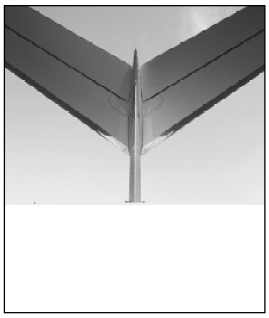
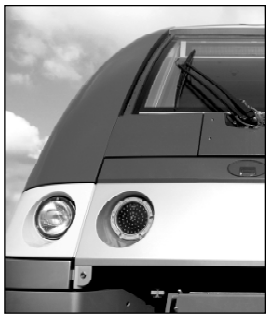
BOMBARDIER

SECOND QUARTERLY REPORT

Six-month period ended July 31, 2006





MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts in this report are in U.S. dollars and tabular figures 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 MD&A sections of the Corporation's aerospace segment ("Aerospace") and the Corporation's transportation segment ("Transportation") in the Corporation's annual report for fiscal year 2006.

Certain factors that could cause actual results to differ materially from those anticipated in the forward-looking statements include risks associated with general economic conditions, risks associated with 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, 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 risks and environmental risks), 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 Risks and Uncertainties in the MD&A section of Bombardier Inc.'s annual report for fiscal year 2006 for further information. 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.

Highlights of the quarter

- EBIT margin of 3.5%, compared to 3.9% for the same period last fiscal year.
- Free cash flow of $293 million, an improvement of $247 million compared to the same period last fiscal year.
- 48 deliveries and 67 net orders for business aircraft, compared to 41 and 51, respectively, for the same period last fiscal year.
- 26 deliveries and 9 net orders for regional aircraft, compared to 39 and 11, respectively, for the same period last fiscal year.

Aircraft deliveries

Total aircraft deliveries were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Business aircraft (including those of the fractional ownership program)	**48**	41	**101**	84
Regional aircraft	**26**	39	**50**	77
Amphibious aircraft	**1**	1	**1**	1
	75	81	**152**	162

The increases in business aircraft deliveries for the three- and six-month periods are mainly due to the continued strength of the business aircraft market in both the narrow body and wide body business jet segments. There have also been increased deliveries of *Challenger 800* Series aircraft through the recently launched Bombardier Corporate Shuttle Solutions.

The decreases in regional aircraft deliveries for the three- and six-month periods are due to:

- lower deliveries of the 50-seat *CRJ200* aircraft; and
- lower deliveries, in aggregate, of the larger regional jets.

Partially offset by:

- higher deliveries of turboprops.

Analysis of results

Aerospace's results were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Revenues				
Manufacturing				
Business aircraft	**$ 871**	$ 717	**$ 1,827**	$ 1,419
Regional aircraft	**488**	755	**948**	1,476
Other	**103**	80	**186**	144
Total manufacturing revenues	**1,462**	1,552	**2,961**	3,039
Services[1]	**322**	276	**624**	569
Other[2]	**107**	134	**246**	290
Total revenues	**1,891**	1,962	**3,831**	3,898
Cost of sales	**1,596**	1,661	**3,256**	3,326
Margin	**295**	301	**575**	572
Operating expenses[3]	**123**	123	**245**	238
EBITDA	**172**	178	**330**	334
Amortization	**106**	102	**209**	206
EBIT	**$ 66**	$ 76	**$ 121**	$ 128
(as a percentage of total revenues)				
Margin	**15.6%**	15.3%	**15.0%**	14.7%
EBITDA	**9.1%**	9.1%	**8.6%**	8.6%
EBIT	**3.5%**	3.9%	**3.2%**	3.3%

(1) Includes revenues from parts logistics, fractional ownership and hourly flight entitlement programs' service activities, aircraft maintenance, customer training 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 $90-million and $78-million decreases for the three- and six-month periods are mainly due to:

- lower deliveries of regional jets, mainly *CRJ200* aircraft; and
- lower selling prices for regional aircraft.

Partially offset by:

- increased deliveries of, and improved selling prices for business aircraft;
- increased deliveries of turboprops;
- increased deliveries of wide body business aircraft interiors; and
- additional fractional share revenues.

Services revenues – The $46-million and $55-million increases for the three- and six-month periods are mainly due to higher revenues from the sale of spare parts and higher fractional ownership and hourly flight entitlement programs' service activities.

Other revenues – The $27-million and $44-million decreases for the three- and six-month periods are mainly due to a lower volume and to the mix of pre-owned business aircraft sold.

Margin percentage – The 0.3 percentage-point increases for the three- and six-month periods are mainly due to:

- increased deliveries of, and improved selling prices for business aircraft;
- the positive impact of cost revision estimates for the *CRJ* Series family of aircraft; and
- increased deliveries of turboprops.

Partially offset by:

- lower deliveries of regional jets, mainly *CRJ200* aircraft;
- lower margins on the sale of regional aircraft;
- lower margins on wide body business aircraft interiors deliveries; and
- lower net margin on spare parts sales.

The margin percentages for the three- and six-month periods ended July 31, 2006 were also positively impacted by a net amount of $10 million due to the following non-recurring items:

- a gain arising from the settlement with a supplier of regional aircraft components; and
- a charge arising from the alignment of the *CRJ700* and *CRJ900* aircraft program accounting ending dates.

See the Regional aircraft section hereafter for further information.

In addition, the margin percentage for the six-month period ended July 31, 2006 was positively impacted by a reduction in previously recorded severance and other involuntary termination cost provision (see Workforce and labour relations section hereafter).

Amortization – Amortization of program tooling amounted to $68 million and $137 million for the three- and six-month periods ended July 31, 2006, compared to $66 million and $130 million, respectively, for the same periods last fiscal year.

Order backlog

Aerospace's order backlog was as follows as at:

(in billions of dollars)	**July 31, 2006**	January 31, 2006
Aircraft programs	**$ 9.9**	$ 9.6
Military aviation training	**1.0**	1.1
	$ 10.9	$ 10.7

The increase in the order backlog is mainly due to order intake higher than revenues recorded for business aircraft, partially offset by a declining order backlog for regional jets.

Workforce and labour relations

- On June 23, 2006, the Corporation reached an agreement for a new three-year collective agreement with the Canadian Auto Workers, covering approximately 2,900 employees in Toronto. This agreement is effective June 23, 2006 and expires June 22, 2009.

- On May 13, 2006, the Corporation reached an agreement for a new three-year collective agreement with the International Association of Machinists and Aerospace Workers, Aerospace's largest union covering approximately 5,500 employees in Montréal. This agreement is effective December 1, 2005 and expires November 20, 2008.

- As a result of the repatriation of certain work packages to Belfast related to the *Q400* turboprop from one of Aerospace's external suppliers, the remainder of the previously announced lay-offs at this location will not occur. Consequently, the severance provision related to the remaining lay-offs was reversed in the three-month period ended April 30, 2006.

BUSINESS AIRCRAFT

During the six-month period ended July 31, 2006:

- The 300th *Learjet 45* aircraft was delivered.
- The next generation *Learjet 40 XR* premium light jet entered into service.
- The Japan Civil Aviation Bureau awarded type certification to the *Learjet 45* aircraft.
- The *Learjet 60 XR* aircraft had a successful first flight.

According to data from the General Aviation Manufacturers Association ("GAMA"), the second quarter of calendar year 2006 was a strong one in terms of deliveries and billings of business aircraft, indicating that the market for business aircraft remains robust. GAMA's latest report, dated July 27, 2006, confirms that the Corporation is the business aircraft industry leader in terms of revenue.

Aircraft deliveries

Business aircraft deliveries were as follows for the three-month periods ended July 31:

			2006			2005
		Flexjet	**Total**		*Flexjet*	Total
Narrow body business jets						
Learjet 40/40 XR	**4**	**1**	**5**	3	-	3
Learjet 45/45 XR	**9**	**-**	**9**	8	-	8
Learjet 60	**4**	**-**	**4**	5	-	5
Wide body business jets						
Challenger 300	**12**	**1**	**13**	9	-	9
Challenger 604	**7**	**-**	**7**	10	-	10
Challenger 800 Series	**2**	**-**	**2**	-	-	-
Bombardier Global 5000	**3**	**-**	**3**	3	-	3
Global Express/Global Express XRS	**5**	**-**	**5**	3	-	3
	46	**2**	**48**	41	-	41

Business aircraft deliveries were as follows for the six-month periods ended July 31:

			2006			2005
		Flexjet	**Total**		*Flexjet*	Total
Narrow body business jets						
Learjet 40/40 XR	**8**	**1**	**9**	8	1	9
Learjet 45/45 XR	**17**	**-**	**17**	13	-	13
Learjet 60	**8**	**1**	**9**	7	-	7
Wide body business jets						
Challenger 300	**26**	**1**	**27**	20	3	23
Challenger 604	**15**	**-**	**15**	17	-	17
Challenger 800 Series	**7**	**-**	**7**	2	-	2
Bombardier Global 5000	**6**	**-**	**6**	7	-	7
Global Express/Global Express XRS	**11**	**-**	**11**	6	-	6
	98	**3**	**101**	80	4	84

The 17% and 20% increases in aircraft deliveries for the three- and six-month periods reflect strong order intake in fiscal year 2006 as the level of net orders received for business aircraft in fiscal year 2006 was at its highest level since fiscal year 2000.

