833

[1] See Note 14 – Financial instruments.
[2] Carried at fair value, except for $12 million of aircraft loans and lease receivables, $20 million of investments in securities and $46 million of investment in financing structure carried at amortized cost as at December 31, 2013 ($11 million, $26 million and $44 million, respectively, as at December 31, 2012 and $32 million, $24 million and $42 million, respectively, as at January 1, 2012).
[3] Financing with four airlines represents 59% of the total aircraft loans and lease receivables as at December 31, 2013 (four airlines represented 60% as at December 31, 2012 and three airlines represented 47% as at January 1, 2012). Aircraft loans and lease receivables are generally collateralized by the related assets. The value of the collateral is closely related to commercial airline industry performance and aircraft-specific factors (age, type-variant and seating capacity), as well as other factors.
[4] Includes $70 million of securities to secure contingent capital contributions to be made in relation to guarantees issued in connection with the sale of aircraft as at December 31, 2013 (nil as at December 31, 2012, and $167 million as at January 1, 2012).

19. OTHER ASSETS

Other assets were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Prepaid expenses	**$ 620**	$ 366	$ 299
Sales tax and other taxes	**344**	281	184
Intangible assets other than aerospace program tooling and goodwill[1]	**186**	210	225
Retirement benefits[2]	**174**	38	13
Deferred financing charges	**100**	103	85
Flexjet fractional ownership deferred costs[3]	**-**	206	186
Other	**9**	30	33
	$ 1,433	$ 1,234	$ 1,025
Of which current	**$ 881**	$ 680	$ 559
Of which non-current	**552**	554	466
	$ 1,433	$ 1,234	$ 1,025

[1] See Note 21 – Intangible assets.
[2] See Note 22 – Retirement benefits.
[3] See Note 28 – Disposal of a business.

20. PROPERTY, PLANT AND EQUIPMENT

PP&E were as follows, as at:

		Land		Buildings		Equipment		Construction in progress		Other		Total
Cost												
Balance as at December 31, 2012	$	**99**	$	**2,132**	$	**1,333**	$	**179**	$	**447**	$	**4,190**
Additions		**1**		**68**		**41**		**254**		**27**		**391**
Disposals		**(3)**		**(29)**		**(149)**		**-**		**(42)**		**(223)**
Transfers		**-**		**13**		**68**		**(78)**		**(3)**		**-**
Effect of foreign currency exchange rate changes		**1**		**34**		**(6)**		**1**		**-**		**30**
Balance as at December 31, 2013	**$**	**98**	**$**	**2,218**	**$**	**1,287**	**$**	**356**	**$**	**429**	**$**	**4,388**
Accumulated amortization and impairment												
Balance as at December 31, 2012	$	**-**	$	**(1,164)**	$	**(832)**	$	**-**	$	**(261)**	$	**(2,257)**
Amortization		**-**		**(60)**		**(104)**		**-**		**(18)**		**(182)**
Disposals		**-**		**17**		**101**		**-**		**12**		**130**
Effect of foreign currency exchange rate changes		**-**		**(25)**		**10**		**-**		**2**		**(13)**
Balance as at December 31, 2013	**$**	**-**	**$**	**(1,232)**	**$**	**(825)**	**$**	**-**	**$**	**(265)**	**$**	**(2,322)**
Net carrying value	**$**	**98**	**$**	**986**	**$**	**462**	**$**	**356**	**$**	**164**	**$**	**2,066**

		Land		Buildings		Equipment		Construction in progress		Other		Total
Cost												
Balance as at January 1, 2012	$	95	$	1,968	$	1,145	$	141	$	539	$	3,888
Additions		7		106		60		216		12		401
Disposals		(5)		(4)		(47)		-		(85)		(141)
Transfers		-		34		162		(178)		(18)		-
Effect of foreign currency exchange rate changes		2		28		13		-		(1)		42
Balance as at December 31, 2012	$	99	$	2,132	$	1,333	$	179	$	447	$	4,190
Accumulated amortization and impairment												
Balance as at January 1, 2012	$	-	$	(1,088)	$	(741)	$	-	$	(280)	$	(2,109)
Amortization		-		(59)		(106)		-		(12)		(177)
Impairment		-		(2)		(7)		-		-		(9)
Disposals		-		3		31		-		29		63
Transfers		-		-		(2)		-		2		-
Effect of foreign currency exchange rate changes		-		(18)		(7)		-		-		(25)
Balance as at December 31, 2012	$	-	$	(1,164)	$	(832)	$	-	$	(261)	$	(2,257)
Net carrying value	$	99	$	968	$	501	$	179	$	186	$	1,933

Included in the above table are assets under finance lease, where the Corporation is the lessee, presented in Other, with cost and accumulated amortization amounting to $195 million and $83 million, respectively, as at December 31, 2013 ($225 million and $103 million as at December 31, 2012 and $214 million and $88 million as at January 1, 2012).

Also included in the previous table are aircraft under operating leases where the Corporation is the lessor, presented in Other, with a cost and accumulated amortization amounting to $40 million and $12 million, respectively, as at December 31, 2013 ($51 million and $12 million as at December 31, 2012 and $88 million and $10 million as at January 1, 2012). Rental income from operating leases and amortization of assets under operating leases amounted to $10 million and $3 million, respectively, for fiscal year 2013 ($10 million and $5 million, respectively, for fiscal year 2012).

21. INTANGIBLE ASSETS

Intangible assets were as follows, as at:

	Aerospace program tooling			Goodwill	Other [1] [2]	Total
	Acquired	**Internally generated**	**Total [3]**			
Cost						
Balance as at December 31, 2012	**$ 1,254**	**$ 6,670**	**$ 7,924**	**$ 2,316**	**$ 737**	**$ 10,977**
Additions	**150**	**1,834**	**1,984**	**-**	**44**	**2,028**
Disposals	**-**	**(1)**	**(1)**	**-**	**(56)**	**(57)**
Effect of foreign currency exchange rate changes	**-**	**-**	**-**	**65**	**14**	**79**
Balance as at December 31, 2013	**$ 1,404**	**$ 8,503**	**$ 9,907**	**$ 2,381**	**$ 739**	**$ 13,027**
Accumulated amortization and impairment						
Balance as at December 31, 2012	**$ (604)**	**$ (2,550)**	**$ (3,154)**	**$ -**	**$ (527)**	**$ (3,681)**
Amortization	**(16)**	**(131)**	**(147)**	**-**	**(62)**	**(209)**
Disposals	**-**	**-**	**-**	**-**	**47**	**47**
Effect of foreign currency exchange rate changes	**-**	**-**	**-**	**-**	**(11)**	**(11)**
Balance as at December 31, 2013	**$ (620)**	**$ (2,681)**	**$ (3,301)**	**$ -**	**$ (553)**	**$ (3,854)**
Net carrying value	**$ 784**	**$ 5,822**	**$ 6,606**	**$ 2,381**	**$ 186**	**$ 9,173**

	Aerospace program tooling			Goodwill	Other [1] [2]	Total
	Acquired	Internally generated	Total [3]			
Cost						
Balance as at January 1, 2012	$ 1,091	$ 5,105	$ 6,196	$ 2,244	$ 688	$ 9,128
Additions	163	1,565	1,728	-	43	1,771
Disposals	-	-	-	-	(4)	(4)
Effect of foreign currency exchange rate changes	-	-	-	72	10	82
Balance as at December 31, 2012	$ 1,254	$ 6,670	$ 7,924	$ 2,316	$ 737	$ 10,977
Accumulated amortization and impairment						
Balance as at January 1, 2012	$ (588)	$ (2,440)	$ (3,028)	$ -	$ (463)	$ (3,491)
Amortization	(16)	(110)	(126)	-	(61)	(187)
Disposals	-	-	-	-	3	3
Effect of foreign currency exchange rate changes	-	-	-	-	(6)	(6)
Balance as at December 31, 2012	$ (604)	$ (2,550)	$ (3,154)	$ -	$ (527)	$ (3,681)
Net carrying value	$ 650	$ 4,120	$ 4,770	$ 2,316	$ 210	$ 7,296

[1] Presented in Note 19 – Other assets
[2] Includes internally generated intangible assets with a cost and accumulated amortization of $359 million and $243 million, respectively, as at December 31, 2013 ($325 million and $207 million as at December 31, 2012 and $294 million and $176 million as at January 1, 2012).
[3] Includes intangible assets under development with a cost of $5,923 million as at December 31, 2013 ($4,059 million as at December 31, 2012 and $2,489 million as at January 1, 2012).

Aerospace program tooling

The net carrying value of aerospace program tooling comprises $3,746 million for commercial aircraft and $2,860 million for business aircraft as at December 31, 2013 ($2,766 million and $2,004 million, respectively, as at December 31, 2012 and $1,851 million and $1,317 million, respectively, as at January 1, 2012).

Goodwill
Goodwill is related to the DaimlerChrysler Rail Systems GmbH (Adtranz) acquisition in May 2001. This goodwill has been allocated to the BT reportable segment as a group of CGUs. The Corporation carried out an impairment test during the fourth quarter of fiscal year 2012. During the fourth quarter of fiscal year 2013, the Corporation completed an impairment assessment carrying forward the recoverable amount calculated during the fourth quarter of fiscal year 2012. The Corporation did not identify any impairment**.**

22. RETIREMENT BENEFITS

The Corporation sponsors several funded and unfunded defined benefit pension plans as well as defined contribution pension plans in Canada and abroad, covering a majority of its employees. The Corporation also provides other unfunded defined benefit plans, covering certain groups of employees mainly in Canada and the U.S.

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

Funded plans are plans for which segregated plan assets are invested in trust. Unfunded plans are plans for which there are no segregated plan assets, as the establishment of segregated plan assets is generally not permitted or not in line with local practice.

FUNDED DB PLANS

The Corporation's major DB plans reside in Canada, the U.K. and the U.S., therefore very significant portions of the DB pension plan assets and benefit obligation are located in those countries. The following text focuses mainly on plans registered in these three countries.

Governance

Under applicable pension legislations, the administrator of each plan is either the Corporation, in the case of U.S. plans and Canadian plans registered outside of Quebec, or a pension committee or board of trustees in the case of plans registered in Quebec and the U.K.

Plan administrators are responsible for the management of plan assets and the establishment of investment policies, which define, for each plan, investment objectives, target asset allocation, risk mitigation strategies, and other elements required by pension legislation.

Plan assets are pooled in three common investment funds (CIFs) for Canadian, U.K. and U.S. plans, respectively, in order to achieve economies of scale and greater efficiency, diversification and liquidity. The CIFs are broken down by sub-funds or asset classes in order to allow each plan to have its own asset allocation given its associated pension obligation liability profile.

