MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forward-looking statements

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

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

The MD&A is structured as follows:

OVERVIEW	AEROSPACE	TRANSPORTATION	LIQUIDITY AND CAPITAL RESOURCES	OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES	OTHER
BASIS OF PRESENTATION	OVERVIEW	OVERVIEW	FINANCIAL POSITION	FINANCIAL ARRANGEMENTS	PENSION
NON-GAAP FINANCIAL MEASURES	BUSINESS AIRCRAFT	ROLLING STOCK	CASH FLOWS	DERIVATIVE FINANCIAL INSTRUMENTS	CONTROLS AND PROCEDURES
HIGHLIGHTS	REGIONAL AIRCRAFT	SERVICES	CAPITAL RESOURCES	COMMITMENTS AND CONTINGENCIES	RISKS AND UNCERTAINTIES
CONSOLIDATED RESULTS	AIRCRAFT SERVICES AND NEW COMMERCIAL AIRCRAFT PROGRAM	SYSTEM AND SIGNALLING	LIQUIDITY	VARIABLE INTEREST ENTITIES	CRITICAL ACCOUNTING ESTIMATES
FOURTH QUARTER RESULTS	*FLEXJET* AND *SKYJET*		CREDIT SUPPORT		ACCOUNTING AND REPORTING DEVELOPMENTS
	OTHER				ENVIRONMENT
					FOREIGN EXCHANGE RATES
					SELECTED FINANCIAL DATA

OVERVIEW

I BASIS OF PRESENTATION

During fiscal year 2006, the Corporation continued with its strategy of reducing Bombardier Capital's ("BC") operations and several portfolios have been sold or put up for sale. The remaining portfolios are essentially related to Aerospace. As a result, they are now included in Aerospace and BC ceased to be reported as a separate segment, effective the fourth quarter of fiscal year 2006 (see note 25 – Segment disclosure to the Consolidated Financial Statements). Significant additional changes in the basis of presentation of the Corporation's Consolidated Financial Statements have been made as a consequence of the above, with retroactive effect for all periods presented. These changes had no impact on the legal structure and on the consolidated shareholders' equity of the Corporation. The most significant changes include the following:

- ***Discontinued operations and assets held for sale*** – BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows, and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets (see note 1 – Discontinued operations and assets held for sale to the Consolidated Financial Statements).

- ***Aircraft financing*** – BC's core operations consisting of commercial aircraft financing, and business aircraft lending operations, are now managed by Aerospace and therefore, these operations are part of the aerospace segment's results. BC's portfolios related to aircraft financing operations are included in a new balance sheet caption, Aircraft financing, together with other assets related to aircraft financing of Aerospace. The remainder of BC's operations are not significant and the related assets are included in Other assets in the consolidated balance sheets.

- ***Presentation of BC*** – The financial position, results of operations and cash flows of BC are no longer presented in separate columns in the consolidated balance sheets, statements of income and statements of cash flows.

- ***Financing income and financing expense*** – Interest income, including interest income generated from the portfolios of the former BC segment, is now classified in Financing income, a new caption in the consolidated statements of income. BC's interest income was previously included in Financing revenues and other interest income was included in Interest expense, net. The interest expense on the long-term debt of the former BC segment, previously included in Cost of sales, is now classified in Financing expense, a new caption in the consolidated statements of income. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense.

The impact on the consolidated statements of income of the reallocation of BC's portfolios to Aerospace, as well as certain other reclassifications referred to above under Financing income and Financing expense are as follows for fiscal years:

		2006[1]		2005[1]
Revenues				
Financing	**$**	**(79)**	$	(91)
Other		**10**		36
		(69)		(55)
Cost of sales		**(106)**		(126)
		37		71
Interest expense, net		**(170)**		(153)
Financing income		**156**		104
Financing expense		**363**		328
Income from continuing operations before income taxes	**$**	**-**	$	-

(1) Parenthesis represent a decrease of the related income statement item.

As a result of these changes, the Corporation has now two reportable segments: Aerospace and Transportation. Each reportable segment offers different products and services and requires different technology and marketing strategies. Management assesses segment performance based on earnings (loss) before financing income, financing expense, income taxes and special items, consistent with its current centralized debt management strategies. Corporate charges are allocated to segments mostly based on each segment's revenues.

II NON-GAAP FINANCIAL MEASURES

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

EBITDA before special items:	Earnings (loss) before financing income, financing expense, income taxes, depreciation and amortization and special items
EBIT before special items:	Earnings (loss) before financing income, financing expense, income taxes and special items
EBT before special items:	Earnings (loss) before income taxes and special items
EPS from continuing operations before special items:	Earnings (loss) per share from continuing operations before special items
Free cash flow:	Cash flows from operating activities less net additions to property, plant and equipment

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

- Reconciliation of EBITDA and EBIT, before special items, to EBIT – see the tables of analysis of results in the Aerospace and Transportation sections.
- Reconciliation of EBIT and EBT before special items to EBT – see the tables of selected financial information in the overview section.
- Reconciliation of earnings (loss) per share from continuing operations before special items to earnings (loss) per share – see the reconciliation of earnings (loss) per share from continuing operations table following the table of selected financial information in the overview section.
- Reconciliation of free cash flow to cash flows from operating activities – see the first table in the cash flows section.

Management believes that a significant portion of the users of its Consolidated Financial Statements and MD&A analyze the Corporation's results based on these performance measures and that this presentation is consistent with industry practice. Special items are viewed by Management as items that do not arise as part of the normal day-to-day business operations or that could potentially distort the analysis of trends.

III HIGHLIGHTS

- Net income of $249 million, compared to a net loss of $85 million last fiscal year.
- EBT from continuing operations before special items of $238 million ($150 million after special items), compared to $12 million ($160 million loss after special items) last fiscal year.
- EPS of $0.13, compared to a loss of $0.06 last fiscal year. EPS from continuing operations before special items of $0.11, compared to an EPS from continuing operations before special items of nil last fiscal year.
- BC's non-core portfolios (i.e. excluding commercial aircraft financing) have been essentially wound down or sold.
- Free cash flow of $532 million, an improvement of $326 million.
- Reduction of debt, amounting to $2.5 billion in fiscal year 2006.
- Cash and cash equivalents of $2.9 billion as at January 31, 2006.

IV CONSOLIDATED RESULTS

SELECTED FINANCIAL INFORMATION

The following table presents selected financial information for fiscal years:

	2006	2005
Revenues	**$ 14,726**	$ 15,546
EBIT from continuing operations before special items	**445**	236
Financing income	**156**	104
Financing expense	**(363)**	(328)
EBT from continuing operations before special items	**238**	12
Special items	**(88)**	(172)
EBT from continuing operations	**150**	(160)
Income tax expense (recovery)	**15**	(38)
Income (loss) from continuing operations	**135**	(122)
Income from discontinued operations, net of tax[1]	**114**	37
Net income (loss)	**$ 249**	$ (85)
Basic and diluted earnings (loss) per share (in dollars):		
From continuing operations	**$ 0.06**	$ (0.08)
Net income (loss)	**$ 0.13**	$ (0.06)
(as a percentage of revenues)		
EBIT from continuing operations before special items	**3.0%**	1.5%
EBT from continuing operations before special items	**1.6%**	0.1%
EBT from continuing operations	**1.0%**	(1.0)%
Order backlog (in billions of dollars)	**$ 31.6**	$ 31.5
Cash and cash equivalents[2]	**$ 2,917**	$ 2,344
Free cash flow[2]	**$ 532**	$ 206
Available short-term capital resources[2]	**$ 3,950**	$ 5,143

(1) Related to BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations.
(2) A detailed analysis of changes in cash and cash equivalents, free cash flow and available short-term capital resources is contained in the Liquidity and capital resources section of this MD&A.

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

	2006	2005
Income from continuing operations before special items, net of tax	**$ 212**	$ 32
Special items, net of tax	**(77)**	(154)
Income (loss) from continuing operations	**$ 135**	$ (122)
Basic and diluted earnings (loss) per share (in dollars):		
From continuing operations before special items, net of tax	**$ 0.11**	$ -
Special items, net of tax	**(0.04)**	(0.08)
From continuing operations	**$ 0.06**	$ (0.08)

A detailed analysis of the segmented EBIT is provided in the Aerospace and Transportation sections of this MD&A.

Revenues
The $820-million decrease mainly reflects:

- lower rolling stock revenues resulting from decreased mainline revenues in the United Kingdom ("U.K.") and Germany, due to a lower level of activities in these markets;
- lower deliveries of *CRJ200* aircraft; and
- lower volume of pre-owned business aircraft sales.

Partially offset by:

- increased deliveries and improved selling prices of business aircraft; and
- increased deliveries of *Q300* turboprops.

EBIT margin from continuing operations before special items
The 1.5 percentage-point increase is mainly due to:

- a higher EBIT margin in Transportation, mainly as a result of improvements in contract execution (significantly lower negative contract adjustments were recorded in fiscal year 2006), the positive impact of procurement initiatives and restructuring activities, as well as lower operating expenses; and
- a higher EBIT margin in Aerospace, mainly as a result of increased deliveries and improved selling prices of business aircraft, partially offset by lower deliveries of *CRJ200* aircraft and higher operating expenses.

Financing income/Financing expense
Net financing expense amounted to $207 million, compared to $224 million last fiscal year. Fiscal year 2005 financing expense was negatively impacted by the payment of $19 million in connection with the repurchase of call options related to BC's Putable/Callable notes due in fiscal year 2013. In addition, higher interest expense was mostly offset by higher interest income on cash balances and loans and lease receivables.

Special items
Special items are related to the restructuring plan in Transportation.

Income taxes
For fiscal year 2006, the effective income tax rate was 10.0%, compared to the statutory income tax rate of 32.0%. The lower effective income tax rate compared to the statutory income tax rate is mainly due to lower income tax rates of foreign investees and the impact of the strengthening of the Canadian dollar compared to the U.S. dollar on the Canadian dollar denominated deferred income tax asset, partially offset by the net changes in the recognition of operating losses carried forward.

For fiscal year 2005, the effective income tax recovery rate was 23.8%, compared to the statutory income tax recovery rate of 31.9%. The lower effective income tax recovery rate compared to the statutory income tax recovery rate is mainly explained by the non-recognition of income tax benefits related to operating losses in certain jurisdictions in Transportation, partially offset by lower income tax rates of foreign investees.

The details of the components of the income tax expense (recovery) are provided in note 16 – Income taxes to the Consolidated Financial Statements.

Discontinued operations
Income from discontinued operations was as follows for fiscal years:

		2006		2005
Income from discontinued operations, net of tax, before the following:	**$**	**24**	$	37
Gain (loss), net of tax, on sale of:				
Inventory finance operations		**121**		-
On-balance sheet manufactured housing operations		**(18)**		-
Loss, net of tax, related to planned disposal of:				
Off-balance sheet manufactured housing operations		**(10)**		-
Consumer finance and on- and off-balance sheet freight car operations[1]		**(3)**		-
	$	**114**	$	37

[1] Represents estimated severance costs related to these operations, which are expected to be disposed of in fiscal year 2007.

Order backlog
The order backlog remained essentially unchanged. Higher order intake compared to revenues recorded in both segments was offset by the negative impact of the weakening of the euro and the sterling pound compared to the U.S. dollar on the order backlog of Transportation, amounting to approximately $1.0 billion.

V FOURTH QUARTER RESULTS

SELECTED FINANCIAL INFORMATION

Selected financial information were as follows:

	Three-month periods ended January 31	
	2006	2005
Revenues	**$ 4,035**	$ 4,725
EBIT from continuing operations before special items	**160**	146
Financing income	**52**	35
Financing expense	**(98)**	(102)
EBT from continuing operations before special items	**114**	79
Special items	**(37)**	(38)
EBT from continuing operations	**77**	41
Income tax recovery	**(8)**	(6)
Income from continuing operations	**85**	47
Income from discontinued operations, net of tax[1]	**1**	9
Net income	**$ 86**	$ 56
Basic and diluted earnings per share (in dollars):		
From continuing operations	**$ 0.05**	$ 0.02
Net income	**$ 0.05**	$ 0.03
(as a percentage of revenues)		
EBIT from continuing operations before special items	**4.0%**	3.1%
EBT from continuing operations before special items	**2.8%**	1.7%
EBT from continuing operations	**1.9%**	0.9%

[1] Related to BC's off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations.

Revenues
The $690-million decrease is mainly due to:
- decreased mainline revenues in the U.K. and Germany;
- lower deliveries of regional aircraft; and
- lower volume of pre-owned business aircraft sales.

Partially offset by:
- higher deliveries and improved selling prices of business aircraft.

EBIT margin from continuing operations before special items
The 0.9 percentage-point increase is mainly due to:
- a higher EBIT margin in Transportation, mainly as a result of improvements in contract execution, the positive impact of procurement initiatives and restructuring activities, as well as lower operating expenses; and
- a higher EBIT margin in Aerospace, mainly as a result of increased deliveries and improved selling prices for business aircraft, and a lower level of sales incentives for regional aircraft, partially offset by lower deliveries of *CRJ200* aircraft.

Financing income/Financing expense
Net financing expense amounted to $46 million, compared to $67 million last fiscal year. This decrease is due to higher interest income on cash balances and loans and lease receivables, mostly offset by higher interest expense. In addition, fiscal year 2005 financing expense was negatively impacted by the payment of $19 million in connection with the repurchase of call options related to BC's Putable/Callable notes due in fiscal year 2013.

Special items
Special items are related to the restructuring plan in Transportation.

Income taxes
As a result of the impact of the increase in enacted tax rates in Quebec on the deferred income tax asset and the strengthening of the Canadian dollar compared to the U.S. dollar, the Corporation recorded an income tax recovery of $8 million on an EBT from continuing operations of $77 million in fiscal year 2006. In fiscal year 2005, the Corporation recorded an income tax recovery of $6 million on an EBT from continuing operations of $41 million due to the recognition of previously unrecorded tax benefits.

Earnings per share
Earnings per share from continuing operations before special items was $0.07 ($0.05 after special items), compared to $0.04 ($0.02 after special items) for the same period last fiscal year.

Free cash flow
Free cash flow of $669 million, an improvement of $222 million compared to last fiscal year. The increase is mainly due to higher free cash flow in Aerospace, partially offset by lower free cash flow in Transportation.

AEROSPACE

I OVERVIEW

Aerospace is a world leader in the design and manufacture of innovative aviation products and services for the business, regional, missionized and amphibious aircraft markets. Aerospace's product portfolio includes the industry's most comprehensive line-up of business aircraft, regional jets, turboprops and amphibious aircraft. With its extensive product line-up, Aerospace is well positioned to capitalize on the growth of the business aircraft market as well as on the airline industry's shift towards larger regional jets and turboprops.

The Aerospace section of the MD&A is structured by business unit. The table below presents the business units' main products and services:

BUSINESS AIRCRAFT	REGIONAL AIRCRAFT	AIRCRAFT SERVICES AND NEW COMMERCIAL AIRCRAFT PROGRAM	*FLEXJET* AND *SKYJET*
Narrow-body business jets • *Learjet 40/40 XR* • *Learjet 45/45 XR* • *Learjet 60/60 XR* **Wide-body business jets** • *Challenger 300* • *Challenger 604* • *Challenger 605* • *Challenger 800* Series[(1)] • *Bombardier Global 5000* • *Global Express/ Global Express XRS*	**Regional jets** • *CRJ200* • *CRJ700* • *CRJ705* • *CRJ900* **Turboprops** • *Q200* • *Q300* • *Q400*	• Parts logistics • Aircraft maintenance • Customer training • Military aviation training • *CSeries* • Amphibious aircraft • Government and missionized aircraft	• Aircraft fractional ownership • Hourly flight entitlement programs

(1) The orders, deliveries and market share of the corporate airliner category represented by the *Challenger 800* Series, are shown in the regional aircraft section of this MD&A.

Forward-looking statements

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

- current backlog and estimated future order intake based on:
  - similar levels of business aircraft demand from the United States ("U.S.") market and increased demand from emerging markets;
  - increased demand from regional airlines in the U.S. following their restructuring, as well as an increased demand for turboprops; and
  - expected growth in after-market services.
- continued deployment of strategic initiatives related to cost reductions.

BUSINESS ENVIRONMENT

Business aircraft

There was continued strong demand in the business aircraft market during fiscal year 2006. The underlying economic conditions that influence business aircraft demand in the U.S., namely U.S. real gross domestic product (adjusted for inflation) ("GDP") growth and corporate profits, remained healthy during calendar year 2005. There is an increasingly competitive environment demonstrated by the introduction in the market of five derivatives and two new products at the National Business Aviation Association ("NBAA") show in calendar year 2005.

The U.S. continues to be the dominant market; however, the international markets have gained significant momentum in recent years, supported by emerging eastern European economies and the strengthening of the euro compared to the U.S. dollar. The pricing for new business aircraft is firming up due to the increase in business aircraft demand combined with the lower inventory level of pre-owned business jets. The increase in demand for business aircraft has had a positive effect on the aircraft fractional ownership and hourly flight time entitlement markets.

Regional aircraft

Over the last several years, the U.S. airline industry has experienced year-over-year downward pressure on yields (defined as revenue per passenger mile) and rising costs, particularly as a result of higher fuel prices. The U.S. airline industry continues to be in a period of restructuring (see Market drivers section for regional aircraft in this MD&A). Regional airlines generally operate regional aircraft (jets and turboprops) up to 90 seats in a domestic route network. Mainline airlines generally operate narrow-body and wide-body jet aircraft over 90 seats in a network consisting of both domestic and international routes. Pilot scope clauses continue to loosen, thus permitting larger numbers of 70- to 90-passenger regional jets to be flown by the pilots of regional airlines affiliated with mainline airlines through a code-sharing agreement. In the regional jet sector, new aircraft demand has shifted from smaller to larger regional aircraft (such as the shift from the 50-passenger *CRJ200* aircraft to the 70-passenger *CRJ700* and 86-passenger *CRJ900* aircraft). The appeal of the larger *CRJ* Series aircraft models is greater seating capacity and lower unit (seat-mile) costs. Due to the superior economics offered by the lower fuel-burning turboprops, this sector experienced a significant increase in worldwide orders.

GOALS/STRATEGY

The primary goal is to improve EBIT margin to 8% over the next two to four years. Improved and sustained profitability will be achieved through focusing all employees on three priorities and targeted revenue growth.

Priorities

Engaging all employees and providing a safe and rewarding workplace

- An "Achieving excellence" program has been established, providing a process whereby Aerospace employees can benchmark their team's performance against the highest industry standards and develop plans to achieve these levels.
- Focusing on talent management through the annual leadership review with the purpose of ensuring that key management positions can be filled internally.

Providing an amazing customer experience

- By improving customer satisfaction and generating operating synergies through the consolidation of all after-market services including training, *CSeries*, amphibious and missionized programs into one business unit called Aircraft Services and New Commercial Aircraft Program;
- by investing in after-market support initiatives;
- by providing product commonality in both regional jets and turboprops; and
- by continually upgrading Aerospace's product offerings to meet evolving customer needs.

Reducing operating costs through waste elimination

- By optimizing Aerospace's supplier base strategy to reduce waste in the supply chain and to reduce the total acquisition cost of procured products;
- by continuing to optimize Aerospace's industrial strategy and developing low-cost manufacturing capacity and capability; and
- by pursuing outsourcing initiatives.

Targeted revenue growth

In addition to the three priorities discussed above, Aerospace will achieve its goal of an increased EBIT margin by growing revenue through the following:

- leveraging existing aircraft platforms;
- investing in key product improvements;
- building on Aerospace's strong presence in key emerging markets such as China, eastern Europe, India and Latin America;
- leveraging the strong business aircraft order backlog and continued strength in business aircraft demand to improve pricing for business aircraft; and
- improving market share for regional aircraft by continuing to focus on the operating economics of the current platforms versus the competition, exploring opportunities for the *CRJ200* aircraft in the cargo market and considering potential options for proven *CRJ* Series and *Q-Series* platforms in the 80- to 100-seat aircraft market.

HIGHLIGHTS

- EBIT of $266 million, compared to $203 million last fiscal year, an increase of 31%.
- Free cash flow of $900 million, an improvement of $518 million.
- 186 deliveries and 210 net orders for business aircraft, an increase of 45% and 36%, respectively.
- 149 deliveries and 90 net orders for regional aircraft, a decrease of 26% and 32%, respectively.
- Third consecutive year of increase in total deliveries.
- Total permanent financing arranged by the Corporation in connection with the sale of regional aircraft amounted to $2.9 billion in fiscal year 2006.
- Launched the *Challenger 605* and *Learjet 60 XR* aircraft derivative products. Aerospace also launched Bombardier Corporate Shuttle Solutions, a complete family of corporate shuttle jets comprised of the *Challenger 850, 870* and *890* aircraft.
- On January 31, 2006, the Corporation announced that present market conditions, especially given the financial instability of many U.S. airlines, did not justify the launch of the *CSeries* program at this time.

AIRCRAFT DELIVERIES

Total aircraft deliveries were as follows for fiscal years:

	2006	2005
Business aircraft (including those of the fractional ownership program)	**186**	128
Regional aircraft	**149**	200
Amphibious aircraft	**2**	1
	337	329

The increase in total deliveries is mainly due to higher deliveries of all business aircraft models. This increase was partially offset by lower deliveries in regional aircraft, mainly the *CRJ200* aircraft. Despite the continuing challenges facing the U.S. airline industry, Aerospace delivered approximately the same number of larger *CRJ700, CRJ705* and *CRJ900* aircraft in aggregate in fiscal year 2006 compared to fiscal year 2005. Two *Bombardier 415* amphibious aircraft were delivered during fiscal year 2006. Production of the amphibious firefighting and surveillance aircraft resumed during fiscal year 2006, in response to an improved market.

Aerospace expects total aircraft deliveries for fiscal year 2007 to remain at a similar level as that of fiscal year 2006.

ANALYSIS OF RESULTS

Aerospace's results were as follows for fiscal years:

		2006		2005
Segmented revenues				
Manufacturing				
Business aircraft	**$**	**3,127**	$	2,063
Regional aircraft		**2,893**		3,604
Other		**332**		237
Total manufacturing revenues		**6,352**		5,904
Services[(1)]		**1,208**		1,116
Other[(2)]		**527**		960
Total segmented revenues		**8,087**		7,980
Cost of sales		**6,925**		6,922
Margin		**1,162**		1,058
Operating expenses[(3)]		**490**		444
EBITDA		**672**		614
Amortization		**406**		411
EBIT	**$**	**266**	$	203
(as a percentage of total segmented revenues)				
Margin		**14.4%**		13.3%
EBITDA		**8.3%**		7.7%
EBIT		**3.3%**		2.5%

(1) Includes revenues from spare parts, fractional ownership and hourly flight entitlement programs' service activities, product support activities and military aviation training.
(2) Includes mainly sales of pre-owned aircraft.
(3) Comprised of selling, general and administrative and research and development expenses.

Manufacturing revenues
The $448-million increase is mainly due to:

- increased deliveries and improved selling prices of business aircraft;
- increased deliveries of *Q300* turboprops;
- higher selling prices for the turboprops;
- additional fractional share revenue; and
- an additional delivery of the Bombardier 415 amphibious aircraft.

Partially offset by:

- lower deliveries of *CRJ200* aircraft.

Service revenues
The $92-million increase is mainly due to:

- higher revenues from military aviation training due to significant progress on a contract; and
- higher revenues from fractional ownership and hourly flight entitlement programs related services.

Partially offset by:

- sale of a Bombardier amphibious aircraft search and rescue package to Greece in fiscal year 2005.

Other revenues
The $433-million decrease is mainly due to lower volume of pre-owned business aircraft available for sale as a result of fewer trade-ins.

Margin percentage
The 1.1 percentage-point increase is mainly due to:

- increased deliveries and improved selling prices of business aircraft;
- improved margin on the larger capacity *CRJ* Series aircraft;
- improved margin on pre-owned aircraft; and
- lower severance and other involuntary termination costs.

Partially offset by:

- lower deliveries of *CRJ200* aircraft;
- lower margin on spare parts; and

- lower margin from the rental of pre-owned commercial aircraft.

Operating expenses
The $46-million increase is mainly due to higher costs relating to the *CSeries* aircraft feasibility study and to higher marketing expenses resulting from increased business aircraft activities.

Amortization
The $5-million decrease is mainly due to lower assets under operating leases related to long-term financing of regional aircraft, partially offset by an increase in the amortization of program tooling.

PROGRAM INFORMATION

The carrying amounts of excess over-average production costs ("EOAPC") included in Inventories, and program tooling costs included in Property, plant and equipment, were as follows as at January 31:

			2006			2005
Program family	**EOAPC**	**Program tooling**	**Total**	EOAPC	Program tooling	Total
Business aircraft						
Learjet Series	**$ 221**	**$ 111**	**$ 332**	$ 254	$ 158	$ 412
Challenger 300	**140**	**414**	**554**	117	429	546
Challenger 604/605	**-**	**38**	**38**	-	19	19
Global Series	**319**	**351**	**670**	411	430	841
Regional aircraft						
CRJ Series	**54**	**413**	**467**	83	441	524
Q-Series	**23**	**64**	**87**	54	61	115
	$ 757	**$ 1,391**	**$ 2,148**	$ 919	$ 1,538	$ 2,457

The decrease in EOAPC is mainly due to the majority of programs having reached the point where the actual unit cost is less than the average unit cost recognized in income.

The decrease in program tooling is mainly due to the benefit arising from leveraging prior investments in product platforms, resulting in lower investment of programs under development or in their early phases of production, compared to amortization of programs under commercial production. Amortization of program tooling amounted to $254 million for fiscal year 2006, compared to $244 million for fiscal year 2005.

The following table presents accounting program quantities and remaining deliveries for programs with an EOAPC balance outstanding as at January 31, 2006:

Program family	**Accounting program quantities**	**Remaining deliveries**[(1)]
Business aircraft		
Learjet Series	725	284
Challenger 300	300	213
Global Series	450	264
Regional aircraft		
CRJ Series[(2)]	550	251
Q-Series[(2)]	225	15

(1) Remaining deliveries include 74 firm orders of *CRJ700, CRJ705* and *CRJ900* aircraft and 15 firm orders of *Q-Series* turboprops. There are an additional 69 firm orders, beyond the current accounting program quantity, in the backlog for the *Q-Series* turboprops.
(2) Excludes *CRJ200* and *Q200* aircraft, which had no EOAPC balance outstanding as at January 31, 2006.

PRODUCT DEVELOPMENT

During fiscal year 2006, Aerospace invested $338 million in product development, representing 5.3% of manufacturing revenues, compared to $298 million during fiscal year 2005, or 5.0% of manufacturing revenues.

Product development costs consisted of the following for fiscal years:

		2006		2005
Research and development[1]	**$**	**92**	$	62
Program change and engineering[2]		**108**		110
Program tooling[3]		**138**		126
	$	**338**	$	298

(1) Included in Research and development in the consolidated statements of income.
(2) Included in Cost of sales in the consolidated statements of income.
(3) Capitalized in Property, plant and equipment in the consolidated balance sheets.

Research and development costs were higher during fiscal year 2006 mainly due to the *CSeries* aircraft feasibility study.

ORDER BACKLOG

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

(in billions of dollars)		2006		2005
Aircraft programs	**$**	**9.6**	$	9.1
Military aviation training		**1.1**		1.1
	$	**10.7**	$	10.2

The year-over-year increase is mainly due to strong order intake for business aircraft and turboprops, partially offset by a declining order backlog for *CRJ* Series aircraft.

WORKFORCE AND LABOUR RELATIONS

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

	2006	2005
Total number of employees	**26,800**	27,100
Percentage of employees covered by collective agreements	**56%**	56%

The 1% decrease in the total number of employees is mainly due to terminations as a result of the previously announced workforce reductions relating to the realignment of the production rate of the 50-passenger *CRJ200* aircraft. Substantially all of the terminations have taken place during fiscal year 2006. There are approximately 355 remaining layoffs, which should be completed by July 2006.

On January 31, 2006, the Corporation announced that present market conditions did not justify the launch of the *CSeries* program at this time. The majority of *CSeries* employees will be redirected to the development of regional jet and turboprop aircraft opportunities to address regional airlines' future needs in the 80- to 100-seat aircraft market. A small team of approximately 50 employees will remain with the *CSeries* program to further develop its business plan. The decision not to launch the *CSeries* program at this time did not give rise to additional workforce reduction charges in fiscal year 2006.

In fiscal year 2007, collective agreements with the following unions are up for renewal:

- ***Montréal*** – During fiscal year 2006, the Corporation reached an agreement for a new six-year collective agreement with the International Association of Machinists and Aerospace Workers 712 ("IAMAW"), the largest union, covering approximately 5,300 employees in Montréal, beginning in December 2005. The agreement was conditional on the assembly of the *CSeries* aircraft being performed in the Montréal area. As a result of the Corporation's decision not to launch the *CSeries* program at this time, this collective agreement is being renegotiated.

- ***Wichita*** – The IAMAW collective agreement, covering approximately 1,400 employees in Wichita, expires on October 2, 2006.
- ***Toronto*** – The Canadian Auto Workers ("CAW") collective agreement, covering approximately 2,500 employees in Toronto, expires on June 22, 2006.
- ***Belfast*** – The Amicus, the Amalgamated Transport & General Workers Union and the General Machinists & Boilermakers collective agreements, covering approximately 4,300 employees in Belfast, expires on January 24, 2007.

II BUSINESS AIRCRAFT

MARKET DRIVERS

There has been a total of 750 business jets delivered in calendar year 2005, according to data from General Aviation Manufacturers Association ("GAMA"), which is slightly short of the peak reached in calendar year 2001.

U.S. economic performance
The U.S. market still remains the dominant market for sales of business aircraft. A strong U.S. economy with steady real GDP growth and increasing corporate profits generally translates into stronger aircraft deliveries. According to the Blue Chip Economic Indicators report, published on February 10, 2006, the growth in U.S. real GDP was 3.5% for calendar year 2005 (3.7% for calendar year 2004). A recent Honeywell Aerospace forecast indicates that should U.S. real GDP growth exceed the 3% range over the next 12 to 18 months, the strength of the business aircraft market is expected to continue.

International markets
During calendar year 2005, there has been an increase in the percentage of sales made outside of North America for all manufacturers. The weakening of the U.S. dollar in recent years, in comparison to the euro, the result of stronger economic performance in Europe, and the emergence of new markets, such as China, eastern Europe and India, have helped stimulate sales internationally.

Pre-owned business jet inventory level and fair market values
The level of pre-owned business jet inventory, as well as the price that these aircraft are selling for (fair market values), are key drivers for the industry. As the inventory level of pre-owned aircraft increases, their prices may drop, making it more affordable for buyers to purchase pre-owned aircraft. When the availability of pre-owned aircraft on the market is low, their prices may increase, and thus the price gap to buy a new aircraft diminishes, making the choice of a new aircraft more attractive to potential buyers. According to monthly extracts of the Jetnet database, the number of pre-owned business jet inventory available for sale amounted to 1,602 units as at December 31, 2005 compared to 1,786 units as at December 31, 2004, representing a 10% decline. This decline contributed to increased fair market values for pre-owned business jets.

New aircraft model introductions
The introduction of new aircraft models stimulates demand for business aircraft. As new products are introduced, the consumer is given more choice of models at varying price and performance points. A new product introduction may attract new potential buyers to the market if the model meets their needs in terms of price and capability. Consumers who already own a business aircraft may be tempted to upgrade their present model with a more sophisticated model, which offers the latest in terms of technological advances. Other potential buyers may be attracted to a new product offering in a category in which there was no product offering before. In fiscal year 2006, Aerospace introduced the *Learjet 60 XR* and *Challenger 605* aircraft derivatives and launched the *Challenger 800* Series aircraft.

COMPETITION

The overall business jet aircraft market is segmented into narrow-body and wide-body aircraft, based on cabin size, range and price of aircraft. Narrow-body aircraft is further segmented into four distinct categories, which range from smallest to largest: very light, light, super light and midsize. The wide-body aircraft is further segmented into five distinct categories, which range from smallest to largest: super midsize, large, super large, ultra long range and corporate airliner. The orders, deliveries and market share of the corporate airliner category, represented by the *Challenger 800* Series aircraft, are shown in the Regional aircraft section in this MD&A.

Aerospace's major competitors in the narrow-body business jet category are: Cessna Aircraft Company ("Cessna"), a subsidiary of Textron Inc., Raytheon Aircraft ("Raytheon"), a subsidiary of the Raytheon Company, and Embraer Executive Jets, a subsidiary of Embraer-Empresa Brasileira de Aeronáutica SA ("Embraer"). Aerospace's main competitors in the wide-body business jet category are: Gulfstream Aerospace Corporation ("Gulfstream"), a subsidiary of General Dynamics and Dassault Aviation ("Dassault").

The table below illustrates Aerospace's major competitors by category (the shaded areas represent categories in which Aerospace's competitors have a product offering or a product under development):

	Narrow-body				Wide-body			
	Very light	Light	Super light	Midsize	Super midsize	Large	Super large	Ultra long range
Aerospace[1]		*L40/L40 XR*	*L45/L45 XR*	*L60/L60 XR*	*CL300*	*CL604/ CL605*	*G5000*	*GEX/ GEX XRS*
Cessna								
Raytheon								
Embraer								
Gulfstream								
Dassault								

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

PRODUCT DEVELOPMENT

- In November 2005, Aerospace launched the *Challenger 605* aircraft, which features an advanced cockpit, a more spacious restyled interior and an increased payload capacity offering additional flexibility to add more options, passengers or fuel. In January 2006, the *Challenger 605* aircraft successfully completed its first flight.
- In November 2005, Aerospace launched the *Learjet 60 XR* aircraft. This model retains the combination of value and high-speed performance of the *Learjet 60* aircraft, while adding an advanced cockpit, together with a stand-up cabin redesigned for style, comfort and functionality.
- In November 2005, Transport Canada ("TC"), the U.S. Federal Aviation Administration ("FAA") and the European Aviation Safety Agency ("EASA") granted full operational approval for the Bombardier Enhanced Vision System ("BEVS"). This system, available on *Bombardier Global 5000, Global Express* and *Global Express XRS* aircraft, provides pilots with improved situational awareness and the ability to observe runway lights and the runway environment in difficult operating conditions.