Net orders

Aerospace received 67 and 100 net orders during the three- and six-month periods ended July 31, 2006, compared to 51 and 90 net orders, respectively, during the same periods last fiscal year. The order intake remains strong and is consistent with the continued strength of the business aircraft market.

REGIONAL AIRCRAFT

During the second quarter of fiscal year 2007, the Corporation reached an agreement with Mitsubishi Heavy Industries of Japan ("MHI"), a supplier of aircraft components, to transfer the production of certain components for the *Q400* turboprop program to the Corporation's manufacturing facilities in Belfast, Montréal and Mexico and to China's Shenyang Aircraft Corporation. In connection with this agreement, the parties agreed to a payment of $84 million to be made by MHI to the Corporation in connection with the production transfer.

Also during the second quarter of fiscal year 2007, due to increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* programs as a result of changing scope clauses in the U.S., the Corporation decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a cumulative catch-up adjustment of $74 million was recorded. The outstanding balance of excess-over-average production costs ("EOAPC") for these two programs, amounting to $13 million as at July 31, 2006, is expected to be recovered over the next 91 units.

As a result of the above, the Corporation recorded a net gain of $10 million in cost of sales during the second quarter of fiscal year 2007.

Economic environment

As previously disclosed, the U.S. airline industry continues to face financial challenges and has undergone some major restructuring. The Corporation continues to work with its regional airline customers to support their efforts to emerge from bankruptcy protection. On June 5, 2006, the Corporation reached an agreement with Delta Air Lines, Inc. ("Delta") in connection with the U.S. bankruptcy-court-approved restructuring arrangement for Delta and Comair, Inc. ("Comair"). As a result of this agreement, payments due to Delta and Comair pursuant to sales incentive agreements were offset against interim financing loans, amounting to $171 million, made by the Corporation to these entities. The agreement reached with Delta had a neutral impact on the results of operations of the Corporation for the six-month period ended July 31, 2006.

Aerospace is increasing its presence internationally and developing secondary markets for the 50-seat regional jet. Some *CRJ200* aircraft are being marketed as cargo freighters while others are being marketed as corporate jets. Aerospace has started to expand its operator base in areas outside North America, particularly in Japan, China, India, Latin America and Russia.

Aircraft deliveries

Regional aircraft deliveries were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Regional jets				
CRJ200	**-**	12	**1**	29
CRJ700	**-**	9	**10**	20
CRJ705	**-**	9	**-**	9
CRJ900	**16**	3	**20**	10
Turboprops				
Q200	**-**	1	**-**	1
Q300	**3**	1	**6**	1
Q400	**7**	4	**13**	7
	26	39	**50**	77

The 33% and 35% decreases for the three- and six-month periods are due to lower deliveries of regional jets, mainly *CRJ200* aircraft, partially offset by higher deliveries of turboprops.

Orders and backlog

Regional aircraft orders received by aircraft type were as follows for the three-month periods ended July 31:

				2006	2005
	Orders	**Swaps**	**Cancellations/ Removals**	**Net orders**	Net orders
Regional jets					
CRJ200	**-**	**(7)**	**-**	**(7)**	-
CRJ700	**-**	**-**	**-**	**-**	-
CRJ900	**-**	**7**	**-**	**7**	-
Turboprops					
Q200	**-**	**-**	**-**	**-**	1
Q300	**1**	**-**	**-**	**1**	1
Q400	**8**	**-**	**-**	**8**	9
	9	**-**	**-**	**9**	11

- Air Nostrum exercised its conversion rights to swap seven *CRJ200* aircraft for *CRJ900* aircraft.

Regional aircraft orders received by aircraft type were as follows for the six-month periods ended July 31:

				2006	2005
	Orders	**Swaps**	**Cancellations/ Removals**	**Net orders**	Net orders
Regional jets					
CRJ200	**-**	**(15)**	**-**	**(15)**	8
CRJ700	**5**	**(17)**	**-**	**(12)**	34
CRJ900	**9**	**32**	**(1)**	**40**	-
Turboprops					
Q200	**2**	**-**	**-**	**2**	1
Q300	**4**	**-**	**-**	**4**	2
Q400	**9**	**-**	**-**	**9**	9
	29	**-**	**(1)**	**28**	54

- SkyWest, Inc. and Air Nostrum exercised their conversion rights to swap 17 *CRJ700* and 15 *CRJ200* aircraft, respectively, for *CRJ900* aircraft.
- As a result of Styrian Spirit declaring bankruptcy, Aerospace removed one *CRJ900* aircraft from the order backlog.

Aerospace received 28 net orders during the six-month period ended July 31, 2006, including the following:

Customer	**Aircraft**	**Number**
Air One	*CRJ900*	6
GE Commercial Aviation Services (GoJet Airlines)	*CRJ700*	5
Arik Air	*CRJ900*	2
National Air Support	*Q300*	3
Tassili Airlines	*Q400*	4
Luxair	*Q400*	3

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

	Aircraft on firm order[1]	Options and conditional orders
Regional jets		
CRJ200	1	275
CRJ700	29	242
CRJ900	43	88
Turboprops		
Q200	4	-
Q300	18	11
Q400	60	81
	155	697

[1] There are no firm orders in the order backlog with conversion rights to other regional aircraft.

FLEXJET AND SKYJET

The number of customers owning or leasing shares of aircraft, or with an hourly flight time entitlement, was as follows as at:

	July 31, 2006	January 31, 2006
Flexjet	**630**	612
Skyjet	**291**	288
	921	900

Flexjet – The net increase of 18 customers 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 share market.

OTHER ACTIVITIES

Since the start of operations in May 2006, the Querétaro, Mexico, manufacturing facility has created 150 jobs and delivered its first wire harness. By the end of calendar year 2007, the facility will be manufacturing other aircraft components and the number of employees should reach approximately 600.

III TRANSPORTATION

OVERVIEW

Highlights of the quarter

- EBIT margin improved to 3.7%, compared to 2.6% before special items for the same period last fiscal year.
- $1.9 billion in new orders (book-to-bill ratio of 1.2).
- Free cash flow use of $9 million, an improvement of $173 million compared to the same period last fiscal year.
- Order backlog increased to $22.2 billion.

Analysis of results

The results of operations of Transportation using functional currencies other than the U.S. dollar, mainly the euro, the pound sterling and other western European currencies are translated into U.S. dollars using the average exchange rates for the relevant periods. 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:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Revenues				
Rolling stock[1]	**$ 992**	$ 1,076	**$ 2,009**	$ 2,388
Services[2]	**341**	324	**666**	655
System and signalling[3] [4]	**291**	271	**535**	449
Total revenues	**1,624**	1,671	**3,210**	3,492
Cost of sales	**1,404**	1,464	**2,787**	3,076
Margin	**220**	207	**423**	416
Operating expenses[5]	**133**	138	**264**	275
EBITDA before special items	**87**	69	**159**	141
Amortization	**27**	26	**52**	54
EBIT before special items	**60**	43	**107**	87
Special items	**-**	34	**24**	26
EBIT	**$ 60**	$ 9	**$ 83**	$ 61
(as a percentage of total revenues)				
Margin	**13.5%**	12.4%	**13.2%**	11.9%
EBITDA before special items	**5.4%**	4.1%	**5.0%**	4.0%
EBITDA	**5.4%**	2.1%	**4.2%**	3.3%
EBIT before special items	**3.7%**	2.6%	**3.3%**	2.5%
EBIT	**3.7%**	0.5%	**2.6%**	1.7%

[1] Comprised of locomotives, mainline (including high-speed, intercity, regional and commuter trains), metros, light rail vehicles, propulsion and controls, and bogies revenues.
[2] Comprised of fleet management, spare parts and logistics management, vehicle refurbishment and overhaul, component refurbishment and overhaul, and technical support revenues.
[3] The revenues of system and signalling are presented in Other revenues in the consolidated statements of income.
[4] Excluding the rolling stock portion of system orders manufactured by other divisions within Transportation.
[5] Comprised of selling, general and administrative and research and development expenses.

Revenues by geographic region

	Three-month periods ended July 31				Six-month periods ended July 31			
	2006		2005		**2006**		2005	
Europe	**$ 1,116**	**69%**	$ 1,267	76%	**$ 2,199**	**68%**	$ 2,647	76%
North America	**266**	**16%**	254	15%	**583**	**18%**	562	16%
Asia-Pacific	**202**	**12%**	110	7%	**344**	**11%**	220	6%
Other	**40**	**3%**	40	2%	**84**	**3%**	63	2%
	$ 1,624		$ 1,671		**$ 3,210**		$ 3,492	

Rolling stock revenues – The $84-million decrease for the three-month period is mainly due to:

- decreased mainline revenues in the U.K. and Germany, due to a lower level of activities in these markets; and
- decreased revenues in North America, due to the completion of two large contracts.

Partially offset by:

- increased activity in China; and
- a positive currency impact, amounting to approximately $20 million.

The $379-million decrease for the six-month period is mainly due to:

- decreased mainline revenues in the U.K. and Germany, due to a lower level of activities in these markets; and
- a negative currency impact, amounting to approximately $35 million.

Partially offset by:

- higher activity in the growing light rail vehicles segment; and
- increased activity in China.