The management of the CIFs has been delegated to three (Canadian, U.K. and U.S.) investment committees (ICs). The ICs are responsible for allocating assets among various sub-funds and asset classes in accordance with each plan's investment policy. They are also responsible for hiring, monitoring and terminating investment managers and have established a multi-manager structure for each sub-fund and asset class. They are supported by Bombardier Inc. Pension Asset Management Services, who oversee the management of the plans' assets and of the CIFs on a daily basis. Daily administration of the plans is delegated to either Bombardier Inc. or to external pension administration service providers. The administrators, the ICs and Bombardier Inc. also rely on the expertise of external legal advisors, actuaries, auditors and investment consultants.

Benefit Policy

DB plan benefits are based on salary and years of service. In Canada and the U.S., since September 1, 2013, all new non-unionized employees join DC plans (i.e. they no longer have the option of joining DB or hybrid plans). Employees who are members of a DB or hybrid plan closed to new members continue to accrue service in their original plan.

In the U.K., seven out of nine DB plans are closed to new members. New employees join DC plans. Pension entitlements are indexed to inflation according to pension legislation and plan rules.

Funding requirements

Actuarial valuations are conducted by independent firms hired by the Corporation or the administrators, as required by pension legislation. The purpose of the valuations is to determine the plans' financial position and the annual contributions to be made by the Corporation to fund both benefits accruing in the year (normal cost) and deficits accumulated over prior years. Minimum funding requirements are set out by applicable pension legislations.

Pension plans in Canada are governed under the Supplemental Pension Plans Act in Quebec, the Pension Benefits Act in Ontario, the Pension Benefits Standards Act of 1985 for plans under federal authority, and the Income Tax Act. Actuarial valuations are required at least every three years. Depending on the jurisdiction and the funded status of the plan, actuarial valuations may be required annually. Contributions are determined by the appointed actuary and cover the going-concern normal costs and deficits (established under the assumption that the plan will continue to be in force) or solvency deficits (established under the assumption that the plan stops its operations and is being liquidated), as prescribed by laws and actuarial practices. Under the laws in effect, minimum contributions are required to amortize the going-concern deficits over a period of fifteen years and solvency deficits over a period of five years. Temporary solvency relief measures put in place to mitigate the adverse effects of the 2008 financial crisis allow for the amortization of solvency deficits over a period of up to ten years.

Pension plans in the U.S. are mainly governed under the Employee Retirement Income Security Act, the Internal Revenue Code, the Pension Protection Act of 2006 and the Moving Ahead for Progress in the 21st Century Act. Actuarial valuations are required annually. Contributions are determined by appointed actuaries and cover normal cost and deficits as prescribed by law. Funding deficits are generally amortized over a period of seven years.

Pension plans in the U.K. are governed under the Pensions Act of 2004. Actuarial valuations are required at least every three years. The funding deficit amortization period is determined jointly by the administrators and the Corporation.

Investment Policy

The investment policies are established to achieve a long-term investment return so that, in conjunction with contributions, the plans have sufficient assets to pay for the promised benefits while maintaining a level of risk that is acceptable given the tolerance of plan stakeholders. See below for more information about the Corporation's risk management initiatives.

The target asset allocation is determined based on expected economic and market conditions, the maturity profile of the plans' liabilities, the funded status of the respective plans and the plan stakeholders' tolerance to risk.

The plans' investment strategy is to invest broadly in fixed income and equity securities and to have a smaller portion of the funds' assets invested in real return asset securities (global infrastructure and real estate listed securities).

As at December 31, 2013, the average target asset allocation was as follows:

- 49%, 39% and 49% in fixed income securities, for Canadian, U.K. and U.S. plans, respectively;
- 42%, 46% and 46% in equity securities, for Canadian, U.K. and U.S. plans, respectively; and
- 9%, 15% and 5% in real return asset securities, for Canadian, U.K. and U.S. plans, respectively.

In addition, to mitigate interest rate risk, interest rate hedging overlay portfolios (comprised of long-term interest rate swaps and long-term Gilt forwards) averaging 7% and 10% of plan assets have been implemented in 2013 for the Canadian and U.K. plans, respectively.

The plan administrators have also established dynamic de-risking strategies. As a result, asset allocation will likely become more conservative in the future and larger interest rate hedging overlay portfolios are likely to be established as plan funding status and market conditions continue to improve. Bombardier Inc. Pension Asset Management Services monitors the de-risking triggers on a daily basis to ensure timely and efficient implementation of these strategies. The Corporation and administrators periodically undertake asset and liability studies to determine the appropriateness of the investment policies and de-risking strategies.

Risk management initiatives

The Corporation's pension plans are exposed to various risks, including equity, interest rate, inflation, foreign exchange, liquidity and longevity risks. Several risk strategies and policies have been put in place to mitigate the impact these risks could have on the funded status of DB plans and on the future level of contributions by the Corporation. The following is a description of key risks together with the mitigation measures in place to address them.

Equity risk
Equity risk is the risk that results from fluctuations in equity prices. This risk is managed by maintaining diversification of portfolios across geographies, industry sectors and investment strategies.

Interest rate risk
Interest rate risk is the risk that results from fluctuations in the fair value of plan assets and liabilities due to movements in interest rates. This risk is managed by reducing the mismatch between the duration of plan assets and the duration of pension obligation. This is accomplished by having a portion of the portfolio invested in long-term bonds and interest rate hedging overlay portfolios.

Inflation risk
Inflation risk is the risk that benefits indexed to inflation increase significantly as a result of changes in inflation rates. To manage this risk, the Corporation has capped the benefit indexation in certain plans and invested a portion of plan assets in real return asset securities and real return bonds.

Foreign exchange risk
Currency risk exposure arises from fluctuations in the fair value of plan assets denominated in a currency other than the currency of the plan liabilities. Currency risk is managed with foreign currency hedging strategies as per plan investment policies.

Liquidity risk
Liquidity risk is the risk stemming from holding assets which cannot be readily converted to cash when needed for the payment of benefits or to rebalance the portfolios. Liquidity risk is managed through investment in government bonds and equity futures and by having no investments in private placements or hedge funds.

Longevity risk
Longevity risk is the risk that increasing life expectancy results in longer-than-expected benefit payments. This risk is mitigated by using the most recent mortality tables to set the level of contributions.

UNFUNDED DB PLANS

Unfunded plans are located in countries where the establishment of funds for segregated plan assets is generally not permitted or not in line with local practice. Major unfunded DB plans are located in Germany. Nearly half of the German unfunded DB plan liability relates to plans for which benefits no longer accrue. The Corporation contributes annually to the Pensions Sicherungs Verein, Germany's pension protection association, which provides protection for pension benefits up to certain limits in the event that plan sponsors become insolvent.

DC PLANS

A growing proportion of employees are participating in DC plans and, as a result, contributions to DC plans have increased over the past several years. The largest DC plans are located in Canada and in the U.S. The plan administrators and ICs oversee the management of DC plan assets.

OTHER PLANS

The Corporation also provides other unfunded defined benefit plans, consisting essentially of post-retirement healthcare coverage, life insurance benefits and retirement allocations mainly in Canada for BA. The Corporation provides post-retirement life insurance and post-retirement health care, with provisions that vary between groups of employees in Canada. New non-unionized hires are generally no longer offered post-retirement health care and receive, instead, lump sum retirement allocations.

The following table provides the components of the retirement benefit cost, for fiscal years:

			2013			2012
	Pension benefits	**Other benefits**	**Total**	Pension benefits	Other benefits	Total
Current service cost	**$ 301**	**$ 12**	**$ 313**	$ 300	$ 12	$ 312
Accretion expense	**96**	**17**	**113**	123	17	140
Past service cost	**-**	**-**	**-**	9	8	17
Curtailment	**(15)**	**-**	**(15)**	-	-	-
Settlement	**(3)**	**-**	**(3)**	(18)	-	(18)
Other	**1**	**-**	**1**	-	-	-
DB plans	**380**	**29**	**409**	414	37	451
DC plans	**87**	**-**	**87**	78	-	78
Total retirement benefit cost	**$ 467**	**$ 29**	**$ 496**	$ 492	$ 37	$ 529
Related to						
Funded DB plans	**$ 335**	**n/a**	**$ 335**	$ 370	n/a	$ 370
Unfunded DB plans	**$ 45**	**$ 29**	**$ 74**	$ 44	$ 37	$ 81
DC plans	**$ 87**	**n/a**	**$ 87**	$ 78	n/a	$ 78
Recorded as follows						
EBIT expense or capitalized cost	**$ 371**	**$ 12**	**$ 383**	$ 369	$ 20	$ 389
Financing expense	**$ 96**	**$ 17**	**$ 113**	$ 123	$ 17	$ 140

n/a : Not applicable

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

Gains (losses)	
Balance as at January 1, 2012	$ (3,073)
Actuarial gains, net	376
Effect of exchange rate changes	(58)
Income taxes	(39)
Balance as at December 31, 2012	(2,794)
Impact of asset ceiling	(30)
Actuarial gains, net	865
Effect of exchange rate changes	76
Income taxes	(87)
Balance as at December 31, 2013	**$ (1,970)**

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

			2013			2012
	Pension benefits	**Other benefits**	**Total**	Pension benefits	Other benefits	Total
Change in benefit obligation						
Obligation at beginning of year	**$ 9,979**	**$ 416**	**$ 10,395**	$ 9,248	$ 365	$ 9,613
Accretion	**416**	**17**	**433**	418	17	435
Current service cost	**301**	**12**	**313**	300	12	312
Plan participants' contributions	**41**	**-**	**41**	40	-	40
Past service cost	**-**	**-**	**-**	9	8	17
Actuarial losses (gains) - changes in financial assumptions	**(432)**	**(34)**	**(466)**	125	(11)	114
Actuarial losses (gains) - changes in experience adjustments	**65**	**(6)**	**59**	(101)	30	(71)
Actuarial losses (gains) - changes in demographic assumptions	**104**	**(34)**	**70**	45	-	45
Benefits paid	**(294)**	**(14)**	**(308)**	(296)	(15)	(311)
Curtailment	**(15)**	**-**	**(15)**	-	-	-
Settlement	**(3)**	**-**	**(3)**	(85)	-	(85)
Other	**(26)**	**-**	**(26)**	-	-	-
Effect of exchange rate changes	**(181)**	**(22)**	**(203)**	276	10	286
Obligation at end of year	**$ 9,955**	**$ 335**	**$ 10,290**	$ 9,979	$ 416	$ 10,395
Obligation is attributable to						
Active members	**$ 5,485**	**$ 207**	**$ 5,692**	$ 5,700	$ 252	$ 5,952
Deferred members	**1,298**	**-**	**1,298**	1,182	-	1,182
Retirees	**3,172**	**128**	**3,300**	3,097	164	3,261
	$ 9,955	**$ 335**	**$ 10,290**	$ 9,979	$ 416	$ 10,395
Change in plan assets						
Fair value at beginning of year	**$ 7,434**	**$ -**	**$ 7,434**	$ 6,395	$ -	$ 6,395
Employer contributions	**467**	**14**	**481**	404	15	419
Plan participants' contributions	**41**	**-**	**41**	40	-	40
Interest income on plan assets	**320**	**-**	**320**	295	-	295
Actuarial gains	**528**	**-**	**528**	464	-	464
Benefits paid	**(294)**	**(14)**	**(308)**	(296)	(15)	(311)
Settlement	**-**	**-**	**-**	(67)	-	(67)
Administration costs	**(9)**	**-**	**(9)**	(9)	-	(9)
Effect of exchange rate changes	**(155)**	**-**	**(155)**	208	-	208
Fair value at end of year	**$ 8,332**	**$ -**	**$ 8,332**	$ 7,434	$ -	$ 7,434