- In May 2005, Aerospace launched Bombardier Corporate Shuttle Solutions, a complete family of corporate shuttle jets, backed by a full team from engineering, program planning, sales and customer support. Based on the *CRJ* Series platform, the *Challenger 850, 870* and *890* aircraft offer the proven advantages of a wide-body cabin, low direct operating costs, dispatch reliability and ease of maintenance.

AIRCRAFT DELIVERIES

Business aircraft deliveries were as follows for fiscal years:

			2006			2005
		Flexjet	**Total**		*Flexjet*	Total
Narrow-body business jets						
Learjet 40/40 XR	**20**	**4**	**24**	11	3	14
Learjet 45/45 XR	**29**	**2**	**31**	23	-	23
Learjet 60	**14**	**-**	**14**	10	-	10
Wide-body business jets						
Challenger 300	**44**	**8**	**52**	21	7	28
Challenger 604	**35**	**-**	**35**	31	-	31
Bombardier Global 5000	**14**	**-**	**14**	9	-	9
Global Express/Global Express XRS	**16**	**-**	**16**	13	-	13
	172	**14**	**186**	118	10	128

The 45% increase in business aircraft deliveries mainly resulted from the ramp-up in production of newer models (*Challenger 300* and *Learjet 40* aircraft), the introduction of new derivatives (mainly *Learjet 40 XR* and *Learjet 45 XR* aircraft), as well as from the strengthening of the business aircraft market. There has been an increase in deliveries in all business aircraft models.

NET ORDERS

During fiscal year 2006, Aerospace received 210 net orders for business aircraft, compared to 154 net orders during fiscal year 2005, which represents a 36% increase. The level of net orders received in fiscal year 2006 is at its highest level since fiscal year 2000. The increase reflects continued strength of the business aircraft market, strong product positioning on the market and Aerospace’s continuous investments to meet evolving customer needs.

The order backlog for business aircraft remains strong for each product family.

MARKET SHARE

Aerospace competes in eight out of the nine market categories, which on a revenue basis, represent 97% in calendar year 2005 (compared to 96% in calendar year 2004) of the total business aircraft market. Orders, deliveries and market share of the corporate airliner category are shown in the regional aircraft section of this MD&A.

Assessment of market share in the business aircraft industry is based on delivery data from GAMA for the calendar year, and therefore does not correspond with the number of aircraft deliveries recorded during the Corporation’s fiscal year ended January 31. For some competitors, GAMA only provides the information by product family. In these cases, Aerospace estimates the deliveries by category using the FAA records, other databases, historical trends and competitive intelligence.

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

		2005			2004		
			Aerospace			Aerospace	
Category	**Product**	**Total market (in units)(1)**	**Total deliveries (in units)**	**Market share**	Total market (in units)(1)	Total deliveries (in units)	Market share
Light	*Learjet 40/40 XR*	**156**	**21**	**13%**	100	17	17%
Super light	*Learjet 45/45 XR*	**92**	**28**	**30%**	77	22	29%
Midsize	*Learjet 60*	**126**	**18**	**14%**	71	9	13%
Super midsize	*Challenger 300*	**91**	**50**	**55%**	67	28	42%
Large	*Challenger 604*	**71**	**36**	**51%**	82	29	35%
Super large	*Bombardier Global 5000*	**55**	**17**	**31%**	37	4	11%
Ultra long range	*Global Express/Global Express XRS*	**49**	**13**	**27%**	48	20	42%
		640	**183**	**29%**	482	129	27%

(1) Deliveries of the very light category (71 units in calendar year 2005 and 84 units in calendar year 2004) are not included in the market total shown above since Aerospace has no product offering in this category.

In calendar year 2005, the 33% increase in the total market, and the two-percentage-point increase in Aerospace's market share in categories in which it competes, reflect mainly the ramp-up in production of the *Challenger 300* and the overall strengthening of the business aircraft market, due to robust economic conditions and growth in emerging markets.

OUTLOOK

In the market categories in which Aerospace competes, it is expected that competition will remain intense over the next few years, as all manufacturers will be offering product upgrades to stimulate demand.

The U.S. real GDP growth consensus estimate, according to Blue Chip Economic Indicators consensus of 53 top economists, dated February 10, 2006, is 3.3% for calendar year 2006, which should support continued strength in the business aircraft market this coming year. According to a report issued by the Transportation Research Board of the FAA dated January 2006, for the market categories in which Aerospace competes, the consensus forecast is for 650 annual deliveries, on average, over the next 10 years. This figure compares to the 500 units delivered annually during the 1996-2005 period.

Increasing energy costs, the possible introduction of user fees (a charge for those who utilize the air traffic control system regardless of the size of the aircraft) and proposed reduced tax breaks on "personal and entertainment" use of business aircraft could dampen demand for business aircraft in the U.S. Emerging markets, such as China, India and eastern European countries offer the most potential for developing business aircraft operations and associated infrastructure.

During calendar year 2005, Aerospace has regained its leadership position of the business aircraft market on a revenue basis. Aerospace is well positioned to benefit from sustained market growth in business aircraft. Aerospace has the broadest line of products in the market, and offers customers total transportation solutions, including business charter services (*Skyjet*), fractional ownership (*Flexjet)* and corporate shuttles (Bombardier Corporate Shuttle Solutions).

III REGIONAL AIRCRAFT

MARKET DRIVERS

Economic environment
Airlines continue to restructure their networks and to rely on their regional airline partners to provide smaller units of capacity at competitive costs to supplement and replace their own larger aircraft capacity, as well as to open new markets. This has contributed significantly to the growth of the regional airline industry as outlined in the table hereafter (Annual year-over-year increases in U.S. airline traffic).

The U.S. airline industry continues to face financial challenges and has undergone some major restructuring.

- Delta Air Lines sold Atlantic Southeast Airlines ("ASA") to SkyWest, Inc. ASA is now a wholly-owned subsidiary of SkyWest Holdings Inc. SkyWest Holdings Inc. has since converted 18 orders of *CRJ200* aircraft in the order backlog to *CRJ700* aircraft and has placed an additional order for four *CRJ700* aircraft during fiscal year 2006.
- US Airways, another one of Aerospace's regional aircraft customers, recently merged with America West to form a new carrier called US Airways and emerged from the U.S. Bankruptcy Act Code ("Chapter 11"). Since US Airways has emerged from Chapter 11, Aerospace has been in negotiations for the affirmation of 30 aircraft in the order backlog.
- On February 1, 2006, UAL Corporation, the holding company whose primary subsidiary is United Airlines, announced that it had formally exited Chapter 11. A significant number of *CRJ* Series aircraft are operated by independent regional airline affiliates under the brand United Express. United Airlines has no ownership position in its regional affiliates.
- Aerospace customers Delta Air Lines, Northwest Airlines, Mesaba Airlines, and FLYi ("Independence Air") have filed under Chapter 11. FLYi operations ceased on January 5, 2006, and the airline is being liquidated under U.S. bankruptcy law.
- These developments have resulted in certain *CRJ100/200* being returned to their lessors or otherwise idled as described below:
  - Northwest Airlines elected to return 15 *CRJ200* aircraft to lessors as part of Northwest's reorganization plan.
  - Delta Air Lines announced its intention to remove up to 30 *CRJ100/200* aircraft operated by Comair, Inc. from revenue service.
  - The cessation of operations at Independence Air resulted in 58 *CRJ200* aircraft being removed from service.
- Based on the above, the number of *CRJ100/200* aircraft that can be returned to lessors or otherwise idled is approximately 100. This represents approximately 10% of the world's *CRJ100/200* aircraft fleet. Aerospace is working directly with the owners and operating lessees of these aircraft to remarket them, particularly outside the traditional U.S. market and with newer airlines. The remainder of the fleet remains in active revenue service, as smaller regional jets continue to play a crucial role in the U.S. network, and will help the airlines to open new markets and provide route frequency in off-peak times.

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

Revenue passenger miles and available passenger capacity
Mainline airlines continued outsourcing routes to their regional partners to reduce costs. Regional airlines are shifting new aircraft purchases to larger capacity aircraft from the 30- and 50-seat aircraft to the 70- and 90-seat aircraft. This shift is due to lower seat-mile costs offered by the larger aircraft, which helps to maintain the airlines' profitability even in a depressed fare environment. Also, additional seats allow the airlines to serve more passengers, as passenger traffic recovers from a low level following the September 11, 2001 event.

According to an *Airline Monitor* report dated January/February 2006, in calendar year 2005, U.S. regional airlines posted a strong annual year-over-year percentage increase in Revenue Passenger Miles ("RPM") and in Available Seat Miles ("ASM") compared to mainline airlines as demonstrated by the table below:

Annual year-over-year increases in U.S. airline traffic

	2005		2004[3]	
	Regional airlines	**Mainline airlines**	Regional airlines	Mainline airlines
RPM[1]	**21.3%**	**4.7%**	28.2%	9.4%
ASM[2]	**17.6%**	**1.8%**	23.9%	6.3%

[1] RPM is a measure of paying passenger traffic and represents passenger demand for air transport, defined as one fare-paying passenger transported one mile.
[2] ASM is a measure of available passenger capacity and represents one seat carried for one mile, whether a passenger occupies it or not.
[3] The calendar year 2004 figures have been restated by *Airline Monitor*.

Fuel prices

The increases in the price of crude oil, which began in mid-2003, continue to put pressure on the airlines' results. As a consequence, the mainline airlines continue to outsource routes to their regional partners to reduce costs. The regional airlines are shifting new aircraft purchases to larger capacity aircraft, which offer lower seat-mile costs and which help to maintain the airlines' profitability even in a depressed fare environment.

Turboprop economics, built on significantly lower maintenance, fuel and acquisition costs for short-haul flights, have become more appealing with higher fuel prices.

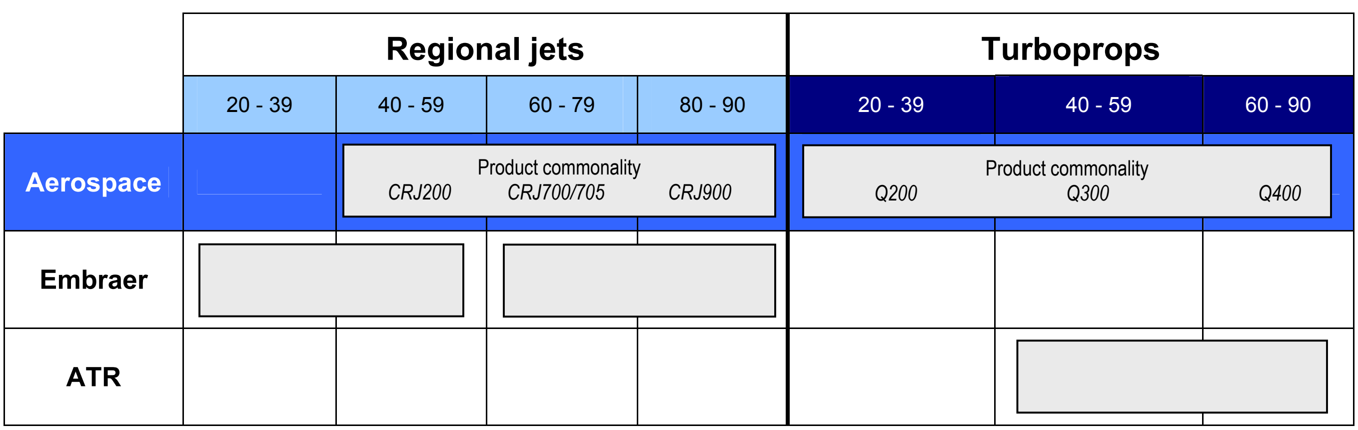
Scope clauses

Scope clauses in pilot union agreements, restricting the operation of smaller jetliners by major airlines or by their regional affiliates, are gradually moving towards larger capacity regional aircraft in order to allow the mainline airlines and the regional airlines to better compete in low-yield environments. Notable examples of more liberalized scope clauses are at Delta, United, US Airways and Air Canada/Jazz Air Inc.

COMPETITION

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

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



Aerospace has families of aircraft offering commonality in the regional jet and turboprop categories:

Regional jets
The *CRJ* Series family of aircraft offers regional airlines a network solution with products ranging from 40 to 86 passengers with product commonality, which includes common crew qualification, spare parts and maintenance procedures. Aerospace believes that this family has an economic advantage over competing aircraft due to their superior speed, better fuel efficiency and lower maintenance costs.

Turboprops
The *Q-Series* family of turboprops offers products ranging from 37 to 78 passengers with product commonality, which includes common crew qualification, spare parts and maintenance procedures. The *Q400* aircraft competitive advantage is its superior economics as it offers the lowest cost per seat in the industry. It also offers an extended range and jet-like speed, which allows regional airlines to operate the *Q400* aircraft in markets not traditionally served by turboprop aircraft.

PRODUCT DEVELOPMENT

Approval was obtained for four *CRJ* Series aircraft enhancement programs from TC:

- The *CRJ900* aircraft Enhanced Performance Packages ("EPP") provide improved take-off and landing performance, increased range and contribute to lower fuel consumption.
- The *CRJ900* LR (long range) aircraft provides an increased payload and can carry a full passenger load more than 2,103 miles (3,385 km), an increase of 270 miles (435 km) over the *CRJ900* ER (extended range) aircraft.
- The *CRJ700* engine upgrade provides operators with savings of up to 15% in engine maintenance costs over 15 years. In addition, the upgrade allows operators to carry a single spare engine type to support a mixed *CRJ700/705/900* aircraft fleet, simplifying fleet management and significantly reducing spares investment.
- The *CRJ705*, the 75-seat regional jet first delivered to Air Canada in May 2005, also incorporates the EPP.

In addition, the *CRJ700* aircraft also received certification with noise levels that are below the latest stringent International Civil Aviation Organization ("ICAO") Stage IV requirements. Like its larger sibling, the *CRJ900* aircraft (the first commercial aircraft to achieve Stage IV compliance), the *CRJ700* aircraft will have improved operational flexibility at noise-sensitive airfields.

Developments for the *Q400* aircraft include an enhanced navigation package for improved pilot situation awareness/productivity. In addition, an optional Enhanced High Gross Weight variant is now available, increasing payload capacity by 1,000 pounds (454 kg) over the High Gross Weight variant.

AIRCRAFT DELIVERIES

Regional aircraft deliveries were as follows for fiscal years:

	2006	2005
Regional jets		
CRJ200[(1)]	**44**	100
CRJ700	**50**	64
CRJ705	**15**	-
CRJ900	**12**	14
Turboprops		
Q200	**1**	1
Q300	**11**	5
Q400	**16**	16
	149	200

(1) Includes 11 deliveries of the corporate airliner category aircraft in fiscal year 2006 (three deliveries in fiscal year 2005).

The 26% decrease in regional aircraft deliveries is mainly due to lower deliveries of *CRJ200* aircraft, consistent with current market trends, which indicate a reduction in demand for the 50-passenger regional jets.

ORDERS AND BACKLOG

Aerospace received the following significant net orders for fiscal year 2006:

Customer	Aircraft	Number
Regional jets		
SkyWest	*CRJ700*	24
Deutsche Lufthansa AG	*CRJ900*	12
GoJet Airlines	*CRJ700*	4
Atlasjet	*CRJ900*	3
Turboprops		
Porter Airlines	*Q400*	10
Jeju Air	*Q400*	5
Horizon Air	*Q400*	5
FlyBE	*Q400*	4
Caribbean Aircraft Leasing (BVI) Limited	*Q300*	4

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

				2006[1]	2005[1]
	Orders	**Swaps**	**Cancellations/ removals**	**Net orders**	Net orders
Regional jets					
CRJ200	**24**	**(23)**	**(16)**	**(15)**	25
CRJ700	**35**	**15**	**(6)**	**44**	25
CRJ705	**-**	**-**	**-**	**-**	15
CRJ900	**16**	**1**	**-**	**17**	6
Turboprops					
Q200	**2**	**-**	**-**	**2**	1
Q300	**8**	**-**	**-**	**8**	22
Q400	**27**	**7**	**-**	**34**	39
	112	**-**	**(22)**	**90**	133

(1) Includes nine net orders of the corporate airliner category in fiscal year 2006 (five net orders in fiscal year 2005).

As a result of the filing by Northwest Airlines for reorganization under Chapter 11, Aerospace voluntarily removed 13 *CRJ200* aircraft, in the third quarter of fiscal year 2006, from its order backlog.

On March 14, 2005, GoJet Airlines placed an order for 10 *CRJ700* aircraft. Subsequently, the interest in six of the aircraft was transferred to General Electric Capital Aviation Services ("GECAS"). As a result, Aerospace relieved GECAS from its previous commitment to purchase six *CRJ700* aircraft, and the order backlog was reduced accordingly.

In the first quarter of fiscal year 2006, Eurowings cancelled three *CRJ200* aircraft.

In fiscal year 2006, 23 orders for the *CRJ200* aircraft, previously received from SkyWest and Air Nostrum, were swapped for 22 *CRJ700* aircraft and one *CRJ900* aircraft. In addition, Horizon Air transferred seven orders for the *CRJ700* regional jet for seven *Q400* turboprops.

The order backlog, as well as options and conditional orders for regional aircraft consisted of the following as at January 31, 2006:

	Aircraft on firm order[1]	**Options and conditional orders**
Regional jets		
CRJ200	17	342
CRJ700	51	336
CRJ705	-	15
CRJ900	23	20
Turboprops		
Q200	2	2
Q300	20	11
Q400	64	82
	177	808

(1) There are 37 firm orders in the order backlog with conversion rights to other regional aircraft.

MARKET SHARE

Assessment of market share in the regional aircraft industry is calculated on the basis of gross order intake and aircraft deliveries recorded during the calendar year, which does not correspond to the number of gross order intake and aircraft deliveries recorded during the Corporation's fiscal year ended January 31.

Market share based on gross orders
Total gross order intake and Aerospace's market share in the market categories in which it competes were as follows for calendar years:

		2005				2004
		Aerospace			Aerospace	
	Worldwide market (in units)[1]	**Gross order intake (in units)**[1]	**Market share**[1]	Worldwide market (in units)[1]	Gross order intake (in units)[1]	Market share[1]
CRJ Series	**139**[2]	**85**	**61%**	241[2]	157	65%
Q-Series	**151**[3]	**61**	**40%**	47[3]	35	74%
	290	**146**	**50%**	288	192	67%

(1) Gross orders and market share for the corporate airliner category have been excluded from the above table, as the information is not available.
(2) 40- to 90-passenger aircraft.
(3) 20- to 90-passenger aircraft.

Source: Competitor reports.

In calendar year 2005, the worldwide regional aircraft market, measured by gross order intake, remained stable. However, there has been a significant change in the mix of aircraft ordered. For the first time in a number of years, turboprop orders exceeded regional jet orders with turboprops increasing by 221 percentage points and regional jets decreasing by 42 percentage points.

Aerospace's market share, in the categories in which it competes, decreased by 17 percentage points. This decrease is mainly a result of Aerospace's competitor obtaining two major orders for turboprops in India.

Market share based on deliveries
Total deliveries and Aerospace's market share in the market categories in which it competes were as follows for calendar years:

			2005			2004
		Aerospace			Aerospace	
	Worldwide market (in units)	**Total deliveries (in units)**	**Market share**	Worldwide market (in units)[4]	Total deliveries (in units)[4]	Market share[4]
CRJ Series	**233[1]**	**125**	**54%**	309[1]	175	57%
Q-Series	**43[2]**	**28**	**65%**	32[2]	19	59%
Corporate airliner	**39[3]**	**5**	**13%**	26[3]	1	4%
	315	**158**	**50%**	367	195	53%

(1) 40- to 90-passenger aircraft.
(2) 20- to 90-passenger aircraft.
(3) The worldwide market information for corporate airliners is from GAMA. The 2004 GAMA information has been restated to include Aerospace's deliveries of the corporate airliner category.
(4) 2004 figures have been restated, to separately identify the market share for corporate airliners.

Source: Competitor and GAMA reports.

In calendar year 2005, the worldwide regional aircraft market, measured by deliveries, decreased by 14%. This decrease is consistent with the current market trend, which indicates a reduction in demand for smaller regional jets.

In calendar year 2005, Aerospace's market share, in the categories in which it competes, decreased by three percentage points, mainly due to a decrease in market share for regional jets, partially offset by an increase in market share for turboprops.

OUTLOOK

In response to meeting airlines' requirements for aircraft with exceptional operating economics, Aerospace has started investigating potential options for the proven *CRJ* and *Q-Series* platforms in the 80- to 100-seat aircraft market.

Aerospace currently has two proven families of regional aircraft in service with 12 of the world's 20 largest airlines, their subsidiaries and affiliated companies (as per an *Air Transport World* report dated January 2006, based on revenue passenger miles from January to November 2005).

***CRJ* Series**
Competition for the 70- to 90-passenger regional jet market category will continue to be fierce. Aerospace believes that it is well positioned in this category given the economic advantage of its products, family commonality benefits across the 40- to 86-passenger *CRJ* Series aircraft and the large installed base for the *CRJ100/200* aircraft. Therefore, there is potential that these customers will upgrade to larger capacity *CRJ700, CRJ705* and *CRJ900* aircraft.

The larger models will drive future *CRJ* Series aircraft sales activity. The demand for new 50-passenger regional jet aircraft appears to be satisfied by the current fleet. As a result, Aerospace announced a temporary suspension of the production of *CRJ200* aircraft in October 2005. In February 2006, Aerospace announced that it would restart production of the *CRJ200*/*Challenger 850* aircraft platform to primarily meet present and anticipated demand for the *Challenger 850* business jets. In addition, Aerospace will pursue opportunities for the remarketing of pre-owned *CRJ200* aircraft to the regional airline markets in China, Russia, India and Latin America, as well as explore opportunities for the *CRJ200* aircraft in the cargo market.

Q-Series
Due to superior economics offered by turboprops, the turboprop sector experienced a significant worldwide increase in orders, which is expected to continue. Aerospace continues to be well positioned to benefit from the market growth with its comprehensive family of *Q-Series* new-generation quiet turboprop aircraft.
Improved seat-mile cost being a necessary response to the continuing difficult environment in the airline industry,

Aerospace expects demand for the larger regional aircraft, such as *CRJ700, CRJ705*, *CRJ900* and *Q400* aircraft, to increase. Sourcing regional aircraft attractive financing is expected to remain a challenge.

IV AIRCRAFT SERVICES AND NEW COMMERCIAL AIRCRAFT PROGRAM

PARTS LOGISTICS

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

- Main distribution centres in Chicago (238,000 sq ft – 22,110 m^2) and Frankfurt (50,000 sq ft – 4,650 m^2).
- Depots in Montréal, Singapore, Sydney, Dubai and Beijing.

On September 7, and on December 8, 2005, Aerospace officially inaugurated two high-volume aircraft parts distribution warehouses in Chicago and Frankfurt, respectively. The newly-built warehouses serve as the central distribution points for essentially all of Aerospace's aircraft parts, offering operators of Aerospace business jets and regional airliners worldwide, improved local parts availability, delivery and service quality.

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

Aerospace competes with various large and small suppliers of aerospace parts. Aerospace's competitive strengths include the availability of most spare parts for its aircraft, which are managed with the use of an integrated system, allowing quick turn-around to meet customer requests, lowering inventory costs and improving inventory turnover. Aerospace is at an advantage by offering Original Equipment Manufacturer ("OEM") certification along with OEM technical advice. Aerospace also offers a number of spare parts programs for customers, including *Smart Parts* program, which allows customers to purchase spare parts on a cost-per-flight-hour basis.

AIRCRAFT MAINTENANCE

Aerospace offers maintenance services for its business aircraft customers at its four exclusive centres located in Fort Lauderdale, Hartford, Wichita and Dallas as well as at a service centre located in Berlin, in which the Corporation holds an equity investment. In addition, Aerospace offers maintenance services to its business and regional aircraft customers at two centres, located in Tucson and Bridgeport.

Aerospace is also associated with 31 authorized service facilities worldwide, of which 28 facilities are for business aircraft and three for regional aircraft, which provide complete services to operators. These service facilities are located in Europe, Asia, Africa, Australia, North America and South America.

CUSTOMER TRAINING

Aerospace offers a complete range of pilot and maintenance training programs for *CRJ* Series aircraft in Montréal as well as through a joint venture in Berlin.

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

MILITARY AVIATION TRAINING

Aerospace's Military aviation training ("MAT") division, in collaboration with a team of sub-contractors, delivers integrated training solutions.

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

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

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

CSERIES

During fiscal year 2005, Aerospace undertook a feasibility study in connection with the development of a new generation of commercial aircraft, identified as the *CSeries*. The *CSeries* aircraft are designed to offer an economical, passenger-friendly and operationally flexible family of aircraft, and to offer mainline airlines, both the fast-growing low-cost carriers and network carriers, a 110- to 130-passenger family of aircraft with superior range and economics as well as operational flexibility.

In March 2005, the Board of Directors of the Corporation approved an authority to offer ("ATO") whereby Aerospace was able to offer a new *CSeries* family of aircraft to customers. The Board of Directors also reiterated the three conditions for program launch at that time:

1. The product family was to meet certain operational performance objectives, set forth at ATO.
2. The program business case had to meet certain requirements, set forth at ATO, including commitments for financing.
3. Firm customer commitments in the range of 50 to 100 aircraft had to be received.

On January 31, 2006, the Corporation concluded that it had met the first two conditions above, however, with respect to the third condition, market conditions were such, especially the financial instability of many U.S. airlines, that the launch of the *CSeries* program was not justified at this time.

The *CSeries* program has not been cancelled. A small team of approximately 50 employees will remain with the program to further develop its business plan, with an emphasis on including other partners, particularly ones in fast-growing major aerospace markets. Aerospace will now concurrently continue to explore the *CSeries*' potential as well as pursue opportunities in the regional aircraft market. Aerospace will re-orient *CSeries* project efforts and a majority of the *CSeries* program employees to regional jet and turboprop aircraft opportunities to address regional airlines' future needs in the 80- to 100-seat aircraft market. Aerospace's commitment to the upper end of the regional aircraft market and the lower end of the mainline market remains strong and it expects to continue to explore opportunities in these markets in the future.

AMPHIBIOUS AIRCRAFT

Aerospace manufactures and markets the *Bombardier 415* turboprop amphibious aircraft, a purpose-built firefighting aircraft. This aircraft can also be adapted to a multipurpose version, the *Bombardier 415*MP, which can be used in a variety of specialized missions such as search and rescue, environmental protection, coastal patrol and transport. Certification of the multipurpose *Bombardier 415*MP was obtained in March 2004. Production of the *Bombardier 415* resumed during fiscal year 2006 in response to improved market conditions. In February 2006, Aerospace re-launched the *CL-215*T program in response to customer demand, mainly in Canada, for a conversion of a *CL-215* piston aircraft to a turboprop engine aircraft. The converted *CL-215*T aircraft have a performance equivalent to that of the *Bombardier 415* aircraft.

GOVERNMENT AND MISSIONIZED AIRCRAFT

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

V *FLEXJET* AND *SKYJET*

FLEXJET

Through the North American *Flexjet* program, owners purchase shares of aircraft with operations and support, including flight crew, maintenance, hangar fees and insurance. The North American *Flexjet* program has partnered with Delta AirElite Business Jets, a subsidiary of Delta Air Lines, to market and sell the *Flexjet* membership card program (25-hour block of flight time entitlement on the *Flexjet* fleet).

The *Flexjet* program included 84 aircraft in service in North America as at January 31, 2006, compared to 79 aircraft as at January 31, 2005. The 6% increase is due to the increasing popularity of the *Challenger 300* and *Learjet 40* aircraft offered in the *Flexjet* program. *Flexjet* has continued to make operational improvements that have allowed Aerospace to more closely align aircraft in service to aircraft sold. *Flexjet*'s operational improvements have also contributed to a year-over-year increase in owner satisfaction and retention.

SKYJET

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

NUMBER OF CUSTOMERS UNDER THE *FLEXJET* AND *SKYJET* PROGRAMS

The number of customers owning shares of aircraft, or with an hourly flight time entitlement, excluding customers serviced by Delta AirElite Business Jets, was as follows as at January 31:

	2006	2005
Flexjet		
Customers owning shares of aircraft	**612**	593
Skyjet		
Customers with an hourly flight time entitlement	**288**	219
	900	812

Flexjet
The net increase of 19 customers, who own shares of aircraft, is mainly due to the increasing popularity of certain business aircraft models and *Flexjet* program innovations, designed to increase owner value and establish a competitive advantage in the fractional market. Among the program innovations launched in fiscal year 2006 is an expanded secondary service area for *Challenger* aircraft that now includes travel between Europe and Hawaii. *Flexjet* also announced a multiple-use program that provides fractional owners with access to more than one aircraft at a time.

Skyjet
The net increase of 69 customers with an hourly flight entitlement is mainly due to the growing demand for business jet travel and the success of the *Skyjet* card program (25-hour block of flight time entitlement).

VI OTHER

Aerospace is establishing a manufacturing facility in Querétaro, Mexico, to complement its existing manufacturing sites. The facility will allow Aerospace to develop a low-cost manufacturing capacity that, among other things, is intended to reduce reliance on third parties for structural aircraft components and contribute to the reduction of operating costs. Capabilities at the Mexican facility are scheduled to be implemented in phases starting in the second quarter of fiscal year 2007 and will initially include the manufacture and assembly of wire harnesses for Aerospace aircraft.

TRANSPORTATION

I OVERVIEW

Bombardier Transportation is the global leader in the rail equipment manufacturing and service industry. The transportation section of the MD&A is structured by market segment. The table below presents the main market segments as well as an overview of their main products and services.

ROLLING STOCK			SERVICES	SYSTEM AND SIGNALLING	
Rolling Stock	**Propulsion & Controls**	**Bogies**	**Services**	**System[1]**	**Signalling[2]**
• Locomotives • High-speed trains • Intercity trains • Regional trains • Commuter trains • Metros • Light rail vehicles	• Traction converters • Auxiliary converters • Traction drivers • Control and communication	• Portfolio of products which match the entire range of rail vehicles	• Fleet management • Spare parts & logistics management • Vehicle refurbishment & overhaul • Component refurbishment & overhaul • Technical support	• Automated people movers • Advanced rapid transit • Light rapid transit • Turnkey systems • Automated monorail • Operations & maintenance related to systems	• Integrated control systems • Onboard computer systems • Automatic train protection and operation • Wayside interlocking & equipment

(1) Previously referred to as Total Transit Systems.
(2) Previously referred to as Rail Control Solutions.

Forward-looking statements
Forward-looking statements in the Transportation section of this MD&A are based on:
- current backlog and estimated future order intake;
- expected growth in signalling and services businesses;
- maintaining market leadership in rolling stock and systems;
- normal contract execution and continued deployment of strategic initiatives, especially those linked to cost reductions including procurement and manufacturing improvement initiatives;
- market forecasts, using long-term market demand models and future project databases, consistent with publicly available market forecasts; and
- recent trends in the industry which are expected to continue in the foreseeable future.

BUSINESS ENVIRONMENT

The rail market consists primarily of customers in the public or quasi-public sectors, such as large national railways, regional railways and municipal transit authorities. Trends toward deregulation in some markets are driving an emergence of private operators. Public-sector entities still dominate the market, however, and most contracts include some form of public involvement related to financing of operations or funding of infrastructure. In many countries, investment in rail infrastructure is viewed as a public-sector obligation.

Rail contracts tend to be large in size and relatively complex in design. While common platforms are generally preferred by suppliers, the majority of contracts, particularly those in rolling stock, require product customization to fit the unique characteristics of individual rail systems. Projects often demand extensive engineering and design work up front before production can begin, resulting in significant lead times before delivery.

The supplier field serving the rail market is concentrated with the largest three competitors accounting for approximately 50% of the accessible world market.

Anticipated trends for the coming 12 months include further deregulation of rail markets and continuing movement by operators toward outsourcing equipment maintenance and related services. Urbanization and congestion, driving the need for new and improved urban rail systems, will be another influencing factor. Growing populations and the increasing number of large cities in the Asia-Pacific and Middle East regions are expected to be key catalysts in driving demand for urban transit systems. Europe's focus on cross-border traffic will also be a factor as development of rail freight on international corridors builds demand for multi-system locomotives and European Rail Traffic Management System ("ERTMS"). New regulations and trends towards automation and driverless rail systems will provide opportunities for growth in the signalling market. An increasing emphasis on security and safety in all modes of transport will play a role in the defining of new rail products and features.

Potential challenges facing Transportation include the risk of delayed or cancelled projects, potential reduction of public funding, increasing competition leading to price erosion, and the possibility of operators adopting services outsourcing at a slower than projected rate.

The need to replace rolling stock and existing infrastructure presents an attractive opportunity for newly-built equipment. Rail assets have a long lifetime, lasting up to 30 years. Many current fleets are approaching the end of their useful lifecycle, making replacement of the existing rolling stock and signalling installed base a primary driver of future demand. Increasing cross-border traffic in Europe and new urban light rail, metro and commuter systems or extensions to existing systems create additional opportunities for Transportation. Transportation is well positioned for new rolling stock orders, by leveraging its product portfolio, e.g. in multi-system locomotives and light rail vehicles, or by deploying ERTMS signalling equipment and through its global presence. In addition, the shift from air and road modes of transportation to rail transportation creates opportunities in some market segments.

In services, the continuing trend towards outsourcing vehicle maintenance and supporting activities presents an additional growth opportunity for Transportation, which currently maintains more than 8,000 rail vehicles around the world. In addition, the trend towards longer-term service contracts will provide further growth opportunities for Transportation.

Transportation is also focused on high-potential, emerging markets – such as China, Asia-Pacific, Russia and central and eastern Europe – that are showing great promise. With its local presence, Transportation is well positioned to gain from the huge infrastructure demand in the new European Union ("EU") member states.

In the Middle East, increasing growth and development is creating opportunities for activity in the systems industry.

GOALS/STRATEGY

Most of the restructuring activities having been completed, Transportation's primary goal is to improve EBIT margin to reach its goal of 6% over the next two to four years.