Services revenues – The $17-million increase for the three-month period is mainly due to:

- additional revenues from component refurbishment and overhaul as well as from spare parts and logistics management in North America; and
- a positive currency impact, amounting to approximately $10 million.

The $11-million increase for the six-month period is mainly due to:

- a higher level of activities in North America and Europe.

Partially offset by:

- a negative currency impact, amounting to approximately $15 million.

System and signalling revenues – The $20-million increase for the three-month period is mainly due to:

- a higher level of activities related to the London Underground contract;
- a higher level of activities in Asia (Taiwan, Korea and China); and
- a positive currency impact, amounting to approximately $5 million.

The $86-million increase for the six-month period is mainly due to:

- a higher level of activities related to the London Underground contract; and
- a higher level of activities in Asia (Taiwan, Korea and China) and Spain.

Partially offset by:

- a negative currency impact, amounting to approximately $5 million.

Margin percentage – The 1.1 and 1.3 percentage-point increases for the three- and six-month periods are mainly due to improvements in contract execution and the positive impact of restructuring initiatives.

Operating expenses – The $5-million decrease for the three-month period is mainly due to lower bid costs in mainline, partially offset by a negative currency impact, amounting to $3 million.

The $11-million decrease for the six-month period is mainly due to a positive currency impact, amounting to approximately $5 million, as well as lower bid costs in mainline and system.

Orders and backlog

Transportation received the following major orders during the first and the second quarters of fiscal year 2007:

Customer	Product/Service	Number of cars	Rolling stock	Services
Chicago Transit Authority, U.S.	Rapid Transit Vehicles	406	$ 577	$ -
Verkehrsgesellschaft Frankfurt am Main (VGF), Germany	*FLEXITY* Swift high-floor trams	146	361	-
First Great Western (FGW), U.K.	Bogie overhaul of high speed trains and technical development work	-	-	160
CBRail (Euro) Limited, U.K.	*TRAXX* locomotives, type F140 MS/DE	35	156	-
Metro do Porto, S.A., Portugal	Bi-directional *FLEXITY* Swift low-floor trams	30[(1)]	105	9
FGW, U.K.	Vehicle renovation of high speed train trailer cars	405	-	100

[(1)] Total number of contracted cars, Bombardier and consortium partner combined. Total contract value is $148 million.

During the six-month period ended July 31, 2006:

- The order received for *FLEXITY* Swift high-floor trams is the largest light rail vehicle order of the post-war era in Germany.
- Transportation continued its strong order intake in the light rail segment with orders from the U.K., Portugal, Italy, Sweden and Poland.
- Transportation received a five-year fleet maintenance contract for locomotives from the Italian state railway, Trenitalia. This is the first time that Trenitalia has contracted out full fleet maintenance.
- Transportation received an order from First ScotRail in the U.K. for fleet maintenance, including technical support and innovative remote monitoring and diagnostic systems. Transportation expects to roll out this new technology to additional customers.
- Transportation received an order for 40 advanced rapid transit MK II cars for the Beijing Capital International Airport link, to be fully operational for the 2008 Summer Olympics.

Transportation's order intake was as follows:

(in billions of dollars)	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Rolling stock	**$ 1.2**	$ 1.0	**$ 2.2**	$ 2.1
Services	**0.5**	0.4	**1.0**	0.7
System and signalling	**0.2**	0.2	**0.4**	0.4
	$ 1.9	$ 1.6	**$ 3.6**	$ 3.2

The increases in total order intake for the three- and six-month periods are mainly due to:

- higher order intake in mainline (U.S.), light rail vehicles (Europe) and services (Europe).

Partially offset by:

- lower order intake in locomotives (Europe) and mainline (Europe).

Transportation's order backlog was as follows as at:

(in billions of dollars)	**July 31, 2006**	January 31, 2006
Rolling stock	**$ 12.3**	$ 11.6
Services	**4.9**	4.4
System and signalling	**5.0**	4.9
	$ 22.2	$ 20.9

The increase in the value of the order backlog reflects the net positive currency adjustment, amounting to approximately $800 million, and higher order intake compared to revenue recorded. The net positive currency adjustment results mainly from the strengthening of the euro and the pound sterling compared to the U.S. dollar as at July 31, 2006 compared to January 31, 2006.

RESTRUCTURING

The restructuring plan to reduce the cost structure in Transportation is essentially completed. All charges related to the restructuring plan, amounting to $633 million, were recorded as of April 30, 2006. Net cash outflows are expected to amount to $467 million, of which $374 million had been disbursed as of July 31, 2006. For the three- and six-month periods ended July 31, 2006, net cash outflows amounted to $16 million and $57 million ($37 million and $40 million for the same periods last fiscal year).

OTHER

In June 2006, Transportation delivered the 1,000th metro car to operators in the People's Republic of China. In addition, the 1,000th M-7 car for the Long Island Rail Road/Metro-North Railroad contract was delivered in June 2006.

The Transportation-built Nottingham Express Transit light rail system won the "Best Operational Transport Project" in the U.K. at the Public Private Finance Award ceremony held in May 2006.

Transportation's double-deck coaches rank as the most reliable vehicles in daily operation by Deutsche Bahn, resulting in a high level of satisfaction both with the passengers and the customer.

IV FINANCIAL POSITION

Total assets amounted to $16.5 billion as at July 31, 2006, compared to $17.5 billion as at January 31, 2006.

Receivables
Receivables amounted to $2.0 billion as at July 31, 2006, compared to $1.7 billion as at January 31, 2006. This increase is mainly due to a higher level of receivables in Aerospace.

Aircraft financing
Aircraft financing amounted to $1.1 billion as at July 31, 2006, compared to $1.5 billion as at January 31, 2006. This decrease is mainly due to a reduction in commercial aircraft interim financing, as a result of the permanent financing of aircraft. The decrease in interim financing is also due to an agreement reached with Delta (see Regional aircraft section above).

Inventories
Inventories are presented net of the related payments 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 $6.7 billion ($4.0 billion net of payments and progress billings) as at July 31, 2006, compared to $6.5 billion ($3.8 billion net of payments and progress billings) as at January 31, 2006. This increase in gross inventories is mainly due to higher Aerospace work-in process inventory and finished products (mainly as a result of undelivered regional aircraft in inventories), partially offset by the reduction of EOAPC recorded in connection with the revision of program accounting quantities for the *CRJ* Series family. Transportation's gross inventories remained essentially unchanged as the increase due to the translation adjustment arising mainly from

the strengthening of the euro and pound sterling compared to the U.S. dollar ("the currency impact"), amounting to approximately $100 million, was offset by deliveries related to the completion of two large contracts in North America.

Total payments, advances and progress billings amounted to $4.9 billion as at July 31, 2006 and January 31, 2006, $2.2 billion of advances and progress billings are shown as liabilities as at July 31, 2006 and January 31, 2006. Higher payments and advances from customers in Aerospace offset lower payments and advances in Transportation. The positive currency impact of $120 million in Transportation was more than offset by lower payments and advances from customers.

Goodwill
Goodwill amounted to $2.2 billion as at July 31, 2006, compared to $2.1 billion as at January 31, 2006. This increase is due to the currency impact, amounting to $105 million.

Assets held for sale and liabilities related to assets held for sale
Assets held for sale amounted to $101 million as at July 31, 2006, compared to $237 million as at January 31, 2006. Liabilities related to assets held for sale amounted to $19 million as at July 31, 2006, compared to $42 million as at January 31, 2006. These decreases result from the sale of the consumer finance operations during the three-month period ended July 31, 2006 (see note 4 – Discontinued operations and assets held for sale to the interim consolidated financial statements).

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities amounted to $6.6 billion as at July 31, 2006, compared to $6.9 billion as at January 31, 2006. This decrease is mainly due a lower level of accounts payable and accrued liabilities in Transportation, partially offset by the currency impact, amounting to approximately $120 million. The decrease is also due to the reduction in sales incentive liabilities as a result of the agreement reached with Delta (see Regional aircraft section above).

Long-term debt
Long-term debt amounted to $3.9 billion as at July 31, 2006, compared to $4.7 billion as at January 31, 2006. This decrease is mainly due to:

- the repayments of $450 million and $200 million Cdn ($176 million) of BC's medium-term notes in June and July 2006, respectively; and
- the repayment of £175 million ($305 million) of debentures in February 2006.

Partially offset by:

- the currency impact, amounting to $87 million.

V CASH FLOWS

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

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Income from continuing operations	**$ 57**	$ 10	**$ 78**	$ 51
Non-cash items	**133**	141	**274**	284
Net change in non-cash balances related to operations	**7**	(367)	**(585)**	(691)
Cash flows from operating activities	**197**	(216)	**(233)**	(356)
Net additions to property, plant and equipment	**(51)**	(39)	**(160)**	(102)
Free cash flow	**146**	(255)	**(393)**	(458)
Cash flows from investing activities (excluding net additions to property, plant and equipment)	**91**	1,458	**80**	1,487
Cash flows from financing activities	**(653)**	(379)	**(981)**	(408)
Effect of exchange rate changes on cash and cash equivalents	**50**	(169)	**116**	(189)
Cash flows from continuing operations	**(366)**	655	**(1,178)**	432
Cash flows from discontinued operations	**6**	(492)	**50**	(481)
Net increase (decrease) in cash and cash equivalents	**$ (360)**	$ 163	**$ (1,128)**	$ (49)

Cash flows from operating activities

The $413-million increase for the three-month period is mainly due to the positive variation in non-cash balances related to the operations of Aerospace and Transportation. The $123-million increase for the six-month period is mainly due to the positive variation in non-cash balances related to the operations of Aerospace.