The following table presents the reconciliation of plan assets and obligations to the amount recognized in the consolidated statements of financial position, as at:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Present value of defined benefit obligation	**$ 9,955**	**$ 335**	$ 9,979	$ 416	$ 9,248	$ 365
Fair value of plan assets	**(8,332)**	**-**	(7,434)	-	(6,395)	-
	1,623	**335**	2,545	416	2,853	365
Impact of asset ceiling test[1]	**29**	**-**	-	-	-	-
Net amount recognized	**$ 1,652**	**$ 335**	$ 2,545	$ 416	$ 2,853	$ 365
Amounts included in:						
Retirement benefit						
Liability	**$ 1,826**	**$ 335**	$ 2,583	$ 416	$ 2,866	$ 365
Asset[2]	**(174)**	**-**	(38)	-	(13)	-
Net liability	**$ 1,652**	**$ 335**	$ 2,545	$ 416	$ 2,853	$ 365

[1] Comprises the effect of exchange rate changes.
[2] Presented in Note 19 – Other assets.

The following table presents the allocation of the net retirement benefit liability by major countries, as at:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Funded pension plans						
Canada	**$ 502**	**$ -**	$ 1,138	$ -	$ 1,535	$ -
U.S.	**186**	**-**	333	-	291	-
U.K.	**125**	**-**	170	-	345	-
Other	**114**	**-**	167	-	106	-
	927	**-**	1,808	-	2,277	-
Unfunded pension plans						
Germany	**515**	**-**	517	-	387	-
Canada	**29**	**301**	33	373	33	324
U.S.	**26**	**25**	27	28	25	27
Other	**155**	**9**	160	15	131	14
	725	**335**	737	416	576	365
Net liability	**$ 1,652**	**$ 335**	$ 2,545	$ 416	$ 2,853	$ 365

The following table presents the allocation of benefit obligation and plan assets by major countries, as at:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Benefit obligation	**Plan assets**	Benefit obligation	Plan assets	Benefit obligation	Plan assets
Funded pension plans						
Canada	**$ 4,479**	**$ 4,006**	$ 4,823	$ 3,685	$ 4,660	$ 3,125
U.K.	**3,570**	**3,445**	3,121	2,951	2,841	2,496
U.S.	**750**	**564**	846	513	812	521
Other	**431**	**317**	452	285	359	253
	9,230	**8,332**	9,242	7,434	8,672	6,395
Unfunded pension plans	**1,060**	**-**	1,153	-	941	-
	$ 10,290	**$ 8,332**	$ 10,395	$ 7,434	$ 9,613	$ 6,395

The fair value of plan assets by level of hierarchy, was as follows, as at:

								December 31, 2013
		Total		**Level 1**		**Level 2**		**Level 3**
Cash and cash equivalents	**$**	**503**	**$**	**398**	**$**	**105**	**$**	**-**
Equity securities								
U.S.		**1,022**		**1,018**		**-**		**4**
U.K.		**509**		**489**		**20**		**-**
Canada		**409**		**409**		**-**		**-**
Other		**1,290**		**1,288**		**-**		**2**
		3,230		**3,204**		**20**		**6**
Fixed-income securities								
Corporate		**855**		**-**		**855**		**-**
Government		**2,483**		**-**		**2,483**		**-**
Other		**23**		**-**		**23**		**-**
		3,361		**-**		**3,361**		**-**
Real return asset securities		**876**		**876**		**-**		**-**
Other		**362**		**-**		**289**		**73**
	$	**8,332**	**$**	**4,478**	**$**	**3,775**	**$**	**79**

								December 31, 2012
		Total		Level 1		Level 2		Level 3
Cash and cash equivalents	$	215	$	90	$	125	$	-
Equity securities								
U.S.		1,009		1,006		-		3
U.K.		465		445		20		-
Canada		446		446		-		-
Other		1,260		1,258		-		2
		3,180		3,155		20		5
Fixed-income securities								
Corporate		970		-		970		-
Government		2,089		-		2,089		-
Other		22		-		22		-
		3,081		-		3,081		-
Real return asset securities		653		653		-		-
Other		305		-		238		67
	$	7,434	$	3,898	$	3,464	$	72

								January 1, 2012
		Total		Level 1		Level 2		Level 3
Cash and cash equivalents	$	269	$	203	$	66	$	-
Equity securities								
U.S.		874		871		-		3
U.K.		336		314		22		-
Canada		348		348		-		-
Other		1,007		1,006		-		1
		2,565		2,539		22		4
Fixed-income securities								
Corporate		715		-		715		-
Government		1,910		-		1,910		-
Other		20		-		20		-
		2,645		-		2,645		-
Real return asset securities		626		626		-		-
Other		290		-		216		74
	$	6,395	$	3,368	$	2,949	$	78

Plan assets did not include any of the Corporation's shares, nor any property occupied by the Corporation or other assets used by the Corporation as at December 31, 2013, 2012 and January 1, 2012.

The following table presents the contributions made for fiscal year 2013 and 2012 as well as the estimated contributions for fiscal year 2014:

	2014	**2013**	2012
	Estimated		
Contribution to			
Funded pension plans	$ 383	**$ 440**	$ 362
Unfunded pension plans	27	**27**	42
Other benefits	14	**14**	15
Total defined benefits plans	424	**481**	419
DC pension plans	94	**87**	78
Total contributions	$ 518	**$ 568**	$ 497

The following table presents information about the maturity profile of the defined benefit obligation expected to be paid, as at:

	December 31, 2013
Benefits expected to be paid	
Within 1 year	**$ 297**
Between 1 and 5 years	**1,017**
Between 5 and 10 years	**2,141**
Between 10 and 15 years	**2,742**
Between 15 and 20 years	**3,240**
	$ 9,437

The following table provides the weighted average duration of the defined benefit obligations related to pension plans, as at:

Duration in years as at	**December 31, 2013**
Funded pension plans	
Canada	**17.5**
U.S.	**16.6**
U.K.	**20.8**
Other	**14.2**
Unfunded pension plans	
Germany	**16.8**
Canada	**13.4**
U.S.	**14.7**
Other	**15.7**

The following table provides the expected payments to be made under the unfunded plans, as at December 31, 2013:

	Germany	Other	Total
Benefits expected to be paid			
Within 1 year	**$ 20**	**$ 24**	**$ 44**
Between 1 and 5 years	**65**	**80**	**145**
Between 5 and 10 years	**125**	**154**	**279**
Between 10 and 15 years	**146**	**187**	**333**
Between 15 and 20 years	**170**	**201**	**371**
	$ 526	**$ 646**	**$ 1,172**

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

	December 31, 2013		December 31, 2012		January 1, 2012	
(in percentage)	**Pension benefits**	**Other benefits**	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit cost						
Discount rate	**4.25%**	**4.38%**	4.44%	4.25%	5.40%	5.40%
Rate of compensation increase	**3.35%**	**3.25%**	3.71%	3.50%	3.72%	3.50%
Inflation rate	**2.19%**	**2.00%**	2.24%	3.15%	2.61%	3.15%
Ultimate health care cost trend rate	**n/a**	**5.00%**	n/a	5.00%	n/a	5.00%
Benefit obligation						
Discount rate	**4.59%**	**4.97%**	4.25%	4.38%	4.44%	4.25%
Rate of compensation increase	**3.36%**	**3.25%**	3.35%	3.25%	3.71%	3.50%
Inflation rate	**2.34%**	**2.40%**	2.19%	3.00%	2.24%	3.15%
Initial health care cost trend rate	**n/a**	**6.55%**	n/a	7.00%	n/a	7.50%
Ultimate health care cost trend rate	**n/a**	**4.98%**	n/a	5.00%	n/a	5.00%

n/a: Not applicable

The mortality tables and the average life expectancy in years of a member at age 45 or 65 is as follows, as at December 31:

(in years)		**Life expectancy over 65 for a male member currently**			
		Aged 65 on December		**Aged 45 on December**	
Country	Mortality tables	**2013**	2012	**2013**	2012
Canada	RPP2014Priv using draft improvement scale A1-2014 (CPM-A1D2014) [(1)]	**21.3**	19.8	**22.9**	21.3
U.K.	S1NA_L CMI 2010 G	**21.8**	21.8	**23.9**	23.9
U.S.	PPA mandated mortality table per IRC	**19.1**	19.1	**19.1**	19.1
Germany	Dr. K Heubeck 2005	**20.0**	20.0	**22.6**	22.6

		Life expectancy over 65 for a female member currently			
		Aged 65 on December		**Aged 45 on December**	
Country	Mortality tables	**2013**	2012	**2013**	2012
Canada	RPP2014Priv using draft improvement scale A1-2014 (CPM-A1D2014) [(1)]	**23.5**	22.1	**24.5**	22.9
U.K.	S1NA_L CMI 2010 G	**24.0**	23.9	**26.1**	26.1
U.S.	PPA mandated mortality table per IRC	**21.0**	21.0	**21.0**	21.0
Germany	Dr. K Heubeck 2005	**23.7**	23.7	**26.2**	26.2

(1) UP94 Generational as at December 31, 2012.