Improved and sustained profitability will be achieved through:

- growth in the services and signalling businesses;
- maintaining market leadership in rolling stock and systems;
- improvements in contract execution;
- continued deployment of strategic initiatives, especially those linked to cost reductions, including procurement and manufacturing improvement initiatives; and
- leveraging strength of current extensive product offering and further improving the portfolio.

Key elements necessary to achieve success in the current business environment include a broad, leading-edge flexible product portfolio, which can be customized to deliver technical compliance, competitive initial purchase cost and attractive lifecycle costs. The ability to effectively protect and manage intellectual property is also an important factor in the current market. Superior engineering capability linked with highly evolved project management processes are critical capabilities necessary in bringing products to market on time and with high quality. Global presence accentuated by established local partners will support efficient entry into markets around the world. Developing and managing a strong and reliable supply base is vital to ensuring consistent, just-in-time flow of components and materials into the production process. A flexible talent pool of well-trained workers is also a requirement in an increasingly competitive market.

HIGHLIGHTS

- EBIT percentage before special items of 2.7%, compared to 0.4% last fiscal year.
- $7.3 billion in new orders for the year exceeding revenues by $671 million (book-to-bill ratio of 1.1).
- Progress on restructuring initiatives in fiscal year 2006. Seven sites closed as planned or ahead of schedule. Net reduction of 7,500 positions (of the planned 7,600 positions) achieved by the fourth quarter of fiscal year 2006.
- Maintained market leadership in rolling stock, significantly improving the position in locomotives and light rail vehicles.
- Maintained leading position in rolling stock with the successful product introduction of multi-system locomotives for cross-border traffic and received an order for the 1,300th *FLEXITY* tram. In signalling, Transportation achieved the number one position for the delivery of ERTMS onboard and wayside systems.

ANALYSIS OF RESULTS

The results of operations of Transportation using functional currencies other than the U.S. dollar, mainly the euro, the sterling pound and other western European currencies are translated into U.S. dollars using the average exchange rates for the relevant periods. Mainly due to the weakening of the euro and other European currencies compared to the U.S. dollar ("currency impact"), the results of operations have been negatively impacted (see the Foreign exchange rates section of this MD&A for the average exchange rates used to translate revenues and expenses).

Transportation's results were as follows for fiscal years:

	2006	2005
Segmented revenues		
Rolling stock	**$ 4,365**	$ 5,622
Services	**1,329**	1,270
System and signalling[1][2]	**959**	692
Total segmented revenues	**6,653**	7,584
Cost of sales	**5,808**	6,850
Margin	**845**	734
Operating expenses[3]	**527**	563
EBITDA before special items	**318**	171
Amortization	**139**	138
EBIT before special items	**179**	33
Special items	**(88)**	(172)
EBIT	**$ 91**	$ (139)
(as a percentage of total segmented revenues)		
Margin	**12.7%**	9.7%
EBITDA before special items	**4.8%**	2.3%
EBITDA	**3.5%**	-
EBIT before special items	**2.7%**	0.4%
EBIT	**1.4%**	(1.8)%

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

Segmented revenues by geographic region

		2006				2005
Europe	**$**	**4,781**	**72%**	$	6,266	83%
North America		**1,223**	**19%**		918	12%
Asia-Pacific		**495**	**7%**		336	4%
Other		**154**	**2%**		64	1%
	$	**6,653**		$	7,584	

Rolling stock revenues
The $1,257-million decrease is mainly due to:

- decreased mainline revenues in the U.K. and Germany, due to a lower level of activities in these markets; and
- the negative currency impact, amounting to approximately $25 million.

Partially offset by:

- increased mainline revenues in North America, due to a higher level of activities.

Services revenues
The $59-million increase is mainly due to higher maintenance revenues in the U.K. and the U.S., partially offset by a negative currency impact, amounting to approximately $15 million.

System and signalling revenues
The $267-million increase is mainly due to:

- increased signalling revenues for projects in Asia, Italy and Spain, due to a higher level of activities in these markets;
- increased system revenues in Asia-Pacific, mainly due to a contract in Taiwan; and
- higher activities related to the signalling portion of the London Underground contract.

Margin percentage
The three-percentage-point increase relates to:

- improvements in contract execution;
- the positive impact of procurement initiatives;
- the positive impact of the restructuring; and
- the negative impact of contract adjustments, amounting to $200 million, recorded in the first quarter of fiscal year 2005.

Operating expenses
The $36-million decrease is mainly due to:

- lower selling, general and administrative (“SG&A”) expenses resulting mainly from the restructuring plan and other cost-reduction initiatives; and
- the currency impact, amounting to approximately $5 million.

Amortization
Amortization remained essentially unchanged compared to last fiscal year. A decrease due to real estate impairment charges recorded last fiscal year and the remaining amortization recorded on sites closed in the first quarter of last fiscal year, compared to no amortization recorded in the current fiscal year was offset by an impairment charge, amounting to $17 million, in connection with trademarks recorded in the fourth quarter of fiscal year 2006.

ORDERS AND BACKLOG

Transportation received the following major orders during fiscal year 2006:

Customer	Product	Number of cars	Rolling stock
Metropolitan Transportation Authority (MTA)/Metro-North Railroad (MNR) and Long Island Rail Road (LIRR), U.S.	M-7 electric multiple units	194	$ 425
Société Nationale des Chemins de fer Français (SNCF), France	High-capacity trains, type AGC	274	343
Trenitalia, Italy	*TRAXX* locomotives, type P160 DCP	100	323
Red Nacional de los Ferrocarriles Españoles (RENFE), Spain	Very high-speed power heads, type AVE S-102	60	290(1)
Deutsche Bahn (DB), Germany	Suburban electric multiple units, type ET 422	312(2)	262
Société Nationale des Chemins de fer Français (SNCF), France	High-capacity trains, type AGC	168	239
Österreichische Bundesbahnen (ÖBB), Austria	*Talent* electric multiple units	240	223
New Jersey Transit, U.S.	Multi-level commuter cars	131	206
Angel Trains Cargo, U.K.	*TRAXX* locomotives, type F140 MS/DC	36	202
Landesnahverkehrsgesellschaft Niedersachsen, Germany	Double-deck coaches/*TRAXX* locomotives, type P160 AC2	78/9	172
Red Nacional de los Ferrocarriles Españoles (RENFE), Spain	High-speed power heads	46	145
Metrorex, Romania	*MOVIA* metro vehicles	120	144
Société Nationale des Chemins de fer Français (SNCF), France	TGV Duplex and power cars	272(3)	127
Nederlandse Spoorwegen (NS - Netherlands Railways), Netherlands	Sprinter electric multiple units	174(4)	125
Ministry of Railways of China	High-speed trains	160(5)	119
Société Nationale des Chemins de fer Belges (SNCB), Belgium	Double-deck coaches M6	90	108
Ferrocarrils de la Generalitat Valenciana, Spain	Bi-directional *FLEXITY* Outlook trams	30	106
RET Rotterdam, Netherlands	*FLEXITY* Swift trams	21	100

(1) Total contract value is $786 million. Transportation will build 60 power heads for a total of 30 contracted trains.
(2) Total number of contracted cars, Transportation and Consortium partner combined. Total contract value is $402 million.
(3) Total number of contracted cars, Transportation and Consortium partner combined. Total contract value is $660 million.
(4) Total number of contracted cars, Transportation and Consortium partner combined. Total contract value is $298 million.
(5) Total number of contracted cars, Transportation and its joint venture partner combined. Total contract value is $276 million.

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

(in billions of dollars)		2006		2005
Rolling stock	**$**	**5.3**	$	2.7
Services		**1.2**		1.0
System and signalling		**0.8**		0.7
	$	**7.3**	$	4.4

The $2.9-billion increase is mainly due to higher order intake in mainline (mainly Europe and U.S.), locomotives (Europe) and light rail vehicles (Europe).

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

(in billions of dollars)		2006		2005
Rolling stock	**$**	**11.6**	$	11.4
Services		**4.4**		4.8
System and signalling		**4.9**		5.1
	$	**20.9**	$	21.3

The decrease in the value of the order backlog reflects the negative impact of the weakening of the euro and the sterling pound compared to the U.S. dollar, amounting to approximately $1.0 billion. This negative currency impact was partially offset by a higher order intake compared to revenues recorded. The order backlog is translated into U.S. dollars using year-end rates.

RESTRUCTURING INITIATIVE

In fiscal year 2005, a restructuring plan to reduce the cost structure in Transportation was initiated. This restructuring contemplates workforce reductions of 7,600 positions, net of new hires, of which 7,300 are permanent positions, and the closure of seven manufacturing sites. Approximately 7,500 positions, net of new hires, including contractual employees, were eliminated as at January 31, 2006.

Five sites ceased manufacturing activities during fiscal year 2005. The two remaining sites scheduled to be closed – Ammendorf (Germany) and Kalmar (Sweden) – ceased manufacturing activities as planned in December 2005.

The costs and net cash outflows related to the restructuring plan are as follows:

		Actual F2004/F2005		**Actual F2006**		Expected F2007		Expected total
Severance and other involuntary termination	**$**	**303**	**$**	**35**	$	2	$	340
Other(1)		**218**		**53**		19		290
	$	**521**	**$**	**88**	$	21	$	630
Net cash outflows	**$**	**147**	**$**	**170**	$	147	$	464

(1) Comprised of lease termination and environmental costs, as well as other costs, partially offset by non-taxable gains on the sale of land and buildings, amounting to $27 million for fiscal year 2006.

The total cost of the restructuring plan is estimated at $630 million ($617 million as at January 31, 2005). The increase in the total expected cost is mainly due to a change in the cost estimate for severance and other involuntary termination costs related to employees in Europe.

The total net cash outflow is now estimated at $464 million ($473 million as at January 31, 2005). This decrease in total expected net cash outflows is mainly due to the weakening of the euro and sterling pound compared to the U.S. dollar. This decrease was partially offset by the previously discussed increase in severance and other involuntary termination costs.

The Corporation expects the remaining restructuring costs to be recorded by April 2006, with the expected net cash outflows to be essentially disbursed by the end of fiscal year 2007.

WORKFORCE AND LABOUR RELATIONS

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

	2006	2005
Europe	**21,551**	24,500
North America	**6,163**	6,250
Other	**930**	820
	28,644[1]	31,570[1]

[1] Including 2,070 and 2,200 contractual employees for fiscal years 2006 and 2005 respectively.

The 9% decrease in the total number of employees is mainly due to the restructuring initiative.

In Europe and North America, respectively 80% and 40% of the employees were covered by collective agreements as at January 31, 2006. During fiscal year 2007, 41 collective labour agreements in Europe are up for renewal for clerical and production employees, covering approximately 13,000 employees, and two collective agreements in North America are up for renewal for clerical and production employees, covering approximately 900 employees.

MARKET OVERVIEW

The worldwide rail industry is comprised of rolling stock, services, systems and signalling, including rail-related telecommunication equipment. The worldwide rail market relevant to Transportation is the market accessible to open bid competition, excluding the North American freight locomotive and wagon markets, segments in which Transportation has no product offering.

The worldwide Transportation-relevant market, by market segment, based on total annual orders received was as follows for calendar years:

(in billions of dollars)	2005	2004
Rolling stock	**$ 17.2**	$ 14.0
Services	**13.8**	13.7
System and signalling	**8.3**	7.7
	$ 39.3	$ 35.4

The worldwide Transportation-relevant market, by geographic region, based on total annual orders was as follows for calendar years:

	2005		2004	
(in billions of dollars)	**Total market**	**(in %)**	Total market	(in %)
Europe	**$ 23.2**	**59**	$ 22.1	62
North America	**6.9**	**18**	5.0	14
Asia-Pacific	**4.8**	**12**	5.2	15
Other	**4.4**	**11**	3.1	9
	$ 39.3		$ 35.4	
Transportation market share (in %)[1]	**19%**		12%	

[1] Based on a three-year average, Transportation's market share would be 16% and 19% for calendar years 2005 and 2004 respectively, excluding the London Underground project awarded in 2003.

- The European and North American markets grew due to an increase in rolling stock orders.
- Asia-Pacific remained at a high level due to sustained investments in China.
- Other markets increased, mainly due to the award of a large system project in Dubai, United Arab Emirates.
- Transportation's market share in terms of orders was 19% in calendar year 2005, compared to 12% in calendar year 2004. The increase is mainly due to a 66% increase in Transportation's order intake, compared to an 11% increase in the total market.
- The accessible worldwide rail market is expected to remain sustainable at a high level of above $35.0 billion over the next three years, compared to a three-year average market size of $34.5 billion over calendar years 2003 to 2005, excluding the one-time impact of the exceptionally large London Underground project in 2003.

II ROLLING STOCK

MARKET DRIVERS

The demand for rolling stock is driven primarily by vehicle replacement needs in the mature European and North American markets. Additional demand is created by the extension of the high-speed network and growth in the regional and commuter segment in Europe and by new lines and transit systems in the Asian emerging markets. Infrastructure investment is one of the leading indicators for demand in rolling stock and will drive demand in China, where the network planned is to be extended by 17,000 km to 90,000 km by 2010. In Europe, rail transport will benefit from the Trans European Network, a program to improve overall transportation conditions in Europe until 2020, including 25,000 km of new build or upgraded railway lines. In addition, the liberalization of the rail market is expected to continue to positively influence the rail market with the emergence of new rail freight and passenger operators.

The rolling stock fleet can be broadly defined either by its mainline applications (commuter, regional and long-distance services, including inter-regional, intercity and high-speed services) or mass transit services (metro, light-rail and automated systems).

Mainline
The worldwide mainline rolling stock fleet was as follows for calendar year 2005:

	Number of cars	(in %)
Europe	178,000	36
Asia-Pacific	175,000	35
Other[1]	108,000	22
North America	35,000	7
	496,000	

[1] Including the Commonwealth of Independent States.

Sources: Union Internationale des Chemins de Fer, World Bank, and Transportation research.

Western Europe alone accounts for 145,000 cars, with 19% of its fleet above the 30-year replacement threshold and another 30% reaching life expectancy during the next decade. The addition of high-speed and very high-speed lines throughout Europe and Asia-Pacific is also increasing the demand for high-speed trains, with the latest technologies in propulsion and train control systems. Today a large portion of the Asia-Pacific and Other market is not accessible to international competition. The ongoing opening of these regions is expected to create further potential for Transportation.

Mass transit
The worldwide mass transit fleet consists of approximately 63,000 metro cars and approximately 45,000 light rail vehicles. There are approximately 100 metro systems worldwide, with New York and London having the largest installed fleets. Over 50% of the light-rail fleet is located in Europe, with Germany representing 15% of the worldwide fleet.

The demand for rolling stock in the mass transit segment is primarily driven by new transit systems in Asian and Middle Eastern countries, driven by economic growth and urbanization, and by extensions to existing systems and replacement needs in Europe and North America. Between 20% and 25% of the European metros and Light Rail Vehicles ("LRV") fleets are above replacement threshold age and another 30% will reach their life expectancy during the next decade. Large LRV systems exist in eastern Europe; however demand is growing slowly due to funding challenges. Approximately 30% of the North American metro fleet is above replacement threshold age.

COMPETITION

Transportation has two major global competitors, Alstom Transport, a division of Alstom SA ("Alstom") and Siemens Transportation Systems, a division of Siemens AG ("Siemens"). Both are active in the same markets as Transportation.

Ansaldobreda Spa Transport ("Ansaldo") is also a full line supplier, with established bases in Italy and other European countries. Construcciones y Auxiliar de Ferrocarriles SA ("CAF"), Patentes Talgo SA, and Stadler Rail

AG are specialized in the field of passenger cars, mainly in Europe. CAF and Talgo are also active in North America. Vossloh AG is active in the field of diesel locomotives and propulsion, among others.

Japanese suppliers like Kawasaki Heavy Industries Ltd., Mitsubishi Electric Corporation and Toshiba Corporation are competing mostly in Asia and the U.S. in rolling stock or electrical propulsion segments. Rotem Company is a Korean manufacturer of passenger rolling stock active in Asia, the U.S. and Europe.

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

Transportation’s key competitive advantage is its unmatched passenger rolling stock product portfolio, which comprises all train types and major subsystems, including single and double-deck trains, multiple units and loco-hauled trains, electric and diesel propulsion, steel and aluminium carbodies, bogies, from urban application up to very high-speed.

In the U. K., electrical and diesel multiple units manufactured and maintained by Transportation have been ranked the most reliable for four consecutive years.

PRODUCT DEVELOPMENT

- Transportation is continuously improving its portfolio of product platforms and families to maintain its position as the globally recognized railway technology leader, with focus on *TRAXX* locomotives, *FLEXITY* light rail vehicles, *MOVIA* metros, double-deck trains, regional & commuter and very high-speed trains.
- Transportation follows a path of standardization, modularization and complexity reduction, while offering a range of customizable features to the operator. In addition, developments are pursued in crash prevention, safety, reliability, availability, cost reduction, noise reduction, ride comfort, environmental-friendly products and the development of total security solutions.
- Transportation was awarded a contract for *TRAXX* DE diesel-electric locomotives by Landesnahverkehrsgesellschaft Niedersachsen mbH. With this first customer, a new diesel variant will be developed and the *TRAXX* platform completed, comprising diesel-electric, AC, DC and multi-system locomotives.
- In Germany, Transportation has successfully introduced a new generation of innovative coaches based on proven components of its double-deck coaches. In addition, the development of a new generation of regional/commuter multiple units for the European core markets is ongoing.
- Development in the high-speed segment is ongoing for high-speed and very high-speed power heads and the completion of a design study for the *Zefiro* very high-speed train.
- In North America, Transportation unveiled to the media on September 14, 2005, the first multi-level commuter cars being designed and built for New Jersey Transit.
- The extensive LRV product range is being streamlined and optimized. Innovative technical features (e.g. energy saving and battery systems allowing for short-distance operation without overhead power supply) are integrated into the products.
- Ongoing development of the new MITRAC Train Control and Management System: a system adaptable to future information technology developments based on Internet Protocol (“IP”) technology. Key advantages of the IP system are the use of a technology based on open industry standard, adaptability, flexibility, scalability, much higher bandwidth and processing capacity. The system will enable real-time information and data exchange, providing Transportation’s customers with new functionalities and possibilities of revenue generation.

ORDER BACKLOG

Transportation recognizes revenues using the percentage-of-completion method based on actual cost incurred compared to total cost anticipated for the entire contract. The order backlog segmented by percentage of completion was as follows as at January 31:

(in billions of dollars)		**2006**		2005
0% to 25%	**$**	**6.4**	$	5.4
25% to 50%		**2.4**		2.7
50% to 75%		**1.2**		1.8
75% to 100%		**1.6**		1.5
	$	**11.6**	$	11.4

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

MARKET SHARE

The worldwide rolling stock market relevant to Transportation is the market accessible to open bid competition excluding the North American freight locomotive and wagon markets, segments in which Transportation has no product offering.

The worldwide rolling stock market relevant to Transportation, based on total annual orders, by geographic region, and Transportation's market share were as follows for calendar years:

		2005			2004
(in billions of dollars)		**Total market**	**Transportation market share**[(1)]		Total market	Transportation market share[(1)]
Europe	**$**	**11.0**	**36%**	$	9.4	36%
North America		**2.0**	**37%**		0.7	43%
Asia-Pacific		**3.1**	**10%**		3.4	11%
Other		**1.1**	**5%**		0.5	9%
	$	**17.2**	**31%**	$	14.0	32%

(1) Transportation's annual market share calculation is based on an average of the total value of orders received compared to the total market during the past three years, consistent with industry practice. Market share calculations do not include European freight wagons, since Transportation has decided to exit this business.

- Europe remained the largest market for rolling stock. Orders placed increased by $1.6 billion year-over-year, mainly due to the recovery of the German market, and a high level of orders in France and Spain.
- The North American passenger rolling stock market increased due to large commuter and metro orders, from a low level last year.
- The Asia-Pacific market decreased slightly, but remained at a high level driven by orders in China for high-speed trains, locomotives and metros.
- Transportation maintained its market leadership worldwide and in Europe.
- In North America, the unsuccessful bid for a significant contract in the U.S. resulted in a decrease in Transportation's market share.
- In Asia, Transportation maintained its position with orders from China for intercity coaches and electric multiple units.

OUTLOOK

The total European rail market is expected to remain the largest rail market over the next few years. Large orders are expected to be placed in Germany, France, Italy and Spain. An increase in demand is expected from the new European Union member states.

In North America, expected large metro and commuter rail contracts should keep the market volume over the next few years at the historical average.

In Asia-Pacific, the rolling stock market is mainly dependant on the development of the Chinese market, which is expected to remain at a high level, with large orders for locomotives, metros, intercity and high-speed rail.

The worldwide accessible rolling stock market is expected to remain at the same average level over the next three years compared to the average of $14.0 billion over the past three years. Upward potential is dependant on the materialization of major projects.

III SERVICES

MARKET DRIVERS

The global trend towards outsourcing services is expected to continue. The emergence of new private operators in freight and passenger rail operations and rolling stock leasing companies remains a key driver. In addition, pressure on public budgets drives national operators towards outsourcing. Recent trends demonstrate an interest of national railways in outsourcing solutions that make use of their own workforce. Nevertheless, national railway operators who have, over the years built up extensive expertise and capability, still perform a major portion of vehicle maintenance and refurbishment in-house.

In the U.K., the main market, new opportunities for fleet maintenance are linked to the ongoing consolidation and re-tendering of rail operations. In this country, the number of operators is reduced and their challenge is to provide higher availability and more reliable vehicles at reduced costs. Transportation is well positioned to assist the operators to meet this challenge with a range of value solutions.

In North America, funding trends are forcing transit agencies to look for opportunities to reduce their operating budgets, for example, by delegating the responsibility for specific areas to the private sector, such as materials and inventory management. Transportation’s operations, maintenance, overhaul, and material solutions expertise, and the flexibility with which that expertise can be applied to meet transit agencies’ needs, are creating opportunities.

The high level of activity in vehicle refurbishment and overhaul sustained in calendar year 2005 is expected to continue during the next years, both in western Europe and in the EU’s new accession countries.

COMPETITION

For the services of Transportation-built trains, which are the primary focus of Transportation’s services activities, Transportation is competing with railway operators, subsystem and component suppliers as well as third-party service providers in this highly fragmented market. For combined rolling stock and maintenance contracts, Transportation has the same two main competitors as in rolling stock, Alstom and Siemens, who also offer a full range of services. Most other rolling stock manufacturers are also active in the services segment.

Transportation’s main strategic advantage is its large rolling stock installed base in key markets with a total of 97,000 cars and locomotives. This installed base, with an estimated annual service volume of more than $8.0 billion, represents a significant growth opportunity for Transportation, which currently has $1.3 billion of annual services revenues. More than 80% of this services volume is located in Europe, 50% of which is already outsourced.

Transportation’s fleet maintenance expertise, intellectual property rights, an extensive materials supply chain and proven capability ensure Transportation’s competitiveness in the services segment.

PRODUCT DEVELOPMENT

As part of delivering innovative solutions, Transportation has launched the future of intelligent maintenance by providing customers the opportunity to employ predictive asset maintenance. First launched in the U.K., this concept will be extended to the rest of Europe.

The new refurbishment centre in Derby, U.K., was launched during the year to combine the experience in design and manufacture of rail vehicles together with Transportation’s expertise in re-engineering and modernization.

Technical support and spares supply agreements are being increasingly offered to customers worldwide, and Transportation assists in planning and procuring their inventories to maximize asset allocation.

MARKET SHARE

Transportation defines the services market as activities in the fields of fleet management, spare parts and logistics management, vehicle and component refurbishment and overhaul and technical support. The accessible services market comprises the portion of these activities outsourced by railway operators to the supply industry or third parties. The services market excludes Japan, since it is not accessible to international competition, and services for vehicles older than 40 years, since they are far above the average life expectancy of 30 years.

Based on this definition, the worldwide accessible rail services market is valued at approximately $13.8 billion for calendar year 2005, compared to $13.7 billion the previous year. Europe is the largest market for services with approximately 56% of the accessible worldwide market, followed by North America with approximately 21%, Asia-Pacific with 7% and Other with 16%. The geographical split of the market is similar for both calendar years.

Transportation improved its leadership position in this highly fragmented market by increasing its market share to 10%, compared to 9% the previous year. Market share calculations are based on annual revenues generated in the accessible market. Approximately 90% of Transportation's service activities are located in Europe.

OUTLOOK

The accessible services market related to Transportation's fleet is expected to grow at a compound annual growth rate ("CAGR") of approximately 3% over the next three years. Factors that will impact growth include the pace of outsourcing, the progress of liberalization and the emergence of new private passenger and freight operators. Transportation is well positioned to benefit from this growth by having the largest installed base and the highest new rolling stock delivery rates.

IV SYSTEM AND SIGNALLING

System

In fiscal year 2006, Transportation introduced the *INNOVIA* Automated People Mover ("APM"), its latest generation of APM technology, at Dallas/Fort Worth International Airport, U.S. This driverless system incorporates Transportation's *CITYFLO* 650 automatic train control technology. The signing of the *INNOVIA* APM contract for Beijing Capital International Airport China, for the Summer Olympics in 2008 further strengthened Transportation's position in the Asia-Pacific region.

Transportation is part of the Bombela Consortium, which was selected as the preferred bidder for the Gautrain Project in South Africa. The 80-km Gautrain system will link Johannesburg, Tshwane and the Johannesburg International Airport. Transportation, a key member of the consortium, will be responsible for the core electrical and mechanical systems, including a fleet of *Electrostar* vehicles.

MARKET DRIVERS

Urbanization, growing population and economic wealth, as well as the commitment of countries worldwide to improve rail transportation systems are key drivers and are all expected to contribute to future growth.

COMPETITION

Transportation's global competitors, Alstom and Siemens, continue to develop system capabilities.

Engineering, procurement and construction companies are active in rail project development. Such firms include Bechtel Corporation, SNC-Lavalin Inc., Dragados S.A., and Washington Group.

In the automated people mover market, Mitsubishi Heavy Industries Ltd. and Doppelmayr Cable Car GmbH are Transportation's main competitors. Hitachi Ltd. and KL Monorail System Sdn Bhd are active in the monorail market.

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

MARKET SHARE

In calendar year 2005, the worldwide systems market was valued at approximately $2.6 billion, of which approximately $800 million relate to the rolling stock and signalling portion of the orders, compared to $700 million last calendar year. The $1.9-billion increase is mainly due to the Dubai Light Rapid Transit project valued at $1.4 billion.

Average annual market size for systems over the last five years was $2.0 billion, excluding the London Underground project awarded in 2003, which includes systems integration, engineering and project-related services, and equipment supplies like rolling stock, automation, signalling as well as operations and maintenance related to systems.

The worldwide systems market relevant to Transportation, by geographic region, based on total annual orders was as follows for calendar years:

		2005		2004
(in billions of dollars)	**Total market**	**(in %)**	Total market	(in %)
Other	**$ 1.6**	**61**	$ 0.1	14
North America	**0.8**	**31**	-	-
Asia-Pacific	**0.1**	**4**	0.4	57
Europe	**0.1**	**4**	0.2	29
	$ 2.6		$ 0.7	

The Middle East, which is included in the Other region, was the largest market for new systems orders in calendar year 2005.

Due to large contract values and a small number of projects in the systems market, the geographic split could vary significantly year over year.

Transportation's annual market share calculation is based on an average of the total value of orders received compared to the total market during the past five years, consistent with industry practice. Total market and market share include the complete scope of system orders, including rolling stock and signalling, as this represents the size of the rail market covered by turnkey contracts. With a 49% five-year-average market share in calendar year 2005, compared to 40% the previous year, Transportation increased its leadership position in the systems market.

OUTLOOK

Continued pressure on public funding and on government budgets is expected to contribute to the implementation of new models for financing and operating public transport. The share of turnkey contracts for newly-built systems is also expected to increase due to the trend toward driverless operations for mass transit systems.

Continued growth and development in the Middle East is anticipated to create substantial demand for systems.

The systems market is expected to exceed $1.5 billion for each of the next three years.

Signalling

- Transportation achieved the number one position in the ERTMS market with more onboard fitted vehicles than all competitors combined and also with more route kilometres equipped with ERTMS. The technology is now reaching maturity with the completion of the first successful cross-exchange tests between Transportation's *INTERFLO* 450 system and equipment of other major suppliers in the Netherlands.
- This position has been further strengthened by the award of two ERTMS contracts in Sweden, one for the *INTERFLO* 150 which will serve as future specifications for 13 regional lines and one for *INTERFLO* 450 on the Bothnia line. Transportation also commissioned an ERTMS *INTERFLO* 250 pilot line for the Korean National Railroad during the year.
- Significant delivery milestones were achieved this year with the approval of the German ATP onboard system, reaching the final phase for the commissioning of the Mannheim-Rheinau *EBI* Lock 950 computer-based interlocking system in Germany and the commissioning of the first stations in Thailand.

MARKET DRIVERS

The main drivers in the signalling market are the migration from analog technology to computer-based technology, standardization in the mainline market, and the automation and driverless operation in the mass transit segment.

The majority of the existing mainline signalling and control infrastructure is based on systems developed and implemented approximately 30 years ago. In order to increase capacity on strategic rail routes and upgrade lines to higher speeds, signalling technology has migrated to more reliable and efficient computer-based technology.

Wayside technology migration is then followed by the replacement of onboard equipment of partial or complete existing fleets.

ERTMS, the new European standard for train control systems, opens previously closed markets by replacing large installed country-specific systems. It constitutes a prerequisite for European cross-border traffic. ERTMS-compliant products are becoming the norm within Europe and are increasingly accepted outside of Europe. The growth of ERTMS in Europe is largely driven by EU funding to national operators.

Within the mass transit segment, there is a move towards greater automation and driverless operation, particularly Communication-Based Train Control systems, which satisfy customer demands for increased capacity and minimal operational disruption during implementation.

COMPETITION

Major competitors in the market for signalling are Siemens, Alstom, Alcatel, Invensys and Ansaldo.

Transportation is well positioned in the mass transit segment with its leading-edge technology and further consolidated its position this year with orders for Metro Sevilla, Metro de Madrid, Strathclyde Passenger Transport, Istanbul Light Rail and Bucharest metro lines 1 and 3.

In the mainline market segment, Transportation has a comprehensive product portfolio to serve western European countries as well as emerging needs for state-of-the-art systems in Asia and Latin America. It also has competitive advantages in growth markets such as Poland and Russia, resulting from successful joint ventures with local signalling suppliers.

Transportation continues to invest in the development of ERTMS products to secure its long-term competitive position across all markets.

MARKET SHARE

The worldwide market for signalling and telecommunications accessible to international competition is estimated at $6.5 billion in calendar year 2005, compared to $7.0 billion the previous year. This decrease is essentially due to a lower level of investment in Germany. Europe is the largest market with approximately 68% of the accessible worldwide market, followed by North America with 19%, Asia-Pacific 9% and Other 4%. The geographical split of the market is similar for both calendar years.

Transportation's market share, based on total annual orders received, increased to 9% in calendar year 2005, compared to 8% the previous year, mainly due to a decrease in the overall signalling market.

OUTLOOK

The market is expected to grow at a CAGR of between 0% and 2% over the next three years. The ERTMS portion of this market is expected to grow at a double-digit CAGR over the next three years.

LIQUIDITY AND CAPITAL RESOURCES

I FINANCIAL POSITION

Total assets amounted to $17.5 billion as at January 31, 2006, compared to $20.1 billion as at January 31, 2005.

Receivables
Receivables amounted to $1.7 billion as at January 31, 2006, compared to $1.5 billion as at January 31, 2005. This increase is mainly due to a higher level of trade receivables in Transportation as a result of lower factoring activities. Trade receivables were also higher in Aerospace.

Aircraft financing
Aircraft financing amounted to $1.5 billion as at January 31, 2006, compared to $1.8 billion as at January 31, 2005. This decrease is mainly due to a lower level of commercial aircraft interim financing and to the continued reduction in the business aircraft loan portfolio.

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

Gross inventories were $6.5 billion ($3.8 billion net of advances and progress billings) as at January 31, 2006, compared to $7.3 billion ($4.0 billion net of advances and progress billings) as at January 31, 2005. This decrease in gross inventories is mainly due to:

- a lower level of inventory in Transportation; and
- the translation adjustment arising from the weakening of the euro and the sterling pound compared to the U.S. dollar ("the currency impact"), amounting to approximately $150 million.

Total advances and progress billings amounted to $4.9 billion as at January 31, 2006, compared to $5.6 billion as at January 31, 2005, $2.2 billion of which is shown as liabilities as at January 31, 2006, compared to $2.4 billion as at January 31, 2005. This decrease in total advances and progress billings is mainly due to:

- a lower level of advances in Transportation, which is consistent with the lower level of gross inventories; and
- the currency impact, amounting to approximately $100 million.

Property, plant and equipment
Property, plant and equipment amounted to $3.1 billion as at January 31, 2006, compared to $3.4 billion as at January 31, 2005. This decrease is mainly due to:

- amortization exceeding net additions; and
- the currency impact, amounting to approximately $35 million.

Goodwill
Goodwill amounted to $2.1 billion as at January 31, 2006, compared to $2.4 billion as at January 31, 2005. This decrease is mainly due to the currency impact, amounting to $162 million.

Fractional ownership deferred costs and deferred revenues
Fractional ownership deferred costs amounted to $270 million as at January 31, 2006, compared to $142 million as at January 31, 2005. Fractional ownership deferred revenue amounted to $325 million as at January 31, 2006, compared to $163 million as at January 31, 2005. These increases are mainly due to additional deliveries of aircraft related to the fractional ownership program.

Deferred income taxes
Deferred income taxes, net amounted to $644 million as at January 31, 2006, compared to $481 million as at January 31, 2005. This increase results from the impact of the strengthening of the Canadian dollar compared to the U.S. dollar on the Canadian denominated deferred income tax asset, the impact of the increase in enacted tax rates in Quebec on the deferred income tax asset and the net increase in temporary differences.