Segmented free cash flow

The free cash flow by segment was as follows for the three-month periods ended July 31:

	2006			2005		
	BA	**BT**	**Total**	BA	BT	Total
EBIT	**$ 66**	**$ 60**	**$ 126**	$ 76	$ 9	$ 85
Non-cash items						
Amortization						
Program tooling	**68**	**-**	**68**	66	-	66
Other	**38**	**27**	**65**	36	26	62
Provision for credit losses	**14**	**-**	**14**	1	-	1
Loss (gain) on disposals of property, plant and equipment	**-**	**(1)**	**(1)**	(1)	1	-
Stock-based compensation	**2**	**2**	**4**	2	1	3
Special items	**-**	**-**	**-**	-	34	34
Net change in non-cash balances related to operations	**141**	**(82)**	**59**	(102)	(246)	(348)
Net additions to property, plant and equipment	**(36)**	**(15)**	**(51)**	(32)	(7)	(39)
Segmented free cash flow	**$ 293**	**$ (9)**	**284**	$ 46	$ (182)	(136)
Income taxes and net financing expense[1]			**(138)**			(119)
Free cash flow			**$ 146**			$ (255)

BA: Aerospace; BT: Transportation.

(1) Income taxes and net financing expense are not allocated to segments.

The free cash flow by segment was as follows for the six-month periods ended July 31:

	2006			2005		
	BA	**BT**	**Total**	BA	BT	Total
EBIT	**$ 121**	**$ 83**	**$ 204**	$ 128	$ 61	$ 189
Non-cash items						
Amortization						
Program tooling	**137**	**-**	**137**	130	-	130
Other	**72**	**52**	**124**	76	54	130
Provision for credit losses	**14**	**-**	**14**	3	-	3
Gain on disposals of property, plant and equipment	**-**	**(1)**	**(1)**	(1)	-	(1)
Stock-based compensation	**4**	**3**	**7**	3	2	5
Special items	**-**	**24**	**24**	-	26	26
Net change in non-cash balances related to operations	**(185)**	**(345)**	**(530)**	(295)	(354)	(649)
Net additions to property, plant and equipment	**(138)**	**(22)**	**(160)**	(84)	(18)	(102)
Segmented free cash flow	**$ 25**	**$ (206)**	**(181)**	$ (40)	$ (229)	(269)
Income taxes and net financing expense[(1)]			**(212)**			(189)
Free cash flow			**$ (393)**			$ (458)

BA: Aerospace; BT: Transportation.
(1) Income taxes and net financing expense are not allocated to segments.

- ***Aerospace*** – The $247-million and $65-million increases in segmented free cash flow for the three- and six-month periods are mainly due to positive variations in aircraft financing, mainly due to lower interim financing related to regional aircraft, and higher advances compared to the same periods last fiscal year, partially offset by negative variations in accounts payable and accrued liabilities as well as inventories compared to the same periods last fiscal year.

- ***Transportation*** – The $173-million increase in segmented free cash flow for the three-month period is mainly due to a positive variation in advances compared to the same period last fiscal year, partially offset by higher inventories compared to the same period last fiscal year. For the six-month period, free cash flow improved by $23 million.

Cash flows from investing activities (excluding net additions to property, plant and equipment)
Cash flows for the three- and six-month periods ended July 31, 2006 and 2005 mainly reflect the disposal of discontinued operations, net of cash disposed (see note 4 – Discontinued operations and assets held for sale to the interim consolidated financial statements).

Cash flows from financing activities
Cash flows used for the three-month period ended July 31, 2006 mainly reflect the repayments of $450 million and $200 million Cdn ($176 million) of BC's medium-term notes in June and July 2006, respectively. The cash flows used for the three-month period ended July 31, 2005 mainly reflect the repayment of long-term debt of $374 million.

Cash flows used for the six-month period ended July 31, 2006 mainly reflect the above-mentioned repayments of BC's medium-term notes and the repayment of £175 million ($305 million) of debentures in February 2006. The cash flows used for the six-month period ended July 31, 2005 mainly reflect the repayment of long-term debt of $403 million.

Cash flows from discontinued operations
Cash flows used for the three-month period ended July 31, 2005 mainly reflect:

- cash flows used in financing activities of $578 million.

Partially offset by:

- cash flows from investing activities of $109 million.

Cash flows for the six-month period ended July 31, 2006 mainly reflect cash flows from operating activities.

The cash flows for the six-month period ended July 31, 2005 reflect:

- cash flows used in financing activities of $588 million.

Partially offset by:

- cash flows from investing and operating activities totalling $107 million.

As a result of the items discussed above, cash and cash equivalents amounted to $1.8 billion as at July 31, 2006, compared to $2.9 billion as at January 31, 2006.

VI CAPITAL RESOURCES

The details of the available and outstanding amounts under the bank credit facilities as at July 31, 2006 and January 31, 2006 are provided in note 6 – Short-term borrowings to the interim 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[1]	Available short-term capital resources
	Committed	Amounts available		
July 31, 2006	**$ 5,490**	**$ 1,492**	**$ 1,794**	**$ 3,286**
January 31, 2006	$ 5,282	$ 1,033	$ 2,917	$ 3,950

[1] Including $1.0 billion of cash and cash equivalents required to meet the minimum liquidity requirement (under banking syndicate agreements) at the end of each quarter.

The variation in available short-term capital resources was as follows for the six-month period ended July 31, 2006:

Balance as at January 31, 2006	$ 3,950
Repayment of long-term debt	(967)
Free cash flow	(393)
Reduction in letters of credit drawn (net of exchange rate changes)	251
Translation adjustment on committed credit facilities arising from the strengthening of the euro compared to the U.S. dollar	208
Effect of exchange rate changes on cash and cash equivalents	116
Disposal of discontinued operations, net of cash disposed	67
Cash flows from discontinued operations	50
Other	4
Balance as at July 31, 2006	**$ 3,286**

VII FINANCIAL ARRANGEMENTS

Interim financing support

In connection with the sale of commercial aircraft, a government agency has provided customers with $135 million of financing, expiring at various dates, up to August 31, 2006. This financing funded a percentage of the sale price of aircraft. The balance of the sale price, amounting to $16 million, financed by the Corporation on a subordinated basis, is included in Aircraft financing (commercial aircraft interim financing portfolio) as at July 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. This commitment is included in the $1.9-billion financing commitments referred to in note 15d) to the interim consolidated financial statements.

RASPRO

As previously disclosed in the Corporation's annual report for fiscal year 2006, it was discovered, during the last fiscal year, that the cash flows of the RASPRO structure would be different from those anticipated. On July 13, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, agreed on certain actions to be taken to adjust the cash flows of RASPRO. These actions consist mainly of additional payments that were made or will be made to the RASPRO structure by various parties (including parties not affiliated with the

Corporation). The Corporation's participation in these additional payments consisted of the purchase on July 13, 2006 of $23 million of rights to a portion of the residual value proceeds of certain aircraft financed by the RASPRO structure.

RASPRO is subject to the consolidation rules applicable to variable interest entities ("VIEs"), which require variable interest holders to reassess the appropriateness of consolidation when certain events take place. The events described above create a reconsideration event under the VIE rules. In addition, the Corporation is finalizing the details of its indirect financial support to RASPRO through a government agency, which should be completed before the end of the current fiscal year. As a result, an assessment of whether or not RASPRO should be consolidated under the VIE rules will be performed when the details of the financial support to the government agency are finalized. The Corporation does not expect to consolidate RASPRO as a result of the events described above.

The impact of the above did not have a material effect on the provision for contingencies for the three- and six-month periods ended July 31, 2006.

VIII 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 functional currencies other than the U.S. dollar, mainly the euro, the pound sterling and other western European currencies, and from transactions denominated in foreign currencies, mainly the Canadian dollar and the pound sterling.

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

	July 31, 2006	January 31, 2006	Increase
Euro	**1.2763**	1.2157	5%
Canadian dollar	**0.8843**	0.8742	1%
Pound sterling	**1.8684**	1.7814	5%

The average exchange rates used to translate revenues and expenses were as follows for the three-month periods ended July 31:

	2006	2005	Increase
Euro	**1.2704**	1.2322	3%
Canadian dollar	**0.8950**	0.8057	11%
Pound sterling	**1.8526**	1.8137	2%

The average exchange rates used to translate revenues and expenses were as follows for the six-month periods ended July 31:

	2006	2005	Increase (decrease)
Euro	**1.2393**	1.2693	(2%)
Canadian dollar	**0.8824**	0.8094	9%
Pound sterling	**1.8031**	1.8554	(3%)

IX SHARE DATA

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

	Authorized	Issued and outstanding
Class A Shares (Multiple Voting)[1]	1,892,000,000	317,178,736
Class B Shares (Subordinate Voting)[2]	1,892,000,000	1,433,288,232
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.

The following table provides share option and performance share units ("PSU") data as at July 31, 2006.