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

Assumption	Retirement benefit cost for fiscal year 2013	Net retirement benefit liability as at December 31, 2013
Discount rate	$ (33)	$ (418)
Rate of compensation increase	$ 10	$ 61
Inflation rate	$ 8	$ 131

A one year additional life expectancy as at December 31, 2013 for all DB plans would increase the net retirement benefit liability by $262 million and the retirement benefit cost for fiscal year 2013 by $20 million, all other actuarial assumptions remaining unchanged.

As at December 31, 2013, the health care cost trend rate for retirement benefits other than pension, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 6.55% and to decrease progressively to 4.98% by calendar year 2024 and then remain at that level for all participants. A one percentage point change in assumed health care cost trend rates would have the following effects, as at December 31, 2013 and for fiscal year 2013:

	One percentage point increase	One percentage point decrease
Effect on the net retirement benefit liability	$ 35	$ (30)
Effect on the retirement benefit cost	$ 4	$ (3)

23. TRADE AND OTHER PAYABLES

Trade and other payables were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Trade payables	**$ 2,959**	$ 2,398	$ 2,018
Accrued liabilities	**623**	519	555
Interest	**116**	66	59
Other	**391**	327	400
	$ 4,089	$ 3,310	$ 3,032

24. PROVISIONS

Changes in provisions were as follows, for fiscal years 2013 and 2012:

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other [1]	Total
Balance as at December 31, 2012	**$ 907**	**$ 483**	**$ 127**	**$ 91**	**$ 1,608**
Additions	**369**	**77**	**9**	**14**	**469**
Utilization	**(356)**	**(64)**	**(43)**	**(24)**	**(487)**
Reversals	**(71)**	**(19)**	**(15)**	**(25)**	**(130)**
Accretion expense	**1**	**3**	**-**	**-**	**4**
Effect of changes in discount rates	**(1)**	**(17)**	**-**	**-**	**(18)**
Effect of foreign currency exchange rate changes	**14**	**-**	**3**	**2**	**19**
Balance as at December 31, 2013	**$ 863**	**$ 463**	**$ 81**	**$ 58**	**$ 1,465**
Of which current	**$ 715**	**$ 65**	**$ 77**	**$ 24**	**$ 881**
Of which non-current	**148**	**398**	**4**	**34**	**584**
	$ 863	**$ 463**	**$ 81**	**$ 58**	**$ 1,465**

	Product warranties	Credit and residual value guarantees	Restructuring, severance and other termination benefits	Other [1]	Total
Balance as at January 1, 2012	$ 1,014	$ 588	$ 38	$ 105	$ 1,745
Additions	292	7	120 [2]	27	446
Utilization	(358)	(2)	(24)	(12)	(396)
Reversals	(57)	(117)	(10)	(29)	(213)
Accretion expense	1	4	-	-	5
Effect of changes in discount rates	-	3	-	-	3
Effect of foreign currency exchange rate changes	15	-	3	-	18
Balance as at December 31, 2012	$ 907	$ 483	$ 127	$ 91	$ 1,608
Of which current	$ 759	$ 70	$ 122	$ 49	$ 1,000
Of which non-current	148	413	5	42	608
	$ 907	$ 483	$ 127	$ 91	$ 1,608

[1] Includes litigations and claims, as well as environmental liabilities.
[2] See Note 9 – Special items for more details on the addition related to BT restructuring charges.

25. OTHER FINANCIAL LIABILITIES

Other financial liabilities were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Government refundable advances	**$ 481**	$ 398	$ 317
Derivative financial instruments[1]	**411**	141	344
Current portion of long-term debt[2]	**215**	45	193
Lease subsidies[3]	**142**	158	140
Sale and leaseback obligations	**138**	168	163
Vendor non-recurring costs	**38**	53	13
Other	**301**	93	64
	$ 1,726	$ 1,056	$ 1,234
Of which current	**$ 1,009**	$ 455	$ 732
Of which non-current	**717**	601	502
	$ 1,726	$ 1,056	$ 1,234

(1) See Note 14 – Financial instruments.
(2) See Note 27 – Long-term debt
(3) The amount contractually required to be paid is $172 million as at December 31, 2013 ($203 million as at December 31, 2012 and $158 million as at January 1, 2012).

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

26. OTHER LIABILITIES

Other liabilities were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Employee benefits[1]	**$ 750**	$ 645	$ 663
Accruals for long-term contract costs	**630**	677	773
Supplier contributions to aerospace programs	**529**	364	348
Deferred revenues	**460**	499	424
Income and other taxes payable	**368**	252	214
Deferred income taxes[2]	**-**	46	67
Flexjet fractional ownership deferred revenues[3]	**-**	241	212
Other	**480**	445	409
	$ 3,217	$ 3,169	$ 3,110
Of which current	**$ 2,227**	$ 2,212	$ 2,208
Of which non-current	**990**	957	902
	$ 3,217	$ 3,169	$ 3,110

(1) Comprises all employee benefits excluding those related to retirement benefits, which are reported in the line items Retirement benefits and in Other assets (see Note 22 – Retirement benefits).
(2) See Note 12 – Income taxes
(3) See Note 28 – Disposal of a business

27. LONG-TERM DEBT

Long-term debt was as follows, as at:

	Amount in currency of origin	Currency	Interest rate Contractual [1]	Interest rate After effect of fair value hedges	Maturity	December 31 2013 Amount	December 31 2012 Amount	January 1 2012 Amount
Senior notes	785	EUR	7.25%	3-month Libor + 4.83	Nov. 2016	$ **1,171**	$ 1,162	$ 1,146
	750	USD	4.25%	n/a	Jan. 2016	**742**	-	-
	650	USD	7.50%	3-month Libor + 4.19	Mar. 2018	**695**	724	714
	850	USD	7.75%	3-month Libor + 4.14	Mar. 2020	**915**	978	962
	780	EUR	6.13%	3-month Euribor + 2.87	May 2021	**1,187**	1,183	1,082
	500	USD	5.75%	3-month Libor + 3.37	Mar. 2022	**478**	492	-
	1,250	USD	6.13%	3-month Libor + 3.50	Jan. 2023	**1,200**	-	-
	151	USD	6.75%	3-month Libor + 2.26	n/a	**-**	-	153
Notes	162	USD	6.30%	3-month Libor + 1.59	May 2014	**164**	171	176
	250	USD	7.45%	n/a	May 2034	**248**	247	247
Debentures	150	CAD	7.35%	n/a	Dec. 2026	**140**	150	146
Other[2]	Various[3]	Various	Various [3]	n/a	2014-2026	**263**	298	315
						$ **7,203**	$ 5,405	$ 4,941
Of which current[4]						$ **215**	$ 45	$ 193
Of which non-current						**6,988**	5,360	4,748
						$ **7,203**	$ 5,405	$ 4,941

[1] Interests on long-term debt as at December 31, 2013 are payable semi-annually, except for the other debts for which the timing of interest payments is variable.
[2] Includes obligations under finance leases.
[3] The notional amount of other long-term debt is $263 million as at December 31, 2013 ($298 million as at December 31, 2012 and $315 million as at January 1, 2012). The contractual interest rate, which represents a weighted average rate, is 4.62% as at December 31, 2013 (4.65% as at December 31, 2012 and 4.50% as at January 1, 2012).
[4] See Note 25 – Other financial liabilities
n/a: Not applicable

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Within 1 year	$ **213**	$ 45	$ 189
Between 1 and 5 years	**2,630**	1,358	1,360
More than 5 years	**4,130**	3,522	3,001
	$ **6,973**	$ 4,925	$ 4,550

28. DISPOSAL OF A BUSINESS

On December 4, 2013, the Corporation completed the sale of the main assets and related liabilities of the Corporation's Flexjet activities, to a newly created company owned by a group led by Directional Aviation Capital. These non-core assets were reported in the BA reportable segment.

After taking into accounts purchase price adjustments and closing adjustments, the final purchase price is $180 million, including the assumption of $71 million of customer advances by the acquirer. The proceeds received as at December 31, 2013 is $83 million. The balance of sale price of $26 million is expected to be received in 2014.

A gain of $23 million was recognised in special items for fiscal year 2013 in connection with this sale.

29. SHARE CAPITAL

Preferred shares

The preferred shares authorized were as follows, as at December 31, 2013, and 2012 and January 1, 2012:

	Authorized for the specific series
Series 2 Cumulative Redeemable Preferred Shares	12,000,000
Series 3 Cumulative Redeemable Preferred Shares	12,000,000
Series 4 Cumulative Redeemable Preferred Shares	9,400,000

The preferred shares issued and fully paid were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Series 2 Cumulative Redeemable Preferred Shares	**9,692,521**	9,692,521 [1]	9,464,920
Series 3 Cumulative Redeemable Preferred Shares	**2,307,479**	2,307,479 [1]	2,535,080
Series 4 Cumulative Redeemable Preferred Shares	**9,400,000**	9,400,000	9,400,000

[1] During fiscal year 2012, 539,691 Series 3 Cumulative Redeemable Preferred Shares were converted into Series 2 Cumulative Redeemable Preferred Shares and 312,090 Series 2 Cumulative Redeemable Preferred Shares were converted into Series 3 Cumulative Redeemable Preferred Shares.

Series 2 Cumulative Redeemable Preferred Shares	
Redemption:	Redeemable, at the Corporation's option, at $25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2017 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines fourteen days before the conversion date that, at such time, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being set between 50% to 100% of the Canadian prime rate, and adjusted as follows. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than $24.90 Cdn per share or more than $25.10 Cdn per share.

Series 3 Cumulative Redeemable Preferred Shares	
Redemption:	Redeemable, at the Corporation's option, at $25.00 Cdn per share on August 1, 2017 and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2017 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Likewise, if the Corporation determines fourteen days before the conversion date that, at such time, there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	For the five-year period from August 1, 2012 and including July 31, 2017, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 3.134% or $0.7835 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.195875 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Amalgamation.

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

Common shares

All common shares are without nominal or par value.

Class A Shares (Multiple Voting)	
Voting rights:	Ten votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).
Dividend:	After payment of the priority dividend on the Class B Shares (Subordinate Voting) mentioned below, the Class A Shares (Multiple Voting) shall share equally, share for share, with respect to any additional dividends which may be declared in respect of the Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting). These dividends, if declared, shall be payable quarterly on the last day of March, June, September and December of each year.

Class B Shares (Subordinate Voting)	
Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.
Dividend:	The holders of Class B Shares (Subordinate Voting) are entitled, in priority to the holders of Class A Shares (Multiple Voting) to non-cumulative dividends of $0.0015625 Cdn per share, payable quarterly on the last day of March, June, September and December of each year at a rate of $0.000390625 Cdn per share, if declared. After payment of said priority dividend, the Class B Shares (Subordinate Voting) shall share equally, share for share, with respect to any additional dividends which may be declared in respect of the Class A Shares (Multiple Voting) and the Class B Shares (Subordinate Voting). These dividends, if declared, shall be payable quarterly on the last day of March, June, September and December of each year.