Assets held for sale and liabilities related to assets held for sale
Assets held for sale amounted to $237 million as at January 31, 2006, compared to $2.6 billion as at January 31, 2005. Liabilities related to assets held for sale amounted to $42 million as at January 31, 2006, compared to $1.6 billion as at January 31, 2005. These decreases result from the sale of the inventory finance and on-balance sheet manufactured housing operations during fiscal year 2006.

Other assets
Other assets amounted to $843 million as at January 31, 2006, compared to $1.1 billion as at January 31, 2005. This decrease is mainly due to:

- the settlement of a derivative financial instrument prior to its maturity; and
- the expiration of the BRP receivable financing agreement in June 2005 (see note 18 – Transactions with related parties to the Consolidated Financial Statements).

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities were $6.9 billion as at January 31, 2006, compared to $7.1 billion as at January 31, 2005. This decrease is mainly due to:

- a lower level of activities;
- the currency impact, amounting to approximately $200 million; and
- the decrease in severance and other involuntary termination costs provision.

Partially offset by:

- the increase in income and other taxes payable.

Long-term debt
Total long-term debt amounted to $4.7 billion as at January 31, 2006, compared to $5.7 billion as at January 31, 2005. This decrease is mainly due to:

- the repayments of $300 million and $200 million of BC's medium-term notes in May 2005, and October 2005, respectively;
- debt repayments of $166 million related to consolidated VIEs;
- the repayment of $150 million of the Corporation's debentures in January 2006; and
- the currency impact, amounting to $100 million.

II CASH FLOWS

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

	2006	2005
Income (loss) from continuing operations	**$ 135**	$ (122)
Non-cash items	**519**	629
Net change in non-cash balances related to operations	**100**	(27)
Cash flows from operating activities	**754**	480
Net additions to property, plant and equipment	**(222)**	(274)
Free cash flow	**532**	206
Cash flows from investing activities (excluding net additions of property, plant and equipment)	**1,556**	488
Cash flows from financing activities	**(907)**	51
Effect of exchange rate changes on cash and cash equivalents	**(174)**	101
Cash flows from continuing operations	**1,007**	846
Cash flows from discontinued operations	**(440)**	288
Net increase in cash and cash equivalents	**$ 567**	$ 1,134

CASH FLOWS FROM OPERATING ACTIVITIES

The improvement of $274 million is mainly due to the variation in net change in non-cash balances related to operations of Aerospace, partially offset by a negative variation in non-cash balances related to the operations of Transportation. In Transportation, earnings for fiscal year 2005 were negatively impacted by non-cash charges resulting from contract adjustments in the first quarter of last fiscal year. Since these contract adjustments were non-cash charges, the negative effect on earnings was offset by a positive variation in net change in non-cash balances related to operations.

NET ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

The $52-million net decrease is mainly due to increased disposals of property, plant and equipment in both segments.

SEGMENTED FREE CASH FLOW

The free cash flow by segment was as follows for fiscal year 2006:

	Aerospace	Transportation	Total
EBIT	**$ 266**	**$ 91**	**$ 357**
Non-cash items:			
Amortization			
Program tooling	**254**	**-**	**254**
Other	**152**	**139**	**291**
Provision for credit losses	**4**	**-**	**4**
Loss (gain) on disposals of property, plant and equipment	**10**	**(4)**	**6**
Stock-based compensation	**4**	**3**	**7**
Special items	**-**	**88**	**88**
Net change in non-cash balances related to operations	**377**	**(388)**	**(11)**
Net additions to property, plant and equipment	**(167)**	**(55)**	**(222)**
Segmented free cash flow	**$ 900**	**$ (126)**	**774**
Income taxes and net financing expense[1]			**(242)**
Free cash flow			**$ 532**

[1] Income taxes and net financing expense are not allocated to segments.

The free cash flow by segment was as follows for fiscal year 2005:

	Aerospace	Transportation	Total
EBIT	$ 203	$ (139)	$ 64
Non-cash items:			
Amortization			
Program tooling	244	-	244
Other	167	138	305
Provision for credit losses	14	-	14
Gain on disposals of property, plant and equipment	(2)	(3)	(5)
Stock-based compensation	5	4	9
Special items	-	172	172
Net change in non-cash balances related to operations	(50)	(84)	(134)
Net additions to property, plant and equipment	(199)	(75)	(274)
Segmented free cash flow	$ 382	$ 13	395
Income taxes and net financing expense[1]			(189)
Free cash flow			$ 206

[1] Income taxes and net financing expense are not allocated to segments.

Segmented free cash flow increased by $518 million in Aerospace. Positive variations compared to fiscal year 2005 in aircraft financing, mainly as a result of a lower level of aircraft financing, and advances, were partially offset by a negative variation in gross inventories compared to last fiscal year. In addition, net change in non-cash balances related to operations for fiscal year 2005 was negatively impacted by a voluntary contribution of $182 million to the aerospace pension plan in the U.K.

The decrease in segmented free cash flow of $139 million in Transportation is mainly due to a negative variation in accounts receivable, mainly due to a lower level of factoring activities, and accounts payable and accrued liabilities in fiscal year 2006 compared to fiscal year 2005, partially offset by a positive variation in gross inventories in fiscal year 2006 compared to fiscal year 2005.

CASH FLOWS FROM INVESTING ACTIVITIES (EXCLUDING NET ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT)

The cash flows for fiscal year 2006 mainly reflect the disposal of discontinued operations, net of cash disposed of (see note 1 – Discontinued operations and assets held for sale to the Consolidated Financial Statements) and the proceeds from the settlement of a derivative financial instrument prior to its maturity, amounting to $209 million.

The cash flows for fiscal year 2005 mainly reflect:

- the repayment of a loan made by BC in connection with a financing transaction entered into for term-debt management, amounting to $311 million; and
- the net proceeds of $209 million relating to the settlement of the DaimlerChrysler Rail Systems GmbH (“Adtranz”) claim.

CASH FLOWS FROM FINANCING ACTIVITIES

The cash flows used for fiscal year 2006 mainly reflect:

- the net repayment of long-term debt of $868 million;
- dividends paid of $25 million; and
- the purchase of common shares, amounting to $14 million, in connection with the Corporation’s performance stock unit plan.

The cash flows for fiscal year 2005 mainly reflect the net issuance of $194 million of long-term debt, partially offset by dividends paid of $146 million.

CASH FLOWS FROM DISCONTINUED OPERATIONS

The cash flows used for fiscal year 2006 mainly reflect:

- the repayment of $578 million of bank-sponsored securitized floorplan conduits with the proceeds from the sale of the inventory finance operations.

Partially offset by:

- cash flows from operating and investing activities of $146 million.

The cash flows for fiscal year 2005 mainly reflect:

- the net proceeds from the issuance of $287 million of securitized floorplan debt in connection with the inventory finance portfolio; and
- cash flows from operating activities of $74 million.

Partially offset by:

- cash flows from investing activities of $79 million.

As a result of the above items, cash and cash equivalents amounted to $2.9 billion as at January 31, 2006, compared to $2.3 billion as at January 31, 2005.

III CAPITAL RESOURCES

The details of the available and outstanding amounts under the bank credit facilities, as well as the amount of outstanding borrowings as at January 31, 2006 and 2005, are provided in note 8 – Short-term borrowings and note 10 – Long-term debt to the Consolidated Financial Statements.

The Corporation considers that its current cash position, as well as its current credit facilities and expected capital resources, will enable the implementation of investment programs, the development of new products, the pursued growth of its activities, the payment of dividends on preferred shares and allow it to meet other expected financial requirements.

The available short-term capital resources were as follows as at:

	Credit facilities		Cash and cash equivalents	Available short-term capital resources
	Committed	Amounts available		
January 31, 2006	**$ 5,282**	**$ 1,033**	**$ 2,917[1]**	**$ 3,950**
January 31, 2005	$ 7,119[2]	$ 2,799[2]	$ 2,344	$ 5,143

(1) Including $1.0 billion of cash and cash equivalents required to meet the minimum liquidity requirement at the end of each quarter.
(2) Including $600 million of unused committed credit facilities related to BC.

The variation in available short-term capital resources was as follows for fiscal year 2006:

Balance as at January 31, 2005	$ 5,143
Net proceeds from sale of discontinued operations	1,363
Net repayments of long-term debt	(868)
Non-renewal of the 364-day portion of the European credit facility	(642)
Non-renewal of BC's credit facility	(600)
Free cash flow	532
Cash flows from discontinued operations (including $578 million of debt repayment)	(440)
Translation adjustment on committed credit facilities arising from the strengthening of the U.S. dollar compared to the euro	(307)
Net reduction in the North American credit facilities	(288)
Proceeds from the settlement of a derivative financial instrument	209
Effect of exchange rate changes on cash and cash equivalents	(174)
Net reduction in letters of credit drawn (net of foreign exchange impact)	71
Other	(49)
Balance as at January 31, 2006	**$ 3,950**

In June 2005, the Corporation entered into a new $1.1-billion North American syndicated credit facility to refinance its $1.7 billion Cdn credit facility scheduled to mature in September 2005. The new facility is unsecured and matures in July 2007. This credit facility is subject to various covenants (computed without the former BC segment), including requirements to maintain (as defined in the related agreements):

- a minimum liquidity of $1.0 billion at the end of each quarter;
- a minimum interest coverage ratio of 2 to 1 on a rolling four-quarter basis for the period ending January 31, 2006, and 2.5 to 1 thereafter; and
- a maximum net debt-to-capitalization ratio of 55% as at January 31, 2006, and 50% at the end of each fiscal quarter thereafter.

As at January 31, 2006, the Corporation was in compliance with its bank covenants.

Fiscal year 2005

- In November 2004, the Corporation entered into a €165-million three-year European letter of credit facility.
- In September 2004, the Corporation renewed the 364-day portion of its North American credit facility. This portion of the facility, totalling $718 million Cdn, replaced the $730-million Cdn short-term portion of the North American credit facility.
- In July 2004, the Corporation renewed the 364-day portion of its European credit facility. This portion of the facility, totalling €492 million, replaced the €560-million short-term portion of the European credit facility.
- In July 2004, the Corporation entered into a €125-million four-year European letter of credit facility.

IV LIQUIDITY

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

The following table summarizes the Corporation's obligation to make future payments on long-term debt, lease obligations and other obligations as at January 31, 2006, as well as the expected timing of these payments:

	Total	Less than 1 year	1 to 3 years	4 to 5 years	Thereafter
Long-term debt - Bombardier[1]	$ 2,654	$ 524	$ 649	$ 15	$ 1,466
Medium-term notes, notes and other - BC[1]	2,025	627	833	541	24
Capital lease obligations - Bombardier[1]	68	3	6	7	52
Operating lease obligations[2]	1,751	202	350	245	954
Outsourcing commitments	734	189	332	161	52
Purchase obligations[3]	7,921	4,891	2,476	490	64
Other obligations[4]	464	31	59	48	326
	$ 15,617	$ 6,467	$ 4,705	$ 1,507	$ 2,938

(1) Include principal repayments only. Bombardier refers to the two manufacturing segments, while BC refers to the former BC segment.
(2) Comprised of sale and leaseback and operating lease obligations included in note 22 – Commitments and contingencies to the Consolidated Financial Statements.
(3) Purchase obligations represent contractual agreements to purchase goods or services 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. In addition, these agreements are not cancellable without incurring a substantial penalty.
(4) Principal repayment requirements in connection with sales incentives offered in the aerospace segment.

PURCHASE OBLIGATIONS

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

EMPLOYEE BENEFITS CONTRIBUTIONS

The Corporation maintains defined benefit and defined contribution pension plans as well as post-retirement benefit plans other than pensions as discussed in note 21 – Employee future benefits to the Consolidated Financial Statements. The Corporation's future cash contributions to the funded pension plans are subject to changes based on actual returns on plan assets and pension assumptions, and have not been reflected in the preceding table. (see the section Other – Pension in this MD&A)

V CREDIT SUPPORT

The indentures governing BC's long-term debt provide for covenant and "keepwell" packages from the Corporation. Bombardier Inc.'s keepwell agreements provide for minimum ownership of 51% in BC and for the injection of equity in the event that certain minimum net worth levels are not met or if a fixed charge coverage ratio falls below 1.2. These covenants were met as at January 31, 2006 and 2005. Finally, these indentures provide for the undertaking by Bombardier Inc. to maintain the existing cross-default provision in the indenture governing the Corporation's $150-million Cdn ($131 million) debentures due in 2026, as well as to provide for similar cross-default provisions in all of its future debt issuances.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

I FINANCIAL ARRANGEMENTS

In addition to the off-balance sheet lease obligations disclosed elsewhere in this MD&A or in the Consolidated Financial Statements, the Corporation finances certain activities off-balance sheet through securitizations and factoring of trade receivables and other arrangements in the normal course of business.

SECURITIZATIONS AND FACTORING ARRANGEMENTS

The following table summarizes the amounts sold and outstanding as well as available under the Corporation's facilities as at January 31:

			2006			2005
Facility	**Total**	**Sold and outstanding**	**Amounts available**	Total	Sold and outstanding	Amounts available
German	**$ 122**	**$ 2**	**$ 120**	$ 131	$ 131	$ -
French	**85**	**-**	**85**	91	59	32
Italian	**-**	**-**	**-**	131	13	118
U.S.	**-**	**-**	**-**	70	15	55
	$ 207	**$ 2**	**$ 205**	$ 423	$ 218	$ 205

German facility
In December 2003, the Corporation entered into a €100-million four-year factoring arrangement, renewable on a yearly basis, for certain receivables originating from Transportation's German operations.

French facility
In January 2005, the Corporation entered into a €70-million uncommitted facility for the factoring of trade receivables originating from Transportation's operations in France.

Italian facility
During fiscal year 2006, the Italian facility was not renewed.

U.S. facility
During fiscal year 2006, the U.S. facility was not renewed.

The following table summarizes the proceeds received on the sale of receivables for fiscal years:

Facility	**2006**	2005
German	**$ 279**	$ 288
French	**129**	155
Italian	**-**	238
U.S.	**-**	585
U.K.[1]	**-**	225
	$ 408	$ 1,491

[1] U.K. facility was not renewed in fiscal year 2005.

OTHER ARRANGEMENTS

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

After the closing of the securitization, it was discovered that the cash flows of the RASPRO structure would be different than anticipated. As of the date of this report, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, are considering ways to adjust the cash flows of RASPRO. Various solutions are being considered, including the involvement of various parties, and these solutions could involve, in part, the Corporation purchasing assets for cash or providing other consideration, the implementation of which would not have a material adverse effect on the Corporation. Holders of the RASPRO securities benefit from various third-party guarantees.

RASPRO is subject to the consolidation rules applicable to VIEs, which require variable interest holders to reassess the appropriateness of consolidation when certain events take place. The contemplated adjustments to the RASPRO cash flows would be a reconsideration event under the VIEs rules and, the Corporation being a variable interest holder, an assessment of whether or not this entity should be consolidated by the Corporation will be performed if and when the adjustments to the cash flows are adopted.

Interim financing support
In connection with the sale of commercial aircraft, a government agency has provided customers with $296 million of financing, expiring at various dates, up to July 31, 2006. This financing funded a percentage of the sale price of the aircraft. The balance of the sale price, amounting to $38 million, has been financed by the Corporation. The subordinated portion of $38 million is included in Aircraft financing (commercial aircraft interim financing portfolio) as at January 31, 2006. The Corporation has committed to provide permanent financing to these customers in the event that alternative permanent financing cannot be obtained from third parties, which is included in the $2.2-billion financing commitments referred to in note 22d) to the Consolidated Financial Statements.

Sale and leaseback agreement
In fiscal year 2005, the Corporation entered into a $300-million three-year sale and leaseback agreement with third parties. Under this agreement, the Corporation can sell pre-owned business aircraft to these parties, which in turn lease back the aircraft to the Corporation for a 24-month period. The Corporation has the right to buy back the aircraft during the term of the lease at pre-determined amounts. Aircraft amounting to $41 million and $105 million were sold and leased back as at January 31, 2006 and 2005, with respect to this sale and leaseback agreement.

II DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation’s exposures to foreign currency and interest rate risks are managed through a central treasury function. Foreign currency exposures are managed in accordance with the Corporation’s foreign currency policy and procedures (the “policy”). The policy requires each segment to identify all potential foreign currency exposures arising from their operations and to hedge this exposure according to pre-set criteria. Interest rate exposures are managed in order to achieve an appropriate mix of fixed and variable interest rate long-term debt and to reduce the impact of fluctuating interest rates on financial commitments and intercompany loans.

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

The Corporation's foreign currency and interest rate hedging programs are typically unaffected by changes in market conditions, as related derivative financial instruments are generally held to maturity, consistent with the objective to lock in currency rates and interest rates on the hedged item.

The details and fair value of the outstanding derivative financial instruments as at January 31, 2006 and 2005, are presented in note 20 – Financial instruments to the Consolidated Financial Statements.

HEDGING PROGRAMS

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

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

(1) Deviations from the policy are allowed subject to maximum predetermined risk limits.

Aerospace foreign currency denominated costs

The expected costs denominated in foreign currencies and the hedged portion of these costs for fiscal year 2007 were as follows as at January 31, 2006:

		Expected costs	Hedged portion (in %)	Weighted-average hedge rate
Costs denominated in:				
Canadian dollar	$	1,750	80	0.7975
Sterling pound	$	265	77	1.7833

Management conducts quarterly reviews as well as a detailed annual review in the fourth quarter as part of its annual budget process of its cost estimates and program quantities. As part of the detailed annual review, Aerospace revised the long-term foreign exchange rate assumption for its future unhedged expected costs denominated in Canadian dollars from a weighted-average rate of 0.7813 to 0.8696. The effect of the revision was accounted for by way of a cumulative catch-up adjustment in the fourth quarter of fiscal year 2006, and resulted in a charge of approximately $60 million under the average cost accounting method. This charge was essentially offset by cost reduction initiatives.

Sensitivity

A one-cent change in the value of the Canadian dollar compared to the U.S. dollar would impact fiscal year 2007 expected costs in Aerospace by approximately $18 million before giving effect to forward foreign exchange contracts, and approximately $4 million after giving effect to the outstanding forward foreign exchange contracts.

A one-cent change in the value of the sterling pound compared to the U.S. dollar would impact fiscal year 2007 expected costs in Aerospace by approximately $3 million before giving effect to forward foreign exchange contracts, and approximately $1 million after giving effect to the outstanding forward foreign exchange contracts.

Forward foreign exchange contracts

The Corporation uses forward foreign exchange contracts to manage foreign currency exposure arising from forecasted foreign currency cash flows. The Corporation also uses forward foreign currency contracts to manage foreign currency exposures arising from third party long-term debt, and intercompany loans and receivables.

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

- In Aerospace, forward foreign exchange contracts are mainly to sell U.S. dollars and buy Canadian dollars and sterling pounds.

- In Transportation, forward foreign exchange contracts are mainly to sell or purchase U.S. dollars, sterling pounds, euros and other western European currencies.

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

INTEREST RATE EXPOSURE

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

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

Cross-currency interest-rate swap agreements
The Corporation enters into cross-currency interest-rate swap agreements to manage foreign currency exposures on its long-term debt and net foreign investments, and to modify the interest rate characteristics of long-term debt from fixed to variable interest rates. These swap agreements involve the exchange of fixed and variable interest payment obligations, as well as principal amounts in two different currencies for a specified period of time.

The fair value of cross currency interest-rate swaps varies in the same manner described in the preceding discussion on forward foreign exchange contracts and interest-rate swap agreements.

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

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

III COMMITMENTS AND CONTINGENCIES

The Corporation's commitments and contingencies are described in note 22 – Commitments and contingencies to the Consolidated Financial Statements.

CREDIT AND RESIDUAL VALUE GUARANTEES

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

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

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

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

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

FINANCING COMMITMENTS

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

As at January 31, 2006, the Corporation had outstanding financing commitments to eight customers in relation to the future sale of aircraft scheduled for delivery through fiscal year 2010 and in connection with a $296 million off-balance sheet financing facility (see the Financial arrangements section in this MD&A), amounting to $2.2 billion, net of third-party financing already arranged. The Corporation mitigates its exposure to credit and interest rate risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment and by entering into interest-rate cap agreements. Total customer financing arranged by the Corporation in fiscal year 2006 amounted to $2.9 billion ($3.1 billion in fiscal year 2005).

The Corporation anticipates that it will be able to satisfy its financing commitments to its customers in fiscal year 2007 through third-party financing. However, the Corporation's ability to satisfy its financing commitments may be affected by further financial difficulties in the commercial airline industry in general and of certain customers in particular, and the Corporation's current and future credit condition.

OTHER COMMITMENTS AND CONTINGENCIES

In connection with its contracts with the Metronet companies for the modernization of the London Underground, the Corporation is committed to provide collateral (surety bonds and letters of credit) in support of its obligations. These commitments extend to 2015. As at January 31, 2006, surety bonds maturing in 2011 and amounting to £181 million ($322 million) were outstanding. The period covered by the surety bonds must be extended by a year, every year. In the event that the bonds are not extended, the Corporation could have to provide, within one year, alternate collateral, which could reduce availability of credit facilities.

Over the years, Aerospace has invested in excess of $3.1 billion in program tooling and other significant amounts in product development and capital assets. The Corporation receives government financial support from various levels of government, related to the development of aircraft. Certain of these financial support programs require the Corporation to pay amounts to governments, at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. In connection with Aerospace aircraft programs, the Corporation has received cumulative contingently repayable government support, amounting to $506 million as at January 31, 2006. The total amount paid in connection with such government support as at that date amounted to $238 million. The remaining undiscounted maximum amount repayable, mostly based on future deliveries of aircraft, amounted to $535 million as at January 31, 2006. The amount repayable based solely on the total of the remaining accounting aircraft program quantities (see also section on Program information in this MD&A) was $226 million as at January 31, 2006.

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

The Corporation is also a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of legal proceedings that were pending as at January 31, 2006, 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.

IV VARIABLE INTEREST ENTITIES

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

		2006		2005
	Assets	**Liabilities**	Assets	Liabilities
Aerospace				
Financing structures related to the sale of regional aircraft[1]	**$ 6,946**	**$ 4,106**	$ 5,306	$ 2,871
Sale of rights under manufacturing contracts	**-**	**-**	166	154
Sale and leaseback structure	**15**	**15**	16	16
Transportation				
Partnership arrangements	**4,805**	**4,326**	4,352	4,035
Sale support guarantee	**529**	**523**	663	662
Cash collateral accounts	**70**	**70**	61	61
	12,365	**9,040**	10,564	7,799
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	**67**	**65**	78	76
Sale of rights under manufacturing contracts	**-**	**-**	166	154
Sale and leaseback structure	**15**	**15**	16	16
Cash collateral accounts	**70**	**70**	61	61
	152	**150**	321	307
Assets and liabilities of non-consolidated VIEs	**$ 12,213**	**$ 8,890**	$ 10,243	$ 7,492

(1) Increase in fiscal year 2006, mainly relates to the closing of the RASPRO facility, a $1.7-billion securitization transaction, related to the sale of 70 regional aircraft (see the Financial arrangements section in this MD&A).

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

AEROSPACE

Financing structures related to the sale of regional aircraft
The Corporation has provided credit and/or residual value guarantees to certain special purposes entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs' long-term debt. The Corporation's variable interests in these SPEs are in the form of credit and residual value guarantees and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only two of them, which were consolidated. For all other SPEs, consolidation is not appropriate under AcG-15. For purposes of determining whether the Corporation is the primary beneficiary, certain financing structures related to the sale of regional aircraft were grouped together when they had common characteristics, such as same customer, aircraft type, lease terms and financial support. The Corporation's maximum potential exposure relating to the non-consolidated SPEs was $2.1 billion, of which $551 million of provisions and liabilities were available to cover the Corporation's exposure as at January 31, 2006 ($1.6 billion and $295 million respectively as at January 31, 2005). The Corporation's maximum exposure under these guarantees is presented in note 22 – Commitments and contingencies.

***S*ale of rights under manufacturing contracts**
In 1995, the Corporation entered into an agreement with LR Jet Corporation ("LR Jet"), a company created for the sole purpose of purchasing, on a revolving basis, rights under certain aircraft manufacturing contracts from the Corporation. The purchase price was essentially financed by long-term debt issued to third-party investors. The Corporation concluded that LR Jet is a VIE and the Corporation is the primary beneficiary; accordingly, LR Jet was consolidated. As of January 31, 2006, the long-term debt of LR Jet has been repaid in full.

TRANSPORTATION

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

The Corporation's involvement with entities created in connection with these partnership arrangements is mainly through investments in their equity and/or in subordinated loans and through manufacturing, selling and long-term service contracts. The Corporation concluded that certain of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement. As at January 31, 2006 and 2005, the Corporation's maximum off-balance sheet exposure to loss related to these non-consolidated VIEs, other than from its contractual obligations, was not material.

As at January 31, 2006 and 2005, the Corporation had the following involvement with significant partnership arrangements which qualify as VIEs:

- In April 2003, Metronet Rail BCV Holdings Ltd. and Metronet Rail SSL Holdings Ltd. (together "Metronet"), in which the Corporation has a 20% equity interest, were awarded contracts for the renewal, modernization and maintenance of two of the London Underground's infrastructure projects. As part of its involvement with Metronet, the Corporation was awarded firm supply contracts to provide metro cars, signalling, maintenance and management services to Metronet.

- The Corporation has a 20% equity interest in Consorzio Treno Veloce Italiano ("TREVI"), an entity which was awarded, starting in May 1992, a series of contracts, including the supply of ETR 500 locomotives and railcars as well as their maintenance and refurbishment, for which the Corporation was selected as a sub-supplier to TREVI.
- In May 2004, Arrow Light Rail Holdings Ltd. and Arrow Light Rail Ltd. (together "Arrow"), in which the Corporation has a 12.5% equity interest, were awarded contracts for the design, manufacture, operation and maintenance of the Nottingham Express Transit Line One System located in the U.K. As part of its involvement with Arrow, the Corporation was awarded the operation and maintenance service contract.
- In June 2004, Yong-In LRT Co., Ltd ("Yong-In"), in which the Corporation has a 26% interest, was established to build and operate a light rail system in the city of Yong-In, South Korea. As part of its involvement with Yong-In, the Corporation is responsible for project management, system integration, mobilization and test running, and providing vehicles and other equipment.

Sale support guarantee

In August 1998, the Corporation provided residual value guarantees on diesel electric multiple unit trains sold to Lombard Leasing Contracts Limited ("Lombard"). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of $124 million as at January 31, 2006 ($135 million as at January 31, 2005). The Corporation's maximum exposure under these guarantees is presented in note 22 – Commitments and contingencies.

Cash collateral accounts

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

As a result of this commitment, Fabian Investments Limited and Lineal Investments Limited were created and cash was deposited in a cash collateral account by the lessee of the equipment. This cash, together with accumulated interest, is expected to entirely cover the Corporation's exposure. The Corporation concluded that these SPEs are VIEs and the Corporation is their primary beneficiary; accordingly, these SPEs were consolidated. Their assets, consisting of restricted cash, are presented in Other assets, and their liabilities, consisting of a provision for repurchase obligations, are presented in Accounts payable and accrued liabilities on the Corporation's consolidated balance sheets.

OTHER

I PENSION

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

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

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

The financial position and other information regarding the Corporation's defined benefit pension plans are presented in note 21 – Employee future benefits to the Consolidated Financial Statements.

ASSUMPTIONS

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

PENSION PLAN DEFICIT

The deficit for the pension plans amounted to $2.3 billion as at December 31, 2005 ("the measurement date") ($1.9 billion as at December 31, 2004). This amount includes the projected benefit obligation of the unfunded plans amounting to $493 million as at December 31, 2005 ($517 million as at December 31, 2004).

The increase in the deficit is mainly due to an increase in the projected benefit obligation resulting from a decrease in long-term discount rates in Canada and the U.K.

Sensitivity
It is estimated that an increase/decrease of 0.25% in the current weighted-average discount rate used to calculate the net present value of the projected benefit obligation would decrease/increase the projected benefit obligation by approximately $300 million.

UNRECOGNIZED AMOUNTS

The net actuarial gains and losses, based on the market-related value of plan assets, over 10% of the greater of the projected benefit obligation and the market-related value of plan assets, as well as prior service costs, are amortized to income over the estimated weighted-average remaining service life of the plan participants. The amortization of the net unrecognized amounts is expected to account for $105 million of the estimated pension cost for fiscal year 2007.

PENSION COST

Pension cost from continuing operations amounted to $287 million for fiscal year 2006, compared to $270 million for fiscal year 2005.

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

Pension cost is estimated to be $325 million for fiscal year 2007. The expected increase is mainly due to the previously discussed decrease in discount rates.

FUNDING

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

Cash contributions to the defined benefits pension plans are estimated at $410 million for fiscal year 2007, compared to actual contributions of $327 million for fiscal year 2006. Cash contributions to the defined contributions pension plans are estimated at $25 million for fiscal year 2007, compared to actual contributions of $26 million for fiscal year 2006.

II CONTROLS AND PROCEDURES

As of January 31, 2006, an evaluation was carried out, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the Corporation's disclosure controls and procedures as defined in *Multilateral Instrument 52-109*. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective.

III RISKS AND UNCERTAINTIES

RISK MANAGEMENT PRACTICES

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

Aerospace
Aerospace's risk management begins prior to program launch. It includes the development of a detailed plan to support a program launch decision, and continues throughout the product cycle. Aerospace's risk management strategy includes a governance process to assess the risk of deviation from the revenue, cost, schedule and technical targets, established as part of a detailed plan with the aim of developing specific risk mitigation plans. Such practices include a sales contract evaluation process ensuring compliance with internal policy. Risk management for product cost includes the development of long-term relationships with key suppliers, together with supplier evaluation and competitive bidding processes. Other risk management practices for cost include foreign exchange hedging, insurance coverage and collective agreements with a significant portion of the workforce. Technical risk is mitigated through strict compliance with the regulatory requirements of various bodies, as well as stringent quality control in the production cycle. The International Standards Organization ("ISO") has established ISO 9001 standards. The Society of Automotive Engineers ("SAE") has used the baseline ISO 9001 standards to establish AS 9100 standards in order to standardize Quality Management Systems

requirements specific to the aerospace industry. Aerospace holds four ISO 9001/AS 9100 certificates in 12 sites located in Canada, U.S. and Europe. These sites include facilities for all stages of the product life cycle including administrative, design, manufacturing, testing, training, spares distribution and service centres. The application of these standards allows Aerospace to improve the product quality and reduce costs through the standardization of quality processes and procedures.

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

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

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

During the realization and field support phases, schedule control, the regular review of forecasts, project improvement management and a proactive risk and opportunity management are applied. The principal objective of the risk and opportunity management is:

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

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

RISK ENVIRONMENT

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

GENERAL ECONOMIC RISK

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

BUSINESS ENVIRONMENT RISK

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

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

OPERATIONAL RISK

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

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

Developing new products and services
The principal markets in which the Corporation’s businesses operate experience changes due to the introduction of new technologies. To meet its customers’ needs in these businesses, the Corporation must continuously design new, and update existing products and services, and invest in and develop new technologies. Introducing new products requires a significant commitment to research and development, which may not be successful. The Corporation’s sales may be impacted if it invests in products that are not accepted in the marketplace, if customer demand or preference for aircraft models changes, if the products are not approved by regulatory authorities, or if the products are not brought to market in a timely manner or become obsolete. In Aerospace and Transportation, the Corporation is subject to stringent certification or approval requirements, which may delay the certification of the Corporation’s products. Non-compliance with regulatory requirements, such as those imposed by TC, the FAA, the EASA, national rail regulatory bodies or other regulatory authorities, could result in the grounding of the Corporation’s products, which could have a material adverse impact on the Corporation.

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

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

Key customers and key suppliers
The Corporation’s manufacturing operations are dependent upon a limited number of customers. As at January 31, 2006, 12% of Aerospace’s backlog related to aircraft programs was attributable to two customers. In Transportation, three customers represented 44% of the order backlog as at January 31, 2006. The Corporation believes that it will continue to depend on a limited number of customers; accordingly, the loss of any such customer could result in lower sales and/or market share. As the majority of Transportation’s customers are public or operate under public contract, Transportation’s order intake is dependent on public budgets and spending policies. Please refer to government support hereafter for additional information.

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

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

Human resource risk (including collective agreements)
Human resource risk is the risk that the Corporation is unable to recruit, retain, and motivate highly skilled employees to assist in the Corporation’s business, including research and development activities, that are essential to the success of the Corporation. Failure to recruit and retain highly-skilled personnel could negatively impact the Corporation’s development efforts and cause delays in production.

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

Environmental risk
Environmental risk is the risk that regulatory requirements, or enforcements thereof, may become more stringent in the future and that additional costs may be incurred by the Corporation to be compliant with such future requirements or enforcements. The Corporation is subject to environmental laws and regulations in each of the

jurisdictions in which it operates, governing, among other things, product performance and/or content, air and water pollution, hazardous substance discharges, and the remediation of soil and/or groundwater contamination caused by past operations. Although the Corporation believes that it is in substantial compliance with current applicable requirements of environmental laws, there can be no assurance that limitations imposed by, or costs of compliance with, current or future environmental laws, or liabilities arising from environmental problems, will not have a material adverse effect on the Corporation's financial position.

FINANCING RISK

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

Financing support provided on behalf of certain customers
The Corporation may provide aircraft financing support to regional aircraft customers.

- Interim financing, which includes loans made to customers and the leasing of aircraft to customers;
  - ➢ The Corporation faces the risk that certain customers, mainly regional aircraft customers, may not be able to obtain permanent financing. This in turn, would have a negative impact on free cash flow.
- Credit support provided by the Corporation in the form of credit and/or residual value guarantees to airlines and to certain special purpose entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies, and ii) to purchase financial assets related to the sale of regional aircraft. Under these arrangements, the Corporation is obligated to make payments to a guaranteed party in the event that the original debtor or lessee does not make lease or loan payments, or if the market or resale value of the aircraft is below the guaranteed residual value amount at the end of the lease. A claim under these guarantees can typically be made only upon the sale of the aircraft to a third party. A substantial portion of these guarantees has been extended on behalf of original debtors or lessees with less than investment-grade credit. Recent financial weakness in certain airlines further exposes the Corporation to loss under credit guarantees.
  - ➢ Significant claims under these guarantees could have a material effect on the Corporation's business, financial condition and results of operations (see Commitments and contingencies section of this MD&A for a discussion of credit and residual value guarantees).