Options issued and outstanding under share option plans	48,090,900
PSUs issued and outstanding under PSU plan	8,127,029

X SELECTED QUARTERLY INFORMATION

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

	2007	2006					2005	
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter
Revenues	**$ 3,515**	$ 3,526	$ 4,035	$ 3,301	$ 3,633	$ 3,757	$ 4,725	$ 3,558
Income (loss) from continuing operations, net of tax	**$ 57**	$ 21	$ 85	$ (1)	$ 10	$ 41	$ 47	$ 3
Income (loss) from discontinued operations, net of tax	**1**	3	1	(8)	107	14	9	7
Net income (loss)	**$ 58**	$ 24	$ 86	$ (9)	$ 117	$ 55	$ 56	$ 10
Earnings (loss) per share:								
Basic and diluted								
From continuing operations	**$ 0.03**	$ 0.01	$ 0.05	$ -	$ -	$ 0.02	$ 0.02	$ -
Net income (loss)	**$ 0.03**	$ 0.01	$ 0.05	$ (0.01)	$ 0.06	$ 0.03	$ 0.03	$ -

August 29, 2006

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

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Un exemplaire en français est disponible sur demande adressée auprès du Service des affaires publiques ou sur le site Internet à l'adresse www.bombardier.com sous Relations avec les investisseurs.

BOMBARDIER INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In millions of U.S. dollars, except number of shares)

	Notes	July 31, 2006	January 31, 2006
Assets			
Cash and cash equivalents	6	**$ 1,794**	$ 2,917
Receivables		**1,968**	1,684
Aircraft financing	2	**1,102**	1,457
Inventories	3	**4,000**	3,805
Property, plant and equipment		**3,048**	3,090
Goodwill		**2,247**	2,142
Fractional ownership deferred costs		**280**	270
Deferred income taxes		**702**	653
Accrued benefit assets		**385**	384
Assets held for sale	4	**101**	237
Other assets	5	**849**	843
		$ 16,476	$ 17,482
Liabilities			
Accounts payable and accrued liabilities	7	**$ 6,565**	$ 6,866
Advances and progress billings in excess of related costs	3	**2,182**	2,191
Fractional ownership deferred revenues		**339**	325
Deferred income taxes		**10**	9
Long-term debt	8	**3,867**	4,747
Accrued benefit liabilities		**919**	877
Liabilities related to assets held for sale	4	**19**	42
		13,901	15,057
Shareholders' equity			
Preferred shares			
Issued and outstanding:			
Series 2: 2,597,907		**51**	51
Series 3: 9,402,093		**148**	148
Series 4: 9,400,000		**148**	148
Common shares			
Issued and outstanding:			
Class A: 317,178,736 (319,260,212 as at January 31, 2006)		**29**	29
Class B: 1,433,288,232 (1,431,206,756 as at January 31, 2006)		**1,413**	1,413
Purchased and held in trust under the performance share unit plan: 5,434,000 Class B		**(14)**	(14)
Contributed surplus		**27**	20
Retained earnings		**593**	525
Cumulative translation adjustment		**180**	105
		2,575	2,425
		$ 16,476	$ 17,482
Commitments and contingencies	15		

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

BOMBARDIER INC.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

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

	Notes	Three-month periods ended July 31		Six-month periods ended July 31	
		2006	2005	**2006**	2005
			(restated - note 1)		(restated - note 1)
Revenues					
Manufacturing		**$ 2,454**	$ 2,628	**$ 4,970**	$ 5,427
Services		**663**	600	**1,290**	1,224
Other		**398**	405	**781**	739
		3,515	3,633	**7,041**	7,390
Cost of sales		**3,000**	3,125	**6,043**	6,402
Selling, general and administrative		**215**	210	**423**	422
Research and development		**41**	51	**86**	91
Amortization		**133**	128	**261**	260
Special items	10	**-**	34	**24**	26
		3,389	3,548	**6,837**	7,201
Income from continuing operations before the following:		**126**	85	**204**	189
Financing income	11	**(39)**	(32)	**(78)**	(65)
Financing expense	11	**88**	91	**176**	178
Income from continuing operations before income taxes		**77**	26	**106**	76
Income taxes		**20**	16	**28**	25
Income from continuing operations		**57**	10	**78**	51
Income from discontinued operations, net of tax	4	**1**	107	**4**	121
Net income		**$ 58**	$ 117	**$ 82**	$ 172
Earnings per share:	12				
Basic and diluted					
From continuing operations		**$ 0.03**	$ -	**$ 0.04**	$ 0.02
Net income		**$ 0.03**	$ 0.06	**$ 0.04**	$ 0.09
Retained earnings at beginning of period		**$ 542**	$ 350	**$ 525**	$ 301
Net income		**58**	117	**82**	172
Dividends on preferred shares		**(7)**	(6)	**(14)**	(12)
Retained earnings at end of period		**$ 593**	$ 461	**$ 593**	$ 461

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

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

	Notes	Three-month periods ended July 31		Six-month periods ended July 31	
		2006	2005	**2006**	2005
			(restated - note 1)		(restated - note 1)
Operating activities					
Income from continuing operations		**$ 57**	$ 10	**$ 78**	$ 51
Non-cash items:					
Amortization		**133**	128	**261**	260
Provision for credit losses	2	**14**	1	**14**	3
Deferred income taxes		**(17)**	(25)	**(31)**	(9)
Gain on disposals of property, plant and equipment		**(1)**	-	**(1)**	(1)
Stock-based compensation	9	**4**	3	**7**	5
Special items	10	**-**	34	**24**	26
Net change in non-cash balances related to operations	13	**7**	(367)	**(585)**	(691)
Cash flows from operating activities		**197**	(216)	**(233)**	(356)
Investing activities					
Additions to property, plant and equipment		**(54)**	(74)	**(164)**	(139)
Disposals of property, plant and equipment		**3**	35	**4**	37
Disposal of discontinued operations, net of cash disposed	4	**67**	1,363	**67**	1,363
Other		**24**	95	**13**	124
Cash flows from investing activities		**40**	1,419	**(80)**	1,385
Financing activities					
Proceeds from issuance of long-term debt		**-**	1	**-**	7
Repayment of long-term debt	8	**(646)**	(374)	**(967)**	(403)
Dividends paid		**(7)**	(6)	**(14)**	(12)
Cash flows from financing activities		**(653)**	(379)	**(981)**	(408)
Effect of exchange rate changes on cash and cash equivalents		**50**	(169)	**116**	(189)
Cash flows from continuing operations		**(366)**	655	**(1,178)**	432
Cash flows from discontinued operations	4	**6**	(492)	**50**	(481)
Net increase (decrease) in cash and cash equivalents		**(360)**	163	**(1,128)**	(49)
Cash and cash equivalents at beginning of period		**2,154**	2,143	**2,922**	2,355
Cash and cash equivalents at end of period[(1)]		**$ 1,794**	$ 2,306	**$ 1,794**	$ 2,306
[(1)] Included the following:					
Cash and cash equivalents related to:					
Continuing operations		**$ 1,794**	$ 2,302	**$ 1,794**	$ 2,302
Discontinued operations	4	**-**	4	**-**	4
		$ 1,794	$ 2,306	**$ 1,794**	$ 2,306
Supplemental information					
Cash paid for:					
Interest		**$ 128**	$ 139	**$ 201**	$ 228
Income taxes		**$ 30**	$ 12	**$ 50**	$ 23

The accompanying notes are an integral part of these interim consolidated financial statements and provide information on the financial statement presentation.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended July 31, 2006
(Unaudited)
(Tabular figures in millions of U.S. dollars, unless otherwise indicated)

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.

1. BASIS OF PRESENTATION

The interim consolidated financial statements are expressed in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim consolidated financial statements, and follow the same accounting policies and methods in their application as the most recent annual Consolidated Financial Statements. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim consolidated financial statements. Such adjustments are of a normal and recurring nature. The interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Corporation's annual report for fiscal year 2006.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full fiscal year. Historically, the aerospace segment ("Aerospace") has had higher aircraft deliveries during the fourth quarter compared to the first three quarters of the fiscal year, generating higher revenues and gross margin in this quarter.

During fiscal year 2006, the Corporation continued its strategy of reducing Bombardier Capital's ("BC") operations and BC ceased to be reported as a separate segment effective the fourth quarter of fiscal year 2006. The most significant changes in the basis of presentation of the Corporation's interim consolidated financial statements 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 4 – Discontinued operations and assets held for sale).

- ***Aircraft financing*** – BC's core operations consisting of commercial aircraft financing, and business aircraft lending operations, are 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 Aircraft financing, together with other assets related to aircraft financing of Aerospace. The remainder of BC's operations is 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 classified in Financing 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 classified in Financing expense. In addition, certain financing costs were reclassified from Aerospace's cost of sales to Financing expense.

Bombardier Inc. and its subsidiaries carry out their operations in two distinct segments, the aerospace segment and the transportation segment ("Transportation"), each one characterized by a specific operating cycle; therefore, the consolidated balance sheets are unclassified. 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 interim consolidated financial statements are adjusted accordingly.

Certain of the comparative figures were reclassified to conform to the presentation adopted in the current period.