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

Class A Shares (multiple voting)

	December 31, 2013	December 31, 2012
Issued and fully paid		
Balance at beginning of year	**314,537,162**	314,537,237
Converted to Class B	**(6,700)**	(75)
Balance at end of year	**314,530,462**	314,537,162
Authorized	**1,892,000,000**	1,892,000,000

Class B Shares (subordinate voting)

	December 31, 2013	December 31, 2012
Issued and fully paid		
Balance at beginning of year	**1,440,364,381**	1,438,677,056
Issuance of shares	**3,125,337**	1,687,250
Converted from Class A	**6,700**	75
	1,443,496,418	1,440,364,381
Held in trust under the PSU plan		
Balance at beginning of year	**(24,542,027)**	(29,325,303)
Distributed	**5,805,119**	4,783,276
Balance at end of year	**(18,736,908)**	(24,542,027)
Balance at end of year	**1,424,759,510**	1,415,822,354
Authorized	**1,892,000,000**	1,892,000,000

Dividends

Dividends declared were as follows:

	Dividend declared for fiscal years				**Dividend declared after**	
	December 31, 2013		December 31, 2012		**December 31, 2013**	
		Total		Total		Total
	Per share (Cdn$)	**(in millions of U.S.$)**	Per share (Cdn$)	(in millions of U.S.$)	Per share (Cdn$)	(in millions of U.S.$)
Class A common shares	**0.10**	**$ 31**	0.10	$ 31	0.03	$ 7
Class B common shares	**0.10**	**142**	0.10	146	0.03	35
		173		177		42
Series 2 Preferred Shares	**0.75**	**7**	0.75	7	0.13	1
Series 3 Preferred Shares	**0.78**	**2**	1.05	3	0.20	-
Series 4 Preferred Shares	**1.56**	**14**	1.56	15	0.39	4
		23		25		5
		$ 196		$ 202		$ 47

30. SHARE-BASED PLANS

PSU and DSU plans
The Board of Directors of the Corporation approved a PSU plan under which PSUs may be granted to executives and other designated employees. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting). The Board of Directors of the Corporation has also approved a DSU plan under which DSUs may be granted to senior officers. The DSU plan is similar to the PSU plan, except that their exercise can only occur upon retirement or termination of employment. During fiscal year 2013, a combined value of $52 million of DSUs and PSUs were authorized for issuance ($50 million during fiscal year 2012).

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

		2013		2012
	PSU	**DSU**	PSU	DSU
Balance at beginning of year	**24,179,840**	**6,673,447**	19,149,004	4,367,000
Granted	**7,884,242**	**2,229,555**	10,248,069	2,638,352
Performance adjustment	**(1,543,133)**	**(333,900)**	47,359	10,960
Exercised	**(5,805,119)**	**(109,240)**	(4,783,276)	(43,865)
Cancelled	**(1,119,149)**	**(290,012)**	(481,316)	(299,000)
Balance at end of year	**23,596,681**	**8,169,850** [1]	24,179,840	6,673,447 [1]

[1] Of which 2,448,572 DSUs are vested as at December 31, 2013 (1,175,984 as at December 31, 2012).

PSUs and DSUs granted will vest if a financial performance threshold is met. The conversion ratio for vested PSUs and DSUs ranges from 70% to 150%. PSUs and DSUs generally vest three years following the grant date if the financial performance thresholds are met. For grants issued between January 1, 2011 and December 31, 2013, the vesting dates range from June 6, 2014 to August 9, 2016.

The weighted-average grant date fair value of PSUs and DSUs granted during fiscal year 2013 was $4.63 ($3.68 during fiscal year 2012). The fair value of each PSU and DSU granted was measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange.

From time to time, the Corporation provides instructions to a trustee under the terms of a Trust Agreement to purchase Class B Shares (Subordinate Voting) of the Corporation in the open market (see Note 29 – Share capital) in connection with the PSU plan. These shares are held in trust for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of these purchases has been deducted from share capital.

A compensation expense of $4 million was recorded during fiscal year 2013 with respect to the PSU and DSU plans (a compensation expense of nil during fiscal year 2012).

Share option plan

Under share option plan, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Of the 135,782,688 Class B Shares (Subordinate Voting) reserved for issuance, 63,269,250 were available for issuance under this share option plan, as at December 31, 2013.

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

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

The summarized information on the current share option plan is as follows as at December 31, 2013:

	Issued and outstanding			Exercisable	
Exercise price range (Cdn$)	**Number of options**	**Weighted-average remaining life (years)**	**Weighted-average exercise price (Cdn$)**	**Number of options**	**Weighted-average exercise price (Cdn$)**
2 to 4	8,371,631	4.84	3.58	2,186,569	3.45
4 to 6	9,019,787	5.38	4.80	3,596,528	4.72
6 to 8	3,263,001	4.62	7.01	-	-
	20,654,419			5,783,097	

The weighted-average share price of options exercised during fiscal year 2013 was $4.68.

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

	2013		2012	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**15,891,601**	**4.57**	9,724,983	5.22
Granted	**5,478,566**	**4.86**	6,512,071	3.64
Exercised	**(174,414)**	**3.45**	-	-
Cancelled	**(541,334)**	**4.65**	(345,453)	5.27
Balance at end of year	**20,654,419**	**4.66**	15,891,601	4.57
Options exercisable at end of year	**5,783,097**	**4.24**	2,393,552	3.45

Performance share option plan – For options issued to key employees after May 27, 2003, and before June 1, 2009, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the options were granted. These options vest at 25% per year during a period beginning one year following the grant date. However, predetermined target market price thresholds must be achieved in order for the options to be exercised. Such options may be exercised if within the 12-month period preceding the date on which such options vest, the weighted-average trading price on the stock exchange (during a period of 21 consecutive trading days) is greater than or equal to the target price threshold established at the time the options were granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective. The options terminate no later than seven years after the grant date. As at December 31, 2013, target prices ranged between $4.50 Cdn and $8 Cdn.

The summarized information on the performance share option plan is as follows, as at December 31, 2013:

	Issued and outstanding				Exercisable	
Exercise price range (Cdn$)	**Number of options**	**Weighted-average target price (Cdn$)**	**Weighted-average remaining life (years)**	**Weighted-average exercise price (Cdn$)**	**Number of options**	**Weighted-average exercise price (Cdn$)**
2 to 4	60,000	5.08	0.50	3.81	50,000	3.87
4 to 6	4,057,938	6.02	0.66	5.50	3,977,938	5.50
8 to 10	4,583,400	8.00	1.63	8.53	-	-
	8,701,338				4,027,938	

The weighted-average share price of options exercised during fiscal year 2013 was $4.45 ($3.83 during fiscal year 2012).

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

	2013		2012	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**12,598,488**	**6.05**	15,797,863	5.60
Exercised	**(2,898,350)**	**3.22**	(1,687,250)	2.55
Cancelled	**(474,050)**	**7.00**	(989,125)	6.50
Expired	**(524,750)**	**3.55**	(523,000)	2.93
Balance at end of year	**8,701,338**	**7.08**	12,598,488	6.05
Options exercisable at end of year	**4,027,938**	**5.48**	7,652,288	4.48

Share-based compensation expense for options

The weighted-average grant date fair value of stock options granted during fiscal year 2013 was $1.51 per option ($1.21 per option for fiscal year 2012). The fair value of each option granted was determined using a Black-Scholes option pricing model, which incorporates the share price at the grant date, and the following weighted-average assumptions, for fiscal years:

	2013	2012
Risk-free interest rate	**1.73%**	1.51%
Expected life	**5 years**	5 years
Expected volatility in market price of shares	**43.18%**	44.95%
Expected dividend yield	**2.50%**	2.46%

A compensation expense of $7 million was recorded during fiscal year 2013 with respect to share option plans ($7 million during fiscal year 2012).

Employee share purchase plan

Under the employee share purchase plan, employees of the Corporation are eligible to purchase Class B Shares (Subordinate Voting) of the Corporation up to a maximum of 20% of their base salary to a yearly maximum of $30,000 Cdn per employee. The Corporation contributes to the plan an amount equal to 20% of the employees' contributions. The contributions are used to purchase the Corporation's Class B Shares (Subordinate Voting) in the open market on monthly investment dates or as otherwise determined by the Corporation, but not less frequently than monthly. The Corporation's contribution to the plan amounted to $8 million for fiscal year 2013 ($8 million for fiscal year 2012). Shares purchased by the Corporation are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

31. NET CHANGE IN NON-CASH BALANCES

Net change in non-cash balances was as follows, for fiscal years:

	2013	2012
Trade and other receivables	**$ (134)**	$ 69
Inventories	**(631)**	(111)
Other financial assets and liabilities, net	**(15)**	41
Other assets	**(437)**	(221)
Trade and other payables	**749**	284
Provisions	**(161)**	(158)
Advances and progress billings in excess of long-term contract inventories	**301**	102
Advances on aerospace programs	**334**	599
Retirement benefits liability	**(8)**	58
Other liabilities	**361**	31
	$ 359	$ 694

32. CREDIT FACILITIES

Letter of credit facilities
The letter of credit facilities and their maturities were as follows, as at:

	Amount committed	**Letters of credit issued**	**Amount available**	**Maturity**
December 31, 2013				
BT facility	**$ 4,827** [1]	**$ 4,132**	**$ 695**	**2018** [2]
BA facility	**600**	**403**	**197**	**2016** [3]
PSG facility	**600**	**393**	**207**	**2014** [4]
	$ 6,027	**$ 4,928**	**$ 1,099**	
December 31, 2012				
BT facility	$ 4,486 [1]	$ 3,291	$ 1,195	2017
BA facility	600	430	170	2015
PSG facility	900	339	561	2013 [4]
	$ 5,986	$ 4,060	$ 1,926	
January 1, 2012				
BT facility	$ 4,399 [1]	$ 3,805	$ 594	2016
BA facility	600	264	336	2014
PSG facility	900	318	582	2012 [4]
	$ 5,899	$ 4,387	$ 1,512	

[1] €3,500 million as at December 31, 2013 (€3,400 million as at December 31, 2012 and January 1, 2012).
[2] The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment amount of the facility, plus a two year amortization period during which new letters of credit cannot be issued. The final maturity date of the facility is 2018.
[3] The facility has an initial three year availability period, when new letters of credit can be issued up to the maximum commitment of the facility. The facility can be extended annually on the anniversary date for an additional year subject to approval by a majority of the bank syndicate members.
[4] The PSG facility is renewed and extended annually if mutually agreed. In June 2013, the facility was extended until June 2014 and is intended to be renewed in annual increments thereafter. If the facility is not extended, the letters of credit issued under this facility will amortize over their maturity.