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

Restrictive debt covenants
The indentures governing certain of the Corporation's indebtedness and syndicated credit facilities contain covenants that, among other things, restrict the Corporation's ability to:

- sell all or substantially all of its assets;
- incur certain indebtedness, secured or unsecured;
- engage in mergers or consolidations;
- incur capital expenditures in excess of a certain amount;
- engage in certain transactions with affiliates; and
- engage in acquisitions in excess of a certain amount.

These restrictions could impair the Corporation's ability to finance its future operations or its capital needs, or to engage in other business activities that may be in its interest. In addition, the Corporation is also required to comply with various financial covenants (computed without the former BC segment) under its two main syndicated credit facilities and is required to maintain (as defined in the related agreements):

- a minimum liquidity of $1.0 billion at the end of each quarter;
- a minimum interest coverage ratio of 2 to 1 on a rolling four-quarter basis for the period ending January 31, 2006, and 2.5 to 1 thereafter; and
- a maximum net debt-to-capitalization ratio of 55% as at January 31, 2006, and 50% at the end of each fiscal quarter thereafter.

The Corporation's ability to comply with these covenants may be affected by events beyond its control. A breach of any of these agreements or the Corporation's inability to comply with these covenants could also result in a default under its bank lines, which would permit the Corporation's banks to request the immediate cash collateralization of all outstanding letters of credit and the bond holders and other lenders of the Corporation to declare amounts owed to them immediately payable.

MARKET RISK

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

Foreign currency fluctuations
The Corporation is exposed to risks resulting from foreign currency fluctuations, as described in the Derivative financial instruments section of this MD&A. In an effort to mitigate these risks, the Corporation uses financial derivative instruments to hedge its exposure to future cash inflows and outflows in various foreign currencies.

Changing interest rates
The Corporation is exposed to risks from fluctuating interest rates as described in the Derivative financial instruments section of this MD&A. The Corporation uses derivative financial instruments or asset/liability management techniques to manage the impact of fluctuating interest rates, arising mainly on existing assets and liabilities and financial commitments.

Commodity price risk
The Corporation is subject to commodity price risk relating principally to fluctuations in material prices, such as aluminium and titanium used in the supply chain. In an effort to mitigate these risks, the Corporation seeks to enter into long-term arrangements with the supplier base.

The impact of the above fluctuations could have a material effect on the Corporation's Consolidated Financial Statements.

IV CRITICAL ACCOUNTING ESTIMATES

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

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

AVERAGE COST ACCOUNTING

Average cost accounting, used in Aerospace, is a method of accounting for the costs associated with the manufacturing of aircraft, whereby the estimated average unit production cost is charged to cost of sales.

The determination of the estimated average unit production cost per aircraft involves estimates of total accounting program quantities and total production costs for a selected program, as well as the period over which the units can reasonably be expected to be produced.

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

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

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

Sensitivity
A 1% change in the estimated future costs to produce the remaining aircraft accounting program quantities for all aircraft programs would have increased or decreased the Corporation's Cost of sales by approximately $50 million in fiscal year 2006, including $35 million relating to cumulative catch-up adjustments for prior years.

AEROSPACE PROGRAM TOOLING

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

SALES INCENTIVES

The Corporation offers sales incentives, including credit and residual value guarantees, mostly in connection with the sale of regional aircraft. Management reviews the maximum exposure related to these commitments relative to the aircraft's expected future value and, in the case of credit guarantees, the creditworthiness of the borrower. Provisions are recorded at the time of sale of the underlying aircraft and are reviewed quarterly. Non-cash sales incentives are included in Cost of sales and cash sales incentives are presented as a reduction of Manufacturing revenues. The aircraft's expected future value is estimated using internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. The creditworthiness of borrowers, for which credit guarantees have been provided, is based on credit ratings published by credit rating agencies, when available. The creditworthiness of other borrowers is estimated based on internal evaluation models (see note 22 – Commitments and contingencies to the Consolidated Financial Statements for additional information on these guarantees).

Sensitivity
As at January 31, 2006, had the expected future value of aircraft used to calculate the provision for credit and residual value guarantees provided in connection with aircraft sales decreased by 5%, Cost of sales would have increased by approximately $100 million for fiscal year 2006.

LONG-TERM CONTRACTS

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

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

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

The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative for the measure of performance.

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

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

Sensitivity
A 1% increase in the estimated future costs to complete all ongoing contracts accounted for under the percentage-of-completion method in Transportation would have decreased margin by approximately $60 million, while a 1% decrease in the estimated future costs would have increased margin by approximately $50 million.

GOODWILL

Goodwill recorded is the result of the purchase of Adtranz.

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

Future cash flows are forecasted based on the Corporation's best estimate of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, collective agreements and general market conditions, and are subject to review and approval by senior management. The future cash flows used for the impairment test performed during the fourth quarter of fiscal year 2006 were discounted using a weighted-average cost of capital rate of 9.5%.

VARIABLE INTEREST ENTITIES

The Corporation consolidates VIEs for which it assumes a majority of the risk of losses, is entitled to receive a majority of the residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the enterprise became the primary beneficiary. See note 23 – Variable interest entities to the Consolidated Financial Statements, for additional information on VIEs. The Corporation revises its initial determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

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

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

PRODUCT WARRANTIES

Products sold in Aerospace and Transportation are accompanied by warranties for systems, accessories, equipment, parts and software developed by the Corporation.

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

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

EMPLOYEE FUTURE BENEFITS

Pension and other employee benefit costs and obligations are dependent on assumptions used in calculating such amounts. The discount rate, the expected long-term rate of return on plan assets and rate of compensation increase are important elements of cost and/or obligation measurement.

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

Sensitivity
A 0.25% change in the weighted-average discount rate would increase or decrease expected benefit cost in fiscal year 2007 by approximately $30 million.

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

Sensitivity
A 0.25% change in the weighted-average return assumption would increase or decrease expected benefit cost in fiscal year 2007 by approximately $10 million.

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

Sensitivity
A 0.25% change in the weighted-average rate for compensation increase would increase or decrease expected benefit cost in fiscal year 2007 by approximately $20 million.

Other assumptions include the inflation rate and the health-care cost trend rate, as well as demographic factors such as retirement ages of employees, mortality rates and turnover. Assumptions are reviewed and updated on an annual basis.

INCOME TAXES

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

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

V ACCOUNTING AND REPORTING DEVELOPMENTS

The following standards may, when adopted, have a material impact on the Corporation's Consolidated Financial Statements:

- Financial instruments – Recognition and measurement;
- Hedges; and
- Comprehensive income.

These standards are substantially harmonized with U.S. GAAP and will be effective for the Corporation for the first quarter of fiscal year 2008. The principal impacts of the standards are summarized below:

Financial instruments – Recognition and measurement
- All derivative financial instruments, including embedded derivatives that are not closely related to the host contract, must be recorded on the balance sheet and measured at fair value.
- All financial assets must be classified as held for trading, available for sale, held to maturity or as loans and receivables, and measured either at fair value, cost or amortized cost.
- Gains and losses on financial instruments measured at fair value must be recognized in the income statement or in other comprehensive income.

Hedges
Hedges can be designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation. Gains and losses as a result of changes in the fair value of hedging instruments which qualify for hedge accounting must be recognized to income, together with the offsetting gains or losses on the hedged risk in the period of change or to other comprehensive income if certain criteria are met, with subsequent reclassification to income when the hedged item affects income.

Comprehensive income
Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income and its components must be presented in the consolidated financial statements with the same prominence as other financial statements that constitute the complete set of consolidated financial statements.

The Corporation is currently assessing the impact of these recommendations on its Consolidated Financial Statements.

VI ENVIRONMENT

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

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

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

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

The Corporation expects to increase its costs for remediation activities in future years. This increased cost is based on the probable closure of certain existing facilities and on ever increasing legal requirements. Although it appears likely that annual costs for soil and groundwater decontamination may increase over time, these costs are not expected to be material to the Corporation.

VII FOREIGN EXCHANGE RATES

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

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

	2006	2005	Increase (decrease)
Euro	**1.2157**	1.3051	(7)%
Canadian dollar	**0.8742**	0.8078	8%
Sterling pound	**1.7814**	1.8837	(5)%

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

	2006	2005	Increase (decrease)
Euro	**1.2374**	1.2469	(1)%
Canadian dollar	**0.8294**	0.7729	7%
Sterling pound	**1.8121**	1.8356	(1)%

VIII SELECTED FINANCIAL DATA

The Consolidated Financial Statements of Bombardier Inc. are prepared in accordance with Canadian GAAP and are expressed in U.S. dollars. The result of operations of BC’s inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets. (see note 1 – Discontinued operations and assets held for sale to the Consolidated Financial Statements).

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

(in millions of U.S. dollars, except per share amounts)	2006	2005	2004
Revenues	$ **14,726**	$ 15,546	$ 15,201
EBIT from continuing operations before special items	**445**	236	462
EBIT from continuing operations	**357**	64	132
EBT from continuing operations before special items	**238**	12	231
EBT from continuing operations	**150**	(160)	(99)
Income (loss) from continuing operations	**135**	(122)	(220)
Income from discontinued operations, net of tax	**114**	37	135
Net income (loss)	**249**	(85)	(85)
Basic and diluted earnings (loss) per share:			
From continuing operations	**0.06**	(0.08)	(0.15)
Net income (loss)	**0.13**	(0.06)	(0.07)
Cash dividends declared per share (Cdn$):			
Class A Shares (Multiple Voting)	**-**	0.090000	0.090000
Class B Shares (Subordinate Voting)	**-**	0.091600	0.091600
Series 2 Preferred Shares	**1.115860**	0.997810	1.169296
Series 3 Preferred Shares	**1.369000**	1.369000	1.369000
Series 4 Preferred Shares	**1.562500**	1.562500	1.562500
Total assets	**17,482**	20,130	19,277
Financial liabilities:			
Long-term debt - Bombardier	**2,722**	3,128	2,097
Long-term debt - BC	**2,025**	2,588	3,028

The following table provides authorized and issued and outstanding share data as at January 31, 2006.

	Authorized	**Issued and outstanding**
Class A Shares (Multiple Voting)(1)	1,892,000,000	319,260,212
Class B Shares (Subordinate Voting)(2)	1,892,000,000	1,425,772,756
Series 2 Cumulative Redeemable Preferred Shares	12,000,000	2,597,907
Series 3 Cumulative Redeemable Preferred Shares	12,000,000	9,402,093
Series 4 Cumulative Redeemable Preferred Shares	9,400,000	9,400,000

(1) 10 votes each, convertible at the option of the holder into one Class B Share (Subordinate Voting).
(2) Convertible at the option of the holder into one Class A Share (Multiple Voting) under certain conditions (see note 11 – Share capital to the Consolidated Financial Statements).

The following table provides share option and performance stock units (“PSU”) data.

Options issued and outstanding under share option plans as at February 28, 2006	53,323,900
PSUs issued and outstanding under PSU plan as at January 31, 2006	4,014,082

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

March 28, 2006

Bombardier, Bombardier 415, Bombardier Global 5000, Challenger, Challenger 300, Challenger 604, Challenger 605, Challenger 800, Challenger 850, Challenger 870, Challenger 890, CITYFLO, CL-215T, CRJ, CRJ100, CRJ200, CRJ700, CRJ705, CRJ900, CSeries, EBI, Electrostar, FLEXITY, Flexjet, Global, Global Express, Global Express XRS, INNOVIA, INTERFLO, Learjet, Learjet 40, Learjet 40 XR, Learjet 45, Learjet 60, Learjet 60 XR, MITRAC, MOVIA, Q100, Q200, Q300, Q400, Q-Series, Skyjet, Skyjet International, Smart Parts, Talent, TRAXX and *Zefiro* are trademarks of Bombardier Inc. or its subsidiaries.

Additional information relating to Bombardier, including the Corporation’s Annual Information Form, can be found on SEDAR at www.sedar.com or on Bombardier’s website at www.bombardier.com.

BOMBARDIER INC.
QUARTERLY DATA

(unaudited)

For the fiscal years ended January 31

(In millions of US dollars, except per share amounts)

	2006 TOTAL	2006 FOURTH QUARTER	2006 THIRD QUARTER	2006 SECOND QUARTER	2006 FIRST QUARTER	2005 TOTAL	2005 FOURTH QUARTER	2005 THIRD QUARTER	2005 SECOND QUARTER	2005 FIRST QUARTER
Segmented revenues										
Aerospace[1]	$ 8,087	$ 2,400	$ 1,789	$ 1,962	$ 1,936	$ 7,980	$ 2,612	$ 1,633	$ 1,962	$ 1,773
Transportation[2]	6,653	1,638	1,515	1,675	1,825	7,584	2,119	1,929	1,847	1,689
Intersegment revenues	(14)	(3)	(3)	(4)	(4)	(18)	(6)	(4)	(4)	(4)
External revenues	$ 14,726	$ 4,035	$ 3,301	$ 3,633	$ 3,757	$ 15,546	$ 4,725	$ 3,558	$ 3,805	$ 3,458
Income (loss) from continuing operations before special items, financing income and expense and income taxes										
Aerospace[1]	$ 266	$ 107	$ 31	$ 76	$ 52	$ 203	$ 85	$ 41	$ 39	$ 38
Transportation	179	53	39	43	44	33	61	44	43	(115)
	445	160	70	119	96	236	146	85	82	(77)
Special items										
Transportation	88	37	25	34	(8)	172	38	43	5	86
	88	37	25	34	(8)	172	38	43	5	86
Income (loss) from continuing operations before financing income and expense and income taxes										
Aerospace	266	107	31	76	52	203	85	41	39	38
Transportation	91	16	14	9	52	(139)	23	1	38	(201)
	357	123	45	85	104	64	108	42	77	(163)
Financing income	(156)	(52)	(39)	(32)	(33)	(104)	(35)	(29)	(24)	(16)
Financing expense	363	98	87	91	87	328	102	74	74	78
Income (loss) from continuing operations before income taxes	150	77	(3)	26	50	(160)	41	(3)	27	(225)
Income tax expense (recovery)	15	(8)	(2)	16	9	(38)	(6)	(6)	15	(41)
Income (loss) from continuing operations	135	85	(1)	10	41	(122)	47	3	12	(184)
Income (loss) from discontinued operations, net of tax	114	1	(8)	107	14	37	9	7	11	10
Net income (loss)	$ 249	$ 86	$ (9)	$ 117	$ 55	$ (85)	$ 56	$ 10	$ 23	$ (174)
Earnings (loss) per share:										
Basic and diluted										
From continuing operations	$ 0.06	$ 0.05	$ -	$ -	$ 0.02	$ (0.08)	$ 0.02	$ -	$ -	$ (0.11)
Net income (loss)	$ 0.13	$ 0.05	$ (0.01)	$ 0.06	$ 0.03	$ (0.06)	$ 0.03	$ -	$ 0.01	$ (0.10)
Dividend - Class A Shares (in Cdn dollars)	-	-	-	-	-	0.0900	0.0225	0.0225	0.0225	0.0225
Dividend - Class B Shares (in Cdn dollars)	-	-	-	-	-	0.0916	0.0229	0.0229	0.0229	0.0229
Market price range of Class B Shares (Cdn dollars)										
High	$ 3.66	$ 3.13	$ 3.66	$ 3.39	$ 3.10	$ 7.13	$ 2.89	$ 3.40	$ 6.24	$ 7.13
Low	$ 2.28	$ 2.34	$ 2.44	$ 2.41	$ 2.28	$ 1.87	$ 1.87	$ 2.55	$ 3.29	$ 5.67

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

(2) Transportation results for the first quarter of fiscal year 2005 were negatively impacted by contract adjustments related to revision of estimates for the completion of certain contracts.

BOMBARDIER INC.

HISTORICAL FINANCIAL SUMMARY

CONSOLIDATED BALANCE SHEETS

AS AT JANUARY 31

(IN MILLIONS OF U.S. DOLLARS)

	2006	2005	2004	2003	2002
Assets					
Cash and cash equivalents	**$ 2,917**	$ 2,344	$ 1,214	$ 662	$ 276
Receivables	**1,684**	1,513	1,730	2,056	2,601
Aircraft financing	**1,457**	1,791	1,463	2,209	2,072
Inventories	**3,805**	4,013	4,340	3,443	3,532
Property, plant and equipment	**3,090**	3,412	3,550	3,523	3,259
Goodwill	**2,142**	2,357	2,290	2,122	1,704
Fractional ownership deferred costs	**270**	142	-	-	-
Deferred income taxes	**653**	522	401	446	399
Accrued benefit assets	**384**	353	375	173	153
Assets held for sale	**237**	2,582	2,526	3,556	2,246
Other assets	**843**	1,101	1,388	859	866
	$ 17,482	$ 20,130	$ 19,277	$ 19,049	$ 17,108
Liabilities and shareholders' equity					
Short-term borrowings	**$ -**	$ -	$ -	$ 816	$ 1,814
Accounts payable and accrued liabilities	**6,866**	7,085	6,710	5,772	4,626
Advances and progress billings in excess of related costs	**2,191**	2,359	2,686	2,496	2,067
Fractional ownership deferred revenues	**325**	163	-	-	-
Deferred income taxes	**9**	41	104	122	399
Long-term debt	**4,747**	5,716	5,125	5,331	4,480
Accrued benefit liabilities	**877**	897	932	753	624
Liabilities related to assets held for sale	**42**	1,571	1,270	1,966	1,003
Preferred shares	**347**	347	347	347	199
Common shareholders' equity	**2,078**	1,951	2,103	1,446	1,896
	$ 17,482	$ 20,130	$ 19,277	$ 19,049	$ 17,108

BOMBARDIER INC.
HISTORICAL FINANCIAL SUMMARY
FOR THE FISCAL YEARS ENDED JANUARY 31
(IN MILLIONS OF US DOLLARS, EXCEPT PER SHARE AMOUNTS AND SHAREHOLDERS OF RECORD)

		2006		2005		2004		2003		2002
Segmented revenues										
Aerospace	$	**8,087**	$	7,980	$	8,261	$	7,271	$	7,933
Transportation		**6,653**		7,584		6,954		6,019		4,509
Intersegment revenues		**(14)**		(18)		(14)		(13)		(15)
External revenues	$	**14,726**	$	15,546	$	15,201	$	13,277	$	12,427
Income (loss) from continuing operations before special items, financing income and expense and income taxes										
Aerospace	$	**266**	$	203	$	419	$	255	$	715
Transportation		**179**		33		43		162		89
		445		236		462		417		804
Special items										
Aerospace		**-**		-		(19)		837		654
Transportation		**88**		172		349		-		48
		88		172		330		837		702
Income (loss) from continuing operations before financing income and expense and income taxes										
Aerospace		**266**		203		438		(582)		61
Transportation		**91**		(139)		(306)		162		41
		357		64		132		(420)		102
Financing income		**(156)**		(104)		(96)		(117)		(138)
Financing expense		**363**		328		327		345		305
Income (loss) from continuing operations before income taxes		**150**		(160)		(99)		(648)		(65)
Income tax expense (recovery)		**15**		(38)		121		(159)		(22)
Income (loss) from continuing operations		**135**		(122)		(220)		(489)		(43)
Income from discontinued operations, net of tax		**114**		37		135		96		66
Net income (loss)	$	**249**	$	(85)	$	(85)	$	(393)	$	23
Earnings (loss) per share:										
Basic and diluted										
From continuing operations	$	**0.06**	$	(0.08)	$	(0.15)	$	(0.37)	$	(0.04)
Net income (loss)	$	**0.13**	$	(0.06)	$	(0.07)	$	(0.30)	$	0.01

General information for continuing operations		2006		2005		2004		2003		2002
Export revenues from Canada	$	**5,271**	$	5,430	$	5,851	$	4,764	$	5,320
Additions to property, plant and equipment	$	**329**	$	305	$	300	$	461	$	723
Amortization	$	**545**	$	549	$	560	$	512	$	477
Dividend per common share (in Cdn dollars)										
Class A	$	**-**	$	0.090000	$	0.090000	$	0.180000	$	0.180000
Class B	$	**-**	$	0.091600	$	0.091600	$	0.181563	$	0.181563
Dividend per preferred share (in Cdn dollars)										
Series 2	$	**1.115860**	$	0.997810	$	1.169296	$	1.193750	$	1.375000
Series 3	$	**1.369000**	$	1.369000	$	1.369000	$	0.684500	$	-
Series 4	$	**1.562500**	$	1.562500	$	1.562500	$	1.398760	$	-
Number of common shares (in millions)		**1,745**		1,750		1,750		1,378		1,371
Book value per common share (in US dollars)	$	**1.19**	$	1.11	$	1.20	$	1.05	$	1.38
Shareholders of record		**13,600**		13,008		12,371		11,579		11,310

Market price ranges		2006		2005		2004		2003		2002
(in Canadian dollars)										
Class A										
High	$	**3.69**	$	7.11	$	6.32	$	15.67	$	24.60
Low	$	**2.34**	$	2.01	$	2.95	$	3.19	$	9.25
Close	$	**3.02**	$	2.80	$	5.96	$	5.34	$	14.72
Class B										
High	$	**3.66**	$	7.13	$	6.28	$	15.67	$	24.65
Low	$	**2.28**	$	1.87	$	2.56	$	3.13	$	9.19
Close	$	**2.98**	$	2.62	$	5.99	$	5.12	$	14.70

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Consolidated Financial Statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of securities regulators. The financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

Bombardier's Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Corporation has been made known to them and has been properly disclosed in the Consolidated Financial Statements and MD&A. Bombardier's Chief Executive Officer and Chief Financial Officer have also evaluated the effectiveness of such disclosure controls and procedures as of the end of fiscal year 2006. As at year end, Management believes that the disclosure controls and procedures effectively provide reasonable assurance that material information related to the Corporation has been disclosed in the Consolidated Financial Statements and MD&A. In compliance with Multilateral Instrument 52-109, Bombardier's Chief Executive Officer and Chief Financial Officer have provided to the Canadian Securities Administrators a certification related to Bombardier's annual disclosure documents, including the Consolidated Financial Statements and MD&A.

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

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

The Consolidated Financial Statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

(Signed by)

Laurent Beaudoin, FCA
Chairman of the Board and Chief Executive Officer
March 28, 2006

(Signed by)

Pierre Alary, CA
Senior Vice President and Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF BOMBARDIER INC.

We have audited the consolidated balance sheets of Bombardier Inc. as at January 31, 2006 and 2005 and the consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed by)

Ernst & Young LLP
Chartered Accountants
Montréal, Canada
March 21, 2006

BOMBARDIER INC.
CONSOLIDATED BALANCE SHEETS
AS AT JANUARY 31
(IN MILLIONS OF U.S. DOLLARS)

	Notes		2006		2005
					(restated - note 1)
Assets					
Cash and cash equivalents	8	**$**	**2,917**	$	2,344
Receivables	2		**1,684**		1,513
Aircraft financing	3		**1,457**		1,791
Inventories	4		**3,805**		4,013
Property, plant and equipment	5		**3,090**		3,412
Goodwill	6		**2,142**		2,357
Fractional ownership deferred costs			**270**		142
Deferred income taxes	16		**653**		522
Accrued benefit assets	21		**384**		353
Assets held for sale	1		**237**		2,582
Other assets	7		**843**		1,101
		$	**17,482**	$	20,130
Liabilities					
Accounts payable and accrued liabilities	9	**$**	**6,866**	$	7,085
Advances and progress billings in excess of related costs	4		**2,191**		2,359
Fractional ownership deferred revenues			**325**		163
Deferred income taxes	16		**9**		41
Long-term debt	10		**4,747**		5,716
Accrued benefit liabilities	21		**877**		897
Liabilities related to assets held for sale	1		**42**		1,571
			15,057		17,832
Shareholders' equity			**2,425**		2,298
		$	**17,482**	$	20,130
Commitments and contingencies	22				

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

On behalf of the Board of Directors,

(Signed by)
LAURENT BEAUDOIN
DIRECTOR

(Signed by)
L. DENIS DESAUTELS
DIRECTOR

BOMBARDIER INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE FISCAL YEARS ENDED JANUARY 31

(IN MILLIONS OF U.S. DOLLARS)

	Notes	2006		2005	
		Number (in thousands)	**Amount**	Number (in thousands)	Amount
SHARE CAPITAL	11				
Preferred shares					
Series 2		**2,598**	**$ 51**	2,598	$ 51
Series 3		**9,402**	**148**	9,402	148
Series 4		**9,400**	**148**	9,400	148
		21,400	**347**	21,400	347
Common shares					
Class A Shares (Multiple Voting)					
Balance at beginning of year		**342,000**	**31**	342,018	31
Converted to Class B		**(22,740)**	**(2)**	(18)	-
Balance at end of year		**319,260**	**29**	342,000	31
Class B Shares (Subordinate Voting)					
Balance at beginning of year		**1,408,467**	**1,411**	1,407,567	1,408
Issued under the share option plans	12	**-**	**-**	882	3
Converted from Class A		**22,740**	**2**	18	-
		1,431,207	**1,413**	1,408,467	1,411
Purchased and held in trust under the performance share unit plan	12	**(5,434)**	**(14)**	-	-
Balance at end of year		**1,425,773**	**1,399**	1,408,467	1,411
Balance at end of year - common shares		**1,745,033**	**1,428**	1,750,467	1,442
Total - share capital			**1,775**		1,789
CONTRIBUTED SURPLUS					
Balance at beginning of year			**13**		4
Stock-based compensation	12		**7**		9
Balance at end of year			**20**		13
RETAINED EARNINGS					
Balance at beginning of year			**301**		532
Net income (loss)			**249**		(85)
Dividends:					
Preferred shares			**(25)**		(23)
Common shares			**-**		(123)
Balance at end of year			**525**		301
CUMULATIVE TRANSLATION ADJUSTMENT	13		**105**		195
Total - shareholders' equity			**$ 2,425**		$ 2,298

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

BOMBARDIER INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE FISCAL YEARS ENDED JANUARY 31
(IN MILLIONS OF U.S. DOLLARS,
EXCEPT PER SHARE AMOUNTS)

	Notes		2006		2005 (restated - note 1)
Revenues					
Manufacturing		**$**	**10,708**	$	11,526
Services			**2,537**		2,386
Other			**1,481**		1,634
			14,726		15,546
Cost of sales			**12,719**		13,754
Selling, general and administrative			**842**		859
Research and development			**175**		148
Amortization			**545**		549
Special items	14		**88**		172
			14,369		15,482
Income from continuing operations before the following:			**357**		64
Financing income	15		**(156)**		(104)
Financing expense	15		**363**		328
Income (loss) from continuing operations before income taxes			**150**		(160)
Income tax expense (recovery)	16		**15**		(38)
Income (loss) from continuing operations			**135**		(122)
Income from discontinued operations, net of tax	1		**114**		37
Net income (loss)		**$**	**249**	$	(85)
Earnings (loss) per share:	17				
Basic and diluted					
From continuing operations		**$**	**0.06**	$	(0.08)
Net income (loss)		**$**	**0.13**	$	(0.06)

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

BOMBARDIER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JANUARY 31
(IN MILLIONS OF U.S. DOLLARS)

	Notes	2006	2005 (restated - note 1)
Operating activities			
Income (loss) from continuing operations		**$ 135**	$ (122)
Non-cash items:			
Amortization		**545**	549
Provision for credit losses	3	**11**	27
Deferred income taxes	16	**(138)**	(123)
Loss (gain) on disposals of property, plant and equipment		**6**	(5)
Stock-based compensation	12	**7**	9
Special items	14	**88**	172
Net change in non-cash balances related to operations	19	**100**	(27)
Cash flows from operating activities		**754**	480
Investing activities			
Additions to property, plant and equipment		**(329)**	(305)
Disposals of property, plant and equipment		**107**	31
Settlement of the Adtranz claim	6	**-**	209
Disposal of discontinued operations, net of cash disposed	1	**1,363**	(31)
Other		**193**	310
Cash flows from investing activities		**1,334**	214
Financing activities			
Proceeds from issuance of long-term debt		**8**	826
Repayments of long-term debt		**(876)**	(632)
Issuance of shares, net of related costs	12	**-**	3
Purchase of common shares - held in trust	12	**(14)**	-
Dividends paid		**(25)**	(146)
Cash flows from financing activities		**(907)**	51
Effect of exchange rate changes on cash and cash equivalents		**(174)**	101
Cash flows from continuing operations		**1,007**	846
Cash flows from discontinued operations	1	**(440)**	288
Net increase in cash and cash equivalents		**567**	1,134
Cash and cash equivalents at beginning of year		**2,355**	1,221
Cash and cash equivalents at end of year(1)		**$ 2,922**	$ 2,355
(1) Included the following:			
Cash and cash equivalents related to:			
Continuing operations		**$ 2,917**	$ 2,344
Discontinued operations	1	**5**	11
		$ 2,922	$ 2,355
Supplemental information			
Cash paid for:			
Interest		**$ 425**	$ 380
Income taxes		**$ 56**	$ 19

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the fiscal years ended January 31, 2006 and January 31, 2005

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

Basis of presentation

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

During fiscal year 2006, the Corporation continued with its strategy of reducing Bombardier Capital's ("BC") operations and several portfolios have been sold or put up for sale. The remaining portfolios are essentially related to the Corporation's aerospace segment ("Aerospace"). As a result, they are now included in Aerospace and BC ceased to be reported as a separate segment, effective the fourth quarter of fiscal year 2006 (see note 25 – Segment disclosure to the Consolidated Financial Statements). Significant additional changes in the basis of presentation of the Corporation's Consolidated Financial Statements have been made as a consequence of the above, with retroactive effect for all periods presented. These changes had no impact on the legal structure and on the consolidated shareholders' equity of the Corporation. The most significant changes include the following:

- ***Discontinued operations and assets held for sale*** – BC's inventory finance, on- and off-balance sheet manufactured housing, consumer finance and on- and off-balance sheet freight car operations have been presented as discontinued operations in the consolidated statements of income and cash flows, and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets (see note 1 – Discontinued operations and assets held for sale to the Consolidated Financial Statements).

- ***Aircraft financing*** – BC's core operations consisting of commercial aircraft financing, and business aircraft lending operations, are now managed by Aerospace and therefore, these operations are part of the aerospace segment's results. BC's portfolios related to aircraft financing operations are included in a new balance sheet caption, Aircraft financing, together with other assets related to aircraft financing of Aerospace. The remainder of BC's operations are not significant and the related assets are included in Other assets in the consolidated balance sheets.

- ***Presentation of BC*** – The financial position, results of operations and cash flows of BC are no longer presented in separate columns in the consolidated balance sheets, statements of income and statements of cash flows.

- ***Financing income and financing expense*** – Interest income, including interest income generated from the portfolios of the former BC segment, is now classified in Financing income, a new caption in the consolidated statements of income. BC's interest income was previously included in Financing revenues and other interest income was included in Interest expense, net. The interest expense on the long-term debt of the former BC segment, previously included in Cost of sales, is now classified in Financing expense, a new caption in the consolidated statements of income. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense.

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

The impact on the consolidated statements of income of the reallocation of BC's portfolios to Aerospace, as well as certain other reclassifications referred to above under "Financing income and Financing expense" are as follows for fiscal years:

		2006[(1)]		2005[(1)]
Revenues				
Financing	**$**	**(79)**	$	(91)
Other		**10**		36
		(69)		(55)
Cost of sales		**(106)**		(126)
		37		71
Interest expense, net		**(170)**		(153)
Financing income		**156**		104
Financing expense		**363**		328
Income from continuing operations before income taxes	**$**	**-**	$	-

(1) Parenthesis represent a decrease of the related income statement item.

Basis of consolidation

The Consolidated Financial Statements include:

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

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

Subsidiary	Location
Learjet Inc.	U.S.A.
Bombardier Transportation (Holdings) UK Ltd.	U.K.
Bombardier Transportation GmbH	Germany
Short Brothers plc	U.K.
Bombardier Transportation (Bahntechnologie) Germany GmbH & Co. KG	Germany

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

VIEs – Effective November 1, 2004, the Corporation consolidates VIEs in accordance with AcG-15 "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 requires the consolidation of VIEs if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is exposed to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party is exposed to a majority of the VIE's losses), or both (the primary beneficiary). Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value at the date the enterprise became the primary beneficiary. However, for variable interest entities created prior to the initial adoption of AcG-15, the assets, liabilities and non-controlling interest of these entities must be initially consolidated as if the entities were consolidated as of the date the Corporation became the primary beneficiary. See note 23 – Variable interest entities, for additional information on VIEs. The Corporation revises its initial determination of the accounting for VIEs when certain events occur, such as changes in governing documents or contractual arrangements.

Use of estimates

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

Translation of foreign currencies

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

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

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

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

Long-term debt and intercompany loans designated as hedges of the net investment in self-sustaining foreign operations – Translation gains or losses, net of tax, related to the long-term debt and intercompany loans designated as hedges of the Corporation's net investment in self-sustaining foreign operations are included in Cumulative translation adjustment in the consolidated statements of shareholders' equity.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment grade financial institutions, with maturities of three months or less from the date of acquisition (see note 8 – Short-term borrowings).

Securitization transactions

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

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

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

Lease receivables

Assets leased under terms that transfer substantially all of the benefits and risks of ownership to customers are accounted for as sales-type or direct financing leases.

Allowance for credit losses

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

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

Long-term investments

Investments in entities, when the Corporation exercises significant influence on their activities, are accounted for under the equity method and are presented in Other assets in the consolidated balance sheets. Other long-term investments are carried at cost, including investments in financing structures, which are presented in Aircraft financing. All other investments are presented in Other assets in the consolidated balance sheets.

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

Inventory valuation

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

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

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

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

Other inventories – Finished product inventories, other than those included in aerospace programs and long-term contracts, are valued at the lower of cost or net realizable value. The cost of finished products includes the cost of materials, direct labour and related manufacturing overhead.