2. AIRCRAFT FINANCING

Aircraft financing was as follows as at:

	July 31, 2006	January 31, 2006
Commercial aircraft		
Interim financing[1]		
Loans	**$ 180**	$ 435
Lease receivables	**233**	388
	413	823
Long-term financing		
Loans	**315**	278
Lease receivables[2]	**116**	104
	431	382
Business aircraft loans[3]	**47**	58
Total loans and lease receivables	**891**	1,263
Allowance for credit losses	**(99)**	(84)
	792	1,179
Assets under operating leases	**269**	230
Investment in financing structures	**41**	48
	$ 1,102	$ 1,457

[1] The commercial aircraft interim financing portfolio consists of bridge financing to customers until third party permanent financing is put in place.
[2] Includes $44 million of lease receivables related to consolidated variable interest entities ("VIEs") as at July 31, 2006 ($67 million as at January 31, 2006).
[3] This portfolio is being wound down.

Loans and lease receivables – Financing with four airlines represents approximately 46% of the total loans and lease receivables as at July 31, 2006 (three airlines represented 41% as at January 31, 2006). Loans and lease receivables are generally collateralized by the related assets.

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

	Three-month periods ended July 31		**Six-month periods ended July 31**	
	2006	2005	**2006**	2005
Balance at beginning of period	**$ 84**	$ 95	**$ 84**	$ 94
Provision for credit losses	**14**	1	**14**	3
Amounts charged off, net of recoveries	**1**	(3)	**1**	(4)
Balance at end of period	**$ 99**	$ 93	**$ 99**	$ 93

Impaired loans and lease receivables amounted to $61 million as at July 31, 2006 ($237 million as at January 31, 2006).

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

	July 31, 2006		January 31, 2006	
	Cost	**Net book value**	Cost	Net book value
Pre-owned commercial aircraft	**$ 299**	**$ 215**	$ 292	$ 190
Pre-owned business aircraft	**61**	**54**	42	40
	$ 360	**$ 269**	$ 334	$ 230

3. INVENTORIES

Inventories were as follows as at:

	July 31, 2006	January 31, 2006
Long-term contracts		
Costs incurred and recorded margins	**$ 3,380**	$ 3,378
Less: payments received and progress billings[(1)]	**(1,694)**	(1,861)
	1,686	1,517
Aerospace programs		
Costs incurred	**2,424**	2,341
Less: payments received[(2)]	**(1,016)**	(873)
	1,408	1,468
Finished products[(3)]	**906**	820
	$ 4,000	$ 3,805

(1) Payments received, regarded as payments on account of work performed, amounting to $1,694 million as at July 31, 2006 ($1,861 million as at January 31, 2006), have been deducted from long-term contract inventories. Advances received and progress billings in excess of related costs, amounting to $1,695 million as at July 31, 2006 ($1,673 million as at January 31, 2006), represent a liability disclosed as advances and progress billings in excess of related costs on the consolidated balance sheets.

(2) Payments received, regarded as payments on account of work performed, amounting to $1,016 million as at July 31, 2006 ($873 million as at January 31, 2006), have been deducted from aerospace program inventories. Advances received in excess of related costs, amounting to $487 million as at July 31, 2006 ($518 million as at January 31, 2006), represent a liability disclosed as advances and progress billings in excess of related costs on the consolidated balance sheets.

(3) Finished products included four new aircraft not associated with a firm order and 11 pre-owned aircraft, totalling $149 million as at July 31, 2006 (six new aircraft and eight pre-owned aircraft, totalling $155 million as at January 31, 2006).

During the second quarter of fiscal year 2007, due to increasing difficulties in predicting the mix of future orders for the *CRJ700* and *CRJ900* programs as a result of changing scope clauses in the U.S., the Corporation decided to align the accounting completion dates to the earlier of the two original dates for these programs. As a result, accounting aircraft program quantities were reduced from 550 to 420 units and a cumulative catch-up adjustment of $74 million was recorded in cost of sales.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In May 2006, the Corporation sold its consumer finance operations for cash proceeds of $67 million, which resulted in an after-tax loss of $2 million.

Discontinued operations and assets held for sale include the following operations of BC:

- inventory finance, sold in May 2005;
- on-balance sheet manufactured housing, sold in July 2005;
- off-balance sheet manufactured housing, transfer of servicing rights and obligations completed in March 2006;
- consumer finance, sold in May 2006; and
- on- and off-balance sheet freight cars.

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 and the related results of operations have been presented as discontinued operations in the consolidated statements of income and cash flows for all periods presented.

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

	July 31, 2006	January 31, 2006
Assets		
Cash and cash equivalents	**$ -**	$ 5
Receivables	**12**	58
Deferred income taxes	**31**	33
Other assets[(1)]	**58**	141
	$ 101	$ 237
Liabilities		
Accounts payable and accrued liabilities	**$ 19**	$ 40
Long-term debt	**-**	2
	$ 19	$ 42

(1) Includes $31 million of assets under operating leases as at July 31, 2006 ($77 million of finance receivables and $31 million of assets under operating leases as at January 31, 2006).

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

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Revenues - Other	**$ 23**	$ 47	**$ 48**	$ 125
Cost of sales	**17**	29	**34**	70
Selling, general and administrative	**1**	10	**5**	26
Amortization	**-**	1	**-**	2
	18	40	**39**	98
Income before income taxes	**5**	7	**9**	27
Income taxes	**2**	3	**3**	9
	3	4	**6**	18
Gain (loss), net of tax, on sale of:				
Inventory finance operations	**-**	121	**-**	121
On-balance sheet manufactured housing operations	**-**	(18)	**-**	(18)
Consumer finance operations	**(2)**	-	**(2)**	-
	$ 1	$ 107	**$ 4**	$ 121

The cash flows from discontinued operations were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Operating activities	**$ 6**	$ (23)	**$ 52**	$ 37
Investing activities	**-**	109	**-**	70
Financing activities	**-**	(578)	**(2)**	(588)
	$ 6	$ (492)	**$ 50**	$ (481)

5. OTHER ASSETS

Other assets were as follows as at:

	July 31, 2006	January 31, 2006
Prepaid expenses	**$ 164**	$ 178
Finite-life intangible assets, net of accumulated amortization of $106 million as at July 31, 2006 ($94 million as at January 31, 2006)	**147**	148
Investment in companies subject to significant influence[1]	**130**	97
Investment in securities	**88**	91
Restricted cash[2]	**85**	81
Wind-down portfolios[3]	**29**	41
Derivative financial instruments	**28**	28
Loans	**19**	14
Deposits	**19**	14
Investment in preferred shares of the Corporation's former recreational products segment	**-**	30
Other	**140**	121
	$ 849	$ 843

(1) Related mostly to Transportation.
(2) Includes $70 million of restricted cash related to consolidated VIEs as at July 31, 2006 and January 31, 2006.
(3) Comprised mainly of BC's industrial equipment portfolio.

6. SHORT-TERM BORROWINGS

Under banking syndicate agreements, the Corporation must maintain certain financial covenants, including 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 July 31, 2006 and January 31, 2006.

Credit facilities and their maturities were as follows as at July 31, 2006:

	Amounts committed	Amounts drawn	Letters of credit drawn	Amounts available	Maturity (fiscal year)
European	**$ 4,020[1]**	**$ -**	**$ 2,825**	**$ 1,195**	**2008**
European letters of credit	**370[2]**	**n/a**	**330**	**40**	**2008-2009**
North American	**1,100**	**-**	**843**	**257**	**2008**
	$ 5,490	**$ -**	**$ 3,998**	**$ 1,492**	

n/a: not applicable.
(1) €3,150 million.
(2) €290 million.

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

	Amounts committed	Amounts drawn	Letters of credit drawn	Amounts available	Maturity (fiscal year)
European	$ 3,829[1]	$ -	$ 3,160	$ 669	2008
European letters of credit	353[2]	n/a	327	26	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 addition to the outstanding letters of credit shown in the above tables, the Corporation had letters of credit of $102 million as at July 31, 2006 ($79 million as at January 31, 2006).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows as at:

	July 31, 2006	January 31, 2006
Trade accounts payable	**$ 1,900**	$ 1,944
Sales incentives[1]	**1,062**	1,252
Accrued liabilities	**1,023**	987
Product warranties	**989**	970
Payroll-related liabilities	**402**	395
Income and other taxes	**212**	240
Severance and other involuntary termination costs	**98**	129
Interest	**71**	130
Provision for repurchase obligations[2]	**70**	70
Non-controlling interest	**42**	28
Other	**696**	721
	$ 6,565	$ 6,866

[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 15 – Commitments and contingencies).
[2] See note 15 – Commitments and contingencies.

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 the three- and six-month periods ended July 31, 2006 and 2005:

	Severance and other involuntary termination costs	**Other**	**Total**
Balance as at January 31, 2006	**$ 129**	**$ 30**	**$ 159**
Current expense[1]	**4**	**20**	**24**
Changes in estimates[1]	**(12)**	**-**	**(12)**
Cash paid	**(15)**	**(27)**	**(42)**
Effect of foreign currency exchange rate changes	**3**	**1**	**4**
Balance as at April 30, 2006	**109**	**24**	**133**
Cash paid	**(12)**	**(4)**	**(16)**
Effect of foreign currency exchange rate changes	**1**	**-**	**1**
Balance as at July 31, 2006	**$ 98**	**$ 20**	**$ 118**

[1] The charge of $24 million has been recorded in special items of Transportation (see note 10 – Special items) and the changes in estimates of $12 million has been recorded in cost of sales of Aerospace.