In addition to the outstanding letters of credit shown in the above table, letters of credit of $1,018 million were outstanding under various bilateral agreements as at December 31, 2013 ($875 million as at December 31, 2012 and $648 million as at January 1, 2012).

The Corporation also uses numerous bilateral bonding facilities with insurance companies to support BT's operations. An amount of $2.3 billion was outstanding under such facilities as at December 31, 2013 ($2.3 billion as at December 31, 2012 and $2.1 billion as at January 1, 2012).

Revolving credit facilities
The Corporation has a $750-million unsecured revolving credit facility ("revolving credit facility") that matures in June 2016 and bears interest at the applicable base rate (Libor, in the case of a U.S. dollar cash drawing) plus a margin based on the Corporation's credit ratings. This facility is available for cash drawings for the general working capital needs of the Corporation. In addition, the Corporation has a three-year unsecured revolving credit facility ("BT revolving credit facility") amounting to €500 million ($690 million), available to BT for cash drawings. The facility matures in March 2015 and bears interest at EURIBOR plus a margin.

Financial covenants
The Corporation is subject to various financial covenants under the BA and BT letter of credit facilities and the two unsecured revolving credit facilities, which must be met on a quarterly basis. The BA letter of credit and revolving credit facility include financial covenants requiring a minimum EBITDA to fixed charges ratio, as well as a maximum net debt to EBITDA ratio, all calculated based on an adjusted consolidated basis i.e. excluding BT. The BT letter of credit and BT revolving credit facility include financial covenants requiring minimum equity as well as a maximum debt to EBITDA ratio, all calculated based on BT stand-alone financial data. These terms and ratios are defined in the respective agreements and do not correspond to the Corporation's global metrics as described in Note 33 – Capital management or to the specific terms used in the MD&A. In addition, the Corporation must maintain a minimum BT liquidity of €600 million ($827 million) and a minimum BA liquidity of $500 million at the end of each quarter. These conditions were all met as at December 31, 2013 and 2012 and January 1, 2012.

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

33. CAPITAL MANAGEMENT

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

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

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

Global metrics – The following global metrics do not represent the ratios required for bank covenants. A reconciliation of the global metrics to the most comparable IFRS financial measures are provided in the Non-GAAP financial measures section of the MD&A for fiscal year 2013.

		2013		2012
Adjusted EBIT[1]	**$**	**967**	$	916
Adjusted interest[2]	**$**	**346**	$	288
Adjusted EBIT to adjusted interest ratio		**2.8**		3.2
Adjusted debt[3]	**$**	**7,912**	$	5,669
Adjusted EBITDA[4]	**$**	**1,454**	$	1,340
Adjusted debt to adjusted EBITDA ratio		**5.4**		4.2

(1) Represents EBIT before special items plus interest adjustment for operating leases, and interest received as per the supplemental information provided in the consolidated statements of cash flows, adjusted, if needed, for the settlement of fair value hedge derivatives before their contractual maturity dates.
(2) Represents interest paid as per the supplemental information provided in the consolidated statements of cash flows, plus accretion expense on sale and leaseback obligations and interest adjustment for operating leases.
(3) Represents long-term debt 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.
(4) Represents adjusted EBIT plus amortization and impairment charges of PP&E and intangible assets and amortization adjustment for operating leases.

In addition to the above global level metrics, the Corporation separately monitors its net retirement benefit liability which amounted to $2.0 billion as at December 31, 2013 ($3.0 billion as at December 31, 2012). The measurement of this liability is dependent on numerous key long-term assumptions such as current discount rates, future compensation increases, inflation rates and mortality 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 Corporation closely monitors the impact of the net retirement benefit liability on its future cash flows and has introduced significant risk mitigation initiatives in recent years in this respect.

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

See Note 32 – Credit facilities for a description of bank covenants.

34. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

Maximum exposure to credit risk – The maximum exposures to credit risk for financial instruments is usually equivalent to their carrying value, as presented in Note 14 – Financial instruments, except for the financial instruments in the table below, for which the maximum exposures were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Aircraft loans and lease receivables	**$ 371**	$ 392	$ 427
Derivative financial instruments	**$ 690**	$ 656	$ 523
Investments in securities	**$ 287**	$ 197	$ 342
Investments in financing structures	**$ 305**	$ 304	$ 295

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

Refer to Note 39 – Commitment and Contingencies for the Corporation's off-balance sheet credit risk, including credit risk related to support provided for sale of aircraft.

Liquidity risk

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

Maturity analysis –The maturity analysis of financial assets and financial liabilities, excluding derivative financial instruments, was as follows, as at December 31, 2013:

	Carrying amount	**Undiscounted cash flows (before giving effect to the related hedging instruments)**						
		Less than 1 year	**1 to 3 years**	**3 to 5 years**	**5 to 10 years**	**Over 10 years**	**With no specific maturity**	**Total**
Cash and cash equivalents	$ 3,397	$ 3,397	$ -	$ -	$ -	$ -	$ -	$ 3,397
Trade and other receivables	$ 1,492	1,334	69	21	3	1	64	1,492
Other financial assets[(1)]	$ 1,413	117	165	172	535	784	57	1,830
Assets		4,848	234	193	538	785	121	6,719
Trade and other payables	$ 4,089	4,070	10	1	2	-	6	4,089
Other financial liabilities[(1)]	$ 1,100	491	104	213	426	324	-	1,558
Long-term debt								
Principal	$ 7,203	213	1,952	678	3,721	409	-	6,973
Interest		442	856	617	858	235	-	3,008
Liabilities		5,216	2,922	1,509	5,007	968	6	15,628
Net amount		$ (368)	$ (2,688)	$ (1,316)	$ (4,469)	$ (183)	$ 115	$ (8,909)

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

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

The maturity analysis of derivative financial instruments, excluding embedded derivatives, was as follows, as at December 31, 2013:

	Nominal value (USD equivalent)	Undiscounted cash flows [1]					
		Less than 1 year	1 year	2 to 3 years	3 to 5 years	Over 5 years	Total
Derivative financial assets							
Forward foreign exchange contracts	$ 11,840	$ 316	$ 41	$ -	$ -	$ -	$ 357
Interest-rate derivatives	3,820	101	93	85	16	1	296
	$ 15,660	$ 417	$ 134	$ 85	$ 16	$ 1	$ 653
Derivative financial liabilities							
Forward foreign exchange contracts	$ 11,768	$ (294)	$ (48)	$ -	$ -	$ -	$ (342)
Interest-rate derivatives	1,766	38	35	24	(41)	(122)	(66)
	$ 13,534	$ (256)	$ (13)	$ 24	$ (41)	$ (122)	$ (408)
Net amount		$ 161	$ 121	$ 109	$ (25)	$ (121)	$ 245

[1] Amounts denominated in foreign currency are translated at the period end exchange rate.

Market risk

Foreign exchange risk

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

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

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

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

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

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

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

Sensitivity analysis

Foreign exchange risk arises on financial instruments that are denominated in foreign currencies. The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments recorded in its statement of financial position. The following impact on EBT for fiscal year 2013 is before giving effect to cash flow hedge relationships.

						Effect on EBT
	Variation	**CAD/USD**	**GBP/USD**	**EUR/USD**	**EUR/CHF**	**Other**
Gain (loss)	+10%	$ 12	$ (2)	$ 5	$ -	$ 1

The following impact on OCI for fiscal year 2013 is for derivatives designated in a cash flow hedge relationship. For these derivatives, any change in fair value is mostly offset by the re-measurement of the underlying exposure.

						Effect on OCI before income taxes
	Variation	**CAD/USD**	**GBP/USD**	**EUR/USD**	**EUR/CHF**	**Other**
Gain (loss)	+10%	$ 299	$ 61	$ 72	$ 105	$ (24)

Interest rate risk

The Corporation is exposed to fluctuations in its future cash flows arising from changes in interest rates through its variable-rate financial assets and liabilities including long-term debt synthetically converted to variable interest rate (see Note 27 – Long-term debt). The Corporation is exposed from time to time to changes in interest rates for certain financing commitments, when a financing rate has been guaranteed to a customer in the future. For these items, cash flows could be impacted by a change in benchmark rates such as Libor, Euribor or Banker's Acceptance. These exposures are predominantly managed by a central treasury function as part of an overall risk management policy, including the use of financial instruments, such as interest-rate swap agreements. Derivative financial instruments used to synthetically convert interest-rate exposures consist mainly of interest-rate swap agreements and cross currency interest-rate swap agreements.

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

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

Sensitivity analysis

The interest rate risk primarily relates to financial instruments carried at fair value. Assuming a 100-basis point increase in interest rates impacting the measurement of these financial instruments, excluding derivative financial instruments in a hedge relationship, as of December 31, 2013 and 2012, the impact on EBT would have been a negative adjustment of $68 million as at December 31, 2013 ($76 million as at December 31, 2012).

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Methods and assumptions

The methods and assumptions used to measure fair value for items recorded at FVTP&L and AFS are as follows:

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

Investments in securities – The Corporation uses discounted cash flow models to estimate the fair value of unquoted investments in fixed-income securities, using market data such as interest-rate.

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

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

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

The methods and assumptions used to measure fair value for items recorded at amortized cost are as follows:

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

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

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

Fair value hierarchy

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

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment. The fair value of financial assets and liabilities by level of hierarchy was as follows, as at December 31, 2013:

	Total	Level 1	Level 2	Level 3
Financial assets				
Aircraft loans and lease receivables	**$ 388**	**$ -**	**$ -**	**$ 388**
Derivative financial instruments[1]	**792**	**-**	**792**	**-**
Investments in securities	**300** [2]	**33**	**267**	**-**
Investments in financing structures	**285**	**-**	**150**	**135**
	$ 1,765	**$ 33**	**$ 1,209**	**$ 523**
Financial liabilities				
Lease subsidies	**$ (142)**	**$ -**	**$ -**	**$ (142)**
Derivative financial instruments[1]	**(411)**	**-**	**(411)**	**-**
	$ (553)	**$ -**	**$ (411)**	**$ (142)**

[1] Derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, and cross-currency interest-rate swap agreements and embedded derivatives.

[2] Excludes $15 million of AFS investments carried at cost.