Pre-owned aircraft available for sale are valued at the lower of cost or net realizable value. The Corporation estimates net realizable value by using third-party appraisals of aircraft value and by reviewing current and future market conditions, including information developed from the sale of similar aircraft in the secondary market.

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

Long-lived assets

Long-lived assets comprise assets under operating leases, property, plant and equipment, and finite-life intangible assets.

Assets under operating leases – Assets under operating leases are recorded at cost. Amortization is computed under the straight-line method over periods representing their estimated useful lives. Assets under operating leases related to aircraft, mainly pre-owned aircraft, are presented in Aircraft financing. All other assets under operating leases are presented in Other assets in the consolidated balance sheets.

Property, plant and equipment – Property, plant and equipment are recorded at cost. In addition, equipment leases where the risks and rewards of ownership are transferred to the Corporation are included in Property, plant and equipment. Costs related to aerospace programs incurred once technical feasibility is proven and program launch takes place, including prototype design, development and testing costs, are accounted for as aerospace program tooling. Aerospace program tooling is mostly comprised of engineering labour and manufacturing overhead costs, testing and certification costs and purchased tooling. Self-constructed aerospace program tooling includes interest charges incurred during construction.

Amortization is computed under the straight-line method over the following estimated useful lives:

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

Amortization of assets under construction begins when they are ready for their intended use. Amortization of aerospace program tooling costs begins at the date of delivery of the first aircraft of the program.

Improvements to existing property, plant and equipment that significantly extend the useful life or utility of the asset are capitalized, while maintenance and repair costs are charged to expense when incurred.

Finite-life intangible assets – Finite-life intangible assets represent the cost of acquired licenses, patents and trademarks and are amortized on a straight-line basis over their estimated useful lives, not exceeding 20 years.

Impairment – Long-lived assets are reviewed for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets and is recorded in Amortization in the consolidated statements of income.

Long-lived assets held for sale are stated at the lower of cost or fair value, less cost to sell.

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of the identifiable net assets acquired.

Goodwill is tested for impairment using a two-step test annually, or more frequently if events or circumstances, such as significant declines in expected sales, earnings or cash flows, indicate that it is more likely than not that the asset might be impaired. Under the first step, the fair value of a reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income.

Stock-based compensation and other stock-based payments

Share option plans – All awards granted or modified after January 31, 2003, are accounted for under the fair value method. Under this method, the value of the compensation is measured at the grant date using a modified Black-Scholes option pricing model. The value of the compensation expense is recognized over the vesting period of the stock options with a corresponding increase to Contributed surplus in shareholders' equity.

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. No compensation expense is recorded in the consolidated statements of income for these awards.

Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

Performance stock unit plan ("PSUs") – The value of the compensation for PSUs that are expected to vest is measured based on the closing price of a Class B Share (Subordinate Voting) of the Corporation on the Toronto Stock Exchange on the date of grant. The value of the compensation expense is recognized on a straight-line basis over the vesting period with a corresponding increase to Contributed surplus in shareholders' equity. The effect of any change in the number of PSUs that are expected to vest is accounted for in the period in which the estimate is revised.

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

Revenue recognition

Aerospace programs – Revenues from the sale of commercial aircraft and narrow-body business aircraft (*Learjet* Series) are recognized upon final delivery of products and presented in Manufacturing revenues.

Wide-body business aircraft (*Challenger 300*, *Challenger 604*, *Challenger 605*, Global *Express* and *Bombardier Global 5000*) contracts are segmented between green aircraft (i.e. before interiors and optional avionics are installed) and completion of interiors. Revenues are recognized based on green aircraft deliveries when certain conditions are met, and upon final acceptance of interiors and optional avionics by customers and presented in Manufacturing revenues.

Fractional shares – Revenues from the sale of aircraft fractional shares are recognized over the period during which the related services are rendered to the customer, generally five years, and are included in Manufacturing revenues. At the time of sale, the proceeds from the sale are recorded as Fractional ownership deferred revenues. The carrying value of the related aircraft is transferred to Fractional ownership deferred costs and is charged to cost of sales over the same period. Other revenues from the fractional share ownership program, including flight crew and maintenance support, are recognized at the time the service is rendered to the customer and are presented in Service revenues in the consolidated statements of income.

Long-term contracts – Revenues from long-term contracts related to designing, engineering or manufacturing of products, including vehicle and component overhaul, are recognized using the percentage-of-completion method of accounting consistent with Statement of Position 81-1 "*Accounting for Performance of Construction-Type and Certain Production-Type Contracts*" ("SOP 81-1") published by the American Institute of Certified Public Accountants. The percentage of completion is generally determined by comparing the actual costs incurred to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Vehicle and component overhaul revenues are presented in Services revenues. System and signalling revenues are presented in Other revenues. All other long-term manufacturing contract revenues are presented in Manufacturing revenues in the consolidated statements of income.

Revenues from maintenance service contracts entered into on or after December 17, 2003 are recognized in proportion to the total costs originally anticipated to be incurred at the beginning of the contract and are presented in Services revenues. Maintenance service contracts entered into before this date are recognized using the percentage-of-completion method of accounting.

Revenues from other long-term service contracts are generally recognized as services are rendered and are presented in Services revenues in the consolidated statements of income.

Estimated revenues from long-term contracts include revenues from change orders and claims when it is probable that they will result in additional revenues in an amount that can be reliably estimated.

Other – Revenues from the sale of pre-owned aircraft and spare parts are recognized upon delivery. Pre-owned aircraft revenues are presented in Other revenues and spare parts revenues are included in Services revenues in the consolidated statements of income. Operating lease income, mainly from pre-owned aircraft, is recognized on a straight-line basis over the term of the lease and is included in Other revenues in the consolidated statements of income. Interest income related to aircraft financing is recognized over the terms of the applicable loans or leases in a manner that produces a constant rate of return on the investment and is included in Financing income in the consolidated statements of income.

Cost of sales

Aerospace programs – Average unit cost for commercial and business aircraft is determined based on the estimated total production costs for a predetermined program quantity. Estimates of total production costs and of program quantities are an integral component of average cost accounting. Program quantities are established based on Management's assessment of market conditions and foreseeable demand at the beginning of the production stage for each program, taking into consideration, among other factors, existing firm orders. Production costs include material, direct labour and manufacturing overhead costs. Total production costs are estimated based on actual and forecasted costs of materials, foreign exchange rates, labour productivity and employment levels and salaries. Cost estimates are based mainly on historical performance trends, economic trends, labour agreements and information provided by suppliers.

The average unit cost is recorded to Cost of sales at the time of each aircraft delivery. Under the learning curve concept, which anticipates a decrease in costs as tasks and production techniques become more efficient through repetition and management action, EOAPC during the early stages of a program are deferred in inventories and recovered from sales of aircraft to be produced later at lower-than-average costs.

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

Long-term contracts – Cost of sales for long-term contracts is established based on actual costs incurred, including materials, direct labour, manufacturing overhead costs and other costs such as warranty and freight costs. If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in the period in which the negative gross margin is identified.

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

Sales incentives

In connection with the sale of new aircraft, the Corporation may provide sales incentives in the form of credit guarantees, residual value guarantees ("RVGs") and trade-in options to customers. The provision relating to credit guarantees and RVGs is recorded at the time of the sale based on the present value of expected net payments to be made under the guarantees. The provision relating to trade-in options is based on the anticipated losses. Non-cash sales incentives are included in Cost of sales and cash sales incentives are presented as a reduction of Manufacturing revenues in the consolidated statements of income.

The Corporation determines expected future net payments to be made under the guarantees or anticipated losses under trade-in options using, when available, third-party appraisals of expected aircraft value, expected default ratios based on external credit ratings of guaranteed parties, current and future market outlook, the age and condition of the aircraft, expected availability levels for the aircraft in the market and the likelihood that the trade-in options will be exercised.

The provisions are reviewed quarterly and the effect of any revision is recognized in the period in which the revision takes place.

Research and development

Development costs are capitalized when certain criteria are met for deferral and their recovery is reasonably assured. Capitalized development costs related to aerospace programs are included in Property, plant and equipment under aerospace program tooling. Research and development costs related to long-term contracts are recorded as inventory costs and charged to Cost of sales under long-term contract accounting. When the capitalized costs are no longer reasonably assured of recovery, these costs are written off. Research and development expenses presented in the consolidated statements of income exclude those incurred under long-term contracts and development costs capitalized to program tooling.

Government assistance

Government assistance, including investments tax credits, relating to the acquisition of inventory and/or property, plant and equipment is recorded as a reduction of the cost of the related asset. Government assistance, including investment tax credits, related to current expenses is recorded as a reduction of the related expenses.

Product warranties

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

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

Income taxes

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

A valuation allowance is recorded to reduce the carrying amount of deferred income tax assets, when it is more likely than not that such assets will not be realized.

Earnings per share

Basic earnings per share are computed based on net income less dividends on preferred shares, net of tax, divided by the weighted-average number of Class A Shares (Multiple Voting) and Class B Shares (Subordinate Voting) outstanding during the fiscal year.

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

Derivative financial instruments

In accordance with its risk management strategy, the Corporation uses derivative financial instruments to manage its foreign currency and interest rate exposures. The derivative financial instruments consist of forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements. The Corporation does not use derivative financial instruments for trading or speculative purposes.

Forward foreign exchange contracts – The Corporation uses forward foreign exchange contracts to hedge foreign currency exposures arising from forecasted foreign currency cash flows. Unrealized gains or losses on forward foreign exchange contracts designated and effective as hedges of forecasted foreign currency cash flows are not recognized in the Consolidated Financial Statements until the anticipated transactions occur.

The Corporation also uses forward foreign exchange contracts to hedge foreign currency exposures arising from third-party long-term debt, and intercompany loans and receivables. Unrealized gains or losses on these forward foreign exchange contracts are immediately recognized to income, offsetting unrealized gains or losses arising from foreign currency fluctuations on the hedged items.

Interest-rate swap agreements – The Corporation enters into interest-rate swap agreements in order to achieve an appropriate mix of fixed and variable interest rate long-term debt. In addition, the Corporation enters into interest-rate swap agreements to reduce the impact of fluctuating interest rates on financial commitments and to manage the interest rate exposure arising from aircraft financing support provided to regional aircraft customers. Swap agreements involve the exchange of interest payments, based on a predetermined notional amount for a specified period of time. Swap agreements designated and effective as hedges are accounted for using the accrual method. Under this method, unrealized gains or losses are not recognized and net payments due or receivable on the derivative financial instruments are accounted for as an adjustment to financing income or expense in the consolidated statements of income.

Cross-currency interest-rate swap agreements – The Corporation enters into cross-currency interest-rate swap agreements to hedge foreign currency exposures, and to modify the interest rate characteristics of its long-term debt from fixed to variable interest rates. These swap agreements involve the exchange of fixed and variable interest payment obligations, as well as principal amounts in two different currencies for a specified period of time. Gains and losses related to these cross-currency interest-rate swap agreements designated and effective as hedges are accounted for on the same basis as the above-described accounting rules for forward exchange contracts and interest-rate swap agreements.

The Corporation also enters into cross-currency interest-rate swap agreements to manage foreign currency exposures on its net foreign investment. These swap agreements involve the exchange of principal amounts in two different currencies for a specified period of time. Gains and losses related to these cross-currency interest-rate swap agreements designated and effective as hedges are accounted for in the Currency translation adjustment (“CTA”) in the consolidated balance sheets.

Interest-rate cap agreements – The Corporation entered into interest-rate cap agreements to hedge its exposure to interest-rate increases arising from protection granted to certain customers in connection with the sale of aircraft. Gains and losses related to interest-rate cap agreements are recognized at the time the aircraft is sold.

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

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

Gains and losses related to derivative financial instruments, which have been settled prior to maturity, are deferred and included in Other assets or Accounts payable and accrued liabilities in the consolidated balance sheets. If the underlying hedged item is still probable of occurring, these gains or losses are recognized to income as an adjustment to the related revenues or costs, in the same period in which the related hedged transaction is recognized. If the underlying hedged item is not probable of occurring, these gains or losses are recognized to income immediately.

A hedging relationship is terminated if the hedge ceases to be effective and the unrealized gain or loss on the related derivative financial instrument is recognized to income along with subsequent changes in the fair value of the derivative financial instruments.

Employee future benefits

The defined benefit plans are accounted for as follows:

- Plan assets are measured at fair value.
- With regard to equity securities, the Corporation uses an evaluation based on asset market values, which, for benefit cost measurement purposes, takes into account the impact of gains or losses over a three-year period starting from the fiscal year during which these gains or losses occur. With regard to investments other than equity securities, the Corporation uses an evaluation based on current market values.
- The net actuarial gains and losses, based on the market-related value of plan assets, over 10% of the greater of the projected benefit obligation and the market-related value of plan assets as well as prior service costs are amortized to income over the estimated weighted-average remaining service life of plan participants of approximately 16 years.
- Plan obligations are determined based on expected future benefit payments discounted using current market interest rates.
- When an event, such as the sale of a segment, gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's obligation.
- The cost of pension and other benefits earned by employees is actuarially determined using the projected benefit method prorated on services, and Management's best estimate of expected plan investment performance, salary escalation, retirement ages, mortality and health care costs.
- Benefit cost is capitalized as part of labour costs and included in inventories and aerospace program tooling or is recognized directly to income.
- The Corporation uses a December-31 measurement date.

Environmental obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable, and the costs can be reasonably estimated. Environmental costs that relate to current operations are expensed or capitalized, as appropriate. Environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent environmental contamination that has yet to occur are included in property, plant and equipment and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations, and which do not contribute to future revenue generation, are expensed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended January 31, 2006 and January 31, 2005

(All amounts are in millions of U.S. dollars, unless otherwise indicated)

1. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The following events took place during fiscal year 2006, in connection with the former BC segment:

- In May 2005, the Corporation sold the inventory finance operations to GE Commercial Finance ("GE") for cash proceeds of $1.3 billion ($732 million after repayment by BC of its bank-sponsored securitized floorplan conduits not transferred to GE). The sale resulted in a pre-tax gain of $191 million ($121 million after tax). GE assumed the future servicing obligations of BC under current public securitized floorplan facilities. A total of 280 employees have been transferred to GE.

- In July 2005, the Corporation sold its on-balance sheet manufactured housing operations to Vanderbilt Mortgage and Finance, Inc. for cash proceeds of $119 million, which resulted in an after-tax loss of $18 million.

- In November 2005, the Corporation entered into an agreement to assign the servicing rights and obligations of its off-balance sheet manufactured housing operations to Green Tree Servicing LLC. The off-balance sheet portfolio amounted to approximately $869 million as at January 31, 2006. The transfer was completed in March 2006. After-tax charges of $10 million, mainly relating to asset impairment and severance charges, were recorded in fiscal year 2006.

- In January 2006, the Corporation decided to sell its consumer finance and on- and off-balance sheet freight car operations. As a result, after-tax charges of $3 million relating to severance costs were recorded in fiscal year 2006.

As a result, the related results of operations have been presented as discontinued operations in the consolidated statements of income and cash flows and the related assets and liabilities have been reported as Assets held for sale and Liabilities related to assets held for sale on separate captions in the consolidated balance sheets for all periods presented.

The assets held for sale and the related liabilities were as follows as at January 31:

		2006		2005
Assets				
Cash and cash equivalents	**$**	**5**	$	11
Receivables		**58**		98
Property, plant and equipment		**-**		2
Deferred income taxes		**33**		106
Other assets(1)		**141**		2,365
	$	**237**	$	2,582
Liabilities				
Accounts payable and accrued liabilities	**$**	**40**	$	83
Short-term borrowings(2)		**-**		300
Long-term debt(2)		**2**		1,188
	$	**42**	$	1,571

(1) Includes $77 million of finance receivables and $31 million of assets under operating leases as at January 31, 2006 ($2,291 million and $35 million respectively as at January 31, 2005).
(2) Fiscal year 2005 figures include $588 million related to bank-sponsored securitized floorplan conduits, which were repaid with the proceeds from the sale of the inventory finance operations.

BC's off-balance sheet portfolio of freight cars consists of operating leases whereby BC is the lessee/sub-lessor. The net present value of BC's minimum lease payments was $580 million as at January 31, 2006 ($602 million as at January 31, 2005). BC's undiscounted minimum lease payments related to this portfolio are included in the sale and leaseback section of note 22 – Commitments and contingencies.

Assets held for sale include $1,483 million of finance receivables and $1,483 million of liabilities related to consolidated VIEs as at January 31, 2005 (nil as at January 31, 2006). These VIEs consisted of securitization structures created to purchase, on a revolving basis, certain inventory finance receivables. Their assets were legally isolated from the Corporation's general creditors and their investors had no recourse to the Corporation's assets if debtors fail to pay other than for the Corporation's retained subordinated interests of $209 million as at January 31, 2005 (nil as at January 31, 2006). Prior to the adoption of AcG-15, BC was consolidating these entities under existing accounting rules.

The results of operations, including allocated interest expense, were as follows for fiscal years:

		2006		2005
Revenues - Other	**$**	**177**	$	238
Cost of sales		**103**		109
Selling, general and administrative		**34**		68
Amortization		**2**		2
		139		179
Income before income taxes		**38**		59
Income taxes		**14**		22
		24		37
Gain (loss), net of tax, on sale of:				
Inventory finance operations		**121**		-
On-balance sheet manufactured housing operations		**(18)**		-
Loss, net of tax, related to planned disposal of:				
Off-balance sheet manufactured housing operations		**(10)**		-
Consumer finance and on- and off-balance sheet freight car operations[1]		**(3)**		-
	$	**114**	$	37

[1] Represents estimated severance costs related to these operations, which are expected to be disposed of in fiscal year 2007.

The cash flows from discontinued operations were as follows for fiscal years:

		2006		2005
Operating activities	**$**	**76**	$	74
Investing activities		**70**		(79)
Financing activities		**(586)**		293
	$	**(440)**	$	288

Financial instruments

In fiscal year 2005, the Corporation entered into basis swap agreements to convert certain of its securitized floorplan debt's base interest rate from LIBOR to US Prime minus 2.85%. These swaps were used to align the base interest rate of certain long-term debts to the same basis as the offsetting finance receivables. These swaps were terminated in fiscal year 2006 following the sale of the underlying asset. Total notional amount of the basis swap agreements was $900 million as at January 31, 2005.

In connection with its discontinued consumer finance portfolio, the Corporation entered into interest-rate swap agreements to convert the base interest rate of its finance receivables from fixed to variable interest rates. These swaps will mature in fiscal year 2008. The total notional amount of the interest-rate swap agreements was $13 million as at January 31, 2006 ($20 million as at January 31, 2005).

Sale of recreational products segment

In connection with the sale of Bombardier recreational products segment ("BRP") in fiscal year 2004, the Corporation paid $31 million during fiscal year 2005 as an adjustment to the proceeds on the disposal of this segment, mainly in connection with its commitment towards pension plan funding. This commitment was provided for at the time of sale, and therefore this payment had no impact on the results of operations for fiscal year 2005.

2. RECEIVABLES

Receivables were as follows as at January 31:

		2006		2005
Trade receivables[1]				
Aerospace				
U.S. dollar	**$**	**603**	$	425
Other currencies		**26**		18
Transportation				
Euro		**384**		245
U.S. dollar		**171**		167
Sterling pound		**145**		166
Various western European currencies		**67**		92
Other currencies		**123**		90
		1,519		1,203
Retained interests		**-**		103
Sales tax		**57**		90
Other		**209**		191
		1,785		1,587
Allowance for doubtful accounts		**(101)**		(74)
	$	**1,684**	$	1,513

(1) Trade receivables are presented based on the invoicing currency.

The Corporation uses securitization facilities as a source of financing. Under these arrangements, the Corporation received proceeds of $408 million on the sale of receivables during fiscal year 2006 ($1,491 million during fiscal year 2005). As at January 31, 2006, the outstanding balance of the receivables transferred to securitization facilities amounted to $2 million ($321 million as at January 31, 2005), $2 million ($218 million as at January 31, 2005) of which were sold. The unsold portion of the receivables transferred is included in “retained interests” above. The retained interests provide credit enhancements for the receivables transferred. These receivables are not available to pay the Corporation’s creditors.

3. AIRCRAFT FINANCING

Aircraft financing was as follows as at January 31:

	2006				2005			
		Weighted-average				Weighted-average		
	Total	**Maturity (in months)**	**Rate[1] (in %)**	**Fixed/ variable rate[1]**	Total	Maturity (in months)	Rate[1] (in %)	Fixed/ variable rate[1]
Commercial aircraft								
Interim financing[2]								
Loans	**$ 435**	**79**	**7.1**	**Variable**	$ 661	71	5.9	Variable
Lease receivables	**388**	**211**	**7.3**	**Variable**	424	197	6.5	Fix./var.
	823				1,085			
Long-term financing								
Loans	**278**	**109**	**6.0**	**Fix./var.**	230	125	4.9	Fix./var.
Lease receivables[3]	**104**	**21**	**6.0**	**Fix./var.**	116	31	5.1	Fix./var.
	382				346			
Business aircraft loans[4]	**58**	**41**	**5.7**	**Fix./var.**	145	59	6.9	Fix./var.
Total loans and lease receivables	**1,263**				1,576			
Allowance for credit losses	**(84)**				(94)			
	1,179				1,482			
Assets under operating leases	**230**				271			
Investment in financing structures	**48**				38			
	$ 1,457				$ 1,791			

(1) Interest rates are before giving effect to the related derivative financial instruments.
(2) The commercial aircraft interim financing portfolio consists of bridge financing to customers until third-party permanent financing is put in place.
(3) Includes $67 million of lease receivables related to consolidated VIEs as at January 31, 2006 ($78 million as at January 31, 2005).
(4) This portfolio is being wound down.

Loans and lease receivables – Financing with three airlines represents approximately 41% of the total loans and lease receivables as at January 31, 2006. Loans and lease receivables are generally collateralized by the related assets.

Lease receivables consist of the following, before allowance for credit losses, as at January 31:

	2006	2005
Total minimum lease payments	**$ 978**	$ 974
Unearned income	**(538)**	(523)
Unguaranteed residual value	**52**	89
	$ 492	$ 540

Allowance for credit losses – Changes in the allowance for credit losses were as follows as at January 31:

	2006	2005
Balance at beginning of year	**$ 94**	$ 80
Provision for credit losses	**11**	27
Amounts charged off, net of recoveries	**(22)**	(13)
Effect of foreign currency exchange rate changes	**1**	-
Balance at end of year	**$ 84**	$ 94

Impaired loans and lease receivables amounted to $237 million as at January 31, 2006 ($245 million as at January 31, 2005).

Assets under operating leases – Assets under operating leases were as follows as at January 31:

				2006				2005
				Net book				Net book
		Cost		**value**		Cost		value
Pre-owned commercial aircraft	**$**	**292**	**$**	**190**	$	364	$	241
Pre-owned business aircraft		**42**		**40**		28		27
Other		**-**		**-**		5		3
	$	**334**	**$**	**230**	$	397	$	271

Rental income from operating leases and amortization of assets under operating leases amounted to $44 million and $24 million respectively for fiscal year 2006 ($78 million and $48 million respectively for fiscal year 2005).

Off-balance sheet securitizations and other transfers of receivables – In January 2005, the Corporation established a 364-day $1.5 billion financing facility with a third party whereby it sold certain commercial aircraft interim finance receivables to a special-purpose entity ("SPE"). The third-party investor funded 55% of the original finance receivables balance transferred to the SPE. As at January 31, 2005, the Corporation had transferred $306 million of finance receivables to the SPE, in which it had retained a subordinated interest of $137 million and had provided limited credit enhancements. The retained interest portion is included in the commercial aircraft interim financing portfolio. In connection with this transaction, the Corporation provides administrative services to the SPE in return for a market fee. This transaction had no significant impact on the consolidated statements of income. This facility was terminated in fiscal year 2006 and replaced by the RASPRO structure (see note 23 – Variable Interest Entities).

4. INVENTORIES

The Corporation's inventories were as follows as at January 31:

		2006		2005
Long-term contracts	**$**	**1,517**	$	1,640
Aerospace programs		**1,468**		1,616
Finished products[1]		**820**		757
	$	**3,805**	$	4,013

[1] Finished products include six new aircraft not associated with a firm order and eight pre-owned aircraft, totalling $155 million as at January 31, 2006 (three new aircraft and 11 pre-owned aircraft, totalling $95 million as at January 31, 2005).

Aerospace programs – Aerospace program inventories included the following excess-over-average production costs ("EOAPC") as at January 31:

		2006		2005
Business aircraft				
Learjet Series	**$**	**221**	$	254
Challenger 300		**140**		117
Global Series		**319**		411
Regional aircraft[1]				
CRJ Series		**54**		83
Q-Series		**23**		54
	$	**757**	$	919

[1] The *CRJ200* and *Q200* aircraft had no EOAPC balance outstanding as at January 31, 2006 and 2005.

Anticipated proceeds from future sales of aircraft for each program, net of estimated additional production costs to be incurred, exceeded the related costs in inventories as at January 31, 2006. However, substantial costs may eventually be charged to cost of sales in a given year if fewer than the aircraft program quantity are sold, the proceeds from future sales of aircraft are lower than those anticipated, or the costs to be incurred to complete the program exceed current estimates.

Net recoverable amounts of EOAPC, based solely on existing firm orders as at January 31, 2006, defined as expected net undiscounted cash flows from the sale of aircraft under firm orders, amounted to $614 million. The remaining balance of EOAPC, amounting to $143 million, is expected to be entirely recovered from future orders.

Advances and progress billings – Under certain contracts, title to inventories is vested to the customer as the work is performed, in accordance with contractual arrangements and industry practice. In addition, in the normal course of business, the Corporation provides performance bonds, bank guarantees and other forms of guarantees to customers, mainly in Transportation, as security for advances received from customers pending performance under certain contracts. In accordance with industry practice, the Corporation remains liable to the purchasers for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance.

Costs incurred and recorded margins related to long-term contracts and costs incurred related to ongoing aerospace programs amounted to $3,378 million and $2,341 million respectively as at January 31, 2006 ($4,089 million and $2,433 million respectively as at January 31, 2005).

Advances received and progress billings on long-term contracts and ongoing aerospace programs amounted to $3,534 million and $1,391 million respectively as at January 31, 2006 ($4,276 million and $1,349 million respectively as at January 31, 2005), $1,673 million and $518 million of which respectively represent a liability disclosed as advances and progress billings in excess of related costs as at January 31, 2006 ($1,827 million and $532 million respectively as at January 31, 2005).

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were as follows as at January 31**:**

		2006		2005
	Cost	**Net book value**	Cost	Net book value
Land	**$ 112**	**$ 112**	$ 131	$ 131
Buildings	**1,759**	**885**	1,818	981
Equipment	**1,429**	**560**	1,387	595
Aerospace program tooling				
Business aircraft	**1,854**	**914**	1,778	1,036
Regional aircraft	**1,249**	**477**	1,189	502
Other	**168**	**142**	197	167
	$ 6,571	**$ 3,090**	$ 6,500	$ 3,412

Included in the above table are capital lease assets with a cost and net book value amounting to $67 million and $56 million respectively as at January 31, 2006 ($73 million and $62 million respectively as at January 31, 2005).

Also included in the above table are assets under construction and development amounting to $37 million as at January 31, 2006 ($32 million as at January 31, 2005).

Amortization of property, plant and equipment was as follows for fiscal years:

	2006	2005
Aerospace program tooling	**$ 254**	$ 244
Buildings, equipment and other	**220**	224
	$ 474	$ 468

6. GOODWILL

Goodwill is related to the DaimlerChrysler Rail Systems GmbH ("Adtranz") acquisition in May 2001. Changes in the goodwill balance were as follows for fiscal years:

	2006	2005
Balance at beginning of year	**$ 2,357**	$ 2,290
Purchase price adjustment	**-**	(25)
Recognition of previously unrecognized tax losses	**(53)**	(33)
Effect of foreign currency exchange rate changes	**(162)**	125
Balance at end of year	**$ 2,142**	$ 2,357

In fiscal year 2005, the Corporation reached a settlement with DaimlerChrysler AG on all outstanding disputes arising from the acquisition of Adtranz, resulting in a payment to the Corporation of €170 million ($209 million). In fiscal year 2002, the Corporation had recorded a purchase price adjustment of €150 million as a reduction of the goodwill in connection with these disputes. The additional €20 million ($25 million) has been recorded as a further reduction of goodwill.

The Corporation completed the required annual impairment test during the fourth quarter of fiscal year 2006 and did not identify any impairment.

7. OTHER ASSETS

Other assets were as follows as at January 31:

	2006	2005
Prepaid expenses	**$ 178**	$ 176
Finite-life intangible assets, net of accumulated amortization of $94 million as at January 31, 2006 ($64 million as at January 31, 2005)	**148**	195
Investment in companies subject to significant influence[1]	**97**	73
Investment in securities	**91**	99
Restricted cash[2]	**81**	64
Wind-down portfolios[3]	**41**	65
Investment in preferred shares of BRP	**30**	30
Derivative financial instruments	**28**	211
Deposits	**14**	33
Receivable financing[4]	**-**	59
Other	**135**	96
	$ 843	$ 1,101

(1) Related to Transportation.
(2) Includes $70 million of restricted cash related to consolidated VIEs as at January 31, 2006 ($61 million as at January 31, 2005).
(3) Comprised mainly of BC's industrial equipment portfolio.
(4) Represents financing provided to the acquirer of the Corporation's former recreational products segment, a related party (see note 18 – Transactions with related parties).

Included in the amortization of finite-life intangible assets for fiscal year 2006 is an impairment charge of $17 million in connection with trademarks in Transportation.

8. SHORT-TERM BORROWINGS

Under banking syndicate agreements, Bombardier Inc. must maintain certain financial covenants including, effective the second quarter of fiscal year 2006, a minimum liquidity of $1.0 billion in cash and cash equivalents at the end of each quarter. The applicable financial covenants (calculated excluding the former BC segment) were met as at January 31, 2006 and 2005.

Credit facilities, rates and maturities were as follows as at January 31, 2006:

	Amounts committed	**Amounts drawn**	**Letters of credit drawn**	**Amounts available**	**Year-end rate**	**Average rate for the year**	**Maturity (fiscal year)**
European[1]	**$ 3,829**	**$ -**	**$ 3,160**	**$ 669**	**-**	**-**	**2008**
European letters of credit[2]	**353**	**n/a**	**327**	**26**	**n/a**	**n/a**	**2008-2009**
North American	**1,100**	**-**	**762**	**338**	**-**	**-**	**2008**
	$ 5,282	**$ -**	**$ 4,249**	**$ 1,033**			

n/a: not applicable.

(1) €3,150 million.
(2) €290 million.

- In June 2005, the Corporation entered into a new $1.1-billion North American syndicated credit facility to refinance its $1.7-billion Cdn credit facility scheduled to mature in September 2005. The new facility is unsecured and matures in July 2007.

- During fiscal year 2006, the Corporation did not renew BC's sole credit facility, amounting to $600 million.
- During fiscal year 2006, the Corporation did not renew the 364-day portion of its European syndicated credit facility, amounting to €492 million, as the lower remaining credit facilities are consistent with its expected future requirements.

Credit facilities, rates and maturities were as follows as at January 31, 2005:

	Amounts committed	Amounts drawn	Letters of credit drawn	Amounts available	Year-end rate	Average rate for the year	Maturity (fiscal year)
European[1]	$ 4,753	$ -	$ 3,103	$ 1,650	-	-	2006-2008
European letters of credit[2]	378	n/a	89	289	n/a	n/a	2008-2009
North American	1,388	-	1,128	260	-	-	2006
BC credit facility	600	-	n/a	600	-	1.9%	2006
	$ 7,119	$ -	$ 4,320	$ 2,799			

n/a: not applicable.

(1) €3,642 million.
(2) €290 million.

- In November 2004, the Corporation entered into a €165-million three-year European letter of credit facility.
- In September 2004, the Corporation renewed the 364-day portion of its North American credit facility. This portion of the facility, totalling $718 million Cdn, replaced the $730-million Cdn short-term portion of the North American credit facility.
- In July 2004, the Corporation renewed the 364-day portion of its European credit facility. This portion of the facility, totalling €492 million, replaced the €560-million short-term portion of the European credit facility.
- In July 2004, the Corporation entered into a €125-million four-year European letter of credit facility.

In addition to the outstanding letters of credit shown in the above tables, the Corporation had bilateral facilities of $79 million as at January 31, 2006 ($287 million as at January 31, 2005).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows as at January 31:

	2006	2005
Trade accounts payable	**$ 1,944**	$ 2,014
Sales incentives[1]	**1,252**	1,190
Accrued liabilities	**987**	1,277
Product warranties	**970**	1,055
Payroll related liabilities	**395**	334
Income and other taxes	**240**	130
Interest	**130**	113
Severance and other involuntary termination costs	**129**	251
Provision for repurchase obligations[2]	**70**	61
Non-controlling interest	**28**	46
Other	**721**	614
	$ 6,866	$ 7,085

(1) Comprised of provision for credit and residual value guarantees and trade-in options as well as other related provisions and liabilities in connection with the sale of aircraft (see note 22 – Commitments and contingencies).
(2) See note 22 – Commitments and contingencies.

Product warranties – Product warranties typically range from one to five years, except for aircraft structural warranties that extend up to 20 years.