	Severance and other involuntary termination costs	Other	Total
Balance as at January 31, 2005	$ 251	$ 17	$ 268
Current expense[1]	8	12	20
Changes in estimates[1]	-	(27)	(27)
Cash received (paid)	(37)	26	(11)
Effect of foreign currency exchange rate changes	(2)	-	(2)
Balance as at April 30, 2005	220	28	248
Current expense[2]	7	33	40
Changes in estimates[2]	(8)	-	(8)
Cash paid	(21)	(23)	(44)
Effect of foreign currency exchange rate changes	(10)	-	(10)
Balance as at July 31, 2005	$ 188	$ 38	$ 226

[1] Of which an income of $8 million has been recorded in special items of Transportation (see note 10 – Special items) and a charge of $1 million has been recorded in cost of sales of Aerospace.
[2] Of which a charge of $34 million has been recorded in special items of Transportation (see note 10 – Special items) and an income of $2 million has been recorded in cost of sales of Aerospace.

8. LONG-TERM DEBT

The Corporation's long-term debt included $57 million related to consolidated VIEs as at July 31, 2006 ($80 million as at January 31, 2006), which relates to structures existing prior to May 1, 2004.

- In July 2006, BC repaid at maturity medium-term notes amounting to $200 million Cdn ($176 million).
- In June 2006, BC repaid at maturity medium-term notes amounting to $450 million.
- In February 2006, the Corporation repaid at maturity debentures amounting to £175 million ($305 million).

9. SHARE-BASED PLANS

Share option plans

The number of stock options granted to purchase Class B Shares (Subordinate Voting) and the related weighted-average grant date fair value were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Number of stock options granted	**7,367,500**	6,944,000	**7,367,500**	6,974,000
Weighted-average grant date fair value	**$ 1.44**	$ 0.80	**$ 1.44**	$ 0.80

The fair value of each option granted was determined using an option pricing model and the following weighted-average assumptions:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Risk-free interest rate	**4.21%**	3.35%	**4.21%**	3.35%
Expected life	**5 years**	5 years	**5 years**	5 years
Expected volatility in market price of shares	**53.06%**	50.06%	**53.06%**	50.06%
Expected dividend yield	**-%**	1.20%	**-%**	1.20%

There were 48,090,900 and 53,323,900 options issued and outstanding as at July 31, 2006 and January 31, 2006, respectively. No options were exercised during the three- and six-month periods ended July 31, 2006 and 2005.

Compensation expense of $2 million and $4 million respectively was recorded during the three- and six-month periods ended July 31, 2006 ($3 million and $5 million respectively during the same periods last fiscal year) with respect to share option plans.

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

Performance share unit plan

In June 2006, the Corporation granted 4,268,500 performance share units ("PSUs") to executives and other key employees. The PSUs vest on June 7, 2009 if certain financial performance targets are met. The conversion ratio for vested PSUs ranges from 70% to 150%.

There were 8,127,029 and 4,014,082 PSUs issued and outstanding as at July 31, 2006 and January 31, 2006, respectively.

Compensation expense of $2 million and $3 million respectively was recorded during the three- and six-month periods ended July 31, 2006 (nil for the same periods last fiscal year) with respect to the PSU plan.

10. SPECIAL ITEMS

Special items were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Severance and other involuntary termination costs	**$ -**	$ 1	**$ 4**	$ 8
Other[1]	**-**	33	**20**	18
	-	34	**24**	26
Income tax recovery	**-**	(2)	**(2)**	(7)
	$ -	$ 32	**$ 22**	$ 19

[1] Comprised of lease termination and environmental costs, as well as other costs. For the six-month period ended July 31, 2005, also comprised of non-taxable gains on the sale of land and buildings, amounting to $27 million.

Special items relate to restructuring activities to reduce the cost structure in Transportation. The restructuring plan is essentially completed. All charges related to the restructuring plan, amounting to $633 million, were recorded as of April 30, 2006. Net cash outflows are expected to amount to $467 million, of which $374 million had been disbursed as of July 31, 2006. For the three- and six-month periods ended July 31, 2006, net cash outflows amounted to $16 million and $57 million ($37 million and $40 million for the same periods last fiscal year).

11. FINANCING INCOME AND FINANCING EXPENSE

The Corporation's financing income and financing expense were as follows:

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Financing income				
Loans and lease receivables – after effect of hedges	**$ (13)**	$ (21)	**$ (35)**	$ (42)
Cash and cash equivalents	**(16)**	(10)	**(31)**	(18)
Dividends on preferred shares	**(7)**	-	**(7)**	-
Other	**(3)**	(1)	**(5)**	(5)
	$ (39)	$ (32)	**$ (78)**	$ (65)
Financing expense				
Interest on long-term debt – after effect of hedges	**$ 71**	$ 71	**$ 135**	$ 139
Accretion expense on sales incentives, including contingent liabilities	**13**	16	**29**	32
Other	**4**	4	**12**	7
	$ 88	$ 91	**$ 176**	$ 178

12. EARNINGS PER SHARE

Basic and diluted earnings per share were computed as follows:

(Number of shares in thousands)	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Income from continuing operations	**$ 57**	$ 10	**$ 78**	$ 51
Preferred share dividends, net of tax	**(7)**	(6)	**(14)**	(12)
Income from continuing operations attributable to common shareholders	**50**	4	**64**	39
Income from discontinued operations, net of tax	**1**	107	**4**	121
Net income attributable to common shareholders	**$ 51**	$ 111	**$ 68**	$ 160
Weighted-average basic and diluted number of common shares outstanding	**1,745,033**	1,750,467	**1,745,033**	1,750,467
Basic and diluted earnings per share:				
From continuing operations	**$ 0.03**	$ -	**$ 0.04**	$ 0.02
From discontinued operations	**-**	0.06	**-**	0.07
	$ 0.03	$ 0.06	**$ 0.04**	$ 0.09

The effect of the exercise of stock options was excluded from the calculation of diluted earnings per share in the above table 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.

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

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

	Three-month periods ended July 31		Six-month periods ended July 31	
	2006	2005	**2006**	2005
Receivables	**$ (197)**	$ (205)	**$ (253)**	$ (236)
Aircraft financing	**264**	(97)	**159**	(175)
Inventories	**218**	25	**(152)**	(151)
Fractional ownership deferred costs	**(5)**	(56)	**(10)**	(110)
Accounts payable and accrued liabilities	**(181)**	(37)	**(296)**	(88)
Advances and progress billings in excess of related costs	**(94)**	(74)	**(72)**	(101)
Fractional ownership deferred revenues	**6**	29	**14**	95
Accrued benefit liabilities, net	**(9)**	(1)	**18**	5
Other assets	**5**	49	**7**	70
	$ 7	$ (367)	**$ (585)**	$ (691)

14. EMPLOYEE FUTURE BENEFITS

The components of the benefit cost were as follows for the three-month periods ended July 31:

	2006		2005	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
Current service cost	**$ 51**	**$ 8**	$ 42	$ 2
Interest cost	**77**	**5**	71	5
Expected return on plan assets	**(73)**	**-**	(60)	-
Amortization of past service costs	**3**	**(1)**	2	-
Amortization of actuarial loss	**31**	**4**	18	4
Curtailment loss	**1**	**-**	1	-
Settlement loss	**1**	**-**	-	-
	$ 91	**$ 16**	$ 74	$ 11

The components of the benefit cost were as follows for the six-month periods ended July 31:

	2006		2005	
	Pension benefits	**Other benefits**	Pension benefits	Other benefits
Current service cost	**$ 102**	**$ 11**	$ 84	$ 5
Interest cost	**151**	**10**	144	10
Expected return on plan assets	**(143)**	**-**	(120)	-
Amortization of past service costs	**5**	**(1)**	3	-
Amortization of actuarial loss	**55**	**8**	37	7
Curtailment loss (gain)	**1**	**-**	1	(1)
Settlement loss	**1**	**-**	-	-
	$ 172	**$ 28**	$ 149	$ 21

15. COMMITMENTS AND CONTINGENCIES

In addition to the commitments and contingencies described elsewhere in these interim 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. The maximum potential exposure does not reflect payments expected to be made by the Corporation.

	July 31, 2006		January 31, 2006	
	Maximum potential exposure	**Provisions and liabilities[1]**	Maximum potential exposure	Provisions and liabilities[1]
Aircraft sales				
Credit (a)	**$ 1,397**		$ 1,409	
Residual value (a)	**2,626**		2,565	
Mutually exclusive exposure[2]	**(907)**		(892)	
Total credit and residual value exposure	**$ 3,116**	**$ 762**	$ 3,082	$ 952
Trade-in options (b)	**1,446**	**14**	1,230	12
Other[3]				
Credit and residual value (e)	**176**	**-**	170	-
Repurchase obligations (f)	**173**	**70**	165	70
Performance guarantees (g)	**293**	**-**	938	-

(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) The Corporation has also provided other guarantees (see h below).

The Corporation's maximum exposure in connection with credit and residual value guarantees related to the sale of aircraft represents the face value of the guarantees before giving effect to the net benefit expected from the estimated value of the aircraft and other assets available to mitigate the Corporation's exposure under these guarantees. 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 payment guarantees, as well as services related to the remarketing of aircraft. These guarantees, which are mainly issued for the benefit of providers of financing to customers, mature in different periods up to fiscal year 2026. Substantially all financial support involving credit risk lies with commercial airline customers. The credit risk relating to three commercial airline customers accounted for 62% of the total maximum credit risk as at July 31, 2006. In most circumstances, a claim under a credit guarantee may be made only upon the 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. Such guarantees provide 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 only upon the sale of the underlying aircraft to a third party.