Changes in fair value of Level 3 financial instruments were as follows, for fiscal years 2013 and 2012:

	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Balance as at January 1, 2012	$ 436	$ 129	$ (140)
Net gains (losses) and interests included in net income	12	6	(26)
Issuances	3	1	(38)
Settlements	(39)	(1)	46
Balance as at December 31, 2012	412	135	(158)
Net gains (losses) and interests included in net income[1]	3	2	(18)
Issuances	8	-	1
Settlements	(35)	(2)	33
Balance as at December 31, 2013	**$ 388**	**$ 135**	**$ (142)**

[1] Of which an amount of $5 million represents realized gains for fiscal year 2013.

Main assumptions developed internally for Level 3 hierarchy
When measuring Level 3 financial instruments at fair value, some assumptions are not derived from an observable market. The main assumptions developed internally relate to credit risks of customers without published credit rating and marketability adjustments to discount rates specific to our financial assets.

These main assumptions are as follows as at December 31, 2013:

Main assumptions (weighted average)	Aircraft loans and lease receivables	Investments in financing structures	Lease subsidies
Internally assigned credit rating	Between BB- to CCC (B+)	Between BB- to CCC (B)	Between BBB- to C (B)
Discount rate adjustments for marketability	Between 2.89% and 4.82% (4.40%)	Between 1.45% and 6.75% (4.89%)	n/a

Also, aircraft residual value curves are important inputs in assessing the fair value of certain financial instruments. These curves are prepared by management based on information obtained from external appraisals and reflect specific factors of the current aircraft market and a balanced market in the medium and long term.

Sensitivity to selected changes of assumptions for Level 3 hierarchy
These assumptions, not derived from an observable market, are established by management using estimates and judgments that can have a significant effect on revenues, expenses, assets and liabilities. Changing one or more of these assumptions to other reasonably possible alternative assumptions, for which the impact on their fair value would be significant, would change their fair value as follows, as at December 31, 2013:

Impact on EBT				
		Change of assumptions		
Gain (loss)	**Change in fair value recognized in EBT for fiscal year 2013**	**Decrease in aircraft residual value curves by 5%**	**Downgrade the internally assigned credit rating of unrated customers by 1 notch**	**Increase the marketability adjustments by 100 bps**
Aircraft loans and lease receivables	**$ (29)**	$ (5)	$ (13)	$ (20)
Investment in financing structures	**$ (8)**	$ (9)	$ (9)	$ (10)
Lease subsidies	**$ (13)**	n/a	$ 3	n/a

n/a: Not applicable

Fair value hierarchy for items recorded at amortized cost
The following tables present financial assets and financial liabilities measured at amortized cost on a non-recurring basis categorized using the fair value hierarchy as follows:

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

The fair value of financial assets and liabilities by level of hierarchy was as follows, as at December 31, 2013:

	Total	Level 1	Level 2	Level 3
Financial assets				
Trade and other receivables	$ 1,492	$ -	$ -	$ 1,492
Other financial assets				
Investments in financing structures	44	-	-	44
Other	379	-	-	379
	$ 1,915	$ -	$ -	$ 1,915
Financial liabilities				
Trade and other payables	$ (4,089)	$ -	$ -	$ (4,089)
Long-term debt	(7,346)	-	(7,346)	-
Other financial liabilities				
Government refundable advances	(628)	-	-	(628)
Other	(475)	-	-	(475)
	$ (12,538)	$ -	$ (7,346)	$ (5,192)

36. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

In the normal course of business, the Corporation carries out a portion of its businesses through joint ventures and associates, mainly in BT, none of which are individually material.

The Corporation's aggregate pro rata shares of net income of joint ventures and associates, were as follows, for fiscal years:

	2013	2012
Joint ventures	$ 91	$ 108
Associates	28	45
Net income	$ 119	$ 153

The carrying values of investments in joint ventures and associates, were as follows, as at:

	December 31, 2013	December 31, 2012	January 1, 2012
Joint ventures	$ 302	$ 249	$ 242
Associates	16	62	33
	$ 318	$ 311	$ 275

The Corporation has pledged shares in associates, with a carrying value of $12 million as at December 31, 2013 ($60 million as at December 31, 2012 and $30 million as at January 1, 2012).

37. TRANSACTIONS WITH RELATED PARTIES

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

Joint ventures and associates

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

	2013		2012	
	Joint ventures	**Associates**	Joint ventures	Associates
Sales of products and services, and other income	**$ 161**	**$ 33**	$ 161	$ 36
Purchase of products and services, and other expenses	**$ 41**	**$ 49**	$ 13	$ 41

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

	December 31, 2013		December 31, 2012		January 1, 2012	
	Joint ventures	**Associates**	Joint ventures	Associates	Joint ventures	Associates
Receivables	**$ 62**	**$ 1**	$ 147	$ 26	$ 122	$ 27
Payables	**$ 14**	**$ 10**	$ 8	$ 28	$ 2	$ 2

Compensation paid to key management personnel

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

	2013	2012
Share-based benefits	**$ 13**	$ 12
Salaries, bonuses and other short-term benefits	**13**	9
Retirement benefits	**5**	4
Other long-term benefits	**2**	1
	$ 33	$ 26

38. UNCONSOLIDATED STRUCTURED ENTITIES

The following table presents the assets and liabilities of unconsolidated structured entities in which the Corporation had a significant exposure, as at:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Assets	**Liabilities**	Assets	Liabilities	Assets	Liabilities
Financing structures related to the sale of commercial aircraft	**$ 7,965**	**$ 5,452**	$ 8,881	$ 6,294	$ 9,626	$ 6,974

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

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

The Corporation's maximum potential exposure was $1.8 billion, of which $291 million was recorded as provisions and related liabilities as at December 31, 2013 ($1.9 billion and $352 million, respectively, as at December 31, 2012 and $1.9 billion and $383 million, respectively, as at January 1, 2012). The Corporation's maximum exposure under these guarantees is included in Note 39 – Commitments and contingencies.

The Corporation concluded that it did not control these structured entities.

39. COMMITMENTS AND CONTINGENCIES

The Corporation enters into various sale support arrangements, including credit and residual value guarantees and financing rate commitments, mostly provided in connection with sales of commercial aircraft and related financing commitments. The Corporation is also subject to other off-balance sheet risks described in the following table. These off-balance sheet risks are in addition to the commitments and contingencies described elsewhere in these consolidated financial statements. Some of these off-balance sheet risks are also included in Note 38 – Unconsolidated structured entities. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Aircraft sales			
Residual value (a)	**$ 1,828**	$ 1,812	$ 2,108
Credit (a)	**1,297**	1,218	1,389
Mutually exclusive exposure[1]	**(639)**	(594)	(771)
Total credit and residual value exposure	**$ 2,486**	$ 2,436	$ 2,726
Trade-in commitments (b)	**$ 3,416**	$ 3,098	$ 1,619
Conditional repurchase obligations (c)	**$ 472**	$ 489	$ 457
Other[2]			
Credit and residual value (d)	**$ 48**	$ 47	$ 156
Performance guarantees (e)	**$ 43**	$ 41	$ 36

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

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. Provisions for anticipated losses amounting to $463 million as at December 31, 2013 ($483 million as at December 31, 2012 and $588 million as at January 1, 2012) have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on information obtained from external appraisals and reflect specific factors of the current aircraft market and a balance market in the medium and long-term, and the anticipated proceeds from other assets covering such exposures. In addition, lease subsidies, which would be extinguished in the event of credit default by certain customers, amounted to $142 million as at December 31, 2013 ($158 million as at December 31, 2012 and $140 million as at January 1, 2012). The provisions for anticipated losses are expected to cover the Corporation's total credit and residual value exposure, after taking into account the anticipated proceeds from the sales of underlying aircraft and the extinguishment of certain lease subsidies obligations.

Aircraft sales

a) Credit and residual value guarantees – The Corporation has provided credit guarantees in the form of lease and loan payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2025. Substantially all financial support involving potential credit risk lies with regional airline customers. The credit risk relating to three regional airline customers accounted for 70% of the total maximum credit risk as at December 31, 2013 (67% as at December 31, 2012 and 66% as at January 1, 2012).

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Less than 1 year	**$ 64**	$ 41	$ 59
From 1 to 5 years	**860**	850	840
From 5 to 10 years	**872**	855	1,094
From 10 to 15 years	**32**	66	115
	$ 1,828	$ 1,812	$ 2,108

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Less than 1 year	**$ 1,452**	$ 865	$ 694
From 1 to 3 years	**355**	869	330
Thereafter	**1,609**	1,364	595
	$ 3,416	$ 3,098	$ 1,619

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Less than 1 year	**$ 378**	$ 248	$ 348
From 1 to 3 years	**94**	232	35
Thereafter	**-**	9	74
	$ 472	$ 489	$ 457

Other guarantees

d) Credit and residual value guarantees – In connection with the sale of certain transportation rail equipment, the Corporation has provided a credit guarantee of lease payments amounting to $48 million as at December 31, 2013 ($47 million as at December 31, 2012 and as at January 1, 2012). This guarantee matures in 2025. In addition, the Corporation has provided residual value guarantees at the expiry date of certain financing and other agreements for BT, amounting to $109 million as at January 1, 2012. These guarantees expired in 2012.

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

The Corporation's maximum net exposure to projects for which the exposure of the Corporation is capped, amounted to $43 million as at December 31, 2013 ($41 million as at December 31, 2012 and $36 million as at January 1, 2012), assuming all counter indemnities are fully honoured. For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's net exposure is not significant, assuming all counter indemnities are fully honoured. Such joint and several obligations and guarantees have been rarely called upon in the past.

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Within 1 year	**$ 161**	$ 130	$ 100
Between 1 and 5 years	**413**	247	214
More than 5 years	**504**	266	269
	$ 1,078	$ 643	$ 583

Rent expense was $174 million for fiscal year 2013 ($141 million for fiscal year 2012).

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

	December 31, 2013	December 31, 2012	January 1, 2012
Within 1 year	**$ 8,026**	$ 7,062	$ 5,669
Between 1 and 5 years	**3,667**	3,943	3,912
More than 5 years	**207**	361	464
	$ 11,900	$ 11,366	$ 10,045

The purchase obligations of the Corporation include capital commitments for the purchase of PP&E and intangible assets amounting to $331 million and $435 million, respectively, as at December 31, 2013 ($292 million and $356 million as at December 31, 2012 and $195 million and $50 million as at January 1, 2012).

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 December 31, 2013, 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.