Changes in the product warranty provision were as follows for fiscal years 2006 and 2005:

	Aerospace	Transportation	Total
Balance as at January 31, 2004	$ 260	$ 672	$ 932
Current expense	120	370	490
Changes in estimates	27	29	56
Cash paid	(150)	(304)	(454)
Effect of foreign currency exchange rate changes	-	31	31
Balance as at January 31, 2005	257	798	1,055
Current expense	122	332	454
Changes in estimates	15	(41)	(26)
Cash paid	(121)	(348)	(469)
Effect of foreign currency exchange rate changes	-	(44)	(44)
Balance as at January 31, 2006	**$ 273**	**$ 697**	**$ 970**

Severance and other involuntary termination costs and other related costs – Changes in the provision for severance and other involuntary termination costs and other related costs were as follows for fiscal years 2006 and 2005:

	Severance and other involuntary termination costs	Other	Total
Balance as at January 31, 2004	$ 201	$ 47	$ 248
Current expense[(1)]	221	79	300
Changes in estimates[(1)]	(44)	(46)	(90)
Non-cash items	-	(37)	(37)
Cash paid	(137)	(26)	(163)
Effect of foreign currency exchange rate changes	10	-	10
Balance as at January 31, 2005	251	17	268
Current expense[(2)]	30	84	114
Changes in estimates[(2)]	7	(27)	(20)
Non-cash items	-	(4)	(4)
Cash paid	(146)	(40)	(186)
Effect of foreign currency exchange rate changes	(13)	-	(13)
Balance as at January 31, 2006	**$ 129**	**$ 30**	**$ 159**

[(1)] Of which $38 million has been recorded in cost of sales of Aerospace and $172 million in special items of Transportation (see note 14 – Special items).
[(2)] Of which $6 million has been recorded in cost of sales of Aerospace and $88 million in special items of Transportation (see note 14 – Special items).

10. LONG-TERM DEBT

Long-term debt was as follows as at January 31:

	Amount in currency of origin 2006/2005	Currency	Fixed/ Variable(2)	Interest rate(2) 2006 rate/ 2005 rate	Maturity	Payment of interest(3)	2006 Amount	2005 Amount
BOMBARDIER(1)								
Debentures	nil/150	USD	Fixed	nil/6.58%	Jan. 2006	SA	**$ -**	$ 150
	175	GBP	Fixed	6.25%	Feb. 2006	A	**311**	330
	150	CAD	Fixed	6.40%	Dec. 2006	SA	**131**	121
	500	EUR	Fixed	5.75%	Feb. 2008	A	**608**	653
	150	CAD	Fixed	7.35%	Dec. 2026	SA	**131**	121
Notes	29/34	CAD	Fixed	7.00%	2007-2012	A	**26**	27
	550	USD	Fixed	6.75%	May 2012	SA	**550**	550
	500	USD	Fixed	6.30%	May 2014	SA	**500**	500
	250	USD	Fixed	7.45%	May 2034	SA	**250**	250
Other(4)	59/94	USD	Fix./var.	4.92%/5.54%	2007-2027	Various	**59**	94
	76/86(5)	Various	Fix./var.	4.82%/4.63%	2007-2018	Various	**76**	86
VIEs	80/246	USD	Fixed	5.98%/8.59%	2007-2014	Various	**80**	246
							$ 2,722	$ 3,128
BC(1)								
Medium-term notes	nil/300	USD	Variable	nil/5.44%	May 2005	M	**$ -**	$ 300
	nil/200	USD	Fixed	nil/7.50%	Oct. 2005	SA	**-**	200
	450	USD	Fixed	6.13%	Jun. 2006	SA	**450**	450
	200	CAD	Fixed	6.35%	Jul. 2006	SA	**175**	162
	220	USD	Fixed	7.09%	Mar. 2007	SA	**220**	220
Notes	500	EUR	Fixed	6.13%	May 2007	A	**608**	653
	300	GBP	Fixed	6.75%	May 2009	A	**534**	565
Other	38/38(5)	Various	Fix./var.	10.33%/7.23%	2007-2017	M	**38**	38
							2,025	2,588
							$ 4,747	$ 5,716

(1) Long-term debt related to the Corporation's two manufacturing segments (Aerospace and Transportation) is presented under the heading "Bombardier", while the long-term debt related to the former BC segment is presented under the heading BC.
(2) Interest rates are before giving effect to the related hedging derivative financial instruments (see note 20 – Financial instruments) and, for variable-rate debt, represent the average rate for the fiscal year.
(3) Monthly (M), semi-annually (SA) and annually (A).
(4) Includes $68 million relating to obligations under capital leases as at January 31, 2006 ($94 million as at January 31, 2005).
(5) Amounts are expressed in U.S. dollars.

All long-term debt items rank pari-passu and are unsecured, except for the debt of consolidated VIEs which are secured borrowings.

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

	Bombardier Debt	Bombardier Capital leases	BC Debt	Total
2007	$ 524	$ 3	$ 627	$ 1,154
2008	34	3	830	867
2009	615	3	3	621
2010	9	3	537	549
2011	6	4	4	14
Thereafter	1,466	52	24	1,542
	$ 2,654	$ 68	$ 2,025	$ 4,747

11. SHARE CAPITAL

Preferred shares

An unlimited number of non-voting preferred shares, without nominal or par value, issuable in series are authorized. The following series have been issued as at January 31, 2006 and 2005:

12,000,000 Series 2 Cumulative Redeemable Preferred Shares

Redemption:	Redeemable, at the Corporation's option, at $25.50 Cdn per share.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2007 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Cumulative Redeemable Preferred Shares. Additionally, if the Corporation determines that on any conversion date, there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, then no Series 2 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Since August 1, 2002, the variable cumulative preferential cash dividends are payable monthly on the 15th day of each month, if declared, with the annual variable dividend rate being equal to 80% of the Canadian prime rate. The dividend rate will vary in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of Series 2 Cumulative Redeemable Preferred Shares is less than $24.90 Cdn per share or more than $25.10 Cdn per share.

12,000,000 Series 3 Cumulative Redeemable Preferred Shares

Redemption:	Redeemable, at the Corporation's option, at $25.00 Cdn per share on August 1, 2007 and on August 1 of every fifth year thereafter.
Conversion:	Convertible on a one-for-one basis, at the option of the holder, on August 1, 2007 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. Fourteen days before the conversion date, if the Corporation determines, after having taken into account all shares tendered for conversion by holders, that there would be less than 1,000,000 outstanding Series 3 Cumulative Redeemable Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Cumulative Redeemable Preferred Shares. Additionally, if the Corporation determines that on any conversion date there would be less than 1,000,000 outstanding Series 2 Cumulative Redeemable Preferred Shares, then no Series 3 Cumulative Redeemable Preferred Shares may be converted.
Dividend:	Until July 31, 2007, the Series 3 Cumulative Redeemable Preferred Shares carry fixed cumulative preferential cash dividends at a rate of 5.476% or $1.369 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.34225 Cdn, if declared. For each succeeding five-year period, the applicable fixed annual rate of the cumulative preferential cash dividends calculated by the Corporation shall not be less than 80% of the Government of Canada bond yield, as defined in the Articles of Incorporation. These dividends shall be payable quarterly on the last day of January, April, July and October, if declared.

9,400,000 Series 4 Cumulative Redeemable Preferred Shares

Redemption:	Redeemable, at the Corporation's option, any time on or after March 31, 2007, at $26.00 Cdn per share if redeemed prior to March 31, 2008; $25.75 Cdn if redeemed on or after March 31, 2008 but prior to March 31, 2009; $25.50 Cdn if redeemed on or after March 31, 2009 but prior to March 31, 2010; $25.25 Cdn if redeemed on or after March 31, 2010 but prior to March 31, 2011; and $25.00 Cdn if redeemed on or after March 31, 2011.
Conversion:	On or after March 31, 2007, the Corporation may, subject to the approval of the Toronto Stock Exchange and such other stock exchanges on which the Series 4 Cumulative Redeemable Preferred Shares are then listed, at any time convert all or any of the outstanding Series 4 Cumulative Redeemable Preferred Shares into fully paid and non-assessable Class B Shares (Subordinate Voting) of the Corporation. The number of Class B Shares (Subordinate Voting) into which each Series 4 Cumulative Redeemable Preferred Shares may be so converted will be determined by dividing the then applicable redemption price together with all accrued and unpaid dividends to, but excluding the date of conversion, by the greater of $2.00 Cdn and 95%

	of the weighted-average trading price of such Class B Shares (Subordinate Voting) on the Toronto Stock Exchange for the period of 20 consecutive trading days, which ends on the fourth day prior to the date specified for conversion or, if that fourth day is not a trading day, on the trading day immediately preceding such fourth day. The Corporation may, at its option, at any time, create one or more further series of Preferred Shares of the Corporation, into which the holders of Series 4 Cumulative Redeemable Preferred Shares could have the right, but not the obligation, to convert their shares on a share-for-share basis.
Dividend:	The holders of Series 4 Cumulative Redeemable Preferred Shares are entitled to fixed cumulative preferential cash dividends, if declared, at a rate of 6.25% or $1.5625 Cdn per share per annum, payable quarterly on the last day of January, April, July and October of each year at a rate of $0.390625 Cdn per share.

Common shares

The following classes of common shares, without nominal or par value, were authorized as at January 31, 2006 and 2005:

1,892,000,000 Class A Shares (Multiple Voting)	
Voting rights:	10 votes each.
Conversion:	Convertible, at any time, at the option of the holder, into one Class B Share (Subordinate Voting).

1,892,000,000 Class B Shares (Subordinate Voting)	
Voting rights:	One vote each.
Conversion:	Convertible, at the option of the holder, into one Class A Share (Multiple Voting): (i) if an offer made to Class A (Multiple Voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); or (ii) if such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (Multiple Voting) of the Corporation.
Dividend:	Annual non-cumulative preferential dividend of $0.0015625 Cdn per share, in priority to the Class A Shares (Multiple Voting), payable quarterly on the last day of January, April, July and October of each year at a rate of $0.000390625 Cdn per share, if declared.

12. SHARE-BASED PLANS

Share option plans

Under share option plans, options are granted to key employees to purchase Class B Shares (Subordinate Voting). Options were also granted to directors up to October 1, 2003. Of the 135,782,688 Class B Shares (Subordinate Voting) initially reserved for issuance, 51,835,696 were available for issuance under these share option plans as at January 31, 2006. The Corporation issued nil Class B Shares (Subordinate Voting) during fiscal year 2006, following the exercise of stock options (882,050 Class B Shares during fiscal year 2005).

Current performance share option plan – Effective May 27, 2003, the Corporation amended prospectively the share option plan for key employees. This plan was further amended on March 30, 2004 and is effective for all options granted under this plan. The significant terms and conditions of the amended plan are as follows:

- The exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted.
- The options granted 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 option had been granted. If within such 12-month period, the weighted-average trading price has not been reached, the target price threshold applicable to the next vesting tranche becomes effective.
- As at January 31, 2006, target prices ranged between $4 Cdn and $11 Cdn per option.
- The options terminate no later than seven years after the grant date.

The summarized information on the performance share option plan is as follows as at January 31, 2006:

	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	11,828,000	5.59	3.05	2,296,625	3.86
4 to 6	11,029,000	5.35	4.33	2,784,500	4.34
6 to 7	359,000	5.08	6.83	89,750	6.83
	23,216,000			5,170,875	

The number of options has varied as follows for fiscal years:

	2006		2005	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**19,759,270**	**4.22**	6,646,500	4.00
Granted	**7,224,000**	**2.53**	15,402,520	4.31
Exercised	**-**	**-**	(8,250)	3.93
Cancelled	**(3,767,270)**	**4.08**	(2,281,500)	4.20
Balance at end of year	**23,216,000**	**3.72**	19,759,270	4.22
Options exercisable at end of year	**5,170,875**	**4.17**	1,388,000	3.99

Prior share option plans – For options issued to key employees prior to May 27, 2003, and options issued to directors, the exercise price is equal to the weighted-average trading prices on the stock exchange during the five trading days preceding the date on which the option was granted. These options vest at 25% per year during a period beginning two years following the grant date, except for 140,000 outstanding options granted to directors, which vest at 20% per year beginning on the grant date. The options terminate no later than ten years after the grant date.

The summarized information on these options is as follows as at January 31, 2006:

	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$)**
3 to 5	410,000	0.61	4.70	410,000	4.70
5 to 7	8,500,400	1.12	5.42	8,000,400	5.44
7 to 10	3,379,000	2.03	7.72	3,379,000	7.72
10 to 12	6,958,000	3.22	10.78	6,958,000	10.78
12 to 15	3,903,000	6.09	14.53	2,003,500	14.48
15 to 25	6,957,500	4.77	20.53	6,075,688	20.36
	30,107,900[(1)]			26,826,588	

[(1)] Including three million options held by employees of BRP.

The number of options has varied as follows for fiscal years:

	2006		2005	
	Number of options	**Weighted-average exercise price (Cdn$)**	Number of options	Weighted-average exercise price (Cdn$)
Balance at beginning of year	**33,703,270**	**11.50**	37,427,486	11.54
Exercised	**-**	**-**	(873,800)	3.86
Cancelled	**(3,355,370)**	**11.32**	(2,850,416)	14.39
Expired	**(240,000)**	**3.77**	-	-
Balance at end of year	**30,107,900**	**11.58**	33,703,270	11.50
Options exercisable at end of year	**26,826,588**	**11.15**	26,994,458	10.31

Stock-based compensation expense for options

The weighted-average grant date fair value of stock options granted during fiscal year 2006 was $0.81 per option ($1.06 per option for fiscal year 2005) and the fair value of each option granted was determined using a modified Black-Scholes option pricing model, which incorporates target prices related to the performance share option plan in the fair value calculation, and the following weighted-average assumptions for fiscal years:

	2006	2005
Risk-free interest rate	**3.36%**	4.16%
Expected life	**5 years**	5 years
Expected volatility in the market price of the shares	**49.95%**	49.08%
Expected dividend yield	**1.20%**	1.20%

All awards granted or modified prior to February 1, 2003, are accounted for as capital transactions. No compensation expense is recorded in the consolidated statements of income for these awards.

Performance share unit plan

During the second quarter of fiscal year 2006, the Board of Directors of the Corporation approved a performance share unit plan under which performance share units ("PSUs") may be granted to executives and other key employees. A total of 4,180,000 PSUs were authorized for issuance. The PSUs give recipients the right, upon vesting, to receive a certain number of the Corporation's Class B Shares (Subordinate Voting).

During fiscal year 2006, the Corporation granted 4,165,500 PSUs to executives and other key employees (the "beneficiaries") and provided instructions to a trustee under the terms of a Trust Agreement to purchase 5,434,000 Class B Shares (Subordinate Voting) of the Corporation in the open market for $14 million. These shares are held in trust by the trustee for the benefit of the beneficiaries until the PSUs become vested or are cancelled. The cost of the purchase has been deducted from share capital. The PSUs vest on June 10, 2008, if certain financial performance targets are met. The conversion ratio for vested PSUs ranges from 70% to 130%.

The number of PSUs has varied as follows for fiscal year 2006:

	Number of PSUs
Balance at beginning of year	-
Granted	4,165,500
Cancelled	(151,418)
Balance at end of year	**4,014,082**

Compensation expense of $2 million was recorded during fiscal year 2006 with respect to the PSUs plan (nil for the same period last fiscal year).

Employee share purchase plan

Under the employee share purchase plan, employees of the Corporation are eligible to purchase the Corporation's Class B Shares (Subordinate Voting) up to a maximum of 20% of their base salary 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 no less often than monthly. The Corporation's contribution to the plan amounted to $4 million for fiscal year 2006 ($6 million for fiscal year 2005). Shares purchased are subject to a mandatory 12-month holding period that must be completed at the anniversary date of January 1.

13. CUMULATIVE TRANSLATION ADJUSTMENT

The components of net change in the cumulative translation adjustment were as follows for fiscal years:

		2006		2005
Balance at beginning of year	**$**	**195**	$	128
Effect of changes in exchange rates during the year:				
On the net investment in self-sustaining foreign operations		**(163)**		97
On certain long-term debt and intercompany loans denominated in foreign currencies designated as hedges of the net investment in self-sustaining foreign operations, net of tax		**73**		(30)
Balance at end of year	**$**	**105**	$	195

14. SPECIAL ITEMS

Special items were as follows for fiscal years:

		2006		2005
Severance and other involuntary termination costs	**$**	**35**	$	142
Other[(1)]		**53**		30
		88		172
Income tax recovery		**(11)**		(18)
	$	**77**	$	154

(1) Comprised of lease termination and environmental costs, as well as other costs, partially offset by non-taxable gains on the sale of land and buildings, amounting to $27 million for fiscal year 2006 (nil for fiscal year 2005).

Special items relate to restructuring activities to reduce the cost structure in Transportation. The restructuring plan contemplates workforce reductions of 7,600 positions, net of new hires, of which 7,300 are permanent positions, as well as site closures. Approximately 7,500 positions, net of new hires, including contractual employees, were eliminated as at January 31, 2006.

The total cost of the restructuring is estimated at $630 million, $609 million of which were recorded as at January 31, 2006.

15. FINANCING INCOME AND FINANCING EXPENSE

The Corporation's financing income and financing expense were as follows for fiscal years:

	2006	2005
Financing income		
Loans and lease receivables – after the effect of hedges	**$ (93)**	$ (58)
Cash and cash equivalents	**(51)**	(33)
Other	**(12)**	(13)
	$ (156)	$ (104)
Financing expense		
Interest on long-term debt[1] – after the effect of hedges	**$ 276**	$ 238
Accretion expense on sales incentives, including contingent liabilities	**65**	58
Financing costs in connection with the repurchase of call options[2]	**-**	19
Other	**22**	13
	$ 363	$ 328

(1) Includes $11 million for interest related to VIEs for fiscal year 2006 ($5 million for fiscal year 2005).
(2) Related to the Putable/Callable notes.

16. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred income tax asset (liability) were as follows as at January 31:

	2006	2005
Operating losses carried forward	**$ 1,763**	$ 1,895
Warranty and other provisions	**558**	403
Accrued benefit liabilities	**155**	171
Intangible assets	**22**	17
Inventories	**196**	108
Property, plant and equipment	**(360)**	(325)
Other	**(1)**	8
	2,333	2,277
Valuation allowance	**(1,689)**	(1,796)
Net amount	**$ 644**	$ 481

The net amount of deferred income tax is presented on the consolidated balance sheets as follows as at January 31:

	2006	2005
Deferred income tax asset	**$ 653**	$ 522
Deferred income tax liability	**(9)**	(41)
	$ 644	$ 481

Details of income tax expense (recovery) allocated to continuing operations were as follows for fiscal years:

		2006		2005
Current income taxes	**$**		$	
Canada		**81**		55
Foreign		**72**		40
Recognition of previously unrecorded tax benefits – foreign		**-**		(10)
		153		85
Deferred income taxes				
Temporary differences and operating losses carried forward		**(21)**		(59)
Effect of substantively enacted income tax rate changes		**(20)**		-
Write down of deferred income tax assets		**38**		23
Recognition of previously unrecorded tax benefits		**(135)**		(87)
		(138)		(123)
Income tax expense (recovery)	**$**	**15**	$	(38)

The reconciliation of income taxes allocated to continuing operations computed at the Canadian statutory rates to income tax expense was as follows for fiscal years:

	2006		2005	
	$	**%**	$	%
Income tax expense (recovery) at statutory rates	**48**	**32.0**	(51)	31.9
Increase (decrease) resulting from:				
Income tax rates differential of foreign investees	**(44)**		(63)	
Foreign exchange revaluation of deferred income tax	**(25)**		(3)	
Non-recognition of tax benefits related to foreign investees' losses and temporary differences	**41**		106	
Write down of deferred income tax assets	**38**		23	
Recognition of previously unrecorded tax benefits	**(135)**		(97)	
Permanent differences	**108**		42	
Effect of substantively enacted income tax rate changes	**(20)**		-	
Other	**4**		5	
Income tax (recovery) expense	**15**		(38)	

The operating losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which a valuation allowance has been recognized, and the period in which they can be exercised, are as follows as at January 31, 2006:

Less than 1 year	$	189
From 1 to 5 years		399
From 6 to 10 years		65
From 11 to 15 years		644
From 16 to 20 years		33
	$	1,330

In addition, approximately $3.8 billion of operating losses carried forward and other temporary differences have no expiration date.

Approximately $1.7 billion of the above operating losses carried forward and other temporary differences relate to business acquisitions. Any subsequent recognition of these future tax benefits will be recorded as a reduction of the goodwill related to these acquisitions.

Approximately $2.0 billion of the above operating losses carried forward relate to the Corporation's operations in Germany, where a minimum income tax is payable on 40% of taxable income.

In addition, the Corporation has approximately $600 million of available capital losses, most of which can be carried forward indefinitely. Capital losses can only be used against future capital gains, and therefore no deferred tax benefit has been recognized.

Undistributed earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for income taxes has been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

17. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were computed as follows for fiscal years:

(Number of shares and stock options in thousands)		**2006**		2005
Income (loss) from continuing operations	**$**	**135**	$	(122)
Preferred share dividends, net of tax		**(25)**		(23)
Income (loss) from continuing operations attributable to common shareholders		**110**		(145)
Income from discontinued operations, net of tax		**114**		37
Income (loss) attributable to common shareholders	**$**	**224**	$	(108)
Weighted-average number of common shares outstanding		**1,748,429**		1,750,292
Net effect of stock options		**-**		59
Weighted-average diluted number of common shares outstanding		**1,748,429**		1,750,351
Basic and diluted earnings (loss) per share:				
From continuing operations	**$**	**0.06**	$	(0.08)
From discontinued operations		**0.07**		0.02
	$	**0.13**	$	(0.06)

The effect of the exercise of stock options was excluded from the calculation of diluted earnings per share in the above table, except for 1,582,438 stock options for fiscal year 2005, since the average market value of the underlying shares was less than the exercise price or the predetermined target market price thresholds of the Corporation's Class B Shares (Subordinate Voting) for the respective periods. For fiscal year 2005, the effect of the exercise of stock options on loss per common share from continuing operations was anti-dilutive.

18. TRANSACTIONS WITH RELATED PARTIES

Transactions with BRP, a company with common significant shareholders with Bombardier Inc., were as follows for fiscal years:

		2006		2005
Volume of receivable financing	**$**	**36**	$	227
Inventory financing revenues[(1)]	**$**	**12**	$	30

(1) Included in Income from discontinued operations, net of tax.

Receivable financing – BRP and the Corporation entered into a receivable financing agreement. In the ordinary course of business, the Corporation purchased receivables from BRP, from which it earned financing revenues. The financing agreement was for a maximum of $115 million and expired in June 2005.

Inventory financing – BRP and the Corporation entered into a retail floorplan inventory financing agreement for retailers of BRP products. In the ordinary course of business, the Corporation earned financing revenues related to BRP sales incentive programs in connection with retailer financing provided by the Corporation. The inventory financing agreement was for a maximum amount of $750 million.

These transactions were measured at exchange amounts, which approximate fair value.

In May 2005, the Corporation sold the inventory finance operations to GE (see note 1 – Discontinued Operations and assets held for sale).

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

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

		2006		2005
Receivables	$	(194)	$	67
Aircraft financing		295		(386)
Inventories		143		424
Fractional ownership deferred costs		(128)		(142)
Accounts payable and accrued liabilities		(90)		84
Advances and progress billings in excess of related costs		(80)		(302)
Fractional ownership deferred revenues		162		163
Accrued benefit liabilities, net		(14)		(37)
Other (mainly "Other assets")		6		102
	$	100	$	(27)

20. FINANCIAL INSTRUMENTS

The Corporation is subject to foreign currency and interest rate fluctuations. The Corporation is party to a number of derivative financial instruments, mainly forward foreign exchange contracts, interest-rate swap agreements, cross-currency interest-rate swap agreements and interest-rate cap agreements to hedge a portion of its foreign currency and interest rate risk. These derivative financial instruments are used to manage foreign currency and interest-rate risks on assets, liabilities and financial commitments, as well as on forecasted foreign currency cash flows.

Foreign currency risk

Forward foreign exchange contracts – The forward foreign exchange contracts, by major currency, were as follows as at January 31:

					2006
Buy currency	**Notional amount[1]**	**U.S. dollar equivalent**	**Sell currency**	**Rate[2]**	**Maturity (fiscal year)**
CAD	**$ 3,679**	**$ 3,216**	**USD**	**1.2399**	**2007-2010**
EUR	**1,288**	**1,565**	**USD**	**0.8135**	**2007-2011**
GBP	**406**	**723**	**USD**	**0.5604**	**2007-2008**
SEK	**3,751**	**493**	**EUR**	**9.2754**	**2007-2010**
EUR	**383**	**466**	**GBP**	**1.4402**	**2007-2012**
CHF	**522**	**408**	**EUR**	**1.5264**	**2007-2010**
USD	**340**	**340**	**CAD**	**0.7664**	**2007-2008**
SEK	**2,496**	**328**	**GBP**	**12.847**	**2007-2011**
USD	**206**	**206**	**Other**	**-**	**2007-2010**
USD	**174**	**174**	**EUR**	**1.2331**	**2007-2011**
Other	**455**	**455**	**Other**	**-**	**2007-2011**
Other	**189**	**189**	**EUR**	**-**	**2007-2009**

[1] Notional amounts are expressed in the buy currency, except for the categories "Other" that are expressed in U.S. dollars.
[2] The rate represents the weighted-average committed foreign exchange rate.

Buy currency	Notional amount[1]	U.S. dollar equivalent	Sell currency	Rate[2]	2005 Maturity (fiscal year)
CAD	$ 3,749	$ 3,028	USD	1.3106	2006-2010
EUR	1,425	1,860	USD	0.7692	2006-2009
GBP	417	785	USD	0.5710	2006-2007
USD	609	609	EUR	1.2431	2006-2007
CHF	519	437	EUR	1.5229	2006-2010
USD	378	378	CAD	0.7594	2006-2008
SEK	1,959	281	EUR	9.1874	2006-2010
SEK	1,629	233	GBP	12.4524	2006-2011
USD	226	226	Other	-	2006-2010
EUR	157	204	GBP	1.4317	2006-2012
Other	424	424	Other	-	2006-2011
Other	301	301	EUR	-	2006-2009

(1) Notional amounts are expressed in the currency, except for the categories "Other" that are expressed in U.S. dollars.
(2) The rate represents the weighted-average committed foreign exchange rate.

- In Aerospace, forward foreign exchange contracts are mainly to sell U.S. dollars and buy Canadian dollars and sterling pounds to hedge forecasted foreign currency cash flows.
- In Transportation, forward foreign exchange contracts are mainly to sell or purchase U.S. dollars, sterling pounds, euros and other western European currencies to hedge forecasted foreign currency cash flows.

Interest-rate risk

Interest-rate swap agreements – Interest-rate swap agreements were as follows as at January 31:

Notional amount[1] (U.S. dollar equivalent)	**Currency**	**Receive rate[2]**	**Pay rate[2]**	**Maturity (fiscal year)**	**2006 Hedged item**
		Fixed rate	**Variable rate**		
$ 500(608)	**EUR**	**6.13%**	**6-month EUROLIBOR + (3.01%-3.69%)**	**2008**	**Long-term debt - BC**
550	**USD**	**6.75%**	**3-month LIBOR + 2.28%**	**2013**	**Long-term debt - Bombardier**
500	**USD**	**6.30%**	**3-month LIBOR + 1.60%**	**2015**	**Long-term debt - Bombardier**
450	**USD**	**2.07%-2.15%**	**1-month LIBOR**	**2007**	**Long-term debt - BC**
200(356)	**GBP**	**6.75%**	**3-month LIBOR + 1.85%**	**2010**	**Long-term debt - BC**
220	**USD**	**4.96%**	**1-month LIBOR**	**2008**	**Long-term debt - BC**
200(175)	**CDN**	**6.35%**	**1-month CDOR + 3.42%**	**2007**	**Long-term debt - BC**
		Variable rate	**Fixed rate**		
$ 120	**USD**	**1-month LIBOR**	**5.24% - 5.28%**	**2023**	**Aircraft financing - interim**
89	**USD**	**6-month LIBOR**	**6.61%**	**2014**	**Financial commitments**
33(59)	**GBP**	**3-month LIBOR**	**5.62%**	**2013**	**Financial commitments**
19	**USD**	**1-month LIBOR + 5.24%**	**8.69%**	**2016**	**Aircraft financing - long-term**
17	**USD**	**1-month LIBOR**	**5.02%**	**2019**	**Aircraft financing - interim**
26	**Other**	**CDOR, LIBOR or EUROLIBOR**	**5.08% - 7.97%**	**2007-2014**	**Aircraft financing - long-term**
18	**Other**	**CDOR or LIBOR**	**6.13% - 12.28%**	**2009-2012**	**Financial commitments**

(1) Notional amounts are expressed in the currency of origin, except for the categories "Other" that are expressed in U.S. dollars.
(2) LIBOR: London Interbank offered rate; EUROLIBOR: Euro Area Interbank offered rate and CDOR: Canadian Deposit offered rate.

Notional amount[1] (U.S. dollar equivalent)	Currency	Receive rate	Pay rate	Maturity (fiscal year)	Hedged item
					2005
		Fixed rate	Variable rate		
$ 550	USD	6.75%	3-month LIBOR + 2.28%	2013	Long-term debt - Bombardier
500	USD	6.30%	3-month LIBOR + 1.60%	2015	Long-term debt - Bombardier
450	USD	2.07% - 2.15%	1-month LIBOR	2007	Long-term debt - BC
250(326)	EUR	6.13%	Various	2008	Long-term debt - BC
220	USD	4.96%	Various	2008	Long-term debt - BC
200	USD	1.72% - 1.78%	1-month LIBOR	2006	Long-term debt - BC
200(162)	CDN	6.35%	Various	2007	Long-term debt - BC
		Variable rate	Fixed rate		
$ 89	USD	6-month LIBOR	6.61%	2014	Financial commitments
33	USD	1-month LIBOR	5.90%	2009	Aircraft financing - long-term
28	USD	1-month LIBOR	3.90%	2018	Aircraft financing - long-term
19	USD	1-month LIBOR + 5.24%	8.69%	2016	Aircraft financing - long-term
18	USD	1-month LIBOR	6.13%	2010	Aircraft financing - long-term
13	USD	1-month LIBOR	4.14%	2017	Aircraft financing - long-term
33(62)	GBP	3-month LIBOR	5.62%	2013	Financial commitments
36	Other	CDOR, LIBOR or EUROLIBOR	5.19% - 7.97%	2006-2014	Aircraft financing - long-term
18	Other	CDOR or LIBOR	6.13% - 12.28%	2009-2012	Financial commitments

[1] Notional amounts are expressed in the currency of origin, except for the categories “Other” that are expressed in U.S. dollars.

Cross-currency interest-rate swap agreements – Cross-currency interest-rate swap agreements were as follows as at January 31:

Buy currency	**Notional amount**	**Pay currency**	**Notional amount**	**Receive rate**	**Pay rate**	**Maturity (fiscal year)**	**Hedged item**
							2006
GBP	**$ 100**	**USD**	**$ 164**	**6.75%**	**1-month LIBOR + 2.28%**	**2010**	**Long-term debt - BC**
USD	**164**	**EUR**	**124**	**1-month LIBOR + 2.28%**	**6-month EUROLIBOR + 2.40%**	**2010**	**Net foreign investment**

Buy currency	Notional amount	Pay currency	Notional amount	Receive rate	Pay rate	Maturity (fiscal year)	Hedged item
							2005
EUR	$ 250	USD	$ 226	6.13%	1-month LIBOR + 1.31%	2008	Long-term debt - BC
GBP	300	USD	456	6.75%	1-month LIBOR + 1.61%	2010	Long-term debt - BC
USD	164	EUR	124	1-month LIBOR + 2.28%	6-month EUROLIBOR + 2.40%	2010	Net foreign investment

Interest-rate cap agreements –The notional amount of the interest-rate cap agreements was $340 million as at January 31, 2006 ($359 million as at January 31, 2005). The interest-rate cap strike rates compare to one-month LIBOR and vary between 1.95% and 5.70%. The notional amounts amortize monthly until fiscal year 2013 when the last outstanding agreement (notional amount of $233 million) terminates.

Fair value of financial instruments

The fair value of financial instruments for which the carrying amount reported is different from the fair value was as follows as at January 31:

		2006		2005
	Carrying amount	**Fair value**	Carrying amount	Fair value
Loans and lease receivables[1]	**$ 1,263**	**$ 1,265**	$ 1,576	$ 1,569
Long-term debt – Bombardier	**2,722**	**2,561**	3,128	2,904
Long-term debt – BC	**2,025**	**2,028**	2,588	2,579
Derivative financial instruments:				
Forwards				
Favourable	**9**	**296**	30	261
Unfavourable	**(10)**	**(130)**	-	(127)
Interest-rate cap	**-**	**29**	-	26
Swaps[2]				
Favourable	**28**	**36**	211	299
Unfavourable	**-**	**(48)**	(11)	(30)

(1) Included in Aircraft financing.
(2) Includes interest-rate and cross-currency interest-rate swap agreements.

The fair values disclosed are based on information available to management as at January 31, 2006 and 2005. The estimated fair value of certain financial instruments has been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Corporation could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair values of financial instruments have been established as follows:
- ***Cash and cash equivalents, receivables and accounts payable and accrued liabilities*** – The carrying amounts reported on the consolidated balance sheets approximate the fair values.
- ***Loans and lease receivables*** – The fair values of variable-rate loans and lease receivables that reprice frequently and have no significant change in credit risk, approximate the carrying values. The fair values of fixed-rate loans and lease receivables are estimated based on discounted cash flow analyses, using discount rates applicable to financial assets with similar terms as those of the borrowers and similar credit quality.
- ***Long-term debt*** – The fair values of long-term debt are estimated using public quotations or discounted cash flow analyses, based on current corresponding borrowing rates for similar types of borrowing arrangements.
- ***Derivative financial instruments*** – The fair values generally reflect the estimated amounts that the Corporation would receive upon the settlement of favourable contracts or be required to pay to terminate unfavourable contracts at the reporting dates. Investment dealers' quotes from the Corporation's bankers are available for substantially all of the Corporation's derivative financial instruments.

Credit risk

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

21. EMPLOYEE FUTURE BENEFITS

Defined benefit pension plans – The Corporation sponsors several Canadian and foreign-funded and unfunded defined benefit pension plans covering a majority of its employees. Defined benefits under salaried plans are generally based on salary and years of service. Some of the hourly plans provide benefits based on stated amounts for each year of service.

The most recent actuarial valuation for funding purposes of the Corporation's funded pension plans, excluding U.K. plans, was prepared with an effective date of December 31, 2004. The next actuarial valuation will be completed during the second and third quarters of fiscal year 2007 with an effective date of December 31, 2005. The most recent actuarial valuation dates for funding purposes of the U.K. plans range between December 2004 and June 2005. The next required actuarial valuation dates range between December 2007 and June 2008.