The following table summarizes the outstanding residual value guarantees as at July 31, 2006, and the period in which they can be exercised:

Less than 1 year	$	14
From 1 to 5 years		166
From 6 to 10 years		686
From 11 to 15 years		1,023
Thereafter		737
	$	2,626

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 the 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 July 31, 2006:

Less than 1 year	$	1,119
From 1 to 3 years		198
From 4 to 5 years		94
Thereafter		35
	$	1,446

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 $9 million as at July 31, 2006 ($11 million as at January 31, 2006). 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 $5 million as at July 31, 2006 ($1 million as at January 31, 2006).

c) ***Fractional ownership put options*** – Under the North American *Flexjet* Fractional ownership program, 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 $621 million as at July 31, 2006

($573 million as at January 31, 2006). 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 $135-million off-balance sheet financing facility. The Corporation's total financing commitment, net of third party financing already arranged, amounted to $1.9 billion as at July 31, 2006 ($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, the Corporation has provided a credit guarantee of lease payments amounting to $46 million as at July 31, 2006 and January 31, 2006. This guarantee matures in 2026 and relates to one customer. In addition, at the expiry date of certain financing and other agreements, the Corporation has provided residual value guarantees amounting to $130 million as at July 31, 2006 ($124 million as at January 31, 2006), mostly in Transportation. These guarantees are mainly exercisable in 2012.

f) ***Repurchase obligations*** – In Transportation, the Corporation has provided certain financing providers the right, under certain conditions, to sell back equipment to the Corporation at predetermined prices. An amount of $173 million as at July 31, 2006 ($165 million as at January 31, 2006), relates to two agreements whereby the Corporation may be required to repurchase the equipment, beginning in fiscal year 2009, upon customer default on payments to the financing providers. 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 was included in accounts payable and accrued liabilities as at July 31, 2006 and January 31, 2006.

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 any default by the other partners. 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 $50 million as at July 31, 2006 ($178 million as at January 31, 2006). For projects where the Corporation's exposure is not capped, such exposure has been determined in relation to the Corporation's partners' share of the total contract value. Under this methodology, the Corporation's exposure would amount to approximately $243 million as at July 31, 2006 ($760 million as at January 31, 2006). Such joint and several obligations and guarantees have been rarely called upon in the past, and no significant liability has been recognized in the interim 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 4 – Discontinued operations and assets held for sale), and pre-owned aircraft. The freight cars are in most instances simultaneously leased to operators. Residual value guarantees, mainly related to pre-owned aircraft, amounted to $47 million as at July 31, 2006 ($43 million as at January 31, 2006).

Operating leases

The Corporation leases buildings and equipment and assumes aircraft operating lease obligations on the sale of new aircraft. The related residual value guarantees totalled $59 million as at July 31, 2006 ($63 million as at January 31, 2006).

Litigation and claims

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. The 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 pending as at July 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.

During the second quarter of fiscal year 2007, the Corporation reached an agreement with Mitsubishi Heavy Industries of Japan ("MHI"), a supplier of aircraft components, to transfer the production of certain components for the *Q400* turboprop program to the Corporation's manufacturing facilities in Belfast, Montréal and Mexico and to China's Shenyang Aircraft Corporation. In connection with this agreement, the parties agreed to a payment of $84 million to be made by MHI to the Corporation in connection with the production transfer. As a result, the Corporation recorded a gain of $84 million in cost of sales during the second quarter of fiscal year 2007.

16. VARIABLE INTEREST ENTITIES

RASPRO

As previously disclosed in the Corporation's annual report for fiscal year 2006, it was discovered, during the last fiscal year, that the cash flows of the RASPRO structure would be different from those anticipated. On July 13, 2006, the Corporation and its structuring agent, Wachovia Capital Markets, LLC, agreed on certain actions to be taken to adjust the cash flows of RASPRO. These actions consist mainly of additional payments that were made or will be made to the RASPRO structure by various parties (including parties not affiliated with the Corporation). The Corporation's participation in these additional payments consisted of the purchase on July 13, 2006 of $23 million of rights to a portion of the residual value proceeds of certain aircraft financed by the RASPRO structure.

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 events described above create a reconsideration event under the VIE rules. In addition, the Corporation is finalizing the details of its indirect financial support to RASPRO through a government agency, which should be completed before the end of the current fiscal year. As a result, an assessment of whether or not RASPRO should be consolidated under the VIE rules will be performed when the details of the financial support to the government agency are finalized. The Corporation does not expect to consolidate RASPRO as a result of the events described above.

The impact of the above did not have a material effect on the provision for contingencies for the three- and six-month periods ended July 31, 2006.

Other

During the six-month period ended July 31, 2006, the Corporation entered into arrangements with VIEs relating to financing structures for the sale of regional aircraft. The assets and liabilities of these VIEs amounted to $268 million and $212 million respectively as at July 31, 2006. Management has determined that the Corporation is not the primary beneficiary for these structures and therefore consolidation of these VIEs is not required.

17. SEGMENT DISCLOSURE

The Corporation 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 Corporation's annual report for the fiscal year ended January 31, 2006.

Management assesses segment performance based on income before financing income, financing expense and income taxes.

Corporate charges are allocated to segments mostly based on each segment's revenues.

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 interest and income taxes payable), advances and progress billings in excess of related costs, fractional ownership deferred revenues and accrued benefit liabilities.

CRJ, CRJ700, CRJ900, Flexjet and *Q400* are trademarks of Bombardier Inc. or its subsidiaries.

SEGMENTED INFORMATION

For the three-month periods ended July 31	Notes	Bombardier Inc. consolidated 2006	Bombardier Inc. consolidated 2005	Aerospace 2006	Aerospace 2005	Transportation 2006	Transportation 2005
			(restated - note 1)		(restated - note 1)		
Revenues							
Manufacturing		**$ 2,454**	$ 2,628	**$ 1,462**	$ 1,552	**$ 992**	$ 1,076
Services		**663**	600	**322**	276	**341**	324
Other		**398**	405	**107**	134	**291**	271
		3,515	3,633	**1,891**	1,962	**1,624**	1,671
Cost of sales		**3,000**	3,125	**1,596**	1,661	**1,404**	1,464
Selling, general and administrative		**215**	210	**105**	96	**110**	114
Research and development		**41**	51	**18**	27	**23**	24
Amortization		**133**	128	**106**	102	**27**	26
Special items	10	**-**	34	**-**	-	**-**	34
		3,389	3,548	**1,825**	1,886	**1,564**	1,662
Income from continuing operations before financing income and expense, and income taxes		**$ 126**	$ 85	**$ 66**	$ 76	**$ 60**	$ 9
Additions to property, plant and equipment		**$ 54**	$ 74	**$ 37**	$ 59	**$ 17**	$ 15

SEGMENTED INFORMATION

For the six-month periods ended July 31	Notes	Bombardier Inc. consolidated 2006	Bombardier Inc. consolidated 2005	Aerospace 2006	Aerospace 2005	Transportation 2006	Transportation 2005
			(restated - note 1)		(restated - note 1)		
Revenues							
Manufacturing		**$ 4,970**	$ 5,427	**$ 2,961**	$ 3,039	**$ 2,009**	$ 2,388
Services		**1,290**	1,224	**624**	569	**666**	655
Other		**781**	739	**246**	290	**535**	449
		7,041	7,390	**3,831**	3,898	**3,210**	3,492
Cost of sales		**6,043**	6,402	**3,256**	3,326	**2,787**	3,076
Selling, general and administrative		**423**	422	**202**	192	**221**	230
Research and development		**86**	91	**43**	46	**43**	45
Amortization		**261**	260	**209**	206	**52**	54
Special items	10	**24**	26	**-**	-	**24**	26
		6,837	7,201	**3,710**	3,770	**3,127**	3,431
Income from continuing operations before financing income and expense, and income taxes		**$ 204**	$ 189	**$ 121**	$ 128	**$ 83**	$ 61

As at	July 31, 2006	January 31, 2006	July 31, 2006	January 31, 2006	July 31, 2006	January 31, 2006
Net segmented assets	**$ 4,019**	$ 3,637	**$ 3,318**	$ 3,205	**$ 701**	$ 432
Liabilities allocated to segments:						
Accounts payable and accrued liabilities[1]	**6,420**	6,645				
Advances and progress billings in excess of related costs	**2,182**	2,191				
Fractional ownership deferred revenues	**339**	325				
Accrued benefit liabilities	**919**	877				
Assets not allocated to segments:						
Cash and cash equivalents	**1,794**	2,917				
Deferred income taxes	**702**	653				
Assets held for sale	**101**	237				
Total consolidated assets	**$ 16,476**	$ 17,482				

[1] Excluding interest and income taxes payable amounting to $71 million and $74 million respectively as at July 31, 2006 ($130 million and $91 million as at January 31, 2006) which were not allocated to segments.

Additions to property, plant and equipment	**$ 164**	$ 139	**$ 139**	$ 111	**$ 25**	$ 28