S-Bahn claim

On March 4, 2013, S-Bahn Berlin GMBH (“SB”) filed a claim against Bombardier Transportation GmbH, a wholly owned subsidiary of the Corporation, in the Berlin District Court (“Landgericht Berlin”), concerning the trains of the 481 Series delivered to SB between 1996 and 2004.

This lawsuit alleges damages of an aggregate value of €348 million ($480 million) related to allegedly defective wheels and braking systems. The claim is for payment of €241 million ($332 million) and also for a declaratory judgment obliging the Corporation to compensate SB for further damages. SB currently alleges such further damages to be €107 million ($148 million).

It is the Corporation’s position that this claim i) is filed in absence of any defect, ii) is not founded on any enforceable warranty, iii) is filed after the expiry of any statute of limitations and iv) is based on inapplicable standards. The lawsuit contains allegations against the Corporation which the Corporation rejects as unfounded and defamatory.

The Corporation intends to vigorously defend its position and will undertake all actions necessary to protect its reputation. While the Corporation cannot predict the final outcome of this claim pending as at December 31, 2013, based on information currently available, management believes the resolution of this claim will not have a material adverse effect on its financial position.

Investigation in Brazil

Government authorities in Brazil, including the Administrative Council for Economic Protection (“CADE”), and the São Paulo Public Prosecutor's office, are investigating allegations of cartel activity relating to the public procurement of railway equipment and the construction and maintenance of railway lines in São Paulo and other areas.

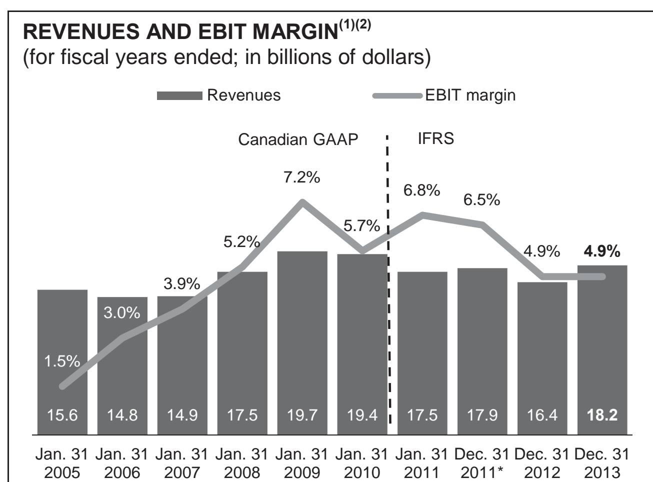
On July 4, 2013, the General Superintendents of CADE conducted inspections at the headquarters of 13 companies located in Brasilia and São Paulo, including Bombardier Transportation Brasil Ltda, a wholly owned subsidiary of the Corporation. The investigation is still at a preliminary stage. Companies found to have engaged in unlawful cartel conduct are subject to administrative fines, state actions for repayment of overcharges and potentially disbarment for a certain period. The Corporation is cooperating with these investigations and intends to defend itself vigorously.

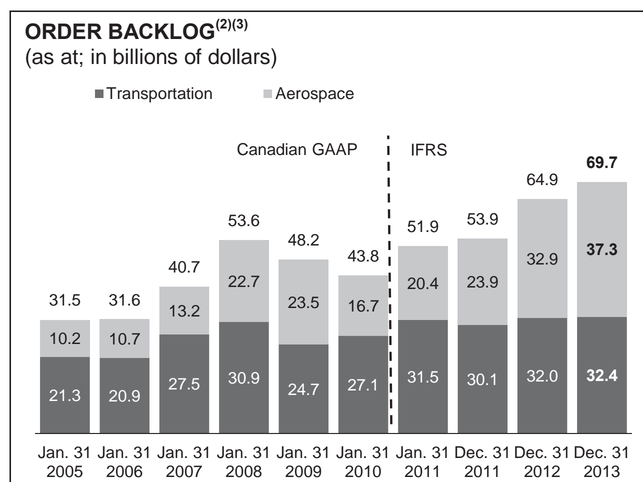
40. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period, mainly a reclassification from other assets to investments in joint ventures and associates and from provisions to other financial assets. See Note 3 – Changes in accounting policies and methods for more details.

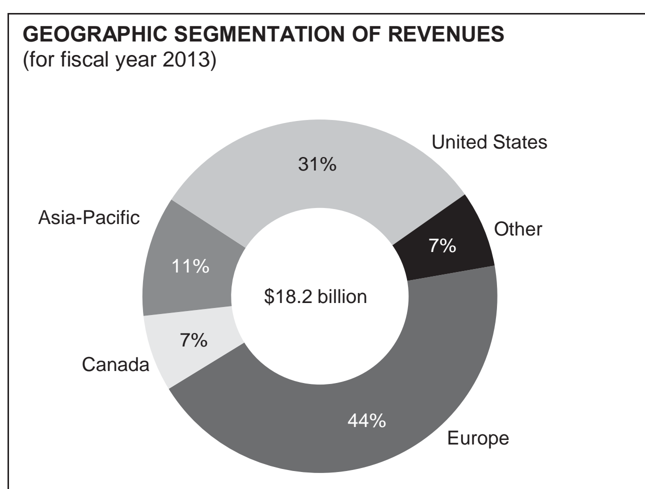
INVESTOR INFORMATION

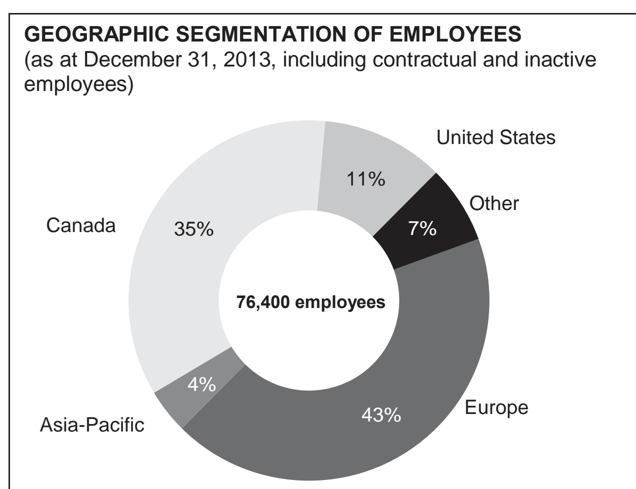
Our performance at a glance





(1) EBIT margins before special items. Refer to Non-GAAP financial measures section in the MD&A for a definition of this measure.
(2) Comparative figures have been restated for changes in accounting policies and methods for January 31, 2011, December 31, 2011 and December 31, 2012.
(3) Some totals do not agree due to rounding.
* The fiscal year ended December 31, 2011 comprises 11 months of BA's results and 12 months of BT's results.





STOCK EXCHANGE LISTINGS

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

FISCAL YEAR 2014 FINANCIAL RESULTS

First quarterly report	May 1, 2014
Second quarterly report	July 31, 2014
Third quarterly report	October 30, 2014
Financial report, 2014 year-end	February 12, 2015

DIVIDENDS PER SHARE DECLARED IN 2013 ON AN ANNUAL BASIS

			Preferred Shares		
	Class A	Class B	Series 2	Series 3	Series 4
Dividends declared in 2013 (in Canadian dollars)	$ 0.10	$ 0.10	$ 0.75	$ 0.78	$ 1.56
Yields[1]	2.2%	2.2%	5.4%	5.8%	7.0%

[1] Based on dividends declared in 2013 and share prices as at December 31, 2013.

COMMON DIVIDEND PAYMENT DATES
Payment subject to approval by the Board of Directors

Class A		Class B	
Record date	**Payment date**	**Record date**	**Payment date**
2014-03-14	2014-03-31	2014-03-14	2014-03-31
2014-06-13	2014-06-30	2014-06-13	2014-06-30
2014-09-12	2014-09-30	2014-09-12	2014-09-30
2014-12-12	2014-12-31	2014-12-12	2014-12-31

PREFERRED DIVIDEND PAYMENT DATES
Payment subject to approval by the Board of Directors

Series 2			
Record date	**Payment date**	**Record date**	**Payment date**
2013-12-31	2014-01-15	2014-06-30	2014-07-15
2014-01-31	2014-02-15	2014-07-31	2014-08-15
2014-02-28	2014-03-15	2014-08-29	2014-09-15
2014-03-31	2014-04-15	2014-09-30	2014-10-15
2014-04-30	2014-05-15	2014-10-31	2014-11-15
2014-05-30	2014-06-15	2014-11-28	2014-12-15

PREFERRED DIVIDEND PAYMENT DATES
Payment subject to approval by the Board of Directors

Series 3		Series 4	
Record date	**Payment date**	**Record date**	**Payment date**
2014-01-17	2014-01-31	2014-01-17	2014-01-31
2014-04-11	2014-04-30	2014-04-11	2014-04-30
2014-07-11	2014-07-31	2014-07-11	2014-07-31
2014-10-17	2014-10-31	2014-10-17	2014-10-31

Please note that unless stated otherwise, all dividends paid by Bombardier since January 2006 on all of its common and preferred shares are considered “eligible dividends” as per the Canadian Income Tax Act and any corresponding provincial or territorial legislation. The same designation applies under the Quebec Taxation Act for dividends declared after March 23, 2006.

SHAREHOLDERS
If you wish to obtain a copy of this Financial Report, or other corporate documents, we encourage you to download them from our website at www.bombardier.com, which provides practical, timely and environmentally friendly access. You can, however, order paper copies from our website or by contacting:

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Fax: +1 514 861 2420
Email: investors@bombardier.com

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

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

TRANSFER AGENT AND REGISTRAR
Shareholders with inquiries concerning their shares should contact:

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(toll-free, North America only)
Email: service@computershare.com

AUDITORS
Ernst & Young LLP
800 René-Lévesque Blvd. West
Montréal, Québec
Canada H3B 1X9

ANNUAL MEETING
The annual meeting of shareholders will be held on Thursday, May 1, 2014, at 9:30 a.m. at the following address:

Montréal Science Centre
Perspective 235° Room
2, de la Commune Street West
Montréal, Québec, Canada H2Y 4B2

ONLINE INFORMATION

Investor Relations	ir.bombardier.com
Financial Report, Quarterly reports, and Management proxy circular	ir.bombardier.com/en/financial-reports
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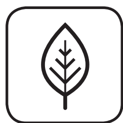
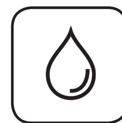


67
mature trees,
equivalent to the area
of 4 tennis courts

3,009 kg
of waste, or the
contents of
61 garbage cans

27,559 kg
of CO_2, equivalent to
the annual emissions
of 9 cars



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person's consumption
of water in 701 days

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