Defined contribution pension plans – The Corporation offers Canadian and foreign defined contribution pension plans covering a portion of its employees, mainly in Aerospace. Defined contributions are based on a percentage of salary.

Benefits other than pension – The Corporation provides post-employment and post-retirement benefit plans. These benefit plans essentially consist of self-insured long-term disability plans in Canada and post-retirement health care coverage and life insurance benefits, mainly in Canada and in the U.S.

The following table provides the accrued benefit assets (liabilities) recognized in the consolidated balance sheets as at January 31:

Amounts recognized

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Accrued benefit assets						
Pension plans	**$ 293**	**$ 91**	**$ 384**	$ 235	$ 118	$ 353
Accrued benefit liabilities						
Pension plans	**(56)**	**(539)**	**(595)**	(55)	(585)	(640)
Benefits other than pension	**(233)**	**(49)**	**(282)**	(209)	(48)	(257)
	$ (289)	**$ (588)**	**$ (877)**	$ (264)	$ (633)	$ (897)

Defined benefit pension plans

The significant actuarial assumptions adopted to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December-31 measurement date preceding the fiscal year end):

Actuarial assumptions

			2006			2005
(in percentage)	**Canada**	**Foreign**	**Total**	Canada	Foreign	Total
Projected benefit obligation						
Discount rate	**5.00**	**4.61**	**4.77**	6.00	5.06	5.39
Rate of compensation increase	**3.25**	**3.53**	**3.43**	3.50	3.61	3.57
Benefit cost						
Discount rate	**6.00**	**5.06**	**5.39**	6.00	5.37	5.59
Expected long-term rate of return on plan assets	**7.12**	**7.26**	**7.20**	7.14	7.59	7.40
Rate of compensation increase	**3.50**	**3.61**	**3.57**	4.00	3.85	3.90

The following tables present the changes in the projected benefit obligation and fair value of plan assets for the 12-month period ended December 31, and their allocation by major countries as at the December-31 measurement date preceding the fiscal year end:

Projected benefit obligation

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Obligation at beginning of period	**$ 1,843**	**$ 3,404**	**$ 5,247**	$ 1,637	$ 3,087	$ 4,724
Current service cost	**60**	**106**	**166**	61	98	159
Interest cost	**112**	**171**	**283**	105	173	278
Plan participants' contributions	**21**	**28**	**49**	21	28	49
Plan amendments	**11**	**(3)**	**8**	10	3	13
Actuarial loss (gain)	**289**	**338**	**627**	(32)	30	(2)
Benefits paid	**(88)**	**(107)**	**(195)**	(80)	(105)	(185)
Curtailment	**-**	**(10)**	**(10)**	(2)	(16)	(18)
Settlement	**-**	**(10)**	**(10)**	-	(9)	(9)
Special termination benefits	**-**	**-**	**-**	2	-	2
Effect of exchange rate changes	**186**	**(184)**	**2**	121	115	236
Obligation at end of period	**$ 2,434**	**$ 3,733**	**$ 6,167**	$ 1,843	$ 3,404	$ 5,247

	2006	2005
U.K.	**$ 2,530**	$ 2,218
Canada	**2,434**	1,843
U.S.A.	**445**	386
Germany	**382**	401
Switzerland	**220**	235
Other	**156**	164
	$ 6,167	$ 5,247

Plan assets

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Fair value at beginning of period	**$ 1,402**	**$ 1,919**	**$ 3,321**	$ 1,111	$ 1,501	$ 2,612
Actual return on plan assets	**159**	**228**	**387**	83	153	236
Employer contributions	**153**	**174**	**327**	181	293	474
Plan participants' contributions	**21**	**28**	**49**	21	28	49
Benefits paid	**(88)**	**(107)**	**(195)**	(80)	(105)	(185)
Settlement	**-**	**(10)**	**(10)**	(2)	(10)	(12)
Other	**-**	**-**	**-**	-	(1)	(1)
Effect of exchange rate changes	**136**	**(99)**	**37**	88	60	148
Fair value at end of period	**$ 1,783**	**$ 2,133**	**$ 3,916**	$ 1,402	$ 1,919	$ 3,321

	2006	2005
Canada	**$ 1,783**	$ 1,402
U.K.	**1,664**	1,513
U.S.A.	**291**	222
Switzerland	**154**	160
Other	**24**	24
	$ 3,916	$ 3,321

The reconciliation of the funded status of the pension plans to the amounts recorded on the consolidated balance sheets was as follows as at January 31:

Funded status

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Fair value of plan assets	**$ 1,783**	**$ 2,133**	**$ 3,916**	$ 1,402	$ 1,919	$ 3,321
Projected benefit obligation	**(2,434)**	**(3,733)**	**(6,167)**	(1,843)	(3,404)	(5,247)
Funded status – deficit	**(651)**	**(1,600)**	**(2,251)**	(441)	(1,485)	(1,926)
Unamortized net actuarial loss	**812**	**1,145**	**1,957**	556	1,014	1,570
Unamortized past service costs	**64**	**(1)**	**63**	57	(7)	50
Contributions paid in January	**12**	**8**	**20**	8	11	19
Accrued benefit assets (liabilities)	**$ 237**	**$ (448)**	**$ (211)**	$ 180	$ (467)	$ (287)

Included in the above table are plans with projected benefit obligation in excess of plan assets as follows:

Projected benefit obligation in excess of plan assets

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Fair value of plan assets	**$ 1,300**	**$ 1,976**	**$ 3,276**	$ 1,014	$ 1,719	$ 2,733
Projected benefit obligation	**(1,996)**	**(3,603)**	**(5,599)**	(1,490)	(3,230)	(4,720)
	$ (696)	**$ (1,627)**	**$ (2,323)**	$ (476)	$ (1,511)	$ (1,987)

Plan assets are held in trust and their weighted-average allocations were as follows as at the December-31 measurement date:

Plan assets

(in percentage)	Target allocation		Actual allocation
Asset category	2007	**2006**	2005
Cash and cash equivalents	3	**4**	3
Publicly-traded equity securities	60	**62**	57
Publicly-traded fixed income securities	37	**34**	37
Privately-held equity securities and other	-	**-**	3

As at December 31, 2005 and 2004, the publicly-traded equity securities did not include any of the Corporation's shares.

The following table provides the components of the benefit cost for fiscal years:

Benefit cost

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Current service cost	**$ 60**	**$ 106**	**$ 166**	$ 61	$ 98	$ 159
Interest cost	**112**	**171**	**283**	105	173	278
Actual return on plan assets	**(159)**	**(228)**	**(387)**	(83)	(153)	(236)
Actuarial loss (gain)	**289**	**338**	**627**	(32)	30	(2)
Plan amendments	**11**	**(3)**	**8**	10	3	13
Curtailment loss (gain)	**-**	**(6)**	**(6)**	1	(15)	(14)
Settlement loss	**-**	**-**	**-**	2	-	2
Special termination benefits	**-**	**-**	**-**	2	-	2
Other	**-**	**1**	**1**	-	1	1
Benefit cost before adjustments to recognize the long-term nature of the plans	**313**	**379**	**692**	66	137	203
Difference between actual and expected return on plan assets	**56**	**94**	**150**	(12)	16	4
Difference between actual actuarial loss (gain) and the amount recognized	**(265)**	**(288)**	**(553)**	53	18	71
Amortization of past service costs	**(5)**	**3**	**(2)**	(6)	(2)	(8)
Benefit cost recognized	**$ 99**	**$ 188**	**$ 287**	$ 101	$ 169	$ 270

Defined contribution pension plans

Cash contributions to the defined contribution pension plans, which correspond to the benefit cost recognized, amounted to $26 million for fiscal year 2006 ($27 million for fiscal year 2005).

Benefits other than pension

The significant actuarial assumptions used to determine the projected benefit obligation and benefit cost were as follows (weighted-average assumptions as at the December-31 measurement date preceding the fiscal year end):

Actuarial assumptions

			2006			2005
(in percentage)	**Canada**	**Foreign**	**Total**	Canada	Foreign	Total
Projected benefit obligation						
Discount rate	**5.00**	**5.32**	**5.04**	6.00	5.75	5.96
Rate of compensation increase	**3.25**	**3.92**	**3.43**	3.50	4.00	3.64
Benefit cost						
Discount rate	**6.00**	**5.75**	**5.96**	6.00	5.90	5.98
Rate of compensation increase	**3.50**	**4.00**	**3.64**	4.00	4.00	4.00

As at December 31, 2005, the health care cost trend rate, which is a weighted-average annual rate of increase in the per capita cost of covered health and dental care benefits, is assumed to be 9.5% and to decrease to 5.5% by fiscal year 2010 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:

	1% increase	**1% decrease**
Effect on projected benefit obligation	$ 40	$ (35)
Effect on benefit cost recognized	$ 4	$ (3)

The following table presents the changes in the projected benefit obligation for the 12-month period ended December 31, and its allocation by major countries as at the December-31 measurement date preceding the fiscal year end:

Projected benefit obligation

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Obligation at beginning of period	**$ 270**	**$ 58**	**$ 328**	$ 228	$ 51	$ 279
Current service cost	**9**	**2**	**11**	9	2	11
Interest cost	**15**	**3**	**18**	14	3	17
Plan amendments	**(1)**	**-**	**(1)**	-	-	-
Actuarial loss	**53**	**1**	**54**	16	4	20
Benefits paid	**(13)**	**(3)**	**(16)**	(13)	(4)	(17)
Curtailment gain	**-**	**(1)**	**(1)**	-	(4)	(4)
Effect of exchange rate changes	**28**	**(1)**	**27**	16	6	22
Obligation at end of period	**$ 361**	**$ 59**	**$ 420**	$ 270	$ 58	$ 328
Canada			**$ 361**			$ 270
U.S.A.			**40**			39
U.K.			**12**			12
Other			**7**			7
			$ 420			$ 328

The reconciliation of the funded status of the benefit plans other than pensions to the amounts recorded on the consolidated balance sheets was as follows for fiscal years:

Funded status

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Deficit	**$ (361)**	**$ (59)**	**$ (420)**	$ (270)	$ (58)	$ (328)
Unamortized net actuarial loss	**129**	**10**	**139**	61	10	71
Unamortized past service costs	**(2)**	**-**	**(2)**	(1)	-	(1)
Benefits paid in January	**1**	**-**	**1**	1	-	1
Accrued benefit liabilities	**$ (233)**	**$ (49)**	**$ (282)**	$ (209)	$ (48)	$ (257)

The following table provides the components of the benefit cost for fiscal years:

Benefit cost

			2006			2005
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Current service cost	**$ 9**	**$ 2**	**$ 11**	$ 9	$ 2	$ 11
Interest cost	**15**	**3**	**18**	14	3	17
Actuarial loss	**53**	**1**	**54**	14	4	18
Plan amendments	**(1)**	**-**	**(1)**	-	-	-
Curtailment gain	**-**	**(1)**	**(1)**	-	(2)	(2)
Benefit cost before adjustments to recognize the long-term nature of the plans	**76**	**5**	**81**	37	7	44
Difference between actual actuarial loss for the year and the amount recognized	**(39)**	**-**	**(39)**	(9)	(4)	(13)
Amortization of past service costs	**1**	**-**	**1**	-	-	-
Benefit cost recognized	**$ 38**	**$ 5**	**$ 43**	$ 28	$ 3	$ 31

22. COMMITMENTS AND CONTINGENCIES

In addition to the commitments and contingencies described elsewhere in these Consolidated Financial Statements, the Corporation is subject to other off-balance sheet risks. The table below presents the maximum potential exposure for each major group of exposure as at January 31. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

Certain of these off-balance sheet risks are also included in note 23 – Variable interest entities.

		2006		2005
	Maximum potential exposure	**Provisions and liabilities**[1]	Maximum potential exposure	Provisions and liabilities[1]
Aircraft sales				
Credit (a)	**$ 1,409**		$ 1,074	
Residual value (a)	**2,565**		2,481	
Mutually exclusive exposure[2]	**(892)**		(811)	
Total credit and residual value exposure	**$ 3,082**	**$ 952**	$ 2,744	$ 817
Trade-in options (b)	**1,230**	**11**	1,470	24
Fractional ownership put options (c)	**1**	**-**	21	5
Other[3]				
Credit and residual value (e)	**170**	**-**	181	-
Repurchase obligations (f)	**165**	**70**	175	61
Performance guarantees (g)	**938**	**-**	1,031	-

[1] Included in accounts payable and accrued liabilities.
[2] Some of the residual value guarantees can only be exercised once the credit guarantees have expired without exercise and, therefore, the guarantees must not be added together to calculate the combined maximum exposure for the Corporation.
[3] In addition, the Corporation has also provided other guarantees (see section h).

The Corporation’s maximum exposure in connection with credit and residual value guarantees related to sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation’s exposure under these guarantees. The provisions for anticipated losses have been established to cover the risks from these guarantees after considering the effect of the estimated resale value of the aircraft, which is based on independent third party evaluations, the anticipated proceeds from other assets covering such exposures, as well as liabilities available to mitigate the exposures. The anticipated proceeds from the collaterals are expected to cover the Corporation’s total credit and residual value exposure, after taking into account the provisions and liabilities.

Aircraft sales

a) Credit guarantees and residual value guarantees – The Corporation provides credit guarantees in the form of lease and loan payments guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to 2025. Substantially all financial support involving potential credit risk lies with commercial airline customers. The credit risk relating to three commercial airline customers accounted for 61% of the total maximum credit risk as at January 31, 2006. In most circumstances, a claim under a credit guarantee may be made only upon sale of the underlying aircraft to a third party.

In addition, the Corporation provides guarantees for the residual value of aircraft at the expiry date of certain financing and lease agreements. 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 a residual value guarantee may be made upon resale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees as at January 31, 2006, and the period in which they can be exercised:

Less than 1 year	$	25
From 1 to 5 years		157
From 6 to 10 years		573
From 11 to 15 years		984
Thereafter		826
	$	2,565

b) Trade-in options – In connection with the sale of new aircraft, the Corporation provides, from time to time, trade-in options to customers. These options allow customers to trade in their pre-owned aircraft at a predetermined amount and during a predetermined period, conditional upon purchase of a new aircraft.

The Corporation's commitment to purchase pre-owned aircraft, as at the earliest exercise date, was as follows as at January 31, 2006:

Less than 1 year	$	873
From 1 to 3 years		141
From 4 to 5 years		181
Thereafter		35
	$	1,230

The Corporation reviews its trade-in aircraft purchase commitments relative to the aircraft's anticipated fair value and records anticipated losses as a charge to income. Fair value is determined using both internal and external aircraft valuations, including information developed from the sale of similar aircraft in the secondary market. Provisions relating to anticipated losses on trade-in options amounted to $11 million as at January 31, 2006 ($18 million as at January 31, 2005). These provisions were based on the likelihood that these options will be exercised. In addition, a provision related to trade-in commitments in connection with firm orders for new aircraft amounted to $1 million as at January 31, 2006 ($6 million as at January 31, 2005).

c) Fractional ownership put options – Under the North American *Flexjet* Fractional ownership program, certain customers can trade in their fractional shares of aircraft at predetermined amounts for fractional shares of a larger model at predetermined amounts. The total commitment to repurchase fractional shares of aircraft, in exchange for fractional shares of a larger model, was $1 million as at January 31, 2006 ($21 million as at January 31, 2005). Provisions relating to anticipated losses based on the likelihood that these options will be exercised amounted to nil as at January 31, 2006 ($5 million as at January 31, 2005).

In addition, the Corporation provides customers with an option to sell back their fractional shares of the aircraft at estimated fair value within a predetermined period from the date of purchase. The Corporation's commitment to repurchase fractional shares of aircraft based on estimated current fair values totalled $573 million as at January 31, 2006 ($527 million as at January 31, 2005). Since the purchase price is established at the estimated fair value of the fractional shares at the time the option is exercised, the Corporation is not exposed to off-balance sheet risk in connection with these options.

d) Financing commitments – The Corporation has committed to provide financing in relation to the future sale of aircraft scheduled for delivery through fiscal year 2010 and in connection with a $296 million off-balance sheet financing facility, which, net of third party financing already arranged, amounted to $2.2 billion as at January 31, 2006. The Corporation mitigates its exposure to interest and credit risks by including terms and conditions in the financing agreements that guaranteed parties must satisfy prior to benefiting from the Corporation's commitment and by entering into interest-rate cap agreements.

Other guarantees

e) Credit and residual value guarantees – In connection with the sale of certain transportation rail equipment, Bombardier has provided a credit guarantee of lease payment amounting to $46 million as at January 31, 2006 ($45 million as at January 31, 2005). This guarantee matures in fiscal year 2026 and relates to one customer. In addition, at the expiry date of certain financing and other agreements, the Corporation provides residual value guarantees amounting to $124 million as at January 31, 2006 ($136 million as at January 31, 2005), mostly in Transportation. These guarantees are mainly exercisable in 2012.

f) Repurchase obligations – The Corporation has provided certain financing providers in Transportation the right, under certain conditions, to sell back equipment to the Corporation at predetermined prices. An amount of $165 million as at January 31, 2006 ($175 million as at January 31, 2005), relates to two agreements whereby the Corporation may be required, beginning in fiscal year 2009, upon customer default on payments to the financing providers, to repurchase the equipment. In addition, on three separate dates, beginning in fiscal year 2009, the Corporation may also be required to repurchase the equipment. In connection with this commitment, funds have been deposited in cash collateral accounts by the customer, which, together with accumulated interest, are expected to entirely cover the Corporation's exposure. A provision for repurchase obligations amounting to $70 million is included in accounts payable and accrued liabilities as at January 31, 2006 ($61 million as at January 31, 2005).

g) Performance guarantees – In certain projects carried out through consortia or other partnership vehicles in Transportation, all partners are jointly and severally liable to the customer. In the normal course of business under such joint and several obligations, or under performance guarantees that may be issued in relation thereto, each partner is generally liable to the customer for a default by the other partner. These projects normally provide counter indemnities among the partners. These obligations and guarantees typically extend until final product acceptance by the customer. The Corporation's maximum exposure to projects for which the exposure of the Corporation is capped amounted to approximately $178 million as at January 31, 2006 ($228 million as at January 31, 2005). For projects for which the exposure of the Corporation 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 exposure would amount to approximately $760 million as at January 31, 2006 ($803 million as at January 31, 2005). Such joint and several obligations and guarantees have been rarely called upon in the past, and no significant liability has been recognized in the Consolidated Financial Statements in connection with these obligations and guarantees.

h) Other – In the normal course of its business, the Corporation has entered into agreements that include indemnities in favour of third parties, mostly tax indemnities. These agreements generally do not contain specified limits on the Corporation's liability and therefore, it is not possible to estimate the Corporation's maximum liability under these indemnities.

Sale and leaseback

The Corporation concluded third-party sale and leaseback transactions mostly relating to freight cars, a discontinued operation (see Note 1 – Discontinued operations and assets held for sale), and pre-owned aircraft.

Details of minimum lease payments for the next five fiscal years and thereafter are as follows:

	Rental payments	Residual value guarantees	Total
2007	$ 73	$ -	$ 73
2008	74	43	117
2009	63	-	63
2010	67	-	67
2011	73	-	73
Thereafter	672	-	672
	$ 1,022	$ 43	$ 1,065

Minimum lease payments include $978 million for freight cars, $45 million for pre-owned aircraft and $42 million for other equipment.

Expected minimum sub-lease rentals from operators and the net benefit of the estimated resale value of the equipment approximate the amount of minimum lease payments.

Rent expense related to sale and leaseback arrangements was $83 million for fiscal year 2006 ($89 million for fiscal year 2005).

Operating leases

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

	Buildings and equipment	Aircraft	Residual value guarantees	Total
2007	$ 92	$ 37	$ -	$ 129
2008	62	27	-	89
2009	59	22	-	81
2010	42	15	-	57
2011	38	10	-	48
Thereafter	207	12	63	282
	$ 500	$ 123	$ 63	$ 686

Rent expense related to operating leases was $165 million for fiscal year 2006 ($178 million for fiscal year 2005).

Other commitments

The Corporation has commitments under agreements to outsource a significant portion of its information technology function in Aerospace and Transportation with a logistic provider for the Corporation's centrally-located spare parts warehouses in Aerospace. The related minimum payments for the next five fiscal years and thereafter are as follows:

2007	$ 189
2008	176
2009	156
2010	137
2011	24
Thereafter	52
	$ 734

The Corporation receives government financial support from various levels of government, related to the development of aircraft. Certain financial support programs require the Corporation to pay amounts to governments, at the time of the delivery of products, contingent on a minimum agreed-upon level of related product sales being achieved. If the minimum agreed-upon level is not reached, no amount is payable to governments. The Corporation records the amount payable to governments at the time the product giving rise to such payment is delivered. The contingently repayable government support (undiscounted) mostly based on future deliveries of aircraft, amounted to $535 million as at January 31, 2006. The amount repayable based solely on the total of the remaining accounting aircraft program quantities was $226 million as at January 31, 2006.

Litigations

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

The Corporation is also a defendant in certain legal proceedings currently pending before various courts in relation to product liability and contract disputes with customers and other third parties. The Corporation intends to vigorously defend its position in these matters.

While the Corporation cannot predict the final outcome of legal proceedings that were pending as at January 31, 2006, 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.

23. VARIABLE INTEREST ENTITIES

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

		2006		2005
	Assets	**Liabilities**	Assets	Liabilities
Aerospace				
Financing structures related to the sale of regional aircraft[1]	**$ 6,946**	**$ 4,106**	$ 5,306	$ 2,871
Sale of rights under manufacturing contracts	**-**	**-**	166	154
Sale and leaseback structure	**15**	**15**	16	16
Transportation				
Partnership arrangements	**4,805**	**4,326**	4,352	4,035
Sale support guarantee	**529**	**523**	663	662
Cash collateral accounts	**70**	**70**	61	61
	12,365	**9,040**	10,564	7,799
Less assets and liabilities of consolidated VIEs:				
Financing structures related to the sale of regional aircraft	**67**	**65**	78	76
Sale of rights under manufacturing contracts	**-**	**-**	166	154
Sale and leaseback structure	**15**	**15**	16	16
Cash collateral accounts	**70**	**70**	61	61
	152	**150**	321	307
Assets and liabilities of non-consolidated VIEs	**$ 12,213**	**$ 8,890**	$ 10,243	$ 7,492

[1] Increase in fiscal year 2006, mainly relates to the closing of the RASPRO facility, a $1.7-billion securitization transaction related to the sale of 70 regional aircraft.

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

Aerospace

Financing structures related to the sale of regional aircraft – The Corporation has provided credit and/or residual value guarantees to certain special purpose entities ("SPEs") created solely i) to purchase regional aircraft from the Corporation and to lease these aircraft to airline companies and ii) to purchase financial assets related to the sale of regional aircraft.

Typically, these SPEs are financed by third-party long-term debt and by third-party equity investors who benefit from tax incentives. The aircraft serve as collateral for the SPEs' long-term debt. The Corporation's variable interests in these SPEs are in the form of credit and residual value guarantees and residual interests. The Corporation also provides administrative services to certain of these SPEs in return for a market fee.

The Corporation concluded that most SPEs are VIEs, and the Corporation is the primary beneficiary for only two of them, which were consolidated. For all other SPEs, consolidation is not appropriate under AcG-15. For purposes of determining whether the Corporation is the primary beneficiary, certain financing structures related to the sale of regional aircraft were grouped together when they had common characteristics, such as same customer, aircraft type, lease terms and financial support. The Corporation's maximum potential exposure relating to the non-consolidated SPEs was $2.1 billion, of which $551 million of provisions and liabilities were available to cover the Corporation's exposure as at January 31, 2006 ($1.6 billion and $295 million respectively as at January 31, 2005). The Corporation's maximum exposure under these guarantees is presented in note 22 – Commitments and contingencies.

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

After the closing of the securitization, it was discovered that the cash flows of the RASPRO structure would be different than anticipated. As of March 28, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, are considering ways to adjust the cash flows of RASPRO. Various solutions are being considered, including the involvement of various parties, and these solutions could involve, in part, the Corporation purchasing assets for cash or providing other consideration, the implementation of which would not have a material adverse effect on the Corporation. Holders of the RASPRO securities benefit from various third-party guarantees.

RASPRO is subject to the consolidation rules applicable to VIEs, which require variable interest holders to reassess the appropriateness of consolidation when certain events take place. The contemplated adjustments to the RASPRO cash flows would be a reconsideration event under the VIEs rules and, the Corporation being a variable interest holder, an assessment of whether or not this entity should be consolidated by the Corporation will be performed if and when the adjustments to the cash flows are adopted.

Sale of rights under manufacturing contracts – In 1995, the Corporation entered into an agreement with LR Jet Corporation ("LR Jet"), a company created for the sole purpose of purchasing, on a revolving basis, rights under certain aircraft manufacturing contracts from the Corporation. The purchase price was essentially financed by long-term debt issued to third-party investors. The Corporation concluded that LR Jet is a VIE and the Corporation is the primary beneficiary; accordingly, LR Jet was consolidated. As of January 31, 2006, the long-term debt of LR Jet has been repaid in full.

Transportation

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

The Corporation's involvement with entities created in connection with these partnership arrangements is mainly through investments in their equity and/or in subordinated loans and through manufacturing, selling and long-term service contracts. The Corporation concluded that certain of these entities are VIEs, but the Corporation is not the primary beneficiary. Accordingly, these entities have not been consolidated. The Corporation continues to account for these investments under the equity method, recording its share of the net income or loss based upon the terms of the partnership arrangement. As at January 31, 2006 and 2005, the Corporation's maximum off-balance sheet exposure to loss related to these non-consolidated VIEs, other than from its contractual obligations, was not material.

As at January 31, 2006 and 2005, the Corporation had the following involvement with significant partnership arrangements which qualify as VIEs:

- In April 2003, Metronet Rail BCV Holdings Ltd. and Metronet Rail SSL Holdings Ltd. (together "Metronet"), in which the Corporation has a 20% equity interest, were awarded contracts for the renewal, modernization and maintenance of two of the London Underground's infrastructure projects. As part of its involvement with Metronet, the Corporation was awarded firm supply contracts to provide metro cars, signalling, maintenance and management services to Metronet.
- The Corporation has a 20% equity interest in Consorzio Treno Veloce Italiano ("TREVI"), an entity which was awarded, starting in May 1992, a series of contracts, including the supply of ETR 500 locomotives and railcars as well as their maintenance and refurbishment, for which the Corporation was selected as a sub-supplier to TREVI.
- In May 2004, Arrow Light Rail Holdings Ltd. and Arrow Light Rail Ltd. (together "Arrow"), in which the Corporation has a 12.5% equity interest, were awarded contracts for the design, manufacture, operation and maintenance of the Nottingham Express Transit Line One System located in the U.K. As part of its involvement with Arrow, the Corporation was awarded the operation and maintenance service contract.
- In June 2004, Yong-In LRT Co., Ltd ("Yong-In"), in which the Corporation has a 26% interest, was established to build and operate a light rail system in the city of Yong-In, South Korea. As part of its involvement with Yong-In, the Corporation is responsible for project management, system integration, mobilization and test running, and providing vehicles and other equipment.

Sale support guarantee – In August 1998, the Corporation provided residual value guarantees on diesel electric multiple unit trains sold to Lombard Leasing Contracts Limited ("Lombard"). Under an operating lease structure, Lombard leases the trains to a third-party operator. The Corporation concluded that Lombard is a VIE, but the Corporation is not the primary beneficiary; accordingly, this entity has not been consolidated. The Corporation's maximum exposure as a result of its involvement with Lombard is limited to its residual value guarantees for an amount of $124 million as at January 31, 2006 ($135 million as at January 31, 2005). The Corporation's maximum exposure under these guarantees is presented in note 22 – Commitments and contingencies.

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

As a result of this commitment, Fabian Investments Limited and Lineal Investments Limited were created and cash was deposited in a cash collateral account by the lessee of the equipment. This cash, together with accumulated interest, is expected to entirely cover the Corporation's exposure. The Corporation concluded that these SPEs are VIEs and the Corporation is their primary beneficiary; accordingly, these SPEs were consolidated. Their assets, consisting of restricted cash, are presented in Other assets, and their liabilities, consisting of a provision for repurchase obligations, are presented in Accounts payable and accrued liabilities on the Corporation's consolidated balance sheets.

24. RECLASSIFICATION

Certain of the comparative figures have been reclassified (see basis of presentation) to conform to the presentation adopted in fiscal year 2006.

25. SEGMENT DISCLOSURE

Effective the fourth quarter of fiscal year 2006, the operations of BC ceased to be reported as a distinct segment since they no longer meet the accounting definition of a reportable segment following an internal reorganization for purposes of decision making and performance assessment. This internal reorganization was triggered by the size and nature of BC's remaining operations.

BC's remaining portfolios, mainly related to interim and long-term financing of regional aircraft and the business aircraft lending operations, are now managed by Aerospace and, consequently, all revenues and expenses included in earnings (loss) before financing income and expense and income taxes ("EBIT") are part of the results of operations of this segment. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense. Comparative figures of Aerospace have been reclassified accordingly. See Basis of presentation for further information.

As a result of these changes, the Corporation now has two reportable segments: Aerospace and Transportation. Each reportable segment offers different products and services and requires different technology and marketing strategies.

Aerospace	**Transportation**
Aerospace is a manufacturer of business, regional and amphibious aircraft and a provider of related services. It offers comprehensive families of regional jet and turboprop commercial aircraft and a wide range of business jets. It also provides the *Flexjet* Fractional ownership and hourly flight time entitlement programs, parts logistics, technical services, aircraft maintenance and pilot training.	Transportation is the global leader in the rail equipment manufacturing and servicing industry and offers a full range of passenger railcars, locomotives, light rail vehicles and automated people movers. It also provides electrical propulsion and control equipment, as well as complete rail transportation systems and rail control solutions. Transportation is also a provider of maintenance services.

The accounting policies of the segments are the same as those described in the Summary of significant accounting policies.

Management assesses the segment performance of its manufacturing segments based on EBIT.

Corporate charges are allocated to segments mostly based on each segment's revenues. Intersegment transactions are carried out in the normal course of business and are measured at the exchange value, which is the consideration determined and accepted by the related segments.

Net segmented assets exclude cash and cash equivalents, deferred income taxes and assets held for sale, and are net of accounts payable and accrued liabilities (excluding income taxes and interest payable), advances and progress billings in excess of related costs, fractional ownership deferred revenues and accrued benefit liabilities.

The tables containing the detailed segmented data are shown hereafter.

SEGMENT DATA

Industry segments	Notes	Bombardier Inc. consolidated 2006	Bombardier Inc. consolidated 2005 (restated - note 1)	Aerospace 2006	Aerospace 2005 (restated - note 1)	Transportation 2006	Transportation 2005	
External revenues								
Manufacturing		**$ 10,708**	$ 11,526	**$ 6,352**	$ 5,904	**$ 4,356**	$ 5,622	**$**
Services		**2,537**	2,386	**1,208**	1,116	**1,329**	1,270	
Other		**1,481**	1,634	**527**	960	**954**	674	
		14,726	15,546	**8,087**	7,980	**6,639**	7,566	
Intersegment revenues		**-**	-	**-**	-	**14**	18	
Segmented revenues		**14,726**	15,546	**8,087**	7,980	**6,653**	7,584	
Cost of sales		**12,719**	13,754	**6,925**	6,922	**5,808**	6,850	
Selling, general and administrative		**842**	859	**398**	382	**444**	477	
Research and development		**175**	148	**92**	62	**83**	86	
Amortization		**545**	549	**406**	411	**139**	138	
Special items	14	**88**	172	**-**	-	**88**	172	
		14,369	15,482	**7,821**	7,777	**6,562**	7,723	
Income (loss) from continuing operations before financing income and expense, and income taxes		**$ 357**	$ 64	**$ 266**	$ 203	**$ 91**	$ (139)	**$**
Net segmented assets		**$ 3,637**	$ 4,352	**$ 3,205**	$ 4,115	**$ 432**	$ 237	**$**
Liabilities allocated to segments:								
Accounts payable and accrued liabilities[1]		**6,645**	6,911					
Advances and progress billings in excess of related costs		**2,191**	2,359					
Fractional ownership deferred revenues		**325**	163					
Accrued benefit liabilities		**877**	897					
Assets not allocated to segments:								
Cash and cash equivalents		**2,917**	2,344					
Deferred income tax asset		**653**	522					
Assets held for sale		**237**	2,582					
Total consolidated assets		**$ 17,482**	20,130					

[1] Excluding interest and income taxes payable amounting to $130 million and $91 million respectively as at January 31, 2006 ($113 million and $61 million as at January 31, 2005) which are not allocated to segments.

Additions to property, plant and equipment		**$ 329**	$ 305	**$ 228**	$ 208	**$ 101**	$ 97	**$**

SEGMENT DATA

Geographic information	Revenues[1]		Property, plant and equipment, intangible assets and goodwill[2]	
	2006	2005	**2006**	2005
United States	**$ 5,810**	$ 6,291	**$ 391**	$ 362
United Kingdom	**1,573**	2,167	**714**	723
Germany	**1,529**	1,585	**1,287**	1,423
Canada	**825**	458	**1,975**	2,222
France	**707**	541	**34**	35
Italy	**387**	391	**127**	138
Spain	**346**	407	**8**	9
Switzerland	**250**	609	**279**	303
Netherlands	**245**	323	**-**	-
Japan	**219**	100	**-**	-
Sweden	**205**	331	**428**	487
China	**196**	265	**16**	19
Austria	**174**	375	**5**	11
Portugal	**76**	100	**9**	9
Other – Europe	**565**	675	**88**	204
Other – Americas	**649**	383	**10**	9
Other – Asia	**586**	141	**2**	2
Other - Pacific	**313**	216	**7**	7
Other	**71**	188	**-**	1
	$ 14,726	$ 15,546	**$ 5,380**	$ 5,964

[1] Revenues are attributed to countries based on the location of the customer.

[2] Property, plant and equipment and intangible assets are attributed to countries based on the location of the assets. Goodwill is attributed to countries based on the Corporation's allocation of the purchase